Quarterly Financial Report

MARINE ATLANTIC INC.

December 31, 2021

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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, 2021. This report should be read in conjunction with the Corporation's 2020/21 – 2024/25 Corporate Plan Summary and the Corporation's 2020/2021 Annual Report which includes the audited annual financial statements for the year ended March 31, 2021. 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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December 31, 2021

QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

Three months ending December 31, 2021

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$ 22,819	$ 18,475	$ 22,959	4,344	24%	(140)	-1%
Expenses	$ 59,098	$ 57,497	$ 60,838	(1,601)	-3%	1,740	3%

Nine months ending December 31, 2021

	Actual	Budget	Prior Year	Variance to Budget[1] $	Variance to Budget[1] %	Variance to Prior Year[1] $	Variance to Prior Year[1] %
Revenue	$ 82,407	$ 73,841	$ 66,386	8,566	12%	16,021	24%
Expenses	$ 178,048	$ 180,686	$ 169,023	2,638	1%	(9,025)	-5%

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

Statistics snapshot

Three months ending December 31, 2021

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	47,172	29,240	35,943	17,932	61%	11,229	31%
Passenger Units	19,672	11,204	13,446	8,468	76%	6,226	46%
Commercial Units	20,885	19,555	24,599	1,330	7%	(3,714)	-15%
Auto Equivalent Units [3]	106,079	90,659	114,065	15,420	17%	(7,986)	-7%
Trips	381	408	408	(27)	-7%	(27)	-7%

Nine months ending December 31, 2021

	Actual	Forecast	Prior Year	Variance to Forecast[2] #	Variance to Forecast[2] %	Variance to Prior Year[2] #	Variance to Prior Year[2] %
Passengers	206,106	191,030	124,498	15,076	8%	81,608	66%
Passenger Units	82,787	74,286	46,445	8,501	11%	36,342	78%
Commercial Units	70,343	63,032	70,010	7,311	12%	333	0%
Auto Equivalent Units [3]	378,946	340,169	335,831	38,777	11%	43,115	13%
Trips	1332	1340	1190	(8)	-1%	142	12%

[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 remains significantly affected by the COVID-19 pandemic. Passenger traffic levels were below pre-pandemic levels on a year-to-date basis. Passenger traffic was higher compared to the same quarter last year and year to date. Commercial units remained consistent year to date while there was a 15% decline in the quarter. Gains relating to the Corporation's fuel hedging program were recognized in the quarter and year to date compared to losses last year. Revenue was one percent lower for the quarter and 24 percent higher year to date compared to last year.

Revenue exceeded expectations by 24 percent in the quarter and 12 percent year to date. Overall traffic volumes were higher than anticipated for all areas.

Expenses

Compared to Budget

The Corporation's expenses were three percent higher than budget during the quarter and one percent lower year to date. Operating expenses for the quarter remained on budget, and savings were made in most areas, however these were partially offset by an increase in fuel costs due to higher fuel prices. Operating expenses year to date were four percent under budget. These savings were offset by higher than anticipated fuel prices.

Compared to Prior Year

The Corporation's expenses were three percent lower for the quarter. Last year the Corporation recognized $5.3 million in losses relating to the fuel hedging program due the sharp drop in global fuel prices. No losses were recognized this quarter. These savings were partially offset by higher fuel prices and labour. The diversion of traffic to Argentia in November to manage through the extreme weather event and flooding increased costs for the quarter. On a year-to-date basis fuel costs were significantly higher due to rising fuel prices. Labour costs were higher as the Corporation increased passenger capacity per crossing compared to last year. fuel prices and increased labour more than offset savings in derivative losses. Expenses were five percent higher compared to last year as a result.

Tangible capital assets

The Corporation invested $6.3 million ($21 million YTD) in its capital assets during the third quarter as part of ongoing reinvestment in assets. This included $2.2 million ($14 million YTD) for vessel projects and $4 million ($7 million YTD) for shore facilities upgrades, information technology and equipment purchases.

Forecast

Based upon results of the first nine months and the budget allocation for the remainder of the year, the Corporation's goal is to operate within its approved funding allocation. Due to the COVID-19 pandemic there have been significant revisions to goals and objectives compared to the 2020/21 – 2024/25 Corporate

Plan Summary. The Corporation will not meet the cost recovery targets set by the shareholder and some of the Corporate strategic initiatives have been delayed.

RISK ANALYSIS

The financial risks of the Corporation have previously been disclosed in the Corporation's 2020/21 – 2024/25 Corporate Plan Summary and the Corporation's 2020/21 Annual Report. The Corporation has taken measures to mitigate pandemic related risks to protect the safety of our passengers and employees while continuing to deliver the essential ferry service.

SIGNIFICANT EVENTS

COVID-19 pandemic

Marine Atlantic continues to monitor the COVID-19 situation carefully and coordinate our planning and response with Public Health and Provincial guidelines. Keeping our passengers and employees safe and healthy while maintaining the essential link for transportation remain our top priorities. The emergence of the Omicron variant in November necessitated remote working for shore staff and limited movement of passenger on vessels. The pandemic has created a disruption in global supply chains affecting availability and lead time of parts. This has adversely affected the Corporation's capital program. Several projects have experienced delays due to these supply chain issues and will not be completed until next fiscal year.

Significant Weather Event

Severe weather in Newfoundland in November caused significant infrastructure damage to the road network on the west coast resulting in a stoppage of traffic to and from Port aux Basques for eight days. To maintain the link to transport people and supplies, the Argentia service resumed operations until necessary repairs were made to the roads.

Implementation of new Financial System

In December, Marine Atlantic fully implemented SAP for the Finance and Procurement Departments. This was the culmination of many months of planning.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received $16.9 million in appropriations from the Government of Canada during the third quarter ended December 31st, 2021 ($85.7 million year to date). Please refer to Note 2(a) to the unaudited interim financial statements for the Corporation's accounting policy for government appropriations. Note 4 to the unaudited interim financial statements reports on how the appropriations received were used during the period.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

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

Murray Hupman, P. Eng.
President and CEO

Shawn Leamon, CPA, CGA
Vice President of Finance

St. John's, NL
February 17, 2022

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position
As at December 31, 2021
(in thousands)

		Dec 31 2021		Mar 31 2021
Financial assets				
Cash (Note 4)	$	11,625	$	10,648
Accounts receivable		7,675		6,595
Receivable from Government of Canada (Note 5)		-		13,899
Inventories held for resale		383		362
Derivative financial instruments		5,002		2,897
Accrued pension asset		160,485		156,014
	$	185,170	$	190,415
Liabilities				
Accounts payable and accrued liabilities	$	23,223	$	31,839
Derivative financial instruments		1,231		2,532
Deferred revenue		1,584		2,851
Payable to Government of Canada (Note 5)		997		29
Accrued vacation pay		5,724		5,932
Accrued pension liability		3,125		2,951
Accrued liability for non-pension post-retirement benefits		52,105		51,363
Accrued liability for post-employment benefits		11,063		11,452
		99,052		108,949
Net financial assets	$	86,118	$	81,466
Non-financial assets				
Tangible capital assets		366,502		387,925
Inventories held for consumption		21,213		22,436
Prepaid expenses		2,853		6,409
		390,568		416,770
Accumulated surplus	$	476,686	$	498,236

Contingencies (Note 8)

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

MARINE ATLANTIC INC.
Unaudited Statement of Operations

As at December 31, 2021
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2021	**2020**	**2021**	**2020**
Revenues				
Transportation	$ 19,939	$ 20,950	$ 71,967	$ 60,511
Fuel surcharge	1,811	1,896	6,698	5,713
Other income	22	107	64	162
Foreign currency exchange gain	31	6	-	
Realized Gain on derivative financial instruments	1,016		3,678	
	22,819	22,959	82,407	66,386
Expenditures				
Wages and benefits	22,813	21,256	69,915	61,263
Charter fees	3,984	4,207	11,624	12,860
Fuel	6,632	4,162	20,716	10,611
Materials, supplies and services	6,489	6,410	18,974	17,146
Repairs and maintenance	2,002	2,351	6,831	6,521
Insurance, rent and utilities	1,833	2,123	5,475	5,720
Travel	199	64	302	108
Administrative Costs	183	133	673	486
Employee future benefits (Note 6)	-	117	-	351
Fleet renewal costs	467	417	693	966
Loss on exchange of foreign currency			80	14
Realized loss on derivative financial instruments		5,284	-	7,746
Loss on disposal of tangible capital assets	-		266	
Amortization	14,496	14,314	42,499	45,231
	59,098	60,838	178,048	169,023
(Deficit) before government funding	(36,279)	(37,879)	(95,641)	(102,637)
Government funding				
Operations	21,576	25,936	49,499	64,741
Capital	6,056	11,880	21,343	16,650
	27,632	37,816	70,842	81,391
Operating deficit	(8,647)	(63)	(24,799)	(21,246)
Accumulated operating surplus, beginning of period	480,677	483,682	496,829	504,865
Accumulated operating surplus, end of period	$ 472,030	$ 483,619	$ 472,030	$ 483,619

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

MARINE ATLANTIC INC.
Unaudited Statement of Remeasurement Gains and Losses
As at December 31, 2021
(in thousands)

	For the 3 Months Ended 2021	2020	For the 9 Months Ended 2021	2020
Accumulated remeasurement gains (losses), beginning of year	$ 5,340	$ (7,846)	$ 1,408	$ (8,364)
Remeasurement gains (losses) arising during the year				
Unrealized gain (loss) on foreign exchange of cash	(183)	(16)	(160)	-
Unrealized gain (loss) on derivatives	515	1,263	7,086	(697)
Reclassifications to the statement of operations				
Realized (gain) loss on derivatives	(1,016)	5,284	(3,678)	7,746
	-			
Net remeasurement gains (losses) for the year	(684)	6,531	3,248	7,049
Accumulated remeasurement gains (losses), end of the period	$ 4,656	$ (1,315)	$ 4,656	$ (1,315)

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

MARINE ATLANTIC INC.
Unaudited Statement of Change in Net Financial Assets
As at December 31, 2021
(in thousands)

	For the 3 Months Ended 2021	For the 3 Months Ended 2020	For the 9 Months Ended 2021	For the 9 Months Ended 2020
Operating (deficit)	$ (8,647)	$ (63)	$ (24,799)	$ (21,246)
Change in tangible capital assets				
Acquisition of tangible capital assets	(6,056)	(11,880)	(21,343)	(16,650)
Amortization of tangible capital assets	14,496	14,314	42,499	45,231
Loss (gain) on disposal of tangible capital assets	-	-	266	-
(Increase) in tangible capital assets	8,440	2,434	21,422	28,581
Change in other non-financial assets				
Net change in inventories held for consumption	(5,384)	283	1,224	(1,599)
Net change in prepaid expenses	999	309	3,556	516
Decrease in other non-financial assets	(4,385)	592	4,780	(1,083)
Net remeasurement gains (losses)	(684)	6,531	3,248	7,049
Decrease in net financial assets	(5,276)	9,494	4,651	13,301
Net financial assets, beginning of period	91,394	66,202	81,467	62,395
Net financial assets, end of period	$ 86,118	$ 75,696	$ 86,118	$ 75,696

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow
As at December 31, 2021
(in thousands)

	For the 3 Months Ended 2021	For the 3 Months Ended 2020	For the 9 Months Ended 2021	For the 9 Months Ended 2020
Operating transactions				
Cash receipts from customers	$ 21,789	$ 22,038	$ 77,083	$ 63,468
Other income received	22	107	64	162
Government funding - operations	10,871	36,665	56,475	79,498
Government funding - capital	6,056	11,880	29,234	23,869
Cash payments to suppliers	(21,314)	(24,940)	(62,031)	(61,566)
Cash payments to and on behalf of employees	(21,145)	(20,955)	(66,511)	(60,876)
Cash paid for employee future benefits	(736)	(2,169)	(3,943)	(7,676)
	(4,457)	22,626	30,371	36,879
Capital transactions				
Purchase of tangible capital assets	(6,056)	(11,880)	(29,234)	(23,869)
	(6,056)	(11,880)	(29,234)	(23,869)
Effect of exchange rate changes on cash	(183)	(16)	(160)	
Net increase in cash	(10,696)	10,730	977	13,010
Cash, beginning of period	22,321	13,482	10,648	11,202
Cash, end of period	$ 11,625	$ 24,212	$ 11,625	$ 24,212
Cash consists of:				
Restricted cash			$ 6,476	$ 7,024
Unrestricted cash			5,149	17,188
			$ 11,625	$ 24,212

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, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

(a) Government funding

The Corporation receives government funding to fund its current cash requirements, related to operating expenses in excess of commercial revenues and to acquire tangible capital assets. The funding received is included in income for the period when funding has been authorized and all requirements are met by the Corporation. Any difference between amounts provided and amounts required represents a receivable from (payable to) the Government of Canada. On occasion, the Corporation sells assets for which the net proceeds are required to be returned to the Consolidated Revenue Fund. On these occasions, the net proceeds are applied against the operating funding requirements in the period of disposition.

(b) Financial instruments

Cash, accounts receivable, accounts payable, accrued liabilities and receivable from (payable to) the Government of Canada are measured at cost.

Derivatives are initially recognized at their fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognized in the statement of remeasurement gains and losses until the derivative financial instrument is derecognized, at which point the accumulated remeasurement gain (loss) is reversed and reclassified to the statement of operations. Derivatives are derecognized at the expiry date of the derivative contract. Transaction costs are expensed as incurred.

(c) Insurance claims receivable

Accounts receivable includes recoverable insurance claims which are recognized when the Corporation has reasonable assurance the claim will be accepted and paid by the insurance underwriter.

(d) Inventory

Inventories consisting primarily of items used for consumption onboard vessels are valued at the lower of historical cost or replacement cost.

(e) Tangible capital assets

Tangible capital assets are comprised of vessel, facilities and equipment which are carried at cost less accumulated amortization. Major spare parts that are included in the Corporation's vessel spare parts inventory are accounted for as tangible capital assets. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with a tangible capital asset.

The cost of work in progress includes materials, direct labour and overhead. Amounts included in work in progress are transferred to the appropriate tangible capital asset classification when available and ready for use and are then amortized.

Amortization is calculated at rates sufficient to write off the cost, less any residual value, of tangible capital assets over their estimated useful lives on a straight-line basis. The cost, less any residual value, of projects onboard the vessel are amortized over the lesser of the useful life of the asset or the useful life of the vessel. Leasehold improvements are amortized over the shorter of the term of the lease agreement or the asset's useful life.

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

Vessel (includes vessel projects)	5% to 10%
Shore facilities	2.5% to 5%
Equipment	10% to 25%
Leasehold improvements	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.

(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.

i) Accrued pension asset (liability)

The Corporation maintains, through a trustee, a registered defined benefit pension plan covering substantially all of its employees, an unfunded supplementary retirement arrangement for senior managers hired prior to March 1, 2001, and an unfunded supplementary retirement arrangement adopted in 2006 for designated positions providing benefits for service since 2004. Eligibility under the latter supplementary arrangement was extended to benefits accrued for service since 2009 for all members of the registered defined benefit pension plan who are affected by the maximum pension payable by the registered plan. Benefits generally are based on employees' length of service and final or best average earnings for all benefits.

The cost of pensions is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, inflation and retirement ages of employees. The discount rate used to calculate the interest cost on the pension obligations is based on its expected return on plan assets for the registered pension plan and a proxy of the cost of borrowing for the other plans.

The expected long-term rate of return on plan assets is based on estimated returns, consistent with market conditions applicable on the measurement date, for each major asset class and the target asset mix specified in the plan's investment policy. A market-related value of plan assets is used for purposes of the financial statements, and the expected return on plan assets is based thereon. The market-related value of plan assets is determined using a method which amortizes gains or losses relative to the expected return over five years. Actuarial gains or losses arise from the difference between the actual rate of return and the expected long-term rate of return on plan assets and from changes in the pension obligations due to changes in actuarial assumptions used or actual experience differing from that which is expected based on the assumptions.

Actuarial gains and losses for the registered pension plan and for the supplementary retirement arrangement adopted in 2006 are amortized over the estimated average remaining service period of the members. Actuarial gains and losses for the former supplementary retirement arrangements are amortized over the average life expectancy of plan members.

Adjustments for plan amendments, net of offsetting unamortized actuarial gain/losses, related to prior period employee services are recognized in the statement of operations in the period of the plan amendment.

The estimated average remaining service period of the members covered by the registered pension plan and the supplementary retirement arrangement adopted in 2006 is 10.2 years (2020 – 9.5 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 12.2 years (2020 – 13.4 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 management's best estimate of future participation rates in the retiree health and dental plan, average health care cost per plan member, health care trend rates and utilization, salary escalation and mortality rates.

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

The estimated average remaining service period of members covered by non-pension employee future benefit plans expected to receive benefits is 11.4 years (2020 – 11.4 years). Adjustments for plan amendments, net of offsetting unamortized actuarial gain/losses, related to prior period employee service are recognized in the statement of operations in the period of the plan amendment.

iii) **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 cost of workers' compensation liabilities is actuarially determined using the net present value of liabilities for work-related injuries of current and former employees when awards are approved by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador; Workplace Health, Safety and Compensation Commission of New Brunswick; or Workers' Compensation Commission of Prince Edward Island; or legislative amendments are made and the anticipated future costs can be reasonably calculated. Management recognizes changes in the net present value of the liability, based on updated actuarial estimates of future costs, as a result of actual experience and changes in actuarial assumptions.

Adjustments arising from actuarial gains and losses are amortized over the average expected period over which benefits will be paid which is 10.0 years (2020 – 10.0 years).

g) Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Transportation revenue and fuel surcharges are recorded when ferry services are provided. The Corporation requires customers to pay in advance when booking a reservation. These amounts received are recorded as deferred revenue and are recognized as revenue when ferry services are provided. Interest income is recorded as it is earned and collection is reasonably assured.

h) Expenses

Expenses are reported on an accrual basis. Expenses for the operations of the Corporation are recorded when goods or services are received.

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

i) Prepaid expenses

Prepaid expenses are disbursements made before the completion of the work, delivery of the goods or rendering of services or advance payments under the terms of lease agreements.

j) Foreign currency translation

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

k) Contingent liabilities

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

l) Contingent assets

Contingent assets are possible assets arising from existing conditions involving uncertainty, which will be resolved by a future confirming event. The existence of a contingent asset is disclosed in the notes to the financial statements if the occurrence of the future event is likely. If the occurrence of the confirming event is unlikely or not determinable the contingent asset is not disclosed in the notes to the financial statements.

m) **Measurement uncertainty**

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

3. ADOPTION OF NEW ACCOUNTING STANDARD

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

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

(in thousands)

The mandatory effective date of this standard has been delayed for one year and will now become effective for the fiscal year beginning on or after April 1, 2022. Earlier adoption is still permitted. The Corporation has not early adopted this new standard and is currently assessing the impact that this standard will have on its financial statements. Therefore, the impact is not known at this time.

4. CASH

Cash includes restricted cash consisting of cash denominated in Euros held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The total balance denominated in Euros is €4,500 (2020 – €4,500), which translates to $6,476 Canadian dollars at December 31, 2021 (March 31, 2021 – $6,641).

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 and accumulated surplus in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis.

	December 31, 2021 (9 months)	March 31, 2021 (12 months)
Payable to Government of Canada, beginning of period	$ 29	$ 583
(Receivable from) Government of Canada, beginning of period	(13,899)	(8,966)
Parliamentary appropriations received during the period	85,709	135,634
Recognized during the period:		
Operations	(49,499)	(109,494)
Tangible Capital Assets	(21,343)	(31,627)
Government funding (deficit) surplus	14,867	(5,487)
(Receivable from) Government of Canada, end of year	-	(13,899)
Payable to Government of Canada, end of period	$ 997	$ 29

6. EMPLOYEE FUTURE BENEFITS

During the nine months ended December 31, 2021, the net employee future benefit expense was $0 (December 31, 2020– $351). The expense included costs for the Corporation's defined benefit pension plan, life insurance and health and dental care benefits to retirees and Workers' Compensation.

7. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. During the period, the Corporation incurred expenses of $346 (2020 – $205) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 3. The Corporation is given the right to use the crown land on which the terminals sit free of charge by Transport Canada. No amount was recorded since the fair value of the service received for free is not reliably measurable.

8. CONTINGENCIES

Legal contingencies have been increased to account for an additional claim with a likelihood of settlement. There have been no other changes to legal contingencies since the end of the most recently completed fiscal year.