Condensed Interim Consolidated Financial Statements of

# BRITISH COLUMBIA FERRY SERVICES INC.

Three months ended June 30, 2022 and 2021 (Unaudited)

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

| | Note | As at June 30, 2022 | As at March 31, 2022 |
|---|---|---|---|
| **Assets** | | | |
| ***Current assets*** | | | |
| Cash and cash equivalents | | **170,572** | 204,446 |
| Restricted short-term investments | 7(b) | **32,948** | 32,978 |
| Other short-term investments | | **203,313** | 169,073 |
| Trade and other receivables | | **26,574** | 17,793 |
| Prepaid expenses | | **31,321** | 12,783 |
| Inventories | | **41,964** | 37,513 |
| Derivative assets | 11(b) | **39,328** | 28,290 |
| | | **546,020** | 502,876 |
| ***Non-current assets*** | | | |
| Loan receivable | | **24,515** | 24,515 |
| Property, plant and equipment | 3 | **1,835,722** | 1,850,974 |
| Intangible assets | 4 | **77,348** | 80,944 |
| Derivative assets | 11(b) | **20,998** | 17,566 |
| | | **1,958,583** | 1,973,999 |
| **Total assets** | | **2,504,603** | 2,476,875 |
| **Liabilities** | | | |
| ***Current liabilities*** | | | |
| Accounts payable and accrued liabilities | 5 | **142,435** | 139,104 |
| Provisions | | **4,492** | 5,205 |
| Lease liabilities | 6 | **2,994** | 2,855 |
| Contract liabilities | | **57,924** | 44,786 |
| Long-term debt | 6,7 | **10,902** | 10,887 |
| Interest payable on long-term debt | 6 | **17,100** | 21,385 |
| Accrued employee future benefits | | **2,700** | 2,700 |
| Other liabilities | 9 | **1,590** | 1,495 |
| Derivative liabilities | 11(b) | **-** | 78 |
| | | **240,137** | 228,495 |
| ***Non-current liabilities*** | | | |
| Lease liabilities | 6 | **32,775** | 33,420 |
| Contract liabilities | | **7,615** | 10,333 |
| Long-term debt | 6,7 | **1,403,751** | 1,406,392 |
| Accrued employee future benefits | | **17,893** | 18,812 |
| Other liabilities | 9 | **7,687** | 7,109 |
| | | **1,469,721** | 1,476,066 |
| **Total liabilities** | | **1,709,858** | 1,704,561 |
| **Equity** | | | |
| Share capital | | **75,478** | 75,478 |
| Contributed surplus | | **25,000** | 25,000 |
| Retained earnings | | **598,677** | 590,776 |
| ***Total equity before reserves*** | | **699,155** | 691,254 |
| Reserves | 12(a) | **95,590** | 81,060 |
| **Total equity including reserves** | | **794,745** | 772,314 |
| **Total liabilities and equity** | | **2,504,603** | 2,476,875 |

Commitments (Note 3)

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Earnings and Other Comprehensive Income
(Unaudited)

(Expressed in thousands of Canadian dollars)

| | | Three months ended June 30 | |
|---|---|---|---|
| | Note | **2022** | 2021 |
| **Revenue** | | | |
| Vehicle and passenger fares | | **178,000** | 103,650 |
| Net retail | 13 | **15,773** | 5,480 |
| Fuel surcharges (rebates) | 18 | **2,508** | (1,668) |
| Other income | | **2,769** | 1,376 |
| Revenue from customers | | **199,050** | 108,838 |
| Safe Restart Funding | 14,19 | **2,120** | 59,658 |
| Ferry service fees | | **55,398** | 52,629 |
| Federal-Provincial Subsidy Agreement | | **8,336** | 8,046 |
| **Total revenue** | | **264,904** | 229,171 |
| **Expenses** | 15 | | |
| Operations | | **159,233** | 129,568 |
| Maintenance | | **27,212** | 28,803 |
| Administration | | **10,420** | 8,771 |
| Depreciation and amortization | | **45,262** | 43,626 |
| **Total operating expenses** | | **242,127** | 210,768 |
| **Operating profit** | | **22,777** | 18,403 |
| **Net finance and other expenses** | 16 | | |
| Finance expenses | | **16,673** | 14,871 |
| Finance income | | **(1,830)** | (1,133) |
| Net finance expense | | **14,843** | 13,738 |
| Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets | | **33** | (4) |
| **Net finance and other expenses** | | **14,876** | 13,734 |
| **NET EARNINGS** | | **7,901** | 4,669 |
| **Other comprehensive income** | 12(b) | | |
| Items that are or may be reclassified subsequently to net earnings: | | | |
| Hedge gains on fuel swaps | | **27,692** | 16,715 |
| **Total comprehensive income** | | **35,593** | 21,384 |

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **Operating activities** | | |
| Net earnings | **7,901** | 4,669 |
| Items not affecting cash: | | |
| Net finance expense | **14,843** | 13,738 |
| Depreciation and amortization | **45,262** | 43,626 |
| Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets | **33** | (4) |
| Other non-cash changes to property, plant and equipment | **(1,251)** | 571 |
| Changes in: | | |
| Accrued employee future benefits | **(919)** | (306) |
| Derivative assets recognized in net earnings | **(80)** | (16) |
| Provisions | **(713)** | (148) |
| Accrued financing costs | **1,082** | 510 |
| Total non-cash items | **58,257** | 57,971 |
| Movements in operating working capital: | | |
| Trade and other receivables | **(8,781)** | (1,169) |
| Prepaid expenses | **(18,538)** | (11,318) |
| Inventories | **(4,451)** | (691) |
| Accounts payable and accrued liabilities | **3,331** | 13,712 |
| Contract liabilities | **10,420** | (46,884) |
| Change in non-cash working capital | **(18,019)** | (46,350) |
| Change in non-cash working capital attributable to investing activities | **(2,109)** | (1,305) |
| Change in non-cash operating working capital | **(20,128)** | (47,655) |
| Cash generated from operating activities before interest | **46,030** | 14,985 |
| Interest received | **787** | 623 |
| Interest paid | **(21,204)** | (21,264) |
| Cash generated from (used in) operating activities | **25,613** | (5,656) |

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **Financing activities** | | |
| Repayment of long-term debt | **(2,820)** | (2,821) |
| Repayment of lease liabilities | **(765)** | (721) |
| Cash used in financing activities | **(3,585)** | (3,542) |
| **Investing activities** | | |
| Proceeds from disposal of property, plant and equipment | **14** | 10 |
| Purchase of property, plant and equipment and intangible assets | **(21,706)** | (35,903) |
| Changes in restricted short-term investments | **30** | 30 |
| Net purchase of other short-term investments | **(34,240)** | (4,000) |
| Cash used in investing activities | **(55,902)** | (39,863) |
| Net decrease in cash and cash equivalents | **(33,874)** | (49,061) |
| Cash and cash equivalents, beginning of period | **204,446** | 285,389 |
| **Cash and cash equivalents, end of period** | **170,572** | 236,328 |

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

# 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, 2021 | 75,478 | 25,000 | 562,679 | 663,157 | 19,168 | 682,325 |
| Net earnings | - | - | 4,669 | 4,669 | - | 4,669 |
| Other comprehensive income | - | - | - | - | 16,715 | 16,715 |
| Realized hedge gains recognized in fuel swaps | - | - | - | - | (313) | (313) |
| Hedge losses on interest rate forward contract reclassified to net earnings | - | - | - | - | 62 | 62 |
| Balance as at June 30, 2021 | 75,478 | 25,000 | 567,348 | 667,826 | 35,632 | 703,458 |
| Balance as at April 1, 2022 | **75,478** | **25,000** | **590,776** | **691,254** | **81,060** | **772,314** |
| Net earnings | **-** | **-** | **7,901** | **7,901** | **-** | **7,901** |
| Other comprehensive income | **-** | **-** | **-** | **-** | **27,692** | **27,692** |
| Realized hedge gains recognized in fuel swaps | **-** | **-** | **-** | **-** | **(13,224)** | **(13,224)** |
| Hedge losses on interest rate forward contract reclassified to net earnings | **-** | **-** | **-** | **-** | **62** | **62** |
| **Balance as at June 30, 2022** | **75,478** | **25,000** | **598,677** | **699,155** | **95,590** | **794,745** |

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

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

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

Beginning in March 2020, the Company faced significantly lower passenger and vehicle traffic, earnings and cash from operations, as a result of the coronavirus ("COVID-19") pandemic with its corresponding preventative measures and imposed travel restrictions. Once conditions improved and travel restrictions were lifted late in the first quarter of fiscal 2022, the Company subsequently experienced a significant increase in passenger and vehicle traffic from July 2021 to June 2022.

## 1. Accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada. These condensed interim consolidated financial statements, as at and for the three months ended June 30, 2022 and 2021, comprise the Company and its subsidiaries (together referred to as the "Group").

(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 the annual financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended March 31, 2022, 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.

## 1. Accounting policies (continued):

(b) Basis of preparation (continued):

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 August 17, 2022.

## 2. Adoption of new and amended standards:

During the three months ended June 30, 2022, 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 April 1, 2022 | 1,993,030 | 710,698 | 175,358 | 45,806 | 52,479 | 121,854 | 3,099,225 |
| Additions | (327)[1] | - | - | 259 | - | 24,578 | 24,510 |
| Disposals and Impairment | (369) | (107) | (70) | - | - | (44) | (590) |
| Transfers from construction in progress | 101,291 | 10,380 | - | - | 777 | (112,448) | - |
| **Balance as at June 30, 2022** | **2,093,625** | **720,971** | **175,288** | **46,065** | **53,256** | **33,940** | **3,123,145** |
| **Accumulated depreciation:** | | | | | | | |
| Balance as at April 1, 2022 | 857,391 | 301,139 | 87,458 | 2,263 | - | - | 1,248,251 |
| Depreciation | 28,952 | 8,901 | 1,724 | 138 | - | - | 39,715 |
| Disposals | (369) | (104) | (70) | - | - | - | (543) |
| **Balance as at June 30, 2022** | **885,974** | **309,936** | **89,112** | **2,401** | - | - | **1,287,423** |
| **Net carrying value:** | | | | | | | |
| As at April 1, 2022 | 1,135,639 | 409,559 | 87,900 | 43,543 | 52,479 | 121,854 | 1,850,974 |
| **As at June 30, 2022** | **1,207,651** | **411,035** | **86,176** | **43,664** | **53,256** | **33,940** | **1,835,722** |

[1] Reclassifications from Other liabilities (Note 9).

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

During the three months ended June 30, 2022, financing costs capitalized during construction of qualifying assets amounted to $0.5 million (June 30, 2021: $2.4 million) with an average capitalization rate of 4.55% (June 30, 2021: 4.65%).

As at June 30, 2022, contractual commitments for assets to be constructed totalled $60.6 million (March 31, 2022: $46.5 million). Most of these contractual commitments relate to betterments to existing vessels and terminals.

During the three months ended June 30, 2022, the Group recognized property, plant and equipment asset impairments of less than $0.1 million (June 30, 2021: $nil). The impairment loss is reported under "Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of earnings and other comprehensive income for the three months ended June 30, 2022.

During the three months ended June 30, 2022, the Group received $0.4 million (June 30, 2021: $0.2 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $5.0 million, respectively, as at June 30, 2022 (March 31, 2022: cost of $11.9 million and accumulated depreciation of $4.9 million).

The *Bowen Queen* (decommissioned during the year ended March 31, 2022) and the *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) are classified as held for sale and have 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 April 1, 2022 | 147,163 | 44,771 | 17,637 | 209,571 |
| Additions | - | - | 1,951 | 1,951 |
| Transfers from assets under development | 11 | 3 | (14) | - |
| **Balance as at June 30, 2022** | **147,174** | **44,774** | **19,574** | **211,522** |
| **Accumulated amortization:** | | | | |
| Balance as at April 1, 2022 | 105,676 | 22,951 | - | 128,627 |
| Amortization | 3,935 | 1,612 | - | 5,547 |
| **Balance as at June 30, 2022** | **109,611** | **24,563** | - | **134,174** |
| **Net carrying value:** | | | | |
| As at April 1, 2022 | 41,487 | 21,820 | 17,637 | 80,944 |
| **As at June 30, 2022** | **37,563** | **20,211** | **19,574** | **77,348** |

During the three months ended June 30, 2022, additions of intangible assets under development totalled $2.0 million (June 30, 2021: $2.8 million) of which $1.1 million (June 30, 2021: $2.2 million) were acquired and $0.9 million (June 30, 2021: $0.6 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

## 5. Accounts payable and accrued liabilities:

| | As at | |
|---|---|---|
| | **June 30, 2022** | March 31, 2022 |
| Trade payable and accrued liabilities | **58,162** | 57,678 |
| Wages payable | **84,273** | 81,426 |
| **Balance as at June 30, 2022** | **142,435** | 139,104 |

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.

## 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 April 1, 2022 | 1,417,279 | 36,275 | 21,385 |
| Additions | - | 259 | 16,404 |
| Payments | (2,820) | (765) | (20,689) |
| Amortization of debt issue costs | 194 | - | - |
| **Balance as at June 30, 2022** | **1,414,653** | **35,769** | **17,100** |
| | | | |
| Current | **10,902** | **2,994** | **17,100** |
| Non-current | **1,403,751** | **32,775** | **-** |
| **Balance as at June 30, 2022** | **1,414,653** | **35,769** | **17,100** |

[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 | |
|---|---|---|
| | **June 30, 2022** | March 31, 2022 |
| 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%) | **24,288** | 25,223 |
| 2.09% Loan, maturing January 2029 (effective interest rate of 2.68%) | **25,451** | 26,394 |
| 2.09% Loan, maturing January 2029 (effective interest rate of 2.70%) | **25,451** | 26,394 |
| | **1,425,190** | 1,428,011 |
| Less: Unamortized deferred financing costs and bond discounts | **(10,537)** | (10,732) |
| **Total** | **1,414,653** | 1,417,279 |
| Current | **10,902** | 10,887 |
| Non-current | **1,403,751** | 1,406,392 |
| **Total** | **1,414,653** | 1,417,279 |

## 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, 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"). The Credit Facility was amended and restated on April 19, 2022, to, among other things, reduce the amount of the revolving facility from $155.0 million to $105.0 million and set a maturity date of April 2026. There were no draws on this Credit Facility as at June 30, 2022 or March 31, 2022, and no interest was expensed during the three months ended June 30, 2022 (June 30, 2021: $nil). Letters of credit outstanding against this Credit Facility as at June 30, 2022 totalled $0.5 million (March 31, 2022: $0.6 million).

(b) Debt service reserves:

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

As at June 30, 2022, debt service reserves of $32.9 million (March 31, 2022: $33.0 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"), an agreement which secures and governs the Group's borrowings, the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's leverage ratio exceeds 85% or if the debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.5.

As at June 30, 2022, the debt service coverage ratio was 3.44.

In addition, there are other covenants contained in the MTI available at www.SEDAR.com. The Group was in compliance with all of its covenants at June 30, 2022 and at March 31, 2022.

(Tabular amounts expressed in thousands of Canadian dollars)

## 8. Accrued employee future benefits:

During the three months ended June 30, 2022, the Group recognized total defined benefit costs of $0.4 million (June 30, 2021: $0.4 million) within operating expenses.

## 9. Other liabilities:

FortisBC Energy Inc. has committed to provide the Group with funding of $7.0 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 Natural Gas for Transportation 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.

During the three months ended June 30, 2022, the Group received an additional contribution of $1.0 million related to the Salish Class vessels.

As of June 30, 2022, the Group had received $7.0 million of the total eligible contributions related to the Spirit Class vessels, and all of the eligible contributions related to the Salish Class vessels.

During the three months ended June 30, 2022, the Group recognized $0.3 million (June 30, 2021: $0.3 million) as an offset to the capital costs of the vessels.

| | Note | Salish Class | Spirit Class | Total |
|---|---|---|---|---|
| Balance as at April 1, 2022 | | 4,175 | 4,429 | 8,604 |
| Additions | | 1,000 | - | 1,000 |
| Reclassifications to property, plant and equipment | 3 | (120) | (207) | (327) |
| **Balance as at June 30, 2022** | | **5,055** | **4,222** | **9,277** |
| Current | | **704** | **886** | **1,590** |
| Non-current | | **4,351** | **3,336** | **7,687** |
| **Balance as at June 30, 2022** | | **5,055** | **4,222** | **9,277** |

## 10. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at June 30, 2022 and March 31, 2022 for all financial instruments except for long-term debt.

| | **As at June 30, 2022** | | As at March 31, 2022 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Long-term debt, including current portion[1] | **1,414,653** | **1,416,541** | 1,417,279 | 1,582,029 |

[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 June 30, 2022 and March 31, 2022 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at June 30, 2022, or at March 31, 2022, valued using Level 3 inputs.

| | **As at June 30, 2022** | | As at March 31, 2022 | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | Level 1 | Level 2 |
| Asset (liability): | | | | |
| Cash [1,2] | **107,990** | **-** | 191,936 | - |
| Cash equivalents [1,2] | **8** | **-** | 8 | - |
| Derivative assets [3] | **-** | **60,326** | - | 45,856 |
| Derivative liabilities [3] | **-** | **-** | - | (78) |
| | **107,998** | **60,326** | 191,944 | 45,778 |

[1] Excluding Cash and cash equivalents of $62.6 million (March 31, 2022: $12.5 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 three months ended June 30, 2022.

During the three months ended June 30, 2022, 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 June 30, 2022, the provision for impairment was $0.1 million (March 31, 2022: $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. 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; and 90% of anticipated monthly fuel consumption for the 12-month 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 three months ended June 30, 2022, the Group did not enter into any ULSD fuel swap contracts (June 30 2021: $14.9 million notional value of ULSD fuel swap contracts entered into). The notional value of all fuel swap contracts outstanding as at June 30, 2022 was $75.4 million (March 31, 2022: $86.5 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the three months ended June 30, 2022 and no LNG swap contracts were outstanding as at June 30, 2022.

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 three months ended June 30, 2022, open fuel swap contracts had unrealized hedging gains of $27.7 million (June 30, 2021: unrealized hedging gains of $16.7 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of $13.2 million were reclassified from reserves and included in the Group's fuel expense during the three months ended June 30, 2022 (June 30, 2021: net realized hedging gains of $0.3 million).

Cash flow hedges:

| | Fiscal 2023 | Fiscal 2024 | Total |
|---|---|---|---|
| Fuel contracts (litres in thousands) | 54,952 | 67,195 | 122,147 |
| Contract price range ($/litre) | $0.5960-$0.6336 | $0.5885-$0.6490 | |

The impact of hedging instruments designated in hedging relationships as of June 30, 2022 on the statement of financial position and the statement of earnings 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 | 40,873 | 39,326 | Current derivative assets | 39,326 |
| Fuel swap contracts | 34,492 | 20,998 | Non-current derivative assets | 20,998 |
| Foreign exchange forward contracts | 259 | 2 | Current derivative assets | 2 |

The impact of hedged items designated in hedging relationships as of June 30, 2022 on the statement of financial position and the statement of earnings and other comprehensive income was as follows:

| | Change in value used for measuring ineffectiveness | Cash flow hedge reserve |
|---|---|---|
| Fuel swap contracts | 60,716 | 60,324 |

(Tabular amounts expressed in thousands of Canadian dollars)

## 11. Financial risk management (continued):

(b) Fuel price risk (continued):

Cash flow hedge reserve (Note 12):

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| Hedging gains recognized in cash flow hedge reserve: | | |
| Fuel swap contracts | **27,692** | 16,715 |
| Hedging gains reclassified from cash flow hedge reserve: | | |
| Fuel swap contracts – Gains recognized in net earnings | **(13,224)** | (313) |
| Interest rate forward contracts – Amortization of hedge loss | **62** | 62 |
| **Net change in cash flow hedge reserve** | **14,530** | 16,464 |

## 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 April 1, 2022 | | 48,576 | (7,902) | 45,856 | (5,470) | 81,060 |
| Derivatives designated as cash flow hedges: | 11(b) | | | | | |
| Net change in fair value | | - | - | **27,692** | - | **27,692** |
| Realized gains | | - | - | **(13,224)** | - | **(13,224)** |
| Amortization of losses | | - | - | - | **62** | **62** |
| **Balance as at June 30, 2022** | | **48,576** | **(7,902)** | **60,324** | **(5,408)** | **95,590** |

(Tabular amounts expressed in thousands of Canadian dollars)

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

(b) Other comprehensive income:

| | | Three months ended June 30 | |
|---|---|---|---|
| | Note | **2022** | 2021 |
| Items that are or may be reclassified subsequently to net earnings: | | | |
| Hedge gains on fuel swaps | 11(b) | **27,692** | 16,715 |
| **Total other comprehensive income** | | **27,692** | 16,715 |

**13. Net retail:**

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| Retail revenue | **25,343** | 9,160 |
| Cost of goods sold | **(9,570)** | (3,680) |
| **Net retail** | **15,773** | 5,480 |

**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 $2.1 million (June 30, 2021: $59.7 million) of the contribution under "Safe Restart Funding", and $0.4 million (June 30, 2021: $0.3 million) relating to the Discretionary sailing relief, under "Ferry service fees" in the condensed interim consolidated statements of earnings and other comprehensive income for the three months ended June 30, 2022. The remaining balance of $17.2 million (March 31, 2022: $19.7 million) was included in "Contract liabilities" in the condensed interim consolidated statement of financial position as at June 30, 2022.

(Tabular amounts expressed in thousands of Canadian dollars)

## 15. Operating expenses:

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| Salaries, wages and benefits | **113,181** | 102,234 |
| Fuel | **38,941** | 25,843 |
| Materials, supplies and contracted services | **25,803** | 24,887 |
| Other operating expenses | **18,940** | 14,178 |
| Depreciation and amortization | **45,262** | 43,626 |
| **Total operating expenses** | **242,127** | 210,768 |

## 16. Net finance expense:

| | Three months ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| Finance expenses: | | |
| Long-term debt | **16,404** | 16,479 |
| Short-term debt | **69** | 65 |
| Lease liabilities | **407** | 434 |
| Amortization of deferred financing costs and bond discounts | **256** | 269 |
| Interest capitalized in the cost of qualifying assets | **(463)** | (2,376) |
| Total finance expenses | **16,673** | 14,871 |
| Finance income | **(1,830)** | (1,133) |
| **Net finance expense** | **14,843** | 13,738 |

## 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 three months ended June 30, 2022, the Group paid $43,119 (June 30, 2021: $127,099) 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.

## 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 regulatory assets at June 30, 2022, are probable of future recovery through fuel surcharges.

(a) Deferred fuel costs:

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

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 three months ended June 30, 2022, the amount receivable from the Province in relation to fuel cost differences was $0.6 million (March 31, 2022: less than $0.1 million).

(b) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps for four consecutive quarters, the excess amounts collected will be returned to customers through future tariff reductions. At June 30, 2022, tariffs charged to customers exceeded established price caps by $6.3 million (March 31, 2022: tariffs were above established price caps).

(c) Fare Increase Relief:

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

The Group defers differences between the revenue recognized under IFRS and approved regulated revenue. As at June 30, 2022, the deferred amount was $9.0 million (March 31, 2022: $6.8 million).

(Tabular amounts expressed in thousands of Canadian dollars)

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

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory assets as at June 30, 2022 would have been $18.4 million (March 31, 2022: $11.6 million), and the regulatory liabilities would have been $6.3 million (March 31, 2022: $nil) on the consolidated statements of financial position.

If the Group was permitted under IFRS to recognize the effects of rate regulation, net earnings for the three months ended June 30, 2022 would have been $0.5 million higher (June 30, 2021: $1.1 million higher) as detailed below:

| | Three months ended June 30 | |
|---|---|---|
| **Effect of rate regulation on net earnings** | **2022** | 2021 |
| Fuel costs over (under) set price | **7,746** | (589) |
| Fuel (surcharges) rebates | **(2,508)** | 1,668 |
| Fuel price risk recoveries receivable from the Province | **(580)** | - |
| Tariffs in excess of price cap | **(6,309)** | - |
| Deferred Fare Increase Relief | **2,186** | - |
| **Total increase in net earnings** | **535** | 1,079 |

## 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 $2.5 million of the Safe Restart Funding ($2.1 million recognized under "Safe Restart Funding" and $0.4 million under "Ferry service fees" in the condensed interim consolidated statements of earnings and other comprehensive income), the net earnings for the three months ended June 30, 2022 would have been $5.4 million (June 30, 2021: a net loss of $55.3 million):

| | | Three months ended June 30 | | |
|---|---|---|---|---|
| **Effect of Safe Restart Funding on net earnings** | Note | **2022** | 2021 | Increase |
| Net earnings | | **7,901** | 4,669 | 3,232 |
| Safe Restart Funding | 14 | **(2,453)** | (59,991) | 57,538 |
| **Net earnings (loss) excluding Safe Restart Funding** | | **5,448** | (55,322) | 60,770 |