LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF THE CORPORATE PLAN

2014-2018

SUMMARY OF THE OPERATING BUDGET

2014

SUMMARY OF THE CAPITAL BUDGET

2014

DECEMBER 2013

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 cash reserve equal between 5 and 10% of gross revenue;
- Maximize efficiency, and quality of pilotage services so as to ensure navigation 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 carry out its operations. We also strive to continue maximizing the efficiency, quality and safety of pilotage services. To achieve this objective, the Authority has implemented an integrated risk management programs to identify, manage and control risks, including financial risks, faced by the Authority.

International economic indicators show once again in 2013 signs of a slow growth everywhere. Economic recovery in the US seems more solid (job growth, real estate recovery) while European economies, except for Germany, have a hard time to pull away from their economic weakness. The Chinese economy also shows a slower economic growth.

In terms of marine transportation, there was a decrease in the first half of 2013, compared with 2012. The St. Lawrence Seaway has reported a drop in bulk cargo (grain) during the first six months of 2013. Post-Panamax ships with a 44 meters maximum width can now navigate to the Port of Montreal facilities, therefore allowing larger ships to ply the St.Lawrence River.

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:

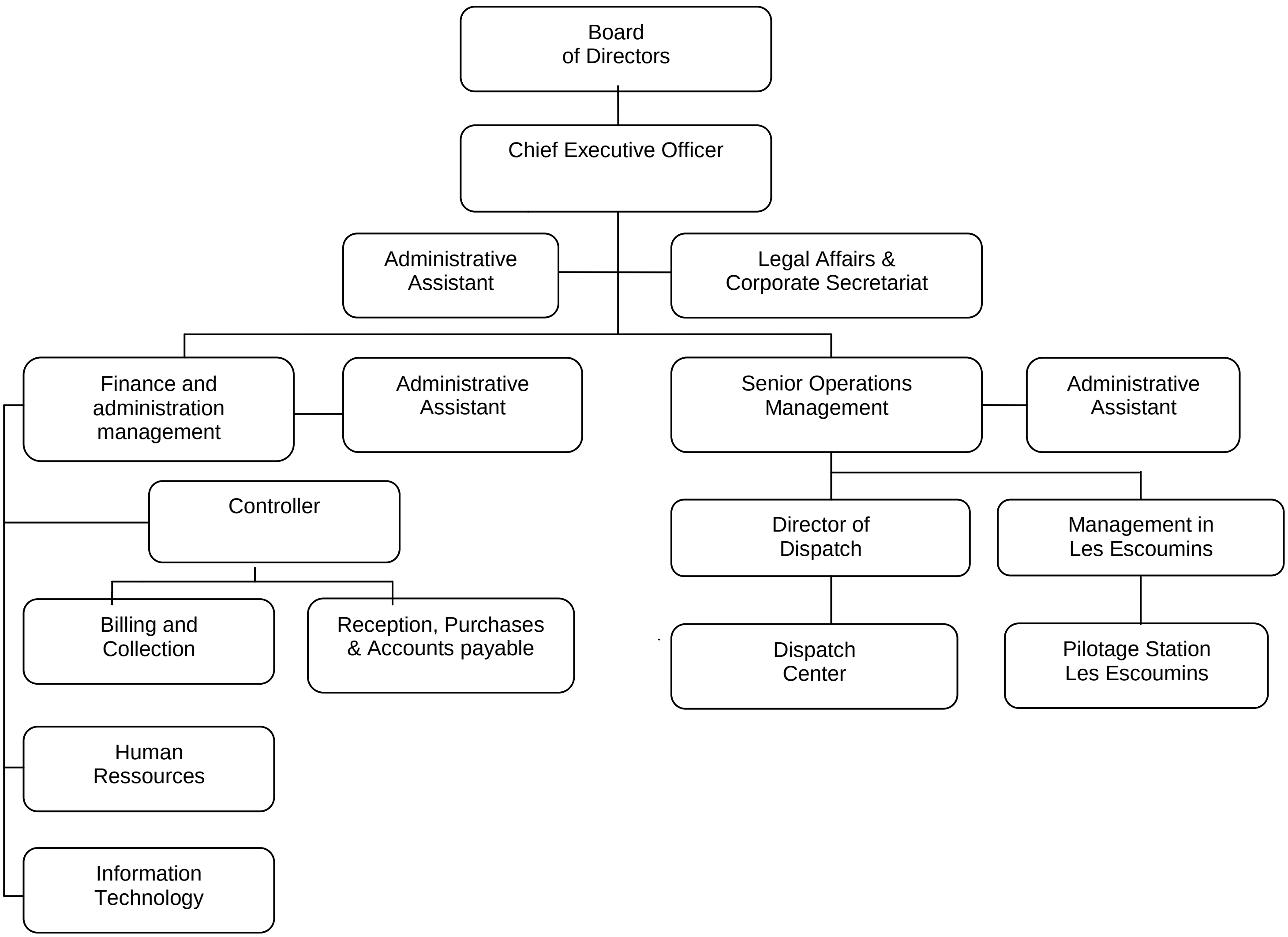
- ⇨ establish, operate, maintain and administer, in the interest of navigation safety, an efficient pilotage service in Canadian waters within the areas served by the Laurentian Pilotage Authority; and

- ⇨ set pilotage charges at a fair and reasonable level.

Authority Profile

ORGANIZATION CHART

LAURENTIAN PILOTAGE AUTHORITY



September 2013

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
- ⇨ prescription of pilotage tariffs to be paid to the Authority for pilotage services.

In addition, the Authority is empowered under 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 bylaws 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: 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.

Pilotage services are provided for all ships subject to compulsory pilotage by contractual pilots in Districts 1.1, 1 and 2. These pilots are represented by the Mid St. Lawrence Pilots (Districts 1.1 and 1) and the Corporation of Lower St. Lawrence Pilots (District 2). 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 for the Les Escoumins, Quebec City and Port of Montreal districts are provided by and managed from the headquarters in Montreal.

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

Current Strategic Position Assessment and Issues

ASSESSMENT OF FINANCIAL PERFORMANCE

The Authority achieved all of the objectives that it set for itself in the previous year (2012), and other objectives will be achieved in 2013. The results for the 2012 fiscal year were positive and the comprehensive income for the fiscal year was $2.7 million. For 2013, the Authority is forecasting a comprehensive income of roughly $1.2 million, which is $0.1 million more than the amount of comprehensive income originally budgeted. This favorable variation results from a small decrease in administrative costs and from larger ship dimensions. The total cumulative comprehensive income as at June 30, 2013, was $0.5 million, owing to a decrease of about 5% in the number of assignments compared with the six-month period ending on June 30, 2012. As at June 30, 2013, there had been 9,211 assignments and the forecast number of assignments in 2013 is now 20,000, a decrease of 9.5% compared to 2012. The Authority is conservative in its financial projections in order to maintain its financial self-sufficiency. Moreover, a significant proportion of the Authority's expenses vary in relation to its income.

The Authority continues its global operations monitoring despite uncertain economic conditions. Changes are gradually taking place on the East and West Coasts of the North American continent (see “Commercial conditions” section on page 11 below). On the West Coast, the container cargo of the port of Prince Rupert has decreased 16% as at June 30, 2013 compared to the same period the preceding year. On the East Coast, Virginia ports’ number of containers has increased 5.7% for the first six month of 2013, while South Carolina ports saw their business volumes increase by 9% for containerized cargo during their financial year ended June 30, 2013, compared to the same period the preceding year.

Legislation

The legal context in which the Authority delivers its services has not changed significantly since the year before. The only significant change is the arbitrator decision, confirmed by the Ontario Superior Court on January 29, 2013, acknowledging the Authority’s maritime privilege with regards to invoiced pilotage services fees to its clients. However, this decision includes two reserves which are important to mention. First, the arbitrator indicates that such maritime privilege only applies to pilotage services, and not to cancellation fees or other charges which do not correspond to genuine services. Secondly, the arbitrator refused to include interest and penalties invoiced by the Authority due to the lack of a precise legal ground to claim such charges.

We also continue to be concerned about the judicialization in the United States and Europe, and increasingly in Canada, of incidents that occur during pilotage assignments. The legislation makes provision for broader penal liability, along with stiffer sentences, for organizations and their representatives and administrators, particularly in environmental matters.

In recent years, organizations have had to adopt a new approach to values and ethics. Concern over this issue has led the federal government to introduce new legislation and policies that have an impact on the management of our organization. These include the Ethical and Political Activity Guidelines for Public Office Holders, the *Federal Accountability Act, the Conflict of Interest Act* and *the Public Servants Disclosure Protection Act* (PSDPA). A new *Values and Ethics Code for the Public Sector* now applies to all Authority employees, all of whom have received a copy. In the next stage of implementation, our employees will be consulted for the purposes of drafting our organization’s own Code of Conduct. The Act stipulates that we must adopt such a code in which we describe specific behaviours required for the purposes of our mandate and unique work environment. The Code of Conduct will also contain a summary of the *Values and Ethics Code for the Public Sector* that recently came into effect, as well as a summary of our own values.

Environmental considerations

The industry's future development will be influenced by the new generation of large container ships with a cargo capacity of up to 18,400 TEU, the new enlarged Panama Canal scheduled to open in 2015, the navigation constraints concerning low-emission propulsion system and ballast water treatment systems to remove any invasive marine species.

MARKET ANALYSIS

There was a steady increase in Canada's Gross National Product (GNP) in the first six months of 2013. However, GNP growth forecasts for all of 2013 remain modest and dependent on world economic trends (USA, Asia and Europe). The economic health in the United States seems to be picking up (lower unemployment for the past few quarters, increase in construction and real estate sectors after a prolonged decline, corporations' financial results generally increasing). Canadian grain quality and volume forecast have recently markedly improved and indicate good yields for 2013, unless extreme weather conditions affect these forecasts in the coming weeks. The European financial crisis is less acute than in 2012, although the economic situations for Italy, Spain, Portugal and Greece are still under high surveillance by governmental representatives from the European Union.

In terms of marine transportation, there were changes in several activity indicators during the first half of 2013, compared with 2012, including the following:

- The St. Lawrence Seaway reported a 11% decrease in bulk shipments (grain); in fact, no important cargo category showed any increase during this period compared to 2012.

- The number of LPA assignments for the first seven months of 2012 was down 6.5% from what it was in the same period in 2012, primarily because of a decrease in grain and refined oil shipments;

- Traffic (in metric tons) at the Montreal Port Authority during the six-month period ending on June 30, 2013, was up 4.8% from 2012 due to liquid bulk (only containerized cargo volume was down compared to 2012).

GRAIN MARKET

The volume of grain shipments dropped in the second half of 2012 and the early part of 2013, mainly because of weather conditions in the United States, in Canada's Prairie provinces and in Ontario/Quebec in 2012. For the second half of 2013, there is a fairly positive outlook for harvests in Canada and the United States. Furthermore, the end of the Canadian Wheat Board's monopoly in August 2012 allows producers to commercialize grain without the Board's intervention. Grain volume and tarification are therefore determined by the market. It is however too early to evaluate the impact of this structural change.

OIL MARKET

Crude oil prices vary regularly in accordance with global political uncertainties. Ultramar's pipeline from Quebec City to Montreal is operational since the end of 2012. This pipeline results in the elimination of maritime and railroad shipping between Ultramar's Lévis refinery and installations located in the east-end of Montreal. Previous assumptions indicated that railway transportation would mostly be affected by this pipeline's implementation. There are therefore adverse consequences for the LPA which should be compensated by the increased dimensions of ships.

COMMERCIAL CONSIDERATIONS

The market continues to be sensitive to the dimensions of container ships. The port of Montreal can now service post-Panamax ships with a maximum width of 44 meters following a Canadian Coast Guard decision. As of August 23, 2013, two such ships have reached the Port of Montreal; five or six other ships are expected to navigate on the St.Lawrence River in the coming months, supporting the upward trench in ship dimensions. As for the U.S. East Coast, capital investments are continuing for South Carolina ports which have undertaken a $1.3 billion, 10-year plan to dredge the port of Charleston, to complete Inland Port's installations and to build a new container terminal at North Charleston port. US East Coast ports (New York-New-Jersey, Norfolk, Charleston...) are therefore targeting competitive advantages in order to service as rapidly and efficiently as possible the US Midwest market, as ships plying in the St.Lawrence River do.

On the shipowner side, companies which disclose financial results report positive results for some of them (Hapag Lloyd) as others report negative financial results (Hanjin Shipping) for the 2013 second quarter.

The Canadian economy still resists to international economic hardships as several economic analyses indicate favorable economic forecasts for Canada compared to the US and Europe for 2013-2014. The economic recovery continues on a more modest scale as was initially expected. As was the case last year, the economic environment in wich the Authority operates will continue to be highly volatile in 2013 and 2014 until such time as the economic indications are more positive and sustained over the long term.

INTERNAL ANALYSIS

The Authority held its annual public meeting on May 5, 2013, with representatives of the marine community in attendance. The Chair of the Board and the Chief Executive

Officer outlined the achievements of the 2012 fiscal year and set out the objectives for 2013, while the Director of finance covered the 2012 financial results.

The collective agreement with the Public Service Alliance of Canada employees expired on June 30, 2013 and negotiations will start in the fall of 2013. The collective agreement covering the labour contract with employees of the Canadian Merchant Service Guild, which represents masters and engineers at the Les Escoumins boarding station, will expire on June 30, 2014. Termination of the severance accual in the event of voluntary departures constitutes an important objective for the Authority within these two negotiations. As for salaries, the Authority plans to negotiate in accordance with its Consumer Price Index (CPI) forecast for the following years.

The pilotage services contract with the Corporation of Lower St. Lawrence Pilots was renewed for a five-year period ending December 31, 2016. As for the pilotage services contract with the Mid St. Lawrence Pilots, it will expire on June 30, 2015.

As for the LPA's pension plan, all of the employees of the Corporation are covered by the public service pension plan, a contributory defined benefit plan sponsored by the Government of Canada. The Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding actuarial deficiencies of the Plan.

With respect to the Authority's tariff regulations, a 2.00% increase is planned from January 1, 2014, for each jurisdiction of the Laurentian Pilotage Authority for 2014 and 2015. This increase is essentially based on CPI estimated increases for 2014. It should be noted that the LPA's financial contributions related to the cost of new generations of electronic navigational instruments to be used by pilots aboard ships are not included within these tariff increases.

Due to the high proportion of variable costs, the possibility to reduce these variable costs is very limited and any such reduction in these costs would have an unfavorable impact on the Authority's revenues, and therefore would reduce economic benefits.

MAINTAINING FINANCIAL SELF-SUFFICIENCY

Financial self-sufficiency can only be maintained by adequately controlling expenses and increasing revenues.

Given that pilot fees, salaries and benefits account for the majority of expenditures, a balanced budget can only be maintained by controlling these costs, even though a large proportion of them are variable.

With respect to revenues, a tariff increase of 2.00% for 2014 will be necessary to help maintain financial self-sufficiency. The tariff assumptions used for future years include minimum tariff increases to enable the LPA to maintain financial self-sufficiency. It is expected that pilotage charges and related expenses in 2014 will increase by 2.00% in District #2 and by 2.45% in District #1. The Authority believes that its financial position during this period will be able to support this fee strategy.

AUDITING AND ACCOUNTABILITY REPORTING

The Authority has set up systems and practices to monitor its operations. Department heads ensure that these systems and practices are satisfactory and operational at all times. Managers report their activities to the Chief Executive Officer.

Quarterly financial reports are approved by the Board of directors' members and the Audit Committee. The Auditor General of Canada is the Authority's auditor by law.

The *Financial Administration Act* stipulates that, as a general rule, all Crown corporations must have internal audits of their operations conducted. In 2012, the LPA implemented a new internal audit program covering a three-year period.

The Special Exam undertaken by the Office of the Auditor General of Canada (OAG) in the fall of 2012 was presented in July 2013 to the Company's Board of Directors. The report indicates that the means and methods used by the Authority have provided the reasonable assurance to the OAG that its assets were protected and controlled, that its resources were effectively and economically managed and that its activities were efficiently conducted. The OAG noted a significant improvement since its last report in 2005 with regards to strategic planning, risk management, performance measures and results' communication. Furthermore, the report mentions that the Authority has good governance practices.

Action Strategies and Performance Indicators

The main objectives that the Authority set for itself during its annual strategic planning exercise in order to carry out its operations in accordance with its strategic direction are shown in the tables below.

Objective	Means	Action Strategy	Performance Indicator	Timeline
Maintaining financial self-sufficiency	Keep expenditures within budget	Carry out monthly expenditure audits (management)	Financial statements, budgetary reports and monthly progress graph showing operations' results	Ongoing
	" "	Quarterly audit of revenue and expenses (Audit Committee)	Feedback from Committee members and approval by the Board of Directors	Quarterly
	“ “	Publication of LPA's annual report	Performance indicators shown in annual report	March 31, 2014
	Monitor employee costs	Renew collective agreements with the Public Service Alliance of Canada (PSAC) and the Canadian Merchant Service Guild (CMSG) while complying with cost containment measures	New collective agreements	2013–2014
	Increase revenues by publishing fair and reasonable tariffs	2014 and 2015 tariffs in the process of being approved; consultation of customers	Build up cash liquidities amounting to 5% to 10% of revenues through the achievement of budgetary surpluses	2013
	Optimize costs arising from ownership and operation of assets	Maintain and upgrade assets in accordance with financial self-sufficiency criteria	Achievement of necessary budget surpluses to enable the upgrading of assets	Ongoing
	Optimize the processing of pilotage fiches	Design and implement electronic pilotage fiches	Implementation team	2013

Objective	Means	Action Strategy	Performance Indicator	Timeline
	Recommend site for the LPA's administrative offices	Site analysis in line with the organisation's needs and location rates	Site recommendation and lease execution	October 31, 2013
	Avoid bad debts	Implement new credit strategies	Bad debt expenses	2013
	Analyze changes to the dispatch and invoicing software	Meeting with the software supplier, analysis of alternatives and implementation	Increase software performances and efficiency (refer also to the electronic pilotage fiches)	2013-2014
Maximizing efficiency, quality and safety by being attentive to user needs	Provide safe, quality pilotage services	Improve training system / pilot evaluation	Keep the incident rate at less than 0.1%	2013-2014
	" "	Reduce delays and causes for pilot's lack of availability	Keep number of delays at less than 0.10% of assignments	2013-2014
	" "	Reduce delays due to customers	To come	To come
	" "	Improve the LPA's follow-up upon the occurrence of an accident	Keep the incident rate at less than 0.1%	2014
	" "	Review the training program of the Mid St. Lawrence pilots	Training courses	2013
	Improve communication level and collaboration	Focus on collaboration and communication with stakeholders	Periodical meetings	Ongoing
			Web site improvement	2013-2014
	" "	Identify and evaluate possible service improvements for customers	Inventory of navigation restrictions and their estimated economic impact	2013-2014

Objective	Means	Action Strategy	Performance Indicator	Timeline
	Maintain an adequate number of pilots	Plan marine traffic level and pilot retirement with corporations	Need analysis for apprentice-pilots	2013
	Improve efficiency and reliability of equipment, mostly pilot boats	Keep the preventive maintenance programs for facilities (Les Escoumins wharf) and equipment	Minimize major breakdowns and unforeseen expenses	Ongoing
	Refine organizational needs and promote a good organizational atmosphere	Preparation of an action plan, review of organizational chart and certain policies	Organizational chart update, implementation of new human resources policies	2013-2014
	Provide safe, quality pilot boarding services	Update the pilot boat operating manual	Operating manual for pilot boats	2013
	“ “	Finalization of manning certificate process for pilot boats	Find manning certificate	2013
	Analysis of a permanent site for transboarding operations at the Trois-Rivières port	Preparation meetings of the negotiating team	Finalization of an agreement with partner	2013-2014
	Negotiate financial contribution terms for the Corporation of Lower St. Lawrence pilots’s portable units	Development of strategies and discussion start with the Corporation	Mutual agreement	2013-2014
Complying with Government of Canada policies	Promote good governance practices	Work of the Governance and Human Resources Committee	Implementation of a Governance and Human Ressources committee charter	2013
	Update the Corporation’s risks, including financial risks	Update list of risks, develop an action plan and timetable and incorporate the risk management model into management practices	Execution of internal audit projects for 2013 and following years	2013-2014

Objective	Means	Action Strategy	Performance Indicator	Timeline
	Comply with cost containment measures introduced by the Treasury Board	Monitor actual expenses in relation to budgets for 2013 and subsequent years	Dispatching and administrative expenses	2012 and subsequent fiscal years
	Update LPA regulations	Identify key elements and undertake consultations	Publication of new LPA regulations	2014
	Collaborate to the Special Exam process undertaken by the OAG	Ensure availability for meetings and preparation of reports and analyses	Special Exam report presented to the Board of Directors by the OAG	2013
			Implementation of recommendatiions	2013-2014

Financial Statements and Key Planning Assumptions

ACTUAL 2012, FORECAST 2013 AND 2014–2018 BUDGET PERIOD

STATEMENT OF COMPREHENSIVE INCOME
($000s)

	ACTUAL	FORECAST	PLAN				
	2012	2013	2014	2015	2016	2017	2018
ASSIGNMENTS	22,096	20,000	21,000	21,210	21,422	21,636	21,853
REVENUES							
Pilotage charges	78,600	75,903	81,366	83,656	86,255	88,678	91,379
Interest and other revenues	153	324	74	75	75	75	77
	78,753	76,227	81,440	83,731	86,330	88,753	91,456
DIRECT EXPENSES							
Pilot fees, salaries and benefits	62,223	61,377	66,024	68,056	70,124	72,297	74,490
Pilot boat operating costs	8,646	8,680	9,249	9,466	9,823	9,947	10,270
	70,869	70,057	75,273	77,522	79,947	82,244	84,760
GROSS PROFIT	7,884	6,170	6,167	6,209	6,383	6,509	6,696
ADMINISTRATIVE AND OPERATING EXPENSES							
Administration	3,317	2,829	3,302	3,105	3,166	3,196	3,170
Dispatch Centre	1,835	2,113	2,123	2,101	2,170	2,189	2,271
	5,152	4,942	5,425	5,206	5,339	5,385	5,441
COMPREHENSIVE INCOME	2,732	1,228	742	1,003	1,047	1,124	1,255

STATEMENT OF FINANCIAL POSITION
($000s)

	ACTUAL	FORECAST	PLAN				
	2012	2013	2014	2015	2016	2017	2018
ASSETS							
Current							
Cash	6,862	5,713	6,444	8,329	10,544	12,025	13,768
Accounts receivables	9,349	8,699	9,325	9,587	9,885	10,163	10,473
	16,211	14,412	15,769	17,916	20,429	22,188	24,241
Non-current							
Property and equipment	16,895	16,718	16,219	15,527	14,837	14,152	13,469
Intangible assets	206	952	1,447	1,135	695	1,054	1,278
Total assets	33,312	32,082	33,435	34,578	35,961	37,394	38,988
LIABILITIES							
Current							
Accounts payable	12,678	10,227	10,978	11,245	11,581	11,890	12,229
Non-current							
Employee future benefits	277	272	132	5	5	5	5
Total liabilities	12,956	10,499	11,110	11,250	11,586	11,895	12,234
EQUITY OF CANADA							
Retained earnings	20,356	21,583	22,325	23,328	24,375	25,499	26,754
	20,356	21,583	22,325	23,328	24,375	25,499	26,754
Total liabilities and equity of Canada	33,312	32,082	33,435	34,578	35,961	37,394	38,988
Working capital at year end	3,533	4,185	4,791	6,671	8,848	10,298	12,012

STATEMENT OF CHANGES IN EQUITY OF CANADA
($000s)

	ACTUAL	FORECAST	PLAN				
	2012	2013	2014	2015	2016	2017	2018
Retained earnings, beginning of the year	17,624	20,356	21,583	22,325	23,328	24,375	25,499
Comprehensive income for the year	2,732	1,228	742	1,003	1,047	1 124	1,255
Retained earnings, end of the year	20,356	21,583	22,325	23,328	24,375	25,499	26,754

STATEMENT OF CASH FLOWS
($000s)

	ACTUAL	FORECAST	PLAN				
	2012	2013	2014	2015	2016	2017	2018
OPERATING ACTIVITIES							
Comprehensive income for the year	2,732	1,228	742	1,003	1,047	1.124	1,255
Non-cash items:							
Amortization	233	811	1,156	1,204	1,255	1,250	1,256
Changes in long-term post-employment benefits and gain on disposal of capital assets	(241)	(5)	(140)	(127)	--	--	--
Decrease (increase) in receivables	(170)	649	(626)	(262)	(298)	(278)	(310)
Increase (decrease) in accounts payable	2,262	(2,452)	751	267	336	309	339
Cash flows from operating activities	4,816	231	1,883	2,085	2 340	2,405	2,540
INVESTING ACTIVITIES							
Additions to fixed assets							
Disposal of property and equipment	(9,300)	(1,380)	(1,152)	(200)	(125)	(924)	(797)
	(9,300)	(1,380)	(1,152)	(200)	(125)	(924)	(797)
CASH							
Change for the year	(4,484)	(1,149)	731	1,885	2,215	1,481	1,743
Balance, beginning of year	11,345	6,862	5,713	6,444	8,329	10,544	12,025
Balance, end of year	6,862	5,713	6,444	8,329	10,544	12,025	13,768

SENSITIVITY ANALYSIS

Revenue collected from pilotage charges 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 2.00% (being its CPI assumption) for the years from 2014 to 2018 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 projected expenditures at the Les Escoumins station, plus 4.80%.

The drafting of budget estimates (2014 to 2018) is based on the following key assumptions: estimated Consumer Price Indices, the estimated volume of marine traffic, the contractual remuneration of pilots, ship dimensions 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 $720,000 in revenue, whereas a 1% variation in the fees of pilots under contract represents a variation of about $660,000. 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 thus an interruption of service may result.

2014 CAPITAL BUDGET

Acquisition of Capital Assets and Capital Budget

($000s)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2012	2013	2013	2014	2015	2016	2017	2018
Wharf and road	5,338	--	--	--	--	--	--	--
Pilot boat	3,918	--	--	--	--	--	--	--
Intangible assets	36	175	1,026	962	200	125	924	797
Waiting-room & boarding station	8	100	354	190	--	--	--	--
	9,300	275	1,380	1,152	200	125	924	797