Corporate Plan Summary

2017/18 – 2021/22

Marine Atlantic
Marine Atlantique

October 16th , 2017

Executive Summary

Marine Atlantic Inc. (MAI) performed well in 2016/17, with the Corporation making significant progress on its strategic plan. Financial performance was strong, with higher than forecasted revenue performance and strong cost control, resulting in cost recovery results that are well above target.

Over the next five years, MAI will build on these achievements through the ongoing implementation of its Long Term Fleet Strategy (LTF), improvements in the way the Corporation forecasts traffic and revenues, and through dramatic improvements to its various business processes.

Budget 2017 allows MAI to continue to build on its past successes. The Budget provided MAI with $445M in funding over the next three years, including existing reference levels. This funding will allow the Corporation to continue to implement its strategic plan, and positions it for continued success well into the future.

One of the Corporation's key areas of focus over the upcoming planning period is ongoing fleet renewal. MAI submitted its Long Term Fleet (LTF) Strategy as an addendum to its 2016/17 Corporate Plan. The LTF Strategy also formed the basis for the Corporation's submission for long term funding, as MAI's previous funding envelope expired as of March 31, 2017. While Budget 2017 did not provide MAI with the required funds for fleet renewal, MAI is hopeful that pending further analysis, it will secure funding in the very near future to enable MAI to move forward with its fleet renewal plans.

The Corporation's Business Process Renewal (BPR) project is a large, multi-year project that will be ongoing throughout the majority of the planning period. Ultimately, this project will allow MAI to improve information management and decision making capabilities, streamline business processes, establish integrated information systems, and enable and empower MAI's workforce. The Corporation has awarded the RFP's for both the software and professional services components of the project. 2017/18 will be a very busy year for the BPR project, as the implementation phase for the replacement of MAI's current systems begins.

The Corporation completed significant work during 2016/17 on its traffic and revenue forecasting model. The previous version of the model could only forecast one year in advance, while the updates implemented during 2016/17 will allow for five year forecasting capabilities. This will allow MAI to establish longer term forecasting practices throughout the planning period and also execute on new promotional offers that are valued by its customers. Throughout the course of the planning period, MAI will also utilize this model to develop a better understanding of customers' value perceptions.

Financial results for 2016/17 are positive. Revenues came in in slightly above budget and expenses are forecasted to be 9.6% below budget, with a projected cost recovery of 69.8%, well ahead of the Corporation's 65% target. Over the course of the planning period, revenues are forecasted to increase by 17%, from $109.6M in 2016/17 to $128.1M in 2021/22, due to rate increases as well as the increasing fuel surcharge. MAI will continue to manage to the 65% cost recovery target. However, it must be recognized that with declining traffic levels and increasing fuel costs, reaching this target will become increasingly difficult, particularly since the cost recovery formula favours cost containment over revenue generation, and many of MAI's costs are not directly correlated to traffic levels.

The Corporation's CRV traffic levels experienced small declines in 2016/17. Passenger traffic levels, however, are up compared to 2015/16 results. This is the first time since the late 1990's that saw passenger traffic grow for two straight years. Overall AEU traffic is down very slightly (0.15%). Passenger traffic will increase in 2017/18, but is then forecasted to decrease each year until 2020/21 when it levels out. Commercial traffic is forecasted to decrease slightly until 2019/20, and then level out for the remainder of the planning period. These decreases are attributable to the negative economic outlook for the province of Newfoundland and Labrador, as well as increasing pressure on the Corporation's rates.

From a customer perspective, the Corporation is maintaining strong customer satisfaction levels, with overall customer satisfaction for passenger traffic sitting at 76%. Furthermore, 94% of people surveyed would be willing to recommend MAI to family and friends.

MAI remains committed to delivering a reliable service that meets the expectations of its customers. In 2016/17, on time performance remained above 90% and vessel reliability, measured as the percentage of time a vessel was available when required, was over 99%. These metrics compare favourably to other national and international ferry operators.

2017/18 will also be another very busy year for MAI:

- From a labour relations perspective, as all six collective bargaining agreements expired as of December 31, 2016. 2017/18 will be a busy year with respect to collective bargaining negotiations.
- An implementation plan will be developed for the Corporation's Business Process Renewal (BPR) project, which will lay out the plan for the replacement of MAI's current information systems.
- The Corporation will define and implement its new safety governance structure.
- Revenue is projected to reach $112M and the Corporation anticipates carrying 217,963 commercial and personal related vehicles.
- A rate increase of 2.6% was announced for implementation on April 1, 2017
- Overall cost recovery is projected to be 65.6%.
- The Corporation anticipates spending $67.3M on capital projects.

Through this submission, the Corporation is seeking approval of its 2017/18 to 2021/22 Corporate Plan and its 2017/18 operating and capital budgets.

Contents

Introduction

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

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

Corporate Overview

The Corporation's Vision and Mission statements are reviewed annually. No changes have been made to either statement since fall 2015.

Vision Statement

The Corporation's Vision Statement is "*Building on our rich tradition, we provide a valued public transportation link that enhances the well-being of our customers and those who depend on them*."

Mission Statement

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

Corporate Values

MAI has five key Corporate Values.

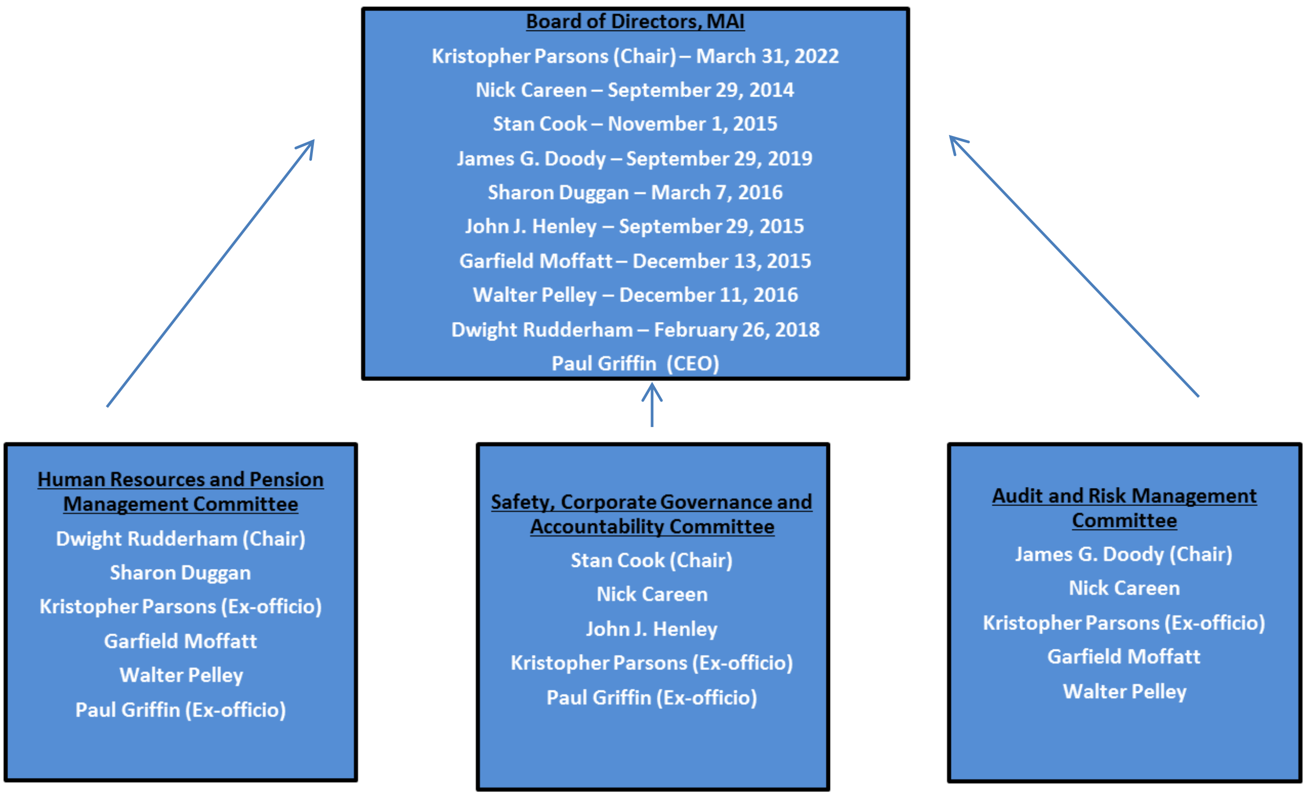
1. Safety - *Protection of people, property, and the environment is our ultimate priority.*
2. Teamwork - *We always help each other. Working together always results in better outcomes.*
3. Commitment - *We are all responsible for our performance and the success of the business.*
4. Integrity - *We say what we mean, mean what we say, and do what we say.*
5. Excellence - *We are passionate about our internal and external customers and our services.*

Governance Structure

Like all Crown corporations, Marine Atlantic was established to allow it to operate at arm's length from its sole shareholder, the Government of Canada. While the shareholder provides policy direction and funding for the Corporation's ongoing operations, as stated in the *Financial Administration Act,* Marine Atlantic's Board of Directors ensures that the Corporation fulfils its mandate by setting the Corporation's strategic direction and organizational goals and overseeing their implementation by management. Up to ten Board members are appointed. The Chairman of the Board and the President and CEO are appointed by the Governor in Council on the recommendation of the Minister of Transport and the Board of Directors is appointed by the Minister of Transport with the approval of the Governor in Council.

The Corporation's Board of Directors (BOD) has representation from both Newfoundland and Labrador and Nova Scotia, with backgrounds covering Law, Accounting, Human Resources, Tourism, and Marine Technical Services. The Board of Directors meets at least once a quarter, with other meetings scheduled as needed.

In March of 2017, Kristopher Parsons was appointed as Chair of the Board of Directors for a five year term. The current Board Membership and the make-up of each of the Board Committees is identified below, along with the end date for each Board members term.



The Human Resources and Pension Management Committee (HRPMC) has three areas of responsibility:

1. Ensure governing policies are in place and implemented by management to provide employees at MAI with fair and meaningful employment in a healthy and respectful workplace.
2. Provide oversight with respect to the appointment, monitoring and compensation of executive management.
3. Provide advice to the Board on the stewardship of pension plans for the employees of MAI.

The Safety, Corporate Governance and Accountability Committee has five areas of responsibility:

1. Facilitate the evolution of the Corporation's governance practices to ensure that the Board's duties are met, regulatory requirements are fulfilled, and that the Board is fulfilling its accountability to the Corporation.

2. Ensure the development and fulfillment of policies which provide for the desired ethical conduct by Directors and employees.
3. Oversee the social accountability of MAI with respect to the community and the environment.
4. Ensure governing policies are in place and implemented by management to provide employees at MAI with employment in a healthy and safe workplace.
5. Ensure that MAI has a robust and appropriate strategic plan.

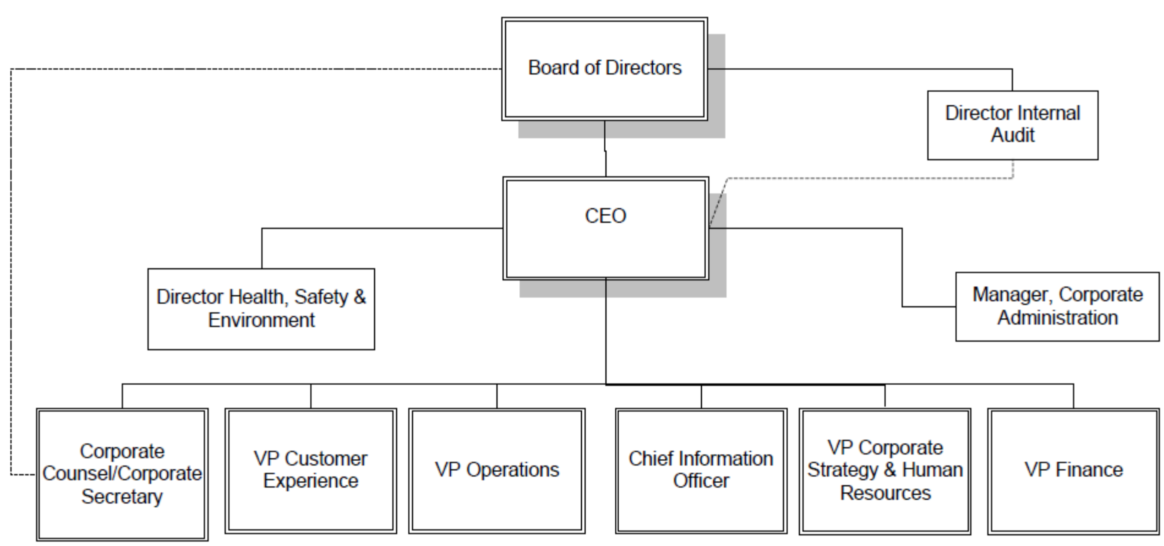
The Audit and Risk Committee oversees MAI's standards for financial reporting, internal audit, risk management and management control practices. Specifically, the Committee will provide governance and oversight in the following areas:

1. Oversee the design and establishment of an appropriate enterprise risk management (ERM) framework for identifying and managing risks inherent to the business and operations of MAI.
2. Ensure that the elements of a financial control framework are in place to support management in achieving corporate goals and objectives.
3. Ensure that there are effective processes in place to prepare and present the annual operating budget (Corporate Plan) for Board approval, and to monitor, manage and report on performance relative to the approved annual budget.
4. Provide for the independence of the internal audit function and to ensure that a risk based internal audit methodology is used in the conduct of its work.
5. Provide oversight of the external auditors on the delivery of their financial audit services for the benefit of the shareholder.

Each committee reports directly into the BOD, and each meets at least quarterly, with additional meetings scheduled as required.

Executive Team

MAI's Executive team is responsible for directing the operations of the Corporation. The current organizational structure is below.



Workforce

Marine Atlantic has a diverse workforce that is represented by six bargaining units as well as a number of management/non-union employees. The breakdown in full time equivalents (FTEs) by agreement is outlined below. The number of FTE's is not expected to change significantly over the upcoming planning period.

Agreement & Expiry Date	Employee Group	Bargaining Agent	2016/17 Year End Forecast FTEs (Full-Time Equivalent)
A Dec-31-2016	Licensed Officers	Canadian Merchant Service Guild (CMSG)	146
B Dec-31-2016	Unlicensed Vessel Crew	Unifor	390
C Dec-31-2016	Shore-Based Maintenance Employees	Unifor	58
D Dec-31-2016	Shore-Based Terminal and Clerical Employees	The United Steel Workers/ International Longshoremen, Council of Trade Unions	264
E Dec-31-2016	Masters, Chief Engineers and Chief Electrical Officers	Canadian Merchant Service Guild	29
F Dec-31-2016	Shore-Based Supervisory Employees	Public Service Alliance of Canada	60
N/A	Management / Non-Union	N/A	96
Total			1,043

Background

In 2009, the Office of the Auditor General (OAG) performed a Special Examination of MAI and found that the Corporation was in danger of mandate failure: *"……Marine Atlantic is at risk of being unable to deliver the services it is responsible for providing, because of strategic challenges that will require support from the federal government to overcome. The Corporation's challenges include ageing ferries and shore-based assets, difficulty matching capacity to traffic demand, failure to meet its cost recovery targets….."*

In 2010, the Government invested $521M over a five year period to allow MAI to address the issues identified in the OAG's report. In 2015, the Shareholder again made a significant investment in MAI, providing sufficient funding to purchase the Corporation's two sister ships: the MV *Blue Puttees* and the MV *Highlanders*. As a result of these investments, MAI has been able to turn the organization around – it has replaced its ageing ferries, updated and/or replaced its shore-based assets as required, increased its capacity to match the traffic demand, and has improved its cost recovery results dramatically.

The Corporation is now a modern, efficient organization that provides a degree of service reliability that was unimaginable back in 2009. Some of the more significant KPIs include:

- Customer satisfaction levels remain quite high, sitting at 76% for passenger related traffic in 2016/17.
- Service reliability, as measured by on-time performance, sits at 91%, up from 68% in 2009/10.
- Revenue per AEU is at $210, up over 40% percent from 2009/10.
- Cost recovery has increased from 54% in 2009/10 to a forecasted 69.8% in 2016/17, well ahead of the Corporation's 65% target.

MAI has achieved this success while still delivering significant cost savings. MAI met all budget savings commitments set through Budgets 2011 and 2012, and it continues to identify and realize cost efficiencies wherever possible. The overall savings are the result of numerous productivity improvements and efficiency measures that include but are not limited to:

a.) fine-tuning of the vessel operating plan and sailing schedule,

b.) significant changes to the Corporation's maintenance programs, including getting approval to reduce refits for each vessel from one every two years to two every five years.

c.) fuel savings initiatives, including the advancement of shore power for the Corporation's vessels, and

d.) a reduction in overtime expenditures.

The total number of trips has decreased from 1,972 in 2009 to 1,701 in 2016/17, while still meeting the traffic demand and lowering operating costs per AEU carried.

While there is still more work to do, the Government's investment in the Corporation has laid a solid foundation upon which MAI can build, and it is well-positioned for success. Going forward, MAI is now focussing its efforts on two key initiatives. First is the implementation of its long term fleet strategy, which will enable MAI to enter into a fleet replacement cycle that will ensure operational stability and service reliability well into the future. The second focus is on business process renewal – ensuring that MAI's systems and processes are efficient and effective, thereby allowing it to achieve even more efficiencies in future years.

2016/17 – The Year in Review

Building on the successes of the past number of years, 2016/17 was another exciting and successful year for Marine Atlantic. The Corporation has made significant progress on a number of key initiatives. A recap of the key accomplishments from the past year follows.

Funding Decision

Working with Transport Canada, MAI submitted a request for long term funding in the fall of 2016. Those efforts were rewarded in Budget 2017, as the Shareholder announced a significant investment in MAI's future. Budget 2017 included $445M in funding over a three year period, including existing reference levels.

Long-term Fleet (LTF) Strategy

MAI submitted its long term fleet strategy as an addendum to its 2016/17 Corporate Plan, outlining the need to replace the MV *Leif Ericson*, which is approaching the end of its useful life, and the MV *Atlantic Vision*, which is expensive to operate and not ideally suited to the Corporation's requirements.

In February of 2016, the Corporation issued a Request for Information (RFI) regarding its fleet requirements, in order to determine the level of market interest in support of MAI's fleet strategy. There was a very positive response to this RFI, with 10 companies responding, including shipyards, shipbrokers, ship operators, and equipment manufacturers. Given the high level of market interest in MAI's vessel procurement program, MAI developed a request for proposals (RFP) for a new vessel for its fleet, which is ready to be released upon funding approval from the Shareholder. Given the length of time required for fleet procurement – a minimum of four years for new vessel procurement – MAI is prepared to release the RFP as soon as a decision is made.

While Budget 2017 did not provide MAI with the required funds for fleet renewal, MAI is hopeful that, pending further analysis by the Shareholder, it will secure funding in the very near future to enable the Corporation to proceed with its strategy.

Business Process Renewal

Vital progress was made during 2016/17 with respect to the Corporation's Business Process Renewal (BPR) initiative, as the Corporation has successfully issued and awarded RFP's for both the software component of the project and the professional services required for implementation. BPR is a multi-year corporate-wide initiative designed to achieve the following objectives:

- Improve information management and decision making capabilities
- Streamline business processes
- Establish integrated information systems, and
- Enable and empower the workforce.

Work on this project will continue throughout the upcoming planning period.

Customer Experience Accomplishments:

Revenue and Traffic Forecasting Model

Significant work was completed during 2016/17 on the Corporation's revenue management and traffic forecasting initiative. While the previous version of the revenue model only had one year forecasting ability, the updates implemented during 2016/17 will provide the Corporation with five year forecasting functionality. This new model will result in better vessel utilization and increased revenue contribution to offset costs. On a go forward basis, this will enable the Corporation to:

1. Develop pricing and promotional strategies based on revenue maximization and/or cost recovery targets.
2. Refresh the price elasticity of demand for each of MAI's core fare classes on an ongoing basis using a data-driven and scientific approach.
3. Execute on new promotional ideas that the Corporation knows are valued by its customers.

4. Establish long term forecasting practices within the Corporation that will improve longer term capacity planning requirements based on external macroeconomic trends and competitive forces.

With improvements to its revenue and forecasting model, MAI will be in a better position to manage its overall revenue and ensure that customer's value perceptions are being met or exceeded while cost recovery and revenue targets are met.

Early Booking Discount

MAI offered an early booking discount during 2016/17 on the Gulf service. The campaign offer was a 50% discount on Gulf passenger fares for travel on Monday-to-Thursday sailings, between May 15th and July 15th. Customers that booked between February 23rd and April 3rd, 2016 could avail of this offer. The promotion allowed MAI to understand the impact a discount has on the Gulf service from both a traffic and revenue perspective. It also represented an opportunity to promote advanced booking, which allows the Corporation to secure revenues and provide earlier expected traffic information for operational planning purposes.

Overall, the campaign was a success with bookings increasing by 44% compared to the same time period in 2015. The campaign generated a net revenue contribution of $404K after campaign costs.

Traffic and Revenue Results

Traffic levels in 2016/17 performed better than forecast for Passenger and PRV traffic, but slightly less than forecast for CRV, with traffic levels coming in at 0.6% below forecast (CRV units). Overall AEU traffic is slightly lower than 2015/16 levels, but above the 2016/17 forecast.

Traffic Type	2015/16 Actual	2016/17 CP Forecast	2016/17 Actual
Passengers	322,661	309,121	326,796
PRVs – AEUs	131,052	127,965	135,531
CRVs – AEUs	392,092	387,569	386,829
Total – AEUs	523,144	515,534	522,360
PRVs – units	116,574	114,081	120,314
CRVs – units	95,914	95,103	94,459
Total Units	212,488	209,184	214,773

Traffic and revenues are both higher than forecasted, with revenues coming in at $109.6M vs. the original forecast of $109.2M.

Expense Management

Overall spend for fiscal 2016/17 is forecasted to come in well below budget. Several of the items identified in MAI's 2016/17 Corporate Plan did not materialize as planned, leaving the Corporation with an anticipated surplus at the end of the current fiscal year. High level details of this surplus are as follows:

- $1.5M in capital funds and $1.5M in operating expense that was earmarked for fleet renewal. Since the decision on MAI's fleet renewal strategy has not yet been finalized, these funds were not required in their entirety.
- Fuel savings of approximately $5.5M relating to both lower price and consumption.
- $2M related to unspent funds for the mooring system upgrades.
- $4.9M relating to charter fees.
- $29M relating to the Corporation's Pension Plan. There has been extremely strong management of the Corporation's Pension Plan and no solvency payments are required for 2016/17.
- $3M in other operating expense savings

In total, MAI anticipates that it will surplus approximately $47.3M for the 2016/17 fiscal year. However, the Corporation plans to re-profile $2M relating to infrastructure funding to 2017/18, as the long term mooring project was delayed slightly. MAI will require the entire budget to complete the project.

Shore Based Maintenance Program

In 2014/15, MAI began the process of realigning its Shore Based Maintenance Department, with the goal of implementing a more effective and efficient shore based maintenance program. Throughout 2016/17, MAI completed the following:

1. **Organizational Restructuring:** One of the key gaps identified in the Shore Maintenance Review was an ineffective management structure. A new Director of Shore Based Maintenance has been hired and the Corporation is in the process of hiring two management positions (one in Port aux Basques and one in North Sydney). These new positions are critical to ensuring that the Corporation's maintenance processes are as effective and efficient as possible moving forward.
2. **Maintenance Program Changes:** Shore based maintenance activities were realigned with maintenance activities to ensure that the appropriate skill sets are allocated to the appropriate tasks. Five FTEs have been eliminated as a result.

Infrastructure Funding

In early 2016, as part of the Government of Canada's Federal Infrastructure Initiative, MAI received $22M in infrastructure funding for the following projects:

- Upgrades to the Corporation's mooring systems in Port aux Basques and North Sydney, which will allow for safer and more efficient mooring practices.
- Upgrades to the Corporation's dock fenders to minimize the wear and tear of docking on both vessels and docks.
- Enhancements to the Port aux Basques facility's storm sewer system to address the deterioration of the existing storm sewers.

This incremental capital funding has allowed MAI to fast track these projects and will enable it to realize the efficiencies associated with these projects earlier than originally planned.

Enterprise Risk Management

Marine Atlantic's Enterprise Risk Management (ERM) program continues to operate within a framework that focuses on risk at the corporate level. The Corporate Risk Profile consists of twenty corporate level risks with risk ownership residing at the senior levels of the Organization.

The Audit and Risk Committee of the Board is responsible for risk oversight and risk governance at MAI. An Enterprise Risk Committee comprised of MAI's Executive team was also formed in 2016/17 and meets formally on a quarterly basis. Their main role is to provide guidance and oversight with respect to the management of the corporate level risks. To this end, every quarter the Committee reviews the Risk Ratings for each of the risks, as well as the Key Risk Indicators and the status of the mitigation activities that have been identified to reduce the residual level of the corporate risks.

A Risk Network was also established during 2016/17 consisting of Risk Liaisons from various departments throughout MAI. The Risk Liaisons are responsible for coordinating reporting requirements, updating mitigation activities, and improving communication and awareness around risk within their respective departments. The purpose of the network is to improve communication horizontally relative to risks and to subsequently work together to identify the cross departmental dependencies of risks in an effort to ensure that any potential gaps are identified and mitigated.

A recent organizational structure change resulted in the Corporation's Risk and Insurance group being merged with the Corporate Strategy group to ensure that risk management is being considered in light of the Corporation's strategic objectives.

Other Activities

Vehicle Cleaning Services

A Treasury Board decision dated June 2012 directed MAI to assume the responsibility for washing vehicles at the CFIA's vehicle treatment facilities in both Port aux Basques and Argentia. There was no consultation on the CFIA proposal, and MAI learned of the decision only through the Treasury Board decision. And, while the transfer of these duties under the CFIA proposal would save that organization approximately $280,000 per year, MAI has estimated that it would cost at least $500,000 annually to supply the labour to provide this service: this is not work currently covered under any of MAI's collective agreements, and outsourcing the function would require additional management oversight. As such, this directive represents a clear cost increase to the Canadian taxpayer.

MAI and the CFIA have been working together on the transfer of services; however, this transfer of duties has not yet taken place. MAI and the CFIA continue to work together to determine how best to proceed.

Bar Harbor

Marine Atlantic owned a terminal facility located in Bar Harbor, Maine that was surplus to its needs and outside of its current mandate. The Corporation completed an environmental assessment of the property and the required remediation of the site in August of 2016 at a cost of $330K US.

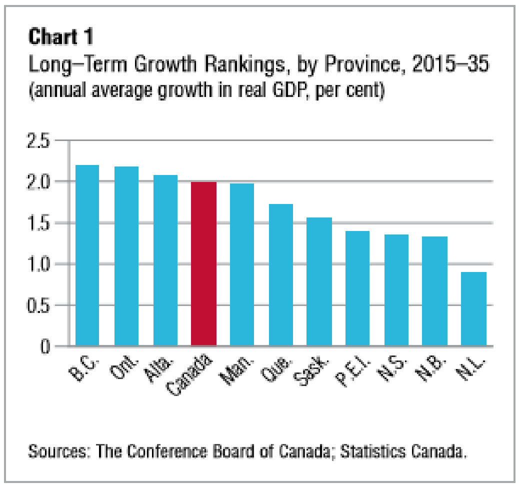
Upon completion of the environmental remediation, MAI agreed to lease the property to the State of Maine for a three year period for $1M US, paid in full upon signing of the lease, with an option to purchase the property for an additional $2.5M US at or before the end of the lease period. However, shortly after signing the lease agreement, the State of Maine notified the Corporation it wanted to purchase the property at the agreed upon amount of $2.5M US. The sale of the property was completed in February 2017.

Situation Analysis

In order to determine its path forward, MAI completed a review of its current operating environment, looking at the economic environment in which the Corporation operates, the demographic trends of its key market, the trends in consumer behaviour, and the resulting impacts on traffic trends. This situation analysis is used to assist the Corporation in determining its strategic direction as well as to provide information that will help MAI in determining its traffic and financial forecasts. While MAI has not completed sufficient research to draw a direct correlation between the data provided and the impact on its traffic, it has concluded that the worsening economic outlook for Newfoundland and Labrador is expected to continue to have some negative impact on the Corporation's traffic levels moving forward.

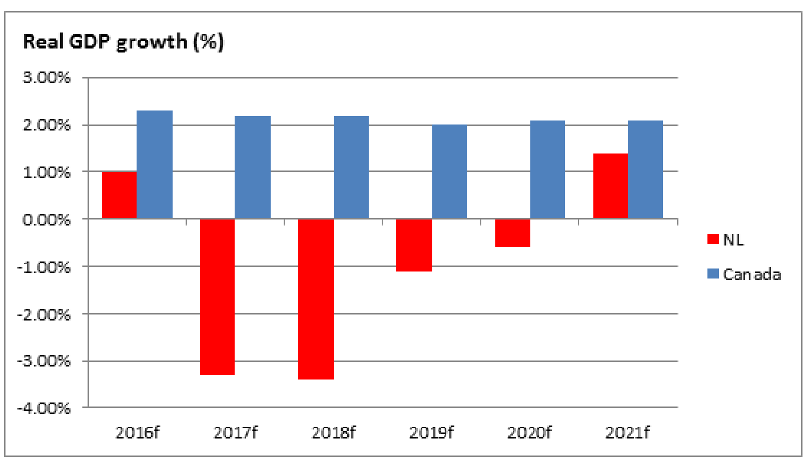
Gross Domestic Product (GDP)

Newfoundland and Labrador's high dependence on oil royalties will continue to have impacts on the provincial economy. The conference Board of Canada has forecasted that Newfoundland and Labrador will have the worst annual average GDP growth in Canada from 2015 to 2035.



*Provided by the Conference Board of Canada

Over the next five years, the GDP for the province is forecasted to decline significantly for the next two years, and continue to decline until 2021, when it is forecasted to rebound as the price of oil increases.



*Provided by the Conference Board of Canada

Major Products and Capital Investment

Capital investment in Newfoundland and Labrador is expected to decline significantly over the 2017-2021 planning period as several major projects, including the Hebron oil development and Muskrat Falls hydroelectric projects, wind down. Capital investment is expected to average $7.2 billion per year over the next five years, declining from its peak of $11.9 billion in 2014 to a forecasted $6.0 billion in 2021. [1] A decrease in overall capital investment generally correlates with declining commercial traffic levels.

Consumer Behaviour

Consumer behavior can have a significant impact on MAI's traffic levels, both commercial and personal. Income levels and the amount of disposable income affect consumer spending, which can drive commercial traffic. Similarly, higher income levels and a greater value placed on individuals' time impact the types of travel people choose, which can negatively impact MAI's passenger traffic levels.

Average retail growth rates in Newfoundland and Labrador are expected to be negative from 2017 to 2020, averaging -1.25% per year, whereas, retail growth rates from 2013 to 2016 averaged 2.35% per year.[2] These decreases are in line with decreasing household incomes and high unemployment levels and can be expected to negatively impact overall traffic levels.

Demographic Trends

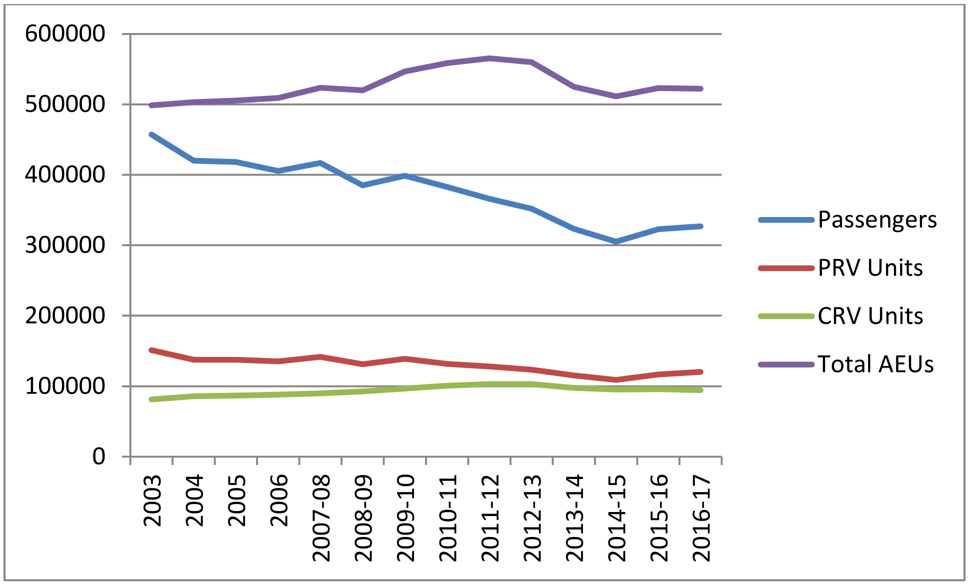
There are several changes in the demographic make-up of the population of Newfoundland and Labrador that may impact MAI's passenger traffic levels.[3]

- The geographical distribution of the population has become more concentrated on the Avalon Peninsula. As of 2016, the Avalon Peninsula contained more 50% of the Island's total population, compared to 43.9% in 1993.
- By 2035, almost 30% of the population will be over the age of 65, compared to 10% pre-1996.
- Population levels are forecasted to decline after 2019 putting increased pressure on employers to fill skilled positions, likely at higher costs.
- Newfoundland and Labrador has experienced four straight years of negative natural increase (more deaths than births from July 1, 2011 to June 30, 2016). No other province in Canada has experienced this trend.

All of these factors will have some degree of impact on MAI's traffic levels, and MAI predicts that the downward pressure on traffic levels that it has experienced over the past several years will likely continue.

[1] Information provided by the Atlantic Provinces Economic Council
[2] Information provided by the Newfoundland and Labrador Government
[3] Information provided by the Newfoundland and Labrador Government and the Conference Board of Canada

MAI's Historical Traffic Patterns



Strategic Planning Process

In 2015, the Corporation introduced the use of the Balanced Scorecard (BSC) methodology to help increase the success of its strategic planning process, and ultimately, the execution of its Strategic Plan. This continued in 2016/17 and all of the Corporation's business units have now been introduced and engaged in the process. The BSC looks at the strategic requirements of the organization from four different perspectives:

1. **Stewardship** - What are our financial and stewardship goals?
2. **Customer** - Which customers will we service, where, and what will we provide them?
3. **Internal Processes** - What processes do we have to be excellent at in order to serve our customers and achieve our financial goals?
4. **Learning and Growth** - What competencies, technologies and climate do we need in our organization in order to achieve objectives?

Answering these questions from each of these perspectives allows for the development of clearer strategic objectives, which in turn leads to more relevant strategic initiatives and a clearer linkage to measurable results. The outcome of this process is a strategy map, which clearly outlines the objectives of the organization and how they link to the strategic themes.

MAI's Strategy Map

The following strategic themes have formed the basis for the Corporation's strategic plan:

Operational Excellence: Safe, reliable, and efficient execution across all areas of the business

Customer Value: A safe, positive, seamless, end-to-end customer experience that meets or exceeds customer expectations

Public Trust: Providing public service in an open, safe, transparent and values driven manner

Based on the strategic themes, management identified a set of strategic objectives in 2015/16 to further guide the Corporation's strategic direction. During 2016/17 management revisited the previously established strategic objectives and discussed whether any changes were needed. Ultimately, it was decided that the Corporation's long term objectives are still valid, with only minor changes to the map for 2017/18.

MAI's corporate level strategy map outlining each of the Corporation's objectives for each of the perspectives noted above follows.

These strategic objectives will continue to be the focus of the Corporation's Strategic Plan for 2017/18 and beyond. Significant work has already been completed at the business unit level to ensure that these objectives are being supported throughout the Corporation. Ten different business strategy maps are currently being utilized to develop strategic initiatives at the business unit level that will ultimately support MAI's corporate strategic direction.

Strategic Initiatives – Progress Update and 2017/18 Deliverables

Delivering on the Strategic Plan is fundamental to MAI's progress, as it highlights those priorities that are essential to the company's future success. Given the number of initiatives currently underway, and the magnitude of some of those initiatives, no new initiatives will be added for the upcoming planning period at this time. MAI will continue to work on its multi-year initiatives, with much of the Corporation's resources focussed on the Long-term Fleet Strategy and the Business Process Renewal project.

The progress that MAI has made on the strategic initiatives in 2016/17 is shown below, along with the deliverables set for fiscal 2017/18.

Strategic Initiative	Status	2016/17 Year End Objectives	2016/17 Year End Progress	2017/18 Year End Objectives
Business Process Renewal (ERP) Phase 0 Analyse MAI's current systems to define and recommend a future state for a single MAI Enterprise Resource Planning solution.	 Schedule delay	• Software selected • Systems Integrator Selected for prof services • Enterprise Information Management (EIM) and Data Management (DM)Strategy developed	• Contract signed with software procurement vendor • Contract negotiations with professional services vendor • EIM/DM strategies developed	• Develop an implementation plan for replacement of current systems, starting with Finance and Payroll, followed by HR
Long Term Fleet Strategy Phases 2 Phase 2 – develop and issue the RFP for MAI's replacement vessels.	 Funding not yet approved	• RFI completed • RFP developed and released	• RFI completed • RFP developed and ready for market	• TBD pending funding approval
Shore Maintenance Alignment Revamp the onshore maintenance program through appropriate workforce alignment and an effective organizational structure.		• Organizational re-structuring complete • Maintenance Program implemented	• Strategic Initiative Completed	• N/A
SMS Program Improvements Improve the Safety Governance structure		• RFP for Safety Governance consultant developed and issued	• External consultant hired; much of the work completed	• New Safety Governance structure fully defined and implemented
Vessel Familiarization Design, develop and implement a comprehensive and standardized vessel employee training program, to increase vessel safety.	 Delay due to resource constraints	• Initial learning modules are rolled out • Program Manager has been sourced	• Path forward redefined • In process of sourcing a Content Administrator	• Majority of learning modules completed and rolled out
Long Term Mooring Strategy (Phase 2) Phase 1: Business case & funding approved. Phase 2: Investigate a suitable automated/semi-automated mooring solution for MAI and develop RFP. Phase 3: Source vendor and install system.		• Engineering design substantially complete	• Engineering design and RFP complete (	• Vendor sourced and system installation complete

Strategic Initiative	Status	2016/17 Year End Objectives	2016/17 Year End Progress	2017/18 Year End Objectives
Project Crossing Phases 3 and 4 (Revenue and Traffic Forecasting) Phase 3: Pilot and automate the traffic/revenue forecasting tool and implement enhancements Phase 4: Launch managed service.		• Phase 3 complete • Phase 4 largely complete with continuous improvements ongoing	• Phases 3 and 4 complete	• Utilize the model to develop future pricing strategies and structures for MAI's service offerings
MAI Training Review Complete a full analysis of MAI's current training practices and make recommendations for improvement.		• Complete review of E-learning options • 2 current courses fully reviewed with recommendations for improvements	• High level E-learning review completed • All courses reviewed; improvements implemented for 2 courses	• Project complete
Customer Portal Improvements Develop and expand the current Terminal Management System (TMS) to live commercial customers.		• Go/no-go decision	• Implementation plan developed	• Project complete
myCareer Compass (Performance Management) Phase 2 Introduce a performance management program to help employees learn, develop professionally, build their career and manage performance issues.		• Executive; Senior Leadership Team & all other staff with AA's; Masters and Chiefs, Senior Chief Stewards, Chief Engineers, Payroll/Finance Supervisors enrolled	• On track to meet 2016/17 objective in early April (slight delay)	• All remaining management and supervisory staff enrolled

2017/18 – 2021/22: Key Areas of Focus

The past 7 years have seen significant investments in infrastructure, from vessels to docks and terminals. Budget 2017 provided MAI with $445M in funding over the next three years, including existing reference levels. This funding, along with $41.5M received in Budget 2015 for charter fees and fleet renewal for the fiscal year 2017/18, along with $15.6M in capital infrastructure funding approved in 2016, positions MAI for ongoing success.

As the Corporation moves forward, MAI is entering into another period of asset renewal with the focus on the procurement of new vessels for its fleet, a new administration building in Port aux Basques, as well as a continued focus on business process improvements and employee development.

Fleet Renewal

As previously noted, MAI submitted its long term fleet strategy as part of its 2016/17 Corporate Plan submission. The LTF strategy also formed the basis for MAI's submission for funding that was presented to the Shareholder in the fall of 2016 for consideration. Although funding for fleet replacement was not included in Budget 2017, MAI is optimistic that by continuing to work with the Shareholder on their information requirements to support a fleet decision, MAI will be able to secure funding for the replacement of one or both of its older vessels throughout the upcoming planning period.

MAI's long term fleet strategy is based on securing a four vessel homogenous fleet that is modern, efficient, and meets the traffic demand, while reducing operational and financial risk. Having successfully secured the purchase of the two Seabridger vessels, MAI's focus has now turned to the second phase of its long term fleet strategy - the replacement of the MV *Leif Ericson* and the MV *Atlantic Vision*. The MV *Leif Ericson,* which the company owns outright, was built in 1991 and is approaching the end of its useful life. Ideally, the Corporation would like to replace the vessel before a significant investment is required in the vessel for its 30 year survey in 2021/22. Undoubtedly, the MV *Leif Ericson* has served the Corporation well, but the costs to maintain the vessel will become increasingly significant as time goes on, with little to no return on that investment.

While the MV *Atlantic Vision* has great passenger appeal, it is very expensive to operate and maintain. The Corporation has secured the vessel until November of 2019/20, but there is no guarantee that the vessel will be available for charter beyond that period.

Given the uncertainty around funding approval for fleet replacement, for the purposes of this Corporate Plan, MAI is assuming that it will extend the charter of the MV *Atlantic Vision* until 2019/20 by activating the two one-year extension options in the existing lease agreement. MAI is also assuming that it will have to lease a similar vessel from November of 2019 to the end of the planning period.. Finally, MAI is assuming that it will keep the MV *Leif Ericson* for the duration of the planning period, which will necessitate significant capital investments to keep the vessel operational as it ages. These assumptions are reflected in the financial forecasts outlined later in the plan.

Business Process Renewal (BPR)

Significant work was completed during 2016/17 to lay the foundation for the multi-year Business Process Renewal initiative. BPR will be one of the Corporation's most important initiatives over the course of the planning period and will consume a significant amount of resources.

2017/18 will be the start of the project execution phase for BPR, with a phased implementation of a consolidated solution to meet the business requirements of MAI's Human Resources, Payroll, Accounting, Supply Chain Management and Maintenance departments.

The project execution phase will begin with the Plan/Analyze phase. During this phase, the professional services partner will acquire a thorough understanding of MAI's technical environment and validate the functional, technical and business requirements to be implemented.

Upon completion of the Plan/Analyze phase, the implementation phase of the initiative will commence within the 2017/18 fiscal year and will continue through to 2020/21. The Corporation anticipates that the initiative will begin with the implementation of a new Human Resources and Payroll solution. The remaining functional areas will be implemented based upon the implementation plan to be developed by MAI and the professional services partner.

MAI has a lot of work to complete before this solution is fully implemented; however, successful implementation of this initiative will go a long way towards ensuring that the Corporation's business processes are as efficient and effective as possible.

Collective Bargaining Strategy

As all the Corporation's collective bargaining agreements expired as of December 31, 2016, MAI is currently beginning the collective bargaining process with all six bargaining units. The Corporation must ensure that the collective bargaining process is conducted in a manner that is as effective and efficient as possible.

MAI has developed a project plan and finalized a governance structure to oversee the process. The Corporation has also established a set of guiding principles for the execution of collective bargaining and to enable decision making during the process.

	Focus	Principle	Rationale
1	Organization	Priority given to process decisions that benefit the broader organization over needs of a specific department or division	• Priority given to the collective improvement of MAI
2	Confidentiality	Bargaining related matters discussed within the agreed upon parameters of the process and governance structures	• Negotiation and communication activities outside agreed upon process will jeopardize MAI's strategy and bargaining goals
3	Governance	Governance structure has been agreed upon by Senior Management - all parties involved will adhere to approved structure	• Governance structure reviewed and approved • Roles and responsibilities are clearly defined • Members will operate within agreed upon role
4	Resourcing	Resources must be committed	• Availability of resources is key for success • Process will take a proactive approach to maximize effective resource management/scheduling.
5	Timeliness	Timely conclusion of bargaining process highly valued	• Approach and decision making process designed, evaluated and governed with goal of timeliness • Lens to be applied throughout bargaining to ensure process as effective and efficient as possible

MAI plans to complete bargaining with Agreement D (shore based terminal and clerical employees) and Agreement F (shore-based supervisory employees) before the Corporation moves to arbitration with any of the other bargaining units, as MAI anticipates a higher probability of ratifying agreements with these two groups. The Corporation is currently in the process of scheduling dates for negotiations.

If no tentative agreements are reached, MAI plans to file notices of dispute and begin conciliation in the fall of 2017. When MAI received notices to bargain from its bargaining units, the Corporation disseminated maintenance of activities documents to each bargaining unit to highlight the number of employees that would be needed to continue to meet the Corporation's mandate. If no agreements are reached through collective bargaining, MAI can go to the Canadian Industrial Relations Board to receive a decision on essential service employee requirements in order to minimize the risk of a work stoppage.

It is MAI's intent to complete the Collective bargaining process in as efficient manner as possible, with as minimal impact as possible on operations.

Training Review

The Corporation's training review initiative was kicked-off in 2016/17, but the bulk of the work will continue into 2017/18. A working committee has been established for this initiative to review regulatory training requirements and provide recommendations to the Director of Human Resources. The goals of the review are to ensure regulatory compliance, enhance effectiveness, improve the delivery model, and improve the overall quality of training programs.

Ensuring that MAI and its employees are getting the absolute most out of training programs is critical to delivering a safe, efficient service that meets or exceeds customers' expectations. The objectives of this initiative are initially to provide recommendations in the following areas:

- The appropriateness of the learning objectives for course content.
- The requirement for refresher training.
- The training delivery model
- Target groups for training
- The appropriate training forum and trainer qualifications.
- The ability to use MAI's vessels as simulator facilities on an as available basis.
- The development of training evaluation, reporting and validation procedures.
- The identification of gaps in current training delivery.
- Identifying potential revisions to the Corporation's Training Policy.
- The potential for increased E-learning.

Courses will be reviewed in accordance with MAI's priorities, including safety, operational impacts and improvements in overall efficiency.

Traffic and Revenue Forecasts

Traffic

There are a number of factors that MAI considers when forecasting its future traffic demand. In addition to the economic and demographic indicators noted earlier in the Plan, other factors include planned marketing activities and promotions (both from MAI and the Province of Newfoundland and Labrador), expected rate increases, the price of fuel, and the exchange rate between US and Canada.

Fuel Surcharge

While the price of fuel has dropped considerably in the past two years, MAI must switch its fuel from a less expensive blended fuel to the more expensive MGO in order to meet sulfur emissions regulations which will drive MAI's total fuel costs higher over the upcoming period.

Financial Assumptions

Financial assumptions and expense projections for the upcoming five year planning period take into consideration the operation of the current fleet, comprised of the MV *Blue Puttees*, the MV *Highlanders*, the MV *Atlantic Vision*, or her replacement, and the MV *Leif Ericson.*

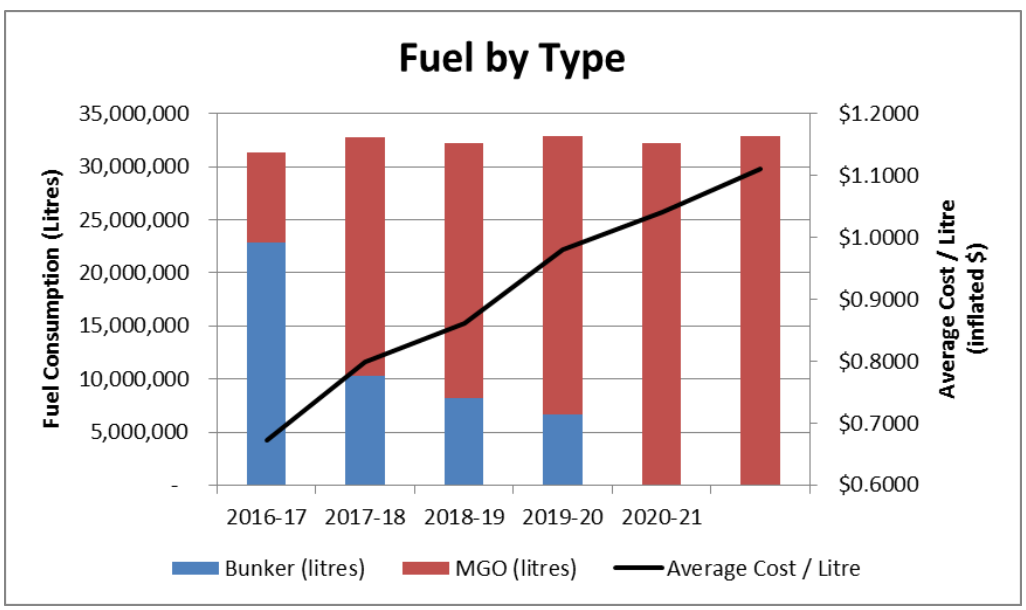
Fuel Expense

Fuel is, and will continue to be, a large portion of the Corporation's operating budget, accounting for upwards of 15 per cent of total operating expenses.

Sulphur Emission Control Area (SECA) Plan

MAI currently uses a blend of Bunker fuel and Marine Gas Oil (MGO) to produce Intermediate Fuel Oils to power its vessels. The current average cost of blended fuel is $0.53 per litre. However, new regulatory requirements dictate that MAI reduce its sulphur emissions in its fuel to 0.1% by 2020. In order to do so, MAI must switch to more expensive MGO over the next several years in order to meet the 2020 target and deadline. This will require the Corporation to burn more MGO and less Bunker fuel over time. The current price of MGO is $0.77 per litre, 45% more expensive than the blended fuel. Since MGO is forecasted to cost $1.11 per litre by 2021/22, MAI is forecasting its fuel expense to increase over the course of the planning period, despite the current low price of oil.

It must be noted that MAI is forecasting a large increase in fuel costs from 2016/17 to 2017/18, as two of its four vessels will now be utilizing MGO rather than blended fuel.



Carbon Tax

Another increasing pressure on fuel expense over the planning period is the anticipated impact of a carbon tax. Starting in 2018 the Federal Government is introducing a pan-Canadian approach to pricing carbon pollution which will see a $10 a tonne tax applied to carbon emissions starting in 2018, rising by $10 per year until it hits $50/tonne in 2022. This will be imposed on all provinces that are not already pricing carbon at an equivalent rate or those that do not have a cap and trade system in place. Currently, neither Nova Scotia nor Newfoundland and Labrador have implemented a tax. Nova Scotia has stated that it will be setting up its own stand-alone cap and trade system while Newfoundland and Labrador has not yet confirmed its intentions. There are indications, however, that Newfoundland and Labrador's 16.5 cent gas tax hike instituted in its 2016 provincial budget could morph into a carbon tax. The recently announced reductions to the temporary gas tax in the Province's 2017 Budget appears to pave the way for such a transition.

Based on the impact of the recently introduced carbon tax in Alberta, at $20/tonne, where fuel costs increased by approximately 4.5 cents a litre, MAI has provisionally estimated a direct impact to vessel related fuel costs.

The Corporation continues to monitor and research the potential impacts of carbon pricing to its operations and will present further updates in future Corporate Plans. The Corporation will also need to make a decision on whether to show the carbon tax as a separate line item on its customers' bills, or include it as a component of the fuel surcharge.

In order to minimize the impacts of price fluctuations, the Corporation intends to maintain its fuel hedging program, thereby stabilizing the Corporation's fuel budget. The Corporation's fuel hedging strategy involves the purchase of financial derivatives to assist with effective fuel budgeting.

Foreign Exchange Rate

Given the volatility of the global economy, and the uncertainty as to where MAI might source replacement vessels, MAI has adopted a very conservative approach to this assumption.

Hedging Strategy

The Corporation utilizes a foreign exchange hedging strategy to proactively mitigate exposure to foreign currency. The Corporation secured forward contracts with a financial institution for the Euro currency requirements over the remaining charter period of the MV *Atlantic Vision*. MAI's hedging strategy has been successful in bringing stability and cost certainty to the charter obligations for the duration of the charter agreements.

Inflation Rates

Canada's inflation policy, as set out by the Federal Government and the Bank of Canada, aims to keep inflation at two per cent, the midpoint of the one to three per cent inflation-control target range. For the purposes of this Corporate Plan, MAI has assumed inflation rates of 3% for non-labor and 5% for fuel expenses in recognition of the increased volatility of fuel prices. While 3% is at the higher end of the Bank of Canada's range, many of the supplies used by MAI are sourced from Europe, and as such, MAI has chosen to be more conservative with its inflation rate assumptions.

Other Costs

Pension Costs

Marine Atlantic's pension plan is a defined benefit plan. Marine Atlantic, as a Crown Corporation, is aligning with the requirements announced in Budget 2013:

> "…the Government will continue to work with Crown Corporation's with a view to moving to a 50:50 cost sharing between the employer and employees by 2017 and aligning the age at which retirement benefits become available with those announced in the Economic Action Plan 2012 for post-2012 hires under the Public Service Pension Plan."

For employees hired before January 1, 2014, the normal retirement date is the last day of the month in which an employee reaches age 65; however, employees may retire as early as age 45. Employees can work beyond age 65, but must begin to draw their pension at age 71. For employees hired after January 1, 2014, the normal retirement date is the last day of the month in which an employee reaches age 65; however, an employee may retire as early as age 55. If an employee has 30 years of allowable service, the employee may retire as early as 50.

By 2017 MAI and its employees share equally in the cost of benefits being accrued in any year – a 50/50 contribution target. To achieve this, employee contributions will increase gradually in the intervening years.

	% of *pensionable earnings* up to the *YMPE*		% of *pensionable earnings* above the *YMPE*		Estimated employee share of cost for service accruing in the year	
Year	Hired before Jan 1 2014	Hired after Jan 1 2014	Hired before Jan 1 2014	Hired after Jan 1 2014	Hired before Jan 1 2014	Hired after Jan 1 2014
2015	6.50	5.50	8.50	7.00	40%	42%
2016	7.75	6.25	10.00	7.75	45%	45%
2017	9.00	7.25	11.25	8.75	50%	50%

*YMPE – Yearly Maximum Pensionable Earnings

Marine Atlantic contributes the additional amounts that are necessary to cover the benefits, in accordance with legislated requirements for funding.

Pension Solvency

The solvency ratio of the Pension plan for employees of Marine Atlantic has fluctuated over the last five years from 85% to 105%. The Plan's solvency position is affected by market changes. Currently (2016/17), the equity base of the Plan is approximately $278 million. A 10% drop in the market would result in a deficiency of $28 million and the overall Canadian and Global equity market in 2016 has been volatile.

If the solvency position of the Pension plan weakens the Corporation will need to make solvency payments per the *Pension Benefits Standards Act, 1985* and related regulations. The Corporation currently has existing letters of credit which are treated as assets for purposes of solvency valuations. These letters of credit must be maintained and can only be reduced if equivalent additional contributions are made to the Plan. These letters of credit could also be reduced without additional contributions if a future actuarial valuation shows a solvency ratio and an average solvency ratio that meet certain criteria defined in the Act.

The amounts included for solvency payments for 2017/18 may be used to reduce the letters of credit if the solvency position is favourable. In the event that the solvency position weakens the funds will be used to meet the requirements of the *Act* and related regulations.

Travel, Hospitality, Conference and Event Costs

Changes to the Corporation's travel policy and procedures, including the implementation of new policies regarding hospitality and events, were implemented in 2016/17 to align with those of the Treasury Board Secretariat (TBS).

In 2015, Marine Atlantic was directed by the Governor in Council to align its travel policies with those of the Treasury Board Secretariat, specifically to:

1. "Align their travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and events expenditures in a manner that is consistent with their legal obligations; and
2. to report on the implementation of this directive in their next Corporate Plan."

Current MAI policy and procedures for travel, hospitality, conferences and events are aligned with the Federal Government in terms of internal governance and monitoring. There are no provisions that are above the upper limits in the Joint Council Travel directive. For instance, MAI's meal per diem is lower than the federal government per diem. All travel budgets are reviewed and approved by the Executive (CEO and Vice Presidents) and disclosed to the Audit and Risk Committee as part of the annual budget approval process. Monthly cost centre variance reports are submitted to Finance and the travel costs are reported in internal performance books. Pre-approval by a Vice President is required for any travel to non-MAI sites or where air travel is involved, or if travel to a MAI site involves travel costs that are in excess of limits set out in the policy.

The annual budget for Conferences is approved by the Executive and disclosed to the Audit and Risk Committee of the Corporation's Board of Directors as part of the annual budget approval process. Monthly cost centre variance reports are submitted to Finance and the conference costs are reported in internal performance books. A conference and travel authorization pre-approval form is used. All employees must receive pre-approval by the appropriate VP before registering or booking travel. The total budgeted costs are included on the form as well as the benefits of attending.

Hospitality related costs are closely monitored and budgeted and no purchases of alcohol are permitted. Most of MAI's hospitality costs are related to interdepartmental managers' meetings, training and employee recognition events. Pre-approval is required for all hospitality expenditures at the Executive (CEO and Vice Presidents) Level.

All costs related to events are captured in the budgeting process. Cost centre managers are responsible for staying within their budget and cost centre managers' report on budget variances monthly.

Reporting

From a reporting perspective, MAI has set up a process for initiating, routing and tracking the preapprovals required for travel, hospitality, conferences and events in order to comply fully with the directive. The Corporation reports regularly on travel expenses in its Quarterly Financial Reports as well as its Annual Report, starting with its 2015/16 Annual Report. Under the proactive disclosure guidelines put forward by TBS, MAI will also report details of travel by executive and Board members on its website.

The Corporation's forecasted Travel, hospitality and conference expenses are as follows.

(000's)	Average Prior 3-Years	Actual 2015/16	Forecast 2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Travel	1,882	2,165	2,135	2,895	3,733	2,925	3,990	3,155
Conferences	158	86	145	192	199	209	212	213
Hospitality	206	128	163	553	632	652	672	692
	2,246	**2,378**	**2,443**	**3,640**	**4,565**	**3,786**	**4,874**	**4,060**

In general, MAI's travel costs include travel to MAI's various offices, travel to shipyards for maintenance periods and refits, travel to Ottawa to meet with Transport Canada and central agencies, and travel for training.

Capital Requirements

Fleet Maintenance Capital

Regular dry-dockings are a mandatory requirement for MAI's vessels. In 2017/18, there are two dry-dockings planned – the MV *Atlantic Vision* and the MV *Highlanders.* The other vessels are both scheduled to undergo dockside maintenance to perform regular maintenance. Other capital expenditures included in the fleet maintenance category include general maintenance and repairs for each vessel, as well as a Diesel Fuel Conversion Kit for the MV *Highlanders* in 2017/18, vehicle deck coatings, life boat hook replacements, auxiliary engine overhauls, etc. There is also a spare parts budget included every year to ensure that the Corporation has the necessary parts on hand to deal with unanticipated breakdowns as quickly as possible. In future years, the fleet maintenance budget holds relatively steady, until 2020/21, when prep work begins for the MV *Leif Ericson* refit.

Shore Maintenance Capital

The shore maintenance budget includes monies for the regular upkeep of our terminals, docks, marshaling yards, buildings, fuelling facilities, vehicles and equipment. It covers regular maintenance and repair requirements like paving, roof repairs, lighting and signage, as well as the regular replacement of shunt trucks and roloc boxes.

As noted earlier, MAI has advanced plans to do some significant upgrades to its docks in both NSY and PAB. These upgrades will help ensure that the long term mooring system project is a success. The Corporation is also planning on modernizing the marshaling yards over the next two years, with upgrades to lighting and the ticket booths, for example.

MAI Information Technology requirements are also included in this category - servers, digital signage, satellite communications equipment, as well as regular system upgrades and maintenance.

Finally, the Corporation also budgets a contingency fund to ensure that it has sufficient funds to cover off any unforeseen capital requirements, as well as a project management budget to cover off engineering requirements, condition assessments, etc.

Strategic Initiative Capital

As part of its strategic planning process, MAI determined that it would be beneficial to track the investments required for its strategic initiatives separately. As such, any strategic initiative that requires a capital investment will be tracked and reported on separately. In this Plan, the key strategic initiative is Business Process Renewal, which will consume much of the organization's efforts over the next several years.

Asset Renewal

The asset renewal category includes the advancement of the replacement and/or renovation of the administration building in Port aux Basques, which is already well over capacity and in quite dire condition. A new building will not only provide a more functional space for employees in the current building, it will also allow employees who currently occupy the Lomond Building to be relocated, thereby eliminating the need for that rental space, and allowing increased efficiencies with all support employees located in one building.

Funding for fleet renewal has been removed from the budget and will be addressed separately as part of the ongoing long term fleet strategy.

Infrastructure Funding

2017/18 also identifies capital funding that was approved as part of the Federal Infrastructure Initiative.

The engineering design and RFQ (request for quotes) preparation, as well as site preparation, for the Fender upgrades will be completed in 2016/17, with the purchase and installation of the fenders scheduled for 2017/18.

The PAB storm sewer project is well underway, with construction starting in Q4 2016/17. The remainder of the construction and repaving of the site will be completed in Q3 of 2017/18.

The mooring system project has been slightly delayed, due to a delay in issuing the RFI. As such, MAI is requesting that the $2M allocated to the project in fiscal 2016/17 be re-profiled to fiscal 2017/18. Once the final supplier is chosen and the contract awarded, work will begin immediately, and MAI is confident the project will be completed in fiscal 2017/18.

Capital Estimates

For budgeting purposes, MAI relies on expert knowledge within the Operations and IT groups to develop high level estimates for capital projects.

From a fleet maintenance perspective, final dry-docking costs are a result of the RFP process that MAI employs to secure dockyard services, plus the costs of any unforeseen incremental work that is identified once the vessels are in dry-dock.

For shore based projects, MAI employs the services of an external engineering firm to help develop detailed estimates once capital projects are tentatively approved by the capital committee. Final approval of projects is then confirmed once detailed estimates are developed, assuming that the final project costs are reasonable and can be accommodated within the overall budget. All of these decisions are made by the Capital Committee, which meets once per month and is chaired by the CEO. Any changes to project costs in excess of $500,000 must receive Board approval.

Cost Recovery

The Shareholder has established a cost recovery target of 65% for MAI's overall service. The cost recovery formula is calculated by dividing total revenues into total costs - less charter fees, capital expenditures, program management, restructuring and pension costs.

	2015/16 Results	2016/17 Forecast
Cost Recovery - Overall	65.8%	69.8%

While MAI commits to managing to the 65% cost recovery target, it must be recognized the very nature of the cost recovery formula means that if expenses and revenues increase by the same percentage in a given year, cost recovery will decrease because annual expenses are much higher than annual revenues. Given that MAI is facing decreasing traffic levels, which will be exacerbated by increasing rates, and increasing fuel costs due to the SECA requirements and a carbon tax, a 65% cost recovery target will be increasingly difficult to meet.

Key Performance Indicators

In addition to achieving revenue and cost recovery targets, MAI has identified the following Corporate-level KPIs to help determine the success of its strategic initiatives, and to meet the expectations of its key shareholder, the Government of Canada.

	2015/16 Results	2016/17 Target	2016/17 YTD
On-time performance (excl. weather)	91%	86-90%	91%
Recovery Time	12-24 hrs	Within 24 hrs	12-24 hrs
Unplanned service interruptions	2%	3% or lower	0.9%
Capacity Utilization	74%	68%	73%
Overall customer satisfaction (CRV)	66%	60%	67%
Overall customer satisfaction (PRV)	75%	68%	76%
Likely to recommend MAI	93%	90-95%	94%

Specific Approvals Sought

MAI seeks Governor in-Council approval of MAI's 2017 – 2021 Corporate Plan, Treasury Board approval of the operating and capital plans contained herein (See Financial Statements A through E on the following pages), and approval for the continuation of a line of credit and the establishment of a multi-currency banking account, as described below.

Borrowing Authority

Marine Atlantic's bank line of credit is currently approved at $35,622,000. The Corporation utilizes $31,422,000 to secure letters of credit related to the Corporation's defined benefit pension plan. This is in accordance with Section 9.11 of the *Pension Benefits Standards Act, 1985* (the "Act") and is utilized to replace solvency special payments. These letters of credit must be maintained and can only be reduced if equivalent additional contributions are made to the Plan. These letters of credit could also be reduced without additional contributions if a future actuarial valuation shows a solvency ratio and an average solvency ratio that meet certain criteria defined in the Act.

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

The Corporation is currently seeking approval from the Minister of Finance for a line of credit sufficient to handle the $35,622,000 requirements for the pension plan and the Workers' Compensation Board requirement. In addition, upon completion of the 2016 pension plan fiscal year actuarial valuation in June of 2017, if the solvency position of the pension plan improves as expected, the line of credit requirement may be reduced.

Multi-Currency Bank Account

The Corporation requests approval from the Minister to establish a multi-currency account to assist in managing foreign currency activities. The Corporation's banking partner is the Bank of Montreal (BMO). BMO can facilitate the establishment of this account through their partnership with BMO Harris Bank, N.A, a subsidiary company of BMO located in the United States. In accordance with the Financial Administration Act (FAA) section 128 (c) MAI requires the approval of the Minister of Finance for the establishment of this bank account.

Financial Statements

Statements A through E present financial projections over the planning period, based on the operational plans, forecasts and assumptions discussed in previous sections of this Corporate Plan and are presented based on Public Sector Accounting Standards.

Statement A: Statement of Financial Position

Marine Atlantic Inc.
Statement of Financial Position - Year Ended March 31st
As at March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Financial assets							
Cash [Note 1]	13,105	13,194	62,012	68,523	68,523	(73,336)	(242,653)
Accounts receivable	11,089	10,047	7,947	7,947	7,947	7,947	7,947
Receivable from Government of Canada	13,000	18,000	-	-	-	-	-
Inventories held for resale	363	363	363	363	363	363	363
Derivative financial instruments	848	-	-	-	-	-	-
Accrued pension asset	123,168	123,168	136,983	151,983	160,711	175,711	190,711
	161,573	164,772	207,305	228,816	237,544	110,685	(43,632)
Liabilities							
Accounts payable and accrued liabilities	25,687	31,087	12,687	12,687	12,687	12,687	12,687
Derivative financial instruments	6,921	101	-	-	-	-	-
Deferred revenue	3,624	3,624	3,624	3,624	3,624	3,624	3,624
Payable to Government of Canada	2,626	2,626	2,626	2,626	2,626	2,626	2,626
Accrued liabilities [Note 2]	65,067	65,067	65,067	65,067	65,067	65,067	65,067
	103,925	102,505	84,004	84,004	84,004	84,004	84,004
Net financial assets (debt)	57,648	62,267	123,301	144,812	153,540	26,681	(127,636)
Non-financial assets [Note 3]	426,241	425,337	453,877	451,742	444,842	440,462	456,292
Accumulated surplus	483,889	487,604	577,178	596,554	598,382	467,143	328,656

The accompanying notes are an integral part of these financial statements

Notes to Statement A – Statement of Financial Position

1. Cash includes $9,194 held in escrow as security for the lease of the MV *Atlantic Vision* and therefore is restricted and not available to fund operations.

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

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

4. Numbers may not add due to rounding.

Statement B: Statement of Operations

Marine Atlantic Inc.
Statement of Operations
For the Year Ended March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Budget 2016/17	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Total Revenues	107,324	109,228	109,616	112,234	116,204	119,373	124,460	128,135
Expenditures								
Wages and benefits	86,066	86,993	85,758	90,335	93,301	95,128	101,548	105,121
Charter fees	33,135	13,946	13,946	13,117	15,614	17,803	21,292	21,292
Charter importation taxes	2,386	-	-	-	-	-	-	-
Fuel	22,574	25,613	19,488	27,666	29,292	31,902	35,102	37,621
Fuel carbon tax	n/a	n/a	n/a	128	856	1,607	2,304	3,090
Materials, supplies and services	21,451	23,071	24,754	26,450	26,982	27,627	28,915	29,571
Repairs and maintenance	13,014	11,383	12,255	14,205	14,735	14,164	13,001	13,426
Insurance, rent and utilities	7,838	8,395	8,054	8,137	7,949	8,225	8,517	8,810
Travel	2,165	2,602	2,135	2,895	3,733	2,925	3,990	3,155
Administrative costs	2,954	5,350	2,943	4,573	4,640	5,172	4,944	5,491
Fleet renewal costs	-	2,296	796	-	-	-	-	-
Employee future benefits [Note 1]	13,764	10,435	4,613	10,125	9,627	9,891	10,472	10,831
Foreign currency exchange loss (gain)	317	-	-	-	-	-	-	-
Realized (gain) loss on derivative financial instruments	(2,137)	2,192	2,400	101	-	-	-	-
Loss (Gain) on disposal of tangible capital assets	183	-	(4,000)	-	-	-	-	-
Amortization	31,632	40,900	37,700	38,500	41,200	43,000	45,000	47,600
Total Expenditures	235,342	233,177	210,840	236,231	247,927	257,445	275,084	286,006
Deficit before government funding	(128,018)	(123,949)	(101,224)	(123,997)	(131,723)	(138,072)	(150,624)	(157,871)
Government funding								
Operations	114,637	110,310	66,467	146,130	112,035	103,800	14,384	14,384
Capital	236,362	35,912	32,500	67,340	39,065	36,100	5,000	5,000

Marine Atlantic Inc.
Statement of Operations
For the Year Ended March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Budget 2016/17	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Total Government funding	350,999	146,222	98,967	213,470	151,100	139,900	19,384	19,384
Operating (deficit) surplus	222,981	22,273	(2,257)	89,473	19,377	1,828	(131,240)	(138,487)
Accumulated operating surplus, beginning of year	266,223	489,204	489,204	486,947	576,420	595,796	597,624	466,385
Accumulated surplus, end of year	489,204	511,477	486,947	576,420	595,796	597,624	466,385	327,898

Notes to Statement B – Statement of Operations:

1. Employee future benefits expenses for 2015/16 are based on actuarially determined numbers. For 2016/17 and future years, expense is assumed to equal cash requirements for non-pension employee future benefits and current service pension cost payments.

2. Restructuring costs for 2015/16 relate to the revitalization strategy. They are allocated to fiscal years on a cash basis for corporate plan purposes. For audited financial statements, they are an expense of the year in which the liability is known.

3. Numbers may not add due to rounding.

Statement C: Statement of Remeasurement Gains and Losses

Marine Atlantic Inc.
Statement of Remeasurement Gains and Losses
For the Year Ended March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Accumulated remeasurement gain (losses), beginning of year	(5,177)	(5,315)	657	758	758	758	758
Remeasurement gain (losses) arising during the year							
Unrealized gain (loss) on foreign exchange of cash	705	-	-	-	-	-	-
Unrealized gain (loss) on derivatives	1,294	3,572	-	-	-	-	-
Reclassifications to the statement of operations							
Realized (gain) loss on derivatives	(2,137)	2,400	101	-	-	-	-
Net remeasurement (losses) gains for the year	(138)	5,972	101	-	-	-	-
Accumulated remeasurement losses, end of year	(5,315)	657	758	758	758	758	758

Notes to Statement C – Statement of Remeasurement Gains and Losses:

1. Numbers may not add due to rounding.

Statement D: Statement of Change in Net Financial Assets

Marine Atlantic Inc.
Statement of Change in Net Financial Assets
For the Year Ended March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Operating surplus (deficit)	222,981	(2,257)	89,473	19,377	1,828	(131,240)	(138,487)
Change in tangible capital assets							
Acquisition of tangible capital assets	(236,362)	(36,500)	(67,340)	(39,065)	(36,100)	(40,620)	(63,430)
Amortization of tangible capital assets	31,632	37,700	38,500	41,200	43,000	45,000	47,600
Loss/(Gain) on disposal of tangible capital assets	183	(4,000)	-	-	-	-	-
Proceeds on disposal of tangible capital assets	-	4,000	-	-	-		
(Increase) decrease in tangible capital assets	(204,547)	1,200	(28,840)	2,135	6,900	4,380	(15,830)
Change in other non-financial assets							
Net change in inventories held for consumption	1,882	(296)	300	-	-	-	-
Net change in prepaid expenses	4,841	-	-	-	-	-	-
Decrease (increase) in other non-financial assets	6,723	(296)	300	-	-	-	-
Net remeasurement (losses) gains	(138)	5,972	101	-	-	-	-
Increase (decrease) in net financial assets	25,019	4,619	61,034	21,512	8,728	(126,860)	(154,317)
Net financial assets (debt), beginning of year	32,629	57,648	62,267	123,301	144,812	153,540	26,681
Net financial assets, end of year	57,648	62,267	123,301	144,812	153,540	26,681	(127,636)

Notes to Statement D – Statement of Change in Net Financial Assets:

1. Numbers may not add due to rounding.

Statement E: Statement of Cash Flow

Marine Atlantic Inc.
Statement of Cash Flow
For the Year Ended March 31, 2016 and Projected for 2016/17 to 2021/22

(In $ Thousands)	Actual 2015/16	Forecast 2016/17	Budget 2017/18	2018/19	2019/20	2020/21	2021/22
Operating transactions							
Cash receipts from customers	106,806	109,503	112,119	116,089	119,258	124,345	128,020
Other income received	110	112	115	115	115	115	115
Government funding – operations Note 1	102,694	61,467	164,130	112,035	103,800	14,384	14,384
Government funding – capital	235,165	32,500	67,340	39,065	36,100	5,000	5,000
Cash paid to suppliers and employees	(186,982)	(166,381)	(203,607)	(197,101)	(204,555)	(219,612)	(227,576)
Cash paid for EFBs Note 2	(22,755)	(4,613)	(23,940)	(24,627)	(18,618)	(25,472)	(25,831)
	235,038	32,589	116,158	45,577	36,100	(101,240)	(105,887)
Capital transactions							
Purchase of tangible capital assets	(235,165)	(36,500)	(67,340)	(39,065)	(36,100)	(40,620)	(63,430)
Proceeds on disposal of tangible capital assets	-	4,000	-	-	-	-	-
	(235,165)	(32,500)	(67,340)	(39,065)	(36,100)	(40,620)	(63,430)
Effect of exchange rate changes on cash	705	-	-	-	-	-	-
Net increase (decrease) in cash	578	89	48,818	6,512	-	(141,860)	(169,317)
Cash, beginning of year	12,527	13,105	13,194	62,012	68,523	68,523	(73,336)
Cash, end of year Note 3/4	13,105	13,194	62,012	68,523	68,523	(73,336)	(242,653)
Cash consists of:							
Restricted cash	9,194	9,194	9,194	9,194	9,194	9,194	9,194
Unrestricted cash	3,911	4,000	52,818	59,329	59,329	(82,530)	(251,847)
	13,105	13,194	62,012	68,523	68,523	(73,336)	(242,653)

Notes to Statement E– Statement of Cash Flow:

1. Government funding – operations: for 2016/17 includes 48,467 for current year and 13,000 for prior fiscal year; 2017/18 includes 146,130 for current year and 18,000 for 2016/17 funding to be received in 2017/18.

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

3. Cash includes amounts held in escrow as security for the lease of the MV *Atlantic Vision* and therefore is restricted and not available to fund operations.

4. Numbers may not add due to rounding.