Quarterly Financial Report

MARINE ATLANTIC INC.

June 30, 2012

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The following Quarterly Financial Report of the financial results of Marine Atlantic Inc. ("the Corporation") is for the three months ended June 30, 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 once approved by the Federal Government.

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

OVERVIEW OF THE CORPORATION

Marine Atlantic Inc. is a transportation company that provides a vital link between the Island of Newfoundland and the Province of Nova Scotia. The Corporation is a fundamental component of Atlantic Canada's economy – particularly in Newfoundland and Labrador – as it transports goods (such as food, medical supplies, and retail products), as well as people (including both resident travelers and tourists). As a federal Crown corporation, Marine Atlantic is mandated to provide its ferry service on a year-round basis to both passenger and commercial traffic.

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

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

The Corporation reports annually to the Government of Canada through the Minister of Transport, 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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June 30, 2012

QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

	Three months ending June 30, 2012						
	Actual	Budget	Prior Year	Variance to Budget[1]	Variance to Budget %	Variance to Prior Year[1]	Variance to Prior Year %
Revenue	$26,518	$27,199	$23,374	($681)	(3%)	$3,144	13%
Expenses	$61,134	$66,489	$56,452	$5,355	8%	($4,682)	(8%)

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

Statistics snapshot

	Three months ending June 30, 2012						
	Actual	Forecast	Prior Year	Variance to Forecast[2]	Variance to Forecast %	Variance to Prior Year[2]	Variance to Prior Year %
Passengers	76,667	79,427	78,145	(2,760)	(3%)	(1,478)	(2%)
Passenger Units	26,783	28,187	27,620	(1,404)	(5%)	(837)	(3%)
Commercial Units	28,180	28,843	28,004	(663)	(2%)	176	1%
Auto Equivalent Units [3]	146,465	150,303	146,213	(3,838)	(3%)	252	0%
Trips	516	546	456	(30)	(5%)	(60)	13%

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

Revenues

The Corporation's revenue for the first quarter was three percent lower than forecasted in the Corporate Plan. This was due to reduced traffic, both commercial and passenger. The Corporation's revenue for the first quarter was 13 percent higher than last year. This is the result of the revised rate structure effective February 2012 and fuel surcharge rate increase effective July 2011.

Expenses

The Corporation's expenses were eight percent under budget during the quarter. This variance is the result of fewer than planned crossings, gains on settled fuel swap contracts, and delays in recruitment that have resulted in lower wages and benefits costs during the quarter, as well as minor delays to some projects.

Expenses were eight percent higher than the same quarter for the prior year. Fuel prices are 21 percent higher this year compared to last year. Increased amortization, materials supplies and services, and repairs and maintenance expenses are mainly the result of the continuation of the Corporation's redevelopment plan. Finally, the Corporation operated with a reduced fleet last year as the MV *Leif Ericson* was out of service for most of the first quarter last year and the MV *Highlanders* entered service in late April 2011.

Tangible capital assets

The Corporation invested $11.5 million in its capital assets during the first quarter of this year as part of ongoing reinvestment in assets. This included regularly scheduled drydocking of the MV *Blue Puttees* and the MV *Highlanders* during April and May, as well as various ongoing terminal, dock and other shore-based infrastructure projects in Port aux Basques, North Sydney and Argentia.

Some examples of these shore-based infrastructure projects include: renovations to the administration and warehousing building in North Sydney, construction of a new stevedore facilities building in North Sydney, expansion and paving of the dangerous goods compound in Port aux Basques and paving of the terminal parking area in Argentia. Many of the shore-based capital projects will continue throughout the year.

Forecast

The Corporation’s approved government funding for 2012/13 is $184.9 million. Based upon results of the first quarter 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 (to be posted on the Corporation’s website when approved) and the Corporation’s Annual Report. There are no significant changes to the risks previously identified.

SIGNIFICANT EVENTS

The following highlights a number of significant events from the first quarter and early second quarter periods:

Human Resources

Mr. Paul Griffin of St. John's, Newfoundland and Labrador was announced as President and Chief Executive Officer (CEO) of Marine Atlantic for a five-year term, effective May 3, 2012. Mr. Griffin, who has been acting as interim president and CEO since December 2011, served as Vice-President of Strategy and Corporate Affairs at Marine Atlantic from July 2009 to December 2011. During that period he dedicated much of his time on the organization's renewal strategy.

Service Interruption

The Argentia/North Sydney ferry service was interrupted from June 28 to July 3 as a result of a mechanical issue with the MV *Atlantic Vision.* Customers affected by the cancelled crossings were accommodated on the Port aux Basques/North Sydney ferry service or moved to a future sailing on the Argentia/North Sydney ferry service.

Rate Increases

The drop trailer management fee for commercial customers increased by $50 effective April 1, 2012.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received $53 million in appropriations from the Government of Canada during the three months ended June 30th, 2012. Please refer to Note 2(a) to the unaudited interim financial statements for the Corporation's accounting policy for government appropriations. Note 3 to the unaudited interim financial statements reports on how the appropriations received were used during the period.

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

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

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

St. John’s, NL
August 25, 2012

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position
As at June 30, 2012
(in thousands)

	June 30 2012	Mar 31 2012
Financial assets		
Cash (Note 4)	$ 20,189	$ 8,353
Accounts receivable	12,577	9,971
Receivable from Government of Canada (Note 3)	-	1,222
Inventories held for resale	367	291
Derivative financial instruments	372	3,147
Accrued pension asset	60,451	60,080
	$ 93,956	$ 83,064
Liabilities		
Accounts payable and accrued liabilities	$ 23,076	$ 30,565
Derivative financial instruments	2,222	1,015
Deferred revenue	8,287	2,556
Payable to Government of Canada (Note 3)	10,870	-
Accrued vacation pay	6,417	5,970
Accrued pension liability	1,884	1,875
Accrued liability for other non-pension post-retirement benefits	36,231	35,465
Accrued liability for post-employment benefits	11,674	11,641
	100,661	89,087
Net debt	$ (6,705)	$ (6,023)
Non-financial assets		
Tangible capital assets	202,287	196,415
Prepaid expenses	17,827	19,317
Inventories held for consumption	16,396	17,696
	236,510	233,428
Accumulated surplus	$ 229,805	$ 227,405

Contingencies (Note 7)

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

MARINE ATLANTIC INC.
Unaudited Statement of Operations

Period ended June 30, 2012
(in thousands)

	3 month period ended June 30 2012	3 month period ended June 30 2011
Revenues		
Transportation	$ 23,028	$ 20,779
Fuel surcharge	3,441	2,559
Other income	49	36
	26,518	23,374
Expenditures		
Wages and benefits	21,349	21,133
Fuel	8,308	7,130
Charter fees	10,825	11,084
Charter importation taxes	1,530	715
Repairs and maintenance	3,532	2,688
Materials, supplies and services	3,190	2,578
Insurance, rent and utilities	1,430	1,116
Fleet renewal costs	-	1,163
Other	1,117	1,023
Employee future benefits (Note 5)	4,776	4,018
Decommissioning of vessels	-	1,859
Foreign currency exchange (gain) loss	(73)	29
Realized (gain) on derivative financial instruments	(522)	(1,324)
Loss on disposal of tangible capital assets	6	-
Amortization	5,666	3,240
	61,134	56,452
(Deficit) before government funding	(34,616)	(33,078)
Government funding		
Operations	29,690	44,811
Capital	11,543	3,896
Recovery of vessel decommissioning costs	-	1,859
	41,233	50,566
Operating surplus	6,617	17,488
Accumulated operating surplus, beginning of year	229,287	206,300
Accumulated operating surplus, end of period	$ 235,904	$ 223,788

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

MARINE ATLANTIC INC.
Unaudited Statement of Remeasurement Gains and Losses
Period ended June 30, 2012
(in thousands)

	3 month period ended June 30 2012	3 month period ended June 30 2011
Remeasurement gains (losses) arising during the year		
Unrealized gain (loss) on foreign exchange of cash	$ (235)	$ 133
Unrealized (loss) on derivatives	(4,504)	(2,127)
Reclassifications to the statement of operations		
Realized gain on derivatives	522	1,324
Net remeasurement (losses) for the year	(4,217)	(670)
Accumulated remeasurement (losses) on derivative financial instruments, beginning of year	(1,882)	-
Accumulated remeasurement (losses) on derivative financial instruments, end of period	$ (6,099)	$ (670)

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 June 30, 2012
(in thousands)

	3 month period ended June 30 2012	3 month period ended June 30 2011
Surplus	$ 6,617	$ 17,488
Change in tangible capital assets		
Acquisition of tangible capital assets	(11,543)	(3,896)
Amortization of tangible capital assets	5,666	3,240
Loss on disposal of tangible capital assets	6	-
(Increase) in tangible capital assets	(5,871)	(656)
Change in other non-financial assets		
Net change in inventories held for consumption	1,299	(5,322)
Net change in prepaid expenses	1,490	(7,546)
(Increase) in other non-financial assets	2,789	(12,868)
Remeasurement (losses)	(4,217)	(670)
Decrease (increase) in net debt	(682)	3,294
Net debt, beginning of year	(6,023)	(2,010)
Net financial assets (debt), end of period	$ (6,705)	$ 1,284

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow
Period ended June 30, 2012
(in thousands)

	3 month period ended June 30 2012	3 month period ended June 30 2011
Operating transactions		
Cash receipts from customers	$ 30,077	$ 27,334
Other income received	141	13
Government funding - operations	32,438	37,766
Government funding - capital	20,888	14,668
Proceeds from assets held for sale	-	-
Cash payments to suppliers	(23,579)	(34,272)
Cash payments to and on behalf of employees	(22,646)	(22,647)
Cash paid for pension, other non-pension post-retirement benefits, and post-employment benefits	(4,339)	(4,467)
Interest and foreign exchange on cash	(256)	127
	32,724	18,522
Capital transactions		
Purchase of tangible capital assets	(20,888)	(14,668)
Proceeds on disposal of tangible capital assets	-	-
	(20,888)	(14,668)
Net (decrease) in cash	11,836	3,854
Cash, beginning of period	8,353	9,580
Cash, end of period	$ 20,189	$ 13,434
Cash consists of:		
Restricted cash	$ 8,034	$ 8,703
Unrestricted cash	12,155	4,731
	$ 20,189	$ 13,434

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 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 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:

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 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.

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.

(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.

(in thousands)

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.

	2012 (3 months)	2012 (12 months)
Receivable from (payable to) Government of Canada, beginning of period	**$ 1,222**	$ 278
Parliamentary appropriations received during the period	**(53,325)**	(178,752)
Recognized during the period:		
Operations	**29,690**	135,060
Vessel, facilities and equipment	**11,543**	36,698
Government funding (deficit) surplus	**12,092**	6,994
(Payable to) receivable from Government of Canada, end of period	**(10,870)**	(6,716)
Recoverable vessel decommissioning costs	**-**	7,938
Total	**$ (10,870)**	$ 1,222

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 $8,034 Canadian dollars at June 30, 2012 (March 31, 2012 – $8,290).

5. EMPLOYEE FUTURE BENEFITS

During the three months ended June 30, 2012, the net employee future benefit expense was $4,776 (June 30, 2011– $4,018). 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 $132 (2012 – $397) 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

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.