

Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2019 and 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholder of British Columbia Ferry Services Inc.

Opinion

We have audited the consolidated financial statements of British Columbia Ferry Services Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at March 31, 2019 and March 31, 2018
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2019 and March 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in the “Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in the Annual Report is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants

Victoria, Canada
June 21, 2019

BRITISH COLUMBIA FERRY SERVICES INC.

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

	As at March 31	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents (note 3)	59,888	69,913
Restricted short-term investments (note 10(f))	31,651	32,276
Other short-term investments	74,648	114,259
Trade and other receivables (note 15(a))	23,246	26,258
Prepaid expenses	8,306	8,434
Inventories (note 4)	30,870	31,584
Derivative assets (note 15(c))	8,145	12,530
	236,754	295,254
Non-current assets		
Loan receivable (note 12)	24,515	24,515
Land lease	-	29,771
Property, plant and equipment (note 5)	1,820,232	1,713,080
Intangible assets (note 6)	101,029	99,802
	1,945,776	1,867,168
Total assets	2,182,530	2,162,422
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	80,173	77,233
Interest payable on long-term debt (note 7)	18,429	18,537
Contract liabilities (note 8)	28,709	32,034
Current portion of long-term debt (notes 7,10)	57,183	34,594
Current portion of accrued employee future benefits (note 11(d))	2,000	3,000
Current portion of lease liabilities (notes 7,12)	2,184	1,652
Provisions (note 9)	62,778	60,372
	251,456	227,422
Non-current liabilities		
Accrued employee future benefits (note 11(d))	20,583	21,299
Long-term debt (notes 7,10)	1,222,860	1,279,775
Lease liabilities (notes 7,12)	39,797	38,769
Other liabilities (note 13)	9,516	7,750
	1,292,756	1,347,593
Total liabilities	1,544,212	1,575,015
Equity		
Share capital (note 18)	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	525,006	477,955
Total equity before reserves	625,484	578,433
Reserves (note 20(a))	12,834	8,974
Total equity including reserves	638,318	587,407
Total liabilities and equity	2,182,530	2,162,422
Commitments (notes 5,16)		
Contingencies (note 17)		

The accompanying notes are an integral part of these consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31	
	2019	2018
Revenue		
Vehicle and passenger fares	618,215	640,234
Net retail (note 21)	63,860	60,071
Fuel rebates (note 27)	(4,585)	(19,386)
Other income	11,093	11,367
Revenue from customers	688,583	692,286
Ferry service fees (note 25)	206,566	178,540
Federal-Provincial Subsidy Agreement (note 26)	30,504	29,782
Total revenue	925,653	900,608
Expenses (note 22)		
Operations	525,895	498,343
Maintenance	81,697	87,615
Administration	39,868	38,399
Depreciation and amortization	173,250	159,916
Total operating expenses	820,710	784,273
Operating profit	104,943	116,335
Net finance and other expenses (note 23)		
Finance expenses	59,194	60,679
Finance income	(6,182)	(5,495)
Net finance expense	53,012	55,184
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets	(258)	1,178
Net finance and other expenses	52,754	56,362
NET EARNINGS	52,189	59,973
Other comprehensive income (note 20(b))		
Items that will be reclassified subsequently to net earnings	7,450	13,580
Items that will not be reclassified subsequently to net earnings	7,945	(118)
Total other comprehensive income	15,395	13,462
Total comprehensive income	67,584	73,435

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31	
	2019	2018
Cash flows from operating activities		
Net earnings	52,189	59,973
Items not affecting cash		
Net finance expense	53,012	55,184
Depreciation and amortization	173,250	159,916
Loss on disposal of property, plant and equipment	59	376
Other non-cash changes to property, plant and equipment	(1,016)	1,809
Changes in:		
Accrued employee future benefits	(1,716)	43
Derivative assets and liabilities recognized in net earnings	52	(64)
Provisions	2,406	4,661
Long-term land lease	-	459
Accrued financing costs	378	(233)
Total non-cash items	226,425	222,151
Movements in operating working capital		
Trade and other receivables	3,012	(10,939)
Prepaid expenses	128	(980)
Inventories	714	(3,327)
Accounts payable and accrued liabilities	2,940	22,060
Contract liabilities	(2,425)	11,329
Change in non-cash working capital	4,369	18,143
Change attributable to capital asset acquisitions	(3,298)	(24,258)
Change in non-cash operating working capital	1,071	(6,115)
Cash generated from operating activities	279,685	276,009
Interest received	5,649	5,560
Interest paid	(65,335)	(65,615)
Net cash generated by operating activities	219,999	215,954

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31	
	2019	2018
Cash flows from financing activities		
Proceeds from long-term debt	-	45,264
Repayment of long-term debt	(35,282)	(35,312)
Repayment of lease liabilities	(2,184)	(1,583)
Dividends paid on preferred shares	(6,038)	(6,038)
Deferred financing costs	-	(1,417)
Net cash (used in) generated by financing activities	(43,504)	914
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	292	476
Purchase of property, plant and equipment and intangible assets	(227,048)	(220,936)
Changes in debt service reserve	625	150
Net proceeds from short-term investments	39,611	1,323
Net cash used in investing activities	(186,520)	(218,987)
Net decrease in cash and cash equivalents	(10,025)	(2,119)
Cash and cash equivalents, beginning of year	69,913	72,032
Cash and cash equivalents, end of year	59,888	69,913

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Share capital (note 19)	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 20(a))	Total equity including reserves
Balance as at April 1, 2017	75,478	25,000	424,020	524,498	(3,066)	521,432
Net earnings	-	-	59,973	59,973	-	59,973
Other comprehensive income	-	-	-	-	13,462	13,462
Realized hedge gains recognized in fuel swaps	-	-	-	-	(1,670)	(1,670)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2018	75,478	25,000	477,955	578,433	8,974	587,407
Impact of adoption of IFRS 15	-	-	900	900	-	900
Balance as at April 1, 2018	75,478	25,000	478,855	579,333	8,974	588,307
Net earnings	-	-	52,189	52,189	-	52,189
Other comprehensive income	-	-	-	-	15,395	15,395
Realized hedge gains recognized in fuel swaps	-	-	-	-	(11,783)	(11,783)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2019	75,478	25,000	525,006	625,484	12,834	638,318

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

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

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

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 at 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, 2019 and 2018 comprise the Company and its subsidiaries (together referred to as the “Group”).

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 unless otherwise indicated.

These are the first annual consolidated financial statements in which IFRS 9 *Financial Instruments (2014)*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* have been applied. Changes to significant accounting policies are described in Note 2.

These consolidated financial statements have been prepared using the historical cost method, except for owned land, head office land under lease and certain financial assets and liabilities including derivatives.

These consolidated financial statements are presented in Canadian dollars (“CAD”) which is the Group’s functional currency. All tabular financial data is presented in thousands of Canadian dollars.

These consolidated financial statements were approved by the Board of Directors on June 21, 2019.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(a) Basis of preparation (continued):

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 CAD at the closing exchange rate. Any resulting translation adjustments are recognized in net earnings.

The Group operates within a single industry, within a single geographical area and under a single regulated contract. 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.

(b) Basis of consolidation – subsidiaries:

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

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

The Group's wholly-owned subsidiaries as at March 31, 2019 and 2018 are:

Pacific Marine Leasing Inc.

BCF Captive Insurance Company Ltd.

The financial results of these subsidiaries are not material to the Group's consolidated financial statements. All inter-Group balances and transactions are eliminated on consolidation.

(c) Estimates and judgments:

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, 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 judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(c) Estimates and judgments (continued):

Significant judgements and estimates relate to:

- **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. The Group applies judgment to determine expenditures eligible for capitalization and considers the future economic benefits of these expenditures in making this assessment.
- **Leases**
The Group applies judgement to determine whether an arrangement contains a lease. The evaluation requires the Group to determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgement is required to determine the lease term and the rate implicit in the lease.
- **Provisions and contingencies, including asset retirement obligations**
Recognition and measurement of provisions and contingencies, including asset retirement obligations, is based on key assumptions about the likelihood and magnitude of an outflow of resources.
- **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.
- **Derivative assets and liabilities**
Fair values for the derivative assets and 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(d) 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 a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income ("OCI") and accumulated in the hedging reserve. The amount accumulated in the hedging reserve is reclassified to net earnings or loss in the period or periods during which the expected future cash flows affect net earnings or loss. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item.

When the derivative in a hedging relationship expires or is sold and the forecast transaction is still expected to occur, any cumulative gains or losses relating to the derivative remain in the hedging reserve and are recognized in net earnings or loss when the forecast transaction occurs. If the hedged future cash flows are no longer expected to occur, the cumulative gains or losses are immediately reclassified to net earnings or loss.

(e) Property, plant and equipment including right-of-use assets (note 1(g)):

Property, plant and equipment, excluding specific land assets, are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes direct overhead, financing costs and the initial estimate of retirement obligations.

Specific land assets include owned land and head office land under lease which are carried at fair value 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 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.

Right-of-use land assets, excluding head office land under lease, are carried at cost less accumulated depreciation and any recognized impairment loss.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(e) Property, plant and equipment including right-of-use assets (note 1(g)) (continued):

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 less cost to sell 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.

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.

Property, plant and equipment, including right-of-use assets, 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 system	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

(f) Intangible assets:

Intangible assets consist of acquired computer software and licenses, internally developed computer software and website and other intangibles. These assets are carried 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(f) Intangible assets (continued):

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. Other 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.

(g) Leases:

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the supplier has a substantive substitution right;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

For contracts that contain a lease the Group recognizes a right-of-use asset, presented under property, plant and equipment in the consolidated statement of financial position, and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(g) Leases (continued):

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(h) 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 generated from 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.

(i) Inventories:

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to make the sale.

Fuel inventories are accounted for using the first-in, first-out principle. The cost of fuel inventories includes gains or losses on the settlement of fuel swap contracts. 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.

(j) Impairment of non-financial assets:

Non-financial assets with finite lives, including property, plant and equipment, intangible assets, and right-of-use assets, are tested for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows 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 impairment recognized in 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 recognized in net earnings or loss.

(k) 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. The Group handles and disposes 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 recognized 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 will be sold to a responsible secondary market at a nominal salvage price.

(l) Financial assets and liabilities:

Financial assets include cash and cash equivalents, trade and other receivables, restricted and other short-term investments, derivatives with a positive market value and loan receivables.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(l) Financial assets and liabilities (continued):

Financial liabilities include trade payables, long-term debt, interest on long-term debt and derivatives with a negative market value.

(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) Provision for impairment

Financial assets carried at amortized cost include short-term investments, restricted short-term investments, trade and other receivables, loan receivables and loans and advances. The Group assesses the lifetime expected credit losses ("ECL") associated with its assets carried at amortized cost. ECL represents the expected credit loss that will result from all possible default events over the expected life of the financial instrument. The amount of ECL is updated at each reporting date to reflect changes in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition based on all information available, including reasonable and supportive forward-looking information. When a financial instrument is uncollectible, it is written off against the provision for impairment.

(iii) Loans and advances

Loans and advances are initially recognized at fair value plus directly attributable transaction costs. Subsequently, loans and advances are measured at amortized cost using the effective interest rate method, less any recognized impairment loss. They are subject to recoverable value tests, carried out at each reporting date and whenever there are objective indicators that the recoverable value of these assets would be lower than the carrying value.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements
Years ended March 31, 2019 and 2018
(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(l) Financial assets and liabilities (continued):

(iv) Trade and other receivables

Trade and other receivables are initially recognized at fair value (in most cases the same as notional value) less provision for impairment. Subsequently, trade and other receivables are measured at amortized cost. As receivables are due in less than one year, they are not discounted. The provision established against trade and other receivables represents lifetime ECL and is updated at each reporting date. 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 recognized in net earnings or loss.

(v) Cash and cash equivalents

Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of three months or less. Cash equivalents are short-term investments with a term of three months or less. 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 and cash equivalents are held at amortized cost with the exception of cash equivalents invested in pooled funds which are recognized at fair value through net earnings or loss.

(vi) Borrowings and other financial liabilities

Trade and other debts are initially recognized at fair value, which is generally the same as notional 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.

(vii) 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 recognized 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 reporting date. Changes in the fair value of these instruments are recognized in net earnings or loss except where the instrument has been designated as a hedging item in a cash flow hedge. Derivatives designated as cash flow hedging instruments are recognized in accordance with note 1(d).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements
Years ended March 31, 2019 and 2018
(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(l) Financial assets and liabilities (continued):

(viii) 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).

(m) 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.

(n) 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 at 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(n) Employee benefits (continued):

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.

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 obligation recognized for all benefit plans includes 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.

(o) 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.

(p) Revenues:

Revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), is recognized when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Payments for fares sold in advance of providing transportation are included in the statement of financial position as contract liabilities.

Ferry service fees and federal-provincial subsidies are recognized as revenue as services specified in the related agreements with the Province of British Columbia (the "Province") are provided.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods.

(q) 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements
Years ended March 31, 2019 and 2018
(Tabular amounts expressed in thousands of Canadian dollars)

2. Adoption of new and amended standards:

(a) Changes in accounting policies:

The Group has adopted the following new standards effective April 1, 2018:

IFRS 9 *Financial Instruments (2014)*:

The Group adopted IFRS 9 (2013) in the year ended March 31, 2015, and IFRS 9 (2014) effective April 1, 2018. IFRS 9 (2014) introduces a single, forward-looking ECL model for assessing impairment of financial assets, 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 application of IFRS 9 (2014) did not have a significant impact on the Group's consolidated financial statements as the Group had an existing provision for impairment.

IFRS 15 *Revenue from Contracts with Customers*:

The Group adopted IFRS 15 effective April 1, 2018. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers. The Group has applied IFRS 15 using a modified retrospective approach by recognizing the cumulative effect on initial adoption as an increase of \$0.9 million to the opening balance of retained earnings and a corresponding reduction in contract liabilities. The comparative information has not been restated and continues to be presented in accordance with IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

The majority of the Group's revenue is recognized at the time the travel or service is provided.

Previously, the Group did not recognize revenue from the expected breakage relating to its prepaid stored value card. Under IFRS 15, the Group recognizes revenue from the expected breakage in vehicle and passenger fares when the likelihood of the customer exercising their remaining rights becomes remote.

IFRS 16 *Leases*:

The Group early adopted IFRS 16 effective April 1, 2018. The standard introduces a single lessee accounting model that 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 Group applied the following practical expedients on initial application:

- use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, the Group has elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- electing to not recognize leases for which the underlying asset is of low value.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

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

(a) Changes in accounting policies (continued):

IFRS 16 Leases (continued):

The Group's assessment of non-cancellable operating lease commitments indicated that nine arrangements met the definition of a lease under IFRS 16. The Group recognized \$2.9 million as a right-of-use asset and a corresponding liability in respect of these leases at April 1, 2018.

Lease liabilities

Operating lease commitments as at March 31, 2018 as disclosed in the Group's consolidated financial statements	2,284
Commitments reclassified as right-of-use assets on transition to IFRS 16	(1,749)
Other commitments as at April 1, 2018	535
Lease liabilities as at April 1, 2018	1,749
Extension options reasonably certain to be exercised	1,822
Total lease liabilities as at April 1, 2018	3,571
Discount using the incremental borrowing rate of 5.21%	(639)
Lease liabilities recognized as at April 1, 2018 (note 7)	2,932

When measuring new lease liabilities, the Group discounted lease payments using the incremental borrowing rate of 5.21%.

On April 1, 2018, the Group's land lease and structures were reclassified to right-of-use assets and are reported under property, plant and equipment in the consolidated statements of financial position. This reclassification resulted in an increase in property, plant and equipment of \$29.8 million and a corresponding reduction in land lease. The Group's land and structures comprising its terminals were transferred by the Group to the BC Transportation Financing Authority, a British Columbia Crown Corporation and related party on April 1, 2003. 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, were considered a finance lease and as such were capitalized and included with property, plant and equipment and depreciated in accordance with the Group's depreciation policy. The prepayment of the land lease is being depreciated on a straight-line basis over eighty years, being the initial sixty year lease period plus an additional twenty year bargain renewal option.

The application of IFRS 16 did not have any impact on the amounts recognized in the Group's consolidated financial statements for leases where the Group is a lessor.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements
Years ended March 31, 2019 and 2018
(Tabular amounts expressed in thousands of Canadian dollars)

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

(b) Future changes in accounting policies:

Amendments to IAS 19 *Employee Benefits*:

On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits*.

The amendments to IAS 19 require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual reporting periods beginning on or after January 1, 2019. The Group will adopt the amendments for the annual reporting period beginning on April 1, 2019. There will be no impact on the Group's consolidated financial statements upon adoption as there were no applicable plan amendments, curtailments or settlements.

3. Cash and cash equivalents:

	As at March 31	
	2019	2018
Cash	49,486	69,443
Cash equivalents:		
Investments valued at fair value through net earnings	472	470
Investments valued at amortized cost	9,930	-
Total	59,888	69,913

4. Inventories:

	As at March 31	
	2019	2018
Consumable parts and supplies	22,987	23,665
Provision for obsolescence	(1,200)	(1,400)
Net consumable parts and supplies	21,787	22,265
Retail inventories	4,744	4,813
Fuel inventories	4,339	4,506
Total	30,870	31,584

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

5. Property, plant and equipment:

	Vessels	Berths, buildings and equipment under finance lease	Berths, buildings and equipment	Land under finance lease	Right-of-use assets – Berths, buildings & equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:									
Balance as at April 1, 2017	1,305,845	642,436	104,332	6,824	-	-	18,433	212,467	2,290,337
Additions	-	-	-	-	-	-	-	236,463	236,463
Revaluation	-	-	-	353	-	-	1,503	-	1,856
Disposals	(20,982)	(2,097)	(1,113)	-	-	-	-	(628)	(24,820)
Transfers from construction in progress	229,935	42,488	12,329	-	-	-	-	(284,752)	-
Balance as at March 31, 2018	1,514,798	682,827	115,548	7,177	-	-	19,936	163,550	2,503,836
Impact of adoption of IFRS 16	-	(682,827)	512,493	(7,177)	172,831	37,383	-	-	32,703
Balance as at April 1, 2018	1,514,798	-	628,041	-	172,831	37,383	19,936	163,550	2,536,539
Additions	(859)	-	-	-	812	-	-	223,866	223,819
Revaluation	-	-	-	-	-	3,485	4,778	-	8,263
Disposals	(44,193)	-	(5,990)	-	(95)	-	-	-	(50,278)
Transfers from construction in progress	157,565	-	33,492	-	-	-	-	(191,057)	-
Balance as at March 31, 2019	1,627,311	-	655,543	-	173,548	40,868	24,714	196,359	2,718,343

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

5. Property, plant and equipment (continued):

	Vessels	Berths, buildings and equipment under finance lease	Berths, buildings and equipment	Land under finance lease	Right-of-use assets – Berths, buildings & equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Accumulated depreciation:									
Balance as at April 1, 2017	467,454	149,958	51,123	-	-	-	-	-	668,535
Depreciation	106,517	29,359	10,480	-	-	-	-	-	146,356
Disposals	(20,981)	(2,065)	(1,089)	-	-	-	-	-	(24,135)
Balance as at March 31, 2018	552,990	177,252	60,514	-	-	-	-	-	790,756
Impact of adoption of IFRS 16	-	(177,252)	117,177	-	60,075	-	-	-	-
Balance as at April 1, 2018	552,990	-	177,691	-	60,075	-	-	-	790,756
Depreciation	115,475	-	33,941	-	7,261	606	-	-	157,283
Disposals	(43,872)	-	(5,961)	-	(95)	-	-	-	(49,928)
Balance as at March 31, 2019	624,593	-	205,671	-	67,241	606	-	-	898,111
Net carrying value:									
As at March 31, 2018	961,808	505,575	55,034	7,177	-	-	19,936	163,550	1,713,080
As at April 1, 2018	961,808	-	450,350	-	112,756	37,383	19,936	163,550	1,745,783
As at March 31, 2019	1,002,718	-	449,872	-	106,307	40,262	24,714	196,359	1,820,232

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

5. Property, plant and equipment (continued):

During the year ended March 31, 2019, financing costs capitalized during construction amounted to \$6.7 million (March 31, 2018: \$5.5 million) with an average capitalization rate 4.97% (March 31, 2018: 5.03%).

Contractual commitments as at March 31, 2019, for assets to be constructed totalled \$47.5 million (March 31, 2018: \$122.0 million). The majority of these contractual commitments relate to the construction of two Island class vessels.

During the year ended March 31, 2019, the Group recognized asset impairment of \$nil (March 31, 2018: \$0.6 million). The impairment loss is reported under "(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of comprehensive income.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to \$43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the year ended March 31, 2019, the Group recognized \$14.6 million (March 31, 2018: \$14.9 million) as a reduction of the cost of property, plant and equipment.

FortisBC Energy Inc. has committed to provide the Group with funding as part of the Natural Gas for Transportation ("NGT") incentive funding. The contributions are dependent upon the purchase of natural gas ("NG"). During the year ended March 31, 2019, \$0.9 million was recognized as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2019, the Group received \$1.1 million (March 31, 2018: \$1.1 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$3.6 million, respectively, as at March 31, 2019.

The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

6. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at April 1, 2017	103,249	13,324	24,646	141,219
Additions	-	-	15,892	15,892
Disposals	(2)	(57)	(203)	(262)
Transfers from assets under development	21,472	3,151	(24,623)	-
Balance as at March 31, 2018	124,719	16,418	15,712	156,849
Additions	-	-	17,194	17,194
Disposals	(753)	(1,771)	-	(2,524)
Transfers from assets under development	6,369	4,240	(10,609)	-
Balance as at March 31, 2019	130,335	18,887	22,297	171,519
Accumulated amortization:				
Balance as at April 1, 2017	31,895	11,651	-	43,546
Amortization	12,851	709	-	13,560
Disposals	(2)	(57)	-	(59)
Balance as at March 31, 2018	44,744	12,303	-	57,047
Amortization	14,888	1,079	-	15,967
Disposals	(753)	(1,771)	-	(2,524)
Balance as at March 31, 2019	58,879	11,611	-	70,490
Net carrying value:				
As at March 31, 2018	79,975	4,115	15,712	99,802
As at March 31, 2019	71,456	7,276	22,297	101,029

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

6. Intangible assets (continued):

During the year ended March 31, 2019, the Group recognized asset impairment of \$nil (March 31, 2018: \$0.2 million). The impairment loss is reported under "(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of comprehensive income.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2019 totalled \$0.7 million (March 31, 2018: \$1.0 million).

During the year ended March 31, 2019, intangible assets totalling \$9.4 million (March 31, 2018: \$8.9 million) were acquired and \$7.8 million (March 31, 2018: \$7.0 million) were internally developed.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

7. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities	Interest payable on long-term debt
Balance as at April 1, 2017	1,304,799	42,005	18,458
Additions	45,264	-	63,591
Payments	(35,312)	(1,584)	(63,512)
Additions to debt issue costs	(1,417)	-	-
Amortization of debt issue costs	1,035	-	-
Balance as at March 31, 2018	1,314,369	40,421	18,537
Impact of adoption of IFRS 16 (note 2)	-	2,932	-
Balance as at April 1, 2018	1,314,369	43,353	18,537
Additions	-	812	62,760
Payments	(35,282)	(2,184)	(62,868)
Amortization of debt issue costs	956	-	-
Balance as at March 31, 2019	1,280,043	41,981	18,429
Current	57,183	2,184	18,429
Non-current	1,222,860	39,797	-
Balance as at March 31, 2019	1,280,043	41,981	18,429

During the year ended March 31, 2019, the Group recognized \$1.9 million (March 31, 2018: \$1.8 million) of interest expense related to lease liabilities.

8. Contract liabilities:

Contract liabilities include payments for fares sold in advance of providing transportation and other customer prepaid revenues. During the year ended March 31, 2019, the Group recognized \$15.1 million of revenue that was included in the contract liabilities balance at March 31, 2018 and represented revenue from transportation provided. During the year ended March 31, 2018, the Group recognized \$16.4 million of revenue that was included in the contract liabilities balance at March 31, 2017.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

9. Provisions:

	Wages payable	Claims payable	Total
Balance as at April 1, 2017	54,120	1,591	55,711
Provisions arising during the year	60,234	1,179	61,413
Provisions settled during the year	(55,603)	(1,149)	(56,752)
Balance as at March 31, 2018	58,751	1,621	60,372
Provisions arising during the year	60,303	569	60,872
Provisions settled during the year	(57,991)	(475)	(58,466)
Balance as at March 31, 2019	61,063	1,715	62,778

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.

10. Loans:

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 and a credit facility agreement secured by pledged bonds. In addition, the Group has two 12-year loan agreements, a 2.95% loan agreement and three 2.09% loans outstanding with KfW IPEX-Bank GmbH ("KfW"), a German export credit bank.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans (continued):

Long-term debt:	As at March 31	
	2019	2018
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%)	7,500	15,000
Tranche B (floating interest rate of 2.34% at March 31, 2019)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	9,375	16,875
Tranche B (floating interest rate of 2.32% at March 31, 2019)	22,500	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	18,000	27,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	36,437	40,175
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	37,710	41,482
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	37,710	41,482
	1,291,732	1,327,014
Less: Unamortized deferred financing costs and bond discounts	(11,689)	(12,645)
Total	1,280,043	1,314,369
Current	57,183	34,594
Non-current	1,222,860	1,279,775
Total	1,280,043	1,314,369

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans (continued):

(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

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

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

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 can be 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 from the loan were received in January 2009 to coincide with conditional acceptance of the *Northern Expedition* and applied toward the purchase of the vessel. 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% Loans, maturing October 2028 and January 2029:

The Group has a loan agreement with KfW. This loan agreement is secured under the Master Trust Indenture (May 2004) ("MTI (May 2004)") and allows for three loans of up to \$45.3 million each.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans (continued):

(e) 2.09% Loans, maturing October 2028 and January 2029 (continued):

Proceeds of \$44.9 million from the first loan and \$45.3 million from the second loan were received during the year ended March 31, 2017, to coincide with the contract payment schedule for the *Salish Orca* and *Salish Eagle*, respectively, and applied toward the purchase of the vessels.

Proceeds of \$45.3 million from the third and final loan were received during the year ended March 31, 2018, to coincide with the contract payment schedule for the *Salish Raven*, and applied toward the purchase of the vessel.

Each of these loans are payable over a 12-year term at an interest rate of 2.09% per annum. Quarterly principal payments plus interest are due in January, April, July and October each year of the term of the loans.

(f) 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 6, 2019 to extend the maturity date to April 20, 2024. There were no draws on this credit facility as at March 31, 2019 and as at March 31, 2018. There was no interest expensed during the years ended March 31, 2019 and March 31, 2018. Letters of credit outstanding against this facility as at March 31, 2019 totalled \$0.1 million (March 31, 2018: \$0.1 million).

(g) 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, 2019, debt service reserves of \$31.6 million (March 31, 2018: \$32.3 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

(h) 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, 2019, the debt service coverage ratio was 2.84.

In addition, there are other covenants contained in the MTI (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at March 31, 2019 and at March 31, 2018.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

11. 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 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

11. Accrued employee future benefits (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, 2019, 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 \$36.1 million (March 31, 2018: \$32.6 million).

(c) Multi-employer plans:

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

	2019	2018
Public Service Pension Plan contributions (i)	27,921	25,814
Long-term disability plan contributions (ii)	4,151	4,269
Total	32,072	30,083

(i) The March 31, 2017 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees ("the Board") on December 4, 2017. This report indicated that the pension fund had an actuarial surplus of \$1,896 million. Under the terms of the plan's joint trust agreement, plan members and employers share in any increase or decrease in contribution rates.

On March 16, 2018, the Board announced plan changes which took effect April 1, 2018 for pensionable service earned on or after that date. The changes include contribution at a flat 8.35 per cent of salary for members and 9.85 per cent of salary for employer from member and employer contribution rates that were dependent on how much the salary was below and above the year's maximum pensionable earnings. The Board has also decided to use a portion of the surplus funds to improve the pension benefits for pensionable service accrued between April 1, 2006 and March 31, 2018. The next valuation, expected to be received during the fiscal year ending March 31, 2021, will be as at March 31, 2020.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

11. Accrued employee future benefits (continued):

(c) Multi-employer plans (continued):

(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 reduced from 1.91% to 1.79% of covered payroll effective April 1, 2019. The most recent valuation, as at September 30, 2018, determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2020, will be as at March 31, 2019.

(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 was as at March 31, 2017. 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 valuation of the WCB obligation was at March 31, 2016. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2020, will be as at March 31, 2019.

During the year ended March 31, 2018, a net loss of \$1.9 million was recognized in OCI to reflect the actuarial valuation of the liability as at March 31, 2017, for the retirement and death benefit plans.

Accrued benefit obligations	Other benefit plans	
	2019	2018
Balance, beginning of year	24,299	22,313
Current service cost	1,362	1,473
Interest cost	974	1,044
Benefits paid	(4,052)	(2,474)
Actuarial loss (note 20)	-	1,943
Balance, end of year	22,583	24,299

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

11. Accrued employee future benefits (continued):

(d) Other defined benefit plans (continued):

Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	Other benefit plans	
	2019	2018
Fair value of plan assets	-	-
Accrued benefit obligation	22,583	24,299
Funded status of plans – deficit	(22,583)	(24,299)
Accrued benefit liability	(22,583)	(24,299)
Current portion of accrued employee future benefits	2,000	3,000
Non-current portion of accrued employee future benefits	(20,583)	(21,299)

Elements of defined benefit costs recognized in the year	Other benefit plans	
	2019	2018
Current service cost	1,362	1,473
Interest cost	974	1,044
Defined benefit costs recognized	2,336	2,517

Significant assumptions:

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

	2019	2018
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	5.0%	5.0%
Rate of compensation increase	1.9%	1.8%
Annual employee retention rate	94.4%	93.7%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	9.65	9.65

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

12. Lease liabilities:

The Group incurs lease payments related to a lease for space in a downtown Victoria, BC office building ("head office lease") and other leases for land, buildings and equipment.

The Group discounted lease payments for the head office lease using the imputed interest rate of 4.45%. Lease payments related to other leases were discounted using the incremental borrowing rate of 5.21%.

Lease liabilities are payable as follows:

	Lease liabilities
Less than one year	2,184
Between one and five years	10,803
More than five years	4,479
Purchase option	24,515
Total	41,981
Current	2,184
Non-current	39,797
Total	41,981

(i) Head office lease:

During the year ended March 31, 2011, agreements which constitute a lease for space in a downtown Victoria, BC office building took effect following the completion of construction of the building. The initial term of the 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 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 building. The purchase option expires at the end of the loan term. The Group expects to exercise the option and therefore has included it in the determination of the lease liability.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

13. Other liabilities:

FortisBC Energy Inc. has committed to provide the Group with funding as part of the NGT incentive funding. The funding is dependent upon the purchase of NG and the incremental costs of building/converting vessels to be capable of using NG for propulsion.

During the year ended March 31, 2019, the Group received \$2.6 million of the total contribution of \$10.0 million to be applied towards the mid-life upgrade, including conversion to NG, of the two Spirit class vessels. As at March 31, 2019, the Group has received a total of \$10.4 million in contributions related to the Spirit Class and Salish Class vessels. As of March 31, 2018, the Group had received all of the eligible contributions related to the Salish Class vessels.

During the year ended March 31, 2019, the Group recognized \$0.9 million as an offset to the capital costs of the vessels.

	Salish Class	Spirit Class	Total
Balance as at March 31, 2018	6,000	1,750	7,750
Additions	-	2,625	2,625
Reclassifications to property, plant and equipment	(511)	(348)	(859)
Balance as at March 31, 2019	5,489	4,027	9,516

14. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2019 and March 31, 2018 for all financial instruments except for long-term debt:

	As at March 31, 2019		As at March 31, 2018	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion ¹	1,280,043	1,623,838	1,314,369	1,614,108

¹ Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

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

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

14. Financial instruments (continued):

The following items shown in the consolidated statements of financial position as at March 31, 2019 and March 31, 2018 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, 2019 or at March 31, 2018, valued using Level 3 inputs.

	As at March 31, 2019		As at March 31, 2018	
	Level 1	Level 2	Level 1	Level 2
Asset:				
Cash ¹	49,486	-	69,443	-
Cash equivalents ¹	472	-	470	-
Derivatives ²	-	8,145	-	12,530
	49,958	8,145	69,913	12,530

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

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified into or out of fair value classifications in the year ended March 31, 2019.

During the year ended March 31, 2019, gains or losses related to Level 2 derivatives have been recognized in OCI. There were no Level 3 instruments outstanding during the period.

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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. 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. The Group undertakes to invest in instruments that are issued, insured or guaranteed by the Government of Canada or a provincial government or a deposit insurance corporation established by or on behalf of the Government of Canada or the Province; pooled funds comprised of investments issued, insured or guaranteed by any level of government in Canada; or issued by corporate short term issues of debt with a rating of no less than R-1 (Mid) by DBRS or equivalent, or in pooled funds of such investments.

Accounts receivable by source are as follows:

	As at March 31			
	2019		2018	
Trade customers and miscellaneous	12,999	55.9%	16,926	64.5%
Federal and Provincial governments	10,247	44.1%	9,332	35.5%
Total	23,246	100.0%	26,258	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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(a) Credit risk (continued):

Trade and other receivables are due in the short term. As at March 31, 2019, 85% of trade and other receivables were current. The Group is using the lifetime ECL (expected credit loss) simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.

Based on the historical default experience, the Group has established a lifetime ECL allowance of 1% of the trade receivables. Amounts due from the Government of Canada and the Province are considered low credit risk and are excluded. As at March 31, 2019, the provision for impairment was \$0.1 million.

Based on historical default experience and financial position of the counterparties and estimating the probability of default, the lifetime ECL equals zero for the Group's restricted and other short-term investments.

The Group has a loan receivable with a term of 15 years, secured by a second mortgage. The collateral is expected to exceed the amount of the loan and be available while the loan is outstanding.

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 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 10). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(b) Liquidity risk (continued):

As at March 31, 2019 and March 31, 2018 the Group's credit ratings were as follows:

British Columbia Ferry Services Inc.:	DBRS	Standard & Poor's
Senior secured long-term debt	A (high)(stable)	AA- (positive)

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2019:

Financial liabilities	< 1 year	2-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	80,173	-	-	-	80,173
Interest payable on long-term debt	18,429	-	-	-	18,429
Provisions (note 9)	62,778	-	-	-	62,778
Lease liabilities, including current portion (note 12)	2,184	5,135	5,668	28,994	41,981
Long-term debt, including current portion (excluding deferred costs) ¹ (note 10)	57,782	55,939	22,564	1,155,447	1,291,732
Other liabilities	1,301	2,602	2,602	8,636	15,141
Total financial liabilities – principal only	222,647	63,676	30,834	1,193,077	1,510,234
Interest payable – long-term debt ²	60,591	118,667	117,485	848,141	1,144,884
Interest payable – lease liabilities	1,859	3,348	2,843	1,796	9,846
Total financial liabilities, including interest payable	285,097	185,691	151,162	2,043,014	2,664,964

¹ Carrying value at March 31, 2019, excludes unamortized deferred financing costs of \$11.7 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 10(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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. 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, 2019, the Group's cash equivalents and short-term investments include fixed rate instruments with maturities of 182 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, 2019, the Group had approximately 3.4% of total debt in variable rate instruments. A 50 basis point change in interest rates would have had an effect of less than \$0.2 million on net earnings for the year ended March 31, 2019.

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 enters into derivative instruments as necessary. As at March 31, 2019, the notional amount of the Group's foreign currency forward contracts was \$0.5 million (March 31, 2018: \$1.7 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, 2019.

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and NG 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. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term. Performance term five will commence April 1, 2020 and end on March 31, 2024.

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 (note 27).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(c) Market risk (continued):

Fuel price risk (continued):

The Group hedges using CAD denominated ultra-low sulfur diesel (“ULSD”) to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the year ended March 31, 2019, the Group entered into ULSD fuel swap contracts with a notional value of \$35.3 million CAD. The notional value of all fuel swap contracts outstanding as at March 31, 2019 was \$50.6 million CAD (March 31, 2018: \$54.6 million). Hedge accounting was applied to these contracts. No NG swap contracts were entered into during the year ended March 31, 2019 and no NG swap contracts were outstanding as at March 31, 2019.

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, however, the Group does not consider this risk to be material.

During the year ended March 31, 2019, the total reduction in the fair value of fuel swap contracts was \$4.3 million (March 31, 2018: \$11.9 million increase). The realized fair value gain of \$7.5 million was recognized in OCI. The net realized hedging gain of \$11.8 million was reclassified from reserves and included in the Group’s fuel expense during the year ended March 31, 2019. There was no hedge ineffectiveness for the year ended March 31, 2019.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(c) Market risk (continued):

	Contracts maturing during the year ending March 31, 2020
Cash flow hedges:	
Fuel price risk:	
Fuel contracts (litres in thousands)	83,928
Contract price range (\$/litre)	\$0.5308 - \$0.6570

(i) As at March 31, 2019, the Group's derivative assets of \$8.1 million included fuel swap contracts and foreign exchange forward contracts. All of the Group's derivative assets will mature within twelve months.

Fuel swap contracts as at March 31, 2019:

				Fair value changes used for calculating hedge ineffectiveness		
	Notional value of the hedging instrument	Carrying value of the hedging instrument	Item location	Cash flow hedge reserve	Hedging instruments	Hedged items
Cash flow hedges:						
Fuel price risk	50,616	8,138	Derivative assets	8,138	8,138	8,151

(ii) Cash flow hedge reserve (note 20(a)):

	As at March 31	
	2019	2018
Hedging gains recognized in cash flow hedge reserve:		
Fuel swap contracts	7,450	13,580
Hedging (gains) losses reclassified from cash flow hedge reserve:		
Interest rate forward contracts – amortization of hedge loss	248	248
Fuel swap contracts – gain recognized in net earnings	(11,783)	(1,670)
Net change in cash flow hedge reserve	(4,085)	12,158

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

16. Other commitments:

The Group has various contracts for certain building spaces, land and equipment. These contracts do not meet the definition of a lease. Contract payments for the year ended March 31, 2019 were \$0.5 million (March 31, 2018: \$1.1 million).

Future contract payments are as follows:

Less than one year	623
Between one and five years	2,341
More than five years	97
Total	3,061

17. 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 or loss as determined.

18. 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			
	2019		2018	
	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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

19. Capital management:

The Group's principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations. On February 22, 2019, the Board of Directors approved the Group's fiscal 2020 12-year capital portfolio of \$3.9 billion, covering fiscal years 2019 through 2030, which will be invested in renewing and maintaining the fleet and the terminals, and improving the customer experience through technology infrastructure. The Commissioner's approval is required for those projects deemed by the Commissioner to be major capital expenditures.

In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (note 15(b)).

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

	As at March 31			
	2019		2018	
	\$	%	\$	%
Aggregate borrowings ¹	1,488,713	70.42	1,522,435	72.47
Total equity before reserves	625,484	29.58	578,433	27.53
Total	2,114,197	100.00	2,100,868	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 KfW loans, debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost. Under the MTI, the Group is required to maintain debt service reserves (note 10). 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, 2019 and March 31, 2018.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

20. Other comprehensive income (loss):

(a) Continuity of reserves:

	Land revaluation reserves ¹	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2017	7,109	(4,026)	561	(6,710)	(3,066)
Land revaluation	1,825	-	-	-	1,825
Actuarial loss on defined benefit plans (note 11(d))	-	(1,943)	-	-	(1,943)
Derivatives designated as cash flow hedges (note 15(c)):					
Net change in fair value	-	-	13,580	-	13,580
Realized gains	-	-	(1,670)	-	(1,670)
Amortization of losses	-	-	-	248	248
Balance as at March 31, 2018	8,934	(5,969)	12,471	(6,462)	8,974
Land revaluation	7,945	-	-	-	7,945
Derivatives designated as cash flow hedges (note 15(c)):					
Net change in fair value	-	-	7,450	-	7,450
Realized gains	-	-	(11,783)	-	(11,783)
Amortization of losses	-	-	-	248	248
Balance as at March 31, 2019	16,879	(5,969)	8,138	(6,214)	12,834

¹ Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve increases during the years ended March 31, 2019 and March 31, 2018, are shown above. During the year ended March 31, 2019, the Group recognized less than \$0.3 million (March 31, 2018: less than \$0.1 million) in net earnings as a result of land revaluation.

(b) Other comprehensive income:

	Years ended March 31	
	2019	2018
Items to be reclassified to net earnings:		
Hedge gains on fuel swaps (note 15(c))	7,450	13,580
Items not to be reclassified to net earnings:		
Land revaluations	7,945	1,825
Actuarial losses on defined benefit plans (note 11(d))	-	(1,943)
Total other comprehensive income	15,395	13,462

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

21. Net retail:

	Years ended March 31	
	2019	2018
Retail revenue	102,847	98,339
Cost of goods sold	(38,987)	(38,268)
Net retail	63,860	60,071

22. Operating expenses:

	Years ended March 31	
	2019	2018
Salaries, wages & benefits	388,370	371,988
Fuel	109,138	102,485
Materials, supplies and contracted services	85,952	86,315
Other operating expenses	64,000	63,569
Depreciation and amortization	173,250	159,916
Total operating expenses	820,710	784,273

23. Net finance expense:

	Years ended March 31	
	2019	2018
Finance expenses:		
Long-term debt	62,770	63,612
Other interest	725	451
Lease liabilities	1,887	1,799
Amortization of deferred financing costs and bond discounts	1,203	1,283
Interest capitalized in the cost of qualifying assets	(7,391)	(6,466)
Total finance expenses	59,194	60,679
Finance income	(6,182)	(5,495)
Net finance expense	53,012	55,184

24. 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	
	2019	2018
Short-term benefits	2,119	2,120
Post-employment benefits	302	260
Termination benefits	593	593
Total	3,014	2,973

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements
Years ended March 31, 2019 and 2018
(Tabular amounts expressed in thousands of Canadian dollars)

24. Related party transactions (continued):

(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, 2019, the Group paid \$0.1 million (March 31, 2018: \$0.2 million) 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.

25. 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 fourth performance term ending March 31, 2020.

26. 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.

27. 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, in extraordinary situations, 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 had already transitioned to IFRS. The Group transitioned to IFRS effective 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

27. Economic effect of rate regulation (continued):

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 regulatory assets at March 31, 2019, are probable of future recovery in tariff or fuel surcharges.

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

Regulatory assets (liabilities)	As at March 31	
	2019	2018
Deferred fuel costs (a):		
Balance, beginning of year	(239)	4,450
Fuel costs over (under) set price	84	(8,630)
Rebates	4,585	19,386
Fuel price risk recoveries payable to the Province	25	291
Corporate contribution	-	(15,736)
Balance, end of year	4,455	(239)
Total regulatory assets (liabilities)	4,455	(239)

(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 regulatory deferred fuel cost accounts operate as follows:

- i) for those routes operating on the mid-coast and to and from Prince Rupert;
 - a. the first 5 cents per litre of difference is recognized in deferral accounts for recovery or settlement through future tariffs to customers;
 - b. any difference beyond 5 cents per litre is recognized in accounts receivable or payable for subsequent recovery from or payment to the Province, and
- ii) for all other routes;
 - a. recognized in deferral accounts for recovery or settlement through future tariffs to customers.

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, 2019, the amounts payable to the Province in relation to fuel cost differences totalled \$25 thousand (March 31, 2018: \$0.3 million). At March 31, 2018, the Group contributed \$15.7 million to cover the balance in the non-northern routes' deferred fuel cost account and eliminate the need to recoup these costs from customers in the future.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(Tabular amounts expressed in thousands of Canadian dollars)

27. Economic effect of rate regulation (continued):

(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, 2019 and March 31, 2018, tariffs charged to customers were below established price caps.

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, 2019 would have been \$4.7 million higher (March 31, 2018: \$4.7 million lower) as detailed below:

	Years ended March 31	
Effect of rate regulation on net earnings	2019	2018
Regulatory accounts:		
Deferred fuel costs	4,694	(4,689)
Total increase (decrease) in net earnings	4,694	(4,689)