2007-08
annual report

toward a new horizon

Marine Atlantic
Marine Atlantique

Canada

corporate directory

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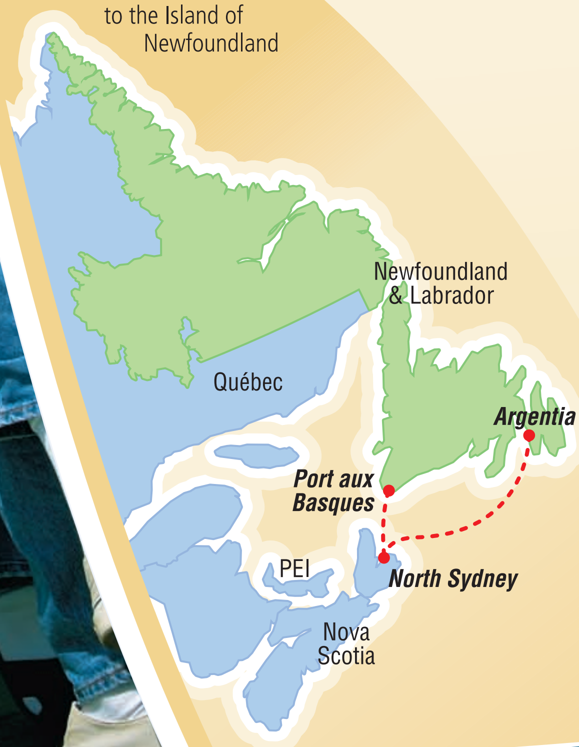
FERRY ROUTES
to the Island of Newfoundland



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Highlights for 2007-08

Passengers	416,823
Passenger vehicles	141,718
Commercial vehicles	90,039
Number of single crossings	2,184
Employees (peak employment)	1,223
Employees (full-time equivalent)	954
Revenue	$ 73,185,000
Net loss after government funding	$ 9,626,000
Accumulated deficit	$ 248,476,000

message from the chair

These are exciting times at Marine Atlantic. In addition to normal operations we have added a deliberate focus on our strategic priorities for the future. We are looking to the horizon and carefully plotting the course that will guide us in fulfilling our mandate for the next quarter century and beyond.

More traffic means increased demand for our service, which provides the vital surface link for passengers and commercial goods between the Province of Nova Scotia and the Island of Newfoundland. Marine Atlantic is preparing to meet the challenge with operational capacity and procedures that are up to the task now and in the decades to come.

To that end, significant progress in the development of our Fleet Renewal Program was achieved in 2007-08. Its completion, anticipated in the coming year, will provide a comprehensive framework for change that integrates all aspects of our service. With the continued and crucial budgetary support of the Government of Canada, we will reconfigure the Marine Atlantic fleet with vessels and shore-based operations that ensure safe, reliable, efficient and environmentally responsible ferry service for the transportation industry and the travelling public.

At the conclusion of our fiscal year, which ended March 31, 2008, arrangements for an important fleet addition were almost complete. Delivery of the 203-metre vessel, chartered for a five year period to enhance capacity on our routes in the near term, is expected in late 2008. The federal government played an indispensable role in making this much-needed charter possible. This demonstration of confidence in Marine Atlantic and commitment to rebuilding of the fleet is much appreciated by the Board of Directors and all of Marine Atlantic's employees.

While the vessel charter and long-term fleet reconfiguration are technically complex initiatives, they spring from an underlying philosophy that is about much more than just ships. As a responsible steward of public funds, Marine Atlantic has taken up the challenge to modernize every facet of our business. We embrace opportunities to improve processes and harness technology for operational efficiency. At the corporate level, we will in the coming year undertake an organizational review to ensure our governance and management structures are well aligned with our strategic priorities.

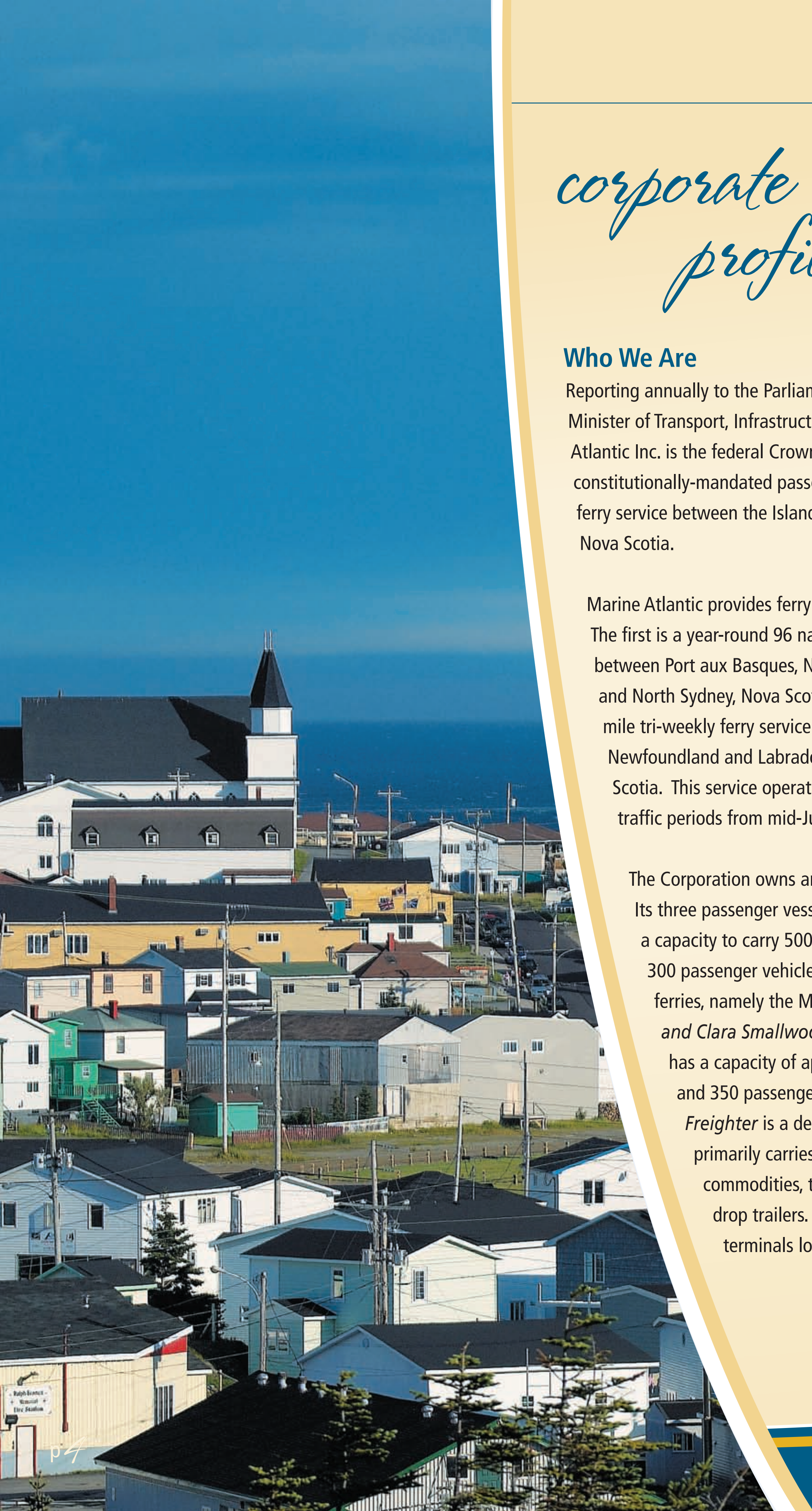
Safety remains a paramount concern for Marine Atlantic. I am pleased to report that increased emphasis on safety issues resulted in a 42 per cent decrease in employee accidents and incidents in 2007. These positive results from our continued safety focus are encouraging, and Marine Atlantic's management remains determined to demonstrate leadership in the active promotion of safety culture throughout the organization.

At Marine Atlantic, our people are our greatest strength. We are proud of our highly motivated, well trained personnel both at sea and on shore who distinguish themselves every day through their hard work and professionalism.

On behalf of the Board, I would also like to acknowledge the energy and efforts of the management team in advancing the organization in alignment with the strategic priorities for our future. I would like to make particular mention this year of the extra efforts of our Corporate Counsel and Corporate Secretary, John F. Roil, QC, for engaging so capably in an executive leadership role.

2007-08 was a year of preparation for positive change. I look forward to moving from strategic planning to implementation to move Marine Atlantic toward a new horizon.

Rob Crosbie
Chair



corporate profile

Who We Are

Reporting annually to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities, Marine Atlantic Inc. is the federal Crown corporation that provides the constitutionally-mandated passenger and commercial marine ferry service between the Island of Newfoundland and Nova Scotia.

Marine Atlantic provides ferry services on two routes. The first is a year-round 96 nautical mile daily ferry service between Port aux Basques, Newfoundland and Labrador and North Sydney, Nova Scotia. The second is a 280 nautical mile tri-weekly ferry service between Argentia, Newfoundland and Labrador and North Sydney, Nova Scotia. This service operates during the seasonal peak traffic periods from mid-June to late September.

The Corporation owns and operates four ice-class vessels. Its three passenger vessels are the MV *Leif Ericson*, with a capacity to carry 500 passengers and approximately 300 passenger vehicles, and Canada's two largest ferries, namely the MV *Caribou* and the MV *Joseph and Clara Smallwood*. Each of these larger vessels has a capacity of approximately 1,000 passengers and 350 passenger vehicles. The MV *Atlantic Freighter* is a dedicated commercial freighter that primarily carries drop trailers and restricted commodities, to a capacity of approximately 80 drop trailers. Marine Atlantic has modern terminals located in the ports of Port aux

Basques, Argentia and North Sydney. The Corporation's head office is located in St. John's, Newfoundland and Labrador.

Employment levels within the Corporation peak at over 1,200 persons during the busy summer season. Six labour unions represent our unionized employees.

Our Operating Environment

People and goods enter and exit the Island of Newfoundland by air or water. Marine Atlantic's service is an integral part of the Province of Newfoundland and Labrador's economy as it is the only year-round passenger ferry service between provinces and a key commercial transporter of goods.

The ferry service is an important link in the supply chain for Newfoundland businesses that operate on the basis of just-in-time delivery of goods. On average, the service transports one-half of the goods entering the province including approximately 90 per cent of perishable food items. The volume of cargo to and from the Island of Newfoundland has continued a steady upward trend in recent years. More than half of the Corporation's passengers and passenger vehicle traffic travels between June and August, making the service an integral part of Newfoundland and Labrador's growing tourism industry.

Marine Atlantic is a key employer in each of the three towns in which it has operations. Its employees have stable employment opportunities that translate into significant direct and indirect benefits to these towns. The ferry service is also an important part of the greater Canadian economy as travellers to and from the Province of Newfoundland and Labrador spend time and money in Nova Scotia and the other provinces.

Our Mission

At Marine Atlantic, our 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.

Our Values

- **Safety** – Ensuring the safe passage of all passengers and goods, plus a safe and healthy working environment for all our 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 the 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.

working to achieve our goals

The history of ferry service between the Island of Newfoundland and the Province of Nova Scotia spans more than a century. Marine Atlantic is proud to be in its 21st year as the federal Crown corporation with responsibility to fill this vital role.

Guided by our mission, values and a vision for excellence in our ferry operations, Marine Atlantic has developed operational goals which will enable us to continue to provide our customers with a high level of service. The goals outlined below help direct the organization with objectives set for safety, environment, cost-effectiveness, customer service and human resources.

Working to promote, foster and maintain safety

At Marine Atlantic, safety and security for employees, customers and corporate assets is always paramount.

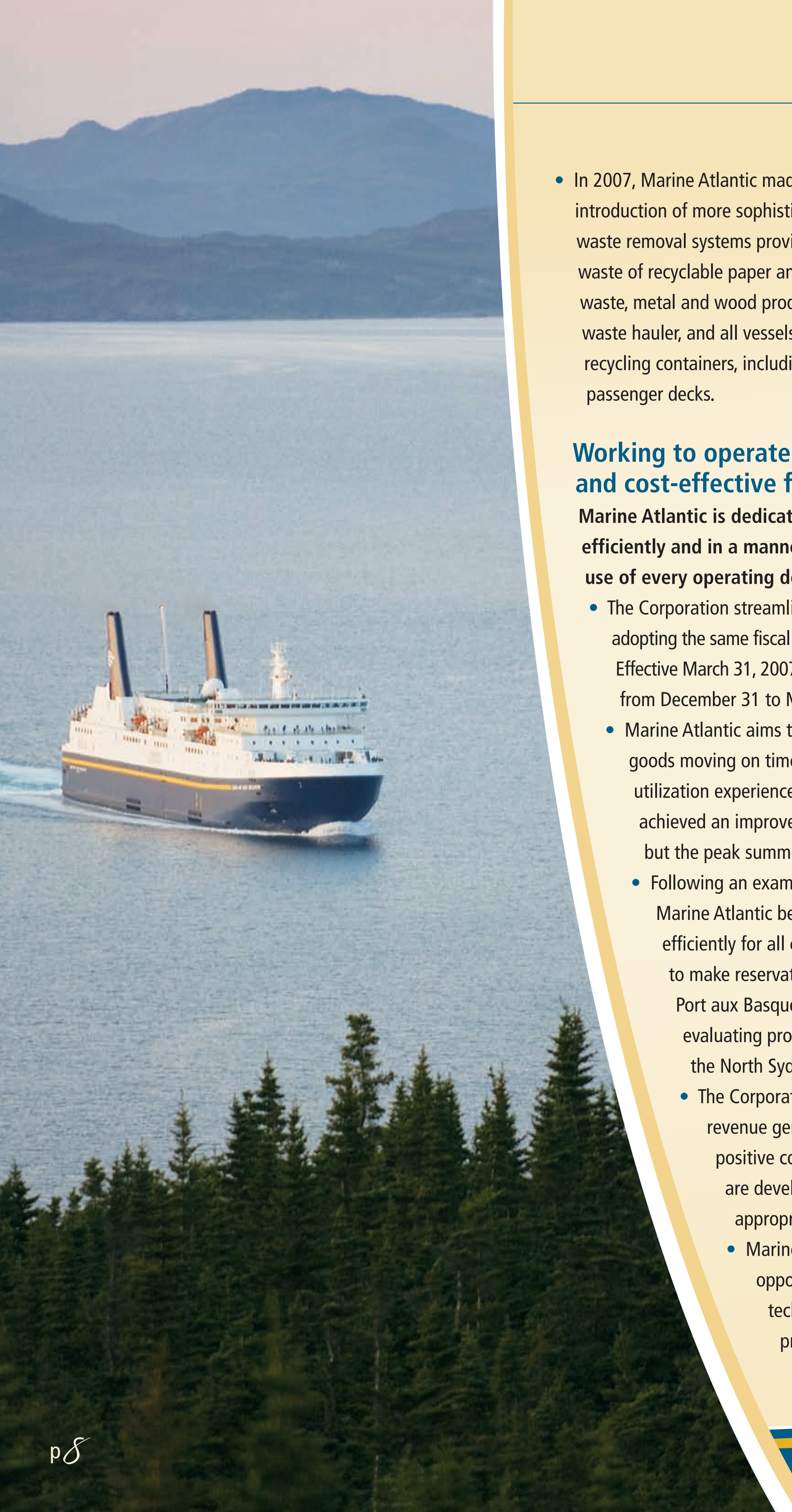
- The vessel fleet is maintained to high safety standards and codes such as Transport Canada Marine Safety, Lloyds Register and Det Norske Veritas Classification Societies as well as the International Safety Management (ISM) Code, a quality assurance system recognized worldwide.
- Marine Atlantic's fleet undergoes a continuous preventative maintenance program.
- Marine Atlantic's passenger vessels are equipped with Thermal Imaging Cameras that may assist in determining the source of a fire in a smoke-filled compartment, locate a missing passenger or crew member, or facilitate evacuation from areas with reduced visibility.

- The passenger vessels are also equipped with Simplified Voyage Data Recorders which provide a history of the vessel's heading, course, speed, radar overlays, and the position of other vessels as extracted from the Automatic Identification Systems (AIS) of other vessels.
- To maintain staffing levels of qualified personnel, we provide ongoing training in the use of Automated External Defibrillators (AEDs), Oxygen Administration and Marine Advanced First Aid for vessel employees and Emergency First Aid for shore-based employees.
- Employees are trained to ensure the safe operation of equipment and are expected to know the risks associated with the duties they perform.
- Marine Atlantic works cooperatively with Transport Canada and the Canadian Ferry Operators Association (CFOA) to develop Marine Security Transportation Regulations that enhance security measures for passengers and crews of all domestic ferry operators.
- In a new initiative, Marine Atlantic also began the process of applying for certification of our current Marine Evacuation System (MES) Program. Upon approval from Transport Canada, this program will enable Marine Atlantic to comply with new regulations for Passenger Safety and Crowd Control.
- Always committed to providing safe passage for our passengers and crew, Marine Atlantic exceeds the requirements of the *Canada Shipping Act* with periodic muster exercises. These exercises enhance safety awareness and emergency preparedness.
- The Corporation developed a comprehensive response to the potential of crew exposure to asbestos on the MV *Atlantic Freighter.*
- In the fall of 2007, Marine Atlantic participated in "Ocean Guardian III" – a full mission profile, multi-jurisdictional emergency training exercise with federal maritime, aeronautical and ground Search and Rescue components. It also involved provincial and municipal jurisdictions and authorities. When a real emergency occurred during the exercise, Marine Atlantic's emergency response plan proved its effectiveness and the experience provided useful insights to further improve the Corporation's state of readiness to respond to emergencies at sea.

Working to promote, foster and maintain environmental stewardship

Marine Atlantic is committed to ensuring its operations are carried out in a safe, environmentally-friendly manner.

- The Corporation follows an in-house Green Plan that includes recycling, duplex printing, purchasing of environmentally friendly cleaning materials, recycling paper as well as providing for the clean-up of pollution incidents such as oil and other product spills.



- In 2007, Marine Atlantic made operations greener with the introduction of more sophisticated recycling procedures. New waste removal systems provide for the separation from regular waste of recyclable paper and beverage containers, organic waste, metal and wood products. We also introduced a new waste hauler, and all vessels were equipped with new recycling containers, including waste separators on passenger decks.

Working to operate an efficient and cost-effective ferry service

Marine Atlantic is dedicated to running its operations efficiently and in a manner that makes the best possible use of every operating dollar.

- The Corporation streamlined budgeting and approvals by adopting the same fiscal year end used by Transport Canada. Effective March 31, 2007, the fiscal year end was changed from December 31 to March 31.
- Marine Atlantic aims to keep passengers and commercial goods moving on time. Despite the very high deck space utilization experienced in 2007-08, the Corporation achieved an improvement in on-time performance in all but the peak summer months of July and August.
- Following an examination of wait list procedures, Marine Atlantic began managing deck space more efficiently for all customers, encouraging passengers to make reservations, and building a second dock in Port aux Basques. The Corporation also began evaluating proposals for the upper level ramp at the North Sydney alternate dock.
- The Corporation is also assessing ancillary revenue generating activities to ensure a positive contribution to operations. We are developing new revenue streams appropriate to ferry operations.
- Marine Atlantic continually explores opportunities to implement new technologies and industry best practices to make operations as efficient as possible.

Working to provide a quality ferry service to customers in a reliable and courteous manner

Customer service is a priority for Marine Atlantic.

- 2007-08 was highlighted by preparations for our chartered vessel. Expected to be delivered in the fall of 2008, it will offer improved customer comfort and amenities and a significant increase in the number of passenger cabins offered.
- The Corporation is committed to providing superior customer service for customers with disabilities. One example is the availability of a hearing loop system to allow passengers with hearing aids to hear the onboard televisions with greater clarity.
- The Marine Atlantic Visual Information Screen Show (MAVISS) system is installed on our vessels. It consists of monitors and closed circuit televisions throughout the vessel that provide customers with the global positioning of the ship in relation to port, marine forecast, operating hours of outlets onboard the vessel and the safety video.
- To provide customers with consistent messages regarding sailing times and other pertinent travel information, the Corporation features electronic signage in terminals and on parking lots. Passengers are able to view the onboard safety video prior to boarding the vessel.
- Marine Atlantic's annual Customer Service Surveys are conducted by an independent third party. The survey results enable the Corporation to monitor its progress on customer satisfaction relating to the use of its facilities and services and to make improvements where necessary. The survey is used to ensure positive learning outcomes from customers' feedback.

Customer satisfaction with overall quality of service:

Timeliness of Service	96%
Knowledge and Competence of Staff	99%
Courteousness of Staff	99%
Extent Staff Made you Comfortable	100%
Extent you Were Well Treated	98%
Price/Cost	77%

Working to manage and maintain a motivated and qualified workforce

As a service-oriented organization, Marine Atlantic's success depends on its employees.

- The 2007-08 Customer Service Survey reveals the commitment of our frontline employees: 99 per cent of customers surveyed were satisfied with the knowledge and competence of employees and 99 per cent of customers were satisfied with the courteousness of employees.

- The Corporation is committed to being an equal opportunity employer. To encourage applicants from all equity groups, the Corporation's Employee Services Officer is involved at a provincial level with all service providers for persons with disabilities.
- Marine Atlantic has also implemented processes to increase opportunities for internal applicants.
- Recognizing the importance of continuing education for our management employees, focused leadership training was provided in 2007-08.
- Marine Atlantic requires its senior shipboard officers to possess a superior skill level as it pertains to ship handling. To evaluate and enhance the ship handling skills and knowledge of the areas in which we operate, new Masters and Chief Officers receive instructional time in a vessel bridge simulator.
- The Bridge Resource Management program promotes a cohesive team approach to safety among all officers who work on the bridge.
- The Corporation provides employees with a competitive benefits package, and offers workplace information sessions to make employees more aware of the benefits available to them.

- Employees began sporting an updated look in 2007-08 with the introduction of new uniforms. Featuring improved quality and fit for both male and female employees (and now including maternity wear), the new uniforms are available for self-order via a secure login website.

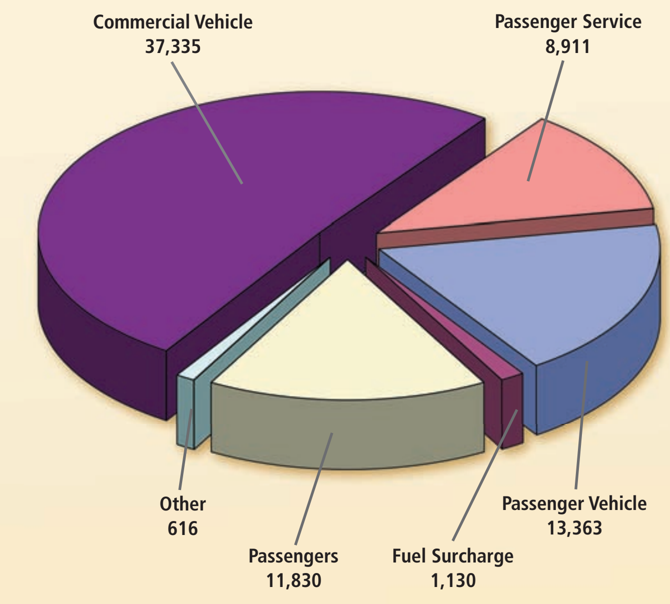
management discussion and analysis

The following Management Discussion and Analysis relates to our financial position and the results of our operations. It should be read in conjunction with the financial statements for the year ended March 31, 2008 except where otherwise indicated.

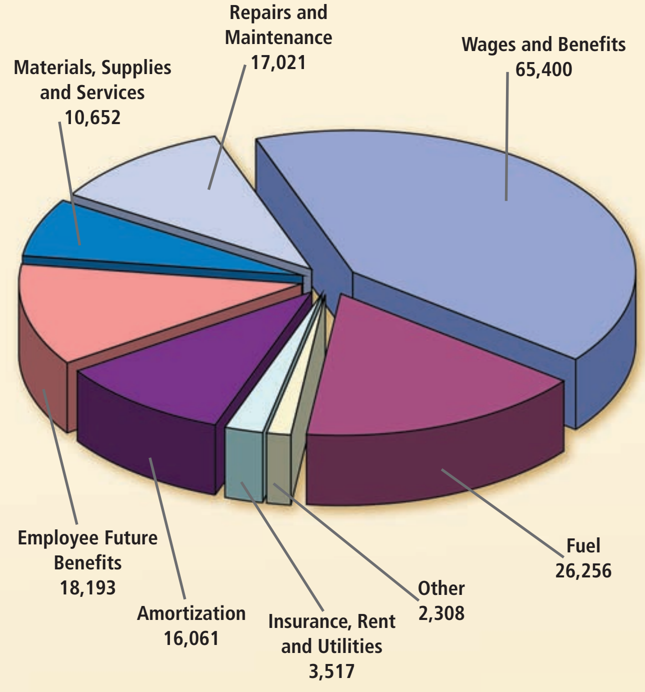
For comparative purposes, the year ended March 31, 2008 is compared against the year ended December 31, 2006. The period ended March 31, 2007 is not comparable because it was a three-month short year due to the Corporation's transition from a calendar year reporting basis to a Government fiscal year reporting basis.

All financial information herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (GAAP) except where indicated.

Revenues 2007-08 ***(in thousands of dollars)***



Expenses 2007-08 ***(in thousands of dollars)***



Revenue

Revenue increased by 7.36 per cent in 2007-08. Commercial traffic continued its growth trend with over a two per cent increase from the previous year. Passenger volumes increased by 11,487 passengers and passenger vehicles were up almost five per cent from 2006.

	2007-08	2007*	2006	2005	2004
Passengers	416,823	36,647	405,336	418,105	419,820
Passenger vehicles	141,718	10,203	135,136	137,751	137,471
Commercial vehicles	90,039	18,447	88,066	86,605	85,769
Number of single crossings	2,184	350	2,166	2,062	2,028
Employees (peak employment)	1,223	n/a	1,208	1,208	1,225
Employees (full-time equivalent)**	954	n/a	929	919	919

**2007 was a short three-month year due to the changeover in fiscal year from a January to December calendar basis to an April to March, Government fiscal year basis. As the 2007 period covers January to March these numbers are not comparable to the other data presented.*
***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 (2008 & 2007) and December 31 (2006 and prior years)
(in thousands)

OPERATIONS:	2008	2007*	2006	2005	2004
Commercial revenues	$ 71,405	$ 10,256	$ 67,577	$ 67,255	$ 66,342
Fuel surcharge	1,130	-	-	-	-
Charter revenue	55	285	-	23	-
Other income	595	171	592	612	2,128
	73,185	10,712	68,169	67,890	68,470
Operating expenses	143,347	30,783	142,658	123,655	118,059
Amortization	16,061	3,967	18,323	21,283	21,438
	159,408	34,750	160,981	144,938	139,497
Loss before Government funding	86,223	24,038	92,812	77,048	71,027
Government funding:					
Restructuring	135	-	955	1,585	2,217
Operations	60,401	21,113	77,894	56,683	55,355
Amortization of deferred capital assistance	16,061	3,967	18,658	21,383	22,307
Net (loss) earnings	$ (9,626)	$ 1,042	$ 4,695	$ 2,603	$ 8,852
Total assets	$ 201,269	$ 213,246	$ 218,591	$ 238,451	$ 246,397
Capital expenditures	$ 7,383	$ 1,835	$ 4,981	$ 5,564	$ 4,993

**2007 was a short three-month year due to the changeover in fiscal year from a January to December calendar basis to an April to March, Government fiscal year basis. As the 2007 period covers January to March these numbers are not comparable to the other data presented.*

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

Wages and Benefits

On January 1, 2007, employee wages increased on average by 2.5 per cent over 2006.

Four of the six collective agreements expired on December 31, 2007. The Corporation has accounted for the anticipated retroactive wage expense to the end of March 31, 2008 for these expired agreements. Wages for the ratified agreements and management employees were increased by at least 2.5 per cent on January 1, 2008.

To accommodate the volume of customer traffic experienced in the summer, the Corporation had to implement the maximum sailing schedule achievable with the existing fleet. As a result, additional shipboard personnel were placed on the vessels to ensure the hours of rest regulations were met. This resulted in increased wage costs of $840 thousand in 2007-08.

As a federal Crown corporation, Marine Atlantic is required to comply with the *Official Languages Act.* To meet the standards of the Act, the Corporation increased bilingual service availability in both North Sydney and Port aux Basques in 2007-08. The Corporation provided and funded bilingual training for existing employees to meet the bilingual service requirement.

The Corporation also hired additional staff for the Fleet Renewal Program.

Fuel

International fuel prices remained extremely high in 2007-08. The Corporation's average price of fuel consumed during the year increased 6 per cent over 2006. The price of fuel is increasing steadily. In March 2008, fuel was averaging $0.21 per litre higher than in March 2007. The Corporation collected $1.13 million in fuel surcharges in 2007-08. This provided the funds necessary to respond to the $1.29 million increase in fuel expense from the previous year.

Employee Future Benefits

The employee future benefits expense is an actuarially determined estimate arising from liabilities of the Pension Plan for the Employees of Marine Atlantic Inc., workers' compensation costs, and health and life insurance benefits for retirees. The increase in return on plan investments along with the decrease in amortization of net actuarial loss resulted in a $4.4 million decrease in the pension expense in 2007-08. In addition to this decrease, in 2007-08 the workers' compensation costs decreased $1.4 million over 2006. In 2006 the Corporation settled its compensation obligation for pre-2003 injuries with the Workers' Compensation Board of Nova Scotia.

Repairs and Maintenance

The Technical Group within the Corporation's Operations Department conducts a continuous review of vessel systems, forming the basis for the internal maintenance plan which includes all necessary regulatory inspections and surveys required to ensure our vessels operate safely, efficiently and meet or exceed regulatory requirements. By extending the cold layup of the MV *Atlantic Freighter* and careful management of the maintenance program, the impact of unexpected repair work on the aging fleet was minimized.

Materials, Supplies and Services

Expenses for materials, supplies and services increased by 10 per cent over 2006. There were increased consulting fees related to an array of initiatives including the Fleet Renewal Program; the Corporate Culture and Integrated Management System (IMS); corporate branding; asbestos abatement, containment and mitigation; and foundation work on a new pricing strategy. The introduction of the new employee uniform program and higher costs for security also contributed to the increase.

Insurance, Rent and Utilities

The cost of insurance, rent and utilities rose by two per cent due to higher utility rates together with an increase in assessed property values.

Other

Other expenses were up from 2006 due to increased travel and training costs in association with the Fleet Renewal Program and French language training.

Government Funding

Revenue was up $5 million from 2006 which resulted in less funding required from the Government. Government funding requirements for employer pension contributions was reduced substantially as a result of the application of the Solvency Funding Relief Regulations introduced by the Minister of Finance. These regulations provide funding relief for defined benefit pension plans registered under the *Pension Benefits Standards Act, 1985*. Funding requirements for workers' compensations benefits was less in 2007-08 as 2006 included the one-time $3.5 million liability settlement with the Workers' Compensation Board of Nova Scotia for pre-2003 injuries. Amortization was also down $2.3 million from 2006. In total, Government funding for the Corporation decreased by $20.9 million in 2007-08.

Vessels, Facilities and Equipment

In 2007-08, Marine Atlantic invested $3.6 million for vessel improvements and $3.8 million in facilities and equipment upgrades and/or renewals. This represents an increase of $2.4 million from 2006.

Historical Financial Trends

The financial information presented in the following table was determined on the basis of Canadian generally accepted accounting principles, except where indicated. Some actual figures have been reclassified from those contained in the audited financial statements to conform to the presentation adopted for this analysis, as indicated in the chart.

The following table details the financial performance of the organization since 2004.

It is imperative that Marine Atlantic continue to efficiently manage costs associated with the delivery of the Gulf ferry service. Items outside of management's control cause significant variability in funding requirements from year to year. In 2007-08 the non-controllable expenses fell to their lowest point in four years with a $2.2 million decrease from 2004. The primary driver for this decrease is the application of the Solvency Funding Relief Regulations to pension plan contributions. Over the same period controllable expenses have increased by 15 per cent in four years.

Wage rate inflation and increased labour costs are the contributors to the wage and benefit expense increase of 13 per cent over the past four years. Maximization of the vessel operating schedules to meet the traffic demand resulted in increased operating labour costs in 2007-08.

Maintenance costs over the past four years have been increasing. With the aging of the Corporation's fleet, planned yearly maintenance periods on all vessels is one of the Corporation's priorities. Marine Atlantic has been enhancing the maintenance program and increasing monitoring techniques to minimize unexpected occurrences which ultimately result in delays to its customers.

Operating costs have risen as a result of the increased utilization of the fleet to meet the traffic demand as well as increased costs related to French language training and startup costs related to the introduction of a new employee uniform program. In addition, costs related to the Fleet Renewal Program, including increased travel and consulting fees, are impacting operating costs.

Capital expenditures are up due to significant infrastructure expenditures including the alternate dock in Port aux Basques, the implementation of a new ticketing and reservations system and the removal/containment of asbestos onboard the MV *Atlantic Freighter.*

Marine Atlantic's employee pension plan is liquid on a going-concern basis. By utilizing the provisions of the Solvency Funding Relief Regulations, the Corporation has been able to reduce the annual funding requirements, thereby alleviating funding pressures.

Rising fuel prices in the last few years have caused the Corporation's fuel expense to increase 48 per cent since 2004. The Corporation has a bulk storage facility located in Port aux Basques, and with the use of this facility and the timing of fuel deliveries, the rising fuel cost impact to Marine Atlantic has been less than overall market increases. Since the implementation of blended fuel in 2001, with the arrival of the MV *Leif Ericson*, the Corporation has realized $26.5 million in fuel savings – $5.7 million in 2007-08 alone.

Historical Financial Trends (in thousands)

	2008	2007*	2006	2005	2004	Change since 2004	%
Wages and benefits [1]	$ 67,077	$ 14,175	$ 63,447	$ 60,934	$ 59,358	$ 7,719	13%
Maintenance	17,021	3,090	17,229	13,161	15,979	1,042	7%
Operating [2]	14,979	3,403	13,225	12,588	12,547	2,432	19%
Capital	7,383	1,835	4,981	5,527	4,993	2,390	48%
Total controllable	**$ 106,460**	**$ 22,503**	**$ 98,882**	**$ 92,210**	**$ 92,877**	**$ 13,583**	**15%**
Pension [3]	$ 7,789	$ 5,926	$ 22,167	$ 15,446	$ 16,482	$ (8,693)	-53%
Fuel	26,256	4,898	24,970	20,856	17,768	8,488	48%
Insurance [2]	1,519	396	1,536	1,549	1,453	66	5%
Restructuring [4]	325	190	1,157	1,856	2,435	(2,110)	-87%
Total non-controllable	**$ 35,889**	**$ 11,410**	**$ 49,830**	**$ 39,707**	**$ 38,138**	**$ (2,249)**	**-6%**
Revenue from customers [5]	$ 73,185	$ 10,712	$ 68,169	$ 67,890	$ 66,769	$ 6,416	10%
Cost recovery (excluding pension, restructuring & capital)	**58%**	**41%**	**57%**	**62%**	**62%**		

**2007 was a short three-month year due to the changeover in fiscal year from a January to December calendar basis to an April to March, Government fiscal year basis. As the 2007 period covers January to March these numbers are not comparable to the other data presented.*

1) *Wages and benefits include the actual cash payments for the workers' compensation obligations as per Note 8 within the notes of the financial statements and the actual cash payments for non-pension employee future benefits as per Note 9 within the notes of the financial statements. Actuarially determined expenses for employee future benefits were deducted from this analysis for ease of comparison. In addition, for comparison purposes, $3,462 has been deducted in 2006 for the one time payment to the Workers' Compensation Board of Nova Scotia to settle the obligation for the pre-2003 liabilities.*
2) *The insurance, rent and utilities; materials, supplies and services; and other expenses were reclassified into operating for this analysis. In addition, insurance was reclassified into its own category and the accrual expense for restructuring was removed.*
3) *Pension is the actual cash payments remitted by the Corporation in the year as per Note 6 within the notes of the financial statements.*
4) *Restructuring includes cash payments for the year in addition to liability pay downs for past service closures.*
5) *A one time reimbursement of $1,701 received from the pension plan of a wound up subsidiary has been deducted from the 2004 revenue.*

Corporate Social Responsibility

Education and Youth

Marine Atlantic's annual scholarship program awards funds for post-secondary education on the basis of merit to dependent children of

employees or pensioners. The program provides for up to four $2,000 university entrance scholarships and four $1,000 technical college entrance scholarships.

Marine Atlantic also provides annually four scholarships of $1,500 each to students enrolled in either the Nautical Science or Marine Engineering programs at the Marine Institute of Memorial University of Newfoundland.

Community Investment

Marine Atlantic employees are active in their communities. To the extent possible within the constraints of fiscal responsibility, the Corporation supports employees and not-for-profit organizations with projects that benefit the areas geographically close to its operation centres.

Ethics and Values

Marine Atlantic management employees adhere to conflict of interest guidelines to ensure the delivery of the corporate mandate in an ethical and measurable manner. All employees follow a Code of Conduct, providing additional guidelines that ensure adherence to these high standards.

Official Languages

As a federal Crown corporation, we are 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 participates in the activities of the advisory committee that reports to the Public Service Human Resources Agency of Canada, an agency that is responsible for setting policy on the implementation of the *Official Languages Act.*

The Corporation previously designated five additional positions per terminal as bilingual to cover all service points around the clock, thereby increasing the service level at the terminals to meet the requirements of the *Official Languages Act* and related government policies. Recognizing the shortage of available bilingual applicants in the labour force, Marine Atlantic re-designated positions and agreed with the bargaining unit that ten employees would be trained to learn French as a second language. This training took place in 2007 and all ten employees are now working in positions designated bilingual.

All existing bilingual employees undergo regular testing to ensure they continue to meet proficiency requirements. Any employee who does not meet those requirements receives refresher training.

In addition, Marine Atlantic selects employees annually to participate in a two-week French immersion program to assist them in maintaining a high level of proficiency in French.

Human Rights

Marine Atlantic is committed to creating and maintaining a workplace that is free from harassment and discrimination. Marine Atlantic's policy states that employees are valued and therefore the Corporation is committed to providing a work environment in which all individuals are treated with dignity and respect. Each individual has a right to work in a professional atmosphere which promotes equal opportunities and prohibits discriminatory practices.

The Corporation's anti-harassment program is aimed at raising awareness of discrimination, sexual harassment and violence in the workplace. Course material includes the review of Marine Atlantic's policy and procedures on discrimination and harassment. It also provides employees with the knowledge of their rights and responsibilities with respect to resolving and preventing workplace harassment.

Wellness

Marine Atlantic has a Wellness Committee with representatives of all levels of our workforce and from all company locations. For the past six years, the Committee has been organizing annual health fairs and flu immunization clinics in the fall. In 2004, the Corporation started offering employees an online health risk assessment tool. Utilization was low for the first two years. In 2007 the Committee started an awareness campaign, and was successful in doubling the participation.

The Wellness Committee receives an annual report with aggregate data from this assessment, the Employee Assistance Program and health benefits provided to our employees. This data is used to identify programs organized by the Committee for the following year.

Labour Relations

In September 2007, the Corporation applied to the Canada Industrial Relations Board (CIRB) for consolidation of its bargaining units. It was felt by Marine Atlantic that the existing structure (six bargaining units, with one being a council of unions) was not appropriate for the organization. In January 2008, the CIRB dismissed the application and advised that an explanation for the dismissal was to follow.

As of August 2007, all collective agreements had been settled. Four were achieved through negotiation and two were resolved by binding arbitration. Effective December 31, 2007, four agreements expired and Marine Atlantic was provided notice to bargain from the bargaining agents representing the four agreements.

Following a vote, the Canadian Merchant Service Guild was successful in becoming the bargaining agent for the Licensed Officers previously represented by the Canadian Marine Officers Union.

Looking to the Future

Fleet Renewal Plan

Recognizing that the continued operation of a safe, reliable, efficient and environmentally responsible ferry service in the future will require significant investment to upgrade our vessels, Marine Atlantic has undertaken a detailed multi-year analysis of fleet configuration options. This initiative has been supported by Transport Canada.

Considerable management and Board effort has been invested in the design of the new fleet configuration. Internationally-recognized expertise in vessel and fleet design has been retained to assist in determining options for Marine Atlantic to consider. The associated cost-benefit analyses and feasibility studies are due in 2008-09, at which time the Corporation will make a determination and seek budgetary approval to proceed accordingly.

Corporate Communications

Marine Atlantic has invested considerable effort in emergency response planning and will enhance that work to ensure that we are prepared to respond appropriately with employees, stakeholders and the general public should an emergency event occur. Externally, Transport Canada, customers and unions will be the target audiences for our corporate communications initiatives.

Work will also continue on crisis communications planning. Marine Atlantic has already invested considerable effort in emergency response planning and will enhance that work with appropriate crisis communications planning so that we will be prepared to deal appropriately with employees, stakeholders and the general public should an emergency event occur.

Succession Planning

To continue to provide a high quality service, the Corporation carefully outlines its Human Resources requirements in its succession plan which is updated annually. The succession plan examines all positions and identifies positions that are critical to the organization, the possibility of shortages and steps to ensure skill sets are available for entry level as well as future management progression. This is done to ensure continuity and adequate skill levels. Advance planning is particularly important for some vessel positions because it is sometimes difficult to source relief employees due to the seasonal nature of certain positions.

To meet ongoing needs to fill entry level positions, Marine Atlantic is engaged in recruitment programs to attract qualified candidates. Qualifications are updated annually to ensure new recruits meet the industry standards. Individuals joining the Corporation are therefore highly skilled, providing further value to the Corporation. To provide for an objective assessment and greater consistency and efficiency in the recruitment process, a third party assists in initial screening for entry level positions. Recognizing that the number of entry level applicants has declined in the past few years, Marine Atlantic has worked with an external agency to better market its recruiting efforts in preparation for next year's seasonal recruitment drive. In addition, for the 2008 season, the Corporation moved to electronic filing of résumés through a Canada-wide organization, thereby increasing the Corporation's exposure and encouraging an increase in applications. This proved to be successful with 2,526 applications being received for 23 classifications.

Marine Atlantic is committed to being an equal opportunity employer and encourages applicants from all equity groups. In the past, the company 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.

Environmental Responsibility

In 2007-08, Marine Atlantic made operations greener with the introduction of more sophisticated recycling procedures. New waste removal systems provide for the separation from regular waste of recyclable paper and beverage containers, organic waste, metal and wood products. We also introduced a new waste hauler, and all vessels were equipped with new recycling containers, including waste separators on passenger decks.

Operating Expenses

Expenses are expected to increase with the introduction of the chartered vessel in late 2008. This vessel will be required to provide sufficient capacity to accommodate traffic volumes, and can be used to substitute for existing vessels during life extension projects.

Revenue

Revenue is expected to increase with the projected traffic growth, tariff increases and increased revenue capabilities of the chartered vessel. Vehicle volumes will continue its average historical growth of two per cent. Tariffs on the Port aux Basques – North Sydney ferry service will increase by the consumer price index. The future tariffs on the Argentia – North Sydney ferry service will be established by the Board of Directors. In addition, a fuel surcharge will continue to be implemented on both routes to cover future increases in Marine Atlantic's fuel expense. Revenues are also anticipated to increase with the expanded and improved passenger amenities on the chartered vessel, including the dramatic increase in the availability of passenger cabins.

Capital

The focus will be to improve, renew, or replace the aging capital assets of the Corporation. Upgrades will be completed to the terminal facilities and docking facilities. Additional capital investment will address regulatory requirements, asset renewal, safety and customer service initiatives.

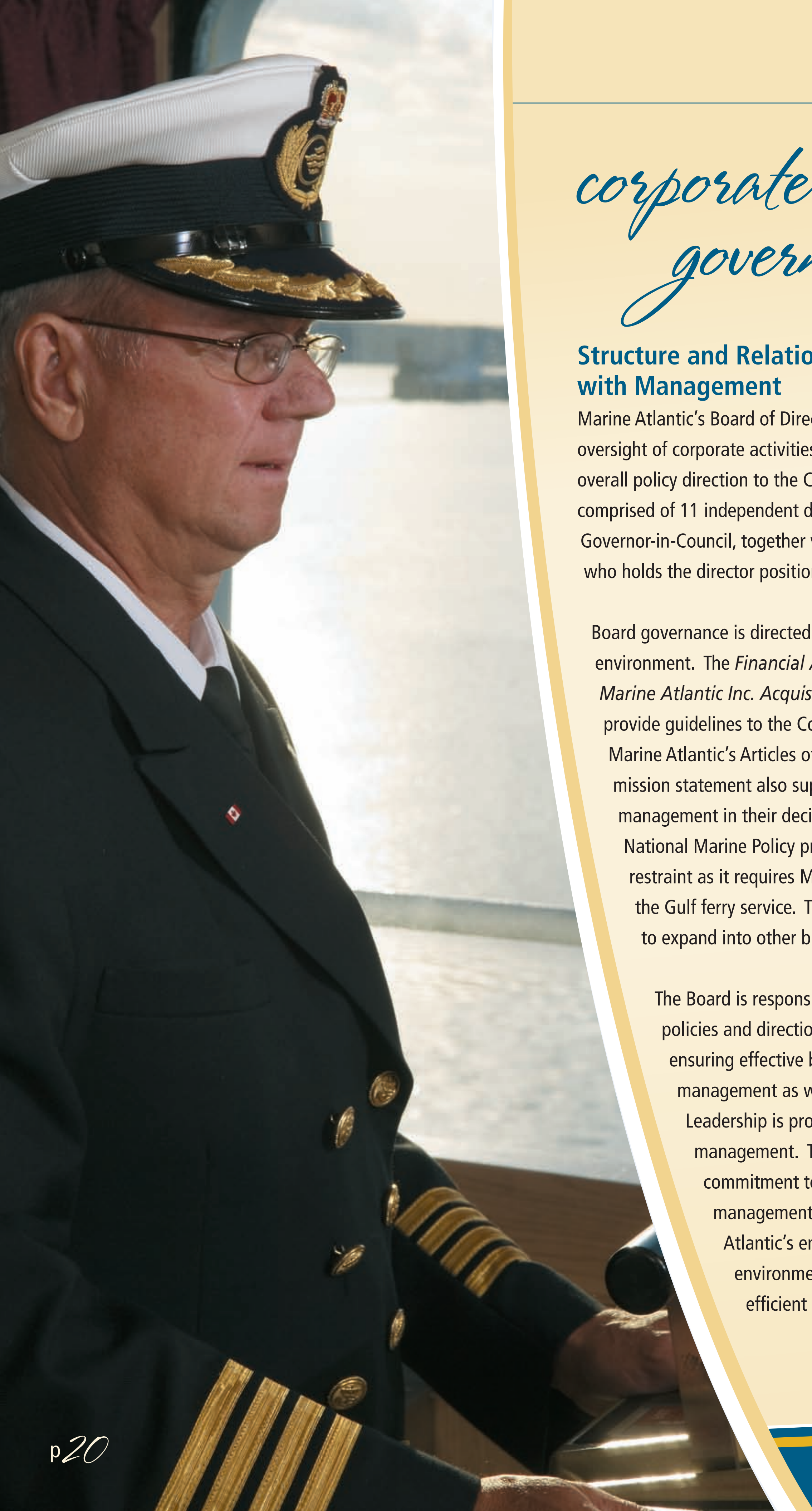
The table below outlines anticipated funding requirements from the Government of Canada for 2008-09 to 2012-13. The funding requirements do not include major capital investments to upgrade the fleet, although they do include the funding necessary to complete the analysis to recommend the future fleet configuration of Marine Atlantic as well as payments for the MV *Leif Ericson*.

Future Funding Requirements

(in thousands of dollars)	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Total cash requirements	199,279	204,446	193,463	185,147	188,719
Less: Revenues	78,863	82,883	87,992	93,235	98,346
Total subsidy requirements	120,416	121,563	105,471	91,912	90,373

Financial Accounting Standards

The Accounting Standards Board (AcSB) announced in 2006 that Canada would converge its standards for publicly accountable enterprises and public companies with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) by 2010. The IASB is an independent, private sector body that develops and approves IFRS and Marine Atlantic Inc. will be required to report in accordance with these standards. The Canadian Institute for Chartered Accountants (CICA) has indicated that the implementation date for IFRS will be April 1, 2011. Members of the management team and audit committee have already attended information sessions with respect to IFRS. Also, the senior financial staff within Marine Atlantic Inc. are members of the IFRS Crown corporation committee to assist with convergence with IASB standards.



corporate governance

Structure and Relationship with Management

Marine Atlantic's Board of Directors is charged with the oversight of corporate activities and is required to provide overall policy direction to the Corporation. The Board is comprised of 11 independent directors appointed by the Governor-in-Council, together with the President and CEO who holds the director position on an ex-officio basis.

Board governance is directed within a rigid regulatory environment. The *Financial Administration Act* and the *Marine Atlantic Inc. Acquisition Authorization Act* both provide guidelines to the Corporation's business affairs. Marine Atlantic's Articles of Incorporation, by-laws and mission statement also support the Board and management in their decision-making. In addition, the National Marine Policy provides critical direction and restraint as it requires Marine Atlantic to focus only on the Gulf ferry service. The Corporation is not entitled to expand into other business opportunities.

The Board is responsible to provide prudent financial policies and direction to senior management, ensuring effective budgeting and financial management as well as control of corporate risks. Leadership is provided through policy direction to management. These processes fulfill the Board's commitment to provide overall direction to management who, in turn, direct Marine Atlantic's employees to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system.

Board Committee Structure

The Board has three standing committees which assign the primary governance responsibility areas among its members.

Corporate Governance Committee

The Corporate Governance Committee ensures the Board has prudent and effective governance practices to create an environment of excellence. It is responsible for developing and implementing an enterprise-wide risk management regime to protect the Corporation against risks which may impede it in achieving its business objectives.

During the past year, the Committee acted as the primary interface between management and the Board of Directors with respect to the Fleet Renewal Program. It also focused intensely on preparations for the new charter vessel and all associated risk and governance issues.

The Committee also commenced a review of the Board's governance practices and the definition of its relationship with management. In light of the other significant initiatives involving the chartered vessel and fleet reconfiguration, this activity was deferred until early 2009.

Audit Committee

The Audit Committee oversees the Corporation's standards for integrity and behaviour, financial reporting, internal audit and management control practices. Overall responsibilities include the review of management performance, achievement of operational and capital budgets, financial statements, internal controls and management information systems which will ensure accountability of all corporate resources. This Committee, chaired by a director who is a chartered accountant, reviews the financial activities and internal controls of the Corporation. The Committee reviews quarterly the internal financial statements prepared by management and the annual financial statements audited by the Auditor General of Canada. The Committee makes recommendations to the Board with respect to the financial reporting of the Corporation's activities and compliance with generally accepted accounting practices.

The Audit Committee's terms of reference include a requirement for on-going education. Accordingly, members of the Committee and several other board members participated this year in an Enabling an Effective Audit Committee training session facilitated by an expert in the area of audit committee governance. In addition, several Committee members attended information sessions on corporate governance and International Financial Reporting Standards (IFRS) to which the Corporation must comply by the year 2011.

Under the guidance of this Committee, Marine Atlantic's Internal Auditor regularly performs audits on aspects of the Corporation's operations. For the year ended March 31, 2008, the Internal Auditor completed a review of the Stevedoring process and a risk assessment review of the implementation of the Corporation's reservation system.

To ensure compliance with corporate policies, regular program reviews of capital asset acquisitions and dispositions, credit card usage and procurements were completed in 2007-08, along with a physical verification of capital assets.

The Institute of Internal Auditors, a professional body recognized internationally, recommends that once every five years the internal audit function of an organization obtain an independent Quality Assessment Review (QAR). Grant Thornton LLP completed this review of Marine Atlantic's Internal Audit function in 2007 and reported its findings to the Audit Committe.

The review recommended several enhancements to improve the Internal Audit function that will improve the effectiveness and efficiency of the Internal Audit function.

To ensure that Marine Atlantic continues to benefit from a robust Internal Audit function, the Audit Committee has authorized a request for proposals for a Firm of Record to supplement the in-house internal audit expertise. The firm of record will support the Audit Committee in providing their oversight role.

Human Resources Committee

The Human Resources Committee, which held its first meeting in March 2007, replaced and expanded upon the previous Pension Management Committee. The terms of reference mandate the Committee to:

- assist management, through Board discussion, in developing and maintaining a human resource succession planning process;
- be aware of and advise the Board on major collective bargaining issues and resolutions;
- undertake annual performance assessment on the duties of the President and CEO and advise the Board with respect to compensation issues within the jurisdiction of the Board;
- advise the Board with respect to compensation and benefit issues for all employees;
- work with the Corporate Governance Committee to encourage a cohesive working relationship between Board and management;
- ensure that education opportunities are available to Committee and Board members to ensure that knowledge of and training in human resource issues is current and timely;
- participate in the preparation of the human resource portions of the Corporation's Annual Report; and
- advise the Board on emerging labour and employment policy issues.

Prior to its replacement with the new Human Resources Committee, the Pension Management Committee ensured that the organization took full advantage of the Federal Funding Relief Regulations which were introduced in November 2006. The existing amortization from previous actuarial valuations of the plan was replaced with a new amortization schedule. Approval was obtained from the Department of Finance for a letter of credit to provide for a ten year amortization of the solvency deficit.

The Committee reviewed the succession planning process and the demographics for the Corporation for the next five years. It highlighted the significant risk to the organization associated with human capital issues and the significance of monitoring staffing for all phases of development within the organization.

The Committee also reviewed succession options for senior management including the requirement under normal circumstances that a six month notice of retirement be provided to promote smooth transition in leadership.

The staffing strategy was enhanced for the 2008 season to include a revamped advertising campaign updating the corporate image to attract candidates.

To ensure objective evaluation of the position of President and Chief Executive Officer, and with the assistance of an external consultant, the Committee established measurable performance objectives for that position. These objectives will be reviewed and updated annually.

During the 2007-08 fiscal year, the Committee continued to exercise due diligence with respect to the Pension Plan for the Employees of Marine Atlantic Inc. (the Plan):

- orientation sessions were held in April and December in light of the evolution of the Committee's mandate and the addition of new members;

- the Investment Policy and Procedures for the Pension Plan were reviewed and updated;
- quarterly reviews of the status of the Fund were presented by the Plan's investment consultant; and
- the Annual Report for the Pension Plan was distributed to all members of the Plan.

Board Recruitment, Attendance and Remuneration

Members of Marine Atlantic's Board of Directors are appointed by the Governor-in-Council.

Remuneration levels for directors of all Crown corporation boards are set by the Privy Council Office (PCO). Marine Atlantic's Board is classified at the Group 5 level and Board Directors are compensated in accordance with the corresponding PCO schedule.

Annual retainers for members are $9,400 for the Chairman and $4,700 for each of the directors. The additional per diem rates are $375 for the Chairman, $360 for the Chair of each of the Committees, and $310 for all other Directors.

Board Membership	Committee Membership	Attendance (5 scheduled Board meetings during period)
Rob Crosbie	Board Chairman, Chair of Corporate Governance Committee, Member of Human Resources Committee	5
Roger Flood [1]	Human Resources and Corporate Governance	4
Nick Careen	Corporate Governance	5
Peggy A. Coady	Chair, Audit	5
Stan Cook	Human Resources	5
James G. Doody	Audit	5
John J. Henley	Corporate Governance	4
Dianne Kelderman	Corporate Governance, Audit	3
Walter Pelley	Human Resources, Audit	5
Dwight Rudderham [2]	Corporate Governance	1
A. Robert Sampson [3]	Human Resources	3
Heather Tulk	Chair, Human Resources	4
Wayne G. Wheeler	Human Resources, Audit	4

1 – Concluded term in office March 10, 2008
2 – Appointed to the Board of Directors on December 6, 2007
3 – Completed term on Board on December 6, 2007

Note: Board conference calls were held throughout the period outside the regular schedule. Committee meetings were held throughout the period.

board of directors

Robert Crosbie
St. John's, NL
Chair, Marine Atlantic Inc., Chair, Corporate Governance Committee

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

Peggy A. Coady, MBA, FCA
St. John's, NL
Chair, Audit Committee

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

Heather Tulk
Halifax, NS
Chair, Human Resources Committee

Senior Vice-President of Marketing, Bell Aliant Regional Communications

Nick Careen
Jerseyside, NL

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

Stan Cook
St. John's, NL

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

James G. Doody, CA
Bay Roberts, NL

Chief Executive Officer, King Group of Companies

John J. Henley
St. John's, NL

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

Dianne Kelderman
Truro, NS

President, Atlantic Economics

Walter Pelley
North Sydney, NS

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

Dwight Rudderham
Sydney, NS

Partner, Rudderham Chernin Law Office

board of directors

Dr. Wayne G. Wheeler
Stephenville, NL

Chief Executive Officer,
First Choice Vision
President, Newstat Research

A. Robert Sampson, QC [1]
Sydney, NS

Partner, Sampson
McDougall Law Firm

Roger Flood, P. ENG [1]
St. John's, NL

(Ex-officio) Former President and CEO,
Marine Atlantic Inc.

1 – Directors whose terms expired in 2007-08

management responsibilities for financial reporting

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 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 also 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.

Management is responsible for the reliability and integrity of the financial statements including the notes to the 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 a comprehensive 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 audit department, whose functions include reviewing internal controls and their application on an ongoing basis.

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

John F. Roil, QC
President and CEO

St. John's, Canada
May 9, 2008

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Marine Atlantic Inc. as at March 31, 2008 and the statements of income, comprehensive income and accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of 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 the Corporation and its wholly-owned subsidiary.

Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Halifax, Canada
May 9, 2008

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

balance sheet

As at March 31, 2008, March 31, 2007 and December 31, 2006 *(in thousands)*

	March 31 2008	March 31 2007	December 31 2006
Assets			
Current assets			
Cash	$ 8,939	$ 1,313	$ 6,394
Accounts receivable (note 4)	5,209	5,793	5,936
Inventory of fuel and supplies	4,984	7,961	7,135
Prepaid expenses	386	339	287
	19,518	15,406	19,752
Long-term assets			
Vessels, facilities and equipment (note 5)	133,259	141,937	144,069
Accrued pension asset (note 6)	48,492	55,903	54,770
	181,751	197,840	198,839
Total assets	$ 201,269	$ 213,246	$ 218,591
Liabilities and shareholder's equity			
Current liabilities			
Accounts payable and accrued liabilities	$ 13,041	$ 15,876	$ 17,520
Payable to Government of Canada (note 7)	7,656	30	2,733
Accrued vacation pay	4,776	4,556	4,492
Current portion of long-term accrued obligations (notes 8 and 9)	1,763	2,024	1,955
	27,236	22,486	26,700
Long-term liabilities			
Accrued pension liability (note 6)	1,271	1,373	1,360
Accrued obligation for workers' compensation (note 8)	8,319	7,941	8,303
Accrued obligation for other non-pension employee future benefits (note 9)	21,130	19,829	19,521
	30,720	29,143	29,184
Deferred capital assistance	133,259	141,937	144,069
Shareholder's equity			
Share capital (note 11)	258,530	258,530	258,530
Accumulated deficit	(248,476)	(238,850)	(239,892)
	10,054	19,680	18,638
Commitments and guarantees (note 13)			
Contingencies (note 14)			
Subsequent event (note 16)			
Total liabilities and shareholder's equity	$ 201,269	$ 213,246	$ 218,591

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

Approved by the Board of Directors

statement of income, comprehensive income and accumulated deficit

For the year ended March 31, 2008, the three months ended March 31, 2007 and the year ended December 31, 2006 *(in thousands)*

	March 31 2008	March 31 2007	December 31 2006
Revenue			
Commercial revenue	$ 72,535	$ 10,256	$ 67,577
Charter revenue	55	285	-
Other income	595	171	592
	73,185	10,712	68,169
Operating expenses			
Wages and benefits	65,400	13,827	61,312
Fuel	26,256	4,898	24,970
Employee future benefits (notes 6, 8 and 9)	18,193	5,169	24,051
Repairs and maintenance	17,021	3,090	17,229
Materials, supplies and services	10,652	1,868	9,642
Insurance, rent and utilities	3,517	939	3,436
Other	2,308	992	1,683
Loss on disposal of vessels, facilities and equipment	-	-	335
Amortization	16,061	3,967	18,323
	159,408	34,750	160,981
Loss before government funding	(86,223)	(24,038)	(92,812)
Government funding			
Operations	60,536	21,113	78,849
Amortization of deferred capital assistance	16,061	3,967	18,658
Net income and comprehensive income	(9,626)	1,042	4,695
Accumulated deficit, beginning of period	(238,850)	(239,892)	(244,587)
Accumulated deficit, end of period	$ (248,476)	$ (238,850)	$ (239,892)

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

statement of cash flow

For the year ended March 31, 2008, the three months ended March 31, 2007 and the year ended December 31, 2006 *(in thousands)*

	March 31 2008	March 31 2007	December 31 2006
Cash flows from (used for)			
Operating activities			
Cash receipts from customers	$ 72,614	$ 10,330	$ 67,250
Other income received	595	171	592
Government operating funding	68,162	18,410	69,454
Cash paid to suppliers and employees	(124,279)	(27,718)	(116,923)
Cash paid for pension, workers' compensation and other non-pension employee future benefits	(9,466)	(6,274)	(27,764)
	7,626	(5,081)	(7,391)
Investing activities			
Purchase of vessels, facilities and equipment	(7,383)	(1,835)	(4,981)
Financing activities			
Government capital assistance	7,383	1,835	4,981
Net increase (decrease) in cash	7,626	(5,081)	(7,391)
Cash, beginning of period	1,313	6,394	13,785
Cash, end of period	$ 8,939	$ 1,313	$ 6,394

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

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 the business it may carry on 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*, 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.

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's activities are also governed by agreements negotiated with the Government of Canada. The agreements provide, among other things, for the Corporation to receive 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 agreements require Marine Atlantic Inc. to charge for ferry services at fares and rates approved by the Minister of Transport, Infrastructure and Communities. In setting these fares and rates, the Government of Canada approved a long-term tariff policy that links annual increases for the constitutional route to the Consumer Price Index. The Board of Directors is responsible for setting tariffs on the non-constitutional route and all service charges on both routes. A fuel surcharge, intended to recoup 100% of any increase in vessel fuel expenses over and above the amount incurred from April 1, 2006 to March 31, 2007, has been added to all tariffs. The Minister reserves the right to amend at any time fares, rates and surcharges already approved by the Corporation. The acquisition of vessels, facilities and equipment and the funding requirement for restructuring costs are also governed by agreements, subject to approval of parliamentary appropriations.

The Corporation is economically dependent on the Government of Canada.

2. Significant Accounting Policies

(a) **Basis of presentation**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) **Adoption of new accounting standards**

Effective April 1, 2007, the Corporation adopted the new Canadian Institute of Chartered Accountants Handbook Section 1530 *Comprehensive Income*, Section 3251 *Equity*, Section 3855 *Financial Instruments – Recognition and Measurement*, and Section 3861 *Financial Instruments – Disclosure and Presentation*. As required by the implementation of these new standards, the comparative financial statements have not been restated.

Section 1530 requires the presentation of comprehensive income, which consists of net income and other comprehensive income. After having determined that the Corporation had no other comprehensive income items to report in its financial statements, the Corporation created a combined statement of income, comprehensive income and accumulated deficit.

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities, as defined by the standard.

The Corporation's financial assets include accounts receivable and are classified as loans and receivables. Its financial liabilities include accounts payable and a payable to the Government of Canada and are classified as other financial liabilities. These financial instruments are initially measured at fair value which, due to their short-term nature, approximates their amortized cost. As the basis of accounting of these financial instruments has not changed, the adoption of the financial instruments standards had no impact on the Corporation's financial statements.

The Corporation is not party to any derivative financial instruments or hedges. In accordance with Section 3855, the Corporation conducted a search for embedded derivatives in all contractual arrangements dated subsequent to April 1, 2003, and did not identify any embedded features that required separate presentation from the related host contract.

(c) **Parliamentary appropriations**

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 required represents a receivable from (payable to) the Government of Canada. Amounts related to vessels, facilities and equipment additions are recorded as deferred capital assistance in the period in which the related vessels, facilities and equipment are acquired, and are amortized to income on the same basis and over the same periods as the related vessels, facilities and equipment are amortized or written off.

(d) **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. Despite the use of the Corporation's best estimates, it is possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: accrued pension asset, accrued obligations for workers' compensation benefits and other non-pension employee future benefits and litigation.

(e) **Fair values**

The fair values of the accrued obligation for workers' compensation benefits, the accrued obligation for other non-pension employee future benefits and the accrued pension asset and liability are determined using actuarial valuations.

March 31, 2008, March 31, 2007 and December 31, 2006 (in thousands)

(f) **Inventory of fuel and supplies**

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

(g) **Property, vessels, facilities and equipment**

Property is carried at cost. Vessels, facilities and equipment are carried at cost less accumulated amortization. The cost of work in progress includes materials and direct labour. Amounts included in work in progress are transferred to the appropriate vessels, facilities and equipment classification when entered into service and are then amortized. Amortization is calculated at rates sufficient to write off vessels, facilities and equipment over their estimated useful lives on a straight-line basis. Projects onboard vessels are amortized over the lesser of the useful life of the asset or the useful life of the vessel. The rates for significant classes of vessels, facilities and equipment are as follows:

	Rate
Vessels	5%
Terminal facilities	2.5%
Equipment (includes vessel projects)	10%, 12.5% and 25%

The Corporation will recognize a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

(h) **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 cost of pensions is actuarially determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to calculate the interest cost on the accrued benefit obligation is the long-term market rate 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. Actuarial gains or losses arise from the difference between actual long-term rate of return and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued pension obligation. Actuarial gains and losses and 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 2006 supplementary retirement arrangement. The estimated average remaining service period of the active members covered by the registered pension plan is 11 years (March 31, 2007 – 11 years; December 31, 2006 – 11 years). The estimated average life expectancy for members covered by the former supplementary retirement arrangement is 19 years (March 31, 2007 – 21 years; December 31, 2006 – 21 years). For the 2006 supplementary retirement arrangement the average remaining service period of active members expected to receive benefits under the plan is 6 years (March 31, 2007 – 7 years; December 31, 2006 – 7 years).

- For certain employees and former employees, Marine Atlantic Inc. 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 recognized in the period in which they occur.

  Effective January 1, 2003, the Corporation transferred from a self-insured basis to an assessment basis with the Workers' Compensation Board of Nova Scotia (WCBNS). The change was on a prospective basis. All post-January 1, 2003 accidents are insured by the WCBNS. The liability associated with claims prior to January 1, 2003 was settled with the WCBNS during 2006.

- The cost of other non-pension employee future benefits is actuarially determined using management's best estimates of inflation rates for health and life insurance, salary escalation, usage rates and mortality rates. Adjustments arising from actuarial gains and losses and plan amendments are amortized over the estimated average remaining service period. The estimated average remaining service period of active members covered by the non-pension employee future benefit plans is 11 years (March 31, 2007 – 11 years; December 31, 2006 – 11 years).

(i) **Vessel spare parts**

The Corporation maintains spare parts for vessels in service. The cost of spare parts is charged to operations when the spare parts are acquired.

(j) **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.

Foreign exchange risk arises due to fluctuations in foreign currency rates. The Corporation does not manage this risk through the use of hedging strategies.

(k) **Revenue recognition**

Commercial revenue is recorded when ferry services are provided.

(l) **Future accounting changes**

Inventories

In April 2007, the Canadian Institute of Chartered Accountants issued new accounting standards for inventories, Section 3031, that will impact the Corporation. The new standards provide more guidance on the measurement and disclosure requirements for inventories. These new standards will come into effect for the Corporation's 2008/2009 fiscal year. The Corporation intends to change its accounting policy and recognize its vessel spare parts inventory on the balance sheet for the year ending March 31, 2009. The Corporation is in the process of determining the impact this standard will have on its financial reporting. It does not anticipate that the impact will be significant.

Capital Disclosures and Financial Instruments – Disclosures and Presentation

In December 2006, the Canadian Institute of Chartered Accountants issued three new accounting standards. Section 1535, *Capital Disclosures* establishes disclosure requirements about an entity's capital and how it is managed. Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation* replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks.

These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Corporation on April 1, 2008. These sections are currently being assessed by management to determine the applicability and impact on the Corporation's financial statements, but it is not anticipated that they will have a significant impact on the financial statements.

3. Change in Fiscal Year

In 2007, the Corporation changed its fiscal year end from December 31 to March 31 in order to correspond with the fiscal year end of the Government of Canada, the Corporation's shareholder. The balance sheet and the statements of income, comprehensive income and accumulated deficit and cash flow are presented for the year ended March 31, 2008, the three months ended March 31, 2007 and the year ended December 31, 2006.

notes to financial statements

March 31, 2008, March 31, 2007 and December 31, 2006 *(in thousands)*

4. Accounts Receivable

Accounts receivable are comprised of the following:

	March 31 2008	March 31 2007	December 31 2006
Trade receivables	$ 3,531	$ 3,555	$ 3,344
Other receivables	1,678	2,238	2,592
	$ 5,209	$ 5,793	$ 5,936

Accounts receivable are incurred in the normal course of business and are due on demand. The Corporation provides services to numerous customers. However, five customers represent 50% of the trade receivables (March 31, 2007 – five customers represented 46% of the trade receivables; December 31, 2006 – five customers represented 37% of the trade receivables). There is no significant credit risk with accounts receivable. The carrying value of accounts receivable approximates its fair value due to their short term to maturity.

5. Vessels, Facilities and Equipment

	March 31, 2008			March 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vessels	$ 384,007	$ 304,208	$ 79,799	$ 379,926	$ 291,052	$ 88,874	$ 378,886	$ 287,804	$ 91,082
Terminal	84,551	39,738	44,813	83,563	37,664	45,899	83,570	37,153	46,417
Equipment	10,323	7,870	2,453	10,553	7,039	3,514	10,307	6,831	3,476
Work in progress	6,194	-	6,194	3,650	-	3,650	3,094	-	3,094
	$ 485,075	$ 351,816	$133,259	$ 477,692	$ 335,755	$141,937	$ 475,857	$ 331,788	$ 144,069

6. Pension Plans

The Corporation maintains, through a trustee, a 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 for designated positions for service since 2004. Benefits generally are based on employees' length of service and rate of pay.

The Corporation's independent actuaries measure the accrued pension obligation and the fair value of the plans' assets for accounting purposes as at the measurement date (December 31, 2007 for March 31, 2008; December 31, 2006 for March 31, 2007; and September 30, 2006 for December 31, 2006). The most recent actuarial valuation for funding purposes is as of December 31, 2006. The next required actuarial valuation for funding purposes, to be completed in 2008, will be as of December 31, 2007.

The registered pension plan provides for annual indexation for Consumer Price Index adjustments for any pension or survivor benefit payable during a calendar year following the third anniversary of the member's retirement or death, whichever occurs first.
The adjustment is calculated as the increase in the annual index less three per cent, subject to a maximum annual increase of three per cent.

March 31, 2008, March 31, 2007 and December 31, 2006 (in thousands)

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

	March 31, 2008		March 31, 2007		December 31, 2006	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (market value)	$ 528,703	$ -	$ 538,644	$ -	$ 513,234	$ -
Pension obligations (actuarial value)	507,930	1,703	536,000	1,934	532,652	1,931
Surplus (deficit)	$ 20,773	$ (1,703)	$ 2,644	$ (1,934)	$ (19,418)	$ (1,931)
Surplus (deficit) end of period	$ 20,773	$ (1,703)	$ 2,644	$ (1,934)	$ (19,418)	$ (1,931)
Unamortized amounts	26,035	399	47,362	532	68,312	541
Employer contributions during period from measurement date to period end	1,684	33	5,897	29	5,876	30
Accrued pension asset (liability)	$ 48,492	$ (1,271)	$ 55,903	$ (1,373)	$ 54,770	$ (1,360)
Pension contributions – employer	$ 7,475	$ 314	$ 5,897	$ 29	$ 22,048	$ 119
Pension contributions – employees	$ 2,973	$ -	$ 1,086	$ -	$ 2,578	$ -
Pension costs	$ 14,886	$ 212	$ 4,764	$ 42	$ 19,312	$ 167
Benefits paid	$ 29,195	$ 119	$ 6,998	$ 29	$ 27,939	$ 119
Settlement payments	$ -	$ 192	$ -	$ -	$ -	$ -
Determination of pension costs for the period are calculated as:						
Current service cost	$ 6,849	$ 35	$ 2,475	$ 9	$ 6,313	$ 35
Interest on pension obligations	26,877	90	6,785	25	26,671	96
Return on plan assets	(29,374)	-	(7,283)	-	(27,033)	-
Amortization of past-service costs	2,367	9	592	2	2,366	9
Amortization of net actuarial loss	8,167	24	2,195	6	10,995	27
Settlement loss	-	54	-	-	-	-
Pension costs	$ 14,886	$ 212	$ 4,764	$ 42	$ 19,312	$ 167

Employer pension contributions are made in accordance with the actuarial valuations for funding purposes. Marine Atlantic notified the Office of the Superintendent of Financial Institutions that beginning on April 1, 2008, the Corporation will apply Part 3 of the *Solvency Funding Relief Regulations* which permits the solvency deficit to be amortized over 10 years with a letter of credit issued by a financial institution in the amount determined in accordance with the Regulations. Prior to April 2008, the Corporation applied Part 1 of the Regulations which permitted an amortization of the solvency deficiency over five years.

notes to financial statements

March 31, 2008, March 31, 2007 and December 31, 2006 *(in thousands)*

The registered pension plan assets are invested in debt securities and equity securities. The asset mix at March 31, 2008 was 62% in debt securities and 38% in equity securities (March 31, 2007 – 60% and 40% respectively; December 31, 2006 – 63% and 37% respectively).

Weighted-average assumptions on measurement date *

	March 31 2008	March 31 2007	December 31 2006
Pension obligations			
Discount rate	5.50%	5.10%	5.10%
Rate of compensation increase	3.00%	3.25%	3.25%
	+ merit scale	+ merit scale	+ merit scale
Pension costs			
Discount rate	5.10%	5.10%	5.00%
Expected long-term rate of return on plan assets	6.00%	6.00%	6.00%
Rate of compensation increase	3.25%	3.25%	3.50%
	+ merit scale	+ merit scale	+ merit scale

** Measurement date is 3 months prior to financial statement dates shown*

7. Payable to Government of Canada

Appropriations received from the Government of Canada were used as follows:

	March 31 2008	March 31 2007	December 31 2006
Payable to Government of Canada, beginning of period	$ (30)	$ (2,733)	$ (12,128)
Parliamentary appropriations received during the period	(75,545)	(20,245)	(74,435)
Recognized during the period:			
Operations	60,536	21,113	78,849
Vessels, facilities and equipment	7,383	1,835	4,981
Payable to Government of Canada, end of period	$ (7,656)	$ (30)	$ (2,733)

8. 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 health benefits, health care expenses and lump-sum impairment awards; and costs related to future claims payment administration. 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 obtained as of January 1, 2005 and was extrapolated to the measurement date of December 31, 2007 (March 31, 2007 – December 31, 2006; December 31, 2006 – September 30, 2006). The next required actuarial valuation, to be completed in 2008, will be as of December 31, 2007.

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,437 (March 31, 2007 – gain of $47; December 31, 2006 – charge of $2,790) for the cost of accidents that occurred in the period, interest charged on the workers' compensation obligation, administration costs and changes in actuarial assumptions.

notes to financial statements

March 31, 2008, March 31, 2007 and December 31, 2006 *(in thousands)*

The Corporation's self-insured workers' compensation costs and obligations consist of:

	March 31 2008	March 31 2007	December 31 2006
Workers' compensation obligations (actuarial value)	$ 9,714	$ 9,605	$ 9,911
Less: current portion	1,395	1,664	1,608
Non-current portion	$ 8,319	$ 7,941	$ 8,303
Workers' compensation costs (credit)	$ 1,437	$ (47)	$ 2,790
Workers' compensation payments	$ 1,328	$ 259	$ 5,250
Determination of workers' compensation (credit) costs			
for the period are calculated as:			
Current service cost	$ 478	$ 120	$ 457
Interest cost	633	197	791
Amortization of net actuarial loss	326	88	347
Actuarial loss (gain) on settlement of liability with WCBNS	-	(452)	1,195
Workers' compensation costs (credit)	$ 1,437	$ (47)	$ 2,790

Weighted-average assumptions			
Workers' compensation obligations			
Discount rate	5.50%	5.10%	5.10%
Increase in average industrial wage	3.00%	3.25%	3.25%
Workers' compensation costs			
Discount rate	5.10%	5.10%	5.00%
Increase in average industrial wage	3.00%	3.25%	3.25%
Health care cost increases	5.00%	5.00%	5.00%

In 2006, the obligation for pre-2003 injuries was settled with the WCBNS with a payment of $3,462. During the three months ended March 31, 2007, the Corporation recognized an actuarial gain of $452 after finalization of the settlement. For the fiscal year end March 31, 2008 the Corporation paid $407 (March 31, 2007 – $78; December 31, 2006 – $382) in premiums to the WCBNS which are included in wages and benefits in the statement of income, comprehensive income and accumulated deficit. These premiums are a result of the change from a self-insured basis to an assessment basis beginning January 1, 2003.

March 31, 2008, March 31, 2007 and December 31, 2006 (in thousands)

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

The Corporation provides life insurance and health 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 obtained as of April 30, 2005, extrapolated to the measurement date of December 31, 2007 (March 31, 2007 – December 31, 2006; December 31, 2006 – September 30, 2006). The statement of income, comprehensive income and accumulated deficit includes a charge of $1,658 (March 31, 2007 – $410; December 31, 2006 – $1,782) for other non-pension employee future benefits for the cost of these benefits in the period and changes in management's estimates.

The Corporation's accrued obligation for other non-pension future benefits costs and obligations consists of:

	March 31 2008	March 31 2007	December 31 2006
Other non-pension employee future benefits costs	$ 21,498	$ 20,189	$ 19,868
Less: current portion	368	360	347
Non-current portion	$ 21,130	$ 19,829	$ 19,521
Other non-pension employee future benefits costs	$ 1,658	$ 410	$ 1,782
Other non-pension employee future benefits payments	$ 349	$ 89	$ 347

Determination of other non-pension employee future benefits costs for the period are calculated as:			
Current service cost	$ 569	$ 141	$ 589
Interest cost	1,066	263	1,046
Amortization of net actuarial loss	142	36	266
Plan amendments	(119)	(30)	(119)
Other non-pension employee future benefits costs	$ 1,658	$ 410	$ 1,782

Weighted-average assumptions

Other non-pension employee future benefits obligations			
Discount rate	5.50%	5.10%	5.10%
Rate of compensation increase	3.00% + merit scale	3.25% + merit scale	3.25% + merit scale
Initial weighted-average health care trend rate	9.16%	9.14%	9.30%
Ultimate weighted-average health care trend rate	4.86%	4.82%	4.82%
Year ultimate rate reached	2016	2014	2014
Other non-pension employee future benefits costs			
Discount rate	5.10%	5.10%	5.00%
Rate of compensation increase	3.25% + merit scale	3.25% + merit scale	3.50% + merit scale
Initial weighted-average health care trend rate	9.14%	9.30%	9.95%
Ultimate weighted-average health care trend rate	4.82%	4.82%	4.82%
Year ultimate rate reached	2014	2014	2014

notes to financial statements

March 31, 2008, March 31, 2007 and December 31, 2006 *(in thousands)*

10. Operating Credit Facility

The Corporation has an operating credit facility of up to $4,200 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, 2008 (March 31, 2007 – nil; December 31, 2006 – nil). 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. Subsequent to March 31, 2008, the Corporation increased the credit facility to $11,956 to meet the obligations of the *Solvency Funding Relief Regulations*, with the change from the five-year to the ten-year amortization of the solvency deficit of The Pension Plan for the Employees of Marine Atlantic Inc.

11. Share 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, 2008, 517,061 (March 31, 2007 – 517,061; December 31, 2006 – 517,061) shares at $.50 (March 31, 2007 – $.50; December 31, 2006 – $.50) per share have been issued and fully paid.

12. 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 period, the Corporation incurred expenses of $1,023 (March 31, 2007 – $336; December 31, 2006 – $1,210) 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 (c) and 7.

13. Commitments and Guarantees

(a) The total amount required to complete contracted work in progress at March 31, 2008 is $11,757 (March 31, 2007 – $465; December 31, 2006 – $3,400).

(b) The Corporation leases certain facilities. The minimum annual lease payments are as follows: 2008/2009 – $137; 2009/2010 – $128; 2010/2011 – $51; 2011/2012 – $3, 2012/2013 and beyond – nil.

(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 (March 31, 2007 – $4,200; December 31, 2006 – $4,200), for an indefinite period.

(d) Subsequent to March 31, 2008, the Corporation has provided an irrevocable letter 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 the amount of $7,756 with an expiry date of December 31, 2008. The amount is sufficient to cover the difference between the payments that are made over five years as a result of the consolidation of the solvency payments and such payments as they are amortized over ten years.

14. Contingencies

(a) The Corporation terminated employees as a result of the closure of the Bay of Fundy service in 1997, the closure of the Prince Edward Island service in 1997, and the transfer of the Labrador service and relocation of the Corporation's head office between 1997 and 2000. As a result of these employment terminations, the Corporation made distributions, in accordance with reports filed with the Superintendent of Financial Institutions Canada, from the Pension Plan for Employees of Marine Atlantic Inc. to the former employees. In September 2005, three applications were commenced in the Federal Court of Canada seeking judicial review of the decisions of the Superintendent related to these reports. Former members of the pension plan challenged the Superintendent's decisions and sought distribution of a portion of the plan surpluses that existed at the time of their termination. The Corporation opposed these applications in their entirety. On May 1, 2007, the Federal Court of Canada allowed the claims impacted by the downsizing of the Labrador and Moncton closures to the extent that the Superintendent must consider the partial terminations as giving rise to a need to consider the distribution of surpluses in funds existing at that time. However, appeals have been launched by all parties to the Federal Court of Appeal. In management's opinion, the outcome of these appeals cannot be determined at this time and no provision has been made in the financial statements.

(b) 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 $1,676 (March 31, 2007 – $1,689; December 31, 2006 – $1,691). Management has recognized an estimate of the liability.

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

15. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

16. Subsequent Event

Subsequent to March 31, 2008, the Corporation entered into a five-year charter agreement for a passenger and freight ferry. This vessel will provide necessary additional vehicle capacity and will cost the Corporation approximately $100,000 over the duration of the agreement.