

Condensed Interim Consolidated Financial Statements

**BRITISH COLUMBIA FERRY SERVICES INC.**

For the three months ended June 30, 2020 and 2019  
(Unaudited)

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

(Expressed in thousands of Canadian dollars)

	Note	As at	
		June 30, 2020	March 31, 2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		102,443	169,141
Restricted short-term investments	7(b)	33,313	33,393
Other short-term investments		67,635	91,588
Trade and other receivables		17,395	19,488
Prepaid expenses		19,854	11,057
Inventories		33,914	31,897
Derivative assets	11(b)	9	28
		274,563	356,592
<b>Non-current assets</b>			
Loan receivable		24,515	24,515
Property, plant and equipment	3	1,856,282	1,879,517
Intangible assets	4	100,827	99,893
		1,981,624	2,003,925
<b>Total assets</b>		2,256,187	2,360,517
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5	100,787	132,296
Provisions		1,754	1,794
Interest payable on long-term debt	6	17,286	21,512
Contract liabilities		22,491	21,702
Current portion of long-term debt	6,7	19,786	21,644
Current portion of accrued employee future benefits		2,300	3,000
Current portion of lease liabilities	6	2,639	2,536
Derivative liabilities	11(b)	12,842	15,507
		179,885	219,991
<b>Non-current liabilities</b>			
Accrued employee future benefits		18,835	20,151
Long-term debt	6,7	1,424,804	1,427,426
Lease liabilities	6	37,962	38,675
Other liabilities	9	10,685	10,962
Derivative liabilities	11(b)	15,464	17,212
		1,507,750	1,514,426
<b>Total liabilities</b>		1,687,635	1,734,417
<b>Equity</b>			
Share capital		75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		485,709	547,745
<b>Total equity before reserves</b>		586,187	648,223
Reserves	12(a)	(17,635)	(22,123)
<b>Total equity including reserves</b>		568,552	626,100
<b>Total liabilities and equity</b>		2,256,187	2,360,517
Commitments (note 3)			

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive (Loss) Income (unaudited)

(Expressed in thousands of Canadian dollars)

		Three months ended June 30	
	Note	2020	2019
<b>Revenue</b>			
Vehicle and passenger fares		78,781	162,476
Net retail	13	783	16,797
Fuel (rebates) surcharges	17	(1,242)	839
Other income		1,044	3,037
Revenue from customers		79,366	183,149
Ferry service fees		50,029	55,409
Federal-Provincial Subsidy Agreement		8,007	7,835
<b>Total revenue</b>		<b>137,402</b>	<b>246,393</b>
<b>Expenses</b>			
Operations	8,14	105,322	140,688
Maintenance		23,081	26,312
Administration		11,243	8,696
Depreciation and amortization		44,048	44,722
<b>Total operating expenses</b>		<b>183,694</b>	<b>220,418</b>
<b>Operating (loss) profit</b>		<b>(46,292)</b>	<b>25,975</b>
<b>Net finance and other expenses</b>			
Finance expenses	15	15,107	14,991
Finance income		(1,222)	(1,173)
Net finance expense		13,885	13,818
Loss (gain) on disposal and revaluation of property, plant and equipment and intangible assets		1,859	(12)
<b>Net finance and other expenses</b>		<b>15,744</b>	<b>13,806</b>
<b>NET (LOSS) EARNINGS</b>		<b>(62,036)</b>	<b>12,169</b>
<b>Other comprehensive (loss) income</b>			
Items that are or may be reclassified subsequently to net (loss) earnings	12(b)	(397)	(58)
<b>Total other comprehensive (loss) income</b>		<b>(397)</b>	<b>(58)</b>
<b>Total comprehensive (loss) income</b>		<b>(62,433)</b>	<b>12,111</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2020	2019
<b>Operating activities</b>		
Net (loss) earnings	(62,036)	12,169
Items not affecting cash:		
Net finance expense	13,885	13,818
Depreciation and amortization	44,048	44,722
Loss (gain) on disposal and revaluation of property, plant and equipment and intangible assets	1,859	(12)
Other non-cash changes to property, plant and equipment	(173)	(34)
Changes in:		
Accrued employee future benefits	(2,016)	(206)
Derivative assets and liabilities recognized in net loss	32	7
Provisions	(40)	36
Accrued financing costs	246	635
Total non-cash items	57,841	58,966
Movements in operating working capital:		
Trade and other receivables	2,093	(9,569)
Prepaid expenses	(8,797)	(11,996)
Inventories	(2,017)	265
Accounts payable and accrued liabilities	(31,509)	(22,746)
Contract liabilities	789	3,656
Change in non-cash working capital	(39,441)	(40,390)
Change in non-cash working capital attributable to investing activities	22,789	26,940
Change in non-cash operating working capital	(16,652)	(13,450)
Cash (used in) generated from operating activities	(20,847)	57,685
Interest received	991	700
Interest paid	(21,481)	(18,582)
Cash (used in) generated from operating activities	(41,337)	39,803

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2020	2019
<b>Financing activities</b>		
Repayment of long-term debt	(4,696)	(6,571)
Repayment of lease liabilities	(610)	(552)
Cash used in financing activities	(5,306)	(7,123)
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	53	95
Purchase of property, plant and equipment and intangible assets	(44,141)	(48,925)
Changes in restricted short-term investments	80	120
Net proceeds from other short-term investments	23,953	16,475
Cash used in investing activities	(20,055)	(32,235)
Net (decrease) increase in cash and cash equivalents	(66,698)	445
Cash and cash equivalents, beginning of period	169,141	59,888
<b>Cash and cash equivalents, end of period</b>	<b>102,443</b>	<b>60,333</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 12(a))	Total equity before reserves
Balance as at April 1, 2019	75,478	25,000	525,006	625,484	12,834	638,318
Net earnings	-	-	12,169	12,169	-	12,169
Other comprehensive loss	-	-	-	-	(58)	(58)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(2,957)	(2,957)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	61	61
<b>Balance as at June 30, 2019</b>	<b>75,478</b>	<b>25,000</b>	<b>537,175</b>	<b>637,653</b>	<b>9,880</b>	<b>647,533</b>
Balance as at April 1, 2020	75,478	25,000	547,745	648,223	(22,123)	626,100
Net loss	-	-	(62,036)	(62,036)	-	(62,036)
Other comprehensive loss	-	-	-	-	(397)	(397)
Realized hedge losses recognized in fuel swaps	-	-	-	-	4,823	4,823
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	62	62
<b>Balance as at June 30, 2020</b>	<b>75,478</b>	<b>25,000</b>	<b>485,709</b>	<b>586,187</b>	<b>(17,635)</b>	<b>568,552</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

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

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

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus ("COVID-19") as a pandemic. The preventative measures and imposed travel restrictions significantly impacted the Company's earnings and cash from operations during the three months ended June 30, 2020.

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. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and at terminals. However, given the impact of the COVID-19 pandemic, it is expected that the normal seasonal demand pattern will not occur during fiscal 2021, with certain revenues, expenses, and balance sheet items tied directly to sales and operating activities expected to be significantly impacted by the drop in vehicle and passenger traffic.

The Company is actively monitoring the situation to ensure the transportation of essential goods and services, adjusting service levels by following the directives and guidance provided by the Province of British Columbia and Transport Canada, adhering to provincial and federal guidelines and putting preventative measures in place to protect passengers and employees aboard the vessels, terminals and in all workplaces, while managing to preserve cash and protect the financial well-being of the Company.

## 1. 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, V8W 0B7. These condensed interim consolidated financial statements, as at and for the three months ended June 30, 2020 and 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

## 1. Accounting policies:

### (b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended March 31, 2020, as they follow the same accounting policies.

These condensed interim consolidated financial statements have been prepared using the historical cost method, except for 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 condensed interim consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in Canadian dollars and rounded to the nearest thousand, unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 19, 2020.

## 2. Adoption of new and amended standards:

### (a) Changes in accounting policies:

The Group did not adopt any new or amended standards during the three months ended June 30, 2020.

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

#### **IFRS 17, Insurance Contracts:**

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019, the IASB issued an exposure draft covering targeted amendments to IFRS 17, including a proposed amendment to defer the effective date of the Standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020.

On March 17, 2020, the IASB decided, due to the responses received from stakeholders during the comment period on the exposure draft, that the effective date of the Standard will be deferred to annual reporting periods beginning on or after January 1, 2023. The Group will evaluate the potential impact on its consolidated financial statements as further information becomes available.



# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 3. 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
<b>Cost:</b>							
Balance as at March 31, 2020	1,769,775	679,386	174,721	42,538	29,665	200,013	2,896,098
Additions <sup>1</sup>	(277)	-	-	-	-	18,655	18,378
Reclassification to: assets held for sale	(3,770)	-	-	-	-	-	(3,770)
Disposals	(4,858)	(752)	(30)	-	-	(1,831)	(7,471)
Transfers from construction in progress	57,209	6,724	-	-	-	(63,933)	-
<b>Balance as at June 30, 2020</b>	<b>1,818,079</b>	<b>685,358</b>	<b>174,691</b>	<b>42,538</b>	<b>29,665</b>	<b>152,904</b>	<b>2,903,235</b>
<b>Accumulated depreciation:</b>							
Balance as at March 31, 2020	705,645	235,590	74,051	1,295	-	-	1,016,581
Depreciation	29,301	8,620	1,711	139	-	-	39,771
Reclassification to: assets held for sale	(3,770)	-	-	-	-	-	(3,770)
Disposals	(4,857)	(742)	(30)	-	-	-	(5,629)
<b>Balance as at June 30, 2020</b>	<b>726,319</b>	<b>243,468</b>	<b>75,732</b>	<b>1,434</b>	<b>-</b>	<b>-</b>	<b>1,046,953</b>
<b>Net carrying value:</b>							
<b>As at March 31, 2020</b>	<b>1,064,130</b>	<b>443,796</b>	<b>100,670</b>	<b>41,243</b>	<b>29,665</b>	<b>200,013</b>	<b>1,879,517</b>
<b>As at June 30, 2020</b>	<b>1,091,760</b>	<b>441,890</b>	<b>98,959</b>	<b>41,104</b>	<b>29,665</b>	<b>152,904</b>	<b>1,856,282</b>

<sup>1</sup> Reclassifications from Other liabilities (note 9)

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

### 3. Property, plant and equipment (continued):

During the three months ended June 30, 2020, financing costs capitalized during construction amounted to \$2.1 million (June 30, 2019: \$1.1 million) with an average capitalization rate of 4.62% (June 30, 2019: 4.99%).

Contractual commitments as at June 30, 2020, for assets to be constructed totalled \$116.3 million (March 31, 2020: \$121.5 million). The majority of these contractual commitments relate to the construction of four Island class vessels and one Salish class vessel.

During the three months ended June 30, 2020, the Group recognized property, plant and equipment impairments of \$1.8 million (March 31, 2020: \$nil). The impairment loss is reported under "Loss (gain) on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss for the three months ended June 30, 2020.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to \$43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the three months ended June 30, 2020, the Group recognized \$0.2 million (March 31, 2020: \$9.7 million) as a reduction of the cost of property, plant and equipment. Funding of \$39.4 million was recorded as a cumulative reduction of the cost of the property, plant and equipment in fiscal years 2020, 2019 and 2018.

FortisBC Energy Inc. has committed to provide the Group with funding as part of the Natural Gas for Transportation ("NGT") incentive funding. The contributions are dependent upon the purchase of liquified natural gas ("LNG"). During the three months ended June 30, 2020, the Group recognized \$0.3 million (March 31, 2020: \$1.2 million) as a reduction of the cost of property, plant and equipment.

During the three months ended June 30, 2020, the Group received \$nil (June 30, 2019: \$0.3 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$4.1 million, respectively, as at June 30, 2020.

During the three months ended June 30, 2020, The *North Island Princess* was decommissioned and is classified as held for sale and has no carrying value. The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 4. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
<b>Cost:</b>				
Balance as at March 31, 2020	137,877	19,898	29,469	187,244
Additions	-	-	5,211	5,211
Transfers from construction in progress	1,840	-	(1,840)	-
<b>Balance as at June 30, 2020</b>	<b>139,717</b>	<b>19,898</b>	<b>32,840</b>	<b>192,455</b>
<b>Accumulated amortization:</b>				
Balance as at March 31, 2020	74,425	12,926	-	87,351
Amortization	3,921	356	-	4,277
<b>Balance as at June 30, 2020</b>	<b>78,346</b>	<b>13,282</b>	<b>-</b>	<b>91,628</b>
<b>Net carrying value:</b>				
<b>As at March 31, 2020</b>	<b>63,452</b>	<b>6,972</b>	<b>29,469</b>	<b>99,893</b>
<b>As at June 30, 2020</b>	<b>61,371</b>	<b>6,616</b>	<b>32,840</b>	<b>100,827</b>

Capitalized financing costs during construction for intangible assets with an average capitalization rate of 4.62% for the three months ended June 30, 2020 (June 30, 2020: 4.99%) totalled \$0.3 million (June 30, 2019: \$0.2 million).

During the three months ended June 30, 2020, intangible assets totalling \$2.8 million (June 30, 2019: \$2.2 million) were acquired and \$2.4 million (June 30, 2019: \$1.3 million) were internally developed.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 5. Accounts payable and accrued liabilities:

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.

	As at	
	June 30, 2020	March 31, 2020
Trade payable and accrued liabilities	34,012	62,551
Wages payable	66,775	69,745
<b>Accounts payable and accrued liabilities</b>	<b>100,787</b>	<b>132,296</b>

## 6. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities <sup>1</sup>	Interest payable on long-term debt
Balance as at March 31, 2020	1,449,070	41,211	21,512
Additions	-	-	16,618
Payments	(4,696)	(610)	(20,844)
Amortization of debt issue costs	216	-	-
<b>Balance as at June 30, 2020</b>	<b>1,444,590</b>	<b>40,601</b>	<b>17,286</b>
Current	19,786	2,639	17,286
Non-current	1,424,804	37,962	-
<b>Balance as at June 30, 2020</b>	<b>1,444,590</b>	<b>40,601</b>	<b>17,286</b>

<sup>1</sup> Interest expense related to lease liabilities is presented in net finance expense (note 15).

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 7. Long-term debt:

	As at	
	June 30, 2020	March 31, 2020
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
12 Year Loan, maturing June 2020 Tranche A (effective interest rate of 5.18%)	-	1,875
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	9,000	9,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	31,765	32,699
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	32,995	33,938
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	32,995	33,938
	<b>1,456,755</b>	<b>1,461,450</b>
Less: Unamortized deferred financing costs and bond discounts	(12,165)	(12,380)
<b>Total</b>	<b>1,444,590</b>	<b>1,449,070</b>
Current	19,786	21,644
Non-current	1,424,804	1,427,426
<b>Total</b>	<b>1,444,590</b>	<b>1,449,070</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

## 7. Long-term debt (continued):

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

### (a) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of \$155.0 million, was renewed on April 8, 2020 to extend the maturity date to April 20, 2025. There were no draws on this credit facility as at June 30, 2020 or March 31, 2020. There was no interest expensed during the three months ended June 30, 2020 and June 30, 2019. Letters of credit outstanding against this facility as at June 30, 2020 totalled \$0.6 million (March 31, 2020: \$0.6 million).

### (b) 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 June 30, 2020, debt service reserves of \$33.3 million (March 31, 2020: \$33.4 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

### (c) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement and KfW loans.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement whereby the debt service coverage of the impacted quarters in fiscal 2021 (first, second and third) is replaced by an average of the debt service coverage from the respective quarters in fiscal years 2018, 2019 and 2020. As at June 30, 2020, the debt service coverage ratio calculated under this method was 2.68.

On June 19, 2020, KfW waived the debt service coverage covenant until and including March 2021.

As a condition for both the credit facility agreement and the KfW loans, for the duration of the relief period, the Group is required to maintain \$50.0 million in unrestricted cash, which can be comprised of cash, short-term investments, and undrawn credit facility.

In addition, there are other covenants contained in the Master Trust Indenture ("MTI") (May 2004) available at [www.SEDAR.com](http://www.SEDAR.com). The Group was in compliance with all of its covenants at June 30, 2020 and at March 31, 2020.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 8. Accrued employee future benefits:

During the three months ended June 30, 2020, the Group recognized total defined benefit costs of \$0.9 million (June 30, 2019: \$0.5 million).

## 9. Other liabilities:

FortisBC Energy Inc. has committed to provide the Group with funding of \$6.0 million for the Salish Class vessels and up to \$10.0 million for the two Spirit Class vessels to be applied towards their mid-life upgrade and conversion to LNG. The funding is part of the NGT incentive funding and 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, 2020, the Group had received \$7.0 million of the total eligible contributions related to the Spirit Class vessels, and all of the eligible contributions related to the Salish Class vessels.

During the three months ended June 30, 2020, the Group recognized \$0.3 million (March 31, 2020: \$1.2 million and March 31, 2019: \$0.9 million) as an offset to the capital costs of the vessels.

	Note	Salish Class	Spirit Class	Total
Balance as at March 31, 2020		4,975	5,987	10,962
Reclassifications to property, plant and equipment	3	(89)	(188)	(277)
<b>Balance as at June 30, 2020</b>		<b>4,886</b>	<b>5,799</b>	<b>10,685</b>

## 10. Financial instruments:

The carrying values of the Group's financial instruments approximate fair values as at June 30, 2020 and March 31, 2020 for all financial instruments except for long-term debt.

	As at June 30, 2020		As at March 31, 2020	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion <sup>1</sup>	1,444,590	1,896,879	1,449,070	1,758,082

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

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

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 10. Financial instruments (continued):

The following items shown in the consolidated statements of financial position as at June 30, 2020 and March 31, 2020 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at June 30, 2020 and March 31, 2020, valued using Level 3 inputs.

	As at June 30, 2020		As at March 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash <sup>1,2</sup>	94,792	-	140,703	-
Cash equivalents <sup>2</sup>	138	-	138	-
Derivative assets <sup>3</sup>	-	9	-	28
Derivative liabilities <sup>3</sup>	-	(28,306)	-	(32,719)
	<b>94,930</b>	<b>(28,297)</b>	<b>140,841</b>	<b>(32,691)</b>

<sup>1</sup> Excluding Cash and cash equivalents of \$7.5 million (March 31, 2020: \$28.3 million) held at amortized cost.

<sup>2</sup> Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

<sup>3</sup> Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified into or out of fair value classifications in the three months ended June 30, 2020.

During the three months ended June 30, 2020, gains or losses related to Level 2 derivatives have been recognized in OCI.

There were no Level 3 instruments outstanding during the period.

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

## 11. Financial risk management:

Credit risk:

The Group is using the lifetime expected credit loss ("ECL") simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.



# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

## 11. Financial risk management (continued):

### (a) Credit risk (continued):

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 June 30, 2020, the provision for impairment was \$0.1 million.

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

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

### (b) Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and LNG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term. Performance term five commenced April 1, 2020 and will end on March 31, 2024.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its regulatory (non-IFRS) earnings (note 17).

The Group hedges using CAD denominated ultra-low sulfur diesel ("ULSD") fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. No ULSD fuel swap contracts were entered into during the three months ended June 30, 2020. The notional value of all fuel swap contracts outstanding at June 30, 2020 was \$121.5 million (March 31, 2020: \$132.2 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the three months ended June 30, 2020 and no LNG swap contracts were outstanding as at June 30, 2020.

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.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 11. Financial risk management (continued):

### (b) Fuel price risk (continued):

During the three months ended June 30, 2020, open fuel swap contracts had unrealized hedging losses of \$0.4 million recognized in OCI (June 30, 2019: unrealized hedging losses of \$0.1 million). In addition, for closed fuel swap contracts, net realized hedging losses of \$4.8 million were reclassified from reserves and included in the Group's fuel expense during the three months ended June 30, 2020 (June 31, 2019: net realized hedging gains of \$3.0 million).

Due to the drastic reduction in fuel consumption as a result of COVID-19, the Group determined that the hedged amounts related to one of the Group's contracts for the three months ended June 30, 2020 were no longer considered highly probable to occur and the Group discontinued hedge accounting for this contract effective March 31, 2020. The hedging loss related to this contract was included within the \$4.8 million of fuel swap contract losses recognized in the consolidated statement of profit or loss for the three months ended June 30, 2020.

Cash flow hedges:

	Fiscal 2021	Fiscal 2022	Fiscals 2023- 2024	Total
Fuel contracts (litres in thousands)	51,070	63,490	78,175	192,735
Contract price range (\$/litre)	\$0.5950-\$0.6520	\$0.6270-\$0.6499	\$0.6090-\$0.6336	

The impact of hedging instruments designated in hedging relationships as of June 30, 2020 on the statements of financial position 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	42,946	(12,830)	Current derivative liabilities	(12,830)
Fuel swap contracts	78,567	(15,464)	Non-current derivative liabilities	(15,464)
Foreign exchange forward contracts	349	9	Current derivative assets	9
Foreign exchange forward contracts	421	(12)	Current derivative liabilities	(12)

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 11. Financial risk management (continued):

(b) Fuel price risk (continued):

Cash flow hedges (continued):

The impact of hedged items designated in hedging relationships as of June 30, 2020 on the statements of financial position was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	28,486	28,294

Cash flow hedge reserve (note 12(a)):

	Three months ended June 30	
	2020	2019
Hedging losses recognized in cash flow hedge reserve:		
Fuel swap contracts	(397)	(58)
Hedging losses (gains) reclassified from cash flow hedge reserve:		
Interest rate forward contracts – Amortization of hedge loss	62	61
Fuel swap contracts – Losses (gains) recognized in net earnings	4,823	(2,957)
<b>Net change in cash flow hedge reserve</b>	<b>4,488</b>	<b>(2,954)</b>

## 12. Other comprehensive (loss) income:

(a) Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at March 31, 2020		22,658	(6,095)	(32,720)	(5,966)	(22,123)
Derivatives designated as cash flow hedges:	11					
Net change in fair value		-	-	(397)	-	(397)
Realized losses		-	-	4,823	-	4,823
Amortization of losses		-	-	-	62	62
<b>Balance as at June 30, 2020</b>		<b>22,658</b>	<b>(6,095)</b>	<b>(28,294)</b>	<b>(5,904)</b>	<b>(17,635)</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

## 12. Other comprehensive (loss) income (continued):

(b) Other comprehensive (loss) income:

---

	Three months ended June 30		
	Note	2020	2019
Items that are or may be reclassified subsequently to net earnings:			
Hedge losses on fuel swaps	11	(397)	(58)
		<b>(397)</b>	<b>(58)</b>

---

## 13. Net retail:

---

	Three months ended June 30	
	2020	2019
Retail revenue	1,322	27,025
Cost of goods sold	(539)	(10,228)
<b>Net retail</b>	<b>783</b>	<b>16,797</b>

---

## 14. Operating expenses:

---

	Three months ended June 30	
	2020	2019
Salaries, wages & benefits	89,967	107,334
Fuel	18,341	26,973
Materials, supplies and contracted services	18,708	25,344
Other operating expenses	12,630	16,045
Depreciation and amortization	44,048	44,722
<b>Total operating expenses</b>	<b>183,694</b>	<b>220,418</b>

---

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

## 15. Net finance expense:

	Three months ended June 30	
	2020	2019
Finance expenses:		
Long-term debt	16,655	15,456
Short-term debt	122	63
Lease liabilities	462	507
Amortization of deferred financing costs and bond discounts	278	288
Interest capitalized in the cost of qualifying assets	(2,410)	(1,323)
Total finance expenses	15,107	14,991
Finance income	(1,222)	(1,173)
<b>Net finance expense</b>	<b>13,885</b>	<b>13,818</b>

## 16. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the three months ended June 30, 2020, the Group paid \$15,606 (June 30, 2019: \$61,107) 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.

## 17. Economic effect of rate regulation:

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

In January 2014, the IASB issued IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 is an interim standard, pending the outcome of the IASB's more comprehensive rate regulated activities project.

The Standard 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. The Group transitioned to IFRS effective April 1, 2011, prior to the issuance of IFRS 14, and therefore does not recognize regulatory assets or liabilities.

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

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

Three months ended June 30, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

---

## 17. Economic effect of rate regulation (continued):

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the obligations represented by the regulatory liabilities at June 30, 2020, will be settled through future tariff reductions or fuel rebates.

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At June 30, 2020 and March 31, 2020, tariffs charged to customers were below established price caps.

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory liabilities at June 30, 2020 would have been \$1.3 million (March 31, 2020: \$2.1 million).

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the three months ended June 30, 2020 would have been \$0.8 million higher (June 30, 2019: \$1.8 million lower) as detailed below:

---

Effect of rate regulation on net earnings	Three months ended June 30	
	2020	2019
Regulatory accounts:		
Deferred fuel costs:		
Fuel costs under set price	(411)	(937)
Rebates (surcharges)	1,242	(839)
<b>Total increase (decrease) in net earnings</b>	<b>831</b>	<b>(1,776)</b>

---