

Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2015 and 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of British Columbia Ferry Services Inc.

We have audited the accompanying consolidated financial statements of British Columbia Ferry Services Inc., which comprise the consolidated statements of financial position as at March 31, 2015 and March 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Ferry Services Inc. as at March 31, 2015 and March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and extends to the right, ending under the "P".

Chartered Accountants

June 19, 2015
Victoria, Canada

BRITISH COLUMBIA FERRY SERVICES INC.

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

	As at March 31,	
	2015	2014
Assets		
Current assets		
Cash and cash equivalents (note 3)	65,574	71,365
Restricted short-term investments (note 4(e))	32,496	35,792
Other short-term investments	62,098	81,006
Trade and other receivables (note 6(a))	19,490	16,577
Prepaid expenses	6,177	6,934
Inventories (note 7)	25,393	25,073
	211,228	236,747
Non-current assets		
Loan receivable (note 8)	24,515	24,515
Land lease (note 9)	31,146	31,604
Property, plant and equipment (note 10)	1,524,692	1,539,162
Intangible assets (note 11)	65,031	53,164
	1,645,384	1,648,445
Total assets	1,856,612	1,885,192
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	57,401	48,134
Interest payable on long-term debt	18,329	19,634
Deferred revenue	16,957	14,563
Derivative liabilities	4,433	5,274
Current portion of long-term debt (note 4)	24,000	270,250
Current portion of accrued employee future benefits (note 13)	2,400	2,204
Current portion of obligations under finance lease (note 8)	1,309	1,120
Provisions (note 14)	48,065	51,801
	172,894	412,980
Non-current liabilities		
Accrued employee future benefits (note 13)	18,800	15,931
Long-term debt (note 4)	1,241,699	1,066,531
Obligations under finance lease (note 8)	43,514	44,821
Other liabilities (note 15)	1,500	-
	1,305,513	1,127,283
Total liabilities	1,478,407	1,540,263
Equity		
Share capital (note 17)	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	289,177	246,142
Total equity before reserves	389,655	346,620
Reserves (note 18(a))	(11,450)	(1,691)
Total equity including reserves	378,205	344,929
Total liabilities and equity	1,856,612	1,885,192
Commitments (note 10(b) and note 26)		
Contingencies (note 27)		

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars)

	Years ended March 31,	
	2015	2014
Revenue		
Vehicle and passenger fares	519,991	489,305
Ferry service fees (note 19)	175,935	180,076
Retail	80,635	78,932
Federal-Provincial Subsidy Agreement (note 20)	28,355	28,373
Fuel surcharges	13,195	2,689
Regulated other income (note 21)	14,511	13,458
Other income	8,526	7,328
Total revenue	841,148	800,161
Operating expenses		
Operations	447,261	451,670
Maintenance	68,070	63,240
Administration	32,023	31,636
Cost of retail goods sold	32,405	30,860
Depreciation and amortization	142,806	136,896
Total operating expenses	722,565	714,302
Operating profit	118,583	85,859
Net finance and other expenses		
Net finance expenses (note 23)		
Finance income	4,310	3,721
Finance expenses	(64,689)	(71,030)
Net finance expenses	(60,379)	(67,309)
Loss on disposal and revaluation of property, plant and equipment and intangible assets	(9,131)	(557)
Net finance and other expenses	(69,510)	(67,866)
Net earnings	49,073	17,993
Other comprehensive loss (note 18(b))		
Items not to be reclassified to net earnings	(3,138)	116
Items to be reclassified to net earnings	(6,850)	(5,040)
Total other comprehensive loss	(9,988)	(4,924)
Total comprehensive income	39,085	13,069

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Years ended March 31,	
	2015	2014
Cash flows from operating activities		
Net earnings	49,073	17,993
Items not affecting cash		
Net finance expense	60,379	67,309
Depreciation and amortization	142,806	136,896
Loss on disposal and revaluation of property, plant and equipment and intangible assets	9,131	557
Other non-cash adjustments to property, plant and equipment	(926)	523
Changes in		
Accrued employee future benefits	175	(569)
Derivative liabilities recognized in net earnings	(39)	222
Provisions	(3,736)	962
Long-term land lease	458	459
Accrued interest costs	(298)	(1,110)
Total non-cash items	207,950	205,249
Movements in operating working capital		
Trade and other receivables	(2,913)	1,541
Prepaid expenses	757	3,772
Inventories	(320)	(1,816)
Accounts payable and accrued liabilities	9,267	(3,669)
Deferred revenue	2,394	929
Change in non-cash working capital	9,185	757
Change attributable to capital asset acquisitions	4,652	(1,908)
Change in non-cash operating working capital	13,837	(1,151)
Cash generated from operating activities	270,860	222,091
Interest rate support received (note 23(a))	442	-
Interest received	4,582	4,554
Interest paid	(69,188)	(71,402)
Net cash generated by operating activities	206,696	155,243

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Years ended March 31,	
	2015	2014
Cash flows from financing activities		
Proceeds from issuance of bonds	200,000	200,000
Repayment of long-term debt	(270,250)	(149,000)
Repayment of finance lease obligations	(1,118)	(1,072)
Dividends paid on preferred shares	(6,038)	(6,038)
Deferred financing costs incurred	(1,326)	(1,390)
Hedge losses on interest rate forward contracts	(7,652)	-
Net cash (used in) generated by financing activities	(86,384)	42,500
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	121	53
Purchase of property, plant and equipment and intangible assets	(148,428)	(125,252)
Changes in debt service reserve	3,296	(217)
Net proceeds from (purchase of) short-term investments	18,908	(37,603)
Net cash used in investing activities	(126,103)	(163,019)
Net (decrease) increase in cash and cash equivalents	(5,791)	34,724
Cash and cash equivalents, beginning of year	71,365	36,641
Cash and cash equivalents, end of year	65,574	71,365

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 18(a))	Total equity including reserves
Balance as at April 1, 2013	75,478	25,000	234,187	334,665	3,233	337,898
Net earnings for the year ended March 31, 2014	-	-	17,993	17,993	-	17,993
Other comprehensive loss for the year ended March 31, 2014	-	-	-	-	(4,924)	(4,924)
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2014	75,478	25,000	246,142	346,620	(1,691)	344,929
Net earnings for the year ended March 31, 2015	-	-	49,073	49,073	-	49,073
Other comprehensive loss for the year ended March 31, 2015	-	-	-	-	(9,988)	(9,988)
Hedge losses reclassified to net earnings	-	-	-	-	229	229
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2015	75,478	25,000	289,177	389,655	(11,450)	378,205

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts 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) 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 consolidated financial statements of the Company as at and for the years ended March 31, 2015 and 2014 comprise the Company and its subsidiaries (together referred to as the “Group”).

(b) Statement of compliance:

These consolidated financial statements represent the annual statements of the Group prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). In accordance with IFRS, the Group has provided comparative financial information and applied the same accounting policies throughout all periods presented.

These consolidated financial statements were approved by the Board of Directors on June 19, 2015.

(c) Basis of measurement:

These 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, cash and cash equivalents.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(d) Functional and presentation currency:

These 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) Use 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 levels, employee turnover rates and mortality tables.

(iii) Derivative liabilities

Fair values for the derivative liabilities are 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. The calculation of the effectiveness of instruments that have been designated for hedge accounting is based on key estimates for the market price, rate of interest and volatility, and the credit risk of the instruments.

Significant judgments relate to the provision for contingencies, including asset retirement obligations. In forming these judgments, the Group 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(f) Basis of consolidation – subsidiaries (continued):

The subsidiary holdings of the Group as at March 31, 2015 are:

Pacific Marine Leasing Inc.

BCF Captive Insurance Company Ltd.

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

(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. The cost includes the initial estimate of retirement obligations. Land is valued at fair value at each year-end 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(h) Property, plant and equipment (continued):

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

(i) Intangible assets:

Intangible assets consist of acquired computer software and licenses and rights of use 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. Rights of use intangible assets are amortized on a straight-line basis over their estimated useful lives of 10 to 30 years. 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(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 unit credit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). Under the projected unit credit 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 and death benefit plans, the actuarial gain (loss) is recognized in other comprehensive income. The average remaining service period of the active employees covered by the retirement and death benefit plans was 8.4 years as at March 31, 2014, the date of the most recent actuarial valuation.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(k) Employee benefits (continued):

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 constructive) 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.

(m) Revenues:

Revenue from vehicles and passenger fares and fuel surcharges 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.

Ferry service fees and federal-provincial subsidies are recognized as revenue as services specified in the related agreements with the Province are performed.

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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(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/GST purposes.

(q) Impairment of non-financial assets:

Non-financial assets with finite lives, including property, plant and equipment and intangible assets, are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets (this can be at the asset or cash-generating unit level). The Group defines a cash-generating unit as a route group. Price caps for each route group, as defined in the Coastal Ferry Services Contract with the Province of British Columbia (the "Province"), are set by the Commissioner based on the principle that the costs necessary to provide service system-wide are recovered.

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.

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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(r) Financial assets and liabilities:

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

Financial liabilities include bank borrowings, bonds, interest on long-term debt, 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. Financial assets with maturities of less than twelve months are presented as “current assets” or “cash equivalents” depending on the circumstances.

(i) Recognition and measurement of non-derivative financial instruments

Financial instruments are initially recognized at fair value. If the financial instrument is not classified at fair value through profit or loss, then the initial measurement includes directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial assets are classified and measured into one of three categories as follows:

- amortized cost (the asset is held in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”); or
- fair value through other comprehensive income (the business objective is achieved by both collecting contractual cash flows and selling assets, and the cash flows represent SPPI); or
- fair value through net earnings or loss (all financial assets not recognized in one of the two previous categories).

Financial liabilities are classified as either amortized cost or at fair value through net earnings or loss.

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

(ii) Loans and advances

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, less impairment losses, if any. 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 Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(r) Financial assets and liabilities (continued):

(iii) Trade and other receivables

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 line 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

Cash and cash equivalents include cash on hand and demand deposits with a maturity of less than three months when acquired. Due to the nature of these financial instruments and/or short-term maturity of these financial instruments, carrying value approximates fair value. The instruments held in this category can be liquidated or sold on short notice, and do not bear any significant risk of loss in value.

(v) Borrowings and other financial liabilities

Trade and other debts are initially recorded at fair value, which is generally the same as nominal value plus or minus any premiums or discounts. Bank borrowings and other financial liabilities are subsequently measured at amortized cost calculated using the effective interest rate method. Interest accrued on short-term borrowings is included in "accounts payable and accrued liabilities" on the statement of financial position. Cash flows linked to short-term payable amounts are not discounted. Long-term cash flows are discounted whenever the impact is significant. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(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 recognized 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 except where the instrument has been designated as a hedging item in a cash flow hedge.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(r) Financial assets and liabilities (continued):

(vii) Fair value hierarchy

In estimating fair value, the Group uses quoted market prices when available. Models incorporating observable market data along with transaction specific factors are also used in estimating fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of observability of inputs that are significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the following fair value hierarchy levels:

- level 1 – quoted prices in active markets for identical assets or liabilities;
- level 2 – techniques (other than quoted prices included in level 1) that are observable for the asset or liability, either directly (as prices), or indirectly (as derived from prices); and
- level 3 – techniques which use inputs which have a significant effect on recorded fair values for the asset or liability that are not based on observable market data (unobservable inputs).

(s) Hedging relationships:

Derivative financial instruments are utilized by the Group to manage its risk of volatility in foreign currency, interest rate, and fuel price. The Group does not utilize derivative financial instruments for trading or speculative purposes. At the inception of each hedge the Group determines whether it will or will not apply hedge accounting.

When applying hedge accounting, the Group documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecast transactions. The Group also assesses, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

When derivatives are designated in a cash flow hedging relationship, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income. Gains or losses on derivatives used in cash flow hedges of forecast purchases of non-financial assets are removed from the cash flow hedging reserve and are included in the initial carrying amount of the non-financial asset acquired. Gains or losses on derivatives for hedging relationships related to other cash flow hedges are reclassified from other comprehensive income to net earnings or loss when the hedged item affects net earnings or loss. Any ineffective portion of a hedge relationship is recognized immediately in net earnings or loss.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(s) Hedging relationships (continued):

When derivatives in a hedging relationship are terminated, expired, sold or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Amounts recorded in other comprehensive income are recognized in net earnings or loss in the period in which underlying hedged transactions are completed. Gains or losses arising subsequent to derivatives not qualifying for hedge accounting are recognized in earnings or loss immediately. If the forecast transaction is no longer expected to occur, then the amounts in accumulated other comprehensive income are reclassified to earnings or loss immediately.

(t) 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 those 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.

(u) Debt transaction costs:

Legal and financing costs incurred for arranging long-term debt are capitalized. Once the debt is issued these costs are reclassified from deferred costs to long-term debt which is measured using the effective interest rate method.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(v) Asset retirement obligations:

In the period when it can be reasonably determined, the Group recognizes a liability at its fair value for any legal obligations associated with the retirement of long-lived assets when those obligations result from the acquisition, construction, development or normal operation of the assets. A corresponding asset retirement cost is added to the carrying amount of the related asset and amortized to expense on a systematic and rational basis.

It is possible that the Group's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Group's long-lived assets include certain vessels which contain undetermined amounts of asbestos. Under certain circumstances the Group may be required to handle and dispose of the asbestos in a manner required by regulations. It is the Group's intention to sell decommissioned vessels into world markets for continued use in providing commercial ferry service. Under these circumstances asbestos remediation would become the responsibility of the new owner.

No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of any such liability due to the indeterminate magnitude, likelihood or financial impact, if any, of this issue.

(w) Interest rate support:

The Group receives interest rate support from the Government of Canada for eligible new Canadian built vessels or major refurbishment of vessels. Amounts receivable in regard to capitalized interest are recognized as a reduction of capitalized interest upon completion of the project. Amounts receivable in regard to post-completion debt service costs are recognized as a reduction to interest expense.

(x) Comprehensive income:

The Group recognizes increases in the fair values of land assets in other comprehensive income except to the extent that such an increase represents a reversal of a decrease for the same asset that was previously recognized in net earnings or loss. A decrease in the fair values of land assets is recognized in net earnings or loss to the extent the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

The Group recognizes actuarial gains and losses on employee future benefits in other comprehensive income and does not reclassify these to net earnings or loss in subsequent periods.

In cash flow hedging relationships, the Group recognizes the effective portion of the change in the fair values of the derivatives in other comprehensive income until the hedged item is derecognized at which time any gain or loss is transferred to net earnings or loss or applied to a non-financial asset or non-financial liability.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(y) 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 consolidated financial statements.

(z) Adoption of new accounting standards:

IFRS 9 *Financial Instruments* (2013):

The Group early adopted all of the requirements of IFRS 9 (2013), *Financial Instruments*, as amended November 2013 ("IFRS 9 (2013)") with an initial application date of October 1, 2014. This standard replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. As a result of the early adoption, the Group has changed its accounting policy with respect to financial instruments. The standard eliminates the existing IAS 39 financial asset categories of held-to-maturity, available-for-sale and loans and receivables. Under IFRS 9 (2013), financial assets are classified at amortized cost, fair value through net earnings or loss or fair value through other comprehensive income. Most of the requirements for classification and measurement of financial liabilities were carried forward to IFRS 9 (2013). IFRS 9 (2013) includes changes which align hedge accounting more closely with risk management activities, increases the scope of hedged items eligible for hedge accounting and changes the requirements for hedge effectiveness. The adoption of this standard did not result in any change in carrying value to financial instruments on transition date. The additional disclosures required under IFRS 9 (2013) are provided in Note 5.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(z) Adoption of new accounting standards (continued):

Effective October 1, 2014, the Group's financial instruments are classified as follows under IFRS 9 (2013) as compared to the Group's previous policy under IAS 39:

Assets/Liabilities	IAS 39	IFRS 9 (2013)
Cash	Available for sale	Fair value through other comprehensive income
Cash equivalents	Fair value through net earnings or loss	Fair value through net earnings or loss
Cash equivalents	Held-to-maturity	Amortized cost
Derivatives	Fair value through net earnings or loss	Fair value through net earnings or loss
Derivatives (hedges)	Fair value through other comprehensive income	Fair value through other comprehensive income
Restricted short-term investments	Held-to-maturity	Amortized cost
Other short-term investments	Held-to-maturity	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Long-term loan receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable on long-term debt	Other financial liabilities	Amortized cost
Long-term debt including current portion	Other financial liabilities	Amortized cost

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

Effective April 1, 2014, the Group retrospectively applied IFRIC 21, *Levies*. This IFRIC provides guidance on when to recognize a liability for a levy imposed by a government. The application of this IFRIC has had no impact on the Group's consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

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2. Future accounting changes:

IFRS 9 Financial Instruments (2014):

On July 24, 2014, the International Accounting Standards Board (IASB) issued the completed version of IFRS 9. IFRS 9 (2014) introduces a new expected credit loss model for calculating impairment, and incorporates the guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Group does not expect the application of IFRS 9 (2014) to have a significant impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 11 *Construction Contracts* and IAS 18 *Revenue*. It provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 15 was issued in May 2014 with an effective date of January 1, 2017. Earlier application is permitted. On April 28, 2015, the IASB tentatively decided to defer the effective date by one year. The Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets:

The IASB has issued Clarification of Acceptable Methods of Depreciation and Amortization. The amendments clarify that a revenue-based depreciation method is not considered to be an appropriate manifestation of consumption because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments apply prospectively and are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The application of these amendments will not have any impact on the Group's consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

3. Cash and cash equivalents:

	As at March 31,	
	2015	2014
Cash	37,880	11,783
Cash equivalents:		
Investments valued at fair value through net earnings or loss	2,508	3
Investments valued at amortized cost	25,186	59,579
Total	65,574	71,365

4. Loans:

	As at March 31,	
	2015	2014
Long-term debt:		
5.74% Senior Secured Bonds, Series 04-1, due May 2014 (effective interest rate of 5.92%)	-	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
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	200,000	-
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	37,500	45,000
Tranche B (floating interest rate of 1.30% at March 31, 2015)	22,500	20,625
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	39,375	46,875
Tranche B (floating interest rate of 1.29% at March 31, 2015)	22,500	20,625
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	54,000	63,000
	1,275,875	1,346,125
Less: Deferred financing costs and unamortized bond discounts	(10,176)	(9,344)
Current portion	(24,000)	(270,250)
Total	1,241,699	1,066,531

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

4. Loans (continued):

In May 2004, the Group entered into a master trust indenture which established common security and a set of common covenants for the benefit of all lenders under the Group's financing plan. The financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings, ranking *pari passu*.

The Group has issued seven series of obligation bonds under the Master Trust Indenture ("MTI") and entered into a credit facility agreement. In addition, the Group has entered into loan agreements which provided \$288 million to partially finance the Group's purchase of two Super 'C' class vessels and one northern vessel. These funds were released to coincide with the conditional acceptance of the vessels in February 2008, May 2008 and January 2009.

(a) Bonds:

Bonds are issued under supplemental indentures either as obligation bonds or as pledged bonds. The bonds are secured by a registered first mortgage and charge over vessels, an unregistered first mortgage and charge over ferry terminal leases, and by a general security agreement on property and contracts. The bonds are redeemable in whole or in part at the option of the Group. The following table shows the semi-annual interest payment dates for the obligation bonds each year through to maturity.

Bonds	Interest payment dates	
Series 04-4	April 13	October 13
Series 07-1	March 20	September 20
Series 08-1	January 11	July 11
Series 13-1	April 23	October 23
Series 14-1	April 28	October 28

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 was established in the amount of \$4.7 million. The bond issue was 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 was used to repay outstanding draws on the credit facility and to fund the reserve account, and to partially fund capital expenditures and provide funding for general corporate purposes.

On April 28, 2014, the Group issued \$200 million of senior secured bonds. The Series 14-1 bonds bear interest at 4.289% per annum, payable semi-annually and will mature April 28, 2044. A debt service reserve for these bonds has been established in the amount of \$4.3 million. The net proceeds from the sale of the bonds were, together with additional cash on hand, used to repay the \$250 million Series 04-1 bonds, which matured on May 27, 2014, to fund the related debt service reserve and provide funding for general corporate purposes.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

4. Loans (continued):

(b) 12 Year Loans:

Proceeds of \$90.0 million were received in each of February 2008 and May 2008 for the partial financing of the purchase of the *Coastal Inspiration* and the *Coastal Celebration* to coincide with conditional acceptance of these vessels from the shipyard. Quarterly payments are due in March, June, September and December each year of the term of the loans.

These loan agreements deferred the principal payments for the first three years to a second tranche (Tranche B) on which interest only is paid in periods ranging from one to six months at the option of the Group, with the principal balance due when the loan matures. The interest rates on Tranche B are reset at floating rates of CAD LIBOR plus 30 bps (effective June 2013, CDOR plus 30 bps), which will vary depending on the interest payment period. During the quarter ended September 30, 2011, the Group entered into amendments to the two loan agreements. These amendments allowed for the continuance of principal payment deferrals to Tranche B for three years provided that the outstanding balance of Tranche B was first fully prepaid. The Group fully prepaid the outstanding Tranche B balances of both loans (\$22.5 million each); consequently, the Tranche A principal payments were financed by draws under Tranche B until June 2014. Since June 2014, the Tranche B balance for each loan reached a maximum of \$22.5 million and regular principal repayments resumed on Tranche A.

(c) 2.95% Loan:

Proceeds of \$108.0 million were received in January 2009 and applied toward the purchase of the *Northern Expedition* to coincide with conditional acceptance from the shipyard. Equal semi-annual principal payments plus interest are due in January and July each year of the 12 year term of the loan.

(d) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of \$155.0 million, was amended on March 13, 2015 to extend the maturity date to April 2020. There were no draws on this credit facility as at March 31, 2015 and as at March 31, 2014. There was no interest expensed during the year ended March 31, 2015 (March 31, 2014: \$0.3 million). Letters of credit outstanding against this facility at March 31, 2015 totalled \$0.3 million (March 31, 2014: \$0.1 million).

(e) Debt service reserves:

The Group is required to maintain debt service reserves for the Series 04-4, 07-1, 08-1, 13-1, and 14-1 bonds equal to not less than six months forecast 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 forecast debt service, to be increased under certain conditions.

As a result of their redemption on May 27, 2014, the Group is no longer required to maintain a debt service reserve for the Series 04-1 bonds.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

4. Loans (continued):

(e) Debt service reserves (continued):

As at March 31, 2015, debt service reserves of \$32.5 million were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position (March 31, 2014: \$35.8 million).

5. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2015 and March 31, 2014 for all financial instruments except for long-term debt:

	As at March 31, 2015		As at March 31, 2014	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion ^{1,2}	1,265,699	1,622,645	1,336,781	1,515,137

¹ Carrying value is measured at amortized cost using the effective interest rate method.

² 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 Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

5. Financial instruments (continued):

The following items shown in the consolidated statement of financial position at March 31, 2015 and March 31, 2014 are measured on a recurring basis using level 1 or 2 inputs. There are no financial assets and liabilities at March 31, 2015 or at March 31, 2014, valued using level 3 inputs.

	As at March 31, 2015		As at March 31, 2014	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash ¹	37,880	-	11,783	-
Cash equivalents ¹	2,508	-	3	-
Derivatives ²	-	(4,433)	-	(5,274)
Long-term debt, including current portion ²	-	(1,622,645)	-	(1,515,137)
	40,388	(1,627,078)	11,786	(1,520,411)

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 year ended March 31, 2015. Financial assets have been pledged as security for liabilities under the MTI.

As at March 31, 2015, all financial instruments measured at fair value (excluding derivatives) have been classified as level 1 in the fair value hierarchy with quoted prices in active markets.

During the year ended March 31, 2015, 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 Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

6. Financial risk management:

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Group's business.

The source of risk exposure and how each is managed is outlined below.

(a) Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, short-term investments, derivative assets and trade and other receivables the Group's credit risk is limited to the carrying value on the statement of financial position. Management does not believe that the Group is subject to any significant concentration of credit risk.

The Group limits its exposure to credit risk on cash and cash equivalents and investments by investing in liquid securities with high credit quality counter parties, placing limits on tenor of investment instruments and instituting maximum investment values per counter party.

Accounts receivable by source are as follows:

	As at March 31,			
	2015		2014	
Trade customers and miscellaneous	9,004	46.2%	8,010	48.3%
Federal and Provincial governments	10,486	53.8%	8,567	51.7%
Total	19,490	100.0%	16,577	100.0%

Accounts receivable from trade customers are primarily due from commercial customers and transportation operators. Credit risk is reduced by a large and diversified customer base and is managed through the review of third party credit reports on customers both before extending credit and during the business relationship. The Group manages its exposure to credit risk associated with all customers through the monitoring of aging of receivables, by collecting deposits from and adjusting credit terms for higher risk customers and customers who are not on a pre-authorized payment plan. Amounts due from tickets sold to passengers through the use of major credit cards are settled shortly after sale and are classified as cash and cash equivalents on the statements of financial position.

Accounts receivable from trade customers are generally due in 30 days. As at March 31, 2015, 100% of trade receivables are current. As at March 31, 2015, the provision for credit losses was \$0.1 million (March 31, 2014: \$0.1 million) and reflects management's estimate of uncollectible receivables from trade customers based on past experience and analysis of customer accounts.

Amounts due from the Government of Canada and the Province are considered low credit risk.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

6. Financial risk management (continued):

(a) Credit risk (continued):

The Group is exposed to credit risk in the event that a counter party to an investment contract or a derivative contract defaults on its obligation. The Group manages credit risk by entering into contracts with high credit quality counterparties, in accordance with established investment parameters, and by an ongoing review of its exposure to counterparties. Counterparty credit rating and exposures are monitored by management on an ongoing basis, and are subject to approved credit limits. The counterparties with which the Group has significant derivative transactions must be rated single A or higher. The Group does not expect any counterparties to default on their obligations.

(b) Liquidity risk:

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with its financial liabilities. The Group's financial position could be adversely affected if it fails to arrange sufficient and cost effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost effective financing is subject to numerous factors, including the results of operations and financial position of the Group, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

The Group manages liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, maintaining access to a credit facility and the maintenance of debt service reserves (note 4). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates.

As at March 31, 2015 the Group's credit ratings were as follows:

	DBRS	Standard & Poor's
British Columbia Ferry Services Inc.:	A	AA-
Senior secured long-term debt	(March 31, 2014: A)	(March 31, 2014: AA-)

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

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(Tabular amounts expressed in thousands of Canadian dollars)

6. Financial risk management (continued):

(b) Liquidity risk (continued):

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2015:

Financial liabilities	< 1 year	2-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	57,401	-	-	-	57,401
Interest payable on long-term debt	18,329	-	-	-	18,329
Derivative liabilities	4,433	-	-	-	4,433
Provisions	48,065	-	-	-	48,065
Obligations under finance lease, including current portion	1,309	3,094	3,376	37,044	44,823
Long-term debt, including current portion (excluding deferred costs) ¹	24,000	48,000	48,000	1,155,875	1,275,875
Other long-term liabilities	-	-	1,500	-	1,500
Total financial liabilities – principal only	153,537	51,094	52,876	1,192,919	1,450,426
Interest payable – long-term debt ²	53,829	104,607	100,558	874,611	1,133,605
Interest payable – obligations under finance lease	1,935	3,676	3,394	7,499	16,504
Total financial liabilities, including interest payable	209,301	159,377	156,828	2,075,029	2,600,535

¹ Carrying value at March 31, 2015, excludes unamortized deferred financing costs of \$10.2 million. The majority of the Group's long-term debt relates to acquisition of property, plant & equipment and intangible assets.

² Interest payable on long-term debt excludes the variable rate interest payable on Tranche B of the 12 Year loans (note 4(b)).

(c) Market risk:

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market interest rates, foreign currency prices or fuel prices.

The Group manages market risk arising from the exposure to volatility in foreign currency, interest rates, and fuel prices in part through the use of derivative financial instruments including forward contracts and swaps. The Group does not utilize derivative financial instruments for trading or speculative purposes. At the inception of each hedge the Group determines whether it will or will not apply hedge accounting.

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Notes to the Consolidated Financial Statements

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6. Financial risk management (continued):

(c) Market risk (continued):

Interest rate risk:

The Group is exposed to interest rate risk associated with short-term borrowings, floating rate debt and the pricing of future issues of long-term debt. As at March 31, 2015, the Group's cash equivalents and short-term investments include fixed rate instruments with maturities of 185 days or less. Accordingly, the Group has exposure to interest rate movement that occurs beyond the term of the maturity of the fixed rate investments. The Group's credit facility and the second tranche of each of the two 12 year loans are at variable rates and are subject to interest rate risk.

To manage this risk, the Group maintains between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2015, the Group had approximately three and one half per cent of total debt in variable rate instruments. A 50 basis point change in interest rates would not have had a significant effect on earnings for the twelve months ended March 31, 2015.

During the quarter ended June 30, 2014, the Group refinanced a portion of the Series 04-1 Bonds which matured in May 2014 by issuing a 30 year Cdn denominated fixed-rate bullet bond Series 14-1. The interest on the new bonds was based on the Government of Canada ("GoC") 30 year Cdn bond plus an applicable corporate spread. As at March 31, 2014, the Group had entered into interest rate forward contracts with a total notional value of \$160 million to reduce its exposure to changes in the GoC 30 year Cdn bond benchmark interest rate to the date of bond issuance and applied hedge accounting. These agreements settled in April 2014 and the impact on net earnings or loss will occur over the next 30 years as the interest on the bond is expensed. The hedge loss on these contracts was \$7.6 million with \$5.3 million in the year ended March 31, 2014 and a further \$2.3 million in the year ended March 31, 2015. The effective portion of this loss was \$7.4 million and has been recognized in other comprehensive income and will subsequently be reclassified to net earnings. The ineffective portion of \$0.2 million was recognized in net earnings during the year ended March 31, 2014.

During the year ended March 31, 2015, \$0.2 million of the net loss from the hedging reserve was reclassified to interest expense in the consolidated statement of comprehensive income.

There was no hedge ineffectiveness recorded in net earnings or loss in in fiscal 2015 or fiscal 2014.

Foreign currency price risk:

The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and hedges through derivative instruments as necessary. As at March 31, 2015, the Group has foreign currency forward contracts of \$1.6 million (March 31, 2014: \$1.2 million). A 10 per cent change in foreign exchange rates would not have had a significant effect on earnings for the twelve months ended March 31, 2015.

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6. Financial risk management (continued):

(c) Market risk (continued):

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel. The Group may manage its exposure to fuel price volatility by entering into hedging instruments with certain financial intermediaries in order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. Pursuant to the Group's Financial Risk Management Policy, the term of the contracts is not to extend beyond the greater of three years or the end of the fourth performance term ending March 31, 2020. This policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fourth performance term.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its earnings.

The regulatory deferred fuel cost accounts operate as follows:

Any differences between the per litre cost of fuel purchased and consumed (including hedge gains or losses) and the per litre cost of fuel included in the determination of price caps are:

- i) for those routes comprising the Northern Route Group;
 - a. the first 5 cents per litre of difference is recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 22(a)).
 - b. any difference beyond 5 cents per litre is recorded in accounts receivable or payable for subsequent recovery from or payment to the Province, and
- ii) for all other routes;
 - a. recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 22(a)).

If the Group was permitted under IFRS to recognize the effects of rate regulation, there would be no effect on comprehensive income from changes in fuel prices.

During the year ended March 31, 2015, the amounts receivable from the Province in relation to fuel cost differences totalled \$1.2 million (March 31, 2014: \$1.7 million).

During the year ended March 31, 2015, the Group entered into Ultra-low Sulfur Diesel (ULSD) fuel swap contracts with a notional value of \$62.3 million CAD to reduce its exposure to changes in the ULSD and foreign exchange risk components associated with forecast diesel fuel purchases and applied hedge accounting to these contracts. The notional value of the fuel swap contracts outstanding as at March 31, 2015 was \$51.2 million CAD. The ULSD swaps are converted to Canadian dollars at forward market prices.

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6. Financial risk management (continued):

(c) Market risk (continued):

Through analysis of the diesel fuel market structure, the Group determined ULSD and foreign exchange are components of forecast fuel purchases. The Group's ULSD fuel supply contract includes a price formula of Vancouver Rack ULSD fuel less discounts plus delivery charges and taxes. The Vancouver Rack ULSD fuel price is comprised of New York Harbour ULSD, foreign exchange and locational basis risk components. The Group designated the New York Harbour ULSD and the foreign currency risk components as hedged risks. These risk components are being hedged using ULSD swaps and are converted to CAD at forward market rates. The forward market price is included in the hedge designation.

An economic relationship exists between the hedged item and the hedging instrument as the fair values of both the hedged item and hedging instrument move in opposite directions in response to the same risk. The Group uses a 1:1 hedge ratio by volume for hedging its diesel fuel purchases using ULSD swaps. The inclusion of credit risk in the fair value of the hedging instrument which is not replicated in the hedged item is a potential source of ineffectiveness.

During the year ended March 31, 2015, the unrealized hedge loss on these contracts was \$4.5 million (note 18(c)). The effective portion of this unrealized loss of \$4.5 million has been recognized in other comprehensive income. The realized loss of \$1.0 million has been recognized in net earnings during the year ended March 31, 2015. There was no hedge ineffectiveness for the year ended March 31, 2015.

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6. Financial risk management (continued):

(c) Market risk (continued):

(i) As at March 31, 2015, the Group's outstanding derivative contracts, which qualified for hedge accounting, and the periods in which the cash flows are expected to occur and to impact net earnings (loss), are as follows:

	Fiscal 2016
Cash flow hedges	
Fuel price risk	
Fuel contracts (litres in thousands)	78,445
Contract price range (\$/litre)	\$0.6299 - \$0.6708

(ii) Additional information on hedging instruments and hedged items as at March 31, 2015:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument - liability	Item location	Fair value changes used for calculating hedge ineffectiveness		
				Cash flow hedge reserve	Hedging instruments	Hedged items
Cash flow hedges						
Fuel price risk	51,233	(4,454)	Included in derivative liabilities	4,454	4,454	4,465

(iii) Hedging losses:

	As at March 31, 2015		As at March 31, 2014	
	Hedging losses recognized in cash flow hedge reserve	Hedging losses reclassified from cash flow hedge reserve	Hedging losses recognized in cash flow hedge reserve	Hedging losses reclassified from cash flow hedge reserve
Fuel price risk				
Fuel swap contracts	(4,454)	-	-	-
Interest rate risk				
Interest rate forward contracts	(2,396)	229	(5,040)	-
	(6,850)	229	(5,040)	-

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7. Inventories:

	As at March 31,	
	2015	2014
Food and retail inventories	4,236	4,052
Fuel inventories	3,761	4,433
Consumable parts and supplies	17,396	16,588
Total	25,393	25,073

8. Obligations under finance lease:

During the year ended March 31, 2011, agreements which constitute a finance lease for space in a downtown Victoria, BC head office building took effect following the completion of construction of the new building. The initial term of the new building lease is for fifteen years, with four renewal options of five years each. The lease agreement includes payment of building operating costs and property taxes based on the Group's proportion of total rentable area.

Loan and purchase option:

The Group has advanced funds to, and has a loan receivable from, the developer of the new head office property in the amount of \$24.5 million. The term of the loan is fifteen years, secured by a second mortgage on the property. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, the Group was granted an option to purchase up to fifty percent of the owner's equity interest in the new building at a price of \$24.5 million. The purchase option expires at the end of the loan term.

Future minimum lease payments and obligations under the head office and other capital leases are as follows:

	Minimum lease payments	Executory costs	Imputed interest (4.46%)	Obligation
Less than one year	4,980	1,735	1,935	1,309
Between one and five years	20,837	7,296	7,070	6,470
Later than five years	31,580	11,554	7,499	12,529
Purchase option	24,515	-	-	24,515
Total	81,912	20,585	16,504	44,823
Current portion				(1,309)
Non-current portion				43,514

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9. Long-term land lease:

On April 1, 2003, the Group's land and structures comprising its terminals were transferred by the Group to the BC Transportation Financing Authority ("BCTFA"), a British Columbia Crown Corporation and related party at the time of the transaction. In exchange, the Group received recognition of a prepayment for leases of the transferred terminal structures and land. The structures, having lives of less than the lease term, are considered a capital lease and as such have been capitalized and included with capital assets and are amortized in accordance with the Group's amortization policy.

The land, having an indefinite useful life, is considered an operating lease. The prepayment of the land lease has been deferred and will be amortized on a straight-line basis over eighty years, being the initial sixty year lease period plus an additional twenty year bargain renewal option.

The transaction was initially recorded at the carrying values of the transferred terminal structures and land.

Since April 1, 2003, the Group has entered into various agreements with BCTFA to add lands to the existing terminal leases. During the years ended March 31, 2015 and March 31, 2014, no new land costs were added to the terminal leases.

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10. 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, 2013	1,174,052	508,911	59,290	5,412	16,450	30,668	1,794,783
Additions	-	-	-	-	-	117,303	117,303
Revaluation	-	-	-	147	(563)	-	(416)
Disposals	(16,469)	(1,459)	(103)	-	-	(45)	(18,076)
Reclassification	45	(67)	-	-	-	-	(22)
Transfers from construction in progress	67,512	41,380	13,300	-	-	(122,192)	-
Balance at March 31, 2014	1,225,140	548,765	72,487	5,559	15,887	25,734	1,893,572
Additions	-	-	-	-	-	130,670	130,670
Revaluation	-	-	-	-	(375)	-	(375)
Disposals	(11,515)	(209)	(205)	-	-	(218)	(12,147)
Reclassification to: assets held for sale	(17,356)	-	-	-	-	-	(17,356)
Transfers from construction in progress	31,420	50,543	8,255	-	383	(90,601)	-
Balance at March 31, 2015	1,227,689	599,099	80,537	5,559	15,895	65,585	1,994,364

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10. 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, 2013	180,229	46,362	16,130	-	-	-	242,721
Depreciation for the year	96,935	24,575	7,963	-	-	-	129,473
Disposals	(16,257)	(1,459)	(68)	-	-	-	(17,784)
Reclassification	8	(8)	-	-	-	-	-
Balance at March 31, 2014	260,915	69,470	24,025	-	-	-	354,410
Depreciation for the year	100,548	26,261	8,843	-	-	-	135,652
Disposals	(11,390)	(203)	(101)	-	-	-	(11,694)
Impairment Loss	8,660	-	-	-	-	-	8,660
Reclassification to: assets held for sale	(17,356)	-	-	-	-	-	(17,356)
Balance at March 31, 2015	341,377	95,528	32,767	-	-	-	469,672
Net carrying value:							
As at April 1, 2013	993,823	462,549	43,160	5,412	16,450	30,668	1,552,062
As at March 31, 2014	964,225	479,295	48,462	5,559	15,887	25,734	1,539,162
As at March 31, 2015	886,312	503,571	47,770	5,559	15,895	65,585	1,524,692

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10. Property, plant and equipment (continued):

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

During the year ended March 31, 2015, financing costs capitalized during construction amounted to \$1.7 million (March 31, 2014: \$1.8 million) with an average capitalization rate of 5.26% (March 31, 2014: 5.59%). In addition to the construction in progress referenced above, the contractual commitments at March 31, 2015 for assets to be constructed totalled \$184.6 million (March 31, 2014: \$25.9 million). These contractual commitments include \$151.2 million of the total contract value of \$165 million for construction of three new intermediate class vessels.

The Group recorded asset impairment of \$8.7 million during the year ended March 31, 2015. The impairment loss is reported under "Loss on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of comprehensive income.

The Government of Canada, through the Shore Power Technology for Ports Program, agreed to provide funding to help offset the costs of shore power upgrades at certain of the Group's terminals. The Group expects to receive a total of \$1.9 million under this program. During the year ended March 31, 2015, \$1.6 million of this amount was recorded as a reduction of property, plant and equipment. The remaining \$0.3 million will be recorded in fiscal year ending March 31, 2016.

During the year ended March 31, 2015, the Group received \$0.9 million (March 31, 2014: \$0.8 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$1.8 million respectively, as at March 31, 2015.

11. Intangible assets:

(a) Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Cost:				
Balance at April 1, 2013	24,369	10,811	25,439	60,619
Additions	-	-	12,701	12,701
Disposals	(152)	-	(56)	(208)
Transfers from assets under development	7,156	705	(7,861)	-
Balance at March 31, 2014	31,373	11,516	30,223	73,112
Additions	-	-	19,159	19,159
Disposals	(276)	-	(138)	(414)
Transfers from assets under development	609	-	(609)	-
Balance at March 31, 2015	31,706	11,516	48,635	91,857

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11. Intangible assets (continued):

(a) Continuity of intangible assets (continued):

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Accumulated amortization:				
Balance at April 1, 2013	8,202	4,475	-	12,677
Amortization for the year	4,852	2,571	-	7,423
Disposals	(152)	-	-	(152)
Balance at March 31, 2014	12,902	7,046	-	19,948
Amortization for the year	4,764	2,390	-	7,154
Disposals	(276)	-	-	(276)
Balance at March 31, 2015	17,390	9,436	-	26,826
Net carrying value:				
As at April 1, 2013	16,167	6,336	25,439	47,942
As at March 31, 2014	18,471	4,470	30,223	53,164
As at March 31, 2015	14,316	2,080	48,635	65,031

(b) Other disclosures - intangible assets:

There was no impairment of intangible assets during the year ended March 31, 2015 or the year ended March 31, 2014.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2015 totalled \$1.8 million (March 31, 2014: \$1.4 million).

During the year ended March 31, 2015, intangible assets totalling \$19.1 million (March 31, 2014: \$12.6 million) were acquired and \$0.1 million (March 31, 2014: \$0.1 million) were internally developed.

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12. Assets held for sale:

During the year ended March 31, 2015, the Queen of Chilliwack was decommissioned and is classified as held for sale at March 31, 2015. Disposal is expected to take place during the year ended March 31, 2016.

13. Accrued employee future benefits:

(a) Description of benefit plans:

	Funding status	Administrator	Plan type	Basis of accounting
Public Service Pension	funded	Third Party	Multi-employer defined benefit	Defined contribution
Retirement benefit	unfunded	Group	Defined benefit	Defined benefit
Death benefit	unfunded	Group	Defined benefit	Defined benefit
Long-term disability	funded	Third Party	Multi-employer defined benefit	Defined contribution
Supplemental executive retirement plan	unfunded	Group	Defined benefit	Defined benefit
Sick Bank obligation	unfunded	Group	Defined benefit	Defined benefit
WCB obligation	unfunded	Third Party	Defined benefit	Defined benefit

The Group and its employees contribute to the Public Service Pension Plan (the "Plan"). The Pension Corporation of the Province of British Columbia administers the Plan, including the payment of retirement and post-employment benefits on behalf of employers. The Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. Sufficient information is not available for this plan to be accounted for as a defined benefit plan.

In addition, eligible employees are entitled to other retirement and future benefits as provided for under the collective agreement and terms of employment. A retirement benefit and a death benefit, both unfunded defined benefit plans and both administered by the Group, are based on years of service and final average salary. A funded long-term disability multi-employer plan provides disability income benefits after employment, but before retirement. Sufficient information is not available for this plan to be accounted for as a defined benefit plan.

The Group administers an unfunded supplemental executive retirement plan which encourages continued retention and provides additional pension compensation.

The Group also administers an unfunded accumulated sick leave bank ("Sick Bank obligation") consisting of unused sick time credits earned prior to the discontinuation of the sick leave accumulation benefit in 1979. Accumulated sick leave may be drawn down at 100% or paid out at 50%. Benefits are paid out at current salary rates. No new credits are accumulated to this bank.

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13. Accrued employee future benefits (continued):

(a) Description of benefit plans (continued):

The Group's employees may also receive compensation benefits arising from claims prior to March 31, 2003, administered by the Workers' Compensation Board ("WCB obligation"). Prior to March 31, 2003, the Group participated in the Workers' Compensation Board deposit class coverage system. Subsequent to March 31, 2003, the Group has been covered under the Workers' Compensation Board rate system. The change to the rate system resulted in a residual liability from the deposit class system that has been valued by actuarial assumptions as appropriate for a closed plan. Currently this obligation is unfunded.

(b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2015, consisting of cash contributed by the Group to its multi-employer defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to a third party administrator of an unfunded plan, was \$28.8 million (March 31, 2014: \$29.0 million).

(c) Multi-employer plans:

The total cost recognized for the Group's multi-employer plans is as follows:

	2015	2014
Public Service Pension Plan contributions (i)	22,636	22,129
Long-term disability plan contributions	4,626	4,879
Long-term disability plan amortization of surplus (ii)	-	-
Total	27,262	27,008

(i) The March 31, 2014 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 18, 2014. This report indicated that the pension fund has a surplus of \$392 million. Under the terms of the plan's joint trust agreement, plan members and employers share in any increase or decrease in contribution rates. No changes in contribution rates were made as a result of this actuarial valuation. The next valuation, expected to be received during the fiscal year ended March 31, 2018, will be as at March 31, 2017.

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The most recent valuation, as at March 31, 2014, determined an overall fund surplus. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result the employer contribution rate was decreased from 2.70% to 2.59% of covered payroll effective April 1, 2015. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2016, will be as at March 31, 2015.

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13. Accrued employee future benefits (continued):

(d) Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans is as at March 31, 2014. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The most recent actuarial valuations of the WCB obligation, the supplemental executive retirement plan and the Sick Bank obligation are as at March 31, 2013, March 31, 2015 and March 31, 2001, respectively.

During the year ended March 31, 2015, a loss of \$2.9 million was recognized in other comprehensive income to reflect the actuarial valuation of the liability at March 31, 2014, for the retirement and death benefit plans.

During the year ended March 31, 2014, 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.

Accrued benefit obligations	Other benefit plans	
	2015	2014
Balance, beginning of year	18,135	18,808
Current service cost	798	689
Interest cost	870	760
Benefits paid	(1,493)	(2,018)
Actuarial loss (gain)	2,890	(104)
Balance, end of year	21,200	18,135

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13. Accrued employee future benefits (continued):

(d) Other defined benefit plans (continued):

	Other benefit plans	
	2015	2014
Reconciliation of funded status of the benefit plans to the amounts recorded in the financial statements		
Fair value of plan assets	-	-
Accrued benefit obligation	21,200	18,135
Funded status of plans – deficit	(21,200)	(18,135)
Accrued benefit liability	(21,200)	(18,135)
Current portion of accrued employee future benefits	2,400	2,204
Accrued employee future benefits	(18,800)	(15,931)

	Other benefit plans	
	2015	2014
Elements of defined benefit costs recognized in the year		
Current service cost	798	689
Interest cost	870	760
Actuarial gains	-	(104)
Defined benefit costs recognized	1,668	1,345

Significant assumptions

The significant assumptions used are as follows (weighted average):

	2015	2014
Accrued benefit obligation as of March 31 and benefit cost for the years ended March 31:		
Discount rate	5.2%	5.1%
Rate of compensation increase	2.7%	1.7%
Annual employee retention rate	94.9%	96.2%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	8.36	7.0

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14. Provisions:

	Wages payable	Claims payable	Total
Balance at April 1, 2013	49,146	1,693	50,839
Provisions arising during the year	55,280	692	55,972
Provisions settled during the year	(54,623)	(387)	(55,010)
Balance at March 31, 2014	49,803	1,998	51,801
Provisions arising during the year	55,827	704	56,531
Provisions settled during the year	(59,636)	(631)	(60,267)
Balance at March 31, 2015	45,994	2,071	48,065

Wages payable consists of contractual liabilities to employees for deferred or accrued compensation. Liabilities for deferred compensation amounts are generally settled either through payment or provision of paid time off.

Claims payable represents reserves for settlement amounts payable to third parties for injuries or damage to persons or property.

15. Other liabilities:

During the year ended March 31, 2015, the Group received the first payment from FortisBC Energy Inc. of \$1.5 million of the total contribution of \$6 million as part of the Natural Gas for Transportation ("NGT") incentive funding. The contribution is dependent upon the Group purchasing at least 3 million gigajoules of liquefied natural gas. The NGT incentive funding will be applied towards the purchase of three new intermediate class vessels.

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16. Capital management:

The Group's principal business of ferry transportation requires ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset acquisition obligations. In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (note 6(b)).

The capital structure of the Group is presented in the following table:

	As at March 31,		2014	
	2015			
	\$	%	\$	%
Aggregate borrowings ¹	1,475,698	79.11	1,547,066	81.70
Total equity before reserves	389,655	20.89	346,620	18.30
Total	1,865,353	100.00	1,893,686	100.00

¹ Includes long-term debt, including current portion, credit facility (drawn and undrawn) and short-term borrowings.

The Group has covenants restricting the issuance of additional debt, distributions to shareholders, and guarantees and investments. Incurrence of additional debt and distributions are restricted when aggregate borrowings exceed 85% of the Group's total capital while certain guarantees and certain investments may be restricted when aggregate borrowings exceed 75%.

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost and the Group is required to maintain debt service reserves (notes 4 and 6). Incurrence of additional debt is restricted if the debt service coverage ratio is less than 1.5 times the debt service cost and distributions are restricted if the debt service coverage ratio is less than 1.3 times. In addition to these restrictions and requirements, there are other covenants contained in the MTI (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants throughout the years ended March 31, 2015 and 2014.

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17. Share capital:

(a) Authorized:

1,000,000	Class A voting common shares, without par value
1	Class B voting common share, without par value
80,000	Class C non-voting, 8% cumulative preferred shares, with a par value of \$1,000 per share, convertible to Class A shares upon the sale of the outstanding Class B share by the initial shareholder. Special rights attached to the Class C shares restrict the Group's ability to issue shares and to declare dividends.

(b) Issued and outstanding:

	As at March 31,			
	2015		2014	
	Number of shares	Amount \$	Number of shares	Amount \$
Class B, common	1	1	1	1
Class C, preferred	75,477	75,477	75,477	75,477
		75,478		75,478

(c) Dividends:

Dividends on the Class C cumulative preferred shares, if declared, are payable annually on March 31 of each year. All dividend entitlements to date have been paid.

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18. Other comprehensive (loss) income:

(a) Continuity of reserves:

	Land revaluation reserves ¹	Employee future benefit revaluation reserves	Hedging reserves	Total
Balance at April 1, 2013	3,233	-	-	3,233
Land revaluation	12	-	-	12
Actuarial gains on defined benefit plans (note 13(d))	-	104	-	104
Hedge losses on interest rate forward contracts (note 6(c))	-	-	(5,040)	(5,040)
Balance at March 31, 2014	3,245	104	(5,040)	(1,691)
Land revaluation	(248)	-	-	(248)
Actuarial loss on defined benefit plans (note 13(d))	-	(2,890)	-	(2,890)
Hedge losses on interest rate forward contracts (note 6(c))	-	-	(2,396)	(2,396)
Less losses reclassified to net earnings in the period (note 6(c))	-	-	229	229
Hedge losses on fuel swaps (note 6(c))	-	-	(4,454)	(4,454)
Balance at March 31, 2015	2,997	(2,786)	(11,661)	(11,450)

¹ Land revaluation reserves represent the cumulative surplus resulting from changes in fair value of land assets. The reserve increase during the year ended March 31, 2014 and the decrease during the year ended March 31, 2015, are shown above. During the year ended March 31, 2015 \$0.2 million (March 31, 2014: \$0.4 million) was recognized in net earnings reflecting a reduction in the fair value of land for which either a reserve had not been established or the balance in the reserve was less than the reduction in fair value.

(b) Other comprehensive loss:

	Years ended March 31,	
	2015	2014
Items to be reclassified to net earnings:		
Hedge losses on interest rate forward contracts (note 6(c))	(2,396)	(5,040)
Hedge losses on fuel swaps (note 6(c))	(4,454)	-
Items not to be reclassified to net earnings:		
Land revaluations	(248)	12
Actuarial (losses) gains on defined benefit plans (note 13(d))	(2,890)	104
Total other comprehensive loss	(9,988)	(4,924)

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(Tabular amounts expressed in thousands of Canadian dollars)

18. Other comprehensive (loss) income (continued):

(c) Other comprehensive loss – Fuel swaps :

	Years ended March 31,	
	2015	2014
Fuel swaps reserve		
Balance at March 31, 2014	-	-
Net change in fair value	(5,467)	-
Realized hedge losses	1,013	-
Balance at March 31, 2015	(4,454)	-

19. Ferry service fees:

On April 1, 2003, the Group entered into an agreement with the Province to provide ferry services on specified routes that would not be commercially viable and to administer certain social policy initiatives on behalf of the Province. In exchange for these services and to compensate for these non-profitable routes, the Group receives ferry service fees. The agreement is for a period of sixty years, the details of which are renegotiated after a first term of five years and each four year term thereafter. The agreement has been amended from time to time to, among other things, establish the ferry service levels and the fees for the provision of such service for the second performance term ending March 31, 2012 and for the third performance term ending March 31, 2016.

20. Federal-Provincial Subsidy Agreement:

The Group receives revenue provided to the Province from the Government of Canada pursuant to a contract between the federal and provincial governments. The federal government gives financial assistance to fulfill the obligation of providing ferry services to coastal British Columbia. The annual payment increases with the Vancouver Consumer Price Index.

21. Regulated other income:

In June 2010, the Province 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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22. 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.

In January 2014 the IASB issued IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 is an interim standard that addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities that have already transitioned to IFRS. The Group's transition date to IFRS was April 1, 2011. As a result, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

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 March 31, 2015 detailed below are probable of future recovery and that the obligations represented by the regulatory liabilities will be settled through future tariff reductions.

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:

	As at March 31,	
Regulatory accounts	2015	2014
Deferred fuel costs (a):		
Balance – beginning of year	6,150	(1,415)
Fuel costs deferred	9,107	14,521
Surcharges collected	(13,195)	(2,690)
Fuel price risk recoveries from the Province	(1,200)	(1,675)
Other payments from the Province	(1,310)	(1,396)
Tariffs in excess of price cap (b)	-	(1,195)
Balance – end of year	(448)	6,150
Tariffs in excess of price cap (b)	(1,013)	
Performance term submission costs (c)	82	163
Total of regulatory accounts	(1,379)	6,313
Total regulatory (liabilities) assets	(1,379)	6,313
Current regulatory (liabilities) assets	(931)	82
Total long term regulatory (liabilities) assets	(448)	6,231

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22. Economic effect of rate regulation (continued):

(a) Deferred fuel costs:

As prescribed by regulatory order, the Group defers differences between actual fuel costs and approved fuel costs which were used to develop the regulated price caps. The difference between the approved fuel costs and the actual fuel costs (including fuel hedge gains and losses) is deferred for settlement in future tariffs. Also prescribed by regulatory order, the Group collects fuel surcharges or provides fuel rebates from time to time which are applied against deferred fuel cost account balances and has included interest in the amount to be recovered from or returned to customers.

During the year ended March 31, 2015, the Province agreed to pay \$1.3 million, to be applied against the balance of deferred fuel costs (March 31, 2014: \$1.4 million).

(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. At March 31, 2015, tariffs charged to customers exceeded the price cap by \$1.0 million. At March 31, 2014, tariffs charged to customers on all route groups exceeded the price cap by \$1.2 million. In accordance with the Commissioner's Memorandum 45, this \$1.2 million was applied to reduce the deferred fuel costs account balance.

(c) Performance term submission costs:

The Commissioner has authorized the Group to defer costs of representation associated with the third performance term. The Commissioner has considered these costs in the determination of the price caps set for the four years beginning April 1, 2012. The Commissioner has not included an allowance for a return on investment for the third performance term submission costs. The recovery period is the four year period of the third performance term, commencing April 1, 2012.

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, total comprehensive income for the year ended March 31, 2015 would have been \$7.6 million lower (March 31, 2014: \$7.5 million higher) as detailed below:

	Years ended March 31,	
Effect of rate regulation on total comprehensive income	2015	2014
Regulatory accounts:		
Deferred fuel costs	(6,597)	8,760
Performance term submission costs	(82)	(82)
Tariffs in excess of price cap	(1,013)	(1,195)
Total (decrease) increase in total comprehensive income	(7,692)	7,483

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23. Net finance expenses:

	Years ended March 31,	
	2015	2014
Finance expenses		
Long-term debt	65,574	70,560
Short-term debt	349	663
Finance leases	1,987	2,027
Amortization of deferred financing costs and bond discounts	723	959
Interest capitalized in the cost of qualifying assets	(3,502)	(3,179)
Interest rate support (a)	(442)	-
Total finance expenses	64,689	71,030
Finance income	(4,310)	(3,721)
Total	60,379	67,309

(a) Interest rate support:

During the year ended March 31, 2015 the Group interest rate support recorded as a reduction of interest expense totalled \$0.4 million (March 31, 2014: \$nil). These funds received through the Structured Financing Facility Program offered by the Government of Canada, reflect the completion of the funding related to the purchase of the *Island Sky*.

24. Operating Expenses:

During the year ended March 31, 2015, the Group recorded \$318 million (March 31, 2014: \$316 million) for wages and benefit expenses.

During the year ended March 31, 2015, the Group recorded \$119 million (March 31, 2014: \$126 million) for fuel expenses.

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25. Related party transactions:

(a) Management compensation:

The compensation of the Group's directors and executive officers during the year is as follows:

	Years ended March 31,	
	2015	2014
Short-term benefits	1,683	1,822
Post-employment benefits	345	341
Total	2,028	2,163

(b) B.C. Ferry Authority:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the year ended March 31, 2015, the Group paid \$140,733 (March 31, 2014: \$175,218) 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.

26. Other commitments:

The Group has entered into operating leases for certain building spaces, land and equipment. Lease payments charged to expense during the year ended March 31, 2015 were \$0.8 million (March 31, 2014: \$0.9 million).

Future minimum lease payments are as follows:

Less than one year	784
Between one and five years	2,061
More than five years	3
Total	2,848

27. Contingent liabilities:

The Group, in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is uncertain. It is the Group's policy to carry adequate insurance to minimize the financial risk associated with such matters. Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation would not be significant to the Group. Any additional future costs or recoveries which differ from the accrued amounts will be recognized in net earnings as determined.