

Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three months ended June 30, 2015 and 2014

(unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

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

	As at,	
	June 30, 2015	March 31, 2015
Assets		
Current assets		
Cash and cash equivalents	70,048	65,574
Restricted short-term investments (3 (b))	32,401	32,496
Other short-term investments	58,079	62,098
Trade and other receivables	19,903	19,490
Prepaid expenses	15,995	6,177
Inventories	26,095	25,393
	222,521	211,228
Non-current assets		
Loan receivable	24,515	24,515
Land lease	31,032	31,146
Property, plant and equipment (note 5)	1,521,837	1,524,692
Intangible assets (note 6)	69,385	65,031
	1,646,769	1,645,384
Total assets	1,869,290	1,856,612
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	50,607	57,401
Interest payable on long-term debt	16,196	18,329
Deferred revenue	21,825	16,957
Derivative liabilities	997	4,433
Current portion of long-term debt (note 3)	24,000	24,000
Current portion of accrued employee future benefits	2,400	2,400
Current portion of obligations under finance lease	1,394	1,309
Provisions	50,057	48,065
	167,476	172,894
Non-current liabilities		
Accrued employee future benefits	18,598	18,800
Long-term debt (note 3)	1,238,052	1,241,699
Obligations under finance lease	43,142	43,514
Other liabilities	1,500	1,500
	1,301,292	1,305,513
Total liabilities	1,468,768	1,478,407
Equity		
Share capital	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	307,974	289,177
Total equity before reserves	408,452	389,655
Reserves (note 9 (a))	(7,930)	(11,450)
Total equity including reserves	400,522	378,205
Total liabilities and equity	1,869,290	1,856,612
Commitments (note 5 (b))		

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Comprehensive Income (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30,	
	2015	2014
Revenue		
Vehicle and passenger fares	143,344	131,372
Ferry service fees	41,259	45,047
Retail	21,326	19,944
Federal-Provincial Subsidy Agreement	7,182	7,089
Fuel (rebates) surcharges	(1,626)	4,362
Regulated other income	4,071	3,399
Other income	2,143	1,896
Total revenue	217,699	213,109
Expenses		
Operations	112,230	115,024
Maintenance	20,592	16,649
Administration	7,984	7,613
Cost of retail goods sold	8,651	7,989
Depreciation and amortization	35,111	35,234
Total operating expenses	184,568	182,509
Operating profit	33,131	30,600
Net finance and other expenses		
Net finance expense (note 10)		
Finance income	897	1,067
Finance expenses	(15,242)	(17,712)
Net finance expense	(14,345)	(16,645)
Gain (loss) on disposal and revaluation of property, plant and equipment and intangible assets	11	(67)
Net finance and other expenses	(14,334)	(16,712)
Net earnings	18,797	13,888
Other comprehensive income (loss) (note 9 (b))		
Items to be reclassified to net earnings	3,458	(2,396)
Total other comprehensive income (loss)	3,458	(2,396)
Total comprehensive income	22,255	11,492

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30,	
	2015	2014
Cash flows from operating activities		
Net earnings	18,797	13,888
Items not affecting cash		
Net finance expense	14,345	16,645
Depreciation and amortization	35,111	35,234
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets	(11)	67
Other non-cash adjustments to property, plant and equipment	79	(405)
Changes in		
Accrued employee future benefits	(202)	97
Derivative liabilities recognized in net earnings	23	15
Provisions	1,992	(3,845)
Long-term land lease	114	114
Accrued interest costs	514	20
Total non-cash items	51,965	47,942
Movements in operating working capital		
Trade and other receivables	(413)	198
Prepaid expenses	(9,818)	(11,244)
Inventories	(702)	(1,017)
Accounts payable and accrued liabilities	(6,794)	(12,141)
Deferred revenue	4,868	4,861
Change in non-cash working capital	(12,859)	(19,343)
Change attributable to capital asset acquisitions	(3,142)	6,116
Change in non-cash operating working capital	(16,001)	(13,227)
Cash generated from operating activities	54,761	48,603
Interest received	391	1,045
Interest paid	(18,494)	(21,496)
Net cash generated by operating activities	36,658	28,152

See accompanying notes to the interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30,	
	2015	2014
Cash flows from financing activities		
Proceeds from issuance of bonds	-	200,000
Repayment of long-term debt	(3,750)	(250,000)
Repayment of finance lease obligations	(287)	(278)
Deferred financing costs incurred	-	(1,315)
Hedge losses on interest rate forward contracts	-	(7,652)
Net cash used in financing activities	(4,037)	(59,245)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	12	43
Purchase of property, plant and equipment and intangible assets	(32,273)	(31,167)
Decrease of debt service reserves	95	2,886
Net proceeds from short-term investments	4,019	30,471
Net cash (used in) provided by investing activities	(28,147)	2,233
Net increase (decrease) in cash and cash equivalents	4,474	(28,860)
Cash and cash equivalents, beginning of period	65,574	71,365
Cash and cash equivalents, end of period	70,048	42,505

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statements of Changes in Equity (unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 9 (a))	Total equity including reserves
Balance as at April 1, 2014	75,478	25,000	246,142	346,620	(1,691)	344,929
Net earnings for the three months ended June 30, 2014	-	-	13,888	13,888	-	13,888
Other comprehensive loss for the three months ended June 30, 2014	-	-	-	-	(2,396)	(2,396)
Hedge losses reclassified to net earnings	-	-	-	-	43	43
Balance as at June 30, 2014	75,478	25,000	260,030	360,508	(4,044)	356,464
Balance as at March 31, 2015	75,478	25,000	289,177	389,655	(11,450)	378,205
Net earnings for the three months ended June 30, 2015	-	-	18,797	18,797	-	18,797
Other comprehensive income for the three months ended June 30, 2015	-	-	-	-	3,458	3,458
Hedge losses reclassified to net earnings	-	-	-	-	62	62
Balance as at June 30, 2015	75,478	25,000	307,974	408,452	(7,930)	400,522

See accompanying notes to the interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 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 for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

1. Accounting policies:

Except as described in note 1(e), the same accounting policies and methods of computation are followed in the interim consolidated financial statements as compared with the annual consolidated financial statements for the year ended March 31, 2015.

(a) Basis of preparation:

British Columbia Ferry Services Inc. is domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These interim consolidated financial statements as at and for the three months ended June 30, 2015 and 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

(b) Statement of compliance:

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

These interim consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements and the notes thereto for the year ended March 31, 2015.

These interim consolidated financial statements were approved by the Board of Directors on August 20, 2015.

(c) Basis of measurement:

These interim consolidated financial statements have been prepared using the historical cost method, with the exception of the following assets and liabilities which are measured at fair value: land, derivatives, cash and cash equivalents.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(d) Functional and presentation currency:

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

(e) 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.

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.

The Group revised its estimate of the useful lives of vessel hulls from 40 to 45 years. This change has been applied prospectively effective April 1, 2015, and will result in a decrease in depreciation expense of approximately \$1.9 million for the year ending March 31, 2016.

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 45 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

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 and the effective date is for annual periods beginning on or after January 1, 2017. Earlier application is permitted. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date. 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 Interim Consolidated Financial Statements (unaudited)

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2. Future accounting changes (continued):

Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements):

The IASB published clarification to IAS 1 *Presentation of Financial Statements*. The *Disclosure Initiative* comprises several smaller projects to improve presentation and disclosure requirements in existing International Financial Reporting Standards. The amendments are effective for periods beginning on or after January 1, 2016. Early adoption is permitted. The Group does not expect the application of these amendments to have a significant impact on its consolidated financial statements.

3. Loans:

Long-term debt:	As at	
	June 30, 2015	March 31, 2015
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	200,000
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	35,625	37,500
Tranche B (floating interest rate of 1.30% at June 30, 2015)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	37,500	39,375
Tranche B (floating interest rate of 1.30% at June 30, 2015)	22,500	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	54,000	54,000
	1,272,125	1,275,875
Less: deferred financing costs and unamortized bond discounts	(10,073)	(10,176)
Current portion	(24,000)	(24,000)
Total	1,238,052	1,241,699

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3. Loans (continued):

(a) Credit facility:

There were no draws on the \$155.0 million credit facility as at June 30, 2015 and as at March 31, 2015. There was no interest expense related to this facility during the three months ended June 30, 2015 (June 30, 2014: \$nil). Letters of credit outstanding against this facility at June 30, 2015 totalled \$0.3 million (March 31, 2015: \$0.3 million).

(b) Debt service reserves:

The Group is required to maintain debt service reserves for long-term debt equal to not less than six months forecast debt service, to be increased under certain conditions.

As at June 30, 2015, debt service reserves of \$32.4 million were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position (March 31, 2015: \$32.5 million).

4. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at June 30, 2015 and March 31, 2015 for all financial instruments except for long-term debt:

	As at June 30, 2015		As at March 31, 2015	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion ^{1, 2, 3}	1,262,052	1,525,346	1,265,699	1,622,645

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.

³ Classified in level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

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4. Financial instruments (continued):

The following items shown in the consolidated statements of financial position at June 30, 2015 and March 31, 2015 are carried at fair value on a recurring basis using level 1 or 2 inputs. There were no financial assets and liabilities at June 30, 2015 and at March 31, 2015, valued using level 3 inputs.

	As at June 30, 2015		As at March 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash ¹	52,635	-	37,880	-
Cash equivalents ¹	1,663	-	2,508	-
Derivatives ²	-	(997)	-	(4,433)
	54,298	(997)	40,388	(4,433)

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 three months ended June 30, 2015. Financial assets have been pledged as security for liabilities under the master trust indenture.

As at June 30, 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 three months ended June 30, 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 Interim Consolidated Financial Statements (unaudited)
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 (Tabular amounts expressed in thousands of Canadian dollars)

5. Property, plant and equipment:

(a) Continuity of property, plant and equipment:

	Vessels	Berths, building & equipment under finance lease	Berths, building & equipment	Land under finance lease	Land	Construction in progress	Total
Cost:							
Balance at March 31, 2015	1,227,689	599,099	80,537	5,559	15,895	65,585	1,994,364
Additions	-	-	-	-	-	30,523	30,523
Disposals	(2,291)	(148)	(2)	-	-	-	(2,441)
Transfers from construction in progress	22,618	7,730	2,049	-	-	(32,397)	-
Balance at June 30, 2015	1,248,016	606,681	82,584	5,559	15,895	63,711	2,022,446
Accumulated depreciation:							
Balance at March 31, 2015	341,377	95,528	32,767	-	-	-	469,672
Depreciation for the period	24,228	6,747	2,403	-	-	-	33,378
Disposals	(2,291)	(148)	(2)	-	-	-	(2,441)
Balance at June 30, 2015	363,314	102,127	35,168	-	-	-	500,609
Net carrying value:							
As at March 31, 2015	886,312	503,571	47,770	5,559	15,895	65,585	1,524,692
As at June 30, 2015	884,702	504,554	47,416	5,559	15,895	63,711	1,521,837

BRITISH COLUMBIA FERRY SERVICES INC.

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

5. Property, plant and equipment (continued):

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

During the three months ended June 30, 2015, financing costs capitalized during construction amounted to \$0.8 million (June 30, 2014: \$0.3 million) with an average capitalization rate of 5.06% (June 30, 2014: 5.43%). In addition to the construction in progress referenced above, the contractual commitments at June 30, 2015 for assets to be constructed totalled \$175.3 million (March 31, 2015: \$184.6 million). These contractual commitments include \$145.7 million of the total contract value of \$165 million for construction of three new intermediate class vessels.

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 three months ended June 30, 2015, \$nil (March 31, 2015: \$1.6 million) was recorded as a reduction of property, plant and equipment.

During the three months ended June 30, 2015, the Group received \$0.3 million (June 30, 2014: \$0.3 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$1.9 million respectively, as at June 30, 2015.

BRITISH COLUMBIA FERRY SERVICES INC.

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

6. Intangible assets:

(a) Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Cost:				
Balance at March 31, 2015	31,706	11,516	48,635	91,857
Additions	-	-	6,087	6,087
Balance at June 30, 2015	31,706	11,516	54,722	97,944
Accumulated amortization:				
Balance at March 31, 2015	17,390	9,436	-	26,826
Amortization for the period	1,202	531	-	1,733
Balance at June 30, 2015	18,592	9,967	-	28,559
Net carrying value:				
As at March 31, 2015	14,316	2,080	48,635	65,031
As at June 30, 2015	13,114	1,549	54,722	69,385

(b) Other disclosures - intangible assets:

Capitalized financing costs during construction for intangible assets for the three months ended June 30, 2015 totalled \$0.5 million (June 30, 2014: \$0.4 million) with an average capitalization rate of 5.06% (June 30, 2014: 5.43%).

During the three months ended June 30, 2015, intangible assets totalling \$6.0 million (June 30, 2014: \$4.8 million) were acquired and \$0.1 million (June 30, 2014: \$nil) were internally developed.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

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7. Financial risk management:

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.

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 Cdn 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 June 30, 2015 was \$38.7 million Cdn.

During the three months ended June 30, 2015, the unrealized hedge loss on these contracts was \$1.0 million (note 7 (b)). The effective portion of this unrealized loss of \$1.0 million has been recognized in other comprehensive income. A realized loss of \$0.6 million has been recognized in net earnings during the three months ended June 30, 2015. There was no hedge ineffectiveness for the three months ended June 30, 2015.

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7. Financial risk management (continued):

	Fiscal 2016
Cash flow hedges	
Fuel price risk	
Fuel contracts (litres in thousands)	59,040
Contract price range (\$/litre)	\$0.6299 - \$0.6708

(a) Additional information on hedging instruments and hedged items as at June 30, 2015:

				Fair value changes used for calculating hedge ineffectiveness		
	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument - liability	Item location	Cash flow hedge reserve	Hedging instruments	Hedged items
Cash flow hedges						
Fuel price risk	38,651	(996)	Included in derivative liabilities	996	996	998

(b) Hedging losses:

	Hedging gains (losses) recognized in cash flow hedge reserve		Hedging losses reclassified from cash flow hedge reserve	
	Three months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014
Fuel price risk				
Fuel swap contracts (note 9 (a))	4,089	-	-	-
Interest rate risk				
Interest rate forward contracts				
Recognized hedge loss	-	(2,396)	-	-
Amortization of hedge loss	-	-	62	43
	4,089	(2,396)	62	43

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8. Accrued employee future benefits:

During the three months ended June 30, 2015 the Group recognized total defined benefit costs of \$0.4 million (June 30, 2014: \$0.4 million).

9. Other comprehensive income (loss):

(a) Continuity of reserves:

	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swaps reserves	Interest rate forward contracts reserves	Total
Balance at March 31, 2015	2,997	(2,786)	(4,454)	(7,207)	(11,450)
Derivatives designated as cash flow hedges:					
Net change in fair value	-	-	4,089	-	4,089
Realized losses	-	-	(631)	-	(631)
Amortization of losses (note 7 (b))	-	-	-	62	62
	-	-	3,458	62	3,520
Balance at June 30, 2015	2,997	(2,786)	(996)	(7,145)	(7,930)

(b) Other comprehensive income (loss):

	Three months ended June 30,	
	2015	2014
Items to be reclassified to net earnings:		
Hedge gains (losses) on interest rate forward contracts (note 7 (b))	-	(2,396)
Hedge gains (losses) on fuel swaps (note 7 (b))	3,458	-
Total other comprehensive income (loss)	3,458	(2,396)

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

10. Net finance expense:

	Three months ended June 30,	
	2015	2014
Finance expenses		
Long-term debt	15,782	17,607
Short-term debt	82	87
Finance leases	489	499
Amortization of deferred financing costs and bond discounts	165	219
Interest capitalized in the cost of qualifying assets	(1,276)	(700)
Total finance expenses	15,242	17,712
Finance income	(897)	(1,067)
Total	14,345	16,645

11. 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 in the future. 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 June 30, 2015 detailed below are probable of future recovery and that the obligations represented by the regulatory liabilities will be settled in the future.

BRITISH COLUMBIA FERRY SERVICES INC.

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(Tabular amounts expressed in thousands of Canadian dollars)

11. Economic effect of rate regulation (continued):

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

Regulatory accounts	As at,	
	June 30, 2015	March 31, 2015
Deferred fuel costs :		
Balance – beginning of period	(448)	6,150
Fuel costs (under) over set price	(1,917)	9,107
Rebates (surcharges)	1,626	(13,195)
Fuel price risk recoveries payable to (receivable from) the Province	28	(1,200)
Other payments from the Province	(305)	(1,310)
Balance – end of period	(1,016)	(448)
Tariffs in excess of price cap (a)	(1,891)	(1,013)
Performance term submission costs	61	82
Total of regulatory accounts	(2,846)	(1,379)
Total regulatory liabilities	(2,846)	(1,379)
Current regulatory liabilities	(1,830)	(931)
Total long term regulatory liabilities	(1,016)	(448)

(a) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At June 30, 2015, tariffs charged to customers exceeded the price cap by \$1.9 million.

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Three months ended June 30, 2015 and 2014

(Tabular amounts expressed in thousands of Canadian dollars)

11. Economic effect of rate regulation (continued):

If the Group was permitted under IFRS to recognize the affects of rate regulation and to record regulatory assets and regulatory liabilities, total comprehensive income for the three months ended June 30, 2015 would have been \$1.5 million lower (June 30, 2014: \$1.1 million lower) as detailed below:

Effect of rate regulation on total comprehensive income	Three months ended June 30,	
	2015	2014
Regulatory accounts:		
Deferred fuel costs	(568)	(1,105)
Performance term submission costs	(21)	(20)
Tariffs in excess of price cap	(878)	-
Total decrease in total comprehensive income	(1,467)	(1,125)

12. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the three months ended June 30, 2015, the Group paid \$19,991 (June 30, 2014: \$18,380) of such expenses.

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