MARINE ATLANTIC ANNUAL REPORT **2010/11**

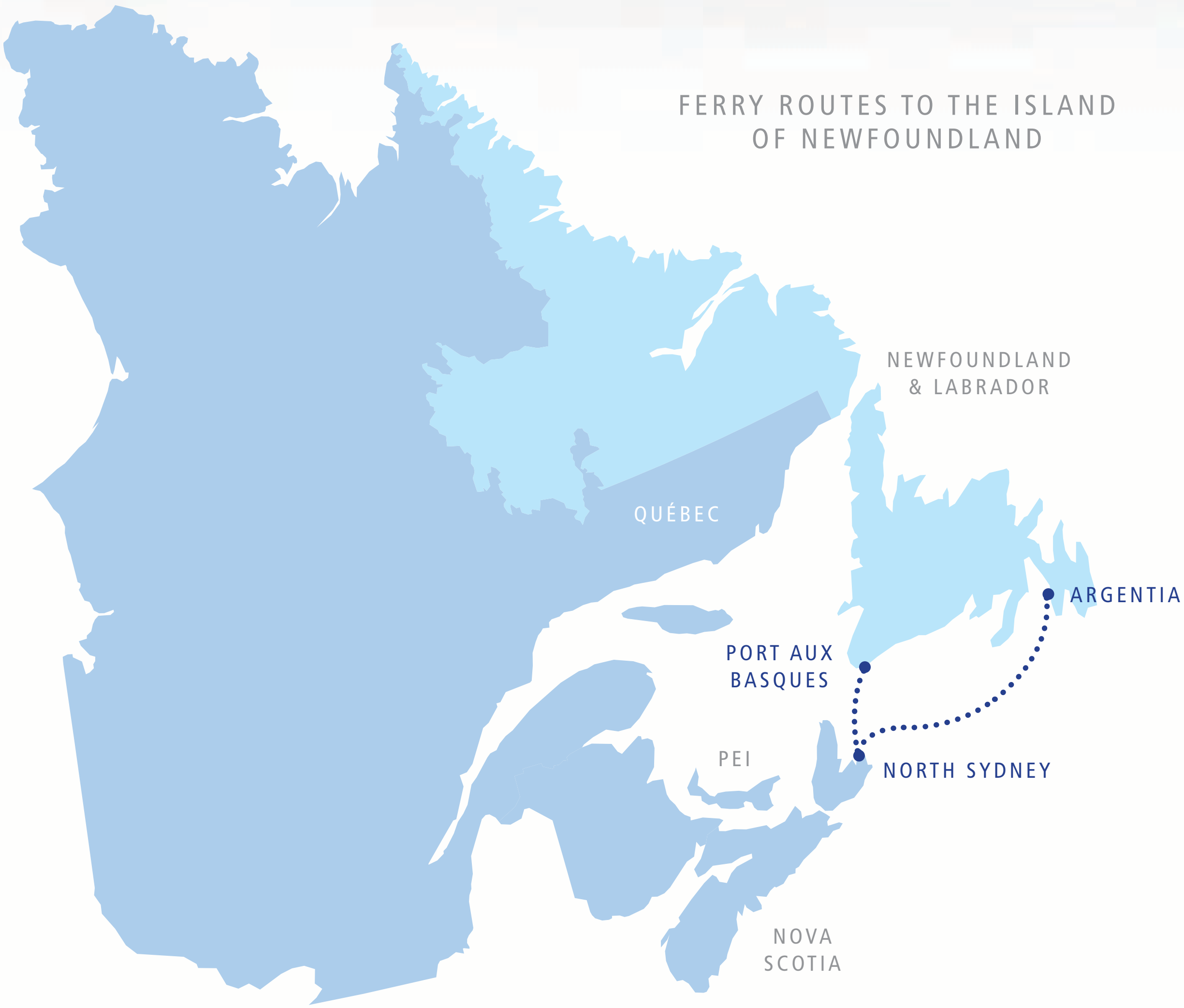
Marine Atlantic
Marine Atlantique

Canada

HIGHLIGHTS FOR 2010/11

Passengers	382,522
Passenger vehicles	131,597
Commercial vehicles	100,620
Number of sailings	2,095
Employees (peak employment)	1,364
Employees (full-time equivalent)	1,113

FERRY ROUTES TO THE ISLAND OF NEWFOUNDLAND



Head Office
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Message from the Chair

ROB CROSBIE | CHAIR, MARINE ATLANTIC BOARD OF DIRECTORS

The 2010/11 fiscal year was a period of change and renewal for Marine Atlantic. Within our Corporation there was a sense of excitement and optimism as the Government of Canada committed in excess of $900 million over a five-year period toward new infrastructure, operating subsidies and business renewal.

It was no secret that we faced a declining reliability of our aging fleet and infrastructure, while at the same time dealing with increased demand for our service. The federal government's funding commitment allowed the Corporation to move quickly to charter two modern vessels to address these reliability challenges. Two large modern ice-class superferries suited to operating in the harsh environment of the Cabot Strait, were identified and underwent significant modification. It is a testament to the dedication and commitment of the team at Marine Atlantic, in combination with our world-class partners, that all of this work was completed over a ten-month period.

Fleet renewal was a key priority throughout the year. Our team felt it was extremely important to move forward with a concrete plan of action to ensure we offer an improved service to our customers. We retired two hard-working and dedicated vessels, the MV *Caribou* and MV *Joseph and Clara Smallwood*, to allow us to bring forward our plan of renewal. While we were sad to see these vessels retired, they could no longer satisfy the needs of our customers. With our new vessels, in combination with the MV *Atlantic Vision* and the MV *Leif Ericson*, our new fleet has an increased capacity of approximately 25 per cent. There is a significant renewal program underway at Marine Atlantic and we will continue to make improvements to our entire operation in the coming years, including our terminals, docks, parking lots, properties and business practices.

On behalf of the Board of Directors, the management team and the users of the service, I thank the Government of Canada for their renewed commitment at this critical juncture for Marine Atlantic. This investment presents an opportunity for the Corporation to continue with our revitalization efforts and further improve our service delivery to the people of Newfoundland and Labrador. The Board of Directors has worked very closely with the federal government in securing this new funding and has been actively involved with the Executive Management team to oversee and implement change and renewal within Marine Atlantic.

This fiscal year was a year of action, a time to put the necessary assets in place to meet our growing customer base. In the next fiscal year, we're looking forward to offering significantly enhanced capacity to address the demand for our service, upgrading our shore-based infrastructure and moving forward with plans for a modern and efficient Marine Atlantic that offers a reliable service to our customers. We have a vision, we have the resources and we have a plan; we look forward to the positive changes that our customers will soon experience.

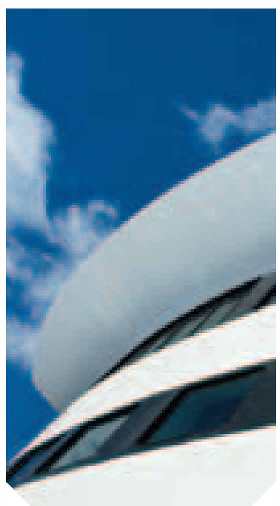
ROB CROSBIE

Message from the President

WAYNE FOLLETT | PRESIDENT AND CEO

Marine Atlantic transports thousands of people, vehicles and over 50 per cent of the goods destined for the Island portion of the Province of Newfoundland and Labrador each and every day of the year.

Our service is considered part of Canada's critical transportation infrastructure and the growth in the Newfoundland and Labrador economy is further increasing the importance of our service. As the demand to transport passengers and goods increased, so did our fleet capacity challenges. In 2010/11, Marine Atlantic transported over 100,000 commercial units during a one-year period for the first time in our history. Despite capacity challenges, our hard working employees loaded our vessels effectively and ensured we transported as much traffic as possible. This was a major achievement for our Corporation.



The demonstrated need for additional capacity, coupled with the challenges of aging infrastructure, were significant factors in the five-year investment made by our shareholder, the Government of Canada. In 2010/11, we used a portion of these funds to focus on renewing our fleet. We chartered two modern vessels that offer increased capacity, new technologies, and improved amenities for our customers.

We initiated a vessel integration project to modify and integrate these ships into our fleet, with safety being our top priority. We contracted a number of international agencies to help us with our due diligence processes, inspections and oversight activities and ensured we had the strongest possible commitment to safety. Through the design and modification process, our employees and consultants were there every step of the way. We are very pleased that these new vessels, the MV *Blue Puttees* and MV *Highlanders*, are now part of the Marine Atlantic fleet.

During the year, we retired two vessels that served the people of Newfoundland and Labrador, Canada and tourists from around the world for a quarter of a century. The MV *Caribou* and MV *Joseph and Clara Smallwood* were retired from service after many trips across the Gulf of St. Lawrence and will be fondly remembered by crew and customers.

In addition to our fleet renewal, we continued to move forward with our significant capital project list. We started planning for our shore infrastructure upgrades including our terminals, docks and associated assets. We continued with our review of the Corporation's business practices and approaches to determine better ways to serve our customers. All of these initiatives will continue as we move into the next fiscal year. Looking ahead to next year, the Argentia – North Sydney ferry service will be revitalized with the introduction of the MV *Atlantic Vision* to the route. This vessel provides significantly more cabins, newly added seating spaces, and expanded amenities making this service more attractive to customers wanting easy access to the east coast of Newfoundland. Customers will also experience improvements to the Argentia terminal facility and areas near the property. By the end of March 2011, existing reservations for this service had already increased more than 45 per cent over the same period in the previous year.

The Government of Canada's investment into our service will bring significant improvement for our customers. It will take time, patience and much hard work, but I am confident the commitment by the Corporation and the shareholder to renew our assets and re-engineer our business will result in a modern and efficient ferry service that meets the needs of our customers, stakeholders, and employees.

WAYNE FOLLETT

corporate profile

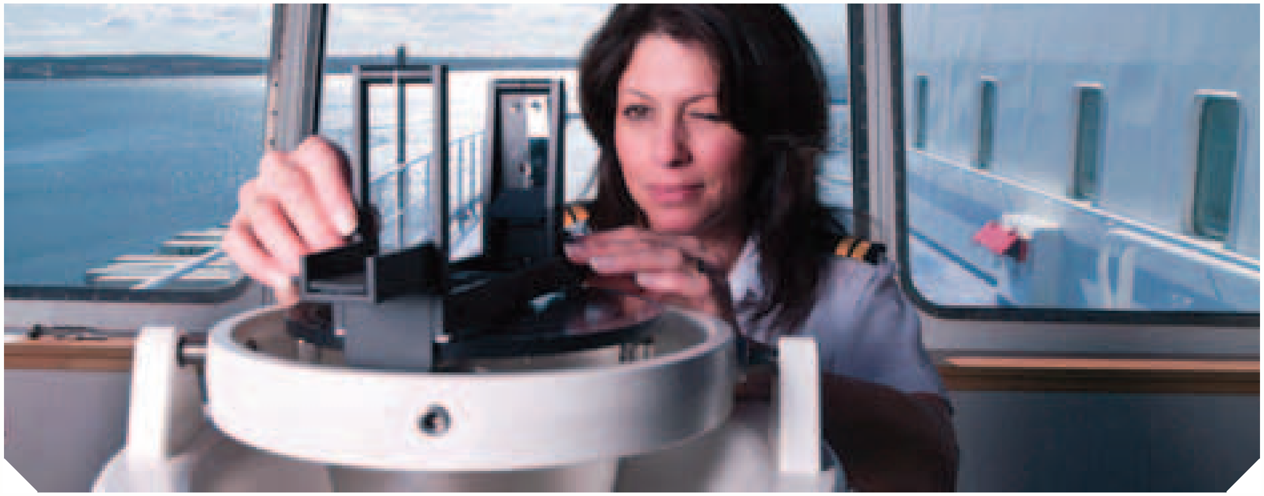
Who is Marine Atlantic?

CORPORATE PROFILE

Marine Atlantic Inc. is a federal Crown Corporation responsible for operating the ferry service between the Island of Newfoundland and the Province of Nova Scotia. Its vessels carry people, vehicles, and commercial units that deliver goods and products to and from the Province of Newfoundland and Labrador. It is constitutionally mandated to perform its transportation service.

The Corporation reports annually to the Government of Canada through the Minister of Transport, Infrastructure and Communities and works closely with the Minister of State (Transport). A Bilateral Agreement with the Government of Canada sets out the principles that govern the Corporation's relationship with the shareholder. It also outlines the funding agreements under which the Corporation operates its ferry service. While Marine Atlantic generates revenues from its operations, the majority of required funding is received from the federal government through Transport Canada.

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



Marine Atlantic is a key employer in each of the three towns in which it operates. Its employees have stable employment opportunities that translate into significant direct and indirect benefits to these areas. Employment levels within the Corporation peak at more than 1,300 persons during the busy summer season. The workforce at Marine Atlantic is predominately unionized; approximately 96 per cent of employees are members of one of the seven labour unions covered by six Collective Agreements. To fulfill its mandate, Marine Atlantic operates a fleet of four ice-class ferries. The Corporation's fleet includes the MV *Blue Puttees*, MV *Highlanders*, MV *Atlantic Vision* and the MV *Leif Ericson*. The fleet of vessels is maintained to high standards and codes such as *Transport Canada Marine Safety, American Bureau of Shipping, Lloyds Register and Det Norske Veritas Classification Societies*, and complies with the *International Safety Management (ISM) Code.*

To ensure the safe operation of vessels at sea, Marine Atlantic is governed by various acts and regulations. These include: *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,* Domestic Ferries Security Regulations (DFSR), and the Marine Transportation Security Regulations (MTSR) Part III. 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.

MV *Blue Puttees*

Passenger Capacity – **1,000 persons** | **199.5 metres** in length

MV *Highlanders*

Passenger Capacity – **1,000 persons** | **199.5 metres** in length

MV *Atlantic Vision*

Passenger Capacity – **800 persons** | **203.3 metres** in length

MV *Leif Ericson*

Passenger Capacity – **554 persons** | **157.28 metres** in length

*Passenger capacity: maximum number of persons vessel certified to carry.

The Operations of Marine Atlantic

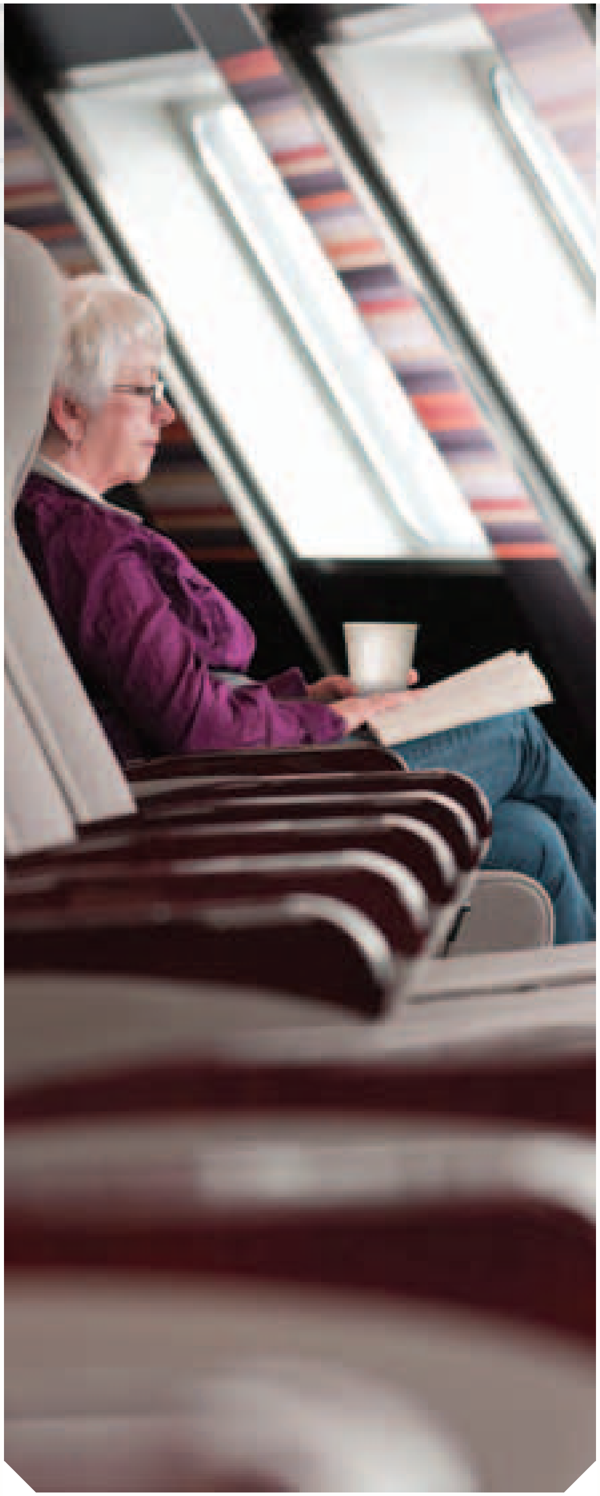
CORPORATE PROFILE

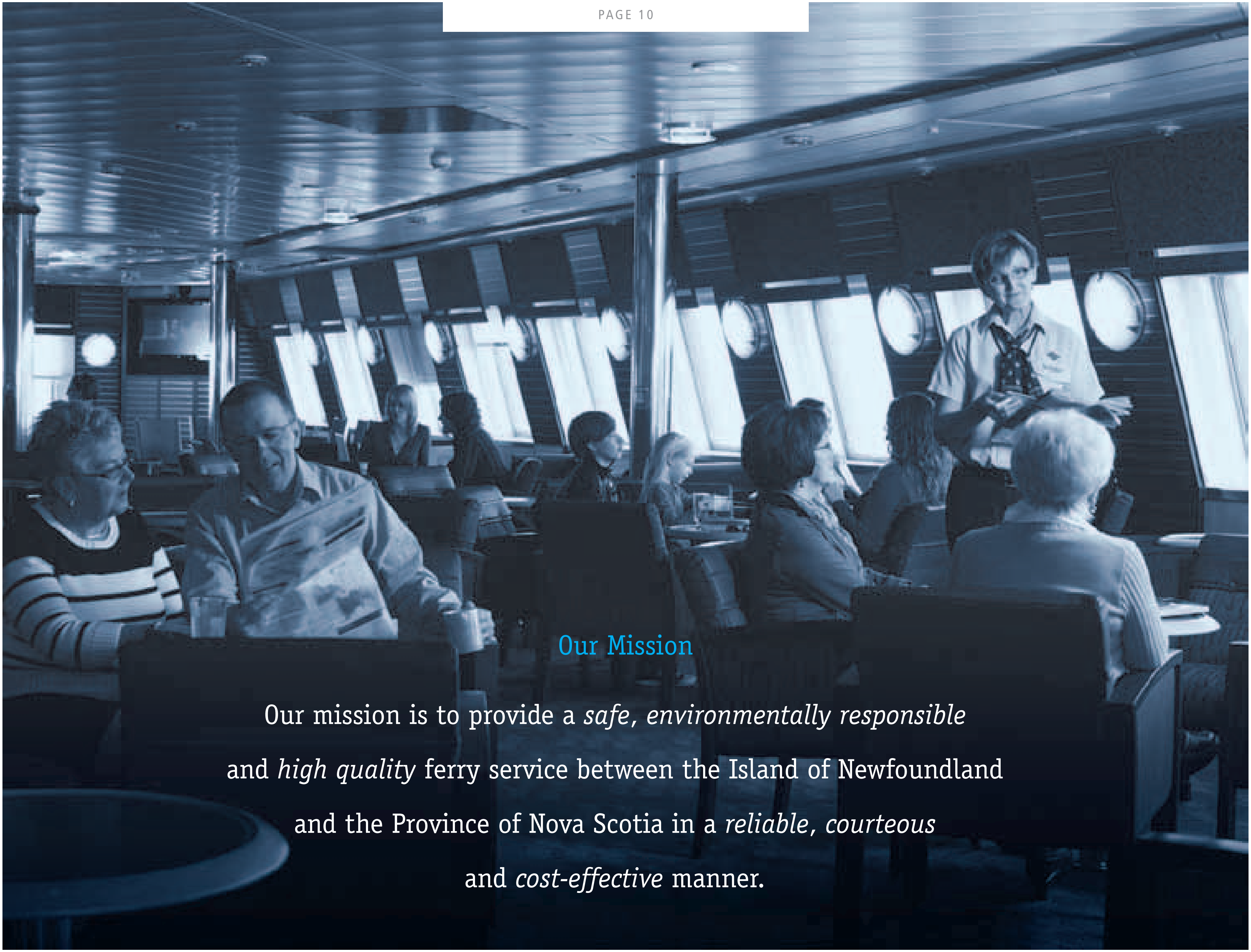
There are only two ways for people and goods to enter and exit the Island of Newfoundland – either by air or water. For passengers and freight not travelling by air, Marine Atlantic's ferry service is the only daily mode of transport between mainland Canada and the island portion of the Province of Newfoundland and Labrador. The service is therefore a vital transportation link.

Marine Atlantic transports a diverse range of traffic: passengers, passenger vehicles and their occupants, tractor trailers and drivers, drop trailers and other users of the road such as motor homes, tour buses and motorcycles. Commercial-related vehicles make up the majority of annual traffic volumes. The number of passenger-related vehicles rises in the summer as tourists travel to and from the Island of Newfoundland.

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

Marine Atlantic is also a valuable transporter of people. Approximately 27 per cent of all passengers to the Island of Newfoundland are transported via the Corporation. Ferry travel supports the connection between Newfoundland and Labrador and the rest of Canada, particularly the Maritime Provinces. Also, Newfoundland and Labrador relies on the Gulf ferry service to carry approximately 25 per cent of its non-resident tourists. Non-resident travellers using the ferry provide significant, quantifiable benefits to the overall economy, especially to the province's rural areas, making Marine Atlantic an integral part of Newfoundland and Labrador's valuable tourism industry. The ferry service is also an important part of the greater Atlantic Canadian economy.





Our Mission

Our 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 Operating Environment

CORPORATE PROFILE

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

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

OUR VALUES

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

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

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

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

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

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

About the MV *Caribou*

Provided year-round service on the 96 nautical mile Port aux Basques-North Sydney crossing

1,200 Passengers

48 Cabins

7 Decks — Length of 179m — Breadth of 25m

16,203 tonnes displacement

Four Main Engines (M.A.K.diesels of 7,000 HP each)

Maximum Speed of 22 knots

MV *Caribou*

[1986-2010]

Since joining our fleet in 1986, the MV *Caribou* has served us proudly and it is with heavy hearts we see her go.

Named in honour of the SS *Caribou,* a ship that was struck by a German torpedo during World War II, the MV *Caribou* honours the 137 lives taken that day - including many who lived in Port aux Basques. We will always remember their remarkable commitment, and when the MV *Caribou* had her maiden voyage on May 12, 1986, we brought survivors of the SS *Caribou* with us to help commemorate.

When built, she was the world's largest icebreaking ferry and the fastest and largest ever built in Canada. The first superferry, with a top cruising speed of 22 knots, she singlehandedly replaced two vessels and cut the Port aux Basques to North Sydney sailing time dramatically. It was a time of change. A time of excitement. And while we had the challenges of all new ships - new processes and new technology - it was our proactive training, commitment, and expertise that saw us overcome and become leaders.

For 24 years she served us. She was our flagship. And each and every crossing, from our very first to the very last on November 26, 2010, was made possible because of the professionalism, expertise and commitment of our staff. They gave pride to the Caribou name.

The MV Caribou *was a superferry of the highest commercial ice class and was sister ship to the MV* Joseph and Clara Smallwood. *The vessel entered service in 1986 to provide year-round service on the Port aux Basques-North Sydney route.*

About the MV *Joseph and Clara Smallwood*

Serviced the seasonal 280 nautical mile Argentia-North Sydney route and the 96 nautical mile Port aux Basques-North Sydney crossing

1,200 Passengers

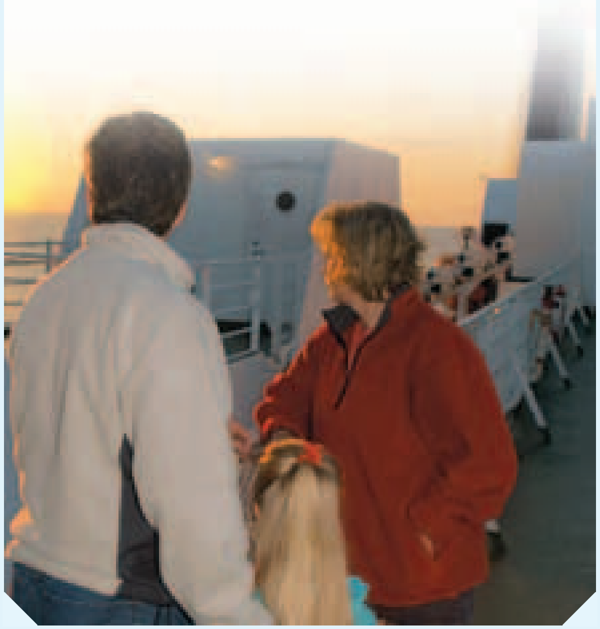
41 Cabins

7 Decks — Length of 179m — Breadth of 25m

16,755 tonnes displacement

Four Main Engines (M.A.K.diesels of 7,000 HP each)

Maximum Speed of 22 knots



MV *Joseph and Clara Smallwood*

[1989-2011]

The MV *Joseph and Clara Smallwood* joined our fleet in 1989 and served us loyally for 22 years.

Named after the leader of confederation in our province and the first premier of Newfoundland, this vessel honoured Joseph Smallwood and the woman who contributed greatly to his success, his wife Clara. Premier from 1949 to 1972, he served the province with loyalty and pride, as did the vessel we named in their honour, and the staff who served on her. When the MV *Joseph and Clara Smallwood* joined our fleet she began servicing the Port aux Basques - North Sydney route, but soon moved to be the flagship on the Argentia route. She was a true superferry, and sister vessel to the MV *Caribou.* She offered a smooth, comfortable journey and reinvigorated our service to our customers. She was always there, especially when others were in need - even up to her last voyage to Argentia. When Hurricane Igor struck the island in 2010, the vessel brought over disaster relief assistance, military personnel and equipment. Our crew was proud to support the province, in true Joey Smallwood style.

Thank you to our staff for their unwavering commitment and dedication to this vessel. Their dedication to the MV *Joseph and Clara Smallwood* and her customers made the Argentia route the success it is today.

Named after the father of confederation in this province and the first premier of Newfoundland, this vessel honoured Joseph Smallwood and the woman who contributed greatly to his success, his wife Clara. He served this province with loyalty and pride, as did the vessel and the staff who served on her.

year in review

2010/11 was a year of transition.

The organization invested significant resources to move forward with fleet renewal while striving to provide the best possible service to our customers within the constraints of an aging fleet. Overall demand for the ferry service grew by 2.1 per cent compared to the same period the previous year. This demand was propelled by a strong 4.1 per cent growth in commercial vehicles due to the robust provincial economy in Newfoundland and Labrador. At year-end, the Corporation surpassed 100,000 commercial units transported in a 12-month period for the first time ever.

Traffic is expected to increase again in 2011/12 to a new record level because of the strength of the Newfoundland and Labrador economy and the growth in the province's tourism industry.

Safety is our Priority

YEAR IN REVIEW

Safety is the top priority for Marine Atlantic, with a continuous focus on protecting the health and welfare of employees, customers and all others who access our property. In 2010/11, resources were added to the Safety Department to augment our safety management resources and focus on vessel and shore safety.

Amendments to the International Safety Management (ISM) Code prompted the Corporation to engage external marine consultants to review and assist in the complete overhaul of the Corporation's safety management system. A new Safety Management Committee was formed to oversee all aspects of the organization's Safety Management System (SMS) under the ISM Code.

The Committee is chaired by the Director of Quality, Risk and Compliance and has representatives from all areas of the organization. The Committee meets monthly to discuss and review developing issues, incident reports and investigations, proposed revisions to the SMS, emergency response exercises, and establish training standards.

The Corporation's Health and Safety Policy Committee continues to develop and monitor the Occupational Safety and Health Program. This program will provide training and development opportunities to comply with applicable regulations and enhance the safety culture of all employees. The Health and Safety Policy Committee meets quarterly, with the meetings of the Joint Occupational Health and Safety Committee (shore sites) and Marine Occupational Health and Safety Committee (vessels) held on a monthly basis. At Marine Atlantic we want to learn from all incidents, whether accidents or near misses. Throughout the year there was a focus placed on near miss reporting. Marine Atlantic feels that lessons can be learned from these incidents and problem areas can be addressed to prevent similar incidents.

Our Focus on Security

YEAR IN REVIEW

CAPITAL PROGRAM

In total, the Corporation invested $77.8 million into its 2010/11 capital program. Investments in the new fleet accounted for the greatest percentage of capital spending. Other key capital projects during the year included:

- Upgrades to the docking facilities in all three ports
- Investment in new equipment such as shunt trucks, passenger shuttle buses, terminal maintenance vehicles, forklifts, and tools
- Completed construction of a new stevedore building in Port aux Basques
- Security fencing and terminal building security barriers in all three ports
- Upgrades to the terminal building in Argentia (currently underway)
- Upgrades to the Corporation's vessel refuelling system

Canada's new Domestic Ferries Security Regulations (DFSR) govern Marine Atlantic's fleet and ports. The regulations include ensuring the physical security of passengers both on-shore and on the vessels, safeguarding cargo, baggage and assets, and securing the environment in which the Corporation conducts business.

The Corporation introduced additional resources and increased the annual operating budget by approximately $1 million as a result of the increased emphasis on security. Several enhancements were completed early in the year to make Marine Atlantic compliant with these regulations including additional fencing with access control points and procedures, baggage handling procedures, and screening protocols for passengers, vehicles and supplies. Video surveillance and security fencing projects have been implemented at all three operating terminals to provide enhanced security. Employees throughout the organization received training on roles and responsibilities under the new regulations. Additional security personnel were added to perform three main functions: selectively screen passengers, vehicles and goods prior to entering controlled areas; implement, audit and exercise provisions of the approved security plans; and maintain a greater degree of vigilance and response capability.

Marine Atlantic's Cypriot-flagged MV *Atlantic Vision* requires the organization to also comply with the Marine Transportation Security Regulations (MTSR) Part III, which requires port facility security plans for Transport Canada certification. These security plans have been developed, certified by Transport Canada and are in place at all three operating terminals. These plans are living documents which are continuously updated to meet the needs of the organization. As a leading member of the Canadian Ferry Operators Association (CFOA), Marine Atlantic continues to meet regularly with Transport Canada's Security Commissioner.

Our New Fleet

YEAR IN REVIEW

For a number of years, Marine Atlantic has struggled with meeting the needs of our customers with an aging fleet that lacked adequate capacity and was prone to mechanical failures.

With a five-year funding commitment from the Government of Canada we were able to renew our fleet. When searching for new vessels, the Corporation needed to secure ships that offered increased capacity, ice-class certification and the ability to operate in the challenging Gulf environment.

The fleet renewal project was very exciting; however, it consumed a significant percentage of the Corporation's management capacity. A Vessel Integration Steering Committee (VISC), chaired by the President & CEO, oversaw the project. The VISC utilized a centralized information management system that included tools such as a decision log and risk register to help manage the project. The Committee also established a Project Management Office to manage all day to day aspects of the project.

Next to safety, successfully integrating the new fleet was one of the organization's top priorities. In 2010/11, Marine Atlantic successfully chartered, oversaw the design and modification, delivery, and integration of two modern vessels. The sister ships, renamed the MV *Blue Puttees* and the MV *Highlanders*, were built in 2006 and 2007 respectively. These vessels have modern designs and technologies and contain efficient mechanical systems, especially the engine configurations, and offer significantly more capacity. The vessels were successfully modified to suit Marine Atlantic's service requirements and the organization is looking forward to offering improved service and greater amenities for customers. In addition to the introduction of two ships to the fleet, customer friendly modifications were completed to the MV *Atlantic Vision*. In June 2010, a new seating lounge was added on Deck 6 and the vessel's Internet satellite system was upgraded to provide for continuous Internet and email services during crossings. Based on a preliminary review of usage patterns and data volumes, these projects are showing tremendous success.

With our renewed fleet, the MV *Atlantic Vision* will service the Argentia-North Sydney route beginning in 2011. This route will receive considerable attention in 2011/12 based on the amenities offered by the vessel, as well as a significantly refurbished terminal building at Argentia. This will be supported by a marketing campaign to inform customers, stakeholders and industry groups of the new service attributes. The MV *Leif Ericson* is undergoing a major refit, which will offer several improvements for our customers: the vessel's service life will be extended beyond the end of the planning period; its reliability will improve; and customer areas will be more comfortable, as it has been refurbished to more closely align with the other vessels in the fleet.

VESSEL MODIFICATION HIGHLIGHTS

Shortened to 199.5 metres with the removal of a 12.5 metre mid-section to accommodate navigational restrictions

Topside infrastructure significantly expanded, providing additional accommodations and capacity

Addition of 500 airline style reclining seats providing customers with comfortable and relaxing areas

Televisions installed in all passenger cabins and seating lounges

Double tier bow ramps and an upper stern ramp added to the vessels to align with existing terminal facilities

A third bow thruster added to aid in docking the vessels in elevated wind conditions

Hoistable car deck added to provide space for an additional 32 passenger vehicles

Customer amenities added such as a sun deck with seating, a play area for small children, entertainment area and a kennel

The Naming of the Vessels

Our new vessels were named after two military units: the Newfoundland Regiment, nicknamed the "Blue Puttees" (currently the Royal Newfoundland Regiment) and the Highland Regiments of Nova Scotia (currently known as the Highlanders).

"We are very pleased that our two new vessels have received such strong and symbolic names that reflect our military pride both past and present. We look forward to the Blue Puttees and the Highlanders beginning their service with Marine Atlantic and bringing us towards our goal of providing a modern and efficient service for our customers. Our five-year plan for renewal is moving forward and this is another positive step in that process," said Rob Crosbie, Chair of the Board of Directors upon public release of the names of the ships. As Marine Atlantic honours the region's military past with the introduction of our newest vessels, the MV *Blue Puttees* and MV *Highlanders*, our Corporation is also recognizing the efforts of our current military personnel who stand proud for our country throughout the world by offering the Canadian Forces Appreciation Fare. This small token of appreciation has received significant positive feedback and the organization is pleased to offer it again during our 2011 travel season.

The MV *Blue Puttees*

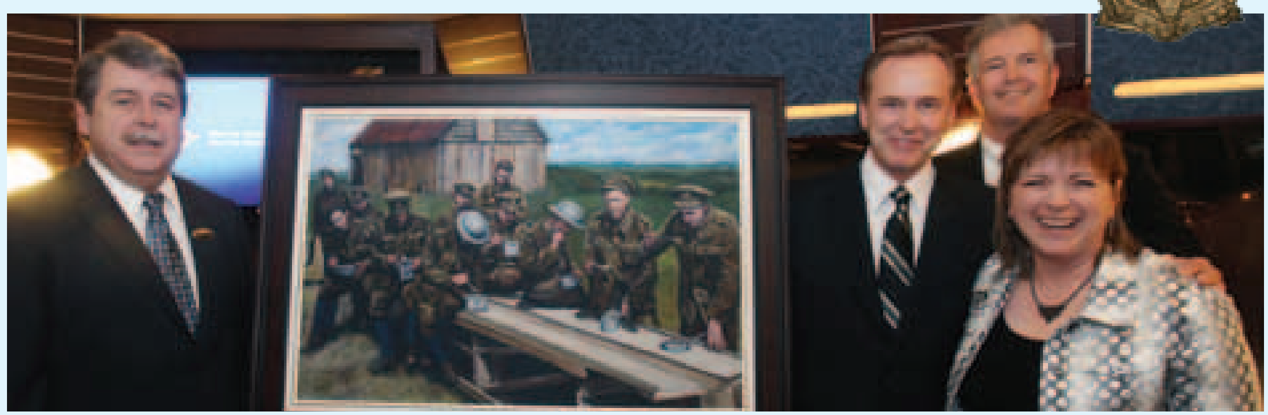
The vessel is proudly named after the Newfoundland Regiment soldiers that embarked for Britain on October 4, 1914 to represent the people of Newfoundland in the Great War.

They were given the name "The Blue Puttees" for the coloured leg wraps that were issued as part of their very first uniform. The title "'Blue Puttee" became a badge of honour amongst the soldiers of the Regiment and the people of Newfoundland. In World War I through Gallipoli, France, and Belgium, the Regiment fought with distinction. They earned a reputation as a fierce and unyielding fighting unit in numerous actions, including the steady but tragic advance at Beaumont-Hamel on July 1, 1916. Against great odds and devastating casualities, the Newfoundland soldiers' magnificent exhibition of disciplined courage, devotion of duty, and superb steadiness will forever stand as one of the greatest sacrifices that any country would bear. To recognize their service and sacrifice, the Newfoundland Regiment was the only regiment in the British Empire to have been granted the prefix "Royal" by King George V before the end of the Great War.

The MV *Highlanders*

The vessel is proudly named after the strong history of military service of the Highland regiments throughout Nova Scotia.

The origins of the Highlanders has been traced back to 1871 and their strength is rooted in the citizens from all regions of Nova Scotia. Through their storied history, the Highland regiments have been awarded 56 Battle Honours as a result of their service in the South African War, World War I and World War II. In 1955, the three Highland regiments of Nova Scotia were amalgamated into a two battalion regiment known as the Nova Scotia Highlanders. The regiment was made up of the 1st Battalion, the Nova Scotia Highlanders (North) and the 2nd Battalion, the Nova Scotia Highlanders (Cape Breton). In 2011, the 2nd Battalion was renamed the Cape Breton Highlanders. The men and women of these two Highland units continue to provide humanitarian assistance, peacekeeping services, and peace support operations that are recognized throughout the world.



WAYNE FOLLETT, MINISTER ROB MERRIFIELD, ROB CROSBIE, DARLENE REDMOND

Serving our Customers

YEAR IN REVIEW

As Marine Atlantic waited for its new fleet to enter service, the Corporation faced challenges that limited our ability to provide customers with a high quality, reliable ferry service.

A lack of capacity and mechanical breakdowns characterized the challenges for customers and employees. The Corporation dealt with challenges as best it could with existing assets, while the new Customer Experience Division focused on developing better relationships with customers. Three areas summarized the main focus for the Customer Experience Team. The first area was improved communication with customers, including a Customer Contact Management System and increased updating of the Corporation's website. The second area was commercial reservations. During the spring of 2010, Marine Atlantic implemented commercial reservations, replacing the first-come, first-served process.

Due to a lack of capacity and significant change in business processes for commercial customers, the system was met with resistance. Mechanical problems with the fleet further reduced capacity placing even greater pressure on this new system. During its initial months, the Corporation made changes to the system to better suit our customers and allow for better overall management of commercial traffic. The goals of the reservations system included better planning and predictability, both on the part of the Corporation and on the part of commercial carriers and their customers. Overall, the Commercial Reservation System successfully delivered on many of its intended benefits to carriers, consumers, and the Corporation itself.

However, due to concerns from the commercial trucking industry and with the recommendation of the Atlantic Provinces Trucking Association, Marine Atlantic suspended commercial reservations on November 14, 2010 and reverted back to a first-come, first-served approach. The Corporation continues to review the Commercial Reservation System and will work with stakeholders to determine how and when the system can be re-introduced.

A third area of focus for the year was a more robust customer research plan. The new plan is designed to meet a range of information needs, such as increasing the understanding of our customers, knowing what improves satisfaction with our service and more quickly identifying consumer trends.

Changes made to the Commercial Reservation System in consultation with the industry included:

Changed procedures to coordinate timely completion of manifest to allow for advancement of traffic

Expanded booking inventory on majority of sailings

Restricted advance reservations to 28 days

Increased the time a drop trailer unit could access the lot

Eliminated late arrival fees

Improved communications through daily and weekly updates

Implemented waitlist that permitted 10 tractor trailers without reservations for each sailing to access terminals on a first-come, first-served basis

Reviewed vessel inventory allocations at 48, 24, and 12 hours prior to the scheduled sailing times, as well as the day of sailing to re-allocate inventory among PRVs, CRVs and drop trailers to maximize the vessel load ensuring maximum allocation of inventory on each crossing

Renewing our Organization

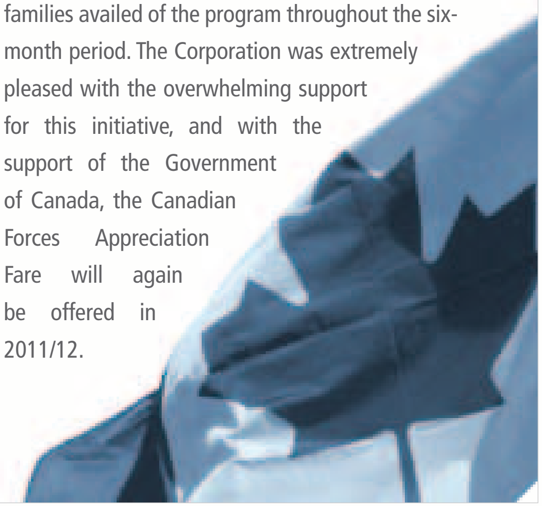
YEAR IN REVIEW

With the support of the Government of Canada, Marine Atlantic has a five-year plan for renewal. 2010/11 placed a visible emphasis on fleet renewal, improvements in customer touch points to provide increased interaction, significant training for our employees, and focused efforts to move the organization forward to operate as a modern and efficient entity. Throughout the year, a Project Management Office was in place to provide the additional resources required for the integration of the MV *Blue Puttees* and the MV *Highlanders* into the fleet.

There were a number of other key multi-year projects underway throughout the year. The Corporation undertook the development of a comprehensive set of Business Continuity Plans to prepare to respond effectively to emergencies, disasters and/or routine challenges. Development of these plans will continue throughout the next year, focusing on updating the information technology business resumption plan and the installation of redundant systems to address emergency situations. The Corporation is undergoing a multi-year investment in information

Canadian Forces Appreciation Fare

In 2010/11, Marine Atlantic continued its Canadian Forces Appreciation Fare, which was introduced in 2009 to recognize the significant contribution of the Canadian Forces, particularly those from the Atlantic region. In 2010/11, this fare was enhanced to include every crossing during the May 1 to October 31 program period, thus eliminating the blackout periods that existed on some sailings during the busiest periods in 2009/10. The Canadian Forces Appreciation Fare provided Canadian Forces members and veterans a complimentary passenger fare on the Port aux Basques-North Sydney ferry route. As many as three companions travelling in the same vehicle and on the same reservation also received complimentary passenger fare. In addition, members of the Canadian Forces and up to three companions travelling on the same reservation received a 50 per cent discount on their passenger fare when travelling on the Argentia-North Sydney ferry service. In excess of 10,000 qualifying individuals and their friends and families availed of the program throughout the six-month period. The Corporation was extremely pleased with the overwhelming support for this initiative, and with the support of the Government of Canada, the Canadian Forces Appreciation Fare will again be offered in 2011/12.



technology to become a more integrated, business oriented organization and to ensure alignment with its revitalization efforts. 2010/11 focused on upgrading the local area and wide area networks, thus completing the final phase of the upgrade and modernization of the network infrastructure. Data center enhancements and upgrades were also completed. The Corporation's two-year project to upgrade the Computerized Maintenance Management System on the vessels and develop an integration link to the Corporate Enterprise Resource Planning system began in 2010/11. The project will be completed in 2011/12 with the MV *Leif Ericson*, MV *Blue Puttees* and the MV *Highlanders* all having equivalent systems in place.

The demand for quality and real-time management information continues to grow and is currently consuming significant human resources. 2010/11 marked the beginning of a two-year project to implement a Management Reporting System (MRS) within the Corporation. During the initial year, the Corporation invested in information technology hardware and software required to implement the MRS. When the project is complete, reports can be generated independently from a variety of systems and consolidated for review. This project will address needs with the implementation of a data warehouse and an automated process for reporting on various business metrics and Key Performance Indicators.

Marine Atlantic invested in the hardware and software needed to standardize our information management systems as outlined in the *Library and Archives Canada Act*. The Corporation also adopted Enterprise Risk Management to identify challenges and put in place the necessary mitigations.

The organization implemented a new staff scheduling and training system that integrates with the current payroll and human resources systems and represents a major improvement over the existing technology. This allows for our crew lists to be produced from one integrated system that incorporates the competencies for our vessel positions and our individual crew members.

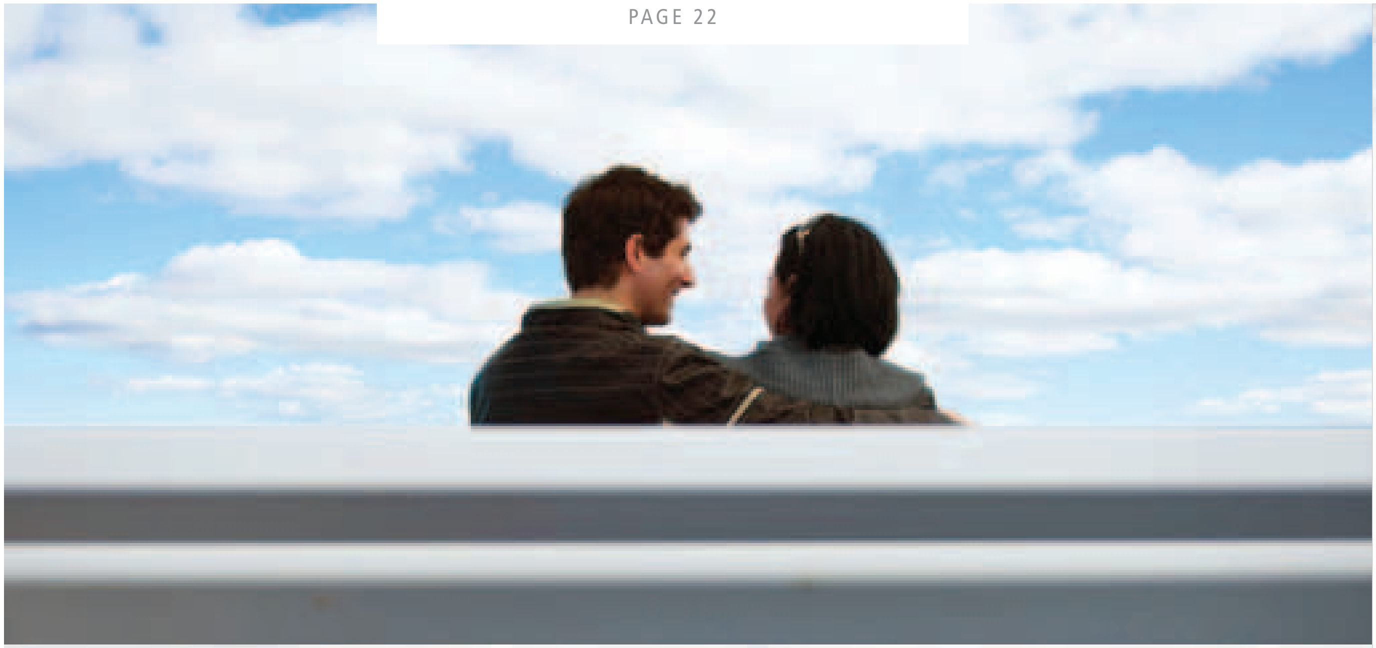
In early 2011, Marine Atlantic moved forward with the implementation of new Accounting Standards throughout the organization. The new standards set to take effect April 1, 2011 will see Marine Atlantic move from the current Canadian Generally Accepted Accounting Principles to report under Public Sector Accounting (PSA) standards. The move to PSA is a step forward for the Corporation as the format of the financial statements will more closely reflect that of the Government of Canada's financial statements.

Throughout the year, the Corporation released a new policy on the Procurement of Materials and Services. The new policy, effective April 1, 2011, will improve response time for requests for the procurement of goods and services. The organization continues to place a focus on keeping employees informed of corporate initiatives and engaging them in the renewal process, enabling the cultural change process to begin within Marine Atlantic.

To facilitate this information flow, there are bi-annual managers' meetings bringing together vessel and shore-based managers from across the organization to discuss strategic and operational issues. Executive and union leadership also meet three times per year to discuss plans for the organization. Managers are encouraged to meet with employees on a regular basis to share information and the internal monthly newsletter, *Strait Talk*, provides all employees with information updates from all the key areas of the Corporation, as well as highlights on initiatives and projects. The employee intranet site was redesigned and re-launched at fiscal year-end, providing employees with a user friendly source of information.

Special Examination Report

In September 2009, representatives of the Office of the Auditor General of Canada (OAG) presented a Special Examination Report to Marine Atlantic's Board of Directors. The report was based on an audit conducted between October 2008 and March 2009 and contained 13 recommendations. During the audit, the OAG concluded that Marine Atlantic did not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.



Marine Atlantic fully accepted the OAG's recommendations and an action plan was developed in October 2009 to address each of the outstanding items. Budget 2010, provided funding for the implementation of the Corporation's revitalization strategy and will allow it to address the unresolved strategic challenges identified by the OAG, including necessary upgrades to its ageing assets.

By the end of fiscal year 2010/11 progress was made on deficiencies in operational planning and capital asset management identified during the Special Examination. Considerable management effort had been made to substantially implement the key recommendation contained in the Special Examination.

A status update on the Corporation's action plan has become a standing item on the Board of Directors Audit and Risk Committee's agenda and remains a high priority for the Corporation. The full Special Exam Report 2009 and the organization's response are available on the Corporation's website.

NEWFOUNDLAND DOCKYARD CORPORATION

The Newfoundland Dockyard Corporation (NDC), a wholly-owned subsidiary of Marine Atlantic, ceased operations in 1997. Resolution of a final outstanding legal matter, which was completed during the 2010/11 year, enabled the Corporation to proceed with formal dissolution of NDC. At year-end, Marine Atlantic was awaiting notification of official cancellation of NDC from the Registry of Companies, Government of Newfoundland and Labrador. This notification was received on May 2, 2011.

Hurricane Igor

Hurricane Igor brought much devastation to the Province of Newfoundland and Labrador in September 2010. Many communities were in dire need of emergency assistance after the storm ripped through the province.

When the Canadian Forces needed to transport military personnel and emergency bridging supplies to the province, Marine Atlantic and its employees were there to help. The MV *Joseph and Clara Smallwood* transported troops and equipment to Argentia to ensure that vital resources reached those in need as expeditiously as possible.

During the relief efforts, the Corporation provided in excess of $50,000 in complimentary travel to assist the military personnel involved in the Hurricane Igor relief efforts.

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

Employee Wellness Program

Employees participate in a wellness challenge, health screening clinics, and an online health risk assessment. 2010/11 marked the third year for the @live Challenge, which encourages employees to change their lifestyle habits to be more healthy.

Disability Management Program

The disability management program is designed to assist employees and to facilitate early intervention resulting in the expeditious return to work of our employees thereby minimizing the economic and emotional impact on employees. The Corporation continues to manage employee work-related and non work-related absences.

President's Award and Distinction Awards for Employees

During the year, the first awards were presented under this new program. The awards recognize employees for commitment to their work and to providing exceptional customer service.

Employees are our Future

YEAR IN REVIEW

Positive changes are taking place at Marine Atlantic. Significant investment in assets and business renewal will allow us to become a modern and efficient organization over the next few years. There are also concentrated efforts to move the organization forward as a great place to work. To accomplish this, the Human Resources Division is focusing on training and development of current employees, as well as attracting other skilled employees to accomplish our goals.

During the year, the organization completed its Integrated Human Resources Plan, which outlines the key objectives that the Human Resources Division will be focusing on during the planning period. Focus areas include: talent management, recruiting, training and development, leadership development, performance management, industrial relations, and change management. Marine Atlantic's training efforts focused on safety, security, customer service, regulations, new employee orientation, and information technology systems. As a component of revitalization and fleet renewal, a formal training plan was developed to ensure the organization was compliant with regulations applicable to the MV *Blue Puttees* and the MV *Highlanders*. Training continues to be a priority within Marine Atlantic to ensure all of our employees receive up-to-date information and knowledge-based training on best practices in the industry. With a world-wide shortage of licensed officers, attracting and retaining an adequate number of licensed engineering officers remains challenging for the Corporation. Marine Atlantic is focusing its recruitment efforts for new, motivated, and qualified employees within schools and post secondary institutions.

With seven labour unions and six collective agreements in place, the management team invested a significant amount of time in collective bargaining. In November, an agreement was signed with the Canadian Merchant Service Guild (Senior Officers) providing a four-year collective agreement from January 1, 2009 to December 31, 2012. At year-end, there were five agreements in various stages of the negotiation process.

looking forward

Marine Atlantic will enter 2011/12 with all of the opportunities and challenges associated with implementing a new fleet of vessels into service. Although the MV Blue Puttees *and MV* Highlanders *offer greater capacity and amenities to customers as we head into our peak summer season, the vessels will present challenges, as they are still very new to our crews and captains. The MV* Leif Ericson *will have improved reliability and customer amenities through its extensive refit during the winter of 2011, and the MV* Atlantic Vision *will take on its new role providing the Argentia-North Sydney service.*

The coming fiscal year will be a year of significant adjustment for both the Corporation's customers and employees. The design of the new vessels, while modern and efficient in layout and functionality, represents a significant change from the MV *Caribou* and MV *Joseph and Clara Smallwood*, the heart of Marine Atlantic's fleet for over 20 years. Commercial and non-commercial customers will require time to adjust to these changes.

There will be adjustments required as issues are identified during the introductory phase. For example, on March 19, 2011 the MV *Blue Puttees* experienced a significant roll on a voyage from North Sydney to Port aux Basques. Following an intensive investigation, several operating procedures were adopted or reinforced based on lessons learned from the incident.

Asset renewal will continue in the upcoming year. Several significant capital initiatives, particularly planning for the redevelopment of the North Sydney terminal, improvements to the Port aux Basques terminal building and the transition to a new administration building in Nova Scotia will move forward.

Starting with the first quarter of 2011/12, Marine Atlantic will begin publicly reporting its quarterly financial results. The first quarter results will be released by August 29 and each quarter thereafter within 60 days.

The recommendations arising from the various audits conducted during the procurement review will continue to be implemented throughout 2011/12. The rollout of the revised Procurement Policy will commence on April 1, 2011.

The Corporation will continue to develop its Enterprise Risk Management by incorporating existing management processes and reporting activities to ensure that the Corporation assesses all threats and opportunities the organization is likely to confront in achieving its objectives. Safety has long been the highest priority within the Corporation and continues to play an integral role within the overall risk management framework of Marine Atlantic.

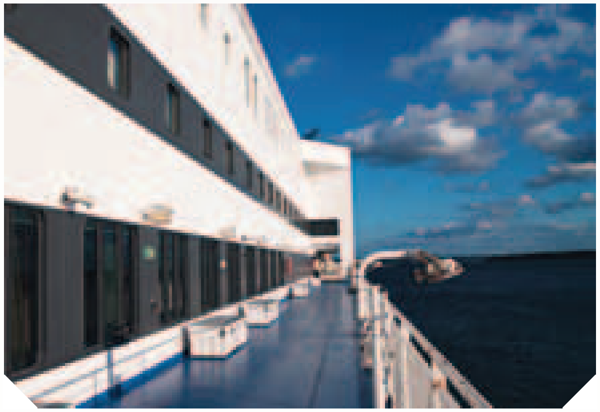
The Customer Experience Division will focus on the development of a customer strategy, service standards, practices, and procedures, customer and employee communications, customer satisfaction measurement, benchmarking and the establishment of key performance indicators.

The Management Reporting System (MRS) will be implemented in 2011/12 providing quality and real-time management information. Additional investment in information technology, governance and business processes is essential to achieving operational efficiencies at Marine Atlantic. To support this goal, information technology within the Corporation will continue to become a more integrated, business oriented service. Maintenance, upgrading or replacement of aging applications and infrastructure will be carried out and new emerging technologies will be investigated and leveraged wherever possible.

There is significant change, renewal and improvement on the horizon for Marine Atlantic in the coming months. A number of projects will begin, while major initiatives such as fleet renewal will mature. With the new fleet in place for the upcoming busy summer season, customers will experience an improved level of service. As further initiatives are implemented the Corporation will move closer to achieving its strategic objectives.

financial overview

Financial Overview



As a federal Crown Corporation, Marine Atlantic receives a significant annual subsidy from its shareholder, the Government of Canada.

In 2010/11 the Corporation spent $296.8 million in operating and capital costs; $94.6 million was generated from customer tariffs and other ancillary revenue; and $200.7 million was provided by the federal government. The Corporation's cost recovery of 63.8 per cent exceeded its budgeted cost recovery and falls within the targeted range established by the Shareholder for the first time in five years. Cost recovery was assisted by the early arrival of the charter vessels and subsequent early layup of the MV *Caribou* and MV *Joseph and Clara Smallwood*. Future year cost recoveries are expected to benefit from the addition to the fleet of the modern and efficient vessels MV *Blue Puttees* and MV *Highlanders*.

Year Ended March 31

	2010/11	2009/10	2008/09	2007/08	2007[1]
Passengers	382,522	398,667	385,046	416,823	36,647
Passenger vehicles	131,597	139,011	131,013	141,718	10,203
Commercial vehicles	100,620	96,694	92,612	90,039	18,447
AEUs[2]	558,361	546,637	519,938	523,286	85,626
Number of single crossings	2,095	1,972	2,143	2,184	350
Employees (peak employment)	1,364	1,303	1,256	1,223	n/a
Employees (full-time equivalent)[3]	1,113	1,077	1,058	954	n/a

[1]2007 was a short three-month year due to the changeover in fiscal year from a January to December Calendar basis to an April – March Government Fiscal Year basis as the 2007 period covers January to March these numbers are not comparable to the other data presented. [2] AEU or Auto Equivalent Unit is the length of an average passenger automobile. [3] Full-time equivalent (FTE) employees are calculated by dividing actual labour hours worked by the standard hours in a work year (2,080).

Year Ended March 31

(IN THOUSANDS)

	2010/11	2009/10	2008/09	2007/08	2007[1]
Operations:					
Commercial revenues	$ 83,920	$ 80,270	$ 71,514	$ 71,422	$ 10,257
Fuel surcharge	11,662	3,570	10,100	1,130	-
Charter revenue	-	-	-	55	285
Other income	181	71	481	578	170
	95,763	83,911	82,095	73,185	10,712
Operating expenses	209,978	185,385	173,308	143,347	30,783
Amortization	12,476	18,241	17,038	16,061	3,967
	222,454	203,626	190,346	159,408	34,750
Loss before government funding	126,691	119,715	108,251	86,223	24,038
Government funding					
Operations	124,370	106,596	105,401	60,536	21,113
Recovery of vessel decommissioning costs	3,118	-	-	-	-
Amortization of deferred capital assistance	20,800	22,346	17,276	16,061	3,967
Net income (loss)	$ 21,597	$ 9,227	$ 14,426	$ (9,626)	$ 1,042
Assets:					
Total assets	$ 320,279	$ 234,019	$ 226,659	$ 201,269	$ 213,246
Purchases of vessels, facilities & equipment	$ 77,403	$ 14,645	$ 19,946	$ 7,383	$ 1,835
Purchases of intangible assets[2]	$ 14,267	$ 223	$ 580	n/a[3]	n/a[3]

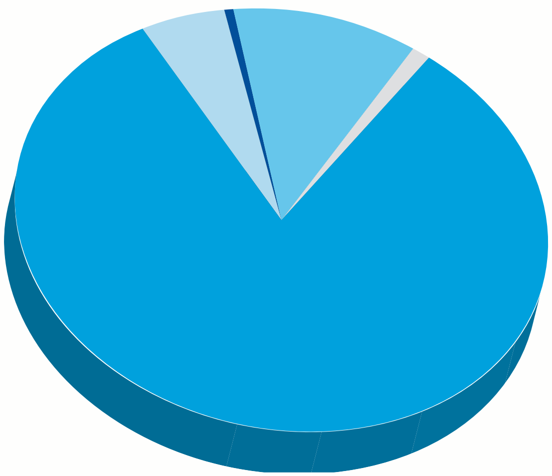
[1] 2007 was a short three-month year due to the changeover in fiscal year from a January to December Calendar basis to an April – March Government Fiscal Year basis as the 2007 period covers January to March these numbers are not comparable to the other data presented. [2] Intangible assests include $13, 832 for taxes due on Charter Importation costs. [3] n/a - included in purchase of vessels, facilities and equipment.

Revenue

Commercial revenue increased by three per cent in 2010/11 on the most successful traffic year on record. Commercial vehicles reached historic levels as the Newfoundland and Labrador economy continued strong growth while passenger levels did not meet expectations. The execution of a general rate adjustment and a full year of the drop trailer administration fee increased the overall revenue. As a result of rising fuel costs and to meet financial objectives, the fuel surcharge percentage was increased resulting in additional revenues of $8.1 million over last year.

Revenues & Gains 2010/11

(IN THOUSANDS)



Fuel Surcharge Revenue
11,662

Other Income
181

Commercial Revenue
83,920

Unrealized Gain on Derivative Financial Instruments
5,442

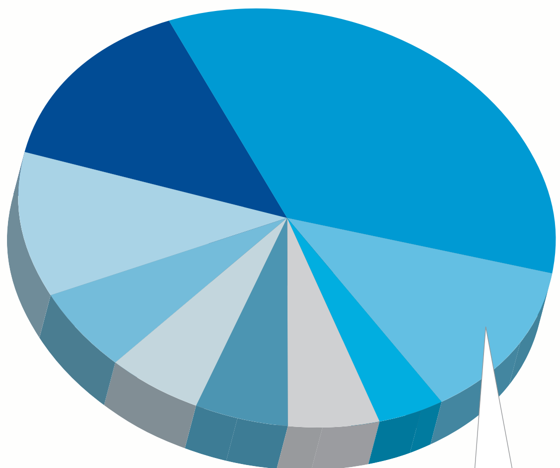
Gain on Disposal of Vessels, Facilities and Equipment
14

TOTAL

101,219

Expenses 2010/11

(IN THOUSANDS)



Fleet Renewal Costs (excluding wages & benefits)
10,001

Repairs & Maintenance
12,352

Amortization
12,476

Employee Future Benefits
13,222

Materials, Supplies & Services
13,372

Charter Fees
25,818

Fuel
32,512

Wages & Benefits
79,407

Foreign Currency Exchange Loss
66

Realized Loss on Derivative Financial Instruments
2,761

Decommisioning of Vessels
3,118

Insurance, Rent & Utilities
5,405

Loss on Write Down of Assets Held for Sale
8,322

Other
9,078

TOTAL

227,910

Wages and Benefits

Total wages and benefits increased by $1.6 million, in 2010/11. The fleet renewal project included the integration of the vessels MV *Blue Puttees* and MV *Highlanders*. A number of existing personnel were involved and some of the resources added through the management renewal project were included to ensure the success of this project. In addition, there were general wage rate increases.

Fuel

The cost of fuel was $3.6 million more than last year as the cost per litre consumed was 14 per cent higher. There was an increase in fuel consumption as more trips were offered in 2010/11 to handle the growing commercial traffic.

Charter Fees

Charter fees increased $3.7 million with the addition of the leased vessels MV *Blue Puttees* and the MV *Highlanders*. Previous to this year, the MV *Atlantic Vision* was the only vessel chartered by the Corporation.

Materials, Supplies and Services

Materials, supplies and services were down 8 per cent compared to the previous year. In 2010/11 considerable costs were incurred finalizing the Corporation's long term fleet strategy. This was partially offset by increased security costs as a result of new Transport Canada regulations.

Employee Future Benefits

Actuarially calculated amounts for the accrued obligations for Workers' Compensation costs, health, dental and life benefits for retirees and the pension expense increased by $10.6 million, $9.9 million of which was attributable to the Pension Plans for Employees of Marine Atlantic Inc.

Repairs and Maintenance

Due to the pending decommissioning of the MV *Caribou* and MV *Joseph and Clara Smallwood*, there were no major expenditures undertaken during the year for these vessels. The MV *Leif Ericson* underwent a major capital investment during the year to extend its service life. This investment included the upgrade of many of its major systems resulting in decreased requirements for repairs and maintenance throughout the year. Consequently, overall repairs and maintenance costs were down $8.3 million versus the previous fiscal year.

Other

Other expenses increased by $3.5 million in 2010/11. This is largely the result of the write-off of obsolete inventory associated with the decommissioning of the MV *Caribou* and MV *Joseph and Clara Smallwood*.

Insurance, Rent and Utilities

Insurance, rent and utilities increased by $0.2 million in 2010/11. This was mainly the result of the increase in utility rates and the acquisition of rental space in Port aux Basques.

Fleet Renewal Costs

The Corporation entered into five-year charter agreements for two passenger and freight ferries in May 2010. There were significant non-operational costs incurred this year associated with the due diligence, delivery and integration of the newly leased vessels into the fleet. The Corporation took possession of the ships at a German Shipyard in December 2010, and February 2011 respectively. The MV *Blue Puttees* entered service in March 2011 and the MV *Highlanders* entered into service in April 2011. An additional amount of $4.2 million is included in wages and benefits related to this activity.

Decommissioning of Vessels

The introduction of the newly leased vessels to the fleet led to the decommissioning of the corporate owned vessels the MV *Caribou* and MV *Joseph and Clara Smallwood*. These costs will be fully recoverable upon sale of the vessels.

Foreign Currency Exchange Loss

Marine Atlantic incurred a net foreign currency loss of $66 thousand this year as compared to $1.9 million last year. This year's loss was net of a $39 thousand gain related to a Euro-denominated Escrow account established for security as part of the charter agreement between Marine Atlantic and the owners of the MV *Atlantic Vision* as compared to a $1.9 million loss last year.

Unrealized (Gain) Loss on Derivative Financial Instruments

The $5.4 million unrealized gain represents the change in the fair value of the derivative financial instruments on the balance sheet. These financial instruments include energy swaps and forward exchange contracts.

Realized Loss on Derivative Financial Instruments

Marine Atlantic incurred $2.8 million actual loss from the settlement of energy swaps and forward exchange contracts this fiscal year, compared to $0.8 million last year.

(Gain) Loss on Disposal of Vessel, Facilities and Equipment

The Corporation sold the MV *Atlantic Freighter* in fiscal year 2009/10, resulting in a loss of $3.6 million. This year a small gain was recognized on the sale of surplus assets.

Loss on Write Down of Assets Held for Sale

In accordance with the Corporation's business plan to replace aging assets, the MV *Caribou* and the MV *Joseph and Clara Smallwood* were decommissioned and are currently being held for sale. This coincides with entry into service of the newly leased vessels the MV *Blue Puttees* and the MV *Highlanders*. The assets are presented on the balance sheet at their fair value at year end. Consequently, a loss on write down of assets held for sale of $8.3 million was recorded.

Government Funding

Operations funding was $17.8 million higher in 2010/11. The increased charter fees and fleet renewal costs were additional requirements this year. This was mitigated by reductions in the maintenance requirements. The $3.1 million recovery of vessel decommissioning expenditures represents the costs incurred during the year to retire the MV *Caribou* and MV *Joseph and Clara Smallwood* from service and prepare them for sale. The amortization of deferred capital assistance decreased by $1.5 million over 2009/10. The reduction of $5.8 million in amortization expense in 2010/11 was offset by a net increase in write downs of $4.2 million.

Vessel, Facilities, Equipment and Intangible Assets

In 2010/11, Marine Atlantic spent $77.8 million in asset renewal. Major projects included: a contribution of $36.2 million in capital funds to the major modifications of the MV *Blue Puttees* and MV *Highlanders*. A life extension refit of the MV *Leif Ericson* cost $18.2 million. The MV *Atlantic Vision* underwent a $2.5 million refit. The remaining funds were spent on projects related to the replacement of aging equipment, the improvement of shore infrastructure and/or the enhancement of systems. An additional $13.8 million was recognized as an intangible asset relating to net taxes due on importation of the MV *Blue Puttees* and the MV *Highlanders*.

corporate social responsibility

Marine Atlantic values safety, security, environmental responsibility, exceptional service, reliability, courtesy and cost-effectiveness. The Corporation prides itself on excelling in adhering to the law and maintaining high ethical standards while operating in a fiscally responsible manner.

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

The MV *Blue Puttees* and MV *Highlanders* were modified to include accessibility features including adapted cabins, tactile signage, audible notification of deck level in elevators, and visual alarms, in keeping with Marine Atlantic's strong commitment to providing accessible transportation.

Environmental Stewardship

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

Working to Ethical Standards

Marine Atlantic's management team adheres to conflict of interest guidelines to ensure the corporate mandate is delivered in an ethical and measurable manner. Employees follow a code of conduct, which provides additional guidelines to ensure adherence to our high standards.

Promoting Human Rights

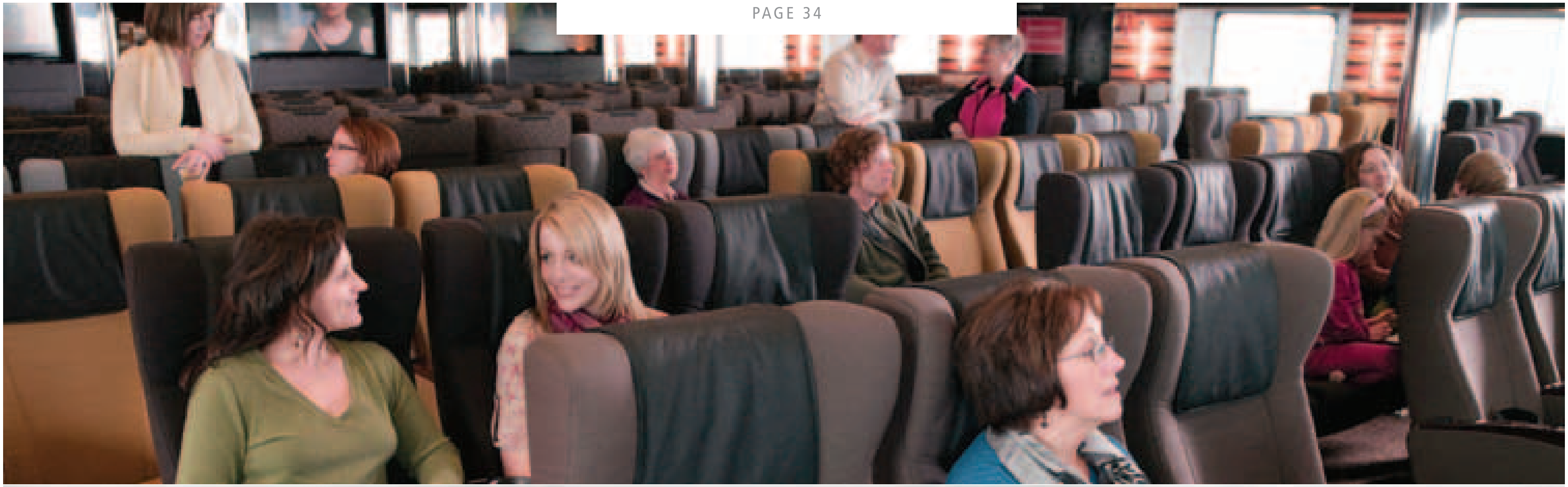
Marine Atlantic is committed to creating and maintaining a workplace free from harassment and discrimination. We value our employees, and therefore the Corporation is committed to fostering a work environment in which all individuals are treated with dignity and respect. Employees have the right to work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

Accessible Transportation

Travelling should be as accessible for people with disabilities as for anyone else. Marine Atlantic takes tremendous pride in its accessibility, making significant efforts to ensure its vessels are accessible including improved lighting, signage, and audio systems. Marine Atlantic's philosophy is that the biggest barrier to passengers with disabilities is not access, but attitude. To this end the Corporation's employees participate in purposeful training to improve their awareness and ensure that passengers with disabilities are treated with respect, professionalism and courtesy.

Ensuring Equal Opportunities

Marine Atlantic is an equal opportunity employer and encourages applicants from groups designated under the *Employment Equity Act*. In the past, the Corporation used customer service experience to screen applicants for entry level positions. To remove this barrier, Marine Atlantic replaced this requirement with a customer service aptitude test.



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. Not only is Marine Atlantic committed to building the skills of potential employees, but it is actively recruiting high school graduates and post-secondary students for positions in the Corporation. Marine Atlantic promotes itself and its career opportunities through highly-targeted placements in traditional media such as student publications and community papers, combined with a social media campaign.

Giving Back to the Community

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 the port towns along its routes – on which much of its success depends.

Engaging Both Official Languages

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

Encouraging Employee Wellness

Marine Atlantic's Employee Wellness Committee consists of employees from all areas of the organization who are committed to promoting a healthy lifestyle to their peers. In 2010/11, the committee organized health fairs, flu shot clinics and health programs such as the @live Health Risk Assessment and the Employee and Family Assistance program. For the fourth consecutive year, the Committee is running an employee wellness challenge from January to June, 2011. Sixteen teams of employees are participating in the challenge, which focuses on work/life balance and healthy diets. The challenge is a fun and friendly competition, offering a chance to get to know co-workers and compete for prizes.

the board & management working together

The Board and Management Working Together

Marine Atlantic is governed by a ten-person Board of Directors. It is responsible for the general oversight of the Corporation's activities and is required to provide overall policy direction. The independent directors are chosen and appointed for specific and staggered terms by the Government of Canada. The President and CEO is 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 only on operating the Gulf ferry service. Consequently, the Corporation is not entitled to expand into other business opportunities that may arise and complement its main business activities. The Board must provide prudent fiscal direction and guidance to management, ensuring effective budgeting and financial management, as well as management of corporate risks. These processes fulfill the Board's commitment to provide overall governance. Management, in turn, directs Marine Atlantic's employees, with the overall united effort to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system for its customers.

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, Audit and Risk, and Human Resources and Pension Management.

Corporate Governance Committee

During the year, the Committee reviewed and updated the Terms of Reference for the Governance Committee and recommended approval of the same by the Board of Directors. The Committee also revised the Corporations' Whistleblower Policy and expanded its title to the Disclosure of Wrongdoings Policy (Whistleblower Policy). The Committee ensured that the revised Policy is consistent with the provisions of the *Public Servants Disclosure Protection Act (Canada)*. Revised information technology policies that reflect advancements in technology and information management procedures were reviewed, recommended and subsequently approved by the Board.

Audit and Risk Committee

The Audit and Risk Committee oversees the Corporation's standards for integrity and behaviour, financial reporting, internal audit, and risk management. Overall responsibilities include review of management performance, operational and capital budgets, financial statements, internal controls, and risk management activities. A significant role for the committee is to set the context for an effective Enterprise Risk Management (ERM) framework and to gain assurance that management within the organization has implemented appropriate systems and practices aligned with the ERM framework. The ERM framework provides 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 the law, regulations and governing policies, integrity of management and financial information, the efficiency and effectiveness of operations, and independence of the external and internal audit functions. The Audit and Risk Committee also oversees the design and implementation of internal controls to support the risk management framework.

A summary of the Audit and Risk committee's major initiatives and events during the 2010/11 fiscal year included:

Expanded the internal audit function to include a Director of Internal Audit who reports directly to the Audit Committee

Updated the terms of reference for the internal audit function

Oversaw the Generally Accepted Accounting Principles Conversion Project to Public Sector Accounting Standards as the new financial reporting standard for Marine Atlantic effective April 1, 2011

Revamped the budget oversight process

Implemented the Corporate Risk Register

Overhauled the procurement policy

Reviewed the internal control environment policy

Completed training in the area of enterprise risk management

Completed internal audits conducted in four main areas: procurement, overtime, fleet integration and management objectives list

Oversaw the fuel price hedging program

Oversaw the fuel surcharge

Oversaw the fleet renewal and integration project

Developed a Corporate Control Environment and Internal Control Policy

Developed a Corporate Enterprise Risk Policy

Monitored management progress with the recommendations made during the Office of the Auditor General Special Examination

Oversaw the special procurement policy adopted for the fleet renewal and integration project

Human Resources and Pension Management Committee (HRPMC)

OVERVIEW OF THE COMMITTEE

The committee's responsibilities include providing assistance in the human resource succession planning process, conducting the annual performance assessment on the duties of the President and CEO, and advising the Board with respect to compensation and benefit issues for all employees.

Key activities undertaken by the committee throughout the year included:

Reviewed and recommended approval of an integrated Human Resources Strategy and Plan which the Board accepted.

Received regular updates on the Human Resources component of the fleet integration project.

Reviewed contract negotiations and adjusted mandates as required.

Assessed the President and CEO's performance and made recommendations on that assessment.

Activities related to the Pension Plan:

Kept abreast of regulation changes affecting pension plans in the federal jurisdiction, including Bill C-9, which provides for changes to the *Pension Benefits Standards Act, 1985*, in addition to changes in Regulations. The Committee kept abreast of the implications of changes to the Harmonized Sales Taxes in relation to the pension plan.

In the fall of 2010, the Committee members participated in a training program with participants from across Canada.

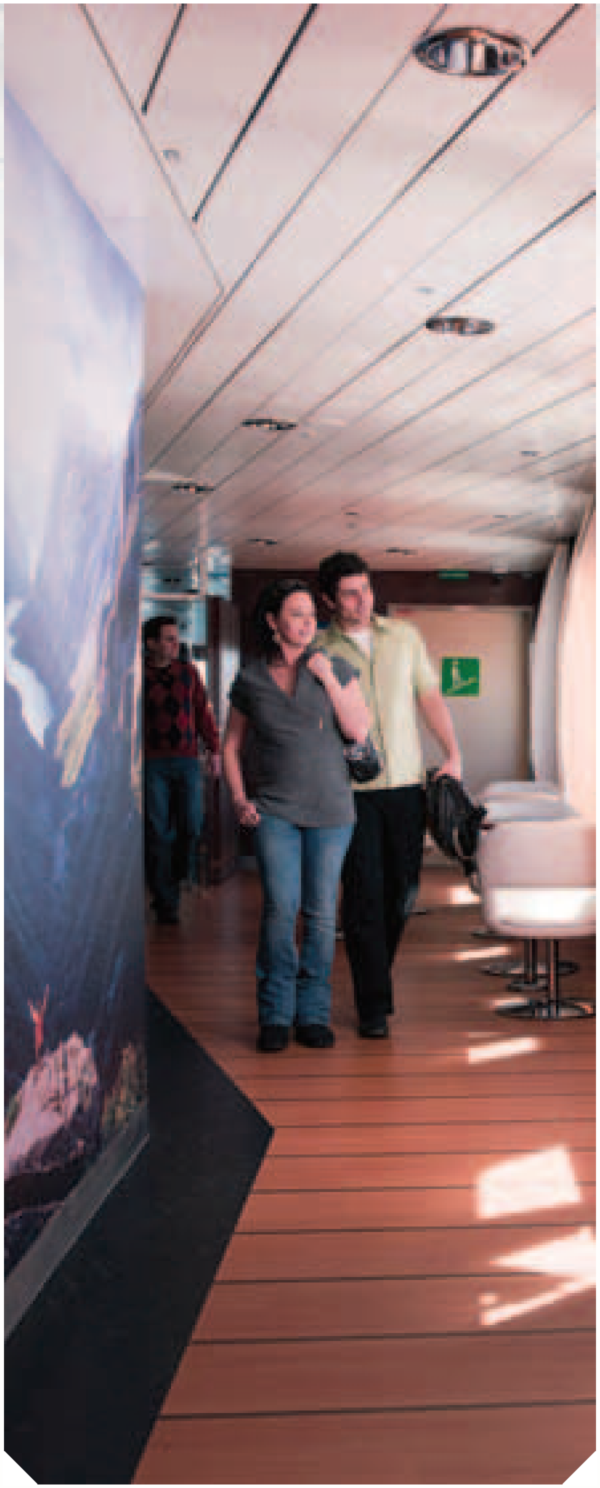
Issued a Request for Proposals for Investment Consulting with an option for an Outsourced Model for the Pension Plan with a recommendation for an award of a contract for Investment Management Consulting Services.

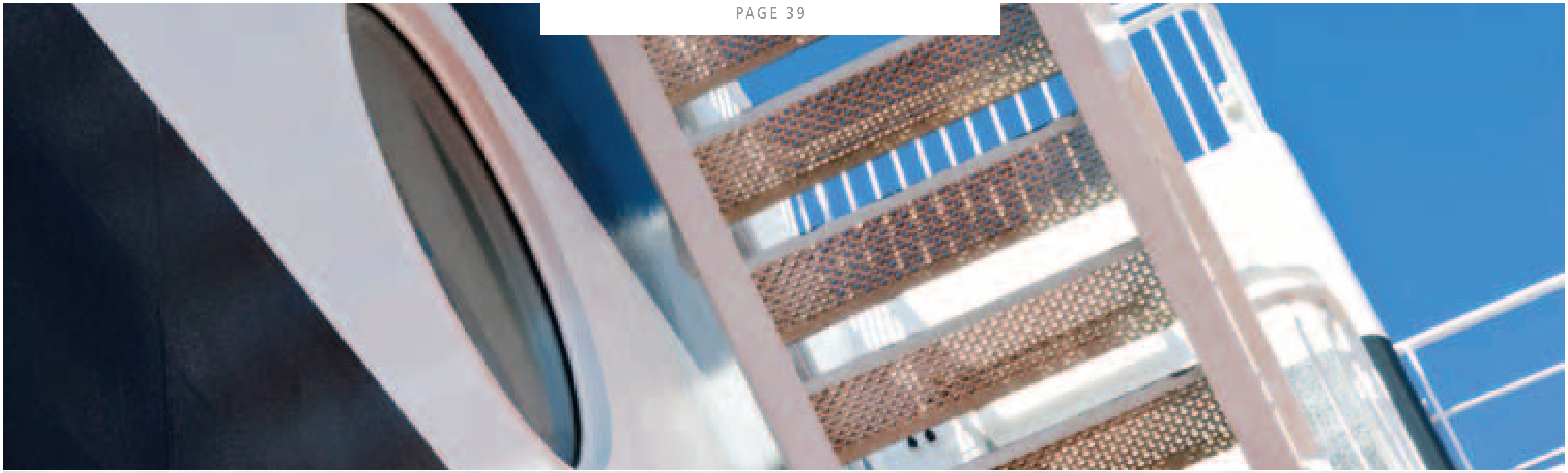
Received and reviewed an Asset Liability Study and Derisking Strategy.

Issued a Request for Proposals for Actuarial and Administration Services for the Pension Plan.

Received and reviewed an actuarial report, applying regulation changes which came into force on July 1, 2010. The Committee recommended that a three year average solvency ratio as provided by the amended regulations be utilized which was accepted by the Board of Directors.

Reviewed investment performance in addition to expenses charged to the pension plan at each of its regular meetings.





Board Recruitment and Attendance

THE BOARD AND MANAGEMENT WORKING TOGETHER

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

Four Regularly Scheduled Meetings Per Period

NOTE: Board conference calls and special meetings were held throughout the period outside the regular schedule. Committee meetings were held throughout the period.

[1] Dwight Rudderham resigned from the Board of Directors effective March 16, 2011.

board of directors

Board of Directors

THE BOARD AND MANAGEMENT WORKING TOGETHER

Robert Crosbie

Chair, Marine Atlantic Inc.
Corporate Governance, HRPMC

ST. JOHN'S, NL

Chair, Crosbie Group, President of ASCO Canada, Crosbow Enterprises, Crosbie Salamis Limited and Crosbie Realty

Heather Tulk

Chair, HRPMC

TORONTO, ON

Senior Vice President, Residential Products, Bell Canada

Peggy A. Coady, FCA

Chair, Corporate Governance
Audit and Risk

ST. JOHN'S, NL

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

Walter Pelley

HRPMC, Audit and Risk

NORTH SYDNEY, NS

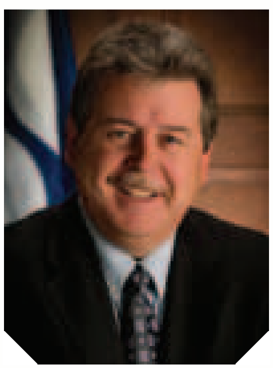
Owner and President, W.P. Investments Inc. / W. & B. Pelley Holdings Inc.

Nick Careen

Corporate Governance,
Audit and Risk

JERSEYSIDE, NL

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



Wayne Follett

President and CEO
Corporate Governance, HRPMC

CONCEPTION BAY SOUTH, NL

Marine Atlantic Inc.

John J. Henley

Corporate Governance

ST. JOHN'S, NL

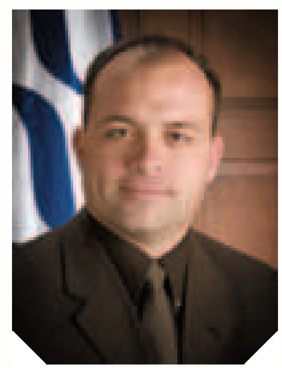
Vice President, Offshore Services & Development, G.J. Cahill & Company Limited

Dwight Rudderham

Corporate Governance

SYDNEY, NS

Partner, Rudderham Chernin Law Office
Note: Dwight Rudderham resigned from the Board of Directors effective March 16, 2011.

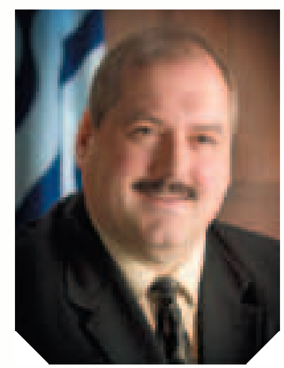


Stan Cook

HRPMC

ST. JOHN'S, NL

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



James G. Doody, CA

Chair, Audit and Risk

ST. JOHN'S, NL

Chief Executive Officer, King Group of Companies

financials

Management Responsibilities for Financial Reporting

YEAR ENDED MARCH 31, 2011

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year. 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 workers' compensation and other non-pension employee future benefits. In addition, relating to the assets held for sale, Management relies on estimates provided by internal and external parties.

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

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 Interim 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

WAYNE FOLLETT, CGA
President and CEO

St. John's, Canada | June 8, 2011

Auditor General of Canada
Vérificatrice générale 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 balance sheet as at 31 March 2011 and the statement of income, comprehensive income and accumulated deficit and statement of cash flows 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 generally accepted accounting principles, 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 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Marine Atlantic Inc. and its wholly-owned subsidiary 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 the articles of incorporation and by-laws of Marine Atlantic Inc and its wholly-owned subsidiary.

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

8 June 2011
Halifax, Canada

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

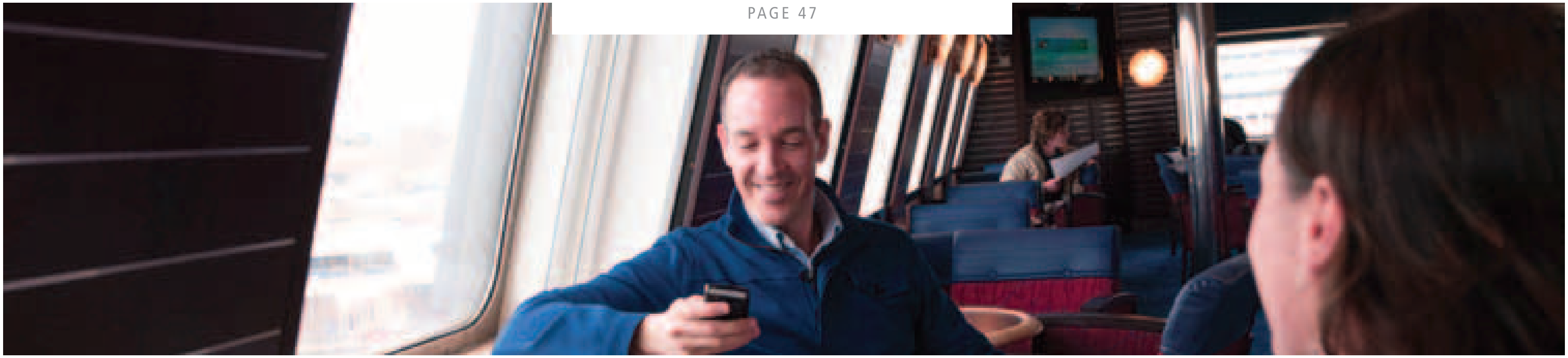
Independent Auditor's Report

AUDITOR GENERAL OF CANADA

Balance Sheet

AS AT MARCH 31 (IN THOUSANDS)

	2011	2010
Assets		
Current assets		
Cash	$ 1,005	$ 2,517
Account receivable, net (note 17(a))	9,035	9,505
Receivable from Government of Canada (note 4)	3,396	-
Inventories (note 5)	11,731	14,123
Derivative financial instruments (note 16)	3,292	146
Prepaid expenses	3,202	480
	31,661	26,771
Restricted cash (note 6)	8,575	8,537
Vessel, facilities and equipment (note 7)	178,637	128,890
Intangible assets (note 8)	15,081	1,157
Assets held for sale (note 9)	7,200	-
Accrued pension asset (note 10)	78,409	68,654
Derivative financial instruments (note 16)	716	10
	280,043	198,711
Total assets	$ 320,279	$ 234,019
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (note 17 (c))	$ 29,211	$ 18,830
Derivative financial instruments (note 16)	246	1,863
Deferred revenue	2,628	3,841
Payable to Government of Canada (note 4)	-	1,234
Accrued vacation pay	5,860	5,617
Current portion of long-term accrued obligations (notes 11 & 12)	1,894	2,405
	39,839	33,790



	2011	2010
Accrued pension liability (note 10)	1,245	1,264
Accrued obligation for other non-pension employee future benefits (note 11)	24,111	22,822
Accrued obligation for workers' compensation (note 12)	7,422	7,144
Derivative financial instruments (note 16)	29	2
	32,807	31,232
Deferred capital funding (note 14)	187,086	130,047
Shareholder's equity		
Share capital (note 15)	258,530	258,530
Accumulated deficit	(197,983)	(219,580)
	60,547	38,950
Total liabilities and shareholder's equity	$ 320,279	$ 234,019
Commitments and guarantees (note 20)		
Contingencies (note 21)		

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

APPROVED BY THE BOARD OF DIRECTORS:

Director

Director

Statement of Income, Comprehensive Income and Accumulated Deficit

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2011	2010
Revenue		
Commercial revenue	$ 83,920	$ 80,270
Fuel surcharge revenue	11,662	3,570
Other income	181	71
	95,763	83,911
Operating expenses		
Wages and benefits	79,407	77,833
Fuel	32,512	28,954
Charter fees	25,818	22,154
Materials, supplies and services	13,372	14,532
Employee future benefits (notes 10, 11 and 12)	13,222	2,593
Repairs and maintenance	12,352	20,629
Other	9,078	5,549
Insurance, rent and utilities	5,405	5,210
Fleet renewal costs (note 18)	10,001	-
Decommissioning of vessels	3,118	-
Foreign currency exchange loss	66	1,878
Unrealized (gain) loss on derivative financial instruments (note 16)	(5,442)	1,708
Realized loss on derivative financial instruments (note 16)	2,761	754
(Gain) loss on disposal of vessel, facilities and equipment	(14)	3,591
Loss on write down of assets held for sale (note 9)	8,322	-
Amortization	12,476	18,241
	222,454	203,626
Loss before government funding	(126,691)	(119,715)
Government funding		
Operations	124,370	106,596
Recovery of vessel decommissioning costs	3,118	-
Amortization of deferred capital funding	20,800	22,346
Net income and comprehensive income	21,597	9,227
Accumulated deficit, beginning of year	(219,580)	(228,807)
Accumulated deficit, end of year	$ (197,983)	$ (219,580)

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

Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2011	2010
Cash flows from (used for)		
Operating activities		
Cash receipts from customers	$ 94,538	$ 83,431
Other income received	77	52
Government operating funding	133,629	108,625
Cash paid to suppliers and employees	(195,844)	(170,967)
Cash paid for pension, workers' compensation and other non-pension employee future benefits	(21,940)	(19,626)
	10,460	1,515
Investing activities		
Purchase of vessel, facilities and equipment	(66,631)	(14,645)
Purchase of intangible assets	(12,423)	(223)
Proceeds on disposal of vessel, facilities and equipment	15	514
	(79,039)	(14,354)
Financing activities		
Government capital funding	67,067	14,868
Net (decrease) increase in cash	(1,512)	2,029
Cash, beginning of year	2,517	488
Cash, end of year	$ 1,005	$ 2,517

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

Notes to the Financial Statements

MARCH 31 (IN THOUSANDS)

1. Nature of Operations and Authority

Marine Atlantic Inc. is incorporated under the *Canada Business Corporations Act*. The *Marine Atlantic Inc. Acquisition Authorization Act* of 1986 established the Corporation as a parent Crown corporation. 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 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." 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. Marine Atlantic Inc.'s wholly-owned subsidiary, the Newfoundland Dockyard Corporation, has ceased operations and therefore no operations are consolidated in the financial statements of the Corporation.

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 annual parliamentary appropriations for operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. The Corporation's Board of Directors accepts responsibility for price changes across all services, including to a maximum of five per cent per year on constitutional fares. The Corporation also sets a fuel surcharge based on the annual cost recovery target.

The acquisitions of vessel, facilities and equipment are subject to approval of parliamentary appropriations.

The Corporation is economically dependent on the Government of Canada.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Financial instruments

Financial assets and liabilities held for trading

Financial instruments are classified as held for trading when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. Other financial instruments may be designated as held for trading upon initial recognition.

The Corporation has classified its cash and restricted cash as held for trading since they could be reliably measured at fair value due to their short-term maturity.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement date.

Loans and receivables

The loans and receivables classification includes accounts receivable and a receivable from the Government of Canada that have fixed or determinable payments and are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost.

Accounts receivable are carried at the original invoice amount less allowance for doubtful accounts. The carrying values of these financial instruments approximate fair values due to their short-term nature.

Other financial liabilities

Other financial liabilities represent liabilities that are not classified as held for trading. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost. The Corporation has classified its accounts payable and accrued liabilities and payable to the Government of Canada as other financial liabilities. As the time value of money is not material due to their short-term nature, accounts payable and accrued liabilities are carried at the original invoice amount and the payable to the Government of Canada is carried at the original amount.

Derivative financial instruments

The Corporation uses derivative financial instruments such as swaps in the management of its exposure to changes in fuel prices covering at least 15 per cent and up to 65 per cent of its budgeted fuel consumption.

Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the Euro.

These derivatives are accounted for at fair value on the balance sheet and are removed from the balance sheet when they expire or are terminated, with changes in fair value recognized in the statement of income, comprehensive income and accumulated deficit as foreign currency exchange gains or losses.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes and it does not apply hedge accounting to these derivatives.

The Corporation's derivative financial instruments are classified as held for trading.

(b) Parliamentary appropriations and deferred capital funding

Parliamentary appropriations to fund the current cash requirements, related to operating expenses in excess of commercial revenues, are included in income for the period. Any difference between amounts provided and amounts required represents a receivable from (payable to) the Government of Canada. Amounts related to vessel, facilities and equipment and intangible assets additions are recorded as deferred capital funding in the year in which the related vessel, facilities and equipment and intangible assets are acquired, and are amortized to income on the same basis and over the same periods as the related vessel, facilities and equipment and intangible assets are amortized or written off. The Corporation recognizes a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

(c) Inventory

Inventories consisting primarily of items used for consumption onboard vessels are valued at the lower of cost and net realizable value. Cost is determined on a weighted-average basis.

(d) Vessel, facilities and equipment

Vessel, facilities and equipment 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 vessel, facilities and equipment. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with an item of vessel, facilities and equipment. The cost of work in progress includes materials and direct labour. Amounts included in work in progress are transferred to the appropriate vessel, facilities and equipment classification when available and ready for use and are then amortized. Amortization is calculated at rates sufficient to write off vessel, facilities and equipment over their estimated useful lives on a straight-line basis. 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 economic life. Estimated useful lives and amortization methods are reviewed at the end of each year.

The rates for significant classes of vessel, facilities and equipment are as follows:

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

(e) Intangible assets

The Corporation's intangible assets are comprised of purchased software and charter importation taxes.

When the Corporation develops, performs the initial configuration set-up, acquires and updates its software, it incurs costs that are accounted for as intangible assets.

When a vessel is imported into Canada, the Income Tax Act requires the Importer to pay Goods and Services Tax (GST) on the assessed value of the vessel at time of importation. The Importer is also required to self assess the provincial portion of the Harmonized Sales Tax (HST). The Corporation has recognized $13,832 of net importation costs as an intangible asset in 2011 for the importation of the MV *Blue Puttees* and the MV *Highlanders.*

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The amortization for the purchased software is calculated on a straight-line basis over their estimated useful lives. The useful lives used in the calculation of amortization for purchased software vary and is normally a 20% to 25% amortization rate.

The charter importation cost is amortized over the lesser of the useful life of the chartered vessel or the remaining term of the lease agreement.

(f) Employee future benefits

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

- 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. Effective 2010, eligibility under the latter supplementary arrangement is being 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 yields on high quality corporate bonds at the measurement date. 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. The expected return on plan assets is based on a market-related value of plan assets, 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 demographic experience. All actuarial gains and losses and past service costs resulting from plan amendments are amortized over the estimated average remaining service period of active registered plan members; the estimated average life expectancy of members of the former supplementary retirement arrangements; and the average remaining service period of active members for the supplementary retirement arrangement adopted in 2006. The estimated average remaining service period of the active members covered by the registered pension plan is 10.9 years (2010 - 10.8 years). The estimated average life expectancy for members covered by the former supplementary retirement arrangement is 17.7 years (2010 – 18.7 years). For the supplementary retirement arrangement adopted in 2006, the average remaining service period of active members expected to receive benefits under the plan is 10.9 years (2010 - 5.9 years).

- 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 are 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.

- The cost of other non-pension employee future benefits is actuarially determined using management's best estimates of future participation rate in the retiree health and dental plan, average health care cost per covered individual, health care trend rates and utilization, salary escalation and mortality rates. Adjustments arising from actuarial gains and losses are amortized over the estimated average remaining service period. The estimated average remaining service period of active members covered by non-pension employee future benefit plans expected to receive benefits is 13.4 years (2010 – 12.5 years). Adjustments due to plan amendments are amortized over the estimated average remaining service period to the participant's date of full eligibility to benefits.
- Current and retired employees of Marine Atlantic Inc. have travel benefits for the Corporation's vessels. No liability has been recognized on the balance sheet for this benefit because it is not material.

(g) Revenue recognition

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

Interest income is recorded as it is earned.

(h) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet 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 balance sheet date. All exchange gains and losses are included in the determination of net income for the period.

(i) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(j) Management estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. The Corporation's critical accounting estimates include the following: accrued pension asset, accrued obligations for workers' compensation benefits and other non-pension employee future benefits, valuation of assets held for sale and litigation. Actual results could differ materially from those estimates.

3. Adoption of New Accounting Standards

Future accounting changes

In December 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the *Introduction to Public Sector Accounting Standards* that eliminates the category of government business-type organizations resulting in the need to reclassify these entities as either government not-for-profit organizations or other government organizations.

The Corporation was previously classified as a government business-type organization. Management has reassessed the Corporation's classification and concluded that it should be classified as an other government organization and that the standards in the Public Sector Accounting Handbook will meet the needs of its users.

Effective April 1, 2011, the Corporation will adopt public sector accounting standards and must report under the new standards for its March 31, 2012 financial statements, including comparative figures. Management is currently finalizing the impact of the adoption of these standards and the adjustments on transition date as at April 1st, 2010.

4. Receivable (payable) from Government of Canada

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

		2011		2010
Receivable (payable) from Government of Canada, beginning of year	$	(1,234)	$	795
Parliamentary appropriations received during the year		(200,696)		(123,493)
Recognized during the year:				
Operations		124,370		106,596
Vessel, facilities and equipment and intangibles		77,838		14,868
Government funding (deficit) surplus		(1,512)		2,029
Receivable (payable) from Government of Canada, end of year		278		(1,234)
Recoverable vessel decommissioning costs		3,118		-
Total	$	3,396	$	(1,234)

5. Inventories

		2011		2010
Fuel inventory	$	8,513	$	8,311
Vessel spare parts - ship based		1,513		3,073
Vessel spare parts - shore based		1,364		2,231
Catering inventory		341		508
Total inventories	$	11,731	$	14,123

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

6. Restricted Cash

Restricted cash consists of cash denominated in Euros plus accumulated interest held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The charter agreement signed in April 2008 required the establishment of an escrow account equivalent to six months of charter fees (6,221 Euros – 8,575 CAD at March 31, 2011; 8,537 CAD - 2010) until the end of the charter in 2013. These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

7. Vessel, Facilities and Equipment

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vessel	$ 98,793	$ 41,639	$ 57,154	$ 375,089	$ 320,284	$ 54,805
Shore facilities	111,104	47,782	63,322	88,059	44,066	43,993
Leasehold improvements	23,609	2,657	20,952	6,122	1,421	4,701
Equipment	13,984	7,681	6,303	10,089	7,013	3,076
Work in progress	30,906	-	30,906	22,315	-	22,315
	$ 278,396	$ 99,759	$ 178,637	$ 501,674	$ 372,784	128,890

The amortization expense related to vessel, facilities and equipment for the year ended March 31, 2011 was $12,132 (2010 - $17,773). This includes $1,050 related to the planned demolition of the North Sydney Administration building. The group of assets were written down to represent the remaining expected useful life. The building will be demolished to increase yard capacity and utilize the alternate docking facility in a more safe and efficient manner.

The Corporation received approval to modify as required and charter the vessels the MV *Blue Puttees* and the MV *Highlanders* from the Government of Canada in 2010. As part of the negotiated and approved contracts, an extensive modification project to accommodate the operating parameters of the Newfoundland and Labrador service and transform the mainly freight vessels into modern passenger ferries was developed with the vessel owner. The Corporation made capital contributions to the owners for these modifications. The Corporation has recognized these amounts as leasehold improvements and will amortize these amounts over the life of the charter arrangement.

8. Intangible Assets

	2011						2010					
		Cost		Accumulated Amortization		Net Book Value		Cost		Accumulated Amortization		Net Book Value
IT software	$	2,769	$	2,328	$	441	$	2,769	$	1,984	$	785
Charter Importation cost		13,832		-		13,832		-		-		-
Work in progress		808		-		808		372		-		372
	$	17,409	$	2,328	$	15,081	$	3,141	$	1,984		1,157

During the year ended March 31, 2011, the Corporation wrote-off $0 (2010 - $181) of intangible assets that were fully amortized.

The aggregate amount of intangible assets subject to amortization that were acquired during the year was $0 – (2010 - $223). Amortization expense related to IT Software for the year ended March 31, 2011 was $344 (2010 - $468).

9. Assets Held for Sale

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

10. Pension Plans

The Corporation's independent actuaries measure the pension obligations and the fair value of the plans' assets for accounting purposes as at the measurement date (December 31, 2010 for March 31, 2011 and December 31, 2009 for March 31, 2010). The most recent actuarial valuation for funding purposes is as of December 31, 2009. The next required actuarial valuation for funding purposes, expected to be completed in 2011, will be as of December 31, 2010.

The registered pension plan provides for possible indexation adjustments for pension and survivor benefits payable during a calendar year following the third anniversary of the member's retirement or death, whichever occurs first. The indexation adjustment is calculated as the annual increase in the Consumer Price Index less three per cent, subject to a maximum annual increase of three per cent. No indexation adjustment is provided if the annual increase in the Consumer Price Index is below three per cent.

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

		2011		2010
Accrued Benefit Obligation:				
Balance at beginning of year	$	482,936	$	423,259
Current Service Cost		5,896		3,716
Employee Contributions		3,423		3,500
Interest Costs		30,692		30,396
Benefits paid		(33,065)		(31,106)
Actuarial loss		66,484		53,171
Balance at end of year	$	556,366	$	482,936
Fair Value of Plan Assets:				
Balance at beginning of year	$	513,386	$	464,044
Actual gains from return on plan assets		50,422		60,900
Employer contribution		19,435		16,048
Employee contributions		3,423		3,500
Benefits paid		(33,065)		(31,106)
Balance at end of year	$	553,600	$	513,386

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

	2011				2010			
		Registered Pension Plan		Supplementary Retirement Arrangements		Registered Pension Plan		Supplementary Retirement Arrangements
Pension plan assets (fair value)	$	553,600	$	-	$	513,386	$	-
Pension obligations (actuarial value)		554,688		1,678		481,319		1,617
Surplus (deficit)	$	(1,088)	$	(1,678)	$	32,067	$	(1,617)
Surplus (deficit) end of year	$	(1,088)	$	(1,678)	$	32,067	$	(1,617)
Unamortized amounts		74,901		396		32,251		316
Employer contributions during year from measurement date to March 31		4,597		37		4,336		37
Accrued pension asset (liability)	$	78,409	$	(1,245)	$	68,654	$	(1,264)
Pension contributions - employer	$	19,547	$	149	$	17,583	$	149
Pension contributions - employees	$	3,423	$	-	$	3,500	$	-
Pension costs	$	9,791	$	130	$	138	$	137
Benefits paid	$	32,916	$	149	$	30,959	$	148
Determination of pension costs for the year are calculated as:								
Current service cost	$	5,891	$	5	$	3,709	$	7
Interest on pension obligations		30,594		97		30,289		107
Return on plan assets		(32,079)		-		(32,677)		-
Amortization of past-service costs		2,367		8		2,367		9
Amortization of net actuarial loss		3,018		20		(3,550)		14
Pension costs	$	9,791	$	130	$	138	$	137

Employer pension contributions are made in accordance with the actuarial valuations for funding purposes. The Corporation notified the Office of the Superintendent of Financial Institutions that beginning in 2008, the Corporation applied Part 3 of the *Solvency Funding Relief Regulations* which permits the solvency deficit to be amortized over 10 years with letters of credit issued by a financial institution in the amount determined in accordance with the Regulations. The Corporation also notified the Office of the Superintendent of Financial Institutions that the Corporation would be using 10-year funding for the 2009 plan year under the *Solvency Funding Relief Regulations, 2009* and that Part 3 of these Regulations would be used in 2010, allowing the continuation of 10-year funding for the solvency deficiency which emerged in 2008, with a letter of credit issued by a financial institution in the amount determined in accordance with the Regulations.

The registered pension plan assets are invested in debt securities and equity securities. The asset mix at December 31, 2010, the measurement date for the March 31, 2011 financial statements was 57% in debt securities and 43% in equity securities (2010 - 57% and 43%, respectively).

Weighted-average assumptions

	2011	2010
Pension obligations		
Discount rate	5.4 %	6.4%
Rate of compensation increase	4.0 %	4.0%
Pension costs		
Discount rate	6.4%	7.4%
Expected long-term rate of return on plan assets	6.0%	6.25%
Rate of compensation increase	4.0% including merit scale	3.0% + merit scale

11. Accrued Obligation for Other Non-Pension Employee Future Benefits

The Corporation provides life insurance and health and dental care benefits to retirees. The present value of this unfunded benefit plan for current and future retirees is determined by an actuary on the basis of management assumptions. An actuarial valuation was conducted as of January 1, 2008 extrapolated to the measurement date of December 31, 2010 (2010 - December 31, 2009).

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,876 (2010 - $1,050) for other non-pension employee future benefits for the cost of these benefits in the period and changes in management’s estimates.

At March 31, the Corporation's accrued obligation for other non-pension future benefits costs and obligations consists of:

		2011		2010
Accrued Benefit Obligation (actuarial value)	$	25,802	$	20,305
Deficit end of year	$	(25,802)	$	(20,305)
Unamortized amounts		1,033		(3,078)
Employer contributions during the year from measurement date to March 31		168		120
Accrued benefit liability	$	(24,601)	$	(23,263)
Employer contributions	$	490	$	441
Employees contributions		-		-
Benefits paid	$	(490)	$	(441)
Determination of other non-pension employee future benefits costs for the year are calculated as:				
Current service cost	$	617	$	392
Interest cost		1,424		1,199
Amortization of net actuarial gain		(46)		(422)
Plan amendments		(119)		(119)
Other non-pension employee future benefits costs	$	1,876	$	1,050

Weighted-average assumptions	2011	2010
Other non-pension employee future benefits obligations		
Discount rate	5.4%	6.4%
Rate of compensation increase	4.0%	4.0%
Initial weighted-average health care trend rate	7.4%	7.6%
Ultimate weighted-average health care trend rate	4.5%	4.5%
Year ultimate rate reached	2030	2030
Other non-pension employee future benefits costs		
Discount rate	6.40%	7.4%
Rate of compensation increase	4.0% including merit scale	3.0% + merit scale
Initial weighted-average health care trend rate	7.6%	8.5%
Ultimate weighted-average health care trend rate	4.5%	4.9%
Year ultimate rate reached	2030	2016

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have had the following effects for 2011:

		Increase		Decrease
Total of current service and interest costs	$	456	$	(319)
Accrued obligation for other non-pension employee future benefits	$	4,345	$	(3,423)

12. Accrued Obligation for Workers' Compensation

The Corporation's accrued obligation for workers' compensation 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.

An actuarial valuation was conducted as of January 1, 2009 and was extrapolated to the measurement date of December 31, 2010 (2010 - December 31, 2009). The next required actuarial valuation, expected to be completed in 2012, will be as of December 31, 2011.

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,424 (2010 - $1,268) for the cost of accidents that occurred in the period, interest charged on the workers' compensation obligation, administration costs and amortization of actuarial gains and losses.

At March 31, the Corporation's self-insured workers' compensation costs and obligations consist of:

		2011		2010
Workers' compensation obligations (actuarial value)	$	8,826	$	9,108
Less: current portion		1,404		1,964
Non-current portion	$	7,422	$	7,144
Workers' compensation costs	$	1,424	$	1,268
Workers' compensation payments	$	1,706	$	1,475
Determination of workers' compensation costs for the year are calculated as:				
Current service cost	$	395	$	370
Interest cost		698		741
Amortization of net actuarial loss		331		157
Workers' compensation costs	$	1,424	$	1,268

	2011	2010
Weighted-average assumptions		
Workers' compensation obligations		
Discount rate	5.4%	6.4%
Increase in average industrial wage	3.5%	3.5%
Workers' compensation costs		
Discount rate	6.4%	7.4%
Increase in average industrial wage	3.5%	3.0%
Health care cost increases	5.0%	5.0%

For the year ended March 31, 2011, the Corporation paid $397 (2010 - $358) in premiums to the Workers' Compensation Board of Nova Scotia which are included in wages and benefits in the statement of income, comprehensive income and accumulated deficit. These premiums represent the workers' compensation cost for Nova Scotia employees where the Corporation is on an assessment basis since January 1, 2003.

13. Operating Credit Facility

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

14. Deferred Capital Funding

Deferred capital funding represents the unamortized portion of the funding used to purchase depreciable vessel, facilities and equipment and intangible assets.

		2011		2010
Balance, beginning of the year	$	130,047	$	137,525
Government funding for vessel, facilities, and equipment and intangible assets		77,839		14,868
Amortization of deferred capital funding		(20,800)	$	(22,346)
Balance, end of the year	$	187,086	$	130,047

15. Capital

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at March 31, 2011, 517,061 shares (2010 - 517,061 shares) at $0.50 per share (2009 - $0.50 per share) have been issued and fully paid.

The Corporation's capital is its equity, which comprises share capital net of accumulated deficit. Equity is represented by net assets. The Corporation's objective when managing its capital is to ensure that the Corporation has sufficient capital to meet its current and long-term obligations to suppliers and employees so that it can continue to provide its ferry services. The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation is not subject to any externally imposed capital requirements. There has been no change to what the Corporation defines as capital or its objectives, policies and processes for managing capital from the prior year.

16. Financial Instruments

(a) Classification of financial instruments

The Corporation's financial instruments are classified as follows:

	2011				2010			
	Carrying Value				Carrying Value			
		HFT		L&R		HFT		L&R
Financial assets								
Cash	$	1,005	$	-	$	2,517	$	-
Accounts receivable	$	-	$	9,035	$	-	$	9,505
Receivable from Government of Canada	$	-	$	3,396	$	-	$	-
Derivative financial instruments	$	4,008	$	-	$	156	$	-
Restricted cash	$	8,575	$	-	$	8,537	$	-
		HFT		OFL		HFT		OFL
Financial liabilities								
Accounts payable and accrued liabilities	$	-	$	29,211	$	-	$	18,830
Payable to Government of Canada	$	-	$	-	$	-	$	1,234
Derivative financial instruments	$	275	$	-	$	1,865	$	-

HFT - Held for trading L&R - Loans and receivables OFL - Other financial liabilities

(b) Fair value

The estimated fair value of the recognized financial instruments other than financial instruments held for trading approximates their carrying value due to their current nature.

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 fair values of the Corporation's financial assets and financial liabilities at March 31, 2011 are all classified as level 1 since they are based on quoted prices in active markets for identical assets and liabilities.

(c) Derivative financial instruments

The derivative financial instruments used by the Corporation 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:

	2011				2010
	Period (note 1)	Fixed Price per Unit (note 2)	Notional Quantity (note 3)	Fair Value	Fair Value
Crude swap - #2 heating oil	2011	2.05 - 2.35	1,722	$ -	$ 100
Crude swap - #2 heating oil	2012	2.23 - 2.568	2,142	$ 1,507	$ 10
Crude swap - #2 heating oil	2013	2.364 - 2.63	546	$ 321	$ -
Crude swap - #6 heavy fuel 1%	2011	74.00 - 78.90	40	$ -	$ 46
Crude swap - #6 heavy fuel 1%	2012	76.47 - 87.30	96	$ 1,768	$ -
Crude swap - #6 heavy fuel 1%	2013	82 - 91.35	30	$ 345	$ -
				$ 3,941	$ 156

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

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

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

	2011				2010
	Period (note 1)	Forward Rate (CAD/Euro)	Notional Amount (Euros)	Fair Value	Fair Value
Foreign exchange forwards	2012	1.3740	12,403	$ 17	$ -
Foreign exchange forwards	2013	1.3740	12,403	$ 25	$ -
Foreign exchange forwards	2014	1.3740	7,235	$ 25	$ -
				$ 67	$ -

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

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

	2011				2010
	Period (note 1)	Fixed Price per Unit (note 2)	Notional Quantity (note 3)	Fair Value	Fair Value
Crude swap - #2 heating oil	2011	2.231 - 2.375	1,302	$ -	$ (30)
Crude swap - #2 heating oil	2012	2.273	252	$ (194)	$ -
Crude swap - #6 heavy fuel 1%	2011	74.95 - 82.40	47	$ -	$ (58)
Crude swap - #6 heavy fuel 1%	2012	100 - 104.02	16	$ (52)	$ (2)
Crude swap - #6 heavy fuel 1%	2013	101.52 - 102.1	8	$ (29)	$ -
				$ (275)	$ (90)

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

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

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

	2011				2010
	Period (note 1)	Forward Rate (CAD/Euro)	Notional Amount (Euros)	Fair Value	Fair Value
Foreign exchange forwards	-	-	-	$ -	$ (1,775)

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

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, 2011, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the balance sheet 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.

17. Financial Risk Management

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.

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

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

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

(a) Credit risk

The carrying amount of cash, accounts receivable and restricted cash represents the Corporation's maximum exposure to credit risk. The Corporation's accounts receivable consists of Trade receivables of $5,442 and other accounts receivable of $3,593 of which $2,116 is recoverable insurance claims. The total accounts receivable is $9,035 as at March 31, 2011 (2010 - $9,505). 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 49% of the trade receivables (2010 - five customers represented 56% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable. As at March 31, 2011, approximately 11% (2010 - 9%) of trade accounts receivable, were over 60 days past due, whereas 89% (2010 - 91%) were current, or less than 60 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts.

The Corporation's allowance for doubtful accounts was $433 at March 31, 2011 (2010 - $436).

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

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

Cash other than restricted cash is held in a Canadian chartered bank. Restricted cash is held in a Euro-denominated escrow account in a German bank. The designation of this bank as escrow agent was imposed as an inherited condition for the charter agreement. As the ferry's owner is bound under a number of security instruments, the ferry's owner was obliged to use this bank to hold the escrow funds. The German bank holds a stand-alone rating of E+, a guaranteed long-term rating of Aa1, and a guaranteed short-term rating of P-1 from Moody's, and a standalone rating of D/E, a guaranteed long-term rating of AAA, and a guaranteed short-term rating of F1+ from Finch Ratings as of March 31, 2011.

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.

The Corporation has entered into multi-year operating lease arrangements for three of the four vessels in its fleet. To manage its exposure to credit 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.

(b) Market risk

(i) Commodity fuel price risk

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

(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.

(iii) Currency risk

Currency risk arises due to fluctuations in foreign currency rates. The Corporation uses derivatives (foreign exchange forwards) to manage this risk. The Corporation makes monthly lease payments for the charter of the passenger and freight vessel, the MV *Atlantic Vision*, in the amount of 1,034 Euros. To minimize this risk, the Corporation has purchased forward contracts for the amount of the monthly lease payments for the duration of the lease.

(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 carrying amount of accounts payable and accrued liabilities and derivative financial instruments represents the maximum exposure to liquidity risk. The Corporation's carrying value of accounts payable and accrued liabilities was $29,211 (2010 – 18,830). The carrying value of accounts payable as at March 31, 2011 was $17,301 (2010 - $8,275) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $11,910 as at March 31, 2011 (2010 - $10,555).

18. Fleet Renewal Costs

The Corporation entered into five year charter agreements for two passenger and freight ferries in May, 2010. There were significant non operational costs associated with the delivery and integration of the newly leased vessels into the fleet. The Corporation took possession of the ships at a German Shipyard in December 2010, and February 2011 respectively. The MV *Blue Puttees* entered service in March 2011 and the MV *Highlanders* entered into service in April 2011. The cost breakdown of the non labour costs is as follows: $4,252 Other (Includes $3,178 for professional services and travel costs) ; $2,166 for Materials, supplies and services; $1,654 for Fuel; $1,564 for repairs and maintenance; and $365 for Insurance, rent and utilities. An additional amount of $4,231 is included in the income statement as Wages and Benefits.

19. 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 $1,410 (2010 - $1,167) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(b) 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.

20. Commitments and Guarantees

(a) The total amount required to complete contracted work in progress at March 31, 2011 is $1,370 (2010 - $5,471).

(b) The Corporation leases certain facilities and equipment. As well, the Corporation entered into five-year charter agreements for passenger and freight ferries—the MV *Atlantic Vision*—the MV *Blue Puttees* and —the MV *Highlanders*. The minimum annual lease payments are as follows:

		CHARTER		OTHER		TOTAL
2011/2012	$	43,895	$	328	$	44,223
2012/2013		43,895		204		44,099
2013/2014		35,088		188		35,276
2014/2015		22,759		79		22,838
2015/2016		18,177		-		18,177
	$	163,814	$	799	$	164,613

The chartered vessels are accounted for as operating leases; therefore no liabilities are recognized on the balance sheet.

(c) 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 (2010 - $4,200) for an indefinite period.

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

21. Contingencies

(a) In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. The Corporation is in receipt of claims estimated at $2,259 (2010 - $805). Management has recognized an estimate of the liability.

(b) The Corporation self-insures against the potential loss of its docks.

(c) As part of its quality, risk and compliance program, the Corporation performs environmental assessment of its operations and facilities. In 2010-11, the Corporation has found environmental issues at its previously operated Bar Harbour terminal in the United States. The Corporation is presently assessing its various options to address this issue. At this point, Management has not recorded a liability given the uncertainty around the actions to be taken and the associated costs.