Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2016 and 2015

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, 2016 and March 31, 2015, 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, 2016 and March 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants

June 17, 2016
Victoria, Canada

BRITISH COLUMBIA FERRY SERVICES INC.

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

	As at March 31	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents (note 3)	79,113	65,574
Restricted short-term investments (note 4(f))	31,986	32,496
Other short-term investments	61,464	62,098
Trade and other receivables (note 6(a))	16,249	19,490
Prepaid expenses	8,550	6,177
Inventories (note 7)	23,988	25,393
	221,350	211,228
Non-current assets		
Loan receivable (note 8)	24,515	24,515
Land lease (note 9)	30,688	31,146
Property, plant and equipment (note 10)	1,539,957	1,524,692
Intangible assets (note 11)	82,741	65,031
	1,677,901	1,645,384
Total assets	1,899,251	1,856,612
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	53,575	57,401
Interest payable on long-term debt	18,262	18,329
Deferred revenue	18,883	16,957
Derivative liabilities	17,879	4,433
Current portion of long-term debt (note 4)	24,000	24,000
Current portion of accrued employee future benefits (note 13)	1,900	2,400
Current portion of obligations under finance lease (note 8)	1,514	1,309
Provisions (note 14)	53,321	48,065
	189,334	172,894
Non-current liabilities		
Accrued employee future benefits (note 13)	19,361	18,800
Long-term debt (note 4)	1,218,106	1,241,699
Obligations under finance lease (note 8)	42,003	43,514
Other liabilities (note 15)	1,500	1,500
	1,280,970	1,305,513
Total liabilities	1,470,304	1,478,407
Equity		
Share capital (note 17)	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	352,692	289,177
Total equity before reserves	453,170	389,655
Reserves (note 18(a))	(24,223)	(11,450)
Total equity including reserves	428,947	378,205
Total liabilities and equity	1,899,251	1,856,612

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 2016	2015
Revenue		
Vehicle and passenger fares	561,233	519,991
Ferry service fees (note 19)	172,373	175,935
Retail	87,077	80,635
Federal-Provincial Subsidy Agreement (note 20)	28,730	28,355
Fuel (rebates) surcharges	(6,356)	13,195
Regulated other income (note 21)	18,078	14,511
Other income	8,679	8,526
Total revenue	869,814	841,148
Expenses		
Operations	449,642	447,261
Maintenance	79,387	68,070
Administration	34,513	32,023
Cost of retail goods sold	35,198	32,405
Depreciation and amortization	145,521	142,806
Total operating expenses	744,261	722,565
Operating profit	125,553	118,583
Net finance and other expenses		
Net finance expenses (note 23)		
Finance income	4,607	4,310
Finance expenses	(60,568)	(64,689)
Net finance expenses	(55,961)	(60,379)
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	(39)	(9,131)
Net finance and other expenses	(56,000)	(69,510)
Net earnings	69,553	49,073
Other comprehensive loss (note 18(b))		
Items not to be reclassified to net earnings	392	(3,138)
Items to be reclassified to net earnings	(24,156)	(6,850)
Total other comprehensive loss	(23,764)	(9,988)
Total comprehensive income	45,789	39,085

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 2016	2015
Cash flows from operating activities		
Net earnings	69,553	49,073
Items not affecting cash		
Net finance expense	55,961	60,379
Depreciation and amortization	145,521	142,806
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	39	9,131
Other non-cash adjustments to property, plant and equipment	2,462	(926)
Changes in		
Accrued employee future benefits	61	175
Derivative liabilities recognized in net earnings	32	(39)
Provisions	5,256	(3,736)
Long-term land lease	458	458
Accrued financing costs	(88)	(298)
Total non-cash items	209,702	207,950
Movements in operating working capital		
Trade and other receivables	3,241	(2,913)
Prepaid expenses	(2,373)	757
Inventories	1,405	(320)
Accounts payable and accrued liabilities	(3,826)	9,267
Deferred revenue	1,926	2,394
Change in non-cash working capital	373	9,185
Change attributable to capital asset acquisitions	6,995	4,652
Change in non-cash operating working capital	7,368	13,837
Cash generated from operating activities	286,623	270,860
Interest rate support received (note 23(a))	-	442
Interest received	4,616	4,582
Interest paid	(65,256)	(69,188)
Net cash generated by operating activities	225,983	206,696

BRITISH COLUMBIA FERRY SERVICES INC.
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2016	2015
Cash flows from financing activities		
Proceeds from issuance of bonds	-	200,000
Repayment of long-term debt	(24,000)	(270,250)
Repayment of finance lease obligations	(1,307)	(1,118)
Dividends paid on preferred shares	(6,038)	(6,038)
Deferred financing costs incurred	-	(1,326)
Hedge losses on interest rate forward contracts	-	(7,652)
Net cash used in financing activities	(31,345)	(86,384)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	217	121
Purchase of property, plant and equipment and intangible assets	(182,460)	(148,428)
Changes in debt service reserve	510	3,296
Net proceeds from short-term investments	634	18,908
Net cash used in investing activities	(181,099)	(126,103)
Net increase (decrease) in cash and cash equivalents	13,539	(5,791)
Cash and cash equivalents, beginning of year	65,574	71,365
Cash and cash equivalents, end of year	79,113	65,574

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Share capital (note 17)	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 18(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 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 on interest rate forward contract 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
Net earnings for the year ended March 31, 2016	-	-	69,553	69,553	-	69,553
Other comprehensive loss for the year ended March 31, 2016	-	-	-	-	(23,764)	(23,764)
Realized hedge losses recognized in fuel swaps	-	-	-	-	10,742	10,742
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	249	249
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2016	75,478	25,000	352,692	453,170	(24,223)	428,947

See accompanying notes to the consolidated financial statements.

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:

(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 as at and for the years ended March 31, 2016 and 2015 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 17, 2016.

(c) Basis of measurement:

These consolidated financial statements have been prepared using the historical cost method, except for land, land under finance lease, derivatives, and cash and cash equivalents, which are measured at fair value.

(d) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars ("Cdn") which is the Group's functional currency. All tabular financial data is presented in thousands of Canadian dollars.

1. Accounting policies (continued):

(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) Employee future 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 considers 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.

1. Accounting policies (continued):

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

The Group's wholly-owned subsidiaries as at March 31, 2016 are:

Pacific Marine Leasing Inc.
BCF Captive Insurance Company Ltd.

All inter-Group balances and 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 less accumulated depreciation and any recognized impairment loss. Cost includes direct overhead, financing costs and 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. Fair value increases of land assets are recognized in other comprehensive income ("OCI") except to the extent that such an increase represents a reversal of an amount previously recognized in net earnings or loss. Fair value decreases are recognized in net earnings or loss to the extent that the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

The cost of self-constructed assets includes expenditures on materials, direct labour, financing costs and an allocated proportion of project overheads. Major parts of an item of property, plant and equipment with different estimated useful lives are accounted for as separate items (major components) of property, plant and equipment. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from disposal and the carrying amount of the asset and is recognized in net earnings or loss.

The cost of major overhauls and inspections is capitalized and depreciated over the period until the next major overhaul or inspection. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred.

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

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

Where major 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 when 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 resulted in a decrease in depreciation expense of approximately $1.9 million for the year ended 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	45 years
Vessel propulsion and utility systems	20 to 30 years
Vessel hull, propulsion and generator overhaul	4 to 5 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 cost plus direct overhead and financing costs, less accumulated amortization and any recognized impairment loss.

Development costs are recognized as intangible assets 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 the estimated useful life is extended or functionality of the existing software is enhanced. Costs associated with maintaining computer software are expensed in the period 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 commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

1. Accounting policies (continued):

(j) Inventories:

Inventories are valued 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 estimated costs to make the sale.

Fuel inventories are accounted for using the first-in–first-out principle. All other inventories are accounted for using the weighted average cost method. 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.

The Group's multi-employer defined benefit pension and long-term disability plans are accounted for using defined contribution plan accounting. These 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 expensed 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 expensed 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 and expected long-term rate of return on plan assets and the effects of changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are recognized immediately in OCI and are not reclassified to net earnings or loss in subsequent periods.

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. Where the benefits are not vested, the costs are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The full liability for all plan deficits is recorded, as adjusted for any past service costs still to be amortized.

When a plan amendment 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 recognized when:

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

Provisions are measured 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. Payments for fares sold in advance of providing transportation are 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.

1. Accounting policies (continued):

(n) Finance leases:

Assets held under finance leases are initially recognized 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.

(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 the carrying amount of an asset 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.

Impairment losses are evaluated 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.

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 with maturities of less than 12 months are presented as “current assets” or “cash equivalents” depending on the circumstances. Financial assets and liabilities with a maturity of more than 12 months from the period-end date are presented as “non-current”.

(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, financial assets are measured at either amortized cost or at fair value through OCI or at fair value through net earnings or loss.

Financial liabilities are measured at 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 at each statement of financial position date and whenever there are objective indicators that the recoverable value of these assets would be lower than the carrying value.

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) less provision for impairment. A provision is established when there is reasonable expectation that the Group will not be able to collect all amounts due. Any increase in the provision is recognized in net earnings or loss. When a trade receivable is uncollectible, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are credited in net earnings or loss. As receivables are due in less than one year, they are not discounted.

(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 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. Cash equivalents invested in pooled funds are recorded at fair value through net earnings or loss. All other cash equivalents are valued at amortized cost.

(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) Derivatives

The Group may use derivative financial instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The Group does not utilize derivatives for trading or speculative purposes. At the inception of each hedge, the Group determines whether it will or will not apply hedge accounting. Derivatives are initially recorded at fair value and any 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. Instruments designated as a hedging item in a cash flow hedge are recorded in accordance with note 1(s).

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 that are both significant to the overall fair value measurement of the asset or liability and are not based on observable market data (unobservable inputs).

(s) Hedging relationships:

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 hedging 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 derivatives is recognized in OCI. Any ineffective portion of a hedging relationship is recognized immediately in net earnings or loss. Accumulated gains or losses are transferred to net earnings or loss in the period when the related forecast transaction affects net earnings or loss. When the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred are transferred directly from equity (accumulated other comprehensive income) and included in the measurement of the initial carrying amount of the asset or liability.

1. Accounting policies (continued):

(s) Hedging relationships (continued):

When derivatives in a hedging relationship expire or are sold and the forecast transaction is still expected to occur, any cumulative gains or losses relating to the derivative remain in equity (accumulated other comprehensive income) and are recognized in net earnings or loss when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses are immediately reclassified to net earnings or loss.

(t) Financing costs:

The Group capitalizes financing 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 be 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 financing costs incurred during the period less any income on the temporary investment of those borrowings.

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

All other financing 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 and recognized as an offset to the related long-term debt. These costs are subsequently amortized to net earnings or loss using the effective interest rate method.

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 and other controlled materials in a manner required by regulations. Where possible the Group will sell decommissioned vessels into the secondary markets to a responsible buyer who will keep them in active service. Under these circumstances the condition of the vessel, including the presence of any controlled material such as asbestos, will be fully disclosed and remediation and any eventual retirement obligation 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. In addition, there is a reasonable expectation that retired assets may be sold to a responsible secondary market at a nominal salvage price.

(w) Interest rate support:

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

(x) 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.

2. Adoption of new and amended standards and interpretations:

(a) Changes in accounting policies:

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") did not issue any standards, amendments or interpretations to existing standards that were applicable to the Group's consolidated financial statements for the year ended March 31, 2016.

(b) Future changes in accounting policies:

Amendments to IAS 1 *Presentation of Financial Statements*:

The IASB has published amendments to IAS 1 *Presentation of Financial Statements,* to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial note disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The Group does not expect the application of these amendments 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.

Amendments to IAS 7 *Statement of Cash Flows*:

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. These amendments require a disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The mandatory effective date of amendments to IAS 7 is for annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Group does not expect the application of IAS 7 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 additional disclosures. IFRS 15 was issued in May 2014. The effective date was deferred to annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the application of IFRS 15 on its consolidated financial statements.

2. Adoption of new and amended standards and interpretations (continued):

(b) Future changes in accounting policies (continued):

IFRS 9 *Financial Instruments (2014):*

On July 24, 2014, the 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 is in the process of assessing the impact of the application of IFRS 9 (2014) on its consolidated financial statements.

IFRS 16 *Leases*:

On January 13, 2016, the IASB issued IFRS 16 *Leases,* which will replace IAS 17 *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers,* has also been applied. The Group is in the process of assessing the impact of the application of IFRS 16 on its consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Cash and cash equivalents:

	As at March 31	
	2016	2015
Cash	58,119	37,880
Cash equivalents:		
Investments valued at fair value through net earnings or loss	5,900	2,508
Investments valued at amortized cost	15,094	25,186
Total	**79,113**	**65,574**

4. Loans:

	As at March 31	
Long-term debt:	2016	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%)	30,000	37,500
Tranche B (floating interest rate of 1.18% at March 31, 2016)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	31,875	39,375
Tranche B (floating interest rate of 1.18% at March 31, 2016)	22,500	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	45,000	54,000
	1,251,875	1,275,875
Less: Unamortized deferred financing costs and bond discounts	(9,769)	(10,176)
Current portion	(24,000)	(24,000)
Total	**1,218,106**	**1,241,699**

(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 five outstanding series of obligation bonds under the Master Trust Indenture ("MTI") and a credit facility agreement secured by pledged bonds. In addition, the Group has two 12-year loan agreements and a 2.95% loan agreement outstanding with KfW IPEX-Bank GmBH ("KfW").

During the year ended March 31, 2016, the Group has also entered into a loan agreement with KfW which allows for three loans totalling $135.9 million to partially finance the Group's purchase of the three new Salish Class vessels.

(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 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 and is included in restricted short-term investments. 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.

(b) 12 Year Loans, maturing March and June 2020:

Proceeds of $90.0 million were received in each of February and May 2008 for 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.

4. Loans (continued):

(b) 12 Year Loans, maturing March and June 2020 (continued):

The principal payments on these loans were deferred for three years to a second tranche (Tranche B) until June 2014 in accordance with amendments made to the two loan agreements in September 2011. The Tranche B principal is due on maturity, with floating-rate interest paid in periods ranging from one to six months at the option of the Group. The interest rates on Tranche B are reset at the beginning of each interest period at rates based on the prevailing CDOR rate plus 30 bps. As of June 2014, the Tranche B balance for each loan reached a maximum of $22.5 million and regular principal payments resumed on Tranche A.

(c) 2.95% Loan, maturing January 2021:

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) 2.09% Loan:

On November 12, 2015, the Group entered into a loan agreement with KfW, a German export credit bank. This loan agreement is secured under the MTI and allows for three loans of up to $45.3 million each. These amortizing loans will be repaid over a 12-year term and bear an interest rate of 2.09% per annum. Receipt of proceeds from the loans will coincide with the conditional acceptance of each of the three new Salish Class vessels from the shipyard and the net proceeds will be used to partially finance the Group's purchase of these vessels. As at March 31, 2016, no amounts were drawn under the loan agreement.

(e) 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 renewed on March 15, 2016 to extend the maturity date to April 20, 2021. There were no draws on this credit facility as at March 31, 2016 and as at March 31, 2015. There was no interest expensed during the year ended March 31, 2016 and March 31, 2015. Letters of credit outstanding against this facility as at March 31, 2016 totalled $0.3 million (March 31, 2015: $0.3 million).

(f) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at March 31, 2016, debt service reserves of $32.0 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).

(Tabular amounts expressed in thousands of Canadian dollars)

4. Loans (continued):

(g) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement. As at March 31, 2016, the debt service coverage ratio was 3.11.

In addition, there are other covenants contained in the Master Trust Indenture ("MTI") (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at March 31, 2016 and at March 31, 2015.

5. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2016 and March 31, 2015 for all financial instruments except for long-term debt:

	As at March 31, 2016		As at March 31, 2015	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion [1,2,3]	1,242,106	1,529,186	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 statements 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).

The following items shown in the consolidated statements of financial position as at March 31, 2016 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 March 31, 2016 or at March 31, 2015, valued using level 3 inputs.

	As at March 31, 2016		As at March 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash [1]	58,119	-	37,880	-
Cash equivalents [1]	5,900	-	2,508	-
Derivatives [2]	-	(17,879)	-	(4,433)
	64,019	**(17,879)**	**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).

5. Financial instruments (continued):

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.

No amounts have been reclassified into or out of fair value classifications in the year ended March 31, 2016. Financial assets have been pledged as security for liabilities under the MTI.

During the year ended March 31, 2016, 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 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 period end dates.

(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 counterparties, 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			
	2016		2015	
Trade customers and miscellaneous	9,299	57.2%	9,004	46.2%
Federal and Provincial governments	6,950	42.8%	10,486	53.8%
Total	**16,249**	**100.0%**	**19,490**	**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, 2016, 99% of trade receivables are current. As at March 31, 2016, the provision for credit losses was $0.1 million (March 31, 2015: $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.

6. Financial risk management (continued):

(a) Credit risk (continued):

The Group is exposed to credit risk in the event that a counterparty 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, 2016 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, 2015: A)	(March 31, 2015: AA-)

(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, 2016:

Financial liabilities	< 1 year	2-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	53,575	-	-	-	53,575
Interest payable on long-term debt	18,262	-	-	-	18,262
Derivative liabilities	17,879	-	-	-	17,879
Provisions	53,321	-	-	-	53,321
Obligations under finance lease, including current portion	1,514	3,234	5,846	32,923	43,517
Long-term debt, including current portion (excluding deferred costs)[1]	24,000	48,000	79,875	1,100,000	1,251,875
Other liabilities	-	1,500	-	-	1,500
Total financial liabilities – principal only	168,551	52,734	85,721	1,132,923	1,439,929
Interest payable – long-term debt[2]	61,388	119,746	115,888	1,027,227	1,324,249
Interest payable – obligations under finance lease	1,869	3,533	4,726	4,418	14,546
Total financial liabilities, including interest payable	**231,808**	**176,013**	**206,335**	**2,164,568**	**2,778,724**

[1] Carrying value at March 31, 2016, excludes unamortized deferred financing costs of $9.8 million. The majority of the Group's long-term debt relates to funds used for acquisition of property, plant and equipment.
[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.

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, 2016, 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, 2016, the Group had approximately 3.5% of total debt in variable rate instruments. A 50 basis point change in interest rates would have had an effect of less than $0.3 million on net earnings for the year ended March 31, 2016.

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, 2016, the Group has foreign currency forward contracts of $1.1 million (March 31, 2015: $1.6 million). A 10% change in foreign exchange rates would have had an effect of approximately $0.1 million on net earnings for the year ended March 31, 2016.

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. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, 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 also 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 operating to and from Prince Rupert;
   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 net earnings from changes in fuel prices.

During the year ended March 31, 2016, the amounts payable to the Province in relation to fuel cost differences totalled $0.2 million (March 31, 2015: $1.2 million receivable).

During the year ended March 31, 2016, the Group entered into Ultra-low Sulfur Diesel (ULSD) fuel swap contracts with a notional value of $78.4 million CAD (March 31, 2015: $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, 2016 was $78.4 million CAD (March 31, 2015: $51.2 million CAD). There was no hedge ineffectiveness for the years ended March 31, 2016 or March 31, 2015.

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 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, 2016, the change of $24.2 million in the fair value of fuel swap contracts was recognized in OCI. The realized hedging loss of $10.7 million on fuel swap contracts was reclassified from equity (accumulated other comprehensive income) and included in the Group's fuel expense during the year ended March 31, 2016. There was no hedge ineffectiveness for the year ended March 31, 2016.

6. Financial risk management (continued):

(c) Market risk (continued):

	Fiscal 2017	Fiscal 2018	Total
Cash flow hedges			
Fuel price risk			
Fuel contracts (litres in thousands)	76,200	57,300	133,500
Contract price range ($/litre)	$0.5797 - $0.6098	$0.5417 - $0.5975	

(i) As at March 31, 2016, the Group's derivative liabilities of $17.9 million included foreign exchange forward contracts and fuel swap contracts.

Fuel swap contracts as at March 31, 2016:

					Fair value changes used for calculating hedge ineffectiveness	
	Notional 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	78,352	(17,868)	Derivative liabilities	17,868	17,868	17,970

(ii) Hedging losses:

	As at March 31	
	2016	2015
Hedging losses recognized in cash flow hedge reserve:		
Interest rate forward contracts	-	(2,396)
Fuel swap contracts (note 18(a))	(24,156)	(4,454)
	(24,156)	(6,850)
Hedging losses reclassified from cash flow hedge reserve:		
Interest rate forward contracts – amortization of hedge loss	249	229
Fuel swap contracts – loss recognized in net earnings (note 18(a))	10,742	-
	10,991	229
Net change in cash flow hedge reserve	13,165	(6,621)

(Tabular amounts expressed in thousands of Canadian dollars)

7. Inventories:

	As at March 31	
	2016	2015
Consumable parts and supplies	17,706	17,396
Allowance for obsolescence	(1,000)	-
Net consumable parts and supplies	16,706	17,396
Food and retail inventories	4,556	4,236
Fuel inventories	2,726	3,761
Total	**23,988**	**25,393**

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 at $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 50% 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	5,144	1,761	1,869	1,514
Between one and five years	26,685	9,346	8,259	9,080
Later than five years	20,473	7,647	4,418	8,408
Purchase option	24,515	-	-	24,515
Total	**76,817**	**18,754**	**14,546**	**43,517**
Current portion				(1,514)
Non-current portion				42,003

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 depreciated in accordance with the Group's depreciation 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, 2016 and March 31, 2015, no new land costs were added to the terminal leases.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Property, plant and equipment:

(a) Continuity of property, plant and equipment:

	Vessels	Berths, buildings & equipment under finance lease	Berths, buildings & equipment	Land under finance lease	Land	Construction in progress	Total
Cost:							
Balance at April 1, 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**
Additions	-	-	-	-	-	153,362	153,362
Revaluation	-	-	-	324	-	-	324
Disposals	(18,546)	(1,393)	(754)	-	-	(140)	(20,833)
Impairment loss recovery	421	-	-	-	-	-	421
Reclassification to: assets held for sale	(525)	-	-	-	-	-	(525)
Transfers from construction in progress	71,264	28,242	14,332	-	(240)	(113,598)	-
Balance at March 31, 2016	**1,280,303**	**625,948**	**94,115**	**5,883**	**15,655**	**105,209**	**2,127,113**

(Tabular amounts expressed in thousands of Canadian dollars)

10. Property, plant and equipment (continued):

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

	Vessels	Berths, buildings & equipment under finance lease	Berths, buildings & equipment	Land under finance lease	Land	Construction in progress	Total
Accumulated depreciation:							
Balance at April 1, 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**
Depreciation for the year	100,443	28,348	9,752	-	-	-	138,543
Disposals	(18,428)	(1,393)	(713)	-	-	-	(20,534)
Reclassification to: assets held for sale	(525)	-	-	-	-	-	(525)
Balance at March 31, 2016	**422,867**	**122,483**	**41,806**	**-**	**-**	**-**	**587,156**
Net carrying value:							
As at April 1, 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**
As at March 31, 2016	**857,436**	**503,465**	**52,309**	**5,883**	**15,655**	**105,209**	**1,539,957**

10. Property, plant and equipment (continued):

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

During the year ended March 31, 2016, financing costs capitalized during construction amounted to $3.2 million (March 31, 2015: $1.7 million) with an average capitalization rate of 5.03% (March 31, 2015: 5.26%). In addition to the construction in progress referenced above, the contractual commitments as at March 31, 2016, for assets to be constructed totalled $284.6 million (March 31, 2015: $184.6 million). These contractual commitments include $134.7 million of the total contract value of $165 million for construction of the three new Salish class vessels and $122.9 million of the total contract value of $140 million for the mid-life upgrade and conversion to dual fuel of the two Spirit class vessels.

During the year ended March 31, 2016, the Group recognized a $0.4 million reversal of an impairment loss recorded during the year ended March 31, 2015. The $0.4 million reversal was reported under “Loss on disposal and revaluation of property, plant and equipment, intangible assets, and inventory” 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 $2.0 million under this program. During the year ended March 31, 2016, $0.4 million (March 31, 2015: $1.6 million) of this amount was recorded as a reduction of property, plant and equipment.

During the year ended March 31, 2016, the Group received $1.0 million (March 31, 2015: $0.9 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $2.2 million, respectively, as at March 31, 2016.

During the year ended March 31, 2016, the *Queen of Chilliwack* (decommissioned during the year ended March 31, 2015), was sold.

(Tabular amounts expressed in thousands of Canadian dollars)

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, 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**
Additions	-	-	24,688	24,688
Disposals	-	-	-	-
Transfers from assets under development	4,994	932	(5,926)	-
Balance at March 31, 2016	**36,700**	**12,448**	**67,397**	**116,545**
Accumulated amortization:				
Balance at April 1, 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**
Amortization for the year	5,356	1,622	-	6,978
Disposals	-	-	-	-
Balance at March 31, 2016	**22,746**	**11,058**	-	**33,804**
Net carrying value:				
As at April 1, 2014	**18,471**	**4,470**	**30,223**	**53,164**
As at March 31, 2015	**14,316**	**2,080**	**48,635**	**65,031**
As at March 31, 2016	**13,954**	**1,390**	**67,397**	**82,741**

11. Intangible assets (continued):

(b) Other disclosures - intangible assets:

There was no impairment of intangible assets during the year ended March 31, 2016 or the year ended March 31, 2015.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2016 totalled $2.2 million (March 31, 2015: $1.8 million).

During the year ended March 31, 2016, intangible assets totalling $22.6 million (March 31, 2015: $19.1 million) were acquired and $2.1 million (March 31, 2015: $0.1 million) were internally developed.

12. Assets held for sale:

During the year ended March 31, 2016, the MV Tenaka was decommissioned and was classified as held for sale at March 31, 2016. On May 17, 2016, the MV Tenaka was sold.

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
Long-term disability	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
Sick Bank obligation	unfunded	Group	Defined benefit	Defined benefit
Supplemental executive retirement plan	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.

A funded long-term disability multi-employer plan provides disability income benefits after employment, but before retirement. Sufficient information is not available for either multi-employer defined benefit 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. These are unfunded defined benefit plans administered by the Group. Retirement benefits and death benefits are based on years of service and final average salary. The accumulated sick leave bank ("Sick Bank obligation") consists 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.

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

(Tabular amounts expressed in thousands of Canadian dollars)

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. This obligation is unfunded.

(b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2016, 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 $29.5 million (March 31, 2015: $28.8 million).

(c) Multi-employer plans:

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

	2016	2015
Public Service Pension Plan contributions (i)	23,157	22,636
Long-term disability plan contributions (ii)	4,592	4,626
Total	**27,749**	**27,262**

(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 an actuarial surplus of $194 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 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 2.59% to 1.41% of covered payroll effective April 1, 2016. The most recent valuation, as at September 30, 2015, determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2017, will be as at March 31, 2016.

(Tabular amounts expressed in thousands of Canadian dollars)

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, 2016 and March 31, 2001, respectively.

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

	Other benefit plans	
Accrued benefit obligations	2016	2015
Balance, beginning of year	21,200	18,135
Current service cost	983	798
Interest cost	799	870
Benefits paid	(1,721)	(1,493)
Actuarial loss	-	2,890
Balance, end of year	**21,261**	**21,200**

(Tabular amounts expressed in thousands of Canadian dollars)

13. Accrued employee future benefits (continued):

(d) Other defined benefit plans (continued):

Reconciliation of funded status of the benefit plans to the amounts recorded in the financial statements	Other benefit plans 2016	2015
Fair value of plan assets	-	-
Accrued benefit obligation	21,261	21,200
Funded status of plans – deficit	(21,261)	(21,200)
Accrued benefit liability	(21,261)	(21,200)
Current portion of accrued employee future benefits	1,900	2,400
Accrued employee future benefits	(19,361)	(18,800)

Elements of defined benefit costs recognized in the year	Other benefit plans 2016	2015
Current service cost	983	798
Interest cost	799	870
Defined benefit costs recognized	1,782	1,668

Significant assumptions:

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

	2016	2015
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	5.2%	5.2%
Rate of compensation increase	1.4%	2.7%
Annual employee retention rate	95.6%	94.9%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	8.36	8.36

(Tabular amounts expressed in thousands of Canadian dollars)

14. Provisions:

	Wages payable	Claims payable	Total
Balance at April 1, 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
Provisions arising during the year	61,205	215	61,420
Provisions settled during the year	(55,486)	(678)	(56,164)
Balance at March 31, 2016	**51,713**	**1,608**	**53,321**

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 the three new Salish class vessels.

(Tabular amounts expressed in thousands of Canadian dollars)

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			
	2016		2015	
	$	%	$	%
Aggregate borrowings [1]	1,586,184	77.78	1,475,698	79.11
Total equity before reserves	453,170	22.22	389,655	20.89
Total	**2,039,354**	**100.00**	**1,865,353**	**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 restricted 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%.

Under the credit facility and the 2.09% KfW loan, debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost. Under the other KfW loans, the debt service coverage ratio must be at least 1.5 times the debt service cost. Under the MTI, the Group is required to maintain debt servicereserves (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 these loan documents.The Group was in compliance with all of its covenants during the years ended March 31, 2016 and March 31, 2015.

(Tabular amounts expressed in thousands of Canadian dollars)

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			
	2016		2015	
	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.

(Tabular amounts expressed in thousands of Canadian dollars)

18. Other comprehensive loss:

(a) Continuity of reserves:

	Land revaluation reserves[1]	Employee future benefit revaluation reserves	Fuel swaps reserves	Interest rate forward contracts reserves	Total
Balance at April 1, 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)
Derivatives designated as cash flow hedges: (note 6(c))					
Net change in fair value	-	-	(5,467)	(2,396)	(7,863)
Realized losses	-	-	1,013	-	1,013
Amortization of losses (note 6(c))	-	-	-	229	229
Balance at March 31, 2015	**2,997**	**(2,786)**	**(4,454)**	**(7,207)**	**(11,450)**
Land revaluation	392	-	-	-	392
Derivatives designated as cash flow hedges: (note 6(c))					
Net change in fair value	-	-	(24,156)	-	(24,156)
Realized losses	-	-	10,742	-	10,742
Amortization of losses (note 6(c))	-	-	-	249	249
Balance at March 31, 2016	**3,389**	**(2,786)**	**(17,868)**	**(6,958)**	**(24,223)**

[1] Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve increase during the year ended March 31, 2016 and the decrease during the year ended March 31, 2015, are shown above. During the year ended March 31, 2016, $0.1 million (March 31, 2015: $0.2 million) was recognized in net earnings reflecting a decrease in the fair value of land where the balance in the reserve was less than the reduction in fair value.

(b) Other comprehensive loss:

	Years ended March 31 2016	2015
Items to be reclassified to net earnings:		
Hedge losses on interest rate forward contracts (note 6(c))	-	(2,396)
Hedge losses on fuel swaps (note 6(c))	(24,156)	(4,454)
Items not to be reclassified to net earnings:		
Land revaluations	392	(248)
Actuarial losses on defined benefit plans (note 13(d))	-	(2,890)
Total other comprehensive loss	**(23,764)**	**(9,988)**

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 third performance term ending March 31, 2016 and for the fourth performance term ending March 31, 2020.

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.

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 or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the obligations represented by the regulatory liabilities at March 31, 2016, will be settled through future tariff reductions or fuel surcharges.

(Tabular amounts expressed in thousands of Canadian dollars)

22. 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:

	As at March 31	
Regulatory accounts	2016	2015
Deferred fuel costs (a):		
Balance – beginning of year	(448)	6,150
Fuel costs (under) over set price	(10,971)	9,107
Rebates (surcharges)	6,356	(13,195)
Fuel price risk recoveries payable to (receivable from) the Province	157	(1,200)
Other payments from the Province	(1,226)	(1,310)
Balance – end of year	(6,132)	(448)
Tariffs in excess of price cap (b)	-	(1,013)
Performance term submission costs (c)	-	82
Total of regulatory accounts	**(6,132)**	**(1,379)**
Total regulatory liabilities	**(6,132)**	**(1,379)**
Current regulatory liabilities	**-**	**(931)**
Total long term regulatory liabilities	**(6,132)**	**(448)**

(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 or as prescribed by regulatory order, through fuel surcharges or fuel rebates. 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.

During the year ended March 31, 2016, the Province agreed to pay $1.2 million, to be applied against the balance of deferred fuel costs (March 31, 2015: $1.3 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, 2016, tariffs charged to customers were below established price caps. At March 31, 2015, tariffs charged to customers exceeded the price cap by $1.0 million. In accordance with the Commissioner's Memorandum 45, this $1.0 million was applied to reduce the deferred fuel costs account balance.

(Tabular amounts expressed in thousands of Canadian dollars)

22. Economic effect of rate regulation (continued):

(c) Performance term submission costs:

The Commissioner 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 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, net earnings for the year ended March 31, 2016 would have been $4.8 million lower (March 31, 2015: $7.7 million lower) as detailed below:

	Years ended March 31	
Effect of rate regulation on net earnings	2016	2015
Regulatory accounts:		
Deferred fuel costs	(5,684)	(6,597)
Performance term submission costs	(82)	(82)
Tariffs in excess of price cap	1,013	(1,013)
Total decrease in net earnings	**(4,753)**	**(7,692)**

23. Net finance expenses:

	Years ended March 31	
	2016	2015
Finance expenses		
Long-term debt	62,978	65,574
Short-term debt	351	349
Finance leases	1,938	1,987
Amortization of deferred financing costs and bond discounts	656	723
Interest capitalized in the cost of qualifying assets	(5,355)	(3,502)
Interest rate support (a)	-	(442)
Total finance expenses	60,568	64,689
Finance income	(4,607)	(4,310)
Total	**55,961**	**60,379**

(a) Interest rate support:

The funds received during the year ended March 31, 2015, through the Structured Financing Facility Program offered by the Government of Canada, reflected the completion of the funding related to the purchase of the Island Sky.

(Tabular amounts expressed in thousands of Canadian dollars)

24. Operating Expenses:

During the year ended March 31, 2016, the Group recorded $333 million (March 31, 2015: $318 million) for wages and benefit expenses.

During the year ended March 31, 2016, the Group recorded $93 million (March 31, 2015: $119 million) for fuel expenses.

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	
	2016	2015
Short-term benefits	1,677	1,683
Post-employment benefits	335	345
Total	**2,012**	**2,028**

(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, 2016, the Group paid $143,455 (March 31, 2015: $140,733) 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, 2016 were $0.9 million (March 31, 2015: $0.8 million).

Future minimum lease payments are as follows:

Less than one year	911
Between one and five years	1,937
More than five years	570
Total	**3,418**

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.