Quarterly Financial Report

MARINE ATLANTIC INC.

September 30, 2023

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The following Quarterly Financial Report of the financial results of Marine Atlantic Inc. ("the Corporation") is for the six months ended September 30, 2023. This report should be read in conjunction with the Corporation's 2022/23 – 2026/27 Corporate Plan Summary and the Corporation's 2022/2023 Annual Report which includes the audited annual financial statements for the year ended March 31, 2023. 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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September 30, 2023

QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

Three months ending September 30, 2023

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$ 67,002	$ 47,944	$ 56,529	19,058	40%	10,473	19%
Expenses	$ 81,236	$ 79,630	$ 76,112	(1,606)	-2%	(5,124)	-7%

Six months ending September 30, 2023

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$ 97,558	$ 78,092	$ 85,142	19,466	25%	12,416	15%
Expenses	$ 148,657	$ 149,087	$ 140,383	430	0%	(8,274)	-6%

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

Statistics snapshot

Three months ending September 30, 2023

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	199,143	197,590	199,626	1,553	1%	(483)	0%
Passenger Units	79,220	80,504	79,141	(1,284)	-2%	79	0%
Commercial Units	24,384	23,287	24,671	1,097	5%	(287)	-1%
Auto Equivalent Units[3]	189,466	187,716	191,314	1,750	1%	(1,848)	-1%
Trips	595	563	590	32	6%	5	1%

Six months ending September 30, 2023

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	281,471	268,045	277,000	13,426	5%	4,471	2%
Passenger Units	112,692	108,698	110,703	3,994	4%	1,989	2%
Commercial Units	48,548	48,495	50,278	53	0%	(1,730)	-3%
Auto Equivalent Units[3]	326,114	323,584	332,458	2,530	1%	(6,344)	-2%
Trips	1045	960	1047	85	9%	(2)	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 has recognized $15 million in revenue and accounts receivable in the quarter relating to a favorable judgement of two appeals to the Tax Court of Canada that were not appealed by the Respondent by the September 30th, 2023 deadline. These award amounts were previously disclosed as contingent assets.

The Corporations revenue was 40% higher for the quarter and 25% higher year to date. Overall traffic was higher than forecasted. Realized gains on derivatives were higher than anticipated due to gains relating to the fuel hedging program.

When compared to prior year, the Corporation's revenue was 19% higher for the quarter and 15% higher year to date. Commercial traffic was lower in the quarter and year to date, while passenger traffic was on par for the quarter and slightly higher year to date. Realized gains on derivatives were $4 million lower compared to last year as fuel prices dropped slightly from prior year and hedging gains decreased.

EXPENSES

Compared to Budget

The Corporation's expenses were 2% below budget during the quarter and on par year to date. Overall operating expenses were higher than planned due to increased Vessel maintenance requirements, higher than anticipated traffic inflationary pressures.

Compared to Prior Year

The Corporation's expenses were 7% higher for the quarter and 6% higher year to date when compared to last year. Overall expenditures were higher than prior year mainly due to inflationary pressures and increased traffic. Charter fees were slightly higher due to increases in exchange rates and amortization was higher due to increased asset base.

Tangible capital assets

The Corporation invested $9.3 million in its capital assets during the second quarter as part of ongoing reinvestment in assets. This included $3.1 million for vessel projects and $6.2 million for shore facilities upgrades, information technology and equipment purchases.

Forecast

Based upon results of the first three 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 2022/23 – 2026/27 Corporate Plan Summary.

RISK ANALYSIS

The financial risks of the Corporation have previously been disclosed in the Corporation's 2022/23 – 2026/27 Corporate Plan Summary and the Corporation's 2022/23 Annual Report. There are no significant changes to the risks previously identified.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received $53.2 million in appropriations from the Government of Canada during the second quarter ended September 30th, 2023. Please refer to Note 2(a) to the unaudited interim financial statements for the Corporation's accounting policy for government appropriations. Note 5 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.	Shawn Leamon, CPA, CGA
President and CEO	Vice President of Finance

St. John’s, NL
November 22, 2023

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position

As at September 30, 2023
(in thousands)

		Sept 30 2023		Mar 31 2023
Financial assets				
Cash (Note 4)	$	34,528		10,248
Accounts receivable		24,830		10,178
Receivable from Government of Canada (Note 5)		-		15,566
Inventories held for resale		538		392
Derivative financial instruments		8,489		4,889
Accrued pension asset		130,880		122,000
	$	199,265	$	163,273
Liabilities				
Accounts payable and accrued liabilities	$	27,826	$	36,779
Deferred revenue		3,360		13,595
Payable to Government of Canada (Note 5)		8,714		-
Accrued vacation pay		8,543		7,193
Accrued pension liability		3,545		3,545
Accrued liability for non-pension post-retirement benefits		51,402		52,407
ARO Liabilities		34,024		34,024
Accrued liability for post-employment benefits		12,431		11,285
		149,845		158,828
Net financial assets	$	49,420	$	4,445
Non-financial assets				
Tangible capital assets		350,912		358,457
Inventories held for consumption		23,268		29,781
Prepaid expenses		7,819		9,224
		381,999		397,462
Accumulated surplus	$	431,419	$	401,907

Contingencies (Note 8)

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

MARINE ATLANTIC INC.
Unaudited Statement of Operations

Period ended September 30, 2023
(in thousands)

	For the 3 Months Ended		For the 6 Months Ended	
	2023	**2022**	**2023**	**2022**
Revenues				
Transportation	$ 44,554	$ 44,162	$ 71,922	$ 70,766
Fuel surcharge	4,007	4,019	6,417	6,496
Other income	15,176	98	15,315	138
Foreign currency exchange gain		135	6	35
Realized Gain on derivative financial instruments	3,265	8,116	3,898	7,707
	67,002	56,530	97,558	85,142
Expenditures				
Wages and benefits	30,946	28,856	60,986	55,405
Charter fees	3,897	3,833	7,789	7,586
Fuel	15,556	16,562	25,598	26,522
Materials, supplies and services	10,544	8,062	18,772	14,933
Repairs and maintenance	2,512	3,075	5,097	4,906
Insurance, rent and utilities	2,000	1,864	4,132	3,754
Travel	306	223	893	685
Administrative Costs	477	985	785	1,076
Employee future benefits (Note 6)	(3,866)	(852)	(7,722)	(1,704)
Fleet renewal costs	516	88	626	106
Loss on exchange of foreign currency	6		-	-
Amortization	18,342	13,417	31,701	27,114
	81,236	76,113	148,657	140,383
(Deficit) before government funding	(14,234)	(19,583)	(51,099)	(55,241)
Government funding				
Operations	30,995	26,658	53,014	18,933
Capital	9,283	4,772	24,155	17,612
	40,278	31,430	77,169	36,545
Operating deficit	26,044	11,847	26,070	(18,696)
Accumulated operating surplus, beginning of period	396,007	460,275	395,981	490,818
Accumulated operating surplus, end of period	$ 422,051	$ 472,122	$ 422,051	$ 472,122

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

MARINE ATLANTIC INC.
Unaudited Statement of Remeasurement Gains and Losses
Period ended September 30, 2023
(in thousands)

	For the 3 Months Ended		For the 6 Months Ended	
	2023	2022	2023	2022
Accumulated remeasurement gains (losses), beginning of year	$ 3,380	$ 19,407	$ 5,927	$ 10,677
Remeasurement gains (losses) arising during the year				
Unrealized gain (loss) on foreign exchange of cash	(57)	(12)	(159)	(176)
Unrealized gain (loss) on derivatives	9,310	(2,467)	7,498	6,018
Reclassifications to the statement of operations				
Realized (gain) loss on derivatives	(3,265)	(8,116)	(3,898)	(7,707)
	-	-		
Net remeasurement gains (losses) for the year	5,988	(10,595)	3,441	(1,865)
Accumulated remeasurement gains (losses), end of the period	$ 9,368	$ 8,812	$ 9,368	$ 8,812

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

MARINE ATLANTIC INC.
Unaudited Statement of Change in Net Financial Assets
Period ended September 30, 2023
(in thousands)

	For the 3 Months Ended		For the 6 Months Ended	
	2023	**2022**	**2023**	**2022**
Operating (deficit)	$ 26,044	$ 11,847	$ 26,070	$ (18,696)
Change in tangible capital assets				
Acquisition of tangible capital assets	(9,283)	(4,772)	(24,155)	(17,612)
Amortization of tangible capital assets	18,342	13,417	31,701	27,114
(Increase) in tangible capital assets	9,059	8,645	7,546	9,502
Change in other non-financial assets				
Net change in inventories held for consumption	4,223	(4,746)	6,513	4,886
Net change in prepaid expenses	900	1,223	1,405	(574)
Decrease in other non-financial assets	5,123	(3,523)	7,918	4,312
Net remeasurement gains (losses)	5,988	(10,595)	3,441	(1,865)
Decrease in net financial assets	46,214	6,374	44,975	(6,747)
Net financial assets, beginning of period	3,206	83,072	4,445	96,193
Net financial assets, end of period	$ 49,420	$ 89,446	$ 49,420	$ 89,446

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow
Period ended September 30, 2023
(in thousands)

	For the 3 Months Ended 2023	For the 3 Months Ended 2022	For the 6 Months Ended 2023	For the 6 Months Ended 2022
Operating transactions				
Cash receipts from customers	$ 33,799	$ 32,621	$ 66,591	$ 67,133
Other income received	176	98	315	138
Government funding - operations	43,956	30,383	68,769	35,140
Government funding - capital	9,283	4,772	32,680	23,305
Cash payments to suppliers	(36,656)	(36,921)	(47,364)	(52,380)
Cash receipts (payments) for settlement of derivativ	2,569	8,115	3,809	12,841
Cash payments to and on behalf of employees	(30,348)	(29,634)	(66,665)	(52,728)
Cash paid for employee future benefits	(479)	(926)	(1,017)	(1,357)
	22,300	8,508	57,118	32,092
Capital transactions				
Purchase of tangible capital assets	(9,283)	(4,772)	(32,680)	(23,304)
	(9,283)	(4,772)	(32,680)	(23,304)
Effect of exchange rate changes on cash	(56)	(11)	(158)	(176)
Net increase in cash	12,961	3,725	24,280	8,611
Cash, beginning of period	21,567	14,841	10,248	9,955
Cash, end of period	$ 34,528	$ 18,566	$ 34,528	$ 18,566

Cash consists of:		
Restricted cash	$ 5,931	$ 6,022
Unrestricted cash	28,597	12,544
	$ 34,528	$ 18,566

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, 2023.

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 generated 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 amortized 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.

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. Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

(c) Inventory

Inventories include fuel, valued at the lower of historical or replacement cost, and vessel spare parts, valued at historical cost.

(d) Tangible capital assets

Tangible capital assets are comprised of vessels, shore facilities and equipment which are carried at cost less accumulated amortization.

Vessels include corporate owned vessels and vessel projects, shore facilities include terminal buildings, stevedore buildings, docks and related infrastructure. Equipment includes computer hardware and software, furniture and vehicles.

Major spare parts are accounted for as tangible capital assets and are not amortized until they are put into use. 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 capital vessel projects are amortized over the lesser of the useful life of the asset or the useful life of the vessel.

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	Shorter of 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.

(e) 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 for expected retirement projections.

i) Accrued pension asset (liability)

The Corporation maintains, through a trustee, a registered defined benefit pension plan covering substantially all employees; and three supplementary unfunded retirement arrangements. The supplementary retirement arrangement adopted on June 2, 1994 and the supplementary retirement arrangement adopted on June 6, 1990 plan were terminated effective March 1, 2001 (thereafter referred to as the former supplementary retirement arrangements), with coverage for inactive members entitled to benefits prior to this date continuing.

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%.

In 2006 a new supplementary retirement arrangement was introduced for designated positions providing benefits for service since 2004. Eligibility under this 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 its expected return on plan assets for the registered pension plan.

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 are amortized over the expected average remaining service life of active members expected to receive benefits. Actuarial gains and losses for the former supplementary retirement arrangements are recognized immediately on the determination of the gain or loss.

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 remaining supplementary retirement arrangement is 9.9 years (2022 – 10.0 years).

ii) Non-pension post retirement benefits

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 the projected benefit method prorated on service and 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. A proxy for the cost of borrowing has been used to calculate the discount rate for the obligation and the interest cost. The costs for current employees are expensed as they are incurred. The costs projected to be incurred during retirement are accrued and expensed evenly over the expected remaining service life of the employee.

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

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.

The estimated average remaining service period of members covered by non-pension post-retirement benefits is 11.5 years (2022 – 11.4 years).

iii) Post employment benefits

For certain employees and former employees, the Corporation is a self-insured employer and is accountable for workers' compensation liabilities incurred. 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 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. A proxy for the cost of borrowing is used to calculate the discount rate for the obligation and the interest cost.

Adjustments arising from actuarial gains and losses are amortized over the average expected period over which benefits will be paid which is 9.0 years (2022– 10.0 years).

(f) Revenue recognition

Transportation revenue and fuel surcharges are recognized when ferry services are provided. The Corporation generally requires customers to pay in advance when booking a reservation, with the exception of approved credit customers who are invoiced. Amounts received at booking are recorded as deferred revenue and are recognized as revenue when ferry services are provided.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Asset retirement obligations

A liability for an asset retirement obligation is recognized at the best estimate of the amount required to retire a tangible capital asset at the financial statement date when there is a legal obligation for the Corporation to incur retirement costs, a 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. The best estimate of the liability includes all costs directly attributable to asset retirement activities, based on information available at year-end. The best estimate of an asset retirement obligation incorporates a present value technique, when the cash flows required to settle or otherwise extinguish an asset retirement obligation are expected to occur over extended future periods. The discount rate used reflects the Government of Canada's cost of borrowing, associated with the estimated number of years to complete the retirement or remediation.

When a liability for an asset retirement obligation is initially recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related tangible capital asset and amortized over the asset's estimated useful life. Asset retirement obligations which are incurred incrementally with use of the asset are recognized in the period incurred with a corresponding asset retirement cost expensed in the period. An asset retirement obligation may arise in connection with a tangible capital asset that is not recognized or no longer in productive use. In this case, the asset retirement cost would be expensed.

At each financial reporting date, the carrying amount of the liability is reviewed. The Corporation recognizes period-to-period changes to the liability due to the passage of time as accretion expense. Changes to the liability arising from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate are recognized as an increase or decrease to the carrying amount of the related tangible capital asset. Once the related tangible capital asset is no longer in productive use, changes to the liability are recognized as an expense in the period they are incurred. The Corporation continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

(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

Effective April 1, 2022 the Corporation adopted the new Public Sector Accounting Standard PS3280 Asset Retirement Obligations. This standard requires public sector entities to recognize liabilities for legal obligations to incur costs associated with the retirement of tangible capital assets on their acquisition, construction, development, or through their normal use and to expense those costs systematically over the life of the asset.

The Corporation applied the modified retrospective application transition approach. On initial application of the standard, the Corporation recognized:

(a) a liability for any existing asset retirement obligation, adjusted for accumulated accretion to that date;

(b) an asset retirement cost capitalized as an increase to the carrying amount of the related tangible capital asset;

(c) accumulated amortization on that capitalized cost, and

(d) an adjustment to the opening balance of the accumulated surplus/deficit.

These amounts were measured using information, assumptions and discount rates that were current at the beginning of the current fiscal year. The amount recognized as an asset retirement cost was measured as of the date the asset retirement obligation was incurred. Accumulated accretion and amortization were measured for the period from the date the liability would have been recognized had the provisions of this standard been in effect to the date of transition. When an asset retirement obligation is settled, any liability and associated asset retirement costs are removed from the statement of financial position.

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*. Restricted cash is €4,146 (2022 – €4,500), which translates to $5,931 Canadian dollars at September 30, 2023 (March 31, 2023 – $6,098).

5. (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 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.

(in thousands)

		September 30, 2023 (6 months)		Mar 31, 2023 (12 months)
(Receivable from) Government of Canada, beginning of period	$	(15,566)	$	(14,562)
Parliamentary appropriations received during the period		101,449		130,216
Recognized during the period:				
Operations		(53,014)		(90,948)
Tangible Capital Assets		(24,155)		(40,880)
Government funding surplus (deficit)		24,280		(1,612)
Payable to (Receivable from) Government of Canada, end of year	$	8,714	$	(15,566)

6. EMPLOYEE FUTURE BENEFITS

During the three months ended September 30, 2023, the net employee future benefit expense was $ (3,866) (September 30, 2022– $ (852)). The expense includes 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 (2022 – $343) 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 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 was recorded since the fair value of the service received for free is not reliably measurable.

8. CONTINGENCIES

The judgement in favour of the Corporation issued in July 2023 regarding two appeal proceedings before the Tax Court of Canada were not appealed by the Respondent by the September 30th, 2023 deadline. These award amounts previously disclosed as a contingent asset are now recognized as an accounts receivable. There have been no changes to legal Contingencies since the end of the most recently completed fiscal year. There have been no new claims that have a likelihood of payment.