

Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and six months ended September 30, 2021 and 2020
(Unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

	Note	As at	
		September 30, 2021	March 31, 2021
Assets			
Current assets			
Cash and cash equivalents		231,537	285,389
Restricted short-term investments	7(b)	33,038	33,098
Other short-term investments		187,649	124,730
Trade and other receivables		45,873	17,320
Prepaid expenses		16,370	12,914
Inventories		36,024	35,160
Current portion of derivative assets	11(b)	10,285	-
		560,776	508,611
Non-current assets			
Loan receivable		24,515	24,515
Property, plant and equipment	3	1,836,633	1,836,561
Intangible assets	4	87,702	93,901
Derivative assets	11(b)	10,310	-
		1,959,160	1,954,977
Total assets		2,519,936	2,463,588
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	122,811	105,333
Provisions		4,659	4,570
Current portion of lease liabilities	6	2,863	2,794
Current portion of contract liabilities		72,294	125,577
Current portion of long-term debt	6,7	10,859	10,831
Interest payable on long-term debt	6	21,480	21,434
Current portion of accrued employee future benefits		2,600	2,600
Current portion of derivative liabilities	11(b)	31	2,900
		237,597	276,039
Non-current liabilities			
Lease liabilities	6	34,767	35,883
Contract liabilities		14,056	19,667
Long-term debt	6,7	1,411,666	1,416,928
Accrued employee future benefits		19,350	20,083
Other liabilities	9	9,104	9,800
Derivative liabilities	11(b)	-	2,863
		1,488,943	1,505,224
Total liabilities		1,726,540	1,781,263
Equity			
Share capital		75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		647,312	562,679
Total equity before reserves		747,790	663,157
Reserves	12(a)	45,606	19,168
Total equity including reserves		793,396	682,325
Total liabilities and equity		2,519,936	2,463,588

Commitments (Note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

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

(Expressed in thousands of Canadian dollars)

	Note	Three months ended		Six months ended	
		September 30		September 30	
		2021	2020	2021	2020
Revenue					
Vehicle and passenger fares		221,463	169,969	325,113	248,750
Net retail	13	18,765	8,381	24,245	9,164
Fuel rebates	18	(2,090)	(2,665)	(3,758)	(3,907)
Other income		3,695	2,566	5,071	3,609
Revenue from customers		241,833	178,251	350,671	257,616
Safe restart funding	14,19	2,471	-	62,129	-
Ferry service fees		64,530	61,388	117,159	111,416
Federal-Provincial Subsidy Agreement		8,045	8,007	16,091	16,014
Total revenue		316,879	247,646	546,050	385,046
Expenses	15				
Operations		157,638	126,803	287,206	232,124
Maintenance		14,026	15,162	42,829	38,243
Administration		8,992	8,837	17,763	20,080
Depreciation and amortization		42,717	44,498	86,343	88,546
Total operating expenses		223,373	195,300	434,141	378,993
Operating profit		93,506	52,346	111,909	6,053
Net finance and other expenses	16				
Finance expenses		14,743	15,436	29,614	30,542
Finance income		(1,267)	(1,062)	(2,400)	(2,284)
Net finance expense		13,476	14,374	27,214	28,258
Loss on disposal and impairment of property, plant and equipment and intangible assets		66	105	62	1,964
Net finance and other expenses		13,542	14,479	27,276	30,222
NET EARNINGS (LOSS)		79,964	37,867	84,633	(24,169)
Other comprehensive income (loss)	12(b)				
Items that are or may be reclassified subsequently to net earnings (loss):					
Hedge gains (losses) on fuel swaps		11,409	(5,147)	28,124	(5,543)
Items not to be reclassified to net earnings (loss):					
Actuarial losses on post-employment benefit obligations		-	(1,933)	-	(1,933)
Total other comprehensive income (loss)		11,409	(7,080)	28,124	(7,476)
Total comprehensive income (loss)		91,373	30,787	112,757	(31,645)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended September 30	
	2021	2,020
Operating activities		
Net earnings (loss)	84,633	(24,169)
Items not affecting cash:		
Net finance expense	27,214	28,258
Depreciation and amortization	86,343	88,546
Loss on disposal and impairment of property, plant and equipment and intangible assets	62	1,964
Other non-cash changes to property, plant and equipment	1,246	119
Changes in:		
Accrued employee future benefits	(733)	(1,988)
Derivative assets and liabilities	(13)	32
Provisions	89	(26)
Accrued financing costs	899	274
Total non-cash items	115,107	117,179
Movements in operating working capital:		
Trade and other receivables	(28,553)	(3,711)
Prepaid expenses	(3,456)	(4,341)
Inventories	(864)	(4,780)
Accounts payable and accrued liabilities	17,478	(30,368)
Contract liabilities	(58,894)	(1,343)
Change in non-cash working capital	(74,289)	(44,543)
Change in non-cash working capital attributable to investing activities	(8,926)	26,825
Change in non-cash operating working capital	(83,215)	(17,718)
Cash generated from operating activities before interest	116,525	75,292
Interest received	1,500	1,905
Interest paid	(34,045)	(34,422)
Cash generated from operating activities	83,980	42,775

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended September 30	
	2021	2020
Financing activities		
Repayment of long-term debt	(5,641)	(12,016)
Repayment of lease liabilities	(1,438)	(1,209)
Cash used in financing activities	(7,079)	(13,225)
Investing activities		
Proceeds from disposal of property, plant and equipment	19	94
Purchase of property, plant and equipment and intangible assets	(67,913)	(72,363)
Changes in restricted short-term investments	60	(646)
(Net purchase of) proceeds from other short-term investments	(62,919)	36,818
Cash used in investing activities	(130,753)	(36,097)
Net decrease in cash and cash equivalents	(53,852)	(6,547)
Cash and cash equivalents, beginning of period	285,389	169,141
Cash and cash equivalents, end of period	231,537	162,594

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 12(a))	Total equity including reserves
Balance as at April 1, 2020	75,478	25,000	547,745	648,223	(22,123)	626,100
Net loss	-	-	(24,169)	(24,169)	-	(24,169)
Other comprehensive loss	-	-	-	-	(7,476)	(7,476)
Realized hedge losses recognized in fuel swaps	-	-	-	-	9,381	9,381
Hedge losses on interest rate forward contract reclassified to net earnings (loss)	-	-	-	-	124	124
Balance as at September 30, 2020	75,478	25,000	523,576	624,054	(20,094)	603,960
Balance as at April 1, 2021	75,478	25,000	562,679	663,157	19,168	682,325
Net earnings	-	-	84,633	84,633	-	84,633
Other comprehensive income	-	-	-	-	28,124	28,124
Realized hedge gains recognized in fuel swaps	-	-	-	-	(1,810)	(1,810)
Hedge losses on interest rate forward contract reclassified to net earnings (loss)	-	-	-	-	124	124
Balance as at September 30, 2021	75,478	25,000	647,312	747,790	45,606	793,396

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and six months ended September 30, 2021 and 2020
(Tabular amounts expressed in thousands of Canadian dollars)

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

The Company is subject to the Coastal Ferry Act (the "Act") as amended, which 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 worldwide spread of the novel coronavirus ("COVID-19") pandemic since the beginning of 2020 has had and continues to have an impact on the Company's passenger and vehicle traffic. The preventative measures and imposed travel restrictions continued to significantly impact the Company's earnings and cash from operations during the six months ended September 30, 2021.

In December 2020, the Company received \$308.0 million from the Province of British Columbia as part of the Provincial and Federal Governments' Safe Restart Funding Program which significantly increased the Company's cash position and mitigated the need for incremental borrowing. Refer to Notes 14 and 19 for more information.

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.

In response to the reduction in traffic resulting from COVID-19, the Company continues to monitor both operating and capital plans as it responds to customer demand and responsibly defers spending in order to preserve cash while operating a sustainable, safe, and reliable service.

The Company cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions return to pre-COVID-19 levels.

1. Accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These condensed interim consolidated financial statements, as at and for the three and six months ended September 30, 2021 and 2020, comprise the Company and its subsidiaries (together referred to as the "Group").

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and six months ended September 30, 2021 and 2020
(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and its interpretations, as issued by the International Accounting Standards Board ("IASB"), and comply with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended March 31, 2021, as they follow the same accounting policies.

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

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

These condensed interim consolidated financial statements were approved by the Board of Directors on November 18, 2021.

2. Adoption of new and amended standards:

During the three and six months ended September 30, 2021, the Group did not adopt any new or amended standards in preparing these condensed interim consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

3. Property, plant and equipment:

	Vessels	Berths, buildings and equipment	Right-of-use assets – Berths, buildings and equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:							
Balance as at March 31, 2021	1,812,114	688,927	174,698	45,940	42,122	215,192	2,978,993
Additions	(696) ¹	-	332	17	-	75,594	75,247
Disposals	(7,202)	(1,573)	-	-	-	-	(8,775)
Transfers from construction in progress	3,486	2,212	-	-	-	(5,698)	-
Balance as at September 30, 2021	1,807,702	689,566	175,030	45,957	42,122	285,088	3,045,465
Accumulated depreciation:							
Balance as at March 31, 2021	791,359	268,440	80,777	1,856	-	-	1,142,432
Depreciation	54,608	16,945	3,334	281	-	-	75,168
Disposals	(7,202)	(1,566)	-	-	-	-	(8,768)
Balance as at September 30, 2021	838,765	283,819	84,111	2,137	-	-	1,208,832
Net carrying value:							
As at March 31, 2021	1,020,755	420,487	93,921	44,084	42,122	215,192	1,836,561
As at September 30, 2021	968,937	405,747	90,919	43,820	42,122	285,088	1,836,633

¹ Reclassifications from Other liabilities (Note 9)

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

3. Property, plant and equipment (continued):

During the six months ended September 30, 2021, financing costs capitalized during construction of qualifying assets amounted to \$5.0 million (September 30, 2020: \$4.0 million) with an average capitalization rate of 4.64% (September 30, 2020: 4.58%).

As at September 30, 2021, contractual commitments for assets to be constructed totalled \$61.8 million (March 31, 2021: \$77.0 million). Most of these contractual commitments relate to the construction of one Salish class vessel and betterments to existing vessels and terminals.

During the six months ended September 30, 2021, the Group recognized property, plant and equipment asset impairments of \$nil (September 30, 2020: \$2.0 million).

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 six months ended September 30, 2021, the Group recognized \$nil (March 31, 2021: \$0.3 million) as a reduction of the cost of property, plant and equipment. Funding of \$39.6 million has been recognized as a cumulative reduction of the cost of the property, plant and equipment.

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 six months ended September 30, 2021, the Group recognized \$0.7 million (March 31, 2021: \$1.2 million) as a reduction of the cost of property, plant and equipment.

During the six months ended September 30, 2021, the Group received \$0.4 million (September 30, 2020: \$0.1 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$4.7 million, respectively, as at September 30, 2021 (March 31, 2021: cost of \$11.9 million and accumulated depreciation of \$4.5 million).

The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

4. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at March 31, 2021	139,894	43,741	16,379	200,014
Additions	42	-	5,008	5,050
Impairment	-	-	(74)	(74)
Transfers from assets under development	5,421	366	(5,787)	-
Balance as at September 30, 2021	145,357	44,107	15,526	204,990
Accumulated amortization:				
Balance as at March 31, 2021	89,512	16,601	-	106,113
Amortization	8,026	3,149	-	11,175
Balance as at September 30, 2021	97,538	19,750	-	117,288
Net carrying value:				
As at March 31, 2021	50,382	27,140	16,379	93,901
As at September 30, 2021	47,819	24,357	15,526	87,702

During the six months ended September 30, 2021, financing costs capitalized during development of qualifying assets were \$nil (September 30, 2020: \$0.6 million with an average capitalization rate of 4.58%).

During the six months ended September 30, 2021, the Group recognized intangible asset impairments of \$0.1 million (September 30, 2020: \$nil). 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 six months ended September 30, 2021.

During the six months ended September 30, 2021, intangible assets under development totalled \$5.0 million of which \$4.1 million were acquired (September 30, 2020: \$5.2 million) and \$0.9 million (September 30, 2020: \$3.0 million) were internally developed.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

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

	As at	
	September 30, 2021	March 31, 2021
Trade payable and accrued liabilities	46,069	32,848
Wages payable	76,742	72,485
Balance as at September 30, 2021	122,811	105,333

6. 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 March 31, 2021	1,427,759	38,677	21,434
Additions	-	391	33,115
Payments	(5,641)	(1,438)	(33,069)
Amortization of debt issue costs	407	-	-
Balance as at September 30, 2021	1,422,525	37,630	21,480
Current	10,859	2,863	21,480
Non-current	1,411,666	34,767	-
Balance as at September 30, 2021	1,422,525	37,630	21,480

¹ Interest expense related to lease liabilities is presented in net finance expense (Note 16).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

7. Long-term debt:

	As at	
	September 30, 2021	March 31, 2021
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	200,000	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	250,000	250,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	27,092	28,961
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	28,280	30,166
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	28,280	30,166
	1,433,652	1,439,293
Less: Unamortized deferred financing costs and bond discounts	(11,127)	(11,534)
Total	1,422,525	1,427,759
Current	10,859	10,831
Non-current	1,411,666	1,416,928
Total	1,422,525	1,427,759

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and six months ended September 30, 2021 and 2020
(Tabular amounts expressed in thousands of Canadian dollars)

7. Long-term debt (continued):

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

(a) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds (the "Credit Facility"). 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 September 30, 2021 or March 31, 2021, and no interest was expensed during the six months ended September 30, 2021 and March 31, 2021. Letters of credit outstanding against this Credit Facility as at September 30, 2021 totalled \$0.6 million (March 31, 2021: \$0.6 million).

(b) Debt service reserves:

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

As at September 30, 2021, debt service reserves of \$33.0 million (March 31, 2021: \$33.1 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(c) Debt service coverage:

Under the Master Trust Indenture ("MTI"), the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's leverage ratio exceeds 85% or if the debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent), is less than 1.5 times the debt service cost.

As at September 30, 2021, the debt service coverage ratio was 4.35 times the debt service cost.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement ("the Amendment") for the purposes of calculating the bank covenants with the condition to maintain a minimum of \$50.0 million in available liquidity, to include cash, short-term investments, and undrawn credit facility over the Minimum Liquidity Period of May 15, 2020 to December 31, 2021.

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 September 30, 2021 and at March 31, 2021.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
 Three and six months ended September 30, 2021 and 2020
 (Tabular amounts expressed in thousands of Canadian dollars)

8. Accrued employee future benefits:

During the six months ended September 30, 2021, the Group recognized total defined benefit costs of \$0.9 million (September 30, 2020: \$1.3 million) within operating expenses.

During the six months ended September 30, 2021, the Group recognized \$nil in other comprehensive income ("OCI"), as amounts that will not be reclassified to net earnings (loss) in the future (September 30, 2020: a loss of \$1.9 million reflecting the actuarial valuation for the retirement and death benefit plans as at March 31, 2020).

9. Other liabilities:

FortisBC Energy Inc. has committed to provide the Group with funding of \$6.0 million for the Salish Class vessels and up to \$10.0 million for the two Spirit Class vessels to be applied towards their mid-life upgrade and conversion to LNG. The funding is part of the NGT incentive funding and is dependent upon the purchase of LNG and the incremental costs of building/converting vessels to be capable of using LNG for propulsion.

As of September 30, 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 six months ended September 30, 2021, the Group recognized \$0.7 million (March 31, 2021: \$1.2 million) as an offset to the capital costs of the vessels.

	Note	Salish Class	Spirit Class	Total
Balance as at March 31, 2021		4,609	5,191	9,800
Reclassifications to property, plant and equipment	3	(220)	(476)	(696)
Balance as at September 30, 2021		4,389	4,715	9,104

10. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at September 30, 2021 and March 31, 2021 for all financial instruments except for long-term debt.

	As at September 30, 2021		As at March 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion ¹	1,422,525	1,738,041	1,427,759	1,738,088

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

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

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
 Three and six months ended September 30, 2021 and 2020
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10. Financial instruments (continued):

The following items shown in the consolidated statements of financial position as at September 30, 2021 and March 31, 2021 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at September 30, 2021, or at March 31, 2021, valued using Level 3 inputs.

	As at September 30, 2021		As at March 31, 2021	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash ^{1,2}	231,529	-	246,855	-
Cash equivalents ^{1,2}	8	-	138	-
Derivative assets ³	-	20,595	-	-
Derivative liabilities ³	-	(31)	-	(5,763)
	231,537	20,564	246,993	(5,763)

¹ Excluding Cash and cash equivalents of \$nil (March 31, 2021: \$38.4 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 six months ended September 30, 2021.

During the six months ended September 30, 2021, gains or losses related to Level 2 derivatives have been recorded in OCI.

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

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Three and six months ended September 30, 2021 and 2020
(Tabular amounts expressed in thousands of Canadian dollars)

11. Financial risk management:

(a) Credit risk:

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

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 September 30, 2021, the provision for impairment was \$0.1 million (March 31, 2021: \$0.1 million).

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

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

(b) Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and LNG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12-month period; 90% of anticipated monthly fuel consumption for the 12-month period thereafter; and to 85% of anticipated monthly fuel consumption for the period thereafter to 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 18).

The Group hedges using CAD denominated ultra-low sulfur diesel ("ULSD") fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the six months ended September 30, 2021, the Group entered into ULSD fuel swap contracts with a notional value of \$14.9 million. The notional value of all fuel swap contracts outstanding as at September 30, 2021 was \$108.9 million (March 31, 2021: \$117.1 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the six months ended September 30, 2021 and no LNG swap contracts were outstanding as at September 30, 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

11. Financial risk management (continued):

(b) Fuel price risk (continued):

During the six months ended September 30, 2021, open fuel swap contracts had unrealized hedging gains of \$28.1 million recognized in OCI (September 30, 2020: unrealized hedging losses of \$5.5 million). In addition, for closed fuel swap contracts net realized hedging gains of \$1.8 million were reclassified from reserves and included in the Group's fuel expense during the six months ended September 30, 2021 (September 30, 2020: net realized hedging losses of \$9.4 million).

Cash flow hedges:

	Fiscal 2022	Fiscal 2023	Fiscals 2024	Total
Fuel contracts (litres in thousands)	35,451	72,792	67,195	175,438
Contract price range (\$/litre)	\$0.6060-\$0.6499	\$0.5960-\$0.6336	\$0.5885-\$0.6490	

The impact of hedging instruments designated in hedging relationships as of September 30, 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	48,151	10,285	Current derivative assets	10,285
Fuel swap contracts	60,700	10,310	Non-current derivative assets	10,310
Foreign exchange forward contracts	1,453	(31)	Current derivative liabilities	(31)

The impact of hedged items designated in hedging relationships as of September 30, 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	20,650	20,595

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

11. Financial risk management (continued):

(b) Fuel price risk (continued):

Cash flow hedge reserve (Note 12(b)):

	Three months ended		Six months ended	
	September 30		September 30	
	2021	2020	2021	2020
Hedging gains (losses) recognized in cash flow hedge reserve:				
Fuel swap contracts	11,409	(5,147)	28,124	(5,543)
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Interest rate forward contracts – Amortization of hedge loss	62	62	124	124
Fuel swap contracts – (Gains) losses recognized in net earnings (loss)	(1,497)	4,559	(1,810)	9,381
Net change in cash flow hedge reserve	9,974	(526)	26,438	3,962

12. Other comprehensive income (loss):

(a) Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at March 31, 2021		38,507	(7,902)	(5,719)	(5,718)	19,168
Derivatives designated as cash flow hedges:	11					
Net change in fair value		-	-	28,124	-	28,124
Realized gains		-	-	(1,810)	-	(1,810)
Amortization of losses		-	-	-	124	124
Balance as at September 30, 2021		38,507	(7,902)	20,595	(5,594)	45,606

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

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

(b) Other comprehensive income (loss):

	Note	Three months ended September 30		Six months ended September 30	
		2021	2020	2021	2020
Items that are or may be reclassified subsequently to net earnings (loss):					
Hedge gains (losses) on fuel swaps	11	11,409	(5,147)	28,124	(5,543)
Items that will not be reclassified to net earnings (loss):					
Actuarial losses on post-employment benefit obligations		-	(1,933)	-	(1,933)
Total other comprehensive income (loss)		11,409	(7,080)	28,124	(7,476)

13. Net retail:

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Retail revenue	29,876	13,425	39,036	14,747
Cost of goods sold	(11,111)	(5,044)	(14,791)	(5,583)
Net retail	18,765	8,381	24,245	9,164

14. 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 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 main three components of the contribution for fiscal years 2021 to 2024, and reflects the normal seasonal pattern of earnings.

The Group recognized \$2.5 million and \$62.1 million for the three and six months ended September 30, 2021 (September 30, 2020: \$nil), of the contribution under "Safe restart funding", and \$0.3 million and \$0.7 million for the three and six months ended September 30, 2021 (September 30, 2020: \$nil), relating to the Discretionary sailing relief, under "Ferry service fees" in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss). The remaining balance of \$59.2 million was included in contract liabilities in the condensed interim consolidated statement of financial position (March 31, 2021: \$122.0 million).

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>.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

15. Operating expenses:

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Salaries, wages & benefits	105,320	96,289	207,554	186,255
Fuel	38,329	26,166	64,172	44,507
Materials, supplies and contracted services	20,241	17,665	45,128	36,373
Other operating expenses	16,766	10,682	30,944	23,312
Depreciation and amortization	42,717	44,498	86,343	88,546
Total operating expenses	223,373	195,300	434,141	378,993

16. Net finance expense:

	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Finance expenses:				
Long-term debt	16,636	16,739	33,115	33,394
Short-term debt	47	45	112	166
Lease liabilities	428	454	862	916
Amortization of deferred financing costs and bond discounts	265	341	534	619
Interest capitalized in the cost of qualifying assets	(2,633)	(2,143)	(5,009)	(4,553)
Total finance expenses	14,743	15,436	29,614	30,542
Finance income	(1,267)	(1,062)	(2,400)	(2,284)
Net finance expense	13,476	14,374	27,214	28,258

17. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the six months ended September 30, 2021, the Group paid \$228,914 (September 30, 2020: \$86,639) 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

18. 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 assets at September 30, 2021, will be recovered through future tariffs or fuel surcharges.

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 September 30, 2021 and March 31, 2021, 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 assets as at September 30, 2021 would have been \$3.2 million (March 31, 2021: regulatory liabilities of \$1.5 million).

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the three months ended September 30, 2021 would have been \$3.6 million higher (September 30, 2020: \$0.3 million higher), and during the six months ended September 30, 2021 would have been \$4.6 million higher (September 30, 2020: \$1.1 million higher) as detailed below:

	Three months ended		Six months ended	
	September 30		September 30	
Effect of rate regulation on net earnings	2021	2020	2021	2020
Regulatory accounts:				
Deferred fuel costs:				
Fuel costs over (under) set price	1,468	(2,381)	879	(2,792)
Rebates	2,090	2,665	3,758	3,907
Total increase in net earnings	3,558	284	4,637	1,115

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six months ended September 30, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars)

19. 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 recognize \$62.8 million of the Safe restart funding (\$62.1 million recognized under "Safe restart funding" and \$0.7 million under "Ferry service fees" in the condensed interim consolidated statement of profit or loss and other comprehensive income (loss)), the net earnings for the six months ended September 30, 2021 would have been \$21.8 million (September 30, 2020: a net loss of \$24.2 million):

Effect of Safe restart funding on net earnings (loss)	Note	Three months ended September 30			Six months ended September 30		
		2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Net earnings (loss)		79,964	37,867	42,097	84,633	(24,169)	108,802
Safe restart funding	14	(2,805)	-	(2,805)	(62,796)	-	(62,796)
Net earnings (loss) excluding Safe restart funding		77,159	37,867	39,292	21,837	(24,169)	46,006