# 2016–2017 ANNUAL REPORT

Marine Atlantic
Marine Atlantique

Canada

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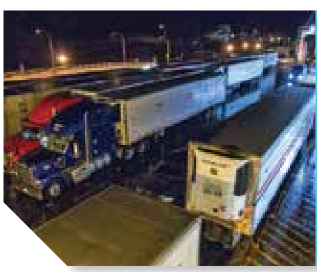
# HIGHLIGHTS
FOR 2016-17

## Number of Sailings
1,701

## Passengers
326,796

## Passenger Vehicles
120,314



## Commercial Vehicles
94,459

## On-time Performance (excluding weather delays)
91%

# MESSAGE FROM THE **BOARD OF DIRECTORS**

From new and improved infrastructure, an enhanced customer experience and modern technologies, Marine Atlantic's service has evolved significantly over the past several years. Our customers are sharing with us that they recognize and appreciate the positive changes that are continuing, and this momentum is reflected in our customer satisfaction surveys. Seventy-seven percent of customers say they are highly satisfied with their experience, compared to just 51 percent in 2010. Our on-time performance rate now stands at 91 percent (excluding weather impacts), in comparison to just 59 percent in 2010.

Our employees work every day to provide a vital transportation and economic link that serves Atlantic Canadians. Their hard work and dedication continues to produce positive results and I want to thank them for their ongoing commitment to our service. Through their efforts, the investments designed to make our service more modern and efficient, and our partnerships with stakeholders, industry and business, we are strengthening and growing new opportunities for the tourism and business sectors.

Thank you to the Government of Canada for their continued support and investment in our service, including the $22 million capital investment in Budget 2016 and the recent three-year, $445 million funding announcement made in Budget 2017. These funds provide our team with greater certainty for planning and will enable us to make the necessary enhancements to further improve and strengthen our operations.

I would also like to welcome our new Board Chair, Kristopher Parsons, who was appointed to the position on March 26. The time I spent as Acting Chair was very rewarding and I want to thank my Board colleagues for their hard work and guidance. We look forward to continuing this work under Kristopher's leadership.

We are committed to providing the best possible ferry service to meet the needs of the many stakeholders, visitors, and businesses that rely on us daily. Through our values of safety, teamwork, commitment, integrity and excellence, we are building upon our year-over-year successes and strong customer satisfaction, on-time performance, and reliability rates. We will continue to focus our efforts and initiate other changes that will further enhance our customers' overall travel experience.

We look forward to the year ahead and working collaboratively with our Executive Team, stakeholders, industry partners and customers. We will strive for even greater results into the future.

Sincerely,

Sharon Duggan

Sharon Duggan,
Acting Chair of the Board of Directors

# MESSAGE FROM THE **PRESIDENT AND CEO**

All of us at Marine Atlantic have been working very hard to provide our customers with a safe, modern, effective and reliable ferry service. To accomplish this, we have enhanced our infrastructure, introduced new technologies, and implemented better business practices, all designed to provide the safest and best possible experience for our customers.

In February, it was an honour for Marine Atlantic to receive the Tourism Corporate Partner Award from Hospitality Newfoundland and Labrador (HNL). This award recognized our efforts in supporting and developing business opportunities with our tourism partners, and demonstrates that the hard work of our employees has resulted in an improved travel experience for customers. We are proud of the support we are receiving from our business partners, and will continue working to meet the needs of our customers and maintain the confidence of our stakeholders.

Our desire to continue this positive change was reflected in our efforts during the year. Some of these new and continuing initiatives included an onboard service review looking to further enhance the full experience of our customers; a business process renewal program with the goal of improving how our customers and employees interact with information on a daily basis; continued trial discount campaigns designed to develop an improved pricing structure that better meets the diverse needs of our customers; infrastructure upgrades at our terminal and docking facilities which are building upon our previous investments; and ongoing work with the Government of Canada regarding our future fleet configuration.

With our customer satisfaction, reliability and on-time performance rates continuing to see year-over-year improvement, and our second consecutive year of passenger traffic growth, the first back-to-back passenger increases in almost two decades, we are moving closer to achieving our goal of becoming a modern and efficient service offering a high level of customer experience. We are proud of our improvements, but also recognize that there is still more to be done.

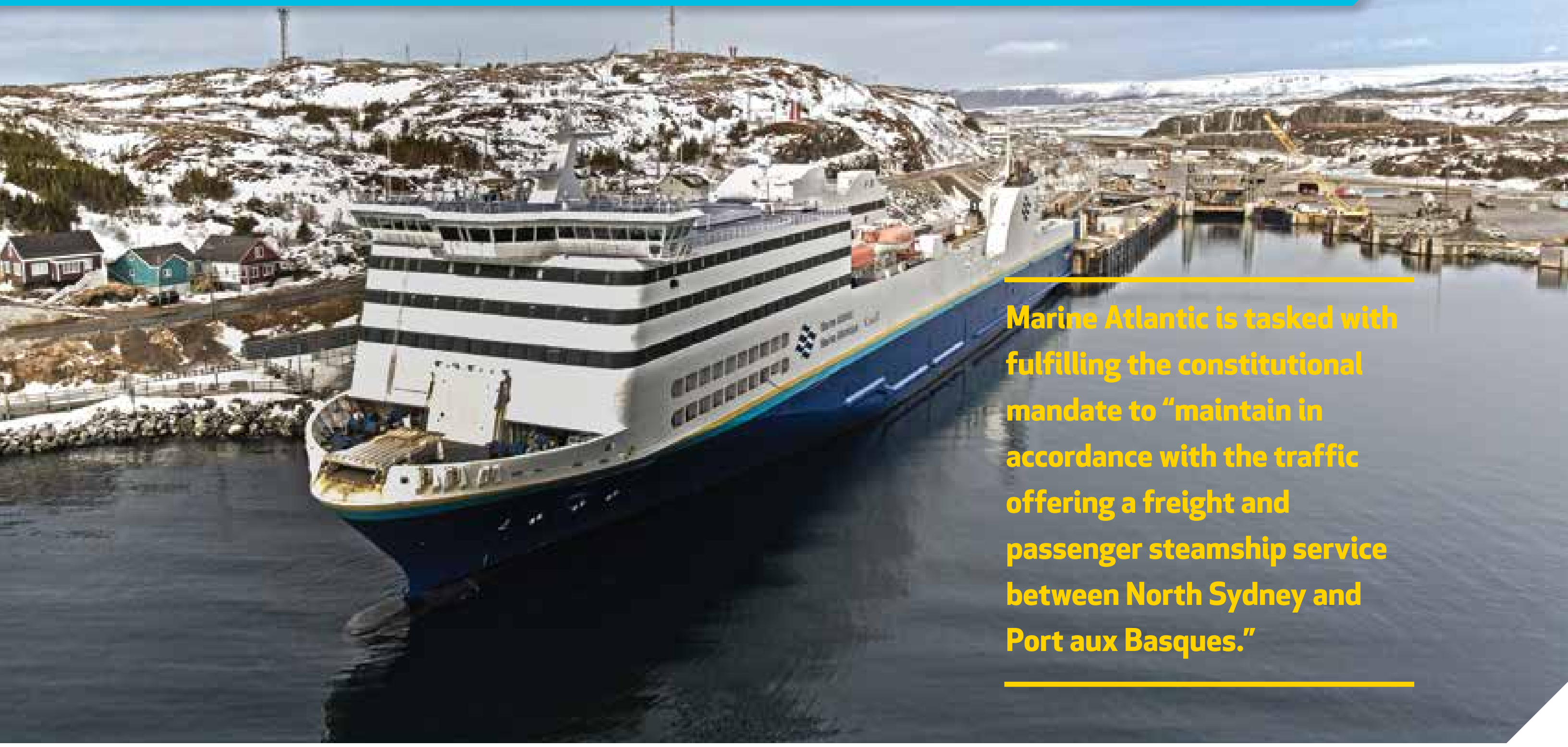
I want to take this opportunity to recognize our outgoing Acting Chair, Sharon Duggan, for her tremendous leadership. Her commitment to our organization, consistently helpful advice and insight helped strengthen Marine Atlantic's service and I look forward to her continued input as she serves on our Board of Directors. I also want to welcome our new Chair, Kristopher Parsons, whose experience and knowledge will be an asset to our Corporation, service and customers.

Through our ongoing commitment to safety and living our corporate values, we will continue to evolve to meet the changing needs of our customers and service. Promoting constructive dialogue and co-operation with our business partners, we look forward to an even stronger service in the year ahead.

Sincerely,

Paul Griffin
President and CEO

# **OUR ROLE** AND SERVICE



**Marine Atlantic is tasked with fulfilling the constitutional mandate to "maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques."**

## OUR CORPORATE PROFILE

Marine Atlantic is a federal Crown Corporation tasked with fulfilling the constitutional mandate of offering freight and passenger service between North Sydney, Nova Scotia, and Port aux Basques, Newfoundland and Labrador. This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada.

Headquartered in St. John's, Newfoundland and Labrador, Marine Atlantic operates terminals in Port aux Basques and Argentia, Newfoundland and Labrador, and North Sydney, Nova Scotia. We operate 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 ferry service between Argentia and North Sydney.

To fulfill its mandate, Marine Atlantic operates a fleet of four ice-class ferries (ships that have additional strengthening and specifications to enable navigation through sea ice): MV *Blue Puttees*, MV *Highlanders*, MV *Atlantic Vision* and MV *Leif Ericson*. The Corporation reports annually to the Government of Canada through the Minister of Transport.

## OUR VISION

Building on our rich tradition, we provide a valued public transportation link that enhances the well-being of our customers and those who depend on them.

## OUR MISSION

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

# OUR VALUES

## Safety

Protection of people, property and the environment is our ultimate priority. Excellence in managing health, safety and environmental performance is critical to our sustainability and long-term business success.

## Teamwork

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

## Commitment

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

## Integrity

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

## Excellence

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

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


# OUR OPERATIONS

Marine Atlantic transports a diverse range of traffic. On a daily basis, the Corporation transports passengers, passenger vehicles and their occupants, tractor trailers and their occupants, drop trailers (trailers only - no attached truck), and other vehicles such as motorhomes, buses, motorcycles and all-terrain vehicles.

As the only year-round daily ferry service between the Island of Newfoundland and Nova Scotia, the Corporation transports goods entering and exiting the province via the commercial trucking industry. Vitally important items such as fruits, vegetables, dairy supplies, meats, fresh fish, dangerous goods and medical supplies are transported daily, and local Newfoundland industries rely on our service to maintain their supply chain to customers off the Island.

As the primary ferry service for passenger vehicle traffic on and off the Island of Newfoundland, Marine Atlantic is also a valuable transporter of people. Ferry travel supports the connection between Newfoundland and Labrador and the rest of Canada. During the summer months, Marine Atlantic transports large numbers of travellers, both resident and non-resident, and is an important player in supporting the province's tourism industry.

Marine Atlantic operates four 'ropax' vessels (i.e., carries both passengers and vehicles that can drive on/off) designed to meet the needs of its diverse customer base. From shipping large volumes of freight to offering modern passenger amenities, Marine Atlantic strives to provide a safe, reliable and quality travel experience to all of its customers.

**Marine Atlantic's vessels cross the Gulf of St. Lawrence where high winds and significant wave heights can occur at any time of the year. This is an area where the presence of severe ice build-up can affect operations during the winter months and highlights Marine Atlantic's requirement for ice-class ferries.**

# OUR OPERATING ENVIRONMENT

Operating year-round, Marine Atlantic's vessels and crews sail during pleasant summer weather and harsh winter conditions. The ferry service is heavily influenced by its operating environment and the captains and crew of our vessels are constantly monitoring weather conditions to ensure safety and passenger comfort during the trip.

The environment in which Marine Atlantic's ferry service operates demonstrates the requirement for modern, ice-class, well-maintained vessels, as well as highly trained and skilled employees. By its very nature, Marine Atlantic's service is complex to operate and the focus is always safety, reliability and customer service.

# OUR SAFETY STANDARDS AND REGULATIONS

Marine Atlantic's vessels are maintained to high regulatory and safety standards. The vessels must comply with Flag State Transport Canada Marine Safety Statutes and Regulations, and are inspected by DNV GL, a world leading classification society to ensure compliance with these regulations. The Safety Management System of the Corporation is audited independently by Lloyd's Register to verify compliance with the requirements of the International Safety Management Code for the Safe Operations of Ships and Pollution Prevention. Marine Atlantic is governed by various acts and regulations including *Canada Labour Code*, *Transportation of Dangerous Goods Act* and Regulations, International Maritime Dangerous Goods Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act* and Regulations, *Financial Administration Act*, Domestic Ferries Security Regulations (DFSR) and Sulphur Emission Control Areas (SECA) Regulations, to name a few.

# **OUR YEAR** IN REVIEW

**With a focus on safety and security, infrastructure upgrades, enhanced business processes, customer service improvements, human resource initiatives, community investments and environmental stewardship, the Corporation continued its momentum throughout the year to further strengthen our service and responsibilities to our customers and stakeholders.**

# FLEET RENEWAL

Marine Atlantic's goal is to deliver a safe and efficient ferry service that provides a positive experience for our customers. To that end, fleet renewal is a continuous cycle within the Corporation.

## Future Fleet Configuration

In fiscal year 2015-16, Marine Atlantic purchased the MV *Blue Puttees* and MV *Highlanders* as part of the Corporation's ongoing fleet renewal process. Additionally, a Request for Information (RFI) was issued to obtain vessel market information to help identify potential options for future fleet replacement, as the Corporation prepares for the replacement of the MV *Leif Ericson* and MV *Atlantic Vision*.

During fiscal year 2016-17, the information obtained from the RFI was reviewed and presented to the Government of Canada for further analysis and consideration. Marine Atlantic will continue to work with the federal government in the year ahead regarding the Corporation's future fleet configuration.


*Acting Board Chair Sharon Duggan, CEO Paul Griffin, MP Gudrid Hutchings, Minister Marc Garneau, Captain Scott Dowding, MHA Andrew Parsons, MHA Scott Reid, Acting Mayor Todd Strickland making $22 million budget announcement in Port aux Basques (July 2016)*

# SHORE-BASED INFRASTRUCTURE RENEWAL

In Budget 2016, the Government of Canada announced $22 million for improvements to docking infrastructure in both North Sydney and Port aux Basques, an upgraded mooring system, and modernizing the storm sewer system at the Port aux Basques terminal. These initiatives are designed to strengthen infrastructure, safety, and reliability, and to modernize aging assets. During the year, significant work took place on all three projects.

## Dock Infrastructure Upgrades

Docks are an integral part of the infrastructure required for the ferry service. As part of the dock infrastructure upgrades at both Port aux Basques and North Sydney, dock fenders (designed to protect vessels and docks) were identified as requiring upgrades. During the year, design work was completed and a Request for Quotation (RFQ) was issued to identify partners able to provide the material. Contracts have been awarded and the new fenders are currently being manufactured to meet Marine Atlantic's requirements, with installation scheduled for fiscal year 2017-18.

## Upgraded Mooring System

Mooring is one of the most important and inherently risky parts of the docking process as this action secures the vessel to the dock. This daily activity occurs in accordance with well-defined procedures and safety protocols. The new mooring system will be designed to further enhance safety features as well as make the docking process more efficient and effective for our customers. During the year, an RFI was issued to gather information to determine potential mooring options and partners available to meet the needs of the organization. A number of proposals were received through the RFI process which were subsequently reviewed and evaluated to determine the best option for the Corporation. Once internal consultations are completed, which will identify opportunities and challenges related to the project, a partner will be selected and the implementation phase will begin.


## Port aux Basques Terminal Storm Sewer

The Port aux Basques terminal storm sewer helps direct weather and storm-related water flows. As the existing infrastructure was identified as being past its normally expected design life, the investment allowed much-needed replacement work to begin during the year. With upgrades, the new storm sewer is designed to accommodate anticipated storm water flows and is expected to be completed early in fiscal year 2017-18.

# MODERNIZING AND STRENGTHENING BUSINESS PROCESSES

Marine Atlantic continues to focus on improving how we conduct our daily business activities. Updated technologies combined with new approaches to accomplish daily tasks are enabling us to change our service for the better. Whether it is making a reservation, retrieving a document, or submitting an invoice, we are working to strengthen our business processes and the interactions with our customers and employees.

## Business Process Renewal

The Business Process Renewal (BPR) Project is a multi-year company-wide project to streamline activities and integrate work processes and previously disconnected technologies and systems. Designed to remove process duplication that has evolved over time, the project is intended to enable employees to conduct their work tasks more effectively and further improve our customers' experience, strengthening our business for the present and the future.

This past year focused on establishing a strong foundation for a successful project. To solicit interest from Enterprise Resource Planning (ERP) suppliers, a Request for Proposals (RFP) was issued in the first quarter of 2016-17. This process allowed the Corporation to choose a new ERP solution to manage and integrate our business functions.

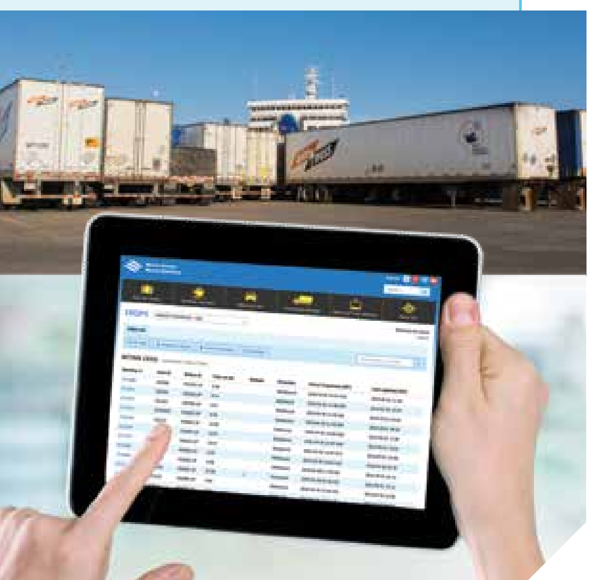
Following the selection of the new solution, a second RFP was issued for an implementation partner with the expertise and experience to help the Corporation successfully adopt the new solution. The selection of the new partner, as well as the start of the rollout of the new solution, is scheduled to take place in fiscal year 2017-18.

In preparation for the implementation of the new ERP solution, a review of our processes, procedures and data is underway to determine the most effective transition path moving forward.

## Information and Records Management

Information and records management is vital to an organization's ability to access accurate, reliable information in a timely manner.

A new senior Information Management position was introduced to the organization during the year to oversee and strengthen records management within the Corporation. This role will assist in the continued development of policies and standards, as well as lead the education and awareness of information management programs throughout Marine Atlantic.



## Terminal Management System Enhancements

In 2014-15, Marine Atlantic implemented an automated system to improve the tracking and standardization for the loading and unloading of drop trailer units at our terminals. Using a bilingual commercial website link, drop trailer customers have access to real-time information such as their drop trailer's arrival time onto Marine Atlantic property, when the drop trailer unit is loaded on the vessel, and when it arrives at the destination port. This information is available to customers 24 hours a day, 7 days a week, and has received very positive feedback from the commercial industry.

During the year, Marine Atlantic released an upgrade to the system providing customers with an improved storage charge calculation as well as access to 14 days' history of units travelling with Marine Atlantic. These updates are helping our industry and business partners to better plan and manage for their daily business activities.

## Strengthened Data Protection

During fiscal year 2016-17, Marine Atlantic completed its migration to an external data centre. This move provides the Corporation with greater system availability, more mature business processes, access to newer technology, and added security for corporate information. From a customer perspective, potential impacts due to system downtime will be minimized allowing us to better support/service customers.

# SAFE, SECURE AND ENVIRONMENTALLY **RESPONSIBLE OPERATIONS**

*President and CEO Paul Griffin*

**Our primary goal at Marine Atlantic is to ensure the safety of our customers, employees and contractors when providing the ferry service. This commitment starts at the very top and touches every single aspect of our operations. With our initiatives to enhance safety and security, as well as environmental stewardship, we are focused on protecting our people, our assets and our environment.**

*The Port aux Basques Terminal OHS Committee received the 2016 President's Award for their continued commitment and excellence in improving safety. This award builds on their previous recognition as the Newfoundland and Labrador OHS Committee of the Year as awarded by the Workplace Health, Safety and Compensation Commission.*

# OUR FOCUS ON SAFETY

## Occupational Health and Safety

Marine Atlantic has a strong focus on Occupational Health and Safety (OHS) and has established committees at workplaces throughout the Corporation. In addition, we have an OHS Policy Committee that is comprised of representatives from all levels of the organization that meet to discuss issues and provide direction on corporate-wide safety initiatives.

## *myHealth* Wellness Program

The *myHealth* Wellness Program continued its efforts to strengthen employee health and wellness during the year. With enhanced access to medical professionals, support programs, and activities, employees are encouraged to adopt and sustain healthy behaviours that will improve physical, mental and emotional well-being. One of the ongoing popular activities of the program is the Global Corporate Challenge in which teams of employees compete against other corporations in a simulated online race around the world. Employees continue to sign up for each year's competition with noticeable positive health impacts.

## GCC Stats

**21**
teams

**147**
employees participated

**175,865,610**
steps

**112,554**
km walked

Canada's 2nd Most Active Organization (Transportation & Logistics)

**Marine Atlantic remains a proud supporter of North American Occupational Safety and Health (NAOSH) Week. This year's event was held May 1–7 with the theme "Make Safety a Habit".**

# SECURING OUR PEOPLE AND PROPERTY

## Ocean Safe IV

Marine Atlantic's goal is to prevent an emergency situation before it happens. However, being prepared for such a situation is vital to our emergency preparedness activities. During the year, Marine Atlantic held Ocean Safe IV to test our emergency response plan and participants' response to a complex, multi-situational scenario. Partnering with outside agencies, Marine Atlantic employees seized the opportunity to learn, improve and strengthen our plan for the future.

## Emergency Fuel Spill Response Exercise

Practice, education and growth are key components when developing and testing any emergency response preparedness plan. As an oil handling facility, the Port aux Basques terminal has an Oil Pollution Emergency Plan and an Oil Pollution Prevention Plan that outlines prevention, response, and containment actions related to fueling activities. During the fall, the organization co-ordinated an exercise to test the effectiveness of the plans. The training session, which was designed to further strengthen the plan, involved a combination of employees and external agencies.

## Upgrading Security Infrastructure

Upgrading and enhancing security infrastructure is making the protection of people and property more effective throughout the Corporation. With the replacement of aging infrastructure during the year, Marine Atlantic is continuing its focus on providing strong security surveillance at all of our locations and facilities.

## Security Training

Providing employees with the ability to deal with and respond to various security situations was an important part of security training initiatives during the year. These training opportunities were provided to front-line and security staff and will continue to be a focus in the year ahead.

## Emergency Response Website

An emergency response website is a series of web pages that can be published quickly to the Internet in the event of an emergency situation. The main purpose is to keep various audiences informed and updated about developing situations. While our teams at Marine Atlantic focus on prevention, it is also necessary to be prepared and effectively respond should an emergency situation take place. As such, Marine Atlantic now has the ability to launch an emergency response website to provide timely and accurate information to customers and stakeholders.

**WHAT IS LEED CERTIFICATION?**

Leed Certification demonstrates that a building is a Leader in Energy and Environmental Design.

# OUR RESPONSIBILITY TO THE ENVIRONMENT

## North Sydney Terminal LEED Certification

Marine Atlantic submitted its application and supporting documentation to the Green Council of Canada during the year to officially designate the North Sydney terminal building with Leed Certification. This certification process establishes if a building is a model of energy-efficiency and environmental design. With the building possessing many features and technologies that save energy and encourage a more positive environmental footprint for the present and future, it is a state-of-the-art facility meeting the needs of both customers and the environment. The Green Council of Canada is expected to complete their review in fiscal year 2017-18.

## Terminal Environmental Management Activities

As part of our ongoing environmental commitment, Marine Atlantic has moved forward with initiatives to mitigate environmental risks at our terminal locations. One such project included the removal of six decommissioned petroleum tanks at Port aux Basques and North Sydney. With a total combined storage capacity of over 200,000 litres of fuel, the tanks were removed during the year in compliance with federal tank removal guidelines and best practices.


## Waste Management Program

With a commitment to improving how Marine Atlantic disposes of waste, enhancements were made to the Corporation's Waste Management Program during the year. A renewed focus was placed on how we manage the separation and disposal of waste, and new infrastructure, training activities and processes were developed at vessel and shore-based locations. Small steps such as sorting bins have already resulted in a significant reduction in waste. These efforts will continue to grow into the future.

## Compliance with SECA Regulations

Marine Atlantic continues its efforts to comply with Sulphur Emission Control Areas (SECA) regulations by 2020. The ongoing transition to cleaner marine diesel is reducing sulphur emissions, and has been combined with our continued focus on reducing fuel burn.

**WHAT ARE SULPHUR EMISSION CONTROL AREAS (SECA)?**

The International Maritime Organization has designated areas around the world to reduce sulphur emissions. Canada is a signatory to these agreements and is therefore mandated to meet the new regulations.

## Green Marine

Continuing with our commitment to environmental excellence, Marine Atlantic is a member of Green Marine, the largest voluntary environmental program for the maritime industry in North America. Through the program, the Corporation has committed to undertake concrete actions that go beyond regulatory requirements aimed at improving environmental performance and sustainability.

GREEN MARINE

**Some of Green Marine Key Performance Indicators include:**

- Reducing the risk of introducing invasive species
- Implementing measures to reduce port activity impacts
- Environmental Leadership
- Reducing greenhouse gas emissions
- Using cleaner fuels
- Responsible handling of oily fluids
- Prevention of spills and leakages
- Reducing underwater noise
- Strengthening waste management activities

# OUR CONTINUED COMMITMENT TO A STRONG **CUSTOMER EXPERIENCE**

**Providing a strong customer experience is a priority for Marine Atlantic. Positive indicators such as customer satisfaction, reliability and on-time performance, as well as continuing year-over-year growth in our passenger traffic volumes, are evidence of our commitment to customers. New initiatives introduced through the year, and more customer-focused actions planned for the year ahead, demonstrate that our desire to continue meeting the needs of our customers remains strong.**

**91%** Customers told us that their **expectations were met or exceeded**.

**96%** Customers **highly satisfied with the courtesy of staff** onboard and at the terminal.

**83%** Customers **highly satisfied** with the **onboard experience**.

**91%** Customers likely to **recommend Marine Atlantic** to family and friends.

**84%** Customers **highly satisfied** with the **reliability of Marine Atlantic's service**.

## Tourism Corporate Partner Award

One of Marine Atlantic's customer service highlights during the year was the receipt of the Tourism Corporate Partner Award at Hospitality Newfoundland and Labrador's Annual General Meeting. The award recognizes tourism partners who make a significant contribution to the Newfoundland and Labrador tourism industry. Marine Atlantic was praised for having "shown a commitment to traveller satisfaction by investing heavily in the customer service experience and onboard amenities." The Corporation is proud of the hard work undertaken by employees to achieve this recognition. We will continue working with our customers and industry partners to further grow these efforts into the future.

*Don Barnes, Vice President Customer Experience, receives the Tourism Corporate Partner Award on behalf of Marine Atlantic*

**SUMMER SEASON PASSENGER TRAFFIC GROWTH, YEAR-OVER-YEAR INCREASE**

**+2.9%**

(June 1 – September 4)

## Trial Discount Campaigns

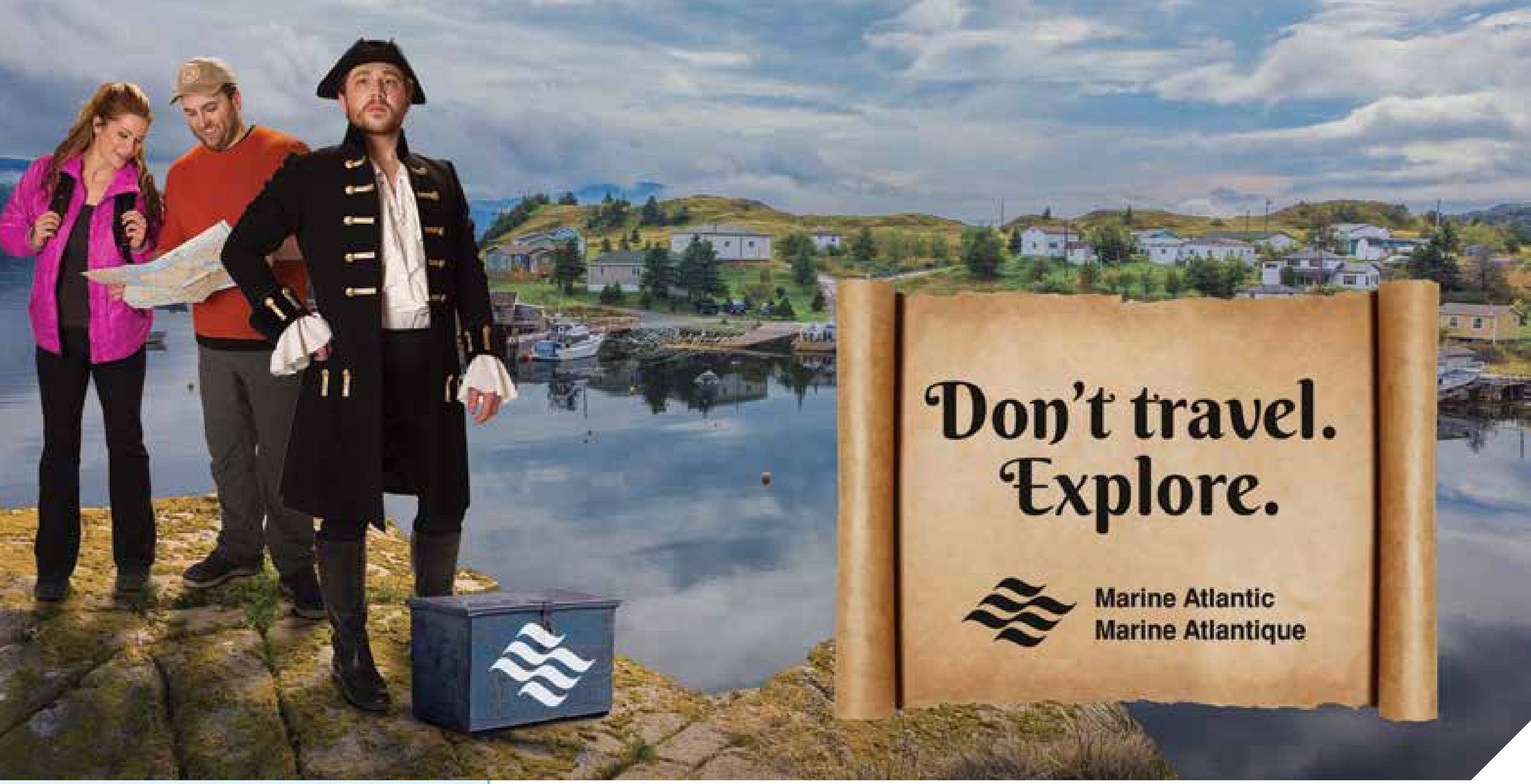
As part of the Corporation's commitment to continue exploring new pricing options, two trial discount campaigns were offered during the year. The first offered a 50 percent discount for customers using the Port aux Basques-North Sydney service for travel on specified dates between May and July. The campaign was designed to test the discount amount and the impact discounted rates have on off-peak travel. The results were a 45 percent year-over-year increase in bookings during the campaign period.

The second trial discount was launched during the fall period and promoted an all-inclusive bundle which included a 15 percent discount on onboard amenities (cabin and meal), and tested whether customers were willing to purchase more onboard services in advance when offered as part of a discounted bundle.

Our ongoing trial discount campaigns are designed to help Marine Atlantic better understand our customers' booking preferences with the goal of developing a new future pricing model that will offer customers more options and choices that reflect their individual travel circumstance. Additional offers are being evaluated for the year ahead.

## Customer Access to Downtown Port aux Basques

As Marine Atlantic continually reviews opportunities to improve the customer experience during all aspects of the journey, the Corporation was pleased to partner with the Town of Channel-Port aux Basques this past summer to offer a pilot project bus service to customers wanting to visit the downtown area while waiting to board the vessel. Running between July and September, the complimentary service was offered to passengers awaiting the 2345 departure. Customers indicated that they appreciated having the option and availability of visiting downtown Port aux Basques during their travel. Both Marine Atlantic and the Town are reviewing the data collected over the summer season to determine next steps.





## Marketing our Service and Tourism Potential

To continue our trend of passenger traffic growth, marketing efforts focused on bringing awareness to the Argentia-North Sydney ferry route, and looking to attract the exploration traveller who enjoys the adventure of the journey. Both campaigns were present in growing marketplaces, such as Ontario, where there has been customer growth.

## Onboard Services Review

Improving the services available to customers while onboard our vessels is an important ongoing priority for Marine Atlantic. A review of onboard services, designed to identify areas that present opportunities for improvement and growth, was completed during the year. A number of options are under review with potential enhancement projects to be launched in the year ahead.

# CUSTOMER COMMUNICATIONS

Marine Atlantic continues to focus on enhancing our customers' overall experience through its digital innovation strategy. Through our regularly updated website, expanding use of social media and enhanced digital signage, customers have greater access to timely and accurate information than ever before.

## Responsive Website

Marine Atlantic's responsive website continues to attract more visits. Customer usage is now more web-focused than ever before and visits to the site continue to climb each year. The website offers better access to information, enhanced search functionality and direct access to all Marine Atlantic's social media accounts.

## Social Media

With social media accounts on Twitter, YouTube, LinkedIn, and Instagram platforms, as well as our blog, www.marineatlanticjourney.com, customers have easy access to accurate and timely information regarding our service, travel planning, employment opportunities and corporate information. In the year ahead, the Corporation will explore options related to the Facebook platform to provide customers with another avenue to get information and interact directly with our employees.

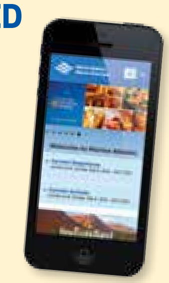
## Digital Signage

With the ability to centrally manage all digital signage throughout the Corporation, content is being proactively managed to easily and effectively share information with our customers and employees. Whether it is information regarding our operations, schedules, weather, services, or amenities, there is new content continuously being developed. Going forward, additional digital signs will be installed at all Marine Atlantic locations and facilities to further strengthen communication activities.

**WEBSITE VISITS HAVE INCREASTED**

**+24.9%**

year-over-year



**MOBILE/TABLET WEBSITE VISITS ARE UP**

**+38.4%**

year-over-year

# **OUR EMPLOYEES** ARE THE STRENGTH OF OUR OPERATION

**With ongoing initiatives to recruit, retain, and grow the skills of our employees, Marine Atlantic remains committed to maintaining a strong workforce. Customers tell us that our employees are an integral part of making the ferry crossing a great experience. The dedication and commitment of our workforce is positioning us to become stronger, more customer-focused, and has been one of the primary reasons we have been able to achieve our successes. Our employees are the backbone of our operations.**

## Strategic Human Resources Plan

A Strategic Human Resources Plan was developed during the year that focuses on six areas: Leadership and Management Development, Staff Recruitment and Retention, Labour Relations, Respectful Workplace, Organizational Effectiveness, and Human Resources Administration and Total Compensation. This plan will help guide our human resource efforts and practices into the future.

## Labour Negotiations

Marine Atlantic has constructive and professional relationships with all its unions. During the year, each of the six collective agreements expired, negotiation teams for this round of bargaining were established, and negotiations commenced. The Corporation looks forward to continuing its efforts of working with our unions and employees to reach successful agreements in a positive labour relations culture.

## Training Initiatives

Recognizing the need for a highly-skilled workforce, Marine Atlantic offers training and educational opportunities to those looking to grow within the Corporation. With a strong investment in training initiatives, employees can access financial and related resources for career development purposes. Through programs such as the Educational Financial Assistance Program and efforts to make training programs more accessible, convenient and efficient, the Corporation is committed to growing our internal talent and providing them with new skills and opportunities for professional and career advancement.

The **Educational Financial Assistance Program** provides employees financial assistance for training and educational opportunities.

## Leadership Development

Building upon previous successes, Marine Atlantic maintained its focus on developing and growing leadership skills through development initiatives. These learning opportunities are helping our leaders of today and tomorrow gain the skills needed for people and resource management, respectful and safe workplaces, employee engagement, and performance management.

Manager training and collaboration sessions, as well as supervisory training workshops continued during the year. These forums provide management employees an opportunity to provide feedback on various initiatives through an open session that encourages dialogue. A new Leadership Management Development Program is scheduled to be launched in the next fiscal year designed to further develop our leaders of tomorrow.

## Performance Management

The MyCareerCompass program provides a two-way communication forum between supervisor and employee which provides an opportunity for feedback, confirmation of performance expectations, career opportunity discussions, and the identification of relevant development needs and initiatives. Rollout of the program continued throughout the year with approximately 75 percent of management staff participating. In the next fiscal year, rollout activities will begin for frontline employees.

## Employee Engagement Survey

A skilled and engaged workforce is important to success. To gain feedback on how employees view their work environment, an employee engagement survey was conducted during the year.

The results of the survey were shared with employees and focus groups held to gather additional feedback.

Many positive insights were gained from the survey, including that the strong majority of employees were highly satisfied with their roles/careers. The Corporation has committed to greater employee engagement and addressing areas identified for improvement.

Marine Atlantic strives for excellence in all that we do and we know that positive employee morale, satisfaction and engagement are vital to the overall success of the organization. Through our Corporate Values of Safety, Excellence, Teamwork, Commitment, and Integrity, we will continue working to ensure the strongest possible work environment for all employees.

Marine Atlantic received the **Priority Vote of Thanks award** from St. John Ambulance during the year. This award recognizes organizations that show a commitment to the health and well-being of its employees by providing mental health training.

## Respectful Workplace

As a federal Crown Corporation, Marine Atlantic is committed to building a healthy and respectful workplace with an emphasis on mental health. To help achieve this, Marine Atlantic undertook several initiatives during the year including training, communications and awareness activities, and workplace assessments and interventions.


## Recruitment and Selection

During the year, the Human Resources Department undertook initiatives, including enhancements to our online application system, to strengthen our recruitment processes. Career fairs in our local communities were also continued as a way to increase Marine Atlantic's profile as an employer of choice.

## Disability Management Program

To better align and co-ordinate the resources and working relationships that support employees in wellness, injury intervention and management, disability management, fitness to work, pre-employment medicals, and other health and wellness related activities, the program responsibility was placed under the Human Resources Department during the year. Marine Atlantic is committed to providing employees with the care and support necessary to promote an early and safe return to the workplace following an injury or illness. The combined resources of the Occupational Health and Human Resources Divisions will provide the greatest support to employees, and will focus on their interests and needs during the recovery process.

## Pension Administration

Marine Atlantic employees are able to access pension information via the website portal for pension administration. During the year, the Corporation worked with its pension provider to make the site more user friendly, easier to navigate and enhance functionality, including a pension calculator which provides employees with approximate retirement earnings as part of their planning activities. These updates are better serving employees who are seeking pension-related information.

## Employee Communications

Marine Atlantic values sharing information with employees. Through initiatives such as Strait Talk (monthly employee newsletter), information updates and notices for all employees, bi-monthly notices to managers, safety-related tool box talks, President's annual employee update tour, employee surveys, focus groups and workplace assessments, information is being shared with valuable employee feedback being received identifying areas for continued improvement for the organization.

*CEO Paul Griffin at annual employee update tour providing corporate overview, performance, and business initiatives to Marine Atlantic staff*

## Awards and Distinction

Recognizing the work and accomplishments of employees is a priority within Marine Atlantic. The Corporation's award recognition program includes Ripple Awards, Awards of Distinction, and President's Awards, which are presented to employees who show tremendous commitment through their actions in the workplace and community. The Volunteer of the Year award is presented to an employee who is making a difference in their community through volunteer activities. An additional award, the Bright Ideas Award, rewards employees who bring forward ideas that help improve the way in which Marine Atlantic does business or operates on a daily basis. Award ceremonies are held annually in each of our port towns.


# OUR SOCIAL **COMMITMENT**


## Working to Ethical Standards

The Corporation prides itself on maintaining high ethical standards while operating in a fiscally responsible manner. The management team adheres to conflict of interest guidelines to deliver on the corporate mandate in an ethical manner, and all employees are guided by Marine Atlantic's values and follow the Public Sector Code of Ethics. The Corporation also has a whistleblowing policy which outlines ways for employees to report behaviour that is outside of ethical and corporate values.

## Promoting Human Rights

Marine Atlantic is committed to creating and maintaining a workplace free from harassment and discrimination, and fostering a work environment in which all individuals are treated with dignity and respect. Employees have the right to work in a professional atmosphere that promotes equal opportunities and prohibits discriminatory practices. The Corporation's anti-harassment program aims to raise awareness and eliminate discrimination, sexual harassment and violence in the workplace.

## Accessible Transportation

Marine Atlantic believes that travel should be accessible to all people and our philosophy is that the biggest barrier to passengers with disabilities is not access, but attitude. To this end, the Corporation's employees participate in training to improve their awareness and ensure that passengers with disabilities are treated with respect, professionalism and courtesy.

In keeping with Marine Atlantic's strong commitment to providing accessible transportation, the vessels in the fleet provide a high level of accessibility. They are equipped with adapted cabins, tactile signage, audible notification of deck levels in elevators and visual alarms. The Corporation also works to ensure our website meets accessibility guidelines.

## Ensuring Equal Opportunities

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

## Engaging in Both Official Languages

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

# INVESTING IN PEOPLE AND COMMUNITIES

Marine Atlantic proactively promotes community development by investing and supporting its port town regions, and Marine Atlantic employees are actively involved in their communities. The Corporation supports employees, individuals, and not-for-profit organizations that benefit the Atlantic region, while keeping fiscal responsibility in mind.

*Kyle Greenham receives the 2016 Atlantic Journalism Award scholarship sponsored by Marine Atlantic*

## Scholarships

Marine Atlantic is committed to building the skills of potential employees and the recruitment of high school graduates and post-secondary students for positions in the Corporation.

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 technical college 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, and also partners with the Institute for a cadet program.

In partnership with the Atlantic Journalism Awards, a $1,200 journalism scholarship was developed and sponsored by Marine Atlantic to be awarded to a student at the College of the North Atlantic, Newfoundland and Labrador's only journalism school.

## Fort McMurray Promotion

Following the devastating fires that impacted Fort McMurray during the year, Marine Atlantic and its employees stepped up to help. Recognizing the economic hardships being faced by many of those affected by the fires, a travel program was launched that offered Fort McMurray residents the opportunity to travel by ferry to Newfoundland. During the program, 1,059 people availed of the offer. In addition, Marine Atlantic employees raised $2,200 which was donated to the Red Cross relief efforts.


## Janeway Teddy Bear Convoy

Marine Atlantic was once again proud to support our partners in the Newfoundland and Labrador trucking industry during the 32nd annual Janeway Children's Miracle Network Telethon. As part of the Telethon, many of the province's commercial trucking representatives and their trucks came together as members of the "Just For Kids Transportation Group". The Teddy Bear Convoy helped to raise funds for the Janeway Children's hospital, services for sick kids, and put a smile on the faces of the many children who use the facility each year.

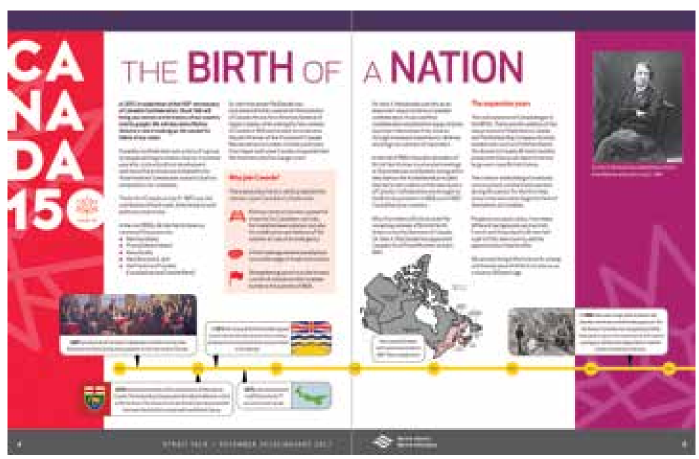
## Atlantic Burn Camp

The Atlantic Burn Camp is designed for children between the ages of 6-17 who have experienced injuries from burns. Since the very beginning, Marine Atlantic has been one of the major supporters of this worthwhile event. Our dedicated team of volunteers go above and beyond every year to make this a memorable experience for everyone involved.


*President and CEO Paul Griffin presented with a Grenfell Warriors jersey.*

## Grenfell Campus Athletics Sponsorship

Marine Atlantic is proud to be a platinum sponsor of the Grenfell Warriors and the athletic programs at Memorial University-Grenfell Campus, the only university in western Newfoundland. Through our sponsorship and community partnerships, new opportunities are being presented to individuals, groups and organizations in the region. Marine Atlantic is pleased with the small role we play in helping students grow and excel in their athletic and personal development activities.

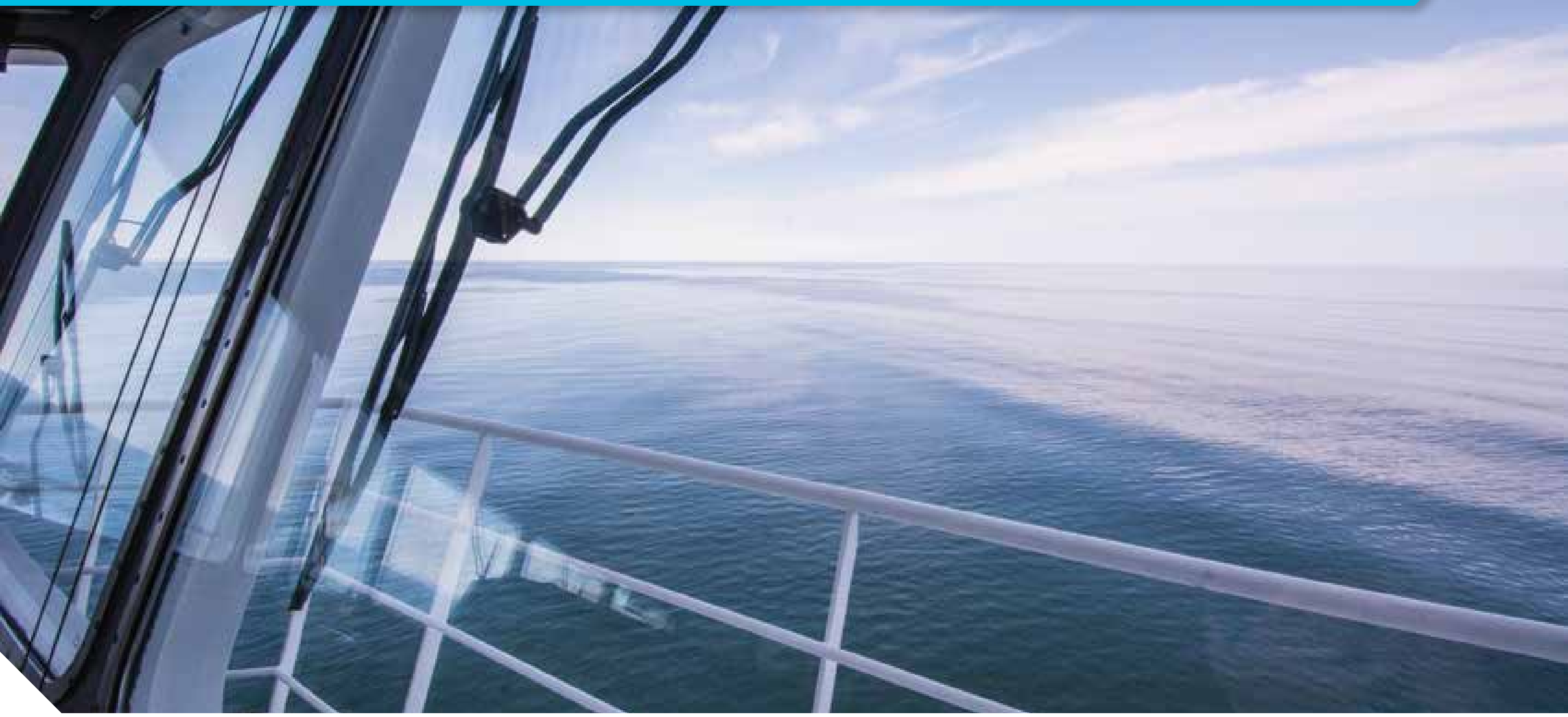

CANADA 150
THE BIRTH OF A NATION

## CANADA 150

It's an exciting year for Canada, 2017 marks the 150th anniversary of Confederation. In celebration of this great milestone, Marine Atlantic will mark the occasion through a year-long celebration.

CANADA 150

# SUCCESS FOR **THE FUTURE**



While Marine Atlantic has achieved many of its goals over the past few years, there is still much more to be done. For ongoing success, the Corporation must continue to evolve to meet the changing needs of our customers, employees, stakeholders and shareholder. By living our corporate values and meeting our strategic objectives, we are well-positioned for the future.

Many of the initiatives and projects currently underway within the Corporation are multi-year in nature and will have a long-term impact on our service going forward. They are designed to enhance safety, improve the customer experience and strengthen vessel reliability.

From a strategic perspective, we will continue working with the Government of Canada regarding our future fleet configuration and continue improving our infrastructure. Our Business Process Renewal program will help us become more modern and effective, making information more readily available while making interactions with customers more efficient.

For employees, we will continue our efforts to strengthen training and performance management initiatives to provide our workforce with the skills and opportunities they need for personal and professional development. We will also continue our focus on health and safety initiatives to protect our workforce and encourage healthy lifestyle choices.

For customers, pricing initiatives will continue and we will evaluate new amenities and service options onboard our vessels. We will enhance our communication channels to include new social media platforms and digital signage designed to provide greater access to information and direct interaction. Customer feedback will remain an important piece of our decision-making process for the future as we work to meet the changing needs of our passenger and commercial traffic.

For our business partners, we will continue to build upon investments such as the terminal management system to better meet daily business requirements. Through strengthened outreach activities we continue to make changes, including our recent adjustment to terminal storage charge fees, based upon positive dialogue and productive relationships. We will further rely on this feedback and advice for future decisions.

We are excited about the year ahead and the many initiatives, investments and improvements happening throughout Marine Atlantic. While our service has undergone significant change, we will continue our efforts to further enhance how we do business. Everything we do, including the hard work and dedication of our employees, is focused on meeting the needs of our customers in a safe, reliable and effective manner. We look forward to the new opportunities that will be presented during the 2017-18 fiscal year.

# WORKING TOWARDS POSITIVE CHANGE

## AN OVERVIEW OF BOARD AND MANAGEMENT ACTIVITIES

**Marine Atlantic's Board of Directors provides oversight and strategic direction to the management team, which in turn is responsible for the day-to-day activities of the Corporation. Together, the Board and management team make a united effort to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system for our customers, governed by a strong set of corporate values that clearly outlines what is expected of every employee.**

Marine Atlantic is governed by a 10-person Board of Directors. The independent directors are chosen and appointed for specific terms by the Government of Canada. The President and CEO is also a member of the Board.

The Board of Directors operates within a highly regulated environment. The *Financial Administration Act* and the *Marine Atlantic Inc. Acquisition Authorization Act* both provide direction to the Corporation's business affairs. The Corporation's Articles of Incorporation, its by-laws, vision and mission statement further direct both the Board and management in their decision-making. Finally, the National Marine Policy provides critical direction and restraint, as it requires that Marine Atlantic focus its efforts on operating the gulf ferry service.

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

# COMMITTEES OF THE BOARD

The Board's standing committees engage and support its efforts in three primary areas of governance responsibility namely: *Safety, Corporate Governance and Accountability*; *Audit and Risk*; and *Human Resources and Pension Management*.

## Safety, Corporate Governance and Accountability Committee

The Safety, Corporate Governance and Accountability Committee is mandated to provide the Board advice and services to effect good governance at Marine Atlantic and to create a cohesive working relationship between the Board and management team. It provides a focus on corporate governance and accountability, health and safety, corporate values and ethics and the elements that facilitate Board effectiveness, such as Board self-assessment, Board committee structure and terms of reference. During the year, the Committee reviewed and revised the Terms of Reference of all three Board Committees, revised the by-laws of the Corporation, reviewed recent trends in Board governance and identified training opportunities designed for Crown Corporation Board Directors. In addition, a new Director of Health, Safety and Environment was hired in March who will begin providing key health and safety performance updates at quarterly Board meetings in fiscal year 2017-18.

## Audit and Risk Committee

The Audit and Risk Committee is mandated to provide the Board advice and services to set the context for an effective Enterprise Risk Management (ERM) and internal control framework to provide reasonable assurance that the strategic, operational, financial and regulatory objectives of the Corporation will be achieved. Within the ERM and control frameworks, the Committee assists the Board in fulfilling its oversight responsibilities regarding safeguarding of assets; compliance with laws, regulations and governing policies; integrity of management and financial information; efficiency and effectiveness of operations; and independence of the external and internal audit functions. During the year, the Committee continued its work to advance the Corporation's ERM framework. In addition, the Committee undertook financial reviews including the quarterly financial reports, audited financial statements and pension statements, and provided oversight on large financial projects including vessel refits, fuel and capital expenditures.

## Human Resources and Pension Management Committee

The Human Resources and Pension Management Committee (HRPMC) is mandated to provide the Board with advice on the stewardship of the Corporation's pension plan, to ensure governing policies are in place and implemented by management to provide employees at Marine Atlantic with fair and meaningful employment in a healthy and respectful workplace, and oversight of the appointment, monitoring and compensation of executive management. During the year, the Committee played a key oversight role in performance planning, employee and labour relations, recruitment, skill development, and key performance indicator targets. In addition, the Committee undertook member training related to performance management and strategic planning, reviewed Human Resource policies, and ensured governance policies were being followed in hiring and workplace-related issues. From a pension perspective, the Committee continued work regarding the plan's governance structure, investments, management and oversight.

# BOARD OF **DIRECTORS**

## Nick Careen

Jerseyside, NL

## John J. Henley

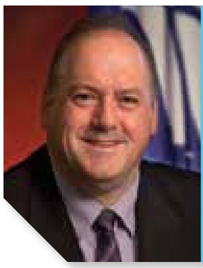
St. John's, NL

## Stan Cook

St. John's, NL

## Garfield Moffatt

Truro, NS



## James G. Doody, CA

St. John's, NL

## Kristopher Parsons

St. John's, NL

## Sharon Duggan

St. John's, NL

## Walter Pelley

North Sydney, NS

## Paul Griffin

St. John's, NL

## Dwight Rudderham

Sydney, NS

# BOARD MEMBERSHIP AND ATTENDANCE

| BOARD MEMBERSHIP | COMMITTEE MEMBERSHIP | ATTENDANCE |
|---|---|---|
| **Kristopher Parsons** | • Board Chair (Appointed March 26, 2017) | n/a* |
| **Sharon Duggan** | • Acting Board Chair (Served until March 26, 2017)<br>• Chair – Safety, Corporate Governance and Accountability Committee (Served until December 14, 2016)<br>• Member - HRPMC | 5 |
| **Paul Griffin** | • Ex-officio member of the Board<br>• Ex-officio member of Safety, Corporate Governance and Accountability Committee<br>• Ex-officio member of HRPMC | 5 |
| **Nick Careen** | • Member – Safety, Corporate Governance and Accountability Committee<br>• Member - Audit and Risk Committee | 5 |
| **Stan Cook** | • Member - Audit and Risk Committee (until December 14, 2016)<br>• Chair – Safety, Corporate Governance and Accountability Committee (effective December 14, 2016) | 5 |
| **James G. Doody**, CA | • Chair - Audit and Risk Committee | 5 |
| **John J. Henley** | • Member – Safety, Corporate Governance and Accountability Committee | 4 |
| **Walter Pelley** | • Member – HRPMC<br>• Member - Audit and Risk Committee | 5 |
| **Dwight Rudderham** | • Member – HRPMC (until December 14, 2016)<br>• Chair – HRPMC (effective December 14, 2016) | 5 |
| **Garfield Moffatt** | • Chair – HRPMC (until December 14, 2016)<br>• Member – HRPMC (effective December 14, 2016)<br>• Member - Audit and Risk Committee (effective December 14, 2016) | 5 |

Note: There are four regularly scheduled Board meetings and one strategy session held per fiscal year. Where required, additional conference calls, committee meetings and special meetings are held outside the regular schedule.

*Note: No board meetings held between March 26-March 31, 2017.

# FINANCIAL **OVERVIEW**

**As a federal Crown Corporation, Marine Atlantic receives an annual subsidy from its shareholder, the Government of Canada, through Transport Canada. In 2016-17, the Corporation spent $209.4 million; $111.7 million was generated via customer tariffs and other ancillary revenue; and $94 million was received via subsidy. The Corporation's cost recovery was 70 percent which falls within the targeted range established by the shareholder.**

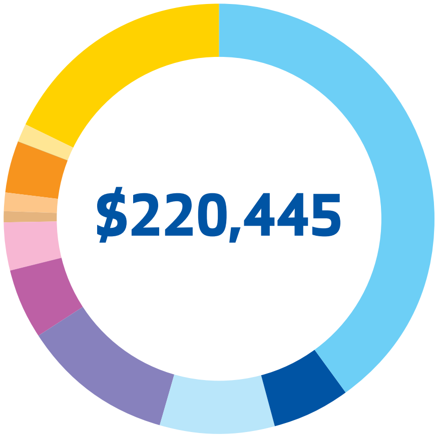
## REVENUES AND GAINS 2016/17

YEAR ENDED MARCH 31 2017
(IN THOUSANDS OF DOLLARS)


| | |
|---|---|
| Transportation revenue | 99,227 |
| Fuel surcharge revenue | 10,411 |
| Other income | 502 |
| Gain on disposal of tangible capital assets | 3,777 |
| **TOTAL** | **$113,917** |

## EXPENSES AND LOSSES 2016/17

YEAR ENDED MARCH 31 2017
(IN THOUSANDS OF DOLLARS)




| | |
|---|---|
| Wages and benefits | 88,391 |
| Charter fees | 12,920 |
| Fuel | 19,108 |
| Materials, supplies and services | 25,045 |
| Repairs and maintenance | 11,698 |
| Insurance, rent and utilities | 7,697 |
| Travel | 2,250 |
| Administrative costs | 2,601 |
| Employee future benefits | 9,025 |
| Foreign currency exchange loss | 13 |
| Realized loss on derivative financial instruments | 2,553 |
| Amortization | 39,144 |
| **TOTAL** | **$220,445** |

# FINANCIAL OVERVIEW TABLE

YEAR ENDED MARCH 31 2017, 2016, 2015, 2014, & 2013 (IN THOUSANDS)

| | 2016–17 | 2015–16 | 2014–15 | 2013–14 | 2012–13 |
|---|---|---|---|---|---|
| Transportation Revenue | $ 99,227 | $ 97,109 | $ 92,273 | $ 91,355 | $ 93,276 |
| Fuel surcharge | 10,411 | 10,105 | 12,930 | 13,331 | 13,796 |
| Other income | 502 | 110 | 154 | 200 | 201 |
| Gains | 3,777 | 2,137 | | 33 | 736 |
| | 113,917 | 109,461 | 105,357 | 104,919 | 108,009 |
| Operating expenses | 137,682 | 133,488 | 122,244 | 119,211 | 127,645 |
| Fuel | 19,108 | 22,574 | 32,246 | 29,288 | 34,252 |
| Losses | 2,566 | 500 | 4,416 | 157 | 4,085 |
| Charter costs | 12,920 | 35,521 | 45,087 | 49,634 | 49,323 |
| Employee Future benefits | 9,025 | 13,764 | 6,855 | 18,374 | 19,387 |
| Amortization | 39,144 | 31,632 | 32,792 | 34,930 | 24,797 |
| | 220,445 | 237,479 | 243,640 | 251,594 | 259,489 |
| Deficit before government funding | 106,528 | 128,018 | 138,283 | 146,675 | 151,480 |
| Government funding | | | | | |
| Operations | 61,203 | 114,637 | 117,227 | 117,742 | 136,880 |
| Capital | 37,598 | 236,362 | 18,895 | 35,358 | 51,003 |
| Recovery of vessel decommissioning costs | | | - | - | - |
| Operating surplus (deficit) | $ (7,727) | $ 222,981 | $ (2,161) | $ 6,425 | $ 36,403 |
| ASSETS: | | | | | |
| Total assets | $ 591,552 | $ 587,814 | $ 363,990 | $ 365,202 | $ 351,948 |
| Purchases of vessels, facilities and equipment | $ 37,598 | $ 236,362 | $ 18,895 | $ 35,358 | $ 51,003 |

# TRAFFIC AND EMPLOYEES

| | 2016–17 | 2015–16 | 2014–15 | 2013–14 | 2012–13 |
|---|---|---|---|---|---|
| Passengers | 326,796 | 322,661 | 305,197 | 323,352 | 351,643 |
| Passenger vehicles | 120,314 | 116,574 | 109,167 | 115,243 | 123,609 |
| Commercial vehicles | 94,459 | 95,914 | 95,552 | 97,396 | 103,160 |
| AEU's* | 522,360 | 523,144 | 511,105 | 524,988 | 559,740 |
| Number of single crossings | 1,701 | 1,684 | 1,594 | 1,709 | 1,818 |
| Employees (peak employment) | 1,282 | 1,252 | 1,289 | 1,307 | 1,393 |
| Employees (full-time equivalent)** | 1,068 | 1,049 | 1,031 | 1,025 | 1,108 |

** AEU or Auto Equivalent Unit is the length of an average passenger automobile .*

***Full-time equivalent (FTE) employees are calculated by dividing actual labour hours by the standard hours in a work year (2,080).*

## Revenue

Revenues (excluding gains) were $2.8 million or 2.6 percent higher compared to fiscal year 2015-16. The increase is attributed to higher volumes of passenger and vehicle traffic and a 2.6 percent general tariff increase. Total revenue for the year was $0.9 million higher than budgeted. The traffic volumes for passenger and commercial traffic was higher than forecasted, while anticipated adjustments to the fuel surcharge were not required due to lower fuel prices and internal fuel saving measures.

The Corporation incurred a gain of $3.8 million this year compared to a $0.2 million loss in the last year related to the disposal of capital assets. In fiscal year 2016-17, the Corporation sold the Bar Harbour property to the State of Maine resulting in a gain on disposal of $3.9 million.

## Wages and Benefits

Labour costs were $2.2 million or 2.5 percent higher than fiscal year 2016-17 as a result of general wage rate inflation, and slightly higher full-time equivalent employees due to regulatory training requirements.

## Charter Fees

Charter fees were $20.2 million lower than last year. Near the end of fiscal year 2015-16, the Corporation purchased the MV *Blue Puttees* and the MV *Highlanders* which coincided with the expiration of the initial five-year lease period for these vessels. The $1 million savings compared to budget is the result of lower than anticipated Euro exchange rates.

## Charter Importation Taxes

The non-refundable importation taxes paid as part of the reflagging of the MV *Blue Puttees* and MV *Highlanders* were recognized as a non-financial asset and amortized over the duration of the charter agreements. The charter importation taxes were fully amortized in fiscal year 2015-16.

## Fuel

Fuel expense was $3.5 million lower than last year, and also $6.5 million lower than budget. Lower crude oil prices and reduced consumption have resulted in lower fuel costs year over year, partially offset by fuel swap settlements recognized as realized losses on financial derivatives.

## Materials, Supplies and Services

Materials, supplies and services' costs were $3.6 million higher than the previous year, and $2 million higher than budget. The increase in passenger traffic resulted in increased on board consumption costs. The Corporation's ongoing business process renewal projects resulted in increased professional services related costs.

## Repairs and Maintenance

The repairs and maintenance costs were $1.3 million lower in fiscal year 2016-17. There were less planned preventative maintenance activities this year compared to last year, as well as fewer emerging issues.

## Insurance, Rent and Utilities

Insurance, rent and utilities were $0.1 million lower than last year, and $0.7 million lower than budget. Insurance premiums and electricity costs were lower than anticipated.

## Travel

Travel costs were $0.35 million lower than budget, while $0.01 million higher than last year. Total cost of travel for the year was $2.3 million.

## Administrative Costs

Administrative costs were $0.2 million lower compared to last year and $0.25 million higher than budget. These costs mostly relate to the Corporation's marketing and customer relations activities.

## Employee Future Benefits

Actuarially calculated expenses relating to employee future benefits decreased by $4.7 million. The actuarially determined accrued expenses for the Pension Plan for Employees of Marine Atlantic Inc. decreased by $4.4 million due to changes in actuarial assumptions such as discount rates and expected rate of return on plan assets, while the expenses for Workers' Compensation and other benefits decreased by $0.3 million. The budget represents the estimated cash requirements for current service and premium payments.

## Foreign Currency Exchange Loss

The Corporation's foreign currency expense was $0.3 million lower compared to fiscal year 2015-16. The Corporation incurred net loss on foreign currency of $0.3 million relating to purchases of the MV *Blue Puttees* and MV *Highlanders* during the previous year. The Corporation incurs currency gains/losses in the normal course of business arising from the requirement to pay some vendors in foreign currencies which was on par with last year.

## Realized Losses/Gains on Derivative Financial Instruments

The Corporation realized a loss of $2.5 million in fiscal year 2016-17 compared to a gain of $2.1 million in fiscal year 2015-16. The Corporation has a hedging program that involves advance purchase of energy swaps and forward exchange contracts. The hedging losses from the settlement of energy swaps were $4.3 million lower this fiscal year, compared to last year. The settlement of forward exchange contracts resulted in losses increasing by $9 million. In fiscal year 2015-16, the forward exchange contracts secured to mitigate foreign exchange risk relating to the purchase of the MV *Blue Puttees* and MV *Highlanders* resulted in the recognition of an $8.8 million gain.

## Amortization

Amortization was $7.5 million higher this year compared to last year. The increased depreciation is the result of the purchase of the MV *Blue Puttees* and MV *Highlanders* towards the end of fiscal year 2015-16. The Corporation's significant capital investments are now active and depreciating.

## Government Funding

Government funding revenue recognized was $252.2 million lower in fiscal year 2016-17. Government funding for operations was $53.4 million due to reduced charter fees and pension solvency requirements. Funding for capital projects was $198.8 million lower. This is mainly the result of the vessel purchases in fiscal year 2015-16.

## Tangible Capital Assets

In 2016/17, Marine Atlantic spent $37.6 million in asset renewal compared to $236.4 million last year. $16.3 million was spent on fleet-related projects compared to $17.5 million in the previous year. An additional $21.3 million was spent replacing and modernizing shore facilities and equipment compared to $6.9 million in fiscal year 2015-16. In the last fiscal year, the Corporation spent $212 million on the purchase of the MV *Blue Puttees* and MV *Highlanders*.

# FINANCIAL **STATEMENTS**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s (the "Corporation") management. These financial statements have been prepared in accordance with Canadian public sector accounting standards. These principles have been applied using management's best estimates and judgments that are considered appropriate to the Corporation's circumstances. Management obtains actuarial reports in support of amounts recorded in relation to the pension plan and accrued obligations for post-employment and non-pension post-retirement benefits.

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

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

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

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

**Shawn Leamon**, CPA, CGA
Vice President of Finance

St. John's, Canada
June 22, 2017

**Paul Griffin**
President and CEO

St. John's, Canada
June 22, 2017

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

**INDEPENDENT AUDITOR'S REPORT**

To the Minister of Transport

**Report on the Financial Statements**

I have audited the accompanying financial statements of Marine Atlantic Inc., which comprise the statement of financial position as at 31 March 2017, and the statement of operations, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of Marine Atlantic Inc. as at 31 March 2017, and the results of its operations, its remeasurement gains and losses, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Report on Other Legal and Regulatory Requirements**

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

Further, in my opinion, the transactions of Marine Atlantic Inc. that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Marine Atlantic Inc. Acquisition Authorization Act*, the *Canada Business Corporations Act* and regulations, the articles of incorporation and by-laws of Marine Atlantic Inc., and the directives issued pursuant to section 89 of the *Financial Administration Act*.

HMcManaman

Heather McManaman, CPA, CA
Principal
for the Auditor General of Canada

22 June 2017
Halifax, Canada

# STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2017 (IN THOUSANDS)

| | 2017 | 2016 |
|---|---|---|
| **Financial assets** | | |
| Cash (Note 3) | $ 12,944 | $ 13,105 |
| Accounts receivable (Note 13(a)) | 10,040 | 11,089 |
| Receivable from Government of Canada (Note 4) | 18,000 | 13,000 |
| Inventories held for resale (Note 5) | 402 | 363 |
| Derivative financial instruments (Note 12) | 1,183 | 848 |
| Accrued pension asset (Note 8) | 120,555 | 123,168 |
| | 163,124 | 161,573 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities (Notes 6 and 13(c)) | 34,593 | 25,687 |
| Derivative financial instruments (Notes 12 and 13(c)) | 1,906 | 6,921 |
| Deferred revenue | 4,136 | 3,624 |
| Payable to Government of Canada (Note 4) | 2,792 | 2,626 |
| Accrued vacation pay | 6,105 | 6,077 |
| Accrued pension liability (Note 8) | 2,442 | 2,241 |
| Accrued liability for non-pension post-retirement benefits (Note 9) | 46,706 | 45,001 |
| Accrued liability for post-employment benefits (Note 10) | 11,602 | 11,748 |
| | 110,282 | 103,925 |
| **Net financial assets** | 52,842 | 57,648 |
| **Non-financial assets** | | |
| Tangible capital assets (Note 11) | 407,524 | 409,172 |
| Inventories held for consumption (Note 5) | 16,692 | 15,022 |
| Prepaid expenses | 4,212 | 2,047 |
| | 428,428 | 426,241 |
| **Accumulated surplus** (Note 14) | $ 481,270 | $ 483,889 |

Contractual obligations (Note 16)

Contingencies (Note 17)

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

On behalf of the Board of Directors:

Director

Director

# STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS)

| | 2017 | | 2016 |
|---|---|---|---|
| | Budget | Actual | Actual |
| | (Note 18) | | |
| **Revenues** | | | |
| Transportation | $ 96,941 | $ 99,227 | $ 97,109 |
| Fuel surcharge | 12,161 | 10,411 | 10,105 |
| Other income | 126 | 502 | 110 |
| Gain on disposal of tangible capital assets | - | 3,777 | - |
| Realized gain on derivative financial instruments | - | - | 2,137 |
| | 109,228 | 113,917 | 109,461 |
| **Expenditures** | | | |
| Wages and benefits | 89,993 | 88,391 | 86,227 |
| Charter fees | 13,946 | 12,920 | 33,135 |
| Charter importation taxes | - | - | 2,386 |
| Fuel | 25,613 | 19,108 | 22,574 |
| Materials, supplies and services | 23,072 | 25,045 | 21,451 |
| Repairs and maintenance | 11,383 | 11,698 | 13,014 |
| Insurance, rent and utilities | 8,395 | 7,697 | 7,838 |
| Travel | 2,602 | 2,250 | 2,165 |
| Administrative costs | 2,350 | 2,601 | 2,793 |
| Fleet renewal costs | 2,296 | - | - |
| Employee future benefits (Notes 8, 9 and 10) | 10,435 | 9,025 | 13,764 |
| Foreign currency exchange loss | - | 13 | 317 |
| Realized loss on derivative financial instruments | 2,192 | 2,553 | - |
| Loss on disposal of tangible capital assets | - | - | 183 |
| Amortization (Note 11) | 40,900 | 39,144 | 31,632 |
| | 233,177 | 220,445 | 237,479 |
| Deficit before government funding | (123,949) | (106,528) | (128,018) |
| **Government funding** (Note 4) | | | |
| Operations | 110,310 | 61,203 | 114,637 |
| Capital | 29,812 | 37,598 | 236,362 |
| | 140,122 | 98,801 | 350,999 |
| Operating surplus (deficit) | 16,173 | (7,727) | 222,981 |
| Accumulated operating surplus, beginning of year | 489,204 | 489,204 | 266,223 |
| **Accumulated operating surplus, end of year** (Note 14) | $ 505,377 | $ 481,477 | $ 489,204 |

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

# STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS)

| | 2017 | 2016 |
|---|---|---|
| **Accumulated remeasurement gains (losses), beginning of year** | $ (5,315) | $ (5,177) |
| **Remeasurement gains (losses) arising during the year** | | |
| Unrealized gain (loss) on foreign exchange of cash | (241) | 705 |
| Unrealized gain (loss) on derivatives | 2,796 | 1,294 |
| **Reclassifications to the statement of operations** | | |
| Realized (gain) loss on derivatives | 2,553 | (2,137) |
| **Net remeasurement gains (losses) for the year** | 5,108 | (138) |
| **Accumulated remeasurement gains (losses), end of year** (Note 14) | $ (207) | $ (5,315) |

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

# STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS)

| | 2017 | | 2016 |
|---|---|---|---|
| | Budget | Actual | Actual |
| | (Note 18) | | |
| **Operating surplus (deficit)** | $ 16,173 | $ (7,727) | $ 222,981 |
| **Change in tangible capital assets** | | | |
| Acquisition of tangible capital assets (Note 11) | (29,812) | (37,598) | (236,362) |
| Amortization of tangible capital assets (Note 11) | 40,900 | 39,144 | 31,632 |
| Loss (gain) on disposal of tangible capital assets | - | (3,777) | 183 |
| Proceeds on disposal of tangible capital assets | - | 3,879 | - |
| **(Increase) decrease in tangible capital assets** | 11,088 | 1,648 | (204,547) |
| **Change in other non-financial assets** | | | |
| Acquisition of inventories held for consumption | (28,992) | (22,282) | (23,067) |
| Use of inventories held for consumption | 27,806 | 20,612 | 24,949 |
| Purchase of prepaid expenses | (13,946) | (26,330) | (30,260) |
| Use of prepaid expenses | 13,946 | 24,165 | 35,101 |
| **Increase (decrease) in other non-financial assets** | (1,186) | (3,835) | 6,723 |
| Net remeasurement gains (losses) | 2,192 | 5,108 | (138) |
| Increase (decrease) in net financial assets | 28,267 | (4,806) | 25,019 |
| Net financial assets, beginning of year | 57,648 | 57,648 | 32,629 |
| **Net financial assets, end of year** | $ 85,915 | $ 52,842 | $ 57,648 |

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

# STATEMENT OF CASH FLOW

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS)

| | 2017 | 2016 |
|---|---|---|
| **Operating transactions** | | |
| Cash receipts from customers | $ 111,615 | $ 106,806 |
| Other income received | 52 | 110 |
| Government funding - operations | 68,575 | 102,694 |
| Government funding - capital | 25,392 | 235,165 |
| Cash payments to suppliers | (91,043) | (100,486) |
| Cash payments to and on behalf of employees | (88,346) | (86,496) |
| Cash paid for employee future benefits | (4,652) | (22,755) |
| | 21,593 | 235,038 |
| **Capital transactions** | | |
| Purchase of tangible capital assets | (25,392) | (235,165) |
| Proceeds on disposal of tangible capital assets | 3,879 | - |
| | (21,513) | (235,165) |
| Effect of exchange rate changes on cash | (241) | 705 |
| Net (decrease) increase in cash | (161) | 578 |
| Cash, beginning of year | 13,105 | 12,527 |
| **Cash, end of year** | $ 12,944 | $ 13,105 |
| Cash consists of: | | |
| Restricted cash | $ 8,868 | $ 9,194 |
| Unrestricted cash | 4,076 | 3,911 |
| | $ 12,944 | $ 13,105 |

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017 (IN THOUSANDS)

## 1. Nature of Operations and Authority

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

The Corporation receives funding for its operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. The acquisition of tangible capital assets is subject to approval of parliamentary appropriations. The Corporation is economically dependent on the Government of Canada.

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

In December 2014, the Corporation was issued a directive (P.C. 2014-1382) pursuant to section 89 of the *Financial Administration Act*, requiring that its pension plan provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions for all members by December 31, 2017. The directive also requires that, for any employee hired after January 1, 2015, the normal age of retirement be raised to 65 years and that the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan. Member contribution rates were adjusted to meet the 50:50 current service cost-sharing ratio target rate effective January 1, 2017.

In July 2015, the Corporation was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Corporation's next corporate plan. The Corporation implemented new policies and revised existing policies and procedures effective July 1, 2016 to comply with the directive.

## 2. Significant Accounting Policies

### BASIS OF ACCOUNTING

The financial statements are prepared in accordance with Canadian public sector accounting standards. All figures are stated in thousands of dollars except for the authorized share capital.

**(a) Government funding**

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

**(b) Financial instruments**

Cash, accounts receivable, accounts payable and accrued liabilities are measured at cost.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to fair value at the end of each reporting period. Changes in fair value are recognized in the statement of remeasurement gains and losses until the derivative financial instrument is derecognized, at which point the accumulated remeasurement gain (loss) is reversed and reclassified to the statement of operations. Derivatives are derecognized at the expiry date of the derivative contract. Transaction costs are expensed as incurred.

**(c) Insurance claims receivable**

Accounts receivable includes recoverable insurance claims which are recognized when the Corporation has reasonable assurance the claim will be accepted and paid by the insurance underwriter.

**(d) Inventory**

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

**(e) Tangible capital assets**

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

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

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

Estimated useful lives and amortization methods are reviewed annually. The rates for significant classes of tangible capital assets are as follows:

| | |
|---|---|
| **Vessels (includes vessel projects)** | 5% to 10% |
| **Shore facilities** | 2.5% to 5% |
| **Equipment** | 10% to 25% |
| **Leasehold improvements** | Term of lease agreement or the asset's useful life |

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

**(f) Employee future benefits**

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

**POST-RETIREMENT BENEFITS**

**i) Accrued pension asset (liability)**

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

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

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

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

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

The estimated average remaining service period of the members covered by the registered pension plan and the supplementary retirement arrangement adopted in 2006 is 10.4 years (2016 - 10.7 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 15.4 years (2016 - 16.4 years).

**ii) Health and dental plans**

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

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

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

The estimated average remaining service period of members covered by non-pension employee future benefit plans expected to receive benefits is 11.0 years (2016 - 11.8 years). Adjustments for plan amendments, net of offsetting unamortized actuarial gain and losses, related to prior period employee service are recognized in the statement of operations in the period of the plan amendment.

**iii) Complimentary ferry services for employees and retirees**

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

**POST-EMPLOYMENT BENEFITS**

**i) Workers' compensation liabilities**

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

Adjustments arising from actuarial gains and losses are amortized over the average expected period over which benefits will be paid which is 10.0 years (2016 - 10.0 years).

**ii) Other benefits**

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

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

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

There is also a sick leave plan for non-union/management employees hired after September 1, 2001 as they work and accumulate sick leave credits. Employees hired prior to September 1, 2001 are eligible for sick leave based on years of service. This plan is not available to union employees. The sick leave plan provides benefits that accumulate but do not vest. No liability has been recognized on the statement of financial position for this benefit because it is not material.

**(g) Revenue recognition**

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

**(h) Expenses**

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

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

**(i) Prepaid expenses**

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

**(j) Foreign currency translation**

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

**(k) Contingent liabilities**

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

**(l) Measurement uncertainty**

The preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include accrued pension asset, accrued pension liability, non-pension post-retirement benefits and post-employment benefits, useful lives of tangible capital assets and litigation. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

# 3. Cash

Cash includes restricted cash consisting of cash denominated in Euros held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The charter agreement signed in January 2015 requires the continuation of the established escrow account equivalent to six months of charter fees until the end of the charter in November 2017. The total balance denominated in Euros is €6,223 (2016 - €6,223), which translates to $8,868 Canadian dollars at March 31, 2017 (2016 - $9,194). These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

## 4. (Receivable From) Payable to Government of Canada

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

| | 2017 | 2016 |
|---|---|---|
| Payable to Government of Canada, beginning of year | $ 2,626 | $ 2,766 |
| (Receivable from) Government of Canada, beginning of year | (13,000) | - |
| Parliamentary appropriations received during the year | 93,967 | 337,859 |
| Recognized during the year: | | |
| Government funding - operations | (61,203) | (114,637) |
| Government funding - capital | (37,598) | (236,362) |
| Government funding (deficit) surplus | (4,834) | (13,140) |
| (Receivable from) Government of Canada, end of year | (18,000) | (13,000) |
| Payable to Government of Canada, end of year | $ 2,792 | $ 2,626 |

## 5. Inventories

| | 2017 | 2016 |
|---|---|---|
| **Inventories held for consumption** | | |
| Fuel inventory | $ 10,638 | $ 9,326 |
| Vessel spare parts – ship based | 3,003 | 2,607 |
| Vessel spare parts – shore based | 3,051 | 3,089 |
| | 16,692 | 15,022 |
| **Inventories held for resale** | | |
| Catering inventory | 402 | 363 |
| Total inventory | $ 17,094 | $ 15,385 |

For the year ended March 31, 2017, inventories expensed during the year amounted to $23,866 (2016 - $27,526). During the year, the Corporation has written down $10 (2016 - $395) of inventory.

# 6. Accounts Payable and Accrued Liabilities

| | 2017 | 2016 |
|---|---|---|
| Accounts payable | $ 20,484 | $ 12,444 |
| Accrued liabilities | 6,111 | 4,711 |
| Wages and benefits payable | 6,272 | 6,794 |
| Government remittances payable | 1,726 | 1,738 |
| Accounts payable and accrued liabilities | $ 34,593 | $ 25,687 |

Amounts due to other government organizations of $201 (2016 - $190) are payable on demand and are non-interest bearing.

# 7. Liability for Contaminated Site

In 2010-11, the Corporation identified environmental issues at its previously operated Bar Harbour terminal in the United States. The required remediation to ensure compliance with regulations began in April 2016 and was completed by June 30, 2016. The Corporation has a closing liability of nil (2016 - $377) in accounts payable and accrued liabilities. The property was subsequently sold in February of 2017.

# 8. Accrued Pension Asset (Liability)

The Corporation's independent actuary measures the pension obligations and the value of the plan's assets for accounting purposes as at the measurement date (December 31, 2016 for the year ended March 31, 2017, and December 31, 2015 for the year ended March 31, 2016). The most recent actuarial valuation for funding purposes was completed in 2016 and is as of December 31, 2015.

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

| | 2017 | 2016 |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance, beginning of year | $ 637,584 | $ 613,441 |
| Current service cost | 8,246 | 9,701 |
| Employee contributions | 5,991 | 4,804 |
| Interest costs | 27,541 | 28,719 |
| Benefits paid | (36,746) | (36,374) |
| Actuarial loss | 47,460 | 17,293 |
| Balance, end of year | $ 690,076 | $ 637,584 |
| | | |
| **Market-related value of plan assets** | | |
| Balance, beginning of year | $ 736,579 | $ 670,949 |
| Return on plan assets | 69,575 | 72,044 |
| Employer contributions | 21,259 | 25,156 |
| Employee contributions | 5,991 | 4,804 |
| Benefits paid | (36,746) | (36,374) |
| Balance, end of year | $ 796,658 | $ 736,579 |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Registered Pension Plan | Supplementary Retirement Arrangements | Registered Pension Plan | Supplementary Retirement Arrangements |
| Pension plan assets (market-related value) | $ 796,658 | $ - | $ 736,579 | $ - |
| Pension obligations (actuarial value) | 686,764 | 3,313 | 634,548 | 3,037 |
| Surplus (deficit) end of year | 109,894 | (3,313) | 102,031 | (3,037) |
| Unamortized net actuarial losses | 9,574 | 832 | 825 | 757 |
| Employer contributions during year for measurement date to March 31 | 1,087 | 39 | 20,312 | 39 |
| Accrued pension asset (liability) | $ 120,555 | $ (2,442) | $ 123,168 | $ (2,241) |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Registered Pension Plan | Supplementary Retirement Arrangements | Registered Pension Plan | Supplementary Retirement Arrangements |
| Contributions | | | | |
| Employer | $ 1,879 | $ 156 | $ 20,312 | $ 156 |
| Employee | 5,991 | - | 4,804 | - |
| Total contributions | $ 7,870 | $ 156 | $ 25,116 | $ 156 |
| Benefits paid | $ 36,590 | $ 156 | $ 36,218 | $ 156 |

The pension costs are comprised of the following:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Registered Pension Plan | Supplementary Retirement Arrangements | Registered Pension Plan | Supplementary Retirement Arrangements |
| Determination of pension costs for the year are calculated as: | | | | |
| Current period benefit cost | $ 14,055 | $ $182 | $ 14,368 | $ 136 |
| Amortization of net actuarial losses | 1,678 | 106 | 2,810 | 76 |
| Employee contributions | (5,991) | - | (4,804) | - |
| Retirement benefit expense | 9,742 | 288 | 12,374 | 212 |
| Interest on pension obligations | 27,472 | 69 | 28,653 | 66 |
| Expected return on plan assets | (32,722) | - | (32,051) | - |
| Retirement benefit interest (revenue) expense | (5,250) | 69 | (3,398) | 66 |
| Pension costs | $ 4,492 | $ 357 | $ 8,976 | $ 278 |

The registered pension plan is a defined benefit pension plan. The pension formula for current active members of the plan provides a pension, for each year of allowable service up to a maximum of 35 years, equal to 1.6% of best or final average earnings up to the average maximum pensionable earnings under the Canada Pension Plan, plus 2% of best or final average earnings in excess of the average maximum pensionable earnings under the Canada Pension Plan. The plan provides for possible indexation adjustments for pension and survivor benefits payable during a calendar year following the third anniversary of the member's retirement or death, whichever occurs first. The indexation adjustment is calculated as the annual increase in the Consumer Price Index less 3%, subject to a maximum annual increase of 3%. No indexation adjustment is provided if the annual increase in the Consumer Price Index is below 3%.

Employer pension contributions are made in accordance with the actuarial valuations for funding purposes. Letters of credit are treated in accordance with section 9.11 of the *Pension Benefits Standards Act*, 1985 and related regulations.

The registered pension plan assets are invested in debt securities, equity securities and buy-in annuities. The asset mix at December 31, 2016, which is the measurement date for the March 31, 2017 financial statements, was 0% in debt securities, 43% in equity securities, and 57% in annuities (2016 - 30%, 39%, and 31% respectively). The market value of plan assets is $367,071 (2016 - $546,899) in addition the actuarially determined value of the buy-in annuities is $467,465 (2016 - $238,917). The actual return on the market value of plan assets was $40,049 or 7% (2016 - $37,123 or 5%) and the actual return on the market-related value of plan assets was $69,575 or 9.5% (2016 - $72,044 or 10.7%).

Gains and losses incurred are as follows: Gain on market-related value of plan assets $39,334 (2016 - $39,993); actuarial loss on registered plan accrued benefit obligation $47,279 (2016 - $17,272); actuarial loss on supplementary arrangements accrued benefit obligation $181 (2016 - $21).

The assumptions are:

| | 2017 | 2016 |
|---|---|---|
| Pension obligations | | |
| Discount rate – registered plan | 5.5% | 5.2% |
| Discount rate – supplementary arrangements | 2.2% | 2.0% |
| Rate of compensation increase | 3.5% | 3.5% |
| Inflation rate | 2.0% | 2.0% |
| Pension costs | | |
| Discount rate – registered plan | 5.2% | 4.8% |
| Discount rate – supplementary arrangements | 2.0% | 2.2% |
| Expected return on assets | 5.2% | 4.8% |
| Rate of compensation increase | 3.5% | 3.5% |
| Inflation rate | 2.0% | 2.0% |

## 9. Accrued Liability for Non-Pension Post-Retirement Benefits

The Corporation provides life insurance and health and dental care benefits to retirees. The present value of this unfunded benefit plan for current and future retirees is determined by the Corporation's independent actuary on the basis of management assumptions. An actuarial valuation was conducted as of December 31, 2016 for the year ended March 31, 2017. The March 31, 2016 accrued liability was determined based on the December 31, 2013 actuarial valuation.

The statement of operations includes a charge of $2,155 (2016 - $2,487) for non-pension post-retirement benefits for the cost of these benefits during the period.

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

| | 2017 | 2016 |
|---|---|---|
| Obligation for non-pension post-retirement benefits (actuarial value) | $ (38,717) | $ (38,713) |
| Unamortized net actuarial (gain) | (8,108) | (6,395) |
| Employer contributions during the year from measurement date to March 31 | 119 | 107 |
| Accrued benefit liability for non-pension post-retirement benefits | $ (46,706) | $ (45,001) |

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

| | 2017 | 2016 |
|---|---|---|
| Employer's contributions | $ 450 | $ 390 |
| Benefits paid | $ 450 | $ 390 |

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

| | 2017 | 2016 |
|---|---|---|
| Determination of non-pension post-retirement benefit costs for the year are calculated as: | | |
| Current period benefit cost | $ 1,949 | $ 1,976 |
| Interest on obligations | 808 | 892 |
| Amortization of net actuarial (gains) | (602) | (381) |
| Non-pension post-retirement benefit costs | $ 2,155 | $ 2,487 |

The assumptions are:

| | 2017 | 2016 |
|---|---|---|
| Non-pension post-retirement benefits obligations | | |
| Discount rate | 2.2% | 2.0% |
| Rate of compensation increase | 3.5% | 3.5% |
| Initial weighted-average health care trend rate | 5.6% | 5.7% |
| Ultimate weighted-average health care trend rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2032 | 2032 |
| Inflation rate | 2.0% | 2.0% |
| Non-pension post-retirement benefits costs | | |
| Discount rate | 2.0% | 2.2% |
| Rate of compensation increase | 3.5% | 3.5% |
| Initial weighted-average health care trend rate | 5.7% | 5.8% |
| Ultimate weighted-average health care trend rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2032 | 2032 |
| Inflation rate | 2.0% | 2.0% |

## 10. Accrued Liability For Post-Employment Benefits (Workers' Compensation and Other Benefits)

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

The actuarially determined liability consists of an obligation for known awarded disability and survivor pensions, an obligation for all other potential future awards for past claims and other costs consisting of temporary compensation, health care expenses, rehabilitation costs and related administration costs charged by the various provincial commissions/board. These amounts are presented on a net present value basis taking into account inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The most recent actuarial valuations for accounting purposes for workers' compensation benefits were conducted as of December 31, 2014 extrapolated to the measurement dates of December 31, 2016 and

December 31, 2015. The most recent actuarial valuation for accounting purposes for other post-employment benefits was conducted as of December 31, 2016.

The statement of operations includes a charge of $2,021 (2016 - $2,023) for post-employment benefit costs.

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

| | 2017 | 2016 |
|---|---|---|
| Obligation for post-employment benefits (actuarial value) | $ (14,717) | $ (14,968) |
| Unamortized net actuarial losses | 2,735 | 2,852 |
| Employer contributions during the year from measurement date to March 31 | 380 | 368 |
| Accrued benefit liability for post-employment benefits | $ (11,602) | $ (11,748) |

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

| | 2017 | 2016 |
|---|---|---|
| Benefits paid | $ 2,167 | $ 1,897 |

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

| | 2017 | 2016 |
|---|---|---|
| Determination of post-employment benefit costs for the year are calculated as: | | |
| Current period benefit cost | $ 1,329 | $ 1,384 |
| Interest on obligations | 308 | 327 |
| Amortization of net actuarial losses | 384 | 312 |
| Post-employment benefit costs | $ 2,021 | $ 2,023 |

The assumptions are:

| | 2017 | 2016 |
|---|---|---|
| Post-employment benefits obligations | | |
| Discount rate | 2.2% | 2.0% |
| Increase in average industrial wage | 3.0% | 3.0% |
| Inflation rate | 2.0% | 2.0% |
| Health care cost increases | 5.0% | 5.0% |
| Post-employment benefits costs | | |
| Discount rate | 2.0% | 2.2% |
| Increase in average industrial wage | 3.0% | 3.0% |
| Inflation rate | 2.0% | 2.0% |
| Health care cost increases | 5.0% | 5.0% |

For the year ended March 31, 2017, the Corporation paid $429 (2016 - $375) in premiums to the Workers' Compensation Board of Nova Scotia which are included in wages and benefits in the statement of operations. These premiums represent the workers' compensation costs for Nova Scotia employees given that the Corporation is on an assessment basis.

## 11. Tangible Capital Assets

| | 2017 Cost | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Transfers | Disposals | Ending Balance |
| Vessel | $ 375,932 | $ 5,751 | $ 3,243 | $ (77) | $ 384,849 |
| Shore facilities | 190,109 | 25 | 228 | (87) | 190,275 |
| Leasehold improvements | 20,820 | 896 | 4,973 | - | 26,689 |
| Equipment | 31,263 | 270 | 2,235 | (312) | 33,456 |
| Work in progress | 17,049 | 30,656 | (10,679) | - | 37,026 |
| | $ 635,173 | $ 37,598 | $ - | $ (476) | $ 672,295 |

| | 2017 Accumulated Amortization | | | |
|---|---|---|---|---|
| | Beginning Balance | Amortization Expense | Disposals | Ending Balance |
| Vessel | $ 125,808 | $ 24,970 | $ (51) | $ 150,727 |
| Shore facilities | 61,571 | 8,052 | (22) | 69,601 |
| Leasehold improvements | 20,328 | 3,466 | - | 23,794 |
| Equipment | 18,294 | 2,656 | (301) | 20,649 |
| | $ 226,001 | $ 39,144 | $ (374) | $ 264,771 |

| | 2016 Cost | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Reclassification | Additions | Transfers | Disposals | Ending Balance |
| Vessel | $ 105,536 | $ 47,618 | $ 219,047 | $ 3,980 | $ (249) | $ 375,932 |
| Shore facilities | 171,467 | | 2,306 | 20,381 | (4,045) | 190,109 |
| Leasehold improvements | 67,701 | (47,618) | 273 | 464 | - | 20,820 |
| Equipment | 28,043 | | 468 | 3,292 | (540) | 31,263 |
| Work in progress | 30,898 | | 14,268 | (28,117) | - | 17,049 |
| | $ 403,645 | $ - | $ 236,362 | $ - | $ (4,834) | $ 635,173 |

| | 2016 Accumulated Amortization | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Reclassification | Amortization Expense | Disposals | Ending Balance |
| Vessel | $ 67,791 | $ 37,200 | $ 21,024 | $(207) | $125,808 |
| Shore facilities | 57,869 | | 7,634 | (3,932) | 61,571 |
| Leasehold improvements | 57,192 | (37,200) | 336 | - | 20,328 |
| Equipment | 16,168 | | 2,638 | (512) | 18,294 |
| | $ 199,020 | $ - | $ 31,632 | $ (4,651) | $ 226,001 |

| | 2017 Net Book Value | 2016 Net Book Value |
|---|---|---|
| Vessel | $ 234,122 | $ 250,124 |
| Shore facilities | 120,674 | 128,538 |
| Leasehold improvements | 2,895 | 492 |
| Equipment | 12,807 | 12,969 |
| Work in progress | 37,026 | 17,049 |
| | $ 407,524 | $ 409,172 |

## 12. Financial Instruments

**(a) Classification of financial instruments**
The carrying amounts of financial assets and liabilities recorded at cost or amortized cost or at fair value are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| **Financial assets** | | | | |
| Cash | $ - | $ 12,944 | $ - | $ 13,105 |
| Accounts receivable | - | 10,040 | - | 11,089 |
| Derivative financial instruments | 1,183 | - | 848 | - |
| | $ 1,183 | $ 22,984 | $ 848 | $ 24,194 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities other than government remittances payable | $ - | $ 32,867 | $ - | $ 23,949 |
| Derivative financial instruments | 1,906 | - | 6,921 | - |
| | $ 1,906 | $ 32,867 | $ 6,921 | $ 23,949 |

**(b) Fair value**
Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment. The methods used to

establish the fair values of the Corporation's derivative financial assets and derivative financial liabilities at March 31, 2017, which are all classified as level 2, are based on quoted prices for similar assets or liabilities or modeled using inputs that are observable. The fair value of the derivative financial instruments is estimated at the discounted unrealized gain or loss calculated based on market prices at March 31, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the financial statement date. The Corporation utilizes information provided by Canadian chartered banks to assist in determining the fair value of the derivative financial instruments.

**(c) Derivatives**

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

The Corporation uses foreign exchange forwards which are contractual agreements to buy foreign currency at a specified price and date in the future. The Euro foreign exchange forwards are related to lease payments for the MV *Atlantic Vision*. The USD foreign exchange forwards are related to payments for drydocking of vessels anticipated in spring 2018.

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

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Period (Note 1) | Fixed Price per Unit (Note 2) | Notional Quantity (Note 3) | Fair value | Fair value |
| Crude swap - #2 heating oil | 2018 | 1.8120 - 2.1660 | 2,898 | $ 411 | $ - |
| Crude swap - #2 heating oil | 2019 | 1.9825 - 2.0540 | 504 | 69 | - |
| Crude swap - #2 heating oil | 2020 | 2.0490 - 2.0980 | 1,092 | 112 | - |
| Crude swap - #6 heavy fuel 1% | 2018 | 43.15 - 48.35 | 27 | 419 | 137 |
| Crude swap - #6 heavy fuel 1% | 2019 | 49.63 - 59.52 | 17 | 95 | - |
| | | | | $ 1,106 | $ 137 |

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

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

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

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Period (Note 1) | Forward Rate CAD/EURO | Notional Quantity (Euros) | Fair value | Fair value |
| Foreign exchange forwards | 2017 | - | - | $ - | $ 480 |
| Foreign exchange forwards | 2018 | 1.3883 - 1.4013 | 2,156 | 64 | 231 |
| | | | | $ 64 | $ 711 |

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

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Period (Note 1) | Forward Rate CAD/USD | Notional Quantity (USD) | Fair value | Fair value |
| Foreign exchange forwards | 2018 | 1.3232 | 2,500 | $ 13 | $ - |
| | | | | $ 13 | $ - |

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

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

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Period (Note 1) | Fixed Price per Unit (Note 2) | Notional Quantity (Note 3) | Fair value | Fair value |
| Crude swap - #2 heating oil | 2017 | - | - | $ - | $ (1,217) |
| Crude swap - #2 heating oil | 2018 | 2.1675 - 2.7450 | 2,730 | (640) | (1,412) |
| Crude swap - #2 heating oil | 2019 | 2.2450 - 2.3210 | 2,520 | (349) | (327) |
| Crude swap - #2 heating oil | 2020 | 2.3300 - 2.4078 | 756 | (139) | (27) |
| Crude swap - #2 heating oil | 2021 | 2.4020 - 2.4708 | 1,428 | (310) | - |
| Crude swap - #6 heavy fuel 1% | 2017 | - | - | - | (3,227) |
| Crude swap - #6 heavy fuel 1% | 2018 | 64.66 - 67.40 | 37 | (152) | (179) |
| Crude swap - #6 heavy fuel 1% | 2019 | 64.42 | 3 | (10) | (124) |
| Crude swap - #6 heavy fuel 1% | 2020 | 64.60 | 2 | (6) | - |
| | | | | $ (1,606) | $ (6,513) |

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

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

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

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Period (Note 1) | Forward Rate CAD/EURO | Notional Quantity (Euros) | Fair value | Fair value |
| Foreign exchange forwards | 2017 | - | - | $ - | $ (278) |
| Foreign exchange forwards | 2018 | 1.5598 - 1.5664 | 2,156 | (300) | (130) |
| | | | | $ (300) | $ (408) |

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

# 13. Financial Risk Management

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

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

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

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

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

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

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

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

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

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

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

The German bank holds a baseline credit assessment of b3, a guaranteed long-term rating of Baa3, and an unguaranteed short-term rating of P-3 from Moody's, and a stand-alone rating of b, a guaranteed long-term rating of BBB, and unguaranteed short-term rating of F3 from Fitch Ratings at March 31, 2017.

**Accounts receivable**
The Corporation's total accounts receivable is $10,040 as at March 31, 2017 (2016 - $11,089) and consists of trade receivables of $3,584 (2016 - $4,513) and other accounts receivable of $6,456 (2016 - $6,576) of which $2,550 (2016 - $3,142) is recoverable insurance claims.

Trade accounts receivable are incurred in the normal course of business and are due on demand. The Corporation provides services to numerous customers. However, five customers represent 50% of the trade receivables (2016 - five customers represented 51% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable.

As at March 31, 2017, approximately 1.4% (2016 - 0.6%) of trade accounts receivables were over 30 days past due, whereas 98.6% (2016 - 99.4%) were current, or less than 30 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts. The Corporation's allowance for doubtful accounts was $25 at March 31, 2017 (2016 - $26). The allowance for doubtful accounts is based on an account by account analysis that considers the aging of the account and the current credit-worthiness of the customer.

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

| | 2017 | 2016 |
|---|---|---|
| Current | $ 3,264 | $ 3,962 |
| 1-30 days past due | 296 | 548 |
| 31-120 days past due | 49 | 29 |
| | 3,609 | 4,539 |
| Less: Allowance for doubtful accounts | (25) | (26) |
| Trade accounts receivable, net | $ 3,584 | $ 4,513 |

**Derivatives**

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

**(b) Market risk**

**(i) Currency risk**

Currency risk arises due to fluctuations in foreign currency rates. The Corporation uses derivatives (foreign exchange forwards) to manage this risk. The Corporation makes monthly lease payments for the charter of the MV *Atlantic Vision* in the amount of 660 Euros. To minimize this risk, the Corporation purchased forward contracts for 100% of the amount of the monthly lease payments. The Corporation has reduced exposure to currency risk given that these lease payments have been fully hedged. A fluctuation of 5% in foreign currency rates would not have a significant impact on the financial statements.

**(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest rate for the Corporation's cash balances varies based on changes in the prime rate. The Corporation has no significant exposure to interest rate risk. A variation of 1% in the interest rate would affect the amount of investment income earned on cash balances but would not have a significant impact on the financial statements.

**(iii) Commodity fuel price risk**

In order to manage the risk associated with increased fuel price variation, the Corporation enters into crude oil derivative contracts (swaps) with financial intermediaries. The objectives of the Corporation's fuel hedging policy are to stabilize fuel budget variances and the fuel surcharges charged to customers. A 10% increase in the market price of derivatives for the year ended March 31, 2017 would decrease crude oil derivative liabilities by $1,849, while a 10% decrease in the market price of crude oil derivatives for the year ended March 31, 2017 would increase derivative liabilities by $1,884.

**(c) Liquidity risk**

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

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

The Corporation has an operating credit facility of up to $35,622 (2016 - $35,622) available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at March 31, 2017 (2016 - nil), although, irrevocable letters of credit have been provided against the facility in the amount of $35,622 (2016 - $35,622). The credit facility is available to the Corporation as required with annual renewal subject to the approval of the Minister of Finance.

The Corporation's bank has provided an irrevocable letter of credit against the Corporation's operating credit facility in favour of the Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,200 (2016 - $4,200) for an indefinite period.

The Corporation's bank has provided irrevocable letters of credit against the Corporation's operating credit facility in favour of CIBC Mellon Trust Company in Trust for The Pension Plan for Employees of Marine Atlantic Inc. in amounts totalling $31,422 (2016 - $31,422) with expiry dates of December 31, 2017. The letters of credit do not exceed 15% of the market value of assets per regulations supporting the *Pension Benefits Standards Act*, 1985.

The carrying amount of accounts payable and accrued liabilities other than government remittances payable and derivative financial liabilities represents the Corporation's exposure to liquidity risk. The Corporation's carrying value of accounts payable and accrued liabilities was $32,867 (2016 - $23,949). The carrying value of accounts payable as at March 31, 2017 was $20,484 (2016 - $12,444) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $12,383 as at March 31, 2017 (2016 - $11,505).

The following table summarizes the contractual maturities for accounts payable and accrued liabilities other than government remittances payable and derivative financial liabilities as at March 31:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 months to 1 year | 1 to 4 years | Total |
| Accounts payable and accrued liabilities | $ 32,867 | - | - | - | $ 32,867 |
| Derivative financial liabilities | $ 92 | 647 | 353 | 814 | $ 1,906 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 months to 1 year | 1 to 3 years | Total |
| Accounts payable and accrued liabilities | $ 23,949 | - | - | - | $ 23,949 |
| Derivative financial liabilities | $ 558 | 1,838 | 2,325 | 2,200 | $ 6,921 |

## 14. Accumulated Surplus

The accumulated surplus is comprised of:

| | 2017 | 2016 |
|---|---|---|
| Accumulated operating surplus | $ 481,477 | $ 489,204 |
| Accumulated remeasurement (losses) | (207) | (5,315) |
| Accumulated surplus | $ 481,270 | $ 483,889 |

Accumulated operating surplus includes share capital in the amount of $258,530 (2016 - $258,530). The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at March 31, 2017, 517,061,000 shares (2016 - 517,061,000 shares) at $0.50 per share (2016 - $0.50 per share) have been issued and fully paid.

## 15. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. During the year, the Corporation incurred expenses of $1,623 (2016 - $1,737) with other related parties, which include the accounts payable as described in note 6. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 4. The Corporation is given the right to use the Crown land on which the terminals sit free of charge by Transport Canada. No amount is recorded since the fair value related to the use of these lands received free of charge is not reliably measurable.

## 16. Contractual Obligations

(a) The total amount required to complete contracted major capital work in progress at March 31, 2017 is $2,334 (2016 - nil).

(b) The Corporation leases certain facilities and equipment. As well, the Corporation has a multiyear charter agreement for the MV *Atlantic Vision*. The minimum future annual lease payments are as follows:

| | Charter | Other | Total |
|---|---|---|---|
| 2017-18 | $ 7,909 | $ 416 | $ 8,325 |
| 2018-19 | - | 416 | 416 |
| 2019-20 | - | 173 | 173 |
| | $ 7,909 | $ 1,005 | $ 8,914 |

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

## 17. Contingencies

In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. At March 31, 2017, the Corporation is in receipt of claims estimated at $350 (2016 - $350) where the occurrence of the confirming future event is considered likely and this amount has been accrued in the financial statements. There are additional claims estimated at $170 (2016 - $169) where the occurrence of the confirming future event is not determinable and this amount has not been accrued.

These estimates are derived based on management's judgment and maximum exposures which are limited due to insurance deductibles which are in place.

In November 2013, there was a Supreme Court of Newfoundland and Labrador judgment on liability against the Corporation for failure to award a contract in 1997. The judgment did not address damages or quantum. The Corporation appealed the judgment to the Court of Appeal. In November 2014, the Court of Appeal dismissed the Corporation's appeal with costs. At this time, based on the information currently available to the Corporation, management believes that the resolution of this matter and any liability arising therefrom will not have a significant adverse effect on these financial statements.

## 18. Budgeted Figures

Budgeted figures have been provided for comparison purposes and have been derived from the corporate planning process and approved by the Board of Directors. The Corporation has not exceeded its total expenditure or investing authority limits in the year.