2011-12

Marine Atlantic Annual Report

Marine Atlantic
Marine Atlantique

Canada

highlights for 2011-12

Passengers	365,786
Passenger vehicles	128,014
Commercial vehicles	103,253
Employees (peak employment)	1,389
Employees (full-time equivalent)	1,122
On time performance (excluding weather delays)	84%

FERRY ROUTES
TO THE ISLAND OF
NEWFOUNDLAND

2011-12 Marine Atlantic Annual Report

TABLE OF CONTENTS

02 Highlights for 2011-12

04 Message from the Chair

05 Message from the President and CEO

06 Who is Marine Atlantic?

10 Year in Review

22 Looking Forward

24 Corporate Social Responsibility

28 Financial Overview

36 The Board and Management Working Together

42 Financial Statements

HEAD OFFICE 10 Fort William Place, Suite 302 | St. John's, NL | A1C 1K4

MESSAGE FROM THE CHAIR

The 2011-12 fiscal year marked a period of significant transformation and renewal for Marine Atlantic. The Corporation implemented changes across the organization, with all divisions making significant contributions to revitalization. Our customers, along with our stakeholders and the community, witnessed these changes in a tangible and positive way via increased capacity and improved reliability.

In early 2011, our Corporation – alongside the Prime Minister, the Premier of Newfoundland and Labrador, federal and provincial cabinet ministers, other dignitaries, our employees, shareholders and the community – proudly welcomed two modern vessels to our fleet. Those two sister ships, MV *Blue Puttees* and MV *Highlanders*, coupled with the MV *Atlantic Vision* and MV *Leif Ericson*, comprise our modern and efficient fleet of ice-class vessels that are proving to be extremely suitable for our service.

But the year of transformation did not stop at fleet renewal; it permeated all aspects of our Corporation. Over the past year, we began the process of renewing everything from safety and security to emergency response, procurement to information technology, and infrastructure to maintenance – much of which is detailed throughout this Annual Report.

To date we have seen significant improvements in our service. During our peak summer season in 2011, our vessels sailed on schedule 91 per cent of the time, including delays caused by weather, compared to 59 per cent in 2010 and just 43 per cent in 2009. Investment in the Corporation and our commitment to revitalization will continue in the coming years. Already, significant efforts are underway to renew shore-based infrastructure, including our terminals, docks, parking lots, properties and business practices in general.

The changes we've successfully implemented, and those we are currently working towards, all contribute to increased efficiency and effectiveness of the Corporation. This translates into a high quality and efficient ferry service. In 2011-12, we also saw significant change at the leadership level of our Corporation. In December, after three years of leadership, our former President and CEO Wayne Follett retired. Marine Atlantic achieved great improvements and milestones under Wayne's guidance and we are thankful for his dedication to transforming our Corporation.

Paul Griffin was appointed interim President and CEO in December 2011 and subsequently appointed President and CEO in May 2012. His extensive leadership experience and knowledge of Marine Atlantic are invaluable as he provides leadership and strategy in moving forward with our ambitious agenda.

The Board of Directors will continue to work very closely with Marine Atlantic's Management Team to oversee the successful implementation of renewal within the Corporation and to continue our pursuit of excellence in service delivery.

Sincerely,

Rob Crosbie
CHAIR, BOARD OF DIRECTORS

MESSAGE FROM THE PRESIDENT AND CEO

Collectively, we at Marine Atlantic achieved many successes and milestones of which to be proud during the 2011-12 fiscal year. But the highlight, for me, was receiving positive feedback from our customers regarding the improved reliability and comfort of our service.

Our employees have worked diligently this past year to ensure the successful introduction of a new fleet and kick-start our transformation into a modern and efficient ferry service. For that, I extend my most sincere gratitude to all of our employees.

Our Corporation marked a significant milestone in 2011-12 with the introduction of a modern fleet. We introduced the sister ships, the MV *Blue Puttees* and MV *Highlanders*, into our service. We completed an extensive refit on the MV *Leif Ericson*, including the renewal of its major mechanical systems. The MV *Atlantic Vision* also underwent a major planned work period. The Project Team for that work completed a significant amount of work in a fixed time period, and did a phenomenal job, on time and on budget. For their work, the MV *Atlantic Vision* Project Team received this year's President's Award.

During the first half of 2011-12, much of Marine Atlantic's management capacity focused on the successful integration of the new fleet. Bringing new ships into service is a challenging process for any ferry operator. It involves training crews in new technologies and operating characteristics; it involves developing new vessel-specific safety systems and programs, docking and loading procedures; and it involves a period of transition for customers and crews as they adapt to the new service amenities. The transition was substantial for both customers and crews, given the 25-year service history of the two retired vessels, the MV *Caribou* and the MV *Joseph and Clara Smallwood*.

Despite the challenges, our Corporation successfully integrated the new fleet, and our customers have already witnessed a significant improvement in our service. Feedback from our customers has been positive; they're satisfied with the improved reliability and the comfort level our new fleet provides. And, we continue to witness an increase in commercial traffic, which resulted in our achievement of a new traffic record in 2011-12. In 2012-13, as we move forward with our renewal and begin to upgrade our shore-based infrastructure, as well as implement many other projects across all divisions of Marine Atlantic, we are confident that our positive momentum will continue.

We are pleased with the transformation happening at Marine Atlantic and excited for what's to come. With continued dedication and patience, Marine Atlantic will become a modern and efficient ferry service that meets the needs of our customers, stakeholders, and employees.

Sincerely,

Paul Griffin
PRESIDENT AND CEO

// ... we are confident that our **positive momentum** will continue.

Who is Marine Atlantic?

Marine Atlantic Inc. is a transportation company that provides a vital link between the Island of Newfoundland and the Province of Nova Scotia. The Corporation is a fundamental component of Atlantic Canada's economy – particularly in Newfoundland and Labrador – as it transports goods (like food, medical supplies, and retail products), as well as people (including both resident travellers and tourists). A federal Crown corporation, Marine Atlantic is mandated to provide its ferry service on a year-round basis to both passenger and commercial traffic.

Our Mission

Marine Atlantic's mission is to provide a safe, environmentally responsible and high quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner.

Our Values

SAFETY

Ensuring the safe passage of all passengers and goods, plus a safe and healthy working environment for employees.

ENVIRONMENTAL RESPONSIBILITY

Taking appropriate measures to protect our environment, to reduce adverse environmental impacts and to incorporate best practices in all operations.

QUALITY SERVICE

Ensuring customer satisfaction through the efficient and professional delivery of accessible service.

RELIABILITY

Providing consistent and reliable transportation to our customers, fair and open procurement of goods and services, and equitable hiring and employment practices.

COURTESY

Fostering a working environment that promotes meaningful communication, together with mutual respect, cooperation, honesty and integrity.

COST-EFFECTIVENESS

Ensuring appropriate utilization of resources and full accountability to our shareholder, the Government of Canada.

Our Corporate Profile

Headquartered in St. John's, NL

Marine Atlantic operates terminals in the Newfoundland and Labrador ports of Port aux Basques and Argentia and the Nova Scotia port of North Sydney. The Corporation provides ferry services on two routes: a year-round 96 nautical mile daily ferry service between Port aux Basques and North Sydney and a seasonal 280 nautical mile tri-weekly ferry service between Argentia and North Sydney (which operates only during the higher traffic period between mid-June and late-September).

To fulfill its mandate, Marine Atlantic operates a fleet of four ice-class ferries: the MV *Blue Puttees*, MV *Highlanders*, MV *Atlantic Vision* and the MV *Leif Ericson*.

The Corporation reports annually to the Government of Canada through the Minister of Transport, Infrastructure and Communities and works closely with the Minister of State (Transport). Marine Atlantic is tasked with fulfilling the constitutional mandate to "maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques." This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada.

Marine Atlantic is a key employer in each of the three towns in which it operates. Employment levels within the Corporation peak at more than 1,300 persons during the busy summer season. The workforce at Marine Atlantic is predominately unionized; approximately 96 per cent of employees are members of one of the five labour unions covered by six collective agreements.

Our Operations

Marine Atlantic transports a diverse range of traffic: passengers, passenger vehicles and their occupants, tractor trailers and drivers, drop trailers and other users of the road such as motor homes, tour buses and motorcycles.

As the only year-round daily ferry service, the Corporation transports one-half of all goods entering the province, including approximately 90 per cent of perishable food items – fruits, vegetables, and meats. Provincial industries rely on trucks carried by the Corporation to maintain a supply chain to customers that is competitive with mainland counterparts. Similarly, companies from outside Newfoundland and Labrador rely on Marine Atlantic to enable them to supply goods of all kinds to the Island, from medical gases for hospital use to vital components for the offshore oil industry. In recent years, in line with the growth of the province's GDP, the volume of cargo to and from the Island of Newfoundland has continued a steady upward trend. Serving commercial customers is important to Marine Atlantic, as this customer segment represents over half of the Corporation's business.

As the only means of daily transport for vehicle traffic on and off the Island of Newfoundland, Marine Atlantic is also a valuable transporter of people. Ferry travel supports the connection between Newfoundland and Labrador and the rest of Canada, particularly the Maritime provinces. Marine Atlantic's ferries transport approximately 15 per cent of all travellers to the Province of Newfoundland and Labrador. The tourism industry also relies on the Gulf ferry service to carry approximately 23 per cent of its non-resident tourists.*

Non-resident travellers using the ferry provide significant, quantifiable benefits to the overall economy, especially to the province's rural areas, making Marine Atlantic an integral part of Newfoundland and Labrador's valuable tourism industry. In the same manner, the ferry service is also an important part of the greater Atlantic Canadian economy. The non-resident tourists transported by Marine Atlantic spend approximately $73.8 million dollars on local goods and services.

*STATS BASED ON 2010 DATA ACQUIRED BY THE TOURISM RESEARCH DIVISION, TOURISM, CULTURE AND RECREATION DEPARTMENT, GOVERNMENT OF NEWFOUNDLAND AND LABRADOR.

Our Operating Environment

Marine Atlantic operates its ferry service in one of the most challenging routes in the world. Operating year-round, the Corporation's vessels and crews must be capable of sailing during both pleasant summer weather and harsh winter conditions.

Vessels must cross the Gulf of St. Lawrence where winds of 40 knots or more can occur at any time of the year. Significant wave heights of four metres or more can occur in both summer and winter. Furthermore, severe ice build-up in the Gulf of St. Lawrence can impact operations during the winter months. Without a doubt, Marine Atlantic's service is heavily influenced by weather conditions and the captains and crew of the Corporation's vessels are constantly monitoring weather conditions to ensure safe sailings. High winds and heavy seas present a constant challenge to the Corporation, and as such, there are times when the vessels cannot sail. Marine Atlantic strives to minimize disruptions to the service, but weather delays are inevitable. At such times, the captains, crew, and employees at Marine Atlantic work diligently to return the operations to regular schedules.

With the modern fleet introduced into service in 2011-12, Marine Atlantic has a greater ability than ever before to return to regular operations when service is disrupted due to weather delays.

Our Safety Standards and Regulations

Our fleet of vessels is maintained to the high standards set by organizations such as Transport Canada Marine Safety and Det Norske Veritas Classification Society, and complies with the International Safety Management (ISM) Code. To ensure the safe operation of vessels at sea, Marine Atlantic is governed by various acts and regulations, including: Canada Labour Code, *Marine Occupational Safety and Health Act* and Regulations, *Transportation of Dangerous Goods Act* and Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act* and Regulations, *Canada Marine Act, Coastal Trade Act* and Domestic Ferries Security Regulations (DFSR). The Corporation 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.

Year in review
A year of organizational renewal

The 2011-12 fiscal year yielded vast improvement in Marine Atlantic's service. The revitalization efforts undertaken by the Corporation resulted in improved reliability, better service and onboard comfort, increased availability of sailings and improved customer satisfaction.

The first half of the year saw our Executive and Management Teams, as well as the majority of employees, heavily focused on fleet renewal and integration. While integration continued to be a priority in the second half of the year, focus shifted to include many other transformative initiatives that will continue to support the renewal of the Corporation in the future.

The new Transformation Office was created in 2011-12 to oversee and provide guidance for all of the initiatives being undertaken in accordance with the Corporation's five-year renewal plan, including the creation of a Terminal Redevelopment Master Plan which is underway.

The introduction of new vessels, the MV *Blue Puttees* and the MV *Highlanders*, marked significant improvement in both our capacity and our on-time performance. During Summer 2011, vessels sailed on schedule 91 per cent of the time, compared to 59 per cent in 2010 and 43 per cent in 2009.

While the modern vessels offered improvements to our capacity and on-time performance, they also presented a significant change to which employees and customers needed to adapt. That period of adaptation lasted throughout the duration of 2011-12 and will continue into 2012-13.

Marine Atlantic witnessed record high levels in total traffic this year, driven by an increase in commercial traffic. Passenger traffic decreased by nearly five per cent compared to 2010-11 – a trend that was visible throughout all of Atlantic Canada; the decrease in passenger traffic witnessed by Marine Atlantic was less significant than most other companies and operators in the transportation and tourism sector across the region.

Marine Atlantic introduced a new rate structure in 2011-12 to partially offset rising costs associated with items such as materials, supplies and labour. The new rate structure included an increase of four per cent on general tariffs and a new security fee of $3.50 on passenger fares for customers over the age of 12 years old to offset increasing security costs. An increase of $50 to the drop trailer management fee paid by commercial customers was implemented on April 1, 2012.

With all of the transformations that took place and the improvements to our service, 2011-12 proved to be a banner year for Marine Atlantic in terms of traffic carried on its vessels. In the years ahead, we will continue improving the business and work towards becoming a modern and efficient ferry service.

Our New Fleet

In 2011-12, Marine Atlantic welcomed a new fleet that provides improved reliability, increased capacity and greater onboard amenities and comfort levels.

Marine Atlantic successfully integrated two modern vessels, the MV *Blue Puttees* and the MV *Highlanders*, to our fleet in 2011-12. These vessels have modern designs and technologies, contain efficient mechanical systems, especially the engine configurations, and offer significantly more capacity than the vessels they replaced. The MV *Atlantic Vision* is now servicing the Argentia-North Sydney service; the greater comfort level, onboard amenities and cabin space are well suited for the longer crossing.

The MV *Leif Ericson* underwent a major refit, which offers increased reliability for our service, as well as additional improvements for our customers, including refurbished customer areas.

These four ice-class ferries comprise our modern fleet and, together, offer an increased capacity of 25 per cent. With the modern and efficient fleet in place, Marine Atlantic has witnessed an increase in customer satisfaction rates.

Our Top Priority: Safety

Marine Atlantic continued its focus on safety in 2011-12, improving upon its formal processes for safety and emergency management.

More than programs and policies, though, the Corporation continued to further strengthen its safety culture.

The Corporation introduced a Safety Management Committee (SMC) to champion and guide our health and safety programs. Co-chaired by the Vice President of Operations and the Vice President of Customer Experience, the committee has representation from all divisions of the organization. The SMC meets monthly to discuss and review developing issues, incident reports and investigations, proposed revisions to the Safety Management System, emergency response exercises, and training standards.

The Health and Safety Policy Committee continues to develop and monitor the Occupational Safety and Health Program, which provides training and development opportunities for employees. The committee meets quarterly, with the meetings of the Joint Occupational Health and Safety Committee (shore sites) and Marine Occupational Health and Safety Committee (vessels) held on a monthly basis.

Our Focus on Security

In 2011-12, Marine Atlantic continued to evolve its security programs, policies and systems to better enhance the safety and well-being of customers and employees.

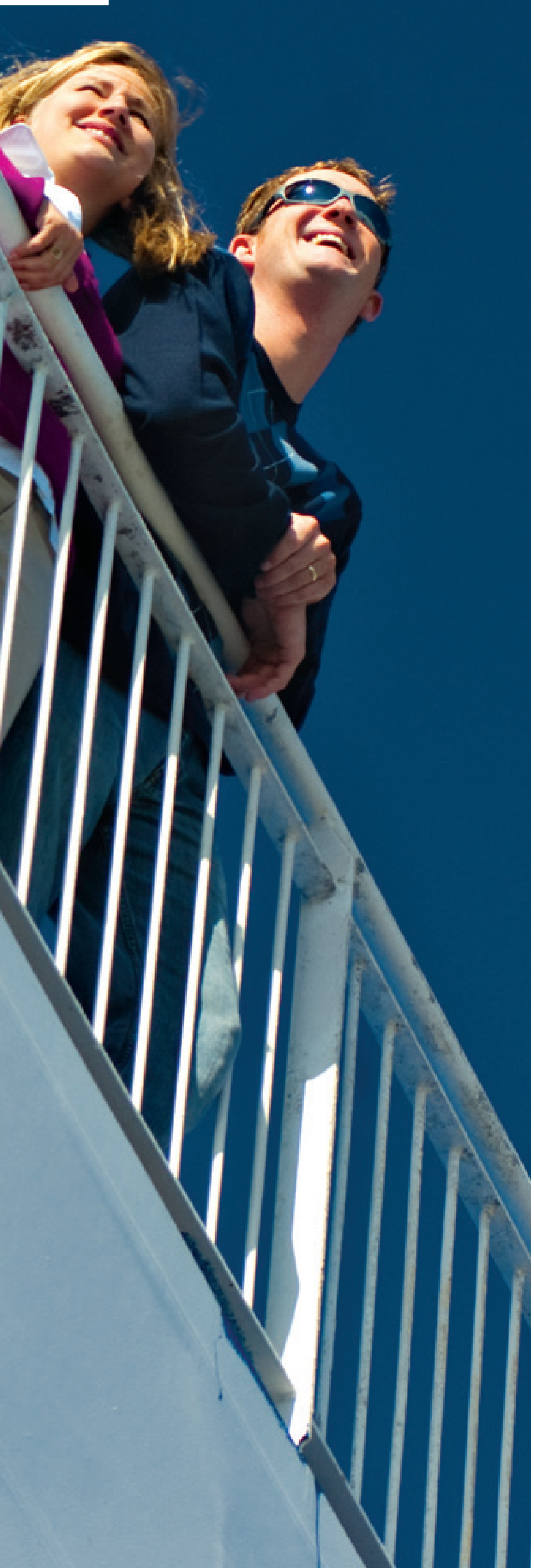
The North Sydney and Port aux Basques terminals security plans were updated to meet the new *Domestic Ferries Security Regulations* (DFSR) from the *Marine Transportation Security Regulations* (MTSR). Following the reflagging of the MV *Atlantic Vision* from foreign to Canadian we received all necessary DFSR certificates.

Marine Atlantic's Security Team began conducting more frequent screening checks of passengers entering our property in preparation for boarding our vessels. These increased security measures are aimed at ensuring the safety of all passengers as well as to detect and deter persons without a valid ticket from fraudulently gaining access to Marine Atlantic's property, possibly creating an inaccurate passenger manifest.

With an increased focus on the security of our workplace, Marine Atlantic moved forward in 2011-12 with the Access Control Project. This new corporate-wide card swipe system allows for more effective control of our assets, and a reduction in the number of keys issued and reissued throughout the organization.

The Corporation also rolled out a new Emergency Management Program in 2011-12. Based on industry best practices, the program introduces a new concept for emergency management, whereby the terminal manages a virtual Emergency Operations Centre (EOC) with oversight and guidance from a member of the Corporate Executive Team. The new program consists of a Corporate Emergency Management Plan, as well as a unique plan for each terminal. The Corporation made a focused effort to build a corporate framework for responding to emergency events in an organized, coordinated and systematic approach. As a result of these efforts, Marine Atlantic moved forward with the implementation of a new Emergency Response Plan in early 2012.

CANADA'S DOMESTIC FERRIES SECURITY REGULATIONS (DFSR) GOVERNS MARINE ATLANTIC'S FLEET AND PORTS. The regulations include ensuring the physical security of passengers both onshore and on the vessels, safeguarding cargo, baggage and assets, and securing the environment in which we operate.



Serving Our Customers

In 2011-12, Marine Atlantic's customer satisfaction rates improved significantly compared with last year. Efforts undertaken by Marine Atlantic in the past year – like fleet renewal, an improved customer contact system, and employee training – have contributed to improved customer satisfaction.

CUSTOMER SERVICE HIGHLIGHTS OF SUMMER 2011-12

Significant improvement in on-time performance; 91 per cent in 2011 compared to 59 per cent in 2010.

Ease of access to reservations: available up to the time of departure on 99 per cent of sailings.

Met or exceeded expectations of 92 per cent of passengers.

93 per cent of customers are likely to recommend us to friends or family.

Wait times for commercial customers improved significantly (reduced by 63 per cent).

28 per cent more customers travelled between Argentia and North Sydney, and 87 per cent of Argentia passengers were highly satisfied, compared with 52 per cent in 2010.

Additional cabins were in high demand, with 25 per cent more sold than in 2010.

Developing Our Employees

Marine Atlantic is committed to ensuring employees receive up-to-date information and knowledge-based training regarding best practices in the industry.

Training efforts focused on safety, security, customer service, regulations, new employee orientation, and information technology systems. A formal training plan was developed to ensure the organization was compliant with regulations applicable to the MV *Blue Puttees* and the MV *Highlanders*. The integration of the new vessels and new regulations under Standards of Training Certification and Watchkeeping resulted in higher annual training hours and training budget.

Beyond training, Marine Atlantic continued to focus in 2011-12 on employees' health and wellness, and we were recognized nationally for our hard work in this area. Our wellness program won a national award in the Benefits Canada 2011 Workplace Health & Benefits Awards. These awards are designed to honour organizations and individuals who have demonstrated leadership and innovation, and who have made a real difference to their employees and the benefits industry. Marine Atlantic's strong focus on developing our employees through training and health and wellness programming helped the Corporation place in the finals of the Newfoundland and Labrador Employers Council Awards.

TRAINING PROGRAM HIGHLIGHTS

Marine Evacuation Systems (MES)

Passenger Safety Management

Specialized Passenger Safety Management training

Customer Service Training
Offered year-round to reach all employees who require this training

Confined Space Rescue
Offered monthly for vessel and shore employees

Persons with Disabilities training

Firefighter refresher course rolled out in 2012
Offered to all vessel employees with firefighting responsibilities

Building Our Leaders

One of the goals outlined in Marine Atlantic's revitalization strategy is enhancement of the organization's leadership skills.

In 2011-12, the Human Resources Division began this process through the implementation of a sustainable leadership development program. In July 2011, Marine Atlantic partnered with the Canada School of Public Service (CSPS) to implement a leadership development program. The first phase of this program – the implementation of an online feedback tool entitled "360 Feedback" – was completed in 2011-12. This phase of the program has enabled our managers to receive feedback on performance and supports a continuous quality improvement approach for leadership. Many of the managers further elected to participate in one-on-one coaching provided by coaches from the CSPS to enhance their leadership skills.

This leadership initiative will continue into 2012 as the CSPS works with each of the participating managers on their individual development program.

Data from the "360 Feedback" design tool is now being used to develop a Leadership Development Program for Marine Atlantic.

Renewing Our Organization

Marine Atlantic is transforming into a modern and efficient ferry service. In 2011-12, all divisions of the Corporation made a concerted effort to renew our services and programs. Great strides were made in infrastructure, information technology, finance, customer experience, communications, and human resources. The Transformation Office, which oversees this effort, was established in 2011-12 to provide oversight for the many significant projects associated with the Corporation's renewal process.

INFRASTRUCTURE

Marine Atlantic placed a strong focus in 2011-12 on providing the additional resources required for the development of a Master Plan to oversee terminal redevelopment and modernization of our shore-based infrastructure.

The Terminal Master Plan, currently being developed for the North Sydney and Port aux Basques properties, will help guide continuous quality improvement of our terminals for the next 20 years.

This plan will include: vehicle marshaling requirements, customer facilities and terminal redevelopment, vessel berths and docking facilities, provisioning and loading capabilities, and infrastructure expansion. Some of the initial projects to take place under the Master Plan include the expansion of the drop trailer storage yard at the Port aux Basques terminal and construction of a new stevedore building at the North Sydney terminal.

A major focus in 2011-12 was acquisition and upgrading of a new facility near the North Sydney terminal property to replace Marine Atlantic's current on-site administration building. This modern building will open in fiscal year 2012-13. Marine Atlantic will relocate and consolidate a number of departments at the Corporation's North Sydney offices, which in turn will offer employees more appropriate office space and easier access to a greater number of co-workers than previously available.

INFORMATION TECHNOLOGY

Information Technology (IT) improvements throughout 2011-12 focused on improving Marine Atlantic's emergency response and communications capabilities.

In early 2012, the IT Division initiated a Business Resumption Plan which resulted in the installation of redundant systems to address potential emergency situations throughout the organization. This new infrastructure will allow us to improve our system recovery processes and minimize the frequency and/or duration of system downtime.

As part of a multi-year investment in information technology to become a more integrated, business oriented organization, 2011-12 focused on upgrades to the Computerized Maintenance Management System on the vessels and the development of an integration link to the Corporate Enterprise Resource Planning System. All of Marine Atlantic's vessels now have equivalent systems in place.

Marine Atlantic made additional investments into video conferencing services. The new equipment, which has been installed and tested throughout the Corporation, offers additional and improved conference abilities and improved efficiency through reduced costs to the organization as a result of a decrease in reliance on third party vendors, as well as reduction in travel costs throughout the organization.

Our new Electronic Data Management System (EDMS) was launched in early 2012 in response to the need to standardize our information management systems as outlined in the *Library and Archives Canada Act.* This was accompanied by the new Information Management Policy, which outlines the procedures for managing individual business records throughout the Corporation.

Also during 2011-12, Marine Atlantic launched a Business Intelligence (BI) project. The project will enable increased access to data being created, collected and captured throughout our various business systems. This information will support strategic decision-making. The Corporation implemented a new staff scheduling and training system for our vessels that integrates with the payroll and human resources systems. We are now able to produce crew lists more efficiently that incorporate the competencies for vessel positions and individual crewmembers.

FINANCE

In 2011-12, Marine Atlantic restructured the Finance Division to more efficiently and effectively meet operational demands and key objectives. The new structure will provide much needed support in areas within the Division that have seen a significant increase in demand as the Corporation has grown over the past number of years.

The Corporation converted to Canadian Public Sector Accounting (PSA) standards in 2011-12. Since the first quarter of the fiscal year, we have been reporting our financial results to the public on a quarterly basis.

The Corporation also released a new policy on the Procurement of Materials and Services in 2011-12 to enhance governance in this area and improve customer service by reducing response time for requests for the procurement of goods and services.

CUSTOMER EXPERIENCE

Marine Atlantic placed a major focus on customer experience in 2011-12, and witnessed extremely positive results in the areas of customer satisfaction.

We introduced two modern vessels, the MV *Blue Puttees* and MV *Highlanders*, which increased our fleet capacity by 25 per cent. These modern and efficient vessels offer greater reliability and improved amenities, such as additional cabins and increased dining choices for customers.

We commissioned upgrades to the Argentia terminal and docking facilities, which set the stage for the successful integration of the MV *Atlantic Vision* to the Argentia-North Sydney route. With its cruise ship feel, increased number of cabins and improved amenities, the MV *Atlantic Vision* is proving to be well suited to the longer route.

The MV *Leif Ericson* underwent an extended refit to ensure continued reliability and improved comfort. Subsequently, Marine Atlantic positioned the vessel as a dedicated service for our commercial customers.

With our new fleet in place, customers were impressed not only with our on-time performance and availability of sailings, but with our quality of food, comfort and availability of seating, and comfort of cabins.

In North Sydney, we introduced a second bi-level loading dock. This, combined with enhancements to the North Sydney terminal yard, enabled more efficient movement of traffic.

At each of our terminals, we introduced on-site radio stations that enable customers to receive information regarding their crossing outside the terminal building. We also strengthened our customer contact systems to provide updates on sailing reservations. And, we improved the Marine Atlantic website to offer more timely information to customers.

Marine Atlantic's employees, both onboard and onshore, were challenged to increase their focus on providing excellent service to our customers in 2011-12, and additional training was provided to help them achieve that goal. Our customers reported that our employees rose to the challenge, improving even where they were performing strongly last year.

This year will see the launch of a new corporate website as well as the roll out of new Customer Service Standards and Procedures.

COMMUNICATIONS

Recognizing that good communication supports the cultural change process required to maintain a strong corporate culture at Marine Atlantic, the Corporation continued in 2011-12 to place a priority focus on keeping employees informed of corporate initiatives and engaging staff in the renewal process.

Regularly scheduled meetings at various levels of the organization ensure information is shared efficiently and effectively. Bi-annual managers' meetings bring together vessel and shore-based managers from across the organization to discuss strategic and operational issues. Executive and union leadership meet three times per year to discuss plans for the organization. Managers are encouraged to meet with employees on a regular basis to share information.

The internal monthly newsletter, *Strait Talk*, provides employees with information and updates from all key areas of the Corporation, as well as highlights on initiatives and projects. Regular employee notices – Beacon and Signal Notices – complement the newsletter. These internal communication tools received a new look and feel this year and the Safety Bulletin was introduced to provide timely information regarding important safety related information. The employee intranet, which was redesigned and re-launched in 2011-12, is an interactive communications tool used to provide employees with user friendly and up-to-date information.

HUMAN RESOURCES

Marine Atlantic's Human Resources Division had a full suite of programs in 2011-12 that included talent management, recruiting, retention, training and development, leadership development, performance management, industrial relations, and change management.

With five labour unions and six collective agreements in place, the Management Team invested a significant amount of time in collective bargaining in 2011-12. We successfully negotiated agreements with our two largest bargaining units during 2011-12. The agreement with our licensed officers was settled by interest arbitration in late March 2012, and negotiations continue into 2012-13 with the two outstanding agreements.

Marine Atlantic has programs in place to reward employees, promote healthy lifestyles, and care for employees who are absent from the workplace and assist in their return to work.

Employee Wellness Program

Marine Atlantic is very proud of its employee wellness program and has worked hard to strengthen it. Our Corporation has launched an @live challenge which encourages employees from across the organization to participate in healthy activities. Employees can participate in teams or as individuals and receive awards and prizes for their accomplishments. Each year an employee committee makes necessary changes to the program to ensure it is best suited to the employees that use it. Our Corporation focuses on strengthening participation rates and initiating proactive approaches when it comes to our employee's health and wellness programs.

CANADIAN FORCES APPRECIATION FARE

This year, Marine Atlantic announced the expansion of our Canadian Forces Appreciation Fare.

The program now offers a year-round fare, available to Canadian Forces personnel, veterans and up to three companions per reservation. The restrictions on the number of spaces available on each crossing have also been removed, offering increased availability for eligible customers. The Corporation sees the expansion of this program as another way to strengthen an already positive initiative.

The Canadian Forces Appreciation Fare was introduced in 2009 as a token of appreciation to our military personnel who stand proud for our country each and every day. During the past three years, over 37,000 people have taken advantage of the program. Those who qualify receive free passenger fare on the Port aux Basques-North Sydney ferry route or a 50 per cent discount on their passenger fare when travelling on the Argentia-North Sydney ferry service. Up to three companions travelling in the same vehicle and on the same reservation may also receive the discount.

Our focus and hard work on these initiatives was recently recognized nationally; our wellness program was a national winner in the Benefits Canada, 2011 Workplace Health and Benefits Awards. These awards are designed to honour organizations and individuals who have demonstrated leadership and innovation and who have made a real difference to employees and to the benefits industry.

This was a great accomplishment for Marine Atlantic. Being recognized by Benefits Canada, the country's most influential pension and benefits publication for decision-makers in Canadian workplaces, was an honour and certainly demonstrated that our wellness program is one of the best in Canada.

Disability Management Program

The Disability Management Program is designed to assist employees and to facilitate early intervention resulting in the expeditious return to work, thereby minimizing the economic and emotional impact on employees. The Corporation continues to manage employee work-related and non-work-related absences.

President's Award and Distinction Awards for Employees

Employees throughout the Corporation were presented with awards under this program. The awards recognize employees for commitment to their work and to providing exceptional customer service.

Pension and Benefits

During 2011-12, the HR Division: contracted Aon Hewitt as our new investment consultant, following a Request for Proposals process; selected Wellington as our new fund manager (TD Asset Management will oversee the requirement in the interim); re-contracted Mercer to provide Actuarial and Administrative Services, following a Request for Proposals process; and began a formal evaluation of derisking the Pension fund by reviewing the asset and liability mix.

Rhona Green, Vice President of Human Resources, accepting our award from Cande Dandele, Ceridian Canada, on behalf of the Wellness Committee, which was named national winner in the Benefits Canada, 2011 Workplace Health and Benefits Awards.

Looking **forward**

With a safe work environment as our driving force, Marine Atlantic is now entering its third phase of corporate transformation which will focus on a combination of significant investments in our shore infrastructure and a revitalization of our business processes and cultural renewal. Building organizational capacity, renewing the Corporation's asset base and improving customer experience will continue to be a priority. This phase will also include a concerted effort on improving the overall effectiveness and efficiency of the Corporation, most notably in areas such as maintenance and procurement. During 2012-13, the Corporation will begin implementing its Strategic Renewal 2010 initiatives, which are earmarked to provide $5.4 million in savings by 2013-14.

These corporate-wide initiatives will focus on business process improvements, allowing us to build efficiencies throughout the organization.

Efforts are underway to facilitate segmented reporting in 2012-13, which will allow the Corporation to report against policy objectives related to cost recovery for various aspects of its operations.

Safety of our people, customers and assets is integral to the overall risk management framework of Marine Atlantic. As part of the renewal of our assets, Marine Atlantic's Safety Management System (SMS) has been transformed and will serve as the foundation for a continuous improvement approach to our safety culture. The new SMS is a paperless system that incorporates improved procedures and work practices that are based on industry best practices.

In 2011-12, the Corporation implemented an enhanced electronic incident reporting system. Together with the SMS it will allow for more timely and effective distribution and management of health and safety related information in 2012-13 and beyond.
The Finance and Procurement Division will continue to transform from transactional-based functions to become more strategic in nature. In 2012-13, this change will be supported with recruitment of key positions to meet new internal demands and improve service delivery throughout the organization.

Our Customer Experience Division will continue to focus on developing a customer strategy, service standards, practices, and procedures, customer and employee communications, customer satisfaction measurement, benchmarking and the establishment of key performance indicators (KPIs). The goal of these efforts is to maintain the improvements made in 2011-12 and to entrench mechanisms, metrics, and means to support continuous innovation and improvement in service.

The Customer Research Plan will continue to move forward in the coming year. Based on the data collected over the past two years, Marine Atlantic has developed initial satisfaction KPIs for a range of items, including broader measures such as overall satisfaction and satisfaction with the terminals and the vessels, as well as more discrete metrics on food quality and perceptions of our responsiveness to customer concerns. These metrics will be married with internal measures of performance, providing robust feedback on the effectiveness of actions and decisions taken. In addition to this, the Customer Experience Division expects to launch a commercial customer research program in early 2012-13. This report card format will provide ongoing measurement of the commercial customer experience, from the cab of the tractor trailer to the interaction with representatives of the trucking company, helping Marine Atlantic better understand and meet industry needs.

This year, Marine Atlantic moved forward with work on a new and improved Customer Service Practices Manual. Once complete, the manual will provide employees with guidelines for a consistent experience for customers.

Additional investment in information technology, governance and business processes is essential to achieving operational efficiencies at Marine Atlantic. To support this goal, Information Technology within the Corporation will continue to become a more integrated, business-oriented service. Over the next few years, the IT Team will focus on researching and leveraging new technologies. Ongoing maintenance, upgrading or replacement of aging applications and infrastructure will continue to be a priority.

OAG SPECIAL EXAMINATION

In 2011-12, Marine Atlantic continued to make progress on the deficiencies laid out in the Office of the Auditor General's 2009 Special Examination.

Corporate social responsibility

ENVIRONMENTAL STEWARDSHIP

Marine Atlantic endeavours to minimize its impact on the environment. This helps to ensure the Corporation protects its surroundings and complies with legal requirements. To that end, Marine Atlantic is developing a comprehensive Environmental Management Plan that addresses the Corporation's practices in relation to fuel management, water management, wastewater management, solid waste management, air emissions, security and the transportation of dangerous goods.

WORKING TO ETHICAL STANDARDS

Marine Atlantic values safety, security, environmental responsibility, exceptional service, reliability, courtesy and cost-effectiveness. The Corporation prides itself on maintaining high ethical standards while operating in a fiscally responsible manner. Our Management Team adheres to conflict of interest guidelines to ensure the corporate mandate is delivered in an ethical and measurable manner. Employees follow a code of conduct, which provides additional guidelines to ensure adherence to our high standards.

PROMOTING HUMAN RIGHTS

Marine Atlantic is committed to creating and maintaining a workplace free from harassment and discrimination. We value our employees, and therefore the Corporation is committed to fostering a work environment in which all individuals are treated with dignity and respect. Employees have the right to work in a professional atmosphere that promotes equal opportunities and prohibits discriminatory practices. The Corporation's anti-harassment program aims to raise awareness of discrimination, sexual harassment and violence in the workplace. Additional training on promoting a respectful workplace was introduced throughout the year.

ACCESSIBLE TRANSPORTATION

Marine Atlantic's position is that travel should be accessible to all people and our philosophy is that the biggest barrier to passengers with disabilities is not access, but attitude. To this end, the Corporation's employees participate in purposeful training to improve their awareness and ensure that passengers with disabilities are treated with respect, professionalism and courtesy. In keeping with Marine Atlantic's strong commitment to providing accessible transportation, the vessels in the fleet provide a high level of accessibility. They are equipped with adapted cabins, tactile signage, audible notification of deck level in elevators, and visual alarms.

ENSURING EQUAL OPPORTUNITIES

Marine Atlantic is an equal opportunity employer and encourages applicants from groups designated under the *Employment Equity Act*.

INVESTING IN YOUTH

Marine Atlantic's annual scholarship program awards dependent children of employees or pensioners with funds for post-secondary education on a merit basis. Marine Atlantic also provides four scholarships annually to students enrolled in either the Nautical Science or Marine Engineering programs at Memorial University's Marine Institute. Not only is Marine Atlantic committed to building the skills of potential employees, but it is actively recruiting high school graduates and post-secondary students for positions in the Corporation.

GIVING BACK TO THE COMMUNITY

Marine Atlantic is accountable for the impact its service has on the environment, its employees, and the local communities in which it operates. The Corporation proactively promotes community development by investing in the regions in which it operates and volunteering its efforts to support those communities.

Marine Atlantic employees are actively involved in their communities. With fiscal responsibility in mind, the Corporation supports employees and not-for-profit organizations that benefit the Atlantic region.

ENGAGING IN BOTH OFFICIAL LANGUAGES

As a federal Crown Corporation, Marine Atlantic is committed to providing customers with the option of receiving service in either of Canada's two official languages. As part of that commitment, Marine Atlantic is part of the advisory committee that reports to the Official Languages Centre of Excellence. Bilingual employees undergo regular testing to ensure they continue to meet proficiency requirements.

ENCOURAGING EMPLOYEE WELLNESS

Marine Atlantic's Employee Wellness Committee consists of employees from all areas of the Corporation who are committed to promoting a healthy lifestyle to their peers. In 2011-12, the committee organized health fairs, flu shot clinics and health programs such as the @live Challenge and the Employee and Family Assistance program. This year the Committee moved forward with the implementation of a vessel challenge, modeled after the @live Challenge, but better suited to the lifestyle and work schedule of our vessel employees.

Financial overview

As a federal Crown Corporation, Marine Atlantic receives a significant annual subsidy from its Shareholder the Government of Canada through Transport Canada. In 2011-12, the Corporation spent $288.5 million; $100.5 million was generated via customer tariffs and other ancillary revenue; and $178.8 million was received via subsidy. The remaining $9.2 million was funded by proceeds from sale of assets and working capital. The Corporation's cost recovery was 63.3 per cent which falls within the targeted range established by the Shareholder.

	2011-12	2010-11	2009-10	2008-09	2007-08
Passengers	365,786	382,522	398,667	385,046	416,823
Passenger vehicles	128,014	131,597	139,011	131,013	141,718
Commercial vehicles	103,253	100,620	96,694	92,612	90,039
AEU's*	565,301	558,361	546,637	519,938	523,286
Number of single crossings	1,908	2,095	1,972	2,143	2,184
Employees (peak employment)	1,389	1,364	1,303	1,256	1,223
Employees (full-time equivalent)**	1,122	1,113	1,077	1,058	954

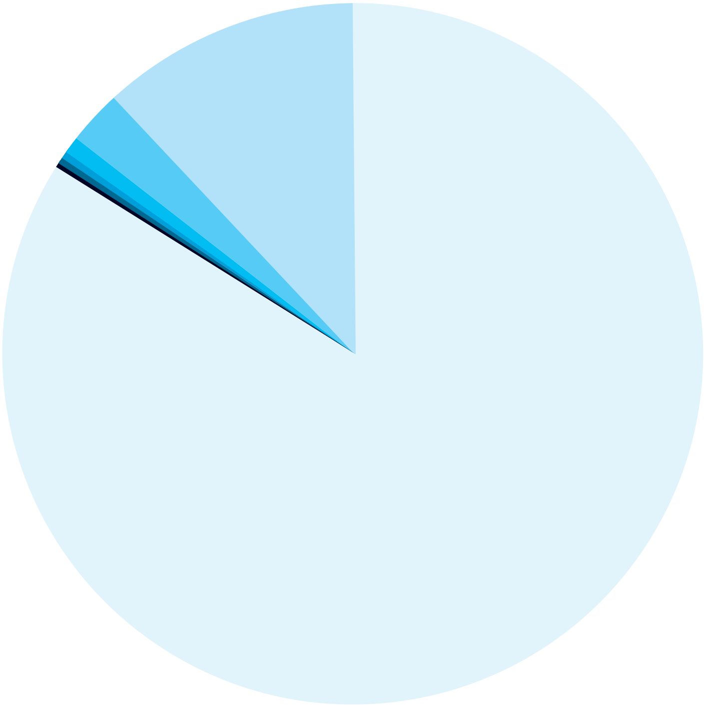
* AEU OR AUTO EQUIVALENT UNIT IS THE LENGTH OF AN AVERAGE PASSENGER AUTOMOBILE . **FULL-TIME EQUIVALENT (FTE) EMPLOYEES ARE CALCULATED BY DIVIDING ACTUAL LABOUR HOURS WORKED BY THE STANDARD HOURS IN A WORK YEAR (2,080).

Year ended March 31 (IN THOUSANDS)

	2011-12	2010-11 (Restated)*	2010-11	2009-10	2008-09	2007-08
OPERATIONS:						
Transportation Revenue	$ 87,772	$ 83,920	$ 83,920	$ 80,270	$ 71,514	$ 71,422
Fuel surcharge	12,464	11,662	11,662	3,570	10,100	1,130
Charter revenue	-	-	-	-	-	55
Other income	204	181	181	71	481	578
	100,440	95,763	95,763	83,911	82,095	73,185
Operating expenses	215,395	202,035	202,198	181,084	162,122	125,154
Employee Future benefits	16,022	8,278	13,222	2,593	11,186	18,193
Unrealized (Gain) Loss	-	(5,442)	(5,442)	1,708	-	-
Amortization	20,165	12,476	12,476	18,241	17,038	16,061
	251,582	217,347	222,454	203,626	190,346	159,408
Deficit before government funding	151,142	121,584	126,691	119,715	108,251	86,223
Government funding						
Operations	135,060	124,370	124,370	106,596	105,401	60,536
Capital	36,698	77,839	-	-	-	-
Recovery of vessel decommissioning costs	2,371	3,118	3,118	-	-	-
Amortization of deferred capital assistance	-	-	20,800	22,346	17,276	16,061
Operarting surplus (deficit)	$ 22,987	$ 83,743	$ 21,597	$ 9,227	$ 14,426	$ (9,626)
ASSETS:						
Total assets	$ 316,492	$ 291,372	$ 320,279	$ 234,019	$ 226,659	$ 201,269
Purchases of vessels, facilities and equipment	$ 36,698	$ 77,839	$ 77,403	$ 14,645	$ 19,946	$ 7,383
Purchases of intangible assets	$ -	$ -	$ 14,267	$ 223	$ 580	$ -

*SEE NOTE (3) IN THE FINANCIAL STATEMENTS, "TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS", FOR DETAILS ON PSAS CONVERSION ENTRIES FOR FISCAL 2010-11

Revenues & Gains 2011-12 (IN THOUSANDS)



Transportation revenue
87,772

Fuel surcharge revenue
12,464

Realized gain on derivative financial instruments
2,703

Gain on loss on disposal of assets held for sale
736

Other income
204

Foreign currency exchange gain
48

Gain on disposal of tangible capital assets
21

TOTAL

103,948

Expenses 2011-12 (IN THOUSANDS)

Wages and benefits
85,021

Charter fees
44,256

Fuel
33,051

Amortization
20,165

Materials, supplies and services
17,538

Employee future benefits
16,022

Repairs and maintenance
13,187

Other
10,906

Insurance, rent and utilities
6,066

Charter importation taxes
5,306

Decommissioning of vessels
2,371

Fleet renewal costs (excluding Wages and benefits) 1,201

TOTAL

255,090

REVENUE

Total revenue for the year was $2.7 million more than budgeted and $4.7 million compared to 2010-11. This increase is attributed to a second record year for volumes of commercial traffic transported and an increase in the number of cabins available for customers travelling on the service, namely on the MV *Blue Puttees* and MV *Highlanders*. Additionally, the introduction of the MV *Atlantic Vision* to the Argentia – North Sydney ferry service resulted in traffic travelling on this route surpassing expectations generating revenues above budgeted levels. An increase in the fuel surcharge was implemented in July 2011 and planned tariff increases were implemented in February 2012. The passenger and passenger vehicle traffic were below budget and followed the vehicle traffic trend experienced across the country during summer 2011.

WAGES AND BENEFITS

In 2011-12, the Corporation continued with its planned revitalization and transformation strategy. Additional resources were required to oversee projects and improve services resulting in an increase in wages and benefits over last year. The total costs remained under budget due to some delays in recruitment and initiatives.

FUEL

Fuel expense was $0.5 million higher than last year. Fuel prices for the Corporation increased 23 per cent in 2011-12, however, a combination of the introduction of the MV *Blue Puttees* and the MV *Highlanders* providing greater capacity and markedly improved fuel efficiency combined with the fleet completing 187 fewer trips resulted in an 8.5 million litre decrease in fuel consumption.

CHARTER FEES

Charter fees increased by $18.4 million in 2011-12. The Corporation's newest additions, the MV *Blue Puttees* and the MV *Highlanders* arrived in the third and fourth quarters of 2010-11 respectively. 2011-12 represented the first full year the Corporation paid charter fees for these three ships.

CHARTER IMPORTATION TAXES

The non-refundable importation taxes paid as part of the reflagging of the MV *Blue Puttees*, MV *Highlanders* and the MV *Atlantic Vision* are recognized as a non-financial asset and amortized over the duration of the charter agreements. In contrast, the budget was based on the estimated timing of when the actual tax payments were required and assumed to be expensed in full when paid.

REPAIRS AND MAINTENANCE

2011-12 repairs and maintenance costs were $0.8 million higher than the previous year however, total costs were $3.3 million under budget. The addition of two new modern vessels into the fleet coupled with a significant capital investment to overhaul key mechanical elements such as engines on the other two vessels in the fleet resulted in maintenance costs being less than budgeted. With the decommissioning of the MV *Caribou* and MV *Joseph and Clara Smallwood* during 2010-11 no major expenditures were incurred on these ships resulting in a lower repair and maintenance expenditure in that year.

MATERIALS, SUPPLIES AND SERVICES

Materials, supplies and services costs were $4.2 million higher than the previous year, although lower than budget. Within the Corporation's approved funding, there was an amount provided to assist the Corporation to transition to a modern and efficient ferry service providing a high level of customer service. There were many corporate initiatives undertaken in 2011-12 as part of this agenda.

INSURANCE, RENT AND UTILITIES

Insurance, rent and utilities increased by $0.7 million in 2011-12. Additional rental space requirements combined with increases in general utility rates are the primary drivers for this increase in costs.

FLEET RENEWAL

Marine Atlantic took possession of the MV *Blue Puttees* in December 2010 and the vessel entered service in March 2011. The Corporation took possession of the second ship, the MV *Highlanders* in February 2011 with the vessel entering service in April 2011. The fleet renewal costs for 2011-12 in the amount of $1.2 million represents the final costs to integrate the MV *Highlanders* into service. The amount contrasts to the $10 million incurred in 2010-11 associated with the due diligence, delivery and integration of the new vessels into the fleet. An additional $1.2 million recognized in wages and benefits relates to this activity this year compared to $4.2 million last year.

OTHER

Other expenses have increased by $2 million in 2011-12 over last year and $5.9 million higher than budget, $3 million of which relates to an assessment of prior years' HST returns. The assessment is currently under appeal.

EMPLOYEE FUTURE BENEFITS

Actuarially calculated amounts for the accrued obligations for Workers' Compensation costs, health and life benefits for retirees and the pension expense increased by $7.7 million, $7.2 million of which was attributable to the Pension Plan for Employees of Marine Atlantic Inc.

DECOMMISSIONING OF VESSELS

The MV *Caribou* and MV *Joseph and Clara Smallwood* were retired from service towards the end of 2010-11 and maintained in a sellable state. These ships were sold in July 2011, with all these recorded costs being fully recoverable from the proceeds from sale of the vessels with the remaining funds returned to the Government of Canada.

FOREIGN CURRENCY EXCHANGE (GAIN) LOSS

Marine Atlantic incurred a foreign currency gain of $48 thousand in 2011-12 compared to a loss of $66 thousand in 2010-11. These gains and losses arise from our requirement to pay some of our vendors in foreign currencies.

REALIZED (GAIN) LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

Marine Atlantic incurred $2.7 million actual gain from the settlement of energy swaps and forward exchange contracts this fiscal year, compared to $2.8 million loss last year.

(GAIN) LOSS ON DISPOSAL OF TANGIBLE CAPITAL ASSETS

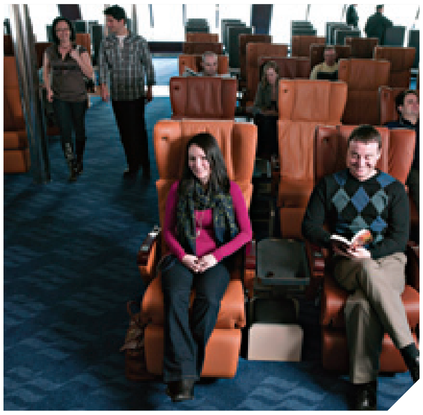
Minimal gains were recognized in 2011-12 and 2010-11 on the sale of surplus assets.

LOSS ON WRITE DOWN OF ASSETS HELD FOR SALE

In 2010-11, the MV *Caribou* and the MV *Joseph and Clara Smallwood* were decommissioned and held for sale. This coincided with the entry into service of the newly chartered vessels MV *Blue Puttees* and the MV *Highlanders*. The assets were presented on the balance sheet at their fair value at year-end. Consequently, a loss on write down of assets held for sale of $8.3 million was recorded in the statement of operations.

(GAIN) ON DISPOSAL OF ASSETS HELD FOR SALE

The MV *Caribou* and the MV *Joseph and Clara Smallwood* were sold in fiscal 2011-12. The Corporation's net proceeds from the sale of the ships was $7.9 million, while the carrying value was $7.2 million, consequently, the residual was recorded as a gain.



GOVERNMENT FUNDING

Government funding revenue recognized was $30.4 million lower in 2011-12 than in 2010-11. Government revenue relating to capital was $41.1 million lower in 2011-12 than in 2010-11. This is directly related to over $36.2 million in capital costs related to the major modifications of the MV *Blue Puttees* and MV *Highlander*s. Government revenue received relating to operating was $10.7 million higher than 2010-11. Overall, expenditures in 2011-12 were higher due largely to the additional charter fees and projects underway designed to transform the Corporation into a modern and efficient organization. This was mitigated by revenue growth and positive gains in financial derivatives compared to 2010-11. The $2.4 million recovery of vessel decommissioning costs recognized this year represents the cost incurred during the year to maintain the MV *Caribou* and MV *Joseph and Clara Smallwood* in a sellable state.

TANGIBLE CAPITAL ASSETS

In 2011-12, Marine Atlantic spent $36.7 million in asset renewal. In 2010-11, the focus was on fleet renewal, while this continued into 2011-12 with $12.6 million spent on fleet related projects, the shore based renewal also increased with over $24.1 million spent on replacing and modernizing shore facilities and equipment.

The board and management working together

Marine Atlantic's Board of Directors provides fiscal and policy direction and guidance to the Management Team, which in turn directs the Corporation's employees. Together, the Board and Management make a united effort to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system for its customers.

Marine Atlantic is governed by a ten-person Board of Directors. It is responsible for the general oversight of the Corporation's activities and is required to provide overall policy direction. The independent directors are chosen and appointed for specific and staggered terms by the Government of Canada. The President and CEO is a member of the Board.

Committees of the Board

The Board of Directors operates within a highly regulated environment. The *Financial Administration Act* and the *Marine Atlantic Inc. Acquisition Authorization Act* both provide direction to the Corporation's business affairs. The Corporation's *Articles of Incorporation*, its by-laws and Mission Statement further direct both the Board and Management in their decision-making. Finally, the *National Marine Policy* provides critical direction and restraint, as it requires that Marine Atlantic focus its efforts on operating the Gulf ferry service. Consequently, the Corporation is not entitled to expand into other business opportunities that may arise and complement its main business activities.

The Board must provide prudent fiscal direction and guidance to Management, ensuring effective budgeting and financial management, as well as management of corporate risks. These processes fulfill the Board's commitment to provide overall governance.

The Board has standing committees to engage and support its efforts in the three primary areas of governance responsibility: Corporate Governance and Accountability, Audit and Risk, and Human Resources and Pension Management.

CORPORATE GOVERNANCE AND ACCOUNTABILITY COMMITTEE

The Corporate Governance and Accountability Committee is mandated to provide the Board advice and services to effect good governance at Marine Atlantic and to create a cohesive working relationship between the Board and Management. It provides a focus on corporate governance and accountability, safety, corporate values and ethics and the elements that facilitate Board effectiveness, such as Board self-assessment, Board Committee structure and terms of reference. During the year, the Committee met regularly to discharge its mandate with emphasis placed upon Board evaluations, renewing the process to produce a timely and robust Annual Report, updating Terms of Reference for Board Committees and revising a number of policies in areas such as community relations, volunteer travel, enterprise risk management and disclosure of wrongdoings.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is mandated to provide the Board with advice and services that set the context for an effective enterprise risk management (ERM) and internal control framework providing reasonable assurance that the strategic, operational, financial and regulatory objectives of the Corporation will be achieved. Within the ERM and control frameworks, the Committee assists the Board in fulfilling its oversight responsibilities regarding safeguarding of assets; compliance with laws, regulations and governing policies; integrity of management and financial information; efficiency and effectiveness of operations; and independence of the external and internal audit functions. During the year, the Committee met regularly to discharge its mandate with emphasis placed upon internal audit planning and the selection of a firm of record, capital oversight, risk and compliance frameworks, operational budget monitoring and revising a number of Board policies in areas such as hedging and enterprise risk management.

HUMAN RESOURCES AND PENSION MANAGEMENT COMMITTEE

The Human Resources and Pension Management Committee (HRPMC) is mandated to provide the Board advice and services to ensure good stewardship of the Company's pension plan, policies are in place and implemented by Management to provide employees at Marine Atlantic with fair and meaningful employment in a healthy and respectful workplace and oversight with respect to the appointment, monitoring and compensation of Executive Management. During the year, the Committee met regularly to discharge its mandate with emphasis placed upon pension fund management and evaluation, the hiring of new fund managers, annual reporting of the pension plan, collective bargaining and the conclusion of a number of collective agreements, review of its terms of reference, and evaluation of the Executive Management.

Board Recruitment and Attendance

BOARD MEMBERSHIP	COMMITTEE MEMBERSHIP	ATTENDANCE
Robert Crosbie	Chairman, member of Corporate Governance	5
Wayne Follett[1]	Ex-officio member of Corporate Governance and HRPMC	3
Paul Griffin[2]	Ex-officio member of Corporate Governance and HRPMC	2
Nick Careen	Member of Corporate Governance, Audit and Risk	5
Peggy A. Coady, FCA	Chair of Corporate Governance, member of Audit and Risk	5
Stan Cook	Member of HRPMC	5
James G. Doody, CA	Chair of Audit and Risk	5
John J. Henley	Member of Corporate Governance	4
Walter Pelley	Member of HRPMC, Audit and Risk	5
Dwight Rudderham[3]	Member of Corporate Governance	2
Heather Tulk	Chair of HRPMC	5

[1] Wayne Follett retired as President and CEO as of December 9, 2011 [2] Paul Griffin was appointed interim President and CEO in December 2011 and subsequently appointed President and CEO in May 2012. [3] Dwight Rudderham was appointed to the Board of Directors on December 1, 2011. **NOTE** There are five regularly scheduled meetings per period. Board conference calls and special meetings were held throughout the period outside the regular schedule. Committee meetings were held throughout the period.

Board of Directors

Robert Crosbie
Chairman, member of Corporate Governance, HRPMC
ST. JOHN'S, NL

Chair, Crosbie Group

Wayne Follett
Ex-officio member of Corporate Governance and HRPMC
CONCEPTION BAY SOUTH, NL

Marine Atlantic Inc.

Paul Griffin
Ex-officio member of Corporate Governance and HRPMC
ST. JOHN'S, NL

Marine Atlantic Inc.

Heather Tulk
Chair, HRPMC
TORONTO, ON

Senior Vice President, Marketing, Bell Business Markets

Peggy A. Coady, FCA
Chair of Corporate Governance, member of Audit and Risk
ST. JOHN'S, NL

Director of Graduate Programs (Business), Assistant Professor (Accounting & Auditing), Faculty of Business Administration, Memorial University of Newfoundland

Walter Pelley
Member of HRPMC, Audit and Risk
NORTH SYDNEY, NS

Owner and President, W.P. Investments Inc.
W. & B. Pelley Holdings Inc.

Board of Directors

Nick Careen
Member of Corporate Governance, Audit and Risk
JERSEYSIDE, NL

Former Member of the House of Assembly, Province of Newfoundland and Labrador

John J. Henley
Member of Corporate Governance
ST. JOHN'S, NL

Vice President, Offshore Services & Development, G.J. Cahill & Company Limited

Dwight Rudderham, Q.C.
Member of Corporate Governance
SYDNEY, NS

Partner, The Breton Law Group

Stan Cook
Member of HRPMC
ST. JOHN'S, NL

Vice President of Operations, Stan Cook Sea Kayaking Adventures, Cook's Coastal Walks & Wilderness Newfoundland Adventures

James G. Doody, CA
Chair, Audit and Risk
ST. JOHN'S, NL

Director, Insurance Division, Finance Department, Government of Newfoundland and Labrador

Financial statements

Management's Responsibility for Financial Reporting

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s (the "Corporation") management. These financial statements have been prepared in accordance with Canadian public sector accounting standards. These principles have been applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management relies on actuarial reports to record the activities of the pension plan and accrued obligations for post-employment and other non-pension post-retirement benefits. In addition, relating to the assets held for sale, Management relies on estimates provided by internal and external parties.

Management is responsible for the reliability and integrity of the financial statements, including the notes to the financial statements and other financial information contained in the annual report. Management is also responsible for maintaining books of account, information systems, systems of financial and management control, and an internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available; that assets are safeguarded and controlled; that resources are managed efficiently; and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, on behalf of the Board, fulfills this responsibility. The Audit Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements. The Corporation has an internal auditor whose functions include reviewing internal controls and their application on an ongoing basis.

The Auditor General of Canada, the independent auditor of the Corporation appointed under the *Financial Administration Act*, has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. The independent auditor has full and unrestricted access to the Audit Committee to discuss the audit and related findings.

The financial statements and the annual report have been approved by the Board of Directors.

Shawn Leamon, CGA
VICE PRESIDENT OF FINANCE

Paul Griffin
PRESIDENT AND CEO

ST. JOHN'S, CANADA
JUNE 13, 2012

Independant Auditor's Report

AUDITOR GENERAL OF CANADA

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of Marine Atlantic Inc., which comprise the statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, the statements of operations, statements of change in net debt and statements of cash flow for the years ended 31 March 2012 and 31 March 2011, and the statement of remeasurement gains and losses for the year ended 31 March 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

... /2

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Marine Atlantic Inc. as at 31 March 2012, 31 March 2011 and 1 April 2010, the results of its operations, changes in its net debt, and its cash flows for the years ended 31 March 2012 and 31 March 2011, and its remeasurement gains and losses for the year ended 31 March 2012, in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in Canadian public sector accounting standards have been applied, after giving retroactive effect to the adoption of the new standards as explained in Note 3 to the financial statements except for the change in the method of accounting for financial instruments and foreign currency translation as explained in Note 2m to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Marine Atlantic Inc. that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Marine Atlantic Inc. Acquisition Authorization Act*, the *Canada Business Corporations Act* and regulations and the articles of incorporation and by-laws of Marine Atlantic Inc.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

13 June 2012
Halifax, Canada

Statement of Financial Position
As at March 31, 2012 (IN THOUSANDS)

	2012		2011		April 1, 2010	
Financial assets						
Cash (Note 6)	$	8,353	$	9,580	$	11,054
Accounts receivable (Note 15(a))		9,971		9,035		9,505
Receivable from Government of Canada (Note 4)		1,222		3,396		-
Inventories held for resale (Note 5)		291		341		508
Derivative financial instruments (Note 14)		3,147		4,008		156
Accrued pension asset (Note 11)		60,080		49,502		34,673
Assets held for sale (Note 8)		-		7,200		-
	$	83,064	$	83,062	$	55,896
Liabilities						
Accounts payable and accrued liabilities (Notes 9, 15(c))	$	30,565	$	29,211	$	18,993
Derivative financial instruments (Note 14)		1,015		275		1,865
Deferred revenue		2,556		2,628		3,841
Payable to Government of Canada (Note 4)		-		-		1,234
Accrued vacation pay		5,970		5,860		5,617
Accrued pension liability (Note 11)		1,875		1,857		1,920
Accrued liability for other non-pension post-retirement benefits (Note 12)		35,465		32,826		30,839
Accrued liability for post-employment benefits (Note 13)		11,641		12,415		13,172
		89,087		85,072		77,481
Net debt	$	(6,023)	$	(2,010)	$	(21,585)
Non-financial assets						
Tangible capital assets (Note 7)		196,415		179,886		130,047
Inventories held for consumption (Note 5)		17,696		11,390		13,615
Prepaid expenses		19,317		17,034		480
		233,428		208,310		144,142
Accumulated surplus (Note 16)	$	227,405	$	206,300	$	122,557

Contractual obligations (Note 19)

Contingencies (Note 20)

The accompanying notes are an integral part of these financial statements.

On behalf of the Board of Directors:

Director

Director

Statement of Operations
Year ended March 31, 2012 (IN THOUSANDS)

	2012		2011	
	Budget (Note 21)	**Actual**	Budget (Note 21)	Actual
Revenues				
Transportation	$ 87,288	$ 87,772	$ 85,624	$ 83,920
Fuel surcharge	10,452	12,464	12,040	11,662
Other income	40	204	36	181
	97,780	100,440	97,700	95,763
Expenditures				
Wages and benefits	87,961	85,021	79,380	79,407
Fuel	32,811	33,051	35,540	32,512
Charter fees	45,454	44,256	26,108	25,818
Charter importation taxes	16,467	5,306	15,512	-
Repairs and maintenance	16,475	13,187	22,164	12,352
Materials, supplies and services	27,395	17,538	17,016	13,372
Insurance, rent and utilities	5,933	6,066	5,182	5,405
Fleet renewal costs (Note 17)	339	1,201	7,267	10,001
Other	4,979	10,906	5,599	8,915
Employee future benefits (Notes 11, 12 and 13)	11,083	16,022	8,600	8,278
Decommissioning of vessels	-	2,371	-	3,118
Foreign currency exchange (gain) loss	-	(48)	-	66
Unrealized (gain) on derivative financial instruments	-	-	-	(5,442)
Realized (gain) loss on derivative financial instruments	-	(2,703)	-	2,761
(Gain) on disposal of tangible capital assets	-	(21)	-	(14)
Loss on write down of assets held for sale (Note 8)	-	-	-	8,322
(Gain) on disposal of assets held for sale	-	(736)	-	-
Amortization	35,005	20,165	23,662	12,476
	283,902	251,582	246,030	217,347
(Deficit) before government funding	(186,122)	(151,142)	(148,330)	(121,584)
Government funding				
Operations	162,015	135,060	137,796	124,370
Capital	38,570	36,698	78,806	77,839
Recovery of vessel decommissioning costs	-	2,371	-	3,118
	200,585	174,129	216,602	205,327
Operating surplus	14,463	22,987	68,272	83,743
Accumulated operating surplus, beginning of year	206,300	206,300	122,557	122,557
Accumulated operating surplus, end of year (Note 16)	$ 220,763	$ 229,287	$ 190,829	$ 206,300

The accompanying notes are an integral part of these financial statements.

Statement of Remeasurement Gains and Losses
Year ended March 31, 2012 (IN THOUSANDS)

		2012
Remeasurement gains (losses) arising during the year		
Unrealized (loss) on foreign exchange of cash	$	(281)
Unrealized (loss) on derivatives		(4,304)
Reclassifications to the statement of operations		
Realized gain on derivatives		2,703
Net remeasurement (losses) for the year		(1,882)
Accumulated remeasurement gains (losses) on derivative financial instruments, beginning of year		-
Accumulated remeasurement (losses) on derivative financial instruments, end of year (Note 16)	$	(1,882)

The accompanying notes are an integral part of these financial statements.

Statement of Change in Net Debt
Year ended March 31, 2012 (IN THOUSANDS)

	2012		2011	
	Budget (Note 21)	**Actual**	Budget (Note 21)	Actual
Surplus	$ 14,463	$ 22,987	$ 68,272	$ 83,743
Change in tangible capital assets				
Acquisition of tangible capital assets (Note 7)	(38,570)	(36,698)	(78,806)	(77,839)
Amortization of tangible capital assets (Note 7)	35,005	20,165	23,662	12,476
Loss on disposal of tangible capital assets	-	(21)	-	(14)
Loss on write down of assets held for sale	-	-	-	8,322
Reclassification of assets held for sale to financial assets	-	-	-	7,200
Proceeds on disposal of tangible capital assets	-	25	-	15
(Increase) in tangible capital assets	(3,565)	(16,529)	(55,144)	(49,840)
Change in other non-financial assets				
Net change in inventories held for consumption	-	(6,306)	-	2,225
Net change in prepaid expenses	-	(2,283)	-	(16,553)
(Increase) in other non-financial assets	-	(8,589)	-	(14,328)
Remeasurement (losses) gains	-	(1,882)	-	-
Decrease (increase) in net debt	10,898	(4,013)	13,128	19,575
Net debt, beginning of year	(2,010)	(2,010)	(21,585)	(21,585)
Net debt, end of year	$ 8,888	$ (6,023)	$ (8,457)	$ (2,010)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flow
Year ended March 31, 2012 (IN THOUSANDS)

	2012	2011
Operating transactions		
Cash receipts from customers	$ 100,285	$ 94,538
Other income received	255	77
Government funding – operations	141,104	133,629
Government funding – capital	37,648	67,067
Proceeds from assets held for sale	7,938	-
Cash payments to suppliers	(143,990)	(126,574)
Cash payments to and on behalf of employees	(81,842)	(81,258)
Cash paid for pension, other non-pension post-retirement benefits, and post-employment benefits	(24,717)	(21,940)
Interest and foreign exchange on cash	(285)	39
	36,396	65,578
Capital transactions		
Purchase of tangible capital assets	(37,648)	(67,067)
Proceeds on disposal of tangible capital assets	25	15
	(37,623)	(67,052)
Net (decrease) in cash	(1,227)	(1,474)
Cash, beginning of year	9,580	11,054
Cash, end of year	$ 8,353	$ 9,580
Cash consists of:		
Restricted cash	$ 8,290	$ 8,575
Unrestricted cash	63	1,005
	$ 8,353	$ 9,580

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements
Year ended March 31, 2012 (IN THOUSANDS)

1. NATURE OF OPERATIONS AND AUTHORITY

Marine Atlantic Inc. is incorporated under the *Canada Business Corporations Act*. The *Marine Atlantic Inc. Acquisition Authorization Act* of 1986 established the Corporation as a parent Crown corporation. Marine Atlantic Inc. is a federal Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. The Corporation is not an agent of Her Majesty. In accordance with the Act, the Corporation's articles restrict its business to 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. As a result of the *National Marine Policy (1995)*, the mandate was narrowed to the operation of the ferry system. The Corporation considers this to be its sole program. The corporate mission 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." The Corporation operates a ferry service between Nova Scotia and Newfoundland and Labrador. This service encompasses the year-round ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and Labrador (constitutional route) and the seasonal summer service between North Sydney, Nova Scotia and Argentia, Newfoundland and Labrador (non-constitutional route). The Corporation operates its service with one owned and three leased vessels. It owns terminals in North Sydney, Nova Scotia; Port Aux Basques and Argentia, Newfoundland and Labrador.

Marine Atlantic Inc.'s wholly-owned subsidiary, the Newfoundland Dockyard Corporation, has ceased operations. The Province of Newfoundland issued a cancellation certificate in May 2011 and therefore no operations are consolidated in the financial statements of the Corporation.

The Corporation receives funding for its operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. The Corporation is economically dependent on the Government of Canada.

The Corporation's Board of Directors accepts responsibility for price changes across all services, including to a maximum of five percent per year on constitutional fares. The Corporation also sets a fuel surcharge based on the annual cost recovery target.

The acquisitions of tangible capital assets are subject to approval of parliamentary appropriations.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Government funding

The Corporation receives government funding to fund its current cash requirements, related to operating expenses in excess of commercial revenues and to acquire tangible capital assets. The funding received is included in income for the period when funding has been authorized and all requirements are met by the Corporation. Any difference between amounts provided and amounts required represents a receivable from (payable to) the Government of Canada. On occasion, the Corporation sells assets for which the net proceeds are required to be returned to the Consolidated Revenue Fund. On these occasions, the net proceeds are applied against the operating funding requirements in the period of disposition.

(b) Financial instruments

Cash, accounts receivable, accounts payable, accrued liabilities and payable to the Government of Canada are measured at cost.

Derivative financial instruments are measured at fair value with changes in fair value being recognized in the statement of remeasurement gains and losses until the derivative financial instrument is derecognized at which point the accumulated remeasurement gain (loss) is reversed and reclassified to the statement of operations. Transaction costs are expensed as incurred.

(c) Insurance claims receivable

Accounts receivable includes recoverable insurance claims which are recognized when the Corporation receives approval of its claim from the insurance underwriter.

(d) Inventory

Inventories consisting primarily of items used for consumption onboard vessels are valued at the lower of historical cost or replacement cost.

(e) Tangible capital assets

Tangible capital assets are comprised of vessel, facilities and equipment which are carried at cost less accumulated amortization. Major spare parts that are included in the Corporation's vessel spare parts inventory are accounted for as tangible capital assets. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with a tangible capital asset.

The cost of work in progress includes materials, direct labour and overhead. Amounts included in work in progress are transferred to the appropriate tangible capital asset classification when available and ready for use and are then amortized.

Amortization is calculated at rates sufficient to write off the cost, less any residual value, of tangible capital assets over their estimated useful lives on a straight-line basis. The cost, less any residual value, of projects onboard the vessel are amortized over the lesser of the useful life of the asset or the useful life of the vessel. Leasehold improvements are amortized over the shorter of the term of the lease agreement or the asset's useful life.

Estimated useful lives and amortization methods are reviewed at the end of each year. The rates for significant classes of tangible capital assets are as follows:

Vessel	5% to 10%
Shore facilities	2.5% to 5%
Equipment (includes vessel projects)	10% to 25%
Leasehold improvements	Term of lease agreement

When conditions indicate that a tangible capital asset no longer contributes to the Corporation's ability to provide goods and services, the cost of the asset is written down to residual value, if any. Write-downs are not reversed.

(f) Employee future benefits

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the benefits accrue to employees. The Corporation has adopted the following policies:

POST-RETIREMENT BENEFITS

i) Accrued pension asset (liability)

The Corporation maintains, through a trustee, a registered defined benefit pension plan covering substantially all of its employees, an unfunded supplementary retirement arrangement for senior managers hired prior to March 1, 2001, and an unfunded supplementary retirement arrangement adopted in 2006 for designated positions providing benefits for service since 2004. Eligibility under the latter supplementary arrangement was extended to benefits accrued for service since 2009 for all members of the registered defined benefit pension plan who are affected by the maximum pension payable by the registered plan. Benefits generally are based on employees' length of service and final or best average earnings for all benefits.

The cost of pensions is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, inflation and retirement ages of employees. The discount rate used to calculate the interest cost on the pension obligations is based on its expected return on plan assets for the registered pension plan and a proxy of the cost of borrowing for the other plans.

The expected long-term rate of return on plan assets is based on estimated returns, consistent with market conditions applicable on the measurement date, for each major asset class and the target asset mix specified in the plan's investment policy. A market-related value of plan assets is used for purposes of the financial statements, and the expected return on plan assets is based thereon. The market-related value of plan assets is determined using a method which amortizes gains or losses relative to the expected return over five years. Actuarial gains or losses arise from the difference between the actual rate of return and the expected long-term rate of return on plan assets and from changes in the pension obligations due to changes in actuarial assumptions used or actual experience differing from that which is expected based on the assumptions.

Actuarial gains and losses for registered pension plan members, and members for the supplementary retirement arrangement adopted in 2006 are amortized over the estimated average remaining service period of the members. Actuarial gains and losses for the members of the former supplementary retirement arrangements are amortized over the average life expectancy of plan members.

Adjustments for plan amendments, net of offsetting unamortized actuarial gain/losses, related to prior period employee services are recognized in the statement of operations in the period of plan amendment.

The estimated average remaining service period of the members covered by the registered pension plan and the supplementary retirement arrangement adopted in 2006 is 11.3 years (2011 – N/A). For the former supplementary retirement arrangements, the average life expectancy of plan members is 17.7 years (2011 – N/A).

ii) Health and dental plans

The Corporation provides life insurance and health and dental care benefits to current and retired employees. Basic and optional life insurances become eligible to union and non-union/management employees the first of the month following 60 days of continuous employment. Extended health and dental benefits become eligible to union employees the first of the month following the attainment of 1,040 hours worked and to non-union/management employees the first of the month following date of hire.

The cost of non-pension post-retirement benefits is actuarially determined using management's best estimates of future participation rate in the retiree health and dental plan, average health care cost per covered individual, health care trend rates and utilization, salary escalation and mortality rates.

Adjustments arising from actuarial gains and losses are amortized over the estimated average remaining service period of the related employee group.

The estimated average remaining service period of members covered by non-pension employee future benefit plans expected to receive benefits is 13.4 years (2011 – N/A). Adjustments for plan amendments, net of offsetting unamortized actuarial gain/losses, related to prior period employee services are recognized in the statement of operations in the period of plan amendment.

iii) Complimentary ferry services for employees and retirees

Current and retired employees of Marine Atlantic Inc. have travel benefits for the Corporation's vessels. Travel pass privileges become eligible to union and non-union/management employees after acquiring four months of continuous employment relationship plus 694 regular hours worked or two years of service, whichever occurs earliest. No liability has been recognized on the statement of financial position for this benefit because it is not material.

POST-EMPLOYMENT BENEFITS

i) Workers compensation liabilities

For certain employees and former employees, the Corporation is a self-insured employer and is accountable for workers' compensation liabilities incurred. The cost of workers' compensation liabilities is actuarially determined using the net present value of liabilities for work-related injuries of current and former employees when awards are approved by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador; Workplace Health, Safety and Compensation Commission of New Brunswick; or Workers' Compensation Commission of Prince Edward Island; or legislative amendments are made and the anticipated future costs can be reasonably calculated. Management recognizes changes in the net present value of the liability, based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions.

Adjustments arising from actuarial gains and losses are amortized over the average expected period over which benefits will be paid of 10 years (2011 – N/A).

ii) Other benefits

Other post-employment benefits valued are the income replacement for employees on short-term disability and group benefit continuation for employees on long-term disability. The cost of these other post-employment benefits is actuarially determined using the net present value of the liabilities associated with employees currently on short-term or long-term disability taking into account inflation rates, interest rates, mortality rates and health care cost trend rates. Management recognizes changes in the net present value of the liability, based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions.

Short-term disability benefits become eligible to union employees the first of the month following 60 days of continuous employment. This benefit is not available to non-union/management employees as they have a separate sick leave plan. The union short-term disability plan provides regular income to replace income lost because of a disability due to disease or non-work related injury. Benefits begin after the waiting period is over and continue until the employee is no longer disabled or until the end of the benefit period, whichever comes first. In order to qualify for short-term disability benefits, an employee must have met the eligibility period and meet the definition of disabled. The amount of weekly benefit is determined by the employees' collective agreement. An employee in receipt of short-term disability benefits has their extended health insurance maintained for a period of six months, their dental insurance maintained for a period of three months and their basic life insurance continued for a period of six months after which they can make application for a waiver of life premium to maintain their coverage. Their travel pass privileges are maintained during the duration of their disability. Accidental death and dismemberment benefits are not provided to employees who are not active in the workplace.

Long-term disability benefits become eligible to non-union/management employees the first of the month following 60 days of continuous employment. This plan is not available to union employees. The non-union/management long-term disability plan provides regular income to replace income lost because of a lengthy disability due to disease or non-work related injury. Benefits begin after the waiting period of 26 weeks is over and continue until the employee is no longer disabled as defined by the policy or the employee reaches age 65, whichever comes first. The amount of weekly benefit is determined by whether the employee is a management employee or non-union employee. An employee in receipt of long term disability has their extended health and dental insurance continued, along with their travel pass privileges, during the duration of their illness provided they continue to meet the definition of disabled and have not yet obtained age 65. Basic life insurance is continued for a period of six months after which they can make application for a waiver of life premium to maintain their coverage. Accidental death and dismemberment benefits are not provided to employees who are not active in the workplace.

There is also a sick leave plan that becomes eligible to non-union/management employees hired after 01 September 2001 as they work and accumulate sick leave credits and employees hired prior to 01 September 2001 become eligible for sick leave based on years of service. This plan is not available to union employees. The sick leave plan provides benefits that accumulate but do not vest. No liability has been recognized on the statement of financial position for this benefit because it is not material.

(g) Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Commercial and fuel surcharge are recorded when ferry services are provided. The Corporation requires customers to pay in advance when booking a reservation. These amounts received are recorded as deferred revenue and are recognized as revenue when ferry services are provided.

Interest income is recorded as it is earned and collection is reasonably assured.

(h) Expenses

Expenses are reported on an accrual basis. Expenses for the operations of the Corporation are recorded when goods or services are received.

Expenses include provisions to reflect changes in the value of assets or liabilities, including provisions for bad debt and inventory obsolescence. Expenses also include amortization of tangible capital assets and utilization of inventories and prepaid expenses.

(i) Prepaid expenses

Prepaid expenses are disbursements made before the completion of the work, delivery of the goods or rendering of the service or advance payments under the terms of lease agreements. Prepaid expenses also include costs related to the importation of chartered vessels that are amortized to charter importation taxes on the statement of operations over the remaining terms of the related lease agreements.

(j) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the financial statement date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the financial statement date. An exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses. In the period of settlement, the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses and an exchange gain or loss measured in relation to the exchange rate at the date of the item’s initial recognition is recognized in the statement of operations.

(k) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(l) Measurement uncertainty

The preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include accrued pension asset, accrued obligations for workers’ compensation benefits and other non-pension employee future benefits, valuation of assets held for sale and litigation. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

(m) Change in accounting policy

On April 1, 2011, the Corporation adopted the PSA Handbook Sections PS 2601 *Foreign Currency Translation* and PS 3450 *Financial Instruments*. The change in accounting policy is applied prospectively. Under the Corporation's previous framework, unrealized gains and losses in financial assets and liabilities due to the revaluation of balances denominated in foreign exchange and/or the unrealized gains and losses as a result of recording certain financial assets and liabilities at fair value were reported in the Statement of Operations.

Under Sections PS 2601 and PS 3450, these unrealized gains and losses are reported in the Statement of Remeasurement Gains and Losses. As a result, for the year ended March 31, 2012, an unrealized foreign currency exchange loss of $281 and an unrealized loss on derivative financial instruments of $1,601 were presented in the Statement of Remeasurement Gains and Losses.

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, the Corporation classified itself as a Government Business-Type Organization ("GBTO") and followed the recommendations of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook – Part V. In October 2009, the PSAB determined that this category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting Standards ("PSAS"). In accordance with recommendations of the PSA Handbook, the Corporation has determined that it is an other government organization ("OGO") and has determined that PSAS is the most appropriate framework for reporting purposes.

The adoption of PSAS is accounted for by retroactive application with restatement of prior periods. Although minor quantitative balances have changed, the following is a summary of the main qualitative differences for the Corporation between its previous and current financial statements:

- The March 31, 2011 Balance Sheet has been replaced by the Statement of Financial Position, segregating financial and non-financial assets as well as the net debt (liabilities less financial assets) of the Corporation; and accumulated surplus/deficit at the Statement of Financial Position date.
- The Statement of Income and Accumulated Deficit for the year ended March 31, 2011 has been replaced by the Statement of Operations, reporting both revenue and expenses. A comparison of the current year results with the original comparative budget is also disclosed.
- A Statement of Change in Net Debt has been presented, which represents the expenditures of a public sector reporting entity less revenue, as well as acquisitions of tangible capital assets and other items explaining the difference between the surplus/deficit of the period and the change in net debt for the period. A comparison of the current year results with the original comparative budget is also disclosed.
- A Statement of Remeasurement Gains and Losses has been presented, which represents the unrealized gains and losses in financial assets and liabilities due to the revaluation of balances denominated in foreign exchange and/or the unrealized gains and losses as a result of recording certain financial assets and liabilities at fair value.

The Corporation has elected to use the following exemptions under PS 2125, *First Time Adoption by Government Organizations*:

Pension and non-pension post-retirement and post-employment benefits

Under Section PS 3250 for pension and non-pension post-retirement benefits, and PS 3255 for post-employment benefits, a government organization amortizes actuarial gains and losses to the liability or asset, and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group or a reasonable future period for plans with no active members. Retroactive application of this approach requires a government organization to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to PSA Standards into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses as the date of transition to PSA Standards directly in accumulated surplus/deficit. Marine Atlantic Inc. has elected to do this.

Tangible capital asset impairment

Section PS 3150, indicates the conditions when a write-down of a tangible capital asset should be accounted for. A first-time adopter need not comply with those requirements for write-downs of tangible capital assets that were incurred prior to the date of transition to PSA Standards. If a first-time adopter uses this exemption, the conditions for a write-down of a tangible capital asset in Section PS 3150 are applied on a prospective basis from the date of transition. Marine Atlantic Inc. is using this exemption.

The following tables present the reconciliation of account balances and transactions from the previous reporting framework to PSA standards:

(a) Reconciliation of the April 1, 2010 Statement of Financial Position:

	Footnotes	CICA Accounting Handbook Part V	Adjustments	PSA Standards
Assets				
Cash	A	$ 2,517	$ 8,537	$ 11,054
Accounts receivable		9,505	-	9,505
Inventories		14,123	-	14,123
Derivative financial instruments		156	-	156
Prepaid expenses		480	-	480
Restricted cash	A	8,537	(8,537)	-
Tangible capital assets	B	128,890	1,157	130,047
Intangible assets	B	1,157	(1,157)	-
Accrued pension asset	D	68,654	(33,981)	34,673
Total assets		$ 234,019	$ (33,981)	$ 200,038
Liabilities				
Accounts payable and accrued liabilities	H	$ 18,830	$ 163	$ 18,993
Derivative financial instruments		1,865	-	1,865
Deferred revenue		3,841	-	3,841
Payable to Government of Canada		1,234	-	1,234
Accrued vacation pay		5,617	-	5,617
Accrued pension liability	D	1,264	656	1,920
Accrued liability for other non-pension post-retirement benefits	C, D	23,263	7,576	30,839
Accrued liability for post-employment benefits	C, D	9,108	4,064	13,172
Deferred capital funding	G	130,047	(130,047)	-
Total liabilities		$ 195,069	$ (117,588)	$ 77,481
Accumulated surplus		$ 38,950	$ 83,607	$ 122,557
Accumulated surplus is comprised of:				
Accumulated operating (deficit) surplus	F	$ (219,580)	$ 342,137	$ 122,557
Share capital	F	258,530	(258,530)	-
		$ 38,950	$ 83,607	$ 122,557

(b) Reconciliation of the March 31, 2011 Statement of Financial Position:

	Footnotes	CICA Accounting Handbook Part V	Adjustments	PSA Standards
Assets				
Cash	A	$ 1,005	$ 8,575	$ 9,580
Accounts receivable		9,035	-	9,035
Receivable from the Government of Canada		3,396	-	3,396
Inventories		11,731	-	11,731
Derivative financial instruments		4,008	-	4,008
Prepaid expenses	B	3,202	13,832	17,034
Restricted cash	A	8,575	(8,575)	-
Tangible capital assets	B	178,637	1,249	179,886
Intangible assets	B	15,081	(15,081)	-
Assets held for sale		7,200	-	7,200
Accrued pension asset	D, E	78,409	(28,907)	49,502
Total assets		$ 320,279	$ (28,907)	$ 291,372
Liabilities				
Accounts payable and accrued liabilities		$ 29,211	$ -	$ 29,211
Derivative financial instruments		275	-	275
Deferred revenue		2,628	-	2,628
Accrued vacation pay		5,860	-	5,860
Accrued pension liability	D, E	1,245	612	1,857
Accrued liability for other non-pension post-retirement benefits	C, D, E	24,601	8,225	32,826
Accrued liability for post-employment benefits	C, D, E	8,826	3,589	12,415
Deferred capital funding	G	187,086	(187,086)	-
Total liabilities		$ 259,732	$ (174,660)	$ 85,072
Accumulated surplus		$ 60,547	$ 145,753	$ 206,300
Accumulated surplus is comprised of:				
Accumulated operating (deficit) surplus	F	$ (197,983)	$ 404,283	$ 206,300
Share capital	F	258,530	(258,530)	-
		$ 60,547	$ 145,753	$ 206,300

(c) Reconciliation of the Statement of Operations for the year ended March 31, 2011:

	Footnotes	CICA Accounting Handbook Part V	Adjustments	PSA Standards
Revenue				
Commercial revenue		$ 83,920	$ -	$ 83,920
Fuel surcharge revenue		11,662	-	11,662
Other income		181	-	181
		95,763	-	95,763
Operating expenses				
Wages and benefits		79,407	-	79,407
Fuel		32,512	-	32,512
Charter fees		25,818	-	25,818
Repairs and maintenance		12,352	-	12,352
Materials, supplies and services		13,372	-	13,372
Insurance, rent and utilities		5,405	-	5,405
Other	H	9,078	(163)	8,915
Employee future benefits	D, E	13,222	(4,944)	8,278
Fleet renewal costs		10,001	-	10,001
Decommissioning of vessels		3,118	-	3,118
Foreign currency exchange loss		66	-	66
Unrealized (gain) loss on derivative financial instruments		(5,442)	-	(5,442)
Realized loss on derivative financial instruments		2,761	-	2,761
(Gain) loss on disposal of tangible capital assets		(14)	-	(14)
Loss on write down of assets held for sale		8,322	-	8,322
Amortization		12,476	-	12,476
		222,454	(5,107)	217,347
Deficit before government funding		(126,691)	5,107	(121,584)
Government funding				
Operations		124,370	-	124,370
Capital	G	-	77,839	77,839
Recovery of vessel decommissioning costs		3,118	-	3,118
Amortization of deferred capital funding	G	20,800	(20,800)	-
		148,288	57,039	205,327
Operating surplus		21,597	62,146	83,743
Accumulated operating surplus, beginning of year	F	38,950	83,607	122,557
Accumulated operating surplus, end of year		$ 60,547	$ 145,753	$ 206,300

(d) Reconciliation of the Statement of Cash Flow for the year ended March 31, 2011:

	Footnotes	CICA Accounting Handbook Part V	Adjustments	PSA Standards
Operating transactions				
Cash receipts from customers		$ 94,538	$ -	$ 94,538
Other income received		77	-	77
Government funding – operations		133,629	-	133,629
Government funding – capital		67,067	-	67,067
Cash paid to suppliers and employees	B	(195,844)	(11,988)	(207,832)
Cash paid for pension, workers' compensation and other non-pension employee future benefits		(21,940)	-	(21,940)
Interest and foreign exchange on cash	A	-	39	39
		77,527	(11,949)	65,578
Capital transactions				
Purchase of tangible capital assets	B	(66,631)	(436)	(67,067)
Purchase of intangible assets	B	(12,423)	12,423	-
Proceeds on disposal of tangible capital assets		15	-	15
		(79,039)	11,987	(67,052)
Net increase (decrease) in cash		(1,512)	38	(1,474)
Cash, beginning of year	A	2,517	8,537	11,054
Cash, end of year		$ 1,005	$ 8,575	$ 9,580

NOTES TO THE RECONCILIATION OF CICA ACCOUNTING HANDBOOK – PART V TO PSA STANDARDS:

A) Reclassification of "restricted cash" to "cash"

PSA Standards require information about externally restricted assets to be disclosed in the notes, and not on the statement of financial position unless the externally restricted assets are significant in relation to total assets. Therefore, restricted cash was reclassified to "cash" on the face of the statement of financial position and note disclosure was made with respect to restricted cash (See Note 6).

B) Reclassification of "intangible assets"

Under PSA Standards, computer hardware and software falls under the scope of PS 3150 *Tangible Capital Assets*. Therefore, an "intangible assets" balance of $1,157 was reclassified to "tangible capital assets" at the date of transition. An "intangible assets" balance of $1,249 was reclassified to "tangible capital assets" as of March 31, 2011.

Under PSA costs related to the importation of vessels that were previously recognized as an intangible asset are reclassified as a prepaid expense and amortized over the remaining terms of the vessel charter agreements. Therefore, an "intangible assets" balance as of March 31, 2011 totaling $13,832 was reclassified to "prepaid expenses" and will be amortized to "charter importation taxes" on the statement of operations.

C) Reclassification of current portion of accrued liability for other non-pension post-retirement benefits and accrued liability for post-employment benefits

Current assets and liabilities are not presented under PSA. Therefore, the current portion of long-term accrued obligations was reclassified to the appropriate accrued liability balances.

D) Adjustment to accumulated surplus for accrued pension asset, accrued pension liability, accrued liability for other non-pension post-retirement benefits and accrued liability for post-employment benefits

	Pension benefits – asset	Pension benefits – liability	Other non-pension post-retirement benefits	Post-employment benefits	Total
Adjustments as of April 1, 2010:					
Cost of plan amendments (Note 1)	$ 6,367	$ 24	$ (188)	$ -	$ 6,203
Unamortized actuarial gains/losses (Note 2)	25,885	292	(2,890)	1,979	25,266
Changes to discount rates and other assumptions (Note 3)	1,729	340	10,654	2,085	14,808
	33,981	656	7,576	4,064	46,277
Adjustments required for year ending March 31, 2011	(5,074)	(44)	649	(475)	(4,944)
Total adjustments to accumulated operating surplus	$ 28,907	$ 612	$ 8,225	$ 3,589	$ 41,333

Note 1 – Under the Corporation's previous accounting framework, the cost of amendments to employee benefit plans was recognized on a deferred basis. Under PSA, the cost of plan amendments is to be recognized immediately in the statement of operations.

Note 2 – The Corporation has decided to take the election under PS 2125 *First time adoption by Government Organizations* and recognize all unamortized actuarial gains/losses directly in accumulated surplus/deficit.

Note 3 – The Corporation has elected not to defer the change in the discount rates required under the PSA Standards. Therefore, in addition to the adjustments mentioned above, changes to the asset valuation and assumptions due to the adoption of the PSA Standards, as well as changes in the value of the pension obligation due to the availability of a new actuarial valuation have resulted in additional adjustments at the time of adoption of the PSA Standards.

As of the date of transition, the impact of the change in attribution periods for other non-pension post-retirement benefits was a gain of $2,351. This amount is included in the adjustment of $10,654 provided above for other non-pension post-retirement benefits.

E) Actuarial gains/losses arising subsequent to the date of transition

Under the Corporation's previous accounting framework, actuarial gains and losses for pension benefits, and other non-pension post-retirement and post-employment benefits were amortized over the average remaining service period of active employees expected to receive benefits under the plan or over the average remaining life expectancy of employees in the case when all, or almost all of the employees are no longer active.

However, under PSA Standards, actuarial gains and losses are to be amortized over the expected average remaining service life of the related employee group expected to receive benefits under the plan or another reasonable future period. Under Section PS 3255, actuarial gains and losses may be amortized over a period linked to the type of benefit.

For pension and other non-pension post-retirement benefit plans in which the related employee group is no longer active, actuarial gains and losses are amortized over the average life expectancy of the plan members. There is no impact since there is no change in the amortization methods the Corporation is using.

F) Share capital

Under PSA Standards the Corporation's share capital shall be classified along with accumulated surplus (deficit). On transition an adjustment was made to classify $258,530 from share capital to accumulated operating surplus.

G) Deferred capital funding

Under the Corporation's previous framework, government transfers received for the purpose of purchases of tangible capital assets were deferred and amortized to revenue at the same rate the asset was amortized.

However, under PSA Standards, government transfers for the purpose of purchases of tangible capital assets are recognized as revenue when the related assets are acquired. As a result, an adjustment of $130,047 was made to de-recognize the deferred capital funding liability, with an offsetting adjustment to accumulated surplus/deficit.

The balance of the deferred capital funding liability as of March 31, 2011 was $187,086. Therefore, an adjustment was made as at and for the year ended March 31, 2011 to decrease this balance by $187,086, increase revenue by $57,039 and increase accumulated surplus by $130,047.

H) Contingent liabilities

There are differences in some of the definitions within the PSA Standard for contingent liabilities when compared to the Corporation's previous accounting framework. Therefore, an adjustment of $163 was made to "accounts payable and accrued liabilities" at the date of transition to increase the contingent liability for pending claims and lawsuits, with an offsetting adjustment to accumulated surplus/deficit. An adjustment of $163 was made to decrease "other" expenses on the statement of operations for the year ended March 31, 2011.

4. RECEIVABLE (PAYABLE) FROM GOVERNMENT OF CANADA

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the statement of operations in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has a different surplus (deficit) for the year on a government funding basis than on a generally accepted accounting principles basis.

	2012	2011
Receivable (payable) from Government of Canada, beginning of year	$ 278	$ (1,234)
Parliamentary appropriations received during the year	(178,752)	(200,696)
Recognized during the year:		
Government funding – operations	135,060	124,370
Government funding – capital	36,698	77,838
Government funding surplus (deficit)	6,994	(1,512)
Receivable (payable) from Government of Canada, end of year	(6,716)	278
Recovery of vessel decommissioning costs	-	3,118
Proceeds on assets held for sale	7,938	-
Total	$ 1,222	$ 3,396

5. INVENTORIES

	2012	2011	April 1, 2010
Inventories held for consumption			
Fuel inventory	$ 14,113	$ 8,513	$ 8,311
Vessel spare parts – ship based	1,642	1,513	3,073
Vessel spare parts – shore based	1,941	1,364	2,231
	17,696	11,390	13,615
Inventories held for resale			
Catering inventory	291	341	508
Total inventories	$ 17,987	$ 11,731	$ 14,123

For the year ended March 31, 2012, inventories expensed during the year amounted to $39,382 (2011 – $39,989, 2010 – $34,631). The Corporation has written down $181 (2011 – $3,295, 2010 – $359) of spare parts. In 2011, the write down is mainly due to the decommissioning of the vessels.

6. CASH

Cash includes restricted cash consisting of cash denominated in Euros plus accumulated interest held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The charter agreement signed in April 2008 required the establishment of an escrow account equivalent to six months of charter fees until the end of the charter in 2013. The total balance denominated in Euros is $6,223 (2011 – $6,221, 2010 – $6,221), which translates to $8,290 (2011 – $8,575, 2010 – $8,537) Canadian dollars at March 31, 2012. These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

7. TANGIBLE CAPITAL ASSETS

	Cost 2012				
	Opening Balance	Additions	Disposals	Write-downs	Closing Balance
Vessel	$ 98,793	$ 2,579	$ (345)	$ -	$ 101,027
Shore facilities	111,104	4,767	-	-	115,871
Leasehold improvements	23,609	23,320	-	-	46,929
Equipment	16,753	3,743	(2,201)	-	18,295
Work in progress	31,714	2,289	-	-	34,003
	$ 281,973	$ 36,698	$ (2,546)	$ -	$ 316,125

	Accumulated Amortization 2012				
	Opening Balance	Amortization Expense	Disposals	Write-downs	Closing Balance
Vessel	$ 41,639	$ 5,895	$ (345)	$ -	$ 47,189
Shore facilities	47,782	3,596	-	-	51,378
Leasehold improvements	2,657	8,970	-	-	11,627
Equipment	10,009	1,704	(2,197)	-	9,516
Work in progress	-	-	-	-	-
	$ 102,087	$ 20,165	$ (2,542)	$ -	$ 119,710

	Cost 2011					
	Opening Balance	Additions	Disposals	Write-downs	Reclassification to Assets Held for Sale	Closing Balance
Vessel	$ 375,089	$ 24,385	$ (1,176)	$ -	$ (299,505)	$ 98,793
Shore facilities	88,059	23,045	-	-	-	111,104
Leasehold improvements	6,122	17,487	-	-	-	23,609
Equipment	12,858	3,895	-	-	-	16,753
Work in progress	22,687	9,027	-	-	-	31,714
	$ 504,815	$ 77,839	$ (1,176)	$ -	$ (299,505)	$ 281,973

Accumulated Amortization 2011						
	Opening Balance	Amortization Expense	Disposals	Write-downs	Reclassification to Assets Held for Sale	Closing Balance
Vessel	$ 320,284	$ 6,513	$ (1,175)	$ -	$ (283,983)	$ 41,639
Shore facilities	44,066	3,716	-	-	-	47,782
Leasehold improvements	1,421	1,236	-	-	-	2,657
Equipment	8,997	1,012	-	-	-	10,009
Work in progress	-	-	-	-	-	-
	$ 374,768	$ 12,476	$ (1,175)	$ -	$ (283,983)	$ 102,087

	Net Book Value 2012	Net Book Value 2011	Net Book Value April 1, 2010
Vessel	$ 53,838	$ 57,154	$ 54,805
Shore facilities	64,493	63,322	43,993
Leasehold improvements	35,302	20,952	4,701
Equipment	8,779	6,744	3,861
Work in progress	34,003	31,714	22,687
	$ 196,415	$ 179,886	$ 130,047

8. ASSETS HELD FOR SALE

During the year ended March 31, 2011, in accordance with the Corporation's business plan to replace aging assets, the MV *Caribou* and the MV *Joseph and Clara Smallwood* were decommissioned and held for sale. This coincided with entry into service of the newly leased vessels MV *Blue Puttees* and the MV *Highlanders*. The Corporation received approval from Transport Canada in February 2011 to sell the above mentioned vessels and recover the decommissioning cost of the vessels from the proceeds of sale. (See note 4) The assets were presented at their fair value which was determined using the market value of steel. Consequently, a loss on write down of assets held for sale of $8,322 was recorded in the statement of operations. Disposal of these assets occurred during the year ended March 31, 2012.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011	April 1, 2010
Accounts payable	$ 12,611	$ 15,187	$ 5,624
Accrued liabilities	9,992	6,941	5,978
Salaries and benefits payable	5,963	5,387	5,762
Government remittances payable	1,999	1,696	1,629
Accounts payable and accrued liabilities	$ 30,565	$ 29,211	$ 18,993

Amounts due to Government and other Government organizations of $315 (2011 – $145, 2010 – $132) are payable on demand and are non-interest bearing.

10. LIABILITY FOR CONTAMINATED SITE

As part of its quality, risk and compliance program, the Corporation performs environmental assessment of its operations and facilities. In 2010-11, the Corporation found environmental issues at its previously operated Bar Harbour terminal in the United States. The Corporation has assessed the impact and an action plan has been prepared to ensure compliance with the regulations. The Corporation has recorded a provision of $73 (2011 – nil) in accounts payable and accrued liabilities for an environmental liability which represents the estimated anticipated future costs for remediation of the site. However, there is the potential for costs to increase if additional remediation work is required due to further environmental issues being identified after additional testing is completed.

No discounting has been applied to the amount accrued due to the short term nature of this liability.

11. ACCRUED PENSION ASSET (LIABILITY)

The Corporation's independent actuaries measure the pension obligations and the value of the plans' assets for accounting purposes as at the measurement date (December 31, 2011 for March 31, 2012, December 31, 2010 for March 31, 2011, and December 31, 2009 for April 1, 2010). The most recent actuarial valuation for accounting purposes was completed in 2011 and is as of December 31, 2010.

Based on the actuarial valuations and projections to December 31, the summary of the principal valuation results, in aggregate, is as follows:

	2012	2011
Accrued Benefit Obligation:		
Balance at beginning of year	$ 543,513	$ 511,376
Cost of plan amendment	1,200	-
Current Service Cost	8,138	6,722
Employee Contributions	4,330	3,423
Interest Costs	30,154	30,161
Benefits paid	(34,122)	(33,065)
Actuarial loss (gain)	19,910	24,896
Balance at end of year	$ 573,123	$ 543,513
Market-related Value of Plan Assets:		
Balance at beginning of year	$ 553,029	$ 539,756
Actual gains from return on plan assets	20,948	23,480
Employer contributions	16,013	19,435
Employee contributions	4,330	3,423
Benefits paid	(34,122)	(33,065)
Balance at end of year	$ 560,198	$ 553,029

The following presents the financial position of the Corporation's pension arrangements:

	2012		2011		April 1, 2010	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (market-related value)	$ 560,198	$ -	$ 553,029	$ -	$ 539,756	$ -
Pension obligations (actuarial value)	570,600	2,523	541,502	2,011	509,419	1,957
Surplus (deficit) end of year	$ (10,402)	$ (2,523)	$ 11,527	$ (2,011)	$ 30,337	$ (1,957)
Unamortized net actuarial losses (gains)	59,350	610	33,378	117	-	-
Employer contributions during year from measurement date to March 31	11,132	38	4,597	37	4,336	37
Accrued pension asset (liability)	$ 60,080	$ (1,875)	$ 49,502	$ (1,857)	$ 34,673	$ (1,920)

The following presents a summary of pension contributions and benefit payments in the year:

	2012		2011	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Contributions:				
Employer	$ 22,399	$ 151	$ 19,547	$ 149
Employees	4,330	-	3,423	-
Total	$ 26,729	$ 151	$ 22,970	$ 149
Benefits paid	$ 33,972	$ 150	$ 32,916	$ 149

The pension costs include the following components:

	2012		2011	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Determination of pension costs for the year are calculated as:				
Current period benefit cost	$ 12,408	$ 60	$ 10,137	$ 8
Plan amendment incurred in period	1,197	3	-	-
Amortization of net actuarial loss	3,053	27	-	-
Employee contributions	(4,330)	-	(3,423)	-
Retirement benefit expense	$ 12,328	$ 90	$ 6,714	$ 8
Interest on pension obligations	$ 30,076	$ 78	$ 30,083	$ 78
Return on plan assets	(30,583)	-	(32,079)	-
Retirement benefit interest expense	$ (507)	$ 78	$ (1,996)	$ 78
Pension costs	$ 11,821	$ 168	$ 4,718	$ 86

The registered pension plan is a defined benefit pension plan. The pension formula for current active members of the plan provides a pension, for each year of allowable service up to a maximum of 35 years, equal to 1.6% of best or final average earnings up to the average maximum pensionable earnings under the Canada Pension Plan, plus 2% of best or final average earnings in excess of the average maximum pensionable earnings under the Canada Pension Plan. The plan provides for possible indexation adjustments for pension and survivor benefits payable during a calendar year following the third anniversary of the member's retirement or death, whichever occurs first. The indexation adjustment is calculated as the annual increase in the Consumer Price Index less three percent, subject to a maximum annual increase of three percent. No indexation adjustment is provided if the annual increase in the Consumer Price Index is below three percent.

The plan was amended in 2011, as a result of changes to the *Pension Benefits Standards Act, 1985* which came into effect on July 1, 2011. The changes included:

- the immediate vesting of benefits rather than after completion of two years of plan membership;
- the application of the 50% rule to benefits earned for all service rather than to benefits earned for service since 1987 only. This rule provides that upon termination, retirement or death, if a member's contributions with interest exceed 50% of the value of the pension earned, the excess contributions constitute an additional benefit; and
- improvements to the pre-retirement death benefit; this benefit generally corresponds to the commuted value of the pension earned for all service, subject to a minimum spousal pension applicable in certain circumstances.

Employer pension contributions are made in accordance with the actuarial valuations for funding purposes. In 2011 the Corporation notified the Office of the Superintendent of Financial Institutions that it was ceasing application of the solvency funding relief regulations and that existing letters of credit are to be treated in accordance with Section 9.11 of the *Pension Benefits Standards Act, 1985* and related regulations.

The registered pension plan assets are invested in debt securities and equity securities. The asset mix at December 31, 2011, which is the measurement date for the March 31, 2012 financial statements, was 60% in debt securities and 40% in equity securities (2011 – 57% and 43%, 2010 – 57% and 43%, respectively). The market value of plan assets is $563,715 (2011 – $553,600, 2010 – $513,386). The actual return on the market value of plan assets was $23,894 or 4.4% (2011 – $50,421 or 9.9%) and the actual return on the market-related value of plan assets was $20,948 or 3.8% (2011 – $23,480 or 4.4%).

Gains and losses incurred may be broken down as follows: Loss (gain) on market-related value of plan assets $9,636 (2011 – $8,600), loss (gain) on registered plan accrued benefit obligation $19,390 (2011 – $24,778), loss (gain) on supplementary arrangements accrued benefit obligation $520 (2011 – $118).

Weighted-average assumptions under PSA Standards:

	2012	2011	April 1, 2010
Pension obligations			
Discount rate – registered plan	5.1%	5.6%	6.0%
Discount rate – supplementary arrangements	2.4%	3.5%	4.1%
Rate of compensation increase	3.5%	4.0%	4.0%
Inflation rate	2.0%	2.5%	2.5%
Pension costs			
Discount rate – registered plan	5.6%	6.0%	
Discount rate – supplementary arrangements	3.5%	4.1%	
Expected return on assets	5.6%	6.0%	
Rate of compensation increase	4.0%	4.0%	
Inflation rate	2.5%	2.5%	

12. ACCRUED LIABILITY FOR OTHER NON-PENSION POST-RETIREMENT BENEFITS

The Corporation provides life insurance and health and dental care benefits to retirees. The present value of this unfunded benefit plan for current and future retirees is determined by an actuary on the basis of management assumptions. An actuarial valuation was conducted as of December 31, 2010 for the March 31, 2011 and March 31, 2012 accrued obligations, whereas the March 31, 2010 accrued obligations were determined based on the January 1, 2008 actuarial valuation.

The statement of operations includes a charge of $3,097 (2011 – $2,525) for non-pension post-retirement benefits, for the cost of these benefits in the period.

The following presents the financial position of the Corporation's non-pension post-retirement benefits at March 31:

	2012	2011	April 1, 2010
Obligation for non-pension post-retirement benefits (actuarial value)	$ (39,985)	$ (34,608)	$ (30,959)
Unamortized amounts	4,339	1,614	-
Employer contributions during the year from measurement date to March 31	181	168	120
Accrued benefit liability for non-pension post-retirement benefits (liability)	$ (35,465)	$ (32,826)	$ (30,839)

The following presents a summary of contributions and benefit payments in the year:

	2012	2011
Employer's contributions	$ 458	$ 538
Benefits paid	$ 458	$ 538

The non-pension post-retirement benefit costs include the following components:

	2012	2011
Determination of non-pension post-retirement benefit costs for the year are calculated as:		
Current period benefit cost	$ 1,715	$ 1,216
Interest on obligations	1,262	1,309
Amortization of net actuarial (gain) loss	120	-
Non-pension post-retirement benefit costs	$ 3,097	$ 2,525

Weighted-average assumptions are:

	2012	2011	April 1, 2010
Non-pension post-retirement benefits obligations			
Discount rate	2.4%	3.5%	4.1%
Rate of compensation increase	3.5%	4.0%	4.0%
Initial weighted-average health care trend rate	6.0%	7.4%	7.6%
Ultimate weighted-average health care trend rate	4.5%	4.5%	4.5%
Year ultimate rate reached	2032	2030	2030
Inflation rate	2.0%	2.5%	2.5%
Non-pension post-retirement benefits costs			
Discount rate	3.5%	4.1%	
Rate of compensation increase	4.0%	4.0%	
Initial weighted-average health care trend rate	7.4%	7.6%	
Ultimate weighted-average health care trend rate	4.6%	4.5%	
Year ultimate rate reached	2030	2030	
Inflation rate	2.5%	2.5%	

Assumed health care and dental cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have had the following effects for 2012:

	Increase	Decrease
Total of current service and interest costs	$ 796	$ (577)
Accrued benefit obligation for other non-pension post-retirement benefits obligations	$ 8,141	$ (6,183)

13. ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS (WORKERS' COMPENSATION AND OTHER BENEFITS)

The Corporation's accrued obligation for workers' compensation benefits represents the unfunded liability for the costs of self-insured benefits specified and administered by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador, the Workplace Health, Safety and Compensation Commission of New Brunswick and the Workers' Compensation Commission of Prince Edward Island for work-related injuries of current and former employees.

The actuarially determined liability consists of an obligation for known awarded disability and survivor pensions, an obligation for all other potential future awards for past claims and other costs consisting of temporary compensation, health care expenses, rehabilitation costs and related administration costs charged by the various provincial commissions. These amounts are presented on a net present value basis taking into account inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The most recent actuarial valuations for accounting purposes for workers' compensation benefits were conducted as of January 1, 2009 and were extrapolated to the measurement dates of December 31, 2010 and December 31, 2011 (2010 – December 31, 2009). The most recent actuarial valuation for accounting purposes for other post-employment benefits was conducted as of December 31, 2011.

The statement of operations includes a charge of $936 (2011 – $949) for post-employment benefit costs.

The following presents the financial position of the Corporation's post-employment benefits at March 31:

	2012	2011	April 1, 2010
Obligation for post-employment benefits (actuarial value)	$ (12,837)	$ (13,247)	$ (13,268)
Unamortized amounts	839	434	-
Employer contributions during the year from measurement date to March 31	357	398	96
Accrued benefit liability for post-employment benefits (liability)	$ (11,641)	$ (12,415)	$ (13,172)

The following presents a summary of benefit payments in the year:

	2012	2011
Benefits paid	$ 1,710	$ 1,706

The post-employment benefit costs include the following components:

	2012	2011
Determination of post-employment benefit costs for the year are calculated as:		
Current period benefit cost	$ 439	$ 417
Interest on obligations	454	532
Amortization of net actuarial (gain) loss	43	-
Post-employment benefit costs	$ 936	$ 949

Weighted-average assumptions are:

	2012	2011	April 1, 2010
Post-employment benefits obligations			
Discount rate	2.4%	3.5%	4.1%
Increase in average industrial wage	3.0%	3.5%	3.5%
Inflation rate	2.0%	2.5%	2.5%
Health care cost increases	5.0%	5.0%	5.0%
Post-employment benefits costs			
Discount rate	3.5%	4.1%	
Increase in average industrial wage	3.5%	3.5%	
Inflation rate	2.5%	2.5%	
Health care cost increases	5.0%	5.0%	

For the year ended March 31, 2012, the Corporation paid $365 (2011 – $397) in premiums to the Workers' Compensation Board of Nova Scotia which are included in wages and benefits in the statement of operations. These premiums represent the workers' compensation cost for Nova Scotia employees where the Corporation is on an assessment basis since January 1, 2003.

14. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The carrying amounts of financial assets and liabilities recorded at cost or amortized cost or at fair value are as follows:

	2012		2011		April 1, 2010	
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
Financial Assets						
Cash	$ -	$ 8,353	$ -	$ 9,580	$ -	$ 11,054
Accounts receivable	-	9,971	-	9,035	-	9,505
Receivable from Government of Canada	-	1,222	-	3,396	-	-
Derivative financial instruments	3,147	-	4,008	-	156	-
	$ 3,147	$ 19,546	$ 4,008	$ 22,011	$ 156	$ 20,559
Financial Liabilities						
Accounts payable and accrued liabilities	$ -	$ 30,565	$ -	$ 29,211	$ -	$ 18,993
Payable to Government of Canada	-	-	-	-	-	1,234
Derivative financial instruments	1,015	-	275	-	1,865	-
	$ 1,015	$ 30,565	$ 275	$ 29,211	$ 1,865	$ 20,227

(b) Fair value

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment. The methods used to establish the fair values of the Corporation's financial assets and financial liabilities at March 31, 2012 are all classified as level 1 since they are based on quoted prices in active markets for identical assets and liabilities. More precisely, the fair value of restricted cash which is held in a Euro-denominated escrow account is translated to Canadian dollars using the Bank of Canada exchange rate at March 31. In addition, the fair value of the derivative financial instruments is estimated at the discounted unrealized gain or loss calculated based on the market price at March 31, 2012, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the financial statement date. The fair value of the derivative financial instruments is provided to the Corporation by the Canadian chartered bank that acts as the counterparty to the transactions.

(c) Derivatives

The derivative financial instruments used by the Corporation, and measured at fair value, include swaps which are typically a commodity or price swap where parties exchange payments in cash based on changes in the price of the commodity (#2 heating oil and #6 heavy fuel 1%) or a market index while fixing the price effectively paid for fuel.

The Corporation uses foreign exchange forwards which are contractual agreements to buy Euros at a specified price and date in the future related to lease payments for the MV *Atlantic Vision*.

At March 31, the Corporation had the following derivative financial instruments with positive fair values:

	2012				2011	April 1, 2010
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair value	Fair value	Fair value
Crude swap – #2 heating oil	2011	2.05 - 2.35	1,722	$ -	$ -	$ 100
Crude swap – #2 heating oil	2012	2.23 - 2.568	2,142	-	1,507	10
Crude swap – #2 heating oil	2013	2.364 - 3.16	1,260	795	321	-
Crude swap – #2 heating oil	2014	2.84 - 3.05	546	124	-	-
Crude swap – #6 heavy fuel 1%	2011	74.00 - 78.90	40	-	-	46
Crude swap – #6 heavy fuel 1%	2012	81.00 - 110.95	18	292	1,768	-
Crude swap – #6 heavy fuel 1%	2013	82.00 - 103.59	96	1,836	345	-
Crude swap – #6 heavy fuel 1%	2014	96.00 - 104.25	14	100	-	-
				$ 3,147	$ 3,941	$ 156

Note 1 – These financial instruments have a monthly settlement schedule.

Note 2 – #2 heating oil swaps are priced per US gallon; #6 heavy fuel 1% swaps are priced per barrel.

Note 3 – #2 heating oil swap quantities are based on gallons; #6 fuel 1% swap quantities are based on barrels.

	2012				2011	April 1, 2010
	Period (Note 1)	Forward Rate CAD/ EURO	Notional Quantity (Euros)	Fair value	Fair value	Fair value
Foreign exchange forwards	2012	1.3740	12,403	$ -	$ 17	$ -
Foreign exchange forwards	2013	1.3740	12,403	-	25	-
Foreign exchange forwards	2014	1.3740	7,235	-	25	-
				$ -	$ 67	$ -

Note 1– These financial instruments have a monthly settlement schedule.

At March 31, the Corporation had the following derivative financial instruments with negative fair values:

	2012				2011	April 1, 2010
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair Value	Fair Value	Fair Value
Crude swap – #2 heating oil	2011	2.231 - 2.375	1,302	$ -	$ -	$ (30)
Crude swap – #2 heating oil	2012	2.273	252	-	(194)	-
Crude swap – #6 heavy fuel 1%	2011	74.95 - 82.40	47	-	-	(58)
Crude swap – #6 heavy fuel 1%	2012	100 - 104.02	16	-	(52)	(2)
Crude swap – #6 heavy fuel 1%	2013	110.35 - 110.75	10	(82)	(29)	-
Crude swap – #6 heavy fuel 1%	2014	95.00 - 105.20	18	(323)	-	-
				$ (405)	$ (275)	$ (90)

Note 1 – These financial instruments have a monthly settlement schedule.

Note 2 – #2 heating oil swaps are priced per US gallon; #6 heavy fuel 1% swaps are priced per barrel.

Note 3 – #2 heating oil swap quantities are based on gallons; #6 fuel 1% swap quantities are based on barrels.

	2012				2011	April 1, 2010
	Period (Note 1)	Forward Rate CAD/ EURO	Notional Quantity (Euros)	Fair value	Fair value	Fair value
Foreign exchange forwards	-	-	-	$ -	$ -	$ (1,775)
Foreign exchange forwards	2013	1.3740	12,403	(444)	-	-
Foreign exchange forwards	2014	1.3740	7,235	(166)	-	-
				$ (610)	$ -	$ (1,775)

Note 1 – These financial instruments have a monthly settlement schedule.

15. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors is responsible for developing and monitoring the Corporation's risk management policies.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation.

The Corporation is primarily exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments in the normal course of business.

Credit risk: Risk that a third party to a financial instrument may fail to meet its obligations under the terms of the financial instrument.

Market risk: Risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in market prices. The Corporation is exposed to currency risk, interest rate risk and commodity price risk.

Liquidity risk: Risk that the Corporation may encounter difficulty in raising funds to meet commitments associated with financial instruments.

This note presents information about the exposure to each of the above risks, including the Corporation's objectives, policies, and processes for measuring and managing each risk. Further quantitative disclosures are included throughout these financial statements.

There have been no changes compared to previous years with respect to the exposures to risk and how they arise, the Corporation's objectives, policies and processes for managing the risks and the methods used to measure the risks.

(a) Credit risk

The carrying amount of cash other than restricted cash, accounts receivable and derivatives represents the Corporation's maximum exposure to credit risk. The Corporation minimizes credit risk on cash and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risk on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk and requires assessing and monitoring of counterparty credit risk.

CASH

Cash other than restricted cash is held in a Canadian chartered bank. Restricted cash is held in a Euro-denominated escrow account in a German bank. The designation of this bank as escrow agent was imposed as an inherited condition for the charter agreement. As the ferry's owner is bound under a number of security instruments, the ferry's owner was obliged to use this bank to hold the escrow funds.

The German bank holds a stand-alone rating of E+, a guaranteed long-term rating of Aa1, and a guaranteed short-term rating of P-1 from Moody's, and a standalone rating of bb-, a guaranteed long-term rating of AAA, and a guaranteed short-term rating of F1+ from Finch Ratings as of March 31, 2012.

ACCOUNTS RECEIVABLE

The Corporation's total accounts receivable is $9,971 as at March 31, 2012 (2011 – $9,035; 2010 – $9,505) and consists of Trade receivables of $5,347 (2011 – $5,442; 2010 – $5,311) and other accounts receivable of $4,624 (2011 – $3,593; 2010 – $4,194) of which $2,365 (2011 – $2,116; 2010 – $1,971) is recoverable insurance claims.

Trade accounts receivable are incurred in the normal course of business and are due on demand. The Corporation provides services to numerous customers. However, five customers represent 53% of the trade receivables (2011 – five customers represented 49% of the trade receivables, 2010 – five customers represented 56% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable.

As at March 31, 2012, approximately 3% (2011 – 11%, 2010 – 9 %) of trade accounts receivable, were over 60 days past due, whereas 97% (2011 – 89%, 2010 – 91%) were current, or less than 60 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts. The Corporation's allowance for doubtful accounts was $21 at March 31, 2012 (2011 – $433, 2010 – $436). The allowance for doubtful accounts is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

Details of the Corporation's trade accounts receivable at March 31 are as follows:

	2012	2011	April 1, 2010
Current	$ 4,146	$ 3,953	$ 3,237
1-30 days past due	1,088	1,290	2,014
31-120 days past due	19	152	159
Past due 121 days and over	115	480	337
	5,368	5,875	5,747
Less: Allowance for doubtful accounts	(21)	(433)	(436)
Trade accounts receivable, net	$ 5,347	$ 5,442	$ 5,311

DERIVATIVES

The Corporation's derivative financial instruments are held with a Canadian chartered bank. The Corporation considers that it is exposed to minimal credit risk in the event of non-performance as the counterparty is considered to be of high credit quality.

(b) Market risk

i) Currency risk

Currency risk arises due to fluctuations in foreign currency rates. The Corporation uses derivatives (foreign exchange forwards) to manage this risk. The Corporation makes monthly lease payments for the charter of the passenger and freight vessel, the MV *Atlantic Vision*, in the amount of 1,034 Euros. To minimize this risk, the Corporation purchases forward contracts for the amount of the monthly lease payments when the rate can be secured at or near the budgeted exchange rate. The Corporation has no significant exposure to currency risk given that these lease payments have been 100 per cent hedged.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest rate for the Corporation's cash balances varies based on changes in the prime rate. The Corporation has no significant exposure to interest rate risk. A variation of one per cent in the interest rate would affect the amount of investment income earned on cash balances but would not have a significant impact on the financial statements.

iii) Commodity fuel price risk

In order to manage the risk associated with fuel price variation, the Corporation enters into derivative contracts (swaps) with financial intermediaries. The objectives of the Corporation's fuel hedging policy are to stabilize fuel budget variances, budget amounts along the years and the fuel surcharges applied to customers. A fluctuation in vessel fuels of 5% would not have a significant impact on the financial statements. This variance is managed through fuel hedging activities as well as the fuel surcharges imposed to customers.

(c) Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Corporation's reputation.

The Corporation strives to maintain sufficient resources to meet expected operational expenses for a period of 30 days plus a $4,000 reserve. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Corporation prepares cash flow forecasts that are regularly monitored by management and the Board of Directors. The forecasts are adjusted as necessary to reflect expected cash inflows and outflows to ensure the adequacy of cash to meet financial obligations. The Corporation receives government funding on a monthly basis.

The Corporation has an operating credit facility of up to $35,622 (2011 – $35,622; 2010 – $33,348) available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at March 31, 2012 (2011 – nil, 2010 – nil) although, irrevocable letters of credit have been provided against the facility to the amount of $35,622 (2011 – $35,622; 2010 – $33,348). The credit facility is available to the Corporation as required with an annual renewal subject to the approval of the Minister of Finance, Government of Canada.

The Corporation's bank has provided an irrevocable letter of credit against the Corporation's operating credit facility in favour of the Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,200 (2011 – $4,200; 2010 – $4,200) for an indefinite period.

The Corporation's bank has provided irrevocable letters of credit against the Corporation's operating credit facility in favour of CIBC Mellon Trust Company in Trust for The Pension Plan for Employees of Marine Atlantic Inc. in amounts totalling $31,422 (2011 – $31,422, 2010 – $29,148) with expiry dates of December 31, 2012. The letters of credit meet the 10-year funding requirements per the *Solvency Funding Relief Regulations* (for an amount of $15,425 (2011 – $15,425; 2010 – $18,746)) and the *Solvency Funding Relief Regulations*, 2009 (for an amount of $15,997 (2011 – $15,997; 2010 – $10,402)).

The carrying amount of accounts payable and accrued liabilities and derivative financial liabilities represents the maximum exposure to liquidity risk. The Corporation's carrying value of accounts payable and accrued liabilities was $30,565 (2011 – $29,211; 2010 – $18,993). The carrying value of accounts payable as at March 31, 2012 was $14,649 (2011 – $17,301; 2010 – $8,275) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $15,916 as at March 31, 2012 (2011 – $11,910; 2010 – $10,718).

The following table summarizes the contractual maturities for accounts payable and accrued liabilities and derivative financial liabilities as at March 31, 2012:

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Over 2 years	Total
As at March 31, 2012:						
Accounts payable and accrued liabilities	$ 30,565	$ -	$ -	$ -	$ -	$ 30,565
Derivative financial liabilities	210	118	198	489	-	1,015
As at March 31, 2011:						
Accounts payable and accrued liabilities	29,211	-	-	-	-	29,211
Derivative financial liabilities	208	20	18	29	-	275
As at April 1, 2010:						
Accounts payable and accrued liabilities	18,993	-	-	-	-	18,993
Derivative financial liabilities	710	524	629	2	-	1,865

16. ACCUMULATED SURPLUS

The accumulated surplus is comprised of:

	2012		2011		April 1, 2010	
Accumulated operating surplus	$	229,287	$	206,300		$122,557
Accumulated remeasurement (losses)		(1,882)		-		-
Accumulated surplus	$	227,405	$	206,300	$	122,557

Accumulated operating surplus includes share capital in the amount of $258,530 (2011 – $258,530). The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at March 31, 2012, 517,061 shares (2011 – 517,061 shares) at $0.50 per share (2011 – $0.50 per share) have been issued and fully paid.

17. FLEET RENEWAL COSTS

The Corporation completed its fleet renewal program during the year ended March 31, 2012. There were significant non operational costs associated with the delivery and integration of the newly leased vessels – the MV *Blue Puttees* and the MV *Highlanders* – into the fleet. The cost breakdown of the non labour costs is as follows: $148 (2011 – $4,252) for Other, which includes $144 (2011 – $3,178) for professional services and travel costs; $414 (2011 – $2,166) for Materials, supplies and services; $204 (2011 – $1,654) for Fuel; $349 (2011 – $1,564) for Repairs and maintenance; and $86 (2011 – $365) for Insurance, rent and utilities. An additional amount of $1,182 (2011 – $4,231) is included in the statement of operations as Wages and benefits.

18. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. During the year, the Corporation incurred expenses of $1,595 (2011 – $1,410) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 4. The Corporation is given the right to use the crown land on which the terminals sit free of charge by Transport Canada. No amount was recorded since the fair value of the service received for free is not reliably measurable.

19. CONTRACTUAL OBLIGATIONS

(a) The total amount required to complete contracted work in progress at March 31, 2012 is $5,168 (2011 – $1,370; 2010 – $5,471). The remaining balance of these contracts will be paid during fiscal 2012-13.

(b) The Corporation leases certain facilities and equipment. As well, the Corporation entered into five-year charter agreements for three of the four vessels in its fleet—the MV *Atlantic Vision*—the MV *Blue Puttees* and—the MV *Highlanders*. The minimum annual lease payments are as follows:

	Charter	Other	Total
2012/2013	$ 41,117	$ 306	$ 41,423
2013/2014	34,998	266	35,264
2014/2015	22,759	114	22,873
2015/2016	18,243	-	18,243
	$ 117,117	$ 686	$ 117,803

The chartered vessels are accounted for as operating leases; therefore no liabilities are recognized on the statement of financial position. To manage its exposure to risk and assess credit quality, the Corporation reviewed the operating lease contracts and assessed the possibility of the leasing companies failing to meet the obligations of the contracts.

20. CONTINGENCIES

In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. The Corporation is in receipt of claims estimated at $167 (2011 – $387, 2010 – $300) where the occurrence of the confirming future event is considered likely and this amount has been accrued in the financial statements. There are additional claims estimated at $1,465 (2011 – $1,564, 2010 – $905) where the occurrence of the confirming future event is not determinable and this amount has not been accrued. These estimates are derived based on professional judgement and maximum exposures which are limited due to insurance deductibles in place.

21. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and have been derived from the Corporate Plan process and approved by the Board of Directors. Some budgeted figures were originally based on Canadian generally accepted accounting principles and have been adjusted to be in accordance with Canadian public sector accounting standards.

The Corporation has not exceeded its total expenditure or investing authority limits in the period.