Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and nine months ended December 31, 2021 and 2020
(Unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

		As at	
	Note	December 31, 2021	March 31, 2021
Assets			
Current assets			
Cash and cash equivalents		248,511	285,389
Restricted short-term investments	7(b)	33,008	33,098
Other short-term investments		167,210	124,730
Trade and other receivables		13,689	17,320
Prepaid expenses		13,169	12,914
Inventories		37,221	35,160
Current portion of derivative assets	11(b)	10,148	-
		522,956	508,611
Non-current assets			
Loan receivable		24,515	24,515
Property, plant and equipment	3	1,847,476	1,836,561
Intangible assets	4	84,527	93,901
Derivative assets	11(b)	9,505	-
		1,966,023	1,954,977
Total assets		2,488,979	2,463,588
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	124,119	105,333
Provisions		4,186	4,570
Current portion of lease liabilities	6	2,851	2,794
Current portion of contract liabilities		52,764	125,577
Current portion of long-term debt	6,7	10,873	10,831
Interest payable on long-term debt	6	17,394	21,434
Current portion of accrued employee future benefits		2,600	2,600
Current portion of derivative liabilities	11(b)	50	2,900
		214,837	276,039
Non-current liabilities			
Lease liabilities	6	34,055	35,883
Contract liabilities		11,966	19,667
Long-term debt	6,7	1,409,032	1,416,928
Accrued employee future benefits		19,413	20,083
Other liabilities	9	8,828	9,800
Derivative liabilities	11(b)	-	2,863
		1,483,294	1,505,224
Total liabilities		1,698,131	1,781,263
Equity			
Share capital		75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		645,646	562,679
Total equity before reserves		746,124	663,157
Reserves	12(a)	44,724	19,168
Total equity including reserves		790,848	682,325
Total liabilities and equity		2,488,979	2,463,588

Capital commitments (Note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

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

(Expressed in thousands of Canadian dollars)

		Three months ended December 31		Nine months ended December 31	
	Note	2021	2020	2021	2020
Revenue					
Vehicle and passenger fares		131,568	94,691	456,681	343,441
Net retail	13	11,299	4,811	35,544	13,975
Fuel rebates	18	(547)	(1,525)	(4,305)	(5,432)
Other income		2,606	1,937	7,677	5,546
Revenue from customers		144,926	99,914	495,597	357,530
Safe restart funding	14,19	18,871	154,802	81,000	154,802
Ferry service fees		50,341	49,118	167,500	160,535
Federal-Provincial Subsidy Agreement		8,046	8,007	24,137	24,021
Total revenue		222,184	311,841	768,234	696,888
Expenses	15				
Operations		133,808	120,616	421,014	352,740
Maintenance		22,907	24,290	65,736	62,533
Administration		9,593	8,514	27,356	28,594
Depreciation and amortization		43,217	45,613	129,560	134,159
Total operating expenses		209,525	199,033	643,666	578,026
Operating profit		12,659	112,808	124,568	118,862
Net finance and other expenses	16				
Finance expenses		15,495	15,445	45,109	45,988
Finance income		(1,165)	(1,077)	(3,565)	(3,361)
Net finance expense		14,330	14,368	41,544	42,627
(Gain) loss on disposal and impairment of property, plant and equipment and intangible assets		(5)	4	57	1,968
Net finance and other expenses		14,325	14,372	41,601	44,595
NET (LOSS) EARNINGS		(1,666)	98,436	82,967	74,267
Other comprehensive income	12(b)				
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge gains on fuel swaps		1,968	7,585	30,092	2,042
Items not to be reclassified to net (loss) earnings:					
Actuarial losses on post-employment benefit obligations		-	-	-	(1,933)
Total other comprehensive income		1,968	7,585	30,092	109
Total comprehensive income		302	106,021	113,059	74,376

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2021	2020
Operating activities		
Net earnings	82,967	74,267
Items not affecting cash:		
Net finance expense	41,544	42,627
Depreciation and amortization	129,560	134,159
Loss on disposal and impairment of property, plant and equipment and intangible assets	57	1,968
Other non-cash changes to property, plant and equipment	1,535	(294)
Changes in:		
Accrued employee future benefits	(670)	(1,976)
Derivative assets and liabilities	4	55
Provisions	(384)	503
Accrued financing costs	(317)	(270)
Total non-cash items	171,329	176,772
Movements in operating working capital:		
Trade and other receivables	3,631	(3,688)
Prepaid expenses	(255)	442
Inventories	(2,061)	(4,909)
Accounts payable and accrued liabilities	18,786	(33,659)
Contract liabilities	(80,514)	151,327
Change in non-cash working capital	(60,413)	109,513
Change in non-cash working capital attributable to investing activities	(11,403)	25,673
Change in non-cash operating working capital	(71,816)	135,186
Cash generated from operating activities before interest	182,480	386,225
Interest received	3,881	3,628
Interest paid	(55,245)	(55,769)
Cash generated from operating activities	131,116	334,084

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2021	2020
Financing activities		
Repayment of long-term debt	(8,462)	(14,837)
Repayment of lease liabilities	(2,166)	(1,886)
Cash used in financing activities	(10,628)	(16,723)
Investing activities		
Proceeds from disposal of property, plant and equipment	23	93
Purchase of property, plant and equipment and intangible assets	(114,999)	(110,520)
Changes in restricted short-term investments	90	195
Net purchase of other short-term investments	(42,480)	(52,941)
Cash used in investing activities	(157,366)	(163,173)
Net (decrease) increase in cash and cash equivalents	(36,878)	154,188
Cash and cash equivalents, beginning of period	285,389	169,141
Cash and cash equivalents, end of period	248,511	323,329

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 earnings	-	-	74,267	74,267	-	74,267
Other comprehensive income	-	-	-	-	109	109
Realized hedge losses recognized in fuel swaps	-	-	-	-	12,459	12,459
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2020	75,478	25,000	622,012	722,490	(9,369)	713,121
Balance as at April 1, 2021	75,478	25,000	562,679	663,157	19,168	682,325
Net earnings	-	-	82,967	82,967	-	82,967
Other comprehensive income	-	-	-	-	30,092	30,092
Realized hedge gains recognized in fuel swaps	-	-	-	-	(4,722)	(4,722)
Hedge losses on interest rate forward contract reclassified to net (loss) earnings	-	-	-	-	186	186
Balance as at December 30, 2021	75,478	25,000	645,646	746,124	44,724	790,848

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 nine months ended December 31, 2021.

In December 2020, the Company received $308.0 million from the Province of British Columbia (the "Province") 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 might 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 nine months ended December 31, 2021 and 2020, comprise the Company and its subsidiaries (together referred to as the "Group").

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, and comply with International Accounting Standard 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 CAD and rounded to the nearest thousand, unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Board of Directors on February 17, 2022.

2. Adoption of new and amended standards:

During the three and nine months ended December 31, 2021, the Group did not adopt any new or amended standards in preparing these condensed interim consolidated financial statements.

(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	(972)[1]	-	336	17	-	124,284	123,665
Disposals	(16,283)	(1,573)	-	-	-	-	(17,856)
Transfers from construction in progress	153,475	20,031	-	-	-	(173,506)	-
Balance as at December 31, 2021	1,948,334	707,385	175,034	45,957	42,122	165,970	3,084,802
Accumulated depreciation:							
Balance as at March 31, 2021	791,359	268,440	80,777	1,856	-	-	1,142,432
Depreciation	81,756	25,555	5,011	421	-	-	112,743
Disposals	(16,283)	(1,566)	-	-	-	-	(17,849)
Balance as at December 31, 2021	856,832	292,429	85,788	2,277	-	-	1,237,326
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 December 31, 2021	1,091,502	414,956	89,246	43,680	42,122	165,970	1,847,476

[1] Reclassifications from Other liabilities (Note 9)

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2021, financing costs capitalized during construction of qualifying assets amounted to $6.9 million (December 31, 2020: $5.9 million) with an average capitalization rate of 4.60% (December 31, 2020: 4.57%).

As at December 31, 2021, contractual commitments for assets to be constructed totalled $49.5 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 nine months ended December 31, 2021, the Group recognized property, plant and equipment asset impairments of $nil (December 31, 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. As of December 31, 2021, the Group's total eligible funding was $39.6 million. This amount was recognized as a cumulative reduction of the cost of the property, plant and equipment. During the nine months ended December 31, 2021, the Group recognized $nil (March 31, 2021: $0.3 million) as a reduction of the cost of 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 nine months ended December 31, 2021, the Group recognized $1.0 million (March 31, 2021: $1.2 million) as a reduction of the cost of property, plant and equipment.

During the nine months ended December 30, 2021, the Group received $0.5 million (December 31, 2020: $0.3 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $4.8 million, respectively, as at December 31, 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.

(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	-	7,474	7,516
Impairment	-	-	(73)	(73)
Transfers from assets under development	5,439	861	(6,300)	-
Balance as at December 31, 2021	145,375	44,602	17,480	207,457
Accumulated amortization:				
Balance as at March 31, 2021	89,512	16,601	-	106,113
Amortization	12,075	4,742	-	16,817
Balance as at December 31, 2021	101,587	21,343	-	122,930
Net carrying value:				
As at March 31, 2021	50,382	27,140	16,379	93,901
As at December 31, 2021	43,788	23,259	17,480	84,527

During the nine months ended December 31, 2021, financing costs capitalized during development of qualifying assets were $nil (December 31, 2020: $0.7 million with an average capitalization rate of 4.57%).

During the nine months ended December 31, 2021, the Group recognized intangible asset impairments of $0.1 million (December 30, 2020: $nil). The impairment loss is reported under "(Gain) 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 for the nine months ended December 31, 2021.

During the nine months ended December 31, 2021, additions of intangible assets under development totalled $7.5 million of which $5.3 million were acquired (December 31, 2020: $7.6 million) and $2.2 million (December 31, 2020: $3.2 million) were internally developed.

(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	
	December 31, 2021	March 31, 2021
Trade payable and accrued liabilities	45,202	32,848
Wages payable	78,917	72,485
Total	124,119	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	-	395	49,761
Payments	(8,462)	(2,166)	(53,801)
Amortization of debt issue costs	608	-	-
Balance as at December 31, 2021	1,419,905	36,906	17,394
Current	10,873	2,851	17,394
Non-current	1,409,032	34,055	-
Balance as at December 31, 2021	1,419,905	36,906	17,394

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

(Tabular amounts expressed in thousands of Canadian dollars)

7. Long-term debt:

	As at	
	December 31, 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%)	26,157	28,961
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	27,337	30,166
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	27,337	30,166
	1,430,831	1,439,293
Less: Unamortized deferred financing costs and bond discounts	(10,926)	(11,534)
Total	1,419,905	1,427,759
Current	10,873	10,831
Non-current	1,409,032	1,416,928
Total	1,419,905	1,427,759

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 December 31, 2021 or March 31, 2021, and no interest was expensed during the nine months ended December 31, 2021 (December 31, 2020: $nil). Letters of credit outstanding against this Credit Facility as at December 31, 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 December 31, 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 December 31, 2021, the debt service coverage ratio is 3.16 times the debt service cost.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement 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 December 31, 2021 and at March 31, 2021.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Accrued employee future benefits:

During the nine months ended December 31, 2021, the Group recognized total defined benefit costs of $1.3 million (December 31, 2020: $1.8 million) within operating expenses.

During the nine months ended December 31, 2021, the Group recognized $nil in other comprehensive income ("OCI"), as amounts that will not be reclassified to net (loss) earnings in the future (December 31, 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 December 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 nine months ended December 31, 2021, the Group recognized $1.0 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	(342)	(630)	(972)
Balance as at December 31, 2021		4,267	4,561	8,828

10. Financial instruments:

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

	As at December 31, 2021		As at March 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion[1]	1,419,905	1,780,425	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.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Financial instruments (continued):

The following items shown in the consolidated statements of financial position as at December 31, 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 December 31, 2021, or at March 31, 2021, valued using Level 3 inputs.

	As at December 31, 2021		As at March 31, 2021	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash [1,2]	238,503	-	246,855	-
Cash equivalents [1,2]	8	-	138	-
Derivative assets [3]	-	19,653	-	-
Derivative liabilities [3]	-	50	-	(5,763)
	238,511	19,703	246,993	(5,763)

[1] Excluding Cash and cash equivalents of $10.0 million (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 nine months ended December 31, 2021.

During the nine months ended December 31, 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.

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 December 31, 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 nine months ended December 31, 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 December 31, 2021 was $97.4 million (March 31, 2021: $117.1 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the nine months ended December 31, 2021 and no LNG swap contracts were outstanding as at December 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.

11. Financial risk management (continued):

(b) Fuel price risk (continued):

During the nine months ended December 31, 2021, open fuel swap contracts had unrealized hedging gains of $30.1 million recognized in OCI (December 31, 2020: unrealized hedging gains of $2.0 million). In addition, for closed fuel swap contracts net realized hedging gains of $4.7 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2021 (December 31, 2020: net realized hedging losses of $12.5 million).

Cash flow hedges:

	Fiscal 2022	Fiscal 2023	Fiscals 2024	Total
Fuel contracts (litres in thousands)	17,327	72,792	67,195	157,314
Contract price range ($/litre)	$0.6085-$0.6400	$0.5960-$0.6336	$0.5885-$0.6490	

The impact of hedging instruments designated in hedging relationships as of December 31, 2021 on the statement of financial position and the statement of profit or loss and other comprehensive income was as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
Fuel swap contracts	47,479	10,146	Current derivative assets	10,146
Fuel swap contracts	49,939	9,505	Non-current derivative assets	9,505
Foreign exchange forward contracts	236	2	Current derivative assets	2
Foreign exchange forward contracts	1,514	(50)	Current derivative liabilities	(50)

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

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	19,728	19,651

(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 December 31		Nine months ended December 31	
	2021	2020	**2021**	2020
Hedging gains recognized in cash flow hedge reserve:				
Fuel swap contracts	**1,968**	7,585	**30,092**	2,042
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Interest rate forward contracts – Amortization of hedge loss	**62**	62	**186**	186
Fuel swap contracts – (Gains) losses recognized in net (loss) earnings	**(2,912)**	3,078	**(4,722)**	12,459
Net change in cash flow hedge reserve	**(882)**	10,725	**25,556**	14,687

12. Other comprehensive income:

(a) Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at March 31, 2021		38,507	(7,902)	(5,719)	(5,718)	19,168
Derivatives designated as cash flow hedges:	11					
Net change in fair value		-	-	30,092	-	30,092
Realized gains		-	-	(4,722)	-	(4,722)
Amortization of hedge loss		-	-	-	186	186
Balance as at December 31, 2021		38,507	(7,902)	19,651	(5,532)	44,724

(Tabular amounts expressed in thousands of Canadian dollars)

12. Other comprehensive income (continued):

(b) Other comprehensive income:

	Note	Three months ended December 31 2021	Three months ended December 31 2020	Nine months ended December 31 2021	Nine months ended December 31 2020
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge gains on fuel swaps	11	1,968	7,585	30,092	2,042
Items not to be reclassified to net (loss) earnings:					
Actuarial losses on post-employment benefit obligations		-	-	-	(1,933)
Total other comprehensive income		1,968	7,585	30,092	109

13. Net retail:

	Three months ended December 31 2021	Three months ended December 31 2020	Nine months ended December 31 2021	Nine months ended December 31 2020
Retail revenue	18,332	8,321	57,368	23,068
Cost of goods sold	(7,033)	(3,510)	(21,824)	(9,093)
Net retail	11,299	4,811	35,544	13,975

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 is based on the estimated loss of earnings in relation to the main three components of the contribution for fiscal years 2021 to 2024, and reflects the normal seasonal pattern of earnings.

The Group recognized $18.9 million and $81.0 million for the three and nine months ended December 31, 2021 (three and nine months ended December 31, 2020: $154.8 million), of the contribution under "Safe restart funding", and $0.3 million and $1.0 million for the three and nine months ended December 31, 2021 (three and nine months ended December 31, 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. The remaining balance of $40.0 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.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Salaries, wages & benefits	97,491	95,996	305,045	282,251
Fuel	30,379	22,760	94,551	67,267
Materials, supplies and contracted services	20,829	21,127	65,957	57,500
Other operating expenses	17,609	13,537	48,553	36,849
Depreciation and amortization	43,217	45,613	129,560	134,159
Total operating expenses	209,525	199,033	643,666	578,026

16. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2021	2020	2021	2020
Finance expenses:				
Long-term debt	16,646	16,760	49,761	50,155
Short-term debt	46	66	158	232
Lease liabilities	422	447	1,284	1,363
Amortization of deferred financing costs and bond discounts	264	210	798	829
Interest capitalized in the cost of qualitying assets	(1,883)	(2,038)	(6,892)	(6,591)
Total finance expenses	15,495	15,445	45,109	45,988
Finance income	(1,165)	(1,077)	(3,565)	(3,361)
Net finance expense	14,330	14,368	41,544	42,627

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 nine months ended December 31, 2021, the Group paid $337,648 (December 31, 2020: $113,673) 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.

(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 December 31, 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. Under the Act, tariffs in excess of price cap must be returned to customers within four consecutive quarters. As at December 31, 2021, tariffs charged to customers were above established price caps by $1.9 million (March 31, 2021: below established price caps).

If the Group was permitted under IFRS to recognize the effects of rate regulation, the fuel deferral regulatory assets as at December 31, 2021 would have been $6.0 million (March 31, 2021: fuel deferral regulatory liabilities of $1.5 million) and the regulatory liabilities relating to tariffs in excess of price cap would have been $1.9 million (March 31, 2021: $nil).

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, the net loss for the three months ended December 31, 2021 would have been $0.9 million lower (December 31, 2020: net earnings $0.6 million lower), and during the nine months ended December 31, 2021, net earnings would have been $5.5 million higher (December 30, 2021: $0.6 million higher) as detailed below:

	Three months ended December 31		Nine months ended December 31	
Effect of rate regulation on earnings	2021	2020	2021	2020
Regulatory accounts:				
Deferred fuel costs:				
Fuel costs over (under) set price	2,215	(2,089)	3,094	(4,881)
Rebates	547	1,525	4,305	5,432
Tariffs in excess of price cap	(1,854)	-	(1,854)	-
Total increase (decrease) in earnings	908	(564)	5,545	551

(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 $82.0 million of the Safe restart funding ($81.0 million recognized under "Safe restart funding" and $1.0 million under "Ferry service fees" in the condensed interim consolidated statement of profit or loss and other comprehensive income), the net earnings for the nine months ended December 31, 2021 would have been $1.0 million (December 31, 2020: a net loss of $80.5 million):

Effect of Safe restart funding on net (loss) earnings	Note	Three months ended December 31 2021	2020	Increase (Decrease)	Nine months ended December 31 2021	2020	Increase (Decrease)
Net (loss) earnings		(1,666)	98,436	(100,102)	82,967	74,267	8,700
Safe restart funding	14	(19,204)	(154,802)	135,598	(82,000)	(154,802)	72,802
Net (loss) earnings excluding Safe restart funding		(20,870)	(56,366)	35,496	967	(80,535)	81,502