

Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Six months ended September 30, 2012 and 2011

(unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Financial Position (unaudited)

(Expressed in thousands of Canadian dollars)

	As at,		
	September 30, 2012	March 31, 2012	April 1, 2011
Assets			
Current assets			
Cash and cash equivalents	43,025	7,700	33,335
Restricted short-term investments (note 5(b))	35,640	35,705	37,040
Other short-term investments	61,430	26,880	64,074
Trade and other receivables	28,179	42,341	20,619
Prepaid expenses	11,120	6,725	5,648
Inventories	22,764	22,016	19,957
	<u>202,158</u>	<u>141,367</u>	<u>180,673</u>
Non-current assets			
Long-term loan receivable	24,515	24,515	24,247
Long-term land lease	32,292	32,521	32,979
Property, plant and equipment (note 3)	1,563,700	1,596,507	1,593,194
Intangible assets (note 4)	45,474	41,758	34,929
	<u>1,665,981</u>	<u>1,695,301</u>	<u>1,685,349</u>
Total assets	<u>1,868,139</u>	<u>1,836,668</u>	<u>1,866,022</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	36,268	50,708	49,872
Short-term debt (note 5a)	-	17,737	3,949
Interest payable on long-term debt	18,220	18,249	18,261
Deferred revenue	12,076	13,784	15,596
Derivative liabilities	4	12	23
Current portion of long-term debt (note 5)	9,000	9,000	22,125
Current portion of accrued employee future benefits	2,204	2,204	1,351
Current portion of obligations under finance lease	986	974	1,040
Provisions	47,632	47,022	46,788
	<u>126,390</u>	<u>159,690</u>	<u>159,005</u>
Non-current liabilities			
Accrued employee future benefits	16,846	17,361	17,091
Long-term debt (note 5)	1,281,221	1,285,232	1,327,014
Obligations under finance lease	46,514	47,013	47,723
	<u>1,344,581</u>	<u>1,349,606</u>	<u>1,391,828</u>
Total liabilities	<u>1,470,971</u>	<u>1,509,296</u>	<u>1,550,833</u>
Equity			
Share capital	75,478	75,478	75,478
Contributed surplus	25,000	25,000	-
Retained earnings	294,513	224,717	239,711
Total equity before reserves	<u>394,991</u>	<u>325,195</u>	<u>315,189</u>
Land revaluation reserve (note 11 (c))	2,177	2,177	-
Total equity including reserves	<u>397,168</u>	<u>327,372</u>	<u>315,189</u>
Total liabilities and equity	<u>1,868,139</u>	<u>1,836,668</u>	<u>1,866,022</u>
Commitments (note 3b)			

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Comprehensive Income (Loss) (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Revenue				
Vehicle and passenger fares	165,824	161,985	280,246	276,386
Ferry service fees	57,402	49,370	103,629	89,620
Retail	27,029	27,035	46,191	46,434
Federal-Provincial Subsidy Agreement	7,019	6,872	14,039	13,743
Fuel surcharges	4,100	4,359	10,130	5,515
Regulated other income (note 7)	5,177	5,372	8,286	8,771
Other income	2,059	1,949	3,690	3,431
Total revenue	268,610	256,942	466,211	443,900
Expenses				
Operations	121,314	119,718	232,321	228,522
Maintenance	11,591	12,662	28,809	30,308
Administration	7,155	8,475	14,324	15,896
Cost of retail goods sold	10,068	9,966	17,576	17,430
Depreciation and amortization	34,412	32,583	68,413	64,521
Total operating expenses	184,540	183,404	361,443	356,677
Operating profit	84,070	73,538	104,768	87,223
Net finance and other expenses				
Net finance expenses (note 8)				
Finance income	653	531	1,189	1,202
Finance expenses	(18,112)	(18,232)	(36,100)	(36,167)
Total net finance expenses	(17,459)	(17,701)	(34,911)	(34,965)
(Loss) gain on disposal of capital assets	(79)	9	(61)	37
Total net finance and other expenses	(17,538)	(17,692)	(34,972)	(34,928)
Net earnings	66,532	55,846	69,796	52,295
Other comprehensive income	-	-	-	-
Total comprehensive income	66,532	55,846	69,796	52,295

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended September 30,	
	2012	2011
Cash flows from operating activities		
Net earnings	69,796	52,295
Items not affecting cash		
Net finance costs recognized in net earnings	34,911	34,965
Depreciation and amortization of non-current assets	68,413	64,521
Loss (gain) on disposal of property, plant and equipment	61	(37)
(Decrease) increase in long-term accrued employee future benefits	(515)	645
(Increase) in derivative assets	-	(14)
Decrease in derivative liabilities	(8)	(23)
Increase in provisions	610	878
Other non-cash adjustments to property, plant & equipment	200	(57)
Decrease in long-term land lease	229	229
Increase in accrued net financing	539	1,059
Total non-cash items	104,440	102,166
Movements in operating working capital		
Decrease (increase) in accounts receivable	14,162	(214)
Increase in prepaid expenses	(4,395)	(2,556)
Increase in inventories	(748)	(989)
Decrease in accounts payable and accrued liabilities	(14,440)	(12,831)
Decrease in deferred revenue	(1,708)	(435)
Increase in current portion of accrued employee future benefits	-	302
Change in non-cash working capital	(7,129)	(16,723)
Change attributable to capital asset acquisitions	11,387	(1,798)
Change attributable to contributed surplus	(25,000)	-
Change in non-cash operating working capital	(20,742)	(18,521)
Cash generated from operating activities	153,494	135,940
Interest rate support received (note 8(a))	412	638
Interest received	600	387
Interest paid	(36,870)	(37,532)
Net cash generated by operating activities	117,636	99,433

See accompanying notes to the interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended September 30,	
	2012	2011
Cash flows from financing activities		
Repayment of long-term debt	(4,500)	(51,375)
Repayment of short-term loans	(17,737)	(3,949)
Repayment of finance lease obligations	(487)	(539)
Contributed surplus payment from Province	25,000	-
Net cash generated by (used in) financing activities	2,276	(55,863)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	80	84
Purchase of property, plant and equipment and intangibles	(50,182)	(61,606)
Advancement of long-term loan	-	(268)
Reduction of debt service reserve	65	-
(Purchase of) proceeds from short-term investments	(34,550)	6,259
Net cash used in investing activities	(84,587)	(55,531)
Net increase (decrease) in cash and cash equivalents	35,325	(11,961)
Cash and cash equivalents, beginning of period	7,700	33,335
Cash and cash equivalents, end of period	43,025	21,374

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Changes in Equity (unaudited)

(Expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity Before Reserves	Land Revaluation Reserve	Total Equity Including Reserves
Balance as at April 1, 2011	75,478	-	239,711	315,189	-	315,189
Net earnings for the six months ended September 30, 2011	-	-	52,295	52,295	-	52,295
Other comprehensive income for the six months ended September 30, 2011	-	-	-	-	-	-
Balance as at September 30, 2011	75,478	-	292,006	367,484	-	367,484
Balance as at April 1, 2012	75,478	25,000	224,717	325,195	2,177	327,372
Net earnings for the six months ended September 30, 2012	-	-	69,796	69,796	-	69,796
Other comprehensive income for the six months ended September 30, 2012	-	-	-	-	-	-
Balance as at September 30, 2012	75,478	25,000	294,513	394,991	2,177	397,168

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

British Columbia Ferry Services Inc. (the "Company") was incorporated under the *Company Act (British Columbia)* by way of conversion on April 2, 2003, and now validly exists under the *Business Corporations Act (British Columbia)*. The Company's primary business activity is the provision of coastal ferry services in British Columbia.

The Company is subject to the *Coastal Ferry Act* (the "Act") as amended, which came into force on April 1, 2003. Its common share is held by the B.C. Ferry Authority (the "Authority"), a corporation without share capital, and it is regulated by the British Columbia Ferries Commissioner (the "Commissioner") to ensure that rates are fair and reasonable and to monitor service levels.

The Company'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 Company 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.

1. Accounting Policies:

(a) Statement of compliance:

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations and comply with International Accounting Standard 34 *Interim Financial Reporting*. The Company's interim consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Other than as discussed in notes 1 (h), 1 (s) and 11 these interim consolidated financial statements follow the same accounting policies and methods of their application as set out in the British Columbia Ferry Services Inc. consolidated financial statements and the notes thereto for the year ended March 31, 2012 and should be read in conjunction with those statements.

These interim consolidated financial statements were approved by the Board of Directors on November 16, 2012.

(b) Basis of preparation:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These interim consolidated financial statements of the Company as at and for the six months ended September 30, 2012 and 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

(c) Basis of measurement:

These interim consolidated financial statements have been prepared using the historical cost method, with the exception of the following assets and liabilities which are measured at fair value: land, derivatives, financial instruments held for trading and available-for-sale financial assets.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(d) Functional and presentation currency:

These interim consolidated financial statements are presented in Canadian dollars ("Cdn") which is the Group's functional currency. All financial data is presented in Canadian dollars rounded to the nearest thousand.

(e) Uses of estimates and judgements:

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting methods and the amounts recognized in the financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. They therefore serve as the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

Significant estimates relate to:

(i) Property, plant and equipment and intangible assets

The calculation of depreciation and amortization involves estimates concerning the economic life and salvage value of property, plant and equipment and intangible assets.

(ii) Future employee benefits

Accounting for the costs of future employee benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary increases, employee turnover rates and mortality tables.

Significant judgments relate to the provision for contingencies, including asset retirement obligations. In forming these judgments, the Company is required to consider the probability of future payments.

(f) Basis of consolidation – subsidiaries:

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to manage, either directly or indirectly, the entity's financial and operational policies in order to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of all subsidiaries are prepared to the same reporting date as the Group using consistent accounting policies.

The subsidiary holdings of the Group as at September 30, 2012 are:

Pacific Marine Ventures Inc.

BCF Captive Insurance Company Ltd.

Pacific Marine Leasing Inc.

BCF Global Services Inc.

All inter-Group transactions, balances and any unrealized income and expenses on inter-Group transactions are eliminated on consolidation.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(g) Foreign currency transactions:

Transactions denominated in foreign currencies are translated by applying the exchange rate prevailing on the date of the transaction. At each reporting date, all monetary assets and liabilities denominated in foreign currencies are translated into Cdn at the closing exchange rate. Any resulting translation adjustments are recorded in net earnings or loss.

(h) Property, plant and equipment:

Property, plant and equipment, excluding land assets, are valued at cost plus direct overhead and financing costs, less depreciation and impairment. Land is valued at fair value using the annual assessed values for property tax purposes as being representative of the fair values of these assets.

The cost of self constructed assets includes expenditures on materials, direct labour, financing costs and an allocated proportion of project overheads. When parts of an item of property, plant and equipment have different estimated useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of replacing an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment and are recognized in net earnings or loss. The costs of the day-to-day servicing of items of property, plant and equipment are recognized in net earnings or loss as incurred.

Where components of an asset have different estimated useful lives, depreciation is calculated on each separate component. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted if appropriate. Property, plant and equipment, including assets under finance leases, are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Asset class	Estimated useful life
Vessel hulls	3 to 40 years
Vessel propulsion and utility systems	3 to 30 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

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(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(i) Intangible assets:

Intangible assets consist of acquired computer software and licenses as well as internally developed computer software and website. These assets are valued at their acquisition cost plus direct overhead and financing costs, less amortization and impairment.

Software costs are capitalized if it is probable that the asset created will generate future economic benefits, the costs can be reliably measured, the product is technically feasible and the Group intends to, and has sufficient resources to, complete development and use the asset. Website costs are capitalized where the expenditure is incurred on developing an income generating website. Software and website costs capitalized include materials, direct labour and financing costs. Subsequent expenditure is capitalized only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in net earnings or loss as incurred.

Intangible assets with finite useful lives are amortized on a straight line basis over their estimated useful lives (3 to 7 years) since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Amortization is recognized in net earnings or loss from the date that intangible assets are available for use. The amortization methods and estimated remaining lives are reviewed annually.

(j) Inventories:

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. No amounts are carried at net realizable value.

The cost of general and catering inventories is accounted for using the weighted average formula, while the cost of fuel inventories is based on the first-in–first-out principle. The cost of inventories includes expenditures incurred in acquiring the inventories and other direct costs incurred in bringing them to their existing location and condition.

(k) Employee benefits:

The Group has a number of defined benefit pension and post-retirement plans. The plans are generally funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

Defined contribution plan accounting is applied to the Group's multi-employer defined benefit pension and long-term disability plans. These multi-employer plans are administered by external parties and the Group does not have sufficient information to apply defined benefit plan accounting. The cost of these benefits is charged to net earnings or loss as contributions are made to the plans.

The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected benefit method prorated on service (which incorporates management's best

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(k) Employee benefits (continued):

estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). Under the projected benefit method, the cost of these benefits is charged to net earnings or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans on a regularly scheduled basis. The pension obligation is measured as the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the pension obligation.

Assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. For the Group's retirement bonus and death benefit plans, the excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the retirement bonus and death benefit plans was 7.0 years as at March 31, 2011, the date of the most recent actuarial valuation.

Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested but are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment where the benefits are not already vested. The full liability for all plan deficits is recorded, as adjusted for any past service costs still to be amortized.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(l) Provisions:

A provision is recorded when:

- the Group has a current obligation (legal or implicit) resulting from a past event; and
- it is likely that an outflow of resources representing economic benefits will be required to settle the obligation; and
- the amount of the obligation can be measured reliably.

If these conditions are not met, no provision is recorded.

Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(m) Revenues:

Tariff revenue is recognized when transportation is provided. The value of fares sold for which payment is received in advance of providing transportation is included in the statement of financial position as deferred revenue. These advance payments include prepaid vehicle and passenger fares, assured loading tickets and other reservation fees.

Retail revenue consists primarily of food services and gift shop sales. Parking revenues are received from both owned and subcontracted parking facilities and are recognized when service is provided. Revenue is generated from various advertising contracts and recognized according to the individual agreement.

Construction contract revenue is recognized using the percentage of completion method. At each reporting period, an estimate is made of the total profit or loss expected for the contract and the percentage of work completed. These estimates are used to measure the fair value of the consideration receivable for the contract and the amount of costs to be recognized in the period. If contract costs are not probable of being recovered they are immediately expensed.

(n) Finance leases:

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(o) Operating leases:

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Taxes:

The Group is a "Tax Exempt Corporation" as described in the *Income Tax Act* and as such is exempt from federal and provincial income taxes.

The provision of vehicle and passenger ferry services is an exempt supply under the *Excise Tax Act* for HST purposes.

(q) Impairment of non-financial assets:

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable.

The impairment charged to net earnings or loss is the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(q) Impairment of non-financial assets (continued):

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group defines a cash generating unit as a route group. Price caps for each route group are set by the Commissioner based on the costs necessary to provide service on each route group as defined in the Coastal Ferry Services Contract with the Province.

The Group evaluates impairment losses for potential reversals when events or changes warrant such consideration. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized. A reversal of impairment is charged to net earnings or loss.

(r) Financial assets and liabilities:

Financial assets include trade receivables, loan receivables, derivatives with a positive market value, investment in securities and cash.

Financial liabilities include bank borrowings, bonds, obligations related to lease contracts, derivatives with a negative market value and trade payables.

Financial assets and liabilities presented are "non-current" except those with a maturity of less than twelve months from the period-end date. Those with maturities of less than twelve months are presented as "current assets" or "cash equivalents" depending on the circumstances.

(i) *Recognition and measurement of financial assets (excluding derivatives)*

In accordance with IAS 39, "*Financial Instruments: Recognition and Measurement*", financial assets are classified into one of four categories:

- assets held-to-maturity (securities' giving entitlement to fixed or fixable payments on set dates, and which the Group is able and intending to hold to maturity);
- loans and receivables (non-derivative financial assets subject to fixed or fixable payments, and which are not quoted on an active market);
- assets held-for-trading (investments and securities bought and held primarily with a view to a short-term resale); and
- assets held for sale (all financial assets not recognized in one of the three previous categories).

Classification depends on the nature and objective of each financial asset and is determined when first recognized.

(ii) *Loans and advances (loans and receivables category)*

When initially recognized, loans and advances are measured at fair value. These financial assets are then carried at amortized cost using the effective interest rate method. Loans and advances are subject to recoverable value tests, carried out whenever there are objective indicators that the recoverable value of these assets would be lower than the carrying value and, at the very least, on each statement of financial position date.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(r) Financial assets and liabilities (continued):

(iii) *Trade receivables (loans and receivables category)*

Trade and other receivables are recorded at fair value (in most cases the same as nominal value) minus any loss of value recorded in a special impairment account. As receivables are due in less than one year, they are not discounted. If there is any indication that these assets may be impaired, they will be subject to an analysis based primarily on the following criteria: age of the receivable, the debtor's financial position and negotiation of a payment schedule. The difference between the carrying amount and the recoverable value is recorded as a provision in net earnings or loss. Impairment may be reversed if the asset regains its value in future periods and the reversal is booked in the same item as the initial provision. Impairment is deemed permanent when the receivable itself is considered to be permanently non-recoverable and written off.

(iv) *Cash and cash equivalents (loans and receivables category)*

Cash and cash equivalents include cash on hand and demand deposits, with a maturity of less than three months, can be liquidated or sold on short notice, and do not bear any significant risk of loss in value. Short-term investments are measured at liquidation value at each period-end. Changes in liquidation value are recognized in net finance expenses.

(v) *Borrowings and other financial liabilities*

Trade and other debts are initially recorded at fair value, which is generally the same as nominal value. Bank borrowings and other financial liabilities are measured at amortized cost calculated using the effective interest rate method. Interest accrued on borrowings is included in "accounts payable and accrued liabilities" on the statement of financial position. Cash flows linked to short-term recoverable amounts are not discounted. Long-term cash flows are discounted whenever the impact is significant.

(vi) *Recognition and measurement of financial derivatives*

Financial derivatives are held from time to time to manage exposure to fuel price, interest rate and foreign exchange risks. Derivatives are initially recorded at fair value and associated transaction costs are booked in net earnings or loss when incurred. After initial recognition, derivatives are measured at fair value based on market prices at each statement of financial position date. Changes in the fair value of these instruments are recorded in net earnings or loss. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

1. Accounting Policies (continued):

(s) Borrowing costs:

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, as a part of the cost of those assets, until such time as the assets are substantially ready for their intended use. The Group identifies a qualifying asset as one that necessarily takes six months or more to get ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalizes the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of these borrowings.

To the extent that the obtaining of a qualifying asset is funded by general borrowings, the Group determines the borrowing costs eligible for capitalization by applying the weighted average cost of borrowings for the period to the expenditures on that asset.

All other borrowing costs are recognized in net earnings or loss in the period in which they are incurred.

(t) Segment reporting:

The Group operates within a single industry and within a single geographical area. All review of operating results and decisions about resources to be allocated are done at a corporate level. Accordingly no segment reporting is presented in these interim consolidated financial statements.

(u) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

2. Future accounting changes:

(a) IAS 19 *Employee Benefits*:

This standard has been amended to make certain changes to the recognition, presentation and disclosure of defined benefit plans, and becomes effective for the Group beginning April 1, 2013. As a result of these amendments, actuarial gains and losses of defined benefit plans will be immediately recognized in other comprehensive income instead of profit and loss. The option to use the corridor approach to recognize these costs over time will no longer be available. The amendments also introduce the net interest approach to disaggregate defined benefit cost. This is calculated by applying the discount rate used to measure the obligation to the net defined benefit liability (asset). In addition, the amendments change the definition of both short-term and long-term employee benefits so it is clear that the distinction between the two depends on when the entity expects the benefits to become due to be settled. The Group is analyzing the impact of this amended standard on its consolidated financial statements.

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2. Future accounting changes (continued):

(b) IFRS 9 *Financial Instruments (2010)*:

This standard replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. The Group intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on April 1, 2015. The Group is analyzing the impact of this amended standard on its consolidated financial statements.

(c) IFRS 13 *Fair Value Measurement*:

This standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on April 1, 2013. The Group does not expect IFRS 13 to have a material impact on the consolidated financial statements.

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3. Property, plant and equipment:

(a) Continuity of property, plant and equipment:

	Vessels	Berths, Building & Equipment under Finance Lease	Berths Building & Equipment	Land under Finance Lease	Land	Construction in Progress	Total
Cost:							
Balance at April 1, 2011	1,077,392	426,338	42,672	5,177	13,101	28,514	1,593,194
Additions	-	268	-	-	-	128,807	129,075
Revaluation	-	-	-	235	1,942	-	2,177
Disposals	(1,998)	(189)	(85)	-	-	(415)	(2,687)
Reclassification	(43)	(99)	99	-	-	-	(43)
Transfers from construction in progress	68,289	56,965	9,826	-	471	(135,551)	-
Balance at March 31, 2012	1,143,640	483,283	52,512	5,412	15,514	21,355	1,721,716
Additions	-	-	-	-	-	32,335	32,335
Disposals	(4,880)	(24)	(177)	-	-	(79)	(5,160)
Reclassification	(11)	(72)	72	-	-	-	(11)
Transfers from construction in progress	19,441	8,747	2,853	-	-	(31,041)	-
Balance at September 30, 2012	1,158,190	491,934	55,260	5,412	15,514	22,570	1,748,880

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3. Property, plant and equipment (continued):

(a) Continuity of property, plant and equipment (continued):

	Vessels	Berths, Building & Equipment under Finance Lease	Berths, Building & Equipment	Land under Finance Lease	Land	Construction in Progress	Total
Accumulated depreciation:							
Balance at April 1, 2011	-	-	-	-	-	-	-
Depreciation for the year	96,751	22,568	7,947	-	-	-	127,266
Disposals	(1,801)	(189)	(67)	-	-	-	(2,057)
Reclassification	-	(99)	99	-	-	-	-
Balance at March 31, 2012	94,950	22,280	7,979	-	-	-	125,209
Depreciation for the period	48,790	12,016	4,150	-	-	-	64,956
Disposals	(4,795)	(24)	(166)	-	-	-	(4,985)
Reclassification	-	(72)	72	-	-	-	-
Balance at September 30, 2012	138,945	34,200	12,035	-	-	-	185,180
Net carrying value:							
As at April 1, 2011	1,077,392	426,338	42,672	5,177	13,101	28,514	1,593,194
As at March 31, 2012	1,048,690	461,003	44,533	5,412	15,514	21,355	1,596,507
As at September 30, 2012	1,019,245	457,734	43,225	5,412	15,514	22,570	1,563,700

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3. Property, plant and equipment (continued):

(b) Other disclosures - property, plant and equipment:

For the six months ended September 30, 2012 capitalized financing costs during construction amounted to \$0.4 million (September 30, 2011: \$0.8 million) with an average capitalization rate of 5.64% (September 30, 2011: 5.64%). In addition to the construction in progress referenced above, the contractual commitments at September 30, 2012 for assets to be constructed totalled \$9.9 million (March 31, 2012: \$13.1 million).

Depreciation expense for assets under finance lease for the three months ended September 30, 2012 totalled \$6.1 million (September 30, 2011: \$5.5 million) and for the six months ended September 30, 2012 totalled \$12.0 million (September 30, 2011: \$10.8 million).

During the three months ended September 30, 2012, the Company received \$0.1 million (September 30, 2011: \$0.1 million) of rental income earned from buildings held for leasing purposes and during the six months ended September 30, 2012, received \$0.4 million (September 30, 2011: \$0.4 million). These buildings have a cost and accumulated depreciation of \$11.9 million and \$0.7 million respectively, as at September 30, 2012.

4. Intangible assets:

(a) Continuity of intangible assets:

	Acquired Software, Licenses & Rights	Internally Developed Software & Website	Assets under Development	Total
Cost:				
Balance at April 1, 2011	16,708	8,269	9,952	34,929
Additions	-	-	13,112	13,112
Disposals	-	-	-	-
Transfers from assets under development	6,077	2,510	(8,587)	-
Balance at March 31, 2012	22,785	10,779	14,477	48,041
Additions	-	-	7,174	7,174
Disposals	(357)	-	-	(357)
Transfers from assets under development	723	32	(755)	-
Balance at September 30, 2012	23,151	10,811	20,896	54,858

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4. Intangible assets (continued):

(a) Continuity of intangible assets (continued):

	Acquired Software, Licenses & Rights	Internally Developed Software & Website	Assets under Development	Total
Accumulated amortization and impairment:				
Balance at April 1, 2011	-	-	-	-
Amortization for the year	4,050	2,233	-	6,283
Disposals	-	-	-	-
Balance at March 31, 2012	4,050	2,233	-	6,283
Amortization for the period	2,333	1,125	-	3,458
Disposals	(357)	-	-	(357)
Balance at September 30, 2012	6,026	3,358	-	9,384
Net carrying value:				
As at April 1, 2011	16,708	8,269	9,952	34,929
As at March 31, 2012	18,735	8,546	14,477	41,758
As at September 30, 2012	17,125	7,453	20,896	45,474

(b) Other disclosures - intangible assets:

Capitalized financing costs during construction for intangible assets for the six months ended September 30, 2012 totalled \$0.5 million (September 30, 2011: \$0.2 million).

During the six months ended September 30, 2012, intangible assets totalling \$6.9 million (September 30, 2011: \$4.1 million) were acquired and \$0.3 million (September 30, 2011: \$0.3 million) were internally developed. Amortization expense for the six months ended September 30, 2012 totalled \$3.5 million (September 30, 2011: \$3.0 million).

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5. Loans:

Long-term debt:	September 30, 2012	As at. March 31, 2012
5.74% Senior Secured Bonds, Series 04-1, due May 2014 (effective interest rate of 5.92%)	250,000	250,000
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
6.21% Senior Secured Bonds, Series 08-2, due December 2013 (effective interest rate of 6.33%)	140,000	140,000
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	56,250	60,000
Tranche B (floating interest rate of 1.39% at September 30, 2012)	9,375	5,625
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	58,125	61,875
Tranche B (floating interest rate of 1.39% at September 30, 2012)	9,375	5,625
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	76,500	81,000
	1,299,625	1,304,125
Less: Deferred financing costs and unamortized bond discounts	(9,404)	(9,893)
Current portion	(9,000)	(9,000)
	1,281,221	1,285,232

(a) Credit facility:

There were no draws on the \$155.0 million credit facility as at September 30, 2012 (March 31, 2012: \$17.7 million). Interest expensed during the quarter ended September 30, 2012 was \$nil (September 30, 2011: \$nil). Interest expensed during the six months ended September 30, 2012 was \$0.1 million (September 30, 2011: \$0.1 million). Letters of credit outstanding against this facility at September 30, 2012 totalled \$0.1 million (March 31, 2012: \$0.1 million).

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5. Loans (continued):

(b) Debt service reserves:

The Group is required to maintain debt service reserves for the Series 04-1, 04-4, 07-1, 08-1 and 08-2 bonds equal to not less than six months forecasted debt service, to be increased under certain conditions. Further debt service reserves are required to be maintained for the 4.98% and 2.95% loans equal to not less than six months forecasted debt service, to be increased under certain conditions.

As at September 30, 2012, debt service reserves of \$35.6 million were held in short-term investments and have been classified as restricted short-term investments on the balance sheet (March 31, 2012: \$35.7 million).

6. Accrued employee future benefits:

During the quarter ended September 30, 2012 the Company recognized total defined benefit costs of \$0.4 million (September 30, 2011: \$0.3 million) and during the six months ended September 30, 2012 the Company recognized total defined benefit costs of \$0.7 million (September 30, 2011: \$1.6 million). The amount recognized in the six months ended September 30, 2011 included a cost of \$1.0 million to reflect the actuarial valuation of the residual liability at March 31, 2011 for workers' compensation claims arising from the Workers' Compensation Board deposit class coverage system in which our predecessor entity participated prior to April 1, 2003.

7. Regulated other income:

In May 2012, the *Province of British Columbia* enacted changes to the Act (Bill 20) that among other things, includes reservation fees as a regulated tariff for the purposes of determining adherence to price caps established by the Commissioner effective April 1, 2012. These fees were not regulated by the Commissioner prior to April 1, 2012.

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8. Net finance expenses:

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Finance expenses				
Long-term debt	17,811	18,175	35,482	36,237
Short-term debt	78	73	217	129
Finance leases	582	595	1,169	1193
Amortization of deferred financing costs and bond discounts	246	243	489	483
Interest capitalized in the cost of qualifying assets	(430)	(498)	(869)	(989)
Interest rate support (a)	(175)	(356)	(388)	(886)
Total finance expenses	18,112	18,232	36,100	36,167
Finance income	(653)	(531)	(1,189)	(1,202)
Net finance expenses	17,459	17,701	34,911	34,965

(a) Interest rate support:

During the years ended March 31, 2012 and 2011, the Government of Canada agreed to provide \$1.6 million and \$1.0 million respectively in the form of interest rate support to the Group for major refurbishment of one vessel in each year. During the quarter ended September 30, 2012, interest rate support recorded as a reduction of interest expense totalled \$0.2 million (September 30, 2011: \$0.4 million) and \$nil as a reduction of capitalized interest (September 30, 2012: \$nil). During the six months ended September 30, 2012 interest rate support received and recorded as a reduction of interest expense totalled \$0.4 million (September 30, 2011: \$0.9 million) and \$nil as a reduction of capitalized interest (September 30, 2011: \$0.2 million).

The Group has no requirement to repay these funds, other than as a result of an event of default under the agreement with the Government of Canada.

9. Economic effect of rate regulation:

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels.

IFRS does not have a standard for rate-regulated activities and therefore does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process. Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes the regulatory assets at September 30, 2012 detailed below are probable of future recovery and that the obligations represented by the regulatory liabilities will be settled through future tariff reductions.

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9. Economic effect of rate regulation (continued):

If the Group was permitted under IFRS to recognize the effects of rate regulation, the following regulatory assets and regulatory liabilities would be shown on the consolidated statement of financial position:

Regulatory accounts	As at,	
	September 30, 2012	March 31, 2012
Deferred first performance term costs (a):		
Balance – beginning of period	-	4,775
Current period amortization	-	(4,775)
Balance – end of period	-	-
Continuing regulatory accounts:		
Deferred fuel costs:		
Balance – beginning of period	1,256	(1,790)
Fuel costs deferred	6,914	19,486
(Surcharges collected)	(10,130)	(13,098)
Fuel price risk (recoveries from) payments to the Province	(412)	(1,799)
Other payments from the Province	(725)	(1,503)
Interest payable	4	(40)
Balance – end of period	(3,093)	1,256
Tariffs in excess of price cap (b)	-	(2,461)
Performance term submission costs	286	327
Total of regulatory accounts	(2,807)	(878)
Total regulatory (liabilities)	(2,807)	(878)
Current regulatory assets (liabilities)	82	(2,379)
Total long term regulatory (liabilities) assets	(2,889)	1,501

(a) Deferred first performance term costs:

During the four year period ended March 31, 2012, the Group recovered in tariffs \$19.1 million of costs incurred during the first performance term. These costs primarily consisted of the cost of fuel consumed that was acquired at prices greater than those recovered through tariffs during the first performance term.

(b) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. Tariffs charged to customers on all route groups were below established price caps at both September 30, 2012 and September 30, 2011. At March 31, 2012, tariffs charged to customers on the Major Route Group exceeded the price cap by \$2.5 million.

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9. Economic effect of rate regulation (continued):

If the Group was permitted under IFRS to recognize the affects of rate regulation and to record regulatory assets and regulatory liabilities, total comprehensive income for the six months ended September 30, 2012 would have been \$1.9 million lower (2011: \$0.1 million higher) as detailed below:

Effect of rate regulation on total comprehensive income	Three months ended, September 30,		Six months ended, September 30,	
	2012	2011	2012	2011
First performance term accounts:				
Amortization of deferred performance term costs	-	(1,194)	-	(2,388)
Continuing regulatory accounts:				
Deferred fuel costs	(1,706)	(219)	(4,349)	1,359
Performance term submission costs	(20)	31	(41)	94
Tariffs in excess of price cap	-	-	2,461	1,072
Total (decrease) increase in total comprehensive income	(1,726)	(1,382)	(1,929)	137

10. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the six months ended September 30, 2012, the Group paid \$74,999 (September 30, 2011: \$98,656) of such expenses.

The Province owns the Group's 75,477 non-voting preferred shares, but has no voting interest in either the Group or the Authority.

11. Transition to IFRS:

The Group's consolidated financial statements for the year ended March 31, 2013 will be the first annual consolidated financial statements prepared in accordance with IFRS and these interim consolidated financial statements have been prepared as described in note 1, including the application of *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared in accordance with IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Group will make this statement when it issues its fiscal 2013 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Group has applied IFRS is April 1, 2011, the transition date. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Group will be March 31, 2013. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

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11. Transition to IFRS (continued):

Initial elections upon adoption:

Set forth below are the applicable IFRS 1 exemptions and exceptions applied by the Group in its transition from Canadian generally accepted accounting principles (“GAAP”) to IFRS:

IFRS 1 exemption options:

(a) Employee benefits:

IFRS 1 provides the option to either retrospectively apply IAS 19, *Employee Benefits* and recognize all actuarial gains and losses on employee benefit plans in each prior period or, to recognize in opening retained earnings the cumulative gains and losses deferred under Canadian GAAP at the transition date. The Group has elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings. Accordingly, the Group has increased its liability for employee future benefits and decreased retained earnings by \$3.6 million at April 1, 2011. The impact of this change at the transition date and the resulting decrease in amortization of actuarial gains and losses for the six months ended September 30, 2011 and for the year ended March 31, 2012 are shown in the table below:

Differences from amounts previously reported under Canadian GAAP:	As at, April 1, 2011	Six months ended, September 30, 2011	Year ended, March 31, 2012
Retained earnings (decrease), beginning of period	-	(3,552)	(3,552)
Cumulative actuarial losses recognized	(3,552)	-	-
Decrease in amortization of actuarial losses	-	93	217
Retained earnings (decrease), end of period	(3,552)	(3,459)	(3,335)

(b) Previous GAAP carrying amount as deemed cost:

IFRS 1 provides the option to use as deemed cost at the transition date, the previous GAAP carrying amount of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. This exemption need not apply to all items. At transition date, an entity must also test for impairment in accordance with IAS 36, each item for which this exemption is used. The Group has elected to recognize all property, plant and equipment and intangible assets that existed at its transition date at previous GAAP carrying amounts, with the exception of land. The carrying amounts of these assets were not in excess of their recoverable amounts and therefore no impairment was recognized. The election of this exemption did not result in a change to the carrying amounts of these assets.

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11. Transition to IFRS (continued):

Initial elections upon adoption (continued):

IFRS 1 exemption options (continued):

(c) Fair value as deemed cost:

IFRS 1 provides the option to measure, at transition date, an item of property, plant and equipment or intangible assets at its fair value and use that fair value as its deemed cost at that date. The Group has elected to recognize all land assets at fair value. Accordingly, the Group has increased property, plant and equipment and retained earnings by \$12.2 million each at April 1, 2011. The impact of this change at the transition date, for the six months ended September 30, 2011, and for the year ended March 31, 2012, is shown in the table below:

Differences from amounts previously reported under Canadian GAAP:	As at, April 1, 2011	Six months ended, September 30, 2011	Year ended, March 31, 2012
Retained earnings increase, beginning of period	-	12,187	12,187
Fair value increase in carrying value of land assets	12,187	-	2,177
Retained earnings increase, end of period	12,187	12,187	14,364

IFRS 1 mandatory exceptions:

(d) Estimates:

The estimates previously made by the Group under Canadian GAAP have not been revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

Significant accounting policy differences:

In addition to the exemptions and exceptions discussed above, the following explains the significant differences between the previous Canadian GAAP policies and the current IFRS policies applied by the Group:

(e) Rate regulation:

The Group followed Accounting Guideline 19 "*Disclosures by Entities Subject to Rate Regulation*" (AcG-19) of the CICA Handbook which established guidelines on certain aspects of the disclosure and presentation of information in the financial statements of entities subject to rate regulation.

In order to recognize the economic effects of rate regulation, timing differences relating to recognition of certain revenues and expenses gave rise to regulatory assets and regulatory liabilities in the financial statements.

IFRS does not currently contain any separate guidance relating to recognition of assets and liabilities that have arisen as a result of rate regulation. Under current IFRS standards, such items have not been recognized on transition.

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11. Transition to IFRS (continued):

Significant accounting policy differences (continued):

(e) Rate regulation (continued):

Accordingly, the Group has derecognized at transition, current regulatory assets of \$3.7 million and long-term regulatory liabilities of \$1.6 million, resulting in a net reduction in retained earnings of \$2.1 million at April 1, 2011. The impact of the derecognition of regulatory assets and regulatory liabilities at the transition date, for the six months ended September 30, 2011, and for the year ended March 31, 2012 are shown in the table below:

Differences from amounts previously reported under Canadian GAAP:	As at, April 1, 2011	Six months ended, September 30, 2011	Year ended, March 31, 2012
Derecognition at transition:			
Current regulatory assets decrease	(3,703)	(3,703)	(3,703)
Long-term regulatory liabilities decrease	1,558	1,558	1,558
Retained earnings (decrease) – beginning of period	(2,145)	(2,145)	(2,145)
Effect of derecognition on net earnings for the period:			
Vehicle and passenger fares increase	-	4,443	14,487
Ferry service fees increase	-	1,750	3,302
Operations expense - fuel expense (increase)	-	(8,680)	(19,487)
Administration expense - contracted services (increase)	-	(94)	(94)
Amortization expense decrease	-	2,388	4,775
Finance expense decrease	-	56	40
Net earnings (decrease) increase	-	(137)	3,023
Retained earnings (decrease) increase – end of period	(2,145)	(2,282)	878

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11. Transition to IFRS (continued):

Significant accounting policy differences (continued):

(f) Research and training costs:

The Company previously capitalized research and training costs that were directly attributable to assets where these costs were included within the Company's rate-regulated asset base.

Under IAS 16 - *Property, Plant and Equipment* and IAS 38 - *Intangible Assets*, research and training costs do not qualify for capitalization. The impact of expensing research and training costs for the six months ended September 30, 2011 and for the year ended March 31, 2012 are shown in the table below:

Differences from amounts previously reported under Canadian GAAP:	Six months ended, September 30, 2011	Year ended, March 31, 2012
Property, plant and equipment (decrease)	(327)	(574)
Intangible assets (decrease)	(10)	(158)
Decrease in non-current assets	(337)	(732)
Operating expenses increase:		
Operations expense - Salaries, wages, benefits and consulting	(330)	(594)
Administration expense - contracted services	(4)	(130)
Total operating expenses increase	(334)	(724)
Finance expenses increase	(3)	(8)
Retained earnings (decrease)	(337)	(732)

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11. Transition to IFRS (continued):

Significant accounting policy differences (continued):

(g) Major overhauls and inspections

IAS 16, *Property, Plant and Equipment*, requires each item of property, plant and equipment with a significant cost in relation to the total cost and a different useful life to be depreciated separately. The Group incurs significant costs for periodic inspection and maintenance performed on its vessels at predetermined time intervals to maintain the integrity and efficiency of the vessel and its major components. IFRS requires the costs of these activities that restore the service potential of the vessel's hull, propulsion system and generators to be separately capitalized and depreciated over the period until the next inspection and/or overhaul. Under Canadian GAAP these costs have been expensed as incurred. Timing of inspection and major overhauls vary by class of vessel and are done on a periodic basis every two to five years. At transition, the Group quantified these inspection and major overhaul costs for each vessel and reclassified the carrying value to be depreciated over the lesser of the period to the next scheduled inspection and major overhaul or the remaining useful life of the vessel. There is no change to the cost of maintenance activities and no overall impact to earnings over the life of the vessel, only a timing difference in expense recognition. The impact of capitalizing major overhauls and inspections for the six months ended September 30, 2011, and for the year ended March 31, 2012 are shown in the table below:

Differences from amounts previously reported under Canadian GAAP:	Six months ended, September 30, 2011	Year ended, March 31 2012
Property, plant and equipment:		
Major overhauls and inspections capitalized	8,808	20,363
Less: Depreciation expense for the period	(7,896)	(15,353)
Property, plant and equipment increase	912	5,010
Maintenance expense decrease	8,807	20,361
Loss on disposal	1	2
Depreciation expense (increase)	(7,896)	(15,353)
Retained earnings increase	912	5,010

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Six months ended September 30, 2012 and 2011
(columnar dollars expressed in thousands of Canadian dollars)

11. Transition to IFRS (continued):

Financial Statement Presentation Changes:

IAS 1, *Financial Statements*, requires an entity to present provisions separately on the face of the consolidated statement of financial position. Accordingly, the following reclassifications were made at the transition date, September 30, 2011, and March 31, 2012:

Differences from amounts previously reported under Canadian GAAP:	As at,		
	April 1, 2011	September 30, 2011	March 31, 2012
Accounts payable and accrued liabilities decrease	1,377	1,402	1,277
Accrued employee costs decrease	45,411	46,150	45,745
Provisions increase	46,788	47,552	47,022

Reconciliations of Canadian GAAP to IFRS for comparative periods:

IFRS 1 requires an entity to provide a reconciliation of equity, comprehensive income and cash flows for all comparative periods presented.

Interest paid is now reported within the statement of cash flows, whereas it was previously disclosed as supplementary information. There are no other material differences between the statement of cash flows reported under Canadian GAAP to the statement of cash flows reported under IFRS.

A reconciliation from Canadian GAAP to IFRS equity as at April 1, 2011, September 30, 2011 and March 31, 2012 is provided below with reference to the changes described above:

Reconciliation of Equity:

	Note	As at,		
		April 1, 2011	September 30, 2011	March 31, 2012
Canadian GAAP equity		308,699	360,463	311,187
IFRS adjustments to equity:				
Employee benefits	a	(3,552)	(3,459)	(3,335)
Fair value of land	c	12,187	12,187	14,364
Derecognition of regulatory assets/liabilities	e	(2,145)	(2,282)	878
Research and training	f	-	(337)	(732)
Major overhauls and inspections	g	-	912	5,010
Total IFRS adjustments to equity		6,490	7,021	16,185
IFRS equity		315,189	367,484	327,372

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Six months ended September 30, 2012 and 2011

(columnar dollars expressed in thousands of Canadian dollars)

11. Transition to IFRS (continued):

Reconciliations of Canadian GAAP to IFRS for comparative periods (continued):

Reconciliation of Canadian GAAP to IFRS comprehensive income for the three and six months ended September 30, 2011 and for the year ended March 31, 2012 is provided below with reference to the changes described above:

Reconciliation of Comprehensive Income:

	Note	Three months ended, September 30, 2011	Six months ended, September 30, 2011	Year ended, March 31, 2012
Canadian GAAP comprehensive income (loss)		57,273	51,764	(16,474)
Employee benefits	a	47	93	217
Derecognition of regulatory assets/liabilities	e	1,382	(137)	3,023
Research and training costs	f	(128)	(337)	(732)
Major overhauls and inspections	g	(2,728)	912	5,010
Total IFRS adjustments to net earnings		(1,427)	531	7,518
Net income (loss)		55,846	52,295	(8,956)
Other comprehensive income:				
Revaluation increase of land assets		-	-	2,177
IFRS comprehensive income (loss)		55,846	52,295	(6,779)