Atlantic Pilotage Authority
Administration de Pilotage de l'Atlantique

910- 2000 BARRINGTON STREET
HALIFAX, NS B3J 3K1

SUMMARY OF

2010 – 2014

CORPORATE PLAN

Canada

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

EXECUTIVE SUMMARY

Background

Throughout history, the diverse and challenging coastline and waters of Atlantic Canada have defined the character and development of the region. Marine pilots have played a major role in this development in the past, and continue to do so today.

The Atlantic Pilotage Authority (APA) provides a valuable and necessary service to the marine community in Atlantic Canada. The highly skilled marine pilots employed by the APA make a vital contribution to the protection of the environment, to safeguarding the lives of mariners, and to preserving and promoting the economic wellbeing of ports in Atlantic Canada.

While modern electronic equipment and navigational aids have changed the way ships are operated at sea, the employment of a marine pilot with extensive local knowledge and expert ship-handling skills is as essential as ever to safely enter harbours and ports and efficiently put ships alongside their berths. Ships have become larger and more complex, while the number of crewmembers on the ships has decreased. In today's intensely competitive world, there are increasing demands for ships to operate in more severe weather conditions than in the past. A reliable and responsible marine pilotage system plays a significant role in allowing Canadian business to remain competitive in the global marketplace.

A great variety of vessel types and sizes continue to call at ports within the Atlantic Region. The safety record maintained by the Atlantic Pilotage Authority speaks well of the professionalism and commitment of APA pilots. The focus of the Authority continues to be to meet the requirements of the customers in each port at a reasonable cost, while remaining financially self-sufficient.

Summary

Operating Budget

The Authority will operate in a profitable position in 2009, although the return will not be at the level budgeted for the year. An unexpected downturn in activity in Placentia Bay has been the primary reason for the decline, as the oil refinery in that port was shut down entirely for more than two months. A shutdown was anticipated, but it had been expected that it would be relatively short and that some production would continue during this period. The following statement illustrates the results of 2008, projected results in 2009, and the budget for 2010- 2014.

STATEMENT OF OPERATIONS

	ACTUAL 2008	OUTLOOK 2009	BUDGET 2010	2011	PLAN 2012	2013	2014
TOTAL INCOME	17,956	19,445	20,942	21,687	22,340	23,026	23,742
TOTAL EXPENSES	18,718	18,464	19,301	20,005	20,761	21,357	21,971
NET (LOSS) INCOME	$ (762)	$ 981	$ 1,641	$ 1,682	$ 1,579	$ 1,669	$ 1,771

While the results have been disappointing, the measures taken by the Authority in establishing an improved tariff structure for 2009 have been successful in preventing a more serious financial situation. The tariff amendments introduced for 2009 have allowed the Authority to weather the recession of 2008-2009 in a much better financial condition than would have been previously possible. In particular, the implementation of minimum charges in those areas that did not have them, and increases in existing minimum charges in other areas, was instrumental in achieving a positive result for the year.

For 2010, the APA has once again reviewed the tariff structure with a view to removing inequities and making the tariff fair for all customers. The emphasis in this review is to implement a gross tonnage charge that will act as an alternative to the long established unit charge. It has become obvious over the past few years that as new generations of ships are built, some of the traditional measurements no longer give a fair representation of the capacity of the ship to earn revenue. This is particularly evident with cruise ships, where in many cases the newer generations of vessels, although much larger in size than preceding generations, have a much smaller unit measurement. By basing the variable charge on a formula that considers the greater of the unit charge or a gross tonnage charge, the APA is attempting to address these anomalies. A further initiative that is being implemented for 2010 is a variable fuel charge for those ports in which the APA operates its own pilot boats. As a result of consultations with customers, the APA will introduce a variable fuel price based on the actual fuel costs, and no longer estimate a fuel cost in the basic tariff charge in those ports. In some ports, there will be tariff increases in an effort to minimize cross subsidization among ports. In all, the tariff amendments will affect 10 of the 17 compulsory ports in 2010. These amendments will result in an overall increase in pilotage revenue of 6.17% in 2010, with a projected rate of return expected to be 6.23% of revenue before factoring in the temporary pilot boat surcharge. When the pilot boat surcharge is included, the rate of return increases to 8.0% of revenue. The Authority has reviewed the service requirements of customers in each major port to determine whether economies could be achieved by reducing the number or availability of pilots and pilot boats. The customers have indicated that service is paramount, and they have requested that the workforce be maintained to prevent an erosion in the quality of service. The APA has taken the requirements of the customers into account in determining its tariff requirements.

The APA consulted widely with the shipping industry and stakeholders during the year on both operational and financial issues. Consultation regarding the proposed tariff increases has taken place with specific port committees, port authorities, and stakeholders, as well as with the Shipping Federation of Canada and the Canadian Shipowners Association. The customers represented by the Shipping Federation (Canadian companies that own, operate, or act as agents for some 300 steamship lines throughout the world) contribute between 75% and 80% of our pilotage activity and revenue.

The Authority is seeking approval for the continuation of the $1.5 million operating line of credit for 2010.

Capital Budget

The Authority has a limited Capital Budget for 2010, with a total of $275 thousand projected to be expended. The current pilot boat fleet and infrastructure will attract most of this spending, with a smaller amount being spent on computer systems and software.

Three of the APA pilot vessels are in their fourth decade of operational duty, and three are in their third decade. Two of the oldest boats are based in Halifax, while the third older boat is based in Saint John. While the boats are maintained to a high standard, they are reaching a point where it is no longer feasible to rely on them to be primary vessels in a major port. The staged replacement of these older boats was the rationale for the pilot boat replacement program, which began several years ago.

The pilot boat replacement program produced two vessels for the Placentia Bay area in 2007, the culmination of years of preparatory work. The program has been continued with the emphasis on providing new boats for Saint John, NB, and Halifax, NS, by 2012. To accomplish this goal, the APA completed a detailed design for the new vessels in 2009. The new boats will be sister ships, but will have a different design than that of the two new boats completed for the Placentia Bay, NL area in 2007. The Placentia Bay boats are ice strengthened, and are larger and heavier boats than required at the other two ports. However, the two new vessels will be as effective in terms of maneuverability as the Placentia Bay boats, and will be reliable modern platforms for the Saint John and Halifax pilots. They will be fitted with the latest electronic equipment and safety features. There are many advantages in having identical vessels, including savings in the design cost, greater economy in maintaining spare parts, and potential savings at the shipyard in ordering two vessels at the same time. It is anticipated that the new boats will cost approximately $2.5 million each, with a further $500 thousand required for project management and spare machinery.

The pilot boat replacement program has absorbed most of the capital spending in the recent past. There are no new capital expenditures for 2010 for this program, but construction of the first of the two new boats is expected to take place in 2011. These plans are reflected in the forecasts for 2011 and 2012. Please see Appendix B for more information on pilot boats.

New Compulsory Pilotage Areas

It is the APA's intention to create a new compulsory pilotage area for the water approaches to the St. Croix River in New Brunswick, pursuant to a Pilotage Risk Management Methodology (PRMM) study conducted in 2006. The process of amending regulations to create the new compulsory pilotage area has been initiated, but will require an international agreement as it encompasses international waters. This situation has been referred to the Marine Safety branch of Transport Canada and Foreign Affairs and International Trade Canada (DFAIT) for assistance. Because of the limited amount of traffic in this area, it is not expected to have a significant financial or operational impact on the Authority. The Authority will not have employee pilots in this area, and will not be providing pilot boat service. Due to the uncertainty regarding the timing of the regulatory amendments and the minimal overall impact on the APA, this area has not been included in the projections.

The Authority intends to implement an omnibus PRMM study during 2010 to determine if active non-compulsory ports in the Atlantic region should become compulsory pilotage ports. The cost of undertaking this study has been included in the projections.

Corporate Governance

Several years ago, the APA was the first Pilotage Authority in Canada to carry out an internal audit. During 2009, the internal auditors presented a review of the internal controls to the Audit Committee. Before the end of 2009, a further internal audit project will be selected by the Audit Committee and assigned to an independent outside party.

The Board and management of the APA continued the Directional Planning process that was initiated in 2007. This process provides long term planning, and is reviewed and updated each year. The fundamental principles of the Directional Plan have been incorporated into this Corporate Plan.

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

The Board of the Authority continues its mandate of ensuring good corporate governance. During 2009, the Audit, Pilot Boat, Finance, Administration, and Planning (FAP), and Executive Committees were active, and the recommendations from these committees have been instrumental in reaching sound decisions and providing essential strategic direction.

The Board has outlined strategic directions in the following areas:

- Governance;
- Quality of Service;
- Safety of the Environment;
- Financial self-sufficiency;
- Technology;
- Human Resources; and
- Completion of the CTA recommendations.

Continuing focus upon these strategies enables the Atlantic Pilotage Authority to support and sustain crucial pilotage service within the Atlantic Region.

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

MANDATE, MISSION, VISION

MANDATE: The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and
administer, in the interest of safety, an efficient pilotage service within the Atlantic region.

MISSION: The Authority will accomplish this by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of the industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

VISION: To continue to provide an effective pilotage service throughout the Atlantic Region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

CORPORATE PROFILE

BACKGROUND

The Atlantic Pilotage Authority was established February 1, 1972, pursuant to the *Pilotage Act*.

The Authority is a Crown Corporation as defined by the *Financial Administration Act* (FAA) and is listed in Schedule III, Part I to that Act. The Authority is not an agent of the Crown.

The Board of the Authority consists of a part-time Chairperson and not more than six other members, all appointed by the Governor in Council.

The Chief Executive Officer has the direction and control of the day-to-day business of the Authority. The Authority is administered and controlled at its headquarters, which is located in Halifax, Nova Scotia.

POWERS

To carry out its responsibilities, the Authority has established regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, in order to:

- ⇨ Establish compulsory pilotage areas;
- ⇨ Prescribe ships or classes of ships subject to compulsory pilotage;
- ⇨ Prescribe classes of pilot licences and pilotage certificates that may be issued;
- ⇨ Prescribe pilotage charges payable to the Authority for pilotage services.

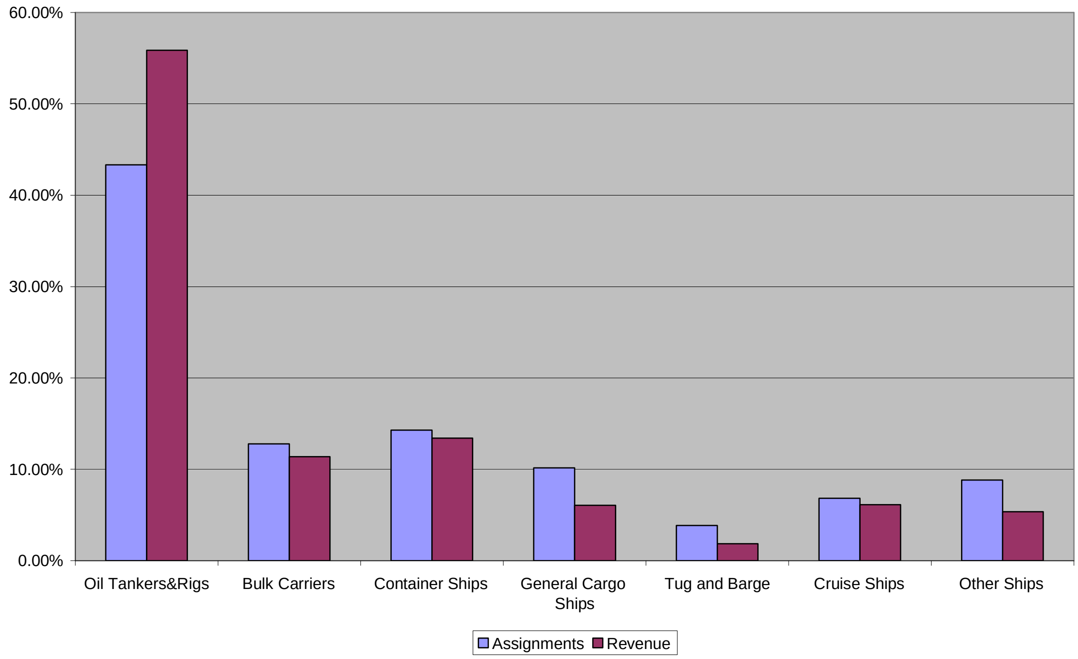
In addition, the Authority is empowered under the *Pilotage Act* to:

- ⇨ Employ such officers and employees, including licensed pilots and apprentice pilots, as are required for operations;
- ⇨ Establish internal regulations for managing its operation;
- ⇨ Purchase, lease or otherwise acquire land, building, pilot boats and other equipment
and assets deemed necessary, and to sell any assets thus acquired;
- ⇨ Borrow, if necessary, in order to settle the Authority's expenses.

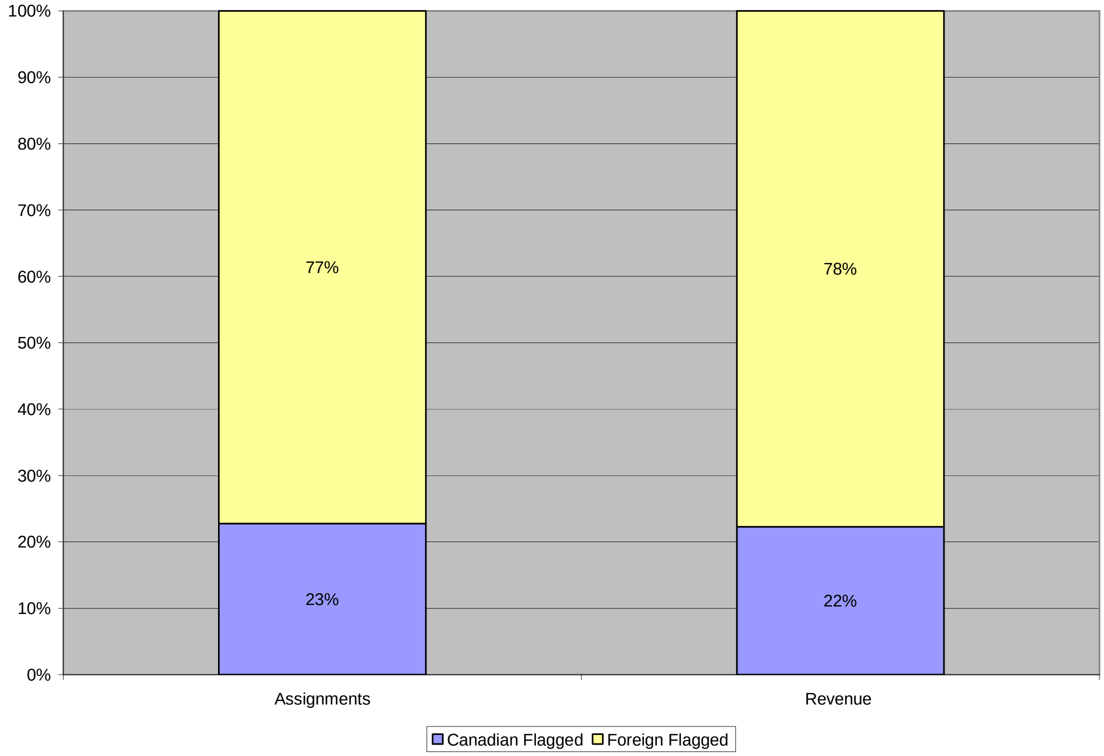
REVENUE AND TRAFFIC PATTERNS

The Authority provides pilotage service in 17 compulsory areas: Halifax, Sydney, Bras d'Or, Canso, and Pugwash in Nova Scotia; Saint John, Miramichi, and Restigouche in New Brunswick; St. John's, Holyrood, Placentia Bay, Humber Arm, Stephenville, Bay of Exploits, and Voisey's Bay in Newfoundland and Labrador; Charlottetown and Confederation Bridge in Prince Edward Island. Pilotage service is provided to many non-compulsory ports upon demand. Total number of estimated assignments for 2009 is expected to be 8,871. Voisey's Bay Approaches in Labrador became compulsory in May 2008. The St. Croix River area remains in the regulatory process and has not been included in the projections. This area will not have APA employee pilots or APA pilot boats, nor is it expected to have a level of activity that will have any significant impact on revenues.

The oil industry accounts for approximately 43% of the Authority's overall assignments, and contributes 56% of the overall revenue, based on current trends. Cruise ships, while a high profile part of the industry, account for approximately 7% of assignments and 6% of revenues. The following chart indicates the overall contribution by different sectors.



Foreign flagged vessels provide the great majority of the Authority's business. This fact has become even more pronounced after offshore supply vessels were exempted in 2006, as these vessels are almost entirely Canadian flagged ships. The current trend is for foreign vessels to represent approximately 77% of assignments, and approximately 78% of revenue. The following chart indicates the contribution of Canadian and foreign flagged vessels to both assignment numbers and revenues.



DISPATCH

The Authority provides dispatching services throughout its region from a dispatch centre located at its head office. The total cost of the dispatch operation in 2010 will be approximately $576k and this amount has been included in the budget. The dispatching service provides significant information and added value to pilots, customers, port authorities, and management through controlled access web pages established for each group. The web pages are continuously updated from the Authority's Dispatch and Billing System as the dispatcher enters data. Customers and pilots are able to contact dispatch by telephone, e-mail, facsimile, VHF radio, and telex. As the service evolves, it continues to increase the efficiency of the Authority’s operations while adding value for customers and employees. The APA has developed the capability to monitor vessel movements in the major ports and their approaches through a computer program utilizing the Automatic Identification System (AIS). The AIS is required on all commercial vessels, and the APA has also installed transmitters and receivers on its pilot boats.

PILOT BOAT SERVICE CONTRACTS

The APA has three models for pilot boat operations. In most ports, a contractor provides both the boat and the crew. In two of the major ports, Halifax and Saint John, the Authority owns and operates pilot boats, with the crew being employees of the APA. In Placentia Bay and Sydney, the Authority owns the vessels, with the manning contracted out to a local company. Please see Appendix B for more information on APA owned pilot boats.

The Authority prefers that all pilot boat contracts be paid on a per trip basis. This avoids a situation where a guaranteed annual amount of money is paid that has no relation to the number of assignments and revenue in that port. This principle is followed with a few minor exceptions to address local issues in a port.

Pilot boat costs are made up of those incurred by the Authority in operating its own vessels, those paid to a contractor to provide a pilot boat service, and fees paid on an ad hoc basis to local entrepreneurs in minor non-compulsory ports where it is not feasible to have a formal pilot boat contract. The Authority attempts to use its own boats in the most efficient manner possible and to control costs where possible. The costs in ports in which a private contractor provides service will fluctuate based on the volume of traffic in the port.

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

Statement of Human Resources
2007-2014

STATEMENT OF MANPOWER RESOURCES
2007-2014

	ACTUAL 2007	ACTUAL 2008	OUTLOOK 2009	BUDGET 2010	PLAN 2011	2012	2013	2014
ADMINISTRATION								
EXECUTIVE OFFICERS	3	3	3	3	3	3	3	3
SUPPORT	7	7	7	7	7	7	7	7
	10	10	10	10	10	10	10	10
OPERATIONS								
PILOTS	48	44	44	44	44	44	44	44
PILOT BOAT CREWS	13	14	14	14	14	14	14	14
DISPATCHERS	6	6	6	6	6	6	6	6
ENTREPRENEURIAL PILOTS	9	13	13	13	13	13	13	13
	76	77	77	77	77	77	77	77
TOTAL MANPOWER RESOURCES	**86**	**87**	**87**	**87**	**87**	**87**	**87**	**87**

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

Statement of Operations
Years Ended December 31
(000's)

	ACTUAL 2008	OUTLOOK 2009	BUDGET 2010	PLAN 2011	2012	2013	2014
INCOME							
PILOTAGE CHARGES	$ 17,334	$ 18,918	$ 20,509	$ 21,400	$ 22,200	$ 22,866	$ 23,552
NEW PILOT BOAT SURCHARGE	167	363	363	215	-	-	-
INTEREST & OTHERS	455	164	70	72	140	160	190
TOTAL INCOME	17,956	19,445	20,942	21,687	22,340	23,026	23,742
EXPENSES							
PILOTS FEES, SALARIES, AND BENEFITS	8,940	8,791	9,211	9,444	9,671	9,961	10,260
PILOT BOATS	5,441	5,526	5,527	5,686	5,861	6,037	6,218
STAFF SALARIES AND BENEFITS	1,542	1,489	1,530	1,598	1,667	1,734	1,803
TRANSPORTATION	749	708	785	802	820	845	870
PROFESSIONAL AND SPECIAL SERVICES	367	332	470	483	497	512	527
TRAINING	235	125	240	250	225	230	235
RENTALS	250	268	282	290	298	307	316
COMMUNICATION	115	120	130	135	138	141	144
UTILITIES, MATERIALS, AND SUPPLIES	268	284	310	319	327	337	347
AMORTIZATION	593	610	616	729	842	859	876
FINANCING COSTS	218	211	200	269	415	394	375
TOTAL EXPENSES	18,718	18,464	19,301	20,005	20,761	21,357	21,971
NET (LOSS) INCOME	$ (762)	$ 981	$ 1,641	$ 1,682	$ 1,579	$ 1,669	$ 1,771

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

Balance Sheet
Years Ended December 31
(000's)

	ACTUAL 2008	OUTLOOK 2009	BUDGET 2010	PLAN 2011	2012	2013	2014
ASSETS							
CURRENT							
CASH	$ -	$ 1,353	$ 2,273	$ 1,977	$ 1,343	$ 1,100	$ 1,277
ACCOUNTS RECEIVABLE	2,519	2,212	2,425	2,500	2,530	2,600	2,650
PREPAID EXPENSES	78	80	82	85	85	90	90
	2,597	3,645	4,780	4,562	3,958	3,790	4,017
INVESTMENTS	-	-	750	2,250	3,750	5,750	7,750
FIXED							
CAPITAL AT COST	12,698	13,078	13,353	16,603	19,853	20,353	20,703
LESS ACCUMULATED AMORTIZATION	4,348	4,958	5,574	6,303	7,145	8,004	8,880
	8,350	8,120	7,779	10,300	12,708	12,349	11,823
	$ 10,947	**$ 11,765**	**$ 13,309**	**$ 17,112**	**$ 20,416**	**$ 21,889**	**$ 23,590**
LIABILITIES							
CURRENT							
BANK INDEBTEDNESS	$ 71	$ -	$ -	$ -	$ -	$ -	$ -
ACCOUNTS PAYABLE	1,808	1,795	1,725	1,850	1,700	1,725	1,750
CURRENT PORTION OF BANK LOANS	216	227	239	258	396	375	567
TERMINATION BENEFITS	78	20	-	-	90	-	-
	2,173	2,042	1,964	2,108	2,186	2,100	2,317
LONG TERM							
BANK LOANS	4,056	3,829	3,590	5,332	6,819	6,444	5,877
TERMINATION BENEFITS	1,186	1,381	1,601	1,836	1,996	2,261	2,541
	5,242	5,210	5,191	7,168	8,815	8,705	8,418
TOTAL LIABILITIES	7,415	7,252	7,155	9,276	11,001	10,805	10,735
CONTRIBUTED CAPITAL AND EQUITY							
CONTRIBUTED CAPITAL	2,305	2,305	2,305	2,305	2,305	2,305	2,305
EQUITY (DEFICIT)	1,227	2,208	3,849	5,531	7,110	8,779	10,550
	3,532	4,513	6,154	7,836	9,415	11,084	12,855
	$ 10,947	**$ 11,765**	**$ 13,309**	**$ 17,112**	**$ 20,416**	**$ 21,889**	**$ 23,590**

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

Statement of Changes
Years Ended December 31
(000's)

	ACTUAL 2008	OUTLOOK 2009	BUDGET 2010	PLAN 2011	2012	2013	2014
OPERATING ACTIVITIES							
CASH PROVIDED BY (USED FOR) OPERATIONS							
NET PROFIT (LOSS) FOR YEAR	$ (762)	$ 981	$ 1,641	$ 1,682	$ 1,579	$ 1,669	$ 1,771
ITEMS NOT REQUIRING CASH							
AMORTIZATION	593	610	616	729	842	859	876
MARKET VALUE ADJUST	111	-	-	-	-	-	-
INCREASE (DECREASE) IN EMPLOYEE TERMINATION BENEFITS- SEVERANCE	15	181	220	235	250	265	280
	(43)	1,772	2,477	2,646	2,671	2,793	2,927
CASH PROVIDED BY (USED FOR) NON-CASH WORKING CAPITAL	(364)	292	(285)	47	(180)	(50)	(25)
EMPLOYEE TERMINATION BENEFIT PAYMENTS	-	(44)	(20)	-	-	(90)	-
CASH PROVIDED BY OPERATING ACTIVITIES	$ (407)	$ 2,020	$ 2,172	$ 2,693	$ 2,491	$ 2,653	$ 2,902
FINANCING ACTIVITIES							
CASH PROVIDED BY FINANCING							
LOAN RECEIVED ACTIVITIES	500	-	-	2,000	2,000	-	-
LOAN PAYMENTS	(195)	(216)	(227)	(239)	(375)	(396)	(375)
	305	(216)	(227)	1,761	1,625	(396)	(375)
INVESTING ACTIVITIES							
(INCREASE) DECREASE IN INVESTMENTS	710	-	(750)	(1,500)	(1,500)	(2,000)	(2,000)
ADDITIONS TO CAPITAL ASSETS	(927)	(380)	(275)	(3,250)	(3,250)	(500)	(350)
CASH USED FOR INVESTING ACTIVITIES	(217)	(380)	(1,025)	(4,750)	(4,750)	(2,500)	(2,350)
INCREASE IN CASH AND SHORT TERM INVESTMENT DURING THE YEAR	$ (319)	$ 1,424	$ 920	$ (296)	$ (634)	$ (243)	$ 177
CASH, BEGINNING OF YEAR	248	(71)	1,353	2,273	1,977	1,343	1,100
CASH AND INVESTMENTS, END OF YEAR	$ (71)	$ 1,353	$ 2,273	$ 1,977	$ 1,343	$ 1,100	$ 1,277

Atlantic Pilotage Authority
Summary of 2010-2014 Corporate Plan

Capital Expenditure Comparison
(000's)

	2008 PLAN	2008 ACTUAL	2009 PLAN	2009 FORECAST	2010 PLAN
PILOT BOATS					
CONSTRUCTION OR PURCHASE OF NEW BOAT	315	72	255	154	-
PILOT BOAT REFIT	100	504	100	88	60
PILOT BOAT EQUIPMENT	300	165	-		100
WHARVES AND STRUCTURES	-	103	10	75	50
COMMUNICATIONS EQUIPMENT	-	-	-		-
LEASEHOLD IMPROVEMENTS	10	-	20	10	10
COMPUTER AND OFFICE EQUIPMENT	25	16	16	15	20
SOFTWARE FOR COMPUTER PROGRAMS	50	67	50	38	35
TOTAL	**$ 800**	**$ 927**	**$ 451**	**$ 380**	**$ 275**