



GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN SUMMARY

2016 to 2020

Approved by the Board

November 4, 2015

GREAT LAKES PILOTAGE AUTHORITY

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1. EXECUTIVE SUMMARY

“Working in partnership with our key stakeholders, we provide professional, progressive and reliable marine pilotage services that are safe, environmentally sensitive, efficient and economical” is the new mission statement that the Great Lakes Pilotage Authority (the Authority) has embraced in developing its strategic plans and objectives for the 2016-2020 planning period.

TRAFFIC AND ECONOMIC CONDITIONS

Vessel traffic in the Great Lakes remains relatively stable following the rebound from the 2008 recession but the traffic has increased by approximately 10% since 2013 and is expected to remain at approximately 6,700 assignments for the planning period. The main drivers of traffic continue to be inbound steel products. The outbound traffic continues to be Canadian and American agriculture products. With the elimination of the Canada Wheat Board monopoly, it appears that the export traffic has increased slightly. Foreign export shipping of the record 2013 and 2014 western grain crop have played a role in moving western grains to market in a more expeditious fashion. The export market for coal to China out of the Great Lakes has dried up due to the significant reduction in China’s requirement for coal given its continued slow economic recovery. The 2016-2020 Corporate Plan is being prepared under the assumptions that the economic environment remains similar to the one experienced in the last four years.

SAFE PILOTAGE SERVICES

The number of minor marine incidents increased in 2014 and the current number of marine incidents in 2015 are slightly higher than previous historical trends – for which a significant number of the increase were due to equipment failure. The organization’s incident-free rate has dropped to 99.8% from its historical 99.9%. Even with the increase in incidents, the comprehensive training programs provided to the pilots have allowed them to effectively respond accordingly as to minimize the severity of the incidents and mitigate potential damage. The pilot training program will continually be monitored during the planning period as to keep with current issues and trends. At the start of the 2015 navigation season, the Authority revamped its apprentice-pilot training program to better meet the realities facing today’s apprentice-pilots. Along with the theoretical studies and the practical training voyages, simulator training will round out the types of training provided.

RELIABLE PILOTAGE SERVICES

Traffic levels in 2014 reached 7,462 assignments for an average of 136 assignments/pilot. This traffic level well surpassed the budgeted 6,100 assignments and the revised forecast of 6,723 assignments. Given the full 9 months of the navigation season to recruit and train an apprentice-pilot, the 22% increase in traffic had to be serviced by the existing pool of pilots. As a result, vessel delays due to a shortage of pilots jumped to 3,475 hours as compared to 1,261 hours in 2013 when the traffic only consisted of 6,403 assignments. The current forecasted number of assignments for 2015 is 7,000 vs. the 6,531 assignments budgeted and used for pilot numbers and for the tariff rate

proposals for 2015 to 2017.

Pilot Numbers

By the end of 2015, the Authority will have 24 of its 57 pilots being 60 years of age or older. Based on a survey on potential retirement plans for the planning period, the results provide insight into the need for the recruitment of apprentice-pilots as well as part-time pilot requirements.

By taking into account the anticipated pilot retirements and the goal to better service its customers by reducing the vessel delays due to a shortage of pilots during the period of increased pilotage demands, the Authority is aligning its pilot numbers as follows:

HEADCOUNT ASSUMPTIONS						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	53	49	52	57	58	59
Reductions	(4)	(6)	(2)	(3)	(3)	(2)
Increases	0	9	7	4	4	7
End of Year	49	52	57	58	59	64
<i>Apprentice-Pilots</i>						
Start of Year	1	8	7	4	4	7
Reductions	(1)	(9)	(7)	(4)	(4)	(7)
Increases	8	8	4	4	7	2
End of Year	8	7	4	4	7	2
<i>Part Time Contract Employees</i>						
Start of Year	4	6	8	8	9	8
Reductions	0	(2)	0	(1)	(3)	(1)
Increases	2	4	0	2	2	0
End of Year	6	8	8	9	8	7

Pilotage Tariff Policy

The Authority continues to operate in an unpredictable economic environment which impacts its traffic forecasting accuracy, and thus, complicates the budgeting and tariff setting processes. However, the Authority will continue to focus on improving its financial self-sufficiency profile during such times. The Authority has been able to reduce the 2009 accumulated deficit of \$5.7 million in the last five years to \$0.4 million at the end of 2014. Based on current forecasts, the accumulated deficit will be completely eliminated by the end of 2015. The end result is that the Authority will generate small surpluses for each year of the planning period in order to have an accumulated surplus of \$1.2 million, which is viewed as a reasonable operating reserve.

Tariff Rates

To allow the Authority to become financially self-sufficient, it is proposed to modify the currently approved tariff surcharge rates for 2016-2017 as well as to introduce a new pilot transfer charge at some of the locks.

New Pilot Transfer Charges

The St. Lawrence Seaway Management Corporation no longer has linespersons available at the locks to assist the pilots boarding and disembarking the vessels as a result of the implementation of the hands-free mooring systems at the St. Lambert Locks, the Beauharnois Locks, and Lock 7 in the Welland Canal. These services were previously provided by the St. Lawrence Seaway Management Corporation's linespersons at no cost to the Authority. Given the 2015 tariffs had been finalized prior to this communication, the Authority agreed to outsource the pilot transfer services at the locks

and to incur these costs without passing on the cost to its customers. However, it can no longer absorb these costs without increasing revenues. Thus, the Authority is planning to introduce a pilot transfer charge for all vessels transiting through the locks to offset the unexpected costs that are now to be assumed by the Authority. This fee is strictly a cost recovery of the anticipated fees for the service and it is assumed to be \$125 per pilot transfer in 2016 and \$128 per pilot transfer for 2017 at each of the three locks.

The Authority will continue to work with its customers and the industry to find alternative solutions to see whether these fees can be avoided. Until such a time, a charge fee structure needs to be in place to allow the Authority to be financially self-sufficient.

Surcharge

The main driver for the increase in the 2016 and 2017 tariff surcharge rates is to offset the higher level of apprentice-pilot training costs needed for pilot succession planning. When the 2016-2017 tariffs had been determined in 2015, the traffic demands had been forecasted to be 6,400 assignments per year. Based on the projected traffic and revision to forecasts, the annual number of assignments has increased to 6,700. The revised pilot numbers will bring down the assignment per pilot to an acceptable 110 to 115 per navigation season and will reduce the vessel delays due to a shortage of pilots.

The Authority assessed the above mentioned proposed tariff adjustments for 2016 and 2017 as to allow the Authority to eliminate its current accumulated deficit, and to maintain a negotiable surplus while imposing fair and reasonable tariff rates to its customers. The users of the pilotage services will benefit from reductions of the surcharge for the planning period while seeing slight increases to the general tariffs.

	REVISED 2016	APPROVED 2016	VARIANCE	REVISED 2017	APPROVED 2017	VARIANCE
Regular tariff adjustment	1.5%	1.5%	0.0%	2.0%	2.0%	0.0%
Tariff surcharge	12.0%	11.0%	1.0%	11.5%	10.0%	1.5%

To align with the Government's objective to eliminate the surcharge and the industry's objective to minimize the regular tariff increase and manage the surcharge accordingly, the Authority has budgeted tariff surcharges at reduced rates starting in 2018, leading to its full elimination in 2020.

2. CORPORATE PROFILE, MANDATE AND GOVERNANCE

2.1 MANDATE

The mandate of the Authority is 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.

2.2 CORPORATE PROFILE

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 11th, 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*.

The Authority is exempt from any income taxes.

The Authority is not an agent of Her Majesty.

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:

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 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:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.
- To provide the above services within a commercially-oriented framework directed towards 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.
- 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.

The Authority must follow the *Pilotage Act's* directions under Section 33(3) when it comes to tariffs. The tariffs of pilotage charges prescribed by an Authority under the Act shall be fixed at a level that permits the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. Under Section 36.01 of the *Pilotage Act* the Authority cannot receive any payment under an appropriation by Parliament to enable the Authority to discharge an obligation or liability.

MISSION STATEMENT

At its April 2015 Strategic Planning Session, the Authority's Board of Directors approved the Authority's new mission statement.

“Working in partnership with our key stakeholders, we provide professional, progressive and reliable marine pilotage services that are safe, environmentally sensitive, efficient and economical.”

VISION STATEMENT

At its April 2015 Strategic Planning Session, the Authority's Board of Directors approved the Authority's new vision statement.

“To be the global leader in providing safe and efficient marine pilotage services.”

FURTHER CORPORATE INFORMATION

Further corporate information regarding the Authority can be found in its 2014 Annual Report, which can be accessed from its website http://www.glpa-apgl.com/annualReports_e.asp under the “Reports” tab.

2.3 GOVERNANCE AND ACCOUNTABILITY

The Great Lakes Pilotage Authority's approach to Corporate Governance is fully consistent with the philosophy and objectives of the Department of Finance and the Treasury Board's Guidelines for Crown Corporations.

Role of the Board of Directors

Corporate Governance at Great Lakes Pilotage Authority is the responsibility of the Board of Directors. The Board's role is to guide and supervise the affairs of the entity on behalf of the Government of Canada, by whom the Directors are appointed.

The Board is composed of the Chair and up to six other members, which are all Governor General in Council (the GIC) appointed, chosen to ensure that an appropriate mix of expertise, experience and marine perspective is reflected in its decision-making process. The Board ensures that the Authority maintains the highest standards in operating a safe, efficient and cost effective pilotage service.

Role of the Chair

On the recommendation of the Minister of Transport, the Chair is appointed by the GIC. The Chair presides at all meetings of the Board of Directors, provides leadership and guidance to the CEO of the Authority and, on behalf of the Board, advises the Minister of Transport on all issues involving the Authority and Pilotage in the Great Lakes.

Role of the Audit Committee

The Audit Committee is a standing committee of the Authority's Board and represents the engine of the Authority as it will improve the quality of the financial reporting, ensure the key risks are identified and managed, enable the directors to contribute their independent judgement as well as create a climate of transparency, discipline and control that will reduce the opportunity for fraud and increase stakeholder confidence in the credibility and objectivity of corporate performance. The Audit Committee is composed of at least three members of the Board. This committee meets a minimum of four times per annum.

Role of the Governance and Human Resources Committee

The Governance and Human Resources Committee is a standing committee of the Authority's Board that has the responsibility to oversee the governance and human resources issues of the Authority. The mandate of the committee is to review and update the Authority's succession plan, review the performance of the CEO, Board member appointments (renewal) and review and update the Authority's By-Laws and Directives. The committee is chaired by the Authority's Vice-Chair and is composed of two other Board members. This committee meets a minimum of three times per annum.

Reporting

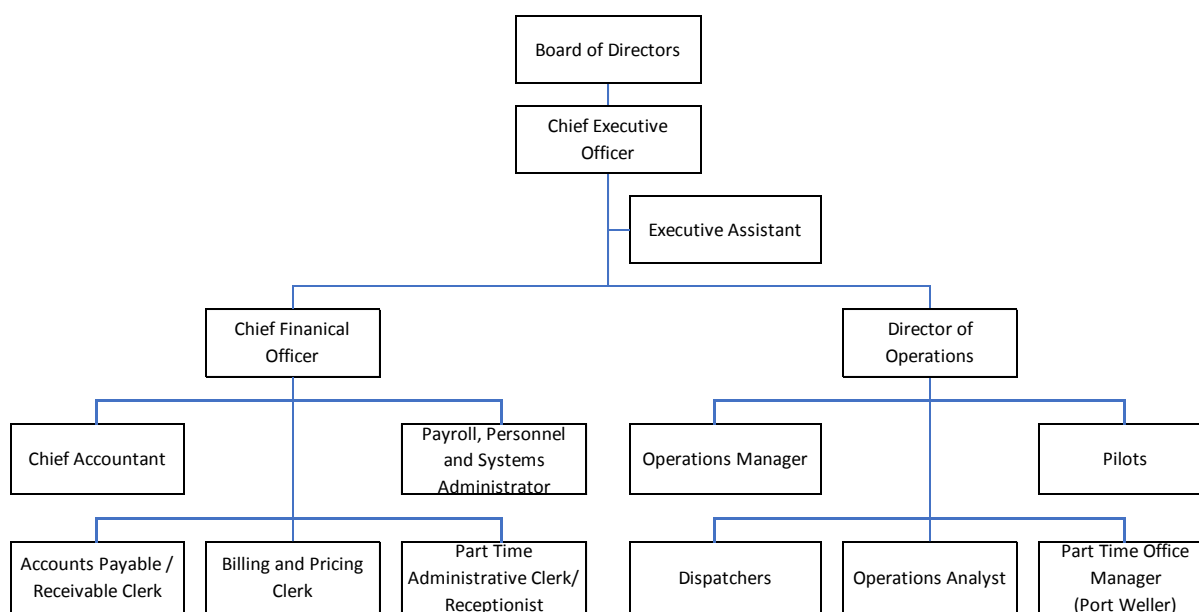
The Officers of the Authority are the CEO and the Chief Financial Officer (CFO). The Officers report to the Board through the Chair at each meeting of the Directors on various areas of their responsibilities. Ongoing and new policy matters are discussed and corporate direction is provided.

The Authority reports to Parliament through the Minister of Transport. The Minister of Transport tables in both house of Parliament the Authority's Corporate Plan Summary and Annual Report. The Annual Report includes the Auditor General's report as required under section 150(1) of the *Financial Administration Act* (FAA).

Organizational Structure of the Authority

The Authority's CEO is responsible to plan, organize, direct and control the business of the Authority and reports to the Chair and the Board of Directors. The CEO is appointed by the members of the Board of Directors pursuant to section 13. (1.1) of the *Pilotage Act*.

The Authority's organizational chart is as follows:



3. BUSINESS ENVIRONMENT

3.1 CURRENT SITUATION

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.

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 from the Authority's Headquarters in Cornwall, Ontario.

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 Authority operates in the following six regions:

- 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



Cornwall District

The Cornwall District is defined as the Canadian Waters of the St. Lawrence River between the northern entrance to St. Lambert Lock and the pilot boarding station near St. Regis in the Province of Quebec (i.e. Snell Lock). The district is divided in two sections: the northern section extending from St. Lambert Lock to Beauharnois Lock and the southern section from Beauharnois to the Snell Lock. Pilots are divided and interchanged between these two sections. The district was divided in 1977 as a result of mediation efforts to reduce the lengthy duration of pilot assignments. The pilots employed in the district are members of the *Corporation des Pilotes du Fleuve et de la Voie Maritime du Saint-Laurent*.

All dispatches are made from Cornwall.

International District No. 1

International District No. 1 is 103 miles long and consists of the waters of the St. Lawrence River, between Snell Lock and Cape Vincent, New York at the entrance to Lake Ontario, and includes the Eisenhower and Iroquois Locks. There are both Canadian and U.S. pilots in this district. The

Canadian pilots are members of the Corporation of the Upper St. Lawrence Pilots. In District 1, Canadian pilots are licensed strictly for the District.

All dispatches, upbound and downbound, are made from Cornwall and in accordance with the *Memorandum of Arrangements* between Canada and the U.S. Canadian pilots take twenty (20) out of every thirty-four (34) assignments, or 58.82 percent, of all dispatches in the district.

International District Lake Ontario

Lake Ontario is also serviced by both Canadian and U.S. pilots. The Canadian pilots are members of the Pilots' Corporation, Lake Ontario and Harbours and are specifically licensed to service Lake Ontario and its harbours. Canadian and U.S. pilots share assignments equally on Lake Ontario.

All dispatches are made from Cornwall.

International District No. 2 (including the Welland Canal)

This district consists of the Welland Canal, Lake Erie, Lake St. Clair and the Detroit and St. Clair Rivers. The pilot boarding or change points are located at Port Weller, Lock 7 in the Welland Canal, as well as Port Colborne, Detroit and Port Huron. The Canadian pilots are members of the Corporation of Professional Great Lakes Pilots, all of whom are licensed to serve the entire District.

As with International District No. 1 dispatches are made in accordance with the *Memorandum of Arrangements* in the following manner:

Welland Canal	- Canadian pilots only
Port Colborne - Detroit	- Canadian pilots are assigned 50 percent of the through transits
Detroit - Port Huron	- three (3) of eight (8) ships take Canadian pilots.

In addition, Canadian pilots are dispatched to all ships destined to or departing from Canadian ports within the District.

International District No. 3

International District No. 3 is defined as the Canadian waters of the St. Mary's River connecting Lakes Huron and Superior and includes Lakes Huron, Michigan and Superior. Pilots employed by the Authority in this District are all members of the same Corporation as District No. 2 pilots. Ships going to ports on Lakes Michigan or Huron from Port Huron keep the pilot on board. Ships destined for Lake Superior ports change pilots at Detour where a District pilot takes them through the St. Mary's River to Gros Cap. A lake pilot will then board the ships at that point guiding them to their final destination. The *Memorandum of Understanding* between the United States Coast Guard and the Great Lakes Pilotage Authority does not specify the division of assignments between Canadian and U.S. pilots but states that Canadian pilotage is to receive 18.9 percent of the revenue generated in the district for the season.

All administrative and dispatching functions are performed by the U.S.

Port of Churchill

The Port of Churchill, Manitoba falls under the Authority's jurisdiction and is accessible for only a few months of the year. The normal pilotage operation consists of three manoeuvres, that is, piloting the ship into the harbour, turning the ship, and piloting the ship out of the harbour.

The Authority has three Canadian Lake Ontario pilots licensed to perform all pilotage duties in the Port of Churchill during the navigation season, and only one is assigned to Churchill to perform the assignments in the port.

3.2 EMERGING TRENDS: THREATS AND OPPORTUNITIES

ANALYSIS OF THE EXTERNAL COMMERCIAL ENVIRONMENT

The Authority's traffic volume and patterns are determined by a very complex combination of business, economic and environmental factors which are unpredictable and their impact can mean the difference between a break-even financial position and operating at a loss for the Authority. The list below provides some of the factors which impact the Authority's business:

(1) GRAIN EXPORTS

Canadian wheat and barley exports are close to 22 million tons each year. The Canadian grain going into the Asian market is moved through the Port of Vancouver/Prince Rupert on foreign ships. The grain going to Africa, Europe and the Middle East is moved from Thunder Bay to market on foreign ships or from Thunder Bay to East Coast ports (Montreal, Quebec, Sept Iles) on Canadian ships then moved to market on foreign ships.

The Authority provides pilots only when foreign ships move grain directly from Thunder Bay to market as pilotage on domestic ships in the Great Lakes is in most cases carried out by the ships' officers who hold pilotage certificates.

Movement of western Canadian grain to the Port of Churchill might see fluctuations in traffic which will be easily handled by the Authority at no significant additional costs to the system. The Authority has no fixed facility in Churchill, Manitoba and no fixed expenditure basis.

Grain exports through the Great Lakes are also dependent on the quality of the crop and selling prices. Both of these issues can delay the need to ship grain from the Great Lakes.

The majority of the Canadian grain crop is shipped through the West for the Asian market. It is the grain surplus that makes its way to the Great Lakes shipping system.

The demand on rail capacity does have an impact on the grain export destined to the Great Lakes shipping corridor. As rail car demand for oil movement in the West is high, grain export via rail is diverted to the Great Lakes' system.

The Authority has no direct knowledge of the long term implications of crop quality, crop prices or oil rail movement but it did experience traffic increases in 2013, 2014 and early 2015 following the record 2013 and 2014 grain harvest in Western Canada.

(2) STEEL IMPORTS/EXPORTS

The Great Lakes region of North America sees most of the U.S.'s steel making industry in cities such as Cleveland, Toledo, Detroit, Chicago and a great deal of steel is destined for the overseas markets. The steel making process has changed significantly in the last 10 years as U.S. and Canadian manufacturers have increased their importation of raw steel from the third world countries (Brazil, Turkey and China) due to environmental and cost issues which has replaced the outright steel production in North America.

The economic downturn in 2008 and 2009 has seen the number of automobiles and other consumer products that have a steel component in their manufacture processes reduced to record low levels. The reorganization of the North American auto industry has caused steel companies to reduce their output by over 50% in 2009. The Authority does not believe that the steel trade will return in 2016 to levels experienced prior to the recession but does expect slight improvements during the planning period as the US has started investing in updating and replacing its current infrastructure.

(3) CANADIAN AND AMERICAN ECONOMY

Both of these economies rely to a certain extent on import and export markets to determine the level of employment needed to meet the demand of goods. Cyclical trends affect positively and negatively both economies. These factors are known only after they have been experienced and cannot be forecasted. During periods of economic growth, the Canadian/American economies are in an export mode. A great portion of the exports are shipped on vessels to international markets from the Great Lakes regions and pilot services are required on these vessels. Conversely, during years of economic downturns, export to trading countries usually falls off, therefore reducing the need for pilots as fewer ships are trading internationally.

As the Authority, like the rest of the world, is not able to forecast these trends with any accuracy, it is difficult to anticipate the pilot number requirements. It can only react to the conditions once they manifest themselves. Economic experts agree that the recession 2008 and 2009 is now over and slow but improving growth is expected for the planning period. This is evidenced by the higher level of traffic in 2015 due to the resurgent U.S. economy. This will affect the Authority's traffic positively.

(4) CHINA FACTOR

The immersion of China as the world's third largest economy has had significant impact on world trade and international trade in the Great Lakes. In its simplest form, the Chinese economic growth and China's need for ships to export their goods to the West and Europe has caused shippers to increase the fees for their vessels fivefold. Thus, goods produced in the Great Lakes are now too costly to move on ships since the shippers will not bring a ship in the Great Lakes unless they can generate similar revenue levels as ships China bound. This scenario has meant that vessels stay close to the Chinese markets to trade and are not as willing to trade in the Great Lakes. At times, goods in the Great Lakes are available for export but most of the available ships capable of sailing to the Great Lakes are committed to China. The shipping industry has not kept up with demand for ships which has caused freight prices in North America to increase significantly. Since 2009, the China factor has not been as significant due to a slowdown in some economies. The Authority has no way to react to this external factor and can only react once a trend is established. Projections for the

Chinese exports at the current levels bode well for Authority traffic for the planning period. With the recent downward spiral of the Chinese Economy, we have seen a return to the Great Lakes of certain types of ships which is a positive indicator for the Authority when forecasting traffic.

(5) VALUE OF THE CANADIAN DOLLAR

The higher value of the Canadian dollar vis-à-vis the American currency has a significant negative impact on the Authority in the form of lower exports coming out of Canada. In 2002 when the Canadian dollar was trading at 62¢ U.S., Canadian exports were at record levels. Some of these exports were traded on international vessels which required the services of pilots. During the last five years, the Canadian dollar has been either at par or close to par with the U.S. dollar. The Authority has no control over the Canadian dollar value. Recent devaluation of the Canadian dollar has seen increases of Canadian exports to U.S. and international markets. This factor will lead to increased traffic for the Authority.

(6) EURO ZONE FINANCIAL INSTABILITY

A great deal of imports and exports from Canada and the U.S. are to/from European markets. The credit crisis previously experienced in Europe and a few of its small countries (Greece, Ireland, Spain, Italy) a few years ago had caused instability in the Euro Zone and the Euro currency. With the introduction of new trade treaties, these treaties can only have favourable outcomes on traffic in the Great Lakes region and confirms the assumptions that traffic levels for the planning period will remain similar to those seen in 2014 and 2015.

CONCLUSION

The Authority works in an environment where the factors above can affect its operation significantly. The factors on their own, or in concert with each other, cannot be forecasted with any accuracy. The Authority can only be reactive, and not proactive, to the implications once changes in the environmental factors are experienced. The industry and users have indicated that they are willing to fund the elimination of the Authority's accumulated deficit and are ready to accept some delays to achieve this. Based on past experiences, when demand increases slightly (1%), delays can increase significantly which are very costly to the users. Although the economic conditions have improved in 2013 and 2014 and are expected to be at the same level for 2015, the 2016-2020 Corporate Plan is prepared in an uncertain and volatile economic environment as the outlook is unknown.

ANALYSIS OF THE OPERATIONAL ENVIRONMENT

The following is a list of key strategic issues facing the Authority based on its assessment of recent events and external factors.

(1) TRAFFIC VOLUME

Pilotage service is provided almost entirely to ocean-going vessels (85% of pilotage assignments) although Canadian tankers and non-ocean-going vessels (15% of pilotage assignments) are using the Authority's pilotage services on a more consistent basis.

Marine traffic during the planning period will be heavily dependent on grain exports and steel movements in and out of the Great Lakes ports. Traffic through the Welland Canal to ports in the upper lakes is important for revenue generation.

In the Auditor General of Canada's April 2008 Special Examination Report, the report indicated that fluctuating traffic volume can have a major effect on the Authority's financial situation, specifically the Auditor General stated that,

“65. All the stakeholders that we interviewed believe that the demand for pilotage services is difficult to predict. The locks in the Seaway limit transportation by container and thus the diversity of products transported; mining products (mainly iron and steel) and grain shipped in bulk account for more than half of the cargo shipped in the region. Traffic volumes depend greatly on economic conditions, domestic and international government policies on products, and climate conditions. These factors can cause traffic volumes to vary from year to year, and also from month to month during the nine-month navigation season.”

The historical levels of pilotage assignments have fluctuated significantly at times as supported by year to year traffic increase/decrease of over 10% for 6 out of the last 11 years. The 2008 and 2009 pilotage assignments decreased by 42% from 2007 and then the 2010 actual pilotage assignments increased by 36% from 2009. The 2014 traffic levels well exceeded expectations, a 17% increase vs. 2013 and a 22% increase from the 6,100 assignments budgeted. Forecasted traffic for 2015 is now expected to be 7% greater than the 6,531 assignments previously budgeted. Based on industry consultation, traffic for the planning period should be maintained at 6,700 assignments.

(2) PILOTAGE TARIFF POLICY

General Tariff Rates

The Water Transport Committee report of 1987 and the Auditor General of Canada's Special Examination Reports of 1993 and 1998 all recommended that the Authority structure its tariffs so that all cost centers are financially self-sufficient and cross-subsidization between districts is to be eliminated.

Prior to the start of the 2015 navigation season, the Authority, in consultation with the industry, had its 2015 to 2017 tariffs approved without objection. The Authority had planned regular tariff adjustments lower than the wage increases for 2015 to 2017 as the financial results in the past few years had yielded the planned deficit reductions. No further adjustments to the 2016 and 2017 regular tariffs are expected at this time.

New Pilot Transfer Charge:

As a result of the St. Lawrence Seaway Management Corporation's implementation of the hands-free mooring at the locks, the St. Lawrence Seaway no longer has linespersons available at the locks to assist the pilots boarding and disembarking the vessels. As such, the Authority negotiated contracts with third parties for the pilot transfer services at the St. Lambert Locks, the Beauharnois Locks, and Lock 7 in the Welland Canal. These services were previously provided by the St. Lawrence Seaway Management Corporation's linespersons at no cost to the Authority. Given the 2015 tariffs had been

finalized prior to this communication, the Authority will absorb the additional unbudgeted costs and try to find other methods to offset these incremental unbudgeted costs. Given that the Authority is barely budgeting a surplus to eliminate its accumulated deficit in 2015 with slight surpluses for the remaining planning period, it cannot absorb these costs without increasing revenues. Thus, the Authority is planning to introduce a new pilot transfer charge for all vessels transiting through the St. Lambert Locks, the Beauharnois Locks and the Welland Canal Locks to offset these costs. This strategy has been discussed with the Shipping Federation of Canada on a number of occasions. This is strictly a cost recovery of the fees charged for the service, which is anticipated to be \$125 per pilot transfer per lock for 2016 (\$128 for 2017).

The Authority will continue to work with its customers and the industry to find alternative solutions to see whether these fees can be avoided. Until such a time, a charge fee structure needs to be in place as to allow the Authority to be financially self-sufficient.

Tariff Surcharge Strategy

The Authority, with the agreement from the industry, introduced at the start of the 2006 navigation season, a 2% surcharge on all tariffs as a means to generate extra revenue and to enable the Authority to eliminate its accumulated deficit and reduce its reliance on external financing. The 2% surcharge was continued for 2008 and was increased to 6% at the start of the 2009 navigation season. The Authority introduced a 15% surcharge in August 2009 at a time when the economic recession was at its height and traffic levels in the Great Lakes were reduced by 40%. The implementation of the surcharge was supported by the Shipping Federation of Canada, who represents over 90% of the customers, as a temporary measure to offset the destructive effects of the economic downturn. The surcharge was to remain in place until the accumulated deficit of 2009 (\$5.7 million) was eliminated as well as to allow the Authority to return to a financial self-sufficiency level. In addition, the surcharge was also to remain in place until the traffic returned to the pre-recession levels (7,000 assignments).

In 2010, as the slow economic growth allowed the Authority to see its traffic increase and to generate operating surpluses, a gradual reduction of the surcharge was initiated in 2011 as the surcharge was reduced to 12%. The surcharge was still required to permit the Authority to generate surpluses in 2011, 2012, and 2013. The accumulated deficit was reduced to \$428,000 by the end of 2014 and is expected to be eliminated in 2015.

Although the Authority has generated surpluses in the last 5 years, traffic levels have not yet returned to pre-recession levels. Therefore, the Authority and the Shipping Federation of Canada have both agreed to maintain the surcharges until economic growth returns and assignment levels become more robust. The industry views this surcharge as part of the entire tariff and sees the elimination of this as a long term goal that stretches to the end of the planning period of this Corporate Plan. The customer also requires the stability and predictability of the tariff on a long term basis to meet their planning needs, and are therefore more concerned with the net impact of a tariff. Given that traffic levels have not returned to pre-recession levels and their fear of increasing permanent tariffs too quickly, the industry position has become very rigid. As such, the industry's 2009 initial objectives have changed and no longer align themselves with the initial intention of the temporary nature of the surcharge. The Authority factored in these concerns when it introduced its 2015-2017 tariff adjustments.

There is an agreement with industry to eventually eliminate the surcharge once traffic levels return to pre-recession levels and the Authority is in a stronger financial position, which is expected to be in 2020. The surcharge is temporary in nature as the percentage is published in the Authority's Tariff Regulations and has an expiry date of December 31, 2017. The Authority and the industry review the surcharge on an annual basis. The industry supports the surcharge structure as a means for the Authority to generate extra revenue in order to allow it to be financially self-sufficient.

However, subsequent to the 2016 and 2017 surcharge tariffs being approved, there has been a greater than anticipated number of pilots which have communicated their intentions to retire during the planning period. In addition, the higher level of pilotage demand has put an important strain on the current level of pilots. These two factors have resulted in the need to hire a greater number of apprentice-pilots than were previously planned in the 2015-2019 Corporate Plan. As apprentice-pilots do not generate income to offset the incremental costs, the Authority must increase its tariff surcharge rates. Thus, for the Authority to remain financially self-sufficient, the Authority does not have any option than to modify its previously approved tariff surcharge increase as follows:

	REVISED 2016	APPROVED 2016	VARIANCE	REVISED 2017	APPROVED 2017	VARIANCE
Regular tariff adjustment	1.5%	1.5%	0.0%	2.0%	2.0%	0.0%
Tariff surcharge	12.0%	11.0%	1.0%	11.5%	10.0%	1.5%

Without modifying the 2016 and 2017 tariffs, the Authority will not be able to hire new apprentice-pilots while being financially self-sufficient. If apprentice-pilots are not hired, there will be significant increases to vessel delays due to shortage of pilots.

2016-2020 Tariffs

During this planning period of 2016-2020, the Authority has budgeted tariff adjustments that will start to generate and to maintain a reasonable surplus at the end of the planning period. Refer to section 10. *Financial Statements*, subsection (2) *Pilotage Tariffs* for the proposed adjustments for the planning period.

Refer to *Appendix 1* for the history of the Authority's tariff adjustments since 1994.

(3) PILOT NUMBERS

In the Great Lakes region, vessels enter and leave the system on a non-scheduled basis under sometimes severe weather and environmental conditions. Therefore, an infrastructure must be in place to ensure safety, provide a pilot on demand (even to exempt vessels) and meet uneven traffic flows. This may be challenging in the future as financial self-sufficiency does not allow the Authority the luxury of having extra pilots to cover sudden and temporary increases in traffic that may never materialize.

Based on more favourable traffic levels in the past 3 years and the forecasted traffic levels, the Authority plans to increase its pilot numbers to an average of 62.0 FTE for the planning period. The increase also factors in a high level of retiring pilots and provides for a more fluid succession plan for apprentice-pilots. Refer to section 10. *Financial Statements*, subsection (4) *Headcount* for the proposed pilot headcount for the planning period.

Pilot workload was an average of 136 assignments in 2014 when compared to 116 assignments in 2013. Although assignments per pilot are to be maximized, the Authority needs to ensure this does not exceed a reasonable number as to avoid pilot fatigue and possible safety concerns. Even with the forecasted decrease in traffic for 2016, the average number of assignments per pilot is expected to be above the reasonable level. In its analysis of pilot headcounts for safe and efficient pilotage services, the Authority is targeting an average of 110 to 115 assignments/pilot. However, 120 assignments/pilot could be manageable on short-time basis.

The rationale to increase the pilot numbers also factors in the feedback from pilots to the effect that they cannot maintain the level of service that has been provided in 2014 and 2015 without increasing the number of vessel delay hours due to a shortage of pilots.

(4) PILOTAGE CAPACITY

The Authority has interpreted its mandate of safety and efficiency to include not only its own financial self-sufficiency but also their application and cost impact on the effectiveness of the Seaway system and to vessel delays. This means having sufficiently trained, qualified and licensed pilots available to serve the industry (generally the foreign ships) with a minimum of pilot delays as delays are extremely costly to the industry.

The system must, in its mandate of safety, be capable of providing a pilot to any vessel requesting one regardless of whether it is an exempt vessel. Further, and of major importance, traffic comes into the system unscheduled and often in surges. For traffic surges in the later months of the navigation season, pilot availability is often strained, with overtime situations required.

During the heavy traffic years, pilot numbers were established to service twelve (12) ships per day in the Welland Canal and the Montreal-Lake Ontario section of the St. Lawrence Seaway. Since 2009, the fairly consistent lower levels of traffic patterns over the last 5 years resulted in the a reduction of pilot numbers and the Authority's capacity to service ships to only between five (5) and six (6) ships per day, and only for short periods. The Authority has been able, through attrition, to reduce pilot numbers since 2008 and continues to monitor traffic levels so that pilot numbers are adequate to meet traffic. The cost of reducing pilots prematurely is significant as pilot recruiting and training costs are estimated to be over \$120,000 per apprentice-pilot. Reducing pilot numbers too quickly can be devastating to the industry especially when traffic increases unexpectedly.

In order to achieve the Authority's mandate to provide a safe and efficient pilotage service, a delicate balance must be maintained between the resources to be made available and the demand for service with safety being paramount. Achieving this balance could be complicated due to significant deviations in ship size and destinations from historical trends, due to unpredictable and uneven traffic flows, and due to sharing revenues and traffic in the international sectors which are accomplished through a complex interface with the United States.

In 2014, the Authority's traffic surpassed its budgeted traffic by 22.3%. The 2015 traffic is expected to be 7.2% greater than the budgeted traffic when the tariffs were developed. These increases in assignments have resulted in significant vessel delays due to a shortage of pilots. The 2016 and 2017 traffic is forecasted to be 4.7% greater than what was projected when the tariffs were finalized. The traffic for the remaining years of the planning period are forecasted to be similar to 2016 and 2017.

Due partly to these increases in traffic and the initiative to decrease the numbers of vessel delays, the pilot numbers will be increased as indicated above.

(5) PORTABLE PILOTAGE UNITS (PPU)

In 2012, the Authority invested \$1 million to purchase PPU's for all of its pilots. These PPU's are a fully integrated software and hardware system designed to function as a situational awareness and decision support tool for marine pilots operating in high-risk marine navigation environments. The Authority and the pilots have a 24/7 support coverage which guarantees continuity and efficiency of the units.

The PPUs have a useful life of 5 years. Therefore, capital requirements for their replacement will be required in 2016 before the start of the 2017 navigation season.

(6) CONTINGENCY PLAN TO MANAGE CHANGE AND CONTINGENCY RESERVE

Now that the Authority is expecting a surplus during the planning period, the Authority will continue to meet with its main users, the Shipping Federation of Canada and the domestic shipowners, to discuss the current traffic forecasts, its impact on the Authority's financial results and the appropriate level of surplus. The users are committed to the Authority's return to a positive cash position and will continue to cooperate with the Authority to address the issue.

ASSESSMENT OF CORPORATE STRENGTHS AND CHALLENGES

The following are the Authority's main strengths and weaknesses:

STRENGTHS AND OPPORTUNITIES

- Organizational structure well suited to its mandate;
- A qualified team;
- Provision of highly efficient and professional pilotage services;
- Recognition of the compulsory pilotage principle by all industry stakeholders;
- Good relations with bargaining units and unions;
- Consensus throughout the organization on the need to continually improve client service and strive for excellence;
- Highly competitive pilotage tariffs;
- Equipment renewal and capital investment in recent years are positive factors in boosting productivity;
- The Authority's custom designed Dispatch and Billing System provides real time information to dispatchers, pilots, customers, and management;
- Pilots are very highly skilled, which is reflected in an historical 99.9% average incident-free assignment rate;
- The Authority has a comprehensive training program for all pilots, and firmly supports continuing education by providing refresher training and developing training on new technologies; and

- The potential for the Great Lakes and St. Lawrence River to be a significant corridor to transport crude oil to external markets.

CHALLENGES

- The Authority is susceptible to changes in national and world economic conditions. This leads to difficulties in forecasting marine traffic levels.
- Recurring challenges of tariff regulations, a lengthy administrative process for reviewing regulations and tariffs, and increased oversight and reporting requirements from Government Departments adding to the length in time needed to implement a tariff adjustment to users could lead to lost revenue should the tariff rates not be finalized prior to the start of the navigation season.
- Labour relations, working conditions and management rights are included in labour contract negotiations. The Authority will continue its open and transparent communication style with the pilot groups as it addresses pilot concerns.

4. ENTERPRISE RISK MANAGEMENT

The Authority is committed to ensure that all risks are identified, assessed and mitigated when deemed appropriate. As such, the Authority applies an Enterprise Risk Management (ERM) approach to its Strategic Planning process.

Risk Categories

The Authority has categorized its risks in order to assist in the identification and the management of the risks.

Strategic	Risks emanating from the Authority's strategy and decision making.
Financial	Risks pertaining to liquidity, capital availability, capital structure.
Organizational	Risks emanating from the Authority's management of its human resources, including leadership depth and quality, management and labour availability and costs, cultural, etc.
Operational	Risks emanating from the Authority's day-to-day operating processes and activities.
External	Risks emanating from external sources over which the Authority (although impacted) has little control (e.g. macro-economic volatility; industry structural change; political, etc.)
Legal and Regulatory	Risks associated with the Authority's compliance with applicable laws and regulations.
Incident	Risks emanating from incidents (accidents, near misses, etc.) within the Authority's jurisdiction where a pilot is present on board ship.
Emerging	Risks that are emerging on a worldwide scale.

Risk Definition of Rating and Ranking Methodology

Risk Rating	Financial	Operational				Strategic	
		Human	Property	Vessel(s)	Environmental	Reputation	Disruption of Business
Extreme	Above \$10 million cash impact on the Authority	Multiple deaths And multiple people with serious long-term injury Intensive care	Damage to property is such that it ceases operations for a period of time exceeding one month or financial loss exceeds \$10 million	Vessel sinks or sustains so much damage that it is a constructive total loss	Incident causes sustained long term harm to environment (i.e. damage lasts greater than a month)	Sustained front page adverse national media coverage International media coverage	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)
Very High	Impact on the Authority between \$5 and \$10 million	Single death And multiple people with serious long-term injury Intensive care	Damage to facilities is such that operations cease for up to one month or financial loss of \$5 - \$10 million	Vessel sustains damage significant enough to result in towing to dry dock and loss of operations of up to one month	Incident causes sustained medium term harm to environment (i.e. damage lasts up to one month)	Front page adverse national media coverage and intermittent international coverage	Threatens viability of Authority in the medium term (Operational cessation or major operational issues lasting up to one month)
High	\$1 - \$5 million cash impact	Some people with serious long-term injury and multiple minor injuries	Damage to facilities is such that the operations cease for up to two weeks or financial loss of \$1 - \$5 million	Vessel sustains significant damage with dry docking and loss of operations for two weeks	Incident causes medium term harm to environment (i.e. damage lasts up to two weeks)	Intermittent adverse national media coverage	Threatens viability of Authority in the short term (Operational cessation or major operational issues lasting up to two weeks)
Medium	Between \$500,000 to \$1 million cash impact	One person with serious long-term injury Some minor injuries	Damage to facilities cause operations to cease for up to one week or financial impact of \$500,000 - \$1 million	Vessel sustains damage resulting in loss of operations for one week	Incident causes short term harm to environment (i.e. damage lasts no greater than one week)	Sustained front page adverse local media coverage Board and Ottawa receive complaints from Chamber of Shipping and major clients	Operational issues lasting up to one week but no cessation of business
Low	Up to \$500,000 cash impact	Single or multiple minor injuries requiring on site first aid and/or off-site treatment	Damage to facilities cause operations to cease for up to 72 hours or a financial impact up to \$500,000	Minor damage with no effect or damage resulting in a loss of operations of no more than 72 hours	Incident causes minimal or intermittent harm to environment over a period of time (i.e. damage lasts no greater than a day)	Intermittent adverse local media coverage Complaints received from Chamber of Shipping and/or clients	No operational issues or operational issues lasting up to 72 hours

Please refer to the Authority's latest Annual Report posted on the Authority's website at http://www.gipa-apgl.com/annualReports_e.asp for further information on the risk management programs as well as governance structures and processes that support it.

Enterprise Risk Management – Result Assessment

During the Authority's two-day strategic planning session, the Board and Senior Management establish its strategic plan for the following two years. At its planning session held in April 2015, the Board identified and prioritized the risks with the following risk profiles:

Priority	Risk Title	Category	Likelihood	Impact	Risk Rating
1	Traffic Volatility	Financial	EXTREME	EXTREME	EXTREME
2	Pilot Succession	Organizational	VERY HIGH	HIGH	VERY HIGH
3	Pilot Labour Relations	Organizational	VERY HIGH	HIGH	VERY HIGH
4	Recruiting and training pilots	Strategic	HIGH	HIGH	HIGH
5	Marine Incidents	Incident	MEDIUM	VERY HIGH	HIGH
6	Financial Risk/ Stability and Tariff Objections	Financial	MEDIUM	HIGH	MEDIUM
7	Security/Business Continuity	Operational	LOW	VERY HIGH	MEDIUM
8	U.S. Pilotage Concerns	External	HIGH	MEDIUM	MEDIUM
9	Pilotage Certification	Operational	MEDIUM	HIGH	MEDIUM

Between strategic planning sessions, the Board reviews its ERM each quarter and follows the development of the risk profiles as well as the mitigating actions taken to address each risk.

From the risk profile table noted above, the following provides background information, the potential impacts and the mitigating strategies that the Authority has identified as its area of priorities for the planning period:

1. TRAFFIC VOLATILITY

The Authority has historically relied on industry forecasts as well as economic trends for establishing traffic forecasts for its annual budgetary process as well as to determine the tariff rates and the operation requirements. Pilot numbers are finalized prior to the start of the navigation season based on these forecasts. Once the navigation season starts and the traffic decreases significantly, as experienced with the 2009 recession, the Authority does not have the ability to react as a course of action and reduce costs. There is no mechanism in place that allows for traffic forecast validation during the course of the navigation season.

Given that over 80% of the Authority's costs are tied to pilot remuneration/benefits and pilot boat services, the Authority is unable to reduce pilot numbers and the associated costs in the middle of a given navigation season in order to react to the decrease in traffic levels that would be significantly lower than forecasted. The Authority does not easily reduce pilot numbers as it would be difficult to attract officers to an organization that cannot guarantee employment. Conversely, the Authority is also unable to increase pilot numbers on short notice in order to react to significant increases in traffic levels given the long lead time of training a mariner to be a qualified pilot.

With the level of uncertainty associated with traffic forecasting accuracy, the Authority must have tariffs that are properly set as to reduce its financial exposure resulting from actual traffic fluctuations from forecast.

Strategies

Over the course of the planning period, the Authority will continue to reach out to the Shipping Federation of Canada in order to gain insight to traffic trends and assumptions that are to be considered before proposing tariff rates to the industry. Pilot number validation and agreement with the industry during these discussions is crucial to reduce the Authority's exposure to financial risks.

The Authority continually discusses working rules with its pilot groups with the goal to better manage traffic surges.

2. PILOT SUCCESSION

Pilot succession is one of the most important factors contributing to safe and effective pilotage services in addition to providing pilotage services without excessive delays due to shortage of pilots. Issues around pilot recruitment, training and evaluation have been central items in various reports and are key elements in the strategic planning process.

By the end of the 2015 navigation season, the average age of the Authority's pilots is currently 61 years of age. The Authority no longer has a mandatory retirement age, and therefore, predicting retirement for the pilots is extremely difficult. The Authority had gone through a major attrition in 2008 and 2009 when traffic decreased by over 40%. Based on the last 10 years, the trend demonstrates an average of two pilots retire per year. This historical trend of low pilot retirements is not considered a predictor of the anticipated level of retirements for the planning period.

Please refer to the reductions in pilots on *Appendix 2 – Statement of Pilot Numbers* for the anticipated number of retirements per year.

Strategies

The Authority has formalized the request for employee retirement notification in 2015. In the summer, all employees were asked to submit a response on their potential retirement plans for the planning period. Although the employees are not under any obligation to respect the communicated retirement notice, it does allow the Authority to gauge the level of pilot retirements and start its planning on apprentice-pilot recruiting. The results provide a starting point on discussions with the pilot groups and arrive to agreements on the need for management to plan for the proper level of pilot headcount, to actively start the apprentice-pilot recruitment process and to gauge the need for part-time pilots.

3. PILOT LABOUR RELATIONS

The Authority must maintain and continually work on building strong working relationships with the different pilot groups. To meet the business needs and to deliver a quality service to our customers, both parties need to work together to resolve issues. Thus, the two new senior directors have to build a positive and respectful rapport with the pilot groups as to gain their trust.

Strategies

The Senior Management team plans on meeting with each Pilot groups' executives in the Fall and the Spring of each year for information sharing and as a vehicle to resolve outstanding issues. As to build better employee relations with the pilots, the Authority will have discussions with the pilot

groups to develop joint communiqués on topics of equal importance to the organizations.

4. *RECRUITING AND TRAINING APPRENTICE-PILOTS*

The Authority needs to ensure that there is always a sufficient pool of skilled, trained and experienced pilots available to meet current and future needs. Current needs can be gauged by the ongoing demand for pilotage service which has a nature of fluctuating greatly from year to year. Based on past results, the Authority has seen years in which the year over year traffic increased/decreased by over 10%. As such, future needs are more difficult to forecast given the lack of information on further demands for pilotage services.

The Authority is confident that the new recruits will all have the knowledge required to discharge their pilotage duties. However, the time required to train an apprentice is expected to be longer as the pool of candidates may not have the profile experience nor the experience maneuvering ships in the district, especially for the Cornwall district. With the new pilots, there may be some short term impacts on the service levels in districts where there are a few pilots allocated to them or in districts which would see a high level of retirements in a given time.

The training program and evaluation process to transition an apprentice-pilot to a pilot must be effective as to ensure the apprentice-pilots have the tools and knowledge to pilot a vessel. The evaluation process must also be fair and just to recommend an apprentice pilot to a pilot status while being vigilant to identify non-performing apprentice-pilots.

Strategies

The Authority will continue to give high priority to pilot recruitment, training and evaluation. It will monitor changing operating environment and assess the impact on the need for additional pilots, the supply of pilot candidates and the training requirements. In February 2015, the Board approved the revisions of its Pilot Recruitment and Selection Process. The new process is believed to be more effective and efficient to target the best apprentice-pilot candidates.

At the start of the 2015 navigation season, the Authority revamped its apprentice-pilot training program to better meet the realities facing today's apprentice-pilots. Along with the theoretical studies and the practical training voyages, simulator training will round out the types of training provided. Alongside with the training program, the new requirements were also communicated to the pilots assisting in the training and evaluation processes. To this end, the Authority has introduced compensation for the pilots participating in the apprentice-pilot training and evaluation process. The Authority will leverage its pilot performance evaluation results in the apprentice orientation and training plans.

5. *MARINE INCIDENTS*

The vessels transiting the Great Lakes are navigating in restricted waters and canals that are subject to wind effect, low draft and environmental (weather) conditions that can change in a moment's notice. The public and Governments are extremely sensitive to environmental incidents and there is no tolerance for any type of error, be it human or mechanical.

The likelihood of an occurrence is very low but their impact could be extreme. Pilotage plays an

important part in the safety chain in order to eliminate or reduce the likelihood of an incident that could cause catastrophic results. Properly trained, qualified and rested pilots must be provided for every assignment. Communication of the changing environment is also required as events change and mitigating actions are amended over time. In most major incidents, the reasons for the event are not limited to one action but to a series of events. In this series of events, safety measures are inserted to avoid the risk of harming the environment. The Authority must be cognitive that it cannot eliminate all marine incidents alone but that it certainly has a significant role in mitigating the likelihood and the impact of the event.

Strategies

This type of risk is inherent in every action every Authority employee takes during his or her time on task. The Authority has in place training policies for all apprentice-pilots, active pilots and pilotage certificate holders to ensure the proper levels of knowledge and experience are in place. The Authority will continue to promote ongoing communications with all employees on the importance of embracing a safety minded culture as to achieve the goals of limiting risk to the environment. Over the course of the planning period, the Authority will participate in a simulated emergency exercise in the Great Lakes to assess its strengths and areas of improvement in its response system.

The Authority has been sending its pilots to complete simulator training within a five year cycle. The Authority will continue with this training practice as it allows the pilots to train on different ships, conditions and on specific issues like slow rudder and crew responses. The Authority reviews the incidents and trends as a means to continually re-assess the training program needs.

The Authority holds ongoing training for its pilots and their PPUs as to take advantage of changing technology and practices. With the PPUs needing to be replaced before the end of the 2016 navigation season, the Authority has organized a committee of pilots to examine the current needs and future alterations. The PPUs are considered invaluable tools assisting the pilots in safe navigation.

6. FINANCIAL RISK/STABILITY AND TARIFF OBJECTIONS

Financial stability is vital as the Authority is required to be financially self-sufficient. At the end of 2014, the Authority had an accumulated deficit of \$428,000. Thus, it is not currently financially self-sufficient. Based on the 2015 forecast found on the *Statement of Operations and Comprehensive Income*, the Authority is targeting to eliminate its accumulated deficit by the end of fiscal 2015.

Crucial to be financially self-sufficient is to have the actual operations results aligned with the budget process. It is the annual budget process that helps determine the tariffs and operation requirements. The key assumption is the traffic levels. As the Authority's financial structure is tied directly to traffic levels, should traffic decrease significantly from the budget assumptions, the Authority will incur important operating losses given the fixed nature of the operating costs (over 80% of costs are tied to pilot wages / benefits and pilot boat services).

The Authority has imposed a temporary surcharge since 2008. The Authority is getting pressure to eliminate the surcharge within a reasonable timeframe. The Authority cannot maintain the current regular tariff without the surcharge if it is to be financially self-sufficient.

Finally, the current tariff approval process does not allow the Authority to be responsive in a timely manner when encountered with issues that result in negative financial implications.

Strategies

The Authority meets with the Shipping Federation of Canada a few times each year as to gain insight into the traffic level forecast for the remainder of the year and for the next few years.

As part of financial reviews, management continuously reviews the pilot numbers required to support the forecasted traffic levels. At each of its meetings, the Audit Committee reviews the internal financial statements to question financial performances. Each quarter, the Audit Committee reviews the revised forecast for the year which includes the year-to-date results along with the year-to-go projections.

In 2015, the Authority introduced a 3 year tariff structure based on the assumption known in June when the 2015-2019 Corporate Plan was drafted based on consultation with its stakeholders. Subsequent to the approval of these tariffs, the Authority has been made aware of two important issues that had not been known/anticipated – the significantly higher number of apprentice-pilots to be hired and the higher level of training time as well as the unexpected pilot transfer costs. The Authority is starting the tariff process to adjust the 2016 and 2017 rates accordingly.

The Authority, with the collaboration of the other Canadian Pilotage Authorities, will examine alternative methods of amending tariffs in periods of traffic changes. These regulatory amendments must meet the Canadian Transportation Agency's (CTA) requirements. The Authority addressed some of these issues at the 2015 CTA Review which should report all its findings in the Fall of 2015.

At its 2015 Strategic Planning meeting in April, the Authority determined that in 2016 it will develop a financial reserve strategy for future years while considering the implications on the current tariff surcharge strategy. Its objective is to have an appropriate level of operating surplus and financial reserves required to offset the negative impact of fluctuating traffic patterns and to weather unpredictable short term traffic changes. The reserve will need to deal with short term Authority cash requirement so that sufficient time is available to amend Authority operations during a period of significant traffic increase/decrease. The Authority will review and approve the level of operating surplus required and implement actions in 2016 to achieve this objective. Its strategy will be discussed with the industry to ensure given the implications on future tariff and surcharge adjustments.

7. SECURITY/BUSINESS CONTINUITY

Running a successful company requires an understanding of how to serve customers, meaning to maintain services during natural disasters, economic downturns and bad publicity. The business continuity plan outlines the necessary steps for the Authority in the wake of a sudden and severe change (i.e. the chain of command in the event the company's leader dies or becomes extremely ill, system backup recovery strategies, labour disputes). Although the Authority does have some aspect of a business continuity plan informally assessed, a comprehensive business plan is not developed.

Although recent terrorism and virus threats had minor impacts to our business, there is always the potential for our business to be subject to a security breach.

Strategies

The Authority will develop a business continuity plan in the first half of 2016. It will cover (i) business continuity plan governance, (ii) business impact analysis, (iii) plans, measures, and arrangements for business continuity, (iv) readiness procedures, and (v) quality assurance techniques.

Along with the migration to the new Klein Dispatching and Billing systems, the Authority will obtain confirmation that the third party system provider has the required business continuity plans as well.

On the security front, the Authority will continue to participate in the Seaway's annual Table Top Exercise. In addition, the Authority will provide security awareness for its pilots.

8. U.S. PILOTAGE CONCERNS

The results of the Authority's 2015 customer satisfaction survey highlighted the fact that the U.S. Pilotage Authorities' issues are having an impact on the Authority's reputation. Examples where the Authority interacts with the U.S. Pilotage Authorities are vessel delay issues and the opening and closing of the navigation season issues.

Strategies

The Authority will share its customer satisfaction survey results with its U.S. counterparts and will discuss its contents and the Authorities action plans to address some of the more critical elements of dissatisfaction. The Authority will continue to participate in the two annual meetings with the U.S. Pilotage Authorities and the U.S. Coast Guards as a means to help facilitate discussion points between the U.S. and its Canadian customers.

9. PILOTAGE CERTIFICATION

The Authority published a regulatory change to its Regulations in June 2011 which announced the end of the pilotage exemption system previously in place since 1972. The publication introduced the Pilotage Certification regime effective January 2013. With the grandfathering phase now complete, the Authority is now tasked with ensuring that the newly certified domestic officers are respecting the requirements to maintain their certification in good standing.

Strategies

The Authority, in joint partnership with the Canadian Shipowners Association, plans to revise the format of the pilotage certificates to include expiry dates and to ensure they are more district oriented. Both parties will work together to update the pilotage certification training program based on the findings noted during the audits performed. The Authority, in discussions with the Canadian Shipowners Association, will also review the issues identified from the grandfathering phase to determine if revisions to the Regulations are required.

5. **STRATEGIC PLAN, OBJECTIVES AND PERFORMANCE MEASURES**

(1) *Continued focus on providing an economic, safe and reliable pilotage service*

Description of the Corporate Objective:

The Authority's main objective of the 2016-2020 planning period continues to be providing economic, safe, reliable and comprehensive marine pilotage and related services in the St. Lawrence River and the Great Lakes.

Strategies to Achieve the Objective:

To this end, the Authority's Long Term Training Committee, with pilot representation from each of the pilotage corporations, continues to leverage the system for assessing pilots' competencies and quality of service which it had implemented in 2002. This Committee focuses on:

- assessing the pilots training needs and developing training solutions to meet the need
- reviewing past assignments and incidents;
- conducting simulator training and assessing pilot skills through the use and the enhancement of the full bridge simulator;
- leveraging customer feedback and complaints regarding pilotage services and performance; and
- ensuring the pilot evaluation within a 5 year cycle is being respected.

Based on the Long Term Training Committee's recommendation in 2013, the Authority modified its training objectives for the next five years as to include a module on Bridge Resource Management (BRM). The course provides pilots with the opportunity to refresh their BRM knowledge in order to facilitate the communication and exchange of information with the captains, while enabling them to work more effectively and efficiently with the bridge team. The ultimate goal is to further reduce the risk of errors on the navigation bridge when the pilots and the captains of the vessels navigate the restricted waters of the St. Lawrence River and the Great Lakes.

The Authority invested \$1,000,000 in 2012 to purchase Portable Pilotage Units (PPU) for all its pilots. This investment consisted of state of the art hardware and software. The software includes electronic charts, vessel positioning as well as a newly designed rate of turn generator. The investment has a life of 5 years and is supported by a 24 hours a day 7 days a week support line that assures continuity and accuracy. The benefits of the PPU's in the restricted waters of the Great Lakes are numerous and have improved delivery of services as well as increased the safety of navigation. For the planning period, the Authority will coordinate annual refresher training on PPU utilization, and thus, allowing all pilots to leverage the full potential of the functionality of the PPUs.

Key Performance Indicators:

1-1 MAJOR INCIDENT

	<i>Targets 2016</i>	<i>2015 Forecast</i>	<i>June 2015 YTD</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
<i>Major Incidents</i>	0	3	3	0	0	0

1-2 MARINE INCIDENT

<i>Incident</i>	<i>Targets 2016</i>	<i>2015 Forecast</i>	<i>June 2015 YTD</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
<i>Collision</i>	-		1	-	-	-
<i>Foundering</i>	-		-	-	-	-
<i>Fire/Explosion</i>	-		-	-	-	-
<i>Grounding</i>	-		2	4	-	-
<i>Striking</i>	-		-	2	-	-
<i>Contact with Lock Wall</i>	-		2	8	9	3
<i>Touching Bank/Bottom</i>	-		-	2	-	3
<i>Ice Damage</i>	-		-	-	-	-
<i>Ship Arrestor</i>	-		-	-	-	-
TOTAL	9	10	5	16	9	6
<i>Percentage of Incident free Assignments</i>	99.9%	99.9%	99.8%	99.8%	99.9%	99.9%

Synopsis on historical data: As depicted in the above table, there is no special trend in the incidents.

2015 Performance:

The Authority is reporting 3 major incidents in 2015 with potential adverse implications to its reputation of providing safe pilotage services. None of these incidents resulted in loss of life, serious injuries, or any environmental spills.

As the number of assignments per pilot increases, there is a greater inherent risk for the potential of an increased number of marine incidents as pilots are not as well-rested. This was experienced in 2014 with the 17% increase in traffic being serviced by the existing pool of pilots similar to 2013. As the forecasted traffic is trending to be 6% lower than 2014, expectations are that the number of incidents will return to a 99.9% incident free assignment status.

Despite the number of incidents incurred, the training program for the pilots have allowed them to effectively course correct as to minimize the severity of the incidents.

1-3 SERVICE LEVEL (Pilotage)

<i>Incident</i>	<i># of Assignments</i>	<i># of Delays</i>	<i>Delay in Hours</i>
<i>2016 Target</i>	6,700	275	3,200
<i>2015 Forecast</i>	7,000	294	3,300
<i>2015 YTD Actuals</i>	2,168	52	712
<i>2014 Actuals **</i>	7,462	308	3,475
<i>2013 Actuals *</i>	6,403	96	1,261
<i>2012 Actuals</i>	6,358	44	179

** More than 80% of the 2013 delays in hours were incurred in December due to the record cold weather causing early freeze up and numerous Seaway closures due to ice-related issues and ice-related navigation stoppage.*

*** The significant increase in delays was directly attributable to the increase in traffic being serviced by the existing pool of pilots as well as a higher level of over carried pilots due to the extreme ice conditions experienced at the start of the 2014 navigation season.*

2015 Performance

The 2015 YTD delays have increased from 2014 due to the following circumstances: 525 hrs were directly attributable to the ice conditions and operations in the month of April. The daylight navigation restrictions and the lack of pilot boats due to the ice conditions led to double pilotage, which in turn, reduced the number of pilots available to service vessels.

Vessel delays due to shortage of pilots for the remainder of the year are not expected to improve given the anticipated number of assignments are up 7.2% versus the planned number of assignments that was agreed upon with the industry in the determination of the 2015 pilot numbers. As previously stated, the Authority cannot easily course correct to service significant traffic increases in the middle of a navigation season. The current number of pilots cannot continue to support such high levels of traffic without causing delays. Should the traffic increase to the 2014 levels, the delay hours due to pilotage shortages will be well beyond those experienced last year.

(2) Continued focus on improving the Authority's financial self-sufficiency profile

Description of the Corporate Objective:

Financial self-sufficiency is achieved by maintaining and controlling expenditures while generating sufficient and adequate revenues. The Authority has been in an accumulated deficit position since 2002 and reached its highest at \$5,707,000 in 2009 before the Authority started reporting annual surpluses up to fiscal 2014. As such, the Authority's primary financial objective for the 2016-2020 planning period is to eliminate its existing accumulated deficit of \$ 428,000 by the end of fiscal 2015 and to be financially self-sufficient for the remainder of the planning period.

Strategies to Achieve the Objective:

Financial forecasting and cost control are critical for the Authority to achieve its financial objective of being self-sufficient during the planning period.

Pilot remuneration represents approximately 70% of the Authority's total expenditures. As such, the number of pilots employed has a significant impact on the Authority's financial results given these costs are somewhat fixed in nature. The Authority must always consider pilot age, traffic levels and training period when planning pilot recruitment and budgeting. While a pilot is an apprentice, a period that can range from 6 to 18 months, the cost for training each apprentice, which includes remuneration and travel costs, is borne entirely by the Authority. For the 2016-2020 planning period, the Authority has projected the pilots' demographics, considered anticipated retirements and assessed higher pilotage demands and, as such, plans to aggressively increase its apprentice-pilot numbers in comparison to prior years.

Pilot travel, land transportation costs and pilot boat expenses represent approximately 13% of total expenditures. A further 10% is absorbed by all other operational costs. Administration costs only

represent 6% to 7% of the Authority's total expenditures. All of these expenditures must be controlled in order to maintain a balanced budget. The Authority will invest wisely in its resources as to operate as efficiently as possible with its limited human resource structure.

To ensure financial self-sufficiency, the Authority will work on adjusting the previously published 2016 and 2017 tariffs to align its revenue stream with the higher apprentice-pilot costs and the new pilot transfer service costs. It will meet with its main users groups to discuss the Authority's objective and assumptions considered for the proposed tariffs. The outcome of these discussions is to obtain their support of the proposed tariff adjustments effective for the start of the 2016 navigation season.

The Authority will continue to meet its main user of the service, the Shipping Federation of Canada – Pilotage Committee (Foreign vessels), on a periodic basis to have open and transparent discussions of the Authority's operational, financial, administrative and labour issues, with the view to enhance the partnership between the Authority and its users. The Authority also meets with its other user, the Canadian Shipowners (Domestic vessels), to review the service levels and tariff requirements.

Key Performance Indicators:

2-1 FORECASTING ACCURACY - COMPREHENSIVE INCOME (OCI)

<i>(in \$'000)</i>	2016	2015	2014	2013	2012
<i>OCI-Target</i>	\$ 48	\$ 527	\$ 1,145	\$ 953	\$ 792
<i>OCI-Actual *</i>		428	1,336	900	376
<i>Variance</i>		(99)	191	(53)	(416)
<i>% Accuracy</i>		81.2%	116.7%	94.4%	47.5%

* 2015 OCI is the revised forecast based on June 2015 YTD results and forecasted YTG financial results.

Note – The volatility in traffic causes a major change in income given the fixed nature of the bulk of the expenditures.

2-2 ACCUMULATED DEFICIT ELIMINATION BY 2015

<i>(in \$'000)</i>	2017	2016	2015	2014	2013	2012
<i>Retained earnings (Acc. deficit), beginning</i>	\$ 48	\$ -	\$ (428)	\$ (1,764)	\$ (2,664)	\$ (3,040)
<i>OCI *</i>	325	48	428	1,336	900	376
<i>Retained earnings (Acc. deficit), ending</i>	373	\$ 48	\$ -	\$ (428)	\$ (1,764)	\$ (2,664)

* 2015 OCI is the revised forecast based on June 2015 YTD results and forecasted YTG financial results. The OCI forecasted for 2015 and the following years are not at the same level as in prior years as the Authority had made a conscious decision to have tariff rate increases lower than the annual inflation increases.

2015 Performance:

As previously indicated, the Authority is required to self-fund an additional \$200,000 of unexpected pilot transfer charges following the St. Lawrence Seaway Management Corporation's decision to no longer having linespersons available at the locks to assist the pilots to board and disembark the vessels. The number of assignments, and thus revenue, are expected to increase by 7.2%. The majority of the incremental revenue will be offset by higher pilot overtime and pilot productivity as well as corresponding pilot boat, land transportation and pilot travelling expenses. Management is

closely reviewing its operations and discretionary spending to achieve the \$428,000 projected surplus. The year-to-date June surplus at the end of July is at \$50,000 and is trending to the forecasted results.

2-3 COST PER ASSIGNMENT

	2020	2019	2018	2017	2016	2015	2014	2013	2012
<i>Cost per assignment</i>	\$4,040	\$3,969	\$3,871	\$3,796	\$3,779	\$3,569	\$3,370	\$3,332	\$3,084
% Increase from prior year	1.77%	2.53%	1.98%	0.44%	5.91%	5.90%	1.14%	8.04%*	2.00%

* The 2013 % increase from prior year was mainly a result of the high double pilotage and overtime due to the record cold weather in December causing early freeze up, numerous Seaway closures due to ice-related issues and ice-related navigation stoppage.

The Authority has been historically been able to keep the year over year cost per assignment increase consistent with the general inflation increases. Years 2015 and 2016 have higher year-over-year increases due mainly to the investment in the apprentice-pilot recruitment and training as well as the incremental costs associated to the pilot transfer charges compounded with the lower assignments when compared to the 7,462 assignments of 2014.

(3) Favourable Internal Audit Reports

Description of the Corporate Objective:

The Authority will continue its internal audit assessments and audits in 2015 and for the remainder of the planning period. The outcome of this exercise is to obtain an opinion from the internal auditors that the overall ability of the controls identified to mitigate risk in the processes being audited to an acceptable level is rated as *satisfactory*.

Strategies to Achieve the Objective:

To maintain appropriate levels of internal controls, management has been assessing its control environment to identify potential risk areas, developing procedures to address weaknesses identified, and formalizing and documenting procedures. It will continually evaluate its processes for improvements during the planning period.

Over the course of the planning period, management will target specific processes to self-assess and introduce compensating controls when deemed beneficial, cost effective, and reasonably be supported by its current structured and limited resources.

Management will report its findings to the Audit Committee on a periodic basis.

Key Performance Indicators:

The Authority's ongoing focus on strong internal controls will allow it to achieve its objective - to obtain a "satisfactory" conclusion on all internal audit reports.

2014 and 2015 Performance:

In 2014, the internal auditors completed the internal audit of the payroll process. In the opinion of the auditor, the controls and procedures operate effectively as there were no indications of areas of significant weakness or risk that warrant action. The Authority will have its procurement process

audited as part of its 2015 internal audit plan. The internal audit is scheduled for the Fall.

(4) Strengthening Strong Customer Relations

Description of the Corporate Objective:

The Authority's objective is to maximize the efficiency of the pilotage system by being attentive to its customers' business needs in a joint effort to ensure a profitable and efficient pilotage service within the Great Lakes region for commercial vessels.

Strategies to Achieve the Objective:

Management completed a customer satisfaction survey in Winter 2015. The survey results were very positive as the overall customer experience was rated at 80% favourable, 13% neutral and 8% unfavourable. The results and comments provided the Authority with pertinent information in areas where it meets expectations as well as areas where it falls short of expectations. The themes of dissatisfaction are:

- customers' perception that the Authority is not looking out for the customer's best interest (customer focus);
- the lack of pilot availability when they are required in the high periods of traffic
- although they believe vessel transits are safe and efficient, they are dissatisfied with the cost/benefit of the service and the number of delays;
- the Authority's problem-solving and communication processes; and
- the Authority's website is not user friendly and currently does not add value to its customers' businesses.

The Authority is currently working on the development of action plans to address the crucial service areas noted above. The action plans will focus around (i) communication, (ii) customer focus from employees, (iii) improve relations with agents, and (iv) website. Management is currently working on a communication plan to inform its customers of the results of the survey as well as its action plans to address customer concerns.

After a period of time following the implementation of recommendations, the Authority will follow-up with another customer satisfaction survey.

Aside from the satisfaction survey, the Authority will continue to meet with its main user groups to ensure transparency in the pilotage operations and obtain constructive feedback on the delivery of service.

Key Performance Indicators:

To achieve its objective, the Authority is to obtain a greater customer satisfaction rating on its second survey in comparison of the first survey results.

(5) Modernizing

Description of the Corporate Objective:

The Authority is anticipating upgrading its current Dispatch and Billing system for the 2016

navigation season. Along with the system upgrade, the Authority will also be reviewing its current processes to revamp the system to better meet its needs and its customer needs as well as ensure its resources are utilized to their full potential.

The Authority will work on the detailed requirement collection, the development and configuration, the testing and the training to meet a mid-2016 navigation season implementation date.

Strategies to Achieve the Objective:

Management will develop a project schedule which will illustrate the timelines for various progression stages, objectives for each stage and process ownership and key contributors. Periodic meetings will be held with the vendor as to discuss progress, identify issues and action plans to resolve the identified issues.

Management will review system processes with the Pacific Pilotage Authority and the Laurentian Pilotage Authority who are currently using the same system as to assess enhancement requirements and potential changes to current processes to support the system. The Authority and the other Canadian pilotage authorities are considering process standardization as a means towards the most efficient system. It will also obtain participation from its user groups to identify their concerns on the current system limitations so they can be properly addressed.

Management will ensure proper training documents will be developed for reference material as well as for training new employees. Management will work with the vendor to ensure training is customized to the individual user groups' requirements.

Key Performance Indicators:

To have successfully achieved its objectives, system upgrades must be completed by the mid-2016 navigation season. Another success indicator is the user assessment that the system and the processes are more efficient, more user friendly vs. the previous version and that their concerns have been addressed appropriately in the upgrade process.

(6) Special Examination

Description of the Corporate Objective:

As required by Part X of the FAA, the Auditor General of Canada is to carry out a special examination of the financial and management control and information systems and management practices maintained by the Great Lakes Pilotage Authority. The Authority is required by paragraphs 131(1) (b) and 131(2) (a) and (c) of the FAA to maintain these systems and practices in a manner that will provide reasonable assurance that the following requirements are met:

- the assets of the Authority are safeguarded and controlled;
- the financial, human, and physical resources of the Authority are managed economically and efficiently; and
- the operations of the Authority are carried out effectively.

The next Special Examination is scheduled for 2017 with a report to be finalized in 2018 unless the Office of the Auditor General deems it necessary for a Special Examination before that date. The Authority's objective is to have a clean report stating that there are no significant deficiencies in its

systems.

Strategies to Achieve the Objective:

Management will review the findings noted in the Auditor General of Canada's 2007 Special Examination Report. It will continue to focus its attention on sound controls, leveraging the ERM process and assessing the existing controls. It will also leverage the Auditor General of Canada's management letter point recommendations, if any, that follow the audited financial statements as well as any recommendations identified in the internal audit reports.

Key Performance Indicators:

To have successfully achieved its objectives, the Authority is to be assessed as having no significant deficiencies stipulated in the Auditor General of Canada's next Special Examination Report.

(7) Major Regulatory Initiative

The Authority will review its Great Lakes Pilotage Regulations during the planning period 2016-2020 as it relates to the pilotage certification program. After two years since implementing the certification program, the Authority is able to reflect on the implications of the initial regulations amendments. The proposed amendments to the regulations will allow the Authority to bring efficiencies to the Pilotage Certification Program as well as to ensure the effective monitoring of the program to mitigate the Authority's risk exposure within its Enterprise Risk Management profile. In addition, the Authority will initiate periodic tariff amendments to the *Great Lakes Pilotage Tariff Regulations* in context of remaining financially self-sufficient. These amendments are not considered major in nature and the Authority will consult with its user groups prior to any amendments such that they usually receive support from all stakeholders and users of the Pilotage Services in the Great Lakes.

6. SAFETY IMPERATIVES

6.1 OVERVIEW

As stated in the Authority's mandate, its mission and vision, its Enterprise Risk Assessment, its objectives and strategies, providing safe pilotage services is at the core of the Authority's operational and administrative mind-set.

In addition to the Authority's dedication to its Long Term Pilot Training Program and the Apprentice-Pilot Training Program, and other safety strategies discussed in section 5 (1) "*Continued focus on providing an economic, safe and reliable pilotage service*", the Authority actively participates in various joint initiatives and associations to keep abreast of emerging safety concerns and best practices.

With a greater focus on pilotage safety in the Great Lakes region, the Authority is an active member of the Seaway Safety Committee which has representation from the St. Lawrence Seaway Management Corporation, the U.S. St. Lawrence Seaway Development Corporation, the U.S Coast Guard and the U.S. Pilotage Associations.

In consultation with the Canadian Marine Pilots' Association, Transportation Safety Board and the Great Lakes pilot groups, the Authority formalized a post-incident protocol. This protocol has been respected in the 2015 marine incident investigations.

6.2 INCIDENT REPORT

The historical incident data can be found in tables 1-1 Major Incident and 1-2 Marine Incident under section 5 (1) "*Continued focus on providing an economic, safe and reliable pilotage service*".

6.3 PROTOCOL

The Authority does not own any pilot boats. All pilot boat services are either contracted out to third party contractors or under the Memorandum of Agreement with U.S. Pilotage Authorities. The Authority's safety practice and maintenance plan requirements are stipulated in either the request for proposals/contracts or the memorandum of agreements.

For all other contracts which have pilot safety elements, all have been well defined in the request for proposal mandatory requirements and the signed contracts. This includes the pilot transfer service contracts and the land transportation contracts.

7. STAKEHOLDER RELATIONS

It is important that the Board and management reach out to its stakeholder organizations to ensure that important issues are identified and managed effectively.

The three primary stakeholders are the government, the shipping interests and the pilots. The latter two have representation on the Board of Directors. Even with Board representation, the shipping interests are also under the responsibility of the Shipping Federation of Canada, the Canadian Shipowners Association and the Chamber of Marine Commerce while the pilots' interests are under the responsibility of the 4 Pilot Corporations (identified in section 8.2 *Labour Relations, Collective Agreements*), the Canadian Merchant Service Guild and the Canadian Marine Pilots' Association. In the case of the government, there are a number of stakeholders including the Minister of Transport and many of his officials, the Canadian Coast Guard, the Transportation Safety Board, the CTA and central agencies.

All three primary stakeholder groups must be consulted and must support the Authority's decisions as they have access to the CTA for review when issues are not resolved to their satisfaction. Solutions with consensus, when possible, are preferred versus legislated ones. The Authority must manage potentially differing expectations from the various stakeholders. Striking a proper balance, while achieving the Authority's own objectives, is challenging.

In addition to the three primary stakeholders, there are others that have an interest in a safe, efficient and effective pilotage in the Great Lakes area. They would include, but are not limited to:

- St. Lawrence Seaway Management Corporation (Canada)
- St. Lawrence Seaway Development Corporation (US)
- US Pilotage organizations
- GLPA area ports and harbours

- Environmental groups
- Recreational boaters
- Private citizens living along the GLPA area of responsibility.

Strategies

The Authority will continue to be proactive in consulting with all primary and other stakeholders on an ongoing basis, giving them an ongoing opportunity to provide input into the planning and operations of the Authority. It is important that all issues with stakeholders, including pilots are resolved. However, the Authority will never compromise the safety of the vessels and the environment as a means to avoid a third party settlement.

During the course of a given year, the Authority formally meets with the Shipping Federation of Canada, the Canadian Shipowners Association and the Chamber of Marine Commerce to discuss current topics, joint concerns, and proposed tariff amendments. In addition, these stakeholders and the Authority discuss operational issues throughout the navigation season. In preparation of the start and the close of a navigation season these stakeholders are consulted and informed on the potential implications to the pilotage services.

For the interaction with the pilot interest stakeholders, the Authority holds a formal meeting with the Pilot Corporation Presidents at the start of the navigation seasons. There are ongoing communications with the pilot union representatives throughout the navigation season to discuss working rules and other labour relation issues.

The Authority is in constant communication with the St. Lawrence Seaway Management Corporation, the St. Lawrence Seaway Development Corporation, U.S. Coast Guards and the U.S. Pilotage Associations to provide safe and efficient pilotage services.

The Authority visits various Canadian and U.S. Ports and Harbours during the course of the year to discuss pilotage services. For example, the Authority, along with the U.S. Pilotage Association, held discussions with the Thunder Bay Port Authorities and agents to discuss the pilotage services and address their concerns.

In addition to the stakeholders noted above, the Authority, at all levels of the organization, has regular meetings and discussions with the other 3 Canadian Pilotage Authorities to discuss common topics. The Authorities also share best practices.

8. HUMAN RESOURCES

8.1 WORKFORCE

The Authority's anticipated workforce for January 1, 2016 is as follows (in terms of Full Time Equivalent employees):

- 3.0 executives
- 5.0 non-unionized salaried employees
- 2.5 unionized clerical employees
- 9.0 unionized dispatchers
- 52.0 unionized pilots
- 8.0 unionized apprentice-pilots

Please refer to the Authority's organizational chart previously noted above.

8.2 LABOUR RELATIONS AND COLLECTIVE AGREEMENTS

For the unionized workforce, the following table provides the names of the bargaining units, the expiry date of the current collective agreements and the number of employees per union:

Bargaining Unit	Type and number of employees	Expiry date of the current collective agreement
<i>Corporation des Pilotes du Fleuve et de la Voie Maritime du Saint-Laurent</i>	17 full time pilots 2 apprentice-pilots 2 part time pilots	March 31, 2017
Corporation of the Upper St. Lawrence Pilots	4 full time pilots 1 apprentice pilot 3 part time pilots	March 31, 2017
The Pilots' Corporation, Lake Ontario and Harbours	4 full time pilots 2 apprentice-pilot 2 part time pilots	March 31, 2017
Corporation of Professional Great Lakes Pilots	20 full time pilots 2 apprentice-pilots 3 part time pilots	March 31, 2017
The Public Service Alliance of Canada	8 full time dispatchers 2 part time dispatchers 2 full time clerical 1 part time clerical	June 30, 2016

8.3 COMPENSATION

Recruiting: Apprentice- Pilots

Given the high number of applications received for the apprentice-pilot positions posted in 2014, the Authority is confident that future year recruiting of candidates for these positions are not an immediate area of concern.

Recruiting: Dispatchers, Office Staff and Management

For the Cornwall market, there is a good pool of qualified candidates for the above noted positions. Compensation and working conditions for these positions are very competitive with the private sector in Cornwall and surrounding area. Therefore, there are no recruiting concerns.

Retention

The Authority has no retention issues. This is evidenced by the fact that there has not been any pilot or apprentice-pilot who has voluntarily terminated his or her employee with the Authority in the last 25 years. The statistics for the dispatchers, office staff and management echo the same results.

Strategy for Containing Compensation Costs

Given the negotiations with the bargaining units will only start in March 2016, the Authority will pay close attention to the outcome of the negotiations from the other Authorities to gauge the reactions to wage increases.

Wage Increases

All collective agreements for the four pilot groups have a 2.75% for 2015 and 2.75% for 2016. The current collective agreement for the Public Service Alliance of Canada unit calls for a 2.75% for 2014/2015 and 2.75% for 2015/2016.

Sick Leave and Short Term Disability Benefit Plans

The Authority does not have a specific short term disability benefit plan for its employees.

The Authority is not planning any reforms to its sick leave policy as it only averages 2.5 days of absenteeism over the last eight (8) years.

8.4 PILOT TRAINING

Pilot Training - Annual

The Authority requires all pilots to complete simulation training within a 5 year cycle. The Authority incurs approximately \$120,000 in annual simulation training costs, including pilot wages and travel expenses. Starting in 2016, ad-hoc simulation training will be offered to specific pilots based on the business needs.

The Authority has also been organizing annual training for the PPUs.

Pilot Training – Apprentice

By the end of the 2015 navigation season, the Authority is expected to have 7 apprentice-pilots being trained (in comparison to 3 in 2014). Apprentice pilot training includes theoretical studies, practical on board ships and simulator training. The costs associated with training a mariner to become a pilot are salaries/benefits, travelling expenses and compensation to mentoring and evaluating pilots. The total cost to train a pilot averages close to \$20,000/month. Depending on the district to which the apprentice is assigned to and the apprentice's experience navigating in the Great Lakes, the length of training varies.

8.5 ALIGNMENT WITH GOVERNMENT OF CANADA PENSION PLAN

Voluntary Severance Benefits

In 2012, the Authority removed the accumulation of severance benefits for voluntary terminations from the employment benefits of collective agreements for its excluded staff and three pilot groups of employees. In 2013, the Authority removed the accumulation of severance benefits for voluntary terminations from the employment benefits of collective agreements for its clerical staff/dispatchers and one pilot group of employees. Due to the Authority's financial cash flow constraints, only the pilot groups' have retirement and separation gratuity amounts that remain outstanding and are to be paid out at the termination of employment. The severance calculation remains frozen and will only be adjusted based on the rate of pay in effect at the time of termination.

Pension Plan

All Authority employees participate in the Public Service Pension Plan (the Plan), a defined benefit plan whereby participants receive benefits based on years of service and average earnings at retirement.

Other Savings Plan Benefits

The Authority does not offer any other savings plan benefits to its employees.

8.6 EMPLOYEE ENGAGEMENT

In the Fall of 2015, the Authority will initiate an Employee Engagement Survey. Even though there are no indicators of low employee morale or lack of employee engagements, the Authority believes it is important to undertake this important initiative. As the Authority has seen changing business needs from our customers, increasing requirements from the Federal Government and experiencing important changes in its human resources, the focus on our employees needs to be respected. To this end, the Authority is seeking to obtain employee feedback and the survey results are believed to provide valuable insight into performance barriers encountered by employees. The goal is to subsequently develop resolutions to allow each employee to unlock their full potential and to create a supportive work environment that enables employees to perform to their best every day.

8.7 SUCCESSION PLANNING

The Authority has recognized three key positions within its organization which must be staffed with effective/efficient individuals in order to ensure the continued success of the organization. The positions of CEO, CFO and Director of Operations need experienced and qualified individuals. A new CFO was hired in October 2013 while a new Director of Operations was hired in September 2014. The CEO is eligible for retirement in the next two years.

Strategies

The Authority has developed an orientation and development plan for both the CFO and the Director of Operations.

For the CEO position, the Board of Directors has developed a succession strategy, which considers both internal candidates and external searches. It will also inform the Privy Council Office of the CEO retirement as part of the process with the CEO's selection committee.

The three senior management individuals are not permitted to travel together as to negate the risk of having the three injured in one single event.

9. SUPPORT FOR GOVERNMENT POLICIES

9.1 SPENDING RESTRAINT

Prior to the Spending Restraint for fiscal years 2014/15 and 2015/16, Canadians gave our Government a strong mandate in May 2011 to complete its work on economic recovery and job growth. One of the cornerstones of the platform was to return the country to a balanced budget by 2014-15. The platform spelled out three steps to eliminating the deficit, including the commitment

to complete, within one year, a comprehensive Deficit Reduction Action Plan (DRAP) involving federally-appropriated organizations across government. The review was focused on generating savings from operating expenditures and improving productivity, while also examining the efficiency and effectiveness of programs. The Operating Budget Freeze is very similar to the DRAP initiative.

Organizations subject to the Spending Restraint were asked to maintain their operating budgets to their 2013/14 expenditure levels. The non-appropriated Crown Corporations, such as the Great Lakes Pilotage Authority, are not subject to the federal Spending Restraint but were encouraged to adhere to the spirit and intent of the exercise.

Back in 2009, the Authority performed a self-review exercise and had taken measures to initiate operational efficiencies. It has been recognized that over 90% of the Authority's operating revenues are tied directly to the service levels provided to shipowners. As service levels increase (traffic increase) so do the operating costs. These expenditures are the cost of manpower, travelling expenses to providing the service, pilot boats and dispatching expenditures that increase/decrease depending on the service levels. All these costs are governed by contractual arrangements and are variable based on the traffic levels. Reducing staffing levels or operational expenses during a period of stable marine traffic will lead to increase delays and decrease service levels to our users. These users operate on tight timelines and any delays caused to the ship will increase the costs to users and render their operations unprofitable.

The Authority's pilot numbers have decreased from 62.5 pilots in 2008 to 56.0 FTE pilots in 2014. This represents a reduction of 6.5 FTE pilots or 10% of its pilot numbers, or a cost saving of approximately \$1.1 million annually. At the forecasted traffic level, the Authority will need to increase pilot numbers to between 60.0 to 69.5 FTE pilots for the period of 2016 to 2020 as not to negatively affect the service level to the industry. These increases in the pilot numbers are required to service the higher levels of traffic experienced in the last two years and anticipated for the planning period as well as replace the high levels of retirements of experienced pilots and to reduce the level of vessel delays due to shortage of pilots to an acceptable level for the industry. With the exception of the increased pilot numbers and apprentice-pilot recruiting and training costs, this increase in efficiency experienced in the last few years and anticipated for the planning period aligns itself perfectly with requirements of the current Operating Budget Freeze and has gone a long way in returning the Authority to financial self-sufficiency.

The Authority continues to support initiatives to improve service levels, increase efficiencies and reduce costs to users over the long term. The Authority will also continue to review all operating costs going forward and place importance on the oversight of discretionary spending. These actions assure the users that the Authority adheres to the spirit and intent of the Spending Restraint initiative.

9.2 TRAVEL, HOSPITALITY, CONFERENCE AND EVENT EXPENDITURES

The Authority has reviewed its directive on travel and has assessed that it is in compliance with the *National Joint Council's* Travel Directive. In the Fall of 2015, the Authority will review its travel and hospitality directive to identify areas where it does not respect the Government's *Directive on Travel, Hospitality and Conference and Event Expenditures*. The results will be provided to the Board of Directors as to obtain their approval on modifications to make to the current directive with

the objective to have a revised directive and supporting processes implemented for the start of the 2016 navigation season.

9.3 COMPLIANCE WITH OTHER ACTS OF PARLIAMENT AND GOVERNMENT PROGRAMS

The Authority fully complies with the *Federal Identity Program*, the *Access to Information Act*, *Privacy Act*, *Official Languages Act* and the *Employment Equity* legislation. This compliance is monitored by the respective Government departments. The Authority also follows all the regulations listed in the *FAA and the Regulations* governing Crown Corporations.

10. FINANCIAL STATEMENTS

ASSUMPTIONS USED FOR DEVELOPMENT OF THE CORPORATE PLAN

(1) TRAFFIC VOLUME

Based on management's assessment, the Authority forecasts a (6) % decrease in traffic for 2015 compared to 2014, followed by a further (4) % decrease in traffic for 2016 in comparison to 2015, and the same traffic as in 2016 for the remaining years of the planning period. Thus, the assignment count is: 7,000 for 2015 (a decrease of 462 assignments from 2014) and 6,700 assignments for 2016 to 2020.

SCHEDULE OF PILOTAGE ASSIGNMENTS SINCE 2004

# of years	Year	Actual # of assignments	% change from prior year	# of years over 10% change	Average # of assignments in the last 5 years	Average # of assignments in the last 10 years
1	2004	6,398	12%	X	6,847	7,162
2	2005	6,443	1%		6,415	7,197
3	2006	7,331	14%	X	6,498	7,240
4	2007	7,177	-2%		6,617	7,238
5	2008	5,989	-17%	X	6,668	6,929
6	2009	4,468	-25%	X	6,282	6,565
7	2010	6,059	36%	X	6,205	6,310
8	2011	6,389	5%		6,016	6,257
9	2012	6,358	0%		5,853	6,235
10	2013	6,403	1%		5,935	6,302
11	2014	7,462	17%	X	6,534	6,408
12	2015 Forecast	7,000	-6%		6,722	6,464
13	2016 Forecast	6,700	-4%		6,785	6,401
14	2017 Forecast	6,700	0%		6,853	6,353
15	2018 Forecast	6,700	0%		6,912	6,424
16	2019 Forecast	6,700	0%		6,760	6,647
17	2020 Forecast	6,700	0%		6,700	6,711

(2) PILOTAGE TARIFFS

During the planning period of 2016-2020, the Authority plans the following general tariff increases and adjustments to the tariff surcharge:

Tariff adjustments and tariff surcharge over the planning period

	ACTUAL 2013	ACTUAL 2014	ACTUAL 2015	BUDGET 2016 **	BUDGET 2017 **
Regular tariff increase	2.5%	2.5%	1.5%	1.5%	2.0%
Tariff surcharge	12.0%	12.0%	11.0%	12.0%	11.5%
Net impact	2.5%	2.5%	0.5%	2.5%	1.5%

* the surcharge was decreased from 15% in 2010 to 12% in 2011.

In addition to the tariff rate adjustments noted above, the Authority is planning to introduce a pilot transfer charge for all vessels transiting through the St. Lambert Locks, the Beauharnois Locks and the Welland Canal Locks to offset the unexpected costs that are now to be assumed by the Authority.

(3) GENERAL INFLATION

Unless otherwise stipulated, a general 2% inflation (cost of living) increase has been assumed for each of the years in the planning period.

(4) HEADCOUNT

Pilots

The Authority has forecasted anticipated retirements and corresponding new hires as follows:

HEADCOUNT ASSUMPTIONS						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	53	49	52	57	58	59
Reductions	(4)	(6)	(2)	(3)	(3)	(2)
Increases	0	9	7	4	4	7
End of Year	49	52	57	58	59	64
<i>Apprentice-Pilots</i>						
Start of Year	1	8	7	4	4	7
Reductions	(1)	(9)	(7)	(4)	(4)	(7)
Increases	8	8	4	4	7	2
End of Year	8	7	4	4	7	2
<i>Part Time Contract Employees</i>						
Start of Year	4	6	8	8	9	8
Reductions	0	(2)	0	(1)	(3)	(1)
Increases	2	4	0	2	2	0
End of Year	6	8	8	9	8	7

Refer to Appendix 2 for the headcount allocations by districts.

Dispatchers

The current dispatcher headcount of 8 full time employees and 2 part time employees will remain intact for the planning period.

Clerical Staff

The current clerical headcount of 2 full time employees and 1 part time employee will remain intact for the planning period.

Management

The only change from the current headcount is the restructuring of a part time position to a new full time position. Thus, the headcount for the planning period will be 10 full time employees.

(5) WAGE INCREASES

The planning assumptions for wages are as follows:

Employee Group	2015	2016
Pilots	2.75%	2.75%
P.S.A.C.	2.75%	2.75%
Non-unionized	2.00%	2.00%

	Increase per collective agreements or employment conditions
	General inflation assumed

(6) PILOT BOAT

The Authority contracts its pilot boat services at both Port Weller and Port Colborne. Under an open competitive procurement process in 2015, these contracts were awarded and will be in place until the end of the 2018 navigation season, 2019 optional.

The Authority continues to follow past strategies of contracting out pilot boat services for the Welland Canal. An alternative approach would be to invest in a pilot boat and increase staffing levels by 16 pilot boat operators as well as incurring high repair and maintenance costs. The financial analysis of both options demonstrates the pilot boat contract option is more beneficial and cost economical to the Authority, and thus, there are no future plans to revisit to current strategy.

(7) LAND TRANSPORTATION

The contract for Land Transportation services to transfer pilots between St. Lambert and Beauharnois, Quebec, and Cornwall, Ontario was renegotiated at the end of 2013 for the 2014 and 2015 navigation seasons. The Authority has budgeted cost of living increases for 2016.

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 was awarded in 2015 following an open competitive procurement process. The contract is in place until the end of the 2017 navigation season, 2018 optional.

The contract for the Land Transportation services to transport pilots to points in the area of the Welland Canal was awarded in 2015 following an open competitive procurement process. The contract is in place until the end of the 2016 navigation season, 2017 optional.

(8) PILOT TRANSFER SERVICES

The Authority will enter into an open competitive procurement process for the 2016 navigation season. The costs are estimated to be \$125 per pilot transfer at each lock.

(9) LEASES

The Authority relocated its head office to its current location in 1994. In January 2014, the Authority re-negotiated its head office lease contract for the next ten (10) years, which expires on January 31, 2024. Per the agreement, the lease costs increase annually as per the Canadian Consumer Price Index for 2015 and subsequent years. The landlord is the St. Lawrence Seaway Management Corporation.

As per the new agreement with the St. Lawrence Management Corporation, the landlord agreed to \$75,000 of leasehold inducements. These inducements are being amortized over the term of the lease and are reflected as an offset to the lease costs.

(10) COMPUTER SYSTEM SUPPORT

The Authority has a software support agreement for its dispatch/billing/accounts receivable system. It also has a hosting support agreement for the Authority's web site, Net Pilot system and Authority database.

(11) PORTABLE PILOTAGE UNITS (PPU)

The Authority and the pilots have a 24/7 support contract that guarantees continuity and efficiency of the PPUs. This contract ends in December 31, 2016. The Authority will be seeking to replace the current PPUs for the 2017 navigation season, and at which time, it will enter into a similar technical support contract with similar terms and cost as in the current contract, adjusted for general inflation.

(12) PROFESSIONAL FEES

In 2016, the Authority is planning to initiate a risk assessment on the requirements and possible standardization of double pilotage. Through an open competitive procurement process, the Authority will obtain the services of an independent consultant.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

GREAT LAKES PILOTAGE AUTHORITY CORPORATE PLAN (in 000's)

	ACTUAL 2014	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
REVENUES							
PILOTAGE	\$ 23,464	\$ 22,493	\$ 22,431	\$ 22,883	\$ 24,092	\$ 25,333	\$ 26,933
SURCHARGE	2,783	2,428	2,588	2,530	1,856	1,101	-
DISPATCHING AND PILOT BOAT INCOME	290	284	278	283	289	295	301
INVESTMENTS	12	40	40	40	40	40	40
OTHER	53	163	33	23	23	24	23
TOTAL	\$ 26,602	\$ 25,408	\$ 25,370	\$ 25,759	\$ 26,300	\$ 26,793	\$ 27,297
EXPENSES							
PILOT WAGES	\$ 8,146	\$ 8,373	\$ 8,430	\$ 9,813	\$ 10,344	\$ 10,534	\$ 11,507
APPRENTICE-PILOT WAGES	196	516	1,309	711	536	886	424
PILOT TRAINING WAGES	27	58	201	136	144	148	128
PILOT OVERTIME	3,631	2,433	2,283	2,181	2,334	2,212	2,229
PILOT PRODUCTIVITY	4,082	3,591	2,880	2,106	1,930	1,851	1,552
PILOT FRINGE BENEFITS	1,886	1,983	2,077	2,227	2,247	2,421	2,487
OPERATION SALARIES	961	1,120	1,031	1,055	1,070	1,098	1,119
OPERATION FRINGE BENEFITS	239	294	263	270	275	283	286
TRAVEL EXPENSES	1,706	1,711	1,676	1,722	1,761	1,797	1,848
PILOT BOAT	1,037	1,177	1,155	1,182	1,205	1,234	1,258
PILOT TRANSFER CHARGES		279	446	455	464	473	483
LAND TRANSPORTATION	570	549	537	550	561	573	584
PILOT PORTABLE UNITS - AMORTIZATION	207	207	207	220	220	220	220
PILOT PORTABLE UNITS - MAINTENANCE	100	100	102	104	106	108	110
EMPLOYEE FUTURE BENEFITS	155	252	225	229	224	219	222
COMMUNICATION	53	54	54	55	56	57	59
DISPATCH SERVICES	323	355	359	366	373	343	345
UTILITIES, SUPPLIES & RENT	180	184	187	191	195	200	204
PILOT TRAINING AND RECRUITING COSTS	102	135	134	138	134	136	131
TOTAL	\$ 23,601	\$ 23,371	\$ 23,556	\$ 23,711	\$ 24,179	\$ 24,793	\$ 25,196
OPERATING MARGIN	\$ 3,001	\$ 2,037	\$ 1,814	\$ 2,048	\$ 2,121	\$ 2,000	\$ 2,101
ADMINISTRATION EXPENSES							
SALARIES	\$ 759	\$ 749	\$ 790	\$ 805	\$ 820	\$ 836	\$ 852
FRINGE BENEFITS	193	216	213	219	226	232	237
UTILITIES AND RENT	97	119	98	129	132	134	137
DIRECTOR FEES	55	67	60	57	57	57	59
DIRECTOR TRAVEL	52	65	54	77	78	80	81
ADMINISTRATION TRAVEL	90	75	94	92	94	96	97
COMMUNICATION	39	34	46	35	35	36	37
EMPLOYEE FUTURE BENEFITS	1	-	-	-	-	-	-
PROFESSIONAL FEES	166	211	256	150	153	155	185
TRAINING	11	17	17	20	21	21	22
DEPRECIATION AND AMORTIZATION	58	37	118	118	122	131	139
BAD DEBT EXPENSE	-	-	-	-	-	-	-
BANK CHARGES AND INTEREST EXPENSE	22	19	20	21	21	23	23
TOTAL	\$ 1,543	\$ 1,609	\$ 1,766	\$ 1,723	\$ 1,759	\$ 1,801	\$ 1,869
SURPLUS FROM OPERATIONS	\$ 1,458	\$ 428	\$ 48	\$ 325	\$ 362	\$ 199	\$ 232
OTHER COMPREHENSIVE INCOME:							
Actuarial gain (loss) on employee benefits	(122)	-	-	-	-	-	-
NET SURPLUS (DEFICIT)	\$ 1,336	\$ 428	\$ 48	\$ 325	\$ 362	\$ 199	\$ 232

STATEMENT OF FINANCIAL POSITION**GREAT LAKES PILOTAGE AUTHORITY
CORPORATE PLAN (in 000's)**

	ACTUAL 2014	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
ASSETS							
CURRENT							
CASH AND CASH EQUIVALENTS	\$ 2,099	\$ 3,781	\$ 4,814	\$ 3,931	\$ 3,075	\$ 2,603	\$ 2,920
INVESTMENTS	5,548	4,500	3,000	2,500	3,800	4,500	4,800
ACCOUNTS RECEIVABLE	4,521	3,800	3,500	3,700	3,800	4,000	3,800
PREPAIDS	38	50	50	50	50	50	50
	12,206	12,131	11,364	10,181	10,725	11,153	11,570
NON-CURRENT							
LONG TERM RECEIVABLES	-	-	-	-	-	-	-
PROPERTY AND EQUIPMENT	416	325	397	1,087	903	713	520
INTANGIBLE ASSETS	141	249	259	381	273	162	46
	557	574	656	1,468	1,176	875	566
TOTAL ASSETS	\$ 12,763	\$ 12,705	\$ 12,020	\$ 11,649	\$ 11,901	\$ 12,028	\$ 12,136
LIABILITIES							
CURRENT							
ACCRUED SALARIES AND BENEFITS	\$ 8,952	\$ 8,629	\$ 7,923	\$ 7,161	\$ 7,049	\$ 7,058	\$ 6,856
OTHER ACCOUNTS PAYABLE AND ACCRUED CHARGES	618	600	612	620	632	650	650
EMPLOYEE BENEFITS	573	279	175	237	320	147	295
	10,143	9,508	8,710	8,018	8,001	7,855	7,801
NON-CURRENT							
DEFERRED LEASE INDUCEMENTS	43	62	54	46	38	30	22
EMPLOYEE BENEFITS	3,005	3,135	3,208	3,212	3,127	3,209	3,147
	3,048	3,197	3,262	3,258	3,165	3,239	3,169
TOTAL LIABILITIES	13,191	12,705	11,972	11,276	11,166	11,094	10,970
EQUITY							
ACCUMULATED SURPLUS (DEFICIT)	(428)	-	48	373	735	934	1,166
TOTAL LIABILITIES AND EQUITY	\$ 12,763	\$ 12,705	\$ 12,020	\$ 11,649	\$ 11,901	\$ 12,028	\$ 12,136

STATEMENT OF CHANGES IN EQUITY**GREAT LAKES PILOTAGE AUTHORITY
CORPORATE PLAN (in 000's)**

	ACTUAL 2014	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
BALANCE BEGINNING OF YEAR	\$ (1,764)	\$ (428)	-	\$ 48	\$ 373	\$ 735	\$ 934
SURPLUS FOR THE YEAR	1,336	428	48	325	362	199	232
BALANCE END OF YEAR	\$ (428)	-	\$ 48	\$ 373	\$ 735	\$ 934	\$ 1,166

STATEMENT OF CASH FLOW**GREAT LAKES PILOTAGE AUTHORITY
CORPORATE PLAN (in 000's)**

	ACTUAL 2014	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
OPERATING ACTIVITIES							
PROFIT FOR THE YEAR	\$ 1,458	\$ 428	\$ 48	\$ 325	\$ 362	\$ 199	\$ 232
ITEMS NOT AFFECTING CASH:							
Employee benefits	(214)	(164)	(31)	66	(2)	(91)	86
Amortization and depreciation	265	244	325	338	342	351	359
Decrease in deferred leasehold inducements	(4)	(8)	(8)	(8)	(8)	(8)	(8)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS:							
Decrease (Increase) in accounts receivable	(491)	721	300	(200)	(100)	(200)	200
Decrease (Increase) in prepaids	(3)	(12)	-	-	-	-	-
Increase (Decrease) in accrued salaries and benefits	2,031	(323)	(705)	(763)	(112)	9	(202)
Increase (Decrease) in other accounts payable and accrued charges	210	(18)	12	8	12	18	-
CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,252	\$ 868	\$ (59)	\$ (234)	\$ 494	\$ 278	\$ 667
INVESTING ACTIVITIES							
PURCHASE OF INVESTMENTS	(5,848)	(4,500)	(3,000)	(2,500)	(3,800)	(4,500)	(4,800)
DISPOSAL OF INVESTMENTS	2,456	5,548	4,500	3,000	2,500	3,800	4,500
ACQUISITION OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS	(66)	(234)	(407)	(1,150)	(50)	(50)	(50)
CASH PROVIDED (USED) IN INVESTING ACTIVITIES	\$ (3,458)	\$ 814	\$ 1,093	\$ (650)	\$ (1,350)	\$ (750)	\$ (350)
CASH AND CASH EQUIVALENTS							
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	(206)	1,682	1,034	(884)	(856)	(472)	317
CASH, BEGINNING OF YEAR	2,305	2,099	3,781	4,814	3,931	3,075	2,603
CASH, END OF YEAR	\$ 2,099	\$ 3,781	\$ 4,814	\$ 3,931	\$ 3,075	\$ 2,603	\$ 2,920

11. CAPITAL BUDGET

GREAT LAKES PILOTAGE AUTHORITY CORPORATE PLAN (in 000's)

	ACTUAL 2014	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
CONSTRUCTION IN PROCESS							
Renovations - St. Lambert Pilot Waiting Station		\$ 12	\$ (12)				
	\$ -	\$ 12	(12)	\$ -	\$ -	\$ -	\$ -
BUILDINGS							
Renovations - St. Lambert Pilot Waiting Station			\$ 162				
Beauharnois - New Pilot Waiting Station			\$ 50				
	\$ -	\$ -	\$ 212	\$ -	\$ -	\$ -	\$ -
FURNITURE AND FIXTURES							
2 Dispatching consoles	\$ 44						
Kitchenette for Dispatchers	\$ 4						
Furniture for entrance	\$ 2	\$ 2					
New heating system for St. Lambert Pilot Waiting Station	\$ 8						
Lockers		\$ 3					
New office furniture for the Director of Operations		\$ 13					
Replacing Office Furniture (last purchase was in 2006)		\$ 5	\$ 10	\$ 20	\$ 7	\$ 5	\$ 5
	\$ 58	\$ 23	\$ 10	\$ 20	\$ 7	\$ 5	\$ 5
LEASEHOLD IMPROVEMENTS							
Washroom renovations		\$ 49					
Dispatchers office renovations	\$ 4						
Door Security Access	\$ 5						
Signage	\$ 2		\$ 10				
Office Painting	\$ 12						
Flooring/Carpet Replacement for the office	\$ 25			\$ 20	\$ 3	\$ 5	
Office blinds	\$ 5						
Separating an office in two		\$ 3					
Relocate door security access		\$ 2					
General leasehold improvements							
	\$ 53	\$ 54	\$ 10	\$ 20	\$ 3	\$ 5	\$ -
COMPUTER AND COMMUNICATION EQUIPMENT							
Computer, server, telecommunication replacement	\$ 4	\$ 5	\$ 30	\$ 10	\$ 10	\$ 10	\$ 15
Replacement of Portable Pilotage Units				\$ 778			
	\$ 4	\$ 5	\$ 30	\$ 788	\$ 10	\$ 10	\$ 15
SOFTWARE							
System Enhancements - Dispatching		\$ 4					
Upgrade to Dispatch and Billing System		\$ 175	\$ 145				
Replacement of Portable Pilotage Units				\$ 322	\$ 15	\$ 15	\$ 15
Simulator Software Development					\$ 15	\$ 15	\$ 15
	\$ -	\$ 179	\$ 145	\$ 322	\$ 30	\$ 30	\$ 30
TOTAL	\$ 115	\$ 261	\$ 407	\$ 1,150	\$ 50	\$ 50	\$ 50

Overview of Significant Capital Expenditure Plan

Upgrade to Dispatch and Billing System

As previously highlighted in the *Technical Advancement* sub-section of the *Enterprise Risk Management Framework* section as well as stated in the 2015-2019 Corporate Plan Summary, the Authority plans to spend \$175,000 in 2015 and \$145,000 in 2016 to upgrade and migrate from its present dispatch/billing/accounts receivable computer system to a web based system. The present

system is eight years old and maintenance of the system has become an issue as its operating on outdated software. Without this investment in the system, the Authority's ability to effectively service its customers is in jeopardy given the outside party's limited resources to support the current system. The Authority is not structured with an information technology employee or the expertise to problem-solve system issues.

Replacement of Portable Pilotage Units (PPU)

As previously highlighted in the *Portable Pilotage Units* sub-section of the *Strategic Issues, Environment* section and as stated in the 2015-2019 Corporate Plan, the PPU is a valuable tool to assist pilots in their navigation decision making process. The Authority considers the PPU as essential aid in achieving its objective on providing an economic, safe and reliable pilotage service. The current PPUs' five year useful life ends in 2016. The Authority will pursue an open competitive procurement process. The PPUs will only be in use at the start of the 2017 navigation season.

Pilot Waiting Stations

The Authority owns the pilot waiting station building at the St. Lambert Locks and currently leases a trailer at the Beauharnois Locks. Since 1994 there has been minimal upkeep done to the building. In assessing the premises, the current layout is not conducive to the new apprentice-pilot training program that has been introduced in 2015, nor does it meet the new requirements to have separate space to accommodate the new pilot transfer service contractor's employees.

The pilots at the Beauharnois location have endured less than favourable accommodations at the Beauharnois Locks' pilot waiting station. With the trailer rental, the plumbing freezes in the winter which results in a lack of running water. Similar to the St. Lambert pilot waiting station, the Authority now needs to accommodate the pilot transfer service contractor's employees, and therefore plans to replace the trailer rental with a permanent structure.

Other Capital Expenditures

None of the other capital expenditures represent significant costs to the Authority. As evidenced by the historical capital expenditure spending noted in the following chart, the Authority has relatively been in a cost control mode on capital spending. However, the deferral of capital spending cannot be maintained at the same level and office renovations and furniture/equipment replacement is required over the planning period.

Implications on cash flows and loans

The Authority anticipates being able to generate the necessary funds to meet its capital expenditures without requiring a loan or a significant use of the line of credit. Should the line of credit be used, it will simply be for a marginal period of time without negatively impacting its financial results. As evidenced with the Statement of Cash Flow, the Authority will leverage its excess funds invested to offset these capital investments.

Appropriations

The *Canada Marine Act* amended the *Pilotage Act* in Section 36.01 and does not allow an appropriation by Parliament to enable the Authority to discharge any obligation or liability. The

Authority must maximize all its returns to increase its revenues so that Parliamentary Appropriations do not become a necessity.

12. OPERATING BUDGET

STATEMENT OF OPERATIONS

2014 ACTUALS VS. FORECAST & 2015 FORECAST VS. BUDGET

GREAT LAKES PILOTAGE AUTHORITY							
CORPORATE PLAN (in 000's)							
	FORECAST 2014	ACTUAL 2014	VARIANCE	BUDGET 2015	FORECAST 2015	VARIANCE	BUDGET 2016
REVENUES							
PILOTAGE	\$ 20,597	\$ 23,464	\$ 2,867	\$ 20,263	\$ 22,493	\$ 2,230	\$ 22,625
SURCHARGE	2,443	2,783	340	2,202	2,428	\$ 226	2,393
DISPATCHING AND PILOT BOAT INCOME	280	290	10	230	284	\$ 54	278
INVESTMENTS	20	12	(8)	29	40	\$ 11	40
OTHER	10	53	43	58	163	\$ 105	34
TOTAL	\$ 23,350	\$ 26,602	\$ 3,252	\$ 22,782	\$ 25,408	\$ 2,626	\$ 25,370
EXPENSES							
PILOT WAGES	\$ 8,300	\$ 8,146	\$ 154	\$ 8,472	\$ 8,373	\$ 99	\$ 8,430
APPRENTICE-PILOT WAGES	121	196	(75)	218	516	(298)	1,309
PILOT TRAINING WAGES	27	27	-	38	58	(20)	201
PILOT OVERTIME	2,109	3,631	(1,522)	1,917	2,433	(516)	2,283
PILOT PRODUCTIVITY	2,676	4,082	(1,406)	2,837	3,591	(754)	2,880
PILOT FRINGE BENEFITS	1,863	1,886	(23)	1,814	1,983	(169)	2,077
OPERATION SALARIES	996	961	35	1,085	1,120	(35)	1,031
OPERATION FRINGE BENEFITS	266	239	27	275	294	(19)	263
TRAVEL EXPENSES	1,555	1,706	(151)	1,497	1,711	(214)	1,676
PILOT BOAT	918	1,037	(119)	911	1,177	(266)	1,155
PILOT TRANSFER CHARGES	-	-	-	-	279	(279)	446
LAND TRANSPORTATION	512	570	(58)	507	549	(42)	537
PILOT PORTABLE UNITS - AMORTIZATION	207	207	-	207	207	-	207
PILOT PORTABLE UNITS - MAINTENANCE	100	100	-	100	100	-	102
EMPLOYEE FUTURE BENEFITS	269	155	114	249	252	(3)	225
COMMUNICATION	40	53	(13)	41	54	(13)	54
DISPATCH SERVICES	285	323	(38)	290	355	(65)	359
UTILITIES, SUPPLIES & RENT	148	180	(32)	151	184	(33)	187
PILOT TRAINING AND RECRUITING COSTS	125	102	23	125	135	(10)	134
TOTAL	\$ 20,517	\$ 23,601	(3,084)	\$ 20,734	\$ 23,371	(2,637)	\$ 23,556
OPERATING MARGIN	\$ 2,833	\$ 3,001	\$ 168	\$ 2,048	\$ 2,037	\$ (11)	\$ 1,814
ADMINISTRATION EXPENSES							
SALARIES	\$ 780	\$ 759	\$ 21	\$ 750	\$ 749	\$ 1	\$ 790
FRINGE BENEFITS	214	193	21	218	216	2	213
UTILITIES AND RENT	117	97	20	119	119	-	98
DIRECTOR FEES	60	55	5	60	67	(7)	60
DIRECTOR TRAVEL	65	52	13	65	65	-	54
ADMINISTRATION TRAVEL	83	90	(7)	75	75	-	94
COMMUNICATION	15	39	(24)	34	34	-	46
EMPLOYEE FUTURE BENEFITS	2	1	1	-	-	-	-
PROFESSIONAL FEES	145	166	(21)	125	211	(86)	256
TRAINING	17	11	6	17	17	-	17
DEPRECIATION AND AMORTIZATION	32	58	(26)	37	37	-	118
BAD DEBT EXPENSE	-	-	-	-	-	-	-
BANK CHARGES AND INTEREST EXPENSE	18	22	(4)	21	19	2	20
TOTAL	\$ 1,548	\$ 1,543	\$ 5	\$ 1,521	\$ 1,609	\$ (88)	\$ 1,766
OTHER COMPREHENSIVE INCOME:	\$ 1,285	\$ 1,458	\$ 173	\$ 527	\$ 428	\$ (99)	\$ 48
Actuarial gain (loss) on employee benefits	-	(122)	(122)	-	-	-	-
NET SURPLUS (DEFICIT)	\$ 1,285	\$ 1,336	\$ 51	\$ 527	\$ 428	\$ (99)	\$ 48

MAJOR ASSUMPTIONS

Refer to section 8 *Financial Statements*, sub-section *Assumptions Used for the Development of the Corporate Plan* for the listing of the major assumptions.

2016 SENSITIVITY OF PROJECTIONS TO CHANGES

As previously stated, the Authority's major expenditures are in the form of wages, fringe benefits and pilot boat costs as well as other contracted commitments. Thus, approximately 80% of the operating costs are relatively fixed over an operating season with only the remainder of the 20% costs being variable or semi-variable. Therefore, major fluctuations in pilotage assignments will have a significant impact on the Authority's financial results.

At the forecasted level of assignments and pilot numbers for the planning period, the Authority can, to a certain degree, manage pilot overtime and productivity, travel and land transportation expenses which could fluctuate to a certain degree with an increase or decrease in traffic. At this assignment level, these variable expenses may represent up to 70% of incremental or shortage in the pilotage revenues. The increase or decrease in pilotage revenue will directly impact the operating surplus or deficit of the Authority.

Applying this reasoning of revenue to the cost of operations as forecasted for 2015 based on 7,000 assignments, it can be stated that the pilotage revenue, operating expenses and the surplus or deficit of the Authority could vary as follows:

<u>Percentage Variation in Pilotage Assignments</u>	<u>Variation in Pilotage Revenue</u>	<u>Variation in Operating Expenses</u>	<u>Resulting Change to Surplus or Deficit</u>
+2%	\$ 500,000	\$ 315,000	\$ 185,000
-2%	\$ (500,000)	\$ (285,000)	\$ (215,000)
+5%	\$ 1,240,000	\$ 850,000	\$ 390,000
-5%	\$ (1,235,000)	\$ (735,000)	\$ (500,000)

* A sensitivity analysis cannot be completed for any traffic fluctuations greater than 5% as the results would be skewed given the pilot numbers would need to be re-evaluated.

2014 ACTUAL VS. 2014 FORECAST

Pilotage Revenue and Surcharge

The \$3,200,000 increase is driven in part by \$2,500,000 due to an 11.0% increase in assignments vs. forecast (739 being 7,462 vs. 6,723 as well as \$700,000 of incremental revenue generated by higher double pilotage and delays, detention and cancellations.

Pilotage Overtime, Productivity & Benefits, Travel, Pilot Boat and Land Transportation

The \$3,200,000 increase in these expenses is primarily driven as a means to service the incremental assignments generating the increase in revenue noted above.

2015 FORECAST VS. 2015 BUDGET

Pilotage Revenue

The \$2,500,000 increase is driven in part by \$1,600,000, a 7.2% increase in assignments vs. budget (469 being 7,000 vs. 6,531) and \$800,000 due to year-to-date incremental revenue generated by delays, detention, over carry and cancellations resulting from the severe ice conditions impacting the April traffic.

Other Revenue

The \$100,000 increase is mainly driven by a cost recovery agreement with the Laurentian Pilotage Authority and the St. Lawrence Seaway Management.

Apprentice-Pilot Wages

The \$300,000 increase is driven by the Authority's decision to hire eight (8) new apprentice-pilots based on its reassessment of the pilot succession planning strategy and to increase pilot numbers as a means to better manage the operations and reduce the delays due to shortage of pilots in the future. Only three (3) apprentice-pilots were planned in the 2015 budget.

Pilotage Overtime, Productivity & Benefits, Travel, Pilot Boat and Land Transportation

The \$1,900,000 increase in these expenses is primarily driven as a means to service the incremental assignments generating the increase in revenue noted above.

Pilot Transfer Charges

The \$300,000 of pilot transfer services is a new and unexpected operational cost that was not known last summer when the 2015-2019 Corporate Plan was prepared. As the Authority must ensure that its pilots can board and disembark the vessels in a safe and secure manner, the service has been contracted out to third party service providers.

13. BORROWING PLAN AND INVESTMENT FRAMEWORK

13.1 BORROWING PLAN

Prior to 2013, the Authority had problems meeting its cash flow commitments during the non-navigation season and in the early months of the navigation season when traffic volumes were lower and when the inflows of cash from its accounts receivables took over a month to be collected. The Authority's navigation season usually starts in the last week of March. The critical months are from February to June.

The Minister of Finance has approved for 2015 for the Authority to borrow up to \$3 million from its Banker, the Canadian Imperial Bank of Commerce (CIBC), to bridge any cash flow shortfall. In 2014, the Authority effectively managed its cash flow position in 2015 as the line of credit was not used (compared to 2014 when it only used \$202,000 of its available line of credit, and for only 14 days during the period from the last week of April until its full repayment by mid May 2014). The following chart illustrates the focused attention to improve the Authority's cash flow position over the years as well as demonstrate its capabilities to develop financing strategies (i.e. working with its

customers to implement appropriate and reasonable tariff rate strategies) to course correct and re-align its financial position.

Historical Usage of Line of Credit	2015	2014	2013	2012	2011	2010	2009
Highest weekly use of line of credit	\$ -	\$202,000	\$664,000	\$2,450,000	\$1,569,000	\$3,970,000	\$ 2,295,000
# of weeks operating on line of credit	0	2	13	27	20	43	50
Timing of line of credit fully paid	Not used	9-May-14	14-Jun-13	27-Jul-12	19-Aug-11	29-Oct-10	Did not pay off

As the Authority continues to actively monitor its cash flow profile and its cash flow projections, it does not anticipate an immediate need to utilize the line of credit in 2016 nor for the remainder of the planning period.

Rationale for the \$3,000,000 Line of Credit Limit

Although the Authority does not foresee an immediate need to utilize its available line of credit, the \$3,000,000 line of credit is an important part of the Authority's business strategies given the seasonal nature of its business as it ensures funds are available to even out cash flow during fluctuations in traffic over the course of the navigation season.

The Authority currently has a positive cash flow profile, but its access to a source of funds is essential as to allow management to focus on effective and efficient pilotage services instead of diverting its attention to cash flow monitoring. As traffic forecasting for the following navigation season is an inherent risk to the Authority's business, the Authority must have access to a line of credit to protect itself during unexpected important decreases in traffic until it can reposition itself. As part of the banking agreement with its banker, the CIBC, the Authority pays prime rate on its line of credit. This borrowing requirement is an integral part of the Authority's cash management strategy.

BORROWING PLAN SUMMARY

Millions of \$	2015	2016	2017	2018	2019
Operating Line of Credit	\$3	\$3	\$3	\$3	\$3
Capital Loans or Line of Credit	-	-	-	-	-
Capitalized Leases	-	-	-	-	-
Total Borrowings	\$3	\$3	\$3	\$3	\$3

The current 2015 \$3,000,000 is the approved borrowing limit fixed by the Governor in Council, pursuant to Section 36 of the *Pilotage Act*.

The Authority's current accumulated deficit is financed by the accrued employee future benefits payable as indicated on the Statement of Financial Position.

The Authority, therefore, requests authorization from the Department of Finance to borrow \$3,000,000 in 2016 pursuant to Section 127(3) of the FAA.

13.2 INVESTMENT STRATEGY

The *Pilotage Act* in Section 37 allows the Authority, with the approval of the Minister of Finance, to invest in bonds or other obligations guaranteed by Her Majesty in right of Canada or any Province, or any Municipality in Canada, any moneys not immediately required for the purposes of the Authority.

The Authority requested and received since 1996 formal approval from the Minister of Finance to invest sums of money for any extended period of time. The Authority has historically invested surplus money in short-term bonds, which on average have very low returns.

The Authority consulted with the bank and investment experts and has received a list of typical investment instruments that could be purchased to maximize returns while at the same time virtually eliminating any type of risk. The investment instruments the Authority is planning on purchasing for short-term and long-term basis (max. of 10 years) are the following:

- (i) Government of Canada Treasury Bill, Strip Bonds and coupons.
- (ii) Provincial Treasury Bonds guaranteed by the Provincial Governments.
- (iii) Any other instrument guaranteed by the Government of Canada or Provincial Governments that might be introduced during this planning period.

All of the above instruments are guaranteed by either the Federal Government or by Provincial Governments and are extensively traded therefore they can be liquidated before their maturity dates without incurring a penalty.

The Authority plans on investing its surplus funds for periods ranging from one (1) to two (2) years until the future employee benefits are paid. The Authority expects that it can only earn an average, given the current economic conditions, of a return just slightly over 1.0% on these funds.

Given that an important portion of cash inflow is received between September and December and given the Authority's significant cash outflows in January the following year, the Authority cannot aggressively invest in instruments that mature beyond February.

The Authority, therefore, requests from the Department of Finance approval to invest in bonds or other obligations guaranteed by Her Majesty in right of Canada of any Province, or any Municipality in Canada, any monies not immediately required for the purpose of the Authority. This request is made to satisfy the requirements of Section 37 of the *Pilotage Act*.

APPENDIX 1

# of years	Year	Description of tariff adjustment	Tariff Increase (Decrease)	Tariff Surcharge Inc/(Dec)	Consumer price index	Pilotage Assignments	Net Income (Loss) (000's)	Accumulated Surplus (deficit) (000's)
1	1995	No tariff increase	0%		1.8%	6,091	1,342	2,918
2	1996	No tariff increase	0%		2.1%	6,903	1,016	3,934
3	1997	No tariff increase	0%		1.3%	7,192	1,210	5,144
4	1998	No tariff increase	0%		1.3%	9,085	1,701	6,845
5	1999	March 1999: 5% tariff reduction in Canadian districts. It represented a 3% overall reduction.	-3%		1.4%	8,108	(353)	6,492
6	2000	March 2000: 5% tariff reduction maintained in Canadian districts. It represented a 3% overall reduction.	-3%		1.8%	8,605	(1,093)	5,399
7	2001	No tariff increase	0%		1.6%	6,916	(2,276)	3,123
8	2002	March 2002: Tariff increase of 5% in Cornwall and Lake Ontario Districts only. It represented a 3% overall increase.	3%		2.7%	6,581	(1,560)	1,563
	2002	November 2002: Increase of 11% in International District # 2 (above canal) only. It represented a 1% overall increase.	1%					
9	2003	March 2003: Increase of 5% in Cornwall and Lake Ontario Districts only. It represented a 3% overall increase.	3%		2.0%	5,737	(2,639)	(1,076)
	2003	July 2003: 4.5% overall tariff increase.	4.5%					
10	2004	April 2004: 8% overall tariff increase.	8%		2.2%	6,398	(2,082)	(3,158)
	2004	September 2004: 7% overall tariff increase.	7%					
11	2005	April 2005: 5.5% overall tariff increase.	5.5%					
	2005	June 2005: Elimination of Currency Equalization Factor (CEF) calculation in international districts (District # 1, Lake Ontario and International district # 2 & 3). Tariff adjustment of 17.5%. Not seen as a tariff increase.	0%		2.6%	6,443	(833)	(3,991)
12	2006	June 2006: 2.5% overall tariff increase and an 8% increase in Class 1 vessels.	2.5%		1.7%	7,331	321	(3,670)
13	2007	January 2007: 2.5% overall tariff increase and a 7% increase in Class 1 vessels.	2.5%		2.2%	7,177	262	(3,408)
14	2008	April 28, 2008: 4% overall tariff increase. (Different % increase in different districts); introduction of the temporary surcharge.	4.0%	2.0%	2.4%	5,989	(237)	(3,645)
15	2009	March 31, 2009: 4% overall tariff increase and increase in the temporary surcharge from 2% to 6%.	4.0%	4.0%	0.3%	4,468	(2,063)	(5,708)
	2009	August 18, 2009: Increase in the temporary surcharge from 6% to 15%.	0.0%	9.0%				
16	2010	June 1, 2010 - Tariff increase of 15% in Lake Ontario, 30% increase in Port of Churchill, 1.5% increase in all other districts and introduction of vessel class 5	5.5%	0.0%	1.9%	6,059	2,013	(3,695)
17	2011	Navigation season - 3% overall tariff increase and a reduction of the temporary surcharge from 15% to 12% and the repeal of class 5 vessel class.	3.0%	-3.0%	2.8%	6,389	654	(3,041)
18	2012	Navigation season - equivalent of 2% tariff increase (Cornwall district 4% increase, International district #1 no increase, Lake Ontario district and Port of Churchill 2% increase, International district #2 & 3 3% increase) and maintain of the temporary surcharge at 12%.	2.0%	0.0%	1.5%	6,358	377	(2,664)
19	2013	Navigation season - equivalent of 2.5% tariff increase and maintain of the temporary surcharge at 12%.	2.5%	0.0%	1.8%	6,403	900	(1,764)
20	2014	Navigation season - 2.5% tariff increase and maintain of the temporary surcharge at 12%.	2.5%	0.0%	1.0%	7,462	1,336	(428)
21	2015	Navigation season - 1.5% tariff increase and reduction of the surcharge to 11%.	1.5%	-1.0%	2.0%	7,000	428	-
22	2016	Navigation season - 1.5% tariff increase and increase of the surcharge to 12%.	1.5%	1.0%	2.0%	6,700	48	48

APPENDIX 2

GREAT LAKES PILOTAGE AUTHORITY
CORPORATE PLAN
STATEMENT OF PILOT NUMBERS

<u>CORNWALL DISTRICT</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	17	16	18	21	22	21
Reductions	(1)	0	0	0	(2)	0
Increases	0	2	3	1	1	2
End of Year	16	18	21	22	21	23
<i>Apprentice-Pilots</i>						
Start of Year	1	2	3	1	1	2
Reductions	(1)	(2)	(3)	(1)	(1)	(2)
Increases	2	3	1	1	2	1
End of Year	2	3	1	1	2	1
<i>Part Time Contract Employees</i>						
Start of Year	2	2	1	1	0	0
Reductions	0	(1)	0	(1)	(1)	0
Increases	0	0	0	0	1	0
End of Year	2	1	1	0	0	0

<u>LAKE ONTARIO DISTRICT</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	6	5	5	6	6	7
Reductions	(1)	(2)	0	(1)	0	(1)
Increases	0	2	1	1	1	1
End of Year	5	5	6	6	7	7
<i>Apprentice-Pilots</i>						
Start of Year	0	2	1	1	1	1
Reductions	0	(2)	(1)	(1)	(1)	(1)
Increases	2	1	1	1	1	0
End of Year	2	1	1	1	1	0
<i>Part Time Contract Employees</i>						
Start of Year	0	0	1	1	2	2
Reductions	0	0	0	0	0	0
Increases	0	1	0	1	0	0
End of Year	0	1	1	2	2	2

<u>DISTRICT 3</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	3	3	3	4	4	4
Reductions	0	(1)	0	0	0	0
Increases	0	1	1	0	0	0
End of Year	3	3	4	4	4	4
<i>Apprentice-Pilots</i>						
Start of Year	0	1	1	0	0	0
Reductions	0	(1)	(1)	0	0	0
Increases	1	1	0	0	0	0
End of Year	1	1	0	0	0	0
<i>Part Time Contract Employees</i>						
Start of Year	0	0	1	1	1	0
Reductions	0	0	0	0	(1)	0
Increases	0	1	0	0	0	0
End of Year	0	1	1	1	0	0

<u>DISTRICT 1</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	7	5	6	6	6	6
Reductions	(2)	(1)	0	0	0	0
Increases	0	2	0	0	0	2
End of Year	5	6	6	6	6	8
<i>Apprentice-Pilots</i>						
Start of Year	0	1	0	0	0	2
Reductions	0	(2)	0	0	0	(2)
Increases	1	1	0	0	2	1
End of Year	1	0	0	0	2	1
<i>Part Time Contract Employees</i>						
Start of Year	0	2	3	3	3	3
Reductions	0	0	0	0	0	(1)
Increases	2	1	0	0	0	0
End of Year	2	3	3	3	3	2

<u>DISTRICT 2</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	20	20	20	20	20	21
Reductions	0	(2)	(2)	(2)	(1)	(1)
Increases	0	2	2	2	2	2
End of Year	20	20	20	20	21	22
<i>Apprentice-Pilots</i>						
Start of Year	0	2	2	2	2	2
Reductions	0	(2)	(2)	(2)	(2)	(2)
Increases	2	2	2	2	2	0
End of Year	2	2	2	2	2	0
<i>Part Time Contract Employees</i>						
Start of Year	2	2	2	2	3	3
Reductions	0	(1)	0	0	(1)	0
Increases	0	1	0	1	1	0
End of Year	2	2	2	3	3	3

<u>HEADCOUNT ASSUMPTIONS</u>						
	FORECAST 2015	BUDGET 2016	BUDGET 2017	BUDGET 2018	BUDGET 2019	BUDGET 2020
<i>Pilots</i>						
Start of Year	53	49	52	57	58	59
Reductions	(4)	(6)	(2)	(3)	(3)	(2)
Increases	0	9	7	4	4	7
End of Year	49	52	57	58	59	64
<i>Apprentice-Pilots</i>						
Start of Year	1	8	7	4	4	7
Reductions	(1)	(9)	(7)	(4)	(4)	(7)
Increases	8	8	4	4	7	2
End of Year	8	7	4	4	7	2
<i>Part Time Contract Employees</i>						
Start of Year	4	6	8	8	9	8
Reductions	0	(2)	0	(1)	(3)	(1)
Increases	2	4	0	2	2	0
End of Year	6	8	8	9	8	7