

Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Nine months ended December 31, 2013 and 2012

(unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Financial Position (unaudited)
(Expressed in thousands of Canadian dollars)

	As at,	
	December 31, 2013	March 31, 2013
Assets		
Current assets		
Cash and cash equivalents	99,788	36,641
Restricted short-term investments (3(c))	35,862	35,575
Other short-term investments	96,514	43,403
Trade and other receivables	13,036	18,118
Prepaid expenses	8,599	10,706
Inventories	24,968	23,257
	278,767	167,700
Non-current assets		
Long-term loan receivable	24,515	24,515
Long-term land lease	31,719	32,063
Property, plant and equipment (note 5)	1,536,344	1,552,062
Intangible assets (note 6)	51,060	47,942
	1,643,638	1,656,582
Total assets	1,922,405	1,824,282
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	41,785	51,803
Interest payable on long-term debt	16,499	18,063
Deferred revenue	13,123	13,634
Derivative liabilities	-	12
Current portion of long-term debt (note 3)	266,500	149,000
Current portion of accrued employee future benefits	2,204	2,204
Current portion of obligations under finance lease	1,107	1,072
Provisions	51,165	50,839
	392,383	286,627
Non-current liabilities		
Accrued employee future benefits	16,057	16,604
Long-term debt (note 3)	1,074,572	1,137,212
Obligations under finance lease	45,106	45,941
	1,135,735	1,199,757
Total liabilities	1,528,118	1,486,384
Equity		
Share capital	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	290,472	234,187
Total equity before reserves	390,950	334,665
Land revaluation reserve	3,233	3,233
Employee future benefit revaluation reserve (note 7)	104	-
Total equity including reserves	394,287	337,898
Total liabilities and equity	1,922,405	1,824,282
Commitments (note 5(b))		

See accompanying notes to the interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Comprehensive Income (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
Revenue				
Vehicle and passenger fares	105,206	100,273	400,751	380,519
Ferry service fees	40,643	40,218	141,822	143,847
Retail	17,172	16,472	64,902	62,663
Federal-Provincial Subsidy Agreement	7,094	7,019	21,280	21,058
Fuel surcharges	-	1,337	-	11,467
Regulated other income	2,978	2,723	11,658	11,009
Other income	1,718	1,593	5,837	5,283
Total revenue	174,811	169,635	646,250	635,846
Expenses				
Operations	106,253	101,434	345,142	333,755
Maintenance	17,431	20,818	45,177	49,627
Administration	7,428	7,160	21,950	21,484
Cost of retail goods sold	6,842	6,492	25,252	24,068
Depreciation and amortization	33,148	33,518	101,575	101,931
Total operating expenses	171,102	169,422	539,096	530,865
Operating profit	3,709	213	107,154	104,981
Net finance and other expenses				
Net finance expenses (note 8)				
Finance income	1,078	804	2,603	1,993
Finance expenses	(17,039)	(18,207)	(53,403)	(54,307)
Total net finance expenses	(15,961)	(17,403)	(50,800)	(52,314)
Loss on disposal of capital assets	(57)	-	(69)	(61)
Total net finance and other expenses	(16,018)	(17,403)	(50,869)	(52,375)
Net (loss) earnings	(12,309)	(17,190)	56,285	52,606
Other comprehensive income (note 7)	-	-	104	-
Total comprehensive (loss) income	(12,309)	(17,190)	56,389	52,606

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31,	
	2013	2012
Cash flows from operating activities		
Net earnings	56,285	52,606
Items not affecting cash		
Net finance costs recognized in net earnings	50,800	52,314
Depreciation and amortization of non-current assets	101,575	101,931
Loss on disposal of property, plant and equipment	69	61
Other non-cash adjustments to property, plant & equipment	(62)	124
Changes in		
Long-term accrued employee future benefits	(443)	(503)
Derivative liabilities	(12)	(12)
Provisions	326	3,572
Long-term land lease	344	344
Accrued interest costs	(1,020)	301
Total non-cash items	151,577	158,132
Movements in operating working capital		
Trade and other receivables	5,082	22,342
Prepaid expenses	2,107	(2,231)
Inventories	(1,711)	(1,300)
Accounts payable and accrued liabilities	(10,018)	(16,332)
Deferred revenue	(511)	(1,555)
Change in non-cash working capital	(5,051)	924
Change attributable to capital asset acquisitions	(91)	16,122
Change attributable to contributed surplus	-	(25,000)
Change in non-cash operating working capital	(5,142)	(7,954)
Cash generated from operating activities	202,720	202,784
Interest rate support received	-	742
Interest received	3,586	1,249
Interest paid	(56,589)	(58,276)
Net cash generated by operating activities	149,717	146,499

See accompanying notes to the interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended	
	December 31,	
	2013	2012
Cash flows from financing activities		
Proceeds from issuance of bonds	200,000	-
Repayment of long-term debt	(144,500)	(4,500)
Repayment of short-term debt	-	(17,737)
Repayment of finance lease obligations	(800)	(729)
Contributed surplus payment from Province	-	25,000
Deferred financing costs incurred	(1,387)	-
Net cash provided by financing activities	53,313	2,034
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	39	75
Purchase of property, plant and equipment and intangible assets	(86,524)	(72,538)
Changes in debt service reserve	(287)	65
Purchase of short-term investments	(53,111)	(51,418)
Net cash used in investing activities	(139,883)	(123,816)
Net increase in cash and cash equivalents	63,147	24,717
Cash and cash equivalents, beginning of period	36,641	7,700
Cash and cash equivalents, end of period	99,788	32,417

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Changes in Equity (unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Land revaluation reserve	Employee future benefit revaluation reserve	Total equity including reserves
Balance as at March 31, 2012	75,478	25,000	224,717	325,195	2,177	-	327,372
Net earnings for the nine months ended December 31, 2012	-	-	52,606	52,606	-	-	52,606
Other comprehensive income for the nine months ended December 31, 2012	-	-	-	-	-	-	-
Balance as at December 31, 2012	75,478	25,000	277,323	377,801	2,177	-	379,978
Balance as at March 31, 2013	75,478	25,000	234,187	334,665	3,233	-	337,898
Net earnings for the nine months ended December 31, 2013	-	-	56,285	56,285	-	-	56,285
Other comprehensive income for the nine months ended December 31, 2013	-	-	-	-	-	104	104
Balance as at December 31, 2013	75,478	25,000	290,472	390,950	3,233	104	394,287

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)
Nine months ended December 31, 2013 and 2012
(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 for 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:

Except as described in note 1(f), the same accounting policies and methods of computation are followed in the interim consolidated financial statements as compared with the annual consolidated financial statements for the year ended March 31, 2013.

(a) 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 nine months ended December 31, 2013 and 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

(b) 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 (IAS) 34 *Interim Financial Reporting*.

These interim consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements and the notes thereto for the year ended March 31, 2013.

These interim consolidated financial statements were approved by the Board of Directors on February 20, 2014.

(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)
Nine months ended December 31, 2013 and 2012
(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) Embedded derivatives:

As at December 31, 2013, the Group has no embedded derivatives that meet the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, which would require that they are separated from host contracts and valued separately at fair value.

(f) Adoption of new accounting standards:

Employee benefits:

Effective April 1, 2013, the Group adopted IAS 19 *Employee Benefits* (amended). The amendments to this standard make certain changes to the recognition, presentation and disclosure of defined benefit plans. As a result of these amendments, actuarial gains and losses of defined benefit plans will be immediately recognized in other comprehensive income instead of net earnings or loss. The option to use the corridor approach to recognize these costs over time is no longer available. 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. As at April 1, 2013, there were no unrecognized actuarial gains and losses of the Group's defined benefit plans. There has been no impact on the Group's interim consolidated financial statements from the adoption of this standard.

Fair value measurements:

Effective April 1, 2013, the Group adopted 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 adoption of this new standard had no impact on the recognition or measurement of any items in the Group's interim consolidated financial statements. The disclosures required under IFRS 13 are provided in note 4.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)
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2. Future accounting changes:

IFRS 9 *Financial Instruments*:

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.

In November 2013, the International Accounting Standards Board issued amendments to IFRS 9. The amendments include changes which will align hedge accounting more closely with risk management activities. Although the amendments do not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; more hedging strategies used for risk management will qualify for hedge accounting. The amendments remove the mandatory effective date of January 1, 2015 for adoption of IFRS 9 with a new date to follow. Early adoption of IFRS 9 is permitted. The Group does not expect the application of IFRS 9 to have any impact on its consolidated financial statements.

International Financial Reporting Interpretations Committee (IFRIC) 21 *Levies*:

IFRIC 21, *Levies* provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 is to be applied retrospectively and is effective for the Group on April 1, 2014. The Group does not expect this guidance to have a significant impact on its annual consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Nine months ended December 31, 2013 and 2012

(columnar dollars expressed in thousands of Canadian dollars)

3. Loans:

Long-term debt:	December 31, 2013	March 31, 2013
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
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	-
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	46,875	52,500
Tranche B (floating interest rate of 1.52% at December 31, 2013)	18,750	13,125
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	48,750	54,375
Tranche B (floating interest rate of 1.52% at December 31, 2013)	18,750	13,125
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	67,500	72,000
	1,350,625	1,295,125
Less: Deferred financing costs and unamortized bond discounts	(9,553)	(8,913)
Current portion	(266,500)	(149,000)
	1,074,572	1,137,212

BRITISH COLUMBIA FERRY SERVICES INC.

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3. Loans (continued):

(a) Bonds:

On July 24, 2013, the Group exercised its right to redeem the Series 08-2 Bonds. In accordance with the provisions of the Master Trust Indenture, the Group paid to the registered holders of the bonds a total of \$143.2 million which reflects a redemption price of \$1,016.70 per \$1,000 together with unpaid interest accrued to the redemption date. The redemption was funded with draws on the credit facility of \$88.0 million and cash on hand of \$55.2 million. The bond redemption premium paid of \$2.3 million was recognized in finance expense.

On October 25, 2013, the Group issued \$200 million of senior secured bonds. The Series 13-1 bonds bear interest at 4.702% per annum, payable semi-annually and will mature October 23, 2043. A debt service reserve for these bonds has been established in the amount of \$4.7 million. The bond issue is partially related to the early redemption in July 2013 of the \$140 million bond Series 08-2. The net proceeds from the sale of the bonds will be used to partially fund capital expenditures, to repay outstanding draws on the credit facility, to fund the reserve account and to provide funding for general corporate purposes.

(b) Credit facility:

There were no draws on the \$155.0 million credit facility as at December 31, 2013 (March 31, 2013: nil). Interest expensed during the quarter ended December 31, 2013 was \$0.1 million (December 31, 2012: \$nil). Interest expensed during the nine months ended December 31, 2013 was \$0.3 million (December 31, 2012: \$0.1 million). Letters of credit outstanding against this facility at December 31, 2013 totalled \$0.1 million (March 31, 2013: \$0.1 million).

(c) Debt service reserves:

The Group is required to maintain debt service reserves for the Series 04-1, 04-4, 07-1, 08-1 and 13-1 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 12 year loans and the 2.95% loan equal to not less than six months forecasted debt service, to be increased under certain conditions.

As a result of their redemption on July 24, 2013, the Group is no longer required to maintain a debt service reserve for the Series 08-2 bonds. As at December 31, 2013, debt service reserves of \$35.9 million were held in short-term investments and have been classified as restricted short-term investments on the balance sheet (March 31, 2013: \$35.6 million).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Nine months ended December 31, 2013 and 2012

(columnar dollars expressed in thousands of Canadian dollars)

4. Financial instruments:

The carrying and fair values of the Group's financial instruments are as follows:

	December 31, 2013		March 31, 2013	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Available for sale ¹				
Cash	22,722	22,722	19,043	19,043
Financial assets/liabilities at fair value ²				
Cash equivalents	642	642	93	93
Derivative liabilities	-	-	12	12
Held-to-maturity ³				
Cash equivalents	76,424	76,424	17,505	17,505
Restricted short-term investments	35,862	35,862	35,575	35,575
Other short-term investments	96,514	96,514	43,403	43,403
Loans and receivables ³				
Trade and other receivables	13,036	13,036	18,118	18,118
Long-term loan receivable ⁴	24,515	24,515	24,515	24,515
Other financial liabilities ³				
Accounts payable and accrued liabilities	41,785	41,785	51,803	51,803
Interest payable on long-term debt	16,499	16,499	18,063	18,063
Provisions	51,165	51,165	50,839	50,839
Long-term debt, including current portion ^{5,6}	1,341,072	1,461,859	1,286,212	1,486,749

¹ Measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the statement of financial position. Due to the nature of this financial instrument, carrying value approximates fair value.

² Measured at fair value with all gains and losses included in net earnings in the period in which they arise. Fair values for the derivative liabilities have been estimated using period-end market rates. These fair values approximate the amount that the Group would pay to settle the contract at the date of the statement of financial position.

³ Measured at amortized cost. Due to the nature of these financial instruments and/or short-term maturity of these financial instruments, carrying value approximates fair value except as noted.

⁴ Measured at amortized cost. Carrying value approximates fair value as the rate of return is variable and is expected to return a market rate of interest.

⁵ Carrying value is measured at amortized cost using the effective interest rate method.

⁶ Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statement of financial position, or by using available quoted market prices.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)
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4. Financial instruments (continued):

The following items shown in the consolidated statement of financial position at December 31, 2013 and March 31, 2013 are measured at fair value on a recurring basis using level 1 or 2 inputs. The fair value of the financial assets and liabilities at December 31, 2013 and at March 31, 2013, using level 3 inputs, was \$nil.

	As at December 31, 2013		As at March 31, 2013	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash ¹	22,722	-	19,043	-
Cash equivalents ¹	642	-	93	-
Derivatives ²	-	-	-	(12)
Long-term debt, including current portion ²	-	(1,461,859)	-	(1,486,749)
	23,364	(1,461,859)	19,136	(1,486,761)

¹ Classified in level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

² Classified in level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on the Group's current borrowing rate for similar borrowing arrangements.

No amounts have been reclassified into or out of fair value classifications in the nine months ended December 31, 2013. Financial assets have been pledged as security for liabilities under the Master Trust Indenture. The Group does not hold any multiple embedded derivative financial assets or liabilities. No loans or receivables or financial liabilities have been categorized as fair value through net earnings or loss.

As at December 31, 2013, all available for sale and held-for-trading financial instruments are classified as level 1 in the fair value hierarchy with quoted prices in active markets.

During the nine months ended December 31, 2013, no profits resulting from the use of valuation techniques used to measure level 2 or 3 instruments in the fair value hierarchy (i.e. those with no active market price) have been recognized.

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the stated dates.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)
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 (columnar dollars expressed in thousands of Canadian dollars)

5. 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 March 31, 2013	1,174,052	508,911	59,290	5,412	16,450	30,668	1,794,783
Additions	-	-	-	-	-	80,743	80,743
Disposals	(16,136)	(1,382)	(71)	-	-	(45)	(17,634)
Transfers from construction in progress	18,414	12,794	6,305	-	-	(37,513)	-
Balance at December 31, 2013	1,176,330	520,323	65,524	5,412	16,450	73,853	1,857,892
Accumulated depreciation:							
Balance at March 31, 2013	180,229	46,362	16,130	-	-	-	242,721
Depreciation for the period	72,115	18,176	5,952	-	-	-	96,243
Disposals	(15,994)	(1,383)	(39)	-	-	-	(17,416)
Balance at December 31, 2013	236,350	63,155	22,043	-	-	-	321,548
Net carrying value:							
March 31, 2013	993,823	462,549	43,160	5,412	16,450	30,668	1,552,062
December 31, 2013	939,980	457,168	43,481	5,412	16,450	73,853	1,536,344

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5. Property, plant and equipment (continued):

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

During the nine months ended December 31, 2013 capitalized financing costs during construction amounted to \$1.3 million (December 31, 2012: \$0.5 million) with an average capitalization rate of 5.56% (December 31, 2012: 5.64%). In addition to the construction in progress referenced above, the contractual commitments at December 31, 2013 for assets to be constructed totalled \$22.7 million (March 31, 2013: \$23.1 million).

During the three months ended December 31, 2013, the Company received \$0.2 million (December 31, 2012: \$0.2 million) of rental income earned from buildings held for leasing purposes and during the nine months ended December 31, 2013, received \$0.6 million (December 31, 2012: \$0.6 million). These buildings have a cost and accumulated depreciation of \$11.9 million and \$1.2 million respectively, as at December 31, 2013.

BRITISH COLUMBIA FERRY SERVICES INC.

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6. Intangible assets:

(a) Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Cost:				
Balance at March 31, 2013	24,369	10,811	25,439	60,619
Additions	-	-	8,450	8,450
Transfers from assets under development	5,913	705	(6,618)	-
Balance at December 31, 2013	30,282	11,516	27,271	69,069
Accumulated amortization and impairment:				
Balance at March 31, 2013	8,202	4,475	-	12,677
Amortization for the period	3,395	1,937	-	5,332
Balance at December 31, 2013	11,597	6,412	-	18,009
Net carrying value:				
March 31, 2013	16,167	6,336	25,439	47,942
December 31, 2013	18,685	5,104	27,271	51,060

(b) Other disclosures - intangible assets:

Capitalized financing costs during construction for intangible assets for the nine months ended December 31, 2013 totalled \$1.1 million (December 31, 2012: \$0.8 million).

During the nine months ended December 31, 2013, intangible assets totalling \$8.2 million (December 31, 2012: \$8.7 million) were acquired and \$0.1 million (December 31, 2012: \$0.4 million) were internally developed.

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7. Accrued employee future benefits:

During the three months ended December 31, 2013 the Company recognized total defined benefit costs of \$0.4 million (December 31, 2012: \$0.4 million) and during the nine months ended December 31, 2013 the Company recognized total defined benefit costs of \$1.1 million (December 31, 2012: \$1.1 million).

During the quarter ended September 30, 2013, a gain of \$0.1 million was recognized in other comprehensive income to reflect the actuarial valuation of the residual liability at March 31, 2013 for workers' compensation claims arising from the Workers' Compensation Board deposit class coverage system in which the Group's predecessor entity participated prior to April 1, 2003.

8. Net finance expenses:

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Finance expenses				
Long-term debt	17,158	17,776	53,003	53,258
Short-term debt	121	66	535	284
Finance leases	505	580	1,524	1,748
Amortization of deferred financing costs and bond discounts	215	248	746	737
Interest capitalized in the cost of qualifying assets	(960)	(463)	(2,405)	(1,332)
Interest rate support	-	-	-	(388)
Total finance expenses	17,039	18,207	53,403	54,307
Finance income	(1,078)	(804)	(2,603)	(1,993)
Total	15,961	17,403	50,800	52,314

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 December 31, 2013 detailed below are probable of future recovery and that the obligations represented by the regulatory liabilities will be settled through future tariff reductions.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Nine months ended December 31, 2013 and 2012

(columnar dollars expressed in thousands of Canadian dollars)

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,	
	December 31, 2013	March 31, 2013
Deferred fuel costs :		
Balance – beginning of period	(1,415)	1,256
Fuel costs deferred	9,790	11,266
Surcharges collected	-	(11,469)
Fuel price risk recoveries from the Province	(1,185)	(1,023)
Other payments from the Province	(1,048)	(1,449)
Interest receivable (payable)	-	4
Balance – end of period	6,142	(1,415)
Tariffs in excess of price cap (a)	(1,666)	-
Performance term submission costs	184	245
Total of regulatory accounts	4,660	(1,170)
Total regulatory assets (liabilities)	4,660	(1,170)
Current regulatory (liabilities) assets	(1,584)	82
Total long term regulatory assets (liabilities)	6,244	(1,252)

(a) 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 were \$1.7 million above established price caps at December 31, 2013. Tariffs charged to customers were below established price caps at March 31, 2013.

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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 nine months ended December 31, 2013 would have been \$5.8 million higher (2012: \$2.4 million lower) as detailed below:

	Three months ended, December 31,		Nine months ended, December 31,	
	2013	2012	2013	2012
Effect of rate regulation on total comprehensive income				
Regulatory accounts:				
Deferred fuel costs	2,221	(428)	7,557	(4,777)
Performance term submission costs	(20)	(20)	(61)	(61)
Tariffs in excess of price cap	564	-	(1,666)	2,461
Total increase (decrease) in total comprehensive income	2,765	(448)	5,830	(2,377)

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 nine months ended December 31, 2013, the Group paid \$138,788 (December 31, 2012: \$112,701) 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.