

Quarterly Financial Report

MARINE ATLANTIC INC.

December 31, 2022

MARINE ATLANTIC INC.

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MARINE ATLANTIC INC.

Quarterly Financial Report

December 31, 2022

The following Quarterly Financial Report of the financial results of Marine Atlantic Inc. (“the Corporation”) is for the nine months ended December 31, 2022. This report should be read in conjunction with the Corporation’s 2022/23 – 2026/27 Corporate Plan Summary and the Corporation’s 2021/2022 Annual Report which includes the audited annual financial statements for the year ended March 31, 2022. Information about the Corporation, including the Annual Report and the Corporate Plan Summary, can be found at www.marineatlantic.ca once approved by the Federal Government.

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

OVERVIEW OF THE CORPORATION

Marine Atlantic is a federal Crown Corporation tasked with fulfilling the constitutional mandate of offering freight and passenger service between North Sydney, NS, and Port aux Basques, NL. This service is vital to connect the Province of Newfoundland and Labrador with mainland Canada.

Headquartered in St. John’s, NL, Marine Atlantic operates terminals in Port aux Basques, NL, Argentia, NL, and North Sydney, NS, and provides ferry services on two routes: a year-round 96 nautical mile daily ferry service between Port aux Basques and North Sydney and a seasonal 280 nautical mile ferry service between Argentia and North Sydney.

To fulfill its mandate, Marine Atlantic operates a fleet of four ice-class ferries: the MV *Blue Puttees*, MV *Highlanders*, MV *Atlantic Vision* and the MV *Leif Ericson*. The Corporation reports annually to the Government of Canada through the Minister of Transport.

To ensure the safe operations of vessels at sea, Marine Atlantic Inc. is governed by various acts and regulations. These include: Canada Labour Code, Marine Occupational Safety and Health Regulations, Transportation of Dangerous Goods Act and Regulations, Marine Liability Act and Regulations, Canada Shipping Act, 2001, Canada Marine Act, Coastal Trade Act, Domestic Ferries Security Regulations (DFSR), and the Marine Transportation Security Regulations (MTSR) Part III. The Corporation also falls under the umbrella of the International Convention for the Safety of Life at Sea (SOLAS), the pre-eminent of all international treaties concerning the safety of merchant ships.

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QUARTERLY RESULTS

Financial Performance snapshot (in thousands)

Three months ending December 31, 2022

	Actual	Budget	Prior Year	Variance to Budget ¹		Variance to Prior Year ¹	
				\$	%	\$	%
Revenue	\$ 26,920	\$ 21,458	\$ 22,819	5,462	25%	4,101	18%
Expenses	\$ 64,758	\$ 58,321	\$ 59,098	(6,437)	-11%	(5,660)	-10%

Nine months ending December 31, 2022

	Actual	Budget	Prior Year	Variance to Budget ¹		Variance to Prior Year ¹	
				\$	%	\$	%
Revenue	\$ 112,062	\$ 96,676	\$ 82,407	15,386	16%	29,655	36%
Expenses	\$ 205,141	\$ 194,657	\$ 178,048	(10,484)	-5%	(27,093)	-15%

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

Statistics snapshot

Three months ending December 31, 2022

	Actual	Forecast	Prior Year	Variance to Forecast ²		Variance to Prior Year ²	
				#	%	#	%
Passengers	52,269	47,859	47,172	4,410	9%	5,097	11%
Passenger Units	21,197	18,494	19,672	2,703	15%	1,525	8%
Commercial Units	22,023	20,509	20,885	1,514	7%	1,138	5%
Auto Equivalent Units ³	112,145	103,515	106,079	8,630	8%	6,066	6%
Trips	396	424	381	(28)	-7%	15	4%

Nine months ending December 31, 2022

	Actual	Forecast	Prior Year	Variance to Forecast ²		Variance to Prior Year ²	
				#	%	#	%
Passengers	329,269	305,403	206,106	23,866	8%	123,163	60%
Passenger Units	131,900	116,955	82,787	14,945	13%	49,113	59%
Commercial Units	72,301	67,551	70,343	4,750	7%	1,958	3%
Auto Equivalent Units ³	444,604	406,921	378,946	37,683	9%	65,658	17%
Trips	1443	1376	1332	67	5%	111	8%

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

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REVENUES

The Corporation's revenue was twenty-five per cent higher for the quarter and sixteen per cent higher year to date as overall traffic was higher than forecasted. Realized gains on derivatives were \$8.4 million higher than anticipated as higher fuel prices resulted in gains relating to the fuel hedging program.

When compared to prior year, the Corporation's revenue was eighteen per cent higher for the quarter and thirty-six per cent higher year to date. All areas of traffic increased over the prior year as all travel restrictions were lifted. Passenger traffic increased significantly with a sixty per cent increase year over year. Realized gains on derivatives were \$7 million higher compared to last year as higher fuel costs were partially offset by favorable hedged positions.

EXPENSES

Compared to Budget

The Corporation's expenses were 11% higher than budget during the quarter and 5% year to date. Fuel cost was substantially higher than budget due to increasing fuel prices. Operating expenses were higher than planned in the quarter mainly due to changes in the fleet maintenance schedule and higher than anticipated inflation. Charter fees were lower than budgeted due to favorable exchange rates.

Compared to Prior Year

The Corporation's expenses were 10% higher for the quarter and fifteen per cent higher year to date when compared to last year. Overall operating expenses were higher in the quarter compared to prior year due to increased maintenance activity. The increasing in operating expenses year to date compared to last year were due the increased traffic. There were also increases in prices of supplies and freight contributed to increases in materials, supplies and services. Finally, fuel prices were significantly higher for the quarter and year to date compared to last year.

Tangible capital assets

The Corporation invested \$6.9 million in its capital assets during the third quarter as part of ongoing reinvestment in assets. This included \$2.5 million for vessel projects and \$4.4 million for shore facilities upgrades, information technology and equipment purchases.

Forecast

Based upon results of the first nine months and the budget allocation for the remainder of the year, the Corporation is anticipating it will operate within its approved funding allocation. There have been no revisions to goals or objectives compared to the 2022/23– 2026/27 Corporate Plan Summary.

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RISK ANALYSIS

The financial risks of the Corporation have previously been disclosed in the Corporation's 2022/23 – 2026/27 Corporate Plan Summary and the Corporation's 2021/22 Annual Report. There are no significant changes to the risks previously identified.

SIGNIFICANT EVENTS

During the third quarter, Marine Atlantic reached some significant milestones: keel laying for the new vessel began in November; construction work commenced on the new administration building in Port aux Basques and the first electric vehicle was introduced as part of a progressive step forward in our goal of net zero emissions by 2050.

REPORTING ON USE OF APPROPRIATIONS

The Corporation received \$19.6 million in appropriations from the Government of Canada during the third quarter ended December 31st, 2022 (\$78.1 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 5 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.



Murray Hupman, P. Eng.
President and CEO



Shawn Leamon, CPA, CGA
Vice President of Finance

St. John's, NL
February 17, 2023

MARINE ATLANTIC INC.
Unaudited Statement of Financial Position

As at December 31, 2022
(in thousands)

	Dec 31	Mar 31
	2022	2022
Financial assets		
Cash (Note 4)	\$ 14,899	\$ 9,955
Accounts receivable	6,702	14,438
Receivable from Government of Canada (Note 5)	-	13,954
Inventories held for resale	384	381
Derivative financial instruments	8,662	10,842
Accrued pension asset	167,424	161,633
	\$ 198,071	\$ 211,203
Liabilities		
Accounts payable and accrued liabilities	\$ 44,500	\$ 29,088
Derivative financial instruments	-	804
Deferred revenue	2,272	11,978
Payable to Government of Canada (Note 5)	4,280	-
Accrued vacation pay	6,660	6,487
Accrued pension liability	3,123	3,123
Accrued liability for non-pension post-retirement benefits	52,389	52,258
Accrued liability for post-employment benefits	11,832	11,272
	125,056	115,010
Net financial assets	\$ 73,015	\$ 96,193
Non-financial assets		
Tangible capital assets	354,383	369,308
Inventories held for consumption	33,237	30,650
Prepaid expenses	6,552	5,344
	394,172	405,302
Accumulated surplus	\$ 467,187	\$ 501,495

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, 2022

(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2022	2021	2022	2021
Revenues				
Transportation	\$ 21,524	\$ 19,939	\$ 92,290	\$ 71,967
Fuel surcharge	1,869	1,811	8,365	6,698
Other income	130	22	268	64
Foreign currency exchange gain	238	31	273	-
Realized Gain on derivative financial instruments	3,159	1,016	10,866	3,678
	26,920	22,819	112,062	82,407
Expenditures				
Wages and benefits	23,956	22,813	79,361	69,915
Charter fees	4,365	3,984	11,951	11,624
Fuel	11,531	6,632	38,053	20,716
Materials, supplies and services	7,626	6,489	22,559	18,974
Repairs and maintenance	2,849	2,002	7,755	6,831
Insurance, rent and utilities	2,011	1,833	5,765	5,475
Travel	285	199	970	302
Administrative Costs	361	183	1,437	673
Employee future benefits (Note 6)	(852)	-	(2,556)	-
Fleet renewal costs	256	467	362	693
Loss on exchange of foreign currency	-	-	-	80
Loss on disposal of tangible capital assets	-	-	-	266
Amortization	12,370	14,496	39,484	42,499
	64,758	59,098	205,141	178,048
(Deficit) before government funding	(37,838)	(36,279)	(93,079)	(95,641)
Government funding				
Operations	16,376	21,576	35,309	49,499
Capital	6,947	6,056	24,559	21,343
	23,323	27,632	59,868	70,842
Operating deficit	(14,515)	(8,647)	(33,211)	(24,799)
Accumulated operating surplus, beginning of period	472,122	480,677	490,818	496,829
Accumulated operating surplus, end of period	\$ 457,607	\$ 472,030	\$ 457,607	\$ 472,030

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, 2022
(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2022	2021	2022	2021
Accumulated remeasurement gains (losses), beginning of year	\$ 8,812	\$ 5,340	\$ 10,677	\$ 1,408
Remeasurement gains (losses) arising during the year				
Unrealized gain (loss) on foreign exchange of cash	456	(183)	280	(160)
Unrealized gain (loss) on derivatives	3,471	515	9,489	7,086
Reclassifications to the statement of operations				
Realized (gain) loss on derivatives	(3,159)	(1,016)	(10,866)	(3,678)
Net remeasurement gains (losses) for the year	768	(684)	(1,097)	3,248
Accumulated remeasurement gains (losses), end of the period	\$ 9,580	\$ 4,656	\$ 9,580	\$ 4,656

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, 2022

(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2022	2021	2022	2021
Operating (deficit)	\$ (14,515)	\$ (8,647)	\$ (33,211)	\$ (24,799)
Change in tangible capital assets				
Acquisition of tangible capital assets	(6,947)	(6,056)	(24,559)	(21,343)
Amortization of tangible capital assets	12,370	14,496	39,484	42,499
Loss (gain) on disposal of tangible capital assets	-	-	-	266
(Increase) in tangible capital assets	5,423	8,440	14,925	21,422
Change in other non-financial assets				
Net change in inventories held for consumption	(7,474)	(5,384)	(2,588)	1,224
Net change in prepaid expenses	(633)	999	(1,207)	3,556
Decrease in other non-financial assets	(8,107)	(4,385)	(3,795)	4,780
Net remeasurement gains (losses)	768	(684)	(1,097)	3,248
Decrease in net financial assets	(16,431)	(5,276)	(23,178)	4,651
Net financial assets, beginning of period	89,446	91,394	96,193	81,467
Net financial assets, end of period	\$ 73,015	\$ 86,118	\$ 73,015	\$ 86,118

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

MARINE ATLANTIC INC.
Unaudited Statement of Cash Flow

As at December 31, 2022

(in thousands)

	For the 3 Months Ended		For the 9 Months Ended	
	2022	2021	2022	2021
Operating transactions				
Cash receipts from customers	\$ 24,684	\$ 21,789	\$ 91,817	\$ 77,083
Other income received	130	22	268	64
Government funding - operations	12,708	10,871	47,848	56,475
Government funding - capital	6,947	6,056	30,252	29,234
Proceeds from assets held for sale	-	-	-	-
Cash payments to suppliers	(20,348)	(23,885)	(72,729)	(65,594)
Cash receipts (payments) for settlement of derivatives	3,159	2,571	16,000	3,563
Cash payments to and on behalf of employees	(23,269)	(21,145)	(75,998)	(66,511)
Cash paid for employee future benefits	(1,187)	(736)	(2,544)	(3,943)
	2,824	(4,457)	34,914	30,371
Capital transactions				
Purchase of tangible capital assets	(6,947)	(6,056)	(30,251)	(29,234)
	(6,947)	(6,056)	(30,251)	(29,234)
Effect of exchange rate changes on cash	456	(183)	280	(160)
Net increase in cash	(3,667)	(10,696)	4,943	977
Cash, beginning of period	18,566	22,321	9,956	10,648
Cash, end of period	\$ 14,899	\$ 11,625	\$ 14,899	\$ 11,625
Cash consists of:				
Restricted cash			\$ 5,995	\$ 6,476
Unrestricted cash			8,904	5,149
			<u>\$ 14,899</u>	<u>\$ 11,625</u>

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

MARINE ATLANTIC INC.

Notes to the Unaudited Interim Financial Statements

December 31, 2022

(in thousands)

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, 2022.

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.

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(in thousands)

(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 vessels, shore facilities and equipment which are carried at cost less accumulated amortization.

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

Major spare parts are accounted for as tangible capital assets and are not amortized until they are put into use. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with a tangible capital asset.

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

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

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

Vessel (includes vessel projects)	5% to 10%
Shore facilities	2.5% to 5%
Equipment	10% to 25%
Leasehold improvements	Shorter of term of lease agreement or the asset's useful life

When conditions indicate that a tangible capital asset no longer contributes to the Corporation's ability to provide goods and services, the cost of the asset is written down to residual value, if any. Write-downs are not reversed.

(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.

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(in thousands)

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 10.0 years (2021 – 10.2 years). For the former supplementary retirement arrangements, the average life expectancy of plan members is 11.4 years (2021 – 12.2 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.

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(in thousands)

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 (2021 – 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 (2021– 10.0 years).

g) Revenue recognition

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

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(in thousands)

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

The Corporation has several long-lived assets including vessels. As part of its maintenance program, any controlled materials are handled and disposed of in a manner required by regulations. Where possible decommissioned vessels are sold into secondary markets to responsible buyers. Under these circumstances the condition of the vessel, including the presence of any controlled material will be fully disclosed and remediation and any eventual retirement obligation would become the responsibility of the new owner.

The Corporation has entered into certain operating leases where the vessel/structure will be returned in the same condition as they were originally delivered, fair wear and tear accepted. Given the nature of the assets and the options available at the current time, the asset retirement obligation cannot be reasonably determined. No liability has been recognized in the financial statement at this time.

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Notes to the Unaudited Interim Financial Statements

December 31, 2022

(in thousands)

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 €4,147 (2021 – €4,500), which translates to \$5,995 Canadian dollars at December 31, 2022 (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, 2022 (9 months)	March 31, 2022 (12 months)
Payable to Government of Canada, beginning of period	\$ (663)	\$ 29
(Receivable from) Government of Canada, beginning of period	(13,290)	(13,899)
Parliamentary appropriations received during the period	78,101	131,419
Recognized during the period:		
Operations	(35,309)	(93,598)
Tangible Capital Assets	<u>(24,559)</u>	<u>(37,905)</u>
Government funding (deficit) surplus	18,233	(84)
(Receivable from) Government of Canada, end of year	-	(13,290)
Payable to Government of Canada, end of period	\$ 4,280	\$ (663)

6. EMPLOYEE FUTURE BENEFITS

During the nine months ended December 31, 2022, the net employee future benefit expense was \$(2,556) (December 31, 2021– \$194). 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.

MARINE ATLANTIC INC.

Notes to the Unaudited Interim Financial Statements

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(in thousands)

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 \$476 (2021 – \$346) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(a) and 5. The Corporation is given the right to use the crown land on which the terminals sit free of charge by Transport Canada. No amount was recorded since the fair value of the service received for free is not reliably measurable.

8. CONTINGENCIES

There have been no changes to legal Contingencies since the end of the most recently completed fiscal year. There have been no new claims that have a likelihood of payment.