Marine Atlantic
Marine Atlantique
Canada

Marine Atlantic

2010/11 – 2014/15 Corporate Plan Summary

May 31st, 2010

Executive Summary

Marine Atlantic Inc. is tasked with fulfilling the constitutional mandate *to "maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques".* As an extension of the Trans-Canada Highway, this service is vital to connect the Province of Newfoundland and Labrador with mainland Canada. Not only do residents and tourists use this service as an opportunity to travel to and from the Province, but the service is also critical to the imports and exports of the Province, and as such the service is both a regional and national issue. Marine Atlantic's sole shareholder, the Government of Canada, provides a significant amount of funding to the Corporation, and any choices made on the future of the Corporation must incorporate a balance between the responsible allocation of public resources and providing a sustainable national transportation system at acceptable service levels.

The Corporation has struggled in recent years with fiscal challenges, unreliable vessels and assets, growing demand and poor service. It has lacked the management capacity and a funded plan to renew its fleet and to guide its future direction. The findings of a Special Examination carried out on the Corporation by the Office of the Auditor General (OAG) in 2009 identified significant deficiencies in Marine Atlantic's systems and practices.

As was the case in 2008, there were multiple occasions in 2009 when the Corporation was not able to meet its traffic offering on a timely basis, particularly during the peak eight-week summer season. Persistent mechanical breakdowns with the Corporation's older vessels, coupled with a thermal heating unit fire on the *MV Atlantic Vision,* resulted in delayed and cancelled sailings and the suspension of the Argentia service twice during the peak season. Delays and the Corporation's long standing policy of first-come-first-served for commercial customers resulted in long line-ups at the Corporation's terminals. Coupled with inadequate communications to both consumers and commercial users, customer satisfaction with the service was very low. As a result, heavy negative media coverage followed. The end result was very poor customer satisfaction levels and hardships for front line staff that bore the brunt of customer complaints.

Despite the economic turmoil of the last year, Marine Atlantic carried a record amount of Auto Equivalent Unit (AEU) traffic in 2009/10. Demands on the service grew 6.5 percent for passenger related vehicles and 4.6 percent for commercial vehicles when compared to the same period from the previous year. Traffic is expected to increase again in 2010/11 to a new record level due to the robustness of the Newfoundland and Labrador economy, and the growth in the Province's tourism business. Given that the Corporation will have the same fleet as it did during the peak season in 2009, it is anticipated the Corporation will again experience difficulty carrying traffic during the peak season again in 2010/11.

Marine Atlantic is taking measures to improve management of its traffic demand, primarily through the introduction of its commercial reservations in early 2010, but the peak demand will exceed available capacity in 2010/11 and some users of the service will have difficulty obtaining reservations within their desired timeframe. The Corporation's 2010/11 work plan includes the introduction of a number of short term improvements in time for the peak summer season.

The Corporation is currently undergoing a restructuring and building period. During 2009, significant changes were made to the Corporation's organizational structure as part of management renewal within the organization. Included within management renewal was the creation of two new departments to strengthen the customer service and strategic planning functions of the organization, along with reinforcing other core areas such as risk management, safety and security, and asset management. The addition of capacity at the management level of Marine Atlantic will enable initiatives to be undertaken in the areas of asset management, customer service, maintenance, information technology and quality, risk and compliance. A renewed focus on customer service training, internal communications and employee engagement across the organization will facilitate the cultural shift in the organization required to revitalize many aspects of the Corporation and the service that it provides.

Marine Atlantic reached a major milestone in 2009 with the completion of its Revitalization Strategy. The Revitalization Strategy includes five key elements: corporate governance, management renewal, asset renewal, revenue generation and cost effectiveness. This Strategy, built upon the Long Term Strategic Fleet Renewal Plan submitted to Transport Canada in 2008, updated the asset renewal elements and broadened the scope and scale of the strategic renewal to address areas of weakness identified by the shareholder, Board of Directors, management and the OAG.

The Corporation received a positive response from the shareholder in the March, 2010 Budget, and has been provided $521 million incremental funding over the planning period to implement its Revitalization Strategy. This investment will permit the Corporation to enter the planning period with the necessary funding to allow it to make the improvements demanded by its user and stakeholder communities. A key element in moving the Corporation forward is to transform its current fleet with the addition of two new chartered vessels, set to enter service in the 1st and 2nd Quarters of 2011/12 respectively, and by removing the *MV Caribou* and the *MV Joseph and Clara Smallwood*. Fleet renewal will enable improvement in areas that would not otherwise have been possible and will facilitate the completion of the Revitalization Strategy which, when executed, will have substantially transformed Marine Atlantic. 2010/11 will be an extremely important, yet very demanding, year for the Corporation as it lays the groundwork for a successful integration of the new chartered vessels and fulfillment of other elements of its Revitalization Strategy while managing the challenges of its ongoing business using existing resources.

Marine Atlantic's operational objective over the next year is to carry the maximum amount of traffic in an orderly, planned manner while undertaking efforts to integrate the new charter vessels into service. The summer schedule has been developed to maximize capacity in an attempt to meet peak traffic levels. Mechanisms will be implemented to inform customers of delays due to unforeseen mechanical breakdown and weather events. Management's objective is for users of the service to see a tangible improvement in sailing schedule attainment, reduced congestion at the Corporation's terminal facilities and an improved flow and availability of information compared to the previous period. As noted above, the Corporation is in a period of rebuilding, and it will take time to see the benefits of many of the initiatives undertaken during the planning period.

At the strategic level the Corporation is entering a transition year leading to its implementation of a significant and transformative 5 year agenda. The first year of the planning period will be challenging and can be viewed as a 'planning year', as the Corporation lays the groundwork, through studies, research, timeline and action plan setting, to fulfill the objectives of its Revitalization Strategy over the planning period. The Corporation will need to manage these aims together with the demands of its existing business, and resources, which will result in an extremely demanding 2010/11. The remaining four years of the planning period will be focused on integration, implementation, and tracking the results of the programs as they are initiated and implemented.

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1 History, Corporate Profile and Governance

Until 1976, the Canadian National Railway Company, through its East Coast Marine and Ferry Branch, had managed and operated certain ferry and coastal shipping services under the provision of various Entrustment Orders made by the Governor-in-Council pursuant to the provisions of section 19 of the *Canadian National Railway Act*. CN Marine Inc. was incorporated to manage, under a specific operating contract, certain ferry and coastal shipping services on behalf of the federal government. In 1979, the first year of operations under the rearrangements, CN Marine Inc. managed seven water and two rail car handling services on behalf of the federal government.

Marine Atlantic was formed as a federal Crown Corporation in 1986 by means of the *Marine Atlantic Acquisition Authorization Act, 1986* for the purposes of the "acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto". In 1995, the National Marine Policy directed Marine Atlantic to commercialize its operations and transfer certain ferry operations to provincial control. The ferry service between Saint John, New Brunswick, and Digby, Nova Scotia, as well as the ferry service between Yarmouth, Nova Scotia, and Maine, U.S.A were privatized in 1997 through a public Request for Proposals. The ferry service between Cape Tormentine, New Brunswick, and Borden, Prince Edward Island, was terminated in 1997 with the opening of the Confederation Bridge. The coastal ferry service of Newfoundland and Labrador was transferred to the province of Newfoundland and Labrador in 1997.

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

1.1 Legislative and Governmental Authority

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

1.2 The Board of Directors

Marine Atlantic has a Board of Directors made up of 10 persons, including the President & CEO, reporting to the Parliament of Canada through the shareholder, the Minister of Transport, Infrastructure and Communities. Board members are appointed for one to five year terms, which can be extended at the discretion of the Crown. The Board currently holds five regularly scheduled meetings annually, convening additional meetings as needed.

Membership of the Board includes individuals with experience in the marine industry, accounting, law, marketing, tourism, and a broad spectrum of general business experience, all beneficial in providing Marine Atlantic with appropriate governance direction.

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

1.3 Operations/Management

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

Marine Atlantic has one inactive subsidiary company, Newfoundland Dockyard Corporation, which will be fully wound-up once an outstanding litigation file is complete.

A new corporate structure was launched in April 2009. Two new departments were created to focus on customer experience and strategic planning. The new Vice Presidents were hired in July of 2009. Additional staffing of the non-executive new positions is in progress.

Employees and managers of the Corporation are subject to the "Conflict of Interest Guidelines" that govern situations and positions of influence as well as access to corporate information.

1.4 Fleet, Terminals and Related Facilities

Marine Atlantic's current vessel fleet consists of four ocean-going ferries, all with ice breaking capability. The Corporation is expected to transform the fleet through the addition of two ROPAX ferries, due to enter service in the 1st and 2nd Quarters of 2011/12, and the removal from service of the *MV Joseph and Clara Smallwood* and the *MV Caribou*. The two new ROPAX vessels are well suited to Marine Atlantic's environment as they contain high wind speed thresholds, have similar manoeuvrability as the Corporation's existing fleet, can carry a high capacity of traffic, and are very fuel efficient.

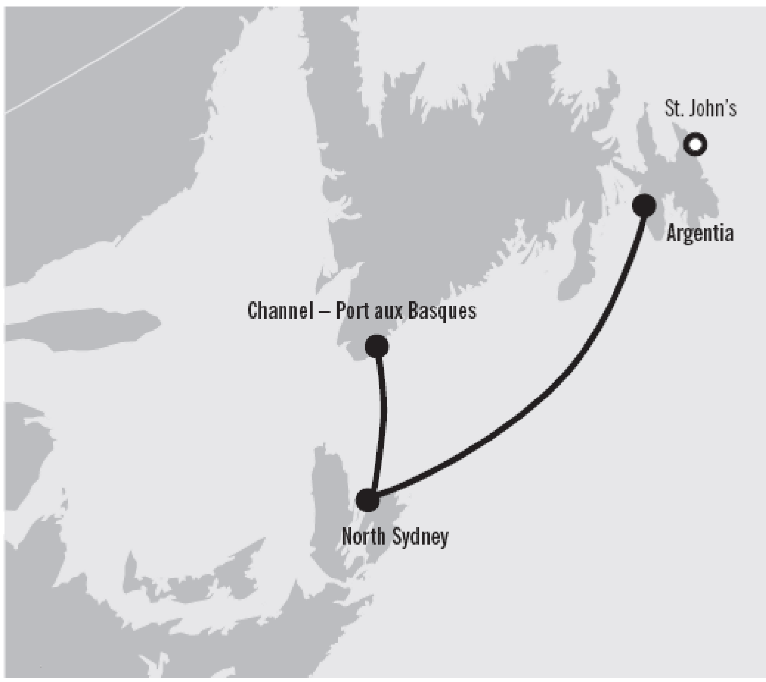
Marine Atlantic also operates ferry terminals and associated facilities at each of the ports in North Sydney, Port aux Basques and Argentia. These areas include docks, wharves, piers and vehicle marshalling areas, together with other structures, such as passenger terminals, ticket booths, maintenance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

In Port aux Basques, the Corporation owns and operates a bulk fuel storage facility with the capability to produce the blended fuels used by the vessels. Marine Atlantic also owns a ferry terminal in Bar Harbor, Maine, USA that has been under long term lease to a private ferry operator. At this point in time it is uncertain whether the private ferry operator will continue with the ferry service to Bar Harbor, and discussions are ongoing with the operator and other stakeholders to determine possible options for the facility.

1.5 Routes

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

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



1.6 Corporate Vision, Mission and Objectives

Underlying Marine Atlantic's Corporate Plan are its current Vision and Mission Statements, Service Goals, and Values. Thus, the Corporation's success in achieving its business objectives must always be measured against the achievement of these ultimate corporate beacons. The Corporation's Vision Statement is "To achieve excellence in fulfilling the federal mandate to provide a ferry service between the mainland of Canada and the Province of Newfoundland and Labrador". The Mission Statement is "to provide a safe, environmentally responsible and quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner".

Marine Atlantic's goals include:

Safety:	***To promote, foster and maintain safety.***
Environment:	***To promote, foster and maintain environmental stewardship.***
Cost-effectiveness:	***To operate an efficient and cost-effective ferry service.***
Customer Service:	***To provide a quality ferry service to customers in a reliable and courteous manner.***
Human Resources:	***To manage and maintain a motivated and qualified workforce.***

2 Annual Performance and Achievements

As a component of its Corporate Plan development, Marine Atlantic annually elects to report on its recent activities in the operation of the business. A summary of the Corporation's performance for the last year, by department, is below.

2.1 Corporate Achievements

2.1.1 Organizational Change

The 2009/10 fiscal year was a year of change within Marine Atlantic. In April of 2009 there was a new organizational structure put in place. This new structure was the result of an organizational review in which external consultants were engaged. The results of this review are evident throughout the Corporation as roles to increase communications and governance were created. The newly created executive positions were staffed by July of 2009. These new positions are Vice President of Strategy and Corporate Affairs and Vice President of Customer Experience. The Vice President of Operations role was also filled after a retirement left the position vacant and the role of Chief Information Officer was moved to the executive level. The position of Director of Internal Audit was also created. In addition, the role of Director of Quality, Risk and Compliance was created and filled.

2.1.2 Revitalization Strategy

In 2008, following through on the 2006 direction provided by Government to advance the Fleet Renewal Plan, the Corporation created the Long Term Strategic Fleet Renewal Plan. This plan, which included a cost benefit analysis on proposed fleet options, was deemed insufficient and as a result the Corporation built upon this in the creation of a comprehensive Revitalization Strategy which was submitted to the Government of Canada in October 2009. The Revitalization Strategy was developed utilizing national and international consulting firms with industry expertise in areas that include traffic forecasting, financial analysis, ship design and operational efficiency and encompasses five areas – governance, management renewal, asset renewal, revenue generation and cost effectiveness.

During this process the Corporation has worked to draft customer service standards, refine the fleet renewal plan, develop traffic management strategies, detail cost containment and revenue generating strategies and address shore-based infrastructure renewal. This process allowed Marine Atlantic to address the magnitude of funding levels over the next 25 years based on a realistic implementation schedule for the cost containment strategies, incremental revenue strategies, and asset renewal plan. Transport Canada reviewed the Corporation's due diligence process with the asset and financial models through multiple working group sessions with the consulting firms contracted by Marine Atlantic. Transport Canada also engaged a separate professional services firm to perform an analysis of the assumptions that were inherent in the financial models.

The Strategy includes governance changes aimed at strengthening accountability and providing a more robust framework that would facilitate its implementation. The options for asset renewal, as part of the overall Revitalization Strategy were presented in time for Budget 2010 considerations and a positive decision was received from the shareholder. The Corporation was granted funding of $521 million for the upcoming planning period.

2.2 Quality, Risk and Compliance

2.2.1 Management Renewal and Reorganization

As part of the Corporation's reorganization a new division of Quality, Risk & Compliance was created to address the areas of risk, insurance, claims, safety, security and the environment. The new position of Director of Quality, Risk & Compliance was filled in late September 2009, and the new department structure was approved in November 2009. A new Safety and Environmental Technician position is also being staffed. Starting in 2010/11 this newly created division will have the overall responsibility for the Enterprise Risk Management, Safety, Security, Environmental, Claims and Insurance functions of the Corporation.

2.2.2 Enterprise Risk Management

Throughout 2008/09 the Corporation's only risk management resource, the Manager of Risk and Strategic Business Planning was assigned to several special projects related to Marine Atlantic's corporate renewal. This included a full-time assignment working on the Revitalization Strategy, and acting as co-chair of the joint Marine Atlantic-Transport Canada working group, from March to September 2009. As a result of this management resource shortage, commencement of many risk management activities of the Corporation was deferred until late 2009.

In April 2009, Marine Atlantic began to develop a Pandemic Response Plan to ensure the Corporation was fully prepared to minimize the effects of the worldwide H1N1 Influenza Pandemic. In September 2009, the department was tasked with assessing and accelerating Marine Atlantic's state of readiness ahead of the anticipated "second wave" of pandemic flu expected to arrive in October/November 2009. The plan was completed in October of 2009. A Pandemic Task Force was created to expedite the completion of the plan, ensure essential supplies were stockpiled, and all employees were educated on their roles and responsibilities under the plan. Business Continuity Plans were created for all departments to allow "critical functions" to continue during a pandemic. Readiness audits were (and continue to be) completed in all work areas throughout the Corporation to maintain vigilance and preparedness.

In the fall of 2009, the Executive and senior management of the Corporation undertook several risk planning workshops and sessions to identify, rate, and rank the Corporation's top strategic and operational risks. A draft Corporate Risk Register was created by Management and reviewed by the Audit and Risk Committee in December of 2009. Risk planning workshops were held for various departments starting in January 2010 to begin the process of developing departmental risk registers, and will continue to be held throughout 2010/11.

2.2.3 Safety

Safety is paramount to the Corporation and is highlighted in its Mission Statement and corporate values. Marine Atlantic's Safety Officer left the Corporation in July 2009, and the new Director of Fleet Operations has been filling the role of Safety Officer and Designated Person Ashore on a temporary basis, with the assistance of the Safety & Environmental Technician. A competition was launched for a new Corporate Safety Officer and an additional Safety and Environmental Technician to augment the safety management resources within the Corporation. The Corporate Safety Officer position was filled in March 2010, and the Safety and Environmental Technician role is expected to be filled shortly.

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

The Corporation's Safety Policy Committee continues to develop and monitor the Occupational Safety and Health Program. The goal of this program is to enhance the safety culture of all employees, to provide training and development in support of the program, and to comply with applicable regulations. Health & Safety Policy Committee meetings continue to be held quarterly and Joint Occupational Health & Safety Committee (shore sites) and Marine Occupational Health & Safety Committee (vessels) meetings are held on a monthly basis.

2.2.4 Security

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

With the addition of the Cypriot-flagged *MV Atlantic Vision*, Marine Atlantic is now governed by the Marine Transportation Security Regulations (MTSR) Part III, which requires port facility security plans for Transport Canada certification. Marine Atlantic has developed security plans for North Sydney and Port aux Basques terminals and submitted them to Transport Canada Marine Security for review. The initial review of the North Sydney security plan has been completed and returned to Marine Atlantic for further enhancement. The Ship Security Plan for the *MV Atlantic Vision* has been certified by Transport Canada and is currently in effect.

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

To ensure compliance with the MTSR and the new Domestic Ferries Regulations, several enhancements still need to be implemented. These include additional fencing with access control points and procedures, baggage handling procedures, and screening protocols for passengers, vehicles and supplies. Planning for implementation of this change was completed in 2009/10.

2.2.5 Environment

The Environmental Policy of the Corporation commits to meeting the business objectives of the Corporation in a manner respectful and protective of the environment and in full compliance with the law. An important tool in managing the environmental commitments of the Corporation is the development and maintenance of an Environmental Management Plan.
In 2009, Marine Atlantic participated in Phase III of Environmental Site Assessments for its three ferry terminals at North Sydney, Argentia and Port aux Basques. This was required by the Land Lease Renewal process between Transport Canada and Marine Atlantic. Phase I and II of the Environmental Site Assessments supports the need for Marine Atlantic to develop an Environmental Management Plan which will contain sections on fuel management, water management, wastewater management, solid

waste management, air emissions, security and the transportation of dangerous goods. Completion of Phase III Site Assessments with final reports can be expected in the first half of 2010/11.

2.2.6 Insurance

Marine Atlantic carries both liability and asset protection insurance at levels established on the advice of its insurance brokers. There was a significant increase in the total insured value of the Corporation's vessels when the *MV Atlantic Vision* was added to the fleet in late 2008. Historically, the Corporation has had a good overall insurance record. However, there have been an increasing number of claims against the Hull and Machinery Policy due to mechanical failures in the Corporation's older vessels.

In November 2008, the Corporation was presented with a major claim against its Protection and Indemnity Insurance policy for an incident involving the *MV Atlantic Freighter* and the alleged interference with an underwater fibre optic communications cable by the ship's anchor. As a result the Protection and Indemnity Insurance premiums increased by 35 percent in 2009/10.

2.3 Customer Experience

As part of the Management Renewal process, in the summer of 2009 the Corporation hired the new Vice President of Customer Experience, to provide customer-oriented leadership at the executive level to help the Corporation to significantly improve customer service. The Vice President of Customer Experience will focus on all aspects of the customer experience, including Onboard Hospitality, Passenger Services, Reservations, and Customer Relations. Key priorities and responsibilities include ensuring that customer experiences are delivered consistently and administered smoothly across the Corporation and in accordance with corporate policies and relevant legislation. This new role will also be of key importance in leading the Corporation towards maximizing the financial contribution to cost recovery through revenues generated from transportation, amenities, and both on-board and on-shore customer experiences. This area of responsibility includes the marketing functions of the Corporation, including advertising, promotions, pricing, and the development of new products and services.

During the past year Marine Atlantic faced a myriad of customer experience challenges. These issues, brought on by a number of mechanical failures and a host of severe weather delays, resulted in thousands of travelers having their plans disrupted. In July, during the peak of the summer travel season, a fire in the thermal heating unit on the *MV Atlantic Vision* caused Marine Atlantic to not meet the traffic offering for several days. The cancellation of six voyages of the *MV Atlantic Vision* on the Port aux Basques to North Sydney route and two voyages of the *MV Joseph and Clara Smallwood* on the Argentia to North Sydney route, forced staff to try to manually contact over 32,000 passengers to try and reschedule their reservations. Reservations and terminal staff were forced to turn away a significant number of potential travelers who were unable to book a timely passage and customers trying to make a crossing without a reservation inevitably met long line-ups and delays. Commercial customers trying to move goods on or off the Island of Newfoundland were forced to wait 24 to 36 hours which lead to major traffic congestion and public outcry. A backlog of approximately 1,900 commercial units filled the terminal parking lot to capacity and spilled onto the TransCanada Highway, causing major traffic problems and issues for Marine Atlantic's staff, the Cape Breton Regional Municipality and the RCMP. In the absence of a commercial reservations system, a manual priority numbering system was implemented allowing commercial traffic to leave the property and still maintain priority sequence for the next available crossing.

In conjunction with the mechanical and weather delays, Marine Atlantic's customers experienced a host of issues related to poor customer interaction and communications. On several occasions during unplanned schedule interruptions customers were not supplied with timely and accurate information. This was a result of conflicting information being provided by the website, media, telephone hotline, and terminal message boards as well as front line staff which added additional customer confusion. The demand placed on the Corporation's website and telephone hotline was so great that the systems were rendered virtually inoperable and customers were not able to receive the updated information they required. These issues have caused tourists, residents, commercial truckers, manufacturers, exporters, trucking associations, food suppliers, hoteliers and elected officials to speak out vehemently and negatively against Marine Atlantic and the Government of Canada. The Corporation acknowledges that it must put measures in place to ensure that customer interaction is in the forefront. An electronic communications system, which includes the ability to send automated text messages and call cellphones, has been tendered. Implementation for this messaging system is planned for the summer of 2010.

April 1, 2009 saw the introduction of the *MV Atlantic Vision* and while the overall implementation has been considered a success, it was not without its challenges. The *MV Atlantic Vision* came under heavy scrutiny in the media partly due to the lack of suitable public seating and washroom capacity. Completing cabin cleaning in the port time allocated proved to be an issue during the peak period due to the larger number of cabins on the *MV Atlantic Vision* compared to the other vessels in the fleet. A number of adjustments were made to the operating plan including a reduction in the number of cabins available for day time crossings.

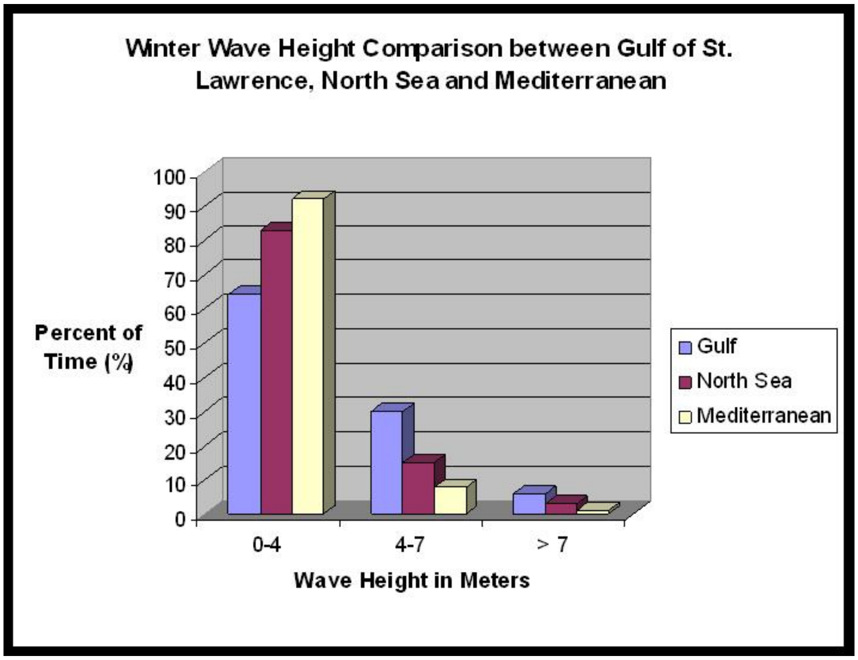
The Customer Experience department continued to work with internal departments and stakeholder groups to develop a commercial reservation system which was publicly launched in the spring of 2010. While there have been challenges with the implementation of the system and some resistance from certain segments of the commercial trucking industry, it will allow the Corporation to enhance the service and manage demand for commercial customers, thereby increasing the ability to manage traffic issues and prevent commercial traffic buildup at the terminals in the face of growing capacity constraints. Work continues on refinements to the system to meet the needs of the commercial trucking industry and several enhancements/adjustments to the system are planned in the coming months. Capacity remains by far the most significant impediment to a effective commercial reservations system, and this issue will be addressed in 2010/11 with the planned enhancements to the fleet.

A special fare to honour Canada's Armed Forces personnel, veterans and their families was established by Marine Atlantic for travel on certain dates between May 1, 2009 and October 31, 2009. The *Canadian Forces Appreciation Fare* provided qualifying customers, as well as up to three companions travelling in the same vehicle and on the same reservation, with a complimentary passenger fare on the Port aux Basques/North Sydney ferry route, or a 50 percent discount on their passenger fare when travelling on the Argentia/North Sydney route. This special fare was very well received with more than 10,000 qualifying individuals availing of the promotion.

Over the past year, the department has begun to put together a customer experience plan which will guide all aspects of customer service including, marketing, new service development, pricing and service delivery. This plan will provide the foundation for all future work in these areas. In addition, a comprehensive program of research was developed in the past year to identify the drivers of satisfaction, and to ensure the Corporation has a deep understanding of what constitutes value for the different customer segments.

2.4 Operations

The Corporation's vessels operate in the Gulf of St. Lawrence, an environment where winds of 40 knots or more can occur at any time of the year. Significant wave heights of four meters or more occur in the summer at least 10 percent of the time, and 30 percent of the winter period. With continuing climate change taking place throughout the world there is greater concern now for increases in hurricanes, tropical storms and ancillary weather events in Marine Atlantic's operational area. Seasonally, severe ice build-up in North Sydney harbour, and the Gulf of St. Lawrence, impacts the operations during the winter months.



The current year was no exception with severe conditions including gale force winds, a hurricane and a tropical storm as well as an unprecedented three day suspension of service due to severe winds. This past summer a new approach was taken by the Operations department when a significant weather event was eminent. Notification of a suspension of operations was made in advance through the media and website with the hopes that this proactive approach would encourage customers to make alternate travel plans or stay where they were rather than overflowing the terminals beyond capacity. The success of this approach suggests that it is a suitable model for severe weather delays.

During the peak season of 2009, the volume of passenger and commercial traffic once again surpassed the operating capacity of the fleet. This caused additional strain on the operations with regard to allocation, staging and clearing of traffic. In some cases commercial traffic was forced to wait between 24 to 36 hours or more before departing due to the capacity constraints of the fleet.

There will be no change in fleet configuration until the 1st Quarter of 2011/12; therefore the Corporation has implemented two new approaches to deal with summer peak volumes; Commercial Reservations and 'Sailing Schedule Maximization'.

A new Commercial Reservation System was implemented on March 15, 2010 and to date has had a positive impact in controlling and maximizing the utilization of the allocated spaces for commercial cargo on the vessels. At the same time it has effectively controlled the space requirements on the North Sydney and Port Aux Basques terminals. Commercial traffic on the Corporation's grounds at any one time is now limited to two vessel loads. At the close of the year, the Corporation was still working through some issues in the System. Marine Atlantic continues to work closely with the transport industry at each stage of the System's ongoing development.

'Sailing Schedule Maximization' was developed as a method of optimizing the sailing schedule by incorporating sailing time, port turn-around times, hours of rest for crews, and maintenance days while at the same time adjusting departure and arrival times to achieve the maximum number of sailings possible. By utilizing this approach an additional ninety roundtrip sailings were added to the schedule for 2010/11 versus 2009/10. This will increase capacity by approximately 60,000 Auto Equivalent Units (AEUs).

2.4.1 Vessel Operations

The Corporation has continued to struggle to carry the traffic offering during the peak season and due to mechanical failures on the vessels or severe weather events. In order to try to meet the demand, the Corporation continued to operate a very aggressive sailing schedule, as it was the only means to increase capacity. Maintaining this aggressive schedule meant sailing the vessels on a load and go basis and putting planned maintenance aside. Industry experts[1] have verified that this places a tremendous toll on the fleet, as well as the crew, and continues to exacerbate the problems arising from insufficient maintenance and the age of the vessels.

In April of 2009, the *MV Atlantic Vision* entered into service. As with the introduction of any new vessel it was not without its operational as well as mechanical difficulties as staff became familiar with the vessel's idiosyncrasies and worked it into the daily operation. Ramp heights had to be adjusted, loading patterns established, wind thresholds understood and crew trained on unfamiliar technologies. Despite the learning curve involved in introducing the *MV Atlantic Vision* into the service, the crew along with shore personnel, adapted quickly. The Corporation recognises that the *MV Atlantic Vision*, while not perfect for its service, is an asset to the fleet with its increased capacity and speed helping to offset its limitations. A review of the issues surrounding the *MV Atlantic Vision* was carried out and there were no insurmountable issues brought forward that would suggest the vessel cannot be suited to the Corporation's service. During its first six months of operation, the *MV Atlantic Vision* carried 41 percent of the passenger and commercial traffic on the route from North Sydney to Port Aux Basques. Although the *MV Atlantic Vision* was a welcomed addition to the fleet, it does not mitigate the need for fleet renewal. While overall the *MV Atlantic Vision* has been a great addition to the fleet, due to unforeseen mechanical issues it exceeded its maintenance budget.

The *MV Leif Ericson*, built in 1991, was utilized for carrying commercial traffic as it assumed the role of the *MV Atlantic Freighter* which was retired from the Corporation's fleet when the *MV Atlantic Vision* came into service. Although fairly reliable, the *MV Leif Ericson* still suffered its share of hydraulic as well as engine and propulsion problems.

[1] Knud E. Hansen A/S

The remaining assets of the fleet, the *MV Caribou*, commissioned in 1986, and *MV Joseph and Clara Smallwood*, commissioned in 1990, have proven to be unreliable due to their age, the harsh operating environment and the schedule for which they are required to keep during peak season. According to industry standards the normal economic life of a ROPAX vessel is 25 years. The Corporation continues to identify and repair major components and parts and plans are underway to introduce a planned maintenance program in conjunction with a new maintenance philosophy for all vessels and shore based infrastructure.

2.4.2 On-Time Performance

On-time performance is a metric used by the Corporation to compare actual departure times against the published, or the re-aligned schedule. A departure is considered on-time if is within 15 minutes of the scheduled departure time. The original published schedule becomes re-aligned in the event that the original departure times are no longer achievable due to an issue such as a significant weather delay or mechanical issue. Without re-aligning the schedule in these circumstances, the Corporation would continue to be off track against the original published schedule and the on-time performance metric would begin to lose its value to the Corporation. The 2009 OAG Special Examination Report contained a statistic that the Corporation's ferries sailed on time only ten percent of the time for July and August of 2008. This low figure is due to the fact that mechanical delays and weather delays put the Corporation off of the published schedule and on-time performance continued to be compared against the published schedule instead of the re-aligned schedule. This was a one time manual analysis, which the Corporation does not calculate on a regular basis, that was completed to measure the impact that significant events, particularly mechanical failures, have on actual versus intended, or originally planned, departure times. If on-time performance was compared against the re-aligned schedule, this number would not have been as deficient. During the summer season of 2009 on-time performance was approximately 60 percent based on the re-aligned schedule. It was approximately 70 percent during the period of October 2009 to March 2010.

The major cause for poor on-time performance in 2009/10 was major mechanical failures such as the fire in the thermal heating unit on the *MV Atlantic Vision* and ongoing engine problems with the *MV Caribou* and *MV Joseph and Clara Smallwood*. During the peak season, when the fleet was operating at full capacity and as a result of a lack of capacity, it took the Corporation a significant amount of time to return to the published schedule when mechanical failures occurred. The *MV Atlantic Vision* was able to contribute to getting the service back on schedule due to its ability to increase its crossing speed thereby lowering the crossing time from six hours to just over four. In addition, the Corporation cancelled the Argentia service twice in order to concentrate on the much shorter North Sydney to Port aux Basques service. Although cancelling the Argentia service contributed to the negative media the Corporation received, it was deemed necessary due to the volume of traffic backlogged at the terminals. The introduction of the new vessels, which will replace the *MV Caribou* and *MV Joseph and Clara Smallwood,* is expected to greatly enhance the service component of the Corporation's operations for years to come.

2.4.3 Vessel Maintenance

With vessels ranging in age from 19 to 24 years and accumulated maintenance deficits from earlier years, controlling and predicting maintenance costs are a challenge for Marine Atlantic.

2.4.4 Terminal Operations

In 2009, terminal operations at both North Sydney and Port aux Basques suffered from vessels being off schedule due to mechanical problems and weather events. A shortage of vessel capacity coupled with the first-come-first-served commercial service resulted in the terminal parking lots overflowing. This situation was exacerbated in North Sydney by limited parking availability, and on several occasions traffic was forced to back up onto the Trans Canada Highway. Frustrated passengers, commercial drivers, and the affected municipalities placed a difficult burden on the Corporation's employees who bore the brunt of the complaints. The frontline staff at the terminals faced angry passengers who were experiencing interruptions in their travel plans and staff attempted to address the concerns of customers as each situation arose.

The fiscal year 2009/10 saw further investment at the North Sydney Terminal including the installation of a Moorex vessel securing system, and the arrival of two new shunt trucks. Transport Canada's new Domestic Ferries Security Regulations (DFSR) will necessitate securing all terminals with fencing. This has been completed at the Port Aux Basques and Argentia terminals. In September $9.5 million in funding was made available as part of the Infrastructure Stimulus Fund for improvements to the North Sydney terminal. These improvements include adding a second level to the alternate dock, which will increase loading efficiency and redundancy. Construction began in 2010, and will be completed by March 2011.

In 2009, the terminal at Port Aux Basques saw the opening of a two tier alternate dock, new shunt trucks were deployed, a Moorex vessel securing system was installed and placed into operation, fencing was added to comply with security regulations and construction began on a new stevedoring building.

The terminal at Argentia, much like North Sydney and Port Aux Basques, experienced the same nature of customer related issues. However, these issues were due to the decision, on several occasions, to cancel voyages to this port in order to utilize the *MV Joseph and Clara Smallwood* on the Port aux Basques route to alleviate capacity issues. The terminal staff dealt with issues of angry passengers who were experiencing delays in their vacations and travel plans, yet they managed the situation in a commendable fashion.

During the latter part of 2009/10, the Corporation analyzed and optimized the sailing schedule in an effort to reduce the overall labour cost.

2.5 Information Technology (IT)

During an operational assessment conducted by an external consultant in 2008 as part of the Long Term Strategic Fleet Renewal Plan it was noted that Marine Atlantic's Information Technology department required a significant investment in additional staff. To begin to address this and as part of the Corporate reorganization two middle management positions were created. The first position, IT Support Manager, was created to address the internal customer service functions which covers help desk, account management, and desktop support. This position will be accountable for working closely with internal stakeholders and delivering on service level agreements. The second position, IT Infrastructure Manager, was created to manage the information technology hardware, software and network platforms. In order to move the organization forward a further investment will be required in IT infrastructure for which the IT Infrastructure Manager will be accountable.

The introduction of the *MV Atlantic Vision* represented a significant change in information and telecommunications technology compared to the existing fleet. The Information Technology Plan was implemented and the transition was successful. However the internet satellite technology infrastructure was not functioning properly and as a result was not available as a service offering during the 2009/10 season. This caused a one year delay in the implementation of the Internet Café and Business Centre onboard the vessel. The initial months provided an opportunity to learn the IT environment and over the next eight to ten months additional enhancements will be made.

As part of the information technology lifecycle the past year has seen re-investment in existing business applications with upgrades being completed for the Payroll & Human Resource departments. The Corporate Enterprise Risk Planning (ERP) system (including Finance, Purchasing, and Material & Maintenance Management) was upgraded and the Corporation made the decision to upgrade the current vessel computerized maintenance management systems and develop an integration link to the Corporate ERP system. There was also continued development with the commercial ticketing and reservation system as the Corporation moves forward with a renewed focus on customer experience.

Throughout the Corporation the information technology infrastructure has surpassed its useful life, which is the primary cause for many of the frustrations and failures experienced on a regular basis in relation to information technology. The Corporation has started the process of upgrading/replacing its old technology. An external consultant completed a review of the current network infrastructure and recommended a three phase approach to upgrade and modernize the network. Phase One and Two have been completed and Phase Three is expected to be completed in 2010/11. Phase One included a thorough analysis of the existing Network Infrastructure and determining areas for improvement. Phase Two included changes/upgrades to Wide Area Network (WAN) backhaul service and appliances.

In the area of governance and compliance the Corporation contracted an external agency to perform a complete audit of the IT operation. A final report was received, and its recommendations were approved by the Board early in 2010. The main recommendations included the need to develop a Corporate Business Continuity Plan (BCP) and that the IT BCP would need to be aligned; the need to maintain an IT Risk Register and mitigate the risks; the need to develop a succession plan; and the need to update the InfoSource Information Holdings for the Corporation. As part of Corporate IT Governance, information technology policies and procedures were revised and are ready for Board approval.

2.6 Human Resources

The Corporation has over 1,300 employees, of which 175 are licensed officers. All of these positions need continued attention; however, critical workforce segments such as Master, Chief Engineer, Chief Officer and 2nd Engineer positions are essential to daily operations and require skills that take many years to acquire. During 2009/10, Marine Atlantic reintroduced its School Program, which provided financial support to selected deck and engineering officers to upgrade their certificates. While this resulted in additional costs to the Corporation, the selected officers signed return of service commitments ensuring the internal development of officers for future vacancies.

Throughout 2009/10, the process of positioning Marine Atlantic as a desirable place to work continued. This process reinforced an image that supports the positive changes that are taking place within the Corporation. As a part of the Management Renewal the Corporation was able to attract potential employees for the majority of its vacant positions including three Executive and three Director positions. Attracting and retaining an adequate number of licensed engineering officers remained challenging for the Corporation. In order to support the hiring initiatives and ensure succession planning, full time employment was offered for specified engineering classifications.

In January 2010, to support the talent management strategy, the Corporation transitioned to a new online recruitment and selection system that consolidated the various stages of screening and on line assessment for entry level positions. The system, which is user friendly for applicants, facilitates efficient and effective handling of candidate's applications and allows for data collection and analysis to better position Marine Atlantic in future recruitment initiatives.

A restructuring of the Human Resources Department continued through 2009 as part of the Management Renewal process. In April 2009 the Staffing and Scheduling Officer position was transitioned to the Operations department. This position will play a major role in the introduction of an employee scheduling system planned for implementation in late 2010. In October 2009 a second Industrial Relations Advisor was recruited, and in December 2009 a new Human Resources Manager was hired to take on the responsibility of succession and workforce planning for future asset renewal.

During 2009, the Corporation, through its Employee Wellness Program, continued to promote wellness initiatives in the workplace. A wellness challenge continued in 2009/10 and additional health screening clinics as well as the completion of an on-line health risk assessment were carried out. Promotion of the program resulted in a 30 percent increase in completion of the on-line assessment. The positive impacts of wellness initiatives like the annual challenge continue to be measured through an integrated approach to reporting including health & dental, the on-line assessment tool and the Employee Assistance Program. This approach allows Marine Atlantic to better understand the impact wellness programs are having and to develop cost-effective strategies focused on addressing areas of need and impact.

Through its Disability Management Program, the Corporation continues to manage employee work related and non work-related absences. In November 2009, the Corporation obtained an overall reduction of 8.9 percent in premium costs for its group insurance rates including short term disability insurance.

Marine Atlantic continued to implement a management renewal process throughout 2009/10, promoting an excellence in people management. In May 2009, as part of an overall performance management strategy, an accountability framework was introduced. More robust Accountability Agreements (Appendix "C") based on key performance indicators were introduced for Vice Presidents, and two levels of management below, with signed agreements in place for the 2009/10 fiscal year. A Rewards and Recognition Program was developed and introduced in December 2009. The first Presidents Award and Distinction Awards will be announced shortly.

Culture, change management and leadership issues were further identified during 2009/10. Following significant workplace issues, two workplace assessments were completed by an independent consultant. The recommendations from each assessment resulted in significant changes in certain areas of the organization. Additional training in conflict resolution and due diligence responsibility for harassment prevention to ensure consistency in Harassment and Workplace Violence Policy compliance was required.

The Corporation's succession plan was reviewed and updated in 2009/10. The Management Renewal process and the appointment of additional executive, senior management and management positions enhance the opportunity for internal development and succession planning. The implementation of the organizational redesign better supports the ongoing culture change, business process redesign and is in line with the Revitalization Strategy.

Employees represented by the Corporation's six bargaining units as of January 1st, 2010 as follows:

Unit	**Union**	**Agreement Expiry Date**	**Total**
Ship-based Unlicensed Personnel	Canadian Auto Workers (CAW)	31-12-10	565
Shore-based Terminal and Clerical Employees	USW/ILA Council of Trade Unions	31-12-10	464
Shore-Based Maintenance Employees	Canadian Auto Workers (CAW)	31-12-07	67
Master, Chief Engineer, Chief Electrical Engineer	Canadian Merchant Service Guild (CMSG)	31-12-08	32
Licensed Ships' Officers	Canadian Merchant Service Guild (CMSG)	31-12-07	143
Shore-based Supervisory Employees	Public Service Alliance of Canada (PSAC)	31-12-07	39
Totals			**1,310**

The number of employees in the Corporation during 2009/10 increased compared to the 2008/09 fiscal year. The following factors have contributed to this increase:

- Historically, the Corporation has had difficulty recruiting professionals at the Engineer level and has been operating at low levels for these positions. The increase of 12 personnel in the Licensed Ships' Officers group is mainly due to efforts made by the Corporation to recruit more Engineers;
- The Corporation changed its vessel configuration during the year. The *MV Atlantic Freighter*, which had a low crew complement, was retired and a passenger vessel, the *MV Leif Ericson,* was converted to a freight vessel and was then replaced by a new passenger vessel, the *MV Atlantic Vision.* This change resulted in 17 additional personnel required to staff the new configuration with a higher crew level;
- The terminal managers plan their spring recruiting based on projected yearly retirements and other terminations. Therefore, on January 1st of any given year, not all retirements may have occurred. This would account for the additional personnel; and
- The Management Renewal process also led to the addition of 11 personnel in executive, management, and supervisory positions.

2.6.1 Training

Training initiatives in 2009/10 focused on safety, security, customer service, required regulatory training and new employee orientation as well as various training programs on internal IT systems. Regulatory and Canada Labour Code training programs are required on a yearly basis for courses such as Confined Spaces, Confined Space Refresher, Lock-Out Tag-Out, Man-lift, Forklift, Fall Arrest, Oil Spill Response, Safe Boating, Safe Food Handling, Safe Serve (Alcohol), Transportation and Handling of Dangerous Goods, Fit Testing, Workplace Hazardous Materials Information System (WHMIS), Occupational Health & Safety and Persons with Disabilities. Marine Advanced First Aid and Fast Rescue Craft (FRC) training, which is a regulatory program, is now being implemented to ensure compliance for crews of the *MV Atlantic Vision* and the *MV Caribou*.

The Corporation provides Passenger Safety Management (PSM) and Specialized Passenger Safety Management (SPSM) certification programs to comply with the International Ship and Port Facility Security Code (ISPS) required for the Atlantic Vision which is a Cypress Flagged vessel.

2.7 Strategy and Corporate Affairs

As a part of Marine Atlantic's Management Renewal a new department with responsibility over the Strategy and Corporate Affairs of the Corporation was created in April 2009. In July, a Vice President joined the Corporation to lead this department.

Due to the introduction of this department into the structure of Marine Atlantic there has been some rearrangement of responsibilities and reporting for previous roles. The Strategy and Corporate Affairs department now has responsibility for strategic planning, policy, governance, communications (external and internal) and legal affairs.

Upon the creation of the department there was a transitioning of projects and initiatives which were strategic in nature, but being lead by other Executives throughout the Corporation. One such project was the Revitalization Strategy. By assuming the lead role for this project other key resources within the Corporation were able to refocus their priorities to their appropriate departments. Taking on such a role also allowed the department to create key relationships with partners of Marine Atlantic who were engaged to assist with the Revitalization Strategy.

In late August the department assumed the interface role with Transport Canada's Ferry Policy and Programs group. This was done to ensure the accurate and timely flow of information between Transport Canada and the Corporation. It also allows for the prioritization of information requests and workload management for both groups and facilitates improved corporate governance.

In October an external consultant specializing in corporate governance was retained to review the quarterly Board of Directors meeting agendas and materials presented to it by management to ensure the appropriateness of both. The consultant has made several recommendations regarding the terms of reference for the Board and Board committees, along with the format and content of materials prepared by management for presentation to the Board.

A new position of Internal Communications Officer was created and staffed in 2009. This position will lead the Corporation's internal communications strategy to keep employees better informed of corporate initiatives, and is seen as one of the enablers of the cultural change process underway in the Corporation.

2.8 Financial Performance

Marine Atlantic was able to manage within its approved appropriations for 2009/10. Higher traffic volumes pushed revenues $2,560,000 over budget. Expenses were $1,766,000 better than budget even in light of increased costs associated with carrying the extra traffic. Much of the additional revenue and cost savings were utilized to cover off a cash shortfall caused by difficulties selling a surplus vessel, and delays in settling several insurance claims. A summary of the major differences in the Corporation's finances as compared to the initial approved Corporate Plan include:

	Amended 2009/10 Corporate Plan (000's)	Amended Forecast (000's)	Difference
Revenues			
Revenues	$ (80,951)	$ (83,511)	$ 2,560
Expenses and working capital			
Base operating*	$ 127,057	$ 125,291	$ 1,766
Fuel	$ 27,287	$ 27,826	$ (539)
Vessel charter	$ 23,121	$ 22,791	$ 330
Pension	$ 18,120	$ 17,732	$ 388
Restructuring	$ 92	$ 3	$ 89
Working Capital	$ (4,849)	$ (3,083)	$ (1,766)
Capital			
Approved projects	$ 13,633	$ 10,764	$ 2,869
Stimulus projects	$ 3,060	$ 1,921	$ 1,139
Emerging projects	-	$ 1,227	$ (1,227)
Modifications to the *MV Atlantic Vision*	-	$ 447	$ (447)
Net Government funding required [Note 1]	$ 126,570	$ 121,408	$ 5,162

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

Note 1: Net Government funding received in 2009/10 was $123,493, $2,085 more than the Net Government funding required of $121,408. The $2,085 funding surplus is carried forward to 2010/11 to partially fund carry over capital projects from 2009/10 to be completed in 2010/11. Further note that the actual Government funding available to the Corporation was $126,593 and not $126,570 as per the Amended Corporate Plan thus leaving $3,100 in undrawn funding.

2.8.1 Revenues

Despite the downturn in the world economy, the Corporation experienced a growth of 6.5 percent on passenger related vehicles and 4.6 percent on commercial vehicles for the period of April 1, 2009 to March 31, 2010 compared to the same period the previous year. The Corporation had forecasted traffic to decline in line with global economic indicators and feedback from major stakeholders.

As planned, the Corporation eliminated the $101.75 jockey fee for drop trailers and replaced it with a $210 drop trailer management fee. Under this approach jockeying fees for embarkation and disembarkation, and handling fees as well as administration fees are covered under this charge. In addition, a change in storage fee structure was implemented to ensure a timely removal of drop trailers from the arrival port.

2.8.2 Expenses and Working Capital

The Corporation incurred additional expenses in 2009/10 due to the increased traffic levels. In addition, the vessels experienced more maintenance than expected. There were also significant working capital adjustments for the *MV Atlantic Freighter* disposition, and insurance receivables.

There were several unplanned events in the year which negatively impacted the forecasted spending for maintenance. For example, the *MV Atlantic Vision* experienced a thermal heating unit fire and there was a main engine turbo charger failure on the *MV Joseph and Clara Smallwood*. In addition, more work than was previously anticipated was required on the vessels during the planned maintenance periods.

With the arrival of the *MV Atlantic Vision* to Marine Atlantic's fleet, the *MV Atlantic Freighter* had become surplus to the Corporation's operational requirements. The global market for this type of vessel has declined significantly as a result of the global economic recession. Near the end of the 2009/10 fiscal year, several parties had expressed their interest in the vessel, and in March 2010 the Corporation was successful in negotiating the sale of the vessel.

The Corporation was not successful in finalizing contracts for all expired labour agreements in 2009/10. Of the five expired contracts, two have been settled and a job evaluation process was finalized with one of the unions. Negotiations continue with the bargaining units on the unsettled contracts. This has also resulted in a reduction in the anticipated pension contributions as wage rates for these union groups were not adjusted as expected.

The Corporation had anticipated that all outstanding insurance claims would be settled by the end of the fiscal year. It is now anticipated that a portion will be received in 2010/11.

In 2005, a ferry operator in Canada received a ruling from the Canada Revenue Agency with regard to Harmonized Sales Tax (HST) which created a precedent for ferry operators who use the indirect method to determine their Input Tax Credits (ITC). A consultant was engaged to review the Corporation's methodology and concluded it would benefit from changing the approach in light of this ruling by the CRA. The Corporation was advised to use the new methodology on a go-forward basis and to retroactively apply it for 2005. The return with all supporting documentation related to the change in methodology and the calculation of the prior year adjustments was prepared with the assistance of the consultant and submitted to CRA in February 2006.

The CRA decided to hold the claim and reviewed the documents provided. In March 2010, the Corporation received a final assessment of the January 2006 claim and a subsequent reassessment for the period of February 2006 to March 2008. This resulted in an immediate liability of over $600,000 in March. In addition, it created a tax liability of approximately $1,400,000 related to the calendar years 2008 and 2009.

The Corporation is currently reviewing the ruling to determine the next steps or options available to attend to this situation.

2.8.3 Capital

The Capital projects funded through the Federal government stimulus initiative were the Alternate Dock in NSY, Alternate Dock Moorex Systems, the Dolphin Structure in Port aux Basques, and Fendering in NSY. Completion of the Moorex systems will occur in 2010/11. The dolphin structure project had scheduling delays that made it impossible to complete the project prior to the end of the 2009/10 fiscal year.

As detailed in the 2009/10 – 2013/14 Corporate Plan Amendment[2], the North Sydney 2nd Level Alternate Dock and the North Sydney dock fendering projects were updated as a result of the stimulus funding approval adding $260,000 to the funding for 2009/10.

There were several emerging capital projects identified and initiated during 2009/10 required for customer service and operations. The excess revenues generated from increased traffic were utilized to fund these projects. In particular, the *MV Atlantic Vision* required modifications to improve its service delivery to the customer. Despite the positive results experienced with improved amenities and additional capacity, there are operational challenges with the vessel. Seating capacity is currently a challenge as there is not enough of the correct type for the length of the voyages. There are insufficient public washrooms on the main deck area for the number of passengers this vessel can carry. In addition, of all vessels in the fleet, the *MV Atlantic Vision* is currently the only one that does not provide internet services (satellite technology). Spending of $447,000 is expected on the above mentioned *MV Atlantic Vision* projects this year with further work being completed during a planned work period in the first quarter of 2010/11. The charter is a Bare Boat Charter with any changes or modifications to be at the cost of the chartering party, not the owner.

An explanation of some of the capital projects is below:

- Alternate Dock at Port aux Basques – project completed with the dock operational as of the end of 2009/10 with only contract holdback funds payable in 2010/11;
- SOLAS Upgrade Smallwood – upon removal of panelling at refit it was discovered the requirement for steel replacement was less than anticipated resulting in savings;
- Stern Thruster Renewal Smallwood – the identified budget did not include the additional cost of labour and materials to fit and install the two new stern thrusters resulting in an overrun on this project;
- Shunt Truck Replacement Program – through the tendering process the average cost per unit for shunt trucks has been higher than originally budgeted; and
- Small and Emerging Projects – due to operational priorities and resource shortages some projects have been shifted forward requiring approximately $1.1 million to complete in 2010/11.

[2] Marine Atlantic's Amended Corporate Plan 2009/2010 – 2013/2014, November 2009.

2.8.4 Cost Recovery

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

Marine Atlantic's cost recovery for 2009/10 was better than projected as the increase in traffic had a positive impact on revenue. This resulted in a cost recovery percentage of 54.5 percent in 2009/10, compared to 52.4 percent in the budget.

2.8.5 Financial Controllership

As part of the management and corporate renewal initiatives, more emphasis on the controllership function was initiated. As a result, various responsibilities that were being managed by the Vice President of Finance and deemed non-core to the controller role were transitioned to other departments. These responsibilities included risk management and insurance, shore based materials management, strategy and corporate affairs including corporate planning, capital planning, and tariff implementation. With the transition nearly complete, the emphasis on controllership within the organization will focus on accounting and procurement excellence. An assessment of the current accounting and procurement functions has begun and is a first step towards aligning their strategic direction for the future.

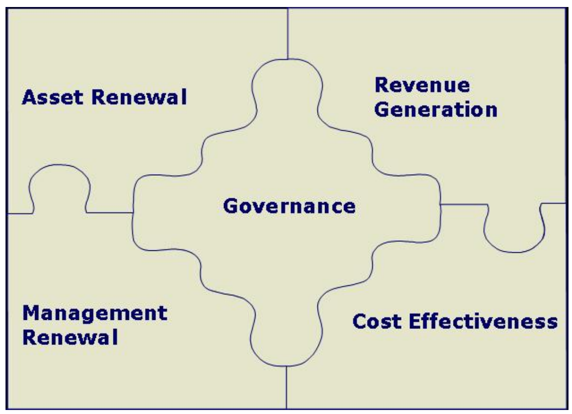
The procurement and materials management functions were separated to align with industry best practices. These functions previously reported to the Finance department but now inventory and materials management report under Operations.

In the past two years, the procurement function was subject to two external audits. The first phase of the audits focused primarily on improvement opportunities toward risks and controls. The second phase identified how to proceed toward a target operating model with improvements focused on strategic and operational process enhancements. The management and the Board of Directors have been active in reviewing the recommendations and management is developing an implementation plan that will improve the performance of the procurement function.

The audit of the 2008/09 financial statements was conducted by the Office of the Auditor General and there were no significant deficiencies disclosed during the audit. The preliminary audit work has begun for the 2009/10 fiscal year.

3 Revitalization Strategy

Marine Atlantic reached a major milestone in 2009 with the completion of its Revitalization Strategy. The Corporation engaged a number of external consultants in the areas of business consulting, efficiency and productivity, naval architecture and marine services. This was a collaborative effort with Transport Canada and the final strategy, including several options for asset renewal, was presented to central agencies and other government departments in October 2009. The Corporation's Revitalization Strategy includes five key elements as depicted below: corporate governance, management renewal, asset renewal, revenue generation and cost effectiveness.



The Strategy, built upon the Long Term Strategic Fleet Renewal Plan submitted to Transport Canada in 2008, updated the asset renewal elements and broadened the scope and scale of the strategic renewal to address areas of weakness identified by the shareholder, Board of Directors, management and the OAG. The Revitalization Strategy also provides the investment and platform to transform the Corporation in terms of effective delivery of an overall improved service.

The Corporation achieved a key milestone when it received a positive response from the shareholder in the 2010 Budget, and has been provided $521 million incremental funding over the planning period to implement its Revitalization Strategy. This investment will allow the Corporation to enter the planning period with the necessary funding to allow it to make the improvements demanded by its user and stakeholder communities.

3.1 Governance

An enhanced governance capacity is critical to strengthening accountability within the Corporation and between the Corporation and its Board, as well as the Minister. In addition, it is essential to further support the Corporation's response to the Office of the Auditor General's recommendations. Towards these aims, four key areas have been identified for improvement:

- Financial Stewardship
- Service Standards
- Governance emphasis within organization

3.1.1 Financial Stewardship

The Corporation will ensure tight control and management of public funds through:

- continued enhanced monitoring and financial stewardship of the Corporation, including the creation of an integrated performance management framework which will identify key performance indicators (KPIs) and align corporate level KPIs to the financial objectives of the Corporate Plan; and
- enhanced terms of reference for the Board and an improvement in information provided to the Board by acting on recommendations of an external consultant's report which reviewed the information which the Board relies on to conduct its governance duties.

The Corporation fully intends to manage within its appropriated reference levels throughout the planning period.

3.1.2 Service Standards

New corporate service standards were presented to the Board of Directors following benchmarking studies of industry peers, analysis of the Corporation's customer satisfaction research, workshops with key Marine Atlantic service personnel, and consultation with Transport Canada. Marine Atlantic's service standards can be broken down into two categories: Operational Performance Commitments, and Customer Satisfaction, and will explore measures such as on time performance, reasonable recovery time, reasonable wait times, and reasonable access to services. Service standards will be essential in creating performance targets with which to manage the business and measures will need to be re-examined to ensure adherence to all elements and timelines of Marine Atlantic's Revitalization Strategy. All targets and measures will also need to be aligned to the operating parameters of the new fleet.

3.1.3 Emphasis on governance within organization

Marine Atlantic has made changes through its Management Renewal initiatives to augment policy analysis and planning capacity via a recent organizational restructure. A Project Management Office is being established to implement the two new vessels into service, and a Transformation Office will be established to oversee and coordinate elements of the Revitalization Strategy. Oversight of vessel implementation and major capital projects during 2010/11 and 2011/12 will be provided through the executive management team to a Special Committee of the Board of Directors and Transport Canada. The Board of Directors and Transport Canada will also receive periodic updates on transformative initiatives contained in the Revitalization Strategy and Corporate Plan.

3.2 Management Renewal

Management Renewal at the Corporation was initiated in October 2008 with the hiring of a new President & CEO. Further steps were undertaken to improve efficiency and resource capacity, with emphasis on areas of customer service, marketing, maintenance and capital planning, risk management, corporate communications, policy analysis, corporate planning, and financial stewardship.

As part of its Management Renewal strategy, and as a result of an organizational structure review, a major corporate reorganization was undertaken in 2009. The new organizational design created three new departments – Customer Experience, Quality Risk and Compliance, and Strategy & Corporate Affairs – and reorganized some existing functions across the Corporation's departments.

By March 2010 over 60 percent of Marine Atlantic's senior management team were either new to their position or new to Marine Atlantic. Since July 2009, three of the six current vice-presidents were recruited. In addition, new personnel have been added in all three director level positions - Asset Management, Fleet Operations, and Quality, Risk and Compliance. The management renewal has brought with it a different perspective on current business processes and a review of a number of these processes is currently being undertaken to ensure they align with the Corporation's mission, vision, and values. Commercial reservations, consumer reservations and management of drop trailer revenues are examples of processes where changes have been initiated as a result of process reviews.

Marine Atlantic has also introduced new accountability agreements for vice presidents and two levels below. The agreements contain specific, measurable performance targets upon which performance is evaluated and performance pay is based. Some samples from the accountability agreements are included in Appendix "C".

All key elements of Marine Atlantic's Management Renewal strategy have been initiated, and the corporation will continue to evaluate its management renewal strategy as it delivers on other key components of its Revitalization Strategy.

3.3 Asset Renewal

The Corporation presented several options for asset renewal under its Revitalization Strategy, most notably renewal of its fleet of ageing vessels. As part of its asset renewal plan the Corporation also considered capital investments in terminals and related shore based facilities and personnel. These two primary components to the Corporation's asset renewal plan, fleet renewal and non vessel related asset renewal, are explicitly linked.

3.3.1 Fleet Renewal

For its fleet renewal plan a naval engineering firm and a management consulting firm were contracted to help create sophisticated fleet capacity/planning models and a model to evaluate the financial implications of each fleet option respectively. Numerous options for asset renewal were considered in the process with each option providing a 25 year outlook on Marine Atlantic's operations and the resulting financial implications should that option be chosen. The assessment of potential fleet renewal strategies followed Transport Canada's Benefit-Cost approach, and the Corporation has developed these options using leading industry practices. Marine Atlantic has had on-going consultations with Transport Canada in the development and assessment of the options prior to approval. Once funding has been approved to charter two vessels, Marine Atlantic's focus will shift to implementing its approved fleet renewal plan and integrating these vessels into service. These tasks will fall to a newly created Project Management Office.

3.3.2 Shore Based renewal

Marine Atlantic's shore based, or non vessel related, asset renewal plans and expenditures are detailed in Section 5.3. Upon receipt of the approval from the shareholder to charter two new vessels, Marine Atlantic will need to assess its current shore based infrastructure to determine the specific investments required to accommodate these vessels and achieve optimal port turnaround times based on the new fleet's required operating schedule. Costs to undertake studies necessary for this assessment were included and acknowledged in Marine Atlantic's Revitalization Strategy.

3.4 Revenue Generation

Marine Atlantic's Revenue Generation Strategy was developed based on research by two consulting firms specializing in pricing strategy and marketing. The new revenue generation approach will grow revenue based on optimizing prices for existing services and introducing new services.

3.5 Cost Effectiveness

An overall operational cost effectiveness assessment was conducted by an external consulting firm in 2008. The findings of two operational efficiency studies conducted by another consulting firm were included in this assessment. Marine Atlantic has committed to delivering on some the findings of the cost effectiveness plan which was developed following the assessment. The cost effectiveness plan achieves its peak annual savings from operational efficiencies and process improvement by 2013/14.

Through the introduction of two new vessels to its fleet, the Corporation will also realize savings on maintenance and fuel compared to the ageing vessels they will replace.

4 Planning Factors

4.1 Financial Objectives

The Corporation's financial projections addresses financial objectives prescribed by its shareholder over the planning period, and internal resources are aligned towards that aim. The Corporation also needs to perform additional work in order to better understand the revenues and costs associated with various services provided to its customers.

4.2 Traffic Considerations

Although the past year has seen one of the worst economic collapses in the world financial markets since the Great Depression, this did not affect the Newfoundland & Labrador economy in the same way. The opposite was actually true, as Newfoundland & Labrador witnessed growth in various market segments. Early in 2009 the Corporation analyzed traffic patterns based on the downturn in the economy and feedback from major stakeholders, and projected decreases of 4 percent for passenger vehicles and 6 percent for commercial vehicles during the peak season when compared to 2008. However, the Corporation realized an increase in traffic of 6.1 percent for passenger related vehicles and 4.4 percent for commercial vehicles in fiscal 2009/10 versus fiscal 2008/09. This resulted in a record 547,000 Auto Equivalent Units (AEUs) being carried in 2009/10. Given the capacity constraints of the fleet, the increased traffic levels contributed to significant backlogs and many frustrated customers during the peak season.

Preliminary discussions with the commercial industry stakeholders have indicated that they anticipate no change in traffic projections for 2010. Traffic is expected to experience modest growth. The Newfoundland & Labrador Department of Tourism, Culture and Recreation, in an interim report issued in September 2009, also showed positive growth for all key tourism indicators. Looking forward to 2010, economists are projecting a growth in the real gross domestic product of 1.7 percent. In summary, all indicators are pointing to continued positive growth in Marine Atlantic traffic.

4.3 Traffic Projections

A study by Opus[3] has been used as the source for traffic projection data for long term fleet planning as agreed with Transport Canada. It is recognized that this may not match the detailed traffic projection data used by Marine Atlantic for the purposes of corporate planning on a year by year basis. However, traffic projections will still fall within the range of plus or minus 15 percent from the projected trend line. The original Opus projection analysis was revalidated in September 2009 by an external consultant.

To determine traffic projections for the 2010/11 fiscal year the Corporation performed a detailed traffic projection analysis using actual traffic data as far back as 1996. A linear regression analysis was performed on the 14 year historical data set, and future year projections were extrapolated from this analysis. The baseline year was updated to be 2009, which is the most current data.

[3]"Marine Atlantic Traffic Forecast (2007 – 2026)", 23 Aug 07, C-113001.0, Opus International Consultants Canada) Ltd.

For the purposes of the annual Corporate Plan requirement, the Corporation is projecting that in the 2010/11 fiscal year the commercial related vehicle traffic will increase by two percent while passenger traffic and passenger related vehicle traffic will increase by one percent. This will result in yet another record amount of traffic carried.

Peak demand will exceed available capacity in 2010/11 and some users of the service will have difficulty obtaining reservations within their desired timeframe. Marine Atlantic's new commercial reservation system is expected to enhance the Corporation's ability to manage traffic issues and prevent commercial traffic buildup at the terminals in the face of growing capacity constraints, but lack of capacity will continue to frustrate the Corporation's commercial customers.

4.4 Assumptions Underlying Financials

The following are select high level assumptions used towards key areas of Marine Atlantic's financial projections.

4.4.1 Demand

Demand figures were based upon a traffic projection[4] agreed by Marine Atlantic and Transport Canada.

4.4.2 Revenues

Key assumptions behind revenue projections can be found in Section 5.7.1.

4.4.3 Expenses

Expense figures, excluding direct costs of onboard services, will increase based on an inflation rate of 3 percent per annum.

4.4.4 Foreign Exchange

Exchange rates for the charter vessels are based on management's expectations.

4.5 Cost Containment Measures

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

The Corporation's operating budget fluctuates due to changes in traffic levels. Hence to reflect cost restraint, the proportion of operating expenses to revenue is seen as a suitable, high level, measure of cost containment. As shown in the following table, the overall proportion of operating expenses relative to revenues for the years 2009/10 to 2012/13 is declining. At the same time the Corporation's cost recovery percentage is steadily increasing.

[4] MAI Traffic Projection 00-001/000-010 RV.0

	Forecast 2009/10	Budget 2010/11	2011/12	2012/13
Operating expenses[5]	$ 170,849	$ 189,004	$ 191,630	$ 186,444
Revenue[6]	$ 83,511	$ 97,700	$ 101,505	$ 106,330
Ratio of Operating Expense/ Revenue	**2.05 : 1**	**1.93 : 1**	**1.89 : 1**	**1.75 : 1**
Cost recovery	54.5%	58.4%	60.0%	64.9%

In addition, the Corporation's Revitalization Strategy has committed to wage savings beginning in 2014/15, through its cost effectiveness program. These savings will be attained through operational efficiencies, beginning in 2011/12, with full benefits of the program being realized from 2014/15.

4.6 Fuel Surcharge

As directed by the shareholder, the Corporation utilizes a fuel surcharge to cover fuel expenses in excess of $23.537 million annually, provided that overall its cost recovery does not exceed 65 percent. Fuel costs are a combination of the amount of fuel consumed and the cost of fuel on the open market. Factors impacting fuel consumption include the number of trips made by the Corporation's vessels, the speed at which the vessels are run and the fuel efficiency of the Corporation's vessels. Fuel consumption has continued to increase with the increases in traffic volumes requiring more trips, higher speeds required to address reliability and capacity issues and declining fuel efficiency of aging vessels.

As agreed with Transport Canada, in March 2010 the company will set the rate at the start of the year based upon expected fuel costs in excess of $23.537 million. The surcharge is calculated by dividing this amount by the total vehicle and passenger fares. Management will make a monthly adjustment as deemed necessary taking into account the magnitude of change in projection and administrative feasibility. This approach should stabilize the rate throughout the year. As per standard transportation industry practice, there will be no public announcements of the surcharge but updates to the reservation system and website communicated as a "*Surcharge percentage is subject to change without notice.*" This approach will still meet the mandate of recovering any fuel cost above the 2006 fuel cost.

A decision on fuel surcharge for 2011/12 will be made as a part of the Corporation's ongoing review of fuel cost and cost recovery projections.

In 2009 Marine Atlantic launched a fuel hedging program to minimize impacts of adverse price moves, stabilize the fuel budget and minimize variations on surcharge. The fuel hedging program began in the fall of 2009; therefore it has not had time to provide significant benefit in 2009. The program will be

[5] *Operating expenses as taken from Statement B, Funding from Operations and Government, include: base operating requirement; fuel requirement; fuel applicable for surcharge; and pension requirement. Program management, implementation and restructuring costs are excluded from the operating expenses as these are not ordinary operational expenses*
[6] *Revenues include: revenue expectations and fuel surcharge revenue expectations which includes all revenues derived from customers*

fully implemented in 2011/12, improving the predictability of the total fuel costs and surcharge in the annual budget.

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

The execution of the strategy will be delegated to the Hedging Committee, sponsored by the Vice-President Finance. It will include three representatives from the Purchasing, Finance and Operations departments. Marine Atlantic has contracted the services of a commodities expert from a reputable crown corporation in the transportation sector to provide the necessary fuel market information and guidance in the hedging process. On a regular basis, the committee will meet to monitor the execution of the strategy and adopt recommendations to ensure objectives are met. Moreover, the committee will report to the Executive Team and the Board on a quarterly basis.

Based on the budgeted fuel prices for next year, and an anticipated usage of 51.6 million litres, the fuel surcharge is expected to average nearly 20 percent of transport related revenues in 2010/11.

4.6.1 Alternative/Enhanced Pricing Principles

Management at Marine Atlantic is in the process of reviewing all products and services with the goal of maximizing revenues for the Corporation.

Marine Atlantic's Revitalization Strategy has generated a great deal of information and policy review in this area, including consultant's reports reviewing the concepts of seasonality, discounting, incentives and yield pricing for the Corporation's services. The pricing strategy and framework are described in more detail within Marine Atlantic's Revitalization Strategy, and within Sections 3.4, 5.2.4, and 5.7.1.

4.7 Competitive Pressures

Marine Atlantic carries the majority of commercial freight to the island of Newfoundland, including 90 percent of perishable items. The only alternative service for that portion of the Corporation's clientele is Oceanex, which does not offer daily service. Oceanex operates once weekly sailings between Halifax, St. John's and Corner Brook and twice weekly sailings between Montreal and St. John's. The main area of competition between MAI and Oceanex is with respect to commercial freight. Marine Atlantic, in addition to its passengers and passenger vehicles, carries commercial vehicles and drop trailers, whereas Oceanex only carries containers, drop trailers and new passenger vehicles for retail sale. There is a slight possibility that Marine Atlantic's commercial traffic projections could be affected by companies choosing Oceanex due to the recent increase in drop trailer management fees.

4.8 Other Expense Factors

4.8.1 Inflation

Canada's inflation policy, as set out by the Federal Government and the Bank of Canada, aims to keep inflation within a target range of one percent to three percent and several economists and reputable inflation projections have suggested a range between two percent and three percent for inflation in 2010/11. As part of its financial risk management, the Corporation will use the most conservative estimate and this Corporate Plan will continue to assume a three percent general inflation rate annually over the planning period.

4.8.2 Fuel Pricing

Fuel is a major expenditure for Marine Atlantic, accounting for 20 percent of total operating expenses. With the introduction of the *MV Atlantic Vision, a*nd the subsequent retirement of the *MV Atlantic Freighter*, the Corporation acquired much needed capacity. The addition of this vessel coupled with an increase in traffic resulted in increased consumption levels. Crude oil prices experienced sharp volatility in early 2008, actually topping the US$140 per barrel mark. In the fall of 2008 the world economy went into a deep recession and financial instability negatively affected the price of oil which plummeted below US$40 per barrel. Recently, the price of fuel has again started to increase with prices reaching over US$80 per barrel. As a result, large uncertainties surrounding fuel prices exist into the future.

4.8.3 Currency Exposure

The Corporation entered an agreement with a European corporation for the charter of the *MV Atlantic Vision*. Marine Atlantic Inc. hedges its exposure to foreign currency by utilizing forward contracts to control the amount of its monthly charter payments. This strategy has been successful in bringing stability to the charter obligations by achieving the budgeted expectation in 2009/10. In addition, the Corporation has secured the cost of these lease obligations for this vessel for the next 12 months. At present, the Corporation is unable to hedge currency beyond a year, and thus has recently engaged the services of an external consulting firm to review the options to hedge currency beyond one year. Based on the recommendations of this review, the Corporation may choose to go forward with a new hedging strategy that allows it to manage its long term foreign currency obligations. The Corporation may choose to negotiate the charters of the two new vessels scheduled to enter the fleet in 2011/12 in Canadian dollars which will protect it from currency fluctuation on this large annual expenditure.

4.8.4 Pension Plan

As with the majority of pension plans, the solvency position of the Corporation’s Pension Plan has been impacted by a number of factors that has caused the special payments to increase in the next few years and reduce in the future. The drastic downturn in the global economy impacted negatively on the market value of assets. This resulted in net experience losses in 2008 of $74 million. In addition, there were increases in solvency liabilities due to changes in assumptions of $4.8 million. The assumptions are determined by management with the assistance of the Corporation’s actuary. The actuary provides surveys of assumptions utilized by other major pension plans. These include but are not limited to impacts of changes in mortality, in termination rates, increases in pensionable earnings, and interest rate on employees’ contributions.

On June 12, 2009, in an effort to assist ailing plans, the Minister of Finance announced the coming into force of the new Solvency Funding Relief Regulations, 2009 (“2009 Regulations”). These Regulations were similar to Part 3 of the Solvency Funding Relief Regulations from December 2005.

Under Part 1 of the 2009 Regulations, minimum special payments for the year 2009 can be calculated on the basis that the solvency deficiency emerging in 2008 is amortized over a ten year period. After the first year following the valuation date, the continuation of the ten year amortization schedule is conditional on satisfying letter of credit requirements (Part 3 of the 2009 Regulations).

In 2009, Marine Atlantic has elected to apply Part I (ten year amortization) of the 2009 Regulations. In December 2009, Marine Atlantic obtained a letter of credit in accordance with the Regulations and will continue to apply a ten year amortization for the 2008 solvency deficiency after 2009. The Corporation received its pension valuation report from an independent actuary. Consequently, the report reflects the ten year amortization period for the solvency deficiency which emerged in 2008. The report also shows the amount of the letter of credit that will apply if the 10-year amortization is continued after 2009 for this deficiency.

There is an unfunded liability of $29,797,000 and a solvency ratio of 83.7 percent as at December 31, 2008. As such, the actuary recommended that Marine Atlantic Inc. make the minimum contributions to the plan for 2009 by making payments of 8.6 percent of member's pensionable earnings and minimum special payments for solvency of $996,000 for each month. This amounts to actuarially estimated minimum total employer contributions for 2009 of $18,024,000.

The special payments to the Pension Plan are forecasted to increase by $160,000 in February 2010 to $1,156,000 and by $350,000 from March 2010 to $1,346,000 per month. The table below expresses the special payments on a monthly basis excluding current service cost requirements.

As identified in the table, based upon the latest actuarial valuations, the monthly payments will reduce in the future. At the end of 2012, the identified deficit of the 2007 actuarial valuation will cease with the conclusion of the 5-year amortization. The $469,000 monthly special payment requirement will stop. Again in 2015, the solvency deficit identified in 2005 that was being amortized over 10-years will cease.

Type of Deficit	Effective Date	Special Payment	Last Payment
Solvency	December 31, 2005	$ 350,000	December 31, 2015
Solvency	December 31, 2007	$ 469,000	December 31, 2012
Solvency	December 31, 2008	$ 527,000	December 31, 2018
Total in 2010/11		$1,346,000	

The next actuarial valuation will be completed in 2010 for year ending December 31, 2009.

4.8.5 Regulatory Impacts

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

It should be noted that Marine Atlantic was one of the very first companies in North America to voluntarily comply with the International Safety Management (ISM) Code, the highest standard for safety and the protection of the environment for shipping-related organizations.

Marine Atlantic's vessel operations must adhere to the rules and regulations set forth by the various governing bodies mentioned. These organizations are very dynamic and constant improvements and changes are implemented to regulations and policies in an effort to improve the safety of life at sea. Significant costs could be associated with such changes, particularly in the areas of SOLAS, security and environmental stewardship. It is difficult to plan for some of these regulatory changes over the full length of this five year planning period and when unexpected changes come into effect the costs of compliance can negatively impact planned operational budgets. Nonetheless, through its continued close monitoring of regulatory developments and active participation in international shipping organizations, trade associations and conferences the Corporation will normally be able to stay abreast of regulatory changes before they are implemented and make the necessary changes in future plans.

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

Over the next five years, marine security will dramatically change within the domestic ferry service. During the upcoming fiscal year the Corporation will implement its security plan in concert with the Marine Transportation Security Regulations and the new Domestic Ferry Security Regulations that came into effect on April 1, 2010.

4.9 Operational Factors

4.9.1 Labour Costs

Labour costs are a major expenditure of Marine Atlantic, accounting for 42 percent of total operating expenses. With regard to the Corporation's Collective Agreements, four of the Collective Agreements expired on December 31, 2007 and two expired on December 31, 2008. Based on the wage increases in the latter agreements for 2008 along with a review of wage awards published by the HRSDC Workplace Bulletin, CPI data through Statistics Canada, and wage awards in other marine transportation companies, the Corporation determined an appropriate percent increase to budget for compensation. Further, in August of 2009, as a result of an interest arbitration, a wage adjustment for the years 2008, 2009 and 2010 was awarded to Unlicensed Vessel Personnel which represent approximately 40 percent of the Corporation's workforce. The Corporation anticipates that collective agreements that are pending settlement in interest arbitration will be impacted by this award.

4.9.2 Maintenance and Mechanical Failure Costs

Maintenance costs have risen dramatically in recent years and unexpected mechanical failures are occurring more frequently. Annual maintenance costs in 2008/09 was $20.2 million which represents a 34 percent increase from maintenance costs from 2003. With vessels ranging in age from 19 to 24 years, maintenance has been a huge challenge for Marine Atlantic and maintenance budgets have continued to increase. In anticipation that vessels will be replaced, maintenance costs for 2010/11 are being limited to items required to keep the vessels operational, in compliance with applicable regulations, and in saleable condition. Maintenance costs for the remaining years of the planning period are expected to become smaller than previous years as newer vessels enter into service.

4.10 Office of the Auditor General: Special Examination Report - 2009

In September 2009, representatives of the Office of the Auditor General of Canada (OAG) presented a Special Examination Report to Marine Atlantic's Board of Directors. The report, which contains 13 recommendations, was based on an audit conducted between October 2008 and March 2009. In its report, the OAG concluded that Marine Atlantic does not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. The OAG identified two "significant deficiencies" in the Corporation's systems and practices. The first significant deficiency concluded that Marine Atlantic is at risk of being unable to deliver the services it is responsible for providing, due to unresolved strategic challenges that will require support from the government to overcome. These challenges are the ageing of its ferries and shore-based assets, difficulties ensuring that capacity is sufficient to meet the traffic demand, failure to meet the cost recovery target set by the government, and the need to increase its management capacity.

The second deficiency concluded that Marine Atlantic does not have an operational planning framework and performance measures in place to ensure that strategic direction and corporate plans are implemented. The Corporation exceeded approved operating budgets in 2006 and fiscal years 2007/08 and 2008/09, and commitments in its corporate plans have not been met. In addition, many observations raised in the Corporation's 2004 special examination have not been addressed. Marine Atlantic's capital asset management practices do not ensure that its operations are reliable and that assets are managed at the lowest cost over their useful lives. As a result, ferries have suffered mechanical breakdowns that have affected the reliability of service, and the physical condition of shore-based assets is poor. In addition, the Corporation's capital asset management practices do not ensure its operations are reliable and that assets are managed at the lowest cost over their useful lives.

The OAG also made recommendations for improvement in a number of other areas: corporate governance, safety, security, environmental stewardship, human resource management, and operations. It should be noted that a significant number of the recommendations are with respect to the Corporation's operational planning and capital asset management (with seven of the thirteen recommendations).

Marine Atlantic's Board of Directors and its management team have fully accepted the OAG's recommendations and an action plan has been prepared by management to address each of the recommendations. Included throughout this Corporate Plan are plans and actions that form elements of that action plan. The outstanding deficiencies from the OAG's 2004 observations are, except for concerns related to customer service, incorporated in the OAG's 2009 observations. The progress on the Corporation's action plan has become a standing item on the Board of Directors Audit and Risk Committee. An independent annual audit will also assess the implementation of Marine Atlantic's action plan in response to the OAG Special Examination Report- 2009. Appendix "B" contains the OAG recommendations and is cross-referenced to the appropriate sections of this document.

4.11 Sensitivity Analysis

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

5 Planning for the Future

As a component of its Corporate Plan development, Marine Atlantic annually reports on its intended activities in the upcoming planning period. A summary of the Corporation's planned activities, by department, is below.

5.1 Quality, Risk, and Compliance

5.1.1 Enterprise Risk Management

Over the next five years, Enterprise Risk Management will continue to mature within the Corporation, incorporating existing management processes and reporting activities to ensure that risk management addresses all threats and opportunities the organization is likely to confront in achieving its objectives.

To meet its goals, and to ensure alignment with the Corporation's Revitalization Strategy, several initiatives have been set for this department:

- Increase the awareness of Enterprise Risk Management in all departments during the course of the entire planning period;
- Continue to develop the Corporate Risk Profile, including the Risk Register and Risk Map. Within the first three years a full Corporate Risk Profile will be in place. Development will then continue over the ensuing years;
- Develop Departmental Risk Registers for all departments. This will be completed by the end of year 2010/11;
- Implement the Departmental Risk Registers and fully integrate these Registers with the Corporate Risk Register. This process will be ongoing during years two and three of the planning period and will be completed by the end of year four.
- Develop a comprehensive set of Business Continuity Plan(s) for the Corporation addressing emergencies, disasters, or routine challenges. This will be ongoing during years 2010/11 – 2012/13; and
- Develop a new, coordinated approach to the Claims Management process within the Corporation. This will be a 2-3 year project and will be completed by the end of year 2012/13.

5.1.2 Safety

Safety has long been the priority within the Corporation and continues to play an integral role within the overall risk management framework of Marine Atlantic. Given the condition of the fleet, Management and the Board recognize the need for extra vigilance to ensure continued safety of the passengers and crew. Several initiatives have been identified to ensure safety is further entwined with the Corporation's strategic goals and Risk Management program:

- Develop a "non-compliance" reporting system that is linked to the Enterprise Risk Management program and manager's performance measures. This will be ongoing over the planning period and will be completed by the end of year 2014/15;

- Re-develop and update the Corporation's Emergency Response Plan to include more comprehensive training and plan exercising requirements. This project will take place from 2010/11 – 2011/12; and
- Improve the "safety culture" at Marine Atlantic through increased education, training and monitoring of all employees throughout the planning period.

5.1.3 Security

Over the next five years, marine security will dramatically change within the domestic ferry service. During the upcoming fiscal year the Corporation will implement its security plan in concert with the Marine Transportation Security Regulations and the new Domestic Ferry Security Regulations which came into effect on April 1, 2010. In order to be fully compliant with the regulations, costly security enhancements to its ageing fleet and terminals are required. This means an increased presence of physical security measures such as fencing, controlled access gates and video surveillance. It will also necessitate additional security personnel to:

- Selectively screen, in accordance with the regulations, passengers, vehicles and goods prior to entering controlled areas such as marshalling yards and vessels;
- Implement, audit and exercise provisions of the approved security plans; and
- Maintain a greater degree of vigilance and response capability in the event of security incidents or threats.

Compliance with the Domestic Ferries Security Regulations will require a significant increase in the Corporation's operational security budget and in the training budget required to educate and prepare the Corporation's employees.

Additionally, some of the planned initiatives to enhance the Corporation's security goals include:

- Complete the secure perimeter and video surveillance project at the Argentia ferry terminal by the end of 2010/11;
- Complete the secure perimeter and video surveillance project at the North Sydney ferry terminal by the end of 2010/11;
- Implement Security Plans for the Port aux Basques and North Sydney ferry terminals in conjunction with Transport Canada by the end of 2010/11;
- Communicate with and train personnel on security practices and procedures by the end of 2011/12;
- As a leading member of the *Canadian Ferry Operators Association (CFOA),* Marine Atlantic will continue to meet regularly with Transport Canada's Security Commissioner during the course of the planning period; and
- Develop new vessel security plans. This will be required as the new vessels come into service in 2011/12.

5.1.4 Environmental Stewardship

Throughout the planning period, Marine Atlantic will develop a comprehensive Environmental Management Plan, starting in the latter part of 2011. This plan will be based on the ISO 14001

International Standard, which provides guidance to organizations on how to successfully implement an effective Environmental Management Plan through utilization of certain prescribed elements outlined in the standard. The primary goal of ISO 14001 is to maintain environmental protection, including pollution prevention that is in balance with socio-economic requirements. Under this standard, it is the responsibility of the organization to determine which aspects of their business can cause environmental impacts, and to establish its own set of standards to minimize these impacts.

Marine Atlantic will also work with Transport Canada to follow the recommendations for site remediation that are expected to arise from the Phase III Environmental Site Assessment that was completed in 2009/10. Upon receipt of the final Phase III report, the Corporation will spend 2010/11 - 2011/12 performing studies and analysis, including defining the terms of reference, project, scope, cost estimates and project timelines. After this is completed, 2012/13 - 2014/15 will be used to implement the Corporation's Environmental Management Plan. To augment the environment management capacity of the organization, resources will be allocated towards an additional Safety and Environmental Technician.

5.1.5 Insurance

As previously noted, the Corporation continues to have a good insurance record but there have been an increasing number of claims against the Hull and Machinery Policy due to mechanical failures in the Corporation's older vessels. Due to a major claim in 2008, the Corporation's Protection and Indemnity Insurance premiums increased significantly in 2009/10 and will increase again in 2010/11. The Property, Automobile and Commercial General Liability Insurance premiums are also expected to increase over the planning period.

5.2 Customer Experience

It is imperative that the Corporation improve customer service. This objective in the 2010 peak travel season is critical to rebuilding credibility with the public, industry, and government stakeholders. Failure to demonstrate improvement will feed the negativity that currently shapes the view of the Corporation, and will create increasingly difficult conditions under which to continue the Revitalization Strategy. To be successful, focus in 2010 will be placed on areas and actions that are attainable and will have the greatest positive impact when achieved. The Corporation will also manage expectations about what will be achieved. Most critical is the need to ensure the various stakeholders expect only marginal gains in 2010, as the Corporation will be constrained by the service delivery. At the same time, we will strive to deliver measurable improvements.

Over the course of the five year planning cycle, the Department proposes to address, to varying degrees, the following elements:

- The development of a customer strategy;
- Service standards, practices, and procedures;
- Customer and employee communications;
- Customer satisfaction measurement;
- The redesign, conversion, and deployment of new vessels;
- The annual sailing schedule;
- Revenue generation strategies;
- Cost efficiencies;

- The structure and composition of the Department; and
- Benchmarking and the establishment of key performance indicators.

The redesign, conversion, and deployment of the new vessels will establish the following additional responsibilities for Customer Experience Department of the Corporation:

- Designing the topsides of the new vessels, including seating, galley, restaurant and other food service areas, cabins, kennels, play area, flooring, décor, menus, and so on;
- Identifying service flows and structures, plus establishing new crewing levels;
- Selecting and training of passenger services crew;
- Backfilling positions for crew training in the new vessels;
- Developing allocations for commercial and passenger traffic, by season, for the new vessels within the context of the revised fleet and sailing schedule;
- Developing a marketing and communications plan for the renewed fleet, including a new brand; and
- Revising current processes and developing new business processes to take advantage of the opportunities and accommodate the constraints of the new vessels.

5.2.1 Schedule

Developing an achievable sailing schedule is fundamental to satisfying customers and achieving the Corporation's objectives. Our customer promise is to move traffic from one port to another, on time and in a safe and environmentally responsible fashion. Capacity will continue to be a challenge, as the traffic offering continues to grow while the fleet will remain the same for 2010/11. Reliability is also a concern with the majority of the Corporation's vessels and shore-based infrastructure operating past its useful life, and requiring significant ongoing maintenance or replacement. Our challenge is to actively manage demand within these constraints to maximize the traffic carried during 2010/11, especially during the peak season.

The 2010/11 sailing schedule was developed using a significant number of parameters, such as regulations for crew rest periods, maintenance periods, port time, customer-friendly sailing times, crossing times and fuel costs. The Corporation strived to balance these requirements, but consciously decided that, aside from the regulatory requirements, these were all secondary to the overall goal: a realistic schedule that transports the maximum number of passengers. Compromises were made across the operation: some crossing times are faster, burning more fuel; some port times are shorter, requiring faster cleaning and loading; maintenance time was shortened as much as possible; and some departure and arrival times are not overly customer-friendly. The Corporation tightened the schedule parameters to allow for the maximum numbers of sailings that are felt to be reasonable and achievable.

Over the course of the planning period, the Department intends to take the same comprehensive approach in leading the development of the sailing schedule. As the new vessels will come into service at the start of and during the 2011/12 schedule, an additional degree of complexity is added to the development criteria. We anticipate that the 2012/13 schedule will benefit from the experience of having new vessels for a full seasonal cycle, leading to improvements in that schedule.

5.2.2 Communications

Key requirements in the area of communications are improvements in technology, process, and content. Critical areas on which action will be taken include:

- Outbound communications in the event of delays, cancellations, and other changes in the schedule;
- Inbound communications capacity; and
- Internal dissemination of policies and processes and training to ensure all employees provide consistent information to customers.

Another key component of effective communications, with customers as well as with the general public and other stakeholders, is compelling branding and positioning. With the arrival of new vessels there is an opportunity to reposition the Corporation, to use fleet renewal as a symbol for the revitalization of the Corporation. It can be a focal point for employees and customers, communicating change in a powerful way. A new Marine Atlantic brand will be developed in 2010/11, with a full launch planned for 2011/12.

5.2.3 Customer Service and Satisfaction

Increased customer satisfaction, decreased complaints, and a decrease in negative media are major objectives for the Corporation. A critical area of focus is the consistent provision of prompt, courteous, customer focused service which is based on reasonably set service standards and policies. Clearly defined and well understood service policies and standards are essential in achieving these objectives. The Corporation will ensure that customer service policies are reasonable, widely distributed, understood, and that cost implications are considered in their application.

During the planning period of the next five years, the main focus of the Customer Experience Department will be on:

- Identifying key industry service attributes, measures, and standards;
- Monitoring and actively managing employee attitudes and customer interactions, including the revision of customer complaint mechanisms and resolution processes;
- Increasing supervisory training to help managers and supervisors coach and correct employees more effectively;
- Establishing consumer and commercial panels for research purposes and sounding boards;
- Improving current complaint management mechanisms to ensure complaints are received and documented, that investigations are thorough, and that the disposition of complaints is speedy and fair. The revamping of these processes will be completed in 2010/11;
- Building on the complaints database currently maintained by the Customer Relations Officer;
- Developing a customer service dashboard that presents key metrics to employees on how we are performing in service delivery. This will incorporate such things as the number and nature of complaints and compliments received, satisfaction data from ongoing research, on time performance and other service standard metrics; and
- Developing a recognition program, which identifies frequent and long-term customers and provides mechanisms to “reward” them based on their usage of the service.

A research program will be developed to meet a range of information needs, such as increasing our understanding of our customers and knowing what increases satisfaction with our service. Four major components are envisioned for the research program:

- Customer Satisfaction Measurement: In 2010/11, we will define the service attributes to be measured. Through in-depth interviews with employees and focus groups with customers we will identify the key variables that contribute to customer satisfaction.
- Mystery Shopping: The use of mystery shopping will enable the Corporation to understand the specific challenges and opportunities faced by travelers throughout their entire experience with Marine Atlantic, from booking to disembarking the vessel. This will be developed in 2011/12.
- Online Panel: The development of an online panel provides an economical and effective means of engaging customers to test products and service ideas or explore issues prior to making changes. Panels will be established in late 2011/12 to be fully operational in 2012/13.
- Public Opinion Survey: Without credible measurement, our understanding of public perception will be driven by media reports. Public opinion polling provides a snapshot of the public image of the Corporation. This program will be developed in 2010/11 to start in 2011/12.

5.2.4 Revenue Generation & Cost Efficiencies

The Revitalization Strategy has generated a great deal of information and policy thought in this area. During 2010/11 the Corporation's pricing strategy and framework will be finalized and a plan for its roll-out drafted.

While cost control is an ongoing activity, a fresh focus will be brought to it during 2010/11. New vessels will provide both a platform for change and a focus for process improvement. Profit centres (e.g., on-board services) and cost centres (e.g., reservations) will be established and/or reviewed to identify opportunities for increased efficiency, reduced wastage, optimized staffing, and overtime reductions. Cost implications of service policies (e.g., complimentary meals due to a non-weather delay) will be reviewed to identify the true costs, align the decision-making with the revenue impact, and revise the policy where the benefit of the policy does not justify the cost. This will be a continuous activity, and will be incorporated into managerial accountability agreements.

5.3 Operations

The Operations Department is being lead by a new team put in place during the Management Renewal process. This reorganization of management capacity will provide additional shore side support and allow more time for personnel to adequately plan and implement initiatives coinciding with the Corporation's Revitalization Strategy and address recommendations made in the OAG Special Examination Report.

2010/11 will be the last year that the Corporation will operate with both the *MV Caribou* and *MV Joseph and Clara Smallwood.* The new vessels are to enter service in the 1st and 2nd Quarter respectively of 2011/12. The replacement vessels will be newer, have greater capacity, and have faster service speeds.

Before arrival, both vessels will undergo modifications to ensure each conforms to Transport Canada regulations. The final charter agreement will stipulate that the leaser is to undertake all modification work, and will deliver the vessels to Marine Atlantic following completion of all agreed modifications.

As such, the leaser assumes responsibility for all aspects of the modification work, including on time completion. Marine Atlantic is confident that the leaser will complete the modifications and deliver the vessels on time. Marine Atlantic will establish a Program Management Office, as detailed in section 5.6.5, to oversee all aspects of vessel integration. This Office will be tasked with risk mitigation, including the risk of delayed delivery, and will develop mitigation strategies to minimize risks associated with vessel integration. For example, Marine Atlantic could rely on the *MV Caribou* and/or the *MV Joseph and Clara Smallwood* to provide service in the event of minor delivery delays.

Marine Atlantic follows a preventative maintenance program in line with the International Safety Management Code. Some details of the Corporation's preventative maintenance routines include:

- Shoreside assets/terminals: Routines are generated from an Industrial Financial System Maintenance Module which has been recently upgraded. This module produces work orders/job cards for regular scheduled maintenance jobs on terminal assets, including vehicles and equipment;
- Vessels: Regular planned maintenance is programmed from AMOS (Asset Management Operating System), presently being upgraded. This system produces work orders/job cards for all onboard equipment and machinery based on several requirements:
    - Continuous machinery and continuous hull survey requirements by the applicable class society; and
    - Recommended maintenance and overhaul periods for that particular equipment from the manufacturer.

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

- Customer friendly improvements to the *MV Atlantic Vision* which include the installation of additional washrooms and added seating capacity will be completed by June 15, 2010;
- Integration of the new vessels. The Department will be heavily tasked throughout 2010/11 and into 2011/12 to assist in the integration of the new charter vessels into the fleet. Initiatives involving the new vessels will include, but are not limited to:
    - Modify/flag vessels Canadian to conform to Transport Canada regulations. This will occur during 2010/11 for the *MV Atlantic Vision* and the first charter vessel, and during the initial stages of 2011/12 for the second charter vessel;
    - Training of the crew: Throughout 2010 and 2011 all levels of the crew, ranging from the Master on down, will be trained in the navigational, technical, and hospitality nuances of the new vessels in order to operate them efficiently and effectively;
    - Crewing levels: Throughout the planning period a study will be performed to determine the optimal level of crewing for the vessels while adhering to the guidelines of safe manning levels in a passenger ship environment; and
    - Vessel modification monitoring will be performed to safeguard and carry out the requirements of the charter party agreement.
- Installation of Moorex mooring systems for the alternate docks in NSY and PAB to increase operational flexibility, capacity, and redundancy. The project will be completed by May 2010 for North Sydney, and July 2010 for Port aux Basques;
- Refit of the *MV Leif Ericson* in 2010/11 to overhaul engines and generators, and renew hydraulics;

- Upgrading of the system, standardization of procedures, and training will be implemented on the use of the computerized maintenance management systems (CMMS) on both the vessels and shore side maintenance shops. This project will be undertaken in 2010/11;
- The final aspects of the Inventory Control project will be completed in 2010/11 when the non-critical spares are removed from the vessels to better climate controlled conditions ashore;
- Upgrading the terminal in Port Aux Basques will take place in 2011/12. This upgrade will involve things such as replacement of the roof, siding the building, painting, and building security offices, seating areas, and a baggage area;
- During 2011/12 the Corporation will undertake an electrical distribution project in North Sydney to relocate the electrical transformer. The current site position is sinking and will over time deteriorate to possible cable severing;
- An assessment of the viability of operating alternate sailing schedules will be undertaken during 2011/12;
- An overhaul of all of the engines onboard the *MV Atlantic Vision* will be performed in 2012;
- Formalize and adopt a corporate "maintenance philosophy";
- Installation of an Electronic Measuring System, in 2011/12, at both North Sydney and Port aux Basques toll booths to measure and record pictures of commercial vehicles to generate additional revenue on length disputes and reduce claims; and
- During 2012/13 the development of an equipment/asset register in conjunction with life cycle asset management will be undertaken.

Upgrades at the North Sydney terminal throughout 2010/11 will be delivered through the Stimulus Funding provided of $9.5 million. The creation of an alternate two-tiered dock will be of great value to the Corporation as it will allow the option of working two vessels in port at the same time when schedule difficulties occur. The alternate dock will also provide the flexibility to allow much needed long-term maintenance to be carried out on the primary dock. The administration building will be removed and staff relocated to a facility in the North Side Industrial Park less than one kilometre from the terminal. This move is necessary to ensure safety of administration employees as traffic flows increase around the administration building area with the installation of the alternate dock ramp. It will also improve traffic flow at the terminal, provide much needed space for traffic management and marshalling, and reduce the magnitude of the security issues that need to be addressed. Included in the 2010/11 capital program is funding for improvements to the new office building. This building also contains sufficient warehouse space to house some materials currently dispersed throughout the terminal property, freeing up more space at the terminal site. From an economic perspective, preliminary plans for redevelopment of the North Sydney terminal included the construction of a new terminal/administration building. With the requirement for administrative office space removed, the construction cost of the new terminal building will be dramatically reduced.

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

5.4 Information Technology

Additional investment in Information Technology governance and business processes is essential to achieving operational efficiencies at Marine Atlantic. To support this goal, the positions of IT Support

Manager and IT Infrastructure Manager will be in place for the upcoming planning period. These positions will be focused on evolving and maturing the IT organization.

Over the planning period Information Technology within the Corporation will continue to become a more integrated, business oriented service. Maintenance, upgrading or replacement of aging applications and infrastructure will be carried out and new emerging technologies will be investigated and leveraged wherever possible. To achieve this objective and ensure alignment with the Corporation's Revitalization Strategy, several initiatives have been identified for 2010/11:

- Replace *MV Atlantic Vision* Internet Satellite System: The replacement of the internet satellite system will provide for continuous internet and email services during the voyage. The new satellite antenna will provide the same level of service as the other passenger ferries which include: Web browsing, email exchange, WiFi, ATM, etc. This project will be completed in May 2010, prior to the 2010/11 summer season.
- Staff Scheduling System: The current crew calling system is a standalone system that resides on an old HP server (over 16 years old) and the software was custom developed by previous Marine Atlantic staff. Both the hardware and software are no longer supported. This represents a significant risk for the Corporation as a competent crew list is developed by the system and required on the vessel before the new crew can relieve the current crew. This project started in 2009/10 and addresses a regulatory concern, safety concern, and represents a major improvement over the existing technology. Completion is expected by November 2010.
- IT Infrastructure Replacement and/or Upgrades: This project started in 2009/10, spanning four years and deals with a significant upgrade of the IT infrastructure throughout the Corporation. The Corporation has retained the services of an external consultant to facilitate the upgrade of the local area and wide area networks. In 2010/11 the primary focus will be the upgrading of the wide and local area networks. Data center enhancements and upgrades will also be completed during this period. In the 2011/12 period the primary focus will be the upgrading of the cabling infrastructure and the replacement of file servers. In the 2012/13 period the primary focus will be on the replacement or renewal of the disk storage appliances and various application servers. In 2013/14 the primary focus will be on the replacement of vessel IT hardware which includes point of sale (POS) servers, email servers, fibre switches, etc.
- Business Continuity Plan (BCP): The current IT business resumption plan is obsolete and needs to be updated to incorporate all the recent changes. Without an updated plan the Corporation could be significantly affected if there were a failure within the IT infrastructure. This could result in significant cost over-runs, major safety concerns, operational delays, and finance/payroll errors or failures. This project addresses the risks identified by the Office of the Auditor General and more recently internal audits conducted by a consulting firm. The project will be completed in 2011.
- Computerized Maintenance Management System (CMMS): The Corporation has evaluated the most effective way to implement CMMS onboard the vessels and are moving forward with a plan to implement CMMS. This project has been given high priority as it addresses the concerns noted in the OAG Special Examination Report-2009. The project spans two years with the integration of maintenance management systems being completed in 2010/11, and the full implementation of an asset management system completed in 2012.

- Customer Contact Management System: There is an immediate need to implement a computerized customer contact management system in the event of weather or mechanical delays. The system will notify customers immediately via SMS, voice message, and email, of any event that may effect their scheduled reservation. A computerized system will provide close to instant messaging which is much more effective and efficient then the current manual call back process. This project will be completed by June 2010.
- Information Management System (IMS): Information management practices at the Corporation are not standardized and lack formal structure. The Corporation has a legislative requirement to manage information and dispose of information in accordance with the Library & Archives Canada (LAC) Act. This project addresses the IT system needs to support this requirement. This project will be completed in 2011.
- Data Storage Upgrade: The current data storage disk ('SAN') has passed its normal life and needs to be replaced with a more modern ISCII data storage appliance. This project will be completed in 2011.
- Management Reporting System: Currently the Corporation has no management reporting system. Reports are generated independently from a variety of systems and then consolidated for presentation purposes. The demand for quality and real-time management information, continues to grow and is currently exhausting significant human resources. This project will address these needs with the implementation of a data warehouse and an automated process for reporting on various business metrics and KPIs. This project will span two years and will be completed in 2012.
- IMS Servers: In support of the management reporting system and implementation of formal information management practices, this project addresses the IT hardware infrastructure. This project spans two years and will be completed in 2011.
- Electronic Vehicle Measurement: This project will provide the Corporation with significant benefits from a staffing and claims perspective. This project is for the purchase of IT hardware and software to support electronic vehicle measurement.
- Internet Café/Business Center: The MV Atlantic Vision is currently equipped with a business center that will be operational after the satellite antenna is upgraded. An assessment of this service will be completed in the fall of 2010 and if successful, similar services will be installed on the other passenger ferries. This project will include the installation of computer kiosks, WiFi service, etc.

The following IT initiatives have been set for the 2011/12 period:

- Advanced BookIt Functionality: The new Ticketing & Reservation system (BookIt) went into production October 1, 2008. On March 15, 2010 the Corporation implemented commercial reservations which are a fully integrated component of the BookIt system. This project deals with the enhancement of the BookIt system in the area of vessel load management and self service services.
- Customer Feedback & Reporting System: Obtaining customer feedback is very important to the Corporation. This project deals with the implementation of a web-based customer feedback system and would be implemented before the summer season of 2012.

- Human Resources (HR) Professional Modules: This project deals with the implementation of additional modules to the current HR/Payroll system. These modules include Industrial Relations, Professional Development, Employee Self Service, etc.
- IT Optimization: Every four to five years it is important to have an objective review of IT services provided and determine the most effective means of delivery. This may include new technologies, contracted monitoring services, etc.
- IFS Optimization: In conjunction with IFS business analysts this project deals with the implementation of advanced functionality that will improve the efficiency of business processes. It is also an opportunity to determine if industry best practices are applicable. This project will span two years and will be completed by November 2012.
- Performance Dashboard: After the implementation of the information management system this project converts the information into performance dashboards that will be implemented throughout the entire organization. The performance dashboard will be an integral part of the computer desktop environment. This project will be completed in 2012.

Information technology initiatives scheduled for the last three years of the plan address asset renewal and life cycle management of the various software packages and desktop applications. However, unexpected breakdowns or major system failures could occur over the planning period that will necessitate additional spending to address such an occurrence.

5.5 Human Resources

The worldwide marine transportation industry is struggling to attract and retain qualified personnel for critical marine positions. The Corporation is also faced with the reality that a significant proportion of its personnel in the marine critical workforce segments are approaching retirement in the next decade. Close to 53 percent of the Corporation's critical workforce is over 50 years of age and 27 percent is over the age of 55. During the planning period we anticipate attrition of 20 percent of this critical workforce segment. Many of these positions require years of training and development, further emphasizing the fact that recruitment to ensure succession is paramount in ensuring continuity of service. Recruitment of many positions has been difficult because of the poor external reputation and ageing assets of the Corporation.

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

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

During the planning period the Human Resources department will:

- Complete the restructuring of the department by June 2010 by adding analytical capacity to better facilitate workforce planning for the corporation ;

- Undertake research to be completed by May 2010 to identify best practice for recruitment and development in the industry to support the talent management strategy;
- Develop an integrated Human Resources Plan by July 2010 that clearly identifies the strategic direction in relation to people strategies in order to increase organizational capacity and drive positive change. This plan will continue to strengthen capabilities in talent management, and will strive to ensure that the Corporation has the appropriate talent management strategies to carry the organization into the future. The plan will address and build on three key strategies during the planning period as follows:
    a) To attract and retain a qualified, skilled and a representative workforce.
    b) Learning, training, leadership, management and career development to meet future business needs.
    c) Strengthening human resource management practices and capacity.
- Implement by 2011/12 a cadet program to attract newly qualified officers to the Corporation;
- Continue to work closely with community colleges in the provinces of Nova Scotia and Newfoundland and Labrador for the delivery of a Marine Stewarding Program to meet our demands for trained customer services personnel;
- Review and update the Corporation's labour relations strategy during 2010/11 to support the Revitalization Strategy and, in particular, asset renewal;
- Continue to provide required regulatory training. For 2010/11 the training budget will be increased to facilitate the required security training to ensure compliance with the new Domestic Ferries Security Regulations (DFSR) introduced in December 2009. All current employees and new employees will receive security training that ranges from four to eight hours dependent upon level of responsibility;
- Continue to provide Passenger Safety Management (PSM) and Specialized Passenger Safety Management (SPSM) certification programs in preparation for the January 2011 Standards of Training Certification and Watchkeeping (STCW-95) regulatory requirements which will impact all of the Corporation's vessels. Currently 475 employees require PSM training and 30 officers require SPSM. During 2010/11 all new employees and officers will require this training. Training will range from four to ten days dependent on the level of certification and the level of position and competency;
- Assess and implement alternative training delivery methods including web based training modules to more effectively support the training requirements of vessel personnel; and
- To ensure internal development for future vacancies, provide in each year of the planning period the opportunity for selected deck and engineering officers to receive financial support to upgrade their certificates under the School Program. Selected officers will sign return of service commitments; and in 2010/11 provide human resource support to the PMO to ensure the development and implementation of the crewing and training plans for the introduction of the two charter vessels in 2010/11 and 2011/12.

The Corporation has identified the need to fundamentally change the organization to become more "customer focused" and operationally efficient. This change cannot occur without emphasis placed on a transformation of the culture within Marine Atlantic. Focus must be placed on shifting towards a cohesive unified culture within the Corporation. External consultants have been engaged to analyze the possibility of operational improvements and without a cultural transformation their recommendations cannot be fully embraced. A Transformation Office will be established during 2010/11 to bring focus to cultural transformation.

Several initiatives have been identified by the Human Resources Department to address these organizational challenges:

- Development of a sustainable Talent Management Strategy to address imminent workforce shortages;
- Development of an Employee Value Proposition that supports the Talent Management Strategy and the Corporation's brand;
- Deploy extensive customer service, leadership development and management training;
- Acquire new specialist skills, knowledge and expertise in critical functions to ensure strategic initiatives are executed effectively; and
- Engage its unions and employees in the change management agenda and the evolution of Marine Atlantic.

5.6 Strategy and Corporate Affairs

5.6.1 Policy and Strategic Planning

In 2008, an external consultant was engaged to develop an integrated planning process for the Corporation that could be used in the development of its annual Corporate Plan and resulting operating plans. This approach will be adopted for the 2011/12 planning cycle and beyond, which will enable a more effective corporate planning process.

5.6.2 Governance

The Board of Directors and Transport Canada have requested the development of key performance indicators (KPIs) and benchmark data that can be used to measure the performance of the Corporation. This information will be used to monitor the health and effectiveness of various parts of the Corporation, or the organization as a whole. The key challenge in developing this set of metrics is to compile information that is timely, relevant, and provides accurate information about the state of the organization and the rate of change. During the latter part of 2009/10 the Department commissioned an external consulting firm to begin the process of determining the appropriate indicators, the methods by which the relevant data can be captured, and the appropriate manner in which the KPIs should be reported. The project is currently underway, with the first of three phases in the project complete, with the aim of generating preliminary performance data in 2011/12.

Further work will be conducted throughout the planning period in response to an external consultant's report which suggested a suitable agenda and appropriate information for discussion at Board of Directors meetings. This undertaking will allow for more effective Board meetings, permitting the Board to focus and provide guidance and input at an optimal level.

5.6.3 Communications

Mechanisms to ensure that all employees are informed about the future direction of the Corporation are important enablers to culture change. Marine Atlantic discontinued its internal newsletter some time ago due to budget limitations. With a new Internal Communications Officer in place, communications to staff via printed material, intranet, emails and other delivery mechanisms will be implemented. A monthly newsletter entitled Strait Talk was initiated in March 2010. An initiative is also underway to develop an employee intranet page that will be default homepage for all personal computers connected to the Corporation's network. The intranet will, in addition to providing standard employee-oriented information, provide updates on current initiatives and follow-up information to newsletter articles. These initiatives, coupled with management meetings, town halls, and initiatives by other departments, especially Human Resources, will facilitate the culture change and employee engagement required for the Corporation to meet its service and efficiency objectives.

5.6.4 Legal Services

The Strategy and Corporate Affairs department will work closely with the newly established Quality, Risk and Compliance department to take a more proactive approach to claims and insurance issues, in addition to providing guidance related to security issues. The request-for-quotation and contract administration processes will also be reviewed in conjunction with the Finance department to ensure the effectiveness of the current approach.

5.6.5 Revitalization Strategy Initiatives

The Strategy and Corporate Affairs Department will be responsible for the coordination of the Corporation's Revitalization Strategy, including a new Program Management Office (PMO) for vessel implementation and a Transformation Office for other elements of the Strategy. The planning for the PMO is currently underway. One of the first tasks of the PMO will be to develop detailed timelines for the process of integrating the vessels.

The PMO will be created early in 2010/11 with the mandate to oversee, from start to finish, all aspects of integrating the new chartered vessels into service. This office will be made up of a combination of internal, external and contracted resources. The PMO will be in operation for a period of twelve to sixteen months and will coordinate the retrofit, training, crewing, integration and introduction of the new vessels. The PMO will be based in St. John's, but will have resources in Port aux Basques, North Sydney and Europe (to oversee vessel modifications).

The Transformation Office will also be located in St. John's and be comprised of permanent employees supplemented by contracted external expertise as required for specific initiatives. The Transformation Office will act as a coordinating body to ensure that the Corporation's objectives are met with respect to the Revitalization Strategy. This group will work closely with departments to ensure efficiency and effectiveness in terms of project and program execution, and will act as the reporting body to Management on the progress of the Strategy.

From a governance perspective, while these offices are under the direction of the Strategy and Corporate Affairs department, the Executive Management team will provide oversight and direction, and will monitor schedules, deliverables and budgets to ensure that corporate objectives are being met. The Executive Management Team will in turn be responsible to special committees of the Board of Directors and the shareholder for the PMO. Management will report to the Board of Directors on activities of the Transformation Office.

5.7 Financial Management

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

5.7.1 Revenues

Marine Atlantic's revenues consider the growth expectations over the planning period as detailed in the planning considerations and outlined in its Revitalization Strategy.

5.7.2 Expense Management

Marine Atlantic is committed to delivering on the opportunities identified in a cost effectiveness plan which was developed by an external consulting firm (as detailed in Section 3.5). The cost effectiveness plan includes a mix of annual savings from operating efficiencies and process improvement, and investments in training and new hiring for under-resourced areas.

Marine Atlantic will make small, strategic investments, in under-resourced functional areas beginning in 2010/11 and embark on its restructuring plan in 2011/12.

5.7.3 Cost Recovery

Cost recovery in 2010/11 shows an improvement over 2009/10 due to the incremental revenue generated from a general tariff increase, increases to drop trailer fees, increased fuel surcharge revenue and minimizing maintenance expenditures on the Corporation's existing vessels to those essential in the short term. Cost recovery will reach Marine Atlantic's target range of 58 percent in 2010/11 and 60 percent in 2011/12. In 2012/13 Marine Atlantic realizes increased benefits from its cost effectiveness program, and coupled with the operational efficiencies of the new chartered vessels and the revenue enhancement efforts initiated in late 2010/11 Marine Atlantic is expected to achieve its cost recovery for the remainder of the planning period.

	2010/11	2011/12	2012/13	2013/14	2014/15
Cost Recovery	58.4%	60.0%	64.9%	65.0%	67.4%

5.7.4 Financial Controllership

Research continues on the assessment of the current controllership environment at Marine Atlantic. Traditional day to day responsibilities included managing accounting staff, preparing management reports, preparing financial reports, initiating internal controls, and direct accounting transactions. Although these functions continue to be an important component of the role, as shareholders and stakeholders place greater demands on businesses to perform, the financial group, led by the Vice President of Finance, must play a broader role in guiding decisions across the business in order to maximize corporate integrity and value.

The changing role of controllership is toward strategy, forward thinking, change agent, coaching and commitment to technology. The three primary categories of activity that will drive the controllership role at Marine Atlantic in the future will be:

- Responsibility for the ultimate results of core financial activities;
- Counsellor and advisor to managers who are explicitly accountable for results; and

- Responsibility for the processes that address broad, enterprise-level requirements in Finance and Procurement.

During the planning period the primary objectives of the Finance department will be:

- Assess the current controllership environment at Marine Atlantic: This will shape the primary roles of the department which will include planning the business budgets, measuring and reporting financial and operating results, linking strategic objectives to long-term targets and annual budgets, having systems that provide direct input into developing the financial reporting, providing analytical support and advice to management in dealing with customers and vendors supporting and advising in optimizing operations within the business, providing support and advice in managing risks to business performance, optimizing value in the procurement of goods, and providing support and advice in human resources activities. This new strategy will be clearly articulated and communicated to the Corporation in 2010/11.
- Generally Accepted Accounting Principles Conversion: Marine Atlantic as a Federal Crown Corporation is a component of the "public sector" and therefore its basis of Generally Accepted Accounting Principles (GAAP) is taken from the direction provided in the Introduction to Public Sector Accounting (PSA) Standards as contained in the PSA Handbook. As a consequence of an amendment to this introduction approved in September 2009 the Corporation was required to perform an analysis of its classification and a determination of its most appropriate basis of accounting. This analysis resulted in Marine Atlantic determining its classification to be an Other Government Organization and PSA Standards as being its most appropriate basis of GAAP. A position paper supporting this analysis was prepared by Marine Atlantic and reviewed by both the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG) who have both agreed with the Corporation's position. With the concurrence of both the OCG and the OAG on the Corporation's position, Marine Atlantic Inc.'s Board of Directors supported management's recommendation for the Corporation to move forward in its GAAP conversion toward PSA Standards rather than the previously expected International Financial Reporting Standards (IFRS).
- Quarterly Financial Statement Presentation: Effective April 1, 2011 pursuant to Financial Administration Act section 131.1 requires all departments and parent Crown corporations are required to prepare and make public a quarterly financial report within 60 days after the end of the fiscal quarters to which the report relates for the first three fiscal quarters of the fiscal year. The Corporation will prepare to ensure reports created in accordance with the standard establish procedures to ensure report is not materially misstated and presents fairly the financial results, take actions to address issues relating to production and content of the report, and make the report available within 60 days.
- The Procurement review will continue in 2010/11 with the objective of improving performance: The recommendations of the various audits will continue to be implemented. Upon completion of the comprehensive review, a recommendation will be presented to the Executive on decisions such as strategic goals and direction.
- Fleet renewal strategy: The Finance department will provide the necessary support for fiscal responsibility and procurement activities to assist in the successful transition of the new ferries into Marine Atlantic Inc's fleet and the retirement of the exiting vessels in 2011/12.
- Information systems implementation and review: The department will be providing necessary input into the various information system upgrades and new systems identified in section 5.4.

In particular, this will include the staff scheduling, computerized maintenance management system, management reporting system, electronic measurement, and IFS optimization. The timelines will be the same as mentioned in section 5.4.

- Labour relations: with an active year in 2010/11 of labour relations approaching, the department will be providing financial support during these discussions.

Beyond 2010/11, and with the utilization of information collected, the focus will be to continue to improve on the controllership function. It will continue to develop the strategic approach to accounting excellence and strategic business partnership; re-engineer the strategic direction of the controllership function and further develop and refine systems requirements.

5.7.4.1 Bank Line of Credit

Marine Atlantic's bank line of credit is currently approved at $33,348,000. An amount of $4,200,000 is utilized as security against long-term liabilities arising from Marine Atlantic employees' past injury claims and this Corporation's status as a "deposit account company" with the New Brunswick Workers' Compensation Board.

The additional $29,148,000 is utilized to secure the four letters of credit for the Pension Plan for Employees of Marine Atlantic Inc. The Corporation continues to utilize Part Three of the 2005 Solvency Funding Relief Regulations and adopted the new Solvency Funding Relief Regulations, 2009 as outlined in Section four. These Regulations allow the Corporation to apply 10-year amortization for solvency deficiencies with the utilization of letters of credit as security. For example, the amounts in the table below for the 2009 Regulations represent the difference between the present value of the schedule of special payments established as of December 31, 2008 and present value of the schedule of special payments of $944,000 per month from December 31, 2008 that would have been required for a 5-year amortization period.

The amounts required over the planning period are provided in the following table.

	2010	2011	2012	2013	2014	2015
2005 Regulations	$ 18,746,000	$ 18,746,000	$ 15,320,000	$ 11,739,000	$ 7,997,000	$ 4,086,000
2009 Regulations	10,402,000	15,997,000	21,862,000	28,009,000	28,009,000	22,922,000
Total	$ 29,148,000	$ 34,743,000	$ 37,182,000	$ 39,748,000	$ 36,006,000	$ 27,008,000

These letters of credit are required to be renewed 30 days prior to the end of the fiscal year of the Pension Plan which is December 31. Prior to November 30th 2010, there is a requirement to have established an additional letter of credit for $5,595,000 to increase the 2009 Regulations from the $10,402,000 to $15,997,000 outlined in the above table. The Corporation is seeking approval for this amount at this time.

The amount of the letter of credit in respect of these Regulations will be revised at each actuarial valuation only if such valuation reveals gains.

6 Asset Management Planning

6.1 Challenges

In 2008, the *MV Atlantic Vision* was chartered for a period of five years to address Marine Atlantic's immediate capacity concerns. While this charter has helped with the capacity and reliability issues that plague the Corporation, it has not addressed the remainder of the fleet which still faces problems. These problems resulted in significant operational delays, traffic congestion and public outcry. As a result, long lines of traffic extended along the TransCanada Highway causing major traffic problems and safety issues. The positive response to the Revitalization Strategy will allow the Corporation to address these needs through the chartering of two new vessels. However, the process of integrating vessels will span months, forcing Marine Atlantic to operate with its current fleet until the 1st Quarter of 2011/12, when the first charter vessel will enter service. The second charter vessel will enter service in the 2nd Quarter of 2011/12. In the interim the Corporation will continue to operate its ageing fleet with a watchful eye on maintenance and only perform what is required to ensure passenger safety and keep the vessels in service.

The Corporation continues to be in a constant state of crisis management as it deals with one emergency after another. In addition to the abnormally high number of vessel breakdowns, the Corporation's terminals also experience infrastructure problems as equipment and facilities in both Port aux Basques and North Sydney are well past their prime. Yard tractors used to load commercial units, passenger shuttle buses, utility vehicles, fuelling systems and the primary loading ramps are all now at the age where regular mechanical failures, obsolete technology, and insufficient capacity result in escalating costs, longer port times and vessel delays. This coupled with the new security regulations are putting further strain on the Corporation. The terminal infrastructure problems will be addressed over the planning period. For a description on the Corporation's Asset Renewal plan, which includes its shore-based assets, see section 3.3.

While the Corporation will continue to struggle with operating the current fleet during 2010/11, the addition of the new charter vessels will alleviate this problem for the remainder of the planning period and beyond. Although Marine Atlantic will exert every effort to provide the best service possible with its current assets, the Corporation recognizes there will be times, during the peak season 2010/11, where it would be unable to carry the traffic offering due to the lack of capacity of the current fleet. The focus will instead be on carrying the traffic in an organized and orderly fashion while keeping to the published schedule as best as possible. The commercial traffic should see reduced line-ups in the upcoming planning period based on the new commercial reservations system, but not all customers will be able to travel in their desired timeframe. For the remainder of the planning period and beyond the Corporation will be able to carry the traffic offering, however, capacity issues are anticipated in the upcoming peak season.

With the arrival of the *MV Atlantic Vision* to Marine Atlantic's fleet, the *MV Atlantic Freighter* became surplus to the Corporation's operational needs. The vessel was sold on March 12, 2010 with the assistance of an international ship broker. The remaining fleet will consist of the *MV Atlantic Vision*, *MV Caribou*, *MV Joseph and Clara Smallwood* and the *MV Leif Ericson*, until the two new charter vessels enter service in the 1st and 2nd Quarters of 2011/12.

The implementation into service of the two new chartered vessels will necessitate the disposal of the *MV Caribou* and the *MV Joseph and Clara Smallwood*. The Program Management Office and Asset Management group will coordinate the disposal of the vessels. The Corporation will limit expenditures on the vessels to maintenance which is absolutely necessary for safety and regulatory issues, while ensuring that the vessels will be in a condition which is conducive for a quick disposal on the open market.

The Corporation will be solely responsible for the disposal the MV *Caribou* and MV *Joseph and Clara Smallwood* as it sees appropriate. Global marketing of these assets will begin in the fall of 2010 by a broker to be selected by the Corporation, and it is hoped that the disposals will coincide with the arrival of the new vessels. The exact timing of dispositions is very difficult to predict given the limited market for these vessels and the current state of the global shipping industry. As such, Marine Atlantic may incur additional costs to maintain these vessels in saleable condition during the timeframe from removal from service to disposal date. The net proceeds of sale, after considering all selling costs and costs incurred up to actual disposal date, will be distributed to the Consolidated Revenue Fund.

6.2 Capital Needs

In developing the capital plan for the planning period the Corporation has taken into account all aspects of the Revitalization Strategy, while keeping in mind categories such as safety, security, critical IT, and regulatory requirements. Infrastructure renewal covered by the Infrastructure Stimulus Funding provided to the Corporation in 2009 was also considered. The projects outlined are required during the planning period to ensure that the Corporation achieves their mandated cost recovery percentage.

The total capital projects spending estimated for 2010/11 is $78.806 million, of which $9.44 million has been allocated to MAI under the Infrastructure Stimulus Fund for the 2010/11 fiscal year.

6.3 Lifecycle Management

During the Management Renewal process particular emphasis was placed on the life cycle management of assets, and a new team in charge of asset management for the Corporation was put in place. A new position to lead the team, the Director of Asset Management, was created and filled.

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

The Director of Asset Management will lead a consolidated group which is tasked to manage the life cycle of all of the Corporation's assets. These assets are not only restricted to vessels but also terminal assets such as buildings, dock ramps, buses, shunt tractors, shop equipment and office business machines, to mention a few. In addition this will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years (2010/11 – 2011/12). Current maintenance practices will be reviewed, and a complete, proactive, asset life cycle management approach will be implemented.

A new committee on Maintenance and Standards will investigate whether it is possible to link the International Ship Management (ISM) and the Computerized Maintenance Management System (CMMS) for the purposes of identifying the frequency between inspections, repairs completed during planned and unplanned maintenance, and to develop a plan that aligns with manufacturer recommendations, class requirements, and Marine Atlantic's experience with the equipment. This committee will also monitor, develop, investigate, and set maintenance standards for all of the Corporation's assets. Management will report to the Board of Directors on this issue. The Director of Asset Management will be responsible for implementing a new Asset Management System. This system will track all assets, monitor life cycles, contain preventative maintenance standards and project the need for future capital.

To complement the Director of Asset Management, the Corporation is currently involved in the recruitment of a Fleet Superintendent and an additional fleet technician. The Capital Planning Committee was also rejuvenated with members from multiple departments of the Corporation. The Asset Management group will conduct a review and gap analysis of its CMMS. The outcome of this study will be a recommendation to the executive management team regarding the development or purchase of a comprehensive CMMS which will link with an Asset Management System (ASM). The objective is to have this new system operational by April 1, 2012.

6.4 Emerging Projects

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

7 Financial Statements

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

7.1 Statement A: Income Statement

Marine Atlantic Inc.
Corporate Plan 2010/11-2014/15
Income Statement - Year Ended March 31st
In $ Thousands

	Actual 2008/2009	Budget 2009/2010	Forecast 2009/2010	Budget 2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Revenues	81,125	80,951	83,511	97,700	101,505	106,330	109,200	115,790
Expenses	186,526	195,677	193,643	237,981	263,520	246,026	244,864	243,444
Depreciation & write down of assets	17,276	17,997	18,000	23,662	35,004	43,095	44,119	45,936
Reduction in provision for capital Assistance	(17,276)	(17,997)	(18,000)	(23,662)	(35,004)	(43,095)	(44,119)	(45,936)
Federal Government subsidy	105,401	114,726	110,132	140,281	162,015	139,696	135,664	127,654

7.2 Statement B: Funding from Operations and Government

Marine Atlantic Inc.
Corporate Plan 2010/11 - 2014/15
Funding from Operations and Government, Year Ended March 31st
In $ Thousands

		Budget 2009/2010	Forecast 2009/2010	Budget 2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Base Operating Requirement Note 1	**A**	127,057	125,291	131,612	138,048	136,562	140,341	143,877
Revenue Expectations	**B**	(80,951)	(83,511)	(97,700)	(101,505)	(106,330)	(109,200)	(115,790)
Fuel Requirement	**C**	27,287	27,826	35,540	31,050	27,170	27,600	27,850
Program Management, Implementation & Restructuring	**D**	92	3	7,357	12,305	7,862	7,917	1,429
Net Operating Requirement	**E=A+B+C+D**	73,485	69,609	76,809	79,898	65,264	66,658	57,366
Vessel Dispositions/Working Capital	**F**	(4,849)	(3,083)	(2,485)	-	-	-	-
Net Government Funding Available Note 2	**G**	126,570	123,493	216,602	204,475	182,696	153,384	143,784
Contribution to Charter, Pension & Capital	**H=G-F-E**	57,934	56,967	142,278	124,577	117,432	86,726	86,418
Charter	**I**	23,121	22,791	41,620	59,585	51,720	51,722	52,804
Contribution to Pension & Capital	**J=H-I**	34,813	34,176	100,658	64,992	65,712	35,004	33,614
Pension Requirement	**K**	18,120	17,732	21,852	22,532	22,712	17,284	17,484
Contribution to Capital	**L=J-K**	16,693	16,444	78,806	42,460	43,000	17,720	16,130
Capital	**M**	16,693	14,359	78,806	42,460	43,000	17,720	16,130
Net Funding Surplus / (Requirements) Note 3	**N=L-M**	-	2,085	-	-	-	-	-
Cost Recovery		52.4%	54.5%	58.4%	60.0%	64.9%	65.0%	67.4%

Cost Recovery (excludes charter fees; program management, implementation & restructuring; pension; and capital)

Notes to Statement B – Funding from Operations and Government:

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

2: Budget 09 included Infrastructure Funding of $3.06M for 09/10 and $9.44M for 10/11.

3: The 2009/10 funding surplus of $2,085 is carried forward to 2010/11 to fund a HST liability due to an audit assessment by the Canada Revenue Agency as well as to partially fund capital carried over from 2009/10.

7.3 Statement C: Balance Sheet

Marine Atlantic Inc.
Corporate Plan 2010/11 – 2014/15
Balance Sheet - Year Ended March 31st.
In $ Thousands

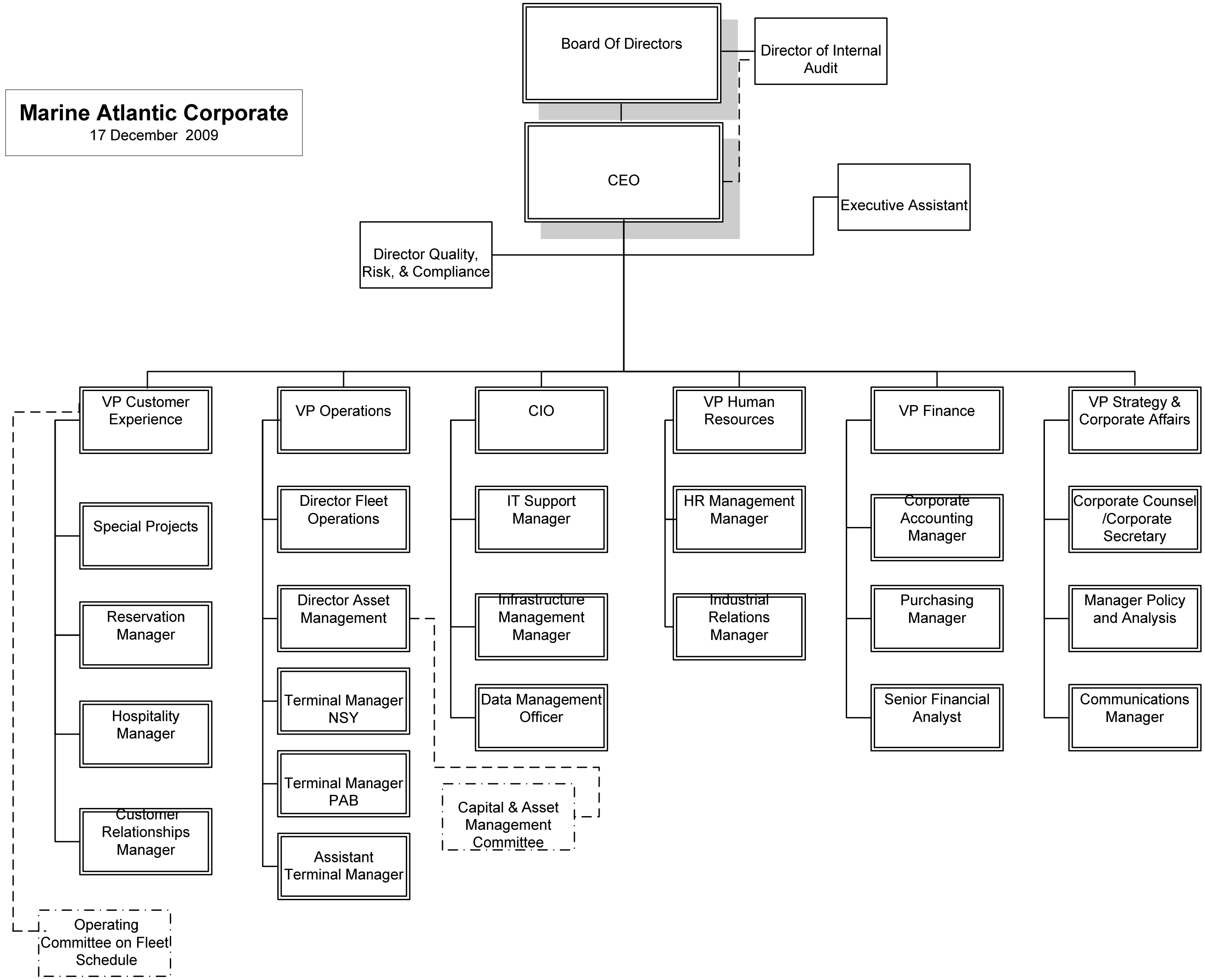
	Actual 2008/2009	Forecast 2009/2010	Budget 2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Assets							
Cash	488	2,585	500	500	500	500	500
Current assets	27,041	24,846	23,046	23,046	23,046	23,046	23,046
Restricted cash	10,396	10,396	10,396	10,396	10,396	10,396	10,396
Deferred pension asset	51,209	63,671	75,623	87,575	98,120	104,444	110,768
Fixed assets and deferred charges – net	137,525	133,884	189,028	196,484	196,389	169,990	140,184
Total Assets	226,659	235,382	298,593	318,001	328,451	308,376	284,894
Liabilities and Equity							
Current liabilities	20,696	22,096	18,611	18,611	18,611	18,611	18,611
Other liabilities	38,715	37,214	34,639	29,819	24,139	17,609	17,609
Provision for capital assistance	137,525	133,884	189,028	196,484	196,389	169,990	140,184
Capital stock	258,530	258,530	258,530	258,530	258,530	258,530	258,530
Deficit	(228,807)	(216,342)	(202,215)	(185,443)	(169,218)	(156,364)	(150,040)
Total Liabilities and Equity	226,659	235,382	298,593	318,001	328,451	308,376	284,894

7.4 Statement D: Statement of Cash Flow

Marine Atlantic Inc.
Corporate Plan 2010/11 – 20/15
Statement of Cash Flow - Year Ended March 31st
In $ Thousands

	Actual 2008/2009	Forecast 2009/2010	Budget 2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Operating Activities							
Net operating costs	(101,471)	(110,129)	(140,191)	(157,195)	(134,016)	(129,134)	(127,654)
Net restructuring costs	(69)	(3)	(90)	(4,820)	(5,680)	(6,530)	-
Government operating subsidy	96,950	110,034	137,796	162,015	139,696	135,664	127,654
Change in non-cash working capital	(3,861)	2,195	400	-	-	-	-
Cash provided by (used by) operations	(8,451)	2,097	(2,085)	-	-	-	-
Financing Activities							
Government capital assistance & vessel disposals	20,526	14,359	78,806	42,460	43,000	17,720	16,130
Investing Activities							
Capital assets and deferred charges	(20,526)	(14,359)	(78,806)	(42,460)	(43,000)	(17,720)	(16,130)
Increase (Decrease) in Cash	(8,451)	2,097	(2,085)	-	-	-	-
Cash, Beginning of Year	8,939	488	2,585	500	500	500	500
Cash, End of Year	488	2,585	500	500	500	500	500

Appendix A: Marine Atlantic Organizational Chart



Appendix B: OAG Recommendations Cross-Referenced to Plan Sections

	Description of Recommendation	Marine Atlantic Management Response	Main Components of The Corporation's Original Action Plan	2010/11-2014/15 Corporate Plan Section
1	Marine Atlantic Inc., in collaboration with the federal government, should address its strategic challenges: an ageing fleet and shore based-assets, inadequate cost recovery, and management renewal. Together the parties should resolve related funding issues. The Corporation should monitor progress in resolving each strategic issue.	• Marine Atlantic, in collaboration with Transport Canada, is finalizing a comprehensive revitalization proposal. • This strategy will propose long-term solutions that address strategic challenges, including a funding proposal for recapitalization of the fleet and shore-based assets.	• The Corporation's revitalization strategy consists of five major elements: o Governance; o Management renewal; o Revenue generation; o Cost effectiveness; and o Asset renewal. • The revitalization strategy clearly defines the Corporation's objectives with respect to improving upon the current reliability issues facing the ferry service. • Although revitalization has begun within the organization as noted by the OAG, the Corporation cannot meet its objectives without strategic capital investment.	3.0
2	Marine Atlantic Inc. should create a strategic and operational planning process that sets priorities and plans and allocates responsibilities for carrying out those plans.	• Marine Atlantic has implemented a corporate and management renewal process. This plan incorporates: o An operational framework; o Formal procedures for strategic and operational planning; o Budgeting; and o Performance measurement. • A new position of Vice President of Strategy and Corporate Affairs was recently staffed, which will deal directly with implementing a new planning process for the Corporation. • A new management accountability framework has recently been implemented.	• Marine Atlantic has designed a formal planning cycle that has five distinct elements, from strategic plan review through finalization of annual budgets. • This plan is part of the strategic revitalization process, and elements of the plan have been implemented during that process. • Some elements of the plan will be utilized during the preparation of the 2010-2011 Corporate Plan. The full planning cycle will be implemented next fiscal year commencing in April 2010.	5.6.1
3	Marine Atlantic Inc. should create a performance measurement process that establishes goals and performance expectations, and includes regular	• Marine Atlantic Inc. recently initiated a corporate and management renewal process that incorporates	• Marine Atlantic has developed an integrated management process that combines planning, performance measurement and accountability.	5.6.1 5.6.2

	Description of Recommendation	Marine Atlantic Management Response	Main Components of The Corporation's Original Action Plan	2010/11-2014/15 Corporate Plan Section
	monitoring and progress reporting for senior managers and the Board of Directors.	o An operational framework; o Formal procedures for strategic and operational planning; o Budgeting; and o Performance measurement. • Regular monitoring of management goals and performance expectations is a component of this process. • A new management accountability framework has recently been implemented, which will ensure that objectives and measurable targets are set and tracked for all senior managers.	• Performance expectations and measurements will be established during the planning process. • These measurements will be tracked regularly by the executive management team and the Board of Directors and utilized in accountability framework. • Further development of these KPIs is planned to a view of having a complete, robust set incorporated in the 2011-2012 Corporate Plan.	
4	Marine Atlantic Inc. should develop and implement a comprehensive risk management policy, including mitigating strategies such as a comprehensive business resumption plan.	• Marine Atlantic Inc. has made progress in the use of risk assessments. • The Corporation is in the process of staffing a new position of Director of Quality, Risk and Compliance. • This position will continue the development of a comprehensive risk management program, including the development of a corporate risk register and associated mitigation strategies over the next two years.	• In September 2009, the Corporation filled the new Director of Quality, Risk and Compliance position. • By March 2010, a corporate risk policy, risk register, as well as a risk management guide and tool set for managers will be in place. • The Director is also responsible for coordinating the Corporation's Pandemic response and business continuity plans for the Corporation, which were finished in October 2009.	2.2.2 5.1.1
5	Marine Atlantic Inc. should review its maintenance management systems to improve their usefulness and compatibility in capital asset management.	• Marine Atlantic Inc., during the reorganization, placed particular emphasis on the life cycle management of assets. • A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. • This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years.	• The Corporation is putting in place a new asset management team. • In October 2009, the Corporation filled the new position of Director of Asset Management. • The Corporation is currently involved in the recruitment of a Fleet Superintendent and an additional fleet technician. • The Corporation has initiated the formation of a Committee on Maintenance and Standards.	6.3
6	Marine Atlantic Inc. should use investigation and inspection reports to identify potential systematic issues and to adjust preventive maintenance	• Marine Atlantic Inc., during the reorganization, placed particular emphasis on the life cycle	• The new Committee on Maintenance and Standards will investigate whether it is possible	6.3

	Description of Recommendation	Marine Atlantic Management Response	Main Components of The Corporation's Original Action Plan	2010/11-2014/15 Corporate Plan Section
	schedules.	management of assets. • A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. • This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years.	to link the International Ship Management (ISM) and the CMMS systems for the purposes of identifying the frequency between inspections, repairs completed during both planned and unplanned maintenance, and to develop a process that aligns with manufacturer recommendations and class requirements. • The Committee on Maintenance and Standards will also monitor, develop, investigate and set maintenance standards for all corporate assets.	
7	As it acquires new assets, Marine Atlantic Inc. should implement a life cycle management approach.	• Marine Atlantic Inc., during the reorganization, placed particular emphasis on the life cycle management of assets. • A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. • This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years.	• The Director of Asset Management will be responsible for implementing a new Asset Management System by October 31, 2011. • This system will track all assets, monitor life cycles, contain preventative maintenance standards and project the need for future capital investment.	6.3
8	Marine Atlantic Inc. should implement maintenance practices that ensure effective oversight and take into account the age and condition of its assets.	• Marine Atlantic Inc. has placed particular emphasis on the life cycle management of assets in the re-engineering of management and the business processes. • A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. • Current maintenance practices will be reviewed and a complete asset life cycle management approach will be implemented. • Management is also finalizing a revitalization proposal on that will include a funding proposal for recapitalization of the fleet and shore-based assets.	• The action plan for this recommendation is incorporated under recommendation 6.	6.3
9	Marine Atlantic Inc.'s Board of Directors should complete and implement its review of corporate governance practices.	• Marine Atlantic Inc.'s Board and management recently completed a corporate governance review.	• In April 2009, the Board of Directors updated the professional requirements, experience and background needed for effective governance.	5.6.2

	Description of Recommendation	Marine Atlantic Management Response	Main Components of The Corporation's Original Action Plan	2010/11-2014/15 Corporate Plan Section
		• This review included: o A revised board governance charter; o Codification of the expectations of the Board chair and directors; and o A description of the respective roles of the Board and Chief Executive Officer.	• In September 2009, the Board of Directors along with members of the executive management team developed and implemented a revised board governance charter, expectations of the Board Chair and Directors, as well as a description of the respective roles of the Board of Directors and Chief Executive Officer	
10	Marine Atlantic Inc. should develop and implement plans to respond to current and upcoming security requirements.	• Marine Atlantic Inc. has been active in assisting in the development of the Domestic Ferry Security Regulations. • The Corporation continues to proactively implement new security initiatives and to develop a strategy to ensure full compliance with the new security regulations. • Discussions are ongoing with regulators in an attempt to better define the impact of the ISPS Code on Marine Atlantic's operations.	• The MV *Atlantic Vision* is currently International Ship and Port Facility Code (ISPS) compliant with a Ship Security Plan implemented and certified by the American Bureau of Shipping (ABS). • Draft Security Plans for the terminals at Port aux Basques and North Sydney will be submitted to Transport Canada in November. • By the end of 2009 security video projects for all three terminals will be complete. • Security fences will be completed by the end of March 2010. • All three terminals will be compliant with new Canadian Ferry Security Regulations by the end of May 2010.	2.2.4 5.1.3
11	Marine Atlantic Inc. should develop and implement a formal environmental management system that identifies and assesses risks, establishes priorities, and includes a means of monitoring and reporting on environmental performance and compliance.	• Marine Atlantic Inc. has created a consolidated compliance division that will include responsibility for the environmental stewardship of the Corporation. • The Corporation is in the process of staffing a new position of Director of Quality, Risk and Compliance. • The Corporation will renew and enhance its environmental plan over the next two years.	• The newly appointed Director of Quality, Risk and Compliance has begun to develop the Corporation's environmental strategy. • The process will be completed by May 2010 and includes: o The hiring of an environmental officer, o performing site environmental assessments, o Performing a strategic environmental assessment, and o The development of an environmental strategy.	2.2.5 5.1.4
12	Marine Atlantic Inc. should finalize a strategic human resources plan to enable the Corporation to have the appropriate number of qualified people to	• The Human Resources Department has been restructured and additional resources are being added.	• Several components of the human resources plan are currently in place. • In 2008, an organizational review to identify	2.6 5.5

	Description of Recommendation	Marine Atlantic Management Response	Main Components of The Corporation's Original Action Plan	2010/11-2014/15 Corporate Plan Section
	achieve its mission and goals.	• This will assist in enhancing the existing human resource strategies and in bringing the necessary components together over the next two years into an integrated human resources plan.	whether we currently had in place the appropriate organizational structure to best support the organization to meet its mandate was completed. • The review confirmed the need for a revised structure and the introduction of additional management resources within the organization. • It was the culmination of this process that led to the restructuring of the organization.	
13	Marine Atlantic Inc. should implement an automated system to improve its staff scheduling and human resource use.	Marine Atlantic Inc. is proceeding with implementation of the recommendation over the next two years.	• In December 2008, an external consulting firm completed an extensive review of the current staff scheduling process and corresponding systems as well as a staff scheduling requirements document based upon an internal needs assessment. • An internal project team is tasked with going live with the automated staff scheduling system by November 2010. • The team is currently finalizing the project charter and schedule documents required to move forward with the implementation of the system.	2.6 5.4

Appendix C: Accountability Agreements Samples

Financials	
Achieve operational budget as defined in the corporate plan on (Dept) Expenditures	Did not meet: Negative variance >4% Met: Variance +/- 4% Surpassed: Positive variance >4%
Achieve budget as defined in the corporate plan on revenue, expenditures and cost recovery ratio	Did not meet: Negative variance >4% Met: Variance +/- 4% Surpassed: Positive variance >4%
People Management	
Achieve overall employee satisfaction of 60% based on independently conducted survey.	Did not meet : < 55% Met: >55%-<65% Surpassed: >65%
Attend/hold staff meetings on vessels, and onshore.	Did not meet <4 meetings Met: 4 meetings Surpassed >4 meetings
Reduce number of medical aids by **10**%	Did not meet: reduced by < 8% Met: Reduced by 8%-12% Surpassed: Reduced >12%
Maintain LTA rate at **2**%	Did not meet: Rate increased to 2.5% Met: Rate between 1.5%-2.5% Surpassed: Reduced rate to <1.5%
Customer	
Achieve an overall internal customer satisfaction rate of 60% with xxx department Services (Survey to be completed internally by managers)	Did not meet <58% Met: 58%-62% Surpassed >62%
Achieve overall customer satisfaction of 50% completely satisfied based on independently conducted survey	Did not meet <48% Met: 48%-52% Surpassed >52%
Achieve xx % on-time performance relative to original schedule-excluding weather delays	Did not meet: <72% Met: 72%-77% Surpassed: >77%
Safety and Security	
Promote and ensure safe and secure operations through compliance with relevant regulatory requirements and quarterly reporting to the Board regarding plans, actions and results.	As assessed by the Board: Did not meet: Met: Surpassed: