2017–2018

ANNUAL REPORT

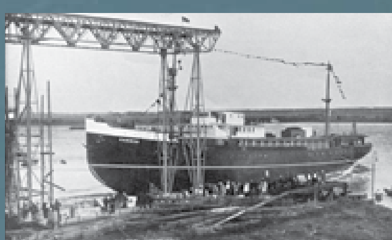
Marine Atlantic
Marine Atlantique

Canada

REMEMBERING
THE SS *CARIBOU*

DID YOU KNOW?

- **The SS *Caribou* was named after the woodland caribou that inhabits Newfoundland and Labrador, which is also a symbol of the Royal Newfoundland Regiment.**



- **The SS *Caribou* was built in 1925 at Rotterdam, Netherlands, for the Newfoundland Railway.**
- **The SS *Caribou* was able to reach a speed of 14.5 knots (26.9 km/h) when fully loaded.**

On October 14, 1942, the SS *Caribou* was en route from North Sydney to Port aux Basques when it was torpedoed by a German U-boat. Of the 237 men, women and children who were on the vessel, 136 people were unable to be rescued.

2017 marked the 75th anniversary of the sinking, and Marine Atlantic continues to honour the vessel and those who were lost. This tragedy continues to influence our employees and the people and communities we serve today.

Lest we forget.

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MESSAGE FROM THE **BOARD OF DIRECTORS**

It has been just over twelve months since I became the Chair of the Board of Directors for the Corporation, and in that time, I have had the opportunity to visit all of our vessels, offices, and facilities, and travel on both the Gulf and Argentia routes. Along the way, I also had the chance to meet with a number of our stakeholders and speak with many of our wonderful employees. There is no doubt that our employees are the foundation of our service and they take great pride in their work.

The past year has been one of great change for the Board of Directors in many regards, not the least of which has been the appointment of six new members. I am proud to welcome Janie Bussey, Brent Chaffey, Owen Fitzgerald, Gary O'Brien, Craig Priddle and Ann-Margret White. Together, they bring a wealth of experience, knowledge and skills that will undoubtedly serve the Corporation well as we continue to improve for our customers and stakeholders. Their predecessors left their mark on Marine Atlantic, and I would like to acknowledge and thank our departing Board members Nick Careen, Stan Cook, Sharon Duggan, Garfield Moffatt and Walter Pelley whose dedication and commitment have been an integral part of our improvement agenda.

As we advance along the path of continuous improvement, the Board has also begun to review its operations to ensure we meet the evolving needs of the organization and our stakeholders. For example, starting with Port aux Basques in June 2017, we began to hold Board meetings in our port communities and on our vessels. This was followed in September with meetings at Argentia, North Sydney, and the MV *Atlantic Vision*. In addition to conducting Board business in the communities where we operate, this has allowed the Directors to engage and meet with municipal, provincial and federal officials, as well as community groups and our employees. We believe that it is important to understand what our customers and stakeholders experience as we make decisions about the future of our service.

As we look to the future, I would like to recognize the ongoing support and confidence of the Government of Canada in our service. With the funding announced in Budgets 2017 and 2018, we are continuing to invest to benefit our customers for both the short and long-term. We remain committed to meeting the needs of all those who rely upon our service on a daily basis.

With safety, teamwork, commitment, integrity and excellence guiding all of our activities, we accomplished much during the year. We look forward to continuing our work with our customers, stakeholders and partners as we strive for further success in the year ahead.

Sincerely,

Kristopher Parsons
Chair, Board of Directors

MESSAGE FROM THE **PRESIDENT AND CEO**

Success can be measured in many ways and we are pleased that our key performance indicators of customer satisfaction, reliability and on-time performance remain at very high levels and are translating into increasing customer confidence in our service. This year marked our third consecutive year of passenger traffic growth, and we are very proud of this milestone.

Our employees work tirelessly every day to provide a positive travel experience to our customers and take pride in offering a safe, modern and efficient journey. From time to time we experience challenges, as was the case with this year's winter weather patterns, but our commitment is to communicate with our customers with openness and transparency and meet their transportation needs as quickly as possible.

The ongoing investments we are making are designed to further improve our customers' travel experience. This year's infrastructure program included the enhancement of our docking facilities, the construction of new ticket booths and toll plaza areas, and initial plans to construct a new administration building in Port aux Basques, all of which will strengthen our operations. These projects have been complemented by our business process renewal initiative and technologies that will improve how we interact and interface with our customers and make our business operations more effective. From a customer service perspective, our discount campaigns and promotions, an increased digital presence and our plans to expand customer amenities and offerings on board our vessels are providing new options before and during the journey.

On behalf of the Executive Team, I thank our outgoing Board members for their commitment and dedication during their tenure. Their guidance and expertise enabled us to move forward in all areas of the organization. We look forward to working with the new Board of Directors as we continue our combined efforts to provide the best possible service to our customers.

I also want to thank the many employees who helped prepare our case for the recent judicial review process. Our team at Marine Atlantic fought for a strong, accessible and affordable ferry service, one that has been rooted in supporting the people and businesses of Newfoundland and Labrador since 1898. This hard work helped protect our vital transportation link for every person who relies on our service.

As we move into the year ahead, we are committed to working with our customers and stakeholders to ensure that we continue to meet their needs.

Sincerely,

Paul Griffin
President and CEO

HIGHLIGHTS FOR 2017-18

Number of Sailings

1,685

Passengers

328,594

Passenger Vehicles

122,444

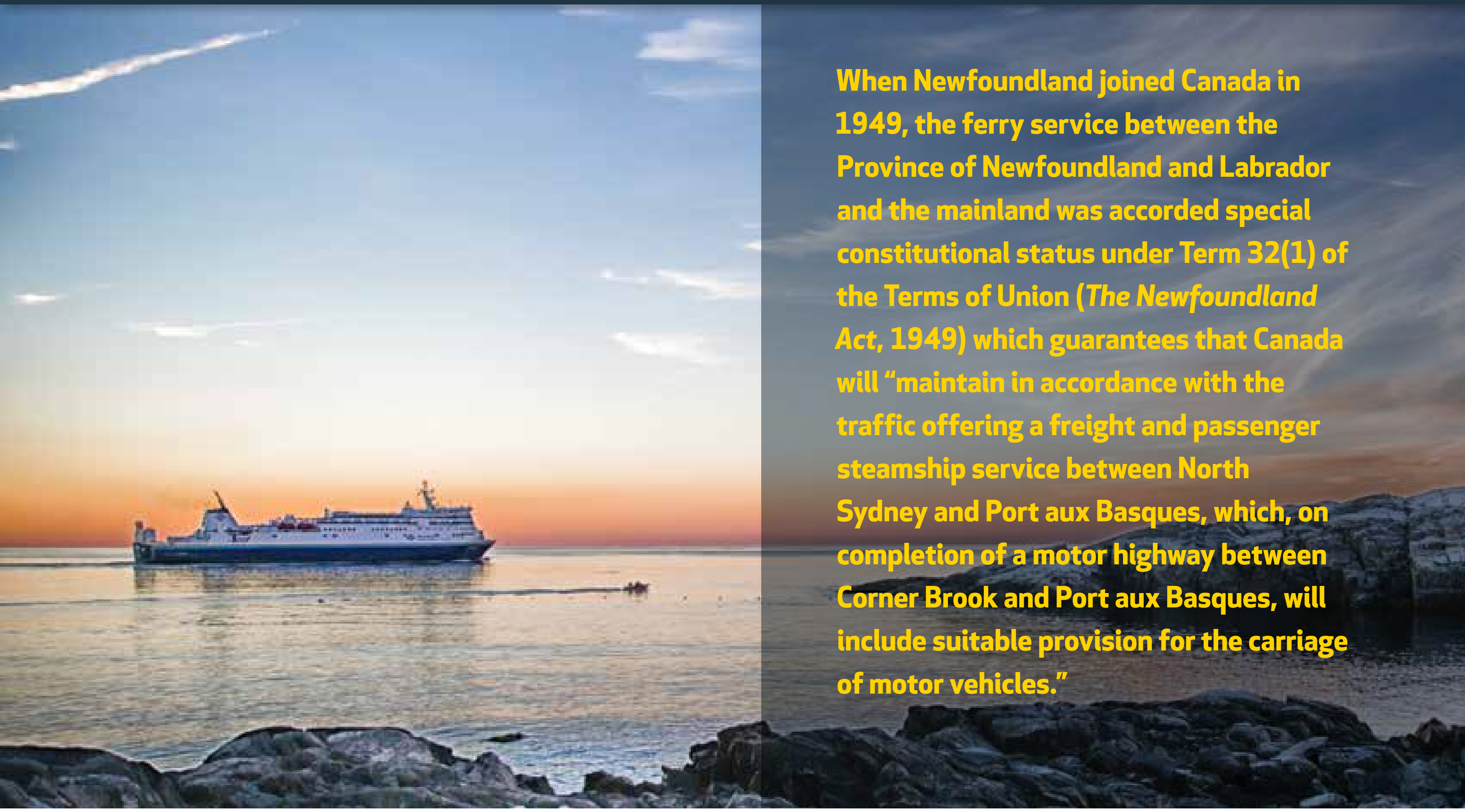
Commercial Vehicles

91,396

On-time Performance (excluding weather delays)

90%

OUR ROLE AND SERVICE



When Newfoundland joined Canada in 1949, the ferry service between the Province of Newfoundland and Labrador and the mainland was accorded special constitutional status under Term 32(1) of the Terms of Union (*The Newfoundland Act*, 1949) which guarantees that Canada will "maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques, which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles."

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.

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 our 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

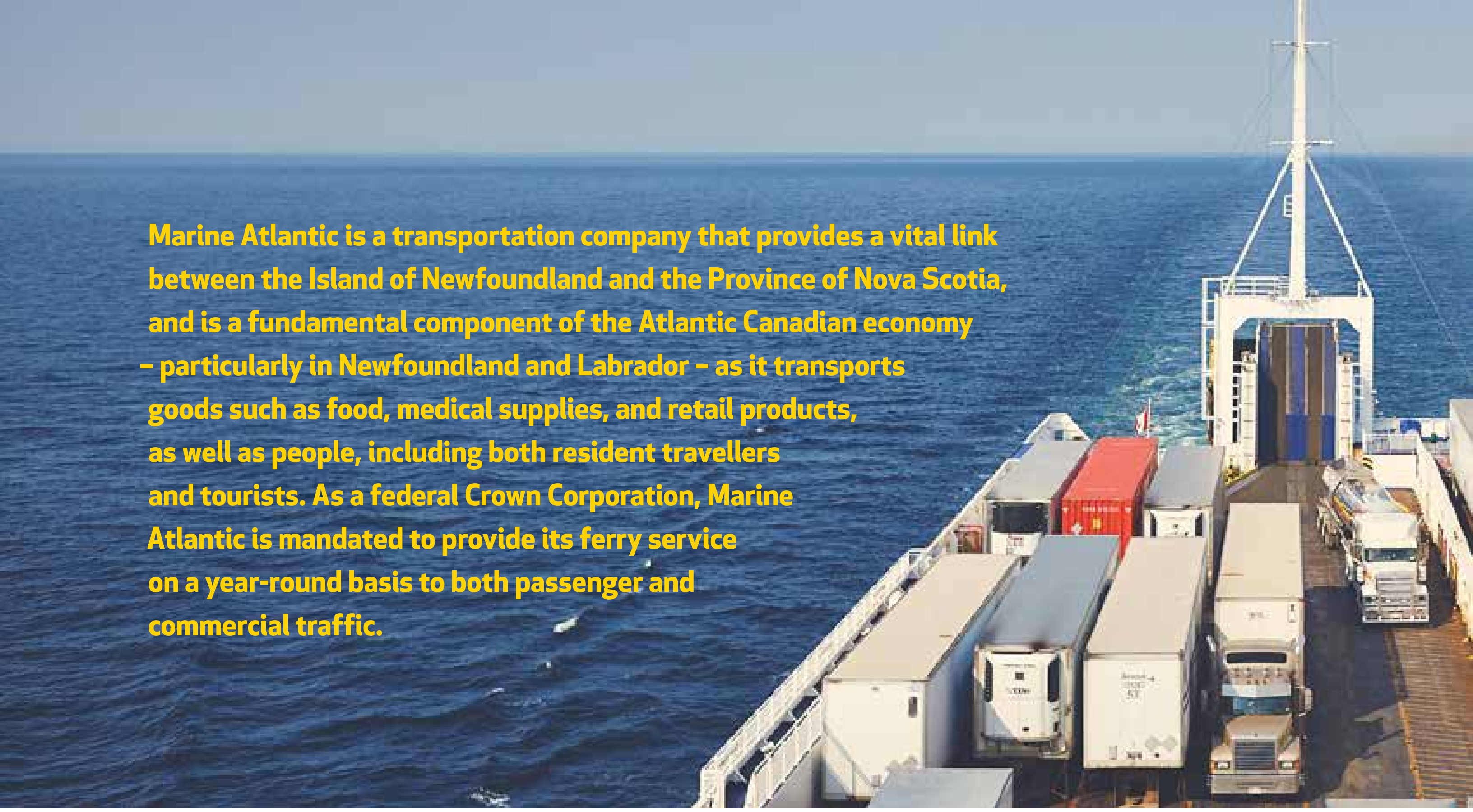
We are all responsible for our performance and the success of the business. We understand our commitments to our customers and each other.

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 service. 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 assortment 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 including perishable foods and medical supplies are transported every day. Local Newfoundland businesses 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 plays an important role 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 our 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.

DID YOU KNOW?

Canada has a *Transportation of Dangerous Goods Act* that governs the transportation of thousands of goods including everyday items from nail polish, paint and batteries to fuel, fireworks and dynamite.

Marine Atlantic's vessels cross the Gulf of St. Lawrence, an environment that can present significant weather challenges. While pleasant weather conditions present a beautiful, scenic panorama, this is also an area where high winds and the presence of severe ice build-up can affect operations and highlights Marine Atlantic's requirement for ice-class ferries and highly trained crews.

OUR OPERATING ENVIRONMENT

Operating year-round, Marine Atlantic's vessels sail both during pleasant summer weather and harsh winter conditions. The ferry service is heavily influenced by its operating environment and the captains and crews of our vessels are constantly monitoring weather conditions for 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 on 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 Transport Canada Marine Safety Statutes and Regulations, and are inspected by Transport Canada Marine Safety and DNV GL, a world leading classification society, to ensure compliance with these regulations and codes. The Safety Management System of the vessels 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.

HIGHLIGHTS FROM THE **PAST TWELVE MONTHS**

During the year, the Corporation continued to move forward with new investments from an infrastructure, business and human resources perspective. Encompassing a wide-range of business initiatives from new ticket booths, dock upgrades, training initiatives, customer offerings, environmental and social commitments, to how we operate our back-end business systems, Marine Atlantic has been working diligently to become better every day to offer customers a safer, more effective, reliable, efficient and satisfying experience.

The following provides some of the highlights for fiscal year 2017-18.

INFRASTRUCTURE AND BUSINESS **INVESTMENTS**

Marine Atlantic's goal is to offer customers a positive travel experience, so we continuously invest in infrastructure and technologies to improve all aspects of our operations. With the three-year, $445 million funding envelope announced in Budget 2017, we have greater certainty for planning activities through multiple fiscal years.

Future Fleet Configuration

With the MV *Blue Puttees* and MV *Highlanders* having been purchased in fiscal year 2015-16, discussions are taking place to determine the future of the MV *Atlantic Vision* which is under charter until November 2018 with the option for a one-year extension. In Budget 2018, funding was identified for the refurbishment of the MV *Leif Ericson*.

Marine Atlantic will continue to work with the federal government in the year ahead regarding future fleet configuration.

Port aux Basques Administration Building

In our port town of Port aux Basques, Marine Atlantic has separate locations for our Finance, Information Technology, Risk and Strategy, Health and Safety, and Crew Scheduling teams. These locations are constrained by infrastructure challenges making day-to-day activities less efficient. The Corporation conducted a review to identify options with the goal of addressing these concerns and improving daily operations. The outcome is to proceed with the construction of a new facility that will consolidate employees into one location.

A project team has been established and land acquisition activities are underway. The Corporation is excited about the construction of a new facility in Port aux Basques and the benefits it will bring for our operations, employees, and presence in the local community.

Toll Plaza and Ticket Booths

The toll plaza and ticket booth areas are the first customer interaction points for drivers arriving at our terminals. In North Sydney and Port aux Basques, these spaces were presenting design and layout challenges, creating traffic congestion and becoming outdated from a safety, security and technology perspective.

During the year, the toll plaza area was reconfigured and new ticket booths constructed in North Sydney to improve traffic flow, better serve all customer groups, provide new safety and security features, and offer a modern look and feel with the ability to integrate new technologies.

Similar reconfiguration plans are in place for our Port aux Basques terminal as part of the second phase of the project.

Dock Infrastructure Upgrades

As part of our commitment to enhancing our docking infrastructure, we are continuously improving our docking facilities. During the year, projects took place in both Port aux Basques and North Sydney to upgrade and install new dock fenders (designed to protect vessels and docks) with work taking place through the fall and winter months.

Upgraded Mooring System

Each day, the docking process is a fundamental part of our operation as our vessels arrive and depart port. A key component of docking is known as mooring, the process by which the vessel is secured to the dock infrastructure. While mooring is a necessary part of our daily operations, it also presents inherent risks due to the nature of the task. Our goal is to minimize risks during any activity which is why the Corporation has been investigating mooring options that will further enhance the safety of our employees during the docking process.

Following a successful Request for Information (RFI) process during the 2016-17 fiscal year and several months of due diligence, engineering design, engagement with external experts, and internal consultation, it was determined that an automated grip-based mooring system is the best option for our operation. In addition to improving safety, this option presents opportunities to further improve the customer experience through a decrease in the time it takes to moor the ship and begin the offloading process.

Preparation work has been completed and the implementation plan for the new system has been finalized with the infrastructure to be installed during the upcoming fiscal year.

Terminal Storm Sewer and Paving Project

The Port aux Basques Terminal storm sewer system helps to direct weather and storm-related water flows to prevent deterioration of the terminal marshalling yard. During the year, the fourth phase of the project was completed replacing older infrastructure and connecting to newer piping installed the previous year.

To provide more stability for commercial trailers and less overall damage to infrastructure, upgrades were completed on the marshalling yard and parking lot, including a paving project. As part of these upgrades, a concrete pad was installed in the drop trailer yard for additional support for rolocs (metal box units that provide support when transporting drop trailers), designed to prevent damage to commercial customer trailers.

Business Process Renewal

The Business Process Renewal Project (BPR) is a multi-year company-wide initiative designed to improve work processes across Marine Atlantic. BPR will enable an effective use of technology to increase organizational effectiveness, simplify complex business processes and enhance access to reliable information. Overall, BPR will enable us to further improve our customers' experience and strengthen our business.

This past year focused on preparing for our new technology solution implementation with process requirement activities for Human Resources and Finance, including our payroll system. During the initial phase, requirements were gathered and an implementation plan was developed, along with a change management strategy. We have now moved onto the system configuration and validation stages and have developed future state processes, as well as change readiness, communications and engagement strategies.

In the year ahead, configuration and validation activities will continue, and testing of the system, parallel pay runs, data conversion, and development of training materials will be undertaken. The new system will go-live during the upcoming fiscal year.

Vessel Connectivity

Marine Atlantic continues to work to improve the data network connectivity for our vessels while at sea. In support of these efforts, the Corporation launched a pilot project during the year on the Port aux Basques to North Sydney service. This project resulted in new infrastructure being installed on cellular towers in southwestern Newfoundland and Cape Breton. While there are still improvements required, the Corporation is pleased with the initial results of the pilot project.

The goal of the first phase of the project was to improve corporate functions. Based upon these results, the Corporation will be evaluating other opportunities that may be available to strengthen Wi-Fi access for customers and employees in the year ahead.

Virtual Collaboration

Virtual collaboration is an efficient and effective form of communication for companies with multiple locations. The ability to work virtually with project teams, employees from other departments and locations, and external stakeholders from around the world, reduces the cost of travel and stress of work/life balance while enabling teams to meet the needs of the organization.

During the year, a new virtual collaboration solution was deployed. The new solution enables more effective collaboration with higher quality audio and video feeds making the meetings a closer in-person experience.

Judicial Review

The past two years have been very busy for Marine Atlantic as we prepared to defend against an application for judicial review that was filed with the Federal Court of Canada on March 4, 2016. This review was related to the process and basis on which Marine Atlantic establishes its commercial freight rates for its ferry services and had the potential to significantly increase shipping and commodity costs for Newfoundlanders and Labradorians.

In October 2017, following many months of preparatory work, our legal team presented before the court. In early March 2018, the Federal Court delivered its decision in favour of Marine Atlantic.

"A special thank you to our legal team and all those who helped prepare for this case. We are pleased to continue delivering a strong, accessible and affordable ferry service for our customers."

Kristopher Parsons

Chair of the Board of Directors

OUR COMMITMENT TO **SAFETY, SECURITY AND THE ENVIRONMENT**

Marine Atlantic is committed to the safety and security of our customers, employees and contractors, as well as protecting our natural environment. This is an important priority in everything we do. From the hard work of our dedicated safety committees to new environmental initiatives, we continue to achieve success due to our efforts and focus on protecting people, assets and the environment.

Marine Atlantic is a proud participant and supporter of **North American Occupational Safety and Health (NAOSH) Week**. This year's event was held May 7-13.

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. Safety touches every single customer, contractor and employee, and we all have an important role to play in protecting ourselves and others.

Proactive Safety Reporting

As part of our focus on strengthening safety, we introduced proactive reporting which is designed to identify and correct hazards and hazardous conditions before they become incidents, build upon our existing safety culture, and further move us towards our goal of zero injuries.

As part of the program, a new simple report card was developed to be used for reporting unsafe conditions or behaviours. The card is available to all employees in their workplaces throughout the organization. By being proactive in reporting unsafe acts, behaviours and conditions, and developing the appropriate corrective actions to prevent incidents from occurring, we are all working to prevent injuries.

myHealth Wellness Program

The myHealth Wellness Program is focused on improving employee health and wellness. 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. Some of these programs include on-site wellness clinics, exercise competitions such as the Global Corporate Challenge, and a smoking cessation initiative, all targeted to identify, monitor and change potentially unhealthy behaviours.

Ocean Safe V

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. In November, the Corporation was joined by many external agency and community partners including the local fire departments, RCMP, Cape Breton Regional Police, Joint Task Force Atlantic, provincial Emergency Management Offices, and others in both Port aux Basques and North Sydney for Ocean Safe V, our annual Emergency Response Exercise.

This year's exercise involved working through various scenarios and determining our interaction and response activities. Whether it is responding directly to an emergency, assisting customers, or providing information updates, there are many important duties that are vital in an emergency situation. That is why we continually participate in exercises to identify where we can make ongoing improvements.

North Sydney Terminal LEED Certification

In 2016-17, Marine Atlantic submitted its application and supporting documentation to the Green Council of Canada to officially designate the North Sydney terminal building with LEED certification. During this year, the Corporation received the silver LEED certification designation indicating that the facility is a leader in environmental and energy design.

Achieving this recognition required significant work, preparation and due diligence and was made possible by the numerous employees who helped in the design and development phases of the new terminal building. In achieving this designation, Marine Atlantic demonstrated the building's high performance in key areas of human and environmental health including sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality.

Through the design and planning stages of the building, the Corporation focused on initiatives such as energy efficient lighting, water efficient landscaping, providing electric vehicle plugins, energy efficient heating, low emitting paints and adhesives, water conservation, and indoor air monitoring. These features will save energy and reduce the environmental footprint for the present and the future.

The rollout of Marine Atlantic's Waste Management Program launched in 2016-17 continues throughout the Corporation. This is one of the waste management sites designated at our Port aux Basques terminal under the program.

In celebration of Waste Reduction Week, Marine Atlantic partnered with the Cape Breton Regional Municipality to hold Community Outreach interactive sessions on the importance of waste and our environment. Approximately 1,000 students participated in the sessions to gain valuable information towards reducing their environmental footprint.

Mobius Award

Thanks to the impressive engagement of management and staff who have embraced the new waste management program at Marine Atlantic, the Corporation received Divert Nova Scotia's 2017 Mobius Award of Environmental Excellence.

Hosted annually by Divert Nova Scotia, the Mobius Awards brings together businesses, government, academia and communities across the province who are setting the standard for environmental practices in Nova Scotia and "who go above and beyond for the environment".

The Cape Breton Regional Municipality nominated Marine Atlantic for its renewed efforts in diverting waste from landfill sites and its focus on environmental initiatives.

Meeting 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 fuel is reducing sulphur emissions, and has been combined with our continued focus on reducing fuel burn. Both the MV *Blue Puttees* and MV *Highlanders* have been switched to marine diesel. The MV *Leif Ericson* will undergo modifications to enable the vessel to burn marine diesel in the coming year.

WHAT IS A SULPHUR EMISSION CONTROL AREA (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.

Right whale, Photo Credit: Christin Khan, NEFSC/NOAA (MMPA permit #17355)

Our Marine Environment

As a marine transportation provider, Marine Atlantic shares the ocean environment with many marine and land-based animals.

One such animal is the endangered North Atlantic right whale. Last summer, Transport Canada imposed a speed reduction zone in the upper portion of the Gulf of St. Lawrence to protect the whales. Recognizing the migratory nature of the North Atlantic right whales, we have been closely monitoring their progress and continue to work with Transport Canada in relation to any potential future impact to our service area. We formed a working group to monitor this issue and developed operational and mitigation plans should the speed reduction zone shift to our area. We continue to work with Transport Canada and commit to doing our part in helping to protect the North Atlantic right whales.

The Arctic Tern is the furthest migrating bird species, known to travel up to 70,000 to 90,000 kilometres annually. A significant number of the birds migrate to North Sydney every year and have adopted a concrete dolphin at the end of one of Marine Atlantic's docks as a nesting ground. The birds and their nests are protected under the *Federal Migratory Birds Convention Act*.

To further protect the terns and their nesting grounds, additional measures were taken during the year including the removal of an abandoned catwalk structure that was creating issues for their habitat.

Marine Atlantic recognizes the importance of wildlife conservation and will continue to take measures to protect our natural environment.

Green Marine Certification

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

During the year, Green Marine conducted an audit to assess and verify our adherence to the program. This audit, which is required to be completed every two years to maintain our certification, included vessel and shore assets. We are pleased to report that vessel and shore-based operations received certification.

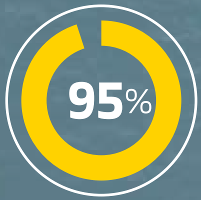
GREEN MARINE

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

STRENGTHENING THE EXPERIENCE FOR **OUR CUSTOMERS**

Our customers' travel experience is key for us here at Marine Atlantic. Investments in technology, new amenities, increasing effectiveness of our business processes, and new approaches to our everyday activities are taking place to meet the needs of our customers. Customer satisfaction remains high, and through ongoing dialogue with our partners and stakeholders, we will continue to look for areas of improvement in the coming year.



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

Customers likely to recommend Marine Atlantic to family and friends.

Customers told us that their expectations were met or exceeded.

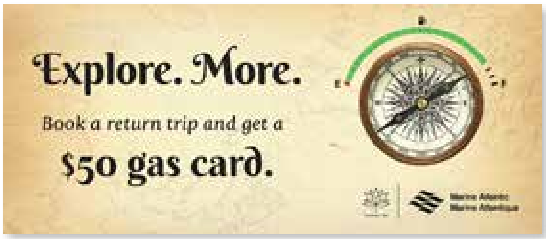
Customers highly satisfied with the onboard experience.

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

Customer Experience Rejuvenation Initiative

The Customer Experience Rejuvenation Initiative is designed to identify the "art-of-the possible" with respect to customer service delivery options on our vessels. The multi-year initiative involves benchmarking and gap analysis to determine best options for improving ridership, revenue and the overall customer journey. One key area identified for opportunity is to transform customer experiences during our sailings. A project team is evaluating options and approach, all designed to better meet the needs of our customers.

Discount Campaigns



As a continuation of the Corporation's commitment to exploring new pricing options, two new discount campaigns were offered during the year. The first offered a $50 gas card for bookings made in April and May for travel on specified dates in June and July. The second campaign involved a kids' travel free promotion for bookings made in February and March for travel during the month of July 2018.

Our ongoing discount campaigns are testing various promotions with the goal of developing a pricing model that will offer customers more options and choices that reflect their individual travel preferences.

New Pricing Architecture

Building upon our discount campaigns, Marine Atlantic is developing a new pricing system which will assist in providing flexibility and options for customers, generate incremental revenue and better match capacity and demand. During the year, industry research, benchmarking and internal stakeholder reviews were completed, pricing strategies initiated and alternative regimes created. Additional work will be completed in the next fiscal year.

Scott's Cove Bus Service Pilot Project

Marine Atlantic was pleased to continue our partnership with the Town of Channel-Port aux Basques to enhance our customers' overall travel experience and create new opportunities for the Town.

In the previous fiscal year, Marine Atlantic and the Town partnered to offer customers access to the downtown Scott's Cove area during the summer months. Through this partnership, another pilot project was launched for the summer of 2017 providing customers with a complimentary shuttle service from the terminal to the end of the property where they could access the downtown area.

Customers provided positive feedback related to this service. We look forward to our continued partnership with the Town of Channel-Port aux Basques as we determine next steps for similar initiatives in the year ahead.

Our Valued Commercial Customers

The commercial trucking industry plays an integral role in transporting the goods that are consumed every day throughout Atlantic Canada. Whether it is ensuring that store shelves are stocked, hospitals have vital supplies to provide care, or equipment is available to help accomplish many of the tasks that we take for granted, commercial drivers are quietly there to meet the needs of Atlantic Canadians.

At Marine Atlantic, we recognize the valuable work done by our commercial partners and the vital role they play in our region's economy. In recognition of these efforts, commercial customer appreciation events were held at our North Sydney and Port aux Basques terminals in November.

Additional events are planned for the future.

Promoting our Tourism Potential

As a proud partner of our region's tourism potential, we continued our efforts to promote and support travel to and within Atlantic Canada. As part of these initiatives, the Corporation was a platinum sponsor for Hospitality Newfoundland and Labrador's Annual Conference and Trade Show, and participated in tourism shows throughout eastern and central Canada. These events are aimed at attracting new customers to our service and new opportunities for our region's tourism sector.

President and CEO Paul Griffin addresses delegates at the Hospitality Newfoundland and Labrador conference

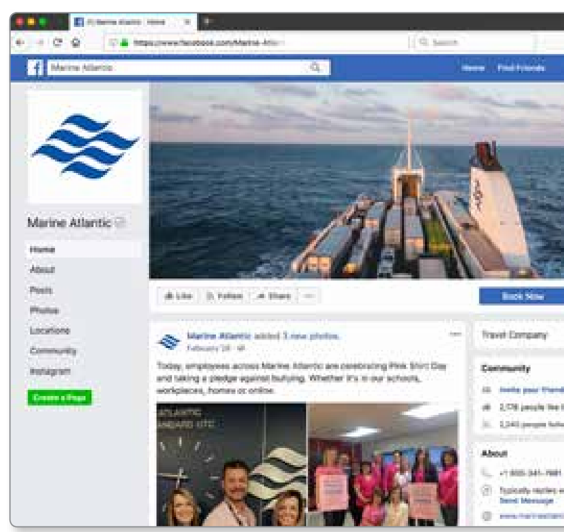
Expanding Customer Communications

WEBSITE MODERNIZATION

The online needs of our customers continue to evolve. To enable Marine Atlantic to meet these needs, the organization began the process of updating and replacing the current website to become more responsive, accessible and efficient for customer use. With the continued growth in mobile traffic to the website, it is important to meet the expectations of customers and changes in technology. The new website is scheduled to be rolled out during the next fiscal year.

SOCIAL MEDIA

Social media provides an opportunity to share information and interact with customers in a manner that best meets their needs. The Corporation's social media presence continues to grow with new followers using our social platforms to find information and interact with our employees. In addition to existing accounts on Twitter, Instagram, YouTube and LinkedIn, and our blog *www.marineatlanticjourney.com*, Marine Atlantic launched its new Facebook account during the year. Our social media platforms continue to be popular and the launch of Facebook has proven to be a great success in communicating directly with customers.



DIGITAL SIGNAGE

Our digital signage presence continues to grow throughout Marine Atlantic. For customers, expanded signs are available at our terminals and on board our vessels providing important information regarding our operations, schedules, weather, promotions, services, and amenities. New customer information is continually being developed and uploaded to the signs.


CANADA 150


Canada
150


CANADA 150


HAPPY
CANADA
DAY
CA
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150


far and wide.

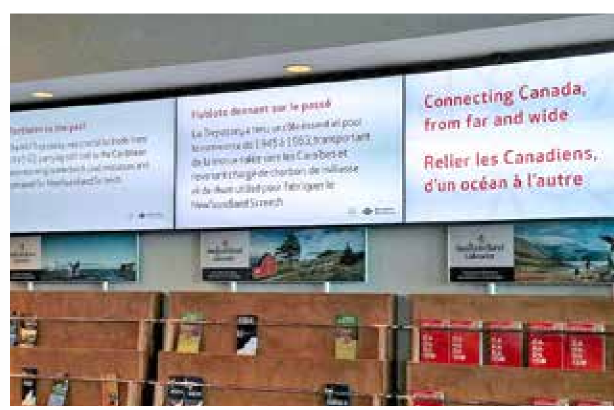

150

CELEBRATING CANADA 150

2017 was a noteworthy year for our country as we celebrated Canada's 150th birthday! At Marine Atlantic, many activities were held throughout the year-long event. These included:

- Dedicated articles featuring noteworthy historical, cultural and diversity related information in our monthly employee newsletter.
- A creative campaign featuring "Portholes to the Past", which showcased different stories of how Marine Atlantic helped connect Canadians from the first sailing between Port aux Basques and North Sydney for Dominion Day on July 1, 1898, to when Terry Fox travelled with Marine Atlantic on his historic Marathon of Hope in 1980.
- To target our younger passengers, custom photo cut-outs were created of iconic Canadian images and activity books with Canada 150 themed pages.
- Our shuttle buses were wrapped in a red, Canada 150 theme.
- Canada 150 flags were flown and promotional items given away to customers. On July 1, each booking received a $150 voucher for future travel.
- In our restaurants, menu options were featured that celebrated culture and food from various places across Canada.
- A media campaign was launched that included digital displays on prominent media websites and billboards.

As Canadians, we have much to celebrate about our great nation and at Marine Atlantic we were proud to share some of this pride with our customers and fellow Canadians.



A STRONG AND **EFFECTIVE WORKFORCE**

Our employees are the most important resource we have at Marine Atlantic. Their dedication and commitment is on full display 365 days a year as we work to meet the transportation needs of our customers. Through our many recruitment, retention and training initiatives, our workforce is focused on continuous skill development to enable our success.

Leadership Management Development Program

To develop and grow the leadership skills within Marine Atlantic, a new Leadership Management Development Program was introduced during the year. The program will provide individuals with introductory management and leadership skills for career advancement opportunities, as well as continuous professional development for those who are currently in supervisory and management positions.

The goal of the program is to help employees develop their career paths within the Corporation and identify people for succession planning purposes. The first class of 29 employees for this year-long program started in January, with students making additional time commitments outside of normal work duties. Additional programs will be offered each year as we prepare our leaders of tomorrow to take on new roles within the organization.

Training and Employee Assistance

Marine Atlantic requires a highly-skilled workforce to successfully meet our mandate. As such, the Corporation offers training and educational opportunities, including access to financial and related resources for career development purposes. Through programs such as the Educational Financial Assistance Program (EFP) and efforts to make training programs more accessible, convenient and efficient, the Corporation is committed to growing our internal talent and providing employees with new skills and opportunities for professional and career advancement.

Labour Negotiations

Marine Atlantic has constructive and professional relationships with its unions. During the year, the negotiation process continued with four agreements being reached. The remaining two agreements will continue with dispute resolution activities during the upcoming year. The Corporation looks forward to reaching a new labour agreement with these remaining unions.

Recruitment

Each year, Marine Atlantic evaluates the number and types of positions that will be required for the year ahead. Following the success of last year's recruitment fairs for passenger services staff, additional fairs were held in both Cape Breton and in Newfoundland (Port aux Basques, Stephenville, Deer Lake, Gander, St. John's) during the year.

Within the Corporation, the Human Resources Department completed a workforce analysis across various departments to identify potential gaps in key positions and to develop succession plans and potential career growth opportunities for employees.

Marine Atlantic is always striving to be an employer of choice and is continuously looking for great people to join our team.

Performance Management

The MyCareerCompass program provides a two-way communication forum between supervisor and employee which is an opportunity for feedback, confirmation of performance expectations, career opportunity discussions, and the identification of relevant development needs and initiatives. During the year, the performance management program and template was rolled out to all supervisors and a pilot program offered to several front-line positions.

Employee Engagement Survey

In 2016-17, Marine Atlantic employees participated in an *Employee Engagement Survey*. Upon releasing the results of the survey, the Corporation committed to further exploring the information received and a series of 54 focus group sessions were conducted in all areas of the organization.

Following these sessions, an Employment Engagement Report was drafted and shared with employees. This report outlined the findings of the group sessions and set out an action plan for how areas of focus would be addressed for the immediate, short and long-term timeframes. The implementation of many of these initiatives is already underway with regular updates beginning in the new year.

A Diverse, Inclusive and Respectful Workplace

As a federal Crown Corporation, Marine Atlantic is committed to building a diverse, inclusive, psychologically healthy and respectful workplace. To help achieve this, the Corporation continued its initiatives during the year including training, communications and awareness activities, and workplace assessments and interventions. Of particular significance was the hiring of an individual whose role is largely dedicated to supporting the creation of a respectful workplace encompassing diversity and inclusion.

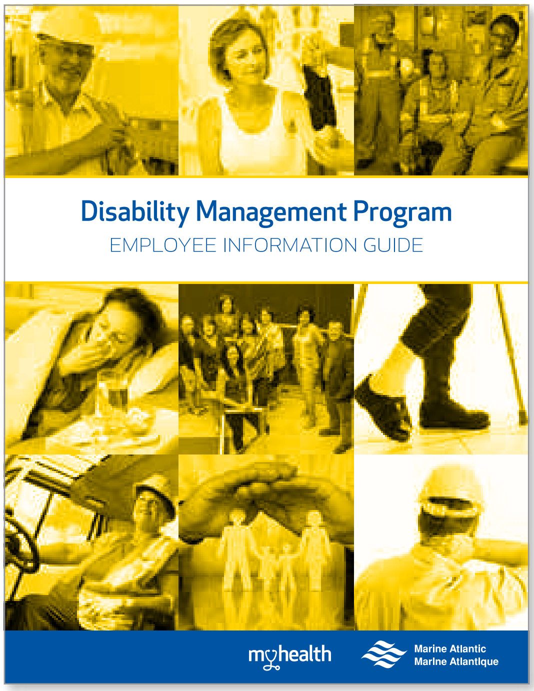
A Respectful Workplace Program was also developed. This two-day program educates and informs all employees regarding respectful work environments and provides knowledge of important concepts that form the foundation of a safe and respectful workplace. Feedback on these initiatives has been very positive.

Marine Atlantic's Diversity Committee is focused on raising the awareness of cultural differences and the value of diversity and continues to undertake initiatives to engage with the local community. Outreach activities will continue in the year ahead.

Promoting a Healthy Workplace

Marine Atlantic recognizes the importance of a safe and healthy workplace. To that end, there has been an increased emphasis on pre-employment medicals and fitness for work reviews. During the year, health clinics and individual health counselling were held for employees across the organization. The introduction of a smoking cessation program has also proven to be popular.

Marine Atlantic implemented a revised Disability Management Program which assists employees by facilitating early intervention into the management of an employee's absence due to injury and/or illness with the goal of returning the employee to the workplace in a safe and timely manner. This approach seeks to minimize the economic and emotional impact on employees. Early intervention is considered the cornerstone of disability management requiring the involvement and cooperation of all, including the employee, their direct supervisor, the employee's healthcare provider(s), occupational health nurses, external health consultant, and Human Resources. As part of the revised program, Marine Atlantic successfully transitioned to a new external medical services provider and developed a new Disability Management Program Employee Information Guide. This guide was distributed to employees and information sessions offered. This is a continuation of efforts to further improve the program based upon employee feedback.



myMAI Pension Plan Site

In the previous fiscal year, the Corporation launched a new pension plan site that provides employees with information about their pension and retirement planning. Building upon this website, a new pension calculation tool was added allowing employees to enter salary information to estimate future retirement benefits. Employees have responded well to these tools as part of their retirement and pension planning activities.

Employee Communications

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

Our workforce is primarily mobile in nature. To meet the information needs of our employees, we launched a new communications platform, employee digital signage, which features safety and wellness tips, daily operational updates, work benefits, and other timely announcements. The signage also provides information regarding corporate initiatives and some fun tidbits about staff activities and celebrations. The bright, visual signage delivers quick, short messages in a way that makes it effortless to read. It also provides a way for employees to communicate with one another and celebrate successes collectively.

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 the President's Award, 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.

President's Award

TECHNICAL SERVICES TEAM AND CHIEF ENGINEERS

Reliability and availability of the fleet to meet the needs of our customers is the cornerstone of our service. In 2016, Marine Atlantic vessels had an availability rate of 99.1%. This is far improved from several years ago. Through their dedication and commitment to ensuring that the needs of our customers are met in a safe, reliable and efficient manner, the Technical Services Team and Chief Engineers exemplified the Corporation's dedication to continuous improvement.

This achievement is significant and indicative of an improved planning process, focus, and dedication to excellence and customer service.

Volunteer of the year award

AUDREY BARNES

This year's Volunteer of the year Award was presented to Audrey Barnes who volunteers with the Clifford Street Youth Centre in North Sydney. In addition to the many hours of support she provides to the centre each month, she also canvasses for donations of food, clothing, money and supplies to help the young people. Audrey has become a ray of hope to ensure the most vulnerable children in North Sydney have a safe haven where they can access a meal, and take home extras for themselves and their siblings.

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 Disclosure of Wrongdoings 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 and Respectful Workplace programs aim 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, our 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 employment applicants from minority groups designated under the *Employment Equity Act*.

During 2017-18, the Corporation increased its diversity education and engagement activities. Awareness sessions were delivered with the goal of using education to shift the culture from one of passive awareness to one of active awareness where every single employee takes ownership for facilitating a warm, welcoming, and supportive environment for people of all backgrounds.

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. A new training program was rolled out during the year to provide bilingual employees with activities and access to second language tutors who provide regular support as part of ongoing training efforts.

Transportation is vital for independent living and access offers the possibility for all people to reach all places within their environment. Marine Atlantic employees joined transportation colleagues from across Canada to participate in an Accessibility Awareness Training seminar during the year.

Marine Atlantic was proud to recognize International Women's Day and all of our talented female employees.

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. The following is a sample of activities undertaken during the year.

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 within 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 four $1,500 scholarships annually to students enrolled in either the Nautical Science or Marine Engineering programs at Memorial University's Marine Institute, and also partners with the Institute and the Nova Scotia Community College for a cadet program.

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

Grenfell Campus Athletics Sponsorship

Marine Atlantic is proud to be a 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 role we play in helping students grow and excel in their athletic and personal development activities.

Janeway Teddy Bear Convoy

Marine Atlantic was proud to support our partners in the Newfoundland and Labrador trucking industry during the 33rd annual Janeway Children's Miracle Network Telethon. As part of the Telethon, many of the province's commercial trucking representatives came together as members of the "Just for Kids Transportation Group" in a Teddy Bear Convoy. The convoy helped to raise funds for sick kids and put a smile on the faces of the many children who use the Janeway Children's Hospital each year.

Driving their trucks through both Corner Brook and St. John's, the dozens of big rigs were a special attraction to the many young people who love watching the parade each year. The St. John's event raised approximately $62,000 in pledges with 120 trucks in the convoy and the Corner Brook event raised approximately $17,000 in pledges and had 50 trucks in the convoy.

Congratulations to our commercial partners for a job well done!

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. The Corporation provides free travel for campers travelling to and from Newfoundland and Labrador, and along with other community sponsors, participates in the carnival night with a booth with games and prizes to be won. Our dedicated team of volunteers go above and beyond every year to make this a memorable experience for everyone involved.

Make a Wish Canada

Make-A-Wish Canada's mission is to grant the wishes of children with life threatening medical conditions, and to enrich the human experience with hope, strength, and joy. Marine Atlantic was pleased to partner with the organization during the year to make a wish come true for a young girl wanting to travel to Newfoundland by ferry. From an opportunity to tour the vessel, visit the bridge and look for whales, it was a very rewarding experience for all involved. This positive experience resulted in a multi-year partnership being signed between Marine Atlantic and Make-A- Wish Canada to make other wishes come true.

Big Bike Ride

Marine Atlantic employees once again participated in the Heart and Stroke Foundation's annual fundraising event, the Big Bike Ride. In addition to these fundraising activities, the Corporation also partnered with the Foundation to offer information sessions to assist employees with their understanding of heart disease and stroke, warning signs and prevention activities.

Festival of Flags

In partnership with Festival of Flags Inc., Marine Atlantic installed the "Argentia at War" exhibit in the Argentia terminal. By providing space in the upstairs mezzanine of the terminal building, a series of panels depicting various aspects of the Town of Argentia during wartime were presented. The panels are part of a project by the Festival of Flags in collaboration with The Rooms provincial museum, archives and art gallery. The exhibit focuses on the Atlantic Charter Declaration, the history of Argentia as a strategic centre for the defense of the North Atlantic during World War II and the Cold War, as well as historical photographs, print, film images and other graphics. The display tells the story of the United States naval and army base at Argentia and its impact upon the local region through the years.

PLANNING FOR THE YEAR AHEAD

While much has been accomplished in the last year, we continue to see opportunities for improvement as we strive for excellence in meeting our goal of further strengthening our service for our customers, stakeholders and employees.

Continuing with infrastructure investments such as the new Port aux Basques administration building, business changes through the introduction and adoption of a new Enterprise Resource Planning system, and human resource growth through ongoing training and performance initiatives, there will be much more positive change on the horizon in the year ahead. With the funding announced in Budgets 2017 and 2018, the Corporation will evaluate our fleet renewal program and continue to work with the Government of Canada regarding our future vessel configuration options.

The development of new amenities and different pricing structures will continue, with an ongoing focus and commitment to meeting the changing needs of our commercial and tourism customers, and the many stakeholders who rely on our service. We will maintain our marketing presence to attract new customers and develop opportunities for local businesses. We will also continue our preparation and planning activities to be ready for when the Government of Canada legalizes marijuana in the year ahead.

Our employees will participate in a behavioural-based safety program that will enable us to better recognize the potential hazards that human behaviours can create in every day job tasks. This initiative will further contribute to the Corporation's ability to protect people, property, and the environment. Efforts will also continue in fostering a culture of diversity, inclusion, and respect through company-wide awareness and training that promotes respectful behaviours and diversity in the workforce.

Marine Atlantic recognizes the impact that our service has upon the many thousands of customers and businesses within Atlantic Canada. Through the daily transportation of passengers and goods, we understand our important role as a part of the critical national transportation network.

With the many initiatives planned for the year ahead, we look forward to continuing our efforts to better serve the needs of everyone who relies on our service for their daily business interests, livelihoods and personal transportation needs.

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 outline 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, mission statement, and values, 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 Management*; 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 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, significant effort was spent developing and implementing an orientation process for new Board members as six new members were appointed in late December 2017.

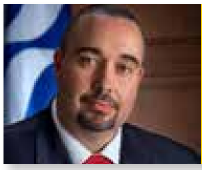
Audit and Risk Management Committee

The Audit and Risk Management Committee is mandated to oversee standards for financial reporting, internal audit, risk management and management control practices. The Committee provides 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. A key priority of the Committee during the year was the recruitment of a Director of Internal Audit, which was successfully completed in October. The Committee also continued its work to advance the Corporation's ERM framework, particularly with a focus of integrating ERM directly into the strategic planning process. In addition, the Committee undertook financial reviews including the quarterly financial reports, audited financial statements and pension statements, and provided oversight on business renewal projects including vessel refits, maintenance, fuel, food, 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. The Committee was active during the year in managing the pension plan; meeting fund managers of the plan; reviewing the requirements associated with regulation changes for the pension plan; and enhancing governance through implementation of updates to the policies and procedures. The Committee regularly monitored key human resources initiatives including the implementation of the performance management program and Leadership Management Development Program. The Committee also provided oversight of collective bargaining and the Request for Proposal process for various human resources services including health and benefits, pension administration, actuarial services, and investment consulting. The Committee also closely followed Marine Atlantic's approach for dealing with marijuana in the workplace given the planned legalization in the coming year. Finally, the Committee exercised its responsibilities to review policies and to seek assurance that the organization fulfilled its commitments under its Terms of Reference.

BOARD OF **DIRECTORS**



Kristopher Parsons

St. John's, NL

Owen Fitzgerald

Sydney, NS

Paul Griffin

St. John's, NL

Garfield Moffatt

Truro, NS

Janie Bussey, Q.C.

Logy Bay, NL

Gary O'Brien

Channel-Port aux Basques, NL

Nick Careen

Jerseyside, NL

Walter Pelley

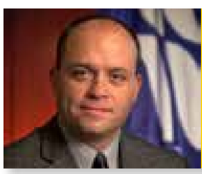
North Sydney, NS

Brent Chaffey

St. David's, NL

Craig Priddle

Corner Brook, NL

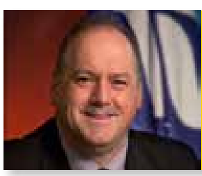


Stan Cook

St. John's, NL

Dwight Rudderham

Sydney, NS



James Doody

St. John's, NL

Ann-Margret White

St. John's, NL

Sharon Duggan

St. John's, NL

BOARD MEMBERSHIP AND ATTENDANCE

BOARD MEMBERSHIP	COMMITTEE MEMBERSHIP	ATTENDANCE
Kristopher Parsons	• Board Chair	5
Paul Griffin	• Ex-officio member of the Board • Ex-officio member of Safety, Corporate Governance and Accountability Committee • Ex-officio member of Human Resources and Pension Management Committee	4
Janie Bussey, Q.C.	• Member – Audit and Risk Management Committee (effective December 2017) • Member – Human Resources and Pension Management Committee (effective December 2017)	2
Nick Careen	• Member – Safety, Corporate Governance and Accountability Committee (until December 2017) • Member - Audit and Risk Management Committee (until December 2017)	3
Brent Chaffey	• Member – Human Resources and Pension Management Committee (effective December 2017)	2
Stan Cook	• Chair – Safety, Corporate Governance and Accountability Committee (until December 2017)	3
James Doody	• Chair - Audit and Risk Management Committee (until December 2017) • Chair – Human Resources and Pension Management Committee (effective December 2017)	5
Sharon Duggan	• Member – Human Resources and Pension Management Committee (until December 2017) • Member – Safety, Corporate Governance and Accountability Committee (until December 2017)	3
Owen Fitzgerald	• Member – Audit and Risk Management Committee (effective December 2017)	2
Garfield Moffatt	• Member – Human Resources and Pension Management Committee (until December 2017) • Member – Audit and Risk Management Committee (until December 2017)	3
Gary O'Brien	• Chair – Safety, Corporate Governance and Accountability Committee (effective December 2017)	2
Walter Pelley	• Member – Human Resources and Pension Management Committee (until December 2017) • Member - Audit and Risk Management Committee (until December 2017	3
Craig Priddle	• Chair – Audit and Risk Management Committee (effective December 2017)	2
Dwight Rudderham	• Chair – Human Resources and Pension Management Committee (until December 2017) • Member – Safety, Corporate Governance and Accountability Committee (effective December 2017)	5
Ann-Margret White	• Member – Safety, Corporate Governance and Accountability Committee (effective December 2017) • Member – Audit and Risk Management Committee (effective December 2017)	2

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 of the regular schedule.

FINANCIAL **OVERVIEW**

As a federal Crown Corporation, Marine Atlantic receives an annual subsidy from its shareholder, the Government of Canada, through Transport Canada. In 2017-18, the Corporation spent $254.1 million; $110.3 million was generated via customer tariffs and other ancillary revenue; and $143.6 million was received via subsidy. The Corporation's cost recovery was 67 per cent which falls within the targeted range established by the shareholder.

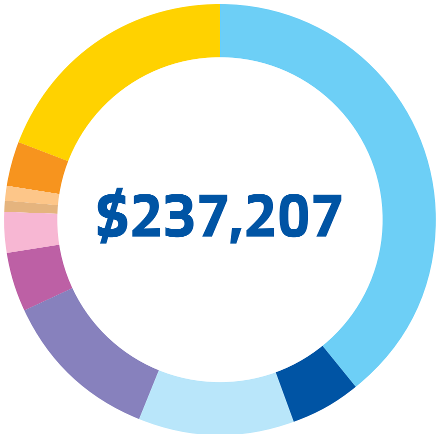
REVENUES AND GAINS 2017/18

YEAR ENDED MARCH 31 2018
(IN THOUSANDS OF DOLLARS)

Transportation	100,474
Fuel surcharge	10,510
Other income	584
Realized gain on derivative financial instruments	1,047
TOTAL	**$112,615**

EXPENSES AND LOSSES 2017/18

YEAR ENDED MARCH 31 2018
(IN THOUSANDS OF DOLLARS)



Wages and benefits	92,784
Charter fees	13,403
Fuel	27,545
Materials, supplies and services	28,116
Repairs and maintenance	10,336
Insurance, rent and utilities	7,405
Travel	1,891
Administrative costs	2,970
Employee future benefits	7,389
Foreign currency exchange loss	108
Loss on disposal of tangible capital assets	94
Amortization	45,166
TOTAL	**$237,207**

FINANCIAL OVERVIEW TABLE

YEAR ENDED MARCH 31 2018, 2017, 2016, 2015, & 2014 (IN THOUSANDS)

	2017–18	2016–17	2015–16	2014–15	2013–14
Transportation Revenue	$ 100,474	$ 99,227	$ 97,109	$ 92,273	$ 91,355
Fuel surcharge	10,510	10,411	10,105	12,930	13,331
Other income	584	502	110	154	200
Gains	1,047	3,777	2,137		33
	112,615	113,917	109,461	105,357	104,919
Operating expenses	143,502	137,682	133,488	122,244	119,211
Fuel	27,545	19,108	22,574	32,246	29,288
Losses	202	2,566	500	4,416	157
Charter costs	13,403	12,920	35,521	45,087	49,634
Employee Future benefits	7,389	9,025	13,764	6,855	18,374
Amortization	45,166	39,144	31,632	32,792	34,930
	237,207	220,445	237,479	243,640	251,594
Deficit before government funding	124,592	106,528	128,018	138,283	146,675
Government funding					
Operations	85,800	61,203	114,637	117,227	117,742
Capital	60,958	37,598	236,362	18,895	35,358
Operating surplus (deficit)	$ 22,166	$ (7,727)	$ 222,981	$ (2,161)	$ 6,425
ASSETS:					
Total assets	$ 623,777	$ 591,552	$ 587,814	$ 363,990	$ 365,202
Purchases of vessels, facilities and equipment	$ 60,958	$ 37,598	$ 236,362	$ 18,895	$ 35,358

TRAFFIC AND EMPLOYEES

	2017–18	2016–17	2015–16	2014–15	2013–14
Passengers	328,594	326,796	322,661	305,197	323,352
Passenger vehicles	122,444	120,314	116,574	109,167	115,243
Commercial vehicles	91,396	94,459	95,914	95,552	97,396
AEU's*	510,673	522,360	523,144	511,105	524,988
Number of single crossings	1,685	1,701	1,684	1,594	1,709
Employees (peak employment)	1,259	1,282	1,252	1,289	1,307
Employees (full-time equivalent)**	1,097	1,068	1,049	1,031	1,025

**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 $1.4 million or 1.3 per cent higher compared to fiscal year 2016-17. The increase is attributed to higher volumes of passengers and passenger vehicles and a 2.6 per cent general tariff increase. These increases were partially offset by a decline in commercial traffic. Total revenue for the year was $0.7 million lower than budgeted. The traffic volumes for passengers, passenger vehicles and commercial vehicles were lower than forecasted.

The Corporation incurred a loss of $0.1 million this year compared to a $3.8 million gain last year related to the disposal of capital assets. In fiscal year 2016-17, the Corporation sold the Bar Harbor property to the State of Maine resulting in a gain on disposal of $3.9 million.

Wages and Benefits

Labour costs were $4.4 million or 5 per cent higher than fiscal year 2016-17 as a result of general wage rate inflation, and higher full-time equivalent employees mainly due to changes in the fleet operating schedule to accommodate dock projects.

Charter Fees

Charter fees were $0.5 million higher than last year and $0.3 million over budget due to increases in Euro exchange rates.

Fuel

Fuel expense was $8.4 million higher than last year, and $0.3 million lower than budget.

The MV *Blue Puttees* and the *MV Highlanders* transitioned to burn diesel only fuel to reduce sulfur emissions. The transition of these vessels to the more expensive fuel type in addition to rising fuel prices has resulted in higher costs for fuel.

Materials, Supplies and Services

Materials, supplies and services' costs were $3.1 million higher than the previous year, and $1.7 million higher than budget. The Corporation recorded a provision for $2.8 million related to the removal of an underground pipeline. Delays in the Corporation's Fleet Renewal Program resulted in savings that mitigated the impact of the $2.8M provision.

Repairs and Maintenance

The repairs and maintenance costs were $1.4 million lower in fiscal year 2017-18, and $3.9 million lower than budget. 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 was $0.3 million lower than last year, and $0.7 million lower than budget. Insurance premiums and electricity costs were lower than anticipated. Savings in insurance on renewal were higher than budgeted due to the Corporation's favourable insurance claims ratings, while electricity costs were down due to lower utilization of vessel shore-power due to dock repairs.

Travel

Travel costs were $0.4 million lower than last year, and $1.0 million lower than budget. Total cost of travel for the year was $1.9 million. Savings were realized due to training activities not undertaken as well as a general reduction in corporate travel.

Administrative Costs

Administrative costs were $0.4 million higher compared to last year while $0.9 million lower than budget. These costs mostly relate to the Corporation's marketing and training activities.

Employee Future Benefits

Actuarially calculated expenses relating to employee future benefits decreased by $1.6 million. The actuarially determined accrued expenses for the Pension Plan for Employees of Marine Atlantic Inc. decreased by $1.6 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 $0.1 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 $0.1 million higher compared to fiscal year 2016-17. The Corporation incurs currency gains/losses in the normal course of business arising from the requirement to pay some vendors in foreign currencies.

Realized Losses/Gains on Derivative Financial Instruments

The Corporation realized a gain of $1.0 million in fiscal year 2017-18 compared to a loss of $2.6 million in fiscal year 2016-17. The Corporation has a hedging program that involves advance purchase of energy swaps and forward exchange contracts. The hedging gains from the settlement of energy swaps were $0.8 million this fiscal year, compared to a loss of $2.4 million last year. The settlement of forward exchange contracts resulted in gains of $0.3 million versus a loss of $0.1 million last year.

Amortization

Amortization was $6.0 million higher this year compared to last year. The increased depreciation is the result of significant capital investments made over the last number of years becoming active and depreciating.

Government Funding

Government funding revenue recognized was $48.0 million higher in fiscal year 2017-18. Government funding for operations was $24.6 million higher due to cash outlays for fuel consumption cost and inventory costs; pension; and wages and benefits. Funding for capital projects was $23.4 million higher.

Tangible Capital Assets

In 2017-18, Marine Atlantic spent $61.0 million in asset renewal compared to $37.6 million last year. $17.3 million was spent on fleet-related projects compared to $16.3 million in the previous year. An additional $43.7 million was spent replacing and modernizing shore facilities and equipment compared to $21.3 million in fiscal year 2016-17.

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 12, 2018

Donald Barnes
President and CEO

St. John's, Canada
June 12, 2018

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 2018, 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 2018, 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*.

H McManaman

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

12 June 2018
Halifax, Canada

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

	2018	2017
Financial assets		
Cash (Note 4)	$ 13,875	$ 12,944
Accounts receivable (Note 13(a))	9,792	10,040
Receivable from Government of Canada (Note 5)	21,100	18,000
Inventories held for resale (Note 6)	322	402
Derivative financial instruments (Note 12)	3,401	1,183
Accrued pension asset (Note 8)	126,038	120,555
	174,528	163,124
Liabilities		
Accounts payable and accrued liabilities (Notes 7 and 13(c))	39,146	34,593
Derivative financial instruments (Notes 12 and 13(c))	24	1,906
Deferred revenue	4,655	4,136
Payable to Government of Canada (Note 5)	2,717	2,792
Accrued vacation pay	6,336	6,105
Accrued pension liability (Note 8)	2,584	2,442
Accrued liability for non-pension post-retirement benefits (Note 9)	48,229	46,706
Accrued liability for post-employment benefits (Note 10)	11,382	11,602
	115,073	110,282
	59,455	52,842
Net financial assets		
Non-financial assets		
Tangible capital assets (Note 11)	423,179	407,524
Inventories held for consumption (Note 6)	22,806	16,692
Prepaid expenses	3,264	4,212
	449,249	428,428
Accumulated surplus (Note 14)	$ 508,704	$ 481,270

Contractual obligations (Note 16)

Contingencies (Notes 17 and 18)

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

On behalf of the Board of Directors:

Chair

Director

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

	2018		2017
	Budget	Actual	Actual
	(Note 19)		
Revenues			
Transportation	$ 101,443	$ 100,474	$ 99,227
Fuel surcharge	10,676	10,510	10,411
Other income	115	584	502
Gain on disposal of tangible capital assets	-	-	3,777
Realized gain on derivative financial instruments	-	1,047	-
	112,234	112,615	113,917
Expenditures			
Wages and benefits	91,085	92,784	88,391
Charter fees	13,117	13,403	12,920
Fuel	27,793	27,545	19,108
Materials, supplies and services	26,450	28,116	25,045
Repairs and maintenance	14,205	10,336	11,698
Insurance, rent and utilities	8,137	7,405	7,697
Travel	2,895	1,891	2,250
Administrative costs	3,823	2,970	2,601
Employee future benefits (Notes 8, 9 and 10)	10,125	7,389	9,025
Foreign currency exchange loss	-	108	13
Realized loss on derivative financial instruments	101	-	2,553
Loss on disposal of tangible capital assets	-	94	-
Amortization (Note 11)	38,500	45,166	39,144
	236,231	237,207	220,445
Deficit before government funding	(123,997)	(124,592)	(106,528)
Government funding (Note 5)			
Operations	146,130	85,800	61,203
Capital	67,340	60,958	37,598
	213,470	146,758	98,801
Operating surplus (deficit)	89,473	22,166	(7,727)
Accumulated operating surplus, beginning of year	481,477	481,477	489,204
Accumulated operating surplus, end of year (Note 14)	$ 570,950	$ 503,643	$ 481,477

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

	2018	2017
Accumulated remeasurement losses, beginning of year	$ (207)	$ (5,315)
Accumulated remeasurement losses, beginning of year		
Unrealized gain (loss) on foreign exchange of cash	1,167	(241)
Unrealized gain on derivatives	5,148	2,796
Reclassifications to the statement of operations		
Realized (gain) loss on derivatives	(1,047)	2,553
Net remeasurement gains for the year	5,268	5,108
Accumulated remeasurement gains (losses), end of year (Note 14)	$ 5,061	$ (207)

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

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

	2018		2017
	Budget	Actual	Actual
	(Note 19)		
Operating surplus (deficit)	$ 89,473	$ 22,166	$ (7,727)
Change in tangible capital assets			
Acquisition of tangible capital assets (Note 11)	(67,340)	(60,958)	(37,598)
Amortization of tangible capital assets (Note 11)	38,500	45,166	39,144
Loss (gain) on disposal of tangible capital assets	-	94	(3,777)
Proceeds on disposal of tangible capital assets	-	43	3,879
(Increase) decrease in tangible capital assets	(28,840)	(15,655)	1,648
Change in other non-financial assets			
Acquisition of inventories held for consumption	(26,362)	(34,532)	(22,282)
Use of inventories held for consumption	26,662	28,418	20,612
Purchase of prepaid expenses	(13,817)	(19,317)	(26,330)
Use of prepaid expenses	13,817	20,265	24,165
Decrease in other non-financial assets	300	(5,166)	(3,835)
Net remeasurement gains	101	5,268	5,108
Increase (decrease) in net financial assets	61,034	6,613	(4,806)
Net financial assets, beginning of year	52,842	52,842	57,648
Net financial assets, end of year	$ 113,876	$ 59,455	$ 52,842

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

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

	2018	2017
Operating transactions		
Cash receipts from customers	$ 110,132	$ 111,615
Other income received	146	52
Government funding - operations	80,872	68,575
Government funding - capital	62,711	25,392
Cash payments to suppliers	(88,016)	(91,043)
Cash payments to and on behalf of employees	(91,986)	(88,346)
Cash paid for employee future benefits	(11,427)	(4,652)
	62,432	21,593
Capital transactions		
Purchase of tangible capital assets	(62,711)	(25,392)
Proceeds on disposal of tangible capital assets	43	3,879
	(62,668)	(21,513)
Increase (decrease) from effect of exchange rate changes on cash	1,167	(241)
Net increase (decrease) in cash	931	(161)
Cash, beginning of year	12,944	13,105
Cash, end of year	$ 13,875	$12,944
Cash consists of:		
Restricted cash	$ 9,873	$ 8,868
Unrestricted cash	4,002	4,076
	$ 13,875	$ 12,944

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2018 (IN THOUSANDS OF DOLLARS)

1. Nature of Operations and Authority

Marine Atlantic Inc. is incorporated under the *Canada Business Corporations Act*. The *Marine Atlantic Inc. Acquisition Authorization Act* of 1986 established the Corporation as a parent Crown Corporation. Marine Atlantic Inc. is a federal Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. The Corporation is not an agent of Her Majesty. In accordance with the *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 chartered and three corporate-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*, as follows:

(a) To ensure that the pension plan will provide:

- i. a 50:50 current service cost-sharing ratio between employee and employer for pension contributions for all members by December 31, 2017, and
- ii. 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; and

(b) To outline its implementation strategies with respect to the commitments set out in paragraph (a) in its next corporate plan and subsequent corporate plans until the commitments are fully implemented.

Member contribution rates were adjusted to meet the 50:50 current service cost-sharing ratio target rate effective January 1, 2017. The Corporation has amended its policies such that the normal age of retirement for employees hired after January 1, 2015 was raised to 65 years of age.

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 9.8 years (2017 - 10.4 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 14.7 years (2017 - 15.4 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 (2017 - 11.0 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 (2017 - 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) Contingent assets
Contingent assets are possible assets arising from existing conditions involving uncertainty, which will be resolved by a future confirming event. The existence of a contingent asset is disclosed in the notes to the financial statements if the occurrence of the future event is likely. If the occurrence of the confirming event is unlikely or not determinable the contingent asset is not disclosed in the notes to the financial statements.

(m) 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. Adoption of New Accounting Standards

The Public Sector Accounting Board (PSAB) issued new accounting standards effective for fiscal years beginning on or after April 1, 2017.

As a result, the Corporation adopted an accounting policy for contingent assets. This new Section (PS 3320) defines and establishes disclosure standards for contingent assets. The adoption of this new standard was not applied retroactively and does not have a material impact on the Corporation's financial statements. See Note 2 (l) for the Corporation's contingent asset accounting policy.

The Corporation also adopted the new accounting standard for related party disclosures (PS 2200), assets (PS 3210), contractual rights (PS 3380), and inter-entity transactions (PS 3420). These new accounting standards only impact note disclosures. The adoption of PS 2200, PS 3210, PS 3380 and PS 3420 did not result in a significant impact in the disclosures included in the Corporation's financial statements.

4. 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 August 2017 requires the continuation of the established escrow account equivalent to six months of charter fees until the end of the charter in November 2018. The total balance denominated in Euros is €6,222 (2017 - €6,223), which translates to $9,873 Canadian dollars at March 31, 2018 (2017 - $8,868). These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

5. (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.

	2018	2017
Payable to Government of Canada, beginning of year	$ 2,792	$ 2,626
(Receivable from) Government of Canada, beginning of year	(18,000)	(13,000)
Parliamentary appropriations received during the year	143,583	93,967
Recognized during the year:		
Government funding - operations	(85,800)	(61,203)
Government funding - capital	(60,958)	(37,598)
Government funding (deficit) surplus	(3,175)	(4,834)
(Receivable from) Government of Canada, end of year	(21,100)	(18,000)
Payable to Government of Canada, end of year	$ 2,717	$ 2,792

6. Inventories

	2018	2017
Inventories held for consumption		
Fuel inventory	$ 15,771	$ 10,638
Vessel spare parts – ship based	3,853	3,003
Vessel spare parts – shore based	3,182	3,051
	22,806	16,692
Inventories held for resale		
Catering inventory	322	402
Total inventories	$ 23,128	$ 17,094

For the year ended March 31, 2018, inventories expensed during the year amounted to $31,264 (2017 - $23,866). During the year, the Corporation has written down $435 (2017 - $10) of inventory.

7. Accounts Payable and Accrued Liabilities

	2018	2017
Accounts payable	$ 21,338	$ 20,484
Accrued liabilities	9,452	6,111
Wages and benefits payable	6,832	6,272
Government remittances payable	1,524	1,726
Accounts payable and accrued liabilities	$ 39,146	$ 34,593

Amounts due to other government organizations of $180 (2017 - $201) are payable on demand and are non-interest bearing.

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, 2017 for the year ended March 31, 2018, and December 31, 2016 for the year ended March 31, 2017). The most recent actuarial valuation for funding purposes was completed in 2017 and is as of December 31, 2016.

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

	2018	2017
Accrued benefit obligation		
Balance, beginning of year	$ 690,076	$ 637,584
Current service cost	6,867	8,246
Employee contributions	7,076	5,991
Interest costs	26,244	27,541
Benefits paid	(35,509)	(36,746)
Actuarial loss	4,225	47,460
Balance, end of year	$ 698,979	$ 690,076
Market-related value of plan assets		
Balance, beginning of year	$ 796,658	$ 736,579
Return on plan assets	59,141	69,575
Employer contributions	7,580	21,259
Employee contributions	7,076	5,991
Benefits paid	(35,509)	(36,746)
Balance, end of year	$ 834,946	$ 796,658

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

	2018		2017	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (market-related value)	$ 834,946	$ -	$ 796,658	$ -
Pension obligations (actuarial value)	695,800	3,179	686,764	3,313
Surplus (deficit) end of year	139,146	(3,179)	109,894	(3,313)
Unamortized net actuarial (gains) losses	(15,248)	557	9,574	832
Employer contributions during year for measurement date to March 31	2,140	38	1,087	39
Accrued pension asset (liability)	$ 126,038	$ (2,584)	$ 120,555	$ (2,442)

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

	2018		2017	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Contributions				
Employer	$ 8,478	$ 156	$ 1,879	$ 156
Employee	7,076	-	5,991	-
Total contributions	$ 15,554	$ 156	$ 7,870	$ 156
Benefits paid	$ 35,353	$ 156	$ 36,590	$ 156

The pension costs are comprised of the following:

	2018		2017	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Determination of pension costs for the year are calculated as:				
Current period benefit cost	$ 13,791	$ 152	$ 14,055	$ 182
Amortization of net actuarial losses	2,236	75	1,678	106
Employee contributions	(7,076)	-	(5,991)	-
Retirement benefit expense	8,951	227	9,742	288
Interest on pension obligations	26,173	71	27,472	69
Expected return on plan assets	(32,129)	-	(32,722)	-
Retirement benefit interest (revenue) expense	(5,956)	71	(5,250)	69
Pension costs	$ 2,995	$ 298	$ 4,492	$ 357

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. The registered pension plan assets are invested in debt securities, equity securities and buy-in annuities. The asset mix at December 31, 2017, which is the measurement date for the March 31, 2018 financial statements, was 19% in debt securities, 27% in equity securities, and 52% in annuities (2017 - 0%, 43%, and 57% respectively). The market value of plan assets is $420,900 (2017 - $367,071) in addition the actuarially determined value of the buy-in annuities is $452,761 (2017 - $467,465). The actual return on the market value of plan assets was $45,211 or 12% (2017 - $40,049 or 7%) and the actual return on the market-related value of plan assets was $59,141 or 7.4% (2017 - $69,575 or 9.5%).

Gains and losses incurred are as follows: Gain on market-related value of plan assets $27,888 (2017 - $39,334); actuarial loss on registered plan accrued benefit obligation $4,425 (2017 - $47,279); actuarial gain on supplementary arrangements accrued benefit obligation $200 (2017 – loss of $181).

The assumptions are:

	2018	2017
Pension obligations		
Discount rate – registered plan	5.3%	5.5%
Discount rate – supplementary arrangements	2.2%	2.2%
Rate of compensation increase	3.5%	3.5%
Inflation rate	2.0%	2.0%
Pension costs		
Discount rate – registered plan	5.5%	5.2%
Discount rate – supplementary arrangements	2.2%	2.0%
Expected return on assets	5.5%	5.2%
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 years ended March 31, 2018 and March 31, 2017.

The statement of operations includes a charge of $1,990 (2017 - $2,155) 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:

	2018	2017
Obligation for non-pension post-retirement benefits (actuarial value)	$ (40,926)	$ (38,717)
Unamortized net actuarial (gain)	(7,424)	(8,108)
Employer contributions during the year from measurement date to March 31	121	119
Accrued benefit liability for non-pension post-retirement benefits	$ (48,229)	$ (46,706)

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

	2018	2017
Employer's contributions	$ 467	$ 450
Benefits paid	$ 467	$ 450

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

	2018	2017
Determination of non-pension post-retirement benefit costs for the year are calculated as:		
Current period benefit cost	$ 1,915	$ 1,949
Interest on obligations	887	808
Amortization of net actuarial (gains)	(812)	(602)
Non-pension post-retirement benefit costs	$ 1,990	$ 2,155

The assumptions are:

	2018	2017
Non-pension post-retirement benefits obligations		
Discount rate	2.2%	2.2%
Rate of compensation increase	3.5%	3.5%
Initial weighted-average health care trend rate	5.6%	5.6%
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	2.2%	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%

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 valuation for accounting purposes for workers' compensation benefits was conducted as of December 31, 2014 and extrapolated to the measurement dates of December 31, 2017 and December 31, 2016. The most recent actuarial valuation for accounting purposes for other post-employment benefits was conducted as of December 31, 2016 and extrapolated to the measurement date of December 31, 2017.

The statement of operations includes a charge of $2,106 (2017 - $2,021) for post-employment benefit costs.

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

	2018	2017
Obligation for post-employment benefits (actuarial value)	$ (14,256)	$ (14,717)
Unamortized net actuarial losses	2,264	2,735
Employer contributions during the year from measurement date to March 31	610	380
Accrued benefit liability for post-employment benefits	$ (11,382)	$ (11,602)

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

	2018	2017
Benefits paid	$ 2,326	$ 2,167

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

	2018	2017
Determination of post-employment benefit costs for the year are calculated as:		
Current period benefit cost	$ 1,362	$ 1,329
Interest on obligations	334	308
Amortization of net actuarial losses	410	384
Post-employment benefit costs	$ 2,106	$ 2,021

The assumptions are:

	2018	2017
Post-employment benefits obligations		
Discount rate	2.2%	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%
Post-employment benefits costs		
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%

For the year ended March 31, 2018, the Corporation paid $519 (2017 - $429) 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

	2018 Cost				
	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Vessel	$ 384,849	$ 616	$ 4,715	$ (34)	$ 390,146
Shore facilities	190,275	76	3,156	(1,069)	192,438
Leasehold improvements	26,689	2,546	5,801	-	35,036
Equipment	33,456	991	4,823	(2,223)	37,047
Work in progress	37,026	56,729	(18,495)	-	75,260
	$ 672,295	$ 60,958	$ -	$ (3,326)	$ 729,927

	2018 Accumulated Amortization			
	Beginning Balance	Amortization Expense	Disposals	Ending Balance
Vessel	$ 150,727	$ 26,418	$ (33)	$ 177,112
Shore facilities	69,601	8,112	(1,069)	76,644
Leasehold improvements	23,794	7,462	-	31,256
Equipment	20,649	3,174	(2,087)	21,736
	$ 264,771	$ 45,166	$ (3,189)	$ 306,748

	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

	2018 Net Book Value	2017 Net Book Value
Vessel	$ 213,034	$ 234,122
Shore facilities	115,794	120,674
Leasehold improvements	3,780	2,895
Equipment	15,311	12,807
Work in progress	75,260	37,026
	$ 423,179	$ 407,524

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:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Financial assets				
Cash	$ -	$ 13,875	$ -	$ 12,944
Accounts receivable	-	9,792	-	10,040
Derivative financial instruments	3,401	-	1,183	-
	$ 3,401	$ 23,667	$ 1,183	$ 22,984
Financial liabilities				
Accounts payable and accrued liabilities other than government remittances payable	$ -	$ 37,622	$ -	$ 32,867
Derivative financial instruments	24	-	1,906	-
	$ 24	$ 37,622	$ 1,906	$ 32,867

(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, 2018 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*.

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

	2018				2017
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair value	Fair value
Crude swap - #2 heating oil	2018	-	-	$ -	$ 411
Crude swap - #2 heating oil	2019	1.9825 - 2.5150	4,368	1,336	69
Crude swap - #2 heating oil	2020	1.9418 - 2.4336	3,990	1,234	112
Crude swap - #2 heating oil	2021	2.4020 - 2.4708	2,142	110	-
Crude swap - #6 heavy fuel 1%	2018	-	-	-	419
Crude swap - #6 heavy fuel 1%	2019	49.63 - 68.48	35	415	95
				$ 3,095	$ 1,106

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.

	2018				2017
	Period (Note 1)	Forward Rate CAD/EURO	Notional Quantity (Euros)	Fair value	Fair value
Foreign exchange forwards	2018	-	-	$ -	$ 64
Foreign exchange forwards	2019	1.4723 -1.5570	3,366	306	-
				$ 306	$ 64

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

	2018				2017
	Period (Note 1)	Forward Rate CAD/USD	Notional Quantity (USD)	Fair value	Fair value
Foreign exchange forwards	2018			$ -	$ 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:

	2018				2017
	Period (Note 1)	Fixed Price per Unit (Note 2)	Notional Quantity (Note 3)	Fair value	Fair value
Crude swap - #2 heating oil	2018	-	-	$ -	$ (640)
Crude swap - #2 heating oil	2019	-	5	-	(349)
Crude swap - #2 heating oil	2020	-	-	-	(139)
Crude swap - #2 heating oil	2021	-	-	-	(310)
Crude swap - #6 heavy fuel 1%	2018	-	-	-	(152)
Crude swap - #6 heavy fuel 1%	2019	73.34	-	(1)	(10)
Crude swap - #6 heavy fuel 1%	2020	-	-	-	(6)
				$ (1)	$ (1,606)

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.

	2018				2017
	Period (Note 1)	Forward Rate CAD/EURO	Notional Quantity (Euros)	Fair value	Fair value
Foreign exchange forwards	2018	-	-	$ -	$ (300)
Foreign exchange forwards	2019	1.6079 -1.6258	1,056	(23)	-
				$ (23)	$ (300)

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 -bb, a guaranteed long-term rating of BBB, and unguaranteed short-term rating of F3 from Fitch Ratings at March 31, 2018.

Accounts receivable
The Corporation's total accounts receivable is $9,792 as at March 31, 2018 (2017 - $10,040) and consists of trade receivables of $4,368 (2017 - $3,584) and other accounts receivable of $5,424 (2017 - $6,456) of which $2,432 (2017 - $2,550) 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 58% of the trade receivables (2017 - five customers represented 50% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable.

As at March 31, 2018, approximately 1.6% (2017 - 1.4%) of trade accounts receivables were over 30 days past due, whereas 98.4% (2017 - 98.6%) 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 $66 at March 31, 2018 (2017 - $25). 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:

	2018	2017
Current	$ 3,629	$ 3,264
1-30 days past due	733	296
31-120 days past due	72	49
	4,434	3,609
Less: Allowance for doubtful accounts	(66)	(25)
Trade accounts receivable, net	$ 4,368	$ 3,584

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, 2018 would increase crude oil derivative assets by $2,984 and decrease crude oil derivative liabilities by $33, while a 10% decrease in the market price of crude oil derivatives for the year ended March 31, 2018 would decrease crude oil derivative assets by $2,865 and increase derivative liabilities by $40.

(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's bank has provided an irrevocable letter of credit on the Corporation's behalf 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 (2017 - $4,200) for an indefinite period. The Corporation receives approval from the Minister of Finance on an annual basis to enter into the letter of credit.

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 $37,622 (2017 - $32,867). The carrying value of accounts payable as at March 31, 2018 was $21,338 (2017 - $20,484) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $16,284 as at March 31, 2018 (2017 - $12,383).

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:

	2018				
	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 4 years	Total
Accounts payable and accrued liabilities	$ 37,622	-	-	-	$ 37,622
Derivative financial liabilities	$ 7	16	1	-	$ 24

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

14. Accumulated Surplus

The accumulated surplus is comprised of:

	2018	2017
Accumulated operating surplus	$ 503,643	$ 481,477
Accumulated remeasurement gains (losses)	5,061	(207)
Accumulated surplus	$ 508,704	$ 481,270

Accumulated operating surplus includes share capital in the amount of $258,530 (2017 - $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, 2018, 517,061,000 shares (2017 - 517,061,000 shares) at $0.50 per share (2017 - $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. Related parties also include key management personnel having the authority and responsibility for planning, directing and controlling the activities of the Corporation. This includes the senior leadership team, and members of the Board of Directors and their close family members.

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 $1,572 (2017 - $1,623) with other related parties, which include the accounts payable as described in note 7. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 5. 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, 2018 is $5,238 (2017 - $2,334).

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

	Charter	Other	Total
2018-19	$ 8,804	$ 417	$ 9,221
2019-20	-	173	173
	$ 8,804	$ 590	$ 9,394

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. Contingent Liabilities

In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. At March 31, 2018, the Corporation is in receipt of claims estimated at $0 (2017 - $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 $100 (2017 - $170) 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.

18. Contingent Assets

The Corporation has two appeal proceedings before the Tax Court of Canada arising under the *Excise Tax Act* in regard to input tax credits (ITC's) claimed during the audit period of January 2006 to January 2012. The Corporation has determined that it is likely to receive $6,600 in net ITC's for that time period and another $2,700 in ITC's for the post audit period to March 31, 2018.

The Corporation is a claimant in a lawsuit against a contractor in regard to additional costs incurred to complete a project. The Court ruled in the Corporation's favour in February 2018 and awarded the Corporation $1,500. The defendant has appealed the decision but the Corporation has determined that it is likely to be awarded $1,500.

19. Bugeted 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.