LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF THE CORPORATE PLAN

2012-2016

SUMMARY OF THE OPERATING BUDGET

2012

SUMMARY OF THE CAPITAL BUDGET

2012

FEBRUARY 2012

Plan Summary

The strategic direction of the Laurentian Pilotage Authority (the Authority or the LPA) has been developed in accordance with the organization's mandate and the *Pilotage Act*, and includes the following components:

- Maintain financial self-sufficiency and create a reserve equal to approximately 10% of revenues;
- Maximize efficiency, quality and safety by being attentive to the needs of the marine community; and
- Comply with Government of Canada policies.

Maintaining financial self-sufficiency continues to be one of the Authority's key priorities. The Authority must have sufficient cash liquidities to be able to upgrade its assets and pursue its operations. To achieve this objective, the Authority has implemented an integrated risk management program to identify, manage and control risks, including financial risks, faced by the Authority.

The economic vitality observed at the end of 2010 carried over into the first half of 2011. However, international economic indicators point to an economic slowdown in the second half of 2011, attributable to the sluggish recovery in the US (and even to the risk of another recession) and the precarious situation in the European banking sector (notably the debt crisis in Greece).

In terms of marine transportation, activity increased significantly in the first half of 2011, compared with 2010. The St. Lawrence Seaway reported a substantial increase in activity associated with the steel and grain sectors. However, the market continues to be sensitive to the dimensions of container ships, a situation that puts the St. Lawrence Seaway at a competitive disadvantage vis-à-vis a number of ports along the eastern US seaboard, which also have rail links to the American Midwest.

The financial forecasts in this plan, therefore, reflect the Authority's priorities and current economic constraints.

Authority's Mandate

The mandate of the Laurentian Pilotage Authority is to

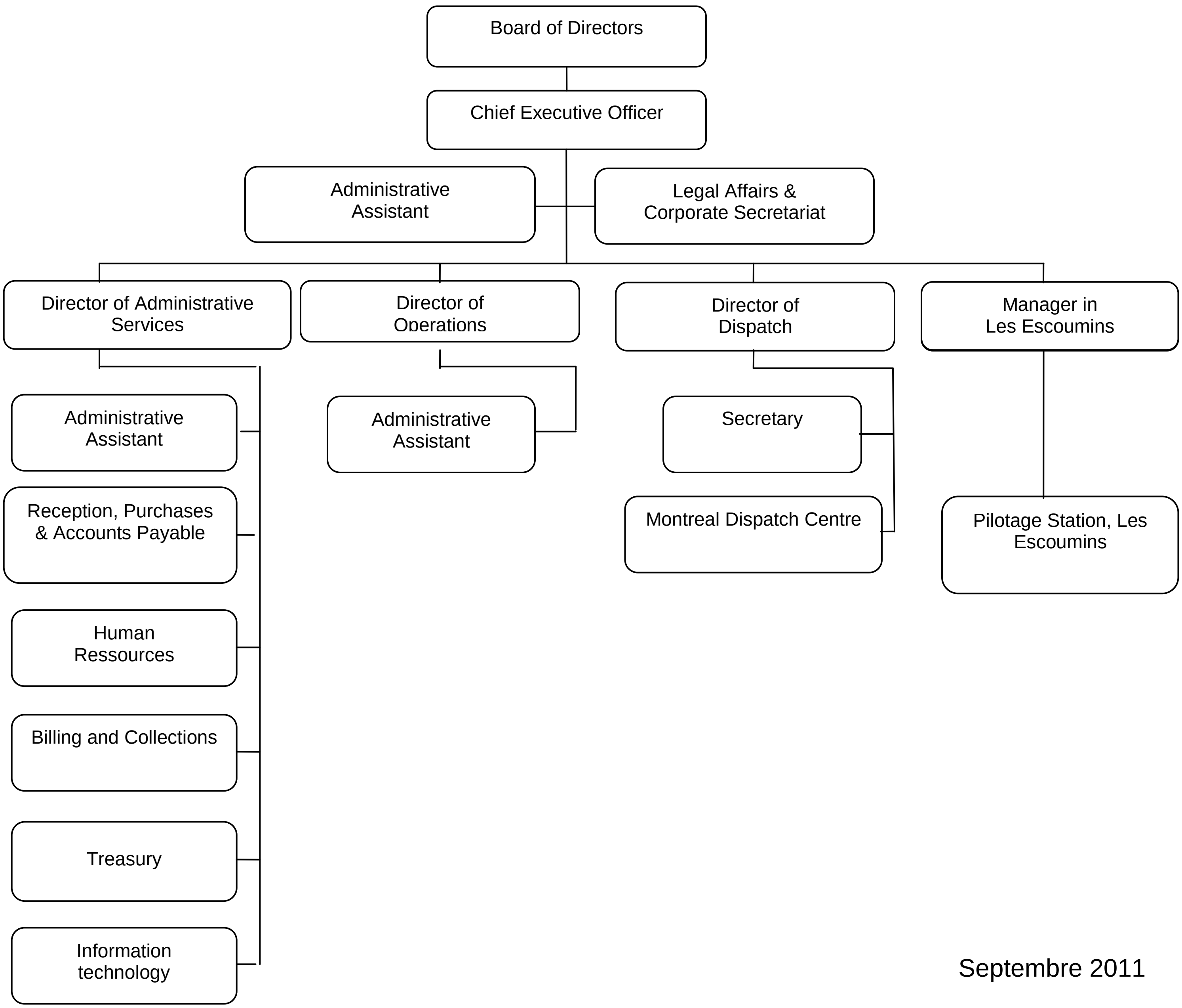
- establish, operate, maintain and administer, in the interest of navigation safety, an efficient pilotage service in Canadian waters within the areas served by the Laurentian Pilotage Authority; and

- keep pilotage fees at a fair and reasonable level that reflects the Authority's need to generate revenue which, combined with revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

Authority Profile

ORGANIZATION CHART

LAURENTIAN PILOTAGE AUTHORITY



Septembre 2011

BACKGROUND

The Laurentian Pilotage Authority was established on February 1, 1972, under the *Pilotage Act* to operate an efficient pilotage service in the interest of navigational safety.

The Authority is a Crown corporation, as defined in the *Financial Administration Act*, but is not an agent of the Crown.

The Board of Directors comprises a chairperson and six other members, including two pilots, two shipping industry representatives and two members of the general public.

POWERS

To carry out its responsibilities, the Authority has adopted general regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, pertaining to the

- ⇨ establishment of compulsory pilotage areas;
- ⇨ prescription of ships or classes of ships subject to compulsory pilotage;
- ⇨ prescription of classes of pilot licences and pilotage certificates that may be issued; and the
- ⇨ prescription of pilotage tariffs to be paid to the Authority for pilotage services.

In addition, the Authority is empowered, pursuant to the *Pilotage Act,* to

- ⇨ hire officers and employees, including licensed pilots and apprentice pilots, as required for operations;
- ⇨ contract with pilot corporations for the services of licensed pilots;
- ⇨ adopt by-laws concerning the management of its affairs;
- ⇨ purchase, lease or otherwise acquire land, buildings, pilot boats and other equipment and assets deemed necessary, and to sell any assets thus acquired; and
- ⇨ take out loans, if necessary, to cover the Authority's expenses.

DESCRIPTION OF OPERATIONS

The Authority operates, in the interest of safety, a marine pilotage service in all Canadian waters in and around the province of Quebec, north of the northern entrance to the St. Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

In accordance with its regulations, the Authority has established three districts subject to compulsory pilotage, namely District No. 1-1 for the Port of Montreal, District No. 1 for the navigable waters between Montreal and Quebec City, and District No. 2 for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. The pilotage districts established by the Authority cover a distance of 494 kilometres between Montreal and Les Escoumins, and another 130 kilometres along the Saguenay River (please refer to the illustration on page 43).

Pilotage services are provided for all ships subject to compulsory pilotage by staff pilots in Districts 1.1, 1 and 2. These pilots are represented by the Corporation of Mid St. Lawrence Pilots (Districts 1.1 and 1) and the Corporation of Lower St. Lawrence Pilots (District 2). On September 16, 2011, pilots operating in District 1.1 (Port of Montreal) decided to join and become shareholders of the Corporation of Mid St. Lawrence Pilots. Consequently, as of this date, these pilots were no longer employed by the Authority. The boarding of pilots in Les Escoumins is carried out by means of pilot boats belonging to the Authority; in the case of the other boarding stations located in Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal, pilot boarding is carried out using pilot boats belonging to private contractors. Pilots are assigned to ships by the Authority's dispatchers. All dispatch services provided for Les Escoumins, Quebec City and the Port of Montreal districts are performed and managed from the head office located in Montreal.

The Authority must co-ordinate its operations, activities and management with a number of organizations, including the St. Lawrence Seaway Authority, which operates the St. Lambert Lock; the Canadian Coast Guard, which manages marine activities such as navigational aids, dredging and icebreaking; the Marine Traffic Services Centre; various port authorities in the region; and associations representing agents, owners and operators of Canadian and foreign ships.

Main Objectives, Methods, Action Strategies and Performance Indicators

The strategic direction of the Laurentian Pilotage Authority includes the following components:

- ❖ Maintain financial self-sufficiency and create a reserve equal to approximately 10% of revenues;
- ❖ Maximize efficiency, quality and safety by being attentive to the needs of the marine community; and
- ❖ Comply with Government of Canada policies.

The following table shows the main objectives adopted by the Authority, during its annual strategic planning process, to carry out its operations in accordance with its strategic direction.

Objectives	Means	Action Strategies	Performance Indicators	Timeline
Maintain financial self-sufficiency	Keep expenditures within budget	Carry out monthly expenditure audits (management)	Monthly progress graph showing results in operations	Ongoing
	" "	Quarterly approval of revenue and expenses (Audit Committee)	Feedback from Committee members	Quarterly
	Increase revenues by publishing reasonable and fair tariffs	Tariffs approved for 2011, 2012 and 2013	Additional revenue to build up surplus cash amounting to 10% of total revenue	Ongoing
	Optimize costs arising from ownership and operation of assets	Establish precise specifications for the *Charlevoix* pilot boat based on LPA requirements	Monitor costs and useful life of assets	Ongoing
		Maintain and upgrade assets (Les Escoumins wharf) in accordance with financial self-sufficiency criteria	Achievement of necessary budget surpluses for asset maintenance and upgrading	Ongoing
	Optimize the processing of pilotage cards	Conduct a study of the feasibility of electronic pilotage cards	Study findings	2011–2012

Objectives	Means	Action Strategies	Performance Indicators	Timeline
Maximize efficiency, quality and safety by being attentive to user needs	Maintain the level of communications	Hold regular meetings with users to ensure the transparency of pilotage operations	Quarterly report to the Board of Directors	Ongoing
	Maintain a low incident rate	Establish a pilot evaluation system, pursue pilot training and identify corrective measures	Incident rate remains below 0.1%	2011 and ongoing
	Maintain an adequate number of pilots	With the pilot corporations, estimate the level of marine traffic and plan pilots' retirements	Accuracy of forecasts and management of the service level	Ongoing
	Modernize capital assets	Review the replacement plan for major assets every year	Efficiency and safety of services is maintained	Ongoing
	Improve the efficiency and reliability of equipment, particularly pilot boats	Continue implementing the preventive maintenance program for facilities (Les Escoumins wharf) and equipment (Charlevoix pilot boat)	Major breakdowns and unforeseen expenditures are kept to a minimum	Ongoing
		Build a breakwater wharf	Work to be carried out	2011–2012

Objectives	Means	Action Strategies	Performance Indicators	Timeline
	Maintain employee efficiency	Ongoing training	Incident rate remains below 0.1%	Ongoing
	Provide quality pilotage services	Develop a program to assess pilots’ skills and the quality of their services	Training courses	2011 and ongoing
	Provide adequate and safe pilot boarding services	Produce and put in place a pilot boat operating manual	Pilot boat operating manual	2011
Comply with Government of Canada policies	Set up a system for evaluating Board members	Work of the Governance and Human Resources Committee	Submission of an evaluation system	2011–2012
	Take environmental issues into consideration in operations and relevant decisions	Analyze environmental issues in relevant files	Development and implementation of procedures	Ongoing
	Develop a policy and plan to manage risks, including financial risks	Identify the various risks and incorporate the integrated risk management model into management practices	Table summarizing and quantifying (if possible) key risks; action plan	2011
			Identification of internal audit projects for 2012 and subsequent years	2011

Objectives	Means	Action Strategies	Performance Indicators	Timeline
			Implementation of the internal audit of the health and safety program	2011
	Comply with cost containment measures introduced by the Treasury Board	Monitor actual expenses in relation to budgets for 2012 and subsequent years	Dispatching and administrative expenses	2012 and subsequent fiscal years
	Update LPA regulations	Continue carrying out internal reviews of LPA regulations	Publication of new LPA regulations	2011–2012

FINANCIAL STATEMENTS AND KEY PLANNING ASSUMPTIONS

ACTUAL 2010 FORECAST 2011 AND 2012-2016 BUDET PERIOD

STATEMENT OF OERATIONS
($000's)

	ACTUAL	FORECAST	PLAN				
	2010	2011	2012	2013	2014	2015	2016
ASSIGNMENTS	21 096	22 803	22 803	22 803	22 917	23 100	23 216
REVENUES							
Pilotage charges	68 433	76 158	78 040	80 056	80 565	81 299	81 815
Interest and other revenues	808	74	74	74	74	75	75
	69 241	76 232	78 114	80 130	80 639	81 374	81 890
DIRECT EXPENSES							
Pilot fees, salaries and benefits	52 184	58 388	58 962	59 965	61 260	63 005	64 715
Pilot boat operating costs	7 547	8 089	8 633	9 405	9 624	9 780	10 095
	59 731	66 477	67 595	69 370	70 884	72 785	74 810
GROSS PROFIT	9 510	9 755	10 519	10 760	9 755	8 589	7 080
ADMINSITRATIVE AND OPERATIONAL EXPENSES							
Administration	2 700	2 736	3 048	2 716	2 808	2 820	2 929
Dispatch Centre	1 621	1 806	1 968	2 047	2 070	2 123	2 187
Financial Cost	1	3	2	2	5	5	5
	4 322	4 545	5 018	4 765	4 883	4 948	5 121
NET INCOME	5 187	5 210	5 501	5 995	4 872	3 641	1 959

BALANCE SHEET
($000's)

	ACTUAL	FORECAST	PLAN				
	2010	2011	2012	2013	2014	2015	2016
ASSETS							
Current assets							
Cash and investments	9 963	9 660	8 801	15 710	21 745	26 582	29 775
Accounts receivable	8 396	8 713	8 909	9 119	9 172	9 248	9 302
	18 359	18 373	17 710	24 829	30 917	35 830	39 077
Capital Assets	8 765	14 662	18 926	19 026	19 046	19 046	19 066
Less: accumulated depreciation	(4 583)	(4 885)	(2 863)	(3 875)	(4 883)	(5 884)	(6 891)
	4 182	9 777	16 063	15 151	14 163	13 162	12 175
Net intangible asset	197	183	171	159	146	134	122
Total assets	22 738	28 333	33 944	40 139	45 226	49 126	51 374
LIABILITIES							
Short term							
Accounts payable	9 722	10 368	10 578	10 778	10 993	11 252	11 541
Long-term							
Employee future benefits	761	500	400	400	400	400	400
EQUITY OF CANADA							
Contributed capital	2 479	2 479	2 479	2 479	2 479	2 479	2 479
Retained earnings	9 776	14 986	20 487	26 482	31 354	34 995	36 954
	12 255	17 465	22 966	28 961	33 833	37 474	39 433
Total liabilities and Equity of Canada	22 738	28 333	33 944	40 139	45 226	49 126	51 374
Working capital at year end	8 637	8 005	7 132	14 051	19 924	24 578	27 536

STATEMENT OF CONTRIBUTED CAPITAL
($000's)

	ACTUAL	FORECAST	PLAN				
	2010	2011	2012	2013	2014	2015	2016
Balance at start of the period	2 479	2 479	2 479	2 479	2 479	2 479	2 479
Variation during the year	-	-	-	-	-	-	-
Balance at the end of the period	2 479	2 479	2 479	2 479	2 479	2 479	2 479

STATEMENT OF RETAINED EARNINGS
($000's)

	ACTUAL	FORECAST	PLAN				
	2010	2011	2012	2013	2014	2015	2016
Balance at start of the period	4 589	9 776	14 986	20 487	26 482	31 354	34 995
Net income for the period	5 187	5 210	5 501	5 995	4 872	3 641	1 959
Balance at the end of the period	9 776	14 986	20 487	26 482	31 354	34 995	36 954

STATEMENT OF CASH FLOWS
($000's)

	ACTUAL	FORECAST	PLAN				
	2010	2011	2012	2013	2014	2015	2016
OPERATING ACTIVITIES							
Net income (loss) for the year	5 187	5 210	5 501	5 995	4 872	3 641	1 959
Non-cash items:							
Amortization	367	316	563	1 024	1 021	1 013	1 019
Changes in long-term employee future benefits	(512)	(261)	(100)	--	--	--	--
	5 042	5 265	5 964	7 019	5 893	4 654	2 978
Decrease (increase) in accounts receivable	(1 112)	(317)	(196)	(210)	(53)	(76)	(54)
Increase (decrease) in accounts payable	1 845	646	210	200	215	259	289
	5 775	5 594	5 978	7 009	6 055	4 837	3 213
INVESTMENT ACTIVITIES							
Additions to fixed assets	(629)	(5 897)	(6 837)	(100)	(20)	--	(20)
Disposal of property and equipment	588	--	--	--	--	--	--
	(41)	(5 897)	(6 837)	(100)	(20)	--	(20)
CASH							
Variation for the year	5 734	(303)	(859)	6 909	6 035	4 837	3 193
Balance, beginning of the year	4 229	9 963	9 660	8 801	15 710	21 745	26 582
Balance, end of the year	9 963	9 660	8 801	15 710	21 745	26 582	29 775

SENSITIVITY ANALYSIS

Revenue collected from pilotage fees and the cost of pilotage services are directly related to the number of assignments, the number and dimensions of ships, hours of pilotage time and the draughts of ships. The Authority is planning tariff increases of between 0% and 2.35% for the years from 2011 to 2016 in accordance with the LPA's financial obligations and the objective of maintaining financial self-sufficiency

Revenue from and expenses for pilot boats under contract are directly related to the number of pilot boarding services provided for ships; however, dispatch centre and administrative expenses and costs are relatively fixed and do not vary according to the volume of services provided.

Revenue from pilot boats operated by the LPA in Les Escoumins is directly linked to expenditures at the Les Escoumins station, plus 4.80%. The tariffs charged by the LPA for its pilot boats were revised on January 1, 2010, to reflect the updated cost structure at the Les Escoumins station.

The drafting of budget estimates (2012 to 2016) is based on the following key assumptions: estimated Consumer Price Indices, the estimated volume of marine traffic, the pay scales of pilots and the approval of new tariff increases for future years.

Any variation in one or more of these assumptions will result in a favourable or unfavourable change in the Authority's financial position. A 1% variation in the tariff represents about $660,000 in revenue, whereas a 1% variation in the fees of pilots under contract represents a variation of about $580,000. This high percentage of variable costs gives the LPA substantial financial leeway.

Pilots' fees account for the majority of LPA expenses and are the direct result of agreements negotiated by the two pilot corporations and the LPA.

Execution of the plan depends on the correctness of assumptions made during its preparation. Should the Canadian Transportation Agency not grant the requested tariffs, the Authority may be unable to meet its contractual commitments, and there could be an interruption of service.

2012 CAPITAL BUDGET

Acquisition of Capital Assets and Capital Budget

($ 000' s)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2010	2011	2011	2012	2013	2014	2015	2016
Wharf and road	280	3 500	4 327	3 500	0	0	0	0
Pilot boat	10	0	1 570	3 000	0	0	0	0
Communication equipment	0	0	0	0	0	0	0	0
Computer equipment and software	10	40	0	210	100	20	0	20
Other capital items	10	0	0	0	0	0	0	0
Waiting-room & boarding station	119	125	0	127	0	0	0	0
	429	3 665	5 897	6 837	100	20	0	20