Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of British Columbia Ferry Services Inc.

We have audited the accompanying consolidated financial statements of British Columbia Ferry Services Inc., which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Ferry Services Inc. as at March 31, 2017 and March 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

June 28, 2017
Victoria, Canada

BRITISH COLUMBIA FERRY SERVICES INC.

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

	As at March 31	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents (note 3)	72,032	79,113
Restricted short-term investments (note 10(f))	32,426	31,986
Other short-term investments	115,582	61,464
Trade and other receivables (note 15(a))	15,319	16,249
Prepaid expenses	7,454	8,550
Inventories (note 4)	28,257	23,988
Derivative assets (note 15(c))	1,604	-
	272,674	221,350
Non-current assets		
Loan receivable (note 12)	24,515	24,515
Land lease (note 5)	30,230	30,688
Property, plant and equipment (note 6)	1,621,802	1,539,957
Intangible assets (note 7)	97,673	82,741
	1,774,220	1,677,901
Total assets	2,046,894	1,899,251
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	55,173	58,206
Interest payable on long-term debt (note 8)	18,458	18,262
Deferred revenue	20,705	18,883
Derivative liabilities	1,048	17,879
Current portion of long-term debt (note 8,10)	30,939	24,000
Current portion of accrued employee future benefits (note 11(d))	1,400	1,900
Current portion of obligations under finance lease (note 12)	1,582	1,514
Provisions (note 9)	55,711	48,690
	185,016	189,334
Non-current liabilities		
Accrued employee future benefits (note 11(d))	20,913	19,361
Long-term debt (note 8,10)	1,273,860	1,218,106
Obligations under finance lease (note 8,12)	40,423	42,003
Other liabilities (note 13)	5,250	1,500
	1,340,446	1,280,970
Total liabilities	1,525,462	1,470,304
Equity		
Share capital (note 18)	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	424,020	352,692
Total equity before reserves	524,498	453,170
Reserves (note 20(a))	(3,066)	(24,223)
Total equity including reserves	521,432	428,947
Total liabilities and equity	2,046,894	1,899,251

Commitments (note 6(b) and note 16)
Contingencies (note 17)

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31 2017	2016
Revenue		
Vehicle and passenger fares	608,713	579,311
Ferry service fees (note 25)	174,871	172,373
Net retail (note 21)	55,139	51,879
Federal-Provincial Subsidy Agreement (note 26)	29,158	28,730
Fuel rebates	(18,068)	(6,356)
Other income	9,470	8,679
Total revenue	859,283	834,616
Expenses (note 22)		
Operations	467,300	449,642
Maintenance	74,165	79,387
Administration	35,804	34,513
Depreciation and amortization	148,952	145,521
Total operating expenses	726,221	709,063
Operating profit	133,062	125,553
Net finance and other expenses		
Net finance expenses (note 23)		
Finance income	4,651	4,607
Finance expenses	(58,759)	(60,568)
Net finance expenses	(54,108)	(55,961)
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	(1,588)	(39)
Net finance and other expenses	(55,696)	(56,000)
Net earnings	77,366	69,553
Other comprehensive income (loss) (note 20(b))		
Items not to be reclassified to net earnings	2,480	392
Items to be reclassified to net earnings	12,119	(24,156)
Total other comprehensive income (loss)	14,599	(23,764)
Total comprehensive income	91,965	45,789

See accompanying notes to the consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31 2017	2016
Cash flows from operating activities		
Net earnings	77,366	69,553
Items not affecting cash		
Net finance expense	54,108	55,961
Depreciation and amortization	148,952	145,521
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	1,588	39
Other non-cash adjustments to property, plant and equipment	(1,867)	2,462
Changes in		
Accrued employee future benefits	(188)	61
Derivative (assets) liabilities recognized in net earnings	(5)	32
Provisions	7,021	4,901
Long-term land lease	458	458
Accrued financing costs	286	(88)
Total non-cash items affecting net earnings	210,353	209,347
Movements in operating working capital		
Trade and other receivables	930	3,241
Prepaid expenses	1,096	(2,373)
Inventories	(4,269)	1,405
Accounts payable and accrued liabilities	(3,033)	(3,471)
Deferred revenue	1,822	1,926
Change in non-cash working capital	(3,454)	728
Change attributable to capital asset acquisitions	2,357	6,995
Change in non-cash operating working capital	(1,097)	7,723
Cash generated from operating activities	286,622	286,623
Interest received	4,339	4,616
Interest paid	(64,526)	(65,256)
Net cash generated by operating activities	226,435	225,983

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Years ended March 31	
	2017	2016
Cash flows from financing activities		
Proceeds from long-term debt	90,122	-
Repayment of long-term debt	(24,934)	(24,000)
Repayment of finance lease obligations	(1,512)	(1,307)
Dividends paid on preferred shares	(6,038)	(6,038)
Deferred financing costs incurred	(2,965)	-
Net cash generated by (used in) financing activities	54,673	(31,345)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	137	217
Purchase of property, plant and equipment and intangible assets	(233,768)	(182,460)
Changes in debt service reserve	(440)	510
Net (purchase of) proceeds from short-term investments	(54,118)	634
Net cash used in investing activities	(288,189)	(181,099)
Net (decrease) increase in cash and cash equivalents	(7,081)	13,539
Cash and cash equivalents, beginning of year	79,113	65,574
Cash and cash equivalents, end of year	72,032	79,113

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Share capital (note 18)	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 20(a))	Total equity including reserves
Balance as at April 1, 2015	75,478	25,000	289,177	389,655	(11,450)	378,205
Net earnings for the year ended March 31, 2016	-	-	69,553	69,553	-	69,553
Other comprehensive loss for the year ended March 31, 2016	-	-	-	-	(23,764)	(23,764)
Realized hedge losses recognized in fuel swaps	-	-	-	-	10,742	10,742
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	249	249
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2016	75,478	25,000	352,692	453,170	(24,223)	428,947
Net earnings for the year ended March 31, 2017	-	-	77,366	77,366	-	77,366
Other comprehensive income for the year ended March 31, 2017	-	-	-	-	14,599	14,599
Realized hedge losses recognized in fuel swaps	-	-	-	-	6,310	6,310
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, 2017	75,478	25,000	424,020	524,498	(3,066)	521,432

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

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

The Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

1. Accounting policies:

(a) Basis of preparation:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These consolidated financial statements as at and for the years ended March 31, 2017 and 2016 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.

These consolidated financial statements were approved by the Board of Directors on June 28, 2017.

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

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.

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 recorded in net earnings or loss.

The Group operates within a single industry and within a single geographical area. 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, 2017 are:

Pacific Marine Leasing Inc.
BCF Captive Insurance Company Ltd.

All inter-Group balances and transactions are eliminated on consolidation.

(c) Estimates and judgements:

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting methods and the amounts recognized in the financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. They therefore serve as the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

Significant judgments relate to the provision for contingencies, including asset retirement obligations. In forming these judgments, the Group considers the probability of future payments.

1. Accounting policies (continued):

(c) Estimates and judgements (continued):

Significant estimates relate to:

(i) Property, plant and equipment and intangible assets
The calculation of depreciation and amortization involves estimates concerning the economic life and salvage value of property, plant and equipment and intangible assets.

(ii) Employee future benefits
Accounting for the costs of future employee benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary levels, employee turnover rates and mortality tables.

(iii) Derivative 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.

(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 derivatives are designated in a cash flow hedging relationship, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income (“OCI”). Any ineffective portion of a hedging relationship is recognized immediately in net earnings or loss. Accumulated gains or losses are transferred to net earnings or loss in the period when the related forecast transaction affects net earnings or loss.

When the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred are transferred directly from equity (accumulated other comprehensive income) and included in the measurement of the initial carrying amount of the asset or liability.

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

1. Accounting policies (continued):

(e) Property, plant and equipment:

Property, plant and equipment, excluding 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.

Land is 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.

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

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

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 assets under finance leases, are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Asset class	Estimated useful life
Vessel hulls	45 years
Vessel propulsion and utility systems	20 to 30 years
Vessel hull, propulsion and generator overhaul	4 to 5 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

1. Accounting policies (continued):

(f) Intangible assets:

Intangible assets consist of acquired computer software and licenses and rights of use as well as internally developed computer software and website. These assets are 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.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives (3 to 7 years) since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Rights of use intangible assets are amortized on a straight-line basis over their estimated useful lives of 10 to 30 years. Amortization commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

(g) Leases:

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all the risks and rewards of ownership to the Group are accounted for as finance leases. Items of property, plant and equipment held under finance leases are initially recognized at the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

1. Accounting policies (continued):

(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 on the temporary investment of those borrowings.

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

All other financing costs are recognized in net earnings or loss in the period in which they are incurred.

(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. 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. The cost of fuel inventories includes gains or losses on the settlement of fuel swap contracts.

(j) Impairment of non-financial assets:

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets (this can be at the asset or cash-generating unit level).

The impairment charged to net earnings or loss is the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

Impairment losses are evaluated for potential reversals when events or changes warrant such consideration. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized. A reversal of impairment is charged to net earnings or loss.

1. Accounting policies (continued):

(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 recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of any such liability due to the indeterminate magnitude, likelihood or financial impact, if any, of this issue. In addition, there is a reasonable expectation that retired assets may be sold to a responsible secondary market at a nominal salvage price.

(l) Financial assets and liabilities:

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

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

Financial assets that are expected to be realized within twelve months after the reporting period are presented as "current assets" or "cash equivalents" depending on the circumstances. Financial assets and liabilities of a long-term nature are presented as "non-current".

1. Accounting policies (continued):

(l) Financial assets and liabilities (continued):

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

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

Subsequent to initial recognition, financial assets are measured at either amortized cost or at fair value through OCI or at fair value through net earnings or loss.

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

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

(ii) Loans and advances

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

(iii) Trade and other receivables

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

(iv) Cash and cash equivalents

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

1. Accounting policies (continued):

(l) Financial assets and liabilities (continued):

(v) Borrowings and other financial liabilities

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

(vi) Derivatives

The Group may use derivative financial instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The Group does not utilize derivatives for trading or speculative purposes. At the inception of each hedge, the Group determines whether it will or will not apply hedge accounting. Derivatives are initially recorded at fair value and any associated transaction costs are recognized in net earnings or loss when incurred. After initial recognition, derivatives are measured at fair value based on market prices at each statement of financial position date. Changes in the fair value of these instruments are recorded in net earnings or loss except where the instrument has been designated as a hedging item in a cash flow hedge. Instruments designated as a hedging item in a cash flow hedge are recorded in accordance with note 1(d).

(vii) Fair value hierarchy

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

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

1. Accounting policies (continued):

(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 as the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the pension obligation.

Assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Actuarial gains (losses) arise from the difference between the actual and expected long-term rate of return on plan assets and the effects of changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are recognized immediately in OCI and are not reclassified to net earnings or loss in subsequent periods.

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 recorded 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.

1. Accounting policies (continued):

(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. Payments for fares sold in advance of providing transportation are included in the statement of financial position as deferred revenue. These advance payments include prepaid vehicle and passenger fares, assured loading tickets and reservation fees.

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 performed.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold.

Parking revenues are received from both owned and subcontracted parking facilities and are recognized when service is provided. Revenue is generated from various advertising contracts and recognized according to the individual agreement.

(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.

2. Adoption of new and amended standards and interpretations:

(a) Changes in accounting policies:

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards, amendments or interpretations to existing standards that were applied by the Group during the year ended March 31, 2017.

Amendments to IAS 1 *Presentation of Financial Statements*:

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

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

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

Amendments to IAS 7 *Statement of Cash Flows*:

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. These amendments require a disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The mandatory effective date of amendments to IAS 7 is for annual reporting periods beginning on or after January 1, 2017. The Group early adopted effective April 1, 2016. The application of IAS 7 did not have any impact on the Group's consolidated financial statements, other than additional disclosure as presented in note 8.

(b) Future changes in accounting policies:

IFRS 15 *Revenue from Contracts with Customers***:**

IFRS 15 Revenue from Contracts with Customers will replace IAS 11 Construction Contracts and IAS 18 *Revenue*. It provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 also requires additional disclosures. The mandatory effective date of IFRS 15 is for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is currently assessing the potential effects of adopting IFRS 15 on its consolidated financial statements and any related impact on its internal controls.

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

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

IFRS 9 *Financial Instruments (2014):*

On July 24, 2014, the IASB issued the completed version of IFRS 9. IFRS 9 (2014) introduces a new expected credit loss model for calculating impairment, and incorporates the guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). The mandatory effective date of IFRS 9 (2014) is for annual reporting periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Group has determined the need to establish an expected credit loss provision for trade receivables. The Group does not expect the application of IFRS 9 to have a significant impact on its consolidated financial statements, other than additional disclosure, as the Group has an existing provision for impairment.

IFRS 16 *Leases*:

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers*, has also been applied. The Group is in the process of reviewing lease agreements. The Group expects that IFRS 16 will result in an increase in assets and liabilities with the recognition of right of use assets and additional lease liabilities, fewer leases will be expensed as payments are made, an increase in depreciation and accretion expenses and also an increase in cash flow from operating activities as these lease payments will be recorded as financing outflows in the consolidated statements of cash flows. The Group is currently analyzing the potential effects of adopting IFRS 16. The Group does not expect the application of this standard to have a significant impact on its consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Cash and cash equivalents:

	As at March 31	
	2017	2016
Cash	66,093	58,119
Cash equivalents:		
Investments valued at fair value through net earnings	44	5,900
Investments valued at amortized cost	5,895	15,094
Total	**72,032**	**79,113**

4. Inventories:

	As at March 31	
	2017	2016
Consumable parts and supplies	20,598	17,706
Allowance for obsolescence	(1,000)	(1,000)
Net consumable parts and supplies	19,598	16,706
Retail inventories	5,292	4,556
Fuel inventories	3,367	2,726
Total	**28,257**	**23,988**

5. Long-term land lease:

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

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

Since April 1, 2003, the Group has entered into various agreements with BCTFA to add lands to the existing terminal leases. During the years ended March 31, 2017 and March 31, 2016, no new land costs were added to the terminal leases.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Property, plant and equipment:

(a) Continuity of property, plant and equipment:

	Vessels	Berths, buildings & equipment under finance lease	Berths, buildings & equipment	Land under finance lease	Land	Construction in progress	Total
Cost:							
Balance at April 1, 2015	1,227,689	599,099	80,537	5,559	15,895	65,585	1,994,364
Additions	-	-	-	-	-	153,362	153,362
Revaluation	-	-	-	324	-	-	324
Disposals	(18,546)	(1,393)	(754)	-	-	(140)	(20,833)
Impairment loss recovery	421	-	-	-	-	-	421
Reclassification to: assets held for sale	(525)	-	-	-	-	-	(525)
Transfers from construction in progress	71,264	28,242	14,332	-	(240)	(113,598)	-
Balance at March 31, 2016	**1,280,303**	**625,948**	**94,115**	**5,883**	**15,655**	**105,209**	**2,127,113**
Additions	-	-	-	-	-	217,325	217,325
Revaluation	-	-	-	941	2,778	-	3,719
Disposals	(28,214)	(442)	(414)	-	-	-	(29,070)
Reclassification to: assets held for sale	(28,750)	-	-	-	-	-	(28,750)
Transfers from construction in progress	82,506	16,930	10,631	-	-	(110,067)	-
Balance at March 31, 2017	**1,305,845**	**642,436**	**104,332**	**6,824**	**18,433**	**212,467**	**2,290,337**

(Tabular amounts expressed in thousands of Canadian dollars)

6. Property, plant and equipment (continued):

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

	Vessels	Berths, buildings & equipment under finance lease	Berths, buildings & equipment	Land under finance lease	Land	Construction in progress	Total
Accumulated depreciation:							
Balance at April 1, 2015	341,377	95,528	32,767	-	-	-	469,672
Depreciation for the year	100,443	28,348	9,752	-	-	-	138,543
Disposals	(18,428)	(1,393)	(713)	-	-	-	(20,534)
Reclassification to: assets held for sale	(525)	-	-	-	-	-	(525)
Balance at March 31, 2016	**422,867**	**122,483**	**41,806**	**-**	**-**	**-**	**587,156**
Depreciation for the year	101,551	27,917	9,708	-	-	-	139,176
Disposals	(28,214)	(442)	(391)	-	-	-	(29,047)
Reclassification to: assets held for sale	(28,750)	-	-	-	-	-	(28,750)
Balance at March 31, 2017	**467,454**	**149,958**	**51,123**	**-**	**-**	**-**	**668,535**
Net carrying value:							
As at April 1, 2015	**886,312**	**503,571**	**47,770**	**5,559**	**15,895**	**65,585**	**1,524,692**
As at March 31, 2016	**857,436**	**503,465**	**52,309**	**5,883**	**15,655**	**105,209**	**1,539,957**
As at March 31, 2017	**838,391**	**492,478**	**53,209**	**6,824**	**18,433**	**212,467**	**1,621,802**

6. Property, plant and equipment (continued):

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

During the year ended March 31, 2017, financing costs capitalized during construction amounted to $4.4 million (March 31, 2016: $3.2 million) with an average capitalization rate of 5.02% (March 31, 2016: 5.03%). In addition to the construction in progress referenced above, the contractual commitments as at March 31, 2017, for assets to be constructed totalled $186.7 million (March 31, 2016: $284.6 million). These contractual commitments include $43.4 million of the total contract value of $165 million for construction of the three new Salish class vessels and $103.7 million of the total contract value of $140 million for the mid-life upgrade and conversion to dual fuel of the two Spirit class vessels.

During the year ended March 31, 2016, the Group recognized a $0.4 million reversal of an impairment loss recorded during the year ended March 31, 2015. The $0.4 million reversal was reported under “Loss on disposal and revaluation of property, plant and equipment, intangible assets, and inventory” in the consolidated statements of comprehensive income.

The Government of Canada, through the Shore Power Technology for Ports Program, agreed to provide funding to help offset the costs of shore power upgrades at certain of the Group’s terminals. During the year ended March 31, 2017, the Group received $0.4 million (March 31, 2016: $1.0 million and March 31, 2015: $0.6 million) of the total funding of $2.0 million. These funds, recorded as a reduction of property, plant and equipment during the year ended March 31, 2016, reflect the completion of the funding received through the Shore Power Technology for Ports Program.

During the year ended March 31, 2017, the Group received $1.1 million (March 31, 2016: $1.0 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $2.7 million, respectively, as at March 31, 2017.

During the year ended March, 31, 2017, the *Queen of Burnaby* and the *Queen of Nanaimo* have been classified as held for sale. Disposal is expected to take place during the year ended March 31, 2018. Both vessels are fully depreciated and have no net carrying value.

During the year ended March 31, 2017, the *Tenaka* (decommissioned during the year ended March 31, 2016), was sold.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Intangible assets:

(a) Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Cost:				
Balance at April 1, 2015	31,706	11,516	48,635	91,857
Additions	-	-	24,688	24,688
Disposals	-	-	-	-
Transfers from assets under development	4,994	932	(5,926)	-
Balance at March 31, 2016	**36,700**	**12,448**	**67,397**	**116,545**
Additions	-	-	26,363	26,363
Disposals	(34)	-	(197)	(231)
Impairment loss			(1,458)	(1,458)
Transfers from assets under development	66,583	876	(67,459)	-
Balance at March 31, 2017	**103,249**	**13,324**	**24,646**	**141,219**
Accumulated amortization:				
Balance at April 1, 2015	17,390	9,436	-	26,826
Amortization for the year	5,356	1,622	-	6,978
Disposals	-	-	-	-
Balance at March 31, 2016	**22,746**	**11,058**	-	**33,804**
Amortization for the year	9,183	593	-	9,776
Disposals	(34)	-	-	(34)
Balance at March 31, 2017	**31,895**	**11,651**	-	**43,546**
Net carrying value:				
As at April 1, 2015	**14,316**	**2,080**	**48,635**	**65,031**
As at March 31, 2016	**13,954**	**1,390**	**67,397**	**82,741**
As at March 31, 2017	**71,354**	**1,673**	**24,646**	**97,673**

7. Intangible assets (continued):

(b) Other disclosures - intangible assets:

The Group recorded asset impairment of $1.5 million during the year ended March 31, 2017. The impairment loss is reported under “Loss on disposal and revaluation of property, plant and equipment and intangible assets” in the consolidated statements of comprehensive income.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2017 totalled $2.3 million (March 31, 2016: $2.2 million).

During the year ended March 31, 2017, intangible assets totalling $20.8 million (March 31, 2016: $22.6 million) were acquired and $5.6 million (March 31, 2016: $2.1 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Obligations under finance lease	Interest payable on long-term debt
Balance at March 31, 2016			
Current	23,851	1,514	18,262
Non-current	1,218,255	42,003	-
	1,242,106	43,517	18,262
Additions	90,122	-	62,300
Payments	(24,934)	(1,512)	(62,104)
Addition to debt issue costs	(2,965)	-	-
Amortization of debt issue costs	470	-	-
Balance at March 31, 2017	**1,304,799**	**42,005**	**18,458**
Current	30,939	1,582	18,458
Non-current	1,273,860	40,423	-
Balance at March 31, 2017	**1,304,799**	**42,005**	**18,458**

9. Provisions:

	Wages payable	Claims payable	Total
Balance at April 1, 2015	41,718	2,071	43,789
Provisions arising during the year	56,634	215	56,849
Provisions settled during the year	(51,270)	(678)	(51,948)
Balance at March 31, 2016	47,082	1,608	48,690
Provisions arising during the year	57,883	433	58,316
Provisions settled during the year	(50,845)	(450)	(51,295)
Balance at March 31, 2017	**54,120**	**1,591**	**55,711**

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.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans:

	As at March 31	
Long-term debt:	2017	2016
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%)	22,500	30,000
Tranche B (floating interest rate of 1.23% at March 31, 2017)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	24,375	31,875
Tranche B (floating interest rate of 1.23% at March 31, 2017)	22,500	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	36,000	45,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.64%)	43,923	-
2.09% Loan, maturing January 2029 (effective interest rate of 2.63%	45,264	-
	1,317,062	1,251,875
Less: Unamortized deferred financing costs and bond discounts	(12,263)	(9,769)
Current portion	(30,939)	(24,000)
Total	**1,273,860**	**1,218,106**

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans (continued):

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

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

During the year ended March 31, 2016, the Group entered into a loan agreement with KfW which allows for three loans totalling $135.9 million to partially finance the Group's purchase of the three new Salish Class vessels. At March 31, 2017, two of these 12 year 2.09% loans were outstanding.

(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.

10. Loans (continued):

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

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

(c) 2.95% Loan, maturing January 2021:

Proceeds of $108.0 million 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, a German export credit bank. This loan agreement is secured under the Master Trust Indenture (“MTI”) and allows for three loans of up to $45.3 million each. These amortizing loans will be repaid over a 12-year term and bear an interest rate of 2.09% per annum.

Proceeds of $44.9 million from the first loan were received in November 2016 to coincide with the contract payment schedule for the *Salish Orca* and applied toward the purchase of the vessel. Quarterly principal payments plus interest are due in January, April, July and October each year of the term of the loan.

Proceeds of $45.3 million from the second loan were received in February 2017 to coincide with the contract payment schedule for the *Salish Eagle* and applied toward the purchase of the vessel. Quarterly principal payments plus interest are due in January, April, July and October each year of the term of the loan.

Receipt of proceeds from the third loan will coincide with the contract payment schedule for the *Salish Raven* and the net proceeds will be applied toward the purchase of the vessel.

(e) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on March 10, 2017 to extend the maturity date to April 20, 2022. There were no draws on this credit facility as at March 31, 2017 and as at March 31, 2016. There was no interest expensed during the years ended March 31, 2017 and March 31, 2016. Letters of credit outstanding against this facility as at March 31, 2017 totalled $0.1 million (March 31, 2016: $0.3 million).

(Tabular amounts expressed in thousands of Canadian dollars)

10. Loans (continued):

(f) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at March 31, 2017, debt service reserves of $32.4 million were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position (March 31, 2016: $32.0 million).

(g) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement. As at March 31, 2017, the debt service coverage ratio was 3.20.

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, 2017 and at March 31, 2016.

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.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Accrued employee future benefits (continued):

In addition, eligible employees are entitled to other retirement and future benefits as provided for under the collective agreement and terms of employment. These are unfunded defined benefit plans administered by the Group. Retirement benefits and death benefits are based on years of service and final average salary. The accumulated sick leave bank ("Sick Bank obligation") consists of unused sick time credits earned prior to the discontinuation of the sick leave accumulation benefit in 1979. Accumulated sick leave may be drawn down at 100% or paid out at 50%. Benefits are paid out at current salary rates. No new credits are accumulated to this bank.

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

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, 2017, consisting of cash contributed by the Group to its multi-employer defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to a third party administrator of an unfunded plan, was $29.6 million (March 31, 2016: $29.5 million).

(c) Multi-employer plans:

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

	2017	2016
Public Service Pension Plan contributions (i)	24,222	23,157
Long-term disability plan contributions (ii)	3,043	4,592
Total	**27,265**	**27,749**

(i) The March 31, 2014 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 18, 2014. This report indicated that the pension fund has an actuarial surplus of $194 million. Under the terms of the plan's joint trust agreement, plan members and employers share in any increase or decrease in contribution rates. No changes in contribution rates were made as a result of this actuarial valuation. The next valuation, expected to be received during the fiscal year ended March 31, 2018, will be as at March 31, 2017.

(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 increased from 1.41% to 2.12% of covered payroll effective April 1, 2017. The most recent valuation, as at September 30, 2016, determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2018, will be as at March 31, 2017.

(d) Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans is as at March 31, 2016. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The most recent actuarial valuations of the WCB obligation, the supplemental executive retirement plan and the Sick Bank obligation are as at March 31, 2016, March 31, 2016 and March 31, 2001, respectively.

During the year ended March 31, 2017, a net loss of $1.2 million was recognized in OCI to reflect the actuarial valuation of the liability as at March 31, 2016, for the WCB obligation, and retirement and death benefit plans.

	Other benefit plans	
Accrued benefit obligations	2017	2016
Balance, beginning of year	21,261	21,200
Current service cost	1,209	983
Interest cost	984	799
Benefits paid	(2,381)	(1,721)
Actuarial loss	1,240	-
Balance, end of year	**22,313**	**21,261**

(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 recorded in the financial statements	Other benefit plans 2017	2016
Fair value of plan assets	-	-
Accrued benefit obligation	22,313	21,261
Funded status of plans – deficit	(22,313)	(21,261)
Accrued benefit liability	(22,313)	(21,261)
Current portion of accrued employee future benefits	1,400	1,900
Accrued employee future benefits	**(20,913)**	**(19,361)**

Elements of defined benefit costs recognized in the year	Other benefit plans 2017	2016
Current service cost	1,209	983
Interest cost	984	799
Defined benefit costs recognized	**2,193**	**1,782**

Significant assumptions:

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

	2017	2016
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	5.0%	5.2%
Rate of compensation increase	0.9%	1.4%
Annual employee retention rate	96.0%	95.6%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	9.61	8.36

12. Obligations under finance lease:

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

(Tabular amounts expressed in thousands of Canadian dollars)

12. Obligations under finance lease (continued):

Loan and purchase option:

The Group has advanced funds to, and has a loan receivable from, the developer of the head office property in the amount at $24.5 million. The term of the loan is fifteen years, secured by a second mortgage on the property. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, the Group was granted an option to purchase up to 50% of the owner's equity interest in the building at a price of $24.5 million. The purchase option expires at the end of the loan term.

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

	Minimum lease payments	Executory costs	Imputed interest (4.44%)	Obligation
Less than one year	5,276	1,895	1,799	1,582
Between one and five years	21,915	7,968	6,446	7,500
Later than five years	20,897	8,079	4,410	8,408
Purchase option	24,515	-	-	24,515
Total	**72,603**	**17,942**	**12,655**	**42,005**
Current portion				(1,582)
Non-current portion				40,423

13. Other liabilities:

During the year ended March 31, 2017, the Group received $2.3 million (March 31, 2016: $1.5 million) of the total contribution of $6.0 million from FortisBC Energy Inc. as part of the Natural Gas for Transportation ("NGT") incentive funding. A further $1.5 million was recorded as trade receivables at March 31, 2017. The Group expects to receive this amount, as well as a further $0.7 million, during the year ended March 31, 2018. The contribution is dependent upon the Group purchasing at least 3 million gigajoules of liquefied natural gas. The NGT incentive funding will be applied towards the purchase of the three new Salish class vessels.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2017 and March 31, 2016 for all financial instruments except for long-term debt:

	As at March 31, 2017		As at March 31, 2016	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion [1]	1,304,799	1,597,761	1,242,106	1,529,186

[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.

The following items shown in the consolidated statements of financial position as at March 31, 2017 and March 31, 2016 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, 2017 or at March 31, 2016, valued using level 3 inputs.

	As at March 31, 2017		As at March 31, 2016	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash [1]	66,093	-	58,119	-
Cash equivalents [1]	44	-	5,900	-
Derivatives [2]	-	556	-	(17,879)
	66,137	**556**	**64,019**	**(17,879)**

[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, 2017. Financial assets have been pledged as security for liabilities under the MTI.

During the year ended March 31, 2017, gains or losses related to Level 2 derivatives have been recorded in OCI. There were no level 3 instruments outstanding during the period.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Financial instruments (continued):

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.

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			
	2017		2016	
Trade customers and miscellaneous	11,958	78.1%	9,299	57.2%
Federal and Provincial governments	3,361	21.9%	6,950	42.8%
Total	**15,319**	**100.0%**	**16,249**	**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.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(a) Credit risk (continued):

The Group manages its exposure to credit risk associated with all customers through the monitoring of aging of receivables, by collecting deposits from and adjusting credit terms for higher risk customers and customers who are not on a pre-authorized payment plan. Amounts due from tickets sold to passengers through the use of major credit cards are settled shortly after sale and are classified as cash and cash equivalents on the statements of financial position.

Accounts receivable from trade customers are generally due in 30 days. As at March 31, 2017, 99% of trade receivables are current. As at March 31, 2017, the provision for impairment was $0.1 million (March 31, 2016: $0.1 million) and reflects management's estimate of uncollectible receivables from trade customers based on past experience and analysis of customer accounts.

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

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.

As at March 31, 2017 the Group's credit ratings were as follows:

	DBRS	Standard & Poor's
British Columbia Ferry Services Inc.:	A (positive)	AA- (stable)
Senior secured long-term debt	(March 31, 2016: A)	(March 31, 2016: AA-)

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial risk management (continued):

(b) Liquidity risk (continued):

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2017:

Financial liabilities	< 1 year	2-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	55,173	-	-	-	55,173
Interest payable on long-term debt	18,458	-	-	-	18,458
Provisions	55,711	-	-	-	55,711
Obligations under finance lease, including current portion	1,582	3,379	4,121	32,923	42,005
Long-term debt, including current portion (excluding deferred costs)[1]	31,510	85,520	48,395	1,151,637	1,317,062
Other liabilities	-	5,250	-	-	5,250
Total financial liabilities – principal only	162,434	94,149	52,516	1,184,560	1,493,659
Interest payable – long-term debt[2]	62,151	120,852	117,383	973,749	1,274,135
Interest payable – obligations under finance lease	1,799	3,383	3,063	4,410	12,655
Total financial liabilities, including interest payable	**226,384**	**218,384**	**172,962**	**2,162,719**	**2,780,449**

[1] Carrying value at March 31, 2017, excludes unamortized deferred financing costs of $12.3 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.

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, 2017, the Group's cash equivalents and short-term investments include fixed rate instruments with maturities of 185 days or less. Accordingly, the Group has exposure to interest rate movement that occurs beyond the term of the maturity of the fixed rate investments. The Group's credit facility and the second tranche of each of the two 12 year loans are at variable rates and are subject to interest rate risk.

To manage this risk, the Group maintains between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2017, the Group had approximately 3.3% of total debt in variable rate instruments. A 50 basis point change in interest rates would have had an effect of less than $0.3 million on net earnings for the year ended March 31, 2017.

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, 2017, the Group has foreign currency forward contracts of $0.9 million (March 31, 2016: $1.1 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, 2017.

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and Natural Gas ("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. Pursuant to the Group's Financial Risk Management Policy, the term of the contracts is not to extend beyond the greater of three years or the end of the fourth performance term ending March 31, 2020. This policy also limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period.

15. Financial risk management (continued):

(c) Market risk (continued):

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).

During the year ended March 31, 2017, the Group entered into Ultra-low Sulfur Diesel ("ULSD") fuel swap contracts with a notional value of $33.7 million CAD (March 31, 2016: $78.4 million CAD). To reduce its exposure to changes in the ULSD and foreign exchange risk components associated with forecast diesel fuel purchases, the Group hedges using CAD denominated ULSD swaps. The notional value of all fuel swap contracts outstanding as at March 31, 2017 was $66.7 million CAD (March 31, 2016: $78.4 million CAD). Hedge accounting was applied to these contracts. No NG swap contracts were entered into during the year ended March 31, 2017.

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.

15. Financial risk management (continued):

(c) Market risk (continued):

During the year ended March 31, 2017, the total change in the value of fuel swap contracts was $18.4 million. The fair value change of $12.1 million was recognized in OCI. The realized hedging loss of $6.3 million was reclassified from equity (accumulated other comprehensive income) and included in the Group's fuel expense during the year ended March 31, 2017. There was no hedge ineffectiveness for the year ended March 31, 2017.

	Fiscal 2018	Fiscals 2019/2020	Total
Cash flow hedges			
Fuel price risk			
Fuel contracts (litres in thousands)	73,050	45,750	118,800
Contract price range ($/litre)	$0.4931 - $0.5975	$0.5247 - $0.5680	

(i) As at March 31, 2017, the Group's derivative assets of $1.6 million included fuel swap contracts and derivative liabilities of $1.0 million included fuel swap contracts and foreign exchange forward contracts.

Fuel swap contracts as at March 31, 2017:

					Fair value changes used for calculating hedge ineffectiveness	
	Notional amount of the hedging instrument	Carrying amount of the hedging instrument	Item location	Cash flow hedge reserve	Hedging instruments	Hedged items
Cash flow hedges						
Fuel price risk	42,671	1,604	Derivative assets	1,604	1,604	1,612
Fuel price risk	24,034	(1,043)	Derivative liabilities	(1,043)	(1,043)	(1,044)

(ii) Cash flow hedge reserve:

	As at March 31	
	2017	2016
Hedging gains (losses) recognized in cash flow hedge reserve:		
Fuel swap contracts (note 20(a))	12,119	(24,156)
Hedging losses reclassified from cash flow hedge reserve:		
Interest rate forward contracts – amortization of hedge loss	248	249
Fuel swap contracts – loss recognized in net earnings (note 20(a))	6,310	10,742
Net change in cash flow hedge reserve	**18,677**	**13,165**

(Tabular amounts expressed in thousands of Canadian dollars)

16. Other commitments:

The Group has entered into operating leases for certain building spaces, land and equipment. Lease payments charged to expense during the year ended March 31, 2017 were $0.9 million (March 31, 2016: $0.9 million).

Future minimum lease payments are as follows:

Less than one year	922
Between one and five years	1,336
More than five years	459
Total	**2,717**

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			
	2017		2016	
	Number of shares	Amount $	Number of shares	Amount $
Class B, common	1	1	1	1
Class C, preferred	75,477	75,477	75,477	75,477
		75,478		**75,478**

(c) Dividends:

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

(Tabular amounts expressed in thousands of Canadian dollars)

19. Capital management:

The Group's principal business of ferry transportation requires ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset acquisition obligations. In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (note 15(b)).

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

	As at March 31			
	2017		2016	
	$	%	$	%
Aggregate borrowings [1]	1,559,737	74.83	1,586,184	77.78
Total equity before reserves	524,498	25.17	453,170	22.22
Total	**2,084,235**	**100.00**	**2,039,354**	**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 (notes 10 and 15). 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, 2017 and March 31, 2016.

(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 swaps reserves	Interest rate forward contracts reserves	Total
Balance at April 1, 2015	**2,997**	**(2,786)**	**(4,454)**	**(7,207)**	**(11,450)**
Land revaluation	392	-	-	-	392
Derivatives designated as cash flow hedges: (note 15(c))					
Net change in fair value	-	-	(24,156)	-	(24,156)
Realized losses	-	-	10,742	-	10,742
Amortization of losses (note 15(c))	-	-	-	249	249
Balance at March 31, 2016	**3,389**	**(2,786)**	**(17,868)**	**(6,958)**	**(24,223)**
Land revaluation	3,720	-	-	-	3,720
Actuarial loss on defined benefit plans (note 11(c))	-	(1,240)			(1,240)
Derivatives designated as cash flow hedges: (note 15(c))					
Net change in fair value	-	-	12,119	-	12,119
Realized losses	-	-	6,310	-	6,310
Amortization of losses (note 15(c))	-	-	-	248	248
Balance at March 31, 2017	**7,109**	**(4,026)**	**561**	**(6,710)**	**(3,066)**

[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, 2017 and March 31, 2016, are shown above. During the year ended March 31, 2017, the Group recognized $nil (March 31, 2016: $0.1 million) in net earnings reflecting a decrease in the fair value of land where the balance in the reserve was less than the reduction in fair value.

(b) Other comprehensive income (loss):

	Years ended March 31	
	2017	2016
Items to be reclassified to net earnings:		
Hedge gain (loss) on fuel swaps (note 15(c))	12,119	(24,156)
Items not to be reclassified to net earnings:		
Land revaluations	3,720	392
Actuarial losses on defined benefit plans (note 11(d))	(1,240)	-
Total other comprehensive income (loss)	**14,599**	**(23,764)**

(Tabular amounts expressed in thousands of Canadian dollars)

21. Net retail:

	Years ended March 31	
	2017	2016
Retail revenue	91,098	87,077
Cost of goods sold	(35,959)	(35,198)
Net retail	**55,139**	**51,879**

22. Operating expenses:

	Years ended March 31	
	2017	2016
Salaries, wages & benefits	347,862	333,066
Fuel	100,616	103,297
Materials, supplies & contracted services	70,241	72,199
Other operating expenses	58,550	54,980
Depreciation and amortization	148,952	145,521
Total operating expenses	**726,221**	**709,063**

23. Net finance expenses:

	Years ended March 31	
	2017	2016
Finance expenses		
Long-term debt	62,504	62,978
Short-term debt	373	351
Finance leases	1,870	1,938
Amortization of deferred financing costs and bond discounts	718	656
Interest capitalized in the cost of qualifying assets	(6,706)	(5,355)
Total finance expenses	58,759	60,568
Finance income	(4,651)	(4,607)
Net finance expenses	**54,108**	**55,961**

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	
	2017	2016
Short-term benefits	1,696	1,677
Post-employment benefits	357	335
Total	**2,053**	**2,012**

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, 2017, the Group paid $0.1 million (March 31, 2016: $0.1 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.

(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 obligations represented by the regulatory assets at March 31, 2017, will be settled through future tariff reductions or fuel surcharges (rebates).

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

	As at March 31	
Regulatory assets (liabilities)	2017	2016
Deferred fuel costs (a):		
Balance – beginning of year	(6,132)	(448)
Fuel costs under set price	(7,625)	(10,971)
Rebates	18,068	6,356
Fuel price risk recoveries payable to the Province	139	157
Other payments from the Province	-	(1,226)
Balance – end of year	4,450	(6,132)
Total long term regulatory assets (liabilities)	**4,450**	**(6,132)**

(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 recorded in deferral accounts for recovery or settlement through future tariffs to customers.
   b. any difference beyond 5 cents per litre is recorded in accounts receivable or payable for subsequent recovery from or payment to the Province, and

ii) for all other routes;
   a. recorded in deferral accounts for recovery or settlement through future tariffs to customers.

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, 2017, the amounts payable to the Province in relation to fuel cost differences totalled $0.1 million (March 31, 2016: $0.2 million). During the year ended March 31, 2016, the Province contributed $1.2 million to be applied against the balance of deferred fuel costs.

(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, 2017 and March 31, 2016, tariffs charged to customers were below established price caps.

(c) Performance term submission costs:

The Commissioner authorized the Group to defer costs of representation associated with the third performance term. The Commissioner considered these costs in the determination of the price caps set for the four years beginning April 1, 2012. The four year recovery period ended on March 31, 2016.

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, 2017 would have been $10.6 million higher (March 31, 2016: $4.8 million lower) as detailed below:

	Years ended March 31	
Effect of rate regulation on net earnings	2017	2016
Regulatory accounts:		
Deferred fuel costs	10,582	(5,684)
Performance term submission costs	-	(82)
Tariffs in excess of price cap	-	1,013
Total increase (decrease) in net earnings	**10,582**	**(4,753)**

28. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year. Wages payable of $4.3 million were reclassified from provisions to accounts payable and accrued liabilities. Reservation fees of $18.0 million, previously reported as other regulated income, are included in vehicle and passenger fares revenue. Cost of goods sold of $35.2 million is presented with retail revenue to highlight the net contribution of retail activities.