0 8 - 0 9 ANNUAL REPORT

Marine Atlantic
Marine Atlantique

Canada

In View of Possibility

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CORPORATE DIRECTORY

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HIGHLIGHTS FOR 2008-09

Passengers	385,046
Passenger vehicles	131,013
Commercial vehicles	92,612
Number of single crossings	2,126
Employees (peak employment)	1,256
Employees (full-time equivalent)	1,058

Rob Crosbie, Chair, and Wayne Follett, President and CEO

IN VIEW OF POSSIBILITY

MESSAGE FROM THE CHAIR

The past year has certainly been an interesting and challenging one for Marine Atlantic – 2008/09 was essentially a year of transition. We worked closely with our shareholder, examining our operational challenges and determining the need for asset renewal. We saw strength in our dedicated staff and their ability to effect positive change. We envisioned a better future as we developed a long-term strategic fleet renewal plan.

The year began with much promise in April as we celebrated a considerable investment from our shareholder to charter a more modern ferry for the next five years. On behalf of the Board of Directors and everyone within Marine Atlantic, I sincerely acknowledge the commitment and financial contribution of the Government of Canada. Without that support, it would not have been possible to enhance our fleet with the MV *Atlantic Vision*. The vessel arrived in Canada in December 2008 and entered service at fiscal year end, March 31, 2009. It is a significant achievement that has come to life because of the hard work and dedication of many individuals at Marine Atlantic and within the Government of Canada.

However, as the saying goes, what comes up must come down and the months following the April 2008 announcement surely saw our spirits tested. Throughout the year we faced many operational challenges as we dealt with mechanical failures attributed to aged and fatigued assets. This resulted in less-than-stellar on-time performance and a trying year for our customers as well as our executive team and employees. However, as a team we are putting all the pieces together to move toward the future and a better service for our valued customers. We initiated a management renewal program including a full reorganization of the Corporation to put increased emphasis on customer service, improved operational and strategic planning, and management accountability.

The year also brought a new President to the Corporation. In October, we welcomed Wayne Follett as President and CEO. With his extensive background in executive leadership and knowledge of the Federal Government, Wayne brings the experience needed to navigate the Corporation through our continued transition and growth. We owe many thanks to the interim President and CEO, John Roil, for his invaluable service and leadership during the first half of last year.

The past year was indeed challenging but we continue to make progress. We envision a future of possibilities as we work toward our long-term strategic goals. The transition started in 2008/09, and it will continue in 2009/10. My hopes for the future – as always – impeccable safety, distinguished customer service, environmental stewardship, and an efficient and effective service.

Rob Crosbie *Chair*

MESSAGE FROM THE PRESIDENT

Marine Atlantic is best recognized as a vital transportation service for Newfoundland and Labrador. Our work impacts all aspects of the quality of life in the communities in which we operate. In addition, the ferry service provided by Marine Atlantic is an economic enabler for the entire Atlantic Canada region – a fact often over-looked. The importance of Marine Atlantic is a major reason I welcomed the opportunity to join the Corporation last fall.

In my short time as President, I have witnessed considerable change and growth of which we can be proud. However, I have also observed that we still have much to accomplish. Most importantly, I have seen the dedication of a talented group of employees who will make it possible to move forward. Indeed, 2008/09 has been a busy year for us. One marked by many accomplishments, yet we faced more than our share of challenges and we know our work is not done.

This year we completed an organizational review and restructuring plan. We started a process of management renewal with an increased emphasis on accountability and putting executive team emphasis in the areas of customer service, operational and strategic planning, and the management of assets. It is all part of our intent of capitalizing on our current strengths and working to address our weaknesses. We made significant leaps with many of our services. A new reservations system offers us an opportunity to increase cost effectiveness and improve customer service; we have already witnessed a significant shift to online reservations.

Despite our successes, many times this past year it felt like we were taking two steps forward and one step back. We faced relentless weather-related setbacks, high fuel surcharges, recurring mechanical problems caused by aging assets, and the dilemma of recruitment challenges currently facing the marine sector. Challenges such as weather and fuel prices are largely out of our hands. Others, we have the ability to fix. We have already started to address the problems associated with our aging fleet. We retired the MV *Atlantic Freighter* and chartered a much newer and larger vessel, the MV *Atlantic Vision*. We are also tackling our recruitment challenges so that we may add additional skill sets and talent to our experienced, diverse team.

Further to addressing current problems, we are taking proactive approaches to improving our business. In the upcoming fiscal year, we will pursue an aggressive agenda for corporate renewal. We will assess every area of our organization to identify opportunities for improvement. Our goal is to enhance the services we provide to our valued customers and to improve our operating efficiency and effectiveness.

Without a doubt, 2008/09 has marked an exciting beginning to my tenure as President and CEO at Marine Atlantic. I look forward to the possibilities ahead and leading the growth and enhancement of Marine Atlantic.

Wayne Follett *President & CEO*

CORPORATE PROFILE

MARINE ATLANTIC

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

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

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

Marine Atlantic is a key employer in each of the three towns in which it operates. Our employees have stable employment opportunities that translate into significant direct and indirect benefits to these towns. Employment levels within the Corporation peak at over 1,200 persons during the busy summer season. The workforce at Marine Atlantic is predominantly unionized; approximately 97 per cent of employees are members of one of six labour unions.

To fulfill our mandate, Marine Atlantic operates a fleet of Canada's largest ice-class ferries: the MV *Caribou*, the MV *Joseph and Clara Smallwood*, the MV *Leif Ericson*, and the newest addition to the fleet, the MV *Atlantic Vision*. This vessel arrived in December 2008, with its service beginning March 31, 2009. The fleet of vessels is maintained to high 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, an internationally recognized quality assurance system.

To ensure the safe operation of vessels at sea, the international marine industry and therefore, Marine Atlantic, is governed by various acts and regulations, these include: *Canada Labour Code*, *Marine Occupational Safety and Health Act* and Regulations, *Transportation of Dangerous Goods Act* and Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act* and Regulations, *Canada Marine Act*, and *Coasting Trade Act*. The Corporation also falls under the umbrella of the International Convention for the Safety of Life at Sea (SOLAS), the pre-eminent of all international treaties concerning the safety of merchant ships.

MV Caribou
Built in 1986
Average Capacity: 870 passengers* and 336 AEUs**

MV Leif Ericson
Built in 1991 (Purchased in 2001)
Average Capacity: 400 passengers* and 285 AEUs**

MV Atlantic Vision
Built in 2002 (Chartered for 5 years in 2008)
Average Capacity: 710 persons* and 475 AEUs**

MV Joseph and Clara Smallwood
Built in 1989
Average Capacity: 1,000 passengers* and 330 AEUs**

CORPORATE PROFILE CONTINUED

THE OPERATIONS OF MARINE ATLANTIC

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

Marine Atlantic deals with a diverse range of traffic: passengers, passenger vehicles and their occupants, tractor trailers and drivers, drop trailers[1], and other users of the road such as motor homes, tour buses, and motorcycles. Commercial-related vehicles (CRVs) make up the majority of annual traffic volumes, and vary only slightly from month-to-month. The number of passenger–related vehicles (PRVs) rises in the summer as tourists travel to and from the Island of Newfoundland. Monthly traffic volume follows a consistent pattern from one year to the next and varied in 2008/09 from a low of just over 32,000 AEUs** in March to a high of approximately 68,000 in August.

As the only year-round ferry service, Marine Atlantic transports one-half of all goods entering the Province, including approximately 90 per cent of perishable food items – fruits, vegetables, meats and poultry. In addition, we transport most of the Province's fresh food exports. Provincial industries rely on trucks transported by the Corporation to maintain a supply chain to customers that is competitive with mainland counterparts. Similarly, companies from outside Newfoundland and Labrador rely on Marine Atlantic to enable them to supply goods of all kinds to the Island, including; medical gases for hospital use; automobiles sold for personal and commercial use; and vital parts for off-shore drilling. In recent years, the volume of cargo to and from the Island of Newfoundland has continued on a steady upward trend. Serving commercial customers is important to Marine Atlantic as this customer segment represents the majority of our overall business.

Marine Atlantic not only transports goods, we are also a valuable transporter of people; ferry travel supports the integration of Newfoundland and Labrador with the rest of Canada, particularly the Maritime Provinces. Also, Newfoundland and Labrador relies on the Gulf ferry service to carry almost 50 per cent of its non-resident tourists. More than half of our passengers and passenger vehicles travel between June and August – the Province's busiest season for tourism. Non-resident travellers using the ferry provide significant, quantifiable benefits to the overall economy, especially to the Province's rural areas. This means that Marine Atlantic has also become an integral part of Newfoundland and Labrador's valuable tourism industry. We are an important part of the greater Canadian economy as travellers to and from Newfoundland and Labrador spend time and money in Nova Scotia and other provinces.

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[1] *Drop trailers are delivered to the terminal by tractor trailer and left for loading/unloading onto the vessel by Marine Atlantic. They cross the Gulf unaccompanied by a driver, and are then picked up by another driver.*

* *Average Capacity: Represents the average number of persons the vessel can comfortably accommodate based upon the services available on the vessel.*

** *AEU – Auto Equivalent Units: The number of vehicles loaded on each vessel, based on the length of an average automobile.*

CORPORATE PROFILE CONTINUED

OUR OPERATING ENVIRONMENT

Marine Atlantic operates its ferry service in one of the most challenging nautical environments in Canada – possibly the world – the Gulf of St. Lawrence. And since we operate year-round, this means our vessels and crew must be capable of sailing during both pleasant summer weather and harsh winter conditions. Vessels must cross the Gulf where winds of 40 knots or more can occur at any time of the year. Significant wave heights of four metres or more occur in summer and winter. Furthermore, severe ice build-up in the Gulf of St. Lawrence limits operations during the winter months.

Without a doubt, Marine Atlantic's business is one that is governed by weather, and the captains and crew are constantly monitoring weather conditions to ensure safe sailings for our passengers and crew. High winds and heavy precipitation present a constant challenge to us, and as such, there are times when the vessels cannot sail due to weather conditions. The Corporation strives to minimize disruptions to the service, but weather delays are inevitable. At such times, the captains, crew and employees at Marine Atlantic work diligently to return the operations to regular schedules.

OUR 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 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.

FOND FAREWELL TO A VESSEL

In December 2008, Marine Atlantic employees and customers alike bid a fond farewell to the veteran commercial ferry freighter – a vessel often referred to as the "work horse" of the Corporation – the MV *Atlantic Freighter*.

The MV *Atlantic Freighter* joined the fleet in 1986. For over two decades, she dutifully served the needs of commercial customers and proved herself to be one of the most reliable vessels the fleet has ever known.

The Island of Newfoundland and the Province of Nova Scotia, and the people who call them home, have benefited greatly from the fine service provided by the MV *Atlantic Freighter* and her many captains and crews over the years.

MV *Atlantic Freighter*
Built in 1978 (Purchased in 1986, retired from fleet in 2008)
Capacity: 12 commercial drivers and 243 AEUs**

*** AEU – Auto Equivalent Units: The number of vehicles loaded on each vessel, based on the length of an average automobile.*

THE YEAR IN REVIEW

CORPORATE GOALS

Safety – To promote, foster and maintain safety.

Environment – To promote, foster and maintain environmental stewardship.

Cost-effectiveness – To operate an efficient and cost-effective ferry service.

Customer Service – To provide a quality ferry service to customers in a reliable and courteous manner.

Human Resources – To manage and maintain a motivated and qualified workforce.

In 2008/09 Marine Atlantic faced its share of challenges. Some we have conquered, others still present a challenge now, and into the future. It was also a year of change and growth for the Corporation – change to meet new demands and growth to ensure future prosperity. Finally, 2008/09 was a year that marked forward thinking, planning ahead for the future and envisioning the possibilities of tomorrow.

THE MV *ATLANTIC VISION*

Chartering the MV *Atlantic Vision* was a significant undertaking for Marine Atlantic. It was a 12 month process, from the very beginning when we agreed upon the legal parameters to the actual date the vessel began servicing our customers. This year-long process incorporated alterations to the vessel to adapt it to our region's unique needs, a welcoming and renaming ceremony, operational and safety training for crew members, and finally, the MV *Atlantic Vision*'s full integration into our schedule.

Marine Atlantic received funding in the 2008/09 federal budget to charter a newer and more modern vessel for the next five years. In April 2008, we announced that we found our vessel, which would later be named the MV *Atlantic Vision*. Built in Germany, the MV *Atlantic Vision* is larger than any other vessel in Marine Atlantic's fleet and has more modern technology, which will allow the Corporation to improve the services we provide to our valued customers. The vessel has many enhanced features including an augmented selection of accommodations and dining options.

Before the MV *Atlantic Vision*'s journey to North America, the owners of the vessel completed alterations required to adapt the vessel to meet both regulatory and the Corporation's requirements. The primary modifications included changing the vehicle ramps to match the Corporation's shore facilities, increasing the size of the maneuvering thrusters, as well as converting portions of the electrical system from European to North American standards.

The vessel made its transatlantic voyage from Finland, under the direction of Captain Stanleigh Peet, arriving in St. John's, Newfoundland and Labrador on Sunday, December 8. While in St. John's, the Lieutenant Governor of Newfoundland and Labrador, the Honourable John C. Crosbie and Her Honour Mrs. Jane Crosbie, were joined by members of the Board of Directors, key stakeholders and the crew to participate in a ceremony to rename the vessel.

THE YEAR IN REVIEW CONTINUED

BEHIND THE NAME

Marine Atlantic invited students from Kindergarten to Level III across Newfoundland and Labrador and Cape Breton to participate in a "*Name the Vessel*" contest. Applicants submitted suggestions for the vessel's name along with a rationale for their ideas.

We received over 780 entries and with such innovative suggestions, it was a difficult decision to make.

The winning submission came from Danielle Locke, who captured our attention with her insight and creativity into the new name for the vessel: the MV *Atlantic Vision*. The name captures what the new vessel means for Marine Atlantic – our vision for the future of the Corporation. It's a future full of possibilities and potential to be a top-notch transportation service.

Matron of the renaming ceremony, Her Honour, Mrs. Jane Crosbie, and Danielle Locke, winner of the naming contest.

Upon her arrival from Finland, there were some minor modifications required to prepare the MV *Atlantic Vision* for service. One such modification involved installing a new Moorex system in order to efficiently and effectively moor the vessel while in port. During the winter, we continued to prepare the vessel to begin the Gulf ferry service. The prudent integration plan included operational training and safety familiarization for the officers and crew, and equipping the vessel with all the necessary stock and supplies. We began maneuvering trials in March and by March 31 the MV *Atlantic Vision* and its crew were fully prepared to be integrated into Marine Atlantic's schedule.

Marine Atlantic also conducted a wide array of training for employees prior to the vessel entering service. For instance, the captains for the vessel participated in full motion simulator training to provide them with a virtual experience prior to operating the vessel; employees received security training to become familiar with the vessel's security plan; crew members received passenger safety training that focused on crowd control, evacuation training, human behaviour and crisis management training; employees within the hospitality department on the vessel received training in table, wine, and responsible beverage service, food sanitation and up-selling; employees received vessel familiarization training prior to assuming duties on the vessel; and the captains and Chief Officers participated in medical care training.

We have agreed to charter the vessel for five years. Over the course of the next several months, the Corporation will carefully monitor the vessel's performance, operating costs, and the new customer-oriented features, including a greater number of cabins, buffet food service, and a lounge dedicated specifically to commercial drivers. Should the response be favourable we will consider our options to either extend the charter agreement or purchase the vessel.

PASSENGER SAFETY MANAGEMENT

In 2011, updated regulations will come into force for all Canadian vessels. Marine Atlantic's newest addition to the fleet, the MV *Atlantic Vision*, is currently registered as a Regulatory Stability Upgrade vessel, and therefore, already meets those regulations. As part of its registry, crew members were required to complete specific safety training that is not yet available in Canada. The crew of the MV *Atlantic Vision* participated in a two-day passenger safety training program that focused on crowd control, evacuation training, human behaviour, and crisis management training. The program was created and developed through a joint partnership between Marine Atlantic and BC Ferries. The program has been certified through Transport Canada, making Marine Atlantic one of only two entities in Canada certified to provide this program.

NEW RESERVATIONS SYSTEM

This year we introduced a new reservations system, which provides benefits to both the customer and the Corporation. This long-anticipated automated system improves efficiency and communication throughout the Corporation and improves our customer service, bringing Marine Atlantic's service in line with international travelling standards.

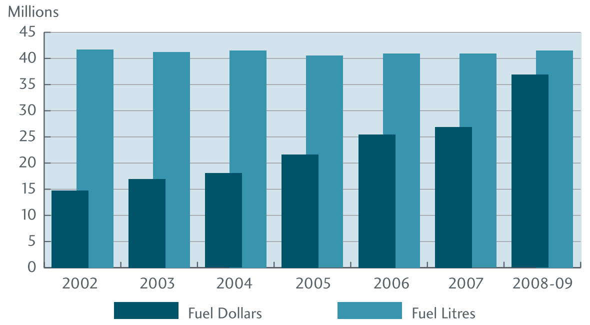
The implementation of the new system coincided with a significant change in operations. Marine Atlantic introduced payment in full at time of booking, which is a standard in the travel industry. This payment in full option, which presented a learning curve for our customers, will assist Marine Atlantic in reducing wait times at check-in, especially during the busy summer season. At fiscal year-end we had already witnessed a significant shift to online reservations.

THE NEW RESERVATIONS AND TICKETING SYSTEM PROVIDES:

- A new and improved online reservations system;
- Electronic confirmation of reservation;
- Smaller individual boarding cards that will be scanned at the time of boarding;
- Cabin keys prior to accessing the vessel; and
- Increased security for handling of credit cards.

FUEL SURCHARGE

Fuel is a major expenditure for Marine Atlantic, accounting for 20 per cent of total operating expenses.



Because of high fuel prices, we were faced with the difficult decision to set an increased fuel surcharge during 2008/09. The Corporation began the year with a 9.9 per cent surcharge that jumped to 27.7 per cent during the peak summer season. By the end of the year, it had declined to 0 per cent.

As mandated by the Government of Canada, the Corporation's fuel surcharge is based upon the escalation in total cost of fuel for a year compared to 2006 costs. The percentage of surcharge increase or decrease is calculated by comparing the increase or decrease in fuel cost to the expected remaining revenue for the year. On a quarterly basis, the Corporation monitors fuel cost and adjusts the surcharge accordingly.

SECURITY

Security considerations include on-shore and on-vessel physical security of passengers, employees, cargo and assets, as well as controlling the environment in which the Corporation conducts business. Canada's newly proposed Domestic Ferries Security Regulations, yet to come into force, will require Marine Atlantic to meet the uniform application of security in the Canadian marine environment for our Canadian registered vessels.

Within the context of these new regulations, Transport Canada has determined Marine Atlantic will be required to operate at a Marine Security (Marsec) Level 1. This is the highest normal security operating level of any domestic ferry operator in Canada. Simply put, it requires us to enhance our security and control access to all of our properties. Marine Atlantic's goal is to meet and/or exceed maritime security requirements and achieve full compliance under the proposed new regulations for domestic ferry vessels and terminals.

As a large ferry operator, Marine Atlantic is proactively following Transport Canada's security assessment process. Throughout the year, the Corporation worked with external security specialists to complete a corporate security assessment, corporate security draft plan, and to develop the required training programs to prepare employees for this new way of doing business. Security training began this year and will continue throughout 2009/10 and beyond.

OPERATIONAL CHALLENGES

The operations of the vessels were severely affected throughout 2008/09 by vessel mechanical issues, adverse weather, and limited available capacity to catch up once a delay occurred.

In addition to issues created by our aging fleet, the terminals themselves experienced infrastructure and equipment failures in both Port aux Basques and North Sydney. This resulted in escalating costs for the terminals and, on several occasions, longer port times and delays for the vessels.

Our annual telephone survey of customers travelling during the peak summer period indicates that customers were predictably unhappy with the level of service, particularly during the summer of 2008. In interpreting the customer satisfaction data the Corporation considers the score of "Completely Satisfied" as being the only acceptable standard. This interpretation is a departure from previous practice, when the response "Somewhat Satisfied" was combined with "Completely Satisfied" when reporting customer satisfaction results. During the summer of 2008, 43 per cent of Marine Atlantic's passengers surveyed said they were completely satisfied with all aspects of the Corporation's on-shore and on-board services.

SAFETY

Safety is paramount to Marine Atlantic. Whether we're dealing with harsh and unpredictable weather or challenging ourselves to provide the best service possible, the safety of our employees and customers is always our top priority.

The fleet is maintained to standards and codes set out by Transport Canada Marine Safety, Lloyds Register, Det Norske Veritas, and the American Bureau of Shipping Classification Societies (depending upon the vessel), as well as the International Safety Management (ISM) Code. In addition to being audited internally, the Corporation's Safety Management System is audited externally by Lloyd's Registry.

Especially in an unpredictable environment, such as the one in which we operate, preparation and preparedness to respond to unplanned incidents is crucial. With this in mind, a new Marine Evacuation System (MES) program was introduced to approximately 300 employees in 2008/09 and training will continue in the upcoming year. The MES program is an interactive learning experience that directs employees through an emergency situation, identifies crucial lines of communication, and prepares employees to efficiently and effectively deploy the MES.

One of the measures we use to evaluate our safety record is the Lost Time Rate (LTR). The LTR gives a value to compare our organization with other organizations doing similar work. Our LTR for 2008/09 was 1.99, compared to a national LTR average of 3.55 – indicating our safety performance exceeds the average. For instance, the MV *Leif Ericson* planned work period resulted in over 26,000 person hours of work completed and the MV *Joseph and Clara Smallwood* planned work period resulted in over 29,000 person hours of work completed – both incident free.

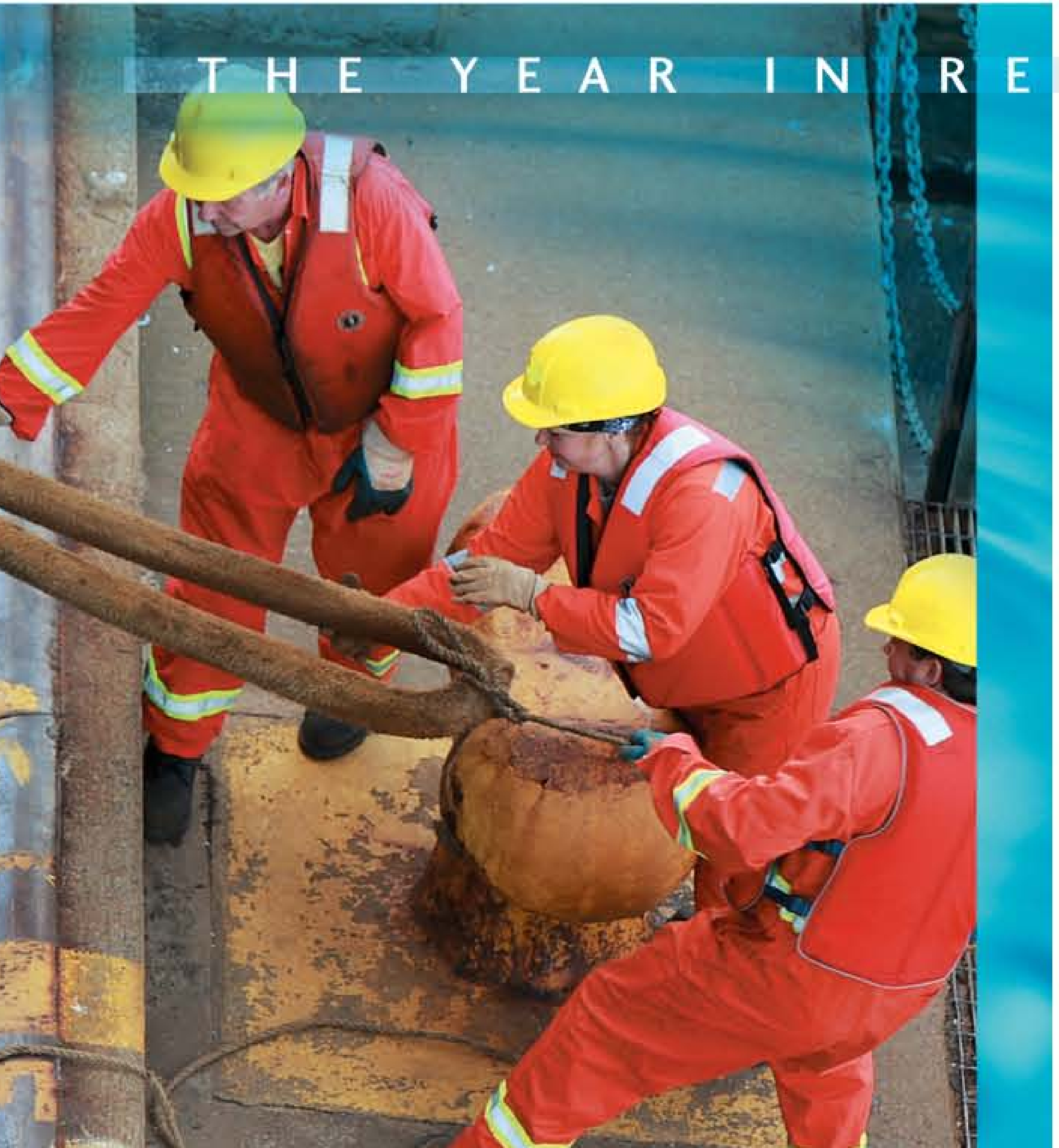
The Corporation's Safety Policy Committee continues to develop and monitor the Occupational Safety and Health Program. Its objectives are to enhance the safety culture of all employees, to provide training and development in support of the program, and to comply with all regulations.

REPAIRS AND MAINTENANCE

Within the Corporation's operations division, a continuous review of vessel systems is required to ensure that all necessary regulatory inspections and surveys are completed. This continuous attention allows us to recognize any operational efficiencies (or deficiencies) that exist and, hence, allows us to ensure the safety of our crew and passengers.

There was a $3 million increase in maintenance costs during fiscal 2008/09, specifically due to:

- The addition of the MV *Atlantic Vision* to the fleet in the fall of 2008 resulted in $1.2 million in maintenance and repairs. Ren ovations were completed both in Finland before her journey and upon arrival to Canada, enabling the vessel to be ready for service by fiscal year end.
- Repairs and maintenance aboard the existing fleet accounted for 55 per cent of the increase.
- The MV *Caribou* saw her share of issues in 2008/09, with work completed relating to the replacement and overhaul of the bow and stern thrusters, the unexpected replacement of the crank shaft in the main engine, and major repairs to the fire damper system.
- Mechanical problems with one of the four main engines on the MV *Joseph and Clara Smallwood* resulted in the engine being overhauled and rebuilt over a six month period while the ship remained in service.
- The MV *Leif Ericson* incurred expenses this fiscal year relating to an incident from March 2008 that left the port stabilizer damaged and out of service.
- With the late arrival of the MV *Atlantic Vision*, the MV *Atlantic Freighter* was prepared for another season of service, which also added to the increase of the maintenance costs for the 2008/09 fiscal year.



THE YEAR IN REVIEW CONTINUED

ORGANIZATIONAL STRUCTURE AND DESIGN

In the 2008/09 fiscal year, we undertook a review of the Corporation's organizational structure and design in order to complement the Long Term Fleet Renewal Plan and in preparation for the arrival of a new President and CEO. That review was completed in late 2008 and has become the basis of organizational renewal within Marine Atlantic. The structure provides for two additional divisions: 1) Strategy and Corporate Affairs and 2) Customer Experience. Changes will also be made in the Operations Division to provide additional resources to support the fleet operations and maintenance.

TRAINING

Training for employees in 2008/09 took on a couple of focuses. The first involved providing the crew of the MV *Atlantic Vision* with required training to assume their new roles on the vessel. The second focus was a customer service and team building training program entitled *SPLASH*, which saw ship and shore working together through friendly competitions. Marine Atlantic also conducted a wide array of regulatory and Canada Labour Code training programs.

SPLASH WORKSHOP

Smile
Professionalism
Look
Attitude
Sincere
Helpful

Make a SPLASH

SPLASH was developed by employees to enhance Marine Atlantic's employee relations through teamwork, which ultimately enables us to provide a higher level of customer service. Approximately 780 employees participated in the *SPLASH* workshops – which was among our highest participation rate for any employee program we have offered. This program is now the foundation upon which we continue to build teamwork and customer service at Marine Atlantic.

Throughout the year, the majority of our managers attended a two-day leadership course. Some of these managers have also been involved in coaching sessions to build skill sets relating to leadership, thereby creating a stronger team. The ships' onboard management teams also participated in training and team building sessions.

RECRUITMENT AND SELECTION

Marine Atlantic employs approximately 1,250 persons annually. Since our workforce is an aging one, in 2008/09 we focused much effort on succession planning – replacing our skilled and talented employees as they retire.

Part of our succession planning efforts included partnering with the College of the North Atlantic in Port aux Basques to provide an educational training program for Assistant Stewards, which is the position that is primarily responsible for customer service duties on the vessels. Students successfully completing the program will be assessed for potential employment with Marine Atlantic.

The marine industry is experiencing shortages for engineering officers – and Marine Atlantic was no stranger to this problem. During 2008/09, the Corporation hired entry level positions and officer positions. However, during the summer of 2008 we experienced challenges in retaining those newly hired engineering officers.

In 2008/09, we experienced our first full year for online recruitment using an Internet job site to collect resumes and applications for external job postings. Internet-based recruitment has broadened our reach from the traditional recruitment methods and allows us to tap into new audience segments. In addition, online recruitment is a more effective way to receive and process resumes and respond to applicants. Our 2009 spring recruitment program, targeted at high school recruitment, used yet another modern creative approach. The highly targeted placements in niche traditional media combined with a social media presence on Facebook and Google.

LABOUR RELATIONS

Of our six collective agreements, four expired December 31, 2007, and two expired December 31, 2008. In February 2009, the collective agreement between the Corporation and the United Steel Workers/International Longshoreman's Association Council of Trade Unions was successfully negotiated. An interest arbitration in the summer of 2009 will result in agreement for the Canadian Auto Workers (CAW) Unlicensed Vessel Personnel. Negotiations are ongoing with the CAW shore-based maintenance.

Employees previously represented by the Canadian Marine Officers Union elected to change bargaining agents. Due to this change, all licensed officers on vessels are now represented by Canadian Merchant Services Guild (CMSG), the same union that represents the Masters and Chief Engineers. These parties will be proceeding to a binding arbitration in 2009 to resolve outstanding items.

For the Public Service Alliance of Canada (PSAC), our newest union, job evaluation is now underway. The parties will be meeting in the spring of 2009 to finalize that process.

ENVIRONMENTAL STEWARDSHIP

The operation of Marine Atlantic vessels and facilities has the potential to impact the environment. The Environmental Policy of the Corporation commits to meeting our business objectives in a manner respectful and protective of the environment, and in full compliance with the law.

In 2008/09, Marine Atlantic participated in Environmental Site Assessments for its three ferry terminals at North Sydney, Argentia, and Port aux Basques. One of the identified environmental issues was the need for Marine Atlantic to develop an Environmental Management Plan that includes sections on fuel management, water management, waste water management, solid waste management, air emissions, security, and the transportation of dangerous goods.

To continue to move forward with our environmental stewardship responsibilities, Marine Atlantic will follow-up on the Environmental Site Assessment recommendations and begin the development of an Environmental Management Plan.

CORPORATE SOCIAL RESPONSIBILITY

At Marine Atlantic, we value safety, environmental responsibility, quality service, reliability, courtesy, and cost-effectiveness. In striving toward our values, to the extent fiscally responsible, we go above and beyond adhering to the law and ethical standards. We assume accountability for the impact of our service on the environment, our employees, and the port towns in which we operate. And, we proactively promote community development by investing in our communities and volunteering our efforts to support our customers and the communities they call home.

ETHICAL STANDARDS

Our management team adheres to conflict of interest guidelines to ensure the delivery of the corporate mandate in a transparent and accountable manner. All of our employees follow a code of conduct, which provides additional guidelines to ensure adherence to our high standards.

EQUAL OPPORTUNITIES AND HUMAN RIGHTS

We are committed to being an equal opportunity employer and encourage applicants from all equity groups. We are 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 that promotes equal opportunities and prohibits discriminatory practices.

Our 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.

INVESTING IN YOUTH

Marine Atlantic's annual scholarship program awards dependent children of employees or pensioners with funds for post-secondary education on a merit basis. The program provides up to four $2,000 university entrance scholarships and four $1,000 trade school entrance scholarships.

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

GIVING BACK TO THE COMMUNITY

Marine Atlantic employees are actively involved in their communities. To the extent fiscally responsible, we support employees and not-for-profit organizations that benefit the regions impacted by our organization. And, we invest in the port towns in which we operate, on whom our success depends.

ENGAGING BOTH OFFICIAL LANGUAGES

As a federal Crown corporation, Marine Atlantic is committed to providing customers with the option of receiving service in either of Canada's two official languages. As part of that commitment, we participate 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*, and in the activities of the network of Official Languages Champions.

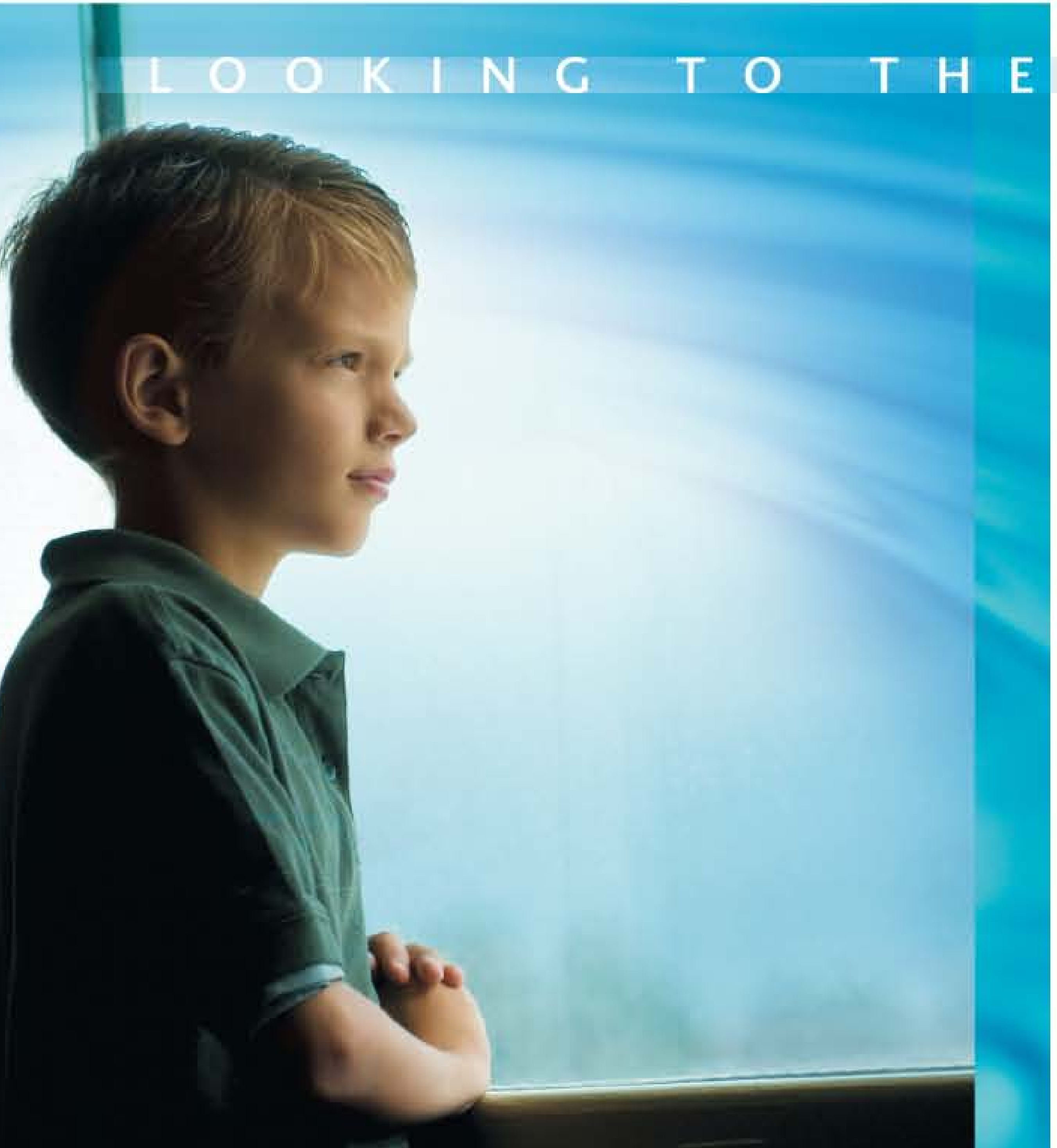
Bilingual employees undergo regular testing to ensure they continue to meet proficiency requirements. Any employee who does not meet those requirements receives refresher training. In addition, Marine Atlantic selects employees annually to participate in a two-week French immersion program to assist them in maintaining a high level of proficiency.

We have been exempted from submitting an annual report to the Public Service Human Resources Agency of Canada in 2008/09 as it has been determined that Marine Atlantic has exhibited exemplary leadership in all areas of the official languages requirements.

ENCOURAGING EMPLOYEE WELLNESS

Marine Atlantic's Employee Wellness Committee consists of employees from all areas of the organization who are committed to promoting a healthy lifestyle to their peers. During 2008/09, the committee organized health fairs, flu shot clinics and health programs such as the @live Health Risk Assessment and the Employee and Family Assistance Program.

In 2008/09 the committee introduced its first employee wellness challenge. Over 100 employees participated in the challenge that focused on work/life balance and healthy diets. The challenge provided employees with fun, friendly rivalry and lots of chances to win prizes.



LOOKING TO THE FUTURE

Marine Atlantic's Board of Directors and employees are looking toward the future with optimism. The 2008/09 fiscal year ended with a well-developed plan to meet future demands, to tackle future challenges and to improve our ferry service.

During the upcoming year, the Board of Directors and the executive team will work together toward three management renewal priorities.

MANAGEMENT RENEWAL PRIORITIES

1. Implementing a new organizational structure and human resource plan. This plan will strengthen accountability and performance management, build capacity in areas we are lacking, and rebuild trust and credibility in customer service and business planning. These changes will also provide the Operations team with increased capacity to operate and maintain our corporate assets.

2. Reengineering the Corporation's management processes. This includes improved planning, strengthened accountability, enhanced focus on career development, recognition for employees' achievements, and a strategic approach to communications.

3. Reengineering the Corporation's business processes. Key projects for the year include: a new commercial reservations system, a new pricing model for customers, providing our Canadian Forces with an Appreciation Fare, and a fuel hedging program to increase certainty in corporate fuel costs.

Our business priorities for the upcoming year will continue to move forward, despite the depressed economic climate. The last two quarters of 2008/09 witnessed the worst economic collapse of the world financial markets since the Great Depression of the 1930s. The Canadian economy has been affected significantly in most sectors, and Marine Atlantic will not escape the crisis. Research indicates that our commercial traffic will decline due to a decrease in shipments of items such as building supplies, leisure products and automobiles to the Island of Newfoundland. However, research also indicates that essential products such as food and medical supplies will not be affected by the crisis, thereby minimizing declines to our commercial traffic.

The economic downturn is also expected to impact our passenger traffic in the upcoming year. However, the impact may be somewhat mitigated by the introduction of the MV *Atlantic Vision* into the fleet. This new vessel gives us the ability to create more customer friendly departure and arrival times, and she offers increased choice with amenities that are expected to attract customers despite the economic situation. In addition, sufficient maintenance time has been scheduled during all periods in the year in an attempt to improve the reliability of our vessels.

In the year ahead, we will implement a new security plan in concert with the Marine Transportation Security Regulations and assessments. In order to be fully compliant, we are required to make security enhancements for our aging fleet and terminals. Fencing, access control, and video surveillance are several key components required to meet these needs. Employees will be designated for increased security roles and will receive the necessary training.

Beginning in 2009/10, Marine Atlantic will move to develop a comprehensive Environmental Management Plan. This plan will be based on the ISO 14001 International Standard, which provides guidance to organizations on how to successfully implement an effective Environmental Management Plan by utilizing prescribed elements. The primary goal of ISO 14001 is to maintain environmental protection and pollution prevention that is in balance with socio-economic requirements. Under this standard, it is our responsibility to determine which aspects of our business can cause environmental impacts, and to establish our own set of standards to minimize those impacts.

Over the next five years we will need additional investments in information technology resources in order to achieve operational efficiencies. We will need to invest in IT governance and business processes to support the growth of the IT section within our organization and provide greater value to internal stakeholders.

Fleet renewal is a critical ingredient in Marine Atlantic's transformation to a customer-oriented, operationally-efficient organization. Without fleet renewal, we are unable to meet customers' needs for reliable and predictable service or operate in an optimally efficient way. Fleet renewal can take a number of forms: refitting the current vessels to extend their lives, buying vessels that are available on the market, building new vessels, or any combination of those options. Each of the options for fleet renewal comes with its own list of benefits, costs and risks.

Marine Atlantic's Board of Directors and the executive team are committed to making changes that will enable a reengineering of the Corporation while ensuring safety remains our top priority. This will result in the development of prudent management practices. In the short term, we will use financial efficiencies to generate renewal. In the long term, with the investment in recapitalization, we anticipate business processes will be further refined to take advantage of modern equipment and management practices, resulting in further financial efficiencies and reduced subsidy requirements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed April 1, 2011 as the changeover date for Canadian publicly accountable enterprises with a March 31 year end date to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 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. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Corporation is currently evaluating the impact of the adoption of IFRS on its future consolidated financial statements. Members of the management team and audit committee have already attended information sessions with respect to IFRS. Senior financial staff within Marine Atlantic Inc. are members of the IFRS Crown corporation committee to assist with convergence with IASB standards. Marine Atlantic has also hired a Senior Financial Analyst and has issued a Request for Proposal (RFP) to begin the process of migrating the Corporation's accounting practices, procedures and standards into compliance with the new International Financial Reporting Standards.

FINANCIAL OVERVIEW

REVENUE

Commercial revenue was on par with last year largely in part to a three per cent growth in commercial related traffic which offset the decline in passenger and passenger related traffic. The downturn in the global economy, coupled with the high fuel prices in the summer of 2008, caused passenger traffic to decrease by eight per cent and caused the passenger count to decrease by nearly 32,000 people. Fuel surcharge revenue collected was $8.97 million more than last year as a result of the dramatic increase in the price of fuel. Finally, Marine Atlantic incurred a foreign currency gain on a newly created euro-denominated escrow account established for security as part of the charter agreement between Marine Atlantic and the owners of the MV *Atlantic Vision*.

	2008-09	2007-08	2007*	2006	2005
Passengers	385,046	416,823	36,647	405,336	418,105
Passenger vehicles	131,013	141,718	10,203	135,136	137,751
Commercial vehicles	92,612	90,039	18,447	88,066	86,605
Number of single crossings	2,126	2,184	350	2,166	2,062
Employees (peak employment)	1,256	1,223	n/a	1,208	1,208
Employees (full-time equivalent)**	1,058	954	n/a	929	919

Year ended March 31 (2009, 2008 & 2007) and December 31 (2006 & 2005) *(in thousands)*

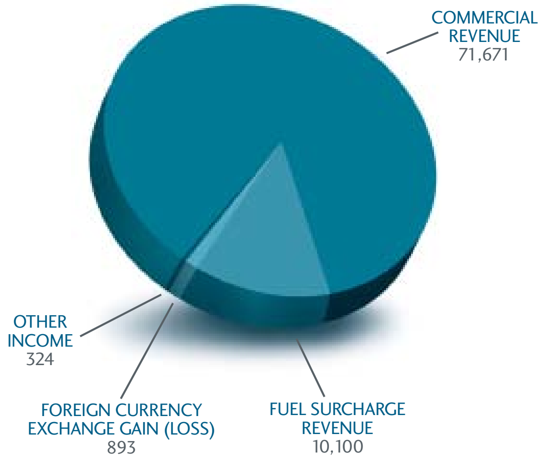
OPERATIONS:

	2008-09	2007-08	2007*	2006	2005
Commercial revenues	$71,671	$71,422	$10,257	$67,569	$67,247
Fuel surcharge	10,100	1,130	–	–	–
Charter revenue	–	55	285	–	23
Other income	1,217	578	170	600	620
	82,988	73,185	10,712	68,169	67,890
Operating expenses	174,201	143,347	30,783	142,658	123,655
Amortization	17,038	16,061	3,967	18,323	21,283
	191,239	159,408	34,750	160,981	144,938
Loss before government funding	108,251	86,223	24,038	92,812	77,048
Government funding:					
Restructuring	69	135	–	955	1,585
Operations	105,332	60,401	21,113	77,894	56,683
Amortization of deferred capital assistance	17,276	16,061	3,967	18,658	21,383
Net income (loss)	$14,426	$(9,626)	$1,042	$4,695	$2,603
ASSETS:					
Total Assets	$226,659	$201,269	$213,246	$218,591	$238,451
Capital Expenditures	$20,526	$7,383	$1,835	$4,981	$5,564

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008-09.
** 2007 was a short three-month year due to the changeover in fiscal year from a January to December Calendar basis to an April-March Government Fiscal Year basis.*
As the 2007 period covers January to March, these numbers are not comparable to the other data presented.
***Full-time equivalent (FTE) employees are calculated by dividing actual labour hours worked by the standard hours in a work year (2,080).*

FINANCIAL OVERVIEW CONTINUED

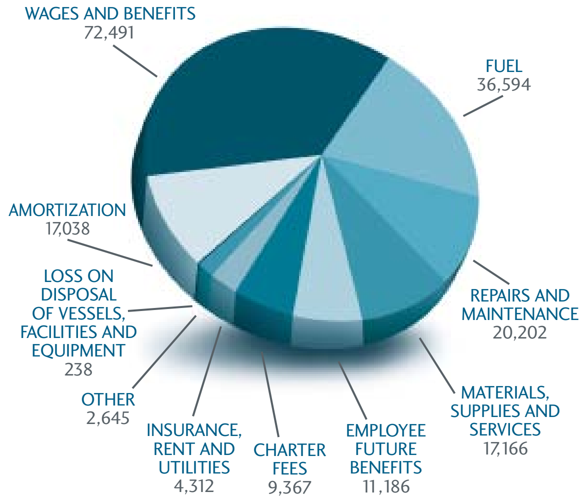
Revenues 2008-09 *(in thousands of dollars)*



WAGES AND BENEFITS

The arrival of the MV *Atlantic Vision* in the fall of 2008 resulted in additional staffing requirements for training and for preparation of integrating the vessel into the fleet. This contributed $4.5 million toward the increase in wages and benefits. Unreliable assets resulting in mechanical, rerouting, and rescheduling issues continued to challenge Marine Atlantic, resulting in additional maintenance and terminal labour requirements. The introduction of a new ticketing and reservation system resulted in the retraining of all reservation and terminal front line staff. In addition, there was a contracted general wage rate increase from one of the six collective agreements currently in place.

Expenses 2008-09 *(in thousands of dollars)*



EMPLOYEE FUTURE BENEFITS

Actuarially calculated amounts for the accrued obligations for Workers' Compensation Boards, health and life benefits for retirees, and the pension expense decreased by $7 million. The change was almost entirely due to the change in the Pension estimate. The increase in return on Pension Plan investments of $2.8 million, along with the decrease in amortization of net actuarial loss, resulted in a $6.9 million decrease in the pension expense in 2008/09.

FUEL

Fuel costs increased $10.3 million as a result of the rising prices. Excluding the consumption related to the implementation of the MV *Atlantic Vision*, actual consumption was down, but the cost of fuel consumed increased by $0.26 per litre. The fuel cost associated with transporting the MV *Atlantic Vision* to Canada and performing the necessary maneuvering and training exercises was $1.2 million.

MATERIALS, SUPPLIES AND SERVICES

Materials, supplies and services were 61 per cent higher than the previous fiscal year. The Fleet Renewal department was in full operation in 2008/2009, contributing to this increase over last year. Outside consultants were engaged extensively throughout the year to assist in various initiatives such as the security plan, rebranding, corporate reorganization, fleet renewal, auditing and departmental reviews, and $2.4 million was spent preparing the MV *Atlantic Vision* for service.

CHARTER FEES

Marine Atlantic took possession of the MV *Atlantic Vision* in November 2008, the charter fees represent the direct lease costs of the charter agreement to the end of the year.

INSURANCE, RENT AND UTILITIES

In 2008/09, insurance, rent and utilities increased by 23 per cent compared to the previous fiscal year. Higher property taxes, the implementation of a new recycling program aboard the vessels for waste management, and the addition of the MV *Atlantic Vision* to the fleet contributed to this increase.

VESSELS, FACILITIES AND EQUIPMENT

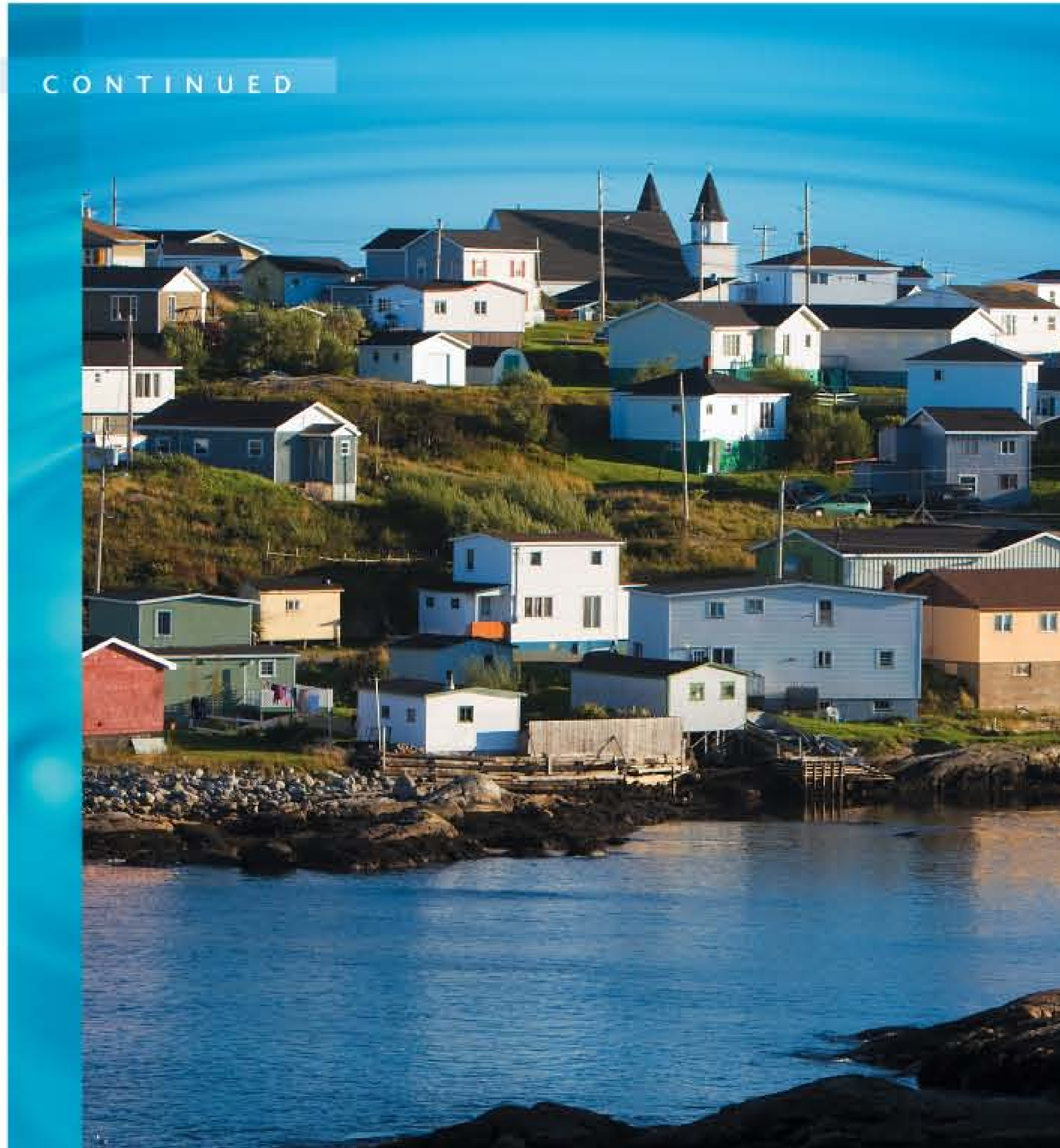
In 2008/09, Marine Atlantic spent $20.5 million in modifications and upgrades to its vessels, terminals and other assets. Two major initiatives accounted for 80 per cent of the spending in 2008/2009 – $8 million on the construction of the Bi-Level Alternate Dock in Port aux Basques; and another $8 million was spent on modifying the MV *Atlantic Vision* and the docking structures in Port aux Basques and North Sydney for safe operation of this vessel.

GOVERNMENT FUNDING

Government funding was up $46 million during the 2008/09 fiscal year. The increased funding requirement was in large part due to the implementation and addition of the MV *Atlantic Vision*, as well as, the large investment in capital in the year.

OTHER

Other expenses were up 15 per cent in 2008/09 as a result of increased travel relating to the fleet renewal program and the safe delivery of the MV *Atlantic Vision* to Canada.



THE BOARD AND MANAGEMENT WORKING TOGETHER

Marine Atlantic is governed by a 10 person Board of Directors. It is responsible for the general oversight of the Corporation's activities and is required to provide overall policy direction. The independent directors are chosen and appointed for specific and staggered terms by the Government of Canada.

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

The Board must provide prudent fiscal direction and guidance to the executive team, ensuring effective budgeting and financial management as well as management of corporate risks. Leadership is provided through policy direction. These processes fulfill the Board's commitment to provide overall governance. Management, in turn, directs Marine Atlantic's employees with the overall united effort to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system for our customers.

STRATEGIC PLANNING

During this past year, the Board engaged in a renewed planning process. In addition to regular meetings of the Board, the directors, along with the Corporation's executive team, participated in a wide scale strategic planning exercise. This process focused on how the Corporation has progressed over the past few years and on the need for renewal into the future. Recognizing that true strategic planning involves all levels of an organization, this process included Board planning sessions, executive team session and various inputs from employees throughout the Corporation, as well as external stakeholders. This process generated ideas related to potential operational improvements and efficiencies, new business initiatives, and enhanced communications throughout the Corporation. The new organizational structure recognizes that additional and dedicated resources are required for customer service, marketing, marine operations, and strategic planning. These organizational changes will greatly improve the Corporation's strategic planning process. In addition, the Corporation is developing a new business planning cycle that will be implemented in 2009/10.

COMMITTEES OF THE BOARD

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

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for promoting modern and effective governance practices to create an environment of integrity within the Corporation. It must ensure that processes of accountability, risk management and business planning exist throughout the organization.

During the year, the Committee continued in its primary and critical role of oversight on the advancement of the Fleet Renewal Program, particularly as it related to the acquisition and integration of the new charter vessel, the MV *Atlantic Vision*.

In order to determine the effectiveness of corporate boards, it is common practice to periodically embark on a board assessment protocol, a process the Marine Atlantic Board completed this year. In addition to other responsibilities, the Corporate Governance Committee worked to develop a self-evaluation and board assessment protocol which all Board members completed. The results were not tabulated as of year end, but will be reviewed early in the next fiscal year.

AUDIT COMMITTEE

The Audit Committee oversees the Corporation's standards for integrity and behaviour, financial reporting, internal audit, and risk management. Overall responsibilities include review of management performance, operational and capital budgets, financial statements, internal controls, and risk management activities. The Committee includes two Chartered Accountants and two business executives that have extensive knowledge of financial reporting.

On a quarterly basis, the Committee reviews internal financial statements prepared by management. It is also responsible for reviewing 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 principles.

Under the guidance of the Committee, Marine Atlantic's Internal Auditor regularly performs audits and reviews on various aspects of the Corporation's operations. This past year, Internal Audit completed a regular program of compliance, including inventory counts, review of boarding passes, credit card usage, and regulatory compliance. To ensure that Marine Atlantic continues to benefit from a robust Internal Audit function, the Committee engaged Deloitte LLP as a Firm of Record to supplement the in-house audit expertise. The Firm of Record completed one audit during the year and will continue to support the Committee in its oversight role.

During the year a new Risk Manager was hired by Marine Atlantic who is responsible for overseeing the risk management strategies of the Corporation. This manager is developing a corporate risk register and assisting divisions in the risk assessment process. The Risk Manager provides a quarterly report to the Audit Committee.

Also included in the Audit Committee's terms of reference is a requirement for on-going education. Accordingly, members of the Committee will participate 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 have attended information sessions on the adoption of International Financial Reporting Standards (IFRS) to which the Corporation must comply by 2011.

HUMAN RESOURCES AND PENSION MANAGEMENT COMMITTEE

The previous Human Resources and Pension Management Committees were combined in late 2007 and in the past year we saw that committee's name change to fully reflect the areas for which it is responsible. It is now called the Human Resources and Pension Management Committee. The Terms of Reference were reviewed and updated to ensure that all governance requirements associated with the Pension Plan for Employees of Marine Atlantic Inc. are covered.

On the human resources front, a significant focus for the Committee this year was the recruitment and selection of a new President and CEO for the Corporation. The process was led by the Privy Council Office with input and assistance from the Committee. Upon completion of an extensive recruitment process, the Committee and the Board of Directors were pleased to welcome Wayne Follett as the new President and CEO.

Throughout the year, the Committee reviewed the succession planning process and the demographics for Marine Atlantic for the next five years. It noted the risk to the organization associated with human resource issues and the significance of monitoring staffing for all phases of development within the organization. The Committee also reviewed and approved the mandate for contract negotiations.

With respect to pension management, the Committee was involved in several key areas this past year. There was a Request for Proposals for Custodian Services (for the Pension Plan for Employees of Marine Atlantic Inc.) and through this process a change in custodian occurred in January 2009. The organization was provided with enhanced technical support and a more competitive contract. Throughout the year, the Committee continued to monitor the investments of the Corporation's pension plan, receiving advice from investment management consultants and updates on the status of the plan from the actuary.

Following extensive review, the Committee updated the investment policy for the pension fund to provide for greater diversification and expertise by dividing the foreign equity component into two distinct mandates, International (small and large cap) and Emerging Markets and US Equities. This resulted in the appointment of two additional fund managers to manage broad US Equities. In addition, a review of the Canadian equity mandate and the fund managers resulted in the removal of one fund manager and the consolidation of the fund under the two remaining Canadian Equity fund managers.

This year, the Committee also saw the conclusion of a litigation matter involving the pension plan. The issue stemmed from substantial changes to Marine Atlantic's operations in the late 1990s. At that time, several areas were shutdown and as a result there were three partial wind-ups of the Pension Plan for Employees of Marine Atlantic that at the time was in a surplus liquidity position. Benefits for departing employees were all calculated under the direction of the Office of the Superintendent of Financial Institutions (OSFI), the federal regulator. Class action litigation involving a Federal Court Trial Division judicial review of decisions made by OSFI was heard in April 2007. Marine Atlantic was a third party at this judicial review. The Federal Court of Appeal ruled in favour of the Corporation, and as a result, the proceedings were dismissed in their entirety. The group subsequently appealed to the Supreme Court of Canada, again the case was dismissed.

BOARD RECRUITMENT, ATTENDANCE AND REMUNERATION

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

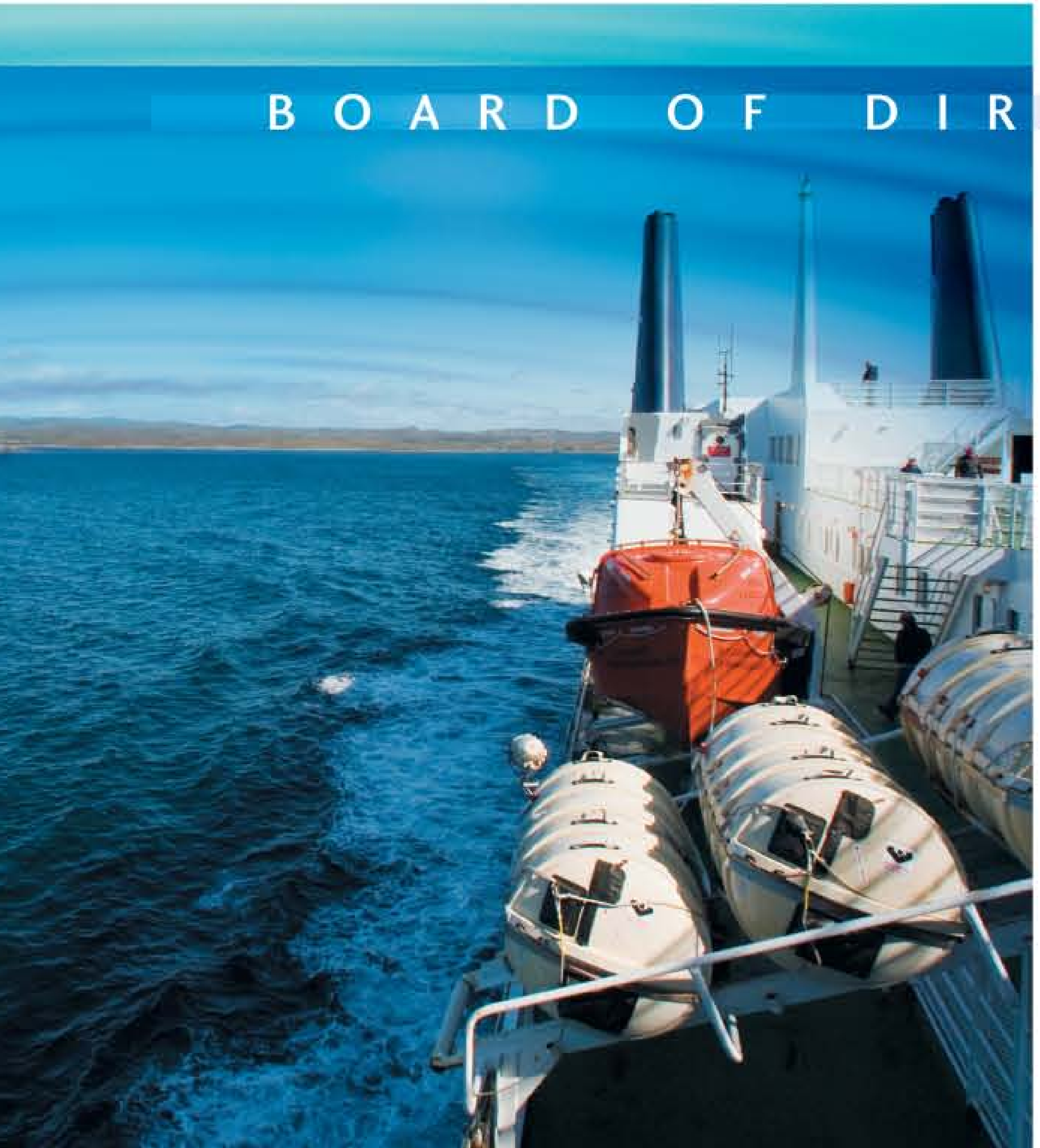
Remuneration levels for directors of all Crown corporations are set by the Privy Council Office (PCO). Marine Atlantic's Board is classified as Group 5 and directors are compensated in accordance with the corresponding PCO schedule.

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 chair, $360 for the chair of each of the committees, and $310 for all other directors.

Board Membership	Committee Membership	Attendance (4 scheduled Board meetings during period)
Robert Crosbie	Board Chairman, Chair of Corporate Governance Committee	4
John F. Roil, QC[1]	Ex-officio member of Corporate Governance and HRPMC	4
Wayne Follett[2]	Ex-officio member of Corporate Governance and HRPMC	2
Nick Careen	Corporate Governance	4
Peggy A. Coady, FCA	Chair, Audit	4
Stan Cook	HRPMC	2
James G. Doody, CA	Audit	4
John J. Henley	Corporate Governance	3
Dianne Kelderman[3]	Corporate Governance, Audit	1
Walter Pelley	HRPMC, Audit	4
Dwight Rudderham	Corporate Governance	3
Heather Tulk	Chair, HRPMC	4
Dr. Wayne G. Wheeler	HRPMC, Audit	4

There are three Committees of the Board of Directors. These are: Audit Committee, Human Resources and Pension Management Committee (HRPMC), and Corporate Governance Committee.
1 – Appointed interim President and CEO May 9, 2008 (Term ended September 30, 2009)
2 – Appointed President and CEO October 1, 2008
3 – Resigned August 19, 2008

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



BOARD OF DIRECTORS

WAYNE FOLLETT
Conception Bay South, NL
President and CEO,
Marine Atlantic Inc.

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

JOHN F. ROIL, QC[1] – St. John's, NL
Interim President and CEO, Marine Atlantic Inc.

DIANNE KELDERMAN[1] – Truro, NS
President, Atlantic Economics

[1]*Directors whose terms expired in 2008/09.*

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, Cook's Coastal Walks and Wilderness
Newfoundland Adventures

PEGGY A. COADY, 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

JOHN J. HENLEY
St. John's, NL

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

JAMES G. DOODY, CA
St. John's, NL

Chief Executive Officer,
King Group of Companies

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

DR. WAYNE G. WHEELER
Stephenville, NL

Chief Executive Officer,
First Choice Vision
President, Newstat Research

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, except for the change in the method of accounting for inventories as explained in Note 3 (a) to the financial statements, on a basis consistent with that of the preceding year. These principles have been applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management 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 an internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available; that assets are safeguarded and controlled; that resources are managed efficiently; and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.

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

The 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

Wayne Follett, CGA
President and CEO

St. John's, Canada
June 12, 2009


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, 2009 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, 2009 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, except for the change in the method of accounting for inventories as explained in Note 3 (a) to the financial statements, 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 *Canada Business Corporations Act* 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 8, 2009, except as to Note 3 (a) which is as of June 12, 2009

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Balance Sheet

As at March 31 *(in thousands)*

	2009	2008
Assets		
Current assets		
Cash	$ 488	$ 8,939
Accounts receivable (note 5)	10,361	5,209
Inventory of fuel and supplies	15,369	4,984
Receivable from Government of Canada (note 6)	795	–
Prepaid expenses	516	386
	27,529	19,518
Restricted cash (note 7)	10,396	–
Long-term assets		
Vessels, facilities and equipment (note 8)	137,525	133,259
Accrued pension asset (note 9)	51,209	48,492
	188,734	181,751
Total assets	$ 226,659	$ 201,269
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 18,116	$ 13,039
Deferred revenue	2,580	2
Payable to Government of Canada (note 6)	–	7,656
Accrued vacation pay	5,492	4,776
Current portion of long-term accrued obligations (notes 10 and 11)	1,792	1,763
	27,980	27,236
Long-term liabilities		
Accrued pension liability (note 9)	1,276	1,271
Accrued obligation for workers' compensation (note 10)	7,929	8,319
Accrued obligation for other non-pension employee future benefits (note 11)	22,226	21,130
	31,431	30,720
Deferred capital assistance	137,525	133,259
Shareholder's equity		
Share capital (note 13)	258,530	258,530
Accumulated deficit	(228,807)	(248,476)
	29,723	10,054
Commitments and guarantees (note 15)		
Contingencies (note 16)		
Total liabilities and shareholder's equity	$ 226,659	$ 201,269

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

Approved by the Board of Directors:

__________________ Director   __________________ Director

STATEMENT OF Income, Comprehensive Income and Accumulated Deficit

For the year ended March 31 *(in thousands)*

	2009	2008
Revenue		
Commercial revenue	$ 71,671	$ 71,422
Fuel surcharge revenue	10,100	1,130
Foreign currency exchange gain (loss)	893	(17)
Charter revenue	–	55
Other income	324	595
	82,988	73,185
Operating expenses		
Wages and benefits	72,491	65,400
Fuel	36,594	26,256
Repairs and maintenance	20,202	17,021
Materials, supplies and services	17,166	10,652
Employee future benefits (notes 9,10 and 11)	11,186	18,193
Charter fees	9,367	–
Insurance, rent and utilities	4,312	3,517
Other	2,645	2,308
Loss on disposal of vessels, facilities and equipment	238	–
Amortization	17,038	16,061
	191,239	159,408
Loss before government funding	(108,251)	(86,223)
Government funding		
Operations	105,401	60,536
Amortization of deferred capital assistance	17,276	16,061
Net income (loss) and comprehensive income (loss)	14,426	(9,626)
Accumulated deficit, beginning of year as previously reported	(248,476)	(238,850)
Effect of change in accounting policy (note 3 (a))	5,243	–
Accumulated deficit, beginning of year as restated	(243,233)	(238,850)
Accumulated deficit, end of year	$ (228,807)	$ (248,476)

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

STATEMENT OF Cash Flow

For the year ended March 31 *(in thousands)*

		2009		2008
Cash flows from (used for)				
Operating activities				
Cash receipts from customers	$	80,901	$	72,631
Other income received		224		578
Government operating funding		96,950		68,162
Cash paid to suppliers and employees		(163,960)		(124,279)
Restricted cash held in trust (note 7)		(9,404)		–
Cash paid for pension, workers' compensation and other non-pension employee future benefits		(13,162)		(9,466)
		(8,451)		7,626
Investing activities				
Purchase of vessels, facilities and equipment		(20,526)		(7,383)
Financing activities				
Government capital assistance		20,526		7,383
Net (decrease) increase in cash		(8,451)		7,626
Cash, beginning of year		8,939		1,313
Cash, end of year	$	488	$	8,939

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

NOTES TO Financial Statements

For the year ended March 31 *(in thousands)*

1. NATURE OF OPERATIONS AND AUTHORITY

Marine Atlantic Inc. is incorporated under the *Canada Business Corporations Act*. The *Marine Atlantic Inc. Acquisition Authorization Act* of 1986 established the Corporation as a parent Crown corporation. In accordance with the Act, the Corporation's articles restrict 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 in the base year measured 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) Financial instruments

The Corporation's financial assets include accounts receivable and a receivable from the Government of Canada and are classified as loans and receivables. Its financial liabilities include accounts payable and are classified as other financial liabilities. These financial instruments are initially measured at fair value and subsequently measured at amortized cost. The carrying values of these financial instruments approximate fair values due to their short-term nature. The Corporation's financial assets also include cash and restricted cash.

The Corporation uses derivative financial instruments (foreign exchange forwards) to manage currency risk. The Corporation does not apply hedge accounting to these derivatives. Derivatives are accounted for at fair value on the balance sheet and are removed from the balance sheet when they expire or are terminated with changes in fair value recognized in the statement of income, comprehensive income and accumulated deficit as foreign currency exchange gains or losses.

At March 31, 2009, the Corporation did not hold any derivative financial instruments or hedges.

(c) Parliamentary appropriations and deferred capital assistance

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.

NOTES TO Financial Statements For the year ended March 31 (in thousands)

(d) Inventory

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

(e) Property, vessels, facilities and equipment

Property is carried at cost. Vessels, facilities and equipment are carried at cost less accumulated amortization. Major spare parts that are included in the Corporation's vessel spare parts inventory are accounted for as vessels, facilities and equipment. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with an item of vessels, facilities and equipment. The cost of work in progress includes materials and direct labour. Amounts included in work in progress are transferred to the appropriate 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 recognizes a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

(f) Employee future benefits

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

- The Corporation maintains, through a trustee, a 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 cost of pensions is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation 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 past service costs resulting from plan amendments are amortized over the estimated average remaining service period of active registered plan members; the estimated average life expectancy of members of the former supplementary retirement arrangements; and the average remaining service period of active members for the supplementary retirement arrangement effective from 2004. The estimated average remaining service period of the active members covered by the registered pension plan is 11.1 years (2008 – 11.1 years). The estimated average life expectancy for members covered by the former supplementary retirement arrangement is 19.2 years (2008 – 18.7 years). For the supplementary retirement arrangement effective from 2004 the average remaining service period of active members expected to receive benefits under the plan is 6.0 years (2008 – 6.4 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.

- 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 (2008 – 11 years).

(g) Revenue recognition

Commercial, fuel surcharge and charter revenues are recorded when ferry services are provided. Marine Atlantic Inc. requires customers to pay in advance when booking a reservation. These amounts received are recorded as deferred revenue and are recognized as revenue when ferry services are provided.

Interest income is recorded on a time proportion basis.

(h) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. All exchange gains and losses are included in the determination of net income for the period.

(i) 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.

The fair value of restricted cash which is held in a euro denominated escrow account is determined using the Bank of Canada exchange rate at March 31.

(j) Management estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. 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.

(k) Capital management

The Corporation's capital is its equity, which comprises share capital net of accumulated deficit. Equity is represented by net assets. The Corporation's objective when managing capital is to ensure that the Corporation has sufficient capital to meet its current and long-term obligations to suppliers and employees so that it can continue to provide its ferry services. The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation is not subject to any externally imposed capital requirements.

3. CHANGES IN ACCOUNTING POLICIES

(a) Inventory

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3031, *Inventories*, prospectively without restatement in accordance with the transitional provisions of the section. The revised standard provides additional guidance on the measurement and disclosure requirements for inventories. The Corporation maintains an inventory of spare parts for vessels in service. Prior to April 1, 2008 the cost of these spare parts was expensed on acquisition. Effective April 1, 2008 the Corporation recognizes its vessel spare parts as inventory when acquired.

As a result of this change in policy, on April 1, 2008, the balance of inventory of fuel and supplies increased by $5,243 with a decrease of $5,243 to the accumulated deficit. Major spare parts are classified on the balance sheet as vessels, facilities and equipment. On April 1, 2008, the balance of this balance sheet account increased by $1,016 with a corresponding increase to deferred capital assistance resulting in no net adjustment to opening accumulated deficit. The result of this change in accounting policy for the 2008-09 fiscal year was a decrease in operating expenses of $352.

(b) Financial instruments – disclosure and presentation

Effective April 1, 2008, the Corporation adopted the new CICA Handbook Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*. These standards require the disclosure of information with regards to the significance of financial instruments for the Corporation's financial position and operations, the nature and extent of risks arising from financial instruments to which the Corporation

NOTES TO **Financial Statements** For the year ended March 31 *(in thousands)*

is exposed during the period and at the balance sheet date, and how the Corporation manages those risks. These standards replace CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. These new requirements relate to disclosure only and do not impact the financial results of the Corporation.

(c) Capital disclosures

Effective April 1, 2008, the Corporation adopted the new CICA Handbook Section 1535, *Capital Disclosures*. The standard requires the Corporation to disclose information about the Corporation's objectives, policies and processes for managing its capital, quantitative data about what the Corporation regards as capital and whether the Corporation has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This new requirement relates to disclosure only and does not impact the financial results of the Corporation.

4. FINANCIAL RISK MANAGEMENT

OVERVIEW

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk
- currency risk

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

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

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of cash, accounts receivable and restricted cash represents the maximum exposure to credit risk.

The Corporation's accounts receivable had a carrying value of $10,361 as at March 31, 2009 (2008 – $5,209). 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 44% of the trade receivables (2008 – five customers represented 50% of the trade receivables). There is no significant credit risk with accounts receivable. As at March 31, 2009, approximately 5% (2008 – 4%) of trade accounts receivable, net were over 90 days past due, whereas 90% (2008 – 94%) were current, or less than 60 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts. The Corporation's allowance for doubtful accounts was $379 at March 31, 2009 (2008 – $392).

Cash other than restricted cash is held in a Canadian chartered bank. Restricted cash is held in a euro denominated escrow account in a German bank. The designation of this bank as escrow agent was imposed as an inherited condition for the charter agreement. As the ferry's owner is bound under a number of security instruments, the ferry's owner was obliged to use this bank to hold the escrow funds. On May 6, 2009, the German bank had a Standard & Poor's credit rating of BBB+/Negative/A-2.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Corporation's reputation.

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

The carrying amount of accounts payable and accrued liabilities represents the maximum exposure to liquidity risk. The Corporation's accounts payable had a carrying value of $10,883 as at March 31, 2009 (2008 – $6,863) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $7,233 as at March 31, 2009 (2008 – $6,176).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest rate for the Corporation's cash balances varies based on changes in the prime rate. The Corporation has no significant exposure to interest rate risk.

(d) Currency risk

Currency risk arises due to fluctuations in foreign currency rates. The Corporation uses derivatives (foreign exchange forwards) to manage this risk.

The Corporation makes monthly lease payments for the charter of the passenger and freight vessel, the MV *Atlantic Vision*, in the amount of 1,034 euros. For planning and funding purposes the Corporation uses an exchange rate of 1.60 which results in an annualized risk of +/–$138 for each $0.01 change in the exchange rate. To minimize this risk the Corporation purchases forward contracts for the amount of the monthly lease payments within the confines of the fiscal year when the rate can be secured at or near the budgeted exchange rate.

5. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

	2009	2008
Trade receivables	$ 4,401	$ 3,531
Other receivables	5,960	1,678
	$ 10,361	$ 5,209

6. RECEIVABLE FROM (PAYABLE TO) GOVERNMENT OF CANADA

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

	2009	2008
Payable to Government of Canada, beginning of year	$ (7,656)	$ (30)
Parliamentary appropriations received during the year	(117,476)	(75,545)
Recognized during the year:		
Operations	105,401	60,536
Vessels, facilities and equipment	20,526	7,383
Receivable from (payable to) Government of Canada, end of year	$ 795	$ (7,656)

NOTES TO Financial Statements For the year ended March 31 (in thousands)

7. RESTRICTED CASH

Restricted cash consists of cash denominated in euros plus accumulated interest held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The charter agreement signed in April 2008 required the establishment of an escrow account equivalent to six months charter fees (6,201 euros – 10,361 CAD at March 31, 2009) until the end of the charter. These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

8. VESSELS, FACILITIES AND EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vessels	$ 394,383	$ 319,044	$ 75,339	$ 384,007	$ 304,208	$ 79,799
Terminals	86,114	41,807	44,307	84,551	39,738	44,813
Equipment	12,380	8,407	3,973	10,323	7,870	2,453
Work in progress	13,906	–	13,906	6,194	–	6,194
	$ 506,783	$ 369,258	$ 137,525	$ 485,075	$ 351,816	$ 133,259

9. PENSION PLANS

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, 2008 for March 31, 2009 and December 31, 2007 for March 31, 2008). The most recent actuarial valuation for funding purposes is as of December 31, 2007. The next required actuarial valuation for funding purposes, to be completed in 2009, will be as of December 31, 2008.

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 percent, subject to a maximum annual increase of three percent.

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

	2009		2008	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (market value)	$ 464,044	$ –	$ 528,703	$ –
Pension obligations (actuarial value)	421,778	1,481	507,930	1,703
Surplus (deficit)	$ 42,266	$ (1,481)	$ 20,773	$ (1,703)
Surplus (deficit) end of year	$ 42,266	$ (1,481)	$ 20,773	$ (1,703)
Unamortized amounts	6,290	169	26,035	399
Employer contributions during year				
from measurement date to March 31	2,653	36	1,684	33
Accrued pension asset (liability)	$ 51,209	$ (1,276)	$ 48,492	$ (1,271)
Pension contributions – employer	$ 10,767	$ 138	$ 7,475	$ 314
Pension contributions – employees	$ 3,045	$ –	$ 2,973	$ –
Pension costs	$ 8,051	$ 143	$ 14,886	$ 212
Benefits paid	$ 30,185	$ 135	$ 29,195	$ 119
Settlement payments	$ –	$ –	$ –	$ 192
Determination of pension costs for the year are calculated as:				
Current service cost	$ 5,972	$ 20	$ 6,849	$ 35
Interest on pension obligations	27,570	92	26,877	90
Return on plan assets	(32,139)	–	(29,374)	–
Amortization of past-service costs	2,367	9	2,367	9
Amortization of net actuarial loss	4,281	22	8,167	24
Settlement loss	–	–	–	54
Pension costs	$ 8,051	$ 143	$ 14,886	$ 212

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 applied 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.

The registered pension plan assets are invested in debt securities and equity securities. The asset mix at March 31, 2009 was 68% in debt securities and 32% in equity securities (2008 – 62% and 38% respectively).

Weighted-average assumptions

	2009	2008
Pension obligations		
Discount rate	7.4%	5.5%
Rate of compensation increase	3.0% + merit scale	3.0% + merit scale
Pension costs		
Discount rate	5.5%	5.1%
Expected long-term rate of return on plan assets	6.3%	6.0%
Rate of compensation increase	3.0% + merit scale	3.3% + merit scale

10. 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, 2009 (2008 – January 1, 2005) and was extrapolated to the measurement date of December 31, 2008 (2008 – December 31, 2007). The next required actuarial valuation, to be completed in 2012, will be as of December 31, 2011.

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,380 (2008 – $1,437) 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 For the year ended March 31 (in thousands)

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

	2009	2008
Workers' compensation obligations (actuarial value)	$ 9,315	$ 9,714
Less: current portion	1,386	1,395
Non-current portion	$ 7,929	$ 8,319
Workers' compensation costs	$ 1,380	$ 1,437
Workers' compensation payments	$ 1,779	$ 1,328
Determination of workers' compensation costs for the year are calculated as:		
Current service cost	$ 358	$ 478
Interest cost	675	633
Amortization of net actuarial loss	347	326
Workers' compensation costs	$ 1,380	$ 1,437
Weighted-average assumptions		
Workers' compensation obligations		
Discount rate	7.4%	5.5%
Increase in average industrial wage	3.0%	3.0%
Workers' compensation costs		
Discount rate	5.5%	5.1%
Increase in average industrial wage	3.0%	3.0%
Health care cost increases	5.0%	5.0%

For the year ended March 31, 2009, the Corporation paid $391 (2008 – $407) in premiums to the Workers' Compensation Board of Nova Scotia which are included in wages and benefits in the statement of income, comprehensive income and accumulated deficit. These premiums are a result of the change from a self-insured basis to an assessment basis beginning January 1, 2003.

11. 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 January 1, 2008 (2008 – April 30, 2005), extrapolated to the measurement date of December 31, 2008 (2008 – December 31, 2007).

NOTES TO **Financial Statements** For the year ended March 31 *(in thousands)*

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,612 (2008 – $1,658) 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:

	2009	2008
Other non-pension employee future benefits costs	$ 22,632	$ 21,498
Less: current portion	406	368
Non-current portion	$ 22,226	$ 21,130
Other non-pension employee future benefits costs	$ 1,612	$ 1,658
Other non-pension employee future benefits payments	$ 478	$ 349
Determination of other non-pension employee future benefits costs for the year are calculated as:		
Current service cost	$ 593	$ 569
Interest cost	1,128	1,066
Amortization of net actuarial loss	10	142
Plan amendments	(119)	(119)
Other non-pension employee future benefits costs	$ 1,612	$ 1,658
Weighted-average assumptions		
Other non-pension employee future benefits obligations		
Discount rate	7.4%	5.5%
Rate of compensation increase	3.0% + merit scale	3.0% + merit scale
Initial weighted-average health care trend rate	8.5%	9.2%
Ultimate weighted-average health care trend rate	4.9%	4.9%
Year ultimate rate reached	2016	2016
Other non-pension employee future benefits costs		
Discount rate	5.5%	5.1%
Rate of compensation increase	3.0% + merit scale	3.3% + merit scale
Initial weighted-average health care trend rate	9.2%	9.1%
Ultimate weighted-average health care trend rate	4.9%	4.8%
Year ultimate rate reached	2016	2014

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have had the following effects for 2009:

	Increase	Decrease
Total of current service and interest costs	352	(277)
Accrued benefit obligation	2,304	(1,854)

NOTES TO **Financial Statements** For the year ended March 31 *(in thousands)*

12. OPERATING CREDIT FACILITY

The Corporation has an operating credit facility of up to $35,772 (2008 – $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, 2009 (2008 – 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.

13. 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, 2009 – 517,061 (2008 – 517,061) shares at $0.50 (2008 – $0.50) per share have been issued and fully paid.

14. 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 $1,644 (2008 – $1,023) 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 6.

15. COMMITMENTS AND GUARANTEES

(a) The total amount required to complete contracted work in progress at March 31, 2009 is $3,915 (2008 – $11,757).

(b) The Corporation leases certain facilities and equipment. The minimum annual lease payments are as follows: 2009/2010 – $129; 2010/2011 – $51; 2011/2012 – $3; 2012/2013 and beyond – nil.

(c) The Corporation entered into a five-year charter agreement for a passenger and freight ferry – the MV *Atlantic Vision*. The minimum annual lease payments are as follows: 2009/2010 – $19,843; 2010/2011 – $19,843; 2011/2012 – $19,843; 2012/2013 – $19,843 and 2013/2014 – $11,575, for a total of $90,947.

(d) 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 (2008 – $4,200) for an indefinite period.

(e) The Corporation's bank has provided irrevocable letters of credit against the Corporation's operating credit facility in favour of RBC Dexia Investor Services Trust in Trust for The Pension Plan for Employees of Marine Atlantic Inc. in amounts totaling $14,950 with expiry dates of December 31, 2009. The letters of credit meet the 10-year funding requirements per the *Solvency Funding Relief Regulations*.

16. CONTINGENCIES

(a) In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. The Corporation is in receipt of claims estimated at $1,729 (2008 – $1,676). Management has recognized an estimate of the liability.

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

(c) As a result of previous employment terminations, the Corporation made distributions in accordance with reports filed with the Superintendent of Financial Institutions from the Pension Plan for Employees of Marine Atlantic Inc. to the former employees. 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 decisions of the Federal Court of Canada were appealed and the Federal Court of Appeal ruled in favour of the Corporation. The former employees sought leave to appeal to the Supreme Court of Canada which was dismissed during the year.

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2009.