Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2024 and 2023

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of British Columbia Ferry Services Inc.

Opinion

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

- the consolidated statements of financial position as at March 31, 2024 and March 31, 2023
- the consolidated statements of loss and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2024 and March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

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

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

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditor's report thereon, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
June 13, 2024

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	As at	
		March 31, 2024	March 31, 2023
Assets			
Current assets			
Cash and cash equivalents	3	**31,906**	87,122
Restricted short-term investments	11(b),(e)	**107,743**	32,858
Other short-term investments		**338,995**	340,821
Trade and other receivables	16(a)	**29,501**	24,411
Prepaid expenses		**17,046**	16,926
Inventories	4	**42,858**	45,182
Derivative assets	16(c)	**441**	19,161
		568,490	566,481
Non-current assets			
Loan receivable	13	**24,515**	24,515
Property, plant and equipment	5	**1,987,881**	1,838,006
Intangible assets	6	**46,610**	62,824
Derivative assets	16(c)	**197**	-
		2,059,203	1,925,345
Total assets		**2,627,693**	2,491,826
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	**223,572**	166,305
Provisions	8	**1,152**	3,441
Lease liabilities	9,13	**3,298**	3,192
Contract liabilities	10	**44,905**	52,367
Long-term debt	9,11	**11,009**	10,944
Interest payable on long-term debt	9	**21,320**	21,311
Accrued employee future benefits	12(d)	**2,500**	2,500
Deferred grants and other liabilities	14	**5,419**	1,576
Derivative liabilities	16(c)	**1**	3
		313,176	261,639
Non-current liabilities			
Provisions	8	**71,181**	-
Lease liabilities	9,13	**32,623**	35,892
Long-term debt	9,11	**1,432,628**	1,395,819
Accrued employee future benefits	12(d)	**20,018**	16,964
Deferred grants and other liabilities	14	**42,826**	21,656
		1,599,276	1,470,331
Total liabilities		**1,912,452**	1,731,970
Equity			
Share capital	19	**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**545,473**	582,896
Total equity before reserves		**645,951**	683,374
Reserves	21	**69,290**	76,482
Total equity including reserves		**715,241**	759,856
Total liabilities and equity		**2,627,693**	2,491,826

Commitments (Notes 5 & 17)

Contingencies (Note 18)

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Loss and Other Comprehensive Income

(Expressed in thousands of Canadian dollars)

		Years ended March 31	
	Note	**2024**	2023
Revenue			
Vehicle and passenger fares		**722,150**	684,388
Net retail	22	**70,104**	63,654
Fuel surcharges	29	**28,588**	18,133
Other income		**31,209**	22,004
Revenue from customers		**852,051**	788,179
Safe Restart Funding	23	**9,000**	8,000
Ferry service fees	27	**214,212**	213,317
Federal-Provincial Subsidy Agreement	28	**35,638**	33,344
Total revenue		**1,110,901**	1,042,840
Expenses	24		
Operations		**717,356**	647,352
Maintenance		**129,718**	115,388
Administration		**54,048**	47,418
Depreciation and amortization		**187,071**	181,375
Total operating expenses		**1,088,193**	991,533
Operating profit		**22,708**	51,307
Net finance and other expenses	25		
Finance expenses		**67,616**	67,836
Finance income		**(28,615)**	(16,498)
Net finance expense		**39,001**	51,338
Net loss on disposal and impairment of property, plant and equipment and intangible assets and other charges	5,6	**15,092**	1,811
Total net finance and other expenses		**54,093**	53,149
NET LOSS		**(31,385)**	(1,842)
Other comprehensive income	21		
Items that are or may be reclassified subsequently to net loss:			
Hedge gains on fuel swaps		**7,215**	18,155
Items not to be reclassified to net loss:			
Net gains on revaluation of land		**14,076**	20,780
Actuarial (losses) gains on post-employment benefit obligations		**(2,993)**	1,091
Total other comprehensive income		**18,298**	40,026
Total comprehensive (loss) income		**(13,087)**	38,184

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2024	2023
Operating activities		
Net loss	**(31,385)**	(1,842)
Items not affecting cash:		
Net finance expense	**39,001**	51,338
Depreciation and amortization	**187,071**	181,375
Net loss on disposal and impairment of property, plant and equipment and intangible assets and other charges	**15,092**	1,811
Other non-cash changes to property, plant and equipment	**(2,733)**	(952)
Employee future benefits	**61**	(957)
Derivatives recognized in net loss	**(1)**	(77)
Provisions	**(89)**	(1,764)
Deferred grants and other liabilities	**(372)**	-
Accrued investment income	**3,643**	7,970
Total non-cash items	**241,673**	238,744
Movements in operating working capital:		
Trade and other receivables	**(5,090)**	(6,618)
Prepaid expenses	**(120)**	(4,143)
Inventories	**2,324**	(7,669)
Accounts payable and accrued liabilities	**57,267**	27,201
Contract liabilities	**(7,462)**	(2,752)
Change in non-cash working capital	**46,919**	6,019
Change in non-cash working capital attributable to investing activities	**(6,572)**	(10,392)
Change in non-cash operating working capital	**40,347**	(4,373)
Cash generated from operating activities before interest	**250,635**	232,529
Interest received	**24,954**	8,567
Interest paid	**(67,526)**	(67,707)
Cash generated from operating activities	**208,063**	173,389

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2024	2023
Financing activities		
Repayment of long-term debt	**(11,283)**	(11,282)
Repayment of lease liabilities	**(3,290)**	(3,034)
Dividends paid on preferred shares	**(6,038)**	(6,038)
Proceeds from bond issuance	**75,000**	-
Cash from (used in) financing activities	**54,389**	(20,354)
Investing activities		
Disposal of property, plant and equipment	**131**	(218)
Purchase of property, plant and equipment and intangible assets	**(244,740)**	(98,513)
(Net purchase) redemption of restricted short-term investments	**(74,885)**	120
Redemption (net purchase) of other short-term investments	**1,826**	(171,748)
Cash used in investing activities	**(317,668)**	(270,359)
Net decrease in cash and cash equivalents	**(55,216)**	(117,324)
Cash and cash equivalents, beginning of year	**87,122**	204,446
Cash and cash equivalents, end of year	**31,906**	87,122

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 21)	Total equity including reserves
Balance as at April 1, 2022	75,478	25,000	590,776	691,254	81,060	772,314
Net loss	-	-	(1,842)	(1,842)	-	(1,842)
Other comprehensive income	-	-	-	-	40,026	40,026
Realized hedge gains recognized in fuel swaps	-	-	-	-	(44,852)	(44,852)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2023	75,478	25,000	582,896	683,374	76,482	759,856
Net loss	**-**	**-**	**(31,385)**	**(31,385)**	**-**	**(31,385)**
Other comprehensive income	**-**	**-**	**-**	**-**	**18,298**	**18,298**
Realized hedge gains recognized in fuel swaps	**-**	**-**	**-**	**-**	**(25,737)**	**(25,737)**
Hedge losses on interest rate forward contract reclassified to net loss	**-**	**-**	**-**	**-**	**247**	**247**
Preferred share dividends	**-**	**-**	**(6,038)**	**(6,038)**	**-**	**(6,038)**
Balance as at March 31, 2024	**75,478**	**25,000**	**545,473**	**645,951**	**69,290**	**715,241**

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

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

Historically, the Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months.

1. Material Accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada. These consolidated financial statements, as at and for the years ended March 31, 2024 and 2023, comprise the Company and its wholly-owned subsidiaries, Pacific Marine Leasing Inc. and BCF Captive Insurance Company Ltd. ("BCF Captive") (together referred to as the "Group"). BCF Captive was voluntarily dissolved on October 1, 2022.

(b) Basis of preparation:

These consolidated financial statements represent the annual statements of the Group prepared in accordance with IFRS Accounting Standards ("IFRS"), and its interpretations, as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are based on accounting policies as described below. These policies have been consistently applied to all the periods presented, except as otherwise stated.

These consolidated financial statements have been prepared using the historical cost method, except for certain items that IFRS permits to be measured at fair value - owned land, head office land under lease and certain financial assets and liabilities, including derivatives.

These consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in CAD and rounded to the nearest thousand, unless otherwise stated.

These consolidated financial statements were approved by the Board of Directors on June 13, 2024.

1. Accounting policies (continued):

(b) Basis of preparation (continued):

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

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

(c) 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 primary business activities of Pacific Marine Leasing Inc. are the leasing of capital assets to the Group and lending to the developer of a downtown Victoria, BC office building.

The primary business activities of BCF Captive were insurance and risk-mitigation services provided for the Group until dissolution on October 1, 2022. The Group continues its risk-mitigation activities after the dissolution.

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

(d) Estimates and judgments:

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

1. Accounting policies (continued):

(d) Estimates and judgments (continued):

Significant judgments and estimates relate to:

- Property, plant and equipment and intangible assets

The calculation of depreciation and amortization involves estimates concerning the economic life, decommissioning and restoration costs and salvage value of property, plant and equipment and intangible assets. The Group applies judgment to determine expenditures eligible for capitalization and considers the future economic benefits of these expenditures in making this assessment. At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is indication of impairment. If such indication exists, then the Group applies judgment to estimate the asset's recoverable amount.

- Leases

The Group applies judgment to determine whether an arrangement contains a lease. The evaluation requires the Group to determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease.

- Provisions and contingencies

Recognition and measurement of provisions and contingencies, including asset decommissioning (Note 1 (i)) and restoration costs, is based on key assumptions about the likelihood and magnitude of an outflow of resources.

- Employee future benefits

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

- Derivative assets and liabilities

Fair values for the derivative assets and liabilities are estimated using period-end market rates. These fair values approximate the amount that the Group would pay to settle the contract at the date of the statement of financial position. The calculation of the effectiveness of instruments that have been designated for hedge accounting is based on key estimates for the market price, rate of interest and volatility and the credit risk of the instruments.

1. Accounting policies (continued):

(e) Hedging relationships:

At the inception of a material hedging relationship, the Group must set out formal documentation describing the relationship between hedging instrument and hedged items, as well as the Group's risk management objective and its strategy for undertaking the hedge, as well as the methods for assessing the effectiveness of the hedging relationship.

The Group performs an assessment at the inception of the hedging relationship and on an ongoing basis to determine the hedging instrument's expected effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows during the entire period for which the hedge is designated.

Fair value hedges

The Group uses forward exchange contracts to manage the currency risk to which certain items in the statement of financial position are exposed. When a derivative is designated as a hedging item in a fair value hedge, the gain or loss on the hedging instrument is recognized in net earnings or loss. The hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognized in net earnings or loss.

Cash flow hedges

The Group designates ultra-low sulfur diesel ("ULSD") fuel swaps as cash flow hedges of forecast diesel fuel purchases. In addition, the Group designates forward foreign exchange contracts as cash flow hedges of forecast sales or purchases in foreign currencies. When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognized in other comprehensive income or loss ("OCI") and accumulated in the cash flow hedge reserve in equity. The effective portion of the changes in the derivative's fair value recognized in OCI is limited to the present value of the cumulative change in the hedged expected cash flows from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings or loss. The accumulated amount in the cash flow hedge reserve is reclassified from equity to net earnings or loss in the same period during which the hedged cash flows affect net earnings or loss.

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

When the hedging instrument ceases to qualify for hedge accounting, expires, or is sold, terminated or exercised, the Group discontinues hedge accounting prospectively. The amount accumulated in the cash flow hedge reserve in equity remains in equity until the forecast transaction affects net earnings or loss. If the forecast is no longer expected to occur, the balance in the cash flow hedge reserve in equity is recognized immediately in net earnings or loss.

(f) Property, plant and equipment including right-of-use assets (Note 1(h)):

Property, plant and equipment, excluding specific land assets, are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes all costs directly attributable to the acquisition such as direct overhead, financing costs and the initial and subsequent estimate of decommissioning and restoration provisions.

1. Accounting policies (continued):

(f) Property, plant and equipment including right-of-use assets (Note 1(h)) (continued):

Specific land assets include owned land and head office land under lease which are carried at fair value using the annual assessed values for property tax purposes as being representative of the fair values of these assets. Fair value increases of land assets are recognized in OCI except to the extent that such an increase represents a reversal of an amount previously recognized in net earnings or loss. Fair value decreases are recognized in net earnings or loss to the extent that the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

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

The cost of self-constructed assets includes expenditures on materials, direct labour, eligible financing costs and an allocated proportion of project direct overheads. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from disposal and the carrying amount of the asset less cost to sell and is recognized in net earnings or loss.

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

The initial present value of the cost of vessel decommissioning and restoration is capitalized and depreciated over the remaining useful lives of vessel hulls.

Where major components of an asset have different estimated useful lives, depreciation is calculated on each separate component. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

Property, plant and equipment, including right-of-use assets, are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

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

1. Accounting policies (continued):

(g) Intangible assets:

Intangible assets consist of acquired computer software and licenses, internally generated computer software and website and other intangibles. These assets are carried at cost including direct overhead and eligible financing costs, less accumulated amortization and any recognized impairment loss.

Development costs are recognized as intangible assets if it is probable that the asset created will generate future economic benefits, the expenditure attributable to the intangible asset during development can be reliably measured, the product is technically feasible and the Group intends to, and has sufficient resources to, complete development and use the asset. Website costs are capitalized where the expenditure is incurred on developing an income generating website. Software and website costs capitalized include materials, direct labour and financing costs. Subsequent expenditure is capitalized only if the estimated useful life is extended by more than one year or there is new functionality that will be used. Costs associated with maintaining computer software are expensed in the period incurred.

Intangible software, licenses and website assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives (2 to 7 years) since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Other intangible assets are amortized on a straight-line basis over their estimated useful lives of 10 to 30 years. Amortization commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

(h) Leases:

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

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

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

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

1. Accounting policies (continued):

(h) Leases (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

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

(i) Financing costs:

The Group capitalizes financing costs that are directly attributable to the acquisition, construction or production of qualifying assets, as a part of the cost of those assets, until such time as the assets are substantially available for their intended use.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, it determines the amount of financing costs eligible for capitalization as the actual financing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of financing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the financing costs applicable to the Group's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets.

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

(j) Inventories:

Inventories, including compliance units that the Group receives under the British Columbia Low Carbon Fuel Standard ("Carbon Credits"), are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Fuel inventories are accounted for using the first-in, first-out principle. The cost of fuel inventories includes gains or losses on the settlement of fuel swap contracts. All other inventories are accounted for using the weighted average cost method. The cost of inventories includes expenditures incurred in acquiring the inventories and other direct costs incurred in bringing the inventories to their present location and condition.

1. Accounting policies (continued):

(k) Impairment of non-financial assets:

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

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

During the year, the Group may also identify specific assets which are obsolete or no longer expected to be recovered. In these instances, management recognizes an impairment in net earnings or loss related to these specific assets.

Impairment losses are evaluated for potential reversals when events or changes warrant such consideration. Impairment reversals are recognized immediately in net earnings or loss when the recoverable amount of an asset increases above the impaired net book value, not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

(l) Asset decommissioning and restoration provisions:

In the period when it can be reasonably determined, provisions are recognized by the Group when there are legal or constructive obligations associated with the decommissioning and restoration of long-lived assets when those obligations result from the acquisition, construction, development or normal operation of the asset. A corresponding asset decommissioning provision is added to the carrying amount of the related asset and amortized to expense on a systematic and rational basis when the criteria to recognize a provision are met as stated in Note 1 (n). Provisions for decommissioning and restoration obligations are measured at the present value of Group's best estimate of the future cash flows required to settle the present obligation, using the risk-free interest rate.

The Group's long-lived assets include certain vessels which contain undetermined amounts of asbestos and other hazardous materials. The Group handles and disposes of the asbestos and other hazardous materials in a manner required by regulations. Where possible the Group will sell decommissioned vessels into the secondary markets to a responsible buyer. Under these circumstances the condition of the vessel, including the presence of any hazardous material such as asbestos, will be fully disclosed and remediation and any eventual retirement obligation would become the responsibility of the new owner.

It is possible that the Group's estimates of its ultimate decommissioning and restoration obligations could change as a result of changes in future events including but not limited to changes in regulations, discount rates, inflation rates, commodity prices, technological advancements, the extent of environmental remediation required, changes in the means, method, location or timing of reclamation or changes in cost estimates.

The unwinding of the discount is recognized in Finance expenses with actual expenditures to settle the obligation charged against the associated provision. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows are recognized as a change in the decommissioning or restoration provision and related asset.

1. Accounting policies (continued):

(m) Financial assets and liabilities:

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

Financial liabilities include accounts payable and accrued liabilities, provisions, lease liabilities, long-term debt, interest payable on long-term debt, other liabilities and derivatives with a negative market value.

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

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

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

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

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

(ii) Provision for impairment

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

(iii) Loan receivable

The Group's loan receivable is initially recognized at fair value plus directly attributable transaction costs. Subsequently, it is measured at amortized cost using the effective interest rate method, less any recognized impairment loss. The loan receivable is subject to recoverable value tests, carried out at each reporting date and whenever there are objective indicators that the recoverable value of the loan receivable would be lower than the carrying value.

1. Accounting policies (continued):

(m) Financial assets and liabilities (continued):

(iv) Trade and other receivables

Trade and other receivables are initially recognized at fair value (in most cases the same as notional value) less provision for impairment. Subsequently, trade and other receivables are measured at amortized cost. As receivables are due in less than one year, they are not discounted. The provision established against trade and other receivables represents lifetime ECL and is updated at each reporting date. Any change in the provision is recognized in net earnings or loss. When a trade receivable is uncollectible, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are recognized in net earnings or loss.

(v) Cash and cash equivalents and short-term investments

Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of three months or less. Cash equivalents are short-term investments with an initial maturity term of three months or less. Short-term investments have initial maturities of more than three months and less than 12 months. Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value. Cash equivalents and short-term investments are held at amortized cost with the exception of cash equivalents invested in pooled funds which are recognized at fair value through profit or loss.

(vi) Borrowings and other financial liabilities

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

(vii) Derivatives

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

1. Accounting policies (continued):

(m) Financial assets and liabilities (continued):

(viii) Fair value hierarchy

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

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

(n) Provisions:

A provision is recognized when:

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

The amount of the provision is the best estimate of the outflow of resources required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense.

(o) Employee benefits:

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

The Group participates in multi-employer defined benefit pension and long-term disability plans and accounts for the plans using defined contribution plan accounting. These plans are administered by external parties and the Group does not have sufficient information to apply defined benefit plan accounting. The Group’s contributions are recognized as benefit expense when they are due.

The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected unit credit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). Under the projected unit credit method, the cost of these benefits is expensed over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans on a regularly scheduled basis, using actuarial techniques to measure the obligation with sufficient reliability.

1. Accounting policies (continued):

(o) Employee benefits (continued):

The defined benefit obligation is measured at the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the defined benefit obligation.

The Group funds the retirement benefit plan on a cash basis as benefits are paid. No assets have been segregated and restricted to provide the benefit. Actuarial gains (losses) arise from change in the present value of the defined benefit obligation resulting from the difference between the actual experience and previous actuarial assumptions and the effects of changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are recognized immediately in OCI and are not reclassified to net earnings or loss in subsequent periods.

Current service costs and net interest costs on the defined benefit obligation are recognized as benefit expense in net earnings or loss.

Past service costs on change in the defined benefit obligation resulting from a plan amendment or curtailment are recognized as expense in the period the amendments or curtailment occurs. Gains or losses on settlements are recognized when the settlement occurs.

(p) Debt transaction costs:

Legal and financing costs incurred for arranging long-term debt are capitalized. Once the debt is issued these costs are reclassified from deferred costs and recognized as an offset to the related long-term debt. These costs are subsequently amortized to net earnings or loss using the effective interest rate method.

(q) Revenues:

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

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

Other income comprises of sales of Carbon Credits, parking and other miscellaneous revenues. Revenue from the sale of Carbon Credits is recognized when the award of the credits to the Group and the transfer of the credits from the Group to the customer are approved by the Ministry of Energy Mines and Low Carbon Innovation. Parking revenues are received from both owned and subcontracted parking facilities and are recognized when service is provided.

Safe Restart Funding revenue is recognized in accordance with the Safe Restart Funding Agreement with the provincial government of British Columbia ("the Province").

1. Accounting policies (continued):

(q) Revenues (continued):

Ferry service fees and federal-provincial subsidies are recognized as revenue as services are provided as specified in the related agreements with the Province.

(r) Government funding for property, plant and equipment and expenses:

Government funding is recognized when it is reasonably certain that the conditions attached to the funding have been met and the funding will be received.

Government funding related to an item of property plant and equipment is netted from the carrying amount of the related item of property plant and equipment and depreciated in profit or loss over the useful life of the related asset.

Government funding that compensates the Group for expenses incurred are recognized in the net (loss) earnings when the expenses are incurred.

Government funding related to an item of property, plant and equipment or expense that has been received but not yet eligible to be recognized is deferred and recorded in the line Deferred grants and other liabilities on the statement of financial position.

(s) Taxes:

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

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

2. Adoption of new and amended standards:

Exposure Draft, *Regulatory Assets and Regulatory Liabilities:*

In January 2021, the IASB issued the exposure draft, *Regulatory Assets and Regulatory Liabilities*, which, if finalized as a new IFRS Standard, will replace IFRS 14, *Regulatory Deferral Accounts.* IFRS 14 addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities, such as the Group, that had already transitioned to IFRS. As a result, the Group is currently not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

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

Exposure Draft, *Regulatory Assets and Regulatory Liabilities (continued):*

The exposure draft proposes a new accounting model under which an entity, subject to rate regulation that meets the scope criteria, would recognise regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation.

The IASB closed the period to receive comments on the exposure draft at July 30, 2021, discussed the feedback in October and November 2021. In March 2024, the IASB redeliberated and continues to deliberate on the proposals.

Exposure Draft, Sustainability Standards:

In March 2024, the Canadian Sustainability Standards Board ("CSSB") published two exposure drafts for comment; Canadian Sustainability Disclosure Standards 1 General Requirements for Disclosure of Sustainability-related Financial Information ("CSDS 1") and Canadian Sustainability Disclosure Standards Climate-related Disclosures ("CSDS 2"). Exposure drafts CSDS 1 and CSDS 2 are aligned with the global baseline disclosure standards IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures with the exception of a Canadian-specific effective date and transition relief to assist Canadian organizations with implementation. The CSSB has a proposed effective date for annual periods beginning on or after January 1, 2025, however, Canada's regulators and legislators will determine whether the Canadian Sustainability Disclosure Standards are mandatory, and if so, who will need to apply the standards and over what time frame. The CSSB is now soliciting feedback on the proposed CSDS 1 and CSDS 2 until June 10, 2024.

IFRS 18, *Presentation and Disclosure in Financial Statements:*

In April 2024, the IASB issued IFRS 18, Presentation and Disclosure in Financial Statements, which will replace IAS 1, Presentation of Financial Statements, effective for periods after January 1, 2027. The new standard is not expected to change how the Group recognizes and measures items in the financial statements. IFRS 18 may change how items in the financial statements are subtotalled and categorized. Additionally, it will require additional disclosure of certain management-defined performance measures in the Group's financial statement notes.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Cash and cash equivalents:

	As at March 31	
	2024	2023
Cash	**31,906**	87,115
Cash equivalents:		
Investments valued at fair value through profit or loss	**-**	7
Total	**31,906**	87,122

4. Inventories:

	As at March 31	
	2024	2023
Consumable parts and supplies	**33,694**	34,167
Provision for obsolescence	**(2,700)**	(2,400)
Net consumable parts and supplies	**30,994**	31,767
Retail inventories	**5,330**	6,455
Fuel inventories	**6,534**	6,960
Total	**42,858**	45,182

As at March 31, 2024 the Group held 3,500 of Carbon Credits in inventory at $nil (March 31, 2023: no Carbon Credits held in inventory) received from the British Columbia Low Carbon Fuel Standard.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Property, plant and equipment:

	Vessels	Berths, buildings and equipment	Right-of-use assets – Berths, buildings and equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:							
Balance as at April 1, 2022	1,993,030	710,698	175,358	45,806	52,479	121,854	3,099,225
Additions	(1,372)	-	6,109	258	-	120,179	125,174
Revaluation	-	-	-	-	20,636	-	20,636
Reclassification to: assets held for sale	(11,065)	-	-	-	-	-	(11,065)
Disposals and impairments	(29,804)	(343)	(777)	-	-	(114)	(31,038)
Transfers from construction in progress	139,454	33,620	-	-	777	(173,851)	-
Balance as at March 31, 2023	2,090,243	743,975	180,690	46,064	73,892	68,068	3,202,932
Additions	**67,631**[1]	**-**	**9**	**1,325**	**-**	**245,967**	**314,932**
Revaluation	**-**	**-**	**-**	**1,290**	**12,803**	**-**	**14,093**
Reclassification from: assets held for sale	**32,695**	**-**	**-**	**-**	**-**	**-**	**32,695**
Disposals, impairments and other charges	**(52,793)**	**(3,327)**	**(1,231)**	**(38)**	**-**	**(1,842)**	**(59,231)**
Transfers from construction in progress	**102,564**	**58,836**	**-**	**-**		**(161,400)**	**-**
Balance as at March 31, 2024	**2,240,340**	**799,484**	**179,468**	**48,641**	**86,695**	**150,793**	**3,505,421**
Accumulated depreciation:							
Balance as at April 1, 2022	857,391	301,139	87,458	2,263	-	-	1,248,251
Depreciation	115,752	35,555	6,255	592	-	-	158,154
Reclassification to: assets held for sale	(11,065)	-	-	-	-	-	(11,065)
Disposals and impairments	(29,804)	(338)	(272)	-	-	-	(30,414)
Balance as at March 31, 2023	932,274	336,356	93,441	2,855	-	-	1,364,926
Depreciation	**118,699**	**38,245**	**6,051**	**705**	**-**	**-**	**163,700**
Reclassification from: assets held for sale	**32,695**	**-**	**-**	**-**	**-**	**-**	**32,695**
Disposals, impairments and other charges	**(40,389)**	**(3,295)**	**(59)**	**(38)**	**-**	**-**	**(43,781)**
Balance as at March 31, 2024	**1,043,279**	**371,306**	**99,433**	**3,522**	**-**	**-**	**1,517,540**
Net carrying value:							
As at March 31, 2023	1,157,969	407,619	87,249	43,209	73,892	68,068	1,838,006
As at March 31, 2024	**1,197,061**	**428,178**	**80,035**	**45,119**	**86,695**	**150,793**	**1,987,881**

[1] Includes $69.0 million of vessel decommissioning and restoration cost additions (Note 8) and ($1.4 million) of reclassifications from Deferred grants and other liabilities (Note 14)

5. Property, plant and equipment (continued):

During the year ended March 31, 2024, financing costs capitalized during construction of qualifying assets amounted to $0.9 million (March 31, 2023: $0.8 million) with an average capitalization rate of 3.20% (March 31, 2023: 4.31%).

As at March 31, 2024, contractual commitments for assets to be constructed totalled $349.3 million (March 31, 2023: $67.9 million). The majority of these contractual commitments relate to acquiring four more Island Class vessels and the redevelopment of the Fleet Maintenance Unit.

The Group recognized property, plant and equipment impairments and other charges of $14.2 million (March 31, 2023: $0.1 million) representing $11.5 million (March 31, 2023: $nil) in other charges from asset decommissioning and restoration costs added to retired vessels and $ 2.7 million (March 31, 2023: $0.1 million) of impairments due to certain individual property, plant and equipment assets, or parts thereof, no longer being expected to be recovered. The impairment loss is reported under "Net loss on disposal and impairment of property, plant and equipment and intangible assets and other charges" in the consolidated statements of loss and other comprehensive income for the years ended March 31, 2024 and 2023.

On September 30, 2023, the Group received approval under the Province's CleanBC Go Electric Commercial Vehicle Pilots Program to receive up to $15.1 million in funding. This funding is solely for costs incurred to electrify two Island Class vessels and the terminals serving the Campbell River to Quadra Island route. During the year ended March 31, 2024, the Group recognized $0.1 million (March 31, 2023: $nil) as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2024, the Group recognized $2.2 million (March 31, 2023: $1.4 million) as a reduction of the cost of property, plant and equipment from other Electrification funding and liquefied natural gas ("LNG") funding (Note 14).

During the year ended March 31, 2024, the Group received $1.1 million (March 31, 2023: $1.2 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $5.8 million, respectively, as at March 31, 2024 (March 31, 2023: cost of $11.9 million and accumulated depreciation of $5.3 million).

The *Powell River Queen*, the *Bowen Queen* and the *Queen of Burnaby* were held for sale and retired from active service as of March 31, 2023 with no carrying value. As at March 31, 2024 these vessels remain retired from active service with no carrying value and are no longer classified as held for sale as these vessels are no longer expected to be sold within 12 months.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at April 1, 2022	147,163	44,771	17,637	209,571
Additions	-	-	6,179	6,179
Disposals and impairments	(198)	-	(946)	(1,144)
Transfers from assets under development	15,077	4,271	(19,348)	-
Balance as at March 31, 2023	162,042	49,042	3,522	214,606
Additions	**-**	**-**	**8,128**	**8,128**
Disposals and impairments	**-**	**-**	**(971)**	**(971)**
Transfers from assets under development	**4,002**	**437**	**(4,439)**	**-**
Balance as at March 31, 2024	**166,044**	**49,479**	**6,240**	**221,763**
Accumulated amortization:				
Balance as at April 1, 2022	105,676	22,951	-	128,627
Amortization	16,353	6,868	-	23,221
Disposals and impairments	(66)	-	-	(66)
Balance as at March 31, 2023	121,963	29,819	-	151,782
Amortization	**15,844**	**7,527**	**-**	**23,371**
Balance as at March 31, 2024	**137,807**	**37,346**	**-**	**175,153**
Net carrying value:				
As at March 31, 2023	40,079	19,223	3,522	62,824
As at March 31, 2024	**28,237**	**12,133**	**6,240**	**46,610**

6. Intangible assets (continued):

The Group's intangible assets under development, and not yet subject to amortization, are tested for impairment at the end of each reporting period or when there is an indication of impairment. The impairment test is based on a value in use model and is completed for the business as a whole, as it has been identified as a single cash generating unit ("CGU").

In testing for impairment the Group uses management's experience and future expectations for business performance to determine the recoverable amount of the CGU by assessing future cash flows, discounted using an appropriate rate reflecting the time value of money and risks specific to the CGU.

During the year ended March 31, 2024, the Group recognized asset impairments of $1.0 million (March 31, 2023: $1.1 million) in respect to certain individual obsolete or no longer expected to be recovered intangible assets.

During the year ended March 31, 2024, additions of intangible assets under development totalled $8.1 million (March 31, 2023: $6.2 million) of which $6.0 million (March 31, 2023: $3.9 million) were acquired and $2.1 million (March 31, 2023: $2.3 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Accounts payable and accrued liabilities:

	As at March 31	
	2024	2023
Trades payable and accrued liabilities	**91,304**	74,094
Wages payable	**132,268**	92,211
Total	**223,572**	166,305

Wages payable consists of contractual liabilities to employees for deferred or accrued compensation. Liabilities for deferred compensation amounts are generally settled through either payment or provision of paid time off.

8. Provisions:

	Asset decommissioning and restoration	Claims payable and other	Total
Balance as at April 1, 2022	2,200	3,005	5,205
Net change in provisions during the year	-	(888)	(888)
Provisions settled during the year	-	(876)	(876)
Balance as at March 31, 2023	2,200	1,241	3,441
Net change in provisions during the year	**68,981**	**591**	**69,572**
Provisions settled during the year	-	**(680)**	**(680)**
Balance as at March 31, 2024	**71,181**	**1,152**	**72,333**
Current	**-**	**1,152**	**1,152**
Non-current	**71,181**	**-**	**71,181**
Balance as at March 31, 2024	**71,181**	**1,152**	**72,333**

(a) Asset decommissioning and restoration:

The group maintains asset decommissioning and restoration provisions for probable and measurable legal and constructive present obligations for the disposal of its vessels.

The amount of asset decommissioning and restoration provisions recognized was determined based on the net present value of future expenditures required to fund the decommissioning and restoration of the Group's assets. The obligation is estimated using current estimated costs to settle the obligations inflated to the dates that the obligations are expected to be settled and discounted to current present value using a risk-free rate.

The key assumptions used to value the asset decommissioning and restoration provisions are as follows:

	2024
Total undiscounted future cash flows	**$86.2 Million**
Range of expected timing of outflows to settle obligations	**2-42 Years**
Inflation rate	**2.0%**
Discount rate	**3.5%**

(Tabular amounts expressed in thousands of Canadian dollars)

8. Provisions (continued):

(b) Claims payable and other:

Claims payable and represent provisions for settlement amounts payable to third parties for injuries or damage to persons or property and for legal proceedings and litigation.

9. Liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2022	1,417,279	36,275	21,385
Net additions	-	5,843	65,770
Payments	(11,282)	(3,034)	(65,844)
Amortization of deferred financing costs and bond discounts	766	-	-
Balance as at March 31, 2023	1,406,763	39,084	21,311
Net additions	**75,000**	**127**	**65,630**
Payments	**(11,283)**	**(3,290)**	**(65,621)**
Addition to bond discount	**(27,599)**	**-**	**-**
Amortization of deferred financing costs and bond discounts	**756**	**-**	**-**
Balance as at March 31, 2024	**1,443,637**	**35,921**	**21,320**
Current	**11,009**	**3,298**	**21,320**
Non-current	**1,432,628**	**32,623**	**-**
Balance as at March 31, 2024	**1,443,637**	**35,921**	**21,320**

[1] Interest expense related to lease liabilities is presented in net finance expense (Note 25).

10. Contract liabilities:

Prepayments for fares received in advance of providing transportation, other customer prepaid revenues and Safe Restart Funding are included in the statements of financial position until such time as the performance obligation is satisfied. Safe Restart Funding is a one-time contribution of $308.0 million received from the Province during the year ended March 31, 2021 and all of the funding has been recognized as of March 31, 2024. Refer to Note 23 for more information on the contribution.

During the year ended March 31, 2024, the Group recognized $40.9 million of revenue that was included in the contract liabilities balance at March 31, 2023. This amount was comprised of revenue from transportation services provided ($30.4 million), Safe Restart Funding ($10.3 million) and contracted routes ($0.2 million). During the year ended March 31, 2023, the Group recognized $38.3 million of revenue that was included in the contract liabilities balance at March 31, 2022. This amount was comprised of revenue from transportation provided ($29.0 million) and Safe Restart Funding ($9.3 million).

(Tabular amounts expressed in thousands of Canadian dollars)

11. Long-term debt:

	As at March 31	
	2024	2023
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	**250,000**	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	**250,000**	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	**200,000**	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	**200,000**	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	**200,000**	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	**250,000**	250,000
2.47% Senior Secured Bonds, Series 24-1, due March 2049 (effective interest rate of 4.66%)	**75,000**	-
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	**17,746**	21,485
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**18,850**	22,622
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**18,850**	22,622
	1,480,446	1,416,729
Less: Unamortized bond discounts and deferred financing costs	**(36,809)**	(9,966)
Total	**1,443,637**	1,406,763
Current	**11,009**	10,944
Non-current	**1,432,628**	1,395,819
Total	**1,443,637**	1,406,763

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 seven outstanding series of obligation bonds and a credit facility agreement secured by pledged bonds. In addition, the Group has three 2.09% loans outstanding with KfW IPEX-Bank GmBH ("KfW"), a German export credit bank.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Long-term debt:

(a) Bonds:

Bonds are issued under supplemental indentures either as obligation bonds or as pledged bonds. The bonds are secured by a registered first mortgage and charge over vessels, an unregistered first mortgage and charge over ferry terminal leases, and by a general security agreement on property and contracts.

The bonds are redeemable in whole or in part at the option of the Group. The following table shows the semi-annual interest payment dates for the obligation bonds each year through to maturity.

Bonds	Interest payment dates	
Series 04-4	April 13	October 13
Series 07-1	March 20	September 20
Series 08-1	January 11	July 11
Series 13-1	April 23	October 23
Series 14-1	April 28	October 28
Series 19-1	April 15	October 15
Series 24-1	September 27	March 27

(b) 2.474% Senior Secured Bonds, Series 24-1, due March 2049:

On March 27, 2024, the Group issued to Canada Infrastructure Bank ("CIB") $75.0 million of senior secured bonds to solely fund eligible project costs ("Project Costs") from the Group's Island Class Electrification Program to electrify two of the Group's ferry routes. The Series 24-1 bonds bear interest at 2.474% per annum, payable semi-annually, commencing on September 27, 2026 and will mature March 27, 2049. The net proceeds from the bonds are restricted to be used towards Project Costs. As at March 31, 2024, the amount held in restricted short term investments was $75 million (March 31, 2023 $nil). The Group recognized the bond at fair market value on the date of issuance. The difference between the net proceeds and fair market value of the bonds of $27.6 million was treated as a bond discount and deferred government funding (Note 14 (b)).

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

The Group has a loan agreement with KfW. This loan agreement is secured under the Master Trust Indenture ("MTI") and allows for three loans of up to $45.3 million each. The proceeds from the loan agreement were applied toward the purchase of the *Salish Orca*, the *Salish Eagle* and the *Salish Raven.*

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

(Tabular amounts expressed in thousands of Canadian dollars)

11. Long-term debt (continued):

(d) Credit facility (continued):

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds (the "Credit Facility"). The Credit Facility was amended and restated on April 19, 2022, to, among other things, reduce the amount of the revolving facility from $155.0 million to $105.0 million. As of March 7, 2024, the Credit Facility was extended to April 20, 2028.

There were no draws on this Credit Facility as at March 31, 2024 or March 31, 2023, and no interest expensed during the years ended March 31, 2024 and March 31, 2023. Letters of credit outstanding against this Credit Facility as at March 31, 2024 totalled $0.6 million (March 31, 2023: $0.5 million).

(e) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions.

As at March 31, 2024, debt service reserves of $32.7 million (March 31, 2023: $32.9 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(f) Covenant disclosure:

Under the MTI, an agreement which secures and governs the Group's borrowings, the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's leverage ratio exceeds 85% or if the debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.5.

As at March 31, 2024, the debt service coverage ratio was 2.90.

The Group was in compliance with all of its covenants at March 31, 2024 and March 31, 2023.

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
Long-term disability	Funded	Third Party	Multi-employer defined benefit	Defined contribution
Retirement benefit	Unfunded	Group	Defined benefit	Defined benefit
Death benefit	Unfunded	Group	Defined benefit	Defined benefit
WCB obligation	Unfunded	Third Party	Defined benefit	Defined benefit

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(a) Description of benefit plans (continued):

The Group and its employees contribute to the Public Service Pension Plan (the "Plan"). The Pension Corporation of the Province of British Columbia administers the Plan, including the payment of retirement and post-employment benefits on behalf of employers. The Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions.

A funded long-term disability multi-employer plan provides disability income benefits after employment, but before retirement.

Sufficient information is not available for either multi-employer defined benefit plan to be accounted for as a defined benefit plan.

In addition, eligible employees are entitled to other retirement and future benefits as provided for under the collective agreement and terms of employment. These are unfunded defined benefit plans administered by the Group. Retirement and death benefits are based on years of service and final average salary.

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

(b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2024, 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 were $40.4 million (March 31, 2023: $38.1 million).

(c) Multi-employer plans:

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

	2024	2023
Public Service Pension Plan contributions (i)	**34,035**	30,070
Long-term disability plan contributions (ii)	**4,190**	5,344
Total	**38,225**	35,414

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(c) Multi-employer plans (continued):

(i) The March 31, 2023 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 20, 2023. This report indicated that the pension fund had an actuarial surplus of $4.5 billion. Under the terms of the Plan's joint trust agreement, plan members and employers' share in any increase or decrease in contribution rates. The next valuation, expected to be received during the fiscal year ending March 31, 2027, will be as at March 31, 2026.

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result, the employer contribution rate was decreased from 2.36% to 1.63% of covered payroll effective April 1, 2023. The actuarial valuation as at March 31, 2023 determined the liabilities in the fund have slightly exceeded assets which has caused the rate to increase in April 1, 2024. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2025, will be as at March 31, 2024.

(d) Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent valuation of the retirement and death benefit plans was as at March 31, 2023. The next scheduled actuarial valuation for the retirement and death benefit plans, expected to be received during the fiscal year ending March 31, 2027, will be as at March 31, 2026. The most recent actuarial valuation of the WCB obligation was as at March 31, 2022. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2026, will be as at March 31, 2025.

During the year ended March 31, 2024, the Group recognized $3.0 million of actuarial losses from the recent actuarial valuation of the death and retirement benefit plan in OCI as items not to be reclassified to net loss in the future (March 31, 2023: actuarial gains of $1.1 million on WCB obligation).

	Other benefit plans	
Accrued benefit obligations	**2024**	2023
Balance, beginning of year	**19,464**	21,512
Current service cost	**1,231**	968
Interest cost	**1,013**	793
Benefits paid	**(2,183)**	(2,718)
Actuarial losses (gains)	**2,993**	(1,091)
Balance, end of year	**22,518**	19,464

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(d) Other defined benefit plans (continued):

	Other benefit plans	
Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	**2024**	2023
Accrued benefit obligation	**22,518**	19,464
Funded status of plans – deficit	**(22,518)**	(19,464)
Accrued benefit liability	**(22,518)**	(19,464)
Current portion of accrued employee future benefits	**2,500**	2,500
Non-current portion of accrued employee future benefits	**(20,018)**	(16,964)

	Other benefit plans	
Elements of defined benefit costs recognized in the year	**2024**	2023
Current service cost	**1,231**	968
Interest cost	**1,013**	793
Defined benefit costs recognized	**2,244**	1,761

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

	2024	2023
Accrued benefit obligations and benefit costs for the years ended March 31:		
Discount rate	**4.7%**	4.9%
Rate of compensation increase	**2.5%**	2.0%
Annual employee retention rate	**84.9%**	94.4%
Employees with eligible dependents at pre-retirement death	**43.0%**	43.0%
Average remaining service period of active employees (years)	**11.2**	10.2

(Tabular amounts expressed in thousands of Canadian dollars)

13. Lease liabilities:

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

The Group discounts lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease liabilities are recorded as follows:

	Lease liabilities
Less than one year	**3,298**
Between one and five years	**3,281**
More than five years	**4,827**
Purchase option	**24,515**
Total	**35,921**
Current	**3,298**
Non-current	**32,623**
Total	**35,921**

Head office lease

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

Loan and purchase option

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

(Tabular amounts expressed in thousands of Canadian dollars)

14. Deferred grants and other liabilities:

	Electrification	LNG	Total
Balance as at April 1, 2022	-	8,604	8,604
Additions	15,000	1,000	16,000
Funding recognized	-	(1,372)	(1,372)
Balance as at March 31, 2023	15,000	8,232	23,232
Additions	**27,599**	**-**	**27,599**
Funding recognized	**(1,236)**	**(1,350)**	**(2,586)**
Balance as at March 31, 2024	**41,363**	**6,882**	**48,245**
Current	**3,894**	**1,525**	**5,419**
Non-current	**37,469**	**5,357**	**42,826**
Balance as at March 31, 2024	**41,363**	**6,882**	**48,245**

Electrification funding:

(a) Provincial electrification funding:

During the year ended March 31, 2023, the Province provided funding of $15.0 million to support electrification of the Group's vessels and terminals for use prior to March 31, 2028. The funding is dependent upon the Group incurring eligible costs to electrify new and existing vessels, as well as to modify terminals that the vessels operate between.

During the year ended March 31, 2024, the Group recognized $1.2 million (March 31, 2023: $nil) of which $0.8 million (March 31, 2023: $nil) was a reduction to the cost of the property, plant and equipment and $0.4 million (March 31, 2023: $nil) was a reduction to operating expenses.

(b) CIB Island Class electrification program funding:

On March 27, 2024, the Group received $75 million of net proceeds from issuing Series 24-1 bonds to CIB, a Crown Corporation of the Federal Government of Canada (Note 11(b)). The fair market value of the bond as of issuance date is $47.4 million. The difference between the net proceeds and fair market value of the bonds of $27.6 million was classified as government funding and will be recognized as an offset to the Project Costs of the Island Class Electrification Program.

Recognizing the funding is dependent on the Group incurring Project Costs. During the years ended March 31, 2024 and March 31, 2023, the Group did not recognize any CIB island class electrification program funding as a reduction to the cost of the property, plant and equipment or in its statement of loss and other comprehensive income.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Deferred grants and other liabilities (continued):

LNG funding:

FortisBC Energy Inc. provided the Group with funding of $14.0 million as of March 31, 2023, for the construction of four LNG Salish Class vessels and for two Spirit Class vessels to be converted to LNG. The funding is part of the Natural Gas for Transportation incentive funding and recognition of the funding is dependent upon the purchase of LNG and the incremental costs of building/converting vessels to be capable of using LNG for propulsion.

As of March 31, 2024, the Group recognized $1.4 million (March 31, 2023: $1.4 million) as a reduction to the cost of the property, plant and equipment.

15. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2024 and March 31, 2023 for all financial instruments, except for long-term debt.

	As at March 31, 2024		As at March 31, 2023	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,443,637**	**1,451,934**	1,406,763	1,416,887

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

Carrying value is measured at amortized cost using the effective interest rate method. Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statements of financial position, or by using available quoted market prices.

The following items shown in the consolidated statements of financial position as at March 31, 2024 and March 31, 2023 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at March 31, 2024, or at March 31, 2023, valued using Level 3 inputs.

	As at March 31, 2024		As at March 31, 2023	
	Level 1	**Level 2**	Level 1	Level 2
Asset (liability):				
Cash [1]	**31,906**	**-**	87,115	-
Cash equivalents [1]	**-**	**-**	7	-
Derivative assets [2]	**-**	**638**	-	19,161
Derivative liabilities [2]	**-**	**(1)**	-	(3)
	31,906	**637**	87,122	19,158

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

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

15. Financial instruments (continued):

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified between levels during the year ended March 31, 2024 or March 31, 2023.

During the year ended March 31, 2024, gains or losses related to Level 2 derivatives have been recorded in OCI.

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

16. Financial risk management:

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Group's business. The source of risk exposure and how each is managed is outlined below.

(a) Credit risk:

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, short-term investments, derivative assets and trade and other receivables, the Group's credit risk is limited to the carrying value on the statement of financial position. Management does not believe that the Group is subject to any significant concentration of credit risk.

The Group limits its exposure to credit risk on cash and cash equivalents and investments by investing in liquid securities with high credit quality counterparties, placing term to maturity restrictions on tenor of investment instruments and instituting maximum investment value limit per counter party. The Group undertakes to invest in instruments that are issued, insured or guaranteed by the Government of Canada or a provincial government or a deposit insurance corporation established by or on behalf of the Government of Canada or the Province; pooled funds comprised of investments issued, insured or guaranteed by any level of government in Canada; or issued by corporate short-term issues of debt with a rating of no less than R-1 (Mid) by DBRS or equivalent, or in pooled funds of such investments.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial risk management (continued):

(a) Credit risk (continued):

Accounts receivable by source are as follows:

	As at March 31			
	2024		2023	
Trade customers and miscellaneous	**14,365**	**48.7%**	12,119	49.6%
Federal and Provincial governments	**15,136**	**51.3%**	12,292	50.4%
Total	**29,501**	**100%**	24,411	100%

Accounts receivable from trade customers are primarily due from commercial customers and transportation operators. Credit risk is reduced by a large and diversified customer base and is managed through the review of third party credit reports on customers both before extending credit and during the business relationship.

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

Trade and other receivables are due in the short-term. As at March 31, 2024, 2.5% (March 31, 2023: 0.5%) of trade and other receivables were past due. The Group is using the lifetime ECL simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.

Based on the historical default experience, the Group has established a lifetime ECL allowance of 1% of the trade receivables. Amounts due from the Government of Canada and the Province are considered low credit risk and are excluded. As at March 31, 2024, the provision for impairment was $0.2 million (March 31, 2023: $0.1 million).

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

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

The Group is exposed to credit risk in the event that a counterparty to an investment contract or a derivative contract defaults on its obligation. The Group manages credit risk by entering into contracts with high credit quality counterparties, in accordance with established investment parameters, and by an ongoing review of its exposure to counterparties. Counterparty credit rating and exposures are monitored by management on an ongoing basis, and are subject to approved credit limits.

The counterparties with which the Group has significant derivative transactions must be rated A or higher. The Group does not expect any counterparties to default on their obligations.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with its financial liabilities. The Group's financial position could be adversely affected if it fails to arrange sufficient and cost effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost effective financing is subject to numerous factors, including the results of operations and financial position of the Group, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

The Group manages liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, maintaining access to a credit facility and the maintenance of debt service reserves (Note 11(e)). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates.

As at March 31, 2024 and March 31, 2023, the Group's credit ratings for senior secured long-term debt were as follows:

	As at March 31	
	2024	2023
DBRS	**A (high)(stable)**	A (high)(stable)
Standard & Poor's	**AA- (negative)**	AA- (stable)

The following is an analysis of the undiscounted contractual maturities of the Group's financial liabilities as at March 31, 2024:

Financial liabilities	Note	< 1 year	>1-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	7	**223,572**	**-**	**-**	**-**	**223,572**
Provisions	8	**1,152**	**14,419**	**1,260**	**55,502**	**72,333**
Lease liabilities, including current portion	13	**3,298**	**26,823**	**973**	**4,827**	**35,921**
Long-term debt, including current portion[1]	11	**11,282**	**22,564**	**21,600**	**1,425,000**	**1,480,446**
Other liabilities[1]	14	**5,419**	**3,310**	**11,917**	**-**	**20,646**
Total financial liabilities - Principal only		**244,723**	**67,116**	**35,750**	**1,485,329**	**1,832,918**
Interest payable - Long-term debt		**65,379**	**131,900**	**132,819**	**742,333**	**1,072,431**
Interest payable - Lease liabilities		**1,553**	**1,175**	**525**	**1,031**	**4,284**
Total financial liabilities, including interest payable		**311,655**	**200,191**	**169,094**	**2,228,693**	**2,909,633**

[1] Carrying value at March 31, 2024, excludes unamortized deferred financing costs and bond discounts of $36.8 million (March 31, 2023: $10.0 million). The majority of the Group's long-term debt relates to funds for the acquisition of property, plant and equipment.

16. Financial risk management (continued):

(c) Market risk:

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

The Group manages market risk arising from the exposure to volatility in foreign currency, interest rates and fuel prices in part through the use of derivative financial instruments, including forward contracts and swaps. The Group does not utilize derivative financial instruments for trading or speculative purposes. At the inception of each hedge the Group determines whether it will or will not apply hedge accounting.

<u>Interest rate risk</u>

The Group is exposed to interest rate risk associated with short-term borrowings, floating rate debt and the pricing of future issues of long-term debt. As at March 31, 2024, the Group's cash equivalents and short-term investments included fixed rate instruments with maturities of 364 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 is at a variable rate and is subject to interest rate risk.

To manage this risk, the Group targets to maintain between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2024, the Group had no debt in variable rate instruments.

<u>Foreign currency price risk</u>

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 CAD. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and enters into derivative instruments as necessary. As at March 31, 2024, the notional amount of the Group's foreign currency forward contracts was $0.2 million (March 31, 2023: $0.7 million). A 10% change in foreign exchange rates would have had an effect of less than $0.1 million on the net loss for the year ended March 31, 2024.

<u>Fuel price risk</u>

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and LNG. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging for marine diesel fuel and LNG so that at any time the monthly hedges shall not exceed: a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36th month; and up to 70% of anticipated monthly fuel consumption for the period between the end of the 36th month and the end of the sixth performance term on March 31, 2028.

16. Financial risk management (continued):

(c) Market risk (continued):

Fuel price risk (continued)

Performance term five ("PT5") commenced April 1, 2020 and ended on March 31, 2024. Performance term six ("PT6") will commence April 1, 2024 and will end on March 31, 2028.

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 regulatory (non-IFRS) net loss (Note 29).

The Group hedges using CAD denominated ULSD fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the twelve months ended March 31, 2024, the Group entered into ULSD fuel swap contracts with a notional value of $8.1 million (March 31, 2023: $nil). The notional amount of all fuel swap contracts outstanding as at March 31, 2024 was $8.1 million (March 31, 2023: $41.3 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into or outstanding during the years ended March 31, 2024 and March 31, 2023.

An economic relationship exists between the hedged item and the hedging instrument as the value of the hedging instrument and the value of the hedged item move in the opposite direction as a result of the change in the hedged risk. A change in the credit risk of the hedging instrument or the hedged item does not dominate the value changes that result from the economic relationship.

During the year ended March 31, 2024, open fuel swap contracts had unrealized hedging gains of $7.2 million recognized in OCI (March 31, 2023: unrealized hedging gains of $18.2 million). In addition, net realized hedging gains of $25.7 million from closed fuel swap contracts were reclassified from reserves and included in the Group's fuel expense during the year ended March 31, 2024 (March 31, 2023: net realized hedging gains of $44.9 million).

Cash flow hedges

	Fiscal 2025	Fiscal 2026	Total
Fuel contracts (litres in thousands)	**5,205**	**4,550**	**9,755**
Contract price range ($/litre)	**$0.8425-$0.8450**	**$0.8187-$0.8290**	

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial risk management (continued):

(c) Market risk (continued):

Cash flow hedges (continued)

The impact of hedging instruments designated in hedging relationships as of March 31, 2024 on the statement of financial position and the statement of loss and other comprehensive income was as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
Fuel swap contracts	**4,391**	**440**	Current derivative assets	**440**
Fuel swap contracts	**3,750**	**197**	Non-current derivative assets	**197**
Foreign exchange forward contracts	**106**	**1**	Current derivative assets	**1**
Foreign exchange forward contracts	**140**	**(1)**	Current derivative liabilities	**(1)**

The impact of hedged items designated in hedging relationships as of March 31, 2024 on the statement of financial position and the statement of loss and other comprehensive income was as follows:

	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	**639**	**637**

Cash flow hedge reserve:

	As at March 31	
	2024	2023
Hedging gains recognized in cash flow hedge reserve:		
Fuel swap contracts	**7,215**	18,155
Hedging losses (gains) reclassified from cash flow hedge reserve:		
Interest rate forward contracts – Amortization of hedge losses	**247**	248
Fuel swap contracts – Gains recognized in net loss	**(25,737)**	(44,852)
Net change in cash flow hedge reserve	**(18,275)**	(26,449)

(Tabular amounts expressed in thousands of Canadian dollars)

17. Other commitments:

The Group has various contracts for certain building spaces, land and equipment. These contracts do not meet the definition of a lease. Contract payments for the year ended March 31, 2024 were $1.0 million (March 31, 2023: $1.0 million).

Future contract payments are payable as follows:

	Other Commitments
Less than one year	**665**
Between one and five years	**2,246**
More than five years	**201**
Total	**3,112**

18. Contingent liabilities:

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

19. Share capital:

(a) Authorized:

1,000,000	Class A voting common shares, without par value
1	Class B voting common share, without par value
80,000	Class C non-voting, 8% cumulative preferred shares, with a par value of $1,000 per share, convertible to Class A shares upon the sale of the outstanding Class B share by the initial shareholder. Special rights attached to the Class C shares restrict the Group's ability to issue shares and to declare dividends.

(b) Issued and outstanding:

	As at March 31			
	2024		2023	
	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

(Tabular amounts expressed in thousands of Canadian dollars)

19. Share capital (continued):

(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.

20. Capital management:

The Group's principal business of ferry transportation requires net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations.

In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (Note 16(b)).

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

				As at March 31
	2024		2023	
	$	**%**	$	%
Aggregate borrowings[1]	**1,621,367**	**71.51%**	1,560,814	69.55%
Total equity before reserves	**645,951**	**28.49%**	683,374	30.45%
Total	**2,267,318**	**100%**	2,244,188	100%

[1] Includes long-term debt (including current portion), Credit Facility (drawn and undrawn) and short-term borrowings.

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

Under the Credit Facility Agreement and the KfW loans, the debt service coverage (earnings before interest, taxes, depreciation, amortization and rent) must be at least 1.25 times the debt service cost (Note 11).

The Group was in compliance with all of its covenants at March 31, 2024 and at March 31, 2023.

(Tabular amounts expressed in thousands of Canadian dollars)

21. Other comprehensive income:

Continuity of reserves:

	Note	Land revaluation reserves[1]	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2022		48,576	(7,902)	45,856	(5,470)	81,060
Land revaluation gains		20,780	-	-	-	20,780
Actuarial gains on post-employment benefit obligations		-	1,091	-	-	1,091
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		-	-	18,155	-	18,155
Realized gains		-	-	(44,852)	-	(44,852)
Amortization of hedge losses		-	-	-	248	248
Balance as at March 31, 2023		69,356	(6,811)	19,159	(5,222)	76,482
Land revaluation gains		**14,076**	-	-	-	**14,076**
Actuarial losses on post-employment benefit obligations		-	**(2,993)**	-	-	**(2,993)**
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		-	-	**7,215**	-	**7,215**
Realized gains		-	-	**(25,737)**	-	**(25,737)**
Amortization of hedge losses		-	-	-	**247**	**247**
Balance as at March 31, 2024		**83,432**	**(9,804)**	**637**	**(4,975)**	**69,290**

[1] Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve changes during the years ended March 31, 2024 and March 31, 2023, are shown above. During the year ended March 31, 2024, the Group recognized a gain of less than $0.1 million (March 31, 2023: losses of $0.1 million) in net loss as a result of land revaluation.

22. Net retail:

	Years ended March 31	
	2024	2023
Retail revenue	**114,597**	102,918
Cost of goods sold	**(44,493)**	(39,264)
Net retail	**70,104**	63,654

(Tabular amounts expressed in thousands of Canadian dollars)

23. Safe Restart Funding:

In December 2020, the Group received a contribution of $308.0 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program.

The revenue recognition of the contribution is consistent with the Group's submission to the Province from August 2020, which is based on the estimated loss of earnings in relation to the main three components of the contribution for fiscal years 2021 to 2024, and reflects the normal seasonal pattern of earnings.

The Group recognized $9.0 million (March 31, 2023: $8.0 million) of the contribution under "Safe Restart Funding", and $1.3 million (March 31, 2023: $1.3 million), relating to the Discretionary Sailing Relief, under "Ferry service fees" in the consolidated statement of loss and other comprehensive income for the year ended March 31, 2024. There is no remaining balance on the contribution as at March 31, 2024.

24. Operating expenses:

	Years ended March 31	
	2024	2023
Salaries, wages & benefits	**539,850**	465,305
Fuel	**148,371**	156,982
Materials, supplies and contracted services	**127,988**	113,170
Other operating expenses	**84,913**	74,701
Depreciation and amortization	**187,071**	181,375
Total operating expenses	**1,088,193**	991,533

25. Net finance expense:

	Years ended March 31	
	2024	2023
Finance expenses:		
Long-term debt	**65,630**	65,780
Short-term debt	**187**	208
Lease liabilities	**1,736**	1,606
Amortization of deferred financing costs and bond discounts	**1,003**	1,014
Interest capitalized in the cost of qualifying assets	**(940)**	(772)
Total finance expenses	**67,616**	67,836
Finance income	**(28,615)**	(16,498)
Net finance expense	**39,001**	51,338

(Tabular amounts expressed in thousands of Canadian dollars)

26. Related party transactions:

(a) Management compensation:

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

	Years ended March 31	
	2024	2023
Short-term benefits	**2,275**	1,750
Post-employment benefits	**-**	97
Termination benefits	**-**	1,200
Total	**2,275**	3,047

(b) B.C. Ferry Authority:

In accordance with the Act, the Group is responsible for paying any reasonable expenses that are incurred by the Authority, in performing its affairs and obligations under the Act, without charge. During the year ended March 31, 2024, the Group paid $1.1 million (March 31, 2023: $0.6 million) of such expenses.

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

27. Ferry service fees:

On April 1, 2003, the Group entered into an agreement with the Province to provide ferry services on specified routes, including those that would not be commercially viable and to administer certain social policy initiatives for the Province. In exchange for these services and to compensate for the non-profitable routes, the Group receives Ferry service fees. The agreement is for a period of sixty years, the details of which are renegotiated after a first term of five years and each four-year term thereafter. The agreement has been amended from time to time to, among other things, establish the ferry service levels and the fees for the provision of such service for PT5 which ended March 31, 2024 and PT6 ending March 31, 2028.

28. Federal-Provincial Subsidy Agreement:

The Group receives revenue provided to the Province from the Government of Canada pursuant to a contract between the federal and provincial governments. The Federal Government of Canada gives financial assistance to fulfill the obligation of providing ferry services to coastal British Columbia. The annual payment increases with the Vancouver Consumer Price Index.

29. Economic effect of rate regulation:

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

Under IFRS, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates or deferred net sale on Carbon Credits to provide funding for carbon reduction investment projects. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the regulatory assets at March 31, 2024, are probable of future recovery through future fares and fuel surcharges.

(a) Deferred fuel costs:

As prescribed by regulatory order, the Group defers differences between actual fuel costs and approved fuel costs, which were used to develop the regulated price caps.

The regulatory deferred fuel cost accounts operate as follows:

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

Also prescribed by regulatory order, the Group collects fuel surcharges or provides fuel rebates from time to time, which are applied against deferred fuel cost account balances.

During the year ended March 31, 2024, the amount receivable from the Province in relation to fuel cost differences was $1.7 million (March 31, 2023: $2.3 million).

(b) Tariffs in excess of price cap:

The Act contains provisions, which ensure that if tariffs charged by the Group exceed established price caps for four consecutive quarters, the excess amounts collected will be returned to customers through future tariff reductions.

29. Economic effect of rate regulation (continued):

(b) Tariffs in excess of price cap (continued):

At March 31, 2023, tariffs charged to customers were below established price caps, reflecting the approved transfers of $6.3 million in July 2022 from price cap overage to the deferred fuel cost account.

At March 31, 2024, tariffs charged to customers were below established price caps.

The Group was in compliance with its price cap regulations at March 31, 2024 and 2023.

(c) Fare Increase Relief:

On May 3, 2021, the Commissioner approved the Group's request to recognize the portion of the Safe Restart Funding, earmarked for Fare Increase Relief as regulated revenue for the purposes of price cap reporting during PT5, and to allocate the funding using a drawdown approach. Under the funding drawdown approach, actual regulated revenue would be increased each quarter by the lesser of 2.3% of revenue or the remaining balance of the Fare Increase Relief.

The Group defers differences between the recognized IFRS revenue and approved regulated revenue. As at March 31, 2024, the deferred amount was $nil (March 31, 2023: $9.0 million).

(d) Carbon Reduction Investment Account:

On April 21, 2022, the Commissioner approved the creation of a Carbon Reduction Investment Account ("CRIA") for a five-year term, subject to application for extension/modification after end of the term. The CRIA is funded through the sale of Carbon Credits, earned through activities such as its purchase of natural gas and use of LNG, to partially fund further infrastructure investments identified in its Clean Futures Plan and progress greenhouse gases ("GHG") emission projects. The Group may apply for the discontinuation of CRIA at any time or the Commissioner can terminate it if it is deemed not necessary for funding further capital investments in cleaner technologies that lead to a reduction in GHG emissions or no longer deemed to be in the public interest. If terminated with positive balance, the funds must be returned to the ferry users through fuel deferral account. The use of the funds is subject to the Commissioner's approval.

As prescribed by regulatory order, the Group defers the net revenue from the sale of Carbon Credits and allocates the funding to the CRIA. As at March 31, 2024, the deferred amount was $26.0 million (March 31, 2023: $9.6 million).

(e) Effect of rate regulation:

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory assets as at March 31, 2024 would have been $1.8 million (March 31, 2023: $20.3 million), and the regulatory liabilities as at March 31, 2024 would have been $26.0 million (March 31, 2023: $9.6 million) on the consolidated statements of financial position as detailed below:

(Tabular amounts expressed in thousands of Canadian dollars)

29. Economic effect of rate regulation (continued):

(e) Effect of rate regulation (continued):

Regulatory accounts	**2024**	2023
Balance as at April 1	**10,777**	11,612
Changes in:		
Deferred fuel cost	**(9,567)**	6,536
Deferred fare increase relief	**(9,000)**	2,194
Deferred carbon reduction investment account	**(16,397)**	(9,565)
Balance as at March 31	**(24,187)**	10,777
Regulatory assets	**1,775**	20,342
Regulatory liabilities	**(25,962)**	(9,565)
Balance as at March 31	**(24,187)**	**10,777**

If the Group was permitted under IFRS to recognize the effects of rate regulation, net loss for the year ended March 31, 2024 would have increased by $35.0 million (March 31, 2023: net loss increased by $0.8 million) as detailed below:

	Years ended March 31	
Effect of rate regulation on net loss	**2024**	2023
Regulatory accounts:		
Fuel costs over set price	**20,677**	33,253
Fuel surcharges	**(28,588)**	(18,133)
Fuel price risk recoveries receivable from the Province	**(1,656)**	(2,275)
Tariffs in excess of price cap	**-**	(6,309)
Deferred fare increase relief	**(9,000)**	2,194
Deferred carbon reduction investment account	**(16,397)**	(9,565)
Total increase in net loss	**(34,964)**	(835)