Quarterly Financial Report

MARINE ATLANTIC INC.

December 31, 2019

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The following Quarterly Financial Report of the financial results of Marine Atlantic Inc. ("the Corporation") is for the nine months ended December 31, 2019. This report should be read in conjunction with the Corporation's 2018/19 – 2022/23 Corporate Plan Summary and the Corporation's 2018/2019 Annual Report which includes the audited annual financial statements for the year ended March 31, 2019. 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 is a federal Crown Corporation tasked with fulfilling the constitutional mandate of offering freight and passenger service between North Sydney, NS, and Port aux Basques, NL. This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada.

Headquartered in St. John's, NL, Marine Atlantic operates terminals in Port aux Basques, NL, Argentia, NL, and North Sydney, NS, and 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 ferry service between Argentia and North Sydney.

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.

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.

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QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

Three months ending December 31, 2019

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$20,269	$22,289	$22,838	(2,020)	-9%	(2,569)	-11%
Expenses	$53,525	$57,911	$56,776	4,386	8%	3,251	6%

Nine months ending December, 2019

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$89,897	$92,889	$94,731	(2,992)	-3%	(4,834)	-5%
Expenses	$170,342	$183,103	$177,308	12,761	7%	6,966	4%

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

Statistics snapshot

Three months ending December 31, 2019

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	46,802	44,433	43,481	2,369	5%	3,321	8%
Passenger Units	18,663	15,372	16,341	3,291	21%	2,322	14%
Commercial Units	19,337	22,171	21,618	(2,834)	-13%	(2,281)	-11%
Auto Equivalent Units [3]	98,444	106,398	104,482	(7,954)	-7%	(6,038)	-6%
Trips	348	390	340	(42)	-11%	8	2%

Nine months ending December, 2019

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	286,159	284,215	284,068	1,944	1%	2,091	1%
Passenger Units	111,671	102,201	108,348	9,470	9%	3,323	3%
Commercial Units	65,138	69,618	69,681	(4,480)	-6%	(4,543)	-7%
Auto Equivalent Units [3]	391,895	399,078	405,741	(7,183)	-2%	(13,846)	-3%
Trips	1331	1400	1358	(69)	-5%	(27)	-2%

[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

In the third quarter of fiscal 2020, revenue decreased nine percent compared to budget and eleven percent from the prior year, primarily as a result of lower overall traffic volumes primarily due to lower Commercial traffic compared to budget and last year.

Revenues year to date decreased three percent compared to budget and five percent compared to last year. While passenger and passenger units performed higher than expected, overall traffic volumes were lower than the previous year due to the drop in Commercial traffic. Realized gains from the fuel hedging program were lower than budget and the previous year.

Expenses

Compared to Budget

The Corporation's expenses were eight percent lower than budget during the quarter and seven percent lower year to date. There were reductions in operating costs, fuel, and charter fees in both the quarter and year to date.

Compared to Prior Year

The Corporation's expenses were six percent lower for the quarter and four percent lower year to date when compared to last year. Fuel costs continue to trend lower due to market prices and decreased consumption. Employee future benefits are lower mainly due to lower actuarial determined pension expense. Other areas of savings include lower amortization costs as some long-lived assets are fully depreciated. Operating costs are higher this year driven by inflation and corporate initiatives.

Tangible capital assets

The Corporation invested $ 11.2 million ($31.5 million YTD) in its capital assets during the third quarter as part of ongoing reinvestment in assets. This included $5.6 million ($11.7 million YTD) for vessel projects and $5.6 million ($19.8 million YTD) for shore facilities upgrades, information technology and equipment purchases.

Forecast

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 2018/19 – 2022/23 Corporate Plan Summary.

RISK ANALYSIS

The financial risks of the Corporation have previously been disclosed in the Corporation's 2018/19 – 2022/23 Corporate Plan Summary and the Corporation's 2017/18 Annual Report. There are no significant changes to the risks previously identified.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received $34.5 million in appropriations from the Government of Canada during the third quarter ended December 31st, 2019 ($87.7 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 4 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.

Murray Hupman, P. Eng.
President and CEO

Shawn Leamon, CPA, CGA
Vice President of Finance

St. John's, NL
February 12, 2020

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position
As at December 31, 2019
(in thousands)

		Dec 31 2019		Mar 31 2019
Financial assets				
Cash (Note 5)	$	9,578	$	13,613
Accounts receivable		6,115		7,390
Receivable from Government of Canada (Note 4)		1,041		13,404
Inventories held for resale		343		327
Derivative financial instruments		901		2,514
Accrued pension asset		142,072		133,911
		160,050		171,159
Liabilities				
Accounts payable and accrued liabilities		19,417		30,158
Derivative financial instruments		1,544		693
Deferred revenue		353		4,831
Payable to Government of Canada (Note 4)		-		2,994
Accrued vacation pay		6,217		6,319
Accrued pension liability		2,802		2,723
Accrued liability for non-pension post-retirement benefits		50,837		49,910
Accrued liability for post-employment benefits		11,629		11,341
		92,799		108,969
Net financial assets		67,251		62,190
Non-financial assets				
Tangible capital assets		418,168		421,588
Inventories held for consumption		12,382		18,448
Prepaid expenses		2,999		3,345
		433,549		443,381
Accumulated surplus	$	500,800	$	505,571

Contingencies (Note 8)

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

MARINE ATLANTIC INC.
Unaudited Statement of Operations

Period ended December 31, 2019
(in thousands)

	For the 3 Months Ended 2019	For the 3 Months Ended 2018	For the 9 Months Ended 2019	For the 9 Months Ended 2018
Revenues				
Transportation	$ 18,016	$ 19,453	$ 79,380	$ 81,787
Fuel surcharge	2,166	2,350	9,892	10,201
Other income	47	83	181	192
Foreign currency exchange gain	40	-	36	-
Realized Gain on derivative financial instruments		952	408	2,551
	20,269	22,838	89,897	94,731
Expenditures				
Wages and benefits	20,960	21,645	69,554	70,020
Charter fees	3,759	3,419	10,351	10,252
Fuel	5,230	6,409	21,468	25,489
Materials, supplies and services	5,754	5,127	19,026	16,434
Repairs and maintenance	2,168	1,953	6,066	7,023
Insurance, rent and utilities	1,795	1,926	5,318	5,206
Travel	330	406	887	1,157
Administrative Costs	395	493	1,314	1,452
Employee future benefits (Note 6)	113	1,079	338	3,236
Fleet renewal costs	371	-	1,044	-
Loss on exchange of foreign currency	-	20	-	30
Realized loss on derivative financial instruments	63	-	-	-
Amortization	12,587	14,299	34,976	37,009
	53,525	56,776	170,342	177,308
(Deficit) before government funding	(33,256)	(33,938)	(80,445)	(82,577)
Government funding				
Operations	24,873	23,203	46,771	48,160
Capital	11,363	7,976	31,556	31,539
	36,236	31,179	78,327	79,699
Operating deficit	2,980	(2,759)	(2,118)	(2,878)
Accumulated operating surplus, beginning of period	497,497	503,524	502,595	503,643
Accumulated operating surplus, end of period	$ 500,477	$ 500,765	$ 500,477	$ 500,765

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, 2019
(in thousands)

	For the 3 Months Ended 2019	For the 3 Months Ended 2018	For the 9 Months Ended 2019	For the 9 Months Ended 2018
Accumulated remeasurement gains (losses), beginning of year	$ (1,166)	$ 7,727	$ 2,976	$ 5,061
Remeasurement gains (losses) arising during the year				
Unrealized gain (loss) on foreign exchange of cash	67	377	(190)	(148)
Unrealized gain (loss) on derivatives	1,359	(6,783)	(2,055)	(1,993)
Reclassifications to the statement of operations				
Realized (gain) loss on derivatives	63	(952)	(408)	(2,551)
Net remeasurement gains (losses) for the year	1,489	(7,358)	(2,653)	(4,692)
Accumulated remeasurement gains (losses), end of the period	$ 323	$ 369	$ 323	$ 369

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, 2019
(in thousands)

	For the 3 Months Ended 2019	2018	For the 9 Months Ended 2019	2018
Operating (deficit)	$ 2,980	$ (2,759)	$ (2,118)	$ (2,878)
Change in tangible capital assets				
Acquisition of tangible capital assets	(11,363)	(7,976)	(31,556)	(31,539)
Amortization of tangible capital assets	12,587	14,299	34,976	37,009
(Increase) in tangible capital assets	1,224	6,323	3,420	5,470
Change in other non-financial assets				
Net change in inventories held for consumption	2,274	(702)	6,066	6,053
Net change in prepaid expenses	(367)	426	346	1,155
Decrease in other non-financial assets	1,907	(276)	6,412	7,208
Net remeasurement gains (losses)	1,489	(7,358)	(2,653)	(4,692)
Decrease in net financial assets	7,600	(4,070)	5,061	5,108
Net financial assets, beginning of period	59,652	68,633	62,190	59,455
Net financial assets, end of period	$ 67,251	$ 64,563	$ 67,251	$ 64,563

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow

Period ended December 31, 2019
(in thousands)

	For the 3 Months Ended 2019	For the 3 Months Ended 2018	For the 9 Months Ended 2019	For the 9 Months Ended 2018
Operating transactions				
Cash receipts from customers	$ 20,738	$ 21,694	$ 85,002	$ 88,034
Other income received	47	83	181	192
Government funding - operations	23,147	23,756	47,720	57,654
Government funding - capital	11,363	7,976	39,976	47,256
Cash payments to suppliers	(19,410)	(18,671)	(56,492)	(62,085)
Cash payments to and on behalf of employees	(23,434)	(22,101)	(73,051)	(71,662)
Cash paid for employee future benefits	(2,882)	(4,216)	(7,206)	(8,032)
	9,569	8,521	36,130	51,357
Capital transactions				
Purchase of tangible capital assets	(11,363)	(7,976)	(39,976)	(47,256)
	(11,363)	(7,976)	(39,976)	(47,256)
Effect of exchange rate changes on cash	67	377	(190)	(148)
Net (decrease) increase in cash	(1,727)	922	(4,036)	3,953
Cash, beginning of period	11,304	16,906	13,613	13,875
Cash, end of period	$ 9,577	$ 17,828	$ 9,577	$ 17,828

	2019	2018
Cash consists of:		
Restricted cash	$ 6,562	$ 9,714
Unrestricted cash	3,015	8,113
	$ 9,577	$ 17,827

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, 2019.

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 9.6 years (2018 – 9.8 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 14.1 years (2018 – 14.7 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 (2018 – 11.0 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 (2018– 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.

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 STANDARD

In August 2018, the Public Sector Accounting Board issued PS 3280, Asset retirement obligations, which establishes principles on how to account for and report legal obligations associated with the retirement of tangible capital assets. An asset retirement obligation is recognized when all the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

(in thousands)

The mandatory effective date of this standard is for fiscal years beginning on or after April 1, 2021 and earlier adoption is permitted. The Corporation has not early adopted this new standard and is currently assessing the impact that this standard will have on its financial statements. Therefore, the impact is not known at this time.

4. (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.

	December 31, 2019 (9 months)	Mar 31, 2019 (12 months)
Payable to Government of Canada, beginning of period	$ 2,994	**$** 2,717
(Receivable from) Government of Canada, beginning of period	(13,404)	(21,100)
Parliamentary appropriations received during the period	87,696	133,641
Recognized during the period:		
Operations	(46,771)	(75,977)
Tangible Capital Assets	(31,556)	(49,690)
Government funding (deficit) surplus	9,369	7,974
(Receivable from) Government of Canada, end of year	(1,041)	(13,404)
Payable to Government of Canada, end of period	$ -	$ 2,994

5. 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 total balance denominated in Euros is €4,500 (2018 – €6,222), which translates to $6,562 Canadian dollars at December 31, 2019 (March 31, 2019 – $9,873).

6. EMPLOYEE FUTURE BENEFITS

During the nine months ended December 31, 2019, the net employee future benefit expense was $338 (December 31, 2018– $3,236). 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.

7. 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 $383 (2018 – $373) 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.

8. CONTINGENCIES

As a result of a court ruling, contingent assets have been reduced by $1.5M and contingent liabilities have been increased by $1M.

There have been no other changes to legal contingencies.