

*Quarterly Financial Report*

**MARINE ATLANTIC INC.**

*December 31, 2012*

# MARINE ATLANTIC INC.

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# MARINE ATLANTIC INC.

## Quarterly Financial Report

### December 31, 2012

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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, 2012. This report should be read in conjunction with the Corporation’s 2012/13 – 2016/17 Corporate Plan Summary and the Corporation’s 2011/2012 Annual Report which includes the audited annual financial statements for the year ended March 31, 2012. Information about the Corporation, including the Annual Report and the Corporate Plan Summary, can be found at [www.marineatlantic.ca](http://www.marineatlantic.ca).

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, Infrastructure and Communities and works closely with the Minister of State for 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 1,400 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.

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**QUARTERLY RESULTS**

**Financial Performance snapshot (in thousands)**

<b>Three months ending December 31, 2012</b>							
	Actual	Budget	Prior Year	Variance to Budget <sup>1</sup>		Variance to Prior Year <sup>1</sup>	
				\$	%	\$	%
Revenue	\$22,342	\$22,591	\$20,864	(\$249)	(1%)	\$1,478	7%
Expenses	\$65,016	\$62,501	\$58,645	(\$2,215)	(4%)	(\$6,371)	(11%)

<b>Nine months ending December 31, 2012</b>							
	Actual	Budget	Prior Year	Variance to Budget <sup>1</sup>		Variance to Prior Year <sup>1</sup>	
				\$	%	\$	%
Revenue	\$89,541	\$91,986	\$82,537	(\$2,445)	(3%)	\$7,004	8%
Expenses	\$195,315	\$198,240	\$182,167	\$2,925	1%	(\$13,148)	(7%)

<sup>1</sup> Positive Variance indicates a favourable result compared to Budget/Prior Year

**Statistics snapshot**

<b>Three months ending December 31, 2012</b>							
	Actual	Forecast	Prior Year	Variance to Forecast <sup>2</sup>		Variance to Prior Year <sup>2</sup>	
				#	%	#	%
Passengers	53,786	59,149	55,087	(5,363)	(9%)	(1,301)	(2%)
Passenger Units	18,885	21,674	19,103	(2,789)	(13%)	(218)	(1%)
Commercial Units	25,197	25,765	25,254	(568)	(2%)	(57)	0%
Auto Equivalent Units <sup>3</sup>	122,734	128,870	123,569	(6,136)	(5%)	(835)	(1%)
Trips	398	442	426	(44)	(10%)	(28)	(7%)

<b>Nine months ending December 31, 2012</b>							
	Actual	Forecast	Prior Year	Variance to Forecast <sup>2</sup>		Variance to Prior Year <sup>2</sup>	
				#	%	#	%
Passengers	318,804	339,499	330,487	(20,695)	(6%)	(11,683)	(4%)
Passenger Units	114,087	122,187	117,655	(8,100)	(7%)	(3,568)	(3%)
Commercial Units	81,266	83,029	80,861	(1,763)	(2%)	405	1%
Auto Equivalent Units <sup>3</sup>	460,773	477,200	462,876	(16,427)	(3%)	(2,103)	0%
Trips	1,518	1,640	1,568	(122)	(7%)	(50)	(3%)

<sup>2</sup> Positive Variance indicates a favourable result compared to Forecast/Prior Year

<sup>3</sup> Auto Equivalent Unit or AEU is the length of an average passenger automobile

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### Revenues

The Corporation's revenue was one per cent lower for the quarter and three per cent lower year-to-date compared to the forecasted Corporate Plan. Passenger and commercial traffic continues to trend below forecast.

When compared to prior year the Corporation's revenue was seven per cent higher for the quarter and eight per cent higher year-to-date. The year over year increase in revenue is attributed to the 2012 rate structure that was effective February 2012, partially offset by the drop in passenger traffic volume both in the quarter and for the nine months ending in December.

### Expenses

#### *Compared to Prior Year*

The Corporation's expenses were 11 per cent higher than prior year quarter. The maintenance plan this year included a planned dry docking of the MV Atlantic Vision resulting in significant year over year differences. Other items of note include: the write off of retired assets, increased actuarially determined benefit costs, general wage inflation, revitalization initiatives, higher fuel prices and increased amortization resulting from asset renewal.

The Corporation's expenses were seven per cent higher than prior year to date. The continuation of the Corporation's revitalization plan has resulted in increased amortization, disposal losses, and materials supplies and services. The actuarially determined employee future benefits are higher this year compared to last year. Fuel prices are trending higher, offset partially by a reduction in one-way trips. Year over year, wages and benefits are higher in part because of wage adjustments. Higher hedging gains were recognized last year. Finally, the Corporation incurred one-time costs last year relating to the integration of the MV *Highlanders* into the fleet and the decommissioning of the MV *Joseph and Clara Smallwood* and the MV *Caribou*.

#### *Compared to Budget*

The Corporation's expenses were four percent over budget during the quarter. Completion of several major shore-based infrastructure projects resulted in the Corporation recognizing a loss on disposal of \$2.2M of retired infrastructure. There were 44 fewer one-way trips mostly due to poor weather conditions reducing fuel consumption. This was offset by rising prices for marine diesel.

The Corporation's expenses were one per cent under budget year to date. The Corporation made 122 fewer one-way trips than budgeted resulting in decreased fuel and operating costs. Some unanticipated fleet maintenance issues have resulted in overages. Gains on settled fuel swap contracts were realized, and delays in recruitment have resulted in lower than budgeted wages and benefits cost.

# **MARINE ATLANTIC INC.**

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### **Tangible capital assets**

The Corporation invested \$14.7 million in its capital assets during the third quarter as part of ongoing reinvestment in assets. This included \$11.1 million in shore facilities upgrades and \$3.1 million in vessel projects. The remaining \$0.5 million was spent on information technology and equipment purchases for a total year to date investment of \$32.5 million

### **Forecast**

The Corporation's approved government funding for 2012/13 is \$184.9 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 Corporate Plan Summary.

### **RISK ANALYSIS**

The financial risks of the Corporation have previously been disclosed in the Corporation's 2012/13 – 2016/17 Corporate Plan Summary and the Corporation's 2011/12 Annual Report. There are no significant changes to the risks previously identified.

### **SIGNIFICANT EVENTS**

#### **Human Resources**

David Frew was announced as Marine Atlantic's new Vice President of Strategy and Corporate Affairs. Prior to accepting the position, he worked with the Newfoundland Labrador Liquor Corporation where he held the role of Vice President – Human Resources and Corporate Administration. He holds a Bachelor of Commerce and a Master of Business Administration, both from Memorial University of Newfoundland.

#### **Shore Infrastructure Upgrades**

As part of the Corporation's ongoing shore-based infrastructure renewal agenda, construction continued on a number of projects at both North Sydney and Port aux Basques ports. Construction of a new Administration and Warehouse Facilities building was completed in the fall of 2012. Demolition and debris removal from the former stevedore and administration buildings in North Sydney occurred. Finally, dismantling and removing of the Gulf Span Dock in Port Aux Basques occurred as it is being replaced.

#### **Annual General Meeting**

The Corporation held its 2012 Annual Public Meeting on Wednesday, December 12th in St. John's. An overview of the Corporation's activities and the 2011-2012 financial statements were presented by the Chair of the Board, the Chief Executive Officer and the Vice President of Finance.

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**REPORTING ON USE OF APPROPRIATIONS**

The Corporation received \$52 million in appropriations from the Government of Canada during the third quarter ended December 31<sup>st</sup>, 2012 (\$124 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.

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**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  
President and CEO



Shawn Leamon, CGA  
Vice President of Finance

St. John's, NL  
February 25, 2013

**MARINE ATLANTIC INC.**  
**Unaudited Statement of Financial Position**

As at December 31, 2012  
(in thousands)

	<b>Dec 31</b>	<b>Mar 31</b>
	<b>2012</b>	<b>2012</b>
<b>Financial assets</b>		
Cash (Note 4)	\$ 18,248	\$ 8,353
Accounts receivable	8,655	9,971
Receivable from Government of Canada (Note 3)	-	1,222
Inventories held for resale	365	291
Derivative financial instruments	378	3,147
Accrued pension asset	58,288	60,080
	<u>\$ 85,934</u>	<u>\$ 83,064</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 25,900	\$ 30,565
Derivative financial instruments	1,061	1,015
Deferred revenue	548	2,556
Payable to Government of Canada (Note 3)	8,800	-
Accrued vacation pay	5,913	5,970
Accrued pension liability	1,903	1,875
Accrued liability for other non-pension post-retirement benefits	37,664	35,465
Accrued liability for post-employment benefits	11,546	11,641
	<u>93,335</u>	<u>89,087</u>
<b>Net debt</b>	<u>\$ (7,401)</u>	<u>\$ (6,023)</u>
<b>Non-financial assets</b>		
Tangible capital assets	209,612	196,415
Prepaid expenses	14,127	19,317
Inventories held for consumption	16,034	17,696
	<u>239,773</u>	<u>233,428</u>
<b>Accumulated surplus</b>	<u>\$ 232,372</u>	<u>\$ 227,405</u>

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, 2012  
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2012	2011	2012	2011
<b>Revenues</b>				
Transportation	\$ 19,485	\$ 18,098	\$ 77,824	\$ 72,198
Fuel surcharge	2,810	2,734	11,572	10,194
Other income	47	32	145	145
	22,342	20,864	89,541	82,537
<b>Expenditures</b>				
Wages and benefits	20,077	19,318	65,124	63,603
Fuel	7,866	7,488	27,251	26,033
Charter fees	10,767	11,149	32,375	33,356
Charter importation taxes	1,530	1,530	4,590	3,776
Repairs and maintenance	5,360	3,967	11,390	10,371
Materials, supplies and services	4,249	3,297	12,802	10,977
Insurance, rent and utilities	1,661	1,576	4,685	4,271
Fleet renewal costs	-	1	-	1,212
Other	1,046	1,719	4,331	4,035
Employee future benefits (Note 5)	4,776	4,017	14,328	12,053
Decommissioning of vessels	-	-	-	2,507
Foreign currency exchange (gain) loss	(43)	337	(188)	383
Realized (gain) on derivative financial instruments	(95)	(648)	(567)	(2,501)
Loss on disposal of tangible capital assets	2,151	-	2,180	(872)
Amortization	5,671	4,894	17,014	12,963
	65,016	58,645	195,315	182,167
(Deficit) before government funding	(42,674)	(37,781)	(105,774)	(99,630)
<b>Government funding</b>				
Operations	29,091	20,702	81,197	90,468
Capital	14,721	7,538	32,452	12,867
Recovery of vessel decommissioning costs	-	-	-	2,507
	43,812	28,240	113,649	105,842
Operating surplus	1,138	(9,541)	7,875	6,212
Accumulated operating surplus, beginning of period	236,024	222,053	229,287	206,300
<b>Accumulated operating surplus, end of period</b>	<b>\$ 237,162</b>	<b>\$ 212,512</b>	<b>\$ 237,162</b>	<b>\$ 212,512</b>

*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, 2012

(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2012	2011	2012	2011
<b>Remeasurement gains (losses) arising during the year</b>				
Unrealized gain (loss) on foreign exchange of cash	\$ (564)	\$ 92	\$ (93)	\$ (339)
Unrealized (loss) on derivatives	(1,599)	(612)	(3,382)	(1,690)
<b>Reclassifications to the statement of operations</b>				
Realized gain (loss) on derivatives	(648)	(529)	567	(2,501)
<b>Net remeasurement (losses) for the year</b>	<b>(2,811)</b>	<b>(1,049)</b>	<b>(2,908)</b>	<b>(4,530)</b>
Accumulated remeasurement (losses) on derivative financial instruments, beginning of period	(1,719)	(670)	(1,882)	-
<b>Accumulated remeasurement (losses) on derivative financial instruments, end of period</b>	<b>\$ (4,530)</b>	<b>\$ (1,719)</b>	<b>\$ (4,790)</b>	<b>\$ (4,530)</b>

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

**MARINE ATLANTIC INC.**  
**Unaudited Statement of Change in Net Financial Assets (Debt)**

Period ended December 31, 2012  
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2012	2011	2012	2011
<b>Surplus</b>	\$ 1,138	\$ (9,541)	\$ 7,875	\$ 6,212
<b>Change in tangible capital assets</b>				
Acquisition of tangible capital assets	(14,721)	(7,538)	(32,452)	(12,867)
Amortization of tangible capital assets	5,671	4,894	17,014	12,963
Loss on disposal of tangible capital assets	2,151	-	2,180	(872)
Loss on write down of assets held for sale	-	-	-	-
Proceeds on disposal of tangible capital assets	-	-	61	-
<b>(Increase) in tangible capital assets</b>	<b>(6,899)</b>	<b>(2,644)</b>	<b>(13,197)</b>	<b>(776)</b>
<b>Change in other non-financial assets</b>				
Net change in inventories held for consumption	363	3,834	1,662	(1,488)
Net change in prepaid expenses	3,700	2,349	5,190	(5,197)
<b>(Increase) in other non-financial assets</b>	<b>4,063</b>	<b>6,183</b>	<b>6,852</b>	<b>(6,685)</b>
Remeasurement (losses)	(2,811)	(1,049)	(2,908)	(4,530)
Decrease (increase) in net debt	(4,509)	(7,051)	(1,378)	(5,779)
Net debt, beginning of period	244	1,284	(6,023)	(2,010)
<b>Net financial assets (debt), end of period</b>	<b>\$ (4,265)</b>	<b>\$ (5,767)</b>	<b>\$ (7,401)</b>	<b>\$ (7,789)</b>

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

**MARINE ATLANTIC INC.**  
**Unaudited Statement of Cash Flow**

Period ended December 31, 2012  
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2012	2011	2012	2011
<b>Operating transactions</b>				
Cash receipts from customers	\$ 23,551	\$ 21,161	\$ 87,743	\$ 80,373
Other income received	98	(2)	368	127
Government funding - operations	36,076	34,053	80,722	107,169
Government funding - capital	15,875	7,539	42,950	23,639
Proceeds from assets held for sale	-	-	-	-
Cash payments to suppliers	(28,917)	(20,940)	(81,287)	(93,705)
Cash payments to and on behalf of employees	(20,273)	(24,572)	(67,182)	(61,700)
Cash paid for pension, other non-pension post-retirement benefits, and post-employment benefits	(2,458)	(4,422)	(10,403)	(12,864)
Interest and foreign exchange on cash	294	(528)	(127)	(365)
	24,246	12,289	52,784	42,674
<b>Capital transactions</b>				
Purchase of tangible capital assets	(15,875)	(7,539)	(42,950)	(23,639)
Proceeds on disposal of tangible capital assets	61	-	61	-
	(15,814)	(7,539)	(42,889)	(23,639)
Net (decrease) in cash	8,432	4,750	9,895	19,035
Cash, beginning of period	9,816	23,865	8,353	9,580
<b>Cash, end of period</b>	<b>\$ 18,248</b>	<b>\$ 28,615</b>	<b>\$ 18,248</b>	<b>\$ 28,615</b>
Cash consists of:				
Restricted cash			\$ 8,163	\$ 8,210
Unrestricted cash			10,085	20,405
			<u>\$ 18,248</u>	<u>\$ 28,615</u>

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

# MARINE ATLANTIC INC.

## Notes to the Unaudited Interim Financial Statements

December 31, 2012

(in thousands)

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### 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 generally accepted accounting principles for government agencies as recommended by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants. 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, 2012.

### 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 payable to the Government of Canada are measured at cost.

Derivative financial instruments are measured at fair value with changes in fair value being recognized in the statement of remeasurement gains and losses until the derivative financial

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(in thousands)

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instrument is derecognized at which point the accumulated remeasurement gain (loss) is reversed and reclassified to the statement of operations. Transaction costs are expensed as incurred.

(c) Insurance claims receivable

Accounts receivable includes recoverable insurance claims which are recognized when the Corporation receives approval of its claim from 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	5% to 10%
Shore facilities	2.5% to 5%
Equipment (includes vessel projects)	10% to 25%
Leasehold improvements	Term of lease agreement

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. The Corporation has adopted the following policies:

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**December 31, 2012**  
**(in thousands)**

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**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 registered pension plan members, and members 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 members of 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 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 11.3 years (2011 – N/A). For the former supplementary retirement arrangements, the average life expectancy of plan members is 17.7 years (2011 – N/A).

ii) Health and dental plans

The Corporation provides life insurance and health and dental care benefits to current and retired employees. Basic and optional life insurances become eligible to union and non-union/management employees the first of the month following 60 days of continuous employment. Extended health and dental benefits become eligible to union employees the first of

# MARINE ATLANTIC INC.

## Notes to the Unaudited Interim Financial Statements

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(in thousands)

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the month following the attainment of 1,040 hours worked and to non-union/management employees the first of the month following date of hire.

The cost of non-pension post-retirement benefits is actuarially determined using management's best estimates of future participation rate in the retiree health and dental plan, average health care cost per covered individual, 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 13.4 years (2011 – N/A). 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 plan amendment.

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

Current and retired employees of Marine Atlantic Inc. have travel benefits for the Corporation's vessels. Travel pass privileges become eligible to union and non-union/management employees after acquiring four months of continuous employment relationship plus 694 regular hours worked or two years of service, whichever occurs earliest. No liability has been recognized on 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 of 10 years (2011 – N/A).

#### ii) Other benefits

Other post-employment benefits valued 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.

# MARINE ATLANTIC INC.

## Notes to the Unaudited Interim Financial Statements

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(in thousands)

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Short-term disability benefits become eligible to union employees 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 provides regular income to replace income lost because of a disability due to illness or non-work related injury. Benefits begin after the waiting period is over 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 their extended health insurance maintained for a period of six months, their dental insurance maintained for a period of three months and their basic life insurance continued for a period of six months after which they can make application for a waiver of life premium to maintain their 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.

Long-term disability benefits become eligible to non-union/management employees and grandfathered union employees the first of the month following 60 days of continuous employment. The long-term disability plan provides regular income to replace income lost because of a lengthy disability due to illness or non-work related injury. Benefits begin after the waiting period of 26 weeks and continue until the employee is no longer disabled as defined by the policy or the employee retires or reaches age 65, whichever comes first. The amount of weekly benefit is determined based on a specified percentage of the employee's salary as at the first date of disability. An employee in receipt of long term disability has their extended health and dental insurance continued, along with their travel pass privileges, during the duration of their disability provided they continue to meet the definition of disabled and have not yet obtained age 65. Basic life insurance is continued for a period of six months after which they can make application for a waiver of life premium to maintain their 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 that becomes eligible to non-union/management/grandfathered union employees hired after 01 September 2001 as they work and accumulate sick leave credits and employees hired prior to 01 September 2001 become eligible for sick leave based on years of service. The sick leave plans provide benefits that 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. Commercial and fuel surcharge 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.

# MARINE ATLANTIC INC.

## Notes to the Unaudited Interim Financial Statements

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(in thousands)

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(i) Prepaid expenses

Prepaid expenses are disbursements made before the completion of the work, delivery of the goods or rendering of the service 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. Non-monetary assets and liabilities, 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 the item's 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 obligations for workers' compensation benefits and other non-pension employee future benefits, valuation of assets held for sale 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.

# MARINE ATLANTIC INC.

## Notes to the Unaudited Interim Financial Statements

December 31, 2012

(in thousands)

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### 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.

	<b>2012/13</b>	<b>2011/12</b>
	<b>(9 months)</b>	<b>(12 months)</b>
Receivable from (payable to) Government of Canada, beginning of period	\$ 1,222	\$ 278
Parliamentary appropriations received during the period	<b>(123,671)</b>	(178,752)
Recognized during the period:		
Operations	<b>81,197</b>	135,060
Vessel, facilities and equipment	<b>32,452</b>	36,698
Government funding (deficit) surplus	<b>10,022</b>	6,994
(Payable to) receivable from Government of Canada, end of period	<b>(8,800)</b>	(6,716)
Recoverable vessel decommissioning costs	-	7,938
<b>Total</b>	<b>\$ (8,800)</b>	<b>\$ 1,222</b>

### 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, 2012 – \$6,223), which translates to \$8,163 Canadian dollars at December 31, 2012 (March 31, 2012 – \$8,290).

### 5. EMPLOYEE FUTURE BENEFITS

During the nine months ended December 31, 2012, the net employee future benefit expense was \$14,328 (December 31, 2011– \$12,053). 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 \$834 (2012 – \$885) 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

# **MARINE ATLANTIC INC.**

## **Notes to the Unaudited Interim Financial Statements**

**December 31, 2012**

**(in thousands)**

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There have been no changes in the existence, likelihood or amount of contingencies since the end of the most recently completed fiscal year.

### **8. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the audited annual financial statements for the year ended March 31, 2012.