

Continuation of Service Proposal

NORTHERN FERRY COMPANY, LLC.

Presented to:

The City of Mackinac Island

OCTOBER 4, 2010

UNION TERMINAL PIERS
Post Office Box 220
Mackinac Island, Michigan 499757
(906) 847-3351

Karen S. Lennard
City Clerk
City of Mackinac Island
City Hall
7358 Market Street
P.O. Box 455
Mackinac Island, Michigan 49757-0455

October 4, 2010

Dear Ms. Lennard:

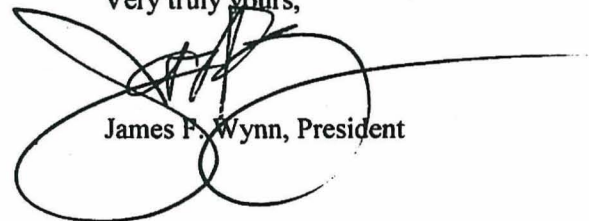
Pursuant to the request of the City of Mackinac Island as set forth in the September 26th, 2010 correspondence, I am pleased to present the following Continuation of Service Proposal on behalf of Northern Ferry Company, LLC.

In summary the following proposal should point out the following key items:

- 1) Arnold Transit Company and the Star Line have proposed to form a new ferry boat operating company (Northern Ferry Company) that would utilize the assets of both companies in a combined operation to provide both passenger and freight services to and from Mackinac Island.
- 2) Northern Ferry Company (NFC) will be able to provide better and more expanded service at greatly reduced rates. Current services will be expanded to accommodate later schedules, additional and more economic ferry crossings in a cost effective manner.
- 3) NFC proposes to provide unprecedented year round service to Mackinac Island subject to further City review and assurances of the continuation of year round air service to Mackinac Island.
- 4) NFC can provide its services to the City of Mackinac Island at no additional ongoing cost to the taxpayers of Mackinac Island.
- 5) The expanded and shifting of all ferry related services, utilizing the existing docks in a more effective manner, will lessen the passenger and freight congestion in the City Harbor and on the City streets.
- 6) This proposal also sets forth certain parcels of real estate currently owned by Union Terminal Piers that the City of Mackinac Island may desire to acquire along with an outline of a plan for such acquisition that would not impose any cost or expense to the taxpayers of Mackinac Island

Thank you for the opportunity to submit this proposal.

Very truly yours,



James F. Wynn, President

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Continuation of Service Proposal

Project communication documents

Project communication table

| Document | Recipients | Responsible Party | Update frequency |
|---------------------------------|-----------------|-------------------|------------------|
| Executive status report | All | | |
| Rates | Public Document | NFC | Annually |
| Schedule | Public Document | NFC | Annually |
| Exclusive Franchise | City and NFC | | |
| Sale and Use Agreement | City and UTP | | |
| Pier Purchase Finance Structure | City and UTP | | |

Team structure

Arnold Transit Co. – a wholly owned subsidiary of Union Terminal Piers, Inc. a Michigan corporation

Star Line Mackinac Island Ferry Service, Inc., a Michigan corporation

Northern Ferry Company, LLC., a Michigan limited liability company. – jointly owned by Haldimand Bay Company, LLC, the sole owner of Union Terminal Piers and Star Line Mackinac Island Ferry Service, Inc. and Mackinaw Lakeshore Development, Inc.¹

| Project team | | | |
|---|-------------------|------------------|-----------------------------------|
| Name of Organization | Specialty | Lead contact | roles |
| Ross, Sinclair & Associates, LLC. Cincinnati, Ohio | Municipal Finance | Steven F. Bracy | Financial Advisor and Underwriter |
| Closser Associates, Inc. Marquette, Michigan | Appraisal | Bruce Closser | Real Estate Appraiser |
| Law offices of Erik Stone, PC, Bloomfield Hills, Michigan | Transactions | Erik Stone | Legal framework |
| Kelley Cawthorne Lansing, Michigan | Advisory | Dennis Cawthorne | Policy Advisor |

¹ An affiliated company of Star Line, Mackinaw Lakeshore Development, Inc., operates the Mackinaw City to Mackinac Island ferry service and owns real estate in Mackinaw City.

Current Environment

In the six month long summer tourist season, Arnold Transit Company, Star Line and Shepler's Ferry (three different, privately owned operating companies) currently shuttle an estimate 800,000 visitors and Mackinac Island's permanent residents to and from the Island, St. Ignace, and Mackinaw City. In addition to the passenger business, Arnold Transit and Shepler's provide the Island with essential freight services. Of the three services, Arnold Transit is the only ferry service to provide off-season (ice-to-ice) continued passenger and freight service utilizing its superior vessels and Island docking facilities.

The three independent companies continually spend substantial advertising dollars to promote each company's brand as having faster and better services to the Island. In trying to back these claims of speed and service, each company "pushes down the throttle" burning more fuel and scheduling as many trips to and from the Island as possible. Each company operates as many ticket booths as possible situating them in front of one another as visitors approach the straits.

In addition to core ferry operations, all three companies maintain at a minimum three (nine total) passenger terminals / freight docks and five vessel and administrative offices, which require additional equipment and facilities to maintain these assets.

At last count, of the operable passenger vessels in the Straits, there are approximately 6,000 available "seats" in the ferry system. At any given time during the season, one can view nine (9) passenger vessels in the Straits and at peak times one may see eleven (11) vessels. The average capacity of each of these vessels approximates 375 persons. This represents a capacity of 3,375 utilizing nine vessels or 4,125 with eleven vessels. In fact, based on the current schedule of the three lines making over four thousand (4,000) round trips each, or twelve thousand (12,000) total during the tourist season, the average number of passengers per round trip is less than sixty (60) persons, an efficiency rate of about 16%.

The City has requested, in a letter dated September 26, 2010, that the current franchisees submit separate proposals addressing how they would approach providing: economies of scale to the current system; a more efficient economic model with respect to ferry capacity and cost optimization; and improving service performance for passenger and freight traffic. It is in the City's best interest to address the obvious economic and operational inefficiencies in the current system. This document addresses the City's goals and objectives. Northern Ferry Company, a jointly owned company of Arnold Transit Company and Star Line, respectfully submits for consideration its Service Continuation Proposal below.

Executive Status Report

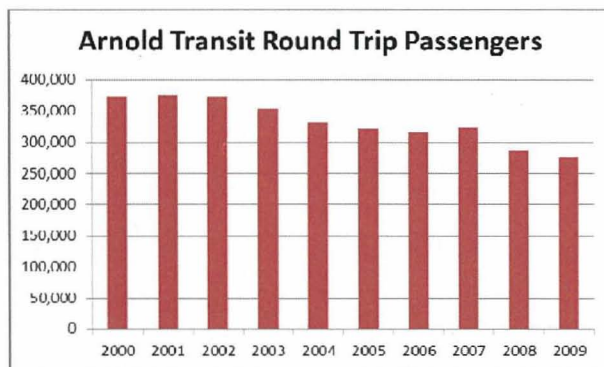
This Service Continuation Proposal is being made on behalf of Northern Ferry Company, a Michigan limited liability company. Northern Ferry Company ("NFC") is a new company jointly owned by Star Line Mackinac Island Ferry Service, Inc., a Michigan corporation ("Star") and Haldimand Bay Company, LLC, a Michigan limited liability company ("HBC") and the sole owner of Union Terminal Piers ("UTP"), parent company of Arnold Transit Company. Both Star and UTP would contribute in the form of leases to NFC the necessary assets required to operate the passenger and freight ferry boat system. This proposal is unique in that it requests an Exclusive Franchise from the City of Mackinac Island (the "City"). Pursuant to the City's recent request for submission of proposals for continued Franchise Rights this proposal includes, amongst other things, new rates and schedules.

In addition, NFC proposes to provide unprecedented year round service to the Mackinac Island subject to further City review and assurances of the continuation of year round air service to Mackinac Island.

UTP controls and owns certain central real estate assets on the Island that are integral for passenger and freight service. UTP proposes the sale of some of these assets to the City while maintaining the ability to use said assets from such sale at its sole cost and expense. A Sale and Use Agreement would be negotiated separately with the City which will reflect the commercial relationship of the parties and should be a significant point of consideration of this Proposal for an exclusive franchise from the City to NFC.

The operational combination of Arnold and Star offers the City a collective experience in ferry services of unprecedented scope. The two companies have been serving the Island together for over 100 years. Our goal is to continue to provide the City, its year round residents, business owners, visitors and vendors service that exceeds the status quo.

The economics of providing ferry service to the Island have become less efficient over the years. Declining passenger volumes coupled with rising operating costs have led to higher ticket prices for passengers [see graphic below].



The current ferry system utilizes multiple franchises which collectively operate approximately 141 trips per day in high season. This results in a highly inefficient use of resources. For example Arnold ferry boats with capacities of 350-600 passengers per trip have carried an average of only 58 passengers per trip this year.

2010 Passenger Utilization Rates

| Month | Trips | Passengers | Total Capacity | Utilization Rate |
|----------|-------|------------|----------------|------------------|
| January | 50 | 1,625 | 20,000 | 8.1% |
| February | - | - | - | 0.0% |
| March | 102 | 3,202 | 40,800 | 7.8% |
| April | 278 | 13,641 | 106,900 | 12.8% |
| May | 1,075 | 59,283 | 398,670 | 14.9% |
| June | 1,505 | 84,207 | 570,550 | 14.8% |
| July | 2,385 | 146,872 | 899,140 | 16.3% |
| August | 2,228 | 134,306 | 840,820 | 16.0% |
| YTD | 7,623 | 443,136 | 2,876,880 | 15.4% |

Through August of 2010, Arnold's passengers have accounted for only 15.4% of available capacity. Arnold is not alone in this regard, as all of the franchisees currently operating in the system experience similarly low utilization rates.

The entire fleet of the passenger ferry boat system has approximately 6,000 available passenger seats throughout the entire system at any one time. The table below shows estimated round trip passenger volume and ticket prices from 1981 to the present.

| YEAR | PASSENGERS | PUBLISHED RATE |
|------|------------|----------------|
| 1981 | 686,587 | \$5.00 |
| 1982 | 631,484 | \$5.50 |
| 1983 | 744,274 | \$5.75 |
| 1984 | 697,894 | \$6.25 |
| 1985 | 729,788 | \$6.50 |
| 1986 | 751,175 | \$7.25 |
| 1987 | 858,436 | \$7.75 |
| 1988 | 834,861 | \$8.50 |
| 1989 | 790,046 | \$9.00 |
| 1990 | 744,948 | \$9.50 |
| 1991 | 727,518 | \$10.00 |
| 1992 | 735,738 | \$11.00 |
| 1993 | 820,443 | \$11.00 |
| 1994 | 856,094 | \$11.50 |
| 1995 | 903,858 | \$11.50 |
| 1996 | 857,835 | \$12.00 |
| 1997 | 870,225 | \$12.50 |
| 1998 | 954,025 | \$13.00 |
| 1999 | 970,994 | \$13.50 |
| 2000 | 890,793 | \$14.50 |
| 2001 | 906,264 | \$15.50 |
| 2002 | 888,371 | \$16.00 |
| 2003 | 881,951 | \$16.50 |
| 2004 | 873,797 | \$17.00 |
| 2005 | 830,115 | \$19.00 |
| 2006 | 800,624 | \$20.00 |
| 2007 | 850,104 | \$21.00 |
| 2008 | 780,319 | \$25.00 |

An exclusive franchise will allow NFC to operate the service more effectively by providing economies of scale. The elimination of excess capacity will not only result in higher passenger utilization rates, but it will also enable the system to reduce the excess cost associated with fuel and overhead. This combination will provide rate reductions and streamlined schedules to deliver consistent and highly efficient service for both passengers and freight.

Efficiencies in Fuel Use.

Annual estimated diesel fuel consumption of the current system for both passenger and freight services is nearly 1,000,000 gallons. Much of this consumption is in the form of required transportation costs, a portion is due to inefficient speed, and the balance is due to duplicative scheduling.

As an example, during the month of August 2010, one of Arnold Transit's Catamarans ferried 29,000 passengers round trip across the Straits at an average of 71 passengers per trip. The total fuel used for this catamaran during the month was approximately 34,000 gallons, which is more than one gallon per passenger.

With an average capacity of 375 passengers, this same vessel, under a more efficient schedule, could have transported all of the ferry system's passengers for that route, assumed to be 87,000 or an average of 213 passengers per trip. The additional passengers per trip would have not

required any additional fuel consumption and the fuel used would have been less than one half gallon per passenger.

The scenario above is for only one ferry boat in the system. It is estimated that during the same period in August between nine (9) and eleven (11) ferries were running simultaneously. At current fuel pricing, this relates to about \$1.50 per passenger in fuel cost alone associated with a round trip ferry ticket.

Northern Ferry Company's proposed operation of the Arnold Catamarans and Star Hydro-Jet vessels at a performance rate that is optimally derived and with more realistic scheduling as outlined below, is estimated to reduce the fuel usage in the system by significantly more than half. The environmental benefits to the proposed Northern Ferry Company approach equates to fewer pollutants, less noise and less congestion in Mackinac Island Harbor and the Mackinac Straits.

Northern Ferry Company

Northern Ferry Company Fleet

| Passenger Vessel Name | Capacity |
|------------------------|--------------|
| STRAITS EXPRESS | 400 |
| MACKINAC EXPRESS | 350 |
| ISLAND EXPRESS | 380 |
| ALGOMAH II | 600 |
| CHIPPEWA | 600 |
| OTTAWA | 600 |
| HURON | 400 |
| STRAITS OF MACKINAC II | 525 |
| MARQUETTE II | 330 |
| RADISSON | 350 |
| LASALLE | 150 |
| JOLIET | 150 |
| CADILLAC | 150 |
| TOTAL | 4,985 |
| | |
| Freight Vessel Name | |
| CORSAIR | |
| BEAVER | |
| MACKINAC ISLANDER | |

Northern Ferry Company Docks

| DOCK DESCRIPTION | Location |
|------------------|-----------------|
| MAIN DOCK | Mackinac Island |
| RYBA DOCK | Mackinac Island |
| COAL DOCK | Mackinac Island |
| EAST DOCK | Mackinac Island |
| | |
| ATC MAIN DOCK | Mackinaw City |
| STAR MAIN DOCK | Mackinaw City |
| HUMBARD DOCK | Mackinaw City |
| STATE DOCK | Mackinaw City |
| | |
| DOCK #1 | St. Ignace |
| STAR MAIN DOCK | St. Ignace |
| RAILROAD DOCK | St. Ignace |
| FAVORITE DOCK | St. Ignace |
| DOCK #3 | St. Ignace |
| MILLSLIP | St. Ignace |
| | |

Northern Ferry Wharfs and Dockage – Mackinac Island



Northern Ferry Wharfs and Dockage – Mackinaw City



Northern Ferry Wharfs and Dockage – St. Ignace



Exclusive Franchise

NFC respectfully requests an exclusive franchise to serve the City. Our proposal is based on a twenty (20) year exclusive term. The goals and commercial interests of NFC and the City should be aligned in the necessary agreements as discussed herein. The goals of NFC are to provide the best and most efficient service to the Island. Our belief is that the City's goal is to serve its constituents and visitors with a highly efficient and cost effective method of transit to and from the Island. Pursuant to the City's ordinance, as discussed below, the Ferry Company is by definition a public utility, regulated by the City for the use of its citizens and visitors.

City of Mackinac Island Charter - Ferry Boat Code - Public Utility.

In 1899, the Michigan Legislature enacted the Mackinac Island City Charter which vacated the Township of Holmes and the Village of Mackinac Island and created the City of Mackinac Island. The 1899 Charter gave considerable powers to the newly created City of Mackinac Island. In particular, Chapter XV of the Charter gave the City of Mackinac Island the power to regulate the Harbor along with all wharves and dockage in the Harbor. Chapter XVI gave the City of Mackinac Island the power to regulate any ferry company coming to Mackinac Island.

In the summer of 1977, in exercising its powers under the 1899 Charter, the City of Mackinac Island adopted the Ferry Boat Code, which established a franchise required of all ferry boat companies transporting passengers and freight to and from Mackinac Island. The existing ferry boat companies challenged the City of Mackinac Island's power to establish the Ferry Boat Code and their litigation was unsuccessful at each level of the Michigan judicial system through the Michigan Supreme Court. The issue was also sent before the United States Supreme Court and all courts affirmed the City of Mackinac Island's power to enact the Ferry Boat Code to regulate the ferry companies and establish the requirement of a franchise.

Section 66-497 of the Ferry Boat Code states, in pertinent part that:

"Any franchise granted under this division is made subject to all applicable provisions of the Charter of the city and ordinances thereof, ... and such ferry boat company shall abide by and be bound by such rights, powers and limitations, and any franchise granted under this division constitutes and shall be considered as a public utility franchise and a ferry boat company shall be deemed to be a public utility."

A Public Utility is generically defined as an enterprise that provides essential services (a service that is furnished as an everyday necessity to the public at large) to a community or municipality. Public Utilities are considered natural monopolies since the capital cost for such enterprises and the existence of competing or parallel services would be inordinately expensive and wasteful. Since Public Utilities are natural monopolies, they always operate under close regulation of the municipality or community the Public Utility serves.

Since the adoption of the Ferry Boat Code and the imposition of ferry franchises, there has not been any real competition amongst the three ferry boat companies serving Mackinac Island. The consistently published passenger fares have artificially held the passenger rate high in order to fund parallel services and superfluous capacity making the system inordinately expensive and wasteful.

Northern Ferry Company submits this Service Continuation Proposal for consideration by the City of Mackinac Island that cures the defects of the current system wherein the Public Utility is operated efficiently supplying Mackinac Island with the essential service of public transportation in a cost effective manner enabling the system to provide greater services to the Island.

Property Offered for Sale

Union Terminal Piers, Inc.², the owner of the real estate assets of Arnold Transit Company, desires to commence negotiations with the City of Mackinac Island for the sale and purchase of certain critical real property assets currently being used in the ferry boat system. A Sale and Use Agreement would be negotiated with the City which will reflect the commercial relationship of the parties wherein the City would own the real property assets in fee and Union Terminal Piers would receive a Use Agreement for UTP's continued use of those real estate assets.

As a commencement point, the following generically described properties may be the subject of such negotiations:

| 2009 CONDENSED FERRY RELATED PROPERTY LISTING | | | | | | | | | |
|---|--------|-------------------------|-----------------------|--|---------------------------|-------------|----------------|--------------|--|
| Owner | Ref. # | Authority | Parcel ID | Primary Usage | Street Address | 2009 S.E.V. | 2009 TAX VALUE | Appraiser | |
| Straits Transit | 1-1580 | Mackinaw Township | 16-012-M06-002-016-00 | Outlot A Ticket Ctr & Rest Rooms | Outlot A-Huron Ave | 100,000 | 100,000 | Gotshall | |
| Straits Transit | 1-1550 | Mackinaw Township | 16-012-M06-002-001-00 | Arnold Dock parking - Office Bldg | 801 S Huron Ave | 341,000 | 306,936 | Gotshall | |
| Straits Transit | 1-1560 | Mackinaw Township | 16-012-M06-002-003-00 | Arnold Dock parking- Pavilion | 807 S Huron Ave | 132,600 | 70,040 | Gotshall | |
| Union Terminal Piers | 1-1230 | City of St. Ignace | 49-052-006-046-00 | Ticket Booth w/rest rooms & Bill Board | Fish Market @ 175 BusLoop | 74,000 | 67,884 | Interpolated | |
| Union Terminal Piers | 1-1240 | City of St. Ignace | 49-052-011-019-00 | Parking | Fitch @State | 31,000 | 24,014 | Interpolated | |
| Union Terminal Piers | 1-1250 | City of St. Ignace | 49-052-012-001-00 | Parking with Ticket booth | Fitch @State | 68,000 | 54,455 | Interpolated | |
| Union Terminal Piers | 1-1260 | City of St. Ignace | 49-052-012-002-00 | Parking | Fitch @State | 1,700 | 886 | Interpolated | |
| Union Terminal Piers | 1-1350 | City of St. Ignace | 49-052-180-077-00 | Millsip Proper w/ shed having power and Boat Lift | | 120,000 | 60,529 | Closser | |
| Union Terminal Piers | 1-1360 | City of St. Ignace | 49-052-180-081-00 | Mill Slip Boat Storage and Parking | | 541,400 | 254,545 | Closser | |
| Union Terminal Piers | 1-1370 | City of St. Ignace | 49-052-180-082-00 | Mill Slip Welding Shop w/ Boat Storage and Parking | | 140,100 | 64,004 | Closser | |
| Union Terminal Piers | 1-1400 | City of St. Ignace | 49-052-200-010-00 | Lot near "Favorite Dock" | | 60,700 | 50,219 | Closser | |
| Union Terminal Piers | 1-1410 | City of St. Ignace | 49-052-200-011-00 | Lot near "Favorite Dock" | | 38,200 | 33,324 | Closser | |
| Union Terminal Piers | 1-1420 | City of St. Ignace | 49-052-200-012-00 | Lot near "Favorite Dock" | | 31,300 | 26,745 | Closser | |
| Union Terminal Piers | 1-1430 | City of St. Ignace | 49-052-200-013-00 | Favorite Dock | | 120,700 | 106,902 | Closser | |
| Union Terminal Piers | 1-1440 | City of St. Ignace | 49-052-220-004-00 | Dock 1 - Parking Area | | 64,900 | 36,344 | Interpolated | |
| Union Terminal Piers | 1-1450 | City of St. Ignace | 49-052-220-005-00 | Dock 1 - Parking Area | | 67,500 | 42,596 | Interpolated | |
| Union Terminal Piers | 1-1460 | City of St. Ignace | 49-052-220-011-00 | Dock 1, Main Dock w/ office building | | 607,000 | 576,282 | Closser | |
| Union Terminal Piers | 1-1540 | Mackinaw Township | 16-012-018-300-012-00 | Bill Board - Unimproved Land (Bob Derrick Prop) | 825 S Nicolet St | 276,300 | 276,300 | Gotshall | |
| Union Terminal Piers | 1-1570 | Mackinaw Township | 16-012-M06-002-004-00 | Arnold Dock parking | 811 S Huron Ave | 145,000 | 107,195 | Gotshall | |
| Union Terminal Piers | 1-8031 | City of Mackinac Island | 49-051-440-012-00 | Arnold Main Dock | 7271 Main Street | 828,850 | 750,965 | Closser | |
| Union Terminal Piers | 1-4010 | City of Mackinac Island | 49-051-440-015-00 | Structures on Arnold Main Dock 051-440-012-00 | Main Street | 17,200 | 15,269 | Interpolated | |
| Union Terminal Piers | 1-8032 | City of Mackinac Island | 49-051-440-019-00 | Coal Dock-No Lease w/ DNR; Maintenance Shop | Main Street | 675,700 | 548,394 | Closser | |
| Union Terminal Piers | 1-1730 | City of Mackinac Island | 49-051-550-047-00 | Arnold Dock Upland | 7271 Main Street | 941,350 | 291,532 | Stakoe | |
| Union Terminal Piers | 1-1742 | City of Mackinac Island | 49-051-550-051-20 | Fuel Shed & Tanks-Astor St. Extension/Dock | Main Street | 342,200 | 64,985 | Stakoe | |
| Union Terminal Piers | 1-1720 | City of Mackinac Island | 49-051-550-046-00 | Arnold Dock Upland | 7255 & 7263 Main Street | 591,650 | 265,091 | Stakoe | |
| Union Terminal Piers | 1-1740 | City of Mackinac Island | 49-051-550-051-00 | Coal Dock Upland | 7331 & 7325 Main Street | 530,250 | 196,658 | Stakoe | |
| Union Terminal Piers | 1-1620 | Mackinaw Township | 16-012-W10-007-014-00 | Vacant Area-Land Locked-Adj Dry Dock Lake | | 33,800 | 7,975 | Assume 2xSEV | |
| Union Terminal Piers | 1-1640 | Mackinaw Township | 16-012-W10-009-031-00 | Vacant Area-Dry Dock Lake | | 22,500 | 6,590 | Assume 2xSEV | |
| McGregor Oil | 1-1110 | City of St. Ignace | 49-052-220-001-00 | Arnold Parking - Dock 1 | Trans - UTP | 51,300 | 31,216 | | |
| McGregor Oil | 1-1120 | City of St. Ignace | 49-052-220-002-00 | Arnold Parking - Dock 1 | Trans - UTP | 17,200 | 10,595 | | |
| McGregor Oil | 1-1130 | City of St. Ignace | 49-052-220-003-00 | Arnold Parking - Dock 1 | Trans - UTP | 119,900 | 73,900 | | |

² Union Terminal Piers is the parent company of Straits Transit and McGregor Oil Company

Public Finance Structure for Asset Purchase

It is expected that the City will sell revenue debt secured by franchise fee revenues only. No tax is proposed or contemplated on City property owners with respect to this proposal. Sale of revenue debt is a commonly used method for municipalities to raise necessary project capital for asset purchases. This type of debt does not encumber the tax base or the full faith and credit of the municipality. Revenue debt credit is analyzed on the basis of the security and history of the revenue collected. In the case of the City's franchise fee, a 30 year history of collection is available for analysis. Further, the strength of the revenue stream will be bolstered by elements of the proposed Franchise Agreement including provisions of exclusivity, and the City's ability to regulate rates.

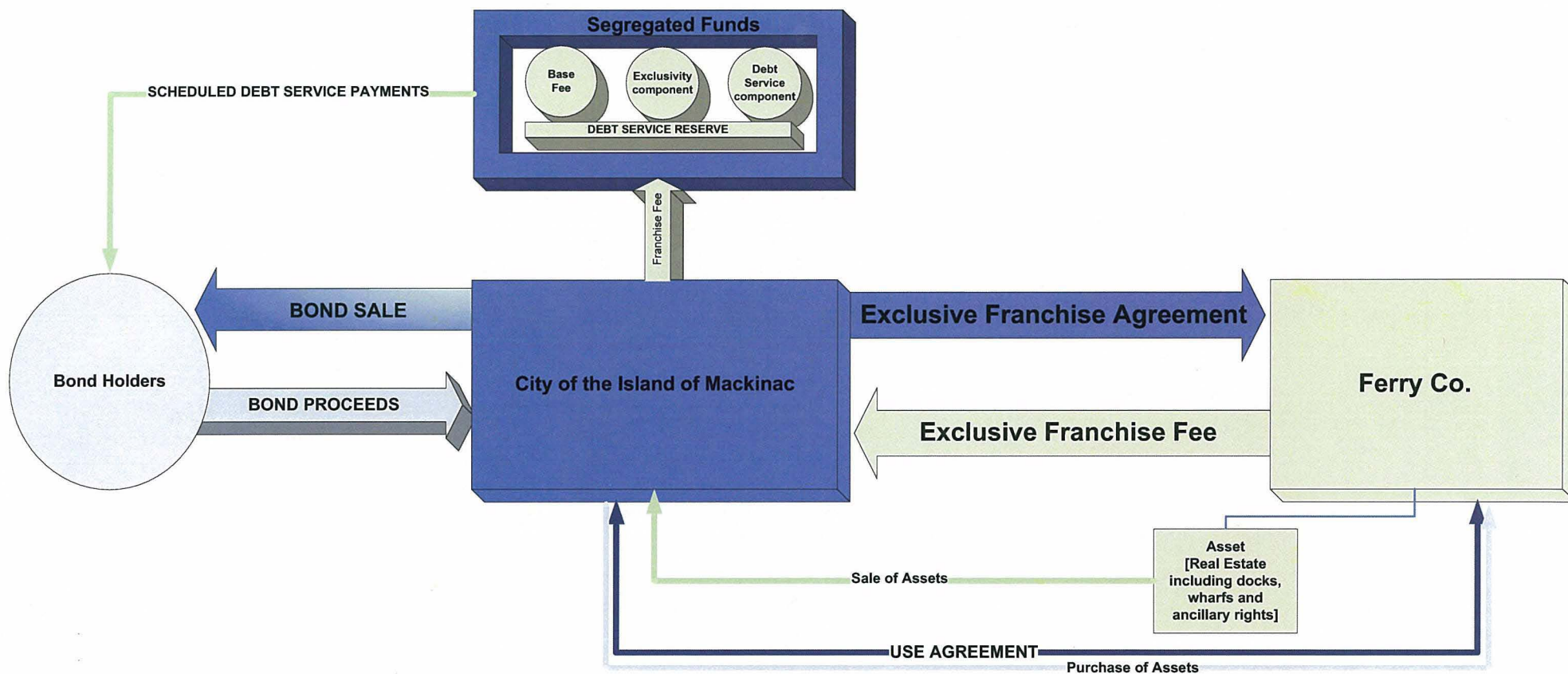
The security for the proposed sale of debt is based on the current system of franchise allocation for ferry service to the Island and collection of franchise fee by the City. In order to provide bond holders sufficient security, the franchise fee should be viewed in three components. 1. The Base fee, made up of current collection levels, 2. A Premium component, made up of a to-be-determined franchise premium based on exclusivity, and 3. A Debt component made up of required debt service for the Project.

A significant raise in Franchise Fee rates from the current 2.00% to 2.50% is expected. The Franchise Fee should be increased to a minimum of 8% and may be as high as 18% to enable the City to execute on the proposed purchase of property while satisfying potential creditors (bond holders). It is understood by NFC that these increases must be borne within the current rate structure and this has been calculated in NFC's proposed rates for the 2011 season as included below.

It is expected that Bonds will be sold to the public in a public offering. It is further desired that such Bonds be issued on a tax-exempt basis provided that certain criteria can be met such as determining the process for any potential rate increase while the Bonds are outstanding, among other things. Should federal tax-exempt status for the proposed bond issue be unachievable, the cost of the issue will be higher, but the transaction will remain practicable.

Monies due from the payment of franchise fees will be in a segregated account or fund of the City and will be restricted as to their use beyond the payment of the obligation created by the financing and establishment of a reserve fund.

A simple representation of flow of funds is presented on the next page.



Freight Rates

SELECTED FREIGHT RATES AS OF JUNE 16, 2008

| FREIGHT | CASE OR ITEM | PER/ 100 LBS |
|---|------------------------------|-----------------|
| FOOD - ALL FOODSTUFF UNLESS LISTED SEPARATELY BELOW..... | | 5.83 |
| BEVERAGES, POP, BEER | 4.29 | |
| LIQUOR, WINE | 7.04 | |
| MILK | .40/GAL | |
| BUILDING SUPPLIES..... | Below 5000 lbs/shipment..... | 5.61 |
| | Above 5000 lbs/shipment..... | 3.37 |
| INCLUDING LUMBER, PLYWOOD, CHIPBOARD, GYPSUM, PANNELING, ROOFING, SHINGLES, DOORS, FLOOR TILE, CEILING TILE, INSULATION, COPPER PIPE, PLUMBING SUPPLIES, ELECTRICAL SUPPLIES, WIRE AND ANY OTHER BUILDING SUPPLY UNLESS LISTED BELOW. | | |
| CEMENT BAGS..... | 4.15 | |
| GLASS..... | 6.12 | |
| TOOLS, CARPENTRY EQUIP. SUPPLIES..... | 5.72 | |
| PAINT..... | 6.17 | |
| PALLET OF CEMENT, DIRT, ETC | | 63.95 |
| HOUSEHOLD GOODS..... | | 7.04 |
| INCLUDING FURNITURE, APPLIANCES, CARPETING, VACUUMS, RUG CLEANING EQUIPMENT, LAWN MOWERS, TOILETS, MATTRESSES, ETC. | | |
| OTHER SELECTED ITEMS NOT INCLUDED IN ANY OF THE ABOVE CATEGORIES | | |
| ANTI-FREEZE | 55 GALLON DRUM | 9.50 |
| | | 4.38 |
| ALUMINUM CAN RETURNS..... | PER BAG | 2.09 |
| ALUMINUM BOATS & TRAILERS..... | | 15.15 |
| AUTOMOBILES..... | EACH | 40.30 |
| BARRELS, DRUMS..... | | 9.50 |
| BANDS..... | ROUND TRIP | 31.90 |
| CEMETARY VAULTS & GRAVE MARKERS..... | | 5.72 |
| CLEANING SUPPLIES..... | | 5.61 |
| CO 2..... | | 7.04 |
| CHLORIDE..... | A FACE | 12.34 |
| CYLINDERS PROPANE TANKS #200..... | | 4.38 |
| CARRIAGES..... | 1 SEATER | 22.55 |
| | 2 SEATER | 28.05 |
| | 3 SEATER | 33.55 |
| FEED, HAY, OATS, STRAW..... | UNDER 20,000 lbs. | 4.13 |
| | OVER 20,000 lbs. | 3.30 |
| GOLF CARTS..... | EACH | 26.93 |
| HARNESSES..... | | 7.04 |
| HORSESHOES..... | | 4.27 |
| LAUNDRY, LAUNDRY BAGS..... | | 7.24 |
| LIVE STOCK, HORSES, PONIE: | EACH | 24.20 |
| | FIVE OR MORE | 21.45 |
| OUTBOARD MOTORS..... | | 6.12 |
| PEAT MOSS..... | | 4.25 |
| POWER DRIVEN MOWERS, SNOWMOBILES..... | | |
| | ONE WAY | 13.20 |
| | SLEIGH | 6.60 |
| PRINTED MATTER ADVERTISING..... | | 7.04 |
| SEPTIC TANKS..... | | 16.16 |
| TANK WAGONS..... | 3500 LBS EACH | 30.25 |
| TRAILER..... | 2 WHEEL EACH | 15.13 |
| | 4 WHEEL EACH | 31.35 |
| TRANSFORMER..... | | 5.72 |
| TREES, SHRUBS, BUSHES, SOD, FLOWERS..... | | 5.72 |
| MINIMUM CHARGE | | |
| | (0 - 64 lbs) | 3.75 |
| | (65-100lbs) | 7.00 |

| FREIGHT | CASE OR ITEM | PER/ 100 LBS |
|---------------------------------------|-------------------|-----------------|
| CHLORIDE..... | | 5.16 |
| CLOTHING..... | | 7.04 |
| CO 2..... | | 7.04 |
| CORDWOOD..... | A FACE | 12.34 |
| CYLINDERS PROPANE TANKS #200..... | | 4.38 |
| CARRIAGES..... | 1 SEATER | 22.55 |
| | 2 SEATER | 28.05 |
| | 3 SEATER | 33.55 |
| FEED, HAY, OATS, STRAW..... | UNDER 20,000 lbs. | 4.13 |
| | OVER 20,000 lbs. | 3.30 |
| GOLF CARTS..... | EACH | 27.00 |
| HARNESSES..... | | 7.04 |
| HORSESHOES..... | | 4.27 |
| LAUNDRY, LAUNDRY BAGS..... | | 7.24 |
| LIVE STOCK, HORSES, PONIES.. | EACH | 24.20 |
| | FIVE OR MORE | 21.45 |
| OUTBOARD MOTORS..... | | 6.12 |
| PEAT MOSS..... | | 4.25 |
| POWER DRIVEN MOWERS, SNOWMOBILES..... | | |
| | ONE WAY | 13.20 |
| | SLEIGH | 6.60 |
| PRINTED MATTER ADVERTISING..... | | 7.04 |
| SEPTIC TANKS..... | | 16.16 |
| TANK WAGONS..... | 3500 LBS | 30.25 |
| TRAILER..... | 2 WHEEL | 15.13 |
| | 4 WHEEL | 31.35 |
| TRANSFORMER..... | | 5.72 |
| TREES, SHRUBS, BUSHES, SOD, FLOWER: | | 5.72 |
| MINIMUM CHARGE | | |
| | (0 - 64 lbs) | 3.75 |
| | (65-100lbs) | 7.00 |

Passenger Rates

NORTHERN FERRY COMPANY

Proposed Rate Structure

RATE JUNE 1 TO SEPTEMBER 17

| TYPE OF TICKET | | | | |
|--|---------------------------|-------------------------|---------|-----------------------------|
| | 2010 | New 2011 Proposed Rates | | |
| | Current Rate | Rate | Fare | Fuel-Surcharge ³ |
| ADULT ROUND TRIP | \$24.00 | \$22.00 | \$20.50 | \$1.50 |
| ADULT ROUND TRIP DISCOUNT (AAA, etc.) | \$22.00 | \$19.50 | \$18.00 | \$1.50 |
| ADULT ROUND TRIP GROUP (20 or more) | \$16.00 | \$18.00 | \$16.50 | \$1.50 |
| ADULT NON-PROFIT / MILITARY | \$20.00 | \$15.00 | \$13.50 | \$1.50 |
| ADULT ONE WAY | \$14.00 | \$13.50 | \$12.75 | \$0.75 |
| CHILD ROUND TRIP | \$12.00 | \$13.50 | \$12.75 | \$0.75 |
| CHILD DISCOUNT (AAA, etc) | \$10.00 | \$12.75 | \$12.00 | \$0.75 |
| CHILD ONE WAY | \$8.00 | \$8.00 | \$7.25 | \$0.75 |
| SCHOOLS | \$16.00 | \$12.00 | \$11.25 | \$0.75 |
| CHILDREN UNDER 5 YEARS OLD | FREE | FREE | | |
| COMMUTERS | \$8.00 | \$8.00 | \$6.50 | \$1.50 |
| ISLAND RESIDENT-FLAT RATE (\$100.00 ADULTS) (\$50.00 RESIDENT CHILDREN 5-12 years old) | NO RESIDENTIAL RATE | | | |
| BIKES | \$8.00 | \$8.00 ⁴ | | |

NORTHERN FERRY COMPANY

Proposed Rate Structure

RATE JUNE 13 TO SEPTEMBER 17

ST. IGNACE ONLY -

CLASSIC FERRY ONLY

| TYPE OF TICKET | | | | |
|---|------|---------|---------|-----------------|
| | 2011 | | | |
| | | Rate | Fare | Fuel-Surcharge* |
| ROUND TRIP TICKET ONLY ST. IGNACE-CLASSIC FERRY 9:30AM 11:30AM 4:30PM | | \$16.00 | \$14.50 | \$1.50 |

³ Fuel Surcharge is based on \$2.00 per gallon delivered price for the Adult Round Trip. Consideration is given for one-way tickets and Children. For every \$0.25 increase in fuel price over the base price sustained for any 4 week period, a \$0.50 increase in Fuel Surcharge may be invoked by NFC. The fuel price as of October 1 was \$2.90 and has been incorporated in the above schedule.

⁴ The \$0.50 bike fee to City would remain. The Mackinac Island State Park bike fee would be increased from \$0.50 to \$1.00.

Schedule

| Mackinaw City / Mackinac Island 2011 Schedule | | | | | St. Ignace / Mackinac Island 2011 Schedule | | | | |
|---|------------|---|-------------|------------|---|------------|---|-------------|-----------|
| May 2 through May 12 | | | | | May 2 through May 12 | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | 12:30 p.m. | | 8:00 a.m. | 1:00 p.m. | 7:30 a.m. | 12:30 p.m. | | 8:00 a.m. | 1:00 p.m. |
| 8:30 a.m. | 2:30 p.m. | | 9:00 a.m. | 3:00 p.m. | 8:30 a.m. | 2:30 p.m. | | 9:00 a.m. | 3:00 p.m. |
| 10:30 a.m. | 4:30 p.m. | | 11:00 a.m. | 5:00 p.m. | 10:30 a.m. | 4:30 p.m. | | 11:00 a.m. | 5:00 p.m. |
| May 13 through June 24 | | | | | May 13 through June 24 | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. | 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. |
| 8:30 a.m. | 3:30 p.m. | | 9:00 a.m. | 4:00 p.m. | 8:30 a.m. | 3:30 p.m. | | 9:00 a.m. | 4:00 p.m. |
| 9:30 a.m. | 4:30 p.m. | | 10:00 a.m. | 5:00 p.m. | 9:30 a.m. | 4:30 p.m. | | 10:00 a.m. | 5:00 p.m. |
| 10:30 a.m. | 5:30 p.m. | | 11:00 a.m. | 6:00 p.m. | 10:30 a.m. | 5:30 p.m. | | 11:00 a.m. | 6:00 p.m. |
| 11:30 a.m. | 6:30 p.m. | * | 12:00 NOON | 7:00 p.m. | 11:30 a.m. | 6:30 p.m. | * | 12:00 NOON | 7:00 p.m. |
| 12:30 p.m. | 7:30 p.m. | * | 1:00 p.m. | 8:00 p.m. | 12:30 p.m. | 7:30 p.m. | * | 1:00 p.m. | 8:00 p.m. |
| 1:30 p.m. | | | 2:00 p.m. | | | | | | |
| * Late Night Service - All Fridays and Saturdays | | | | | * Late Night Service - All Fridays and Saturdays | | | | |
| June 25 through Labor Day | | | | | June 25 through Labor Day | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. | 7:30 a.m. | 1:30 p.m. | | 8:00 a.m. | 4:00 p.m. |
| 8:30 a.m. | 3:00 p.m. | | 9:00 a.m. | 3:30 p.m. | 8:30 a.m. | 2:30 p.m. | | 9:00 a.m. | 4:30 p.m. |
| 9:00 a.m. | 3:30 p.m. | | 9:30 a.m. | 4:00 p.m. | 9:00 a.m. | 3:30 p.m. | | 10:00 a.m. | 5:00 p.m. |
| 9:30 a.m. | 4:00 p.m. | | 10:00 a.m. | 4:30 p.m. | 9:30 a.m. | 4:30 p.m. | | 11:00 a.m. | 5:30 p.m. |
| 10:00 a.m. | 4:30 p.m. | | 10:30 a.m. | 5:00 p.m. | 10:00 a.m. | 5:30 p.m. | | 12:00 NOON | 6:00 p.m. |
| 10:30 a.m. | 5:00 p.m. | | 11:00 a.m. | 5:30 p.m. | 10:30 a.m. | 6:30 p.m. | | 1:00 p.m. | 7:00 p.m. |
| 11:00 a.m. | 5:30 p.m. | | 11:30 a.m. | 6:00 p.m. | 11:00 a.m. | 7:30 p.m. | | 2:00 p.m. | 8:00 p.m. |
| 11:30 a.m. | 6:00 p.m. | | 12:00 NOON | 6:30 p.m. | 11:30 a.m. | 8:30 p.m. | | 3:00 p.m. | 9:00 p.m. |
| 12:00 NOON | 6:30 p.m. | | 12:30 p.m. | 7:00 p.m. | 12:30 p.m. | | | 3:30 p.m. | |
| 12:30 p.m. | 7:30 p.m. | | 1:00 p.m. | 8:00 p.m. | | | | | |
| 1:00 p.m. | 8:30 p.m. | | 1:30 p.m. | 9:00 p.m. | | | | | |
| 1:30 p.m. | 9:30 p.m. | | 2:00 p.m. | 10:00 p.m. | | | | | |
| 2:00 p.m. | 10:30 p.m. | | 2:30 p.m. | 11:00 p.m. | | | | | |
| Day after Labor Day through October 2 | | | | | Day after Labor Day through October 2 | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. | 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. |
| 8:30 a.m. | 3:30 p.m. | | 9:00 a.m. | 4:00 p.m. | 8:30 a.m. | 3:30 p.m. | | 9:00 a.m. | 4:00 p.m. |
| 9:30 a.m. | 4:30 p.m. | | 10:00 a.m. | 5:00 p.m. | 9:30 a.m. | 4:30 p.m. | | 10:00 a.m. | 5:00 p.m. |
| 10:30 a.m. | 5:30 p.m. | | 11:00 a.m. | 6:00 p.m. | 10:30 a.m. | 5:30 p.m. | | 11:00 a.m. | 6:00 p.m. |
| 11:30 a.m. | 6:30 p.m.* | | 12:00 NOON | 7:00 p.m. | 11:30 a.m. | 6:30 p.m.* | | 12:00 NOON | 7:00 p.m. |
| 12:30 p.m. | 7:30 p.m.* | | 1:00 p.m. | 8:00 p.m. | 12:30 p.m. | 7:30 p.m.* | | 1:00 p.m. | 8:00 p.m. |
| 1:30 p.m. | | | 2:00 p.m. | | 1:30 p.m. | | | 2:00 p.m. | |
| * Late Night Service - All Fridays and Saturdays | | | | | * Late Night Service - All Fridays and Saturdays | | | | |
| October 3 through October 31 | | | | | October 3 through October 31 | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. | 7:30 a.m. | 2:30 p.m. | | 8:00 a.m. | 3:00 p.m. |
| 8:30 a.m. | 4:30 p.m. | | 9:00 a.m. | 5:00 p.m. | 8:30 a.m. | 4:30 p.m. | | 9:00 a.m. | 5:00 p.m. |
| 10:30 a.m. | 5:30 p.m.* | | 11:00 a.m. | 6:00 p.m. | 10:30 a.m. | 5:30 p.m.* | | 11:00 a.m. | 6:00 p.m. |
| 12:30 p.m. | | | 1:00 p.m. | | 12:30 p.m. | | | 1:00 p.m. | |
| * Late Night Service - Fridays only. Schedule subject to change without notice | | | | | * Late Night Service - Fridays only. Schedule subject to change without notice | | | | |
| November 1 through May 2—MONDAY-WEDNESDAY-FRIDAY | | | | | November 1 through May 2—MONDAY-WEDNESDAY-FRIDAY | | | | |
| TO ISLAND | | | FROM ISLAND | | TO ISLAND | | | FROM ISLAND | |
| 7:30 a.m. | | | 9:00 a.m. | | 7:30 a.m. | | | 9:00 a.m. | |
| 11:30 a.m. | | | 1:00 p.m. | | 11:30 a.m. | | | 1:00 p.m. | |
| 2:30 p.m. | | | 4:30 p.m. | | 2:30 p.m. | | | 4:30 p.m. | |
| Schedule subject to change without notice | | | | | Schedule subject to change without notice | | | | |