Quarterly Financial Report

MARINE ATLANTIC INC.

December 31, 2015

MARINE ATLANTIC INC.
Table of Contents
December 31, 2015

MARINE ATLANTIC INC.
Quarterly Financial Report
December 31, 2015

The following Quarterly Financial Report of the financial results of Marine Atlantic Inc. ("the Corporation") is for the nine months ended December 31, 2015. This report should be read in conjunction with the Corporation's 2014/15 – 2018/19 Corporate Plan Summary and the Corporation's 2014/2015 Annual Report which includes the audited annual financial statements for the year ended March 31, 2015. Information about the Corporation, including the Annual Report and the Corporate Plan Summary, can be found at www.marineatlantic.ca once approved by the Federal Government.

The unaudited financial statements and the accompanying notes have been prepared in accordance with Public Sector Accounting Standards and are reported in Canadian dollars.

OVERVIEW OF THE CORPORATION

Marine Atlantic Inc. is a transportation company that provides a vital link between the Island of Newfoundland and the Province of Nova Scotia. The Corporation is a fundamental component of Atlantic Canada's 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 travelers 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.

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

To fulfill its mandate, Marine Atlantic operates a fleet of four ice-class ferries: the MV *Blue Puttees*, MV *Highlanders*, MV *Atlantic Vision* and the MV *Leif Ericson*.

The Corporation reports annually to the Government of Canada through the Minister of Transport. Marine Atlantic is tasked with fulfilling the constitutional mandate to "maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques." This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada.

Marine Atlantic is a key employer in each of the three towns in which it operates. Employment levels within the Corporation peak at more than 1,200 persons during the busy summer season. The workforce at Marine Atlantic is predominately unionized; approximately 96 per cent of employees are members of one of the five labour unions covered by six collective agreements.

To ensure the safe operations of vessels at sea, Marine Atlantic Inc. is governed by various acts and regulations. These include: *Canada Labour Code*, Marine Occupational Safety and Health Regulations, *Transportation of Dangerous Goods Act* and Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act*, 2001, *Canada Marine Act*, *Coastal Trade Act*, Domestic Ferries Security Regulations (DFSR), and the Marine Transportation Security Regulations (MTSR) Part III. The Corporation also falls under the umbrella of the International Convention for the Safety of Life at Sea (SOLAS), the pre-eminent of all international treaties concerning the safety of merchant ships.

MARINE ATLANTIC INC.
Quarterly Financial Report
December 31, 2015

QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

Three months ending December 31, 2015

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$22,161	$21,529	$23,014	$ 632	3%	($ 853)	(4%)
Expenses	$55,654	$57,289	$57,730	$1,635	3%	$ 2,076	4%

Nine months ending December 31, 2015

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$89,811	$84,022	$89,870	$5,789	7%	($ 59)	(0%)
Expenses	$180,954	$186,647	$182,488	$5,693	3%	$ 1,534	1%

[1] Positive Variance indicates a favourable result compared to Budget/Prior Year

Statistics snapshot

Three months ending December 31, 2015

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	48,041	43,879	48,618	4,162	9%	(577)	(1%)
Passenger Units	17,490	15,971	17,216	1,519	10%	274	2%
Commercial Units	23,553	23,635	24,556	(82)	(0%)	(1,003)	(4%)
Auto Equivalent Units [3]	114,693	115,203	118,010	(510)	(0%)	(3,317)	(3%)
Trips	384	382	360	(2)	(0%)	(24)	(7%)

Nine months ending December 31, 2015

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	294,424	265,041	280,414	29,383	11%	14,010	5%
Passenger Units	108,260	95,902	101,925	12,358	13%	6,335	6%
Commercial Units	75,143	72,380	76,878	2,763	4%	(1,735)	(2%)
Auto Equivalent Units[3]	429,471	406,761	427,894	22,710	6%	1,577	0%
Trips	1,374	1,364	1,314	(10)	(1%)	(60)	(0%)

[2] Positive Variance indicates a favourable result compared to Forecast/Prior Year
[3] Auto Equivalent Unit or AEU is the length of an average passenger automobile

Revenues

The Corporation’s revenue was three per cent higher for the quarter and seven percent higher year to date compared to the budget as overall traffic was higher than forecasted.

The Corporation’s revenue was four per cent lower for the quarter while on par year to date compared to last year. The year over year decrease in revenue for the quarter was a result of the lower fuel surcharge compared to last year. The lower fuel surcharge has been offset on a year to date basis by the increased passenger related traffic and the higher general tariff.

Expenses

Compared to Budget

The Corporation’s expenses were three percent lower than budget during the quarter and year to date. The price of fuel was lower than budgeted resulting in quarterly and year to date savings. The Corporation recognized a $1.3 million gain on foreign currency exchange and a $2.4 million realized gain on financial derivatives related to the purchase of the MV *Blue Puttees.* For the quarter a net loss on financial derivatives was recognized resulting from the settlement of fuel swaps. Operating costs were three percent over budget for the quarter, while less than one percent over year to date. Finally charter fees were under budget for the quarter and year to date due to lower than anticipated foreign exchange rates.

Compared to Prior Year

The Corporation’s overall expenses were four percent lower for the quarter and one percent lower year to date when compared to prior year. The significant drop in crude oil has resulted in lower fuel costs year over year, partially offset by fuel swap settlements recognized as realized losses on financial derivatives. Operating costs are 10 percent higher for the quarter, and eight percent higher year to date. There was increased spend on corporate initiatives and planned projects. Maintenance costs are higher mainly due to scheduled repairs. The purchase of the MV *Blue Puttees* occurred in the quarter resulting in recognized gains. The charter agreement for the MV *Atlantic Vision* was renewed this year at a lower daily rate resulting in lower cost for the quarter and year to date compared to last year. Employee future benefits expenses are higher on an actuarial basis due to changes in actuarial assumptions such as discount rates, and expected return on plan assets, while amortization is lower.

Tangible capital assets

The Corporation invested $109.81 million ($123.10 million YTD) in its capital assets during the third quarter as part of ongoing reinvestment in assets. This included $1.86 million ($2.77 million YTD) in shore facilities upgrades and $107.39 million ($118.56 million YTD) in vessel projects. The remaining $0.56 million ($1.77 million YTD) was spent on information technology and equipment purchases.

Forecast

The Corporation’s approved government funding for 2015/16 is $374.3 million. Based upon results of the first nine months and the budget allocation for the remainder of the year, the Corporation is anticipating it will operate within its approved funding allocation. There have been no revisions to goals or objectives compared to the 2015/16 – 2019/20 Corporate Plan Summary.

RISK ANALYSIS

The financial risks of the Corporation have previously been disclosed in the Corporation's 2014/15 – 2018/19 Corporate Plan Summary and the Corporation's 2014/15 Annual Report. There are no significant changes to the risks previously identified.

SIGNIFICANT EVENTS

Purchase of the MV Blue Puttees

The Corporation purchased the formerly leased passenger and freight ferry, MV *Blue Puttees* after exercising its purchase option following the initial five year charter period. The purchase price for the ferry denominated in Euros was €69 million which translated to $105.5 million Canadian dollars at December 22, 2015. The completion of the purchase of the MV *Highlanders* will occur on February 16, 2016.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received $132.2 million in appropriations from the Government of Canada during the third quarter ended December 31st, 2015 ($190.1 million year to date). Please refer to Note 2(a) to the unaudited interim financial statements for the Corporation's accounting policy for government appropriations. Note 3 to the unaudited interim financial statements reports on how the appropriations received were used during the period.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.

Paul Griffin	Shawn Leamon, CGA
President and CEO	Vice President of Finance

St. John’s, NL
February 23, 2016

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position
As at December 31, 2015
(in thousands)

		Dec 31 2015		Mar 31 2015
Financial assets				
Cash (Note 4)	$	19,121	$	12,527
Accounts receivable		9,715		10,082
Inventories held for resale		394		335
Derivative financial instruments		4,183		797
Accrued pension asset		105,028		111,832
	$	138,441	$	135,573
Liabilities				
Accounts payable and accrued liabilities	$	20,293	$	28,120
Derivative financial instruments		7,836		6,027
Deferred revenue		257		3,547
Payable to Government of Canada (Note 3)		8,484		2,766
Accrued vacation pay		6,044		5,840
Accrued pension liability		2,210		2,118
Accrued liability for non-pension post-retirement benefits		44,522		42,904
Accrued liability for post-employment benefits		11,611		11,622
		101,257		102,944
Net financial assets	$	37,184	$	32,629
Non-financial assets				
Tangible capital assets		305,293		204,625
Inventories held for consumption		11,043		16,904
Prepaid expenses		3,203		6,888
		319,539		228,417
Accumulated surplus	$	356,723	$	261,046

Contingencies (Note 7)

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

MARINE ATLANTIC INC.
Unaudited Statement of Operations

Period ended December 31, 2015
(in thousands)

	For the 3 Months Ended 2015	For the 3 Months Ended 2014	For the 9 Months Ended 2015	For the 9 Months Ended 2014
Revenues				
Transportation	$ 20,080	$ 20,114	$ 81,266	$ 78,331
Fuel surcharge	2,050	2,871	8,467	11,436
Other income	31	29	78	103
	22,161	23,014	89,811	89,870
Expenditures				
Wages and benefits	19,898	19,242	64,863	63,378
Charter fees	9,306	10,778	28,319	32,562
Charter importation taxes	715	715	2,146	2,146
Fuel	4,672	6,080	18,102	24,999
Materials, supplies and services	4,392	2,877	13,929	10,250
Repairs and maintenance	3,448	2,958	9,920	8,205
Insurance, rent and utilities	1,935	1,724	5,523	5,096
Other	880	1,027	3,604	2,830
Employee future benefits (Note 5)	3,464	1,857	10,394	5,571
Foreign currency exchange (gain) loss	(1,280)	6	(1,287)	8
Realized loss (gain) on derivative financial instruments	824	1,559	3,012	1,510
Loss on disposal of tangible capital assets	113	-	113	-
Amortization	7,287	8,907	22,316	25,933
	55,654	57,730	180,954	182,488
(Deficit) before government funding	(33,493)	(34,716)	(91,143)	(92,618)
Government funding				
Operations	17,654	20,353	61,303	64,130
Capital	109,808	3,231	123,096	12,858
	127,462	23,584	184,399	76,988
Operating surplus (deficit)	93,969	(11,132)	93,256	(15,630)
Accumulated operating surplus, beginning of period	269,241	267,617	269,954	272,115
Accumulated operating surplus, end of period	$ 363,210	$ 256,485	$ 363,210	$ 256,485

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

MARINE ATLANTIC INC.
Unaudited Statement of Remeasurement Gains and Losses
Period ended December 31, 2015
(in thousands)

	For the 3 Months Ended 2015	For the 3 Months Ended 2014	For the 9 Months Ended 2015	For the 9 Months Ended 2014
Remeasurement losses (gains) arising during the year				
Unrealized gain (loss) on foreign exchange of cash	$ 67	$ (60)	$ 846	$ (708)
Unrealized gain (loss) on derivatives	362	(5,795)	4,588	(7,884)
Reclassifications to the statement of operations				
Realized (loss) gain on derivatives	(824)	(1,559)	(3,012)	(1,510)
Net remeasurement gains (losses) for the year	(395)	(7,414)	2,422	(10,102)
Accumulated remeasurement losses on derivative financial instruments, beginning of period	(6,092)	(4,913)	(8,909)	(2,225)
Accumulated remeasurement losses on derivative financial instruments, end of period	$ (6,487)	$ (12,327)	$ (6,487)	$ (12,327)

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

MARINE ATLANTIC INC.
Unaudited Statement of Change in Net Financial Assets
Period ended December 31, 2015
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2015	**2014**	**2015**	**2014**
Surplus (deficit)	$ 93,969	$ (11,132)	$ 93,255	$ (15,630)
Change in tangible capital assets				
Acquisition of tangible capital assets	(109,808)	(3,231)	(123,096)	(12,858)
Amortization of tangible capital assets	7,287	8,907	22,316	25,933
Loss on disposal of tangible capital assets	113	-	113	-
Decrease (Increase) in tangible capital assets	(102,408)	5,676	(100,667)	13,075
Change in other non-financial assets				
Net change in inventories held for consumption	837	1,638	5,861	7,961
Net change in prepaid expenses	2,074	621	3,684	2,269
Decrease in other non-financial assets	2,911	2,259	9,545	10,230
Remeasurement gains (losses)	(395)	(7,414)	2,422	(10,102)
Increase in net financial assets	(5,923)	(10,611)	4,555	(2,427)
Net financial assets, beginning of period	43,107	26,780	32,629	18,596
Net financial assets, end of period	$ 37,184	$ 16,169	$ 37,184	$ 16,169

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow
Period ended December 31, 2015
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2015	**2014**	**2015**	**2014**
Operating transactions				
Cash receipts from customers	$ 22,082	$ 22,507	$ 86,135	$ 86,904
Other income received	31	35	78	127
Government funding - operations	22,407	19,538	66,056	59,521
Government funding - capital	109,808	3,234	124,061	20,704
Cash payments to suppliers	(18,682)	(22,966)	(81,317)	(81,210)
Cash payments to and on behalf of employees	(21,691)	(19,560)	(64,600)	(60,237)
Cash paid for employee future benefits	(691)	(364)	(1,891)	(1,867)
	113,264	2,424	128,522	23,942
Capital transactions				
Purchase of tangible capital assets	(109,808)	(3,234)	(124,061)	(20,704)
	(109,808)	(3,234)	(124,061)	(20,704)
Effect of exchange rate changes on cash	1,346	(73)	2,132	(740)
Net (decrease) increase in cash	4,802	(883)	6,593	2,498
Cash, beginning of period	14,319	16,745	12,528	13,364
Cash, end of period	$ 19,121	$ 15,862	$ 19,121	$ 15,862
Cash consists of:				
Restricted cash			$ 9,352	$ 8,736
Unrestricted cash			9,769	7,126
			$ 19,121	$ 15,862

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

1. BASIS OF PRESENTATION

Marine Atlantic Inc. ("the Corporation") 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. As a result of the *National Marine Policy (1995),* the mandate of the Corporation was narrowed to the operation of a ferry system.

The Corporation operates a ferry service between Nova Scotia and Newfoundland and Labrador. Marine Atlantic Inc.'s business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference to travel during the summer months. The Corporation also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

These unaudited interim financial statements have been prepared by management in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. The basis of accounting used is Canadian public sector accounting standards. These interim financial statements do not include all of the disclosures provided in Marine Atlantic Inc.'s annual audited financial statements. The disclosures provided below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the financial statements and the notes thereto for the year ended March 31, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with Canadian public sector accounting standards.

(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 requirements are met by the Corporation. Any difference between amounts provided and amounts required 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, accrued liabilities and receivable from (payable to) the Government of Canada are measured at cost.

Derivatives are initially recognized at their fair value at the date the derivative contracts are entered into and are subsequently remeasured to their 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 vessel, 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 vessel are amortized over the lesser of the useful life of the asset or the useful life of the vessel. Leasehold improvements are amortized over the shorter of the term of the lease agreement or the asset's useful life.

Estimated useful lives and amortization methods are reviewed at the end of each year. The rates for significant classes of tangible capital assets are as follows:

Vessel (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 generally are based on employees' length of service and final or best average earnings for all benefits.

The cost of pensions is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, inflation and retirement ages of employees. The discount rate used to calculate the interest cost on the pension obligations is based on its expected return on plan assets for the registered pension plan and a proxy of 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 gain/losses, related to prior period employee services are recognized in the statement of operations in the period of the plan amendment.

The estimated average remaining service period of the members covered by the registered pension plan and the supplementary retirement arrangement adopted in 2006 is 10.9 years (2014 – 11.3 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 17.1 years (2014 – 17.0 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 11.9 years (2014 – 13.4 years). Adjustments for plan amendments, net of offsetting unamortized actuarial gain/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 (2014 – 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 weekly benefit is determined by 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 have 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 reported on an accrual basis. Expenses for the operations of the Corporation are recorded when goods or services are received.

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

(i) Prepaid expenses

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

(j) Foreign currency translation

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

(k) Contingent liabilities

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

(l) Measurement uncertainty

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

3. (PAYABLE TO) RECEIVABLE FROM GOVERNMENT OF CANADA

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

(in thousands)

4. Receivable from (payable to) Government of Canada

	December 31st, 2015 (9 months)		Mar 31, 2015 (12 months)	
Receivable from (payable to) Government of Canada, beginning of period	$	(2,766)	$	(2,604)
Parliamentary appropriations received during the period		(190,117)		(136,284)
Recognized during the period:				
Operations		61,303		117,227
Tangible Capital Assets		123,096		18,895
Government funding (deficit) surplus		5,718		162
(Payable to) receivable from Government of Canada, end of period	$	(8,484)	$	(2,766)

4. CASH

Cash includes restricted cash consisting of cash denominated in Euros plus accumulated interest held in an escrow account. The total balance denominated in Euros is €6,223 (March 31, 2015 – €6,223), which translates to $9,352 Canadian dollars at December 31, 2015 (March 31, 2015 – $8,477).

5. EMPLOYEE FUTURE BENEFITS

During the three months ended December 31, 2015, the net employee future benefit expense was $10,394 (December 31, 2014– $5,571). The expense included costs for the Corporation's defined benefit pension plan, life insurance and health and dental care benefits to retirees and Workers' Compensation.

6. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. During the period, the Corporation incurred expenses of $368 (2014 – $242) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 3. The Corporation is given the right to use the crown land on which the terminals sit free of charge by Transport Canada. No amount was recorded since the fair value of the service received for free is not reliably measurable.

7. CONTINGENCIES

Legal Contingencies have been increased since the end of the most recently completed fiscal year. This increase was made to account for new claims that have a likelihood of payment.