GREAT LAKES PILOTAGE AUTHORITY

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SUMMARY

OF THE CORPORATE PLAN

2006 to 2010

Includes:

Operating Budget – 2006

Capital Budget - 2006

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

MANDATE

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

BACKGROUND

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. Pursuant to the *Canada 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 is 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*. On October 1st, 1998, the Authority ceased to be a subsidiary of the St. Lawrence Seaway Authority and has surrendered its charter under the *Canada Business Corporations Act.*

POWERS

To carry out its responsibilities the Authority has made regulations, approved by Order-in-Council, pursuant to the *Pilotage Act* for:

1. The establishment of compulsory pilotage areas.
2. The prescription of the ships or classes of ships subject to compulsory pilotage.
3. The prescription of the classes of pilot licenses and classes of pilotage certificates that may be issued.
4. The prescription of the tariffs of pilotage charges to be paid to the Authority for pilotage services.

In addition, the Authority is empowered by the *Pilotage Act* to:

GREAT LAKES PILOTAGE AUTHORITY

SUMMARY OF 2006-2010 CORPORATE PLAN

1. Employ such officers and employees, including licensed pilots, as required.
2. Contract with a body corporate for the services of licensed pilots.
3. Make by-laws respecting the management of its internal affairs.
4. Purchase, lease or otherwise acquire land, buildings, pilot boats and such other equipment and assets as may be required and to dispose of any such assets acquired.
5. Borrow money for the purpose of defraying the expenses of the Authority.
6. With the approval of the Minister of Finance, invest any money not immediately required for the purposes of the Authority in bonds or other obligations of or guaranteed by Her Majesty in right of Canada and Provincial Treasury Bonds guaranteed by the Provincial Governments.

CORPORATE OBJECTIVES

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.

- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.

- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.

- To be responsive to the Government's environmental, social and economic policies.

DESCRIPTION OF THE OPERATIONS

The Authority operates in the interest of safety, a marine pilotage service in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock.

SUMMARY OF 2006-2010 CORPORATE PLAN

Services are provided through the performance of pilotage assignments to those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through Pilotage Headquarters at Cornwall.

The Authority must co-ordinate its efforts and operations with a number of other organizations such as The St. Lawrence Seaway Management Corporation and the United States Seaway Development Corporation, who operate the lock facilities**,** and maintain traffic control systems within the Region; the Canadian Coast Guard, who provide aids to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

The Great Lakes Pilotage region is divided as follows:

- Cornwall District
- International District No. 1
- Lake Ontario
- International District No. 2 (including the Welland Canal)
- International District No. 3 (including Lakes Huron, Michigan and Superior)
- The Port of Churchill, Manitoba

CORPORATE GOVERNANCE

Corporate Governance is the process of establishing and monitoring, the policies and procedures which will ensure the stewardship of the business and affairs of the Authority, including financial viability.

The Authority’s Board of Directors is comprised of a Chairman, two Pilot representatives, two Shipping Industry representatives and two representatives of the public interest. This structure provides effective channels of communication and encourages better understanding of the requirements of the major users.

The Canada Marine Review Panel has recommended that the present Board structure be included in the Pilotage Act.

The Chairman and two Board members are also designated as members of the Audit Committee. At regular meetings, the Audit Committee reviews the financial performance of the Authority. After the Audit Committee's review, the financial statements are presented to the monthly meeting of the Board of Directors for formal acceptance.

During 2005, the Board of Directors engaged the services of a professional accounting firm to serve as internal auditors of the Authority.

The Authority complies with the Treasury Board guidelines on corporate governance practices.

EXECUTIVE SUMMARY

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.
- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.
- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.
- To be responsive to the Government's environmental, social and economic policies.

The Great Lakes Pilotage Authority (GLPA) has turned the corner on five years of operating deficits which saw all of its accumulated surplus funds, which it had accumulated during the 1993-2000 period, absorbed to cover losses. During the period of operating surpluses, GLPA reduced it overall tariffs by 3% during a period where inflation was 12%. Tariff increases of 32% since 2002 has yielded an average yearly increase of 2.5% if taken since 1993 when the last tariff increase was implemented. The Authority has forecasted a breakeven for 2005 on a cash basis.

The Authority's revenues had been reduced since 2002 in part by a depreciating American currency which was the currency used to charge pilotage fees in the Authority's four

SUMMARY OF 2006-2010 CORPORATE PLAN

(4) International districts which are found in American waters. In its recent tariff adjustment, the Authority eliminated the uncertainties associated to forecasting revenues based on the American dollar and reverted to charging all of its pilotage fees in Canadian dollars. This exercise has put a stop to the million dollar a year losses associated to the depreciation of the American dollar.

Traffic levels in 2004, 2005 and 2006 are now at a level which will permit GLPA to operate in an environment where work force compression and major cost cutting initiatives will not be required.

In 1999, the Minister of Transport accepted the recommendation of the Canadian Transportation Agency that suggested that the *Great Lakes Pilotage Regulations* be amended to enhance the requirements for Canadian vessel exemptions for compulsory pilotage in the Great Lakes region. The Minister of Transport instructed the Authority to perform a risk analysis of the situation and prepare amendments that would be supported by the findings of the risk study.

The risk analysis is now complete and the proposed amendments to the regulations are now in the process of being published in Part I of the Canada Gazette. The Authority is anticipating the publication in 2006 which will not require a major undertaking financially and operationally to implement the amendments for the 2007 navigation season. The amendments will allow most of the Canadian officers to pilot their own vessels in the Great Lakes region once a pilotage certificate is issued to them. Pilotage certificates will be issued only when these marine officers have demonstrated that they have the qualifications and experience to navigate their vessels safely in the region. The present exemption system does not require these officers to demonstrate their knowledge or skill in order to navigate the waters of the Great Lakes. The primary objective of the Authority in 2006 will be to effectively and efficiently implement the proposed pilotage certificate system.

Current Treasury Board requirements regarding Internal Audit will cause the Authority to examine all its major operational functions and review the operating risks associated to them. This examination was started and was continued into the planning period with a first report presented in the Spring 2005. The Authority reviewed the findings of this Internal Audit report and established action plans to address all recommendations. Implementation of the action plan will begin in late 2005 and continue into 2006.

Tariff increase in 2006 are expected to allow the Authority to generate a small operating surplus which will be used to fund the Authority's unfunded employee termination benefits account which was at a $3.2 million at December 31, 2004.

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

GLPA's operation plans for 2006 and beyond do reflect the increase cost of oil as an additional $100,000. which has been added to the expenses related to pilot travel to and from boarding stations as well as an increase in pilot boat operating costs due to higher fuel costs. Although this increase is not material in itself, it still represents a tariff increase requirement of 1% per year.

Finally, the Authority will be disposing of its Port Weller building and land in 2006 as it has consolidated all of its operations (administrative and dispatching) in one location at its offices in Cornwall, Ontario. The funds generated from the disposal of the Port Weller building is expected to be less than $200,000 and will be returned to the Authority's general operating funds.

REVENUE AND TRAFFIC

The Authority operates in an environment where a number of factors can affect its operation significantly. Some of these factors are: grain exports, steel imports/exports, Canadian/American economy, the China factor and the value of the Canadian dollar. Anyone of these factors could impact the Authority's vessel traffic in the Great Lakes which in turn could impact Pilotage revenue and profitability of the Authority. The factors on their own or in concert with each other cannot be forecasted with any accuracy and leaves the Authority waiting to see the effects once changes in the environmental factors is experienced. The industry and users have indicated that they are willing to fund pilotage during the periods when demand is low as they cannot afford any delays when demand increases. We have seen that in times when demand increases slightly (1%) delays can increase significantly which becomes very costly to the users. Also, the Authority has collective agreements, service contracts and leases that it must honor during the planning period as these are explained in this section.

The Authority forecast inflation to be at 2.25% per year for the planning period and interest rates to be at the same level as 2005. The Authority forecasts traffic to be 6,600 assignments for 2006.

COLLECTIVE LABOUR AGREEMENTS

The Authority has five Collective Agreements, four with Pilot Corporations and one with Public Service Alliance of Canada (P.S.A.C.) which represents the clerical staff and despatchers employed by the Authority. All (4) pilot collective agreements have been ratified and will expire March 31, 2007. The pilots and the Authority have also entered into agreement to give up their right to strike and withhold services for a period of five years (March 31, 2006). The collective agreement with P.S.A.C. employees has been ratified and will expire June 30, 2006.

PILOT BOAT CONTRACTS

The Authority contracts for pilot boat services at both Port Weller and Port Colborne. These contracts are in place up to the 2005 season.

Both of these pilot boats (including crew) are at a fixed rate per month. The cost of obtaining this service is approximately $450,000 per annum for both contracts.

LAND TRANSPORTATION CONTRACTS

The contract for Land Transportation services to transfer pilots between St. Lambert and Beauharnois, Quebec, and Cornwall, Ontario will expire on December 31, 2005. The contract for Land Transportation services to transfer pilots between Cornwall, Ontario and Snell Lock (U.S.), St. Lambert, Quebec and Cape Vincent, New York will expire on December 31, 2006. The contract for the Land Transportation services to transport pilots to points in the area of the Welland Canal will expire on December 31, 2006.

The cost of obtaining these services will be directly related to the volume of assignments. The cost for 2006 is estimated to be $300,000.

It is difficult to forecast these cost increases over the planning period because of the upward pressure on oil and gas prices and insurance costs. The exact effect of these increases cannot be forecasted at this time.

LEASES

The Authority relocated its head office to a new location in 1994. The head office facility is under a five (5) year lease, which expires in 2009. This lease has an annual cost of approximately $52,000 for 2005 and increases as per the Canadian Consumer Price Index for 2006 to 2010.

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

COMPUTER SYSTEM SUPPORT

The Authority has a computer software and Web-site support agreement with Klein Systems of Vancouver, B.C. for a fixed annual price of $21,000 per year. This agreement is a yearly one and can be terminated without cost at any time.

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

STATEMENT OF HUMAN RESOURCES

2000-2010

	ACTUAL 2000	ACTUAL 2001	ACTUAL 2002	ACTUAL 2003	ACTUAL 2004	2005	2006	FORECAST 2007	2008	2009	2010
ADMINISTRATION											
CEO	1	1	1	1	1	1	1	1	1	1	1
ADMINISTRATIVE OFFICERS	5	5	5	5	**4**	**4**	**5**	**5**	**5**	**5**	**5**
ADMINISTRATIVE SUPPORT	4.5	4.5	4.5	4.5	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
TOTAL	10.5	10.5	10.5	10.5	**8.5**	**8.5**	**9.5**	**9.5**	**9.5**	**9.5**	**9.5**
OPERATION											
FULL TIME PILOTS	63	64	64	60	**60**	**59**	**60**	**60**	**60**	**60**	**60**
CONTRACT PILOTS (.5)	8	9	9	5	**4**	**1**	**2**	**2**	**2**	**2**	**2**
DISPATCHERS	9	9	9	9	**9**	**9**	**9**	**9**	**9**	**9**	**9**
	76	77.5	77.5	71.5	**71**	**68.5**	**70**	**70**	**70**	**70**	**70**
TOTAL MANPOWER	86.5	88.0	88.0	82.0	**79.5**	**77.0**	**79.5**	**79.5**	**79.5**	**79.5**	**79.5**

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

STATEMENT OF OPERATIONS

2004-2010

	ACTUAL 2004	FORECAST 2005	BUDGET 2006	FORECAST 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010
REVENUES							
PILOTAGE	$ 13,403	$ 14,836	$ 16,212	$ 16,617	$ 17,032	$ 17,458	$ 17,894
INVESTMENTS	105	22	8	12	16	20	24
OTHER	81	75	75	75	75	75	75
TOTAL	$ 13,589	$ 14,933	$ 16,295	$ 16,704	$ 17,123	$ 17,553	$ 17,993
EXPENSES							
PILOT WAGES	$ 7,155	$ 6,830	$ 7,105	$ 7,265	$ 7,428	$ 7,595	$ 7,766
PILOT OVERTIME	1,387	1,320	1,219	1,246	1,274	1,303	1,332
PILOT PRODUCTIVITY	1,020	1,143	1,135	1,161	1,187	1,213	1,241
PILOT BENEFITS	1,687	1,612	1,693	1,731	1,770	1,810	1,851
OPERATION SALARIES	709	610	685	700	716	732	749
OPERATION BENEFITS	158	132	178	182	186	190	195
TRAVEL EXPENSES	999	975	985	1,007	1,030	1,053	1,077
PILOT BOAT	577	600	650	665	680	695	711
LAND TRANSPORTATION	378	390	395	404	413	422	432
TERMINATION BENEFITS	175	300	315	322	329	337	344
COMMUNICATION	50	50	44	45	45	45	45
DISPATCH SERVICES	64	60	60	60	60	60	60
UTILITIES AND SUPPLIES	125	125	108	110	110	110	110
TRAINING	48	68	75	75	75	75	75
TOTAL	$ 14,532	$ 14,215	$ 14,647	$ 14,973	$ 15,303	$ 15,640	$ 15,988
OPERATING MARGIN	$ (943)	$ 718	$ 1,648	$ 1,731	$ 1,820	$ 1,913	$ 2,005
ADMINISTRATION EXPENSES							
SALARIES	$ 457	$ 470	$ 481	$ 491	$ 503	$ 514	$ 526
BENEFITS	111	115	116	119	122	125	128
UTILITIES AND RENT	60	56	60	60	60	65	65
RETIRED EMPLOYEES BENEFITS	14	14	14	14	12	12	12
DIRECTOR FEES	62	62	62	62	62	62	62
DIRECTOR TRAVEL	95	75	75	75	75	75	75
ADMINISTRATION TRAVEL	92	85	85	85	85	85	85
COMMUNICATION	14	14	15	15	15	15	15
TERMINATION BENEFITS	50	47	50	52	54	56	58
PROFESSIONAL FEES	105	90	75	85	85	85	85
AMORTIZATION	79	66	45	40	40	40	40
INTEREST EXPENSE	-	26	25	25	18	14	10
TOTAL	$ 1,139	$ 1,120	$ 1,103	$ 1,123	$ 1,131	$ 1,148	$ 1,161
SURPLUS (LOSS) FOR THE YEAR	$ (2,082)	$ (402)	$ 545	$ 608	$ 689	$ 765	$ 844

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

BALANCE SHEET

2004-2010

	ACTUAL 2004	FORECAST 2005	BUDGET 2006	FORECAST 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010
ASSETS							
CURRENT ASSETS							
CASH	$ 618	$ 135	**$ 115**	**$ 137**	**$ 149**	**$ 147**	**$ 133**
SHORT TERM INVESTMENTS	1,250	1,550	**1,830**	**2,100**	**2,465**	**2,920**	**3,465**
ACCOUNTS RECEIVABLE	2,549	2,625	**2,700**	**2,775**	**2,850**	**2,925**	**3,000**
	4,417	4,310	**4,645**	**5,012**	**5,464**	**5,992**	**6,598**
LONG TERM INVESTMENTS							
LONG TERM INVESTMENTS	-	-	**-**	**-**	**-**	**-**	**-**
INVESTMENTS - EMPLOYEE TERMINATION BENEFITS	-	-	**320**	**650**	**985**	**1,330**	**1,685**
	-	-	**320**	**650**	**985**	**1,330**	**1,685**
FIXED ASSETS	1,039	1,059	**1,109**	**1,184**	**1,259**	**1,334**	**1,409**
LESS: ACCUMULATED DEPRECIATION	(882)	(948)	**(993)**	**(1,033)**	**(1,073)**	**(1,113)**	**(1,153)**
	157	111	**116**	**151**	**186**	**221**	**256**
TOTAL ASSETS	$ 4,574	$ 4,421	**$ 5,081**	**$ 5,813**	**$ 6,635**	**$ 7,543**	**$ 8,539**
LIABILITIES							
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 4,673	$ 4,700	**$ 4,750**	**$ 4,800**	**$ 4,850**	**$ 4,900**	**$ 4,950**
ACCRUED TERMINATION BENEFITS	2,977	3,199	**3,264**	**3,338**	**3,421**	**3,514**	**3,616**
TOTAL LIABILITIES	7,650	7,899	**8,014**	**8,138**	**8,271**	**8,414**	**8,566**
SHAREHOLDER EQUITY							
COMMON STOCK	-	-	**-**	**-**	**-**	**-**	**-**
CONTRIBUTED CAPITAL	82	82	**82**	**82**	**82**	**82**	**82**
RETAINED EARNINGS	(3,158)	(3,560)	**(3,015)**	**(2,407)**	**(1,718)**	**(953)**	**(109)**
	(3,076)	(3,478)	**(2,933)**	**(2,325)**	**(1,636)**	**(871)**	**(27)**
TOTAL LIABILITIES AND EQUITY	$ 4,574	$ 4,421	**$ 5,081**	**$ 5,813**	**$ 6,635**	**$ 7,543**	**$ 8,539**

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2006-2010 CORPORATE PLAN

CHANGES IN FINANCIAL POSITION

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

CHANGES IN FINANCIAL POSITION

(000'S)

	ACTUAL 2004	FORECAST 2005	BUDGET 2006	FORECAST 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010
CASH PROVIDED BY (USED IN):							
OPERATING ACTIVITIES							
NET SURPLUS (LOSS) FOR THE YEAR	$ (2,082)	$ (402)	**$ 545**	**$ 608**	**$ 689**	**$ 765**	**$ 844**
ITEMS NOR REQUIRING CASH							
EMPLOYEE FUTURE BENEFITS	(7)	222	**65**	**74**	**83**	**93**	**102**
AMORTIZATION	79	66	**45**	**40**	**40**	**40**	**40**
NET CHANGE IN WORKING CAPITAL COMPONENTS OTHER THAN CASH	1,092	(49)	**(25)**	**(25)**	**(25)**	**(25)**	**(25)**
	$ (918)	$ (163)	**$ 630**	**$ 697**	**$ 787**	**$ 873**	**$ 961**
INVESTING ACTIVITIES							
PURCHASE OF INVESTMENTS	(1,250)	(1,550)	**(2,150)**	**(2,750)**	**(3,450)**	**(4,250)**	**(5,150)**
DISPOSAL OF INVESTMENTS	1,853	1,250	**1,550**	**2,150**	**2,750**	**3,450**	**4,250**
ACQUISITION OF CAPITAL ASSETS	(36)	(20)	**(50)**	**(75)**	**(75)**	**(75)**	**(75)**
	$ 567	$ (320)	**$ (650)**	**$ (675)**	**$ (775)**	**$ (875)**	**$ (975)**
INCREASE (DECREASE) IN CASH	(351)	(483)	**(20)**	**22**	**12**	**(2)**	**(14)**
CASH, BEGINNING OF YEAR	969	618	**135**	**115**	**137**	**149**	**147**
CASH, END OF YEAR	$ 618	$ 135	**$ 115**	**$ 137**	**$ 149**	**$ 147**	**$ 133**

SUMMARY OF 2006-2010 CORPORATE PLAN

STATEMENT OF CAPITAL EXPENDITURES

2004-2010

	ACTUAL 2004	FORECAST 2005	BUDGET 2006	FORECAST 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010
BUILDINGS	$ -	$ -	$ -	$ -	$ -	$ -	$ -
COMPUTER HARDWARE & SOFTWARE	29	20	50	60	60	60	60
COMMUNICATION EQUIPMENT	-	-	-	-	-	-	-
OFFICE EQUIPMENT & FIXTURES	7	-	-	15	15	15	15
	$ 36	$ 20	$ 50	$ 75	$ 75	$ 75	$ 75

The Authority plans to spend $60,000 in 2006 to upgrade its dispatch, billing and accounts receivable system and related hardware. Amounts of $75,000 per year have been budgeted for the period of 2007 to 2010 to replace aging hardware and software and for a pilot training database.