Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Years ended March 31, 2021 and 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders 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, 2021 and March 31, 2020
- the consolidated statements of profit or loss and other comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021 and March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 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 included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
June 17, 2021

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	As at March 31, 2021	As at March 31, 2020
Assets			
Current assets			
Cash and cash equivalents	3	**285,389**	169,141
Restricted short-term investments	11(g)	**33,098**	33,393
Other short-term investments		**124,730**	91,588
Trade and other receivables	16(a)	**17,320**	19,488
Prepaid expenses		**12,914**	11,057
Inventories	4	**35,160**	31,897
Derivative assets	16(c)	**-**	28
		508,611	356,592
Non-current assets			
Loan receivable	13	**24,515**	24,515
Property, plant and equipment	5	**1,836,561**	1,879,517
Intangible assets	6	**93,901**	99,893
		1,954,977	2,003,925
Total assets		**2,463,588**	2,360,517
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	**105,333**	132,296
Provisions	8	**4,570**	1,794
Current portion of lease liabilities	9,13	**2,794**	2,536
Contract liabilities	10	**125,577**	21,702
Current portion of long-term debt	9,11	**10,831**	21,644
Interest payable on long-term debt	9	**21,434**	21,512
Current portion of accrued employee future benefits	12(d)	**2,600**	3,000
Derivative liabilities	16(c)	**2,900**	15,507
		276,039	219,991
Non-current liabilities			
Lease liabilities	9,13	**35,883**	38,675
Contract liabilities	10	**19,667**	-
Long-term debt	9,11	**1,416,928**	1,427,426
Accrued employee future benefits	12(d)	**20,083**	20,151
Other liabilities	14	**9,800**	10,962
Derivative liabilities	16(c)	**2,863**	17,212
		1,505,224	1,514,426
Total liabilities		**1,781,263**	1,734,417
Equity			
Share capital	19	**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**562,679**	547,745
Total equity before reserves		**663,157**	648,223
Reserves	21(a)	**19,168**	(22,123)
Total equity including reserves		**682,325**	626,100
Total liabilities and equity		**2,463,588**	2,360,517

Commitments (Notes 5,17)

Contingencies (Note 18)

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars)

		Years ended March 31	
	Note	**2021**	2020
Revenue			
Vehicle and passenger fares		**424,077**	613,202
Net retail	22	**17,835**	63,714
Fuel (rebates) surcharges	29	**(6,761)**	5,440
Other income		**6,747**	11,711
Revenue from customers		**441,898**	694,067
Safe restart funding	23,30	**186,000**	-
Ferry service fees	27	**205,420**	215,987
Federal-Provincial Subsidy Agreement	28	**32,028**	31,340
Total revenue		**865,346**	941,394
Expenses	24		
Operations		**476,054**	550,026
Maintenance		**85,783**	85,499
Administration		**38,487**	37,555
Depreciation and amortization		**179,541**	183,070
Total operating expenses		**779,865**	856,150
Operating profit		**85,481**	85,244
Net finance and other expenses	25		
Finance expenses		**60,623**	61,714
Finance income		**(4,615)**	(7,532)
Net finance expense		**56,008**	54,182
Loss on disposal and impairment of property, plant and equipment and intangible assets		**8,501**	2,285
Net finance and other expenses		**64,509**	56,467
NET EARNINGS		**20,972**	28,777
Other comprehensive income (loss)	21(b)		
Items that are or may be reclassified subsequently to net earnings		**13,707**	(36,451)
Items not to be reclassified to net earnings		**14,042**	5,653
Total other comprehensive income (loss)		**27,749**	(30,798)
Total comprehensive income (loss)		**48,721**	(2,021)

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2021	2020
Operating activities		
Net earnings	**20,972**	28,777
Items not affecting cash:		
Net finance expense	**56,008**	54,182
Depreciation and amortization	**179,541**	183,070
Loss on disposal and impairment of property, plant and equipment and intangible assets	**8,501**	2,285
Other non-cash changes to property, plant and equipment	**(1,334)**	(342)
Changes in:		
Accrued employee future benefits	**(2,275)**	442
Derivative assets and liabilities recognized in net loss	**73**	(22)
Provisions	**2,776**	79
Accrued financing costs	**(218)**	(203)
Total non-cash items	**243,072**	239,491
Movements in operating working capital:		
Trade and other receivables	**2,168**	3,758
Prepaid expenses	**(1,857)**	(2,751)
Inventories	**(3,263)**	(1,027)
Accounts payable and accrued liabilities	**(26,963)**	(8,940)
Contract liabilities	**123,542**	(7,007)
Change in non-cash working capital	**93,627**	(15,967)
Change in non-cash working capital attributable to investing activities	**18,566**	10,123
Change in non-cash operating working capital	**112,193**	(5,844)
Cash generated from operating activities before interest	**376,237**	262,424
Interest received	**4,830**	7,894
Interest paid	**(68,667)**	(63,929)
Cash generated from operating activities	**312,400**	206,389

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2021	2020
Financing activities		
Repayment of long-term debt	**(22,157)**	(80,282)
Repayment of lease liabilities	**(2,536)**	(2,210)
Dividends paid on preferred shares	**(6,038)**	(6,038)
Proceeds from the issue of bonds	**-**	250,000
Transaction costs related to bonds	**-**	(1,587)
Cash (used in) from financing activities	**(30,731)**	159,883
Investing activities		
Proceeds from disposal of property, plant and equipment	**99**	353
Purchase of property, plant and equipment and intangible assets	**(132,673)**	(238,690)
Changes in restricted short-term investments	**295**	(1,742)
Net purchase of other short-term investments	**(33,142)**	(16,940)
Cash used in investing activities	**(165,421)**	(257,019)
Net increase in cash and cash equivalents	**116,248**	109,253
Cash and cash equivalents, beginning of year	**169,141**	59,888
Cash and cash equivalents, end of year	**285,389**	169,141

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(a))	Total equity including reserves
Balance as at April 1, 2019	75,478	25,000	525,006	625,484	12,834	638,318
Net earnings	-	-	28,777	28,777	-	28,777
Other comprehensive loss	-	-	-	-	(30,798)	(30,798)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(4,407)	(4,407)
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 April 1, 2020	75,478	25,000	547,745	648,223	(22,123)	626,100
Net earnings	**-**	**-**	**20,972**	**20,972**	**-**	**20,972**
Other comprehensive income	**-**	**-**	**-**	**-**	**27,749**	**27,749**
Realized hedge losses recognized in fuel swaps	**-**	**-**	**-**	**-**	**13,294**	**13,294**
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, 2021	**75,478**	**25,000**	**562,679**	**663,157**	**19,168**	**682,325**

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.

The novel coronavirus ("COVID-19") pandemic has significantly impacted the Company's passenger and vehicle traffic. The preventative measures and imposed travel restrictions significantly impacted the Company's earnings and cash from operations during the year ended March 31, 2021.

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, the normal seasonal pattern did not occur in fiscal 2021; certain revenues, expenses, and balance sheet items tied directly to sales and operating activities were significantly impacted by the drop in vehicle and passenger traffic. Refer to Notes 23 and 30 for information on a one-time contribution of $308.0 million received from the Province of British Columbia ("the Province"), following the Contribution Agreement signed with the Province in November 2020 ("Safe Restart Funding Agreement"). The purpose of the funding is to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Company continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases.

The Company cannot predict the full impact of the COVID-19 pandemic, the future timing of when conditions might improve, and when traffic will return to normal levels.

The Company's principal priorities are protecting passengers and employees aboard the vessels, terminals and in all workplaces, and adhering to the COVID-19 directives and guidance provided by the Province and Transport Canada while providing essential ferry services. The Company has implemented measures to mitigate risk to the travelling public and to prevent the spread of the virus, which in turn resulted in reduced capacity on select routes.

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 consolidated financial statements, as at and for the years ended March 31, 2021 and 2020, comprise the Company and its subsidiaries (together referred to as the "Group").

1. Accounting policies:

(b) Basis of preparation:

These consolidated financial statements represent the annual statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS"), and its interpretations, as issued by the International Accounting Standard 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 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 Canadian dollars and rounded to the nearest thousand, unless otherwise stated.

These consolidated financial statements were approved by the Board of Directors on June 17, 2021.

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

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

(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 Group's wholly-owned subsidiaries as at March 31, 2021 and 2020 are:

Pacific Marine Leasing Inc.
BCF Captive Insurance Company Ltd.

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 Insurance Company Ltd. are insurance and risk-mitigation services provided for the Group.

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

1. Accounting policies (continued):

(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 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.

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 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 any indication of impairment. If any such indication exists, then the Group applies judgment to estimate the asset's recoverable amount. 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 CGU.

- 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, including asset retirement obligations

Recognition and measurement of provisions and contingencies, including asset retirement obligations, is based on key assumptions about the likelihood and magnitude of an outflow of resources.

- Employee future benefits

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

- Derivative assets and liabilities

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

1. Accounting policies (continued):

(e) Hedging relationships:

At the inception of a 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 ("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 a non-financial 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 estimate of retirement obligations.

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, borrowing costs and an allocated proportion of project 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 or inspection. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred.

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

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

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

(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 plus direct overhead and borrowing costs, less accumulated amortization and any recognized impairment loss.

1. Accounting policies (continued):

(g) Intangible assets (continued):

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 borrowing 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 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.

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.

1. Accounting policies (continued):

(h) Leases (continued):

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) Borrowing costs:

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, it determines the amount of borrowing costs eligible for capitalization as the actual borrowing 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 borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing 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 borrowing costs are recognized in net earnings or loss in the period in which they are incurred.

(j) Inventories:

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

(k) Impairment of non-financial assets:

The carrying amounts of the Group's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indicator exists or if the Group holds intangible assets not yet available for use and not subject to amortization, the Group performs an impairment test.

1. Accounting policies (continued):

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets (this can be at the asset or cash-generating unit ("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. The impairment recognized in net earnings or loss is the excess of the carrying value over the recoverable amount of the asset or CGU.

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

(l) Asset retirement obligations:

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

It is possible that the Group's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates.

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

(m) Financial assets and liabilities:

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

1. Accounting policies (continued):

(m) Financial assets and liabilities (continued):

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

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

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

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

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

(ii) Provision for impairment

Financial assets carried at amortized cost include other short-term investments, restricted short-term investments, trade and other receivables 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 increase in the provision is recognized in net earnings or loss. When a trade receivable is uncollectible, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are recognized in net earnings or loss.

(v) Cash and cash equivalents

Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of three months or less. Cash equivalents are short-term investments with a term of three months or less. Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value. The instruments held in this category can be liquidated or sold on short notice, and do not bear any significant risk of loss in value. Cash equivalents are held at amortized cost with the exception of cash equivalents invested in pooled funds which are recognized at fair value through net earnings or loss.

(vi) Borrowings and other financial liabilities

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

(vii) Derivatives

The Group may use derivative financial instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The Group does not utilize derivatives for trading or speculative purposes. At the inception of each hedge, the Group determines whether it will or will not apply hedge accounting. Derivatives are initially recognized at fair value. 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 the profit 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. Gain or loss on settlement is 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.

Safe Restart Funding revenue is recognized based on the estimated loss of earnings for the following three components, for each of the fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement:

- Base Operating Relief – derived from the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief – derived from the estimated revenue losses in each of fiscal years 2022, 2023 and 2024 from limiting fare increases to an average of 2.3%; and
- Discretionary Sailing Relief – derived from the estimated costs of maintaining discretionary sailings in fiscal years 2022, 2023 and 2024.

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

1. Accounting policies (continued):

(r) 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:

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 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.

In June 2020, the IASB issued *Amendments to IFRS 17*. The objective of the amendments is to assist entities implementing the Standard, while not unduly disrupting implementation or diminishing the usefulness of the information provided by applying IFRS 17. The Group will continue to evaluate the potential impact on its consolidated financial statements as further information becomes available.

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, *Regulatory Deferral Accounts*, 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.

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 has requested comments on the exposure draft by July 30, 2021.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Cash and cash equivalents:

	As at March 31	
	2021	2020
Cash	**246,855**	140,703
Cash equivalents:		
Investments valued at fair value through net earnings	**138**	138
Investments valued at amortized cost	**38,396**	28,300
Total	**285,389**	169,141

4. Inventories:

	As at March 31	
	2021	2020
Consumable parts and supplies	**26,797**	23,070
Provision for obsolescence	**(1,500)**	(1,300)
Net consumable parts and supplies	**25,297**	21,770
Retail inventories	**5,777**	6,207
Fuel inventories	**4,086**	3,920
Total	**35,160**	31,897

(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, 2019	1,627,311	655,543	173,548	40,868	24,714	196,359	2,718,343
Additions	(1,179)[1]	-	1,184	256	-	219,304	219,565
Revaluation	-	-	-	1,414	4,473	-	5,887
Disposals	(42,959)	(4,713)	(11)	-	-	(14)	(47,697)
Transfers from construction in progress	186,602	28,556	-	-	478	(215,636)	-
Balance as at March 31, 2020	1,769,775	679,386	174,721	42,538	29,665	200,013	2,896,098
Additions	**(1,162)**[1]	**-**	**7**	**-**	**-**	**109,645**	**108,490**
Revaluation	**-**	**-**	**-**	**3,406**	**12,457**	**-**	**15,863**
Disposals and impairments	**(33,637)**	**(1,850)**	**(30)**	**(4)**	**-**	**(5,937)**	**(41,458)**
Transfers from construction in progress	**77,138**	**11,391**	**-**	**-**	**-**	**(88,529)**	**-**
Balance as at March 31, 2021	**1,812,114**	**688,927**	**174,698**	**45,940**	**42,122**	**215,192**	**2,978,993**
Accumulated depreciation:							
Balance as at April 1, 2019	624,593	205,671	67,241	606	-	-	898,111
Depreciation	123,929	34,601	6,821	689	-	-	166,040
Disposals	(42,877)	(4,682)	(11)	-	-	-	(47,570)
Balance as at March 31, 2020	705,645	235,590	74,051	1,295	-	-	1,016,581
Depreciation	**118,444**	**34,420**	**6,756**	**561**	**-**	**-**	**160,181**
Disposals and impairments	**(32,730)**	**(1,570)**	**(30)**	**-**	**-**	**-**	**(34,330)**
Balance as at March 31, 2021	**791,359**	**268,440**	**80,777**	**1,856**	-	-	**1,142,432**
Net carrying value:							
As at March 31, 2020	1,064,130	443,796	100,670	41,243	29,665	200,013	1,879,517
As at March 31, 2021	**1,020,755**	**420,487**	**93,921**	**44,084**	**42,122**	**215,192**	**1,836,561**

[1] Reclassifications from Other liabilities (Note 14)

5. Property, plant and equipment (continued):

During the year ended March 31, 2021, financing costs capitalized during construction amounted to $8.3 million (March 31, 2020: $5.2 million) with an average capitalization rate of 4.58% (March 31, 2020: 4.92%).

Contractual commitments as at March 31, 2021, for assets to be constructed totalled $77.0 million (March 31, 2020: $121.5 million). The majority of these contractual commitments relate to the construction of four Island class vessels, one Salish class vessel and Coastal class quarter life upgrades.

The Group's property, plant and equipment assets 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 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, 2021, the Group did not identify any impairment through the value in use model. However, the Group recognized property, plant and equipment impairments of $6.8 million (March 31, 2020: $nil) 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 "Loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss and other comprehensive income (loss) for the year ended March 31, 2021.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to $43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the year ended March 31, 2021, the Group recognized $0.3 million (March 31, 2020: $9.7 million) as a reduction of the cost of property, plant and equipment. Funding of $39.6 million was recorded as a cumulative reduction of the cost of the property, plant and equipment in fiscal years 2018 to 2021.

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 liquefied natural gas ("LNG"). During the year ended March 31, 2021, the Group recognized $1.2 million (March 31, 2020: $1.2 million) as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2021, the Group received $0.5 million (March 31, 2020: $1.0 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $4.5 million, respectively, as at March 31, 2021 (March 21, 2020: cost of $11.9 million and accumulated depreciation of $4.0 million).

During the year ended March 31, 2021, the *North Island Princess* and the *Nimpkish* were decommissioned and sold. The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

(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, 2019	130,335	18,887	22,297	171,519
Additions	-	-	18,513	18,513
Disposals and impairments	(169)	-	(2,619)	(2,788)
Transfers from assets under development	7,711	1,011	(8,722)	-
Balance as at March 31, 2020	137,877	19,898	29,469	187,244
Additions	**-**	**-**	**13,553**	**13,553**
Disposals and impairments	**(431)**	**(167)**	**(185)**	**(783)**
Transfers from assets under development	**2,448**	**24,010**	**(26,458)**	**-**
Balance as at March 31, 2021	**139,894**	**43,741**	**16,379**	**200,014**
Accumulated amortization:				
Balance as at April 1, 2019	58,879	11,611	-	70,490
Amortization	15,715	1,315	-	17,030
Disposals and impairments	(169)	-	-	(169)
Balance as at March 31, 2020	74,425	12,926	-	87,351
Amortization	**15,518**	**3,842**	**-**	**19,360**
Disposals and impairments	**(431)**	**(167)**	**-**	**(598)**
Balance as at March 31, 2021	**89,512**	**16,601**	**-**	**106,113**
Net carrying value:				
As at March 31, 2020	63,452	6,972	29,469	99,893
As at March 31, 2021	**50,382**	**27,140**	**16,379**	**93,901**

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 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, 2021, the Group did not identify any impairment through the value in use model. However, in respect to certain individual obsolete or no longer expected to be recovered intangible assets the Group recognized asset impairments of $0.2 million (March 31, 2020: $2.6 million). The impairment loss is reported under "Loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss and other comprehensive income (loss) for the year ended March 31, 2021.

Capitalized financing costs during construction for intangible assets with an average capitalization rate of 4.58% (March 31, 2020: 4.92%) for the year ended March 31, 2021 totalled $0.8 million (March 31, 2020: $1.1 million).

During the year ended March 31, 2021, intangible assets totalling $9.8 million (March 31, 2020: $10.3 million) were acquired and $3.8 million (March 31, 2020: $8.2 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

7. 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 March 31	
	2021	2020
Trade payable and accrued liabilities	**32,848**	62,551
Wages payable	**72,485**	69,745
Accounts payable and accrued liabilities	**105,333**	**132,296**

8. Provisions:

	Claims payable	Other	Total
Balance as at April 1, 2019	1,715	-	1,715
Provisions arising during the year	414	-	414
Provisions settled during the year	(335)	-	(335)
Balance as at March 31, 2020	1,794	-	1,794
Provisions arising during the year	**2,218**	**1,500**	**3,718**
Provisions settled during the year	**(942)**	**-**	**(942)**
Balance as at March 31, 2021	**3,070**	**1,500**	**4,570**

Claims payable represent reserves for settlement amounts payable to third parties for injuries or damage to persons or property.

The Group established a provision for liabilities associated with the disposal of property, plant and equipment.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2019	1,280,043	41,981	18,429
Additions	250,000	1,440	64,462
Payments	(80,282)	(2,210)	(61,379)
Additions to debt issue costs	(1,587)	-	-
Amortization of debt issue costs	896	-	-
Balance as at March 31, 2020	1,449,070	41,211	21,512
Additions	**-**	**2**	**66,464**
Payments	**(22,157)**	**(2,536)**	**(66,542)**
Amortization of debt issue costs	**846**	**-**	**-**
Balance as at March 31, 2021	**1,427,759**	**38,677**	**21,434**
Current	**10,831**	**2,794**	**21,434**
Non-current	**1,416,928**	**35,883**	**-**
Balance as at March 31, 2021	**1,427,759**	**38,677**	**21,434**

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

10. Contract liabilities:

	Other	Safe restart funding	Total
Balance as at April 1, 2019	22,709	-	22,709
Additions	17,408	-	17,408
Recognized in profit or loss	(18,415)	-	(18,415)
Balance as at March 31, 2020	21,702	-	21,702
Additions	**13,775**	**308,000**	**321,775**
Recognized in profit or loss	**(12,233)**	**(186,000)**	**(198,233)**
Balance as at March 31, 2021	**23,244**	**122,000**	**145,244**
Current	**23,244**	**102,333**	**125,577**
Noncurrent	**-**	**19,667**	**19,667**
Balance as at March 31, 2021	**23,244**	**122,000**	**145,244**

10. Contract liabilities (continued):

Prepayments for fares received in advance of providing transportation and other customer prepaid revenues are included in the statement of financial position as contract liabilities 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, to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Group continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases. The revenue recognition of the contribution is consistent with the Group's submission to the Province from August 2020. Refer to Notes 23 and 30 for more information on the contribution.

11. Long-term debt:

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 six 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 (continued):

	As at March 31	
	2021	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
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	**28,961**	32,699
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**30,166**	33,938
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**30,166**	33,938
	1,439,293	1,461,450
Less: Unamortized deferred financing costs and bond discounts	**(11,534)**	(12,380)
Total	**1,427,759**	1,449,070
Current	**10,831**	21,644
Non-current	**1,416,928**	1,427,426
Total	**1,427,759**	1,449,070

(Tabular amounts expressed in thousands of Canadian dollars)

11. Long-term debt (continued):

(a) Bonds:

Bonds are issued under supplemental indentures either as obligation bonds or as pledged bonds. The bonds are secured by a registered first mortgage and charge over vessels, an unregistered first mortgage and charge over ferry terminal leases, and by a general security agreement on property and contracts. The bonds are redeemable in whole or in part at the option of the Group. The following table shows the semi-annual interest payment dates for the obligation bonds each year through to maturity.

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

(b) 2.79% Senior Secured Bonds, Series 19-1, due October 2049:

On October 15, 2019, the Group issued $250.0 million of senior secured bonds and established a debt service reserve for these bonds in the amount of $3.5 million. The Series 19-1 bonds bear interest at 2.794% per annum, payable semi-annually and will mature October 15, 2049. The net proceeds from the sale of the bonds will be used, together with additional cash on hand, to provide funding for capital expenditures and general corporate purposes, and to fund the series reserve account.

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

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

In June 2020, the Group fully paid the outstanding balance of the KfW 12 year loan.

(d) 2.95% Loan, maturing January 2021:

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

In January 2021, the Group fully paid the outstanding balance of the 2.95% KfW loan.

11. Long-term debt (continued):

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

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

(f) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on April 7, 2020 to extend the maturity date to April 20, 2025. There were no draws on this Credit Facility as at March 31, 2021 or March 31, 2020. There was no interest expensed during the years ended March 31, 2021 and March 31, 2020. Letters of credit outstanding against this Facility as at March 31, 2021 totalled $0.6 million (March 31, 2020: $0.6 million).

(g) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments. In the event that the debt service coverage ratio is less than 1.50, the Group is required to increase the amount in the debt service reserves to an amount equal to 12 months of interest payments no later than 12 months after the occurrence of such event. As at March 31, 2021, the debt service coverage ratio was 2.90 times.

As at March 31, 2021, debt service reserves of $33.1 million (March 31, 2020: $33.4 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(h) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization and rent or ("EBITDAR")) is required to be at least 1.25 times the debt service cost under the Credit Facility Agreement and the KfW loans.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement pursuant to which, for the purposes of calculating the bank covenants, the EBITDAR of the impacted quarters in fiscal 2021 (first, second and third) is replaced by an average of the EBITDAR from the respective quarters in fiscal years 2018 to 2020. As at March 31, 2021, the debt service coverage ratio using the modified calculation was 3.06 times.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Long-term debt (continued):

(h) Debt service coverage (continued):

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 will be 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 MTI (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at March 31, 2021 and at March 31, 2020.

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
Supplemental executive retirement plan	Unfunded	Group	Defined benefit	Defined benefit
WCB obligation	Unfunded	Third Party	Defined benefit	Defined benefit

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

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

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

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(a) Description of benefit plans (continued):

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

The accumulated sick leave bank consisted of unused sick time credits earned prior to the discontinuation of the sick leave accumulation benefit in 1979. The outstanding balance of this bank was fully drawn during the fiscal year ended March 31, 2021.

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

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

(b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2021, 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 $37.7 million (March 31, 2020: $35.1 million).

(c) Multi-employer plans:

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

	2021	2020
Public Service Pension Plan contributions (i)	**27,884**	29,021
Long-term disability plan contributions (ii)	**5,322**	4,046
Total	**33,206**	33,067

(i) The March 31, 2020 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 11, 2020. This report indicated that the pension fund had an actuarial surplus of $2.7 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, 2024, will be as at March 31, 2023.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(c) Multi-employer plans (continued):

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result, the employer contribution rate was increased from 1.79% to 2.51% of covered payroll effective April 1, 2020. The actuarial valuation as at March 31, 2020 determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2022, will be as at March 31, 2021.

(d) Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans was as at March 31, 2020. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The next scheduled valuation for the retirement and death benefit plans, expected to be received during the fiscal year ending March 31, 2024, will be as at March 31, 2023. The most recent actuarial valuation of the WCB obligation was as at March 31, 2019. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2023, will be as at March 31, 2022.

During the year ended March 31, 2021, the Group recognized a net loss of $1.8 million in reserves, as amounts that will not be reclassified to net earnings in the future, reflecting the actuarial valuation for the retirement and death benefit plans as at March 31, 2020.

	Other benefit plans	
Accrued benefit obligations	**2021**	2020
Balance, beginning of year	**23,151**	22,583
Current service cost	**1,270**	1,547
Interest cost	**961**	916
Benefits paid	**(4,506)**	(2,021)
Actuarial loss (note 21)	**1,807**	126
Balance, end of year	**22,683**	23,151

(Tabular amounts expressed in thousands of Canadian dollars)

12. Accrued employee future benefits (continued):

(d) Other defined benefit plans (continued):

Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	Other benefit plans	
	2021	2020
Accrued benefit obligation	**22,683**	23,151
Funded status of plans – deficit	**(22,683)**	(23,151)
Accrued benefit liability	**(22,683)**	(23,151)
Current portion of accrued employee future benefits	**2,600**	3,000
Non-current portion of accrued employee future benefits	**(20,083)**	(20,151)

Elements of defined benefit costs recognized in the year	Other benefit plans	
	2021	2020
Current service cost	**1,270**	1,547
Interest cost	**961**	916
Defined benefit costs recognized	**2,231**	2,463

Significant assumptions:

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

	2021	2020
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	**4.5%**	4.8%
Rate of compensation increase	**2.0%**	1.8%
Annual employee retention rate	**92.4%**	95.4%
Employees with eligible dependents at pre-retirement death	**43.0%**	43.0%
Average remaining service period of active employees (years)	**10.2**	9.65

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

Lease liabilities are payable as follows:

	Lease liabilities
Less than one year	2,794
Between one and five years	10,282
More than five years	1,086
Purchase option	24,515
Total	**38,677**
Current	2,794
Non-current	35,883
Total	**38,677**

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 building lease is for fifteen years, with four renewal options of five years each. The lease agreement includes payment of building operating costs and property taxes based on the Group's proportion of total rentable area.

Loan and purchase option:

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

(Tabular amounts expressed in thousands of Canadian dollars)

14. 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, 2021, 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 year ended March 31, 2021, the Group recognized $1.2 million (March 31, 2020: $1.2 million) as an offset to the capital costs of the vessels.

	Note	Salish Class	Spirit Class	Total
Balance as at April 1, 2019		5,489	4,027	9,516
Additions		-	2,625	2,625
Reclassifications to property, plant and equipment		(514)	(665)	(1,179)
Balance as at March 31, 2020		4,975	5,987	10,962
Reclassifications to property, plant and equipment	5	**(366)**	**(796)**	**(1,162)**
Balance as at March 31, 2021		**4,609**	**5,191**	**9,800**

15. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2021 and March 31, 2020 for all financial instruments except for long-term debt.

	As at March 31, 2021		As at March 31, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,427,759**	**1,738,088**	1,449,070	1,758,082

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

(Tabular amounts expressed in thousands of Canadian dollars)

15. Financial instruments (continued):

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, 2021 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 March 31, 2021, or at March 31, 2020, valued using Level 3 inputs.

	As at March 31, 2021		As at March 31, 2020	
	Level 1	**Level 2**	Level 1	Level 2
Asset (liability):				
Cash [1,2]	**246,855**	**-**	140,703	-
Cash equivalents [1,2]	**138**	**-**	138	-
Derivative assets [3]	**-**	**-**	-	28
Derivative liabilities [3]	**-**	**(5,763)**	-	(32,719)
	246,993	**(5,763)**	140,841	(32,691)

[1] Excluding Cash and cash equivalents of $38.4 million (March 31, 2020: $28.3 million) held at amortized cost.
[2] Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.
[3] 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 between levels during the year ended March 31, 2021 or March 31, 2020.

During the year ended March 31, 2021, gains or losses related to Level 2 derivatives have been recorded 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.

(Tabular amounts expressed in thousands of Canadian dollars)

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

Accounts receivable by source are as follows:

	As at March 31			
	2021		2020	
Trade customers and miscellaneous	13,520	78.1%	12,016	61.7%
Federal and Provincial governments	3,800	21.9%	7,472	38.3%
Total	**17,320**	**100%**	19,488	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, 2021, 1.4% (March 31, 2020: 8.6%) 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.

(Tabular amounts expressed in thousands of Canadian dollars)

16. 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 March 31, 2021, the provision for impairment was $0.1 million.

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

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

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

The counterparties with which the Group has significant derivative transactions must be rated A or higher. The Group had no derivative assets at March 31, 2021.

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

As at March 31, 2021 and March 31, 2020, the Group's credit ratings for senior secured long-term debt were as follows:

	As at March 31	
	2021	2020
DBRS	**A (high)(stable)**	A (high)(stable)
Standard & Poor's	**AA- (negative)**	AA- (stable)

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial risk management (continued):

(b) Liquidity risk (continued):

The following is analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2021:

Financial liabilities	Note	< 1 year	2-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	7	105,333	-	-	-	105,333
Provisions	8	4,570	-	-	-	4,570
Interest payable on long-term debt	9	21,434	-	-	-	21,434
Lease liabilities, including current portion	13	2,794	5,650	4,632	25,601	38,677
Long-term debt, including current portion (excluding deferred costs)[1]	11	11,282	22,564	22,564	1,382,883	1,439,293
Other liabilities		1,388	2,771	2,917	5,724	12,800
Total financial liabilities - Principal only		146,801	30,985	30,113	1,414,208	1,622,107
Interest payable - Long-term debt		66,094	131,455	130,520	899,232	1,227,301
Interest payable - Lease liabilities		1,678	2,967	1,903	118	6,666
Total financial liabilities, including interest payable		214,573	165,407	162,536	2,313,558	2,856,074

[1] Carrying value at March 31, 2021, excludes unamortized deferred financing costs of $11.5 million. The majority of the Group's long- term debt relates to funds used for acquisition of property, plant and equipment.

(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.

Interest rate risk:

The Group is exposed to interest rate risk associated with short-term borrowings, floating rate debt and the pricing of future issues of long-term debt. As at March 31, 2021, 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, 2021, the Group had no debt in variable rate instruments.

16. Financial risk management (continued):

(c) Market risk (continued):

Foreign currency price risk:

The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and enters into derivative instruments as necessary. As at March 31, 2021, the notional amount of the Group's foreign currency forward contracts was $1.4 million (March 31, 2020: $0.4 million). A 10% change in foreign exchange rates would have had an effect of $0.1 million on net earnings for the year ended March 31, 2021.

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 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 ("PT5"). PT5 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 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 year ended March 31, 2021, the Group entered into ULSD fuel swap contracts with a notional value of $28.3 million. The notional value of all fuel swap contracts outstanding as at March 31, 2021 was $117.1 million (March 31, 2020: $132.2 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the year ended March 31, 2021 and no LNG swap contracts were outstanding as at March 31, 2021.

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.

16. Financial risk management (continued):

(c) Fuel price risk (continued):

During the year ended March 31, 2021, open fuel swap contracts had unrealized hedging gains of $13.7 million recognized in OCI (March 31, 2020: unrealized hedging losses of $36.5 million). In addition, for closed fuel swap contracts net realized hedging losses of $13.3 million were reclassified from reserves and included in the Group's fuel expense during the year ended March 31, 2021 (March 31, 2020: net realized hedging gains of $4.4 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 $13.3 million of fuel swap contract losses recognized in the consolidated statement of profit or loss for the year ended March 31, 2021.

Cash flow hedges:

	Fiscal 2022	Fiscal 2023	Fiscals 2024	Total
Fuel contracts (litres in thousands)	72,091	72,792	44,290	189,173
Contract price range ($/litre)	$0.6060-$0.6499	$0.5960-$0.6336	$0.5885-$0.6090	

The impact of hedging instruments designated in hedging relationships as of March 31, 2021 on the statement of financial position and the statement of profit or loss and other comprehensive income (loss) 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	45,522	(2,856)	Current derivative liabilities	(2,856)
Fuel swap contracts	71,639	(2,863)	Non-current derivative liabilities	(2,863)
Foreign exchange forward contracts	1,384	(44)	Current derivative liabilities	(44)

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial risk management (continued):

(c) Fuel price risk (continued):

Cash flow hedges (continued):

The impact of hedged items designated in hedging relationships as of March 31, 2021 on the statement of financial position and the statement of profit or loss and other comprehensive income (loss) was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	5,736	5,719

Cash flow hedge reserve (Note 21(b)):

	As at March 31	
	2021	2020
Hedging gains (losses) recognized in cash flow hedge reserve:		
Fuel swap contracts	**13,707**	(36,451)
Hedging losses (gains) reclassified from cash flow hedge reserve:		
Interest rate forward contracts – Amortization of hedge loss	**248**	248
Fuel swap contracts – Losses (gains) recognized in net earnings	**13,294**	(4,407)
Net change in cash flow hedge reserve	**27,249**	(40,610)

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, 2021 were $0.9 million (March 31, 2020: $0.8 million).

Future contract payments are payable as follows:

	Other Commitments
Less than one year	919
Between one and five years	1,868
More than five years	209
Total	**2,996**

(Tabular amounts expressed in thousands of Canadian dollars)

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			
	2021		2020	
	Number of shares	Amount $	Number of shares	Amount $
Class B, common	**1**	**1**	1	1
Class C, preferred	**75,477**	**75,477**	75,477	75,477
		75,478		75,478

(c) Dividends:

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

(Tabular amounts expressed in thousands of Canadian dollars)

20. Capital management:

The Group's principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations. Given the impact of COVID-19 on the Group's financial position, the Group continues to review all capital plans to identify opportunities to defer expenditures that are not regulatory, security or safety related or operationally necessary.

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			
	2021		2020	
	$	**%**	$	%
Aggregate borrowings[1]	**1,632,970**	**71.12%**	1,657,661	71.89%
Total equity before reserves	**663,157**	**28.88%**	648,223	28.11%
Total	**2,296,127**	**100%**	2,305,884	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 EBITDAR must be at least 1.25 times the debt service cost. Refer to Note 11 for additional information.

The Group was in compliance with all of its covenants at March 31, 2021 and at March 31, 2020.

(Tabular amounts expressed in thousands of Canadian dollars)

21. Other comprehensive (loss) income:

(a) 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, 2019		16,879	(5,969)	8,138	(6,214)	12,834
Land revaluation		5,779	-	-	-	5,779
Actuarial losses on post-employment benefit obligations:	12(d)	-	(126)	-	-	(126)
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		-	-	(36,451)	-	(36,451)
Realized gains		-	-	(4,407)	-	(4,407)
Amortization of losses		-	-	-	248	248
Balance as at March 31, 2020		22,658	(6,095)	(32,720)	(5,966)	(22,123)
Land revaluation		**15,849**	-	-	-	**15,849**
Actuarial losses on post-employment benefit obligations:	12(d)	**-**	**(1,807)**	-	-	**(1,807)**
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		**-**	**-**	**13,707**	-	**13,707**
Realized losses		**-**	**-**	**13,294**	-	**13,294**
Amortization of losses		**-**	**-**	**-**	**248**	**248**
Balance as at March 31, 2021		**38,507**	**(7,902)**	**(5,719)**	**(5,718)**	**19,168**

[1] Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve increases during the years ended March 31, 2021 and March 31, 2020, are shown above. During the year ended March 31, 2021, the Group recognized less than $0.1 million (March 31, 2020: $0.1 million) in net earnings as a result of land revaluation.

(b) Other comprehensive income (loss):

	Note	Years ended March 31 2021	2020
Items that are or may be reclassified subsequently to net earnings:			
Hedge gains (losses) on fuel swaps	16(c)	**13,707**	(36,451)
Items that will not be reclassified to net earnings:			
Land revaluations		**15,849**	5,779
Actuarial losses on post-employment benefit obligations	12(d)	**(1,807)**	(126)
Total other comprehensive income (loss)		**27,749**	(30,798)

(Tabular amounts expressed in thousands of Canadian dollars)

22. Net retail:

	Years ended March 31	
	2021	2020
Retail revenue	**29,762**	102,962
Cost of goods sold	**(11,927)**	(39,248)
Net retail	**17,835**	63,714

23. Safe restart funding:

In December 2020, the Group received a contribution of $308.0 million from the Province under the Safe Restart Funding Agreement.

The contribution consists of the following three components:

- Base Operating Relief - $280.0 million in respect of the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief - $24.0 million in respect of the estimated revenue losses during the term of the Safe Restart Funding Agreement from limiting fare increases to an average of 2.3% in each of fiscal years 2022, 2023 and 2024; and
- Discretionary Sailing Relief - $4.0 million in respect of the estimated costs of discretionary sailings in fiscal years 2022, 2023 and 2024.

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

The Group recognized $186.0 million of the contribution under "Safe restart funding" in the consolidated statement of profit or loss for the year ended March 31, 2021. The remaining balance of $122.0 million was included in contract liabilities in the consolidated statement of financial position.

For more details on the Group's obligations under the Safe Restart Funding Agreement, see the agreement online on SEDAR at http://www.sedar.com.

24. Operating expenses:

	Years ended March 31	
	2021	2020
Salaries, wages & benefits	**380,697**	413,333
Fuel	**89,699**	109,341
Materials, supplies and contracted services	**79,725**	87,207
Other operating expenses	**50,203**	63,199
Depreciation and amortization	**179,541**	183,070
Total operating expenses	**779,865**	856,150

(Tabular amounts expressed in thousands of Canadian dollars)

25. Net finance expense:

	Years ended March 31	
	2021	2020
Finance expenses:		
Long-term debt	**66,512**	64,462
Short-term debt	**275**	465
Lease liabilities	**1,803**	1,927
Amortization of deferred financing costs and bond discounts	**1,094**	1,144
Interest capitalized in the cost of qualitying assets	**(9,061)**	(6,284)
Total finance expenses	**60,623**	61,714
Finance income	**(4,615)**	(7,532)
Net finance expense	**56,008**	54,182

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	
	2021	2020
Short-term benefits	**1,840**	2,151
Post-employment benefits	**106**	861
Termination benefits	**-**	-
Total	**1,946**	3,012

(b) B.C. Ferry Authority:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the year ended March 31, 2021, the Group paid $0.2 million (March 31, 2020: $0.2 million) of such expenses.

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

27. Ferry service fees:

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

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 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. 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 March 31, 2021, 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 March 31, 2021 and March 31, 2020, tariffs charged to customers were below established price caps.

(Tabular amounts expressed in thousands of Canadian dollars)

29. Economic effect of rate regulation (continued):

(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, 2021, the amount payable to the Province in relation to fuel cost differences was $0.2 million (March 31, 2020: $nil).

(b) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At March 31, 2021 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 March 31, 2021 would have been $1.5 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 year ended March 31, 2021 would have been $0.6 million higher (March 31, 2020: $6.6 million lower) as detailed below:

	As at March 31	
Effect of rate regulation on net earnings	**2021**	2020
Regulatory accounts:		
Deferred fuel costs:		
Fuel costs under set price	**(6,351)**	(1,111)
Rebates rebates (surcharges)	**6,761**	(5,440)
Fuel price risk recoveries payable to the Province	**230**	-
Total increase (decrease) in net earnings	**640**	(6,551)

(Tabular amounts expressed in thousands of Canadian dollars)

30. Economic effect of Safe restart funding:

The Group received a one-time contribution of $308.0 million from the Province, following the Safe Restart Funding Agreement signed with the Province in November 2020. The purpose of the funding is to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Group continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases.

If the Group did not receive and recognize $186.0 million of the Safe restart funding, the net loss for the year ended March 31, 2021 would have been $165.0 million, $193.8 million lower than the prior year period as detailed below:

	Years ended March 31		
Effect of Safe restart funding on net earnings	**2021**	2020	Decrease
Net earnings	**20,972**	28,777	(7,805)
Safe restart funding	**(186,000)**	-	(186,000)
Net (loss) earnings excluding Safe restart funding	**(165,028)**	28,777	(193,805)

If the Group did not receive Safe restart funding of $308.0 million, the net decrease in cash and cash equivalents for the year ended March 31, 2021 would have been $191.8 million, $301.0 million lower than the prior year period as detailed below:

	Years ended March 31		
Effect of Safe restart funding on Net increase in cash and cash equivalents	**2021**	2020	Increase (Decrease)
Net increase in cash and cash equivalents	**116,248**	109,253	6,995
Safe restart funding	**(308,000)**	-	(308,000)
Net (decrease) increase in cash and cash equivalents excluding Safe restart funding	**(191,752)**	109,253	(301,005)