Marine Atlantic

2012/13 – 2016/17 Corporate Plan Summary

May 11th, 2012

Executive Summary

Marine Atlantic Inc. is tasked with fulfilling the constitutional mandate to *"maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques"*. This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada. Not only do residents and tourists use this service to travel to and from the Province, but the service is also critical to the imports and exports of the Province, and as such the service has regional and national impacts. The Corporation's sole shareholder, the Government of Canada, provides a significant amount of funding to the Corporation each year, and the operation of the Corporation must incorporate a balance between responsible allocation of public resources and supporting a sustainable national transportation system at acceptable service levels.

Marine Atlantic marked a significant milestone this year with the introduction of its new fleet, most notably the two sister ships, the MV *Blue Puttees* and MV *Highlanders*. The MV *Leif Ericson* also completed a midlife refit in spring 2011 that included renewal of many of its major mechanical systems. The fourth vessel in the Corporation's fleet, the MV *Atlantic Vision*, was repositioned as the key component of the renewal of the Argentia summer service.

During the first half of 2011/12 much of Marine Atlantic's management capacity was focused on the successful integration of the new fleet into its service in time for the peak summer season (June 15 to September 15). Bringing new ships into service is a challenging process for any ferry operator. Crews must be trained on new technologies and become familiar with the operating characteristics of the new vessels. New, vessel-specific safety systems and programs are developed, docking and loading procedures are fine-tuned, and customers adapt to the service amenities of the new vessels. This is a particular challenge given the twenty-five year service history of the two retired vessels, the MV *Caribou* and the MV *Joseph and Clara Smallwood*.

From a customer perspective, Marine Atlantic's overarching objective for summer 2011 was to achieve a customer acknowledged improvement in their experience with the service. This goal was surpassed on virtually every level. Overall customer satisfaction, which had dipped to low levels in recent years due to a lack of capacity and reliability associated with the old fleet, increased from 51% in summer 2010 to 74% in summer 2011, a dramatic improvement for any service-based organization. On-time performance also improved dramatically in summer 2011 (91 per cent) compared to summer 2010 (59 per cent). There was a corresponding improvement in the reputation of the Corporation, and the intense negative media coverage that had plagued Marine Atlantic in recent years decreased significantly.

Marine Atlantic is on track to carry a record amount of traffic again in 2011/12. While commercial related traffic increased during the year, passenger related traffic decreased compared to 2010/11, and was likely affected by the poor reputation of the service in recent years. However, the decrease was not as significant as in other segments of the transportation and tourism sectors across Atlantic Canada.

The financial performance of Marine Atlantic also continues to improve. The Corporation generated a significant operating surplus for the second year in a row, while improvements in cost recovery remain ahead of target. Utilization of fuel hedging mechanisms, the introduction of a fuel management program on the MV *Atlantic Vision*, and savings in vessel maintenance all made significant contributions to the Corporation's success in this area.

These achievements were, to a great degree, made possible by the hard work and dedication of Marine Atlantic's employees. Intense technical training of vessel deck and engine personnel, customer service training of customer-facing personnel, and the staff's overall enthusiasm about the changes taking place at the Corporation resulted in customers consistently reporting positive interaction with Marine Atlantic's employees.

The Argentia service, which is used heavily by tourists during the summer season, saw traffic volumes increase by 28 per cent in 2011 compared to 2010, partly as a result of the Corporation's very successful Shuteye marketing campaign and the replacement of the older vessel the MV *Joseph and Clara Smallwood* with the newer, more modern MV *Atlantic Vision*. Onboard revenues for the service increased significantly, and improvements made to the Argentia terminal in advance of the summer season were also well received by the Corporation's customers.

During the past year Marine Atlantic's Safety Management System (SMS) has been transformed and will serve as the foundation for an improved safety culture. The new SMS is a paperless system that incorporates improved procedures and work practices which are based upon industry best practices. The Corporation also implemented an enhanced incident and non-conformity reporting system which, together with the enhanced SMS, will allow for more timely and effective distribution and management of health and safety related information.

The second half of 2011/12 involved a significant amount of planning effort associated with a large number of transformative initiatives that will continue to support the renewal of Marine Atlantic. Included in this effort was the development of a comprehensive, multi-phased terminal redevelopment plan for the Corporation's port terminal facilities as outlined in the Corporation's Revitalization Strategy. The Plan outlines the work that is to be completed at North Sydney and Port aux Basques, as the majority of terminal redevelopment work at Argentia has already been completed.

External terminal development experts were hired to work with the Corporation's senior management team and to compile a comprehensive long term outlook that would encompass service requirements, project plans and schedules, and update cost estimates. These are based on detailed engineering assessments and current construction costs in Newfoundland and Labrador and Nova Scotia given substantial economic growth in both provinces. The Terminal Redevelopment

Plan looked at each facility in a holistic view and not each component – ramp, yard, building separately, to better identify the best way to have all the elements work together and gain efficiency.

Marine Atlantic is now entering its third phase of transformation, which is focused on business process and cultural renewal. While work will continue on building organizational capacity, renewing the Corporation's asset base and improving customer experience, a concerted effort over the planning period will be placed on improvement in areas that will increase the overall operational effectiveness and efficiency of the Corporation, most notably areas such as safety, maintenance and procurement. The Government of Canada also announced, through Budget 2012, acceptance of the Corporation's proposal under the Government's Budget 2012 savings commitments. The total savings to be realized under the Budget 2012 savings commitments will increase to $10.9 million in 2014/15 and thereafter.

The Corporation announced on January 12, 2012 that Marine Atlantic's rates would increase, effective February 13, 2012. This included a new security fee of $3.50 for adult passenger fares, an increase of 4 per cent for fares and general rates, and a $50 increase (effective April 1) to the drop trailer management fee paid by commercial customers. The fuel surcharge was continued at 21 per cent.

The Canadian Forces Appreciation Fare will be offered again in 2012/13 and the Corporation will be removing the restrictions on the number of vehicle spaces allocated for customers availing of this fare.

Organizational renewal is difficult for all organizations and takes a continual focus over a number of years, and Marine Atlantic is no different. Based on the collective aspirations of the Board, shareholder, stakeholders and management, the Corporation has undertaken a journey to become a modern and efficient ferry service providing a high level of customer service. This journey will require renewal and adjustment across the entire organization, and to map the journey the Board and management have developed a set of goals. Based on these goals, the Corporation has identified over 200 discreet projects that will facilitate renewal. These projects have been prioritized and form the basis of Marine Atlantic's planning framework.

Marine Atlantic has made significant progress on its transformation agenda. It has a new fleet and a commitment to maintaining a high level of customer experience. Areas for improvement have been identified and actions are underway to achieve the desired results and add to the overall effectiveness and efficiency of the operations of the Corporation. Enhanced metrics are being established to measure the performance of the organization, and targets and benchmarks are being refined to measure progress. Plans are being developed to facilitate a number of operational improvements, and many of these will be implemented or completed during 2012/13.

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1 Corporate Profile, Mandate and Governance

1.1 Background

When Newfoundland joined Canada in 1949, the ferry service between the Province of Newfoundland and Labrador and the mainland was accorded special constitutional status under Term 32(1) of the Terms of Union (*The Newfoundland Act,* 1949) which guarantees that Canada will "*maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles."* Marine Atlantic exists to fulfill that mandate.

Marine Atlantic was created on June 27, 1986 as a parent Crown Corporation through the *Marine Atlantic Inc. Acquisition Authorization Act*. As a Crown Corporation, Marine Atlantic is regulated under Part X of the *Financial Administration Act*. As per the Order in Council of March 12, 1987 (P.C. 1987-463), the Bilateral Agreement between Her Majesty the Queen and Marine Atlantic established the relationship between the Parties under which subsidiary operating, capital, and land lease agreements relating to the operation of specific ferry and coastal services in Atlantic Canada may be executed.[1]

Besides providing a year-round freight and passenger ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and Labrador, Marine Atlantic also operates a seasonal service (June to September), between North Sydney and Argentia, Newfoundland and Labrador.

1.2 Vision Statement

The Corporation's Vision Statement is "to achieve excellence in fulfilling the federal mandate to provide a ferry service between the mainland of Canada and the Province of Newfoundland and Labrador".

1.3 Mission Statement

The Corporation's Mission Statement is "to provide a safe, environmentally responsible and quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner".

1.4 The Board of Directors

Like all Crown corporations, Marine Atlantic was established as such an entity to allow it to operate at arm's length from its sole shareholder, the Government of Canada. While the shareholder provides policy direction and funding for the Corporation's ongoing operations, as stated in the *Financial Administration Act,* to fulfill its mandate, Marine Atlantic's Board of Directors must set the Corporation's strategic direction and organizational goals and oversee their implementation by management. Board members are appointed by the Governor in Council on the recommendation of the Minister of Transport, Infrastructure and Communities.

[1]A Bilateral Agreement was considered necessary given the fact that the Marine Atlantic Inc. Acquisition Authorization Act was merely an instrument that created the Crown Corporation. Another instrument was required to define the roles and responsibilities of the Corporation and its responsible Minister. This Bilateral Agreement replaced the Tripartite Agreement that existed between Canadian National (CN), CN Marine and Her Majesty the Queen.

The Corporation's Board of Directors is made up of 10 persons, including the President and CEO, and reports to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities. Board members are appointed by the shareholder for one to five year terms, which can be extended at the discretion of the Crown. The Board currently holds five regularly scheduled meetings annually, convening additional meetings as needed. Membership of the Board includes individuals with experience in the marine industry, accounting, law, marketing, tourism, and a broad spectrum of general business experience, all beneficial in providing Marine Atlantic with appropriate governance direction.

Three permanent Board committees function to support and advise the Board: Audit and Risk; Corporate Governance and Accountability; and Human Resources and Pension Management. The Audit and Risk Committee oversees the Corporation's standards for integrity and behaviour, financial reporting, risk assessment, internal audit and management control practices. The Corporate Governance and Accountability Committee ensures the Board has prudent and effective governance practices to create an environment of excellence. The Human Resources and Pension Management Committee oversees all aspects of the Corporation's human resources and pension plan issues.

2 Assessment of Results

Marine Atlantic achieved a number of key objectives in 2011/12 while moving ahead with many initiatives that will allow the Corporation to achieve its longer term goals. As stated in the 2011-2016 Corporate Plan, Marine Atlantic dedicated a significant amount of its resources toward integration of the new fleet into its service during the first half of the year. Not only did the integration project itself go exceedingly well, but the new fleet performed as planned and facilitated improvements in reliability, customer satisfaction and financial performance, including vast improvements to the Argentia service.

Significant improvements in safety systems and processes will pave the way for improvements in safety management and safety culture throughout the planning period. A number of large projects are slated for completion before the end of the fiscal year, including the development of Terminal Redevelopment Plans for the Corporation's two main terminals, and a significant renewal of many of the major mechanical systems of the MV *Atlantic Vision* as required by conditions of the vessel's class society certification.

2.1 Vehicle Traffic Levels

During the 2011 summer season the Corporation saw a 2.8 per cent increase in commercial traffic volumes compared to the 2010 summer season. There was a 5.3 per cent decrease in the number of passenger vehicles transported this summer which reflects similar decreases in the rest of Atlantic Canada. Early summer season travel numbers from Nova Scotia and Prince Edward Island's Confederation Bridge indicated that 'drive' statistics were down in both provinces, and national travel statistics cited by the Canadian Tourism Commission indicated that American tourists travelling by vehicle were also down. The year-end outlook for the Corporation shows a 3 per cent increase in CRV (commercial related vehicles) traffic and a 3 per cent decrease in PRV (passenger related vehicles) traffic for an increase in the total number of AEU's (Auto Equivalent Units) carried of 1 per cent as compared to the prior year.

2.2 Summer (Peak Period) On-Time Performance

Vessel on-time performance is defined as a vessel leaving port no later than 15 minutes beyond its scheduled sailing time. As shown in the chart below, vessel on-time performance increased dramatically in summer 2011.

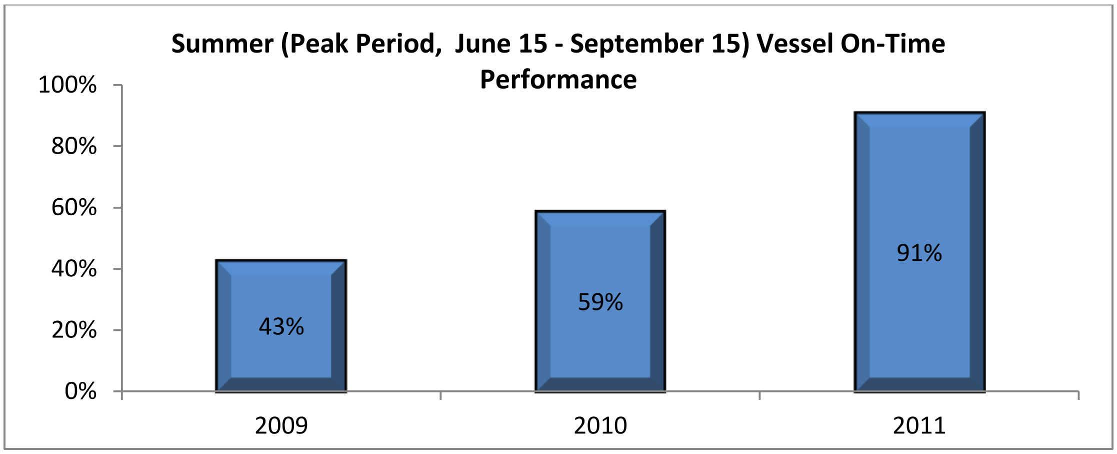

Figure 1 – Summer (Peak Period) Vessel On-Time Performance

2.3 Customer Feedback

In 2010, the Corporation initiated a new customer research program that solicits feedback from customers within two weeks of the day they travelled on one of the Corporation's vessels. As shown in the following charts, customer satisfaction has improved significantly in terms of overall scores, and in areas that had previously been rated highly by customers.

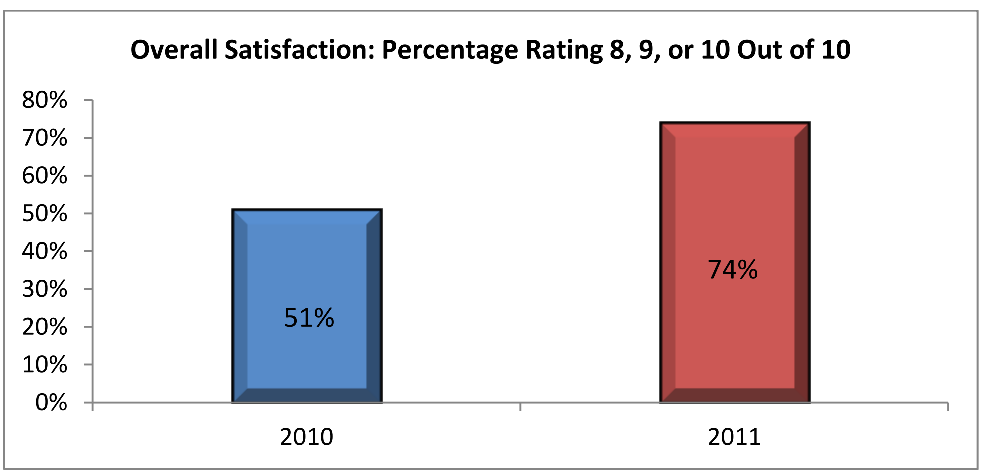

Figure 2 - Customer Survey Results 1

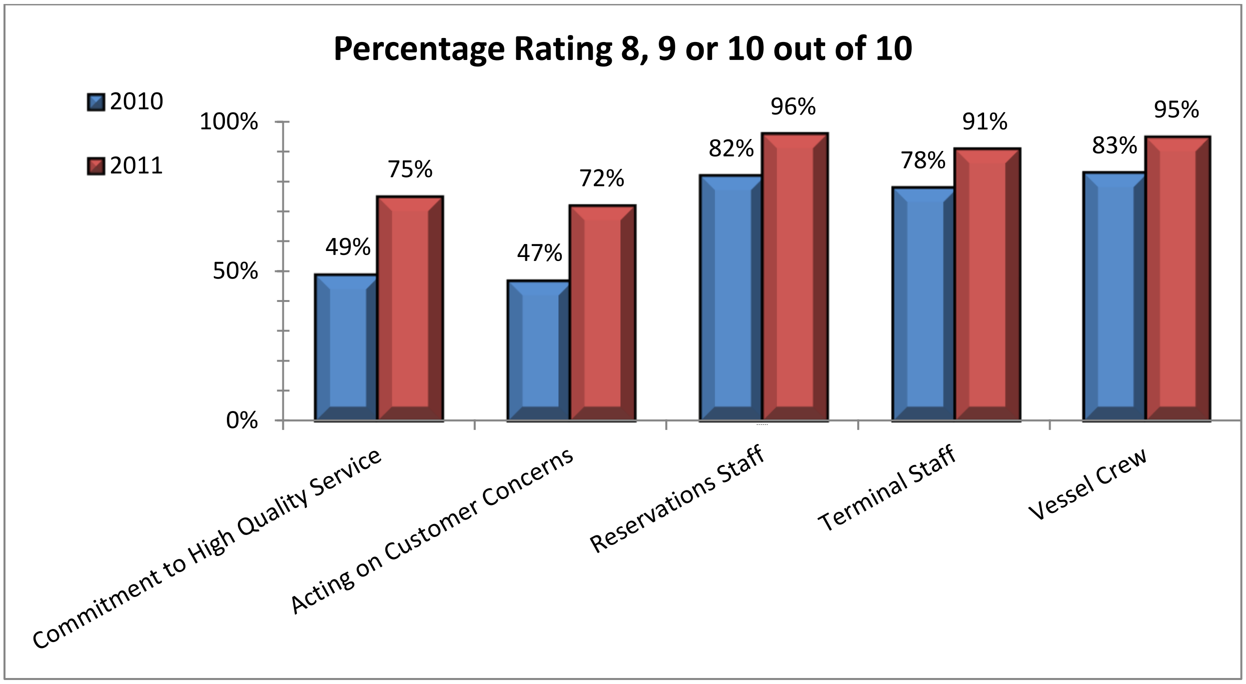

Figure 3 - Customer Survey Results 2

2.4 Safety

Marine Atlantic's Safety Management System (SMS) consists of a formalized method for systematically integrating safety and risk management into the daily operations of the company. It provides a proactive approach to managing safety by providing the organization with a structured, consistent and risk-driven method to identify and close critical safety gaps, institute safety best practices and clearly demonstrate commitment, accountability and due diligence for safety. One of the expected results is the improvement of safety practices fostering a stronger safety culture within the company.

By early fall of 2011 Marine Atlantic's SMS had undergone a complete metamorphosis resulting in a newly revitalized leading edge SMS to serve as the foundation for an improved safety culture. The modernization and renewal of Marine Atlantic's SMS reached this milestone in 2011/12 with the roll out of the new "paperless" SMS. The paperless system allows for strict document control thereby addressing a significant concern that had been identified in past audits.

Simultaneous with the launch of the new SMS, Marine Atlantic implemented an electronic enhanced incident and non-conformity reporting system known as *iTrak*. It is anticipated that this system will improve the timeliness of incident reporting throughout the Corporation and provide an efficient and effective means for the Corporation to monitor and analyze the progress of ongoing investigations. The system is not new to Marine Atlantic as *iTrak* has been successfully used by the Security Department for the past few years. To enable the expansion of the *iTrak* reporting system throughout Marine Atlantic, the software was upgraded, training materials were created, a user guide was developed and comprehensive training was offered to employees.

iTrak is an electronic incident reporting and management system with the ability to provide complete investigation management, incident tracking, reporting, risk analysis, and alerts/notifications. MAI adopted iTrak as its incident management system because of its capabilities for instant sharing of information, timely reporting, incident follow-up and investigation. Feedback from employees thus far has been great - there is clear consensus that this new system is much simpler and more efficient for incident reporting and follow-up.

The chart below indicates the key safety statistics tracked by Marine Atlantic. The number of injuries is higher than desired, and the Board of Directors has placed significant emphasis on reducing injuries. Safety is now a standing item at all Board, executive, union and management-union executive meetings. The increase in reporting of near misses is a positive sign for the Corporation and indicates that safety incidents are being taken more seriously by employees. Near misses are incidents which have the potential to affect a person's safety, damage property, and/or cause damage to the environment but which does not result in an accident. Essentially this means, a loss did not occur. Therefore, a near miss is an event where the negative outcomes of those actions have been avoided, by chance. It is unfortunate that the near miss happens, but it is absolutely the best point in time to intervene and fix the problem, before it happens again. Near miss reporting thus serves as a valuable learning tool assisting in the enhancement of workplace safety and building a pro-active versus a re-active safety culture. According to data collected by the Association of Workers' Compensation Boards of Canada, for every 300 near misses there are 29 first aid and medical aid injuries and 1 lost time incident.

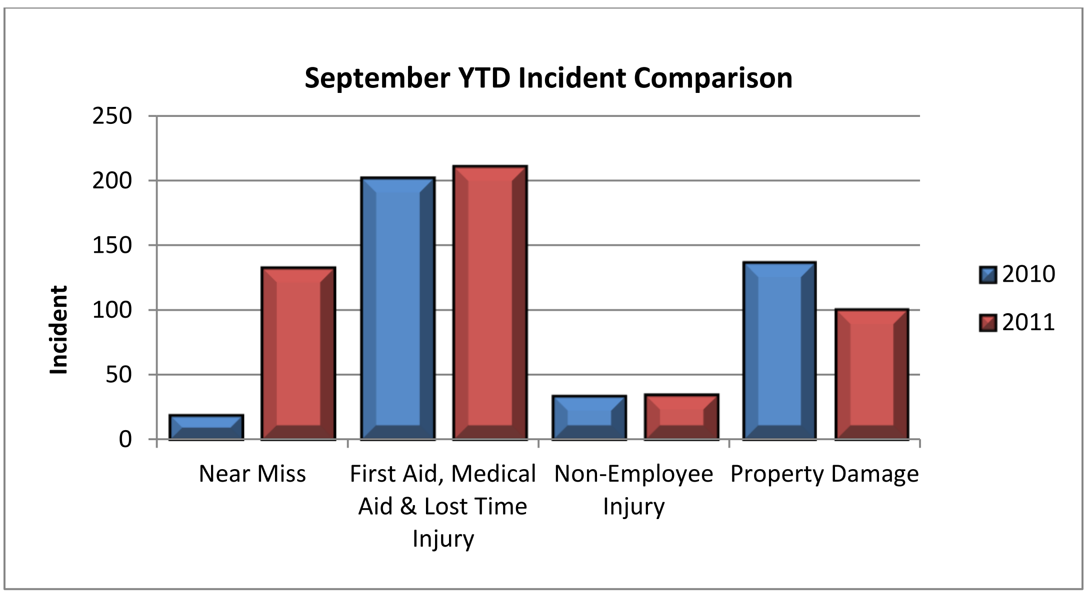

Figure 4 - September YTD Incident Comparison: 2011 vs 2010

2.5 Risk Management

Marine Atlantic's Board of Directors introduced an Enterprise Risk Management (ERM) Governing Policy in 2011/12. As a companion piece to the ERM Governing Policy (Board Level), the Executive is also reviewing proposed ERM guidelines (Operational Level) as part of the overall ERM framework for Marine Atlantic.

Risk management at Marine Atlantic has advanced significantly over the past two years. Besides corporate and departmental risk registers, many major projects also go through a risk management process near the beginning of the project with risk registers established and updated throughout the project.

In an effort to elevate the Corporate Risk Register to a more strategic level, a complete review and overhaul of the existing information and layout was completed throughout the second quarter. This new format is more concise, functional and user-friendly and will improve the Corporation's ability to strategically plan for and manage risk going forward.

2.6 Major Initiatives

2.6.1 Vessels

The Corporation spent a significant amount of time during 2011/12 successfully integrating the two new vessels, the MV *Blue Puttees* and the MV *Highlanders*, into the fleet. In addition, the MV *Leif Ericson* underwent an extensive midlife refit and the MV *Atlantic* Vision was repositioned to the Argentia service. The Corporation's new modern and upgraded fleet was introduced before the 2011/12 summer season and greatly contributed to the successful summer Marine Atlantic experienced. While the new fleet increased the Corporation's overall capacity by 25 per cent, the introduction of the two new modern and more efficient vessels offered customers greater capacity, reliability and improved amenities such as additional cabins and increased dining choices.

The MV *Atlantic Vision* completed a major refit in March, most notably the overhaul of its four main engines. The refit was required because of the expiration of a number of regulatory certificates that require periodic inspection and/or overhaul of major vessel systems.

2.6.2 Shore-based Asset Renewal

Several key shore based projects were completed prior to the peak summer season:

- Upgrades to the Argentia terminal and docking facilities set the stage for the successful integration of the MV *Atlantic Vision* with an increased number of cabins and improved amenities relative to the former MV *Joseph and Clara Smallwood* which previously serviced this route.
- The introduction of a second bi-level loading dock at North Sydney, facilitated by Infrastructure Stimulus funding combined with enhancements to the North Sydney terminal yard enabled a more efficient movement of traffic.
- At the end of 2010/11 the Corporation purchased a building in the North Sydney industrial park (65 Memorial Drive). A project team was established to coordinate the project and in early 2011/12 a detailed interior office layout and materials warehouse design was developed, and interior demolition and the installation of a new roof commenced. During the inspection and planning process additional remediation to the structure was identified, new aspects required for the efficient operation of the organization were added, and construction cost estimates were revised upwards due to escalating construction costs. The project will be completed in summer 2012 and will allow for the demolition of the existing administration building and more efficient and safe terminal operations.
- Onsite radio stations were introduced at each of the Corporation's terminals, enabling customers to receive information regarding their crossing while sitting in their vehicles. Customer contact systems were strengthened to provide updates on sailing reservations and the Marine Atlantic website was improved to offer more timely information to customers.

2.6.3 Terminal Redevelopment

Following completion of the vessel integration project, Marine Atlantic wound up its Project Management Office and redirected the administrative and communications resources to the newly formed Transformation Office (TO). Besides managing projects related to business process re-engineering and cultural renewal, the TO will oversee the completion of the Corporation's major shore-based capital program, including terminal redevelopment and completion of the new administration and warehousing facility in North Sydney.

Budget 2010 included approximately $84 million to address renewal and upgrades to shore-based infrastructure, including terminal buildings, docks and related terminal facility infrastructure. Following the successful integration of the new fleet into Marine Atlantic's service in late spring 2011, resources were redirected from fleet renewal to the major shore-based infrastructure program. A Canadian engineering firm, along with an international firm specializing in terminal layout, were selected through a competitive bid process to assist the Corporation in developing plans for shore based infrastructure. Marine Atlantic launched an extensive planning study of the Port aux Basques and North Sydney terminals to compile a comprehensive long term outlook that would encompass service and capital requirements, project plans and schedules, and to update cost estimates based upon detailed engineering assessments and current construction costs in Newfoundland and Labrador and Nova Scotia, given the substantial economic growth in both provinces. The engineering assessments and detailed terminal master plans have been finalized and have highlighted the need to adjust cost estimates and schedules to maximize the due diligence required for such a significant undertaking, and to ensure that the Corporation receives the best value for money, including addressing operating risks and facilitating its ability to achieve planned operating efficiencies over the planning period. The Corporation used the best estimates available in the 2011/12 Corporate Plan, but the engineering assessments and planning work completed in 2011/12 have allowed the Corporation to more accurately define the costs and resources that will be needed for successful terminal redevelopment. The Terminal Redevelopment Plan now has a 20 year phased approach, with clearly defined project descriptions and requirements.

2.6.4 Leadership Development

Change management and leadership development were key initiatives that the Human Resources Division took on during the year. Early in the 2011/12 fiscal year a number of the Corporation's managers participated in a 360 Degree Feedback Process for leadership development and coaching. Specialists from the Canada School of Public Service met with managers in Port aux Basques, North Sydney, and St. John's to provide feedback and coaching. The 360 Degree Feedback Process involves managers receiving feedback from direct reports, peers, and supervisors. This is the first stage leadership development for Marine Atlantic and feedback to date has been positive. Leadership development is a key component of the Corporation's Integrated Human Resource Plan.

2.7 Vessel Disposals

After many great years of service, the MV *Caribou* and the MV *Joseph and Clara Smallwood* were replaced with two modern RoPax vessels, the MV *Blue Puttees* and the MV *Highlanders*. Upon receiving approval from the Government of Canada, the Program Management Office and Asset Management Group coordinated the disposal of the MV *Caribou* and the MV *Joseph and Clara Smallwood*.

Global marketing of these assets by brokers selected by the Corporation began in the fall of 2010. The exact timing of these dispositions was very difficult to predict given the limited market for this type of vessel configuration and the current state of the global shipping industry. As such, Marine Atlantic incurred additional costs to maintain the vessels in ready-to-sell condition. The net proceeds of sale after considering all selling costs and costs incurred up to actual disposal date, $2,447,340.68, were distributed to the Consolidated Revenue Fund.

2.8 OAG Special Examination

The Corporation has continued to make progress on the deficiencies laid out in the 2009 Special Examination completed by the Office of the Auditor General. Recommendations relating to asset management and maintenance are being addressed through ongoing improvements in these areas in systems, processes and management practices and will not be complete until the 2012/13 fiscal year due to the time needed to implement all of the required changes. In January of 2012 the Corporation engaged a consulting firm to review and make recommendations on the Corporation's maintenance practices. This review will take approximately 8 – 10 months to complete.

2.9 Financial Results

Marine Atlantic had another very successful year from a financial perspective. Revenues remained strong while expenses were reduced compared to budget in a number of key areas. The Corporation continued to stay well within its appropriations, and cost recovery tracked well ahead of target.

A summary of the major differences in the Corporation's finances as compared to the initial approved Corporate Plan are outlined in the following table. Sections 2.9.1, 2.9.2 and 2.9.3 which follow the table provide explanations of the variances.

Table 1 - 2011/12 Financial Results versus Budget

(In $ thousands)		2011/12		
		Corporate Plan Budget	Forecast	Variance
Revenues				
Transportation		87,328	86,630	(698)
Fuel Surcharge		10,452	12,375	1,923
Total Revenues	**A**	**97,780**	**99,005**	**1,225**
Expenses				
Base operating Note 1	B_1	131,765	123,997	7,768
Fuel	B_2	31,210	32,151	(941)
Charter – Lease payments	B_3	45,454	44,291	1,163
Charter - HST on Importation	B_4	16,467	7,876	8,591
Pension	B_5	22,871	23,460	(589)
Program management, implementation , restructuring and HST assessments	B_6	16,187	8,030	8,157
Total Expenses	**B**	**263,954**	**239,805**	**24,149**
Net Operating Requirement	B-A=**C**	**166,174**	**140,800**	**25,374**
Working Capital	**D**	**(4,160)**	**(1,387)**	**(2,773)**
Capital Spending				

(In $ thousands)		2011/12		
		Corporate Plan Budget	Forecast	Variance
Stimulus projects		1,500	1,134	366
Shore-based major capital		17,090	17,883	(793)
Vessel-based major capital		14,000	10,838	3,162
Base capital projects		7,480	7,257	223
Total Capital Spending	**E**	**40,070**	**37,112**	**2,958**
Total Spending on Expenses & Capital	B+E=**F**	**304,024**	**276,917**	**27,107**
Funding				
Net Government funding required	C+D+E=**G**	202,085	176,525	25,559
Net Government funding available Note 2	**H**	202,085	196,435	(5,650)
Net Funding Lapse / Funding Requirements)	H-G=**I**	-	19,909	19,909
Cost Recovery	$A/(B_1+B_2)$=**J**	**60.0%**	**63.4%**	**+3.4%**

Note 1: Total expenses less fuel expense, charter fees and current service pension.

Note 2: Net Government Funding Available of $202,085 as per Corporate Plan Budget includes $1,500 in Infrastructure Stimulus Funds re-profiled from 2010/11.

Note 3: Numbers may not add due to rounding.

2.9.1 Revenues

The Corporation is forecasting a $1.2 million increase in revenue from budget. Commercial traffic grew 1 per cent higher than budgeted continuing the over 25 year growth trend in this business sector. Conversely passenger related traffic is forecasted to be down by 9 per cent from budget. Despite this drop in passenger traffic, on board services yielded more revenue than anticipated. The utilization of additional amenities surpassed expectations.

2.9.2 Expenses

The Corporation experienced fewer unplanned maintenance events during the year than expected, which has contributed to maintenance costs being $2.5 million less than budgeted. 2011/12 was the Corporation's first year operating with its new fleet and provisions were required to be made without having the benefit of experience with the new vessels. After having some experience with the new fleet, in conjunction with steadily improving maintenance practices, the Corporation's expected maintenance costs moving forward will be significantly lower than in 2009/10, which was the last full year that the Corporation operated with the former vessel fleet.

Base operating expenses also includes a forecasted $1.6 million Harmonized Sales Tax (HST) payment for a HST assessment relating to onboard accommodations. A further amount of $3.0 million related to prior years is included in the forecast for program management, implementation, restructuring and HST assessments.

Fuel costs in 2011/12 will be $0.9 million higher than budgeted, due mainly to higher global fuel costs. This is partially offset by lower overall fuel consumption as the new vessels are significantly more fuel efficient than their predecessors. The Corporation is successfully hedging against fluctuations in the global fuel market, which has, and is expected to continue to allow the Corporation to effectively manage fuel costs.

Charter payments for 2011/12 are $1.2 million lower than budgeted. In anticipation of the early arrival of the MV *Highlanders* into Canada, the Corporation negotiated the ability to defer the initial charter payment to fiscal 2011/12. While this is reflected in the 2011/12 Corporate Plan, the Corporation did not end up availing of this charter payment option and made the payment in fiscal 2010/11, creating the variance from the 2011/12 Corporate Plan budget.

The HST on the importation of the MV *Blue Puttees* and the MV *Highlanders* was paid in March 2011 as opposed to April 2011, as originally budgeted, creating the variance from the 2011/12 Corporate Plan budget. The $7.9 million forecasted for charter importation taxes in 2011/12 as per this Corporate Plan budget relates to the net tax owing on the MV *Atlantic Vision* as part of the planned reflagging of this vessel (all of the Corporation's vessels are now Canadian flagged, duty paid vessels).

2.9.3 Capital Results

The Corporation anticipates spending $37.11 million of its $40.07 million 2011/12 capital budget. The following table summarizes the 2011/12 Capital Plan by major category.

Table 2 - 2011/12 Capital Expenditures

Capital projects (in thousands of dollars)	**2011/12** A Original Budget	B Re-profiling	C = A + B Adjusted Budget	D Forecast	E = C - D Variance
Stimulus funded projects	1,500	-	1,500	1,134	366
Shore-based major capital	17,090	-	17,090	17,883	(793)
Vessel-based major capital	14,000	-	14,000	10,838	3,162
Base capital projects	7,480	-	7,480	7,257	223
Total capital requirements	40,070	-	40,070	37,112	2,958
Capital adjustments	(1,500)	1,500[1]	-	-	-
Total capital requirements	**38,570**	**1,500**	**40,070**	**37,112**	**2,958**

Note 1: $1,500 re-profiled amounts consists of Infrastructure Stimulus funded projects.

2.10 Transition to Public Sector Accounting Standards

In previous fiscal years, the Corporation classified itself as a Government Business-Type Organization (GBTO) and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board (PSAB) determined that this category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting Standards (PSAS). In accordance with recommendations of the PSA Handbook, the Corporation has determined that it is another government organization (OGO) and has determined that PSAS is the most appropriate framework for reporting purposes.

Full details of the changeover and its implications for the Corporation can be found on Marine Atlantic's website under its first Public Quarterly Financial Report as of June 30, 2011.

3 Goals, Strategies, and Performance Measures

As a component of its strategic and business planning cycle, each year Marine Atlantic develops a Strategic Implementation Plan (SIP) to assist the Corporation in the development of its Corporate Plan. The SIP involves a review of five-year goals and the prioritization of projects against these goals. Management compiles projects along with associated resource requirements, impacts and timelines, and provides the Board with a draft planning framework. The Board and management then review the draft framework, adjusting it as directed by the Board and agreed with management. Key factors determining the prioritization of projects include the strategic direction as set by the Board, shareholder policy directives, corporate goals and organizational capacity, along with the pace and timing of initiatives to ensure maximum impact and success over the long term.

In late October the Board held a strategic planning session with management to review the draft SIP, including more than 200 projects identified by management. The Board and management agreed on a set of five year goals that would define success over the planning period in the context of the Corporation's mission and vision, and move the organization closer to its goal of becoming a modern and efficient ferry service providing a high level of customer service. The agreed upon goals and associated 12 month priorities are presented in the following table.

Table 3 - Five Year Goals & 12-Month Priorities

Five Year Goals	12-Month Priorities
(1) Protection of People, Property and the Environment	• Significant reduction in lost time injuries (LTI's) • Advancement in safety systems & culture • Complete environmental management plan
(2) On-time & Reliable Service	• Implement shore-based infrastructure projects & refine shore-based infrastructure plan for next three years • Revisit & enhance preventative maintenance program
(3) Quality Customer Experience	• Maintain customer satisfaction levels of summer 2011 • Establish customer service levels/standards • Achieve a customer acknowledged improvement in on-shore experience • Improve value perception of the service on part of customers
(4) Efficient Governance & Sustainable Funding	• Enhanced internal control and risk management • Effective plans and management of planned business process changes • Complete IT business continuity implementation
(5) Meet Cost Recovery Targets & Live Within Appropriation	• Achieve cost recovery targets in 2012/13 • Live within operating and capital budgets • Begin reporting by business line for 2012/13 • Implement revenue strategy • Performance measurement using Key performance indicators (KPI's) • Demonstrate compliance to procurement strategy & policy

Five Year Goals	12-Month Priorities
	• Disposal of Bar Harbor terminal facility • Initial implementation of business process efficiencies
(6) Be a Respectful & Engaging Employer	• Success in managing people-based changes • More engaged, empowered and accountable workforce • Maintain a productive working environment between management and union leadership • Develop long term strategy for union agreements

Marine Atlantic's renewal agenda requires careful management and constant adjustment to achieve its strategic goals. The scope of the revitalization necessitates prioritizing the workload. The Corporation must also find the balance between improving service and meeting financial targets. Given the dynamics of Marine Atlantic's operating environment, particularly the number of stakeholders and the scrutiny that the Corporation is exposed to on an ongoing basis, priorities must be constantly reviewed and adjusted. The latest version of the SIP presented here reflects that approach.

3.1 Protection of People, Property and the Environment

Marine Atlantic provides a valuable service to the people of Atlantic Canada, and the service must be operated in a manner that protects the health and safety of its customers and employees, and minimizes the impact on the environment.

3.1.1 Regulatory Certification

Following Transport Canada's final security inspection of the MV *Highlanders* and MV *Atlantic Vision,* all four of the Corporation's vessels now have full term Vessel Security Certificates under the Canadian Domestic Ferries Security Regulations.

Now that the MV *Atlantic Vision* has been reflagged under the Canadian flag, the Corporation will conduct a review of both the North Sydney and Port aux Basques Security Plans to allow for conversion from the previous international requirement, the International Ship and Port Facility Security Code (ISPS Code), to the Domestic Ferries Security Regulations. Once complete, this will consolidate all security certificates under one set of (Canadian) regulations.

3.1.2 Safety and Security

Success over five years with respect to safety and security means that everyone at Marine Atlantic will make safety and security of our passengers and our employees the highest priority. Safety and security systems will be robust and safety will guide everything we do. Over the course of the planning period the Corporation will focus on the following:

- Improving the safety culture at Marine Atlantic through increased education, training, monitoring and communication.
- Completing the overhaul of the Corporation's Safety Management System. This project has already started, but will pick up speed during 2012/13.
- All vessels are now flagged Canadian and are regulated by Canada's Domestic Ferries Security Regulations (DFSR), which also govern the ports servicing Marine Atlantic's vessels. Compliance

with DFSR requires significant effort and ongoing security related expenditures in excess of $2.5 million annually.

Improving the Corporation's safety culture over the planning period will also drive efficiency and reliability within Marine Atlantic. One area where the Corporation is looking to improve during 2012/13 is in the management of injured employees. Many of the Corporation's employees have positions that are physically demanding in nature and if they become injured they may be forced to take time off work for a significant period of time.

3.1.3 Emissions Regulations

In March 2010, Canada and the United States were approved by the Maritime Environment Protection Committee (MPEC) of the International Maritime Organization (IMO) to establish a 200 mile Emission Control Area (ECA) on their coastlines. While emissions regulations worldwide will become more stringent in the future, the regulations in ECA's will prescribe even further reductions in greenhouse gas emissions. The worldwide shipping industry is struggling to find solutions that will allow organizations to meet the regulations going forward. Fuel suppliers will require time to retool their fuel processing facilities and scrubber systems to reduce exhaust emissions are not yet commercially available. The Corporation has $6.5 million budgeted in 2013/14 for capital investments that will assist the Corporation with meeting these regulations, although the total cost to comply is difficult to forecast at this time.

In early 2011/12 the Corporation engaged a consultant to complete a full study of the Corporation's fuel program including consumption patterns; future supply requirements; procurement practices; supplier challenges; and the implications of impending regulatory changes to emissions standards (MARPOL – Maritime Pollution) which become effective August 2012. The *Fuel Study* indicated that Marine Atlantic's fuel suppliers are already close to meeting the emissions targets (i.e. sulphur content) and expect to be in a position to be fully compliant by the 2012 deadline.

3.2 On Time and Reliable Service

The Corporation realizes that vast improvements are going to be needed in the future with respect to how the Corporation performs its maintenance practices. Over the course of the 2012/13 year, Marine Atlantic will continue to conduct research and speak to other ferry operators in order to determine the most effective methods for performing maintenance.

The Corporation currently performs more critical maintenance work during refits of the vessels, when larger items such as engine overhauls are generally performed. Going forward, Marine Atlantic will streamline maintenance practices where possible. For example, vessels are required to go into dry-dock twice every five years. The Corporation will consider performing more regular maintenance work at the same time as the vessel is undergoing major refit work in the shipyard.

The Halifax Shipyard has recently been awarded a large contract from the Federal Government of Canada to build vessels for Canada's Military. Since Marine Atlantic has historically had much of its vessel refit work done at this shipyard, the Corporation will ensure through careful planning, communication with the Halifax Shipyard, and communication with other shipyards that maintenance work will still be performed effectively and in a timely manner. The Corporation will be conducting a shipyard feasibility study early in 2012/13 to determine what shipyards may be capable of performing the Corporation's maintenance work.

With a renewed fleet now up and running successfully, Marine Atlantic will focus its attention during 2012/13 on the recommendations arising from a gaps analysis the Corporation requested Det Norske Veritas (DNV) to perform during the latter part of 2011/12. This analysis outlines the gaps in the technical training of Marine Atlantic's workforce with respect to its new and modern fleet. The Corporation expects to have all of the critical issues in the gaps analysis fully resolved by the end of the 2012/13 fiscal year through the use of both internal and external resources.

3.3 Quality Customer Experience

Offering a high level of customer service to its customers has been identified as one of Marine Atlantic's five year goals and a fundamental component to how the Corporation defines success. In alignment with this strategic goal the Corporation has identified the following four success factors with related priorities to be completed over the planning period:

(1) Maintain Customer Satisfaction

- Launch a revised website
- Development of customer friendly and efficient sailing and operating schedules

(2) Establish Customer Service Levels / Standards

- Development of customer service standards
- Development of Key Performance Indicators for Customer Experience

(3) Customer Acknowledgement of Improvement in On-Shore Experience

- As measured by customer service surveys

(4) Improve Value Perception of Customers

- Reservations Department operational review
- Development of yield management strategy

The four above-noted factors are all observable means of measuring the success of the Corporation as it endeavours to achieve the goal of offering a high level of customer service.

A key determinant in achieving success will be anticipating the changing demands of the Corporation's customers. The Corporation's renewed fleet has allowed it to achieve great on-time performance and high levels of customer satisfaction. After making these significant strides, the Corporation's strategy will shift from working to continuously improve customer service levels, to a strategy of maintaining current levels of customer service while looking for efficiencies, both from a cost perspective and a workflow perspective.

Strategically, it is important to establish the level of service standards that the Corporation is going to deliver. Customer service standards will drive revenues, the schedule, and how the Corporation does business.

Now that the Corporation has had some experience operating with the new fleet, the development of these standards can begin. It is important to note that these standards will change as traffic configurations, demands on the service, and the fleet configuration change. Some areas of focus for the Corporation in determining service levels will be:

- On time performance levels
- The ability to obtain a reservation (e.g., within 24 hours of your desired sailing time)
- Service Recovery Time (e.g., the expected recovery time for a weather delay should be equal to the time that the fleet is tied up. If the fleet is tied up for two days then the Corporation should be able to get caught up in two days)
- Vessel capacity utilization levels

The establishment of service standards, while different than KPI's, will feed into the development of enhanced key performance indicators (KPIs) which align with the "modern and efficient" component of the Corporation's overall goal. KPIs, from the quality customer experience perspective, will focus the Corporation on how and where to make service delivery improvements.

Ensuring a strong perception of value for money by our customers is an important measure of success in the pursuit of providing a quality customer experience. Survey results indicate a marked improvement in customer service levels from summer 2010 to summer 2011. Much of this is simply driven by the fact that sailings were on-time 91 per cent of the time. Now that Marine Atlantic has experienced this improvement, and assuming that the Corporation can maintain current service levels, customers will begin to measure value and satisfaction in other ways. Customers were satisfied with the level of service received in the summer 2011 season when compared with the 2010 summer season. In 2012, as a bare minimum, the Corporation's customers will expect the same level of service as they received in 2011 and will likely develop new demands and higher expectations. The challenge for the Corporation as it moves forward will be to continue adapting to customer needs, while staying the course on its path to be a modern and efficient organization that delivers a high level of customer service.

Due to its success in the past, and to continue to show support for the members and veterans of the Canadian Military, the Corporation has decided to offer the Canadian Forces Appreciation Fare again during 2012/13. Marine Atlantic has also decided to make this a year-round discount and there will no longer be restrictions on the number of vehicle spaces allocated for customers availing of the Canadian Forces Appreciation Fare.

3.4 Efficient Governance and Sustainable Funding

Marine Atlantic is a capital intensive organization spread out over numerous geographic locations. This means that the Corporation must use considerable management resources to ensure that risk is being managed appropriately, and funds are being spent efficiently to meet operational objectives and policy directives set by the Corporation's shareholder.

3.4.1 Enhancing Risk Management

Marine Atlantic's goal is to ensure that risk management assesses all threats and opportunities the organization is likely to confront in achieving its objectives by incorporating risk management into management processes and reporting activities. The Corporation will manage risk through the following avenues:

- A Comprehensive set of Business Continuity Plan(s) for the Corporation addressing emergencies, disasters and/or routine challenges.
- Development of a new, coordinated approach to the claims management process within the Corporation.

The Corporation will continue to use both departmental level and corporate wide risk registers throughout the planning period and will provide updates on changes to the Corporation's risk environment each quarter at the meeting of the Board of Directors. The corporate wide risk register breaks the Corporation's risks into the following categories:

- Customer
- Environment
- Finance
- Governance
- Human Resources
- Information Technology
- Infrastructure
- Safety and Security
- Operational

The Corporation assesses each risk on a scale from "negligible" to "catastrophic." Some examples of risks that the Corporation will be facing in the planning period are as follows:

- The risk of not being able to meet our cost recovery targets resulting in funding shortfalls, damage to the Corporation's reputation, and strained relationships with the shareholder. This risk is being mitigated through improved financial reporting and monitoring, the Corporation's mid-year budget review process, and the newly introduced quarterly financial reporting system and oversight.
- The risk that onboard services do not meet customer expectations resulting in customer dissatisfaction, reduced traffic utilization rates, and a loss of revenue. To mitigate this risk the Corporation has already established a marketing strategy as well as a customer survey strategy. Service offerings will continue to be monitored and analyzed throughout the planning period.
- Marine Atlantic continues to wait for Transport Canada (Environmental Affairs) to provide its Risk Assessment on the results of the Environmental Site Assessments that were carried out on the three terminal facilities which are owned by the Crown and leased to the Corporation. The Risk Assessment is now expected to be completed in 2012/13. Meanwhile, as part of its terminal redevelopment program, the Corporation is completing further environmental assessments in areas of its terminal properties where it intends to construct buildings and other infrastructure.

3.4.2 Enhancing Internal Controls

The Corporation is currently engaged in a comprehensive assessment of its internal control environment to develop and improve current procedures. Policy development in the control environment will be directed toward guiding decisions across the business to maximize corporate integrity and value.

Controllership at Marine Atlantic Inc. can be divided into three functional components:

- Finance
- Procurement
- Governance and Controls

These components can be further divided into various roles. These are referenced in the table below.

Table 4 - Controllership Functional Components

Finance	*Procurement*	*Governance and Controls*
Strategy development, implementation and management	Strategy development, implementation and management	Corporate strategy co-development, implementation and management
Personnel Management	Personnel Management	Control environment and internal control assessment
Financial Process Review (accounts payable, accounts receivable, payroll, general ledger, treasury/cash management function, budget process, capital investment, and reporting)	Procurement Process Review (purchasing strategy, contracts management, supplier management, customer management , strategic sourcing and reporting)	Pension plan governance
Systems Management	Systems Management	Shareholder initiatives
Information Management	Information Management	Policies adherence
Pricing Analysis	Contract administration; value for money analysis	Key Performance Indicators

3.5 Meet Cost Recovery Targets

Marine Atlantic commits to meeting its cost recovery targets through revenue growth and improved cost efficiency.

In addition to operational efficiencies, The Corporation achieved a number of corporate efficiencies during 2011/12 that will contribute to savings going forward in the planning period including:

- A new security contract will provide Marine Atlantic with better service at a lower cost.
- The consolidation to one insurance broker.
- Consolidation of class society will result in annual savings. All vessels now fall under the same class and are applicable to Transport Canada regulations (delegated by Transport Canada to DNV).

To meet its commitments for cost recovery the Corporation has set a number of priorities to achieve during the planning period:

- Business segmented financial reporting
- Implement revenue strategy, including annual tariff reviews
- Performance measurement using key performance indicators
- Demonstrate compliance to procurement strategy and policies
- Implement various business process renewal and efficiencies initiatives

3.5.1 Cost Recovery

The Corporation's cost recovery percentage is calculated by dividing total revenues into total costs (less charter fees, capital expenditures, program management, implementation and restructuring and pension costs). Based on its mid-year review results the Corporation's Cost Recovery is currently trending ahead of commitments with a projected 63.4 per cent for 2011/12.

3.5.2 Budget 2012 Savings Commitments

During 2011/12 the Corporation undertook a review process to review 100 per cent of its program spending and the operating costs of all of its services to identify proposals in relation to Budget 2012 savings commitments. Through the 2012 Budget Plan, the Government of Canada announced that Marine Atlantic's 10 per cent review savings was accepted. The annual review savings are as follow:

2012-2013:	$ 500,000
2013-2014:	$ 2,200,000
2014-2015 and ongoing:	$ 10,900,000

3.5.3 Business Process Renewal

In order for an organization to stay current and ensure that its business processes are designed to operate in a way that is both value added and efficient, from time to time it must analyze the objective and the design of its workflows and make necessary changes based on analysis, expert advice, and industry best practices. Some of the Corporation's Divisions have already started the process of looking at current workflow practices and potential options for improvement. This process will continue throughout the planning period.

3.5.4 Procurement

In the area of procurement, corporate energies will be focused on moving procurement beyond its traditional tactical orientation toward a more proactive strategic orientation. The recommendations of various audits continue to be implemented. The following tasks comprise the major procurement related priorities:

- Monitoring the new procurement policy to assess performance and adjusting procedures as required to optimize value for money.
- Continuing to build relationships with internal and external customers – enhancing the process of contracted rates and vendor assessment approach.
- Improving the contracts management approach.
- Enhancing the communication requirements.
- Continuing procurement policy compliance reviews.
- Improving procurement activity monitoring and performance objectives.
- Identifying employee development and training opportunities to enhance performance.
- Improving internal procurement communications.
- Identifying and continuing the establishment of more efficient procurement techniques including purchase order consolidation, vendor consolidation, standing offers, and procurement cards.

Beyond the first year the focus will be to evaluate the wholesale changes that have been implemented against a To-Be Model approach. The dimensions of this model focus attention on evaluating:

- Information – data, performance measures, and reporting that is required to measure, manage and control the target operating state.

- Processes – the grouping of processes required to fulfill the information requirements of purchasing stakeholders, both customers and vendors, and help realize an applicable level of best practice throughout the business.
- Organization and talent – the organization structure, roles, responsibilities, and capabilities required to support the purchasing function and its target processes.
- Technology – the systems, tools and underlying technology architecture required to enable the organization to execute the target processes and support the delivery of decision support information.
- Customers – the end recipient (internal) of the goods/services, information or value that is an outcome of the purchasing function.
- Vendors – the external suppliers that provide goods and services, assessed on common criteria across the organization and provide greatest value.

This model will play a vital role in linking business planning and day to day operations within the supply chain of goods and services. It will focus on effective purchasing processing which depends on the efficiency by which information passes through a planning (demand planning, supply planning, sales planning, capital assets), sourcing (strategic sourcing, vendor consolidation, procurement, supplier management) and delivery (warehousing, stores, distribution, inventory management) stage.

Sustained efforts will be made over the planning period toward the development of a continuous improvement philosophy within procurement. This will focus on a quality management approach to managing procurement and the various tasks that have to be completed. This will be accomplished with rotational reviews of identified tasks on a continuous basis with the aim of continuous improvement.

3.6 Being a Respectful and Engaging Organization

During the planning period, Marine Atlantic will strive to be successful in managing people based changes. As a major employer in Atlantic Canada, Marine Atlantic's workforce is constantly changing. Training new employees and managing change as long time employees retire or depart from the Corporation is an ongoing challenge. During the planning period, Marine Atlantic will continue to strengthen its leadership development capacity to ensure that the next generation of the Corporation's leaders are up to the task of leading the organization in its continued transformation to become a more modern and efficient organization with a high degree of customer service. This strategy will be accomplished through continuing to work with both the College of the North Atlantic in Newfoundland and Labrador and the Nova Scotia Community College. These institutes will continue to provide valuable training on effective change management and leadership development throughout the planning period.

The Corporation's goal of having a more engaged, empowered and accountable workforce by the end of the planning period will be achieved through the following projects:

- Redevelop employee orientation, familiarization and training program to be completed by March 31, 2012 and implemented during the early part of the 2012/13 fiscal year.
- Develop action plan and address results of the 2011 employee survey.
- Develop and finalize the leadership development program, to be completed by March 31, 2013 with continued refinement as required.

- Pension strategy to research best practices and engage experts on recommended options. The development of this strategy will be outsourced to ensure that the recommended options are coming from experts who specialize in pension management. This project will be completed by March 31, 2013.
- Development of a talent management strategy and employer brand that will be supported by an Employee Value Proposition to be completed by March 31, 2013.
- Complete culture and service orientation assessment with recommendations to promote a respectful workplace.

The Corporation's goal of maintaining a productive union leadership and management environment will be achieved by successfully negotiating the five remaining collective bargaining agreements and by continuing to hold meetings between the Corporation's executive members and the various union leaders. The Corporation plans to continue to engage the Unions during these meetings and to continue to communicate the Corporation's change management agenda.

Marine Atlantic has a diverse workforce that is represented by six bargaining units as well as a number of management/non-union employees. The breakdown in FTEs (full time equivalent employees) of the Corporation's workforce and the current status of contract negotiations is shown below.

Table 5 - Breakdown of FTE's

Agreement & Expiry Date	Representing	Bargaining Agent	Collective Bargaining Status	FTE's 2011/12
A Dec-31-2013	Licensed Officers	Canadian Merchant Service Guild	Agreement renewed until 31 December 2013 per Arbitrator's decision March 30, 2012.	158
B Dec-31-2013	Unlicensed Vessel Crew	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW)	Tentative agreement ratified and effective 1 March 2012 for the term January 1, 2011 to December 31, 2013.	480
C Dec-31-2010	Shore-Based Maintenance Employees	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW)	Conciliation session held this past October proved to be unsuccessful. If a resolve is not reached by the parties, the method of resolution will be by binding arbitration.	65
D Dec-31-2013	Shore-Based Terminal and Clerical Employees	The United Steel Workers/ International Longshoremen, Council of Trade Unions	Tentative agreement ratified and effective 1 April 2012 for the term January 1, 2011 to December 31, 2013.	300
E Dec-31-2012	Masters, Chief Engineers and Chief Electrical Officers	Canadian Merchant Service Guild	Agreement negotiated and in place to December 31, 2012	28

Agreement & Expiry Date	Representing	Bargaining Agent	Collective Bargaining Status	FTE's 2011/12
F Dec-31-2007	Shore-Based Supervisory Employees	Public Service Alliance of Canada	Conciliation session took place in January 2012, the parties were unable to resolve the dispute. The Conciliation Officer has referred the dispute to the Federal Minister of Labour.	43
N/A	Management / Non-Union	N/A	N/A	56
Total				**1,130**

Marine Atlantic requires heavy commitment internally from employees. In the recent past the Corporation's employees were continuously criticized by the public and in media reports. This has a significant demoralizing impact on employees. Fortunately this past summer, with the success of the "modern and efficient" fleet, employees have risen above and beyond with a very positive attitude taking great pride in their contribution and delivering exceptional customer service which has not gone unnoticed by our customers.

3.7 Asset Management

With the incremental funding contained in Budget 2010 the Corporation is moving rapidly forward in its quest to provide a dependable and cost efficient service. 2011/12 saw the introduction of a revitalized fleet composed of the MV *Atlantic Vision,* a midlife refitted MV *Leif Ericson*, and the successful integration of the MV *Blue Puttees* and the MV *Highlanders* into the fleet. This has laid a solid footing for 2011/12 and the future for the Corporation. The capacity and reliability issues will be addressed with the new modernized fleet.

Marine Atlantic will meet budgets, schedules and commitments when we acquire and upgrade assets, and will maintain them in a manner that achieves reliability and longevity in a cost effective manner. Over the course of the next four years management of the major shore-based capital projects has been assigned to the Transformation Office. Strategically this allows the Operations Division to focus on the integration and upkeep of the new fleet as well as managing vessel and day-to-day capital projects. The Transformation Office has secured the services of a professional engineering firm to assist in project management for the major shore-based capital projects. The Corporation's terminal redevelopment work and engineering assessments have highlighted the need to reprioritize capital works and to re-profile spending between fiscal years.

3.7.1 Management Objectives for Capital Planning

- Ensure funds are used to the best long term advantage of the Corporation
- Manage the capital program in an effective manner
- Develop a capital management process that recognizes the fluid nature of the Corporation's requirements
- Utilize operating funding savings for necessary capital projects if and when possible

4 Planning Factors

4.1 Financial Objectives

The Corporation's financial projections addresses financial objectives prescribed by its shareholder over the planning period, and internal resources are aligned towards that aim.

The Corporation has further committed to live within its funding appropriations over the final years of the Budget 2010 funding allotment. The final two years of this planning period is beyond the Budget 2010 funding and the Corporation has identified a $93 million and $100 million funding requirement for which it will be presenting a funding proposal in the planning period.

The Corporation's financial projections address its financial objectives over the planning period and have already started the alignment of internal resources towards that goal. The Corporation needs to perform additional work to evaluate the costs associated with the Argentia service, and to understand the elasticity of demand on this service, to properly evaluate future price increases.

4.2 Capital Needs

In developing the capital plan for the planning period the Corporation has taken into account all aspects of renewal, while keeping in mind categories such as safety, security, critical IT, and regulatory requirements. The projects outlined are required during the planning period to ensure that the Corporation has the assets it needs to deliver a safe, efficient, reliable and customer oriented service that is capable of achieving its mandated cost recovery target.

The Corporation will be requesting a re-profile to move a portion of lapsing 2011/12 funds of $19.909 million, in addition to lapsed funding of $9.177 million from 2010/11 to future years to meet capital funding requirements. The approved capital funding profile that is currently in place is not sufficient to meet the capital plan as presented. More detailed cost estimates and work requirements relating to the Terminal Redevelopment project have resulted in a need to re-profile funds. The Corporation has engaged a team of engineers and professionals who have provided refined plans and cost estimates for the various components of terminal redevelopment. The Terminal Redevelopment project is a key piece of the Corporation's shore-based revitalization and will better position the Corporation to meet traffic and customer demands going forward.

4.2.1 Capital Plan Summary

Table 6 – Capital Plan Summary (in thousands)

Category	2011/12 Forecast	Budget					Total Budget
		2012/13	2013/14	2014/15	2015/16	2016/17	
Stimulus Funded Projects	1,134	-	-	-	-	-	-
Shore-based Major Capital	17,883	36,620	21,825	16,100	-	-	74,545
Vessel-based Major Capital	10,838	7,250	19,750	6,500	4,000	4,000	41,500

Category	2011/12 Forecast	Budget					Total Budget
		2012/13	2013/14	2014/15	2015/16	2016/17	
Base Capital Projects	7,257	3,030	3,720	3,630	1,000	1,000	12,380
Total	37,112	46,900	45,295	26,230	5,000	5,000	128,425
Available Funding	40,070	46,900	23,636	16,130	5,000	5,000	99,666

4.2.2 North Sydney Terminal Redevelopment

The North Sydney Terminal Redevelopment Project has identified several areas that require investment to renew and modernize the infrastructure, including building a new terminal (passenger) building, realignment of the traffic marshalling area, and upgrades to related aspects of the terminal facility. The terminal redevelopment study has identified an increase in project expenditures required to achieve the objectives of the project, including additional customer and security features in the new terminal building.

After having a full summer operating with the new fleet, the Corporation has determined that with the tidal conditions in North Sydney harbour and the larger capacity of the new vessels, the older dock, which was built in the mid 1980's and custom designed for the MV *Caribou* and the MV *Joseph and Clara Smallwood* presents operational limitations in terms of docking the new vessels. As a result, the Corporation has been docking the two new sister vessels, the MV *Blue Puttees* and the MV *Highlanders*, plus the MV *Atlantic Vision* at the newer Alternate Dock whenever possible because of its modern design and it is better suited to the newer vessels. When the newer vessels are forced to dock at the older dock, loading times are increased because ballast in the vessel has to be continuously adjusted for tidal and loading conditions in order for the vessel ramp to properly align with the dock. For some types of commercial loads (car carriers and low beds for example) cannot be loaded under certain tidal conditions. As a result, the Corporation believes it is appropriate to replace the transfer bridge hoisting mechanism to be consistent with the technology used on the Alternate Dock which will allow for efficient docking operations.

4.2.3 Port aux Basques Terminal Redevelopment

Since the Corporation originally compiled the budget for this project, consultants have completed a Condition Assessment Report on the Port aux Basques Terminal Building. The results of this report clearly show deficiencies and the fact that additional funds will be required to upgrade the Terminal Building to meet current building code standards and to meet the existing and evolving needs of Marine Atlantic's customers.

In recent years the Gulfspan transfer bridge in Port aux Basques has suffered unexpected and unplanned shut downs due to structural issues (cracking due to age and steel deterioration) while repairs were completed. Marine Atlantic has previously identified the need to effect longer term improvements. In 2011 detailed engineering assessments of the transfer bridge in Port aux Basques and its underlying support structures were completed. These studies have indicated that there is more deterioration than was previously expected, which has had the effect of increasing the estimated cost of the project.

4.2.4 Base Capital Projects

Included in the Capital Plan for the 2012/13 to 2016/17 planning period is $12,380,000 in funding requirements for base capital projects. These projects address emerging infrastructure needs and are generally valued under $1,000,000 each and are evaluated by the Corporation's Capital Committee to ensure each meets corporate objectives. These projects generally consist of equipment and machinery for port and vessel operations; information technology software and infrastructure to support efficient and effective operations and reporting requirements; and capital required to address capacity issues, asset renewal, safety and customer service initiatives.

In addition to these base capital projects and the major identified capital projects, emerging capital projects are from time to time required to address new regulatory responsibilities, capacity issues, asset renewal, safety and customer service initiatives. Where possible the Corporation seeks to address these requirements within current funding appropriations utilizing where possible operational and/or capital efficiency savings or through a reprioritization of its current capital plan. In situations where this is not possible the Corporation works with its Shareholder to seek appropriate funding solutions.

4.2.5 Argentia Terminal

There was a significant amount of work done on the Argentia terminal during 2011/12, but some work remains including finishing the repaving of the terminal parking lot, once the spring weather conditions permit. Additional engineering assessments on the dock also point to the need for the installation of a new fendering system to avoid causing damage to the dock, and repairs to the main dock and dolphin to avoid causing damage to the dock when the vessel is docking in Argentia.

4.3 Bar Harbor

Marine Atlantic owns a terminal facility located in Bar Harbor, Maine that is surplus to its needs and outside of its current mandate. The Corporation received approval to dispose of this facility in the 2011/12 Corporate Plan.

4.4 Assumptions Underlying Financial Statement Projections

4.4.1 Traffic Forecast

Demand figures for the Revitalization Strategy submission were based upon a traffic projection[2] agreed by Marine Atlantic and Transport Canada. The traffic projections were adjusted slightly to account for the change in mix of traffic experienced in 2011.

4.4.2 Revenues

Marine Atlantic's revenues consider the growth expectations, the rate increases, surcharges, and the additional passenger service revenue over the planning period as detailed in the planning considerations and outlined in its Revitalization Strategy.

Given the level of uncertainty associated with future traffic levels, the cost of fuel and the new fleet, the Corporation will continue to review its fare requirements to ensure that it can operate within approved appropriations while achieving its cost recovery targets. The full rate structure will be reviewed each year during the preparation of the Corporate Plan, and appropriate adjustments made according to the factors impacting the Corporation at that time.

[2] Marine Atlantic Inc. Traffic Projection 00-001/000-010 RV.0

4.4.3 Expenses

Expense projections take into consideration the operation of the new fleet comprised of the modern and efficient charter vessels the MV *Blue Puttees* and the MV *Highlanders*; the MV *Leif Ericson*; and the MV *Atlantic Vision*. This modern fleet results in reduced maintenance and operating cost projections.

Charter expenses beyond the charter periods of the three chartered vessels are assumed at the same rates as existing charter arrangements. For the charter costs, there are extension clauses built into the agreements that may help with mitigating the risk of these amounts being higher.

Assumptions on fuel pricing and regulations were considered in the planning. Inflation assumptions and the type of fuel consumed have been included in the budgets. This is discussed in Section 4.4.6. The Corporation's current plans address the requirements of the new legislation for fuel consumption on vessels.

Solvency payment obligations of the Pension Plan are vulnerable to actual performance of the plan, rules set by the Federal pension regulator and guidelines established by the actuarial regulatory body. Deviations in this expense could be significant.

There are various assumptions on expense efficiencies identified in the Corporation's Revitalization Strategy, Strategic Review 2010, and Budget 2012 savings commitments to be achieved. These are detailed in Section 3.5.

4.4.4 Foreign Exchange

The Corporation implemented a foreign exchange hedging strategy to proactively mitigate exposure to foreign currency. The Corporation negotiated with Stena RoRo to pay in Canadian currency for the charter of two of their vessels in the initial 5 year charter period.

The Corporation also secured forward contracts with a financial institution, for the Euro currency requirements over the remaining charter period of the MV *Atlantic Vision* up to 2013. Marine Atlantic hedges its exposure to this foreign currency obligation by utilizing forward contracts to ascertain the Canadian dollar equivalent to these monthly charter payments. The Corporation has assumed from the end of the Charter arrangement for the MV *Atlantic Vision* in 2013, an exchange rate based on management's expectations.

Marine Atlantic's hedging strategy has been successful in bringing stability and cost certainty to the charter obligations for the duration of the charter arrangements.

4.4.5 Inflation

Canada's inflation policy, as set out by the Federal Government and the Bank of Canada, aims to keep inflation at two per cent, the midpoint of the one to three per cent inflation-control target range[3]. In producing its forecast for budget planning, the Government of Canada's Department of Finance surveys about 15 private sector forecasters for their views on the main economic variables, such as gross domestic product, the unemployment rate and interest rates. The Department uses the average of private sector forecasts as the basis for fiscal planning. For calendar years 2012-2016 the average of private sector forecasts

[3] Bank of Canada, Monetary Policy – Inflation http://www.bankofcanada.ca/en/inflation/

for CPI Inflation is 2.0%[4]. In September 2010 these forecasts indicated an average expectation of 2.2% inflation for 2011, this year's expectation as of September 2011 is 2.9% for 2011. As part of its financial risk management, the Corporation will use the most conservative estimate and this Corporate Plan will continue to assume a three per cent general inflation rate annually over the planning period.

Bank of Canada Governor, Mark Carney, may in the future undertake what he terms "flexible inflation targeting" or his right to respond to economic shocks or dangerous buildups of credit by taking longer than the typical six to eight quarters to return inflation to the central bank's 2 per cent target.[5]

4.4.6 Fuel Pricing and Consumption

Fuel is a major expenditure for Marine Atlantic, accounting for 15 per cent of total operating expenses. Large uncertainties surrounding fuel prices exist into the future. For planning purposes the Corporation has calculated fuel prices using market information and analyzing New York Mercantile Exchange future contract prices.

With the addition of the MV *Highlanders* and the MV *Blue Puttees* to the Corporation's fleet, Marine Atlantic reduced fuel consumption by more than 20 per cent during summer 2011 compared to summer 2010 with the former Marine Atlantic fleet. This was accomplished with fewer trips while offering increased capacity to our customers during a time when the Corporation's vessel staff was still gaining familiarity with the operating parameters of a new, more modern fleet.

4.5 Regulatory Impacts

To ensure the safe operations of vessels at sea, Marine Atlantic Inc. is governed by various acts and regulations. These include: *Canada Labour Code*, *Marine Occupational Safety and Health Act* and Regulations, *Transportation of Dangerous Goods Act* and Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act, 2001* and Regulations, *Canada Marine Act*, *Coastal Trade Act*, Domestic Ferries Security Regulations (DFSR), and the Marine Transportation Security Regulations (MTSR) Part III.

The Marine Environment Protection Committee of the International Maritime Organization has unanimously adopted amendments to the MARPOL 73/78 Annex VI environment regulations aimed at reducing harmful emissions from ships. "MARPOL" stands for marine pollution and 73/78 refers to the years 1973 and 1978: the former when the Convention was signed, the latter referring to the 1978 Protocol that came into force in October 1983. As of December 31, 2005, 136 countries, of which Canada is one, representing 98% of the world's shipping tonnage, are parties to the Convention. All ships flagged under countries that are signatories to MARPOL are subject to its requirements, regardless of where they sail, and member nations are responsible for vessels registered under their respective nationalities. In March 2010, Canada and the U.S. were approved by the Maritime Environment Protection Committee ("MEPC") of the International Maritime Organization ("IMO") to establish a 200 mile Emission Control Area (ECA) on their coastlines Related to this are requirements by Canada to reduce Sulfur emissions to a 1.00% (of total emissions) maximum prior to August 1, 2012 and then further reduced to a 0.10% maximum by to January 1, 2015. To meet these requirements the Corporation expects to invest in environmental compliance

[4] CPI Inflation – represents the Growth of Consumer price index, all items as a percentage. Survey of Private Sector Forecasters, Department of Finance Government of Canada, September 2010 - http://www.fin.gc.ca/pub/psf-psp/index-eng.asp

[5] The Globe and Mail, October 17, 2011 page B1 & B4 "BoC to get marching order beyond inflation rate" – Jeremy Torobin & Bill Curry, Ottawa.

capital upgrades in 2013/14 for the MV *Blue Puttees*, MV *Highlanders* and MV *Leif Ericson* as outlined in our Capital Budget.

The Corporation is also subject to statutory requirements and assessments related to worker's compensation by the Workers' Compensation Board of Nova Scotia. The Corporation is also subject to payments for worker compensation for the costs of self-insured benefits specified and administered by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador; Workplace Health, Safety and Compensation Commission of New Brunswick; and the Workers' Compensation Commission of Prince Edward Island for work-related injuries of current and former employees.

Marine Atlantic is also subject to the *Official Languages Act* and related government policies; Access to Information, the *Income Tax Act* among the multitude of legislation that the Corporation is subject to.

5 Specific Approvals Sought

Governor in-Council approval of MAI's 2012 – 2017 Corporate Plan, Treasury Board approval of the operating and capital plans contained herein (See Section 6 – Financial Statements), and approval for the continuation of a line of credit as described in section 5.1 below.

5.1 Bank Line of Credit

Marine Atlantic's bank line of credit is currently approved at $38,688,000. The Corporation utilizes $31,422,000 to secure letters of credit related to the Corporation's defined benefit pension plan. This is in accordance with Section 9.11 of the *Pension Benefits Standards Act, 1985* (the "Act") and is utilized to replace solvency special payments. These letters of credit must be maintained and can only be reduced if equivalent additional contributions are made to the Plan. These letters of credit could also be reduced without additional contributions if a future actuarial valuation shows a solvency ratio and an average solvency ratio that meet certain criteria defined in the Act.

The remaining $4,200,000 is utilized as security against long-term liabilities arising from Marine Atlantic employees' past injury claims and this Corporation's status as a "deposit account company" with the New Brunswick Workers' Compensation Board.

The Corporation is currently seeking approval for a line of credit sufficient to handle the $35,622,000 requirements for the pension plan and the Workers' Compensation Board requirement. In addition, upon completion of the 2011 pension plan fiscal year actuarial valuation in June of 2012, if the solvency position of the pension plan deteriorates, the Corporation could potentially seek further capacity on the line of credit.

6 Financial Statements

Statements A through E present financial projections over the planning period, based on the operational plans, forecast and assumptions discussed in previous sections of this Corporate Plan.

Statements A through D are presented based on Public Sector Accounting Standards while Statement E is a supplementary statement provided for informational purposes.

6.1 Statement A: Statement of Financial Position

Marine Atlantic Inc.
Statement of Financial Position - Year Ended March 31st
(in thousands)
(Presentation based on Public Sector Accounting Standards)

	Actual 2010/11	Forecast 2011/12	Budget 2012/13	2013/14	2014/15	2015/16	2016/17
Financial assets							
Cash	9,580	9,037	9,037	500	500	(92,906)	(192,865)
Receivables	12,431	9,513	9,313	9,313	9,313	9,313	9,313
Inventories for resale	341	341	341	341	341	341	341
Derivative financial instruments	4,008	4,008	4,008	4,008	4,008	4,008	4,008
Accrued pension asset	49,501	63,808	76,451	89,533	102,599	115,246	127,894
Assets held for sale	7,200	-	-	-	-	-	-
	83,061	86,707	99,150	103,695	116,761	36,002	(51,309)
Liabilities							
Accounts payable and accrued liabilities	29,211	19,065	17,430	17,429	17,429	17,429	17,429
Derivative financial instruments	275	275	275	275	275	275	275
Deferred revenue	2,628	2,628	2,628	2,628	2,628	2,628	2,628
Accrued liabilities [Note 1]	52,958	52,958	52,958	52,958	52,958	52,958	52,958
	85,072	74,926	73,291	73,290	73,290	73,290	73,290
Net financial assets (debt)	(2,011)	11,781	25,859	30,405	43,471	(37,288)	(124,599)
Non-financial assets [Note 2]	194,478	207,929	219,541	221,459	203,286	162,066	120,846
Accumulated surplus (deficit)	192,467	219,710	245,400	251,864	246,757	124,778	(3,753)

The accompanying notes are an integral part of these financial statements

Note: Numbers may not add due to rounding.

Notes to Statement A – Statement of Financial Position

Note 1:Accrued liabilities consist of: accrued vacation pay; accrued pension liability; accrued liability for other non-pension post-retirement benefits; and accrued liability for post-employment benefits.

Note 2: Non-financial assets consist of: prepaid expenses; inventories held for consumption; and vessel, facilities, and equipment.

6.2 Statement B: Statement of Operations and Accumulated Surplus

Marine Atlantic Inc.
Statement Operations and Accumulated Surplus
For the Year Ended March 31, 2011 and Projected for 2012/13 to 2016/17
(Presentation based on Public Sector Accounting Standards)

(In $ Thousands)	Actual 2010/11	Forecast 2011/12	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17
Total Revenues	95,763	99,005	111,641	111,698	118,454	124,039	129,307
Expenditures							
Wages and benefits	79,407	82,101	83,996	80,526	80,854	82,390	84,128
Fuel	32,512	33,796	35,389	37,121	37,745	40,280	43,873
Charter fees	25,818	44,290	44,290	37,890	45,592	44,901	44,832
Charter importation taxes	13,832	7,876	-	-	-	-	-
Repairs and maintenance	12,352	14,003	16,068	12,423	13,379	11,128	14,518
Materials, supplies and services	13,372	19,524	20,730	11,643	14,325	14,727	16,957
Insurance, rent and utilities	5,405	6,230	6,807	6,540	6,375	6,915	7,080
Fleet renewal costs	10,001	1,219	-	19,000	-	-	-
Other	9,078	7,537	12,699	13,652	6,398	6,542	7,062
Employee future benefits [Note 1]	8,279	11,724	12,311	11,755	12,074	12,299	12,552
Decommissioning of vessels	3,118	2,507	-	-	-	-	-
Foreign currency exchange loss	66	-	-	-	-	-	-
Unrealized (gain) loss on derivative financial instruments	(5,442)	-	-	-	-	-	-
Realized (gain) loss on derivative financial instruments	2,761	(2,800)	-	-	-	-	-
(Gain) Loss on disposal of vessel, facilities and equipment	(14)	-	-	-	-	-	-
Loss on write down of assets held for sale	8,322	-	-	-	-	-	-
(Gain) Loss on disposal of assets held for sale	-	(872)	-	-	-	-	-
Amortization	12,476	23,661	35,288	43,377	44,403	46,220	46,220
Total Expenditures	231,343	250,795	267,577	273,928	261,145	265,402	277,222
Surplus (deficit) before government funding	(135,580)	(151,790)	(155,936)	(162,230)	(142,691)	(141,363)	(147,915)

Marine Atlantic Inc.

Statement Operations and Accumulated Surplus

For the Year Ended March 31, 2011 and Projected for 2012/13 to 2016/17
(Presentation based on Public Sector Accounting Standards)

(In $ Thousands)	Actual 2010/11	Forecast 2011/12	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16	Budget 2016/17
Government funding							
Operations	124,370	139,414	134,726	123,398	111,354	14,384	14,384
Capital	77,839	37,112	46,900	23,636	16,130	5,000	5,000
Capital pending Federal approval	-	-	-	21,659	10,100	-	-
Recovery of vessel decommissioning costs	3,118	2,507	-	-	-	-	-
Total Government funding	205,327	179,033	181,626	168,693	137,584	19,384	19,384
Surplus (deficit)	69,747	27,243	25,690	6,463	(5,107)	(121,979)	(128,531)
Accumulated surplus (deficit), beginning of year as originally stated	(219,580)	192,467	219,710	245,400	251,863	246,756	124,777
Change in accounting policy	342,300	-	-	-	-	-	-
Accumulated surplus (deficit), beginning of year as restated	122,720	192,467	219,710	245,400	251,863	246,756	124,777
Accumulated surplus, end of year	**192,467**	**219,710**	**245,400**	**251,863**	**246,756**	**124,777**	**(3,754)**

Notes to Statement B – Statement of Operations and Accumulated Surplus:

Note 1: Employee future benefits expenses for 2010/11 are based on actuarially determined numbers. For 2011/12 and future years, expense is assumed to equal cash requirements for non-pension employee future benefits and current service pension cost payments.

Note 2: Numbers may not add due to rounding.

6.3 Statement C: Statement of Changes in Net Financial Assets (Debt)

Marine Atlantic Inc.
Statement of Change in Net Financial Assets (Debt)
Year ended March 31st
(in thousands)
(Presentation based on Public Sector Accounting Standards)

	Actual 2010/11	Forecast 2011/12	Budget 2012/13	2013/14	2014/15	2015/16	2016/17
Surplus (deficit)	69,747	27,243	25,690	6,463	(5,107)	(121,979)	(128,531)
Change in tangible capital assets							
Acquisition of vessel, facilities & equipment	(77,839)	(37,112)	(46,900)	(45,295)	(26,230)	(5,000)	(5,000)
Amortization of vessel, facilities & equipment	12,476	23,661	35,288	43,377	44,403	46,220	46,220
Loss on disposal of vessel, facilities & equipment	(14)	-	-	-	-	-	-
Loss on write down of assets held for sale	8,322	-	-	-	-	-	-
Reclassification of assets held for sale to financial assets	7,200	-	-	-	-	-	-
Proceeds on disposal of vessel, facilities & equipment	15	-	-	-	-	-	-
Decrease (increase) in tangible capital assets	(49,840)	(13,451)	(11,612)	(1,918)	18,173	41,220	41,220
Change in other non-financial assets							
Net change in inventories held for consumption	2,225	-	-	-	-	-	-
Net change in prepaid expenses	(2,722)	-	-	-	-	-	-
Decrease (increase) in other non-financial assets	(497)	-	-	-	-	-	-
Remeasurement gains (losses)	-	-	-	-	-	-	-
Decrease (increase) in net debt	19,410	13,792	14,078	4,545	13,066	(80,759)	(87,311)
Net financial assets (debt), beginning of year	(21,422)	(2,011)	11,781	25,859	30,405	43,471	(37,288)
Net financial assets (debt), end of year	(2,012)	11,781	25,859	30,404	43,471	(37,288)	(124,599)

6.4 Statement D: Statement of Cash Flows

Marine Atlantic Inc.
Statement of Cash Flows
Forecast For the Year Ended March 31, 2011 and Budgeted for 2012/13 to 2016/17
(Presentation based on Public Sector Accounting Standards)

(In $ Thousands)	Actual 2010/11	Forecast 2011/12	Budget 2012/13	2013/14	2014/15	2015/16	2016/17
Operating transactions							
Cash receipts from customers	94,538	98,903	111,601	111,659	118,414	123,999	129,267
Other income received	77	102	40	40	40	40	40
Government funding	133,629	139,414	134,726	123,398	111,354	14,384	14,384
Proceeds from assets held for sale	-	8,072	-	-	-	-	-
Net cash returned to government from asset sales	-	(2,447)	-	-	-	-	-
Cash paid to suppliers and employees	(207,832)	(218,556)	(221,414)	(218,797)	(204,668)	(206,882)	(218,449)
Cash paid for EFBs [Note 1]	(21,940)	(26,031)	(24,954)	(24,837)	(25,140)	(24,947)	(25,200)
	(1,528)	(543)	-	(8,537)	-	(93,406)	(99,959)
Capital transactions [Note 2]							
Capital asset purchases from current year funding	(67,067)	(37,112)	(46,900)	(45,295)	(26,230)	(5,000)	(5,000)
Capital asset purchases from prior year funding [Note 3]	-	(10,231)	-	-	-	-	-
Proceeds on disposal of vessel, facilities & equipment	15	-	-	-	-	-	-
	(67,052)	(47,343)	(46,900)	(45,295)	(26,230)	(5,000)	(5,000)
Financing transactions							
Interest and foreign exchange on cash	39	-	-	-	-	-	-
Government capital funding – current year	67,067	37,112	46,900	23,636	16,130	5,000	5,000
Government capital funding – prior year (PAYE)	-	10,231	-	-	-	-	-
Government capital funding – pending Federal approval	-	-	-	21,659	10,100	-	-
	67,106	47,343	46,900	45,295	26,230	5,000	5,000
Increase (Decrease) in Cash	(1,474)	(543)	-	(8,537)	-	(93,406)	(99,959)
Cash, beginning of year	11,054	9,580	9,037	9,037	500	500	(92,906)
Cash, end of year	9,580	9,037	9,037	500	500	(92,906)	(192,865)

Notes to Statement D – Statement of Cash Flows:

Note 1: Cash paid for EFBs (Employee Future Benefits) includes cash paid for pension, worker's compensation and other non-pension employee future benefits.

Note 2: Capital assets are also referred to as vessel, facilities & equipment elsewhere throughout these statements it was shortened to capital assets on this statement simply for presentation purposes.

Note 3: Capital asset purchases from prior year funding represents cash outlays for capital goods and services received in the prior fiscal year and paid in the current fiscal year. A payable at year end (PAYE) was established to fund these purchases out of prior year funding.

Note 4: Numbers may not add due to rounding.

6.5 Statement E: Funding from Operations and Government

Marine Atlantic Inc.
Corporate Plan 2012/13 - 2016/17
Funding from Operations and Government, Year Ended March 31st
In $ Thousands
(Supplementary Information Provided for Informational Purposes Only - Presentation is not based on Public Sector Accounting Standards)

		Budget 2011/12	Forecast 2011/12	Budget 2012/13	2013/14	2014/15	2015/16	2016/17
Base operating requirement Note1	**A**	131,765	123,997	128,763	119,637	124,311	125,069	133,877
Revenue expectations	**B**	97,780	99,005	111,641	111,698	118,454	124,039	129,307
Fuel requirement	**C**	31,210	32,151	33,920	35,586	36,137	38,583	42,092
Program management, implementation, restructuring & HST assessments Note 2	**D**	16,187	8,030	15,794	28,401	1,410	1,168	550
Net operating requirement	**E**=A-B+C+D	81,383	65,174	66,836	71,925	43,405	40,782	47,212
Working capital Note 3	**F**	(4,160)	(1,387)	1,435	(8,537)	-	-	-
Charter	**G**	61,921	52,167	44,290	37,890	45,592	44,901	44,832
Pension requirement	**H**	22,871	23,460	22,165	22,120	22,358	22,108	22,299
Capital Note 4	**I**	40,070	37,112	46,900	45,295	26,230	5,000	5,000
Total funding requirement	**J**=E+F+G+H+I	202,085	176,526	181,626	168,693	137,584	112,791	119,343
Net government funding available Note 5	**K**	200,585	196,435	184,876	147,034	127,484	19,384	19,384
Net funding lapse/(requirements) Note 6/7	**L=K-J**	(1,500)	19,909	3,250	(21,659)	(10,100)	(93,407)	(99,959)

Notes to Statement E – Funding from Operations and Government:

Note 1: Total expenses less fuel expense; program management, implementation & restructuring; charter fees; and pension.

Note 2: Program management costs contain funding to staff a Project Management Office to oversee the integration of new vessels into service, while implementation costs include the costs to bring new vessels into service. Restructuring costs for 2011/12 ~ 2013/14 relate to the revitalization strategy. HST (Harmonized Sales Tax) assessments includes $3.0 million within the 2011/12 Forecast related to prior years.

Note 3: Working Capital:

2011/12 Budget – (4,160) comprised + 1,246 payout of prior year wage accrual; (2,900) reimbursement of layup cost of Caribou and Smallwood from proceeds of sale; (250) expected insurance recoveries; (2,256) usage of cash working capital carried from 2010/11.

2011/12 Forecast – (1,387) comprised of 200 insurance claims; (3,118) reimbursement of layup cost of Caribou and Smallwood from proceeds of sale; 731 net change in accrued wages; (500) cash carry forward adjustment to maintain minimum required unrestricted cash balances on hand at 500; 1,300 net decrease in accrued payables and other liabilities.

2012/13 Budget – 1,435 comprised + 1,635 payout of prior year wage accrual and (200) expected insurance recoveries.

Note 4: The Corporation's allocation of operating funds and capital funds for 2013/14 and 2014/15 has changed slightly from the 2012/13 Annual Reference Level Update.

Note 5: 2011/12 Forecasted funding available includes $1,500 in approved re-profiling for Stimulus Infrastructure as well as $5,650 re-profiled to 2012/13.

Note 6: The Corporation will be requesting a re-profile to move a portion of the lapsing 2011/12 funds of $19,909 (less $366 in Infrastructure Stimulus Funds unavailable for re-profiling) in addition to lapsed funding of $9,177 from 2010/11 to future years to meet capital funding requirements as outlined in its Capital Plan and as shown in the following table.

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Actual lapse	9,177	-	-	-	-	9,177
Projected lapse	-	19,909	3,250	-	-	23,159
Infrastructure Stimulus Funding surplus	-	(366)	-	-	-	(366)
Capital requirements	-	-	-	(21,659)	(10,100)	(31,759)
Net lapse/(funding requirements)	9,177	19,543	3,250	(21,659)	(10,100)	211
Cumulative net lapse/(funding requirements)	9,177	28,720	31,970	10,311	211	211

Note 7: The Corporation requires additional funding of $93,407 in 2015/16 and $99,959 in 2016/17.

Note 8: Numbers may not add due to rounding.

Appendix A: Organizational Structure