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MARINE ATLANTIC | ANNUAL REPORT 2012–2013

Marine Atlantic
Marine Atlantique

Canada

Marine Atlantic
Marine Atlantique

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MARINEATLANTIC.CA

FERRY ROUTES TO THE
ISLAND OF NEWFOUNDLAND

MARINE ATLANTIC
ANNUAL REPORT 2012–13

HIGHLIGHTS
2012–13

351,643
PASSENGERS

123,609
PASSENGER VEHICLES

1,393
EMPLOYEES (PEAK EMPLOYMENT)

103,160
COMMERCIAL VEHICLES

1,108
EMPLOYEES (FULL-TIME EQUIVALENT)

86%
ON-TIME PERFORMANCE (EXCLUDING WEATHER DELAYS)

MESSAGE FROM **THE CHAIR**

Rob Crosbie
Chair, Board of Directors

2012-13 marked the midway point in the execution of our funded five–year business plan. With fleet renewal activities complete, this year's major projects focused on shore-based upgrades at all three of our ports to facilitate and improve traffic flow, strengthen service reliability, and offer new amenities to our customers. We also began improving our business processes to become more efficient. I am pleased to report that with the commitment, dedication and hard work of our employees, significant progress has been achieved in moving us towards our goal of becoming a modern and efficient organization focused on delivering quality customer service.

As a federal Crown Corporation, Marine Atlantic receives a significant annual subsidy from the taxpayers of Canada to operate our service. In 2012-13, this subsidy was approximately $180 million. The business changes we are making today are to ensure we are using this funding in the most fiscally prudent manner. A detailed breakdown of the Corporation's revenues and expenditures for this fiscal year can be found in the audited financial statements contained in this report.

In 2013-14, we will continue to make investments in our shore-based infrastructure and strengthen our business processes to help us meet our corporate objectives. The next 12 months promise to be another year of positive change for Marine Atlantic.

I would like to take this opportunity to recognize and extend my sincere thanks to two members of our Board of Directors who completed their terms during the year. Peggy Coady and Heather Tulk were both excellent contributors to our Board and their hard work and dedication has helped us strengthen our Corporation and improve the service for those who depend on this vital transportation link. Thank you for your commitment and contribution.

I would like to welcome two new members of our Board of Directors, Garfield Moffatt and Sharon Duggan. I look forward to their positive contribution as we provide oversight and guidance for the Corporation's operations and business plans in the coming months and years.

The Board of Directors will continue working in co-operation with the Management Team at Marine Atlantic to further strengthen the ferry service. We look forward to sharing our continued successes as we move forward with our ongoing agenda of renewal and positive change.

MESSAGE FROM **THE PRESIDENT AND CEO**

Paul Griffin
President and CEO

Renewal of our assets to improve customer service and efficiency continued to be a strong focus for our Corporation during the year with approximately $38 million invested in upgrading shore-based assets such as docks, marshaling yards and buildings at all three of our ports.

Due to a growing Newfoundland and Labrador economy, commercial traffic volumes continue to be high, resulting in strong demand for our service. With the introduction of our new fleet and its increased capacity, we are able to meet the needs of our customers and transport these increased traffic volumes in a more efficient manner. In addition, the increased capacity enables us to recover from weather events more quickly than was possible in the past.

As a result of the significant investments, improvements and upgrades taking place as part of our five-year renewal plan, our customers are experiencing a better ferry service. I have personally received letters, e-mails and phone calls from customers wanting to share their positive travel experiences, commending the professionalism of our staff and praising the strength of our renewed vessel fleet. It is through the hard work and commitment of our employees that we are able to achieve such positive results. With their continued efforts, and our ongoing focus on renewal and change, we expect our customers' travel experiences will continue to be strengthened. Our commitment is to provide the best travel experience possible for our customers, while being prudent stewards of the funding we receive from the people of Canada.

There were some significant milestones achieved during this fiscal year, including the launch of our new internal safety campaign and the opening of our new administration and warehouse facility in North Sydney. Throughout the year we implemented new initiatives related to safety, security and the environment. We strengthened our information technology systems, our financial processes, and are changing our procurement practices to reflect industry norms and best practices. We were also proud to partner with Canada's military to commemorate the 70th anniversary of the loss of the SS *Caribou* and the 136 people who perished in this tragic event.

In 2013-14, we will focus on organizational performance with an emphasis on improving fuel consumption, procurement and maintenance of our assets. We also look forward to continuing upgrades to our terminal in Port aux Basques, starting construction of a new terminal building in North Sydney and renewing our docking infrastructure in Argentia.

The 2012-13 fiscal year produced positive results that have strengthened our ferry service for the future. We look forward to sharing our successes and working with our stakeholders as we continue to innovate and deliver our renewal program.

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 the Atlantic Canadian economy—particularly in Newfoundland and Labrador—as it transports goods such as food, medical supplies, and retail products, as well as people including both resident travellers and tourists. As 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 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 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 for 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 approximately 1,390 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 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
Protection of people, property, and the environment is our ultimate priority. Excellence in managing health, safety and environmental performance is critical to our sustainability and long-term business success.

Integrity
We say what we mean, mean what we say and do what we say. Honesty and transparency creates credibility and opens the path to engagement. Our actions always align with what we say. The reputation of our business is dependent on our ethical behaviour in everything we do.

Excellence
We are passionate about our customers and our services. We take pride in what we do and are committed to continuously improving how we operate through innovation and information sharing. We have intense focus on the needs of our customers and are dedicated to satisfying those needs with a sense of urgency.

Teamwork
We always help each other. Working together always results in better outcomes.

Commitment
We are all responsible for our performance and the success of the business. We understand our commitments to each other and to our customers.

OUR OPERATIONS

Marine Atlantic transports a diverse range of traffic, in keeping with its mandate. On a daily basis, the Corporation transports passengers, passenger vehicles and their occupants, tractor trailers and drivers, drop trailers and other vehicles such as motor homes, tour buses and motorcycles.

As the only year-round daily ferry service between the Island of Newfoundland and Nova Scotia, the Corporation transports goods entering and exiting the province by the commercial trucking industry. Items such as fruits, vegetables, and meats are transported daily, and local Newfoundland industries rely on our service to maintain a supply chain to customers off the Island. Serving commercial customers is important to Marine Atlantic, as this customer segment represents a significant portion of the Corporation's revenues.

Being the only means of daily transport for passenger vehicle traffic on and off the Island, Marine Atlantic is also a valuable transporter of people. Ferry travel supports the connection between Newfoundland and Labrador and the rest of Canada. During the summer months, Marine Atlantic transports significant volumes of tourist traffic, both resident and non-resident, and is an important player in supporting the province's tourism industry. Passenger traffic comprises approximately 33 per cent of overall traffic volumes and most of these customers are transported during the summer months.

Marine Atlantic is a hybrid ferry service with vessels designed to meet the needs of its diverse customer base. From shipping large volumes of freight to offering modern passenger amenities, Marine Atlantic strives to provide a quality travel experience to all of its customers.

OUR OPERATING ENVIRONMENT

Marine Atlantic operates in one of the most challenging nautical 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.

Marine Atlantic's service is heavily influenced by its operating environment and the captains and crew of the vessels are constantly monitoring weather conditions to ensure safe sailings. Our vessels cross the Gulf of St. Lawrence where severe winds and significant wave heights can occur at any time of the year. This is an area where the presence of severe ice build-up can impact operations during the winter months.

Marine Atlantic strives to minimize disruptions to the service, but weather delays are inevitable. When events occur, the captains, crew, and employees at Marine Atlantic work diligently to return the service to its regular schedules.

OUR SAFETY STANDARDS AND REGULATIONS

Our vessels are maintained to the high standards set by organizations such as Transport Canada Marine Safety and Det Norske Veritas Classification Society, and comply with the International Safety Management (ISM) Code.

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, Financial Administration 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

FOCUS ON **RENEWAL**

2012-13 marked **year three of the organization's five-year funding** provided in Budget 2010, with the team at Marine Atlantic focusing significant efforts on **shore-based infrastructure renewal.** The organization also began **evaluating business processes** to **identify opportunities** for improvement and **introduce changes** designed to improve the effectiveness of the organization and strengthen our customers' travel experience.

These efforts built on previous successes achieved through **fleet and organizational renewal** that improved customers' experience and amenities, increased capacity, reduced wait times for commercial customers, and provided extra reservation availability for passenger traffic.

RENEWING OUR INFRASTRUCTURE

Shore-based infrastructure renewal projects took place at each of the organization's three ports of call. Ranging from marshaling yard upgrades to new dock and building construction, customers witnessed significant change at each site. In total, the organization invested approximately $38 million in shore-based capital funding during the 2012-13 fiscal year.

PORT AUX BASQUES

A number of projects were completed including the expansion of the drop trailer yard, upgraded fueling system, and new dock fendering. Renovations and upgrades also began on the interior of the terminal building along with renewing the older dock.

Once complete, the renovated Port aux Basques terminal will offer much-needed upgrades and customer amenities including a commercial drivers' seating lounge. The upgrading of the exterior of the building is planned for 2013-14. The new dock replaces a dock that was constructed in 1977 and is scheduled for commissioning in the first quarter of fiscal 2013-14. It will improve efficiency of loading and offloading the vessels as well as improve overall reliability.

NORTH SYDNEY

In October, Marine Atlantic opened its new administration and warehouse facility in North Sydney bringing employees from a number of departments under one roof. Other projects completed during the year included docking infrastructure upgrades, the construction of a new stevedore building, upgrades and expansion of the marshaling yard, and an improved electrical infrastructure system.

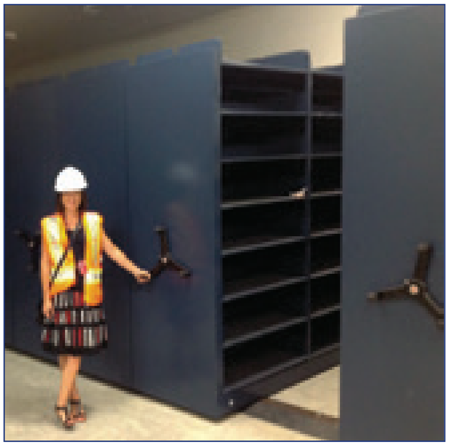
The new administration and warehouse facility provides the organization with sufficient space to meet the current and future needs of the organization. It also removed administration employees from the busy terminal property.

ARGENTIA

Building on the investments made in 2011-12, upgrade work to further strengthen infrastructure continued this past year. New ticket booths along with upgrades to the marshaling yard were among the highlights of the investments made in the Argentia port. These changes were complemented by a new mooring system as well as upgrades to the stevedore building.

$38 MILLION

INVESTED IN SHORE-BASED CAPITAL DURING 2012-13



Kim Johnson, Data Management Officer, demonstrates the archival shelving in the data management room of the new Corporate Records Center.

RENEWED FOCUS ON INFORMATION MANAGEMENT

Marine Atlantic's new **Corporate Records Center** was opened in 2012. The Centre was created to securely store the volume of archival paper records located throughout the organization.

As part of the renewed focus on Information Management at Marine Atlantic, the organization moved forward with a current state assessment of Records and Information Management processes throughout the organization.

The assessment will continue into 2013-14 and will be followed by the development of a formal Information Management Program to align the Corporation with industry best practices.

RENEWING OUR BUSINESS PROCESSES

Marine Atlantic's core business is operating a ferry service between the Island of Newfoundland and Nova Scotia. To achieve the business objectives of the organization, there are many processes that occur on a daily basis.

Beginning in the second half of 2012-13, the organization launched several initiatives to review daily operations throughout the organization and evaluate whether current practices support the Corporation's business objectives. Where appropriate, the organization will adjust the way it conducts its business to align with industry best practices. The Corporation has already introduced initiatives designed to strengthen each customer's travel experience.

New initiatives related to safety, security, environment, information technology systems, financial processes, and procurement practices were also introduced during the year to ensure the Corporation is providing the best and most efficient service possible.

RENEWING INFORMATION TECHNOLOGY/INFORMATION MANAGEMENT

The success of our business process renewal will be facilitated by having the proper infrastructure in place to support essential business operations. During the past year, significant time was spent assessing key technological infrastructure throughout the organization and the many business processes dependent upon information technology support.

Marine Atlantic moved forward with network upgrades throughout the organization and placed a strong focus on maximizing the abilities of its current infrastructure/systems. These systems provide the foundation to support business solutions, collaboration and integration throughout the organization.

Modern technologies such as video conferencing systems were expanded throughout the Corporation to enable employees to more efficiently carry out their duties from various work locations. These tools provide a value-added service, as well as cost savings for the Corporation.

The **Business Intelligence (BI)** project continued to be implemented throughout the organization. The BI system is providing employees with easy access to the wealth of data being created, collected and captured throughout various business systems at Marine Atlantic, and is transforming the data into useful reports that provide information to help support the strategic decision-making and planning activities of the Corporation.

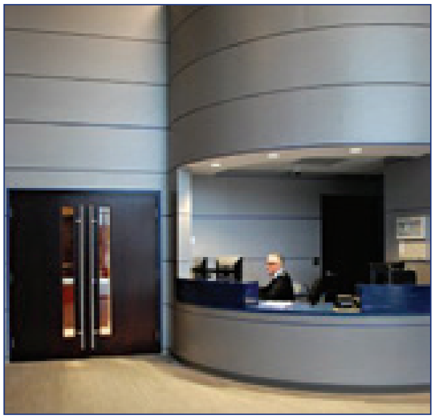
A full assessment of the vessels' communications system was undertaken in 2012-13 for the purpose of aligning the vessel technology with the business objectives of the organization. The Vessel Communications Strategy will continue to be a focus as the Corporation moves forward with its business process renewal.

RENEWING FINANCIAL PROCEDURES

In 2012-13, Marine Atlantic undertook an analysis of its Finance Division to review its structure and related business processes with the objective of strengthening its core activities and to improve compliance through control enhancements.

The Corporation engaged in a comprehensive assessment of its internal control environment to strengthen procedures designed to safeguard the Corporation's assets and mitigate risks. A comprehensive testing and compliance program will be developed and implemented in 2013/14 for each finance process, as well as many non-finance processes to determine their effectiveness and whether improvements are required.

Finding more cost-efficient ways of doing business and procuring supplies is part of Marine Atlantic's commitment to meet federal budgetary objectives. To accomplish this goal, improvements were made to the Supply Chain Management function. The Corporation is renewing the department's policies and procedures to improve efficiencies, increase service delivery and to increase overall value for money spent.



Inside the new Administration facility at 65 Memorial Drive.

OUR PRIORITY: **SAFETY**

Marine Atlantic continues its focus on safety with new internal **"Work Aware"** campaign. Statistics demonstrate positive change continues to take place.

Building on the improvements made in processes and procedures, the organization further advanced the safety culture throughout the organization during 2012-13. Highlights for the year include:

SAFETY AT THE FOREFRONT

- In 2012, Marine Atlantic introduced an internal safety campaign as an extension of the hazard identification and awareness program designed to heighten awareness and knowledge of the work environment and the hazards within. The campaign, "**Work Aware**", centres around three principles: leadership, ownership and accountability.
- Fourteen Occupational Health and Safety (OH&S) committees are now in place throughout the organization, as well as an OH&S Policy Committee that is comprised of representatives from all levels of the organization who meet to discuss issues and provide direction on corporate-wide safety initiatives. The renewed focus on safety is evident in the increased level of incident and near miss reporting throughout the Corporation.
- As compared to the previous calendar year, in 2012, Lost Time Incidents were down by 43 per cent. These numbers demonstrate that the focused initiatives to improve workplace health and safety throughout Marine Atlantic are working.
- Day-long **Safety Summits** were initiated to provide employees with an opportunity to share knowledge and best practices relevant to safety at Marine Atlantic and beyond.

The Port aux Basques Terminal Occupational Health & Safety committee was named **"Committee of the Year"** in 2012.

The committee was chosen from **over 3,100** registered Occupational Health & Safety Committees within the Province of Newfoundland and Labrador.

*A sample poster from the internal **"Work Aware"** campaign.*

OUR FOCUS ON **SECURITY**

Marine Atlantic continued to focus on **emergency preparedness** throughout the year. This, coupled with security policies and programs, is continuing to strengthen the Corporation's readiness.

The Corporation is compliant with Transport Canada's Domestic Ferries Security Regulations and continues to improve its security and emergency preparedness systems. In recent years, Marine Atlantic has implemented a number of initiatives designed to enhance the security features at all facilities. While improved fencing and increased security screening have been in place at the terminals for quite some time, expanded access control for all shore-based facilities was introduced in 2012-13, including security card reader upgrades at all buildings. The new access control system enhances the organization's ability to control and monitor critical access points in one central location.

Each entity, including each terminal and vessel has an emergency management plan guiding their response in the event of an emergency. In 2012-13, Marine Atlantic further strengthened its preparedness with the adoption of its Information Technology and Business Continuity Plans. These plans are guided by Marine Atlantic's commitment to customers and employees to maintain critical business operations in the event of a disruption or emergency, and they complement the Corporate, Terminal and Vessel Emergency Management Plans.

The Corporation utilizes an ongoing threat, risk and vulnerabilities (TRV) analysis as part of its preparation to

An employee runs through safety protocols during an emergency preparedness drill.

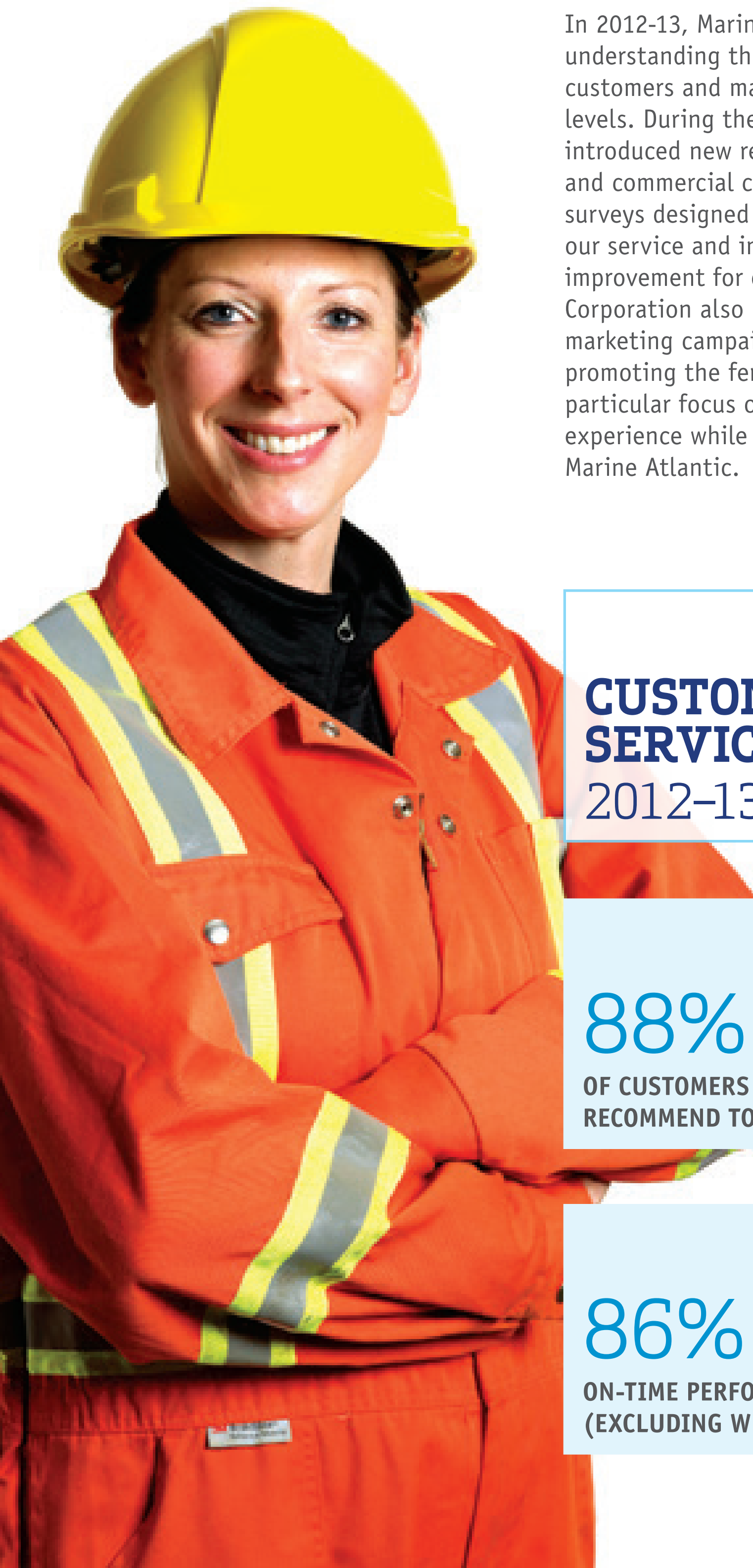
effectively manage during an adverse event. The Corporation's plan provides for training in emergency management, drills and simulations. The organization also regularly monitors and updates terminal and vessel security plans.

This year, Marine Atlantic participated in an emergency preparedness tabletop exercise with the **Canadian Coast Guard College in Sydney**, the **Joint Rescue Coordination Centre (JRCC)** and the **Cape Breton Regional Municipality**.

The exercise provided a valuable training opportunity for all participants in preparing for an emergency. In particular, parties gained a greater understanding of each other's roles in an emergency and strengthened the relationships of the various agencies that would be involved in emergency response planning.

SERVING OUR CUSTOMERS

Marine Atlantic has received significant positive feedback as a result of the introduction of the new modern vessel fleet, improved amenities, strengthened customer contact systems and enhanced employee training.



In 2012-13, Marine Atlantic focused on understanding the evolving needs of customers and maintaining performance levels. During the year, the Corporation introduced new research activities and commercial customer satisfaction surveys designed to gather feedback on our service and insights for continuous improvement for our customers. The Corporation also launched a new marketing campaign in early 2013 promoting the ferry service with particular focus on the customer's experience while travelling with Marine Atlantic.

In 2012-13, Marine Atlantic introduced a new customer service training program to provide quality, consistent customer service. The **Service Excellence** program was delivered as a pilot project during the year and was well-received by employees. Full implementation of the program is planned for 2013-14.

Our customers were provided with improved access to information as a result of an upgraded website that included sections such as Frequently Asked Questions, online travel advisories and details of the service interruption compensation policy.

CUSTOMER SERVICE 2012–13

84%

OF ARGENTIA PASSENGERS HIGHLY SATISFIED

88%

OF CUSTOMERS LIKELY TO RECOMMEND TO FAMILY/FRIENDS

86%

OF PASSENGERS TOLD US THAT THEIR EXPECTATIONS WERE MET OR EXCEEDED

86%

ON-TIME PERFORMANCE (EXCLUDING WEATHER DELAYS)

FOCUS ON OUR PEOPLE
DEVELOPING OUR EMPLOYEES

Marine Atlantic strives to be an employer of choice in Atlantic Canada and is committed to a **safe and healthy workplace.**

DEVELOPING OUR EMPLOYEES

To meet the changing dynamics of today's workforce, Marine Atlantic focuses on training and workforce planning initiatives. To that end, a new workforce planning program will be introduced in 2013-14 that will assist the Corporation to efficiently manage people-based changes throughout the organization.

Providing employees with the opportunity to receive consistent training experiences and build upon current skill sets will strengthen the Corporation. Marine Atlantic is committed to ensuring employees receive information and training to meet industry best practices. Training efforts in 2012-13 focused on regulatory training programs, safety and professional development.

BUILDING OUR LEADERS

Key to our success of becoming a modern and efficient organization with customers at the centre of decision-making will rely heavily on a well-developed leadership team. Preparing the management team to meet the challenges associated with these changes is important. A pilot leadership program, ***Navigating through Change***, was initiated in 2012-13. This program will be launched throughout the Corporation in early 2013-14. This Program is designed to enable employees to further understand how change can impact individuals and their work place. Participants will learn tools and techniques to effectively respond to change within the organization. The program was designed to focus on relationship management, operational agility and the ability to further enhance the leadership abilities of employees.

Marine Atlantic continued 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 and internal communications activities ensure information is shared efficiently and effectively.

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

Employee Wellness Program
Marine Atlantic offers employees the opportunity to participate in an annual health and wellness challenge which includes physical activities, health screening clinics, and an online health risk assessment. The **@live Challenge** encourages employees to get active and change their lifestyle habits to improve their overall health and wellness. By analyzing data from risk assessments, health experience and the employee assistance program, the Wellness Committee is able to tailor the program and focus wellness strategies where change can be measured and benefit our employees.

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 Distinction Awards Program
Employees throughout the Corporation are recognized for their achievements and contributions towards achieving our mission of providing a safe, environmentally responsible and quality ferry service in a reliable, courteous and cost-effective manner. The awards program helps to foster good working relationships and an environment where employees feel value for the work they perform and a sense of pride and satisfaction. Awards ceremonies are held annually at each Port location.

Rhona Green with Distinction Award recipients.

LOOKING FORWARD

Going forward, the Corporation will build on our successes in 2012-13 with a focus on optimizing business processes, cultural renewal and service excellence.

2012-13 was another successful year for Marine Atlantic. With its new fleet in place, the Corporation was able to make great strides in reviewing its business processes, improving its safety culture, improving customer service and the continued restructuring and re-building of its shore-based infrastructure.

On-time performance increased in 2012-13 to 86 per cent, excluding weather related delays, an improvement of 4 per cent over last year. This measure has increased significantly since the introduction of Marine Atlantic's new fleet in 2010-11, and will continue to be a key focus in 2013-14. New marketing initiatives and customer research will further strengthen our efforts to attract new customers, strengthen customer service, and provide a positive experience when travelling with Marine Atlantic.

The Corporation will improve organizational performance through more effective vessel refits and planned work periods, more efficient fuel and procurement programs, strengthened IT processes, and ongoing shore-based infrastructure upgrades. Marine Atlantic will also move forward with improved workforce planning initiatives, more efficient scheduling practices, stronger financial reporting mechanisms, and effective Human Resource processes for employee engagement. All of these initiatives will be undertaken with a continued focus on the Corporation's safety culture and a commitment to fiscal responsibility.

Marine Atlantic has made great strides with its investments in new vessels and shore-based infrastructure, allowing for significant improvements in operations and a much-improved customer experience. These efforts will continue over the next 12 months. 2013-14 will be a year of continued transition for Marine Atlantic, with a focus on optimizing business processes and cultural renewal, operational success and service excellence for both internal and external customers.

On-time performance increased to 86%, excluding weather related delays, an **improvement of 4%**.

CORPORATE SOCIAL RESPONSIBILITY

Sunday, October 14, 2012 marked the 70th anniversary of the sinking of the **SS *Caribou***. Marine Atlantic partnered with members of the Royal Canadian Navy, community groups and family members to remember the tragedy and the 136 people who lost their lives. A wreath laying and commitment of ashes ceremony was held on board the **MV *Atlantic Vision*** at the site of the sinking.

WORKING TO ETHICAL STANDARDS

The Corporation prides itself on maintaining high ethical standards while operating in a fiscally responsible manner. The management team adheres to conflict of interest guidelines to deliver on the corporate mandate in an ethical manner. Employees are governed by a code of conduct which provides additional guidelines for adherence to these standards.

PROMOTING HUMAN RIGHTS

Marine Atlantic is committed to creating and maintaining a workplace free from harassment and discrimination. 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.

ENVIRONMENTAL STEWARDSHIP

Marine Atlantic endeavours to reduce its impact on the environment. This helps to ensure the Corporation protects its surroundings and complies with legal requirements.

ACCESSIBLE TRANSPORTATION

Marine Atlantic believes 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 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. The program provides up to four $2,000 university entrance scholarships and four $1,000 trade school entrance scholarships. Marine Atlantic also provides annually four $1,500 scholarships to students enrolled in either the Nautical Science or Marine Engineering programs at Memorial University's Marine Institute. Marine Atlantic is committed to building the skills of potential employees and the recruitment of 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 communities in which it operates. The Corporation proactively promotes community development by investing and supporting the regions in its port towns and surrounding areas.

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. Marine Atlantic invests in its port towns and surrounding areas.

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.

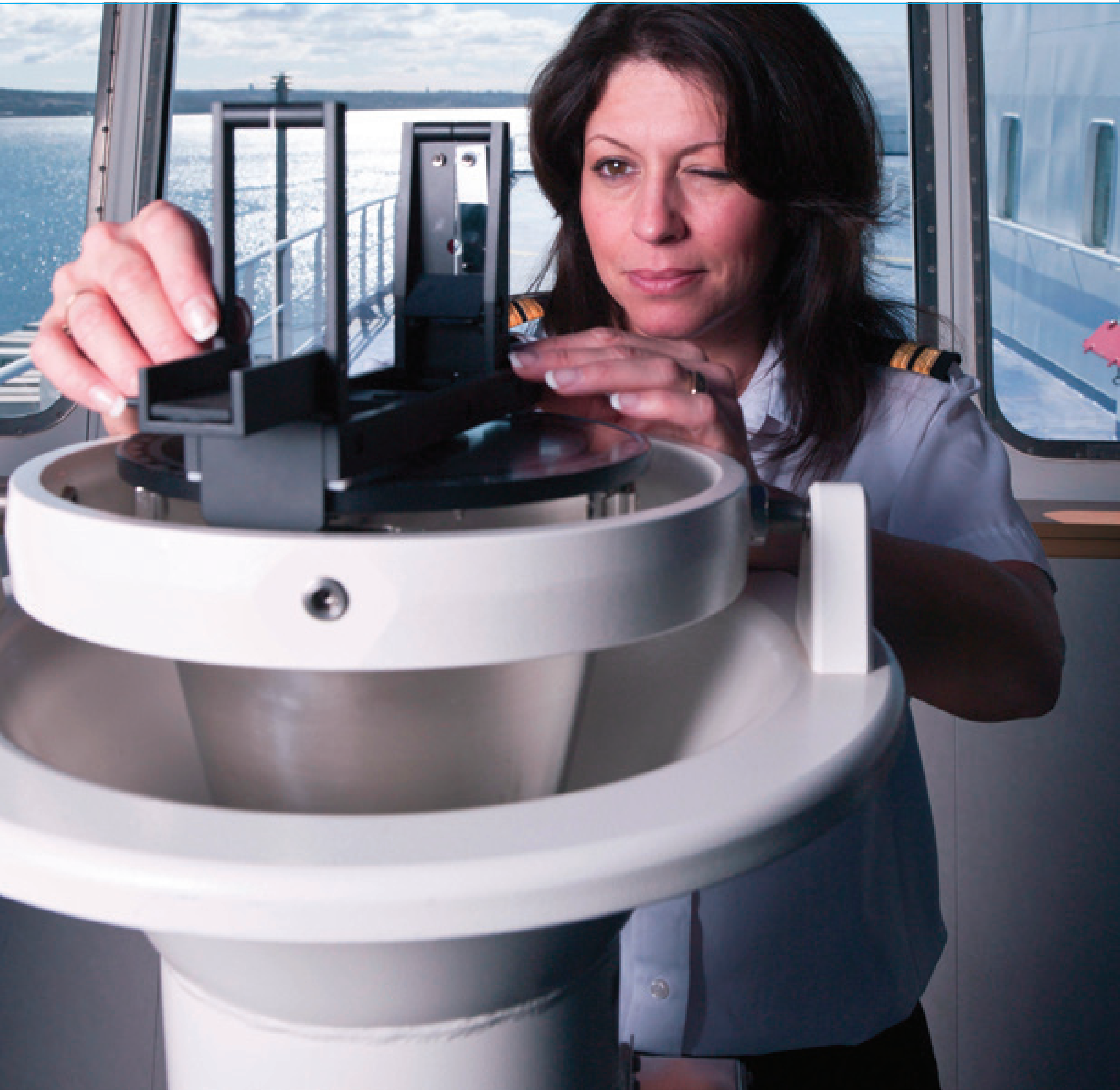
4 × $2,000
UNIVERSITY ENTRANCE SCHOLARSHIPS ANNUALLY

4 × $1,000
TRADE SCHOOL ENTRANCE SCHOLARSHIPS ANNUALLY

4 × $1,500
SCHOLARSHIPS TO NAUTICAL SCIENCE OR MARINE ENGINEERING PROGRAMS AT MEMORIAL UNIVERSITY'S MARINE INSTITUTE

$18,000
SCHOLARSHIPS AWARDED ANNUALLY

FINANCIAL OVERVIEW

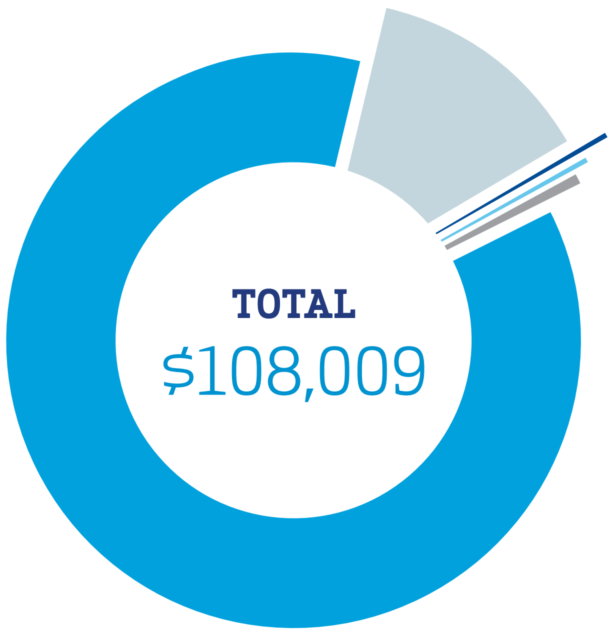


As a federal Crown Corporation, Marine Atlantic receives a significant annual subsidy from its shareholder the Government of Canada through Transport Canada. In 2012-13, the Corporation spent **$295.6 million**; $107.5 million was generated via customer tariffs and other ancillary revenue; and $191.8 million was received via subsidy. The Corporation's cost recovery was **67.1 per cent** which falls within the targeted range established by the shareholder.

REVENUES AND GAINS 2012-13

IN THOUSANDS OF DOLLARS

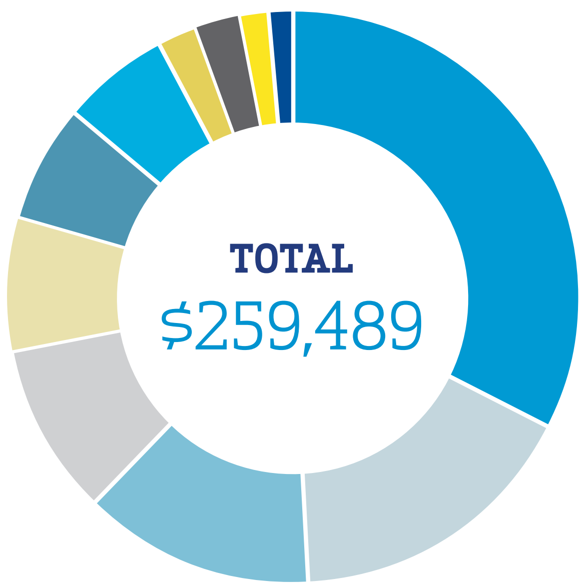
1	Transportation revenue	93,276
2	Fuel surcharge revenue	13,796
3	Realized gain on derivative financial instruments	512
4	Foreign currency exchange gain	224
5	Other income	201
	TOTAL	$ 108,009



EXPENSES 2012-13

IN THOUSANDS OF DOLLARS

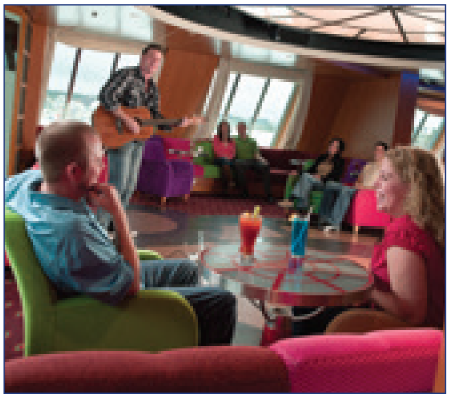
1	Wages and benefits	$ 84,672
2	Charter fees	43,202
3	Fuel	34,252
4	Amortization	24,797
5	Employee future benefits	19,387
6	Materials, supplies and services	17,398
7	Repairs and maintenance	15,731
8	Insurance, rent and utilities	6,267
9	Charter importation taxes	6,121
10	Loss on disposal of tangible capital assets	4,085
11	Other	3,577
	TOTAL	$ 259,489



YEAR ENDED MARCH 31

IN THOUSANDS OF DOLLARS

	2012–13	2011–12	2010–11	2009–10	2008–09
Operations					
Transportation Revenue	$ 93,276	$ 87,772	$ 83,920	$ 80,270	$ 71,514
Fuel surcharge	13,796	12,464	11,662	3,570	10,100
Other income	201	204	181	71	481
	107,273	100,440	95,763	83,911	82,095
Operating expenses	214,569	215,395	202,035	181,084	162,122
Employee Future benefits	19,387	16,022	8,278	2,593	11,186
Unrealized (Gain) Loss	-	-	(5,442)	1,708	-
Amortization	24,797	20,165	12,476	18,241	17,038
	258,753	251,582	217,347	203,626	190,346
Deficit before government funding	151,480	151,142	121,584	119,715	108,251
Government funding					
Operations	136,880	135,060	124,370	106,596	105,401
Capital	51,003	36,698	77,839	-	-
Recovery of vessel decommissioning costs		2,371	3,118	-	-
Amortization of deferred capital assistance		-	-	22,346	17,276
Operating surplus (deficit)	$ 36,403	$ 22,987	$ 83,743	$ 9,227	$ 14,426
Assets					
Total assets	$ 351,948	$ 316,492	$ 291,372	$ 234,019	$ 226,659
Purchases of vessels, facilities and equipment	$ 51,003	$ 36,698	$ 77,839	$ 14,868	$ 20,526



	2012–13	2011–12	2010–11	2009–10	2008–09
Passengers	351,643	365,786	382,522	398,667	385,046
Passenger vehicles	123,609	128,014	131,597	139,011	131,013
Commercial vehicles	103,160	103,253	100,620	96,694	92,612
AEUs*	559,740	565,301	558,361	546,637	519,938
Number of single crossings	1,818	1,908	2,095	1,972	2,143
Employees (peak employment)	1,393	1,389	1,364	1,303	1,256
Employees (full-time equivalent)**	1,108	1,153	1,139	1,100	1,075

** **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).*

(Prior year amounts for FTEs have been restated to include leave hours paid for non-replaced positions.)

REVENUE

Total revenue for the year was $4.4 million lower than budgeted although $6.8 million higher compared to 2011-12.

The Corporation expected growth in both the passenger and commercial traffic but passenger volumes were 4 per cent lower compared to the prior year, while commercial vehicle traffic remained consistent.

Tariff increases were implemented at the end of 2011-12.

WAGES AND BENEFITS

Labour costs were on par with 2011-12. The number of full time equivalent employees was 4 per cent lower than last year, offsetting increases in wages. The wages and benefits costs remained under budget due to delays in recruitment and initiatives.

CHARTER FEES

The Corporation has lease arrangements for three of its four vessels; the MV *Blue Puttees*, the MV *Highlanders* and the MV *Atlantic Vision*. The lease payments for the MV *Atlantic Vision* are paid in Euro. The differences compared to budget and prior year represent the change in exchange rates.

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.

FUEL

Fuel expense was $1.2 million higher than last year, although $1.1 million lower than budgeted. Fuel prices for the Corporation increased by 6 per cent in 2012-13. This was partially offset by 90 fewer trips than the prior year resulting in a 1.1 million litre reduction in fuel consumption.

MATERIALS, SUPPLIES AND SERVICES

Materials, supplies and services costs were on par with the previous year, although $3.3 million lower than budget.

The Corporation continued its transition to a modern and efficient ferry service providing a high level of customer experience with several corporate initiatives ongoing.

REPAIRS AND MAINTENANCE

The repairs and maintenance costs were $2.5 million higher in 2012-13 due to variations in the maintenance and refit schedule. All four ships had refit work completed this year to complete planned preventative maintenance and to address emerging requirements in the year.

INSURANCE, RENT AND UTILITIES

Insurance, rent and utilities was $0.5 million under budget for the year, while $0.2 million higher than last year due to increases in communication and municipal service fees. Costs for insurance and rent were lower than budgeted.

OTHER

Other expenses have decreased by $7.3 million in 2012-13 over last year and are $2.4 million lower than budget. This is due to prior year adjustments.

In 2011-12 the Corporation paid $3 million relating to an assessment of prior years' HST returns under appeal.

In 2012-13 adjustments were made to certain balance sheet accounts to account for difference between prior year estimates and actual amounts, reducing expenses in this category.

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 $3.4 million, $3.1 million of which was attributable to the Pension Plan for Employees of Marine Atlantic Inc.

FLEET RENEWAL

The Corporation took possession of 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.

DECOMMISSIONING OF VESSELS

The MV *Caribou* and MV J*oseph and Clara Smallwood* were retired from service and subsequently 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)

The Corporation incurred a foreign currency gain of $224 thousand in 2012-13 compared to $48 thousand in 2011/12. These gains arise from our requirement to pay some of our vendors in foreign currencies.

REALIZED (GAIN) ON DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation incurred $0.5 million actual gain from the settlement of energy swaps and forward exchange contracts this fiscal year, compared to $2.7 million last year.

LOSS ON DISPOSAL OF TANGIBLE CAPITAL ASSETS

The Corporation incurred a loss of $4 million as major shore-based infrastructure replacement projects were started in 2012-13.

(GAIN) ON DISPOSAL OF ASSETS HELD FOR SALE

The MV *Caribou* and the MV *Joseph and Clara Smallwood* were sold in fiscal 2011-12 resulting in a gain of $0.7 million recognized last year.

GOVERNMENT FUNDING

Government funding revenue recognized was $13.7 million higher in 2012-13 compared to 2011-12. This relates to the capital program as the capital spend was $14.3 million higher in 2012-13.

TANGIBLE CAPITAL ASSETS

In 2012-13, Marine Atlantic spent $51 million in asset renewal compared to $36.7 million last year. $40.7 million was spent on replacing and modernizing shore facilities and equipment compared to $24.1 million last year. $10.3 million was spent on fleet related projects this year and $12.6 million in 2011-12.

THE BOARD & MANAGEMENT WORKING TOGETHER

Marine Atlantic's Board of Directors provides oversight and strategic direction to the management team, which in turn is responsible for the day-to-day activities of the the Corporation. Together, the board and management team 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 strategic direction. The independent directors are chosen and appointed for specific and staggered terms by the Government of Canada. The President and CEO is also a member 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 the management team, ensuring effective budgeting and financial management, as well as management of corporate risks. These processes fulfill the board's commitment to provide overall governance.

COMMITTEES OF THE BOARD

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 team. 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 this year, the scope of the committee was

enhanced to include regular reporting from the Management Team relating to health and safety matters. The board implemented Terms of Reference which outlines the board's responsibilities to meet the legislative requirements and to outline how governance will be fulfilled for the benefit of Marine Atlantic Inc. In March 2013, Sharon Duggan was appointed as the Chair of the Committee.

Audit and Risk Committee

The Audit and Risk Committee is mandated to provide the board advice and services to set the context for an effective Enterprise Risk Management (ERM) and internal control framework to provide 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; and 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 oversight of the design and enhancement of the ERM framework for identifying and managing risks inherent to the business and operations of the Corporation, internal audit execution, operational and capital budget oversight and revision of a number of board and management policies in areas such as overtime and travel.

Human Resources and Pension Management Committee

The Human Resources and Pension Management Committee (HRPMC) is mandated to provide the board with advice on the stewardship of the Company's pension plan, to ensure governing 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 of the appointment, monitoring and compensation of executive management. Highlights for the year included the approval of the development of a long-term labour relations strategy and a work force planning program. In March 2013, Garfield Moffatt was appointed as the Chair of the Committee.

BOARD MEMBERSHIP	COMMITTEE MEMBERSHIP	ATTENDANCE
Robert Crosbie *St. John's, NL*	Board Chairman Member, Corporate Governance and Accountability Member, HRPMC	5
Paul Griffin *St. John's, NL*	Ex-officio member, Corporate Governance and Accountability Member, HRPMC	5
Nick Careen *Jerseyside, NL*	Member, Corporate Governance and Accountability Member, Audit and Risk	5
Peggy A. Coady, FCA[1] *St. John's, NL*	Chair, Corporate Governance and Accountability Member, Audit & Risk	4
Stan Cook[2] *St. John's, NL*	Member, HRPMC Member, Audit and Risk	4
James G. Doody, CA *St. John's, NL*	Chair, Audit and Risk	5
John J. Henley *St. John's, NL*	Member, Corporate Governance and Accountability	4
Walter Pelley *North Sydney, NS*	Member, HRPMC Member, Audit and Risk	5
Dwight Rudderham[3] *Sydney, NS*	Member, Corporate Governance and Accountability Member, HRPMC	4
Heather Tulk[4] *Toronto, ON*	Chair, HRPMC	4
Garfield Moffatt[5] *Truro, NS*	Chair, HRPMC	1
Sharon Duggan[6] *St. John's, NL*	Chair, Corporate Governance and Accountability Member, HRPMC	1

[1]Completed membership on Board of Directors effective March 7, 2013. [2]Member of HRPMC April 2012-February 2013, Member of Audit & Risk Committee March 2013. [3]Member of Corporate Governance & Accountability Committee April 2012-February 2013, Member of HRPMC March 2013. [4]Completed membership on Board of Directors effective December 13, 2012. [5]Appointed to the Board of Directors effective December 13, 2012. [6]Appointed to the Board of Directors effective March 7, 2013.

Note: There are five regularly scheduled meetings per period. Board conference calls and special meetings are held throughout the period outside the regular schedule. Committee meetings are held throughout the period.

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.

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, 2013

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 statement of financial position as at 31 March 2013, and the statement of operations, statement of remeasurement gains and losses,, statement of change in net debt and statement of cash flow for the year then ended, 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 audit. I conducted my audit 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 is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Marine Atlantic Inc. as at 31 March 2013, and the results of its operations, its remeasurement gains and losses, change in its net debt, and its cash flows for the year then ended 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 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 audit 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 2013
Halifax, Canada

Statement of Financial Position

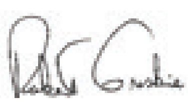
YEAR ENDED **MARCH 31, 2013** (IN THOUSANDS OF DOLLARS)

	2013	2012
Financial assets		
Cash (Note 3)	$ 12,087	$ 8,353
Accounts receivable (Note 13 (a))	12,248	9,971
Receivable from Government of Canada (Note 4)	-	1,222
Inventories held for resale (Note 5)	302	291
Derivative financial instruments (Note 12)	641	3,147
Accrued pension asset (Note 8)	73,151	60,080
	98,429	83,064
Liabilities		
Accounts payable and accrued liabilities (Notes 6, 13(c))	$ 28,039	$ 30,565
Derivative financial instruments (Note 12)	781	1,015
Deferred revenue	2,203	2,556
Payable to Government of Canada (Note 4)	2,687	-
Accrued vacation pay	5,859	5,970
Accrued pension liability (Note 8)	1,912	1,875
Accrued liability for non-pension post-retirement benefits (Note 9)	38,378	35,465
Accrued liability for post-employment benefits (Note 10)	10,698	11,641
	$ 90,557	$ 89,087
Net financial assets (net debt)	7,872	(6,023)
Non-financial assets		
Tangible capital assets (Note 11)	218,474	196,415
Inventories held for consumption (Note 5)	21,820	17,696
Prepaid expenses	13,225	19,317
	253,519	233,428
Accumulated surplus (Note 14)	$ 261,391	$ 227,405

Contractual obligations (Note 16)
Contingencies (Note 17)

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, 2013** (IN THOUSANDS OF DOLLARS)

	2013		2012
	Budget (Note 18)	Actual	Actual
Revenues			
Transportation	$ 97,135	$ 93,276	$ 87,772
Fuel surcharge	14,466	13,796	12,464
Other income	40	201	204
	111,641	107,273	100,440
Expenditures			
Wages and benefits	90,676	84,672	85,021
Charter fees	44,290	43,202	44,256
Charter importation taxes	-	6,121	5,306
Fuel	35,389	34,252	33,051
Materials, supplies and services	20,730	17,398	17,538
Repairs and maintenance	16,068	15,731	13,187
Insurance, rent and utilities	6,807	6,267	6,066
Other	6,019	3,577	10,906
Employee future benefits (Notes 8, 9 and 10)	12,310	19,387	16,022
Fleet renewal costs	-	-	1,201
Decommissioning of vessels	-	-	2,371
Foreign currency exchange (gain)	-	(224)	(48)
Realized (gain) on derivative financial instruments	-	(512)	(2,703)
Loss (gain) on disposal of tangible capital assets	-	4,085	(21)
(Gain) on disposal of assets held for sale	-	-	(736)
Amortization	35,288	24,797	20,165
	267,577	258,753	251,582
(Deficit) before government funding	(155,936)	(151,480)	(151,142)
Government funding (Note 4)			
Operations	134,726	136,880	135,060
Capital	46,900	51,003	36,698
Recovery of vessel decommissioning costs	-	-	2,371
	181,626	187,883	174,129
Operating surplus	25,690	36,403	22,987
Accumulated operating surplus, beginning of year	219,710	229,287	206,300
Accumulated operating surplus, end of year (Note 14)	$ 245,400	$ 265,690	$ 229,287

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

Statement of Remeasurement Gains and Losses

YEAR ENDED **MARCH 31, 2013** (IN THOUSANDS OF DOLLARS)

	2013	2012
Remeasurement gains (losses) arising during the year		
Unrealized (loss) on foreign exchange of cash	$ (146)	$ (281)
Unrealized (loss) on derivatives	(2,783)	(4,304)
Reclassifications to the statement of operations		
Realized gain on derivatives	$ 512	$ 2,703
Net remeasurement (losses) for the year	(2,417)	(1,882)
Accumulated remeasurement (losses) on derivative financial instruments, beginning of year	(1,882)	-
Accumulated remeasurement (losses) on derivative financial instruments, end of year (Note 14)	$ (4,299)	$ (1,882)

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

Statement of Change in Net Debt

YEAR ENDED **MARCH 31, 2013** (IN THOUSANDS OF DOLLARS)

	2013		2012
	Budget (Note 18)	Actual	Actual
Surplus	$ 25,690	$ 36,403	$ 22,987
Change in tangible capital assets			
Acquisition of tangible capital assets (Note 11)	(46,900)	(51,003)	(36,698)
Amortization of tangible capital assets (Note 11)	35,288	24,797	20,165
Loss on disposal of tangible capital assets	-	4,085	(21)
Reclassification of assets held for sale to financial assets	-	-	-
Proceeds on disposal of tangible capital assets	-	62	25
(Increase) in tangible capital assets	(11,612)	(22,059)	(16,529)
Change in other non-financial assets			
Net change in inventories held for consumption	-	(4,124)	(6,306)
Net change in prepaid expenses	-	6,092	(2,283)
Decrease (increase) in other non-financial assets	-	1,968	(8,589)
Remeasurement (losses) gains	-	(2,417)	(1,882)
Decrease (increase) in net debt	14,078	13,895	(4,013)
Net financial assets (net debt), beginning of year	11,781	(6,023)	(2,010)
Net financial assets (net debt), end of year	$ 25,859	$ 7,872	$ (6,023)

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

Statement of cash flow

YEAR ENDED **MARCH 31, 2013** (IN THOUSANDS OF DOLLARS)

	2013	2012
Operating transactions		
Cash receipts from customers	$ 107,072	$ 100,285
Other income received	453	255
Government funding - operations	132,906	141,104
Government funding - capital	58,886	37,648
Proceeds from assets held for sale	-	7,938
Cash payments to suppliers	(118,333)	(143,990)
Cash payments to and on behalf of employees	(87,802)	(81,842)
Cash paid for employee future benefits	(30,450)	(24,717)
Interest and foreign exchange on cash	(174)	(285)
	62,558	36,396
Capital transactions		
Purchase of tangible capital assets	(58,886)	(37,648)
Proceeds on disposal of tangible capital assets	62	25
	(58,824)	(37,623)
Net increase (decrease) in cash	3,734	(1,227)
Cash, beginning of year	8,353	9,580
Cash, end of year	$ 12,087	$ 8,353
Cash consists of:		
Restricted cash	$ 8,116	$ 8,290
Unrestricted cash	3,971	63
	$ 12,087	$ 8,353

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

Notes to Financial Statements
Year ended March 31, 2013 (IN THOUSANDS OF DOLLARS)

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.

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 receivable from (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 has reasonable assurance the claim will be accepted and paid by 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.

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 the 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 11.4 years (2012 – 11.3 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 17.0 years (2012 – 17.7 years).

ii) Health and dental plans

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

The cost of non-pension post-retirement benefits is actuarially determined using management's best estimate of future participation rates in the retiree health and dental plan, average health care cost per plan member, 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 (2012 – 13.4 years). Adjustments for plan amendments, net of offsetting unamortized actuarial gain/losses, related to prior period employee service are recognized in the statement of operations in the period of the 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. Union and non-union/management employees become eligible for travel pass privileges after acquiring four months of continuous employment plus 694 regular hours worked or two years of service, whichever occurs earliest. No liability has been recognized in 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 which is 10 years (2012 – 10 years).

ii) Other benefits

Other post-employment benefits 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.

Union employees become eligible for short-term disability benefits 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 short-term disability plan for union employees 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 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 his/her extended health insurance maintained for a period of six months, his/her dental insurance maintained for a period of three months and his/her basic life insurance continued for a period of six months after which the employee can make application for a waiver of life premium to maintain 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.

Non-union/management employees become eligible for long-term disability benefits the first of the month following 60 days of continuous employment. This plan is not available to union employees. The long-term disability plan for non-union/management employees provides regular income to replace income lost because of a lengthy disability due to disease or non-work related injury. Benefits begin after 26 week waiting period 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 his/her extended health and dental insurance continued, along with his/her travel pass privileges, during the duration of his/her illness provided he/she continues to meet the definition of disabled and have not yet reached age 65. Basic life insurance is continued for a period of six months after which the employee can make application for a waiver of life premium to maintain 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 for non-union/management employees hired after September 1, 2001 as they work and accumulate sick leave credits. Employees hired prior to September 1, 2001 are 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. Transportation revenue and fuel surcharges 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 services 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 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 liabilities for non-pension post-retirement benefits and post-employment benefits, useful lives of tangible capital assets 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.

3. CASH

Cash includes restricted cash consisting of cash denominated in Euros 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 (2012 - $6,223), which translates to $8,116 (2012 - $8,290) Canadian dollars at March 31, 2013. These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

4. RECEIVABLE FROM (PAYABLE TO) 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.

		2013		2012
Receivable from (payable to) Government of Canada, beginning of year	$	1,222	$	278
Parliamentary appropriations received during the year		(191,792)		(178,752)
Recognized during the year:				
Government funding - operations		136,880		135,060
Government funding - capital		51,003		36,698
Government funding surplus		3,909		6,994
Receivable from (payable to) Government of Canada, end of year		(2,687)		(6,716)
Proceeds on assets held for sale		-		7,938
Total (payable to) receivable from Government of Canada	$	(2,687)	$	1,222

5. INVENTORIES

	2013		2012	
Inventories held for consumption				
Fuel inventory	$	17,612	$	14,113
Vessel spare parts - ship based		1,785		1,642
Vessel spare parts - shore based		2,423		1,941
		21,820		17,696
Inventories held for resale				
Catering inventory		302		291
Total inventories	$	22,122	$	17,987

For the year ended March 31, 2013, inventories expensed during the year amounted to $39,002 (2012 - $39,382). The Corporation has written down $15 (2012 - $181) of vessel spare parts.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013		2012	
Accounts payable	$	15,826	$	12,611
Accrued liabilities		5,250		9,992
Wages and benefits payable		5,340		5,963
Government remittances payable		1,623		1,999
Accounts payable and accrued liabilities	$	28,039	$	30,565

Amounts due to the Government and other government organizations of $187 (2012 - $315) are payable on demand and are non-interest bearing.

7. 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 identified 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 regulations. The Corporation has recorded a provision of $170 (2012 - $73) 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.

8. ACCRUED PENSION ASSET (LIABILITY)

The Corporation's independent actuary measures the pension obligations and the value of the plan's assets for accounting purposes as at the measurement date (December 31, 2012 for the year ended March 31, 2013, and December 31, 2011 for the year ended March 31, 2012). The most recent actuarial valuation for accounting purposes was completed in 2012 and is as of December 31, 2011.

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

	2013	2012
Accrued benefit obligation		
Balance, beginning of year	$ 573,123	$ 543,513
Cost of plan amendment	-	1,200
Current service cost	9,354	8,138
Employee contributions	4,244	4,330
Interest costs	28,699	30,154
Benefits paid	(36,345)	(34,122)
Actuarial loss (gain)	(28,397)	19,910
Balance, end of year	$ 550,678	$ 573,123
Market-related value of plan assets		
Balance, beginning of year	$ 560,198	$ 553,029
Actual gains from return on plan assets	25,942	20,948
Employer contributions	20,485	16,013
Employee contributions	4,244	4,330
Benefits paid	(36,345)	(34,122)
Balance, end of year	$ 574,524	$ 560,198

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

	2013		2012	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (market-related value)	$ 574,524	$ -	$ 560,198	$ -
Pension obligations (actuarial value)	548,046	2,632	570,600	2,523
Surplus (deficit) end of year	26,478	(2,632)	(10,402)	(2,523)
Unamortized net actuarial losses (gains)	27,871	682	59,350	610
Employer contributions during year for measurement date to March 31	18,802	38	11,132	38
Accrued pension asset (liability)	$ 73,151	$ (1,912)	$ 60,080	$ (1,875)

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

	2013		2012	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Contributions				
Employer	$ 28,003	$ 151	$ 22,399	$ 151
Employees	4,244	-	4,330	-
Total contributions	$ 32,247	$ 151	$ 26,729	$ 151
Benefits paid	$ 36,194	$ 151	$ 33,972	$ 150

The pension costs are comprised of the following:

	2013		2012	
	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	$ 13,521	$ 78	$ 12,408	$ 60
Plan amendment incurred in period	-	-	1,197	3
Amortization of net actuarial loss	5,292	50	3,053	27
Employee contributions	(4,244)	-	(4,330)	-
Retirement benefit expense	14,569	128	12,328	90
Interest on pension obligations	28,638	61	30,076	78
Return on plan assets	(28,274)	-	(30,583)	-
Retirement benefit interest expense	364	61	(507)	78
Pension costs	$ 14,933	$ 189	$ 11,821	$ 168

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 3%, subject to a maximum annual increase of 3%. 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, 2012, which is the measurement date for the March 31, 2013 financial statements, was 56% in debt securities and 44% in equity securities (2012 - 60% and 40% respectively). The market value of plan assets is $602,352 (2012 - $563,715). The actual return on the market value of plan assets was $50,253 or 8.8% (2012 - $23,894 or 4.4%) and the actual return on the market-related value of plan assets was $25,942 or 4.6% (2012 - $20,948 or 3.8%).

Gains and losses incurred are as follows: Loss (gain) on market-related value of plan assets $2,332 (2012 - $9,636); (gain) loss on registered plan accrued benefit obligation ($28,519) (2012 - $19,390); loss on supplementary arrangements accrued benefit obligation $122 (2012 - $520).

The weighted-average assumptions are:

	2013	2012
Pension obligations		
Discount rate – registered plan	5.5%	5.1%
Discount rate – supplementary arrangements	2.3%	2.4%
Rate of compensation increase	3.5%	3.5%
Inflation rate	2.0%	2.0%
Pension costs		
Discount rate – registered plan	5.1%	5.6%
Discount rate – supplementary arrangements	2.4%	3.5%
Expected return on assets	5.1%	5.6%
Rate of compensation increase	3.5%	4.0%
Inflation rate	2.0%	2.5%

9. ACCRUED LIABILITY FOR 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 the Corporation's independent actuary on the basis of management assumptions. An actuarial valuation was conducted as of December 31, 2011 for the year ended March 31, 2013 whereas the March 31, 2012 accrued liability was determined based on the December 31, 2010 actuarial valuation.

The statement of operations includes a charge of $3,365 (2012 - $3,097) for non-pension post-retirement benefits for the cost of these benefits during the period.

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

	2013	2012
Obligation for non-pension post-retirement benefits (actuarial value)	$ (40,843)	$ (39,985)
Unamortized amounts	2,293	4,339
Employer contributions during the year from measurement date to March 31	172	181
Accrued benefit liability for non-pension post-retirement benefits	$ (38,378)	$ (35,465)

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

	2013	2012
Employer's contributions	$ 452	$ 458
Benefits paid	$ 452	$ 458

The non-pension post-retirement benefit costs are comprised of the following:

	2013	2012
Determination of non-pension post-retirement benefit costs for the year are calculated as:		
Current period benefit cost	$ 2,032	$ 1,715
Interest on obligations	1,001	1,262
Amortization of net actuarial (gain) loss	332	120
Non-pension post-retirement benefit costs	$ 3,365	$ 3,097

The weighted-average assumptions are:

	2013	2012
Non-pension post-retirement benefits obligations		
Discount rate	2.3%	2.4%
Rate of compensation increase	3.5%	3.5%
Initial weighted-average health care trend rate	5.9%	6.0%
Ultimate weighted-average health care trend rate	4.5%	4.5%
Year ultimate rate reached	2032	2032
Inflation rate	2.0%	2.0%
Non-pension post-retirement benefits costs		
Discount rate	2.4%	3.5%
Rate of compensation increase	3.5%	4.0%
Initial weighted-average health care trend rate	6.0%	7.4%
Ultimate weighted-average health care trend rate	4.5%	4.6%
Year ultimate rate reached	2032	2030
Inflation rate	2.0%	2.5%

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A one percentage point change in assumed health care and dental cost trend rates would have had the following effects on amounts for March 31, 2013:

	Increase	Decrease
Total of current service and interest costs	$ 887	$ (633)
Accrued benefit liability for non-pension post-retirement benefits	$ 8,273	$ (6,274)

10. 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, 2011 and December 31, 2012. The most recent actuarial valuation for accounting purposes for other post-employment benefits was conducted as of December 31, 2012.

The statement of operations includes a charge of $900 (2012 - $936) for post-employment benefit costs.

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

	2013	2012
Obligation for post-employment benefits (actuarial value)	$ (14,570)	$ (12,837)
Unamortized amounts	3,374	839
Employer contributions during the year from measurement date to March 31	498	357
Accrued benefit liability for post-employment benefits	$ (10,698)	$ (11,641)

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

	2013	2012
Benefits paid	$ 1,843	$ 1,710

The post-employment benefit costs are comprised of the following:

	2013	2012
Determination of post-employment benefit costs for the year are calculated as:		
Current period benefit cost	$ 509	$ 439
Interest on obligations	303	454
Amortization of net actuarial (gain) loss	88	43
Post-employment benefit costs	$ 900	$ 936

The weighted-average assumptions are:

	2013	2012
Post-employment benefits obligations		
Discount rate	2.3%	2.4%
Increase in average industrial wage	3.0%	3.0%
Inflation rate	2.0%	2.0%
Health care cost increases	5.0%	5.0%
Post-employment benefits costs		
Discount rate	2.4%	3.5%
Increase in average industrial wage	3.5%	3.5%
Inflation rate	2.0%	2.5%
Health care cost increases	5.0%	5.0%

For the year ended March 31, 2013, the Corporation paid $413 (2012 - $365) 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 costs for Nova Scotia employees given that the Corporation is on an assessment basis.

11. TANGIBLE CAPITAL ASSETS

	Cost 2013				
	Beginning Balance	Additions	Disposals	Write-downs	Ending Balance
Vessel	$ 101,027	$ 627	$ (605)	$ -	$ 101,049
Shore facilities	115,871	22,489	(15,104)	-	123,256
Leasehold improvements	46,929	7,063	-	-	53,992
Equipment	18,295	6,408	(753)	-	23,950
Work in progress	34,003	14,416	-	-	48,419
	$ 316,125	$ 51,003	$ (16,462)	$ -	$ 350,666

	Accumulated Amortization 2013				
	Beginning Balance	Amortization Expense	Disposals	Write-downs	Ending Balance
Vessel	$ 47,189	$ 6,442	$ (441)	$ -	$ 53,190
Shore facilities	51,378	4,341	(11,149)	-	44,570
Leasehold improvements	11,627	10,903	-	-	22,530
Equipment	9,516	3,111	(725)	-	11,902
	$ 119,710	$ 24,797	$ (12,315)	$ -	$ 132,192

	Cost 2012				
	Beginning Balance	Additions	Disposals	Write-downs	Ending 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				
	Beginning Balance	Amortization Expense	Disposals	Write-downs	Ending 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
	$ 102,087	$ 20,165	$ (2,542)	$ -	$ 119,710

	2013 Net Book Value	2012 Net Book Value
Vessel	$ 47,859	$ 53,838
Shore facilities	78,686	64,493
Leasehold improvements	31,462	35,302
Equipment	12,048	8,779
Work in progress	48,419	34,003
	$ 218,474	$ 196,415

12. 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:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Financial assets				
Cash	$ -	$ 12,087	$ -	$ 8,353
Accounts receivable	-	12,248	-	9,971
Receivable from Government of Canada	-	-	-	1,222
Derivative financial instruments	641	-	3,147	-
	$641	$24,335	$3,147	$19,546
Financial assets				
Accounts payable and accrued liabilities	$ -	$28,039	$ -	$30,565
Payable to Government of Canada	-	2,687	-	-
Derivative financial instruments	781	-	1,015	-
	$ 781	$ 30,726	$ 1,015	$ 30,565

(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, 2013 are all classified as level 2 since they are based on quoted prices in similar assets or liabilities or modeled using inputs that are observable. 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, 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:

	2013				2012
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair Value	Fair Value
Crude swap - #2 heating oil	2013	2.701-2.300	588	92	795
Crude swap - #2 heating oil	2014	2.741-2.919	714	113	124
Crude swap - #2 heating oil	2015	2.719	168	36	-
Crude swap - #6 heavy fuel 1%	2012	81.00-110.95	18	-	292
Crude swap - #6 heavy fuel 1%	2013	91.88-99.02	18	58	1,836
Crude swap - #6 heavy fuel 1%	2014	91.43-101.42	74	249	100
Crude swap - #6 heavy fuel 1%	2015	91.43-97.32	28	93	-
				$ 641	$ 3,147

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 heavy fuel 1% swap quantities are based on barrels.

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

	2013				2012
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair Value	Fair Value
Crude swap - #2 heating oil	2013	3.160	84	(13)	$ -
Crude swap - #2 heating oil	2014	3.050	84	(7)	-
Crude swap - #2 heating oil	2015	2.897-2.931	252	(5)	-
Crude swap - #6 heavy fuel 1%	2013	97.38-103.59	8	(24)	(82)
Crude swap - #6 heavy fuel 1%	2014	99.07-105.20	18	(53)	-
Crude swap - #6 heavy fuel 1%	2015	92.95-99.13	20	(214)	(323)
				$ (316)	$ (405)

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 heavy fuel 1% swap quantities are based on barrels.

		2013			2012
	Period (Note 1)	Forward Rate CAD/EURO	Notional Quantity (Euros)	Fair Value	Fair Value
Foreign exchange forwards	2013			$ -	$ (444)
Foreign exchange forwards	2014	1.3740	7,235	(465)	(166)
				$ (465)	$ (610)

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

13. 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 and Risk 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 a condition of a vessel charter agreement. As the vessel's owner is bound under a number of security instruments, the vessel'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 an unguaranteed short-term rating of P-2 from Moody's, and a stand-alone rating of b, a guaranteed long-term rating of AAA, and unguaranteed short-term rating of F1 from Finch Ratings at March 31, 2013.

Accounts receivable

The Corporation's total accounts receivable is $12,248 as at March 31, 2013 (2012 - $9,971) and consists of trade receivables of $4,982 (2012 - $5,347) and other accounts receivable of $7,266 (2012 - $4,624) of which $4,044 (2012 - $2,365) 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 50% of the trade receivables (2012 - five customers represented 53% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable.

As at March 31, 2013, approximately 2% (2012 - 3%) of trade accounts receivables were over 60 days past due, whereas 98% (2012 - 97%) were current, or less than 30 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 $115 at March 31, 2013 (2012 - $21). 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:

	2013	2012
Current	$ 4,306	$ 4,146
1-30 days past due	680	1,088
31-120 days past due	25	19
Past due 121 days and over	86	115
	5,097	5,368
Less: Allowance for doubtful accounts	(115)	(21)
Trade accounts receivable, net	4,982	5,347

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 MV *Atlantic Vision*, in the amount of 1,034 Euros. To minimize this risk, the Corporation purchased 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% 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 1% 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 and the fuel surcharges charged to customers throughout the years. A fluctuation in vessel fuel 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 charged 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 (2012 - $35,622) 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, 2013 (2012 – nil), although, irrevocable letters of credit have been provided against the facility in the amount of $35,622 (2012 – $35,622). The credit facility is available to the Corporation as required with annual renewal subject to the approval of the Minister of Finance.

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 (2012 – $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 (2012 – $31,422) with expiry dates of December 31, 2013. The letters of credit do not exceed 15% of the market value of assets per regulations supporting the *Pension Benefits Standards Act*, 1985.

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 $28,039 (2012 - $30,565). The carrying value of accounts payable as at March 31, 2013 was $17,449 (2012 - $14,649) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $10,590 as at March 31, 2013 (2012 - $15,916).

The following table summarizes the contractual maturities for accounts payable and accrued liabilities and derivative financial liabilities as at March 31, 2013:

	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	Total
As at March 31, 2013					
Accounts payable and accrued liabilities	$ 28,039	-	-	-	$ 28,039
Derivative financial liabilities	$ 177	$ 229	$ 156	$ 219	$ 781
As at March 31, 2012					
Accounts payable and accrued liabilities	$ 30,565	-	-	-	$ 30,565
Derivative financial liabilities	$ 210	$ 118	$ 198	$ 489	$ 1,015

14. ACCUMULATED SURPLUS

The accumulated surplus is comprised of:

	2013	2012
Accumulated operating surplus	$ 265,690	$ 229,287
Accumulated remeasurement (losses)	(4,299)	(1,882)
Accumulated surplus	$ 261,391	$ 227,405

Accumulated operating surplus includes share capital in the amount of $258 (2012 – $258). The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at March 31, 2013, 517,061 shares (2012 - 517,061 shares) at $0.50 per share (2012 – $0.50 per share) have been issued and fully paid.

15. 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 $1,283 (2012 – $1,595) with other related parties, which includes the accounts payable as described in note 6. 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.

16. CONTRACTUAL OBLIGATIONS

(a) The total amount required to complete contracted work in progress at March 31, 2013 is $6,572 (2012 – $5,168). The remaining balance of these contracts will be paid during 2013-14.

(b) The Corporation leases certain facilities and equipment. As well, the Corporation entered into five-year charter agreements for three 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
2013-14	$ 35,847	$ 266	$ 36,113
2014-15	25,364	113	25,477
2015-16	20,256	-	20,256
	$ 81,467	$ 379	$ 81,846

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.

17. CONTINGENCIES

In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. At March 31, 2013, the Corporation is in receipt of claims estimated at $132 (2012 – $167) 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 $1,010 (2012 – $1,465) 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 which are in place.

18. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and have been derived from the corporate planning process and approved by the Board of Directors.

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