Marine Atlantic

2011/12 – 2015/16 Corporate Plan Summary

September 9th, 2011

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 as an opportunity 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, and the operation of the Corporation must incorporate a balance between the responsible allocation of public resources and supporting a sustainable national transportation system at acceptable service levels.

Marine Atlantic has struggled in recent years with insufficient fleet capacity and aging assets that have plagued the Corporation's operations and resulted in lack of service reliability. As was the case in 2009/10, there were multiple occasions in 2010/11 when Marine Atlantic was not able to meet its traffic offering on a timely basis, particularly during the peak eight-week summer season. Persistent mechanical breakdowns with the Corporation's older vessels resulted in delayed and cancelled sailings and the suspension of the Argentia service twice during the peak season. The Corporation introduced Commercial Reservations in March 2010 and despite the fact that traffic management was improved considerably at the Corporation's terminals as intended, the lack of capacity and mechanical breakdowns made the Commercial Reservations System the focal point of complaints about Marine Atlantic's service. Stakeholders withdrew support for the system and it was temporarily discontinued in November. The cumulative result was poor customer satisfaction levels, continued negative media coverage, and hardships for front line staff who bore the brunt of customer complaints.

Despite the challenges, Marine Atlantic is on track to carry a record amount of Auto Equivalent Unit (AEU) traffic again in 2010/11. In part, this was made possible through a "sailing schedule maximization" approach during the peak season that saw an increase in crossings with the Corporation's fleet of 8.9% more crossings providing a 9.8% increase in AEU capacity compared to the previous year.

2010/11 has been a year characterized by significant planning efforts primarily surrounding the reconfiguration of Marine Atlantic's fleet. A large portion of management capacity has been dedicated to the successful conversion of two new vessels, the MV *Blue Puttees* and MV *Highlanders*, set to enter the Corporation's fleet in late 2010/11 and early 2011/12, along with a major refit of the MV *Leif Ericson* and introduction of the MV *Atlantic Vision* to the Argentia service. It has been a major undertaking and achievement to go from funding approval in June 2010 to having a reconfigured fleet in place in less than 12 months. The new fleet will be available for service for the 2011/12 peak summer season and is a launch pad for a number of initiatives that will assist Marine Atlantic in achieving its long term goal of providing a modern and efficient ferry service that delivers a high level of customer service.

The Corporation has dedicated significant resources to fleet renewal, commensurate with the significance of this major initiative.

Safety and security has also been a focal point during 2010/11, with planning and implementation activities aimed at increasing awareness and integrating these elements into all aspects of Marine Atlantic's operations. Significant improvements have also been made in several areas of the Corporation's Customer Service operations. A new Customer Contact Management System was implemented which provides customers with real time sailing updates. This system was instrumental in addressing the bottleneck that was created by the Corporation's call centre as in the past when sailing schedules required adjustment due to mechanical breakdowns or weather events, the Corporation's employees had to contact customers manually. FM radio stations were also installed at Marine Atlantic's two main terminals, North Sydney and Port aux Basques, to provide sailing updates to customers on the terminal property and in the surrounding area. Hotels, motels and other tourism venues were also invited to receive email updates with sailing information from the Corporation.

Communications with employees and stakeholders was enhanced in 2010/11 with the introduction of a new employee newsletter, improvements to the employee intranet, and through more regular interaction with various employee groups including bi-annual manager's conferences. The Senior Management/Union Leadership forum continued to be enhanced and enabled an open discussion about ongoing initiatives and planned changes to Marine Atlantic's operations.

The first half of 2011/12 will be focused on the integration of the new fleet into Marine Atlantic's operations. Bringing new vessels into the fleet is always challenging given the requirement for employees to become accustomed to the operating parameters and idiosyncrasies of a new vessel. Customers also need time to explore the changes as they accept the new service offering. The fact that the two vessels are virtually identical will aid in this effort. Repositioning the MV Atlantic Vision on the Argentia service will require some operational adjustments as well, although the bulk of the effort will be focused on marketing the service in a way that results in improved utilization of the increased available capacity on the service enabled by the larger vessel.

The latter half of 2011/12 will see a significant amount of planning effort as a number of transformative initiatives take shape and implementation plans are developed. It is clear to the Corporation that the collective aspirations of the Board, shareholder, stakeholders and management will consume significant resources over the planning period, especially over the first two years when combined with infrastructure enhancements and resultant changes in its operations. To assist Marine Atlantic with prioritizing its planning initiatives, it developed a Strategic Implementation Plan. The Plan identified almost 150 projects slated for completion in 2011/12 and 2012/13, revisited the short term and long term goals of the Corporation and ranked the projects against these goals. A comprehensive review of resource requirements, change capacity, required pace, timing and sequencing of the various projects was developed as a mechanism to manage the challenging workload. The Plan reflects a measured approach to implementing the change agenda and considers management and organizational capacity, cultural elements, and rate of change required for success in implementing the initiatives.

The Corporation has also made numerous improvements to internal management systems and oversight, including the Project Management Office for vessel integration activities and revamping the Capital Committee to oversee the Corporation's significant capital program. Appropriate oversight of the Corporation's transformative agenda will also be developed and implemented through the establishment of the Transformation Office.

Marine Atlantic remains firmly committed to the execution of its Revitalization Strategy and related policy directives. The pace, timing, and sequencing of specific transformative initiatives will continue to be refined as planning work is completed and the Corporation, its customers, and employees adjust to the change agenda. At a strategic level, the Corporation is aiming for a customer-acknowledged improvement in service in 2011/12 enabled by the successful integration of the new fleet and its increased capacity and improved reliability. Initiatives in 2012/13 and throughout the remainder of the planning period are intended to ensure continued improvements in service reliability and customer experience, together with positive changes in efficiency and cost effectiveness in its operations. This will involve challenging process reengineering initiatives, as well as a sustained, deliberate attempt at the meaningful culture change needed to transform the organization.

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1 History, Corporate Profile and Governance

Marine Atlantic was formed as a federal Crown Corporation in 1986 by means of the *Marine Atlantic Acquisition Authorization Act, 1986* for the purposes of the "acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto". In 1995, the National Marine Policy directed Marine Atlantic to commercialize its operations and transfer certain ferry operations to provincial control.

Consequently, since 1997 Marine Atlantic's mandate has been focused on fulfilling Canada's constitutional obligation to Newfoundland and Labrador by providing a year-round freight and passenger ferry service between North Sydney, Nova Scotia, and Port aux Basques, Newfoundland and Labrador. The Corporation also operates a non-constitutional, seasonal service (June to September) between North Sydney, Nova Scotia and Argentia, Newfoundland and Labrador.

1.1 Legislative and Governmental Authority

In 1949 when Newfoundland joined Canada, the ferry service 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."*

1.2 Operations/Management

The Corporation's business functions are divided between the Provinces of Newfoundland and Labrador and Nova Scotia. The Corporate Head Office, which is located in St. John's, houses the President and CEO, Customer Experience and Strategy and Corporate Affairs functions. The Finance, Information Technology and Quality, Risk and Compliance functions are situated in Port aux Basques, while the Operations and Human Resource functions are located in North Sydney. All staff responsible for vessel logistics operates from the Corporation's ferry terminals at each of Port aux Basques, North Sydney and Argentia.

1.3 Fleet, Terminals and Related Facilities

Marine Atlantic's current vessel fleet consists of four ocean-going ferries, all strengthened and classed with ice navigation breaking capability. The Corporation will be transforming the fleet through the addition of two ropax ferries, due to enter service in the last quarter 2010/11 and 1st quarter 2011/12, and the removal from service of the MV *Joseph and Clara Smallwood* and the MV *Caribou*. The two new ropax vessels are expected to be well suited to Marine Atlantic's environment as they contain high wind speed thresholds, have similar manoeuvrability as the Corporation's existing fleet, can carry a high capacity of traffic, and are fuel efficient.

Marine Atlantic also operates ferry terminals and associated facilities at each of the ports in North Sydney, Port aux Basques and Argentia. These terminals include docks, wharves, piers and vehicle marshalling areas, together with other structures, such as passenger terminals, ticket booths, maintenance facilities and administrative offices. There is also a variety of rolling equipment needed to support the ferry service, such as service vehicles, maintenance equipment and yard tractors/shunt trucks.

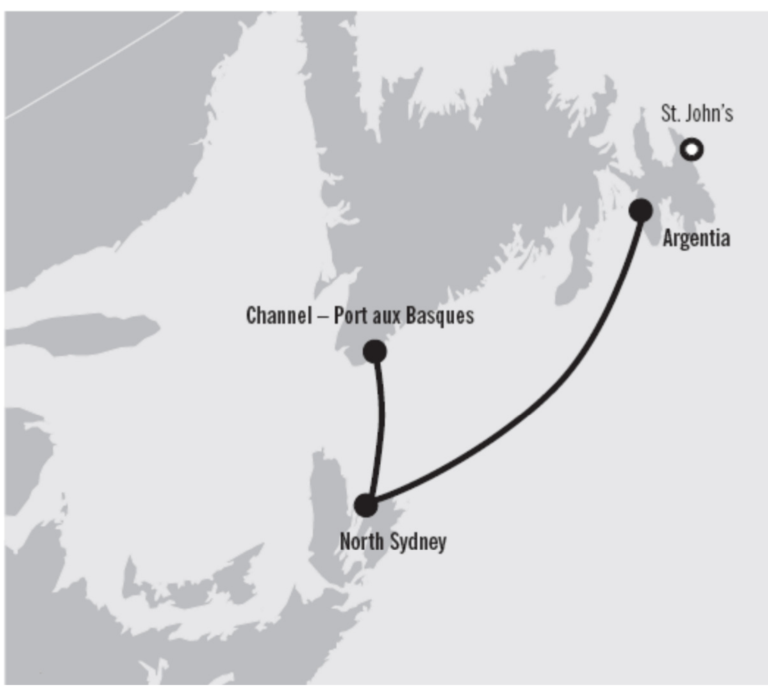
In Port aux Basques, the Corporation owns and operates a bulk fuel storage facility with the capability to produce the blended fuels used by the vessels.

Marine Atlantic also owns a terminal facility in Bar Harbor, Maine, U.S.A., that has been under a long-term lease to a private ferry operator. The lease has been continued beyond its originally scheduled termination date of February 21, 2011 to June 30, 2011. This will allow the Corporation to fully inspect the facility and gather information on the potential options for disposal and the associated disposal costs.

1.5 Routes

Marine Atlantic's Gulf ferries operate on a 12-month basis on the 96 nautical mile route between the towns of Channel-Port aux Basques, Newfoundland and Labrador and North Sydney, Nova Scotia. For passengers, passenger vehicles, and commercial vehicles, this route is the link connecting the Island of Newfoundland with the remainder of Canada.

The Corporation also operates a seasonal service (from June to late September) between the ports of Argentia (located on Newfoundland's Avalon Peninsula and close to the major population centers) and North Sydney. This 280-nautical mile route significantly reduces the almost 1,000 kilometre highway drive to Port aux Basques from the Avalon Peninsula. A circular route, popular with many tourists, entering on one coast and exiting from the other, avoids a traveller's need to repeat a 10-hour highway drive across the Island of Newfoundland.



1.6 Corporate Vision, Mission and Objectives

Underlying Marine Atlantic's Corporate Plan are its current Vision and Mission Statements, Service Goals, and Values. Thus, the Corporation's success in achieving its business objectives must always be measured against the achievement of these ultimate corporate beacons. 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". The 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".

Marine Atlantic Inc. defined a new set of five year goals during a strategic planning exercise in August. These goals are meant to reflect the objectives of the Corporation over the planning period given the direction provided by the Board and the shareholder, and reflected in the Revitalization Strategy.

Marine Atlantic's Five Year Goals include:

Safety and Security	***Everyone at Marine Atlantic Inc. 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.***
Customer Service	***We will transport people and goods in a timely, dependable and efficient manner and will provide quality customer service in a warm and friendly manner. We will be proactive in communicating with our customers.***
Cost Recovery	***Through revenue growth and improved cost efficiency we will meet our commitments to achieve cost recovery targets.***
Governance	***We will implement an efficient governance model that will allow management sufficient time to focus on managing and transforming the business while meeting the needs of the shareholder and the Board of Directors. This will include timely planning, quantitative targets (KPIs), and reporting progress regularly and objectively.***
Asset Management	***We will meet budget, 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 through life-cycle management.***
People	***We will revitalize our workforce by engaging, motivating, and developing our employees. We will ensure mutual respect and honest transparent dialogue.***
Environment	***We will develop and implement a comprehensive environmental management plan as a foundation for improving environmental stewardship.***

2 Annual Performance and Achievements

As a component of its Corporate Plan development, Marine Atlantic annually elects to report on its recent activities in the operation of the business. This section reports on the achievements for 2010/11 based on plans outlined in the previous year's Corporate Plan. Financial projections contained herein are based on a comprehensive mid-year review process which involved the review of actual financial results for the period April to August 2010, combined with revised budget projections to the end of the fiscal year to create a financial forecast for the 2010/11 fiscal year. During the April to August period approximately 66% of the projected passenger traffic for the fiscal year was carried along with approximately 51% of the AEU vehicular traffic allowing the Corporation to forecast fiscal year results with a high degree of confidence.

There were objectives laid out in the 2009/10 – 2014/15 Corporate Plan that have been rescheduled due to time constraints and the fact that a large majority of the Corporation's management team has been focused on the integration of the new fleet during 2010/11. The following objectives have changed since the previous year Corporate Plan:

- Development of Key Performance Indicators – The Corporation had scheduled to have preliminary performance data available in 2010/11. This objective has now been moved to 2011/12.
- Yield management – This objective has been pushed out and will be completed before the end of the 2012/13 fiscal year.
- Revamping the 1987 Bi-lateral Agreement – This objective has been delayed and it is now planned to be completed toward the end of 2011/12. This project may, however, not be complete until 2012/13.
- The re-design of the Financial Statements and Performance Book is a shareholder governance item that will implemented by the Finance Department. This was originally scheduled for completion this year but due to competing priorities the completion date for this item will now be 2012/13. The commitment is to report to Transport Canada on four major areas that coincide with our financial objectives as set by the shareholder.

2.1 Corporate Achievements

2.1.1 Fleet Renewal

2010/11 has been a year characterized by significant planning efforts primarily surrounding the reconfiguration of Marine Atlantic's fleet. Much of the focus was on ensuring that the two new vessels were successfully modified to suit Marine Atlantic's service requirements and that they are successfully integrated into the Corporation's new fleet.

In April, following Budget Decision 2010 that included $521 million of incremental funding for Marine Atlantic, a Vessel Integration Steering Committee (VISC) was formed to oversee the project. The VISC is chaired by the President & CEO and is comprised of the members of the Corporation's Executive Team along with various Senior Managers within the Corporation. The VISC meets every two weeks and provides written monthly updates to the Board of Directors. A Project Management Office (PMO) was also established to manage all aspects of the project. The Project Manager is a member of Marine

Atlantic's Executive Team. Other PMO members consist of employees seconded into the PMO and external contractors.

In late June, 2010 Marine Atlantic entered into a charter agreement with Stena for two of their existing vessels that were utilized on Stena's North Sea service between Holland and England. The MV *Blue Puttees*, built in 2006, and the MV *Highlanders*, built in 2007, are sister ships and were deemed to be the best available vessels to meet the Corporation's needs, although both required significant modifications, as on the following page. The vessels are almost new, of modern design and contain efficient mechanical systems, especially their engine configuration.

Two significant mechanisms are utilized by the VISC to manage the vessel integration project. Firstly, a Marine Atlantic / Stena Working Group was formed to develop the required vessel modifications to meet Marine Atlantic's service needs. Secondly, a project management firm was selected to provide advice and assurance to the PMO on the technical aspects of the modifications, help manage various regulatory issues and other aspects of the integration into the Corporation's fleet, and provide day-to-day oversight in the German shipyard that is contracted by Stena to complete the vessel modifications. A request for proposals (RFP) was issued and after considering a number of global project management firms, a global marine consulting company specializing in the various aspects of passenger ship conversions and refurbishments, was selected. The project management firm supports the PMO by providing a full range of marine services including design, engineering, procurement, construction supervision, and logistics. The PMO aspects related to design and service requirements to enable the vessels to enter the Corporation's fleet in a seamless fashion, along with the integration into its operations, cannot be delivered by a third party and management resources throughout the Corporation were heavily engaged in these aspects of the vessel integration project.

One of the key issues the Corporation had to address when it embarked on the process of finding two ropax vessels was increasing the level of capacity within the Corporation's fleet. Traffic demand had surpassed the level of capacity that was offered through Marine Atlantic's former fleet. It was clear that when the Corporation looked to replace the aging MV *Caribou* and the MV *Joseph and Clara Smallwood* that the new vessels would need more deck space in order to be able to transport more traffic per sailing. The MV *Blue Puttees* and the MV *Highlanders* have approximately 2,840 lane metres each compared to approximately 1,800 lane metres each on the MV *Caribou* and the MV *Joseph and Clara Smallwood*. This increase in available deck space of more than fifty percent in lane metres and approximately forty percent in Automobile Equivalent Units (based on the Corporation's traffic mix) along with a more modern and reliable fleet will give Marine Atlantic Inc. the ability to meet the traffic demand over the planning period.

Some highlights of the vessel modifications that are required to meet the Corporation's service needs include the following:

- The vessels must be shortened to 199.5 metres with the removal of a 12.5 metre mid-section. This is required to accommodate navigational restrictions in Port aux Basques;
- The topside infrastructure is significantly expanded to provide accommodations and service areas to bring the vessels' capacity from 300 to 1000 persons on board including the crew;
- The new topsides include a total of 509 airline style seats spread over three separate decks. These seats are consistent with those recently installed on the MV *Atlantic Vision* and have the

capability to recline, allowing passengers who do not purchase cabins the ability to rest and enjoy their journey across the Gulf in comfort;
- TV's are added to all passenger cabins and to the seating lounges, with audio systems incorporated into the lounge seats to allow passengers who choose to utilize the entertainment system the option of selecting among three different TV channels;
- Double tier bow ramps and an upper stern ramp are added to the vessels to align with existing Gulfspan loading ramps;
- A third bow thruster is added to aid in docking the vessels in elevated wind conditions;
- Hoistable car decks are added to provide the ability to load passenger automobile traffic onto the deck, raise it up, and then load more passenger automobile traffic beneath it. This feature gives each vessel an additional 32 AEU's in overall deck capacity; and
- Customer amenities such as kennels, a sun deck with seating and separate play areas for small children and teenagers are also added to the vessels.

The PMO also managed the operational considerations of the new vessels including the following:
- Canadian flagging;
- Safety and regulatory requirements;
- Identifying service flows and structures, plus establishing new crewing levels;
- Selecting and training of crew;
- Backfilling positions while crew are training on the new vessels;
- Developing allocations for commercial and passenger traffic, by season, for the new vessels within the context of the revised fleet and sailing schedule;
- Developing a marketing and communications plan for the renewed fleet; and
- Revising current processes and developing new business processes to take advantage of the opportunities and accommodate the constraints of the new vessels.

The VISC utilizes a centralized information management system that includes tools such as a decision log and risk register to help manage the project. There are many risks associated with integrating the new vessels into Marine Atlantic's fleet. The Corporation's Quality, Risk and Compliance Division spent a significant amount of time compiling a detailed risk register outlining the various risks posed to the Corporation. For each risk identified, mitigating strategies were developed to manage the risk down to an appropriate level. The register was updated as new information became available and as new risks were identified. This process has been critical in allowing the Corporation to effectively manage the risks associated with the project and to ensure that the integration went as smoothly as possible. It is impossible to plan for every issue that will arise, but through careful documentation of the potential risk factors, the VISC has been able to have better day to day control over the applicable risk factors.

One of the key objectives to successful vessel integration is to ensure that all of the Corporation's employees are well informed throughout the entire process. The PMO's Communication Officer ensures that employees are kept up to date throughout the modification process by posting pictures, videos, and updates from the Corporation's Executive Team as well as Stena's Project Managers on the Corporation's Intranet. This process has proven to be very effective and employees greatly appreciate the effort to inform and involve them in the changes to the Corporation's fleet.

Besides managing the introduction of the two new vessels, the MV *Leif Ericson* is undergoing a major refit in January and February to extend its service life beyond the end of the planning period. Reliability of the vessel will also be improved and customer areas will be refurbished to bring them closer to the level throughout the rest of the Corporation's fleet. Planning is also underway for reflagging the MV *Atlantic Vision* before its current Coasting Trade License expires at the end of June, 2011. The Corporation believes that the MV *Atlantic Vision* is well suited to the Argentia service and will be highly valued by its customer base. Work is underway to refurbish the Argentia terminal building and the development and implementation of a marketing campaign, including advertising, signage and initiatives with industry partners has begun.

While fleet renewal is a very exciting time for Marine Atlantic, it is consuming a significant percentage of the Corporation's management capacity. Successful integration of the new fleet will continue to be the number one priority for the Corporation, next to safety, until late summer 2011, and significant resources will continue to be dedicated to this initiative.

2.1.2 Minister Expectations

The Corporation's most recent mandate letter identified a number of priorities and expectations that needed to be addressed. With the exception of the items in the following table, all of the items contained within the letter have been completed.

Expectation	Status	Comments
1. Energy Management Plan	In Progress	The Corporation commissioned and received a draft strategy with suggested energy management solutions. Management is completing necessary due diligence to determine how to move forward with the recommendations. Aspects of the plan will need to be revisited once the new assets enter service.
2. Bi-Lateral Agreement	Deferred	There has been considerable dialog with Transport Canada and a draft has been prepared. Both parties agreed the Long-term Revitalization Strategy work would be a prerequisite to the new agreement. In addition, both parties have agreed that service standards need to be developed first and reflect a true measure of efficiency in customer service before the Bi-lateral Agreement can be finalized. It is anticipated that the Bi-lateral Agreement will be complete by the end of 2011/12.
3. Strategic Review	Complete – Awaiting Approval	The Strategic Review process was completed in 2010/11 – see section 4.5.1. The Corporation is awaiting approval.

2.1.3 2009 OAG Special Exam

In September 2009, representatives of the Office of the Auditor General of Canada (OAG) presented a Special Examination Report to Marine Atlantic's Board of Directors. The report was based on an audit conducted between October 2008 and March 2009 and contained 13 recommendations.

The following table outlines the 13 recommendations, along with a status update of each (as at December 2010).

OAG Recommendation	Original Target Completion Date per Management Response	Target Completion Date
1. Marine Atlantic Inc., in collaboration with the Federal Government, should address its strategic challenges: an aging fleet and shore-based assets, inadequate cost recovery, and management renewal. Together the parties should resolve related funding issues. The Corporation should monitor progress in resolving each strategic issue.	March 31, 2010 (through Budget 2010)	Completed in March, 2010
2. Marine Atlantic Inc. should create a strategic and operational planning process that sets priorities and plans and allocates responsibilities for carrying out those plans.	March 31, 2010	Complete by March 31, 2011
3. Marine Atlantic Inc. should create a performance measurement process that establishes goals and performance expectations, and includes regular monitoring and progress reporting for senior managers and the Board of Directors.	March 31, 2011	Complete by March 31, 2012
4. Marine Atlantic should develop and implement a comprehensive risk management policy; including mitigating strategies such as a comprehensive business resumption plan.	March 31, 2011	Complete by March 31, 2012
5. Marine Atlantic Inc. should review its maintenance management systems to improve their usefulness and compatibility in capital asset management.	March 31, 2011	Asset management and maintenance recommendations will be completed by March 31, 2012 (recommendations 5-8).
6. Marine Atlantic Inc., should use investigation and inspection reports to identify potential systematic issues and to adjust preventative maintenance schedules.		
7. As it acquires new assets, Marine Atlantic Inc. should implement a life cycle management approach.		
8. Marine Atlantic Inc. should implement maintenance practices that ensure effective oversight and take into account the age and condition of its assets.		

OAG Recommendation	Original Target Completion Date per Management Response	Target Completion Date
9. Marine Atlantic's Board of Directors should complete and implement its review of corporate governance practices.	March 31, 2011	Complete by March 31, 2012
10. Marine Atlantic Inc. should develop and implement plans to respond to current and upcoming security requirements.	May 31, 2010	Completed in June, 2010
11. Marine Atlantic Inc. should develop and implement a formal environmental management system that identifies and assesses risks, establishes priorities, and includes a means of monitoring and reporting on environmental performance and compliance.	October 31, 2010	Complete by March 31, 2012
12. Marine Atlantic Inc. should finalize a strategic human resources plan to enable the Corporation to have the appropriate number of qualified people to achieve its mission and goals.	May 31, 2010	Completed in September, 2010
13. Marine Atlantic Inc. should implement an automated system to improve its staff scheduling and human resource use.	October 31, 2010	Complete by March 31, 2012

2.2 Quality, Risk and Compliance

The Quality, Risk and Compliance Division has assumed overall responsibility for the Enterprise Risk Management, Safety, Security, Environmental, Claims and Insurance functions of the Corporation.

2.2.1 Enterprise Risk Management

During the year Enterprise Risk Management awareness was spread throughout the Corporation with risk management workshops being held with every Division throughout the organization. Risk registers were completed for all Divisions as well as the Corporate Level Risk Register (also referred to as the Strategic Risk Register). With the initial corporate risk register now in place the process of quarterly updates has commenced for inclusion in the quarterly Board of Directors report package. The Departmental Risk Register update process has already resulted in the identification of new risks for inclusion in the Corporate Level Risk Registers as well as the development of treatment plans to mitigate the risks.

The Quality, Risk and Compliance Division has started the development of a comprehensive set of Business Continuity Plan(s) for the Corporation addressing emergencies, disasters and/or routine challenges and will continue with this throughout the next year.

2.2.2 Safety

Marine Atlantic's fleet is maintained to standards and codes set out by Transport Canada Marine Safety (TCMS), Lloyd's Register, Det Norske Veritas, the Republic of Cyprus, the American Bureau of Shipping classification society (depending upon the vessel), as well as the ISM Code. In addition to being audited internally, the Corporation's Safety Management System is externally audited by Lloyd's Register.

2.2.3 Security

Security at Marine Atlantic includes the physical security of passengers both on-shore and on the vessels, safeguarding cargo and assets, and securing the environment in which the Corporation conducts business. Marine Atlantic's goal is to meet and/or exceed maritime security requirements.

Since December 23, 2009, Marine Atlantic has been regulated by Canada's new Domestic Ferries Security Regulations (DFSR). These new regulations govern the MV *Caribou*, MV *Joseph and Clara Smallwood* and MV *Leif Ericson* as well as the ports servicing them.

To ensure compliance with the Marine Transportation Security Regulations (MTSR) Part III which requires port security plans for Transport Canada certification and the new Domestic Ferries Regulations, several enhancements were implemented in 2010/11. These included additional fencing with access control points and procedures, baggage handling procedures, and screening protocols for passengers, vehicles and supplies. Video surveillance and fencing projects have been completed at all three operating terminals to provide enhanced security. Security awareness training has been provided to all shore-based employees and efforts are now focused on vessel-based employees. Additional security personnel were also added to address the expanded security requirements brought about by these regulations.

Compliance with the Domestic Ferries Security Regulations required a significant increase in the Corporation's ongoing operational security budget (approximately $1.0 million increase for the 2010/11 fiscal year and each year thereafter) and in the training budget required to educate and prepare the Corporation's employees.

2.2.4 Environment

The Environmental Policy of the Corporation commits to meeting the business objectives of the Corporation in a manner respectful and protective of the environment and in full compliance with the law. To meet these objectives the Corporation is developing an Environmental Management Plan. The Plan will contain sections on fuel management, water management, wastewater management, solid waste management, air emissions, security and the transportation of dangerous goods.

In 2009, Marine Atlantic participated in Phase III of Environmental Site Assessments for its three ferry terminals at North Sydney, Argentia and Port aux Basques. This was required by the Land Lease Renewal process between Transport Canada and Marine Atlantic. The Corporation met with representatives from Transport Canada in late August 2010 for a presentation on their Phase III Site Assessments. Transport Canada is currently conducting a risk assessment based on what they found and will then categorize the risks that need to be dealt with and alternatives for how to deal with these risks. The results have been made available to Marine Atlantic Inc.

2.2.5 Insurance

Marine Atlantic carries both liability and asset protection insurance at levels established on the advice of its insurance brokers. There was a significant increase in the total insured value of the Corporation's vessels when the MV *Atlantic Vision* was added to the fleet in late 2008. Historically, the Corporation has had a good overall insurance record. However, there have been an increasing number of claims against the Hull and Machinery (H & M) Policy due to mechanical failures in the Corporation's older vessels, which led to a 20 percent increase in premiums in 2009. Of particular concern is the fact that the Corporation's insurance brokers have indicated that the Hull and Machinery Underwriters have begun to question whether mechanical claims in recent years are the result of obsolescence rather than unexpected mechanical failures. In the second quarter of 2010/11 Marine Atlantic Inc's H & M brokers advised the Corporation that our unresolved insurance claims arising from earlier years have deteriorated in quality meaning that they are costing more than originally expected. This is expected to negatively impact upcoming insurance renewals.

2.3 Customer Experience

The Corporation's objective in the 2010 peak travel season was to improve customer service. Focus was placed on areas and actions that were attainable and would have the greatest positive impact once achieved. As part of the ongoing commitment to achieve customer satisfaction, the Division met and delivered on several key commitments during 2010/11. The Division has focused on several aspects of the customer experience, including onboard hospitality, passenger services, reservations and customer relations. Key priorities and responsibilities include ensuring that customer experiences are delivered consistently and administered smoothly across the Corporation and in accordance with corporate policies and relevant legislation. Improvements will be measured by maximizing the financial contribution, including cost recovery through revenues generated from transportation, amenities, and both onboard and on-shore customer experiences.

Several upgrades were made to the MV *Atlantic Vision* during the year to make the vessel more customer friendly. This resulted in no negative media coverage during the summer. Customers complained about the lack of washroom and seating capacity during 2009/10, so in early 2010/11 the Corporation installed 115 additional air seats and added two additional washrooms.

A special fare to honour Canada's Armed Forces personnel, veterans and their families was established by Marine Atlantic in the 2009/10 year. The *Canadian Forces Appreciation Fare* provided qualifying customers, as well as up to three companions travelling in the same vehicle and on the same reservation, with a complimentary passenger fare on the Port aux Basques/North Sydney ferry route, or a 50 percent discount on their passenger fare when travelling on the Argentia/North Sydney route. This initiative was very well received with approximately 10,600 qualifying individuals availing of the promotion in 2009. There were, however, some well articulated complaints from customers resulting from a blackout on some night sailings during the busiest periods. However, due to the positive response received from Canadian Forces and veterans, this special appreciation fare was also offered from May 1, 2010 to October 31, 2010 and was enhanced with the elimination of blackouts. Approximately 10,300 qualifying individuals took advantage of this offer.

Hurricane Igor brought much devastation to the Province of Newfoundland and Labrador. After the storm ripped through the Province there were many communities in dire need of emergency assistance. When the Canadian Forces needed to transport military personnel and emergency bridging supplies to the Province, Marine Atlantic Inc. responded by carrying personnel and supplies on the last sailing to Argentia to ensure that the vital resources reached those in need as expeditiously as possible. The Corporation ended up covering over $50,000 in travel expenses for the military personnel involved in the Hurricane Igor relief efforts. Marine Atlantic Inc. transported over 140 military passengers, 15 tractor trailers, 21 straight trucks, 2 autos, and 2 commercial buses to the island. The Canadian Forces were very appreciative of the Corporation's efforts during this difficult time. All employees involved worked diligently to ensure that the process was a success.

2.3.1 Customer Communications

The Customer Contact Management System is up and running, with clear benefits to our customers as well as proving to be a time saver in the Reservations Department. The first automated message was sent on June 18, 2010 at 2:50 PM. Messaging is tailored towards passenger and commercial traffic as required. In excess of 95% of customers are reached through the automated methods.

The FM Station equipment has been installed and is broadcasting in Port aux Basques and North Sydney. However the Corporation is not yet actively using it. The Argentia FM station equipment will be installed in time for the opening of the 2011/12 season. Scripting for mechanical delays, weather delays, and weather advisories for example, are still being developed. Phonetic announcements are being prepared to ensure that the pronunciation is clear and understandable in both official languages.

A database of commercial customers and tourism operators has been developed in order for Marine Atlantic to communicate sailing information and issues that may affect sailing on a daily basis. Customers in both industries have been given the opportunity to receive the communiqué.

The Corporation acknowledges that it must put measures in place to ensure that customer interaction is a top priority. Key requirements in the area of communications are improvements in technology, process and content. Critical areas include:

- Outbound communications in the event of delays, cancellations and other changes in schedule.
- Greater efforts on updating travel advisories on the Corporation's website in both official languages
- Inbound communications capacity; and
- Internal dissemination of policies and procedures and training to ensure that all employees provide consistent information to customers.

2.3.2 Customer Service and Satisfaction

A more robust customer research plan was successfully launched in 2010/11. In an effort to build upon customer satisfaction monitoring, this plan is designed to meet a range of information needs, such as increasing our understanding of our customers and knowing what increases satisfaction with our service. In terms of surveying our customers; a summer baseline has been established that will serve as a seasonal benchmark in addition to providing a foundation for rolling satisfaction measurements. The idea is to survey 50 customers each week; these customers would have traveled during the previous 2 weeks. By implementing a rolling average approach, the Corporation will be in a position to identify and spot trends more quickly. The 2010 summer baseline provides a level of comfort and accuracy and reduces the margin of error that would exist had the Corporation not used a significant number of surveys for its baseline benchmark. The old format of attaining customer feedback that was used during the 2009/10 fiscal year simply surveyed customers who traveled on the Corporation's vessels from June to September. This approach did not use a baseline approach and was only used during the peak summer season. The new approach will allow for better year over year comparisons and will give the Corporation a much better idea of customer satisfaction levels at various points during the entire year.

Overall, customer satisfaction scores improved from the 2009 summer season to the 2010 summer season based on preliminary results for 2010. Some examples of improvements are as follows:

- The customer satisfaction score (on a scale of 10) for overall customer experience onboard the MV *Atlantic Vision* increased from a score of 6.9 in the summer of 2009 to 7.9 during the summer of 2010;
- The overall customer experience at the North Sydney terminal increased from a score of 7.0 during the summer of 2009 to 7.3 during the summer of 2010; and
- The overall customer experience at the Port aux Basques terminal increased from a score of 7.4 during the summer of 2009 to 7.9 during the summer of 2010.

A Public Opinion Poll has been established to gain a better understanding of public perception and will provide a snapshot of the public image of the Corporation. The use of Mystery Shopping will enable the Corporation to understand the specific challenges and opportunities faced by travelers throughout their entire experience with Marine Atlantic, from booking to disembarking the vessel. These initiatives are now in place.

2.3.3 Commercial Reservations

The Customer Experience Division spent a large portion of time during the peak summer season meeting with commercial stakeholders to try and improve the Commercial Reservations System. The system was launched in the spring of 2010 and immediately began to meet resistance from some members of the commercial trucking industry. The Corporation made changes to the system to better suit its customers and to allow for better overall management of commercial traffic. While the Corporation acknowledges that the system is not perfect, implementing it was the right thing to do in order to allow for better planning and predictability both on the part of the Corporation and on the part of its commercial customer base.

Fleet capacity is one of the main factors that contributed to the difficulty in successfully implementing commercial reservations. Capacity has been a problem plaguing the Corporation for quite some time and while the Commercial Reservation System did in fact help with traffic management, there was still not enough space available on the vessels to satisfy the overall demand. This was compounded by the Corporation's aging fleet which resulted in vessels coming out of service more often than planned due to mechanical difficulties. With a renewed fleet on the horizon there will be added capacity which will make it easier for commercial customers to book space aboard the Corporation's vessels.

A number of consultations were held with the trucking industry over the summer to discuss the Commercial Reservations System. There were many suggestions made during the consultations and a number of changes were implemented.

A waitlist was implemented in July which allowed 10 truckers, without reservations, access to the Corporation's terminals on a first-come first-served basis. These customers could use available deck space left on the vessels at the time of departure. This was effective in giving some independent truckers the option to transport goods on a load and go basis when the situation arose, although, the vast majority of the Corporation's customers still used the Commercial Reservations System to book space to transport their goods across the Gulf. At the end of the peak summer season it was found that of those units availing of the waitlist, over 90% were loaded on the next available sailing.

From the period of April 1, 2010 to August 31, 2010, Marine Atlantic carried approximately 21,600 tractor trailers and 22,200 drop trailers. This represents record volumes of commercial freight and an increase over the previous year of 7.7% for tractor trailers and 1.4% for drop trailers. During this time frame, the Corporation has achieved an increase in vessel sailings over the previous year of 8.4%, due in part to Sailing schedule maximization.

A number of the smaller, independent carriers who operate on a last minute and/or less-than-truckload (LTL) basis voiced their concerns throughout the year that Commercial Reservations was negatively affecting their business to the point where they were considering shutting down their operations. However, in most of these cases, the Corporation's records show that these companies were able to secure additional sailings on the Gulf over and above the number of sailings they completed for the same period during the 2009/10 fiscal year.

While there were a small number of customers who openly expressed their dissatisfaction with the system, the majority of commercial customers were, in fact, pleased with the system and the ability it gave them to better manage their day to day business. These customers were mostly silent and greatly overshadowed in the local media by the small number of commercial customers who were unhappy with the system.

While there have been many challenges, overall, the Commercial Reservations System successfully delivered on many of its intended benefits to carriers, consumers, and the Corporation itself. However, due to concerns from the commercial trucking industry after the period of the rudder failure on the *Smallwood*, the Corporation announced on October 29, 2010 that it would suspend commercial reservations effective November 14, 2010. With the recommendation of the Atlantic Provinces Trucking Association (APTA), the Corporation reverted back to a first come, first served approach. As anticipated, on November 16, 2010, just two days after reverting to the old system, traffic volumes at the North Sydney terminal required closing the terminal gates until some of the backlog was cleared up.

2.4 Operations

During the first five months of the 2010/11 fiscal year, weather played only a small part as a disruptive factor to the Corporation's sailing schedule. There was, however, a suspension to the Gulf service for 22 hours on Saturday, September 4th due to *Hurricane Earl*. Due to the low levels of ice in the Gulf during the 2009/10 winter, there was an increase of marine growth on the outside of the vessels' hulls. Generally, the ice helps to scrub off a large majority of this marine growth, however, during this past year, with minimal ice, the growth doubled and created a drag on the hull reducing vessel speeds by one to two knots and increasing fuel consumption. Additional work went into removing the marine growth when the vessels were in dry dock and during planned work periods.

During the peak season, demand by passenger and commercial traffic once again surpassed the operating capacity of the fleet. This caused additional strain on the operations with regard to allocation, staging, and clearing of traffic. The Corporation utilized a combination of commercial reservations and sailing schedule maximization to deal with peak summer volumes.

'Sailing Schedule Maximization' was developed as a method of optimizing the sailing schedule by incorporating sailing time, port turn-around times, hours of rest for crews, and maintenance days while at the same time adjusting departure and arrival times to achieve the maximum number of sailings possible during peak season. During July and August of 2010, the Corporation was able to add an additional 43 trips to the schedule for an increase over the prior year of almost 9%. This translated into an increase of 16,380 AEU's of additional capacity; approximately a 10% increase over the 2009 peak summer season.

2.4.1 Vessel Operations

2010/11 was the last year that the Corporation operated with both the MV *Caribou* and MV *Joseph and Clara Smallwood*. These vessels served Marine Atlantic Inc. well during their time in service and helped to safely transport goods and passengers across the Gulf for nearly a quarter of a century. The Corporation is currently going through the process of disposing of these two vessels. The two new vessels, the MV *Blue Puttees* and the MV *Highlanders* are set to enter service in the last quarter of 2010/11 and 1st quarter of 2011/12 respectively.

The Corporation has continued to struggle to carry the traffic offering during the peak season due to mechanical failures on the aging vessels. In order to try to meet the demand, the Corporation continued to operate a very aggressive sailing schedule, as it was the only means to increase capacity. Unfortunately, this often resulted in customers having to cross the Gulf at unfavourable sailing times.

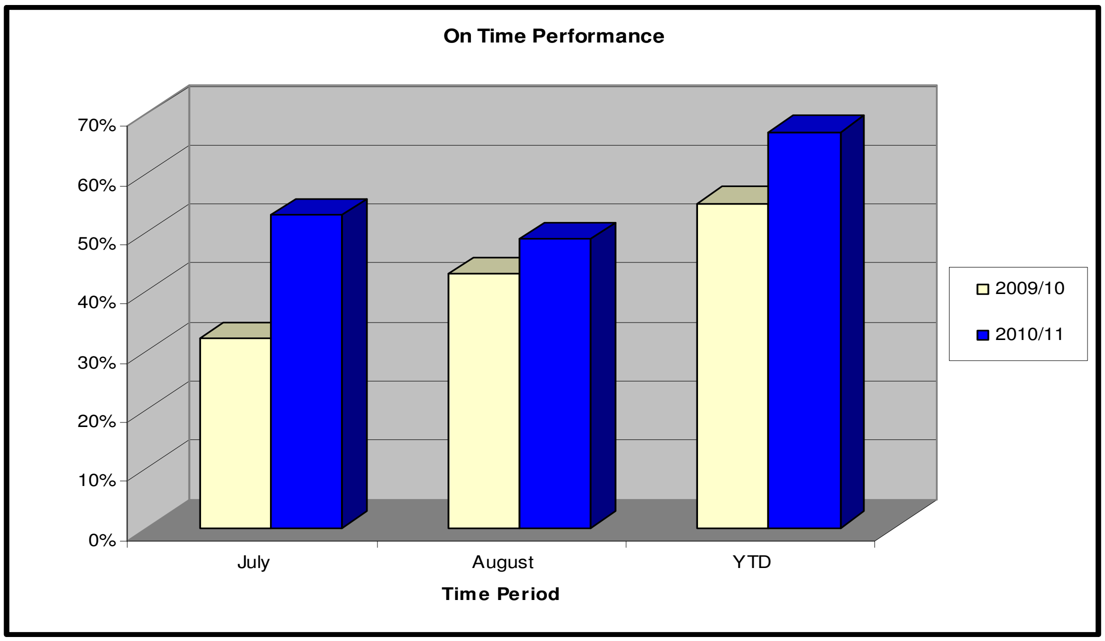
The introduction of the MV *Atlantic Vision* during 2009/10 was met with some criticism after the vessel suffered from mechanical issues early in its integration to the fleet. Without this vessel operating during 2010/11, however, the Corporation would have been significantly hampered in its attempt to meet the traffic demand, especially during the peak season. Marine Atlantic Inc. was faced with serious capacity constraints during the summer months, but having the MV *Atlantic Vision* operating on the Gulf route proved beneficial in allowing the Corporation to transport large volumes of traffic, especially when the MV *Caribou* and MV *Joseph and Clara Smallwood* were out of service due to mechanical difficulties. During July and August of 2010, the MV *Atlantic Vision* carried 50,766 AEU's, which represented approximately 36% of the Corporation's overall AEU traffic during this time frame. This vessel also transported approximately 41% of the Corporation's overall passenger traffic during the same period.

Delays during the year were mainly caused by unplanned maintenance events with engine components and ramps on the MV *Caribou* and MV *Joseph and Clara Smallwood*. During the summer two voyages were cancelled to Argentia to make repairs to the engine governors on the MV *Joseph and Clara Smallwood*. The MV *Atlantic Vision* also suffered delays with the loss of a bow thruster bearing and operated for 43 days while awaiting parts. The majority of component failures occurred during July and August, the Corporation's peak months. During this time frame the MV *Leif Ericson* was a bright spot in the Corporation's fleet. This vessel operated for a total of 134 days, with only four of these being "in service with minor exceptions", where "minor exceptions" are considered to be minor mechanical issues that would not stop the vessel from operating safely.

Maintenance costs were below budget during peak season due to a number of different factors including having a complete maintenance management team, integration of the Committee on Maintenance Standards, and conservation of maintenance to the MV *Caribou* and the MV *Joseph and Clara Smallwood* as a result of their impending departure from the Corporation's fleet.

2.4.2 On-Time Performance

On-time performance is a metric used by the Corporation to compare actual departure times against the published, or the re-aligned schedule. A departure is considered on-time if it is within 15 minutes of the scheduled departure time. The original published schedule becomes re-aligned in the event that the original departure times are no longer achievable due to an issue such as a significant weather delay or mechanical issue. Mechanical issues during the 2010 peak season had a negative impact on on-time performance, which dropped to 53% for July and 49% for August. However, this surpassed last year's performance of 32% for July and 43% for August. On-time performance to the end of August was 67% versus 55% for the same time frame last year.



In the past number of years, the age of the Corporation's fleet has limited its ability to operate in a reliable and dependable manner. With the retirement of the MV *Caribou* and the MV *Joseph and Clara Smallwood* and the addition of the MV *Blue Puttees* and the MV *Highlanders,* Marine Atlantic Inc. fully expects that the improved reliability and dependability of the new fleet will result in improved on-time performance levels.

2.4.3 Vessel Maintenance

With the former fleet consisting of vessels ranging in age from 20 to 25 years and accumulated maintenance deficits from earlier years, controlling and predicting maintenance costs has been a challenge for Marine Atlantic. This was due to the worn state of machinery and past maintenance practices. In spite of new planned maintenance routines, the fleet continued to suffer from major mechanical failures and unplanned maintenance during the year. Machinery continued to malfunction, requiring replacement or major overhauls and the sourcing of parts and vendor support was a serious problem. With the introduction of the new vessels into the Corporation's fleet, audited preventative maintenance practices, and an overall upgrade in the Corporation's maintenance philosophy, the Corporation will be better able to effectively and efficiently manage maintenance practices across the entire fleet.

The MV *Joseph and Clara Smallwood* suffered from a mechanical break down of its portside rudder in early October that removed it from service for two weeks. The MV *Atlantic Vision* was in dry dock at the same time undergoing planned maintenance resulting in the Corporation having only two vessels in operation. Compounding matters even further there were no available ship yards in Canada that could handle the vessel at this time, Marine Atlantic Inc. arranged for the work to be done by Boston Ship Repair in Massachusetts. The loss of the MV *Joseph and Clara Smallwood* put heavy strains on all areas of the Corporation, from the Operations Division to the Reservations Department. Employees worked around the clock to service customers and make repairs as quickly as possible during this difficult time. It is due to that effort by Marine Atlantic Inc. employees along with the effort of the technical team at Boston Ship Repair that allowed the Corporation to expedite the repair process and have the vessel back in service on October 16th, nine days ahead of the original planned date of October 25th.

In June of 2010, the Corporation completed customer friendly improvements to the MV *Atlantic Vision* which included the installation of additional washrooms and 115 additional seats. During its spring planned work period (PWP) the MV *Leif Ericson* had an overhaul of its engines and generators as well as a renewal of a portion of its hydraulics systems.

The MV *Leif Ericson* was upgraded to AMOS (Asset Management Operating System) version 9.1 during the year. The MV *Atlantic Vision,* which has its own onboard proprietary system for asset management and maintenance, will not be upgraded as its owner requires its own system to be maintained. As the MV *Caribou* and MV *Joseph and Clara Smallwood* are being retired the decision was made to not upgrade their systems. Upon entry into the Corporation's fleet the MV *Highlanders* and the MV *Blue Puttees,* which already have AMOS, will be upgraded to the 9.1 version to be standardized with the MV *Leif Ericson.* This will allow for better overall asset management and maintenance onboard the vessels.

2.4.4 Terminal Operations

In the period from April through August, 2010, Terminal Operations performed better than budget, reducing costs by 10%. This can be attributed to operational changes in vessel scheduling in North Sydney, minimizing additional shore crew call outs during service disruption, better utilizing staff levels, and operating with a Commercial Reservation System.

Terminal Operations dealt with many operational challenges due to vessel breakdowns during July and August and handled high levels of customer complaints due to changes in sailing schedules that were necessary to try and meet the traffic demand. Although under heavy pressure, terminal staff performed well throughout the peak season. This can be attributed to the following:

- Better preparation for peak season – the staff developed new operating procedures which allowed for better coordination with the ticket office and the traffic directors;
- Commercial Reservations;

- Introduction of the Customer Contact Management System Advisory initiative, which allowed for automated communication with customers in the event of a delay with a vessel leaving port;
- Efficiently managing vessel sailing schedule changes caused by maintenance issues;
- Extremely close attention being paid to turning vessels around in port expediently and with maximum vessel utilization; and
- New security protocols were introduced, including a security presence in the terminals 24/7 due to new security measures.

Moorex mooring systems were installed at the alternate docks in North Sydney and Port aux Basques during the year. The completion of this project will bring greater operational flexibility to shore-based activities in both locations and will allow for the Corporation to maximize efficiency on shore, while minimizing labour costs. The MV *Blue Puttees* and MV *Highlanders* will be fitted with mooring bits compatible to the Moorex system. Also, the MV *Leif Ericson* will be fitted with mooring bits during its mid-life refit. Thus, the entire Marine Atlantic Inc. fleet will be secured ashore by the Moorex System.

Upgrades at the North Sydney terminal were carried out throughout 2010/11 utilizing Stimulus Funding. The completed two-tiered alternate dock will provide the Corporation with much needed flexibility from two fronts. In the event of schedule difficulties, Marine Atlantic Inc. will be able to work two vessels in port at the same time and the Corporation will also be able to perform much needed long-term maintenance on the primary dock.

As part of the stimulus project to install the new and second double tier ramp in North Sydney the Corporation identified the need to remove the North Sydney Administration. Preliminary plans were developed to relocate office staff and the warehouse to an existing building in the nearby industrial park. The plan was based on certain assumptions surrounding the condition of the building and required costs to adapt it to meet the requirements of the organization. The plan entailed a long term lease of the building and included funds for leasehold improvements. Subsequently, the corporation explored the option to purchase the building and arrived at an agreement on a purchase price.

At its January meeting, the Board approved the purchase and renovation of 65 Memorial Drive. In order to accommodate this project within the approved capital program allocation for 2011/12, a full review of all capital projects was completed. The required capital for the building project was made available through adjustments in several major capital projects where the cost estimate or project scope had changed since the previous review, through advancements of several base capital projects to 2010/11 and the elimination of several base capital projects in the 2011/12 budget. Management deems these adjustments appropriate under the circumstances as they result in no material impact on the operations nor objectives of the Corporation.

2.5 Information Technology (IT)

In pursuit of the Corporation's aim for its Information Technology to become a more integrated, business oriented service and to ensure alignment with its Revitalization Strategy the following initiatives were undertaken in 2010/11:

- Replacement of MV *Atlantic Vision* Internet Satellite System
- Staff Scheduling and Training System
- IT Infrastructure Replacement and/or Upgrades
- IT Business Continuity Plan (BCP)
- Computerized Maintenance Management System (CMMS) Upgrade
- Customer Contact Management System
- Information Management System (IMS)
- Data Storage Upgrade
- Management Reporting System (MRS)

In the area of governance and compliance the Corporation contracted an external agency to perform a complete audit of the IT operation. A final report was received, and its recommendations were approved by the Board early in 2010. The main recommendations along with status updates are as follows:

- The need to develop a Corporate Business Continuity Plan (BCP) and that the IT BCP would need to be aligned – the IT BCP is in progress with completion scheduled by the end of fiscal 2010/11 and the Corporate BCP is in progress lead by the QRC Division;
- The need to maintain an IT Risk Register and mitigate the risks – this is now in place;
- The need to develop a succession plan – this is in progress and will be further developed in 2011/12; and
- The need to update the InfoSource Information Holdings for the Corporation - this was completed in 2010/11.

As part of Corporate IT Governance, information technology policies and procedures were revised and approved by the Board of Directors at its September 2010 meeting. The accompanying procedures to these policies are slated to be rolled out throughout the final half of 2010/11.

2.6 Human Resources

The Corporation has a workforce makeup of 1086 FTE's representing approximately 1,400 employees, of which 179 are licensed officers. All of these positions need continued attention; however, critical workforce segments such as Master, Chief Engineer, Chief Officer and Second Engineer positions are essential to daily operations and require skills that take many years to acquire. During 2010/11 the Corporation continued with its School Program, which provides financial support to selected deck and engineering officers to upgrade their certificates. While this resulted in additional costs to the Corporation, during the year Marine Atlantic Inc. helped to support and develop two officers through this program. Selected officers who avail of the School Program sign return of service commitments ensuring the internal development of officers for future vacancies. A cadet program will also be implemented during the fourth quarter of 2010/11 to attract new employees to the Corporation.

In 2011 the Corporation finalized the development of an Integrated Human Resources Plan. The Integrated Human Resources Plan was approved by the Corporation's Board of Directors in September 2010, which will allow this Division to move forward with the many objectives outlined in the plan. The development and implementation of the Plan stems from a recommendation made by the OAG in the 2009 OAG Special Examination Report that called for the Corporation to develop and finalize a strategic human resource plan that supports and is integrated with the overall Corporate Plan.

2.6.1 Training

Training initiatives in 2010/11 focused on safety, security, customer service, required regulatory training and new employee orientation as well as various training programs on internal IT systems. Regulatory and Canada Labour Code training programs are required on a yearly basis for courses such as Confined Spaces, Confined Space Refresher, Lock-Out Tag-Out, Man-lift, Forklift, Fall Arrest, Oil Spill Response, Safe Boating, Safe Food Handling, Safe Serve (Alcohol), Transportation and Handling of Dangerous Goods, Fit Testing, Workplace Hazardous Materials Information System (WHMIS), Occupational Health and Safety and Persons with Disabilities. Marine Advanced First Aid and Fast Rescue Craft (FRC) training, which is a regulatory program, has also been implemented.

The Corporation provides Passenger Safety Management (PSM) and Specialized Passenger Safety Management (SPSM) certification programs. All of Marine Atlantic Inc.'s crew will require this training by November, 2011 in order to meet the requirements under the STCW (International Maritime Organization's Standards of Training, Certification and Watchkeeping) Code. In 2010/11 significant emphasis was placed on certifying the majority of the Corporation's crew.

During 2010/11, as a component of revitalization and fleet renewal, a formal training plan was developed to ensure that the organization was compliant with regulations for the MV *Blue Puttees* and the MV *Highlanders*.

2.7 Strategy and Corporate Affairs

2.7.1 Policy and Planning

The last few years at Marine Atlantic have involved a significant amount of advocacy work as Marine Atlantic developed its Revitalization Strategy and sought funding from the shareholder for its implementation. With sufficient funding now in place for a five year period, the Corporation is entering a planning and implementation phase that will see the various elements of the Revitalization Strategy transform the organization. The Strategy and Corporate Affairs Division has been heavily involved with the planning process and has provided leadership and guidance across the organization.

2.7.1.1 Corporate Planning

Marine Atlantic's business planning process continues to evolve. In preparation for this year's Corporate Plan, a Strategic Implementation Plan (SIP) was developed that assessed the Corporation's ability to deliver on the plans and initiatives being developed across the entire organization. Time and resource estimates were applied against the projects and a strategic analysis completed to determine pace, timing and sequencing of the various initiatives. One obvious conclusion was that the collective aspirations of the Board, the shareholder, management, customers, stakeholders, and employees outstrip the capacity of the organization.

As noted in Section 2.1.3, one of the recommendations of the OAG Special Examination – 2009 highlighted deficiencies in the planning process at Marine Atlantic. The approach to integrated planning has evolved significantly over the past 24 months, and an external consultant has been engaged to document the annual planning cycle. The report produced by the consultant will be provided to the Board and shareholders for feedback before the end of 2010/11, and will incorporate the following integrated planning elements:

- Financial review for re-profiling;
- Mid-year financial review;
- Strategic implementation planning;
- Corporate Plan process and schedule;
- Detailed budget review; and
- Linkage to accountability agreements.

2.7.2 Communications

The Communications Department has continued to evolve during 2010/11, particularly with respect to internal communications activities. During the development of the Revitalization Strategy it became obvious that an informed and engaged workforce was an essential element to enable the transformation of the organization into a modern and efficient ferry service. The internal newsletter *Strait Talk* was launched in March 2010 and each month, in addition to regular employee oriented features, initiatives and projects are highlighted. Reception to the newsletter has been excellent, and it is distributed electronically to individuals within and outside the organization. The Department continued to publish *Beacon* and *Signal Notices* to inform employees of significant events in a timely manner, and to publish new appointments, changes in procedures and so on.

Internal communications is also an important element of the Project Management Office (PMO). An Internal Communications Officer was hired in the PMO, reporting directly to the Manager of Communications, to keep employees abreast of the status of the project and to build excitement inside the organization in anticipation of the improvements in service enabled by them. The employee Intranet site was also redesigned during 2010/11 and will be re-launched to employees before the end of the fourth quarter.

Managers' Conferences were held in early June and November, outside the peak summer season. These meetings bring together vessel and shore-based managers from across the organization and are an excellent opportunity to discuss strategic and operational issues, and to facilitate organizational buy-in. The June conference focused on implementation of the Revitalization Strategy, while the November conference focused on integration of the new fleet into the operations of the Corporation.

2.8 Financial Performance

Since the approval of the 2010/11 Corporate Plan in June 2010, management of the Corporation worked diligently to negotiate and secure a charter agreement for two vessels; planning and estimating the costs of integrating these vessels into the fleet; planning and implementation of significant capital infrastructure to compliment these vessel additions and to continue to improve on the total customer experience.

As a result, there were a number of changes from the original plan developed in support of Fleet Renewal. The financial adjustments resulting from the plan changes are provided in the following table. For example, the fleet integration schedule was revised this year to reflect an earlier delivery of the vessels, MV *Blue Puttees* and the MV *Highlanders*. The MV *Blue Puttees* arrived in Canada on January 5th, 2011 and is expected to enter service before the end of the fiscal year. The MV *Highlanders* will arrive in February 2011 and enter service in April 2011. The MV *Caribou* was taken out of service in November 2010 and the MV *Joseph and Clara Smallwood* will be taken out of service in March 2011. These changes impacted the financials and adjustments had to be made accordingly.

Despite these changes, the Corporation managed the process well and was able to operate within its approved appropriation for fiscal 2010/11. The financial performance was over 2 percent better than projected on a total dollar budget of $317 million. An operating surplus of $6.8 million was reduced by a requirement to increase working capital by $6.3 million resulting in a net $0.5 million operating surplus. As well, the Corporation achieved a cost recovery of 59.7% exceeding the targeted cost recovery of 58.4%.

(In $ thousands)	2010/11		
	Corporate Plan Budget	Forecast	Difference
Revenues			
Transportation	82,817	81,406	(1,411)
Fuel Surcharge	12,003	11,400	(603)
Revenue Enhancements	2,880	297	(2,583)
Total Revenues	**97,700**	**93,103**	**(4,597)**
Expenses			
Base operating*	131,612	124,738	6,874
Fuel	35,540	31,340	4,200
Charter – Lease payments	26,108	26,276	(168)
Charter - HST on Importation	15,512	8,250	7,262
Pension	21,852	20,077	1,775
Program management, implementation and restructuring	7,357	15,877	(8,520)
Total Expenses	**237,981**	**226,558**	**11,423**
Net Operating Requirement	**140,281**	**133,455**	**6,826**
Working Capital	**(2,485)**	**3,863**	**(6,348)**
Capital Spending			
Stimulus projects	10,499	7,570	2,929
Shore-based major capital	6,050	4,043	2,067
Vessel-based major capital	53,126	57,058	(3,932)
Base capital projects	7,736	12,902	(5,166)
Other capital projects carried forward from 2009/10	1,395	1,307	88
Total Capital Spending	**78,806**	**82,880**	**(4,074)**
Total Spending Expense/Capital	**316,787**	**309,438**	**7,349**
Funding			
Net Government funding required	216,602	220,198	(3,596)
Net Government funding available	216,602	224,037	7,435
Net Funding Surplus / (Shortfall)	-	3,839	3,839
Cost Recovery	**58.4%**	**59.7%**	**1.3%**

* *total expenses less fuel expense, charter fees and current service pension*

2.8.1 Revenues

Despite not achieving budgeted traffic levels, the Corporation's volumes are forecasted to reach record levels in 2010/11 as AEU traffic increased by 2.9% over the previous year. Strong gains in commercial traffic continue to be offset by passenger and passenger vehicle declines resulting in $1.4 million less transportation revenue than expected. The fuel surcharge rate was set at 19.7% at the beginning of the year. The rate will be reduced to 16% in January 2011 to coincide with the general rate increase and to precede the implementation of the MV *Blue Puttees*. The surcharge rate is well below external competitors and the Atlantic Provinces Trucking Association, all of which have current fuel surcharge rates above 25%. Surcharge revenue is down slightly by $603 thousand, and does not impact the achievement of the Corporation's financial objectives.

2.8.2 Expenses

Base operating expenses will be $6.9 million lower. The early arrival of the charter vessels and subsequent early layup of the MV *Caribou* and MV *Joseph and Clara Smallwood* substantially reduced maintenance costs. There were also savings realized during the MV *Atlantic Vision* and MV *Leif Ericson* planned maintenance activities. The overall savings in maintenance is expected to be $5.7 million. The other $1.2 million reduction relates to operational savings in various accounts.

The market price of fuel trended 4% lower than anticipated resulting in $1.5 million in savings. In addition, total fuel consumed was lower than projected. Management increased the budgeted fuel consumption per trip projections of the MV *Caribou* and MV *Joseph and Clara Smallwood* to account for the performance of the aging assets. The actual fuel consumed by these two vessels was, however, in line with historical levels resulting in a $2.7 million savings.

Charter costs consist of two components, lease payments and net HST required for importation of chartered vessels into Canada. The early delivery of the MV *Blue Puttees* and MV *Highlanders* affected the lease payment schedule requiring $1 million in additional payments.

Favourable Euro exchange rates combined with increased capital contributions toward vessel conversion costs helped reduce the lease obligation by $0.8 million in 2010/11, and have significant favourable impacts over the remaining charter obligations.

Reflagging the chartered vessels to Canada requires that all regulatory requirements are met and all taxes paid upon importation. The HST on Importation are the funds required to meet the taxation requirements to import chartered vessels into Canada. The original plan was to import the MV *Atlantic Vision* and the MV *Blue Puttees* this year. With the change in delivery schedule, the Corporation decided to permanently import the MV *Blue Puttees* and the MV *Highlanders* this year. Due to the amount of management resources required to prepare for the new vessels, the MV *Atlantic Vision* permanent importation was deferred until after the new vessels are in service. The payment for MV *Blue Puttees* will be made in February and although the MV *Highlanders* will be permanently imported this fiscal year, the actual cash payment of approximately $7.2 million will not be made until April 2011.

The Program Management Office (PMO) is responsible for implementing the two new chartered vessels, reflagging of the MV *Atlantic Vision* and the decommissioning of the MV *Caribou* and MV *Joseph and Clara Smallwood*. The change in delivery schedule impacted the PMO resulting in more expenditure in the year to complete the work required for the delivery of two vessels. The original plan was to spend roughly half the funds by Q4 2010/11 and the other half in Q1 2011/12. The additional $8.5 million requirement this year was mostly funded from the delayed payment for the HST on Importation of the MV *Highlanders* to April, 2011 (as described above). Conversely, the funding available for the PMO for vessel integration in fiscal 2011/12 will be utilized to fund the HST requirement.

The pension costs are $1.8 million lower than planned. The anticipated pension cost is determined by an independent actuary utilizing the most recent information available (See section 4.4.7). The actuary considers the latest regulations, actual experience of the plan, and guidance from the actuary's regulatory body to calculate these projections.

2.8.3 Working Capital

With the early arrival of the chartered vessels, the Company incurred costs of $2.9 million for decommissioning and layup costs for the MV *Caribou* and MV *Joseph and Clara Smallwood* to remove them from active service. This work was previously planned for fiscal 2011/12. These costs are to be recovered from the proceeds of disposal of the vessels, with any residual balance to go to the Consolidated Revenue Fund.

The Corporation's outstanding insurance claims from prior years will be settled by the end of the fiscal year. An adjustment of $0.25 million for the actual payouts has been made based on latest estimates. The *Smallwood* had to travel to Boston in October 2010 to repair a damaged rudder. The Corporation is currently in discussions with its insurance representatives to secure the claim amount. The total net proceeds of insurance are estimated to be $0.25 million.

The additional difference in working capital requirements is for liability requirements, particularly wage accruals.

2.8.4 Capital

The Corporation anticipates spending $82.9 million of its $86.2 million 2010/11 capital budget. The following table summarizes the 2010/11 Capital Plan by major category.

	2010/11				
Capital projects (in thousands of dollars)	**A Original Budget**	**B Re-profiling**	**C = A + B Adjusted Budget**	**D Forecast**	**E = C - D Variance**
Stimulus funded projects	10,499	-	10,499	7,570	2,929
Shore-based major capital	6,050	2,000	8,050	4,043	4,007
Vessel-based major capital	53,126	2,390	55,516	57,058	(1,542)
Base capital projects	10,878	-	10,878	12,902	(2,024)
Other capital projects carried forward from 2009/10	1,395	-	1,395	1,307	88
Total capital requirements	81,948	4,390	86,338	82,880	3,458
Capital adjustments	(3,142)	3,045[1]	(97)	-	(97)
Total capital requirements	**78,806**	**7,435**	**86,241**	**82,880**	**3,361**

Note 1: $3,045 re-profiled amounts consists of $1,059 re-profiled for [Infrastructure] Stimulus funded projects and $1,986 for Other capital projects carried forward from 2009/10.

During the year, Marine Atlantic worked with Transport Canada on two fund re-profiling exercises. $3.045 million was re-profiled from 2009/10 to complete Stimulus and other capital projects that were originally scheduled for completion in 2009/10, but have been rescheduled for completion in 2010/11 due to various delays. As a result of subsequent major savings on projects and cancellations as noted above $3.017 million in funding is no longer required for 2010/11 while $1.5 million is required for completion of Stimulus projects. In addition, $4.39 million was re-profiled from the out years of the planning period into 2010/11 based on anticipated requirements for major projects. The monies not used for the originally intended purposes were subsequently re-allocated for new business requirements and advanced projects as well as the capital contribution to the charter vessels as noted below.

Upon the latest review of the capital spending profile, it was determined that there were projects that the Corporation could advance to 2010/11 as well as various new business requirements that could be funded. These projects are included within the additional $2.18 million in base capital project spending. In addition, there was a reallocation of funds from other projects to the $28 million capital contribution to charter vessels. This particular transaction will provide reduced charter hire payments and will generate interest savings from the lease arrangement.

2.8.5 Cost Recovery

The Corporation's cost recovery percentage is calculated by dividing total revenues into total costs (less charter fee, capital expenditures, program management, implementation and restructuring and pension costs).

Marine Atlantic's forecasted cost recovery for 2010/11 is projected to be better than budgeted due to lower operating and fuel costs. Cost recovery for 2010/11 is projected at 59.7 percent, compared to 58.4 percent in the original budget, and is significantly higher than the 54.5 percent achieved in 2009/10.

2.8.6 Financial Controllership

The assessment of the current controllership environment at Marine Atlantic continued this year. The focus has been on the changing role of controllership toward a strategic, forward thinking, change agent, through coaching and a commitment to technology.

The Finance Department reviewed and revamped various functions in the year to enhance the controllership function. The budgeting process was reviewed and an enhanced schedule and process was developed and implemented. As part of the enhanced financial reporting requirements, in line with industry best practices, a dashboard was developed and implemented as part of the monthly reporting process that is presented monthly to the Executive Committee. The dashboard emphasizes graphically the financial results of the Corporation and quickly draws awareness to areas that require attention. In addition, with the major Corporate management renewal in the year, financial reporting was altered and enhanced to meet the reporting requirements of the new Departments.

Major emphasis was placed on improving the Procurement function of the Corporation this year. The redevelopment will involve a number of changes, among them adding capacity to the Department; broadening the skills set of the purchasing staff; simplifying and streamlining the procurement procedures to reduce overhead and add value to the process; modifying the Procurement Policy; and reducing the decentralization of parts of the procurement process by bringing some items back into Purchasing. The Procurement Policy was revised with the assistance of the Executive and Audit Committee. The intent of the revisions is to improve the efficiency and effectiveness of the purchasing function, thus improving customer service.

Effective April 1, 2011 pursuant to Financial Administration Act section 131.1 all federal government Departments and parent Crown corporations are required to prepare and make public a quarterly financial report within 60 days after the end of the fiscal quarters to which the report relates for the first three fiscal quarters of the fiscal year. The Corporation continues to prepare to implement reports created in accordance with the standard.

The audit of the 2009/10 financial statements was conducted by the Office of the Auditor General and there were no significant deficiencies disclosed during the audit. The preliminary audit work has begun for the 2010/11 fiscal year.

2.8.7 Generally Accepted Accounting Principles (GAAP) Conversion

Due to an amendment to the CICA Public Sector Accounting (PSA) Handbook approved in September 2009, the Corporation was required to perform an analysis of its classification and a determination of its most appropriate basis of accounting. This analysis resulted in Marine Atlantic determining its classification to be an Other Government Organization and PSA Standards as being its most appropriate basis of Generally Accepted Accounting Principles (GAAP). Both the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG) agreed with the Corporation's determination and the requirement for the Corporation to convert from its current accounting basis to PSA. The conversion process to PSA is following a robust project management approach to implementation. A manager is leading the project with a working group reviewing all the requirements for implementation. An expert external consultant has been engaged to provide PSA advice. A steering committee is in place to approve all recommendations to go to the Audit Committee of the Board of Directors of Marine Atlantic Inc. The project is on target to implement the standards by the deadline of April 1, 2011.

Other government organizations that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2011. Marine Atlantic Inc.'s fiscal year begins April 1, therefore conversion is scheduled for that date in 2011.

The conversion methodology employed by the Corporation in its GAAP conversion consists of the following three phases:

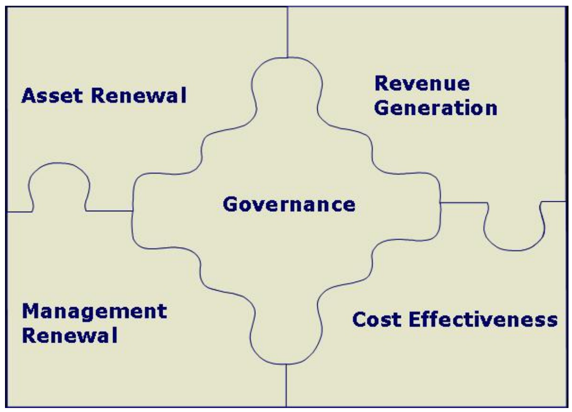
Phase 1 – Scoping and Diagnostics (Planning)

Phase 2 – Analysis and Development (Design and Build)

Phase 3 – Implementation and Review

3 Revitalization Strategy

In October 2009 Marine Atlantic presented its Revitalization Strategy to the shareholder. The Revitalization Strategy contains five key elements as depicted in the diagram below, and was developed to both provide a framework for the transformation of the Corporation's operations, and to support reinvestment in the organization.



The Revitalization Strategy provides a framework to support Marine Atlantic's goal of creating a modern and efficient ferry service that delivers a high level of customer satisfaction. Some elements of the Revitalization Strategy, such as management renewal, are well underway while others, such as cost effectiveness, are just beginning. All elements of the Revitalization Strategy will be implemented within the planning period.

In order to prioritize the various initiatives that support the implementation of the Revitalization Strategy, a planning exercise was completed in August 2010 that resulted in a Strategic Implementation Plan (SIP). The SIP considers resource availability along with the appropriate pace, timing and sequencing of projects to provide a high level of probability of success in terms of reaching the Corporation's goals. The SIP process identified close to 150 projects that support the five elements of the Revitalization Strategy, along with providing other operational and customer service improvements. The challenge for the Corporation is managing this level of activity and resultant change imposed on the organization, its employees, its customers and stakeholder groups.

3.1 Governance

Under this aspect of the Revitalization Strategy, four priority areas have been identified for improvement:

- Financial Stewardship;
- Service Standards;
- Bi-lateral agreement; and
- Governance emphasis within the organization.

A significant amount of progress in this area was accomplished in 2010/11 as highlighted in Section 2. Examples include the revised Procurement Policy, enhancement of the oversight of capital expenditures and establishment of the Project Management Office for integration of the two new vessels into the fleet. Section 5 outlines further enhancement to the governance capacity, including finalizing service standards, completing a new Bi-lateral Agreement and establishing the Transformation Office for overseeing some of the key elements of the Revitalization Strategy.

3.2 Management Renewal

Management Renewal at Marine Atlantic was initiated in October 2008 and is delivering on many of its anticipated benefits. The three Divisions established in 2009/10, Customer Experience, Strategy and Corporate Affairs and Quality, Risk and Compliance are now firmly established and are bringing the required focus to their respective areas of responsibility. The new accountability agreements that were introduced for 2009/10 have proven effective and their use will be expanded as much as possible.

There are some remaining positions in the organizational structure that will be filled in the coming months, and minor adjustments will be made as required to optimize effectiveness as circumstances dictate. The Corporation does not, however, anticipate any significant changes to the current organizational structure over the planning period.

3.3 Asset Renewal

Asset renewal is well underway at Marine Atlantic, the highlight of which will be the Corporation's new fleet. Port facilities will also be greatly enhanced over the planning period, including refurbishment at Port aux Basques and Argentia, and a new terminal building at North Sydney. Other enhancements are included in the budget that will improve the efficiency and customer service delivery aspects of the Corporation's operations.

3.4 Revenue Generation

As outlined in Section 5, Marine Atlantic is developing strategies around yield management, which is more than simply managing revenue. It is the process of understanding, anticipating and influencing consumer behaviour in order to maximize profits.

3.5 Cost Effectiveness

Marine Atlantic will continue to review its operations in the context of cost efficiency targets outlined in Section 5. Some cost efficiency strategies were implemented in 2010/11, and 2011/12 will see cost savings from the introduction of the two new vessels and from an improved fleet overall. A number of cost effectiveness studies will be initiated in 2011/12 and the findings will be implemented over the planning period.

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 also needs to further analyze cost allocations and cost recovery with respect to the revenues and costs associated with various services provided to its customers.

The Corporation has committed to live within its funding appropriations over the next 4 years. In the 5th year of this planning period the Corporation has identified a $109 million funding requirement for which it will be presenting a funding proposal in the planning period.

4.2 Traffic Considerations

Based on the latest forecasts, growth in Real Gross Domestic Product (GDP) for Newfoundland and Labrador is expected to be 3.9 percent for 2010 and 2.9 percent for 2011.[1] The Corporation is projecting total actual traffic for 2010/11 on an AEU basis to be up approximately 2 percent over the previous fiscal year actuals, representing another record year with AEUs approaching 560,000. This overall increase in AEUs is due to the continued growth of CRV traffic as both passenger and PRV traffic are projected to be down for the year (down both from prior year actuals and current year budget). Suspected factors contributing to the drop in PRV traffic include but are not limited to: cancelled sailings, in particular cancellation on the Argentia service; low vessel reliability experienced in recent years, in particular 2009; economic constraints for personal travel brought about by the recession and slow recovery; and negative perceptions on availability due to the constant complaints from the commercial industry of the lack of availability of reservations. Given the capacity constraints of the fleet, the increased traffic levels contributed to significant backlogs and many frustrated customers during the peak season. For 2010/11, owing to the Commercial Reservations system, this backlog manifested itself in the lack of ability to make timely reservations versus traffic backlogs at the terminals as experienced in 2009/10.

Preliminary discussions with commercial industry stakeholders have indicated that they anticipate continued growth in traffic for 2011. This is corroborated by the Conference Board of Canada's Autumn 2010 Provincial Outlook, in which they state their expectation that the construction boom in Newfoundland and Labrador will continue to boost the provincial economy in the near term.[2] Commercial related traffic on the Island portion of the province will continue to be lifted by the economic benefits of mega projects including the construction of Vale Inco's Long Harbour nickel processing plant, which by itself is expected to require approximately five thousand tractor trailer loads of goods to be brought onto the Island over the next three years during its construction phase. This is in addition to the continued growth in the offshore oil sector. The Newfoundland and Labrador Department of Tourism, Culture and Recreation, in an interim report issued in September 2010, also showed positive growth for most key tourism indicators, excepting the non-resident automobile

[1] Government of Newfoundland Labrador, Department of Finance, Economic Research and Analysis Division, Forecasts: Selected Indicators - http://www.economics.gov.nl.ca/frcstselind.asp

[2] The Conference Board of Canada, Provincial Outlook Executive Summary: Autumn 2010 http://www.conferenceboard.ca/e-Library/abstract.aspx?DID=3903&utm_source=elibrelated&utm_medium=web&utm_campaign=e-library

visitors to the province which are essentially all carried by Marine Atlantic.[3] The Newfoundland and Labrador Government's increased marketing efforts towards meeting its stated goal of doubling tourism between 2009 to 2020 in the Province is showing dividends with an overall increase in tourists visiting the Province. Looking forward to 2011, economists are projecting a growth in the real gross domestic product of 2.9 percent for Newfoundland and Labrador.[4]

4.3 Traffic Projections

A study by Opus[5] has been used as the source for traffic projection data for long term fleet planning as agreed with Transport Canada. It is recognized that this may not match the detailed traffic projection data used by Marine Atlantic for the purposes of corporate planning on a year by year basis. However, traffic projections will still fall within the range of plus or minus 15 percent from the projected trend line. The original Opus projection analysis was revalidated in September 2009 by an external consultant.

To determine traffic projections for the 2011/12 fiscal year the Corporation performed a detailed traffic projection analysis using actual traffic data as far back as 1996. A linear regression analysis was performed on the 15 year historical data set, and future year projections were extrapolated from this analysis. The baseline year for the Port aux Basques to North Sydney service was updated to be 2010, which is the most current data. The base year for the Argentia to North Sydney service was updated to use 2008 as the 2009 and 2010 years were impacted by sailing cancellations on account of vessel breakdowns.

4.4 Assumptions Underlying Financials

The following are select high level assumptions used towards key areas of Marine Atlantic's financial projections. Additional assumptions, including the below, were included as part of Marine Atlantic's submission to Cabinet.

4.4.1 Demand

Demand figures for the Revitalization Strategy submission were based upon a traffic projection[6] agreed by Marine Atlantic and Transport Canada. The traffic projections were adjusted slightly to account for the change in mix of traffic experienced in 2010.

4.4.2 Revenues

Key assumptions behind revenue projections can be found in Section 5.8.1.

4.4.3 Expenses

Expense projections take into consideration the operation of the new fleet composed of the modern and efficient charter vessels the MV *Blue Puttees* and the MV *Highlanders*; the MV *Leif Ericson* (after its mid-

[3] Government of Newfoundland Labrador, Department of Tourism, Culture and Recreation, 2010 Tourism Indicators: 2010 Provincial Tourism Performance (September 2010 YTD) - http://www.tcr.gov.nl.ca/tcr/stats/index.html
[4] Government of Newfoundland Labrador, Department of Finance, Economic Research and Analysis Division, Forecasts: Real GDP Growth - http://www.economics.gov.nl.ca/frcstGDP.asp
[5] "Marine Atlantic Traffic Forecast (2007 – 2026)", 23 Aug 07, C-113001.0, Opus International Consultants Canada) Ltd.
[6] MAI Traffic Projection 00-001/000-010 RV.0

life refit); and the MV *Atlantic Vision*. It is assumed that 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.

It is assumed that the Corporation will recoup the approximately $3 million in layup costs incurred in 2010/11 as well as any additional costs incurred in 2011/12 related to the disposal of the *MV Caribou* and the *MV Joseph and Clara Smallwood* through the proceeds of disposition of these vessels. It is further assumed that the total disposition proceeds will be more than sufficient to recoup these cash outlays. The balance of the proceeds from the sale of the vessels will be added to the Consolidated Revenue Fund.

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 to be achieved.

4.4.4 Foreign Exchange

The Corporation has implemented a foreign exchange hedging strategy to proactively mitigate exposure to foreign currency. The Corporation has negotiated with Stena RoRo to pay in Canadian currency for the charter of two of their vessels. In addition, the Corporation has secured a Euro rate with a financial institution with futures contracts for the capital payments required to Stena RoRo.

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 the 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.

MAI's hedging strategy has been successful in bringing stability to the charter obligations and by achieving better than budgeted expectations in 2010/11. Furthermore, by securing the cost of these lease obligations by the means as noted above, cost certainty has been achieved 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 percent, the midpoint of the one to three percent inflation-control target range[7]. 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 2011 the average of private sector forecasts for CPI Inflation is 2.2%[8]. 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 percent general inflation rate annually over the planning period.

4.4.6 Fuel Pricing

Fuel is a major expenditure for Marine Atlantic, accounting for 15 percent of total operating expenses. With the introduction of the MV *Atlantic Vision,* and the subsequent retirement of the MV *Atlantic Freighter*, the Corporation acquired much needed capacity. The addition of this vessel coupled with an increase in traffic resulted in increased consumption levels. Crude oil prices experienced sharp volatility in early 2008, actually topping the US$140 per barrel mark. In the fall of 2008 the world economy went into a deep recession and financial instability negatively affected the price of oil which plummeted below US$40 per barrel. Recently, the price of fuel has again started to increase with prices reaching over US$90 per barrel. As a result, large uncertainties surrounding fuel prices exist into the future. For planning purposes the Corporation has calculated the fuel prices using market information and analyzing New York Mercantile Exchange future contract prices.

4.4.7 Pension Plan

Since the last valuation, there have been significant changes to the regulatory environment for federally regulated Pension Plans. The Regulations amending certain regulations made under the *Pension Benefits Standards Act, 1985* came into force on July 1, 2010. These regulations set out the new minimum funding requirements applicable to the plan.

Based upon these requirements, the minimum funding requirement on a solvency basis, utilizing the average solvency ratio of 89.1%, the adjusted solvency deficiency to be amortized is $64,724,000. The Act prescribes the minimum contributions that Marine Atlantic Inc. must make to the Plan are comprised of going concern current service cost and special payments to the fund. As such, the actuary recommended that Marine Atlantic Inc. make the minimum contributions to the plan by making payments of 10 percent of member's pensionable earnings and minimum special payments for solvency of $815,000 for each month out to 2015.

The next actuarial valuation will be completed in 2011 for year ending December 31, 2010.

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

[8] 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

4.5 Cost Containment Measures

The Federal Government's *Expenditure Restraint Act* (ERA) dictates that no collective agreements and arbitral awards may provide increases to rates of pay greater than 1.5 percent for fiscal year 2010/11. Any increases must be covered by operational savings and/or revenue increases. Marine Atlantic's status as a listed Schedule III Crown Corporation under the *Financial Administration Act*, renders the Corporation exempt from the ERA. Further as an essential service, in the event that an impasse in collective bargaining is reached, collective agreements would subsequently be resolved in binding arbitration. This limits the Corporation's control over wage settlements. However, Marine Atlantic's Corporate Plan respects the spirit of such cost containment measures as evidenced by its ratio of operating expenses to revenues over the planning period and commitments under its Revitalization Strategy.

	Budget 2010/11	**Forecast 2010/11**	**Budget 2011/12**	**Budget 2012/13**
Operating expenses[9]	$ 189,004	$ 176,155	$ 185,846	$ 188,916
Revenue[10]	$ 97,700	$ 93,103	$ 97,780	$ 110,495
Ratio of Operating Expense/ Revenue	**1.93 : 1**	**1.89 : 1**	**1.90 : 1**	**1.71: 1**
Cost recovery	58.4%	59.7%	60.0%	66.2%

Despite a 5 percent drop in revenues the Corporation was successful in controlling costs in 2010/11, improving its ratio of operating expense to revenue from a budgeted 1.93:1 to 1.89:1 while also improving its cost recovery rate.

4.5.1 Strategic Review

During 2010/11 the Corporation undertook the Strategic Review process that involved a comprehensive assessment in which Marine Atlantic Inc. systematically reviewed its program spending and the operating costs. As part of its Revitalization Strategy, the Corporation has efforts (planned or underway) to improve its performance and efficiency. It should be noted that the proposed Strategic Review savings are not reflected in the current financial forecast.

[9] *Operating expenses as taken from Statement D, Funding from Operations and Government, include: base operating requirement; fuel requirement; fuel applicable for surcharge; and pension requirement. Program management, implementation and restructuring costs are excluded from the operating expenses as these are not ordinary operational expenses*

[10] *Revenues include: revenue expectations and fuel surcharge revenue expectations which includes all revenues derived from customers*

4.6 Fuel Surcharge

Fuel costs are a combination of the amount of fuel consumed and the cost of fuel on the open market. Factors impacting fuel consumption include the number of trips made by the Corporation's vessels, the speed at which the vessels are operated and the fuel efficiency of the Corporation's vessels. Fuel consumption has continued to increase with the increases in traffic volumes requiring more trips, higher speeds required to address reliability and capacity issues and declining fuel efficiency of aging vessels.

It is anticipated that the fuel surcharge for 2011/12 will drop given the introduction of two newer, more fuel efficient vessels into the fleet. A decision on fuel surcharge for 2011/12 will be made as a part of the Corporation's ongoing review of fuel cost and cost recovery projections.

In 2009 Marine Atlantic launched a fuel hedging program to minimize impacts of adverse price moves, stabilize the fuel budget and minimize variations on surcharge. The program will be fully implemented in 2011/12, improving the predictability of the total fuel costs and surcharge in the annual budget.

Hedging provides an opportunity to budget with more accuracy the pricing portion of the expense. Still, to achieve this objective, a strategy to hedge passively up to 65 percent of the projected volume is retained. The selected benchmarks to hedge are the Nymex Heating oil 2 and Heavy oil 6 from New York Harbour and only tools with upwards price protection will be used.

4.7 Regulatory Impacts

The international marine industry is heavily regulated to ensure the safe operation of vessels at sea. Various acts and regulations govern these activities, including the Canada Labour Code, Marine Occupational Safety and Health Regulations, Transportation of Dangerous Goods Act and Regulations, Marine Liability Act and Regulations, Canada Shipping Act and Regulations, Canada Marine Act, Transportation Security Act and Regulations and Coasting Trade Act. Marine Atlantic also falls under the umbrella of the International Convention for the Safety of Life at Sea (SOLAS), the pre-eminent of all international treaties concerning the safety of merchant ships.

Implementation of the Marine Transportation Security Regulations and the Domestic Ferry Security Regulations that came into effect on April 1, 2010 costs the Corporation in excess of $1.0 million per year in additional operating costs, primarily in the form of additional security personnel. One-time capital costs of $1.35 million were incurred to affect physical security measures, including fencing, controlled access gates and video surveillance that were required to meet these new regulations.

The Marine Environment Protection Committee of the International Maritime Organization has unanimously adopted amendments to the MARPOL Annex VI environment regulations aimed at reducing harmful emissions from ships. The Corporation is actively monitoring these regulations, to determine the potential impact that they may have on Marine Atlantic's operation.

On July 1, 2010 there were a number of amendments to the ISM code. As a result of these amendments a complete overhaul of the Corporation's Safety Management System was initiated in 2010/11. The revisions to the ISM code heightens the focus on the safety of people, property and the environment. ISM has now effectively codified environmental responsibility and risk management.

This has pushed forward the urgency of putting in place the Corporation's Environmental Management Plan and risk management. To address these areas in a timely fashion and maintain the systems and processes required the Corporation has acquired additional resources for the environmental and risk functions.

4.8 Sensitivity Analysis

A sensitivity analysis of the key planning factors utilized in this plan, along with the Corporation's intended strategy to mitigate each risk was performed by the Corporation.

5 Planning for the Future

Marine Atlantic annually reports on its intended activities for the upcoming planning period as part of its Corporate Plan. A summary of these planned activities, by Division, are found in the following subsections.

5.1 New Fleet Integration

Marine Atlantic will enter 2011/12 with all of the opportunities and challenges associated with implementing a new fleet of vessels into the service. The MV *Blue Puttees* and MV *Highlanders* will be practically new as the Corporation heads into its peak summer season. The MV *Leif Ericson* will have improved reliability and customer aspects enabled through its extensive refit during the winter of 2010, and the MV *Atlantic Vision* will take on its new role as the backbone of the Argentia service.

Insufficient capacity and poor reliability have been the key issues faced by Marine Atlantic in recent years. These issues have been consistently identified by Marine Atlantic's customer base as high priority and these must be addressed before any significant gains can be made in overall customer experience and Marine Atlantic's overall reputation. With 40 percent more capacity than the ships that they are replacing on the Gulf service, the MV *Blue Puttees* and MV *Highlanders* will provide sufficient capacity throughout the planning period. The new vessels, combined with the improved reliability of the MV *Leif Ericson* should significantly reduce mechanical breakdowns and resultant disruptions to the service. When inevitable service disruptions occur due to weather or other events, sufficient capacity will be available to recover in a reasonable timeframe. Pulling the vessel from the Argentia service, which the Corporation has had to do in recent years to get back on schedule on the Gulf service, will not be necessary.

The Argentia service will receive considerable attention in 2011/12 as the Corporation moves forward with a rejuvenated service based on the amenities offered by the MV *Atlantic Vision*. Before the end of 2010/11, $2 on refurbishing the terminal building in Argentia and a marketing campaign will be launched to inform customers, stakeholders and industry groups of the new service attributes. Section 5.3.2 provides more details on this marketing campaign.

Successful integration of the new fleet is second only to safety and security in terms of priorities for Marine Atlantic in 2011/12. A significant proportion of management capacity will continue to be dedicated towards delivering on this goal. Achieving other objectives for the Corporation becomes very difficult in the absence of successful fleet integration. The heavy emphasis on this activity will limit the Corporation's ability to make significant progress on other major objectives before the end of summer 2011, although planning and preparatory work will continue throughout this period. Marine Atlantic's Strategic Implementation Plan, developed in August 2010, along with the remainder of this Section 5, will highlight some of the impacts.

5.2 Quality, Risk, and Compliance

5.2.1 Enterprise Risk Management

Over the planning period, Enterprise Risk Management is expected to continue to mature within the Corporation, incorporating existing management processes and reporting activities to ensure that risk management assesses all threats and opportunities the organization is likely to confront in achieving its objectives.

5.2.2 Safety

Safety has long been the highest priority within the Corporation and continues to play an integral role within the overall risk management framework of Marine Atlantic. Management and the Board recognize the need for extra vigilance to ensure continued safety of the passengers and crew.

5.2.3 Security

Over the next five years, marine security will continue to evolve within the domestic ferry service. Over the past two years the Corporation's security personnel have doubled while the presence of physical security measures such as fencing, controlled access gates and video surveillance have become very pronounced.

5.2.4 Insurance

The Corporation's good insurance record has come under attack in recent years. There have been an increasing number of claims against the Hull and Machinery Policy due to mechanical failures in the Corporation's older vessels. This has lead to increased payments for insurance deductibles and an increase in premiums. The deterioration of previous unresolved insurance claims in 2010/11 adds to these insurance woes along with the insurance claim for the Smallwood's rudder damage. As expected, as the fleet continued to age, the Corporation experienced more claims and consequently incurred additional costs for its Hull and Machinery Insurance Policies.

As part of an ongoing project an external consultant has been hired to assist with a complete review of the Corporation's insurance portfolio and practices including current brokerage arrangements, premium structures, fees paid, policy and coverage, and amounts and types of insurance carried. This review is expected to assist with the consolidation of brokerage arrangements, determine if there are any gaps in coverage currently in place, review adequacy of coverage limits, consider alternative insurers (ones with better financial performance and/or stability – and/or costs) and streamline costs as the total tonnage of the fleet increases.

5.3 Customer Experience

Increased customer satisfaction, decreased complaints and a decrease in negative media are major objectives for the Corporation throughout the planning period. During the planning period the Corporation will ensure that customer service policies are reasonable, widely distributed, understood and that the cost implications are considered in their application. The Corporation will also take steps to determine best practices from an industry perspective and then determine what is reasonable and achievable as a promise to the Corporation's customers.

5.3.1 Schedule

The 2011/12 and future sailing schedules will be developed using a higher number of parameters than before due in part to the introduction of the new vessels. These parameters include regulations for crew rest periods, maintenance periods, port time, customer-friendly sailing times, traffic demand, vessel capacity, crossing times and fuel costs. The Corporation strived to balance these requirements, but consciously decided that, aside from the regulatory requirements, these were all secondary to the overall goal: a realistic schedule that meets demand and provides a high level of service

Over the course of the planning period, the Division intends to take the same comprehensive approach in leading the development of the sailing schedule. As the new vessels will come into service at the start of and during the 2011/12 schedule, an additional degree of complexity is added to the development criteria for 2011/12. The 2012/13 schedule will benefit from the experience of having new vessels for a full seasonal cycle, leading to improvements in that schedule. For 2011/12, the Corporation has designed the sailing schedule with enough added capacity to ensure customer acknowledged improvements in the service. Given that the Corporation has not yet operated with the new fleet, the Corporation erred on the side of caution in setting the schedule for 2011/12 in that at certain times there may be more capacity than demand. It is important to note, however, that due to the fact that certain sailing times are favoured by customers, there will still be capacity issues with some individual sailings. This is unavoidable, regardless of the nature of the Corporation's fleet.

5.3.2 Marketing and Communications

The Customer Experience Division has introduced a new marketing campaign for the Argentia service late 2010/2011, which will run into 2011/2012. This campaign will help support the overall transformation within the Corporation to become more modern and efficient. It is anticipated that tourism to Newfoundland and Labrador will continue to increase in the coming years. The objective of this new campaign is to be able to meet the increasing demand for the Argentia route by improving capacity utilization and overall customer experience. Improving the Argentia service and marketing these improvements to the public will also help to smooth demand between the constitutional (Port aux Basques route) and non-constitutional service (Argentia route). In the short term, the Corporation will strive towards increasing the current capacity utilization which will directly improve cost recovery on the Argentia service.

5.3.3 Customer Service and Satisfaction

A critical area of focus is the consistent provision of prompt, courteous, customer focused service which is based on reasonably set service standards and policies. These service policies and standards are in place and will be developed throughout 2011/12. The Corporation must set forth an approach that is both aggressive and works within the established framework while at the same time remain customer focused.

5.3.4 Revenue Generation and Cost Efficiencies

Yield management strategies will be the focus in the area of revenue generation and cost efficiencies. A new pricing regime will recognize that customers place greater and lesser value on different aspects of a service, and that pricing can and should be used to better manage supply and demand for various services.

5.4 Operations

The Operations Division will be heavily tasked with implementing the new vessels into the fleet during 2011/12. This endeavour will take up a significant amount of management capacity to ensure that the process is carried out efficiently and with minimal interruption to the Corporation's service. Between vessel integration, managing and maintaining the day to day ferry operations of the Corporation, the Operations Division will have very little remaining capacity to take on any new major initiatives during fiscal 2011/12.

Some of the initiatives currently underway or planned for the upcoming planning period by the Operations Division include:

- Integration of the new vessels;
- Upgrading the terminal in Port Aux Basques;
- Electrical distribution/transformer relocation project in North Sydney;
- An overhaul of all of the engines onboard the MV *Atlantic Vision* as required for class survey;
- The MV Atlantic Vision is scheduled to be re-flagged Canadian;
- Formalizing and adopting a corporate maintenance philosophy;
- Installation of an Electronic Vehicle Measuring System;
- Development of an equipment/asset register in conjunction with life cycle asset management; and
- Development of an energy management plan.

The planning period will be a time of vast change for the Corporation as new assets are integrated into the Corporation's operations, both shore and vessel based. This change will be coordinated by the Operations Division, and thus will place a strain on the available resources, therefore making additional human resources necessary.

5.5 Information Technology

Additional investment in Information Technology governance and business processes is essential to achieving operational efficiencies at Marine Atlantic. To support this goal, in addition to the position of IT Support Manager, which was added in 2010/11, an IT Infrastructure Manager will be hired during the upcoming planning period. These positions will be focused on evolving and maturing the IT organization.

Over the planning period Information Technology within the Corporation will continue to become a more integrated, business oriented service. Maintenance, upgrading or replacement of aging applications and infrastructure will be carried out and new emerging technologies will be investigated and leveraged wherever possible.While these expenditures are factored into the Corporation's spending plans, unexpected breakdowns or major system failures could occur over the planning period that will necessitate additional spending to address such an occurrence.

5.6 Human Resources

The marine transportation industry is struggling worldwide to attract and retain qualified personnel for critical marine positions. The Corporation is also faced with the reality that a significant proportion of its personnel in the marine critical workforce segments will approach retirement in the next decade. To sufficiently perform at many of these positions require years of training and development, further emphasizing the fact that recruitment to ensure succession is paramount in ensuring continuity of service. To date recruitment of many positions has been difficult because of the poor external reputation and aging assets of the Corporation.

Marine Atlantic requires a workforce consisting of employees with marine skills, but equally important is the need for a qualified management team with sound leadership skills. Building on Management Renewal, the Corporation will continue to build capacity and enhance the skills of staff working in areas of customer experience, project management, change management and leadership during the planning period.

The planning period will be one of significant change and challenge. With the crewing of a new fleet of technologically modern vessels the Corporation will be challenged in technical occupations. While the retirement of senior employees will cause a loss of experience, it will also provide an opportunity through hiring to bring new skill sets to the corporation. Human Resources management, planning, and the implementation of enabling human resources strategies will be the highest priority to facilitate the transition during this period.

The Corporation has identified the need to fundamentally change the organization to become more customer focused and operationally efficient. This change cannot occur without emphasis placed on a transformation of the culture within Marine Atlantic. Focus must be placed on shifting towards a cohesive unified culture within the Corporation. External consultants have been engaged to analyze the possibility of operational improvements and without a cultural transformation their recommendations cannot be fully embraced. The Transformation Office will assist with bringing into focus cultural transformation.

The Corporation's Integrated Human Resources Plan was approved by its Board of Directors during the 2010/11 year and will be introduced to managers by the last quarter of 2010/11. While Human Resources will be focusing on these initiatives during the next five years, much of the progress is planned for 2012/13 onwards due to the fact that integrating the new vessels into the fleet will be the main focus for 2011/12. The Integrated Human Resources Plan outlines the key objectives that the Human Resources Division will be focusing on during the planning period.

5.7 Strategy and Corporate Affairs

5.7.1 Policy and Strategic Planning

The Shareholder has provided policy direction on cost recovery which will require a significant amount of work in 2011/12 to determine appropriate cost allocations for the Corporation's various service categories. The Corporation has undertaken some studies that examined various cost categories from a direct/indirect perspective, and these studies, along with other work completed by the Corporation and commissioned by the Shareholder will serve as a starting point in the analysis.

The initial charter period of the MV *Atlantic Vision* will end in late 2013. By late 2012 a new long term fleet renewal plan will need to be developed that looks at fleet requirements and considers the renewal of the MV *Atlantic Vision* charter in addition to future options for the continued use of the MV *Blue Puttees* and MV *Highlanders*.

5.7.2 Governance

Marine Atlantic is developing key performance indicators (KPIs) and benchmark data that can be used to measure both the Corporation's performance and progress against its long term goals. This information will be used to monitor the health and effectiveness of various parts of the Corporation, and the organization as a whole. Marine Atlantic currently uses many internal KPIs, but the key challenge in developing a comprehensive set of metrics is to compile information that is timely, relevant, and provides accurate information about the state of the organization and the rate of change. An external consulting firm was engaged in late 2009/10 to begin the process of logging current internal measures, determining the appropriate indicators, the methods by which the relevant data can be captured, and the appropriate manner in which the KPIs should be reported. The original aim of the project was to develop an initial set of KPIs in 2010/11, but that has been delayed to 2011/12 due to workload considerations.

The Division is also tasked with revamping the 1987 Bi-Lateral Agreement with the Shareholder. There has been considerable dialog with Transport Canada to date and a draft agreement was prepared in 2008/09. Development work on both KPIs and service standards needs to be completed first for incorporation into the new Agreement. This project was originally slated for 2010/11 but has been deferred to 2011/12 due to workload considerations. Depending on the progress with KPIs, service standards and other requirements of the new Agreement, this timeline is subject to further slippage.

5.7.3 Communications

In 2011/12, the Corporation will be focused on implementing a significant number of key initiatives to evolve and become a modern and efficient ferry service with a high level of customer service. As part of the evolution, the Communications Department will focus its efforts on working closely with line departments to develop and execute internal and external communication plans for these projects. A key objective of the Department will be to increase positive media coverage within the two provinces in which the organization operates the ferry service. Another key objective will be to increase the flow of timely information to the middle management team to facilitate accurate, consistent flow of information related to current and planned activities to the entire employee population. The Communications Department will review the Corporation's current Corporate Social Responsibility processes and put forward recommendations for policy and procedures for the organization. Working closely with the Customer Experience Department, which is responsible for the marketing of the organization, the Department will develop a plan for integrating social media into its communications activities.

5.7.4 Legal Services

The Legal Services Department will be heavily involved in the legal and contractual aspects of the new Bi-Lateral Agreement, and will undertake a review of similar agreements with other Crown Corporations. A new employee Code of Ethics will be developed in 2011/12 that is consistent with the *Public Servants Disclosure Protection Act* and the Disclosure of Wrongdoings Policy (Protected Reporting Policy) that was approved by the Board of Directors in October 2010.

Governance-related activities will include a review of the Board of Directors Terms of Reference, redesigning of the Board Evaluation Process and a Board Orientation and Development Plan.

5.7.5 Transformation Office

As noted in Section 2, the Transformation Office will become much more active in 2011/12. Revitalization Strategy initiatives, including many of the projects included in the Strategic Implementation Plan, will be coordinated through the Transformation Office. While responsibility for much of the project execution will rest with the respective Divisions, the Transformation Office will act as a project resource, and will standardize project reporting and monitoring. Oversight for the Transformation Office will be provided by the executive management team.

The Transformation Office resource base will consist of a small number of term employees, supplemented by a number of contractors and consulting firms. Activities in 2011/12 will revolve around several significant capital initiatives, particularly planning for the redevelopment of the North Sydney terminal and refurbishment of the Port aux Basques terminal building and other initiatives associated with the Revitalization Strategy. Some resources will be maintained in the Transformation Office for the duration of its existence, while other contracted resources will come and go depending on the mix of projects underway at that time.

Besides infrastructure and business process re-engineering projects, the Transformation Office will implement and coordinate initiatives that focus on culture change within the organization. Marine Atlantic Inc. has identified culture change as a key driver to attain its goal of becoming a modern, efficient ferry service with a high level of customer service. The Corporation has a long history and well established employee base, so planned and sustained focus on initiatives that promote culture change is necessary.

5.8 Financial Management

Marine Atlantic is committed to running a high quality and effective operation. The attached financial statements reveal the fiscal realities of the various strategies discussed in this plan.

5.8.1 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.

5.8.2 Expense Management

Marine Atlantic is committed to delivering on the opportunities identified in a cost effectiveness plan which was developed by an external consulting firm. The cost effectiveness plan includes a mix of annual savings from operating efficiencies and process improvement, and investments in training and new hiring for under-resourced areas.

5.8.3 Cost Recovery

Cost recovery in 2010/11 shows an improvement over 2009/10 due primarily to the incremental revenue generated from a general tariff increase, increases to drop trailer fees, increased fuel surcharge revenue and minimizing maintenance expenditures on the Corporation's existing vessels to those essential in the short term. Cost recovery at 59.7 percent will exceed Marine Atlantic's budget of 58.4 percent in 2010/11 and will reach its 60.0 percent target in 2011/12. In 2012/13 Marine Atlantic expects to realize increased benefits from its cost effectiveness program, and coupled with the operational efficiencies of the new chartered vessels and the revenue enhancement efforts initiated in late 2010/11 Marine Atlantic expects to achieve its cost recovery targets for the remainder of the planning period.

5.8.4 Financial Controllership

During the planning period, the Vice President of Finance will be working with the managers, stakeholders and various resources to assess the requirements of the Corporation with the goal to move controllership functions toward the objective of an industry "best-run" model.

5.8.4.1 Finance Department

In the area of Finance, the prioritized projects identified for the first two years include: conversion to the new Generally Accepted Accounting Principles - Public Sector Accounting (PSA) Standards; Public Reporting of Quarterly Financial Statements; Fleet renewal strategy; Redesign Financial Statements and Performance Book; and Strategic reorganization of finance function.

5.8.4.2 Procurement Department

The Procurement re-organization and review is a project under the Strategic Prioritization exercise completed with the Board of Directors of Marine Atlantic Inc. The recommendations of the various audits will continue to be implemented and will be complete by the end of the next fiscal year.

5.8.4.3 Controllership – Governance and Controls

Ensuring good governance, risk, and compliance require solutions that promote corporate accountability by unifying corporate strategy, control initiatives, opportunity discovery, and loss mitigation across the extended enterprise. Responding efficiently to Risk and Compliance issues assists in maintaining consistent operational and audit processes. Some of the items the Corporation will be pursuing that the Controller function will assist with include:

- A centralized model to control risk and compliance facilitates the ability of an organization to change quickly when required. This includes Business Continuity Plans.

- Control environment and internal control assessment and policy development - review and assess current control & internal control environment within Marine Atlantic Inc. and develop and improve current procedures.
- Corporate Key Performance Indicator metrics
- Policy enhancement initiatives (For example Governance and controls – identification of key risks inherent within the procurement policy development, business processes, and the controls and governance required to mitigate these risks to an appropriate level).
- Review current financial pension function governance requirements.

5.8.4.4 Bank Line of Credit

Marine Atlantic's bank line of credit is currently approved at $38,950,000. An amount of $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.

Based upon last year's actuarial valuation, there was a requirement for $34,750,000 to be utilized to secure the four letters of credit for the Pension Plan for Employees of Marine Atlantic Inc. However, based upon the latest actuarial valuation completed in September of 2010, this requirement was reduced to $31,422,000 which is currently secured by five letters of credit. The Corporation continues to utilize Part Three of the 2005 Solvency Funding Relief Regulations and the Solvency Funding Relief Regulations, 2009. These Regulations allow the Corporation to apply 10-year amortization for solvency deficiencies with the utilization of letters of credit as security.

The letter of credit amounts required over the planning period are provided in the following table. The amount of these letters will be revised at each valuation only if the valuation reveals gains. In addition, further regulations are expected on the use of letters of credit for solvency purposes. The impact, if any, of such regulations will be dealt with in subsequent valuations.

	2011	2012	2013	2014	2015	2016
2005 Regulations	$ 15,425,000	$ 12,606,000	$ 9,659,000	$ 6,580,000	$ 3,362,000	$ -
2009 Regulations	15,997,000	21,862,000	28,009,000	28,009,000	22,922,000	17,589,000
Total	$ 31,422,000	$ 34,468,000	$ 37,668,000	$ 34,589,000	$ 26,284,000	$ 17,589,000

These letters of credit are required to be renewed 30 days prior to the end of the fiscal year of the Pension Plan which is December 31. Prior to November 30th 2011, there is a requirement to reduce the letter of credit for the 2005 Regulations by $2,819,000 and to increase the letter of credit for the 2009 Regulations from the $15,997,000 to $21,862,000 outlined in the above table.

The Corporation currently has approval for a line of credit sufficient to handle the $31,422,000 requirement for the 2011 pension plan fiscal year. At this time, the Corporation is seeking approval for the total amount of $34,468,000 required for the pension plan by November 30, 2011. Considering the New Brunswick Workers' Compensation Board requirement, the total line of credit requirement for the Corporation's fiscal year 2011/12 is $38,668,000.

6 Asset Management Planning

6.1 Challenges

Last year the Corporate Plan highlighted the challenges of an aging fleet, lack of capacity, infrastructure in need of renewal and shore-based assets that needed replacement. This was the challenge of the past. With the incremental funding contained in Budget 2010 the Corporation can now move forward in providing a dependable and cost efficient service. Beginning in 2011/12, with a revitalized fleet, the MV *Leif Ericson* returning from a midlife refit in February 2011, the MV *Atlantic Vision* having completed a dry-dock in October 2010 and the arrival of the MV *Blue Puttees* and the MV *Highlanders* in January 2011 and March of 2011 respectively. This will put the Corporation on solid footing as it makes it way into Fiscal 2011/12 and the future.

6.2 Capital Needs

In developing the capital plan for the planning period the Corporation has taken into account all aspects of the Revitalization Strategy, while keeping in mind categories such as safety, security, critical IT, and regulatory requirements. Infrastructure renewal covered by the Infrastructure Stimulus Funding provided to the Corporation in 2009 was also considered. 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 percentage.

In 2010/11 the requirement for environmental compliance upgrades were identified for the MV *Blue Puttees* and MV *Highlanders*. These upgrades involve the installation of scrubbers to reduce Sox emissions to 0.5 as required by Canada.

The total capital projects spending estimated for 2011/12 is $40,070,000 including $1,500,000 required to complete stimulus projects. Funding requirements for forward years:

1. 2012/13 - $41,250,000
2. 2013/14 - $18,970,000
3. 2014/15 - $16,130,000
4. 2015/16 - $15,000,000

6.3 Lifecycle Management

During the Management Renewal process particular emphasis was placed on the life cycle management of assets, and a new team in charge of asset management for the Corporation was put in place. A new position to lead the team, the Director of Asset Management, was created and filled. In addition two committees as highlighted in the Corporation's Management Renewal were put into place during 2010/11.

Capital Planning Committee

- The Committee is responsible for reviewing project justification, economic analysis, exploring alternatives, personnel implications, risk implications, project plan and approval for go ahead
- Chaired by the President and CEO, and comprised of the Vice-President of Operations, Vice-President of Finance, Vice-President of Strategy and Corporate Affairs, Chief Information Officer, Director Asset Management and the Manager of Corporate Accounting

Operating Committee on Maintenance

- Standing Committee responsible for creating and maintaining the maintenance strategy and schedule as well as capital budget.
- Chaired by Director of Asset Management, and comprised of Vice-President Operations, Technical Manager, Plant Maintenance Officers, Materials Manager, Technical Superintendents

As mentioned previously, one of the two main findings of the OAG report was a deficiency which related to operational systems and practices in operational planning and capital asset management. Several recommendations were made in the report and the Corporation has stated that it agrees with each recommendation. While the Director of Asset Management has multiple responsibilities, one of the most important is to ensure that the Corporation is specifically addressing these recommendations, and focusing on implementing the Action Plan for each recommendation stated in the Management Response to the OAG report.

The Director of Asset Management leads a consolidated group which is tasked to manage the life cycle of all of the Corporation's assets. These assets are not only restricted to vessels but also terminal assets such as buildings, dock ramps, buses, shunt tractors, shop equipment and office business machines, to mention a few. As previously mentioned this includes the establishment of the new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems during 2011/12. Current maintenance practices will be reviewed, and a complete, proactive, asset life cycle management approach will be implemented.

6.4 Emerging Projects

In addition to the above, emerging capital projects are from time to time required to address new regulatory responsibilities, capacity issues, asset renewal, safety and customer service initiatives. These projects are generally valued under $1,000,000 each and are evaluated as they arise by the Corporation's Capital Committee to ensure each meets corporate objectives.

7 Financial Statements

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

MAI is converting to Public Sector Accounting (PSA) Standards from its current Canadian Generally Accepted Accounting Standards on April 1, 2011, the start of its next fiscal year, since the required conversion date is for fiscal years beginning on or after January 1, 2011.

PSA format financial statements are not incorporated in this section as MAI is still in its conversion process. Final decisions have not yet been made on various first-time adoption exemptions that are available and the Corporation is still working through the various implications of the conversion from Canadian GAAP to PSA Standards. There are a couple of Exposure Drafts that have been recently released by the Public Sector Accounting Board that will impact MAI's conversion. If they become Standards or are incorporated into existing Standards before the end of March 2011, MAI is considering the early adoption of these standards as of April 1, 2011. Consequently as there are still many unknowns at this point, the Corporate Plan preparation schedule precludes the inclusion of PSA format financial statements in this Corporate Plan.

As outlined in Section 2.8.7 MAI is undertaking a robust project management approach to its GAAP conversion and does not anticipate any delays in implementing the PSA Standards per the implementation target date of April 1, 2011.

The attached financial statements (Statements A, B and C) are prepared according to pre-January 2011 Canadian GAAP format with exceptions for items such as pension costs as noted in the financial statements. Statement D is a supplementary statement which provides additional information on a cash requirements basis.

7.1 Statement A: Income Statement

Marine Atlantic Inc.
Statement of Income, Comprehensive Income and Accumulated Deficit
For the Year Ended March 31, 2010 and Projected for 2011/12 to 2015/16

(In $ Thousands)	Actual 2009/10	Forecast 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
Revenue							
Commercial revenue	80,270	81,663	87,288	99,147	106,799	111,530	116,221
Fuel surcharge revenue	3,570	11,400	10,452	11,309	6,956	7,299	7,666
Other income	71	40	40	40	40	40	40
	83,911	93,103	97,780	110,495	113,795	118,869	123,926
Operating expenses							
Wages and benefits	77,833	83,087	83,139	83,720	84,888	87,532	91,142
Employee future benefits (Note 2)	2,593	12,135	11,083	11,015	11,157	11,499	11,961
Fuel	28,954	34,487	32,811	35,186	38,491	40,646	43,223
Charter fees	22,154	34,526	61,921	44,323	45,625	44,865	44,865
Repairs and maintenance	20,629	16,571	16,475	18,165	17,344	18,898	18,561
Materials, supplies and services	14,532	21,068	27,734	25,792	18,727	17,267	17,917
Insurance, rent and utilities	5,210	6,027	5,933	6,093	6,182	6,177	6,297
Other	9,889	7,511	9,799	11,593	12,741	5,336	5,786
Loss on disposal of vessel, facilities and equipment	3,591	-	-	-	-	-	-
Amortization	18,241	23,661	35,005	43,094	44,120	45,937	45,937
	203,626	239,074	283,901	278,982	279,275	278,156	285,687
Loss before government funding	(119,715)	(145,971)	(186,121)	(168,486)	(165,480)	(159,287)	(161,761)
Government funding							
Operations	106,596	137,318	162,015	139,696	135,664	127,654	30,684
Amortization of deferred capital assistance	22,346	23,661	35,005	43,094	44,120	45,937	45,937
Net income and comprehensive income	9,227	15,008	10,899	14,304	14,304	14,304	(85,140)
Accumulated deficit, beginning of the year	(228,807)	(219,580)	(204,572)	(193,673)	(179,369)	(165,065)	(150,761)
Accumulated deficit, end of the year	(219,580)	(204,572)	(193,673)	(179,369)	(165,065)	(150,761)	(235,901)

Notes to Statement A – Income Statement:

Note 1: This financial statement is prepared according to pre-January 2011 Canadian Generally Accepted Accounting Principles.

Note 2: Employee future benefits expenses for 2009/10 are based on actuarially determined numbers. For 2010/11 and future years, expense is assumed to equal cash requirements for non-pension employee future benefits and current service pension cost payments.

Note 3: Numbers may not add due to rounding.

7.2 Statement B: Balance Sheet

Marine Atlantic Inc.
Balance Sheet - Year Ended March 31st.
Prepared According to Pre-January 2011 Canadian Generally Accepted Accounting Principles

(In $ Thousands)	Actual 2009/10	Forecast 2010/11	Budget 2011/12	2012/13	2013/14	2014/15	2015/16
Assets							
Cash	2,517	2,756	500	500	500	500	(108,369)
Current assets	24,264	25,364	22,214	22,214	22,214	22,214	22,214
Restricted cash	8,537	8,537	8,537	8,537	8,537	8,537	8,537
Deferred pension asset	68,654	79,800	94,858	109,162	123,466	137,770	151,498
Fixed assets and deferred charges – net	130,047	189,266	194,331	192,487	167,337	137,530	106,593
Total Assets	234,019	305,723	320,440	332,900	322,054	306,551	180,473
Liabilities and Equity							
Current liabilities	25,768	19,382	22,294	22,294	22,294	22,294	22,294
Other liabilities	39,254	43,117	38,958	38,958	38,958	38,958	38,958
Provision for capital assistance	130,047	189,266	194,331	192,487	167,337	137,530	96,593
Capital stock	258,530	258,530	258,530	258,530	258,530	258,530	258,530
Deficit	(219,580)	(204,571)	(193,672)	(179,368)	(165,064)	(150,760)	(235,901)
Total Liabilities and Equity	234,019	305,723	320,440	332,900	322,054	306,551	180,473

Note: Numbers may not add due to rounding.

7.3 Statement C: Statement of Cash Flow

Marine Atlantic Inc.
Statement of Cash Flow
For the Year Ended March 31, 2010 and Projected for 2011/12 to 2015/16
Prepared According to Pre-January 2011 Canadian Generally Accepted Accounting Principles

(In $ Thousands)	Actual 2009/10	Forecast 2010/11	Budget 2011/12	2012/13	2013/14	2014/15	2015/16
Operating Activities							
Cash receipts from customers	83,431	93,063	97,740	110,455	113,755	118,829	123,886
Other income received	52	40	40	40	40	40	40
Approved Federal operating appropriation approved	108,625	137,318	162,015	139,696	135,664	127,654	30,684
Cash paid to suppliers and employees	(170,967)	(206,899)	(235,910)	(224,873)	(223,997)	(220,720)	(227,791)
Cash paid for pension, worker's compensation and other non-pension employee future benefits	(19,626)	(23,281)	(26,141)	(25,319)	(25,461)	(25,803)	(25,689)
Cash provided by (used by) operations	1,515	240	(2,256)	-	-	-	(98,869)
Investing Activities							
Purchase of capital assets	(14,868)	(82,880)	(40,070)	(41,250)	(18,970)	(16,130)	(15,000)
Vessel disposals	514	-	-	-	-	-	-
	(14,354)	(82,880)	(40,070)	(41,250)	(18,970)	(16,130)	(15,000)
Financing Activities							
Government capital funding approved	14,868	82,880	38,570	41,250	18,970	16,130	5,000
Government capital funding pending Federal approval	-	-	1,500	-	-	-	-
Increase (Decrease) in Cash	2,029	239	(2,256)	-	-	-	(108,869)
Cash, Beginning of Year	488	2,517	2,756	500	500	500	500
Cash, End of Year	2,517	2,756	500	500	500	500	(108,369)

Note: Numbers may not add due to rounding.

7.4 Statement D: Funding from Operations and Government

Marine Atlantic Inc.
Corporate Plan 2011/12 - 2015/16
Funding from Operations and Government, Year Ended March 31st
In $ Thousands

		Budget 2010/11	Forecast 2010/11	Budget 2011/12	2012/13	2013/14	2014/15	2015/16
Base operating requirement Note 1	A	131,612	124,738	131,765	133,399	134,336	139,011	143,517
Revenue expectations		85,697	81,703	87,328	99,186	106,839	111,570	116,260
Fuel surcharge revenue expectations	Note 2	12,003	11,400	10,452	11,309	6,956	7,299	7,666
	B	97,700	93,103	97,780	110,495	113,795	118,869	123,926
Fuel requirement	C	35,540	31,340	31,210	33,503	36,758	38,861	41,385
Program management, implementation & restructuring	D	7,357	15,877	16,187	16,952	10,620	1,428	1,158
Net operating requirement	E=A-B+C+D	76,809	78,852	81,382	73,359	67,919	60,431	62,134
Working capital Note 3	F	(2,485)	3,863	(4,159)	-	-	-	-
Net government funding available Note 4	G	216,602	224,037	200,585	180,946	154,634	143,784	35,684
Contribution to charter, pension & capital	H=G-F-E	142,278	141,322	123,362	107,587	86,715	83,353	(26,450)
Charter	I	41,620	34,526	61,921	44,323	45,625	44,865	44,865
Contribution to pension & capital	J=H-I	100,658	106,796	61,441	63,264	41,090	38,488	(71,315)
Pension requirement	K	21,852	20,077	22,871	22,014	22,120	22,358	22,554
Contribution to capital	L=J-K	78,806	86,719	38,570	41,250	18,970	16,130	(93,869)
Capital	M	78,806	82,880	40,070	41,250	18,970	16,130	15,000
Net funding surplus/(requirements Note 6/7	N=L-M	-	3,839	(1,500)	-	-	-	(108,869)
Cost recovery Note 5		**58.4%**	**59.7%**	**60.0%**	**66.2%**	**66.5%**	**66.8%**	**67.0%**

Notes to Statement D – Funding from Operations and Government:

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

2: Fuel surcharge rates assumed per year are as follows: 2011/12 to 2012/13 - 16%, 2013/14 to 2015/16 - 9.25%

3: Working Capital:

2010/11 Budget – (2,485) comprised of (1,800) expected insurance recoveries; (2,085) usage of Net Funding Surplus carried over from 2009/10; +1,400 expected liability payment for Canada Revenue Agency Harmonized Sales Tax audit assessment relating to prior years.

2010/11 Forecast – 3,863 comprised of (2,050) expected insurance recoveries; (2,017) usage of Net Funding Surplus carried over from 2009/10; +2,256 cash carry forward to 2011/12; +1,400 expected liability payment for Canada Revenue Agency Harmonized Sales Tax audit assessment relating to prior years; +1,124 expected reduction in accrued wages liability, +2,900 Layup costs of *Caribou* and *Smallwood*; +250 new insurance claim.

2011/12 Budget – (4,159) comprised + 1,247 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.

4: Budget 2009 included Infrastructure Funding of $9.44M for 2010/11.

5: Cost Recovery excludes program management, implementation and restructuring; charter fees; pension; and capital

6: The Corporation anticipates $3,017 in combined Stimulus and other capital funding to lapse in 2010/11 and proposes the re-profile of $1,500 in Stimulus funds to complete Stimulus projects in 2011/12. In the absence of the approval of the re-profile request the Corporation will have to cancel or defer other capital projects to fund completion.

7: The Corporation requires additional funding of $108,869 in 2015/16 in addition to the $35,684 in funding already available for a total funding requirement of $144,553.

8: Numbers may not add due to rounding.