Corporate Plan Summary

2018/19 – 2022/23

Marine Atlantic
Marine Atlantique

November 6th, 2018

Executive Summary

2017/18 was another successful year for Marine Atlantic Inc. (MAI), and the Corporation is well on its way to achieving its strategic objectives.

Financial results for 2017/18 were very strong. Revenues came in slightly above budget. Total expenditures, not including amortization, were well under budget for the year, resulting in cost recovery results of 67%, higher than the Shareholder's target of 65%. Customer satisfaction for passenger related traffic sits at 74%, and 91% of people surveyed would be willing to recommend MAI to family and friends. Vessel availability sits at over 98% and on-time performance levels are consistently above 90%.

While MAI has made significant progress on its strategic plan, over the upcoming planning period, there are several strategic issues facing MAI.

The first is Long Term Fleet Renewal. Since 2013/14, MAI has reiterated the need to replace both the MV *Atlantic Vision* and the MV *Leif Ericson* with new vessels. While Budget 2017 did provide $445M in funding over a three-year period, it did not provide funding to support the Corporation's fleet renewal strategy. In Budget 2018, the Shareholder announced incremental funding to *refurbish* the MV *Leif Ericson*.

It must be noted that the Shareholder's decision to refurbish a 30-year-old vessel does not support MAI's fleet strategy. It is MAI's position that this investment does not provide the best value for the Corporation or for the Shareholder.

The other priority related to Long Term Fleet Renewal is approval to renew or replace the MV *Atlantic Vision*. The current lease on the vessel expires in November of 2019.

Another issue facing MAI over the upcoming planning period is its ability to continue to meet its cost recovery target of 65%. MAI recognizes that continuing to raise rates to meet cost recovery targets is not a sustainable strategy, as higher rates will continue to drive demand downwards - to the point where any increase in rates will be offset by lower traffic levels, which, in turn, makes reaching the cost recovery target ever more challenging.

In this Corporate Plan, there is no tariff increase proposed for the current year.

MAI continues to pursue its strategic objectives, which are based on the over-arching strategic themes of Operational Excellence, Customer Value, and Public Trust. Key activities over the upcoming planning period include:

- Implementation of the Budget 2018 decision to refurbish the MV *Leif Ericson*
- Work with Transport Canada to obtain approval and funding for MAI's Long Term Fleet Strategy
- Implementation of a Behavioural Based Safety Program
- Completion of the first release of the Corporation's Business Process Renewal Project
- Achieve Green Marine Level 3 Certification as part of MAI's Environmental Management Plan

- Develop and implement a program to foster a culture of Diversity, Inclusion and Respect in the workplace
- Begin construction of the Corporation's new administration building in Port aux Basques, subject to shareholder approval
- Graduation of the first class of the Leadership Management Development Program
- Implementation of a new pricing architecture

MAI is committed to providing a modern, efficient service that meets the traffic demand, while meeting the key performance indicators identified by the Shareholder.

Through this submission, the Corporation is seeking approval of its 2018/19 to 2022/23 Corporate Plan and its 2018/19 operating and capital budgets.

Contents

1. Corporate Overview and Structure

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.

Marine Atlantic plays an important role in the transportation of goods and people to and from the Island of Newfoundland. The Corporation is a vital link in ensuring that the needs of the people of Newfoundland and Labrador are met. Whether it's transporting oxygen to hospitals or carrying perishable goods to the Island's grocery stores, Marine Atlantic is a key component to the regional economy.

Marine Atlantic offers twice daily service for passengers and freight between Port aux Basques, NL and North Sydney, NS. During the summer, the Corporation also offers service three times a week between Argentia, NL and North Sydney, NS.

Corporate Overview

The Corporation's Vision and Mission statements are reviewed regularly. 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. The Chairman of the Board is 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. Up to ten Board members are appointed.

The Corporation's Board of Directors has representation from both Newfoundland and Labrador and Nova Scotia, with backgrounds covering Law, Accounting, Transportation and Business. The Board of Directors meets at least once a quarter, with other meetings scheduled as needed. The Board has established three sub-committees:

1. Human Resources and Pension Management Committee (HRPMC)
2. Safety, Corporate Governance and Accountability Committee
3. Audit and Risk Committee

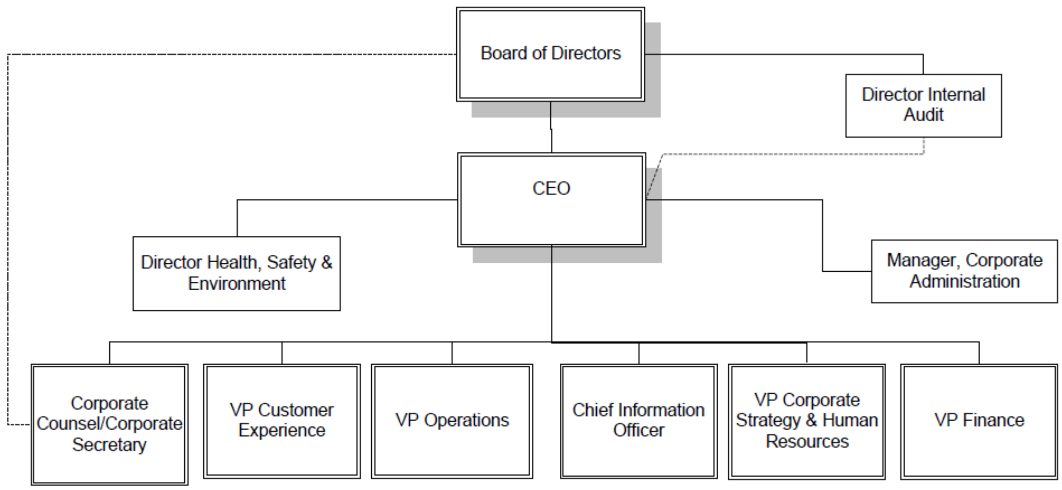
Each committee reports directly into the Board of Directors, and each meets at least quarterly, with additional meetings scheduled as required.

The current Board Membership and the make-up of each of the Board Committees can be found in Appendix A.

Executive Team

The President and CEO is also appointed by the Governor in Council on the recommendation of the Minister of Transport. The current term for the CEO position expires on May 25, 2019.

MAI's Executive team is responsible for directing the operations of the Corporation. The current organizational structure is outlined 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 Corporation employs 1038 full time equivalent employees in total. The number of full time equivalent employees is not expected to change significantly over the upcoming planning period. The breakdown in full time equivalents (FTE's) by collective agreement can be found in Appendix B, along with the current status of each of the collective bargaining agreements.

2. 2017/18 Accomplishments

Marine Atlantic is a modern, efficient organization that provides a high degree of service reliability, a significant accomplishment for an organization that, according to the Special Examination completed by the Office of the Auditor General in 2009, was on the brink of being unable to meet its mandate.

2017/18 was another exciting and successful year for Marine Atlantic:

- Customer satisfaction levels remain quite high, sitting at 74% for passenger related traffic in 2017/18 versus 56% in 2010.
- On-time performance is at 90%, up from 68% in 2009/10.
- Revenue per AEU (automobile equivalent unit) is at $218, up over 40% percent from 2009/10.
- Cost recovery for the constitutional service has increased from 54% in 2009/10 to 67% in 2017/18, coming in above the Shareholder's target of 65%.

- Cost recovery for MAI's non- constitutional services also outperformed the 100% target:
  - Argentia – 134%
  - Drop trailer handling service – 197%
  - Onboard Services – 130%

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.

Traffic Results

Traffic levels in 2017/18 performed better than 2016/17 for both Passenger and PRV traffic, but less than 2016/17 levels for CRV traffic, with commercial traffic AEU's coming in at 3.8% below 2016/17 results. Overall AEU traffic underperformed both 2016/17 levels and the 2017/18 Corporate Plan forecast.

Traffic Type	2016/17 Actual	2017/18 CP Forecast	2017/18 Actual	Year-Over-Year Variance	Variance to CP Forecast
Passengers	326,796	336,751	328,594	0.6%	-2.4%
PRVs – AEUs	135,531	138,888	138,531	2.2%	-0.3%
CRVs – AEUs	386,829	387,971	372,142	-3.8%	-4.1%
Total – AEUs	522,360	526,859	510,673	-2.2%	-3.1%
PRVs – units	120,314	124,446	122,444	1.8%	-1.6%
CRVs – units	94,459	93,517	91,396	-3.2%	-2.3%
Total Units	214,773	217,963	213,840	-0.4%	-1.9%

While overall traffic levels are lower than forecasted, revenues came in slightly above forecast at $112.6M due to increased rates on both passenger and commercial traffic.

Expense Management

Overall spend for fiscal 2017/18 came in well below budget. In addition to the $48.8M surplus for 2017/18 identified in last year's Corporate Plan, a further $12.0M in savings were identified, bringing the overall surplus to $60.8M for 2017/18. The $12.0M is largely attributed to pension savings as the Corporation's Pension Plan did not require pension solvency payments, as originally budgeted.

Strategic Initiatives

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. MAI will continue to work on its multi-year initiatives, with much of the Corporation's resources focussed on Fleet Renewal and the Business Process Renewal project.

The progress that MAI has made on the strategic initiatives in 2017/18 is outlined in the following table.

Strategic Initiative	Status	2017/18 Year End Deliverable	2017/18 Year End Results
Business Process Renewal (ERP) Analyse MAI's current systems to define and recommend a future state for a single MAI Enterprise Resource Planning solution.		• Develop an implementation plan for replacement of current systems, starting with Finance and Payroll, followed by HR	• Project Plan presented to Board in September • 85% of 2017/18 Project Plan completed
Long Term Fleet Strategy Phase 2 Phase 2 – develop and issue the RFP for MAI's replacement vessels.		• TBD pending funding approval	• Budget 2018 included funding for the refurbishment of the MV *Leif Ericson*, an option that was not put forward by MAI • Implementation plan under development
SMS Program Improvements Improve the Safety Governance structure		• New Safety Governance structure fully defined and implemented	• 5-Year Safety Plan completed and ready for execution
Vessel Familiarization Design, develop and implement a comprehensive and standardized vessel employee training program, to increase vessel safety.		• Majority of learning modules completed and rolled out	• Project cancelled due to resource constraints
Long Term Mooring Strategy (Phase 3) Phase 3: Source vendor and install system.		• Vendor sourced and system installation complete	• Since contract negotiations took longer than anticipated, the systems were delivered, but not installed, putting the project behind schedule; installation ongoing in 2018/19
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.		• Utilize the model to develop future pricing strategies and structures for MAI's service offerings	• Project successfully completed
MAI Training Review Complete a full analysis of MAI's current training practices and make recommendations for improvement.		• Project complete	• Project successfully completed
Customer Portal Improvements Develop and expand the current Terminal Management System (TMS) to live commercial customers.		• Project complete	• Project successfully Completed
myCareer Compass Phase 2 Introduce a performance management program to help employees learn, develop professionally, build their career and manage performance issues.		• All remaining management and supervisory staff enrolled	• Performance Management Program and template finalized and rolled out to all supervisors and more than 10 front line positions

Strategic Initiative	Status	2017/18 Year End Deliverable	2017/18 Year End Results
Develop New Pricing Architecture MAI will have the ability to use the new forecasting tool to develop an improved pricing structure to provide flexibility and options for customers, generate incremental revenue, and better match capacity with demand.		• Develop strategy for Board approval Added in Year	• Pricing strategy completed and presented to Executive
Leadership Management Development Program This initiative will improve management effectiveness by increasing the leadership ability of current managers and helping to prepare other employees for future leadership roles.		• Develop and implement program Added in Year	• First class successfully enrolled and active in the Program
Onboard Retail and Coffee Shop Renewal This initiative will provide enhanced onboard service offerings and will lead to improved customer service levels and incremental revenue.		• Develop business case and submit to board for approval Added in Year	• Propositions defined and ready to execute • Business Case presented to the Board in March • Project deferred to 2019/20

These strategic initiatives form the basis for ongoing work in the upcoming planning period, as discussed later in this plan.

3. Looking Ahead: 2018/19 – 2022/23

Situation Analysis

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. The worsening economic outlook for Newfoundland and Labrador is expected to continue to have some impact on the Corporation's traffic levels, specifically commercial traffic, moving forward.

Some of the key economic indicators that MAI has used for its situation analysis are shown below. These indicators paint a bleak outlook for the Newfoundland and Labrador economy.

#	Measure	2016e	2017f	2018f	2019f	2020f	2021f
1.	Real GDP Change (%)	-0.7	-3.8	-0.2	0.3	-0.6	0.2
2.	Real Adjusted GDP Change (%)	-4.3	-4.6	-6.3	-2.8	-1.3	-2.7
3.	Brent oil ($US)	$52	$56	$62	$69	$71	$73
4.	Real Disposable Income	-2.9	-3.2	-2.6	-0.6	-1.8	-0.9
5.	Consumer Price Index (%)	2.7	2.9	2.4	2.2	3.8	2.4
6.	Employment (thousands)	232.6	228.3	221.8	217.2	214.5	211.5
7.	Unemployment Rate	13.4	13.9	15.5	16.5	16.6	17.2

*e: estimated; f: forecasted
Source: The Province of Newfoundland and Labrador Department of Finance

The real adjusted GDP found in the above table is an unpublished estimate of GDP, which excludes production related income earned by non-resident owners of mining and oil and gas projects. The Newfoundland and Labrador Department of Finance believes that it better reflects changes in economic activity that generates income for residents. In past forecasts, the real adjusted GDP figure has been successfully used as a proxy for changes in general freight shipments from the mainland to the Island of Newfoundland. This has been factored into the Corporation's CRV traffic forecast.

Major Products and Capital Investment

Newfoundland and Labrador's economy has been impacted a great deal by weak commodity prices over the past two plus years. This has had a significantly negative effect on provincial finances and corporate profits. This has flowed down to the offshore supply community, employment, wages, and housing markets.[1]

The Atlantic Provinces Economic Council estimates that major project investment will fall by 12% in 2017 as work on the Hebron project winds down. A further 15% decline is expected in 2018 as the Hebron project will be fully into the production phase and the Muskrat Falls transmission component slows.

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.[2]

- The geographical distribution of the population has become more concentrated on the Avalon Peninsula. As of 2017, the Avalon Peninsula contained more than 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.
- A gradual decline in population numbers is forecasted to occur over the course of the planning period, followed by more rapid declines.

All of these factors will have some degree of impact on MAI's traffic levels, and MAI predicts that the downward pressure on commercial traffic levels that it has experienced over the past several years will likely continue. However, MAI is forecasting increases in PRV traffic mainly due to marketing and promotional efforts by both the Corporation and the Province.

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

It should be noted, however, that since the NL economy is very dependent on the price of oil, should oil prices increase significantly over the planning period, the economic outlook may change.

North Atlantic Right Whales

The North Atlantic Right Whale is one of the most endangered species of all large whales and has been on the endangered species list since 1970. Significant threats to the population exist as whales are getting entangled in fishing nets and being hit by ships. In 2017/18, the Government of Canada implemented measures in certain shipping lanes to protect the whales – specifically, a mandatory slowdown was introduced in August for vessels in the Gulf of St. Lawrence. Similar measures were introduced in March 2018 that may impact MAI. Should MAI be required to slow its vessels down, resulting in longer voyage times, MAI's ability to move the traffic in a timely fashion and meet its Key Performance Indicators could be at risk.

Strategic Planning

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 2017/18 and all the Corporation's business units have now been introduced to and engaged in the process.

The BSC methodology looks at what an organization needs to do to achieve its strategy from four different perspectives: financial, customer, internal processes, and internal skills/resources. As a federally funded organization, MAI has replaced the 'financial' perspective with 'stewardship' to reflect the fact that it provides a public service using taxpayers' dollars. The BSC process first identifies what is needed from an internal skill/resource perspective for an organization to achieve its goals. It then identifies the internal processes the organization needs to excel at to meet customers' needs and to provide customer value, which is the next perspective to be considered. All of these things contribute, in turn, to the stated financial, or stewardship, objectives.

MAI built its strategic plan around three strategic themes:

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

MAI's Strategy Map

Based on the strategic themes, management identified a set of strategic objectives to further refine the Corporation's strategic direction. These objectives were then mapped to each of the perspectives noted above, resulting in the Corporate Strategy Map depicted below. The objectives have remained largely unchanged since 2015/16, with no major changes to the Corporation's overall strategic direction.

These strategic objectives will continue to be the focus of the Corporation's Strategic Plan for 2018/19. 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

To ensure that the strategic objectives are met, the Corporation establishes a set of strategic initiatives each year that are monitored and reported on monthly. In comparison to 2017/18, MAI has removed three initiatives:

- The myCareer Compass performance management process has been fully developed and is being implemented throughout the organization.
- The Onboard Retail and Coffee Shop Renewal is on hold, pending further analysis.
- The Upgraded Mooring project will be implemented by year-end.

Three new initiatives have been added to the plan, as noted below, along with the year-end objectives for each initiative. All initiatives and objectives have been approved at the concept level by the Board, but initiatives may change in scope as further analysis and more detailed project plans are developed.

Strategic Initiative	2018/19 Year End Objectives
Long-term Fleet Strategy Without approval of MAI's Long-term Fleet Strategy, MAI will continue to work on short-term solutions to ensure it can continue to meet its mandate.	• Begin the process for the refurbishment of the MV *Leif Ericson* – Establishment of governance structure and Program Management team • Develop draft technical requirements and establish project team for RFP development • Analyse market environment and establish best path forward to secure short-term charter
Behavior Based Safety Program - NEW Behaviour based safety will allow MAI to improve safety performance as well as safety culture through a proven safety training program.	• Select training program and initiate rollout to employees
Business Process Renewal BPR 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.	• Implement release one - Core Human Capital Management and Finance • Begin release two
Leadership Management Development Program (LMDP) This initiative will improve management effectiveness by increasing the leadership ability of current managers and helping to prepare other employees for future leadership roles.	• Graduate first class, gather feedback and evaluate program in preparation for second class
Implementation of New Pricing Architecture MAI will have the ability to use its pricing tool to develop an improved pricing structure to provide flexibility and options for customers, generate incremental revenue, and better match capacity with demand.	• Pending Board review and approval, execute on new pricing architecture
Foster a Culture of Diversity, Inclusion, and Respect - NEW MAI will continue to put an emphasis on corporate wide workplace diversity and will increase the overall level of employee knowledge with respect to diversity, inclusion, and respect.	• 75% completion of MAI's Respectful Workplace Training Program; • Submission of strategic plan to Board for approval
Environmental Management - NEW Achievement of Level 3 of the Green Marine Program will improve MAI's overall environmental management practices – progress will be audited to ensure all factors needed for Level 3 are successfully implemented.	• Green Marine Level 3 Certification obtained

Enterprise Risk Management Framework

The Enterprise Risk Management (ERM) process at Marine Atlantic has undergone significant renewal over the last year. With a goal to identifying the risks that could impact MAI's ability to meet its Corporate Strategic Objectives, the Corporate Strategy and Enterprise Risk Management Department completed a comprehensive review of each strategic objective, identified the potential obstacles to achieving each of those objectives, and then developed risk statements that encompassed these obstacles.

As a result, each of MAI's risk statements is now directly linked to the Corporation's strategic objectives. The ERM Framework works in tandem with the Strategic Planning process to ensure that MAI can accomplish all its objectives, while simultaneously managing the risks that might hinder the Corporation's success.

Each Corporate Risk statement is supported by a risk register outlining the ways the risk may occur, its current mitigations and any additional actions planned.

4. Key Initiatives

Long Term Fleet Strategy

Vital to MAI's continued success is having a safe, reliable, and efficient fleet. Without such a fleet, MAI risks not only possibly being unable to meet the traffic demand, but also being unable to meet the other performance targets set out by the Minister of Transport – including, but not limited to cost recovery, on-time performance, vessel reliability, and customer satisfaction levels.

Long Term Fleet Objectives

MAI's long term fleet strategy is fundamental to the overall success of the organization – financially, operationally, and from a customer service perspective. The specific objectives of MAI's strategy are to achieve:

1. *A fiscally sound procurement strategy*
2. *Predictable funding levels over a 25-year period based on a manageable and predictable fleet replacement cycle*
3. *Operational stability*
4. *Reduced maintenance costs through improved fleet planning and timely retirement of older vessels*
5. *Improved serviceability of vessels*
6. *Capacity to meet demand throughout the year*

MAI's preferred fleet model has the following characteristics:

- *Four modern, efficient homogeneous vessels*
- *Alignment of all major systems across vessels*
- *Configured to match traffic demand – a fleet of four vessels that are configured to meet the needs of a hybrid passenger/freight service*
- *Vessels capable of dealing with MAI's harsh environment (e.g. ice, wind, manoeuvrability, sea conditions, etc.)*
- *Efficient vessels in terms of fuel, maintenance, and crewing*
- *Vessels fitted with systems that can be supported locally/from Canada*

Background

In 2013/14, MAI created a comprehensive fleet renewal strategy based on the objectives noted above. To execute on its strategy, MAI proposed to:

1. Purchase the MV *Highlanders* and the MV *Blue Puttees* in 2015/16. These Seabridger class vessels would form the basis of MAI's homogeneous fleet.
2. Replace both the MV *Atlantic Vision* and the MV *Leif Ericson* with purpose-built vessels similar in design to the Seabridger class vessel.
3. Continue to charter the MV *Atlantic Vision* (or a similar vessel) until a purpose-built vessel was available to replace it.

4. Replace both the MV *Atlantic Vision* and the MV *Leif Ericson* under a charter with an option to purchase financing model; the intent was to lease the vessels for five years, and assuming they were adequate to MAI's needs and still required to meet the capacity demand, to purchase the vessels outright after the first five years of the charter period.

This strategy was presented to the Minister of Transportation for his consideration. MAI was given the funds and authorities necessary to purchase the two Seabridger vessels, which was a very significant milestone for the Corporation.

Budget 2018

MAI continued to work with Transport Canada throughout 2017/18 to secure funding to continue with its fleet replacement strategy. As a result, in Budget 2018, MAI did receive incremental funding for fleet. The funding approved in Budget 2018 is for the *refurbishment* of the MV *Leif Ericson.* On page 318, the Budget identifies:

> *Funding proposed for Transport Canada for the refurbishment of Marine Atlantic Inc.'s aging vessel, the MV Leif Ericson. Funding amounts are not being released due to an upcoming procurement.*

MAI intends to continue to lease a fourth vessel – the MV *Atlantic Vision* or a similar vessel (should the MV *Atlantic Vision* not be available beyond its current lease, or the proposed charter rates be exorbitantly high) for the duration of the planning period.

Refurbishment of the MV Leif Ericson

In 2017/18, the Corporation was asked to analyse how much it would cost to refurbish the MV *Leif Ericson* to extend its life for an additional ten years. MAI engaged a naval engineering firm to do a detailed study of the work required to extend the MV *Leif Ericson* beyond 30 years.

Risks

The risks of refurbishing the MV *Leif Ericson* are numerous. First, despite the significant investment in the vessel, the MV *Leif Ericson* will still be an aging vessel nearing the end of its useful life. And like any asset that is 30 years old – be it a ship, or a car, or a house – there are going to be unforeseen issues that arise that are attributable solely to the age of the vessel and that will negatively impact the vessel's reliability.

Secondly, refurbishing the vessel does not advance the Corporation's goal of having a fleet of four modern, efficient vessels. While upgrading and/or replacing 30-year old systems will undoubtedly improve some of the operating systems, it can in no way compare to having a brand-new vessel with all of the latest technology. There is a high level of risk associated with the fact that the refurbishment will introduce new systems on an old vessel, which will have to interact with much older systems, and there is no guarantee that this will work smoothly and efficiently.

Third, many of the parts and systems on the MV *Leif Ericson* have been manufacturer discontinued. In some instances, replacements for these parts will have to be manufactured from scratch, which adds both cost and time delays to maintenance and repair activities. While these costs have been built into the refurbishment estimates, should one of them fail during regular operation, the vessel could be out of service for an extended period.

Fourth, refurbishing the MV *Leif Ericson* does not position MAI for the future, and does not consider the ongoing value of the asset. By 2020/21, the vessel will be 30 years old. Refurbishing the vessel simply delays the inevitable: at some point in the next 10 years, the MV *Leif Ericson* will have to be replaced. While there are older vessels in operation on other ferry routes in Canada, none of them operate in the types of conditions that MAI faces daily. The constant wear and tear on the vessels - operating in high winds, rough seas, and heavy ice - shortens their life span. While keeping less complex vessels over 30 years old operating on shorter routes in an environment that is less harsh and where the service is not a life-line service, might be feasible, investing this amount of money in an aging asset that simply defers the investment in a new vessel is not a worthwhile investment.

MV *Atlantic Vision*

It must be noted that this Corporate Plan does not address the longer-term replacement strategy for the MV *Atlantic Vision*, whose current lease term expires in November 2019.

As noted earlier in the plan, MAI is assuming that it will retain a leased fourth vessel in the fleet – whether it be the MV *Atlantic Visio*n or a similar vessel – for the duration of the planning period.

Summary

MAI is committed to providing a modern, efficient service that meets the traffic demand, while meeting all key performance indicators identified by the Shareholder. To do so, however, MAI must have a fleet that can support these objectives. While the Corporation maintains that replacing both the MV *Atlantic Vision* and the MV *Leif Ericson* is the best course of action, MAI must now work with the Shareholder to determine how best to meet its mandate given the decisions that have recently been made.

Business Process Renewal (BPR)

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.

Building on the work completed during 2017/18, during 2018/19, Marine Atlantic will complete Release 1 of the project (Core Human Capital Management and Finance) and embark on Release 2 (Human Capital Talent Management and Health, Safety and the Environment). Current plans for Release 2 include the following components:

- Recruiting management
- Performance management
- Compensation management
- Learning management systems
- Incident management

The Corporation will begin Release 3 of the BPR project in late 2018/19. Release 3 will involve the areas of Supply Chain Management and Operations.

Continuous improvements, enhancements and system optimization will continue throughout the planning period along with benefits realization, to ensure that the Corporation is achieving its goals with respect to the project.

Diversity, Inclusion, and Respect

During the first half of 2018/19, the Corporation will be developing a strategic plan that will lay out the path forward for diversity at MAI. The details of this plan won't be ready for discussion until the 2019/20 Corporate Plan, but MAI already has some high-level objectives that the Corporation would like to achieve:

- Broaden employee thinking and understanding regarding diversity both at work and in the community.
- Develop a more inclusive work culture.
- Continue to support the Corporation's values.
- Increase education within the local communities regarding MAI's support for diversity and the Corporation's focus on improving diversity in the workplace.

Meanwhile, the Corporation will continue to increase the level of diversity related training and activities throughout the planning period. During 2018/19, MAI will complete its Respectful Workplace Training Program, which is a two-day program that expands MAI's adoption of respectful behaviours and diversity in its workforce.

Behaviour Based Safety Program

Marine Atlantic will be implementing a Behavior Based Safety program during 2018/19. Behavior Based Safety Programs involve analyzing human behavior in relation to potential safety incidents and training people to recognize the potential hazards that human behavior can create in everyday job tasks. There are many proven off-the-shelf programs available today and the Corporation plans to select one that has a track record of success.

MAI will train its employees to recognize the human factors that contribute to most safety incidents. These include: rushing, frustration, fatigue, and most importantly, complacency. Employees will be trained to recognize these human factors and to 'self-trigger' recognition that one of these behaviors may result in a future safety incident. Employees' ability to consistently recognize that these behaviors may be dangerous well in advance of a potential incident will help to improve Marine Atlantic's safety culture and will lead to overall better safety performance. Success of the program will be measured in improved safety statistics, and most importantly, by an increase in people's ability to proactively identify potential safety hazards.

Environmental Management

As part of its ongoing commitment to be a good environmental steward, MAI participates in the Green Marine Environmental Management Program. The Green Marine Program offers a detailed framework for maritime companies to first establish and then reduce their environmental footprint. Participants (vessel owners, ports, seaway corporations, terminals and shipyards) have to demonstrate year-over-year improvement in measurable ways in order to obtain and maintain their Green Marine certification.

The Corporation is currently at Level 2 with respect to the Program. Level 2 is considered a discovery point whereby data and information is collected. There are, however, important opportunities to improve environmental protection at MAI by obtaining Level 3 certification. Achieving Level 3 will allow MAI to use available data to objectively assess activities and progress towards goals. Through the development of programs and processes to better mitigate environmental risks of MAI's operations, MAI will objectively reduce its environmental footprint and improve its reporting with respect to environmental management.

Leadership Management Development

Marine Atlantic has developed a Leadership Management Development Program (LMDP) that is designed to accomplish the following:

1. Provide individuals with introductory management and leadership skills which they can use for career advancement with MAI.
2. Provide continuous professional development for employees currently in supervisory and management positions.

The objective is to help employees develop their career paths at MAI and identify people for succession planning. Completing the program will provide employees with an opportunity to take on greater leadership roles in their current positions and foster new development. The LMDP will address learning and development requirements identified through MAI's Performance Management Program.

LMDP has two main focuses:

1. **Leadership Principles:** The Program will encompass internationally accepted best practices of exemplary leadership that have been successful in large organizations such as 3M, Disney, Apple, Google, and Toyota.
2. **Management Practices:** Participants will participate in sessions such as labour relations, safety, finance, creating a respectful workplace, hiring for success, and customer service.

The LMDP will greatly contribute to the Corporation's ability to increase management effectiveness, a key corporate strategic objective.

Other Activities

Special Examination by the Office of the Auditor General (OAG)

In 2009, MAI was the subject of a special examination by the OAG, the results of which were less than favourable, but ultimately resulted in a significant investment in MAI in order to enable the Corporation to continue to meet its mandate. In 2017/18, the OAG began another special examination of MAI's operations. In 2018/19, MAI will work closely with the OAG to ensure that all information requirements are met in a timely and efficient manner. MAI welcomes the opportunity to work with the OAG and is confident that the results of this special examination will demonstrate the significant progress that the Corporation has made since the 2009 examination. The final report is scheduled to be tabled in Parliament in May 2019.

Marketing and Promotions

MAI has several marketing and promotional initiatives planned for 2018/19.

- **Kids Travel Free:** This offer will allow children ages five to twelve to travel for free. The intent is for the offer to be available to book for a six-week period in February-March for travel throughout the month of July. Similar to previous campaigns, the target markets will include Newfoundland and Labrador, Nova Scotia, and Ontario.
- **Argentia Reminder Campaign:** Similar to the 2017/18 campaign, the objective for this campaign will be to create awareness of this seasonal route and to ensure that people keep this service top of mind when booking their summer travel.

- **Google AdWords:** To supplement the Corporation's media activity during promotional campaign periods, MAI will be using a fifty-two-week paid search campaign using Google AdWords. The primary objective is to increase awareness outside of Newfoundland and Labrador, with an important secondary goal of driving additional traffic to the Corporation's website and increasing bookings for passenger traffic in key markets. By using this marketing tool throughout the year, the Corporation can ensure that the MAI brand is consistently top of mind for its customers.

Port aux Basques Administration Building

MAI's administrative and business support departments in PAB are currently split between two separate facilities:

1. 10 Marine Drive is a re-purposed and renovated Department of Fisheries and Oceans office / industrial storage space (built in 1985) that was acquired and reworked in 1998 for administrative office space, opened in 1999.
2. Lomond Place is a 2nd story leased space occupied by Marine Atlantic since 2010 to house additional and expanding administrative and operational support functions.

These two facilities house employees across multiple departments: Finance, General Accounting, Payroll, Information Technology / Information Management, Vessel Crewing, Risk, Claims & Insurance, Health & Safety and Occupational Health Services. The facilities are also used, when possible, for ancillary business support activities including recruitment, project services, testing, training, internal and external meetings, planning and events.

The division of services and people across multiple facilities, the age and condition of the buildings, and the changing nature of how people work all combine to create ongoing issues with health and safety concerns, accessibility, overcrowding, technology adoption, workflow inefficiencies, lack of information sharing, and increased costs.

As such, early in 2017/18, MAI initiated a review of the local office space in PAB to try to address the existing space and infrastructure challenges and to improve the functionality and effectiveness of the administration and business support functions.

Three options were considered: 1.) renovating the current location at 10 Marine Drive, 2.) leasing a new space in the community, and 3.) purchasing land and building a new structure. Limitations imposed by age, construction methodologies and location of the existing facility prohibit MAI from renovating that location, and lack of available lease space in the community makes leasing a space suitable to the Corporation's needs a non-starter. Therefore, it was determined that option 3.) purchasing land and building a new structure is the most viable option.

Given the results of this analysis, MAI continued to develop its plan for a new administration building in PAB throughout 2017/18. Both a project team and a steering team were established to develop the project principles, provide project oversight and ensure that the project will deliver on all objectives, including scope, budget and schedule.

The design of the proposed administration building in PAB will be based on modern methodologies for flexibility, modularity and technology, with a projected life span of 40+ years, and is aligned with Public Works and Government Services Canada's own GCworkplace design principles. Identified savings will include reduction or elimination of cost for extraneous space for regulatory, operational or business support activities, elimination of cost for long-term lease space, and reduced renovations. Consolidation and centralization of printing services, administrative services and supplies, storage and cafeteria space offer potential savings in wastage and duplication. Potential ancillary savings include workflow efficiency, travel savings via inclusion of video conferencing technology, and the implementation of energy efficient building systems. Smart building technology and manufactured construction with modular components will reduce maintenance time and cost over the life of the facility.

The projected staffing numbers for the proposed building is approximately 75 employees. This would include staff from 10 Marine Drive, Lomond Building, the Terminal Building, and hoteling spaces for transient/mobile staff. Using current industry standards for individual and collaborative spaces, the facility size at a conceptual level is a two-story building with approximately 42,000 square feet of space.

As noted above, MAI's intent to address the infrastructure issues in PAB was noted in its 2017/18 Corporate Plan. Since then, MAI has continued with its analysis of viable options. Having determined that purchasing land and building a new facility was the most viable alternative, MAI engaged the services of an engineering firm to identify potential sites and determine which site would be best suited to MAI's potential requirements. In March of 2018, the recommended site was put forward to MAI's Board of Directors for approval. Based on the consultant's recommendation, and with approval from the Board, MAI proceeded with the purchase of 5.06 hectares of land for a total purchase price of $10,000 in June 2018.

Subject to Shareholder approval, to be sought as part of the 2019/20 corporate plan, MAI plans to proceed with construction of the proposed building in fiscal 2019/20. Construction will take approximately two years to complete.

Transfer of Properties

Transport Canada currently owns the land upon which MAI operates. For the past several years, MAI has been involved in ongoing discussions with Transport Canada regarding the transfer of ownership of these properties from TC to MAI.

MAI will continue to work with TC on this transfer agreement. However, for the purposes of this plan, MAI has assumed no financial liability for the properties, as ownership currently remains with TC.

Vehicle Cleaning Services

A Treasury Board decision dated June 2012 directed MAI to assume the responsibility for the vehicle cleaning service at the CFIA's inspection stations in both Port aux Basques and Argentia. This was the result of a cost savings initiative put forward by the CFIA as part of the 2011 Strategic and Operating Review, the intent of which was to identify savings initiatives to help the Government of Canada reduce expenditures.

Due to unresolved issues around liability for the spread of soil borne diseases, this directive has not yet been implemented. However, the CFIA has informed MAI of their intent to move away from the need for inspection stations in the very near future, pending changes to the Plant Protection Act, thereby eliminating the requirement for vehicle cleaning services. As such, there has been no further progress on this initiative. Should the CFIA determine that the vehicle cleaning services will continue to be required, MAI will work with the CFIA to implement the decision.

5. Financial Assumptions

The following financial assumptions and expense projections are based on operating the current fleet comprised of the MV *Blue Puttees*, the MV *Highlanders*, the MV *Atlantic Vision* (or similar vessel) and the MV *Leif Ericson.* A replacement vessel for the MV *Leif Ericson* while that vessel is in dry dock is also included in the assumptions. The Argentia service remains unchanged.

Fuel Surcharge

New regulatory requirements dictate that MAI must reduce the sulphur emissions in its fuel to 0.1% by 2020. While the price of fuel has dropped in recent years, MAI must switch its fuel from a less expensive blended fuel to a more expensive marine diesel, which will drive MAI's total fuel costs higher over the upcoming period.

	2017/18	2018/19	2019/20
Fuel Surcharge	15%	18%	20%

Rates

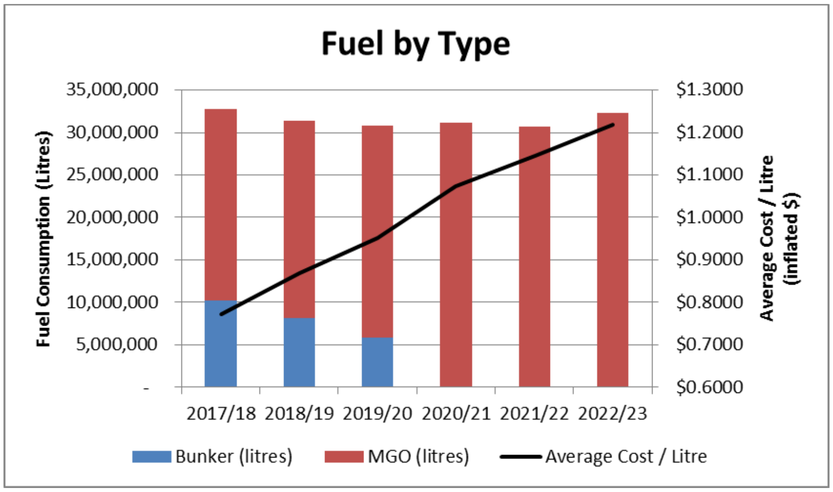
To determine the appropriate level of tariff increases for the upcoming planning period, MAI used its forecasting tool to analyze several combinations of tariff increase scenarios to ensure that MAI could achieve the required 65% cost recovery in each year of the plan, as set by the Shareholder.

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, excluding amortization. Fuel expense includes the impacts related to the Corporation's Sulphur Emission Control Area (SECA) Plan requirements as well as the impacts of an expected Carbon Tax. These items will be further explained in the following sections.

Sulphur Emission Control Area (SECA) Plan

MAI previously used a blend of Bunker fuel and Marine Gas Oil (MGO) to produce Intermediate Fuel Oils to power all its vessels. The current average cost of blended fuel is $0.65 per litre. However, new regulatory requirements dictate that MAI reduce its sulphur content in its fuel to 0.1% by 2020. In order to do so, MAI must switch to more expensive MGO over the next two 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. Both the MV *Blue Puttees* and the MV *Highlanders* have already been converted to MGO while the MV *Leif Ericson* and the MV *Atlantic Vision* or their replacements will be consuming MGO by January 1st, 2020. The current average cost of MGO is $0.86 per litre, 32% more expensive than the blended fuel. Since MGO is forecasted to cost $1.22 per litre by 2022/23 including the impact of carbon pricing, MAI is forecasting its fuel expense to increase over the course of the planning period, despite the current low price of oil.



MAI has made strong progress with respect to its SECA Plan. Average sulphur content for the Corporation currently sits at 0.69%, a reduction this year of approximately 50%. MAI is on track to achieve the 0.1 target by 2020.

Carbon Price Plan

Another increasing pressure on fuel expense over the planning period is the anticipated impact of a price on carbon. Starting in 2018 the Federal Government is introducing a pan-Canadian approach to pricing carbon pollution which will see a $10 per tonne price applied to greenhouse gas 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 carbon pricing plan. 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 increase instituted in its 2016 provincial budget could morph into a carbon pricing plan. 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 pricing plan 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.

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, 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 a portion of 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 2% for expenditures other than fuel, for which 5% has been used in recognition of the increased volatility of fuel prices.

Other Costs

Pension Costs

Marine Atlantic's pension plan is a defined benefit plan. Over the past number of years Marine Atlantic, as a Crown Corporation, has been aligning its plan with the requirements announced in a 2014 Order in Council:

> *"…a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017…"*

To achieve the 50-50 cost sharing target, MAI started a process to gradually increase employee contributions and by 2017 MAI reached its target with MAI and its employees sharing equally in the cost of benefits being accrued in any year. The Corporation is in compliance with the Order in Council.

Pension Solvency

The solvency ratio of the Pension plan for employees of Marine Atlantic has fluctuated over the last five years from 86% to 110%. The Plan's solvency position is affected by market changes. As of the December 31, 2016 Pension Plan financial statements the equity base of the Plan was approximately $322 million. A 10% drop in the market would result in a decline of $32 million and the overall Canadian and Global equity market in 2017 has been volatile.

This plan does not include any funding requirements for solvency payments. In the event that the solvency position weakens the Corporation may require additional funds and/or a letter of credit to meet the requirements of the *Pension Benefits Standards Act, 1985* and related regulations.

Travel, Hospitality, Conference and Event Costs

The Corporation's travel, hospitality and events policies and procedures were updated in 2016/17 to align with those of the Treasury Board Secretariat (TBS).

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

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

(000's)	Average	Actual		Forecast				
	Prior 3-Years	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Travel	2,051	2,250	1,891	2,500	2,575	2,652	2,732	2,814
Conferences	125	93	68	160	165	170	175	180
Hospitality	178	189	291	225	232	239	246	253
	2,353	**2,531**	**2,250**	**2,885**	**2,972**	**3,061**	**3,153**	**3,247**

* Numbers may not add due to rounding.

In general, MAI's travel costs include travel for training and travel to MAI's various offices. Hospitality costs are mostly related to training, interdepartmental managers' meetings, and employee recognition events.

Capital Requirements

As in previous years, MAI's capital plan is based on the following requirements: fleet and shore-based maintenance, investments needed to carry out MAI's Strategic Plan, and longer-term asset renewal.

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 (request for proposals) 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 the final project costs are reasonable and can be accommodated within the overall budget. All 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.

Fleet Maintenance Capital

For the purposes of this Corporate Plan, MAI is assuming that it will continue to lease the MV *Atlantic Vision* beyond 2019, necessitating a significant investment in the vessel at its 20-year re-fit in 2021/22. MAI has also programmed the capital plan to include the refurbishment of the MV *Leif Ericson* in 2020-21, as per the Shareholder's recent funding decision.

Regular dry-dockings are a mandatory requirement for MAI's vessels. In 2018/19, there is only one dry-docking planned for the MV *Leif Ericson.* The other vessels are scheduled to undergo dockside maintenance as per normal requirements. The MV *Blue Puttees* and the MV *Highlanders* are scheduled to go into dry-docking in alternate years, staring in 2019/20, with the 20-year re-fit of the MV *Atlantic Vision* scheduled for 2021/22.

Other capital expenditures included in the fleet maintenance category include general maintenance and repairs for each vessel, and a spare parts budget.

Shore Maintenance Capital

The shore maintenance capital budget includes monies for the regular upkeep of terminals, docks, marshaling yards and buildings, fueling 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 equipment.

MAI expects to complete the upgrades to its marshaling yards in 2018/19. Significant work on the docks is also planned for 2018/19. There are several upgrades planned for our maintenance shops, the Life Raft Center building in PAB, and in future years, some maintenance on the Memorial Drive Administration Building in NSY.

MAI Information Technology requirements are also included in this category - servers, digital signage, satellite communications equipment, as well as regular system upgrades and maintenance. A significant portion of the IT capital budget is allocated to enterprise resource planning (ERP) support and maintenance, as MAI will have to continue to support its old systems, while the new ERP system is being brought online through the Business Process Renewal project.

The Corporation also budgets a contingency fund – noted in the table as Small Projects/Contingency - 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, there are three strategic initiative capital projects identified - Business Process Renewal and the Coffee and Gift Shop upgrades on the vessels. There is also a placeholder for future initiatives in the later years of the plan.

Asset Renewal

The asset renewal category includes the replacement 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. Subject to shareholder approval in the 2019/20 Corporate Plan, the work will begin in 2019/20.

MV *Leif Ericson* Refurbishment

Funding for fleet renewal has been identified as incremental to MAI's regular operating capital. Budget 2018 identified incremental funding for fleet renewal for the first four years of the plan.

6. Financial Outlook

Cost Recovery

In 2015, the Shareholder increased MAI's cost recovery target from a range of 60-65% to a minimum of 65%. The cost recovery formula is calculated by dividing total revenues into total costs - less charter fees, capital expenditures, program management, restructuring and pension costs. MAI manages both its revenues and costs to reach this target.

Cumulative tariff increases of almost 16% since 2012/13 have helped to significantly increase MAI's revenue and have enabled MAI to exceed its cost recovery target each year. However, MAI recognizes that continuing to raise rates to meet cost recovery targets is not a sustainable strategy, as higher rates will continue to drive demand downwards - to the point where any increase in rates will be offset by lower traffic levels, which, in turn, makes reaching the cost recovery target ever more challenging. Rate increases not only erode traffic due to the relationship between price and demand, but also generate significant negative feedback from the Corporation's stakeholders and customers. Each time MAI has raised its rates, it has encountered a great deal of criticism – from customers, stakeholders, the public, and elected officials - due to both the increasing cost to the users of the service and the spin-off effects of those increasing costs on the economy of the province.

The other side of the cost recovery equation is cost, and MAI has initiated many projects and programs in recent years to manage its costs while at the same time making investments and improvements in both the service and the organization. MAI has realized savings through various activities, including the fine-tuning of the vessel operating plan and sailing schedule, changes to the Corporation's maintenance programs, various fuel savings initiatives, and a reduction in overtime expenditures.

For the upcoming planning period, MAI will continue to manage both its revenues and costs to ensure it can continue to meet 65% cost recovery.

In addition to the 65% target for MAI's overall service, the Shareholder has established a target of 100% cost recovery by 2018/19 for MAI's non-constitutional services. The revised cost recovery formula for non-constitutional services includes all costs, including capital, associated with providing the service. MAI is currently working towards implementing this formula and will report 2018/19 results using the revised formula.

7. Key Performance Indicators

In addition to the cost recovery target, MAI has identified the following Corporate-level KPIs to help determine the success of its strategic initiatives, and to meet the expectations of the Government of Canada. The indicators below reflect the expectations of the Minister of Transport as noted in Marine Atlantic's most recent mandate letter.

	2016/17 Results	2017/18 Target	2017/18 Results
On-time performance (excl. weather)	91%	88-90%	90%
Recovery Time	12-24 hrs	Within 24 hrs	12-24 hrs

	2016/17 Results	2017/18 Target	2017/18 Results
Vessel Availability	99.2%	97%	98.2%
Capacity Utilization	73%	70%	73.4%
Overall customer satisfaction (CRV)	67%	60%	64%
Overall customer satisfaction (PRV)	76%	69%	74%
Likely to recommend MAI	93%	90-95%	91%

8. Specific Approvals Sought

MAI seeks Governor in-Council approval of MAI's 2018/19 – 2022/23 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.

Borrowing Authority

Marine Atlantic's bank line of credit is currently approved at $35,622,000. The Corporation previously utilized $31,422,000 to secure letters of credit related to the Corporation's defined benefit pension plan for Pension Solvency; however, it no longer requires this amount owing to the favourable financial position of the Pension Plan.

The remaining $4,200,000 is required 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 $4,200,000 requirements for the Workers' Compensation Board requirement. This is a reduction in borrowing authority requirements of $31,422,000 from the current authority in place.

9. 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, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Financial assets							
Cash [Note 1]	12,944	13,875	13,875	13,875	(94,219)	(222,088)	(339,102)
Accounts receivable	10,040	9,792	8,592	8,592	8,592	8,592	8,592
Receivable from Government of Canada	18,000	21,100	-	-	-	-	-
Inventories held for resale	402	322	322	322	322	322	322
Derivative financial instruments	1,183	3,401	3,401	3,401	3,401	3,401	3,401
Accrued pension asset	120,555	126,038	126,038	126,038	126,038	126,038	126,038
	163,124	174,528	152,228	152,228	44,134	(83,735)	(200,749)
Liabilities							
Accounts payable and accrued liabilities	34,593	39,146	17,506	17,506	17,506	17,506	17,506
Derivative financial instruments	1,906	24	24	24	24	24	24
Deferred revenue	4,136	4,655	4,655	4,655	4,655	4,655	4,655
Payable to Government of Canada	2,792	2,717	2,717	2,717	2,717	2,717	2,717
Accrued liabilities [Note 2]	66,855	68,531	68,531	68,531	68,531	68,531	68,531
	110,282	115,073	93,433	93,433	93,433	93,433	93,433
Net financial assets (debt)	52,842	59,455	58,795	58,795	(49,299)	(177,168)	(294,182)
Non-financial assets [Note 3]	428,428	449,249	465,718	469,318	496,238	503,538	474,498
Accumulated surplus	481,270	508,704	524,513	528,113	446,939	326,370	180,316

The accompanying notes are an integral part of these financial statements

Notes to Statement A – Statement of Financial Position

1. Cash includes \$9,873 held in escrow as security for the lease of the MV *Atlantic Vision* and therefore is restricted and not available to fund operations. Variations in cash beyond 2019/20 are due to changes in the Corporation's funding levels.

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, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Budget 2017/18	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenues	113,917	112,234	112,615	115,884	119,468	123,415	126,353	131,808
Expenditures								
Wages and benefits	87,884	90,335	92,253	93,176	95,276	98,338	99,909	101,013
Charter fees	12,920	13,117	13,403	13,393	15,648	28,151	40,192	21,292
Charter importation taxes	-	-	-	-	-	18,000	-	-
Fuel	19,108	27,794	27,545	28,819	31,100	35,449	37,015	41,288
Materials, supplies and services	25,045	26,450	28,116	30,734	30,959	31,458	31,997	32,773
Repairs and maintenance	11,698	14,205	10,336	13,435	13,558	13,851	14,168	14,483
Insurance, rent and utilities	7,697	8,137	7,405	8,204	8,551	8,752	8,967	9,211
Travel	2,250	2,895	1,891	2,500	2,575	2,652	2,732	2,814
Administrative costs	3,108	4,573	3,501	3,448	3,542	3,660	3,767	3,881
Fleet renewal costs	-	-	-	-	7,000	8,000	4,400	-
Employee future benefits [Note 1]	9,025	10,125	7,389	10,672	10,879	11,189	11,360	11,492
Foreign currency exchange loss	13	-	108	-	-	-	-	-
Realized loss on derivative financial instruments	2,553	101	-	-	-	-	-	-
Loss on disposal of tangible capital assets	-	-	94	-	-	-	-	-
Amortization	39,144	38,500	45,166	46,800	49,500	51,200	55,100	59,000
Total Expenditures	220,445	236,231	237,207	251,179	268,588	310,700	309,606	297,246
Deficit before government funding	(106,528)	(123,997)	(124,592)	(135,295)	(149,121)	(187,284)	(183,253)	(165,438)
Government funding								
Operations	61,203	146,130	146,647	112,104	103,800	14,384	14,384	14,384
Capital	37,598	67,604	60,958	39,000	53,100	50,000	25,000	5,000
Approved funding	98,801	213,734	207,605	151,104	156,900	64,384	39,384	19,384
Operating funding to be reprofiled/reallocated	-	-	(60,847)	(30,659)	(4,180)	41,727	23,300	-

Marine Atlantic Inc.
Statement of Operations
For the Year Ended March 31, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Budget 2017/18	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Capital funding to be reprofiled/reallocated	-	-	-	30,659	-	-	-	-
Total Government funding	98,801	213,734	146,758	151,104	152,721	106,111	62,684	19,384
Operating (deficit) surplus	(7,727)	89,737	22,166	15,809	3,600	(81,174)	(120,569)	(146,054)
Accumulated operating surplus, beginning of year	489,204	481,477	481,477	503,643	519,452	523,052	441,878	321,309
Accumulated surplus, end of year	481,477	571,214	503,643	519,452	523,052	441,878	321,309	175,255

Notes to Statement B – Statement of Operations:

1. Employee future benefits expenses for 2016/17 and 2017/18 are based on actuarially determined numbers. For 2018/19 and future years, expense is assumed to equal cash requirements for non-pension employee future benefits and current service pension cost payments.

2. Numbers may not add due to rounding.

3. Funds to be re-profiled subject to shareholder approval

Statement C: Statement of Remeasurement Gains and Losses

Marine Atlantic Inc.
Statement of Remeasurement Gains and Losses
For the Year Ended March 31, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Accumulated remeasurement gain (losses), beginning of year	(5,315)	(207)	5,061	5,061	5,061	5,061	5,061
Remeasurement gain (losses) arising during the year							
Unrealized gain (loss) on foreign exchange of cash	(241)	1,167	-	-	-	-	-
Unrealized gain (loss) on derivatives	2,796	5,148	-	-	-	-	-
Reclassifications to the statement of operations							
Realized (gain) loss on derivatives	2,553	(1,047)	-	-	-	-	-
Net remeasurement (losses) gains for the year	5,108	5,268	-	-	-	-	-
Accumulated remeasurement losses, end of year	(207)	5,061	5,061	5,061	5,061	5,061	5,061

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, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Operating surplus (deficit)	(7,727)	22,166	15,809	3,600	(81,174)	(120,569)	(146,054)
Change in tangible capital assets							
Acquisition of tangible capital assets	(37,598)	(60,958)	(69,659)	(53,100)	(78,120)	(62,400)	(29,960)
Amortization of tangible capital assets	39,144	45,166	46,800	49,500	51,200	55,100	59,000
Loss/(Gain) on disposal of tangible capital assets	(3,777)	94	-	-	-	-	-
Proceeds on disposal of tangible capital assets	3,879	43	-	-	-		
(Increase) decrease in tangible capital assets	1,648	(15,655)	(22,859)	(3,600)	(26,920)	(7,300)	29,040
Change in other non-financial assets							
Net change in inventories held for consumption	(1,670)	(6,114)	6,390	-	-	-	-
Net change in prepaid expenses	(2,165)	948	-	-	-	-	-
Decrease (increase) in other non-financial assets	(3,835)	(5,166)	6,390	-	-	-	-
Net remeasurement (losses) gains	5,108	5,268	-	-	-	-	-
Increase (decrease) in net financial assets	(4,806)	6,613	(660)	-	(108,094)	(127,869)	(117,014)
Net financial assets (debt), beginning of year	57,648	52,842	59,455	58,795	58,795	(49,299)	(177,168)
Net financial assets, end of year	52,842	59,455	58,795	58,795	(49,299)	(177,168)	(294,182)

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, 2017, March 31, 2018 and Projected for 2018/19 to 2022/23

(In $ Thousands)	Actual 2016/17	Actual 2017/18	Budget 2018/19	2019/20	2020/21	2021/22	2022/23
Operating transactions							
Cash receipts from customers	111,615	110,132	115,564	119,353	123,300	126,238	131,693
Other income received	52	146	115	115	115	115	115
Government funding – operations Note 1	68,575	141,719	128,944	103,800	14,384	14,384	14,384
Government funding – operations (reprofiled)	-	(60,847)	(30,659)	(4,180)	41,727	23,300	-
Government funding – capital Note 2	25,392	62,711	43,260	53,100	50,000	25,000	5,000
Government funding – capital (reprofiled)	-	-	30,659	-	-	-	-
Cash paid to suppliers and employees	(179,389)	(180,002)	(203,292)	(208,209)	(248,311)	(243,147)	(226,754)
Cash paid for EFBs Note 3	(4,652)	(11,427)	(10,672)	(10,879)	(11,189)	(11,360)	(11,492)
	21,593	62,432	73,919	53,100	(29,974)	(65,469)	(87,054)
Capital transactions							
Purchase of tangible capital assets	(25,392)	(62,711)	(73,919)	(53,100)	(78,120)	(62,400)	(29,960)
Proceeds on disposal of tangible capital assets	3,879	43	-	-	-	-	-
	(21,513)	(62,668)	(73,919)	(53,100)	(78,120)	(62,400)	(29,960)
Effect of exchange rate changes on cash	(241)	1,167	-	-	-	-	-
Net increase (decrease) in cash	(161)	931	-	-	(108,094)	(127,869)	(117,014)
Cash, beginning of year	13,105	12,944	13,875	13,875	13,875	(94,219)	(222,088)
Cash, end of year Note 4	12,944	13,875	13,875	13,875	(94,219)	(222,088)	(339,102)
Cash consists of:							
Restricted cash	8,868	9,873	9,873	9,873	9,873	9,873	9,873
Unrestricted cash	4,076	4,002	4,002	4,002	(104,092)	(231,961)	(348,975)
	12,944	13,875	13,875	13,875	(94,219)	(222,088)	(339,102)

Notes to Statement E– Statement of Cash Flow:

1. Government funding – operations: for 2017/18 includes 146,647 for current year and adjustments related to prior fiscal year; for 2018/19 includes 112,104 for current year and 16,840 for prior fiscal year.

2. Government funding – capital: for 2017/18 includes 60,958 for current year and adjustments related to prior fiscal year; for 2018/19 includes 39,000 for current year and 4,260 for prior fiscal year.

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

4. 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.

5. Numbers may not add due to rounding.

Appendix A: Board of Directors

Board Members – Expiry dates

Board Member	Expiry Date
Kristopher Parsons	March 28, 2022
Janie Bussey	December 13, 2021
John Brent Chaffey	December 13, 2021
James G. Doody	September 28, 2019
Owen Fitzgerald	December 13, 2020
Gary Joseph O'Brien	December 13, 2021
Craig Priddle	December 13, 2020
Dwight Rudderham	February 25, 2018
Ann-Margaret White	December 13, 2020
Don Barnes	May 25, 2019

Appendix B: MAI's Workforce by Collective Agreement

Agreement & Expiry Date	Employee Group	Bargaining Agent	2017/18 Year End Forecast FTEs
A Dec-31-2016	Licensed Officers	Canadian Merchant Service Guild (CMSG)	136
B Dec-31-2019	Unlicensed Vessel Crew	Unifor	426
C Dec-31-2019	Shore-Based Maintenance Employees	Unifor	46
D Dec-31-2019	Shore-Based Terminal and Clerical Employees	The United Steel Workers/ International Longshoremen, Council of Trade Unions	244
E Dec-31-2019	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	59
N/A	Management / Non-Union	N/A	98
Total			1,038

Current Status on collective bargaining for each bargaining unit is as follows:

Agreement A - Licensed Officers - Interest arbitration scheduled for June

Agreement B - Unlicensed Vessel Crew - Agreement ratified

Agreement C - Shore-Based Maintenance Employees - Agreement ratified

Agreement D - Shore-Based Terminal and Clerical Employees - Agreement ratified

Agreement E - Masters, Chief Engineers and Chief Electrical Officers - Agreement ratified

Agreement F - Shore-Based Supervisory Employees - Interest arbitration scheduled for June