





# **B.C. FERRY AUTHORITY 2012–2013 ANNUAL REPORT**

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## MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS



This past year, the Authority's activities were focused on ensuring BCFS continues to have a strong and dynamic board of directors to oversee the key operational and strategic objectives of the Company.

On behalf of the board of directors of the B.C. Ferry Authority (the "Authority"), I am pleased to present the annual report of the Authority for the fiscal year ended March 31, 2013. This report provides information on the actions taken by the Authority to meet its statutory responsibilities during the fiscal year, and is an important element in the Authority's accountability to its stakeholders and the public generally.

The Authority is the sole voting shareholder of British Columbia Ferry Services Inc. ("BCFS") and has responsibility under the *Coastal Ferry Act* for appointing the board of directors of BCFS, and for approving compensation plans for the directors and certain executive officers of BCFS.

No changes were made in the fiscal year to the BCFS director and executive compensation plans previously established by the Authority. These plans are available for public view on the Authority's website at [www.bcferryauthority.com](http://www.bcferryauthority.com).

This past year, the Authority's activities were focused on ensuring BCFS continues to have a strong and dynamic board of directors to oversee the key operational and strategic objectives of the company. The Authority appointed three new directors to the BCFS board during the year. The new directors bring with them a depth of skills and experience that the Authority is confident will serve the BCFS board well in performing its stewardship role.

During the year, we welcomed two new directors to the board of the Authority. Christopher Causton and Robin Kenyon were appointed by the Province in July, each bringing with them valuable experience and expertise. Also this year, two incumbent directors, Dan Miller and John Radosevic, were reappointed for further three year terms. On behalf of the board, I extend our thanks for their continued commitment and valuable service to the Authority.

A handwritten signature in black ink, appearing to read 'J. Peverett', written in a cursive style.

**JANE L. PEVERETT**  
Chair of the Board of Directors  
B.C. Ferry Authority

## Overview

The B.C. Ferry Authority (the “Authority” or “BCFA”) is established and governed by the *Coastal Ferry Act* (“CFA”). The Authority is a corporation without share capital which owns the single issued voting share of the operating company, British Columbia Ferry Services Inc. (the “Company” or “BCFS”). The Province of British Columbia (the “Province”) is the holder of all of the preferred shares of BCFS, and has no voting interest in either the Authority or BCFS.

The Authority’s principal responsibilities are set out in the CFA as amended by the *Miscellaneous Statutes Amendment Act (No.3) – 2010* (“*Bill 20*”) and are to appoint the directors of BCFS and to establish compensation plans for the directors and certain executive officers of BCFS.

The Authority and BCFS have entered into a protocol agreement which clarifies and confirms their respective roles and responsibilities in relation to the authority of BCFA as shareholder of BCFS and the matters respecting the appointment and remuneration of BCFS’ directors, and the remuneration of the current President & Chief Executive Officer and future executive officers of BCFS.

The Authority has adopted high standards of public and stakeholder accountability that require the Authority’s financial and operating performance, the plans it has established in respect of BCFS director and executive compensation, as well as its processes for appointing directors of the Authority and BCFS, to be open to public view.

## Appointment of BCFS Directors

In the fiscal year ended March 31, 2013, the Authority appointed three new directors to the board of BCFS. The CFA requires that when appointing directors of BCFS, the Authority select individuals in such a way as to ensure that, as a group, the directors of BCFS are qualified BCFS candidates, who hold all of the skills and all of the experience, needed to oversee the operation of BCFS in an efficient and cost effective manner. The Authority has established a profile setting out the key skills and experience that BCFS directors individually and collectively should possess to meet this legislative requirement. This profile is reviewed regularly by BCFA and was amended in the fiscal year to ensure alignment of the skills and experience represented on the BCFS board with the key operational and strategic objectives of the Company for which the directors collectively have oversight responsibility. The profile, together with a succession plan for the board, guided the Authority in its decisions during the fiscal year to appoint three nominees of the Company to the BCFS board. The Authority appointed Guy D. Johnson a director of BCFS effective August 25, 2012 for a term ending 2016 and also appointed Jane M. Bird and John A. Horning as directors of BCFS effective April 1, 2013 for terms ending 2016 and 2015, respectively. To accommodate these appointments, the Authority temporarily increased the size of the BCFS board to eleven, pending the retirements of two directors in June 2013, at which time the size of the board will be decreased to nine. The directors of BCFS effective April 1, 2013 are listed in Table 1.

**TABLE 1**  
**BCFS BOARD OF DIRECTORS**  
Effective April 1, 2013

<b>Director</b>	<b>Term Ending</b>
Donald P. Hayes, Chair	2015
Jane M. Bird	2016
Holly A. Haston-Grant	2013
John A. Horning	2015
Guy D. Johnson	2016
Brian G. Kenning	2014
Gordon R. Larkin	2014
Maureen V. Macarenko	2014
P. Geoffrey Plant	2015
Wayne H. Stoilen	2013
Graham M. Wilson	2014

## BCFS Compensation Plans

In accordance with the CFA, the Authority has established director and executive compensation plans for BCFS. These plans are available for public view on the Authority's website: [www.bcferryauthority.com](http://www.bcferryauthority.com).

The compensation plan for the directors of BCFS was established in the fiscal year ended March 31, 2011, and remuneration for BCFS' directors was set by BCFA in accordance with that plan effective October 1, 2010. The BCFS directors' compensation plan and the remuneration framework for BCFS' directors have remained unchanged since their establishment by the Authority.

The Authority established the BCFS executive compensation plan in the fiscal year ended March 31, 2012. The plan was effective October 1, 2011 and, in accordance with the CFA and Bill 20, it presently governs the remuneration the Company may provide to its current President & Chief Executive Officer, but not the remuneration of any other executive officer of BCFS so long as that individual remains in his current position. No amendments to the BCFS executive compensation plan were made by the Authority in the fiscal year ended March 31, 2013.

## Appointment of BCFA Directors

The composition of the board of directors of the Authority is set out in the CFA and includes regional and stakeholder representation. Four directors are to be appointed by the board from nominees of four appointment areas composed of coastal regional districts, and one director is to be appointed from the nominees of the BC Ferry & Marine Workers’ Union (“BCFMWU”), the trade union representing the employees of BCFS. The board is also to include two directors appointed by the Province and two additional directors appointed by the board from members of the community-at-large.

One director appointed from the nominees of the BCFMWU, as well as one director appointed from the community-at-large and one director appointed by the Province had terms expiring March 31, 2013.

During the fiscal year, the board sought and received nominations of qualified individuals to serve as directors from the BCFMWU. The nominations from the BCFMWU included the incumbent director who was selected and re-appointed to the board effective April 1, 2013. Also effective that date, the board re-appointed the incumbent director from the community-at-large. Both appointments are for three year terms ending March 31, 2016.

Also in the fiscal year, the Province appointed two new directors to fill vacancies on the BCFA board. One director was appointed for an initial term ending March 31, 2013, and was subsequently re-appointed for a three year term ending March 31, 2016. A second director was appointed for a term ending March 31, 2014.

The directors of BCFA effective April 1, 2013 are listed in Table 2. In selecting individuals to serve as directors of the Authority, two primary objectives continued to guide the board in its deliberations. The first objective was to ensure that the composition of the board continues to meet the requirements of the CFA, and the second was to ensure that collectively the board includes individuals with the skills and experience necessary to ensure the sound performance of the Authority and the effective interaction and operation of the board. The skills and experience profile for the BCFA board guided the board in its appointment process during the fiscal year. The profile is reviewed by the board on an annual basis to ensure it encompasses the appropriate set of skills and experience, and was last amended by the board effective December 27, 2010. A copy of the profile is attached as Schedule “A” to the general bylaws of the Authority.

**TABLE 2**  
**BCFA BOARD OF DIRECTORS**  
Effective April 1, 2013

<b>Director</b>		<b>Term Ending March 31</b>
Jane L. Peverett, Chair	Community-at-large	2015
Bohdan I. Bodnar	Southern Mainland Appointment Area	2014
Christopher M. Causton	Province of British Columbia	2016
Roderick D. Dewar	Southern Vancouver Island Appointment Area	2014
Robin W. Kenyon	Province of British Columbia	2014
A. Daniel Miller	Community-at-Large	2016
Randolph K. Morriss	Central Vancouver Island & Northern Georgia Strait Appointment Area	2015
John Radosevic	Organized Labour	2016
Stephen E. Smith	Northern Coastal & North Island Appointment Area	2015

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## General Bylaws

The general bylaws of the Authority are available for public view on the Authority's website. There were no amendments made to the general bylaws in the fiscal year.

## Meetings

The board meets regularly to conduct its business. During the fiscal year, the board met on five occasions. This included the annual general meeting of the Authority held in accordance with the CFA. A summary of the outcomes of the meetings of the board is provided in Table 3.

**TABLE 3**  
**SUMMARY OF MEETING OUTCOMES <sup>1</sup>**

Fiscal year ended March 31, 2013

Date	Type	Outcomes
June 21, 2012	Board of Directors	<ul style="list-style-type: none"> <li>Financial statements of the Authority for the year ended March 31, 2012 approved.</li> <li>Annual report for the year ended March 31, 2012 approved.</li> <li>Report on the Authority's compliance with the CFA for the year ended March 31, 2012 approved for submission to the British Columbia Ferries Commissioner.</li> <li>Form of questionnaire for directors and officers respecting related party transactions approved.</li> <li>Corporate Secretary authorized to execute the shareholder's unanimous consent resolutions pertaining to all of the business required to be transacted at the annual general meeting of BCFS.</li> </ul>
August 24, 2012	Board of Directors	<ul style="list-style-type: none"> <li>Director from the community-at-large re-appointed effective April 1, 2013 for a term ending March 31, 2016.</li> <li>Amended skills and experience profile of BCFS approved.</li> <li>Guy D. Johnson appointed a director of BCFS effective August 25, 2012 for a term ending 2016.</li> </ul>
August 24, 2012	Annual General Meeting	<i>Annual General Meeting open to the public held in Vancouver, British Columbia.</i>
December 17, 2012	Board of Directors	<ul style="list-style-type: none"> <li>Director from nominees of the BCFMWU re-appointed effective April 1, 2013 for a term ending March 31, 2016.</li> </ul>
March 21, 2013	Board of Directors	<ul style="list-style-type: none"> <li>Jane L. Peverett re-appointed as Board chair.</li> <li>Jane M. Bird and John A. Horning appointed directors of BCFS effective April 1, 2013 for terms ending 2016 and 2015, respectively.</li> <li>Terms of engagement of the external auditor for fiscal 2013 approved.</li> <li>Fiscal 2014 operating budget of the Authority approved.</li> <li>Time and location of the next annual general meeting of the Authority confirmed.</li> </ul>

NOTE:

<sup>1</sup> Meeting outcomes are resolutions passed by the board.



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Meeting attendance for board members is an important issue and one that the Authority monitors on a regular basis. In the fiscal year ended March 31, 2013, meeting attendance by board members was 100 per cent.

## Director Remuneration

An outline of the current remuneration framework for directors of the Authority is provided in Table 4. The framework was set by the board effective October 1, 2010 and has remained unchanged since that date. The amount each director received for remuneration and expenses in the fiscal year ended March 31, 2013 is set out in Table 5.

**TABLE 4**  
**BCFA DIRECTOR REMUNERATION FRAMEWORKS**

Fiscal year ended March 31, 2013

### ANNUAL RETAINERS

Board Chair Retainer	\$ 25,000
Board Member Retainers:	
Base Retainer (all directors excluding board Chair)	\$ 6,250
Committee Chair Retainer <sup>1</sup>	\$ 2,000
Committee Member Retainer <sup>1</sup>	\$ 750

### PER DIEM FEES <sup>2</sup>

Board Member Fees (all directors excluding board Chair)	Up to \$1,200 per day
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### FERRY TRAVEL PASS

Ferry pass for directors and eligible members of their respective immediate families, for complimentary vehicle and personal travel on BCFS' vessels.

NOTES:

- 1 There currently are no committees of the board.
- 2 Directors of BCFA are also eligible for reimbursement of reasonable expenses incurred on board-related business.

**TABLE 5**  
**BCFA DIRECTOR REMUNERATION & EXPENSES**  
Fiscal year ended March 31, 2013  
(\$)

Director	Remuneration <sup>1,2</sup>	Expenses Reimbursed
Jane L. Peverett <sup>3</sup>	25,654	232
Bohdan I. Bodnar	13,331	Nil
Christopher M. Causton <sup>4</sup>	12,361	508
Roderick D. Dewar	13,392	321
Robin W. Kenyon <sup>4</sup>	10,019	Nil
A. Daniel Miller	10,450	387
Randolph K. Morriss	12,980	419
John Radosevic	10,092	401
Stephen E. Smith	12,308	1,304

NOTES:

- 1 Remuneration includes retainers, per diem fees and taxable income from the ferry travel pass program (see Note 2).
- 2 There is a ferry travel pass program for directors and their eligible family members which provides for complimentary travel on BCFS vessels. The program only applies while the director serves on the board. This program may generate a taxable benefit for the director.
- 3 Jane L. Peverett served as chair of the board of BCFA in the fiscal year.
- 4 Christopher M. Causton and Robin W. Kenyon were appointed to the board effective July 5, 2012.

# INDEPENDENT AUDITORS' REPORT

## To the Board of Directors, B.C. Ferry Authority

We have audited the accompanying consolidated financial statements of B.C. Ferry Authority, which comprise the consolidated statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 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 an 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 opinions.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of B.C. Ferry Authority as at March 31, 2013, March 31, 2012, and April 1, 2011, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with International Financial Reporting Standards.



Chartered Accountants

June 27, 2013  
Victoria, Canada

# CONSOLIDATED FINANCIAL STATEMENTS

## British Columbia Ferry Authority

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

As at	March 31, 2013	March 31, 2012	April 1, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (note 3)	\$ 36,641	\$ 7,700	\$ 33,335
Restricted short-term investments (note 4(e))	35,575	35,705	37,040
Other short-term investments	43,403	26,880	64,074
Trade and other receivables (note 6(a))	18,118	42,341	20,619
Prepaid expenses	10,706	6,725	5,648
Inventories (note 7)	23,257	22,016	19,957
	<b>167,700</b>	<b>141,367</b>	<b>180,673</b>
<b>Non-current assets</b>			
Long-term loan receivable (note 8)	24,515	24,515	24,247
Long-term land lease (note 9)	32,063	32,521	32,979
Property, plant and equipment (note 10)	1,552,062	1,596,507	1,593,194
Intangible assets (note 11)	47,942	41,758	34,929
	<b>1,656,582</b>	<b>1,695,301</b>	<b>1,685,349</b>
<b>Total assets</b>	<b>\$ 1,824,282</b>	<b>\$ 1,836,668</b>	<b>\$ 1,866,022</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 51,803	\$ 50,708	\$ 49,872
Short-term debt (note 4(d))	–	17,737	3,949
Interest payable on long-term debt	18,063	18,249	18,261
Deferred revenue	13,634	13,784	15,596
Derivative liabilities	12	12	23
Current portion of long-term debt (note 4)	149,000	9,000	22,125
Current portion of accrued employee future benefits (note 12)	2,204	2,204	1,351
Current portion of obligations under finance lease (note 8)	1,072	974	1,040
Provisions (note 13)	50,839	47,022	46,788
	<b>286,627</b>	<b>159,690</b>	<b>159,005</b>
<b>Non-current liabilities</b>			
Accrued employee future benefits (note 12)	16,604	17,361	17,091
Long-term debt (note 4)	1,137,212	1,285,232	1,327,014
Obligations under finance lease (note 8)	45,941	47,013	47,723
	<b>1,199,757</b>	<b>1,349,606</b>	<b>1,391,828</b>
<b>Total liabilities</b>	<b>\$ 1,486,384</b>	<b>\$ 1,509,296</b>	<b>\$ 1,550,833</b>
<b>Equity</b>			
Land revaluation reserve (note 10(a) & 17)	\$ 3,233	2,177	–
Contributed surplus (note 16)	25,001	25,001	1
Retained earnings	234,187	224,717	239,711
<b>Total equity attributable to equity holders</b>	<b>262,421</b>	<b>251,895</b>	<b>239,712</b>
Non-controlling interest (note 15)	75,477	75,477	75,477
<b>Total equity</b>	<b>\$ 337,898</b>	<b>\$ 327,372</b>	<b>\$ 315,189</b>
<b>Total liabilities and equity</b>	<b>\$ 1,824,282</b>	<b>\$ 1,836,668</b>	<b>\$ 1,866,022</b>
Commitments (note 10(b))			

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

Years ended March 31	2013	2012
<b>Revenue</b>		
Vehicle and passenger fares	\$ 468,780	\$ 458,392
Ferry service fees (note 18)	182,100	158,261
Retail	76,496	76,522
Federal-Provincial Subsidy Agreement (note 19)	28,078	27,487
Fuel surcharges	11,469	13,098
Regulated other income (note 20)	12,848	13,768
Other income	6,602	6,266
<b>Total revenue</b>	<b>786,373</b>	<b>753,794</b>
<b>Expenses</b>		
Operations	436,812	433,157
Maintenance	69,938	65,926
Administration	29,632	31,187
Cost of retail goods sold	29,500	29,132
Depreciation and amortization	135,675	133,549
<b>Total operating expenses</b>	<b>701,557</b>	<b>692,951</b>
<b>Operating profit</b>	<b>84,816</b>	<b>60,843</b>
<b>Net finance and other expenses</b>		
Net finance expenses (note 22)		
Finance income	2,922	2,404
Finance expenses	(72,076)	(71,870)
Total net finance expenses	(69,154)	(69,466)
Loss on disposal of property, plant and equipment	(154)	(333)
<b>Total net finance and other expenses</b>	<b>(69,308)</b>	<b>(69,799)</b>
<b>Net earnings (loss)</b>	<b>15,508</b>	<b>(8,956)</b>
<b>Other comprehensive income</b>		
Gain on revaluation of land assets	1,056	2,177
<b>Total other comprehensive income</b>	<b>1,056</b>	<b>2,177</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 16,564</b>	<b>\$ (6,779)</b>
<b>Net earnings (loss) attributable to:</b>		
Equity holders	9,470	(14,994)
Non-controlling interest	6,038	6,038
<b>Total</b>	<b>15,508</b>	<b>(8,956)</b>
<b>Total comprehensive income (loss) attributable to:</b>		
Equity holders	10,526	(12,817)
Non-controlling interest	6,038	6,038
<b>Total</b>	<b>\$ 16,564</b>	<b>\$ (6,779)</b>

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CASH FLOWS (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

Years ended March 31	2013	2012
<b>Cash flows from operating activities</b>		
Net earnings (loss)	\$ 15,508	\$ (8,956)
Items not affecting cash		
Net finance costs recognized in net earnings	69,154	69,466
Depreciation and amortization of non-current assets	135,675	133,549
Loss on disposal of property, plant and equipment	154	333
(Decrease) increase in long-term accrued employee future benefits	(757)	304
Increase (decrease) in derivative liabilities	–	(11)
Increase in provisions	3,817	350
Other non-cash adjustments to property, plant & equipment	(791)	100
Decrease in long-term land lease	458	458
Increase in accrued net financing	246	689
<b>Total non-cash items</b>	<b>207,956</b>	<b>205,238</b>
Movements in operating working capital		
Decrease (increase) in trade and other receivables	24,223	(21,722)
Increase in prepaid expenses	(3,981)	(1,077)
Increase in inventories	(1,241)	(2,060)
Increase in accounts payable and accrued liabilities	1,095	836
Decrease in deferred revenue	(150)	(1,812)
Increase in current portion of accrued employee future benefits	–	702
<b>Change in non-cash working capital</b>	<b>19,946</b>	<b>(25,133)</b>
Change attributable to capital asset acquisitions	6,653	(9,378)
Change attributable to contributed surplus	(25,000)	25,000
<b>Change in non-cash operating working capital</b>	<b>1,599</b>	<b>(9,511)</b>
Cash generated from operating activities	225,063	186,771
Interest rate support received (note 22(a))	742	1,337
Interest received	2,268	1,922
Interest paid	(73,471)	(74,507)
<b>Net cash generated by operating activities</b>	<b>\$ 154,602</b>	<b>\$ 115,523</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	\$ (9,000)	\$ (55,875)
(Repayment of) proceeds from short-term debt	(17,737)	13,788
Repayment of finance lease obligations	(974)	(1,042)
Contributed surplus payment from Province	25,000	–
Dividends paid on preferred shares held by non-controlling interest	(6,038)	(6,038)
<b>Net cash used in financing activities</b>	<b>\$ (8,749)</b>	<b>\$ (49,167)</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment	\$ 120	\$ 118
Purchase of property, plant and equipment and intangible assets	(100,639)	(130,370)
Advance of long-term loan	–	(268)
Reduction of debt service reserve	130	1,335
(Purchase of) proceeds from short-term investments	(16,523)	37,194
<b>Net cash used in investing activities</b>	<b>(116,912)</b>	<b>(91,991)</b>
Net increase (decrease) in cash and cash equivalents	28,941	(25,635)
Cash and cash equivalents, beginning of year	7,700	33,335
<b>Cash and cash equivalents, end of year</b>	<b>\$ 36,641</b>	<b>\$ 7,700</b>

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

	Land revaluation reserve	Contributed surplus	Retained earnings	Total equity attributable to equity holders	Non- controlling interest	Total equity
Balance as at April 1, 2011	\$ –	\$ 1	\$ 239,711	\$ 239,712	\$ 75,477	\$ 315,189
Contribution from the Province	–	25,000	–	25,000	–	25,000
Net loss for the year ended March 31, 2012	–	–	(14,994)	(14,994)	6,038	(8,956)
Other comprehensive income for the year ended March 31, 2012	2,177	–	–	2,177	–	2,177
Preferred share dividends	–	–	–	–	(6,038)	(6,038)
Balance as at March 31, 2012	\$ 2,177	\$ 25,001	\$ 224,717	\$ 251,895	\$ 75,477	\$ 327,372
Net earnings for the year ended March 31, 2013	–	–	9,470	9,470	6,038	15,508
Other comprehensive income for the year ended March 31, 2013	1,056	–	–	1,056	–	1,056
Preferred share dividends	–	–	–	–	(6,038)	(6,038)
Balance as at March 31, 2013	\$ 3,233	\$ 25,001	\$ 234,187	\$ 262,421	\$ 75,477	\$ 337,898

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED MARCH 31, 2013 AND 2012 (Expressed in thousands of Canadian dollars)

B.C. Ferry Authority (the "Authority") was established by the *Coastal Ferry Act* (British Columbia) (the "Act") on April 1, 2003, as a corporation without share capital. The Act specifies that the Authority is governed by a board of nine directors. The terms of three director positions expire each fiscal year. The board of directors appoints replacements for outgoing directors for seven of the positions as follows:

- four appointed from nominees provided to the board by each of the four appointment areas consisting of those coastal regional districts that the Lieutenant Governor in Council for British Columbia may prescribe, with one director appointed from each area;
- one appointed from nominees provided by the trade union representing the employees of the British Columbia Ferry Services Inc. ("BCFS");
- two appointed from qualified individuals as defined in the Act.

The Lieutenant Governor in Council for British Columbia appoints the other two director positions from qualified individuals as terms expire.

The Authority's primary purpose is to hold the share of BCFS, a company incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, and which now validly exists under the *Business Corporations Act* (British Columbia). BCFS's primary business is the provision of coastal ferry services in British Columbia. The Province of British Columbia (the "Province") contributed the initial capital to the Authority to fund the purchase of the BCFS common share. The Act provides that upon a sale of the common share of BCFS held by the Authority, the Province is to be repaid its initial contribution and the Authority is dissolved. The Act also provides that upon dissolution of the Authority, all remaining assets of the Authority, if any, vest in the Province.

On June 24, 2010, the Province enacted the *Miscellaneous Statutes Amendment Act (No.3), 2010*, (Bill 20), amending several statutes, including the Act. Among other things, the amendments changed the mandate of the Authority to include responsibility for the compensation plans of the directors and certain executive officers of BCFS and a requirement that effective September 30, 2010, a director of the Authority cannot also be a director of BCFS. These amendments also require the British Columbia Ferries Commissioner to issue an opinion annually on the performance of the Authority in carrying out its legislated responsibilities.

## 1. ACCOUNTING POLICIES:

### (a) Basis of preparation:

B.C. Ferry Authority is a corporation domiciled in Canada. The address of the Authority's head office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These consolidated financial statements of the Authority as at and for the years ended March 31, 2013 and 2012 comprise the Authority and its wholly-owned subsidiary, BCFS (along with its subsidiaries), together referred to as the "Group".

### (b) Statement of compliance:

These consolidated financial statements represent the first annual statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Group adopted IFRS in accordance with *IFRS 1, First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was April 1, 2011. In accordance with IFRS, the Group has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of April 1, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Authority's financial statements were previously prepared in accordance with accounting principles then generally accepted in Canada for not-for-profit entities ("previous GAAP"). Under previous GAAP the Authority's investment in BCFS was accounted for by the equity method and consolidated statements were not prepared. Previous GAAP also differs in some other areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting, measurement and consolidation methods previously applied in the previous GAAP financial statements to comply with IFRS. Note 28 contains reconciliations and descriptions of the effect of the transition from previous GAAP to IFRS on changes in equity, loss and total comprehensive loss along with reconciliations of the consolidated statement of financial position as at April 1, 2011 and March 31, 2012, and the consolidated statement of comprehensive loss for the year ended March 31, 2012.

These consolidated financial statements were approved by the Board of Directors on June 27, 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (c) Basis of measurement:

These consolidated financial statements have been prepared using the historical cost method, with the exception of the following assets and liabilities which are measured at fair value: land, derivatives, financial instruments held for trading and available-for-sale financial assets.

### (d) Functional and presentation currency:

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

### (e) Use of estimates and judgements:

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

Significant estimates relate to:

- (i) Property, plant and equipment and intangible assets  
The calculation of depreciation and amortization involves estimates concerning the economic life and salvage value of property, plant and equipment and intangible assets.
- (ii) Future employee benefits  
Accounting for the costs of future employee benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary increases, employee turnover rates and mortality tables.

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

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

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

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

The subsidiary holdings of the Group as at March 31, 2013 (note 25) are:

BCFS and its subsidiary holdings:

- Pacific Marine Leasing Inc.
- BCF Captive Insurance Company Ltd.

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

### (g) Foreign currency transactions:

Transactions denominated in foreign currencies are translated by applying the exchange rate prevailing on the date of the transaction. At each reporting date, all monetary assets and liabilities denominated in foreign currencies are translated into Cdn at the closing exchange rate. Any resulting translation adjustments are recorded in net earnings or loss.

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

Property, plant and equipment, excluding land assets, are valued at cost plus direct overhead and financing costs, less depreciation and impairment. Land is valued at fair value at each year-end using the annual assessed values for property tax purposes as being representative of the fair values of these assets.

The cost of self-constructed assets includes expenditures on materials, direct labour, financing costs and an allocated proportion of project overheads. When parts of an item of property, plant and equipment have different estimated useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of replacing an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment and are recognized in net earnings or loss. The costs of the day-to-day servicing of items of property, plant and equipment are recognized in net earnings or loss as incurred.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Where components of an asset have different estimated useful lives, depreciation is calculated on each separate component. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted if appropriate. Property, plant and equipment, including assets under finance leases, are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Asset class	Estimated useful life
Vessel hulls	3 to 40 years
Vessel propulsion and utility systems	3 to 30 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

### (i) Intangible assets:

Intangible assets consist of acquired computer software and licenses and rights of use as well as internally developed computer software and website. These assets are valued at their acquisition cost plus direct overhead and financing costs, less amortization and impairment.

Software costs are capitalized if it is probable that the asset created will generate future economic benefits, the costs can be reliably measured, the product is technically feasible and the Group intends to, and has sufficient resources to, complete development and use the asset. Website costs are capitalized where the expenditure is incurred on developing an income generating website. Software and website costs capitalized include materials, direct labour and financing costs. Subsequent expenditure is capitalized only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in net earnings or loss as incurred.

Intangible assets with finite useful lives are amortized on a straight line basis over their estimated useful lives (3 to 7 years) since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Rights of use intangible assets are amortized on a straight-line basis over their estimated useful lives of 10 to 30 years. Amortization is recognized in net earnings or loss from the date that intangible assets are available for use. The amortization methods and estimated remaining lives are reviewed annually.

### (j) Inventories:

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. No amounts are carried at net realizable value.

The cost of general and catering inventories is accounted for using the weighted average formula, while the cost of fuel inventories is based on the first-in–first-out principle. The cost of inventories includes expenditures incurred in acquiring the inventories and other direct costs incurred in bringing them to their existing location and condition.

### (k) Employee benefits:

The Group has a number of defined benefit pension and post-retirement plans. The plans are generally funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

Defined contribution plan accounting is applied to the Group's multi-employer defined benefit pension and long-term disability plans. These multi-employer plans are administered by external parties and the Group does not have sufficient information to apply defined benefit plan accounting. The cost of these benefits is charged to net earnings or loss as contributions are made to the plans.

The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected benefit 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 benefit method, the cost of these benefits is charged to net earnings or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans on a regularly scheduled basis. The pension obligation is measured as the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the pension obligation.

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

Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. For the Group's retirement bonus and death benefit plans, the excess of the net accumulated actuarial gain

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the retirement bonus and death benefit plans was 7.0 years as at March 31, 2011, the date of the most recent actuarial valuation.

Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested but are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment where the benefits are not already vested. The full liability for all plan deficits is recorded, as adjusted for any past service costs still to be amortized.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

### (l) Provisions:

A provision is recorded when:

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

If these conditions are not met, no provision is recorded.

Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense.

### (m) Revenues:

Tariff revenue is recognized when transportation is provided. The value of fares sold for which payment is received in advance of providing transportation is included in the statement of financial position as deferred revenue. These advance payments include prepaid vehicle and passenger fares, assured loading tickets and other reservation fees.

Retail revenue consists primarily of food services and gift shop sales. Parking revenues are received from both owned and subcontracted parking facilities and are recognized when service is provided. Revenue is generated from various advertising contracts and recognized according to the individual agreement.

Construction contract revenue is recognized using the percentage of completion method. At each reporting period, an estimate is made of the total profit or loss expected for the contract and the percentage of work completed. These estimates are used to measure the fair value of the consideration receivable for the contract and the amount of costs to be recognized in the period. If contract costs are not probable of being recovered they are immediately expensed.

### (n) Finance leases:

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (o) Operating leases:

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (p) Taxes:

The Group is a "Tax Exempt Corporation" as described in the *Income Tax Act* and as such is exempt from federal and provincial income taxes.

The provision of vehicle and passenger ferry services is an exempt supply under the *Excise Tax Act* for HST/GST purposes.

### (q) Impairment of non-financial assets:

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

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.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group defines a cash generating unit as a route group. Price caps for each route group are set by the Commissioner based on the costs necessary to provide service on each route group as defined in the Coastal Ferry Services Contract with the Province of British Columbia (the "Province").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (r) Financial assets and liabilities:

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

Financial liabilities include bank borrowings, bonds, obligations related to lease contracts, derivatives with a negative market value and trade payables.

Financial assets and liabilities presented are "non-current" except those with a maturity of less than twelve months from the period-end date. Those with maturities of less than twelve months are presented as "current assets" or "cash equivalents" depending on the circumstances.

#### (i) Recognition and measurement of financial assets (excluding derivatives)

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", financial assets are classified into one of four categories:

- assets held-to-maturity (securities giving entitlement to fixed or fixable payments on set dates, and which the Group is able and intending to hold to maturity);
- loans and receivables (non-derivative financial assets subject to fixed or fixable payments, and which are not quoted on an active market);
- assets held-for-trading (investments and securities bought and held primarily with a view to a short-term resale); and
- assets held for sale (all financial assets not recognized in one of the three previous categories).

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

#### (ii) Loans and advances

When initially recognized, loans and advances are measured at fair value. These financial assets are then carried at amortized cost using the effective interest rate method. Loans and advances are subject to recoverable value tests, carried out whenever there

are objective indicators that the recoverable value of these assets would be lower than the carrying value and, at the very least, on each statement of financial position date.

#### (iii) Trade and other receivables

Trade and other receivables are recorded at fair value (in most cases the same as nominal value) minus any loss of value recorded in a special impairment account. As receivables are due in less than one year, they are not discounted. If there is any indication that these assets may be impaired, they will be subject to an analysis based primarily on the following criteria: age of the receivable, the debtor's financial position and negotiation of a payment schedule. The difference between the carrying amount and the recoverable value is recorded as a provision in net earnings or loss. Impairment may be reversed if the asset regains its value in future periods and the reversal is booked in the same item as the initial provision. Impairment is deemed permanent when the receivable itself is considered to be permanently non-recoverable and written off.

#### (iv) Cash and cash equivalents

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

#### (v) Borrowings and other financial liabilities

Trade and other debts are initially recorded at fair value, which is generally the same as nominal value. Bank borrowings and other financial liabilities are subsequently measured at amortized cost calculated using the effective interest rate method. Interest accrued on 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.

#### (vi) Recognition and measurement of financial derivatives

Financial derivatives are held from time to time to manage exposure to fuel price, interest rate and foreign exchange risks. Derivatives are initially recorded at fair value and associated transaction costs are booked in net earnings or loss when incurred. After initial recognition, derivatives are measured at

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

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

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

### (s) Borrowing costs:

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, as a part of the cost of those assets, until such time as the assets are substantially ready for their intended use. The Group identifies a qualifying asset as one that necessarily takes six months or more to get ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalizes the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of these borrowings.

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

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

### (t) Hedging relationships:

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

When applying hedge accounting, the Group documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statements of financial position or to specific firm commitments or forecasted 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. Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity are recognized in the period in which they have been terminated or cease to be effective. Realized hedge gains or losses are reclassified from other comprehensive income and are included in the initial carrying amount of the asset or liability acquired.

### (u) Debt transaction costs:

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

### (v) Asset retirement obligations:

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

**(w) Interest rate support:**

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

**(x) Comprehensive income:**

The Group recognizes increases in the fair values of land assets in other comprehensive income except to the extent that such an increase represents a reversal of a decrease for the same asset that was previously recognized in profit or loss.

A decrease in the fair values of land assets is recognized in profit or loss to the extent the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

**(y) Segment reporting:**

The Group operates within a single industry and within a single geographical area. All review of operating results and decisions about resources to be allocated are done at a corporate level. Accordingly no segment reporting is presented in these consolidated financial statements.

**(z) Comparative figures:**

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. As at March 31, 2013 the Group reclassified \$2.9 million (2012: \$3.5 million; 2011: \$2.7 million) from provisions to employee future benefits. This is the value of a supplemental executive retirement plan which was reclassified to be consistent with classification of the Group's other retirement plans.

## 2. FUTURE ACCOUNTING CHANGES:

Certain pronouncements were issued by the IASB that are mandatory for accounting periods after March 31, 2013.

**(a) IAS 19 Employee Benefits:**

This standard has been amended to make certain changes to the recognition, presentation and disclosure of defined benefit plans, and becomes effective for the Group beginning April 1, 2013. As a result of these amendments, actuarial gains and losses of defined benefit plans will be immediately recognized in other comprehensive income instead of profit and loss. The option to use the corridor approach to recognize these costs over time will no longer be available. The amendments also introduce the net interest approach to disaggregate defined benefit costs. This is calculated by applying the discount rate used to measure the obligation to the net defined benefit liability (asset). In addition, the amendments change the definition of both short-term and long-term employee benefits so it is clear that the distinction between the two depends on when the entity expects the benefits to become due to be settled. The Group does not expect the application of this amended standard to have a material impact on its consolidated financial statements.

**(b) IFRS 9 Financial Instruments (2010):**

This standard replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. The Group intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on April 1, 2015. The Group does not expect the application of this amended standard to have any impact on its consolidated financial statements.

**(c) IFRS 13 Fair Value Measurement:**

This standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on April 1, 2013. The Group does not expect IFRS 13 to have a material impact on its consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. CASH AND CASH EQUIVALENTS:

As at March 31	2013	2012
Cash	19,043	4,034
Cash equivalents:		
Held-for-trading investments	93	1,457
Held-to-maturity investments	17,505	2,209
Total	36,641	7,700

### 4. LOANS:

As at March 31	2013	2012
<b>Long-term debt:</b>		
5.74% Senior Secured Bonds, Series 04-1, due May 2014 (effective interest rate of 5.92%)	250,000	250,000
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
6.21% Senior Secured Bonds, Series 08-2, due December 2013 (effective interest rate of 6.33%)	140,000	140,000
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	52,500	60,000
Tranche B (floating interest rate of 1.36% at March 31, 2013)	13,125	5,625
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	54,375	61,875
Tranche B (floating interest rate of 1.35% at March 31, 2013)	13,125	5,625
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	72,000	81,000
	1,295,125	1,304,125
Less: Deferred financing costs and unamortized bond discounts	(8,913)	(9,893)
Current portion	(149,000)	(9,000)
Total	1,137,212	1,285,232

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(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 04-1	May 27	November 27
Series 04-4	April 13	October 13
Series 07-1	March 20	September 20
Series 08-1	January 11	July 11
Series 08-2	December 19	June 19

**(b) 12 Year Loans:**

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

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

**(c) 2.95% Loan:**

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

**(d) Credit facility:**

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of \$155.0 million, was amended on April 20, 2012 to extend the maturity date from May 2013 to April 2017. It was further amended on March 15, 2013 to extend the maturity date from April 2017 to April 2018. There were no draws on this credit facility as at March 31, 2013 (March 31, 2012: \$17.7 million).

Interest expensed during the year ended March 31, 2013, was less than \$0.1 million (2012: less than \$0.1 million). Letters of credit outstanding against this facility at March 31, 2013 totalled \$0.1 million (March 31, 2012: \$0.1 million).

**(e) Debt service reserves:**

The Group is required to maintain debt service reserves for the Series 04-1, 04-4, 07-1, 08-1 and 08-2 bonds equal to not less than six months forecasted debt service, to be increased under certain conditions. Further debt service reserves are required to be maintained for the 12 year loans and the 2.95% loan equal to not less than six months forecasted debt service, to be increased under certain conditions.

As at March 31, 2013, debt service reserves of \$35.6 million were held in short-term investments and have been classified as restricted short-term investments on the balance sheet (March 31, 2012: \$35.7 million).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. FINANCIAL INSTRUMENTS:

The carrying and fair values of the Group's financial instruments are as follows:

As at March 31	2013		2012	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Available for sale <sup>1</sup>				
Cash	19,043	19,043	4,034	4,034
Financial assets/liabilities at fair value through net earnings or loss <sup>2</sup>				
Cash equivalents	93	93	1,457	1,457
Derivative liabilities	12	12	12	12
Held-to-maturity <sup>3</sup>				
Cash equivalents	17,505	17,505	2,209	2,209
Restricted short-term investments	35,575	35,575	35,705	35,705
Other short-term investments	43,403	43,403	26,880	26,880
Loans and receivables <sup>3</sup>				
Trade and other receivables	18,118	18,118	42,341	42,341
Long-term loan receivable <sup>4</sup>	24,515	24,515	24,515	24,515
Other financial liabilities <sup>3</sup>				
Accounts payable and accrued liabilities	51,803	51,803	50,708	50,708
Short-term debt	–	–	17,737	17,737
Interest payable on long-term debt	18,063	18,063	18,249	18,249
Provisions	50,839	50,839	47,022	47,022
Long-term debt, including current portion <sup>5,6</sup>	1,286,212	1,486,749	1,294,232	1,491,008

1 Measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Due to the nature of this financial instrument, carrying value approximates fair value.

2 Measured at fair value with all gains and losses included in net earnings in the period in which they arise. Fair values for the derivative liabilities have been estimated using period-end market rates. These fair values approximate the amount that the Group would pay to settle the contract at March 31.

3 Measured at amortized cost. Due to the nature of these financial instruments and/or short-term maturity of these financial instruments, carrying value approximates fair value except as noted.

4 Measured at amortized cost. Carrying value approximates fair value as the rate of return is variable and is expected to return a market rate of interest.

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

6 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 March 31, or by using available quoted market prices.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on the Group's current borrowing rate for similar borrowing arrangements.

No amounts have been reclassified into or out of fair value classifications in the year. Financial assets have been pledged as security for liabilities under the MTI (note 4). The Group does not hold any multiple embedded derivative financial assets or liabilities. No loans or receivables or financial liabilities have been categorized as fair value through net earnings or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2013, all available for sale and held-for-trading financial instruments are classified as level 1 in the fair value hierarchy with quoted prices in active markets.

During the year ended March 31, 2013, no profits resulting from the use of valuation techniques used to measure level 2 or 3 instruments in the fair value hierarchy (i.e. those with no active market price) have been recognized.

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the stated dates.

### 6. FINANCIAL RISK MANAGEMENT:

Exposure to credit risk, liquidity risk, and market risk arises in the normal course of the Group's business. The Group manages market risk arising from the volatility in foreign currency, interest rate, and fuel price exposures in part through the use of derivative financial instruments including forward contracts, swaps and options. 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. No hedges have been designated as at March 31, 2013 and 2012.

#### (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 statements of financial position. Management does not believe that the Group is subject to any significant concentration of credit risk.

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

Accounts receivable by source are as follows:

As at March 31	2013		2012	
	\$	%	\$	%
Trade customers and miscellaneous	8,305	45.8%	7,692	18.2%
Federal and Provincial governments	9,813	54.2%	34,649	81.8%
<b>Total</b>	<b>18,118</b>	<b>100.0%</b>	<b>42,341</b>	<b>100.0%</b>

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

Accounts receivable from trade customers are generally due in 30 days. As at March 31, 2013, 96% of trade receivables are current. As at March 31, 2013, the provision for credit losses was \$0.1 million (2012: \$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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group is exposed to credit risk in the event that a counter party in a derivative contract defaults on its obligation, including fuel commodity swaps and foreign exchange forward contracts. The Group manages the credit exposure related to financial instruments by dealing with high credit quality institutions, in accordance with established investment parameters, and by an ongoing review of its exposure to counter parties. Counter party credit rating and exposures are monitored by management on an ongoing basis, and are subject to approved credit limits. The counter parties with which the Group has significant derivative transactions must be rated single A or higher. The Group does not expect any counter parties 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 and the maintenance of debt service reserves (note 4). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates. As at March 31, 2013 and March 31, 2012, the Group's credit ratings were as follows:

	DBRS	Standard & Poor's
British Columbia Ferry Services Inc.:		
Senior secured long-term debt	A	A+

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2013:

	< 1 year	2-3 years	4-5 years	> 5 years	Total
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	51,803	–	–	–	51,803
Interest payable on long-term debt	18,063	–	–	–	18,063
Provisions	50,839	–	–	–	50,839
Obligations under finance lease, including current portion	1,072	2,431	3,096	40,414	47,013
Long-term debt, including current portion (excluding deferred costs) <sup>1</sup>	149,000	294,250	48,000	803,875	1,295,125
Total financial liabilities – principal only	270,777	296,681	51,096	844,289	1,462,843
Interest payable – long-term debt <sup>2</sup>	66,963	91,912	85,650	720,352	964,877
Interest payable – obligations under finance lease	2,026	3,907	3,663	10,853	20,449
Total financial liabilities, including interest payable	339,766	392,500	140,409	1,575,494	2,448,169

1 Carrying value at March 31, 2013, excludes unamortized deferred financing costs of \$8.9 million. The majority of the Group's long-term debt relates to acquisition of property, plant & equipment and intangible assets.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (c) Market risk:

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

#### Interest rate risk:

The Group is exposed to interest rate risk associated with short-term borrowings and floating rate debt. As at March 31, 2013, 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. Additionally, the Group may enter into interest rate agreements to manage its exposure on debt instruments. As at March 31, 2013, the Group has no interest rate agreements in place to offset interest rate risk and had approximately two per cent of total debt in variable rate instruments. A 50 basis point change in interest rates would not have had a significant effect on earnings for the twelve months ended March 31, 2013. The Group has two bond series maturing over the next 14 months with a total face value of \$390 million and coupons of 6.214% and 5.74%. A 1% change in the interest rates would result in a \$3.9 million increase or decrease to the Group's earnings annually.

#### Foreign currency price risk:

The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and hedges through derivative instruments as necessary. As at March 31, 2013, the Group has foreign currency forward contracts of \$1.0 million (2012: \$1.5 million). A 10 per cent change in foreign exchange rates would not have had a significant effect on earnings for the twelve months ended March 31, 2013.

#### Fuel price risk:

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

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.

Prior to June 25, 2012, the regulatory deferred fuel cost accounts operated as follows:

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

- i) for those routes comprising the Northern Route Group;
  - a. one-half of the first 5 cents per litre of difference was recorded in expense for the period with the remaining one-half of the first 5 cents per litre of difference recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 21(b)), and
  - b. any difference beyond 5 cents per litre was recorded in accounts receivable or payable for subsequent recovery from or payment to the Province, and
- ii) for all other routes;
  - a. one-half of the first 5 cents per litre of difference was recorded in expense for the period with all remaining differences per litre recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 21(b)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Commencing June 25, 2012, the regulatory deferred fuel cost accounts operate as follows:

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

- i) for those routes comprising the Northern Route Group;
  - a. the first 5 cents per litre of difference is recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 21(b)).
  - b. any difference beyond 5 cents per litre is recorded in accounts receivable or payable for subsequent recovery from or payment to the Province, and

- ii) for all other routes;
  - a. recorded in deferral accounts for recovery or settlement through future tariffs to customers (note 21(b)).

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

During the year ended March 31, 2013, the amounts receivable from the Province in relation to fuel cost differences totalled \$1.0 million (2012: \$1.8 million receivable from the Province).

### 7. INVENTORIES:

As at March 31	2013	2012
Food and retail inventories	3,436	3,272
Fuel inventories	4,140	4,551
Consumable parts and supplies	15,681	14,193
<b>Total</b>	<b>23,257</b>	<b>22,016</b>

### 8. OBLIGATIONS UNDER FINANCE LEASE:

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

#### Loan and purchase option:

During the year ended March 31, 2012, the Group's wholly-owned subsidiary, Pacific Marine Leasing Inc., advanced \$0.3 million to the developer of the new head office property to finalize the loan 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 fifty percent of the owner's equity interest in the new building at a price of \$24.5 million. The purchase option expires at the end of the loan term.

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

	Minimum lease payments	Executory costs	Imputed interest (4.44%)	Obligation
Less than one year	4,788	1,690	2,026	1,072
Between one and five years	20,200	7,103	7,570	5,527
Later than five years	42,235	15,483	10,853	15,899
Purchase option	24,515	–	–	24,515
<b>Total</b>	<b>91,738</b>	<b>24,276</b>	<b>20,449</b>	<b>47,013</b>
Current portion				(1,072)
Non-current portion				45,941

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. LONG-TERM LAND LEASE:

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

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

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

Since April 1, 2003, the Group has entered into various agreements with BCTFA to add lands to the existing terminal leases. During the years ended March 31, 2013 and March 31, 2012, no new land costs were added to the terminal leases.

### 10. PROPERTY, PLANT AND EQUIPMENT:

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

	Vessels	Berths, building & equipment under finance lease	Berths, building & equipment	Land under finance lease	Land	Construction in progress	Total
<b>Cost:</b>							
Balance at April 1, 2011	1,077,392	426,338	42,672	5,177	13,101	28,514	1,593,194
Additions	–	268	–	–	–	128,807	129,075
Revaluation	–	–	–	235	1,942	–	2,177
Disposals	(1,998)	(189)	(85)	–	–	(415)	(2,687)
Reclassification	(43)	(99)	99	–	–	–	(43)
Transfers from construction in progress	68,289	56,965	9,826	–	471	(135,551)	–
<b>Balance at March 31, 2012</b>	<b>1,143,640</b>	<b>483,283</b>	<b>52,512</b>	<b>5,412</b>	<b>15,514</b>	<b>21,355</b>	<b>1,721,716</b>
Additions	–	–	–	–	–	84,030	84,030
Revaluation	–	–	–	–	936	–	936
Disposals	(11,043)	(288)	(192)	–	–	(79)	(11,602)
Reclassification	(297)	(73)	73	–	–	–	(297)
Transfers from construction in progress	41,752	25,989	6,897	–	–	(74,638)	–
<b>Balance at March 31, 2013</b>	<b>1,174,052</b>	<b>508,911</b>	<b>59,290</b>	<b>5,412</b>	<b>16,450</b>	<b>30,668</b>	<b>1,794,783</b>
<b>Accumulated depreciation:</b>							
Balance at April 1, 2011	–	–	–	–	–	–	–
Depreciation for the year	96,751	22,568	7,947	–	–	–	127,266
Disposals	(1,801)	(189)	(67)	–	–	–	(2,057)
Reclassification	–	(99)	99	–	–	–	–
<b>Balance at March 31, 2012</b>	<b>94,950</b>	<b>22,280</b>	<b>7,979</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>125,209</b>
Depreciation for the year	96,224	24,443	8,257	–	–	–	128,924
Disposals	(10,945)	(288)	(179)	–	–	–	(11,412)
Reclassification	–	(73)	73	–	–	–	–
<b>Balance at March 31, 2013</b>	<b>180,229</b>	<b>46,362</b>	<b>16,130</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>242,721</b>
<b>Net carrying value:</b>							
As at April 1, 2011	1,077,392	426,338	42,672	5,177	13,101	28,514	1,593,194
As at March 31, 2012	1,048,690	461,003	44,533	5,412	15,514	21,355	1,596,507
As at March 31, 2013	993,823	462,549	43,160	5,412	16,450	30,668	1,552,062

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (b) Other disclosures – property, plant and equipment:

During the year ended March 31, 2013 capitalized financing costs during construction amounted to \$0.7 million (March 31, 2012: \$1.5 million) with an average capitalization rate of 5.64% (March 31, 2012: 5.62%). The contractual commitments at March 31, 2013 for assets to be constructed totalled \$23.1 million (March 31, 2012: \$13.1 million).

The Government of Canada, through the Infrastructure Stimulus Program, agreed to provide funding to help offset the costs of sewage and waste water treatment and other major projects at certain of the Group's terminals. The Group received a total of \$8.7 million under this program. During the year ended March 31, 2012 \$2.6 million of this amount was recorded as a reduction of property, plant and equipment. The remaining \$6.1 million was recorded in previous years.

During the year ended March 31, 2013, the Group received \$0.7 million (March 31, 2012: \$0.7 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$0.9 million respectively, as at March 31, 2013.

## 11. INTANGIBLE ASSETS:

### (a) Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
<b>Cost:</b>				
Balance at April 1, 2011	16,708	8,269	9,952	34,929
Additions	–	–	13,112	13,112
Disposals	–	–	–	–
Transfers from assets under development	6,077	2,510	(8,587)	–
<b>Balance at March 31, 2012</b>	<b>22,785</b>	<b>10,779</b>	<b>14,477</b>	<b>48,041</b>
Additions	–	–	12,935	12,935
Disposals	(357)	–	–	(357)
Transfers from assets under development	1,941	32	(1,973)	–
<b>Balance at March 31, 2013</b>	<b>24,369</b>	<b>10,811</b>	<b>25,439</b>	<b>60,619</b>
<b>Accumulated amortization and impairment:</b>				
Balance at April 1, 2011	–	–	–	–
Amortization for the year	4,050	2,233	–	6,283
Disposals	–	–	–	–
<b>Balance at March 31, 2012</b>	<b>4,050</b>	<b>2,233</b>	<b>–</b>	<b>6,283</b>
Amortization for the year	4,509	2,242	–	6,751
Disposals	(357)	–	–	(357)
<b>Balance at March 31, 2013</b>	<b>8,202</b>	<b>4,475</b>	<b>–</b>	<b>12,677</b>
<b>Net carrying value:</b>				
As at April 1, 2011	16,708	8,269	9,952	34,929
As at March 31, 2012	18,735	8,546	14,477	41,758
As at March 31, 2013	16,167	6,336	25,439	47,942

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(b) Other disclosures – intangible assets:**

There was no impairment of intangible assets during the year ended March 31, 2013 or the year ended March 31, 2012.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2013 totalled \$1.1 million (March 31, 2012: \$0.5 million).

During the year ended March 31, 2013, intangible assets totalling \$12.4 million (March 31, 2012: \$12.7 million) were acquired and \$0.5 million (March 31, 2012: \$0.5 million) were internally developed.

### 12. ACCRUED EMPLOYEE FUTURE BENEFITS:

**(a) Description of benefit plans:**

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2013, consisting of cash contributed by the Group to its multi-employer defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to a third party administrator of an unfunded plan, was \$28.9 million (2012: \$26.5 million).

### (c) 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 bonus and death benefit plans is as at March 31, 2011. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement bonus 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 bonus, provided the transfer happens 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, 2011, March 31, 2013 and March 31, 2001, respectively.

	2013	2012
<b>Other benefit plans</b>		
<b>Accrued benefit obligations</b>		
Balance, beginning of year	19,565	18,378
Current service cost	648	1,296
Interest cost	801	804
Benefits paid	(2,200)	(1,871)
Actuarial (gains) losses	(6)	958
Balance, end of year	18,808	19,565

	2013	2012
<b>Other benefit plans</b>		
<b>Reconciliation of funded status of the benefit plans to the amounts recorded in the financial statements</b>		
Fair value of plan assets	-	-
Accrued benefit obligation	18,808	19,565
Funded status of plans – deficit	(18,808)	(19,565)
Accrued benefit liability	(18,808)	(19,565)
Current portion of accrued employee future benefits	2,204	2,204
Accrued employee future benefits	(16,604)	(17,361)

	2013	2012
<b>Other benefit plans</b>		
<b>Elements of defined benefit costs recognized in the year</b>		
Current service cost	648	1,296
Interest cost	801	804
Actuarial (gains) losses	(6)	958
Defined benefit costs recognized	1,443	3,058



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant assumptions

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

	2013	2012
<b>Accrued benefit obligation as of March 31:</b>		
Discount rate	5.0%	5.0%
Rate of compensation increase	1.9%	1.8%
Annual employee retention rate	96.0%	95.7%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
<b>Benefit cost for years ended March 31:</b>		
Discount rate	5.0%	5.0%
Rate of compensation increase	1.9%	1.8%
Annual employee retention rate	96.0%	95.7%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
<b>Average remaining service period of active employees (years)</b>	<b>7.0</b>	<b>7.0</b>

**(d) Multi-employer plans:**

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

	2013	2012
Public Service Pension Plan contributions (i)	21,269	19,656
Long-term disability plan contributions	5,477	4,952
Long-term disability plan amortization of surplus (ii)	64	64
<b>Total</b>	<b>26,810</b>	<b>24,672</b>

- i) The March 31, 2011 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 6, 2011. This report indicated that the pension fund has a deficit of \$275 million. Under the terms of the plan's joint trust agreement, plan members and employers share in any increase or decrease in contribution rates. Effective April 1, 2012 the plan trustees increased the member and employer contribution rates to the basic account from 7.78% to 8.18% of pensionable earnings. This increase is primarily due to changes in the investment return and demographic assumptions. The contribution rates to the inflation adjustment account decreased for members from 1.50% to 1.25% and increased for employers from 2.5% to 2.75%, effective April 1, 2012. The next valuation, expected to be received during the fiscal year ended March 31, 2015, will be as at March 31, 2014.
- ii) Contribution rates for the long-term disability plan are actuarially determined every three years as a percentage of covered payroll. The most recent valuation, as at March 31, 2011, determined an overall fund surplus. The newly established funding policy 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 3.09% to 3.5% of covered payroll effective April 1, 2012. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2015, will be as at March 31, 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. PROVISIONS:

	Wages payable	Claims payable	Total
Balance at April 1, 2011	45,411	1,377	46,788
Provisions arising during the year	52,772	431	53,203
Provisions settled during the year	(52,438)	(531)	(52,969)
Balance at March 31, 2012	45,745	1,277	47,022
Provisions arising during the year	55,296	712	56,008
Provisions settled during the year	(51,895)	(296)	(52,191)
Balance at March 31, 2013	49,146	1,693	50,839

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.

### 14. CAPITAL MANAGEMENT:

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

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

As at March 31	2013		2012	
	\$	%	\$	%
Aggregate borrowings <sup>1</sup>	1,497,138	81.73	1,507,112	82.25
Total equity <sup>2</sup>	334,665	18.27	325,195	17.75
Total	1,831,803	100.00	1,832,307	100.00

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

2 Does not include the land revaluation reserve

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

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost and the Group is required to maintain debt service reserves (notes 4 and 6). Incurrence of additional debt is restricted if the debt service coverage ratio is less than 1.5 times the debt service cost and distributions are restricted if the debt service coverage ratio is less than 1.3 times. In addition to these restrictions and requirements, there are other covenants contained in the MTI (May 2004) available at [www.SEDAR.com](http://www.SEDAR.com). The Group was in compliance with all of its covenants throughout the years ended March 31, 2013 and 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. NON-CONTROLLING INTEREST:

Non-controlling interest comprises BCFS's 75,477 Class C non-voting preferred shares held by the Province and has no voting interest in the Group. The share capital of BCFS is further described below:

#### (a) Authorized shares of BCFS:

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 shares of BCFS:

As at March 31	2013		2012	
	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.

### 16. CONTRIBUTED SURPLUS:

On March 30, 2012, the Province confirmed that it had approved a contribution to the equity of the Group in the amount of \$25 million payable as at March 31, 2012. This amount has been included in accounts receivable at March 31, 2012 and was received on April 20, 2012.

In April 2003, the Group received an initial contribution of \$1 thousand from the Province which was used to purchase the BCFS common share.

### 17. LAND REVALUATION RESERVE:

As at March 31	2013	2012
Balance – beginning of year	2,177	–
Fair value increases	1,056	2,177
Balance – end of year	3,233	2,177

The land revaluation reserve represents the cumulative surplus resulting from changes in fair value of land assets.

During the year ended March 31, 2013, net land asset values increased by \$0.9 million (March 31, 2012: \$2.2 million). Land revaluation reserves increased by \$1.1 million (March 31, 2012: \$2.2 million) reflecting an increase in land value while \$0.2 million (March 31, 2012: \$nil) was expensed in net earnings reflecting a reduction to the fair value of a parcel of land with no reserve.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. FERRY SERVICE FEES:

The Group entered into an agreement with the Province commencing April 1, 2003 to provide ferry services that would not be commercially viable under the current regulated tariff structure. In exchange for fees, the Group provides agreed ferry service levels on specified routes and administers certain social policy initiatives on behalf of the Province. 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 was amended on June 30, 2007, March 31, 2008 and April 1, 2012 to, among other things, establish the ferry service levels and the fees for the provision of such service for the second performance term ending March 31, 2012 and for the third performance term ending March 31, 2016.

### 19. 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 for the provision of ferry, coastal freight and passenger services in the waters of British Columbia. The annual payment increases with the Vancouver Consumer Price Index.

### 20. REGULATED OTHER INCOME:

In May 2012, the Province of British Columbia enacted changes to the Act (Bill 20) that among other things, includes reservation fees as a regulated tariff for the purposes of determining adherence to price caps established by the Commissioner effective April 1, 2012. These fees were not regulated by the Commissioner prior to April 1, 2012.

### 21. ECONOMIC EFFECT OF RATE REGULATION:

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels.

IFRS does not have a standard for rate-regulated activities and therefore does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process. Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes the regulatory assets at March 31, 2013 detailed below are probable of future recovery and that the obligations represented by the regulatory liabilities will be settled through future tariff reductions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As at March 31	2013	2012
<b>Regulatory accounts</b>		
Deferred first performance term costs (a):		
Balance – beginning of year	–	4,775
Amortization for the year	–	(4,775)
Balance – end of year	–	–
Continuing regulatory accounts:		
Deferred fuel costs (b):		
Balance – beginning of year	1,256	(1,790)
Fuel costs deferred	11,266	19,486
Surcharges collected	(11,469)	(13,098)
Fuel price risk recoveries from the Province	(1,023)	(1,799)
Other payments from the Province	(1,449)	(1,503)
Interest receivable (payable)	4	(40)
Balance – end of year	(1,415)	1,256
Tariffs in excess of price cap (c)	–	(2,461)
Performance term submission costs (d)	245	327
<b>Total of regulatory accounts</b>	<b>(1,170)</b>	<b>(878)</b>
<b>Total regulatory (liabilities)</b>	<b>(1,170)</b>	<b>(878)</b>
<b>Current regulatory assets (liabilities)</b>	<b>82</b>	<b>(2,379)</b>
<b>Total long term regulatory (liabilities) assets</b>	<b>(1,252)</b>	<b>1,501</b>

**(a) Deferred first performance term costs:**

During the four year period ended March 31, 2012, the Group recovered in tariffs \$19.1 million of costs incurred during the first performance term. These costs primarily consisted of the cost of fuel consumed that was acquired at prices greater than those recovered through tariffs during the first performance term.

**(b) Deferred fuel costs:**

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

The Commissioner considered \$18.5 million of unrecovered deferred fuel costs in the determination of the price caps set for the second performance term beginning April 1, 2008, and recovery occurred over this four year period. Accordingly, this \$18.5 million was amortized to expense on a straight-line basis over the term. The difference between the balances in the deferred fuel cost accounts at March 31, 2008 and this \$18.5 million, a \$6.6 million credit, formed the opening balances of the fuel cost deferral accounts for the second performance term. The balance of \$1.3 million in these accounts at March 31, 2012 formed the opening balance of the fuel cost deferral accounts and will be recovered during the third performance term, which commenced April 1, 2012.

During the year ended March 31, 2013, the Province agreed to pay \$1.5 million, to be applied against the balance of deferred fuel costs (2012: \$1.5 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (c) 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. Tariffs charged to customers on all route groups were below established price caps at March 31, 2013. At March 31, 2012, tariffs charged to customers on the Major Route Group exceeded the price cap by \$2.5 million.

### (d) Performance term submission costs:

The Commissioner has authorized the Group to defer costs of representation associated with the second and third performance terms. The Commissioner has considered these costs in the determination of the price caps set for the four years beginning April 1, 2008, and for the four years beginning April 1, 2012. The Commissioner has not included an allowance for a return on investment for the second or third performance term submission costs. The recovery periods are the four year period of the second performance term, commencing April 1, 2008 and the four year period of the third performance term, commencing April 1, 2012.

If the Group was permitted under IFRS to recognize the effect of rate regulation and to record regulatory assets and regulatory liabilities, total comprehensive income for the year ended March 31, 2013 would have been \$0.3 million lower (2012: \$3.0 million lower) as detailed below:

Years ended March 31	2013	2012
<b>Effect of rate regulation on total comprehensive income</b>		
<b>First performance term accounts:</b>		
Amortization of deferred performance term costs	–	(4,775)
<b>Continuing regulatory accounts:</b>		
Deferred fuel costs	(2,671)	3,046
Performance term submission costs	(82)	95
Tariffs in excess of price cap	2,461	(1,389)
<b>Total decrease in total comprehensive income</b>	<b>(292)</b>	<b>(3,023)</b>

## 22. NET FINANCE EXPENSES:

Years ended March 31	2013	2012
Finance expenses		
Long-term debt	70,605	71,875
Short-term debt	409	246
Finance leases	2,325	2,373
Amortization of deferred financing costs and bond discounts	981	968
Interest capitalized in the cost of qualifying assets	(1,856)	(2,049)
Interest rate support (a)	(388)	(1,543)
<b>Total finance expenses</b>	<b>72,076</b>	<b>71,870</b>
Finance income	(2,922)	(2,404)
<b>Total</b>	<b>69,154</b>	<b>69,466</b>

### (a) Interest rate support:

During the years ended March 31, 2012 and 2011, the Government of Canada agreed to provide \$1.6 million and \$1.0 million respectively in the form of interest rate support to the Group for major refurbishment of one vessel in each year. During the year ended March 31, 2013 interest rate support recorded as a reduction of interest expense totalled \$0.4 million (March 31, 2012: \$1.5 million) and \$nil as a reduction of capitalized interest (March 31, 2012: \$0.2 million).

The Group has no requirement to repay these funds, other than as a result of an event of default under the agreement with the Government of Canada.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. OPERATING EXPENSES:

During the year ended March 31, 2013, the Group recorded \$309 million (March 31, 2012: \$303 million) for wages and benefit expenses.

During the year ended March 31, 2013, the Group recorded \$121 million (March 31, 2012: \$120 million) for fuel expenses.

### 24. RELATED PARTY TRANSACTIONS:

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

Years ended March 31	2013	2012
Short-term benefits	1,852	2,235
Post-employment benefits	290	1,215
Other long-term benefits	–	1,376
Total	2,142	4,826

### 25. SUBSIDIARIES:

As at March 31, 2013 two of the Group's subsidiary holdings, BCF Global Services Inc. and Pacific Marine Ventures Inc., were dissolved by way of voluntary dissolution under the Business Corporations Act.

### 26. OTHER COMMITMENTS:

The Group has entered into operating leases for certain building spaces, land and equipment. Lease payments charged to expense during the year ended March 31, 2013 were \$1.1 million (2012: \$1.0 million).

Future minimum lease payments are as follows:

Less than one year	810
Between one and five years	416
More than five years	–
Total	1,226

### 27. CONTINGENT LIABILITIES:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. TRANSITION TO IFRS:

These consolidated financial statements for the year ended March 31, 2013 are the Group's first annual consolidated financial statements prepared in accordance with IFRS and have been prepared as described in note 1, including the application of *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared in accordance with IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. This statement is made at note 1 (b).

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Group has applied IFRS is April 1, 2011, the transition date. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Group is March 31, 2013. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

### Initial elections upon adoption:

Set forth below are the applicable IFRS 1 exemptions and exceptions applied by the Group in its transition from previous GAAP to IFRS:

### IFRS 1 exemption options:

#### (a) Employee benefits:

IFRS 1 provides the option to either retrospectively apply IAS 19, *Employee Benefits* and recognize all actuarial gains and losses on employee benefit plans in each prior period or, to recognize in opening retained earnings the cumulative gains and losses deferred under previous GAAP at the transition date. The Group has elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings. Accordingly, the Group has increased its liability for employee future benefits and decreased retained earnings by \$3.6 million at April 1, 2011. The impact of this change at the transition date and the resulting decrease in amortization of actuarial gains and losses for the year ended March 31, 2012 are shown in the table below:

	As at April 1, 2011	Year ended March 31, 2012
<b>Differences from amounts reported under previous GAAP:</b>		
Retained earnings (decrease) – beginning of period	–	(3,552)
Cumulative actuarial losses recognized	(3,552)	–
Decrease in amortization of actuarial losses	–	217
Retained earnings (decrease) – end of period	(3,552)	(3,335)

#### (b) Previous GAAP carrying amount as deemed cost:

IFRS 1 provides the option to use as deemed cost at the transition date, the previous GAAP carrying amount of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. This exemption need not apply to all items. At transition date, an entity must also test for impairment in accordance with IAS 36, each item for which this exemption is used. The Group has elected to recognize all property, plant and equipment and intangible assets that existed at its transition date at previous GAAP carrying amounts, with the exception of land. The carrying amounts of these assets were not in excess of their recoverable amounts and therefore no impairment was recognized. The election of this exemption did not result in a change to the carrying amounts of these assets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(c) Fair value as deemed cost:**

IFRS 1 provides the option to measure, at transition date, an item of property, plant and equipment or intangible assets at its fair value and use that fair value as its deemed cost at that date. The Group has elected to recognize all land assets at fair value. Accordingly, the Group has increased property, plant and equipment and retained earnings by \$12.2 million each at April 1, 2011. The impact of this change at the transition date and for the year ended March 31, 2012, is shown in the table below:

	<b>As at April 1, 2011</b>	<b>Year ended March 31, 2012</b>
<b>Differences from amounts reported under previous GAAP:</b>		
Equity increase – beginning of period	–	12,187
Fair value increase in carrying value of land assets	12,187	2,177
Equity increase – end of period	12,187	14,364

**IFRS 1 mandatory exceptions:**

**(d) Estimates:**

The estimates previously made by the Group under previous GAAP have not been revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

**Significant accounting policy differences:**

In addition to the exemptions and exceptions discussed above, the following explains the significant differences between the previous GAAP policies and the current IFRS policies applied by the Group:

**(e) Rate regulation:**

Under previous GAAP, the Group followed Accounting Guideline 19 “*Disclosures by Entities Subject to Rate Regulation*” (AcG-19) of the CICA Handbook which established guidelines on certain aspects of the disclosure and presentation of information in the financial statements of entities subject to rate regulation.

In order to recognize the economic effects of rate regulation, timing differences relating to recognition of certain revenues and expenses gave rise to regulatory assets and regulatory liabilities in the financial statements.

IFRS does not currently contain any guidance relating to recognition of assets and liabilities that have arisen as a result of rate regulation. Under current IFRS standards, such items have not been recognized on transition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accordingly, the Group has derecognized at transition, current regulatory assets of \$3.7 million and long-term regulatory liabilities of \$1.6 million, resulting in a net reduction in retained earnings of \$2.1 million at April 1, 2011. The impact of the derecognition of regulatory assets and regulatory liabilities at the transition date, and for the year ended March 31, 2012 are shown in the table below:

	As at April 1, 2011	Year ended March 31, 2012
<b>Differences from amounts reported under previous GAAP:</b>		
<b>Derecognition at transition:</b>		
Current regulatory assets decrease	(3,703)	(3,703)
Long-term regulatory liabilities decrease	1,558	1,558
Retained earnings (decrease) – beginning of period	(2,145)	(2,145)
<b>Effect of derecognition on net earnings for the period:</b>		
Vehicle and passenger fares increase	–	14,487
Ferry service fees increase	–	3,302
Operations expense – fuel expense (increase)	–	(19,487)
Administration expense – contracted services (increase)	–	(94)
Amortization expense decrease	–	4,775
Finance expense decrease	–	40
Net earnings increase	–	3,023
Retained earnings (decrease) increase – end of period	(2,145)	878

**(f) Research and training costs:**

The Group previously capitalized research and training costs that were directly attributable to assets where these costs were included within the Group's rate-regulated asset base.

Under IAS 16 - *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*, research and training costs do not qualify for capitalization.

The impact of expensing research and training costs for the year ended March 31, 2012 is shown in the table below:

	Year ended March 31, 2012
<b>Differences from amounts reported under previous GAAP:</b>	
Property, plant and equipment (decrease)	(574)
Intangible assets (decrease)	(158)
Decrease in non-current assets	(732)
<b>Operating expenses increase:</b>	
Operations expense – Salaries, wages, benefits and consulting	(594)
Administration expense – contracted services	(130)
Total operating expenses increase	(724)
Finance expenses increase	(8)
Retained earnings (decrease)	(732)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(g) Major overhauls and inspections:**

IAS 16, *Property, Plant and Equipment*, requires each item of property, plant and equipment with a significant cost in relation to the total cost and a different useful life to be depreciated separately. The Group incurs significant costs for periodic inspection and maintenance performed on its vessels at predetermined time intervals to maintain the integrity and efficiency of the vessel and its major components. IFRS requires the costs of these activities that restore the service potential of the vessel's hull, propulsion system and generators to be separately capitalized and depreciated over the period until the next inspection and/or overhaul. Under previous GAAP these costs have been expensed as incurred. Timing of inspection and major overhauls vary by class of vessel and are done on a periodic basis every two to five years. At transition, the Group quantified these inspection and major overhaul costs for each vessel and reclassified the carrying value to be depreciated over the lesser of the period to the next scheduled inspection and major overhaul or the remaining useful life of the vessel. There is no change to the cost of maintenance activities and no overall impact to earnings over the life of the vessel, only a timing difference in expense recognition. The impact of capitalizing major overhauls and inspections for the year ended March 31, 2012 is shown in the table below on the assumption that the Group prepared consolidated statements under previous GAAP:

	Year ended March 31, 2012
<b>Differences from amounts reported under previous GAAP:</b>	
Property, plant and equipment:	
Major overhauls and inspections capitalized	20,363
Less: Depreciation expense for the year	(15,353)
Property, plant and equipment increase	5,010
Maintenance expense decrease	20,361
Loss on disposal	2
Depreciation expense (increase)	(15,353)
Retained earnings increase	5,010

**(h) Non-controlling interest:**

Under IFRS, non-controlling interest of \$6,038 thousand is presented as an allocation of the net loss for the period in the consolidated statement of comprehensive income for the year ended March 31, 2012. Non-controlling interest of \$75,477 thousand at April 1, 2011 and \$75,477 thousand at March 31, 2012 are classified as equity in the consolidated statement of financial position, but are presented separately from the equity attributable to equity holders. Under previous GAAP, non-controlling interests in consolidated profit or loss were presented as an expense in arriving at consolidated net earnings (loss) in the consolidated statement of comprehensive income (loss). Non-controlling interest in the consolidated statement of financial position was previously classified between total liabilities and equity.

**Financial statement presentation changes:**

IAS 1, *Financial Statements*, requires an entity to present provisions separately on the face of the consolidated statement of financial position. Accordingly, the following reclassifications were made at the transition date, and March 31, 2012:

	As at	
	April 1, 2011	March 31, 2012
<b>Differences from amounts reported under previous GAAP:</b>		
Accounts payable and accrued liabilities decrease	1,377	1,277
Accrued employee costs decrease	45,411	45,745
Provisions increase	46,788	47,022

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Reconciliations of previous GAAP to IFRS for comparative periods:

IFRS 1 requires an entity to provide a reconciliation of equity, comprehensive income and cash flows for all comparative periods presented.

Interest paid is now reported within the statement of cash flows, whereas it was previously disclosed as supplementary information. There are no other material differences between the statement of cash flows reported under previous GAAP to the statement of cash flows reported under IFRS.

A reconciliation from previous GAAP to IFRS equity as at April 1, 2011 and March 31, 2012 is provided below with reference to the changes described above:

### Reconciliation of equity:

	Note	April 1, 2011	As at March 31, 2012
<b>Previous GAAP equity</b>		233,222	235,710
IFRS adjustments to equity:			
Employee benefits	a	(3,552)	(3,335)
Fair value of land	c	12,187	14,364
Derecognition of regulatory assets/liabilities	e	(2,145)	878
Research and training	f	–	(732)
Major overhauls and inspections	g	–	5,010
Non-controlling interest	h	75,477	75,477
<b>Total IFRS adjustments to equity</b>		<b>81,967</b>	<b>91,662</b>
<b>IFRS equity</b>		<b>315,189</b>	<b>327,372</b>

Reconciliation of previous GAAP to IFRS comprehensive income for the year ended March 31, 2012 is provided below with reference to the changes described above:

### Reconciliation of comprehensive (loss) income:

	Note	Year ended March 31, 2012
<b>Previous GAAP comprehensive (loss) income</b>		(22,512)
Employee benefits	a	217
Derecognition of regulatory assets/liabilities	e	3,023
Research and training costs	f	(732)
Major overhauls and inspections	g	5,010
Non-controlling interest	h	6,038
<b>Total IFRS adjustments to net earnings</b>		<b>13,556</b>
Net (loss) earnings		(8,956)
Other comprehensive income:		
Revaluation increase of land assets	c	2,177
<b>IFRS comprehensive (loss) income</b>		<b>(6,779)</b>

## B.C. Ferry Authority

### BOARD OF DIRECTORS

*(April 1, 2012 – March 31, 2013)*

Jane L. Peverett

Bohdan I. Bodnar

Christopher M. Causton *[effective July 5, 2012]*

Roderick D. Dewar

Robin W. Kenyon *[effective July 5, 2012]*

Randolph K. Morriss

A. Daniel Miller

John Radosevic

Stephen E. Smith

### OFFICERS

*(April 1, 2012 – March 31, 2013)*

Jane L. Peverett

*Chair*

Cynthia M. Lukaitis

*Vice President & Corporate Secretary*

