Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and nine months ended December 31, 2022 and 2021
(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, 2022**	March 31, 2022
Assets			
Current assets			
Cash and cash equivalents		**111,335**	204,446
Restricted short-term investments	7(b)	**32,888**	32,978
Other short-term investments		**343,791**	169,073
Trade and other receivables		**23,126**	17,793
Prepaid expenses		**22,072**	12,783
Inventories		**41,106**	37,513
Derivative assets	11(b)	**28,869**	28,290
		603,187	502,876
Non-current assets			
Loan receivable		**24,515**	24,515
Property, plant and equipment	3	**1,814,200**	1,850,974
Intangible assets	4	**68,230**	80,944
Derivative assets	11(b)	**5,633**	17,566
		1,912,578	1,973,999
Total assets		**2,515,765**	2,476,875
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	**156,473**	139,104
Provisions		**3,210**	5,205
Lease liabilities	6	**3,071**	2,855
Contract liabilities		**37,753**	44,786
Long-term debt	6,7	**10,931**	10,887
Interest payable on long-term debt	6	**17,309**	21,385
Accrued employee future benefits		**2,900**	2,700
Other liabilities	9	**1,590**	1,495
Derivative liabilities	11(b)	**-**	78
		233,237	228,495
Non-current liabilities			
Lease liabilities	6	**31,275**	33,420
Contract liabilities		**1,794**	10,333
Long-term debt	6,7	**1,398,467**	1,406,392
Accrued employee future benefits		**17,314**	18,812
Other liabilities	9	**6,935**	7,109
		1,455,785	1,476,066
Total liabilities		**1,689,022**	1,704,561
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**656,381**	590,776
Total equity before reserves		**756,859**	691,254
Reserves	12(a)	**69,884**	81,060
Total equity including reserves		**826,743**	772,314
Total liabilities and equity		**2,515,765**	2,476,875

Commitments (Note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

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

(Expressed in thousands of Canadian dollars)

	Note	Three months ended December 31		Nine months ended December 31	
		2022	2021	**2022**	2021
Revenue					
Vehicle and passenger fares		**142,750**	131,568	**554,244**	456,681
Net retail	13	**13,739**	11,299	**51,749**	35,544
Fuel surcharges (rebates)	18	**4,808**	(547)	**12,884**	(4,305)
Other income		**12,682**	2,606	**19,212**	7,677
Revenue from customers		**173,979**	144,926	**638,089**	495,597
Safe Restart Funding	14,19	**1,758**	18,871	**6,702**	81,000
Ferry service fees		**50,727**	50,341	**173,016**	167,500
Federal-Provincial Subsidy Agreement		**8,336**	8,046	**25,008**	24,137
Total revenue		**234,800**	222,184	**842,815**	768,234
Expenses	15				
Operations		**154,388**	133,808	**486,767**	421,014
Maintenance		**32,678**	22,907	**78,423**	65,736
Administration		**12,963**	9,593	**35,709**	27,356
Depreciation and amortization		**45,192**	43,217	**135,291**	129,560
Total operating expenses		**245,221**	209,525	**736,190**	643,666
Operating (loss) profit		**(10,421)**	12,659	**106,625**	124,568
Net finance and other expenses	16				
Finance expenses		**17,163**	15,495	**50,984**	45,109
Finance income		**(5,201)**	(1,165)	**(10,316)**	(3,565)
Net finance expense		**11,962**	14,330	**40,668**	41,544
Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets		**319**	(5)	**352**	57
Net finance and other expenses		**12,281**	14,325	**41,020**	41,601
NET (LOSS) EARNINGS		**(22,702)**	(1,666)	**65,605**	82,967
Other comprehensive income	12(b)				
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge gains on fuel swaps		**5,430**	1,968	**27,297**	30,092
Total comprehensive (loss) income		**(17,272)**	302	**92,902**	113,059

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2022	2021
Operating activities		
Net earnings	**65,605**	82,967
Items not affecting cash:		
Net finance expense	**40,668**	41,544
Depreciation and amortization	**135,291**	129,560
Net loss on disposal and impairment of property, plant and equipment and intangible assets	**352**	57
Other non-cash changes to property, plant and equipment	**(585)**	1,535
Changes in:		
Accrued employee future benefits	**(1,298)**	(670)
Derivative assets and liabilities recognized in net earnings	**(86)**	4
Provisions	**(1,995)**	(384)
Accrued financing costs	**3,410**	(317)
Total non-cash items	**175,757**	171,329
Movements in operating working capital:		
Trade and other receivables	**(5,333)**	3,631
Prepaid expenses	**(9,289)**	(255)
Inventories	**(3,593)**	(2,061)
Accounts payable and accrued liabilities	**17,369**	18,786
Contract liabilities	**(15,572)**	(80,514)
Change in non-cash working capital	**(16,418)**	(60,413)
Change in non-cash working capital attributable to investing activities	**(827)**	(11,403)
Change in non-cash operating working capital	**(17,245)**	(71,816)
Cash generated from operating activities before interest	**224,117**	182,480
Interest received	**6,946**	3,881
Interest paid	**(55,001)**	(55,245)
Cash generated from operating activities	**176,062**	131,116

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2022	2021
Financing activities		
Repayment of long-term debt	**(8,462)**	(8,462)
Repayment of lease liabilities	**(2,250)**	(2,166)
Cash used in financing activities	**(10,712)**	(10,628)
Investing activities		
Proceeds from disposal of property, plant and equipment	**16**	23
Purchase of property, plant and equipment and intangible assets	**(83,849)**	(114,999)
Changes in restricted short-term investments	**90**	90
Net purchase of other short-term investments	**(174,718)**	(42,480)
Cash used in investing activities	**(258,461)**	(157,366)
Net decrease in cash and cash equivalents	**(93,111)**	(36,878)
Cash and cash equivalents, beginning of period	**204,446**	285,389
Cash and cash equivalents, end of period	**111,335**	248,511

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of 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	-	-	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 31, 2021	75,478	25,000	645,646	746,124	44,724	790,848
Balance as at April 1, 2022	**75,478**	**25,000**	**590,776**	**691,254**	**81,060**	**772,314**
Net earnings	**-**	**-**	**65,605**	**65,605**	**-**	**65,605**
Other comprehensive income	**-**	**-**	**-**	**-**	**27,297**	**27,297**
Realized hedge gains recognized in fuel swaps	**-**	**-**	**-**	**-**	**(38,659)**	**(38,659)**
Hedge losses on interest rate forward contract reclassified to net (loss) earnings	**-**	**-**	**-**	**-**	**186**	**186**
Balance as at December 31, 2022	**75,478**	**25,000**	**656,381**	**756,859**	**69,884**	**826,743**

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 imposed travel restrictions. Once travel restrictions were lifted late in the first quarter of fiscal 2022, the Company subsequently experienced a significant increase in passenger and vehicle traffic. In the first three quarters of fiscal 2023, vehicle traffic has returned to pre-COVID levels.

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 and nine months ended December 31, 2022 and 2021, comprise the Company and its wholly-owned subsidiaries, Pacific Marine Leasing Inc., and BCF Captive Insurance Company Ltd. up to September 30, 2022 (together referred to as the "Group").

BCF Captive Insurance Company Ltd. was dissolved on October 1, 2022, and is no longer the Group's wholly-owned subsidiary.

(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 February 16, 2023.

(c) Amended Revenues accounting policy effective October 1, 2022:

Revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), is recognized when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Prepayments for fares received in advance of providing transportation are included in the statement of financial position as contract liabilities until such time as the performance obligation is satisfied.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods.

Other income comprises of sales of carbon credits, parking and other miscellaneous revenues. Revenue from the sale of carbon credits is recognized when the award of the credits to the Group and the transfer of the credits from the Group to the customer are approved by the Ministry of Energy Mines and Low Carbon Innovation. Parking revenues are received from both owned and subcontracted parking facilities and are recognized when service is provided.

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

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

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

1. Accounting policies (continued):

(d) Amended Inventories accounting policy effective October 1, 2022:

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

Fuel inventories are accounted for using the first-in, first-out principle. The cost of fuel inventories includes gains or losses on the settlement of fuel swap contracts. All other inventories are accounted for using the weighted average cost method. The cost of inventories includes expenditures incurred in acquiring the inventories and other direct costs incurred in bringing the inventories to their present location and condition.

2. Adoption of new and amended standards:

During the three and nine months ended December 31, 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	(1,079)[1]	-	61	260	-	82,343	81,585
Disposals and impairments	(7,391)	(343)	(131)	-	-	(44)	(7,909)
Transfers from construction in progress	121,609	30,498	-	-	777	(152,884)	-
Balance as at December 31, 2022	**2,106,169**	**740,853**	**175,288**	**46,066**	**53,256**	**51,269**	**3,172,901**
Accumulated depreciation:							
Balance as at April 1, 2022	857,391	301,139	87,458	2,263	-	-	1,248,251
Depreciation	86,553	26,573	4,743	441	-	-	118,310
Disposals	(7,391)	(338)	(131)	-	-	-	(7,860)
Balance as at December 31, 2022	**936,553**	**327,374**	**92,070**	**2,704**	-	-	**1,358,701**
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 December 31, 2022	**1,169,616**	**413,479**	**83,218**	**43,362**	**53,256**	**51,269**	**1,814,200**

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

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2022, financing costs capitalized during construction of qualifying assets amounted to $0.7 million (December 31, 2021: $6.9 million) with an average capitalization rate of 4.43% (December 31, 2021: 4.60%).

As at December 31, 2022, contractual commitments for assets to be constructed totalled $57.4 million (March 31, 2022: $46.5 million). Most of these contractual commitments relate to betterments to existing vessels and terminals.

During the nine months ended December 31, 2022, the Group recognized property, plant and equipment asset impairments of less than $0.1 million (December 31, 2021: $nil). The impairment loss is reported under "Net loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss and other comprehensive (loss) income for the nine months ended December 31, 2022.

During the nine months ended December 31, 2022, the Group received $0.8 million (December 31, 2021: $0.5 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $5.2 million, respectively, as at December 31, 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	-	-	4,586	4,586
Impairments	-	-	(319)	(319)
Transfers from assets under development	15,077	4,147	(19,224)	-
Balance as at December 31, 2022	**162,240**	**48,918**	**2,680**	**213,838**
Accumulated amortization:				
Balance as at April 1, 2022	105,676	22,951	-	128,627
Amortization	11,973	5,008	-	16,981
Balance as at December 31, 2022	**117,649**	**27,959**	-	**145,608**
Net carrying value:				
As at April 1, 2022	41,487	21,820	17,637	80,944
As at December 31, 2022	**44,591**	**20,959**	**2,680**	**68,230**

During the nine months ended December 31, 2022, the Group recognized intangible asset impairments of $0.3 million (December 31, 2021: $0.1 million). The Group reports impairments under "Net loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statements of profit or loss and other comprehensive (loss) income.

During the nine months ended December 31, 2022, additions to intangible assets under development totalled $4.6 million of which $3.0 million were acquired (December 31, 2021: $5.3 million) and $1.6 million (December 31, 2021: $2.2 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

	As at	
	December 31, 2022	March 31, 2022
Trade payable and accrued liabilities	**63,061**	57,678
Wages payable	**93,412**	81,426
Balance as at December 31, 2022	**156,473**	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	-	321	49,548
Payments	(8,462)	(2,250)	(53,624)
Amortization of debt issue costs	581	-	-
Balance as at December 31, 2022	**1,409,398**	**34,346**	**17,309**
Current	**10,931**	**3,071**	**17,309**
Non-current	**1,398,467**	**31,275**	**-**
Balance as at December 31, 2022	**1,409,398**	**34,346**	**17,309**

[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, 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%)	**22,419**	25,223
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**23,565**	26,394
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**23,565**	26,394
	1,419,549	1,428,011
Less: Unamortized deferred financing costs and bond discounts	**(10,151)**	(10,732)
Total	**1,409,398**	1,417,279
Current	**10,931**	10,887
Non-current	**1,398,467**	1,406,392
Total	**1,409,398**	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 20, 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 20, 2026. There were no draws on the Credit Facility as at December 31, 2022 or March 31, 2022, and no interest was expensed during the nine months ended December 31, 2022 (December 31, 2021: $nil). Letters of credit outstanding against this Credit Facility as at December 31, 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 December 31, 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 covenant disclosure:

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 December 31, 2022, the debt service coverage ratio was 3.25.

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 December 31, 2022 and at March 31, 2022.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Accrued employee future benefits:

During the nine months ended December 31, 2022, the Group recognized total defined benefit costs of $1.3 million (December 31, 2021: $1.3 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 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 nine months ended December 31, 2022, the Group received an additional contribution of $1.0 million related to the Salish Class vessels.

As of December 31, 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 nine months ended December 31, 2022, the Group recognized $1.1 million (December 31, 2021: $1.0 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	(390)	(689)	(1,079)
Balance as at December 31, 2022		**4,785**	**3,740**	**8,525**
Current		**704**	**886**	**1,590**
Non-current		**4,081**	**2,854**	**6,935**
Balance as at December 31, 2022		**4,785**	**3,740**	**8,525**

(Tabular amounts expressed in thousands of Canadian dollars)

10. Financial instruments:

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

	As at December 31, 2022		As at March 31, 2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,409,398**	**1,389,859**	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.

The following items shown in the consolidated statements of financial position as at December 31, 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 December 31, 2022, or at March 31, 2022, valued using Level 3 inputs.

	As at December 31, 2022		As at March 31, 2022	
	Level 1	**Level 2**	Level 1	Level 2
Asset (liability):				
Cash [1,2]	**111,328**	**-**	191,936	-
Cash equivalents [1,2]	**7**	**-**	8	-
Derivative assets [3]	**-**	**34,502**	-	45,856
Derivative liabilities [3]	**-**	**-**	-	(78)
	111,335	**34,502**	191,944	45,778

[1] Excluding Cash and cash equivalents of $nil (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 nine months ended December 31, 2022.

During the nine months ended December 31, 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 December 31, 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 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, 2022, the Group did not enter into any ULSD fuel swap contracts (December 31, 2021: $14.9 million). The notional value of all fuel swap contracts outstanding as at December 31, 2022 was $49.9 million (March 31, 2022: $86.5 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the nine months ended December 31, 2022 and no LNG swap contracts were outstanding as at December 31, 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 nine months ended December 31, 2022, open fuel swap contracts had unrealized hedging gains of $27.3 million (December 31, 2021: unrealized hedging gains of $30.1 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of $38.7 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2022 (December 31, 2021: net realized hedging gains of $4.7 million).

Cash flow hedges:

	Fiscal 2023	Fiscal 2024	Total
Fuel contracts (litres in thousands)	14,097	67,195	81,292
Contract price range ($/litre)	$0.5960-$0.6150	$0.5885-$0.6490	

The impact of hedging instruments designated in hedging relationships as of December 31, 2022 on the statement of financial position and the statement of profit or loss and other comprehensive (loss) 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	40,033	28,861	Current derivative assets	28,861
Fuel swap contracts	9,906	5,633	Non-current derivative assets	5,633
Foreign exchange forward contracts	336	8	Current derivative assets	8

The impact of hedged items designated in hedging relationships as of December 31, 2022 on the statement of financial position and the statement of profit or loss and other comprehensive (loss) income was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	34,640	34,494

(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 December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Hedging gains recognized in cash flow hedge reserve:				
Fuel swap contracts	**5,430**	1,968	**27,297**	30,092
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Fuel swap contracts – Gains recognized in net (loss) earnings	**(11,292)**	(2,912)	**(38,659)**	(4,722)
Interest rate forward contracts – Amortization of hedge loss	**62**	62	**186**	186
Net change in cash flow hedge reserve	**(5,800)**	(882)	**(11,176)**	25,556

12. Other comprehensive income:

(a) Continuity of reserves:

	Note	Land revaluation	Employee future benefit revaluation	Fuel swap	Interest rate forward contract	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		-	-	**27,297**	-	**27,297**
Realized gains		-	-	**(38,659)**	-	**(38,659)**
Amortization of losses		-	-	-	**186**	**186**
Balance as at December 31, 2022		**48,576**	**(7,902)**	**34,494**	**(5,284)**	**69,884**

(b) Other comprehensive income:

	Note	Three months ended December 31		Nine months ended December 31	
		2022	2021	**2022**	2021
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge gains on fuel swaps	11(b)	**5,430**	1,968	**27,297**	30,092
Total other comprehensive income		**5,430**	1,968	**27,297**	30,092

(Tabular amounts expressed in thousands of Canadian dollars)

13. Net retail:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Retail revenue	**22,723**	18,332	**83,527**	57,368
Cost of goods sold	**(8,984)**	(7,033)	**(31,778)**	(21,824)
Net retail	**13,739**	11,299	**51,749**	35,544

14. Safe Restart Funding:

In December 2020, the Group received a contribution of $308.0 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program.

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 $1.8 million and $6.7 million for the three and nine months ended December 31, 2022, respectively, (three and nine months ended December 31, 2021: $18.9 million and $81.0 million, respectively) of the contribution under "Safe Restart Funding", and $0.3 million and $1.0 million for the three and nine months ended December 31, 2022, respectively, (three and nine months ended December 31, 2021: $0.3 million and $1.0 million, respectively) relating to the Discretionary Sailing Relief, under "Ferry service fees" in the condensed interim consolidated statements of profit or loss and other comprehensive (loss) income. The remaining balance of $12.0 million (March 31, 2022: $19.7 million) was included in "Contract liabilities" in the condensed interim consolidated statements of financial position as at December 31, 2022.

15. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Salaries, wages and benefits	**115,140**	97,491	**344,604**	305,045
Fuel	**36,352**	30,379	**122,766**	94,551
Materials, supplies and contracted services	**31,643**	20,829	**78,302**	65,957
Other operating expenses	**16,894**	17,609	**55,227**	48,553
Depreciation and amortization	**45,192**	43,217	**135,291**	129,560
Total operating expenses	**245,221**	209,525	**736,190**	643,666

(Tabular amounts expressed in thousands of Canadian dollars)

16. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2022	2021	**2022**	2021
Finance expenses:				
Long-term debt	**16,585**	16,646	**49,548**	49,761
Short-term debt	**36**	46	**138**	158
Lease liabilities	**392**	422	**1,199**	1,284
Amortization of deferred financing costs and bond discounts	**255**	264	**767**	798
Interest capitalized in the cost of qualifying assets	**(105)**	(1,883)	**(668)**	(6,892)
Total finance expenses	**17,163**	15,495	**50,984**	45,109
Finance income	**(5,201)**	(1,165)	**(10,316)**	(3,565)
Net finance expense	**11,962**	14,330	**40,668**	41,544

17. Related party transactions:

In accordance with the Act, the Group is responsible for paying any reasonable expenses that are incurred by the Authority in performing its affairs and obligations under the Act, without charge. During the nine months ended December 31, 2022, the Group paid $470,193 (December 31, 2021: $337,648) 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 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 December 31, 2022, are probable of future recovery through fares and fuel surcharges.

18. Economic effect of rate regulation (continued):

(a) Deferred fuel costs:

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

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 nine months ended December 31, 2022, the amount receivable from the Province in relation to fuel cost differences was $1.9 million (December 31, 2021 amount receivable: $nil).

(b) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps for four consecutive quarters, the excess amounts collected will be returned to customers through future tariff reductions.

At March 31, 2022, tariffs charged to customers exceeded established price caps by $2.7 million (March 31, 2021: tariffs were below established price caps). On March 25, 2022, the Commissioner approved a transfer of the March 31, 2022 balance of tariffs in excess of price cap to reduce the deferred fuel cost account balance.

At June 30, 2022, tariffs charged to customers exceeded established price caps by $6.3 million. On July 25, 2022, the Commissioner approved a transfer of the June 30, 2022 balance of tariffs in excess of price caps to reduce the deferred fuel costs account balance.

At December 31, 2022, tariffs charged to customers were below established price caps reflecting the approved transfers of $2.7 million in March 2022 and $6.3 million in July 2022 from price cap overage to the deferred fuel cost account.

The Group was in compliance with its price cap regulations at December 31, 2022 and 2021.

(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% of revenue 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 December 31, 2022, the deferred amount was $10.3 million (March 31, 2022: $6.8 million).

(Tabular amounts expressed in thousands of Canadian dollars)

18. Economic effect of rate regulation (continued):

(d) Carbon Reduction Investment Account:

On April 21, 2022, the Commissioner approved the creation of a Carbon Reduction Investment Account ("CRIA") for a five-year term, subject to application for extension/modification after end of the term. The CRIA is funded through the sale of carbon credits, earned through activities such as its purchase of natural gas and use of LNG, to partially fund further infrastructure investments identified in its Clean Futures plan and progress greenhouse gases ("GHG") emission projects. The Group may apply for the discontinuation of CRIA at any time or the Commissioner can terminate it if it is deemed not necessary for funding further capital investments in cleaner technologies that lead to a reduction in GHG emissions or no longer deemed to be in the public interest. If terminated with positive balance, the funds must be returned to the ferry users through fuel deferral account. The use of the funds is subject to the Commissioner's approval.

As prescribed by regulatory order, the Group defers the net revenue from the sale of carbon credits and allocates the funding to the CRIA.

(e) Effect of rate regulation:

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory assets as at December 31, 2022 would have been $20.6 million (March 31, 2022: $11.6 million), and the regulatory liabilities as at December 31, 2022 would have been $9.6 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 loss for the three months ended December 31, 2022 would have been $ 7.2 million higher (December 31, 2021: $0.9 million lower), and net earnings for the nine months ended December 31, 2022 would have been $0.6 million lower (December 31, 2021: $5.5 million higher) as detailed below:

	Three months ended December 31		**Nine months ended December 31**	
Effect of rate regulation on net (loss) earnings	**2022**	2021	**2022**	2021
Regulatory accounts:				
Fuel costs over set price	**9,039**	2,215	**26,523**	3,094
Fuel (surcharges) rebates	**(4,808)**	547	**(12,884)**	4,305
Fuel price risk recoveries receivable from the Province	**(343)**	-	**(1,876)**	-
Tariffs in excess of price cap	**-**	(1,854)	**(6,309)**	(1,854)
Deferred fare increase relief	**(1,474)**	-	**3,492**	-
Deferred carbon reduction investment account	**(9,565)**	-	**(9,565)**	-
Total (decrease) increase in net (loss) earnings	**(7,151)**	908	**(619)**	5,545

(Tabular amounts expressed in thousands of Canadian dollars)

19. Economic effect of Safe Restart Funding:

In December 2020, the Group received a one-time contribution of $308.0 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program. 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 $7.7 million of the Safe Restart Funding ($6.7 million recognized under "Safe Restart Funding" and $1.0 million under "Ferry service fees" in the condensed interim consolidated statements of profit or loss and other comprehensive (loss) income), the net earnings for the nine months ended December 31, 2022 would have been $57.9 million (December 31, 2021: net earnings of $1.0 million):

		Three months ended December 31			Nine months ended December 31		
Effect of Safe Restart Funding on net (loss) earnings	Note	**2022**	2021	Increase (Decrease)	**2022**	2021	Increase (Decrease)
Net (loss) earnings		**(22,702)**	(1,666)	(21,036)	**65,605**	82,967	(17,362)
Safe Restart Funding	14	**(2,091)**	(19,204)	17,113	**(7,702)**	(82,000)	74,298
Net (loss) earnings excluding Safe Restart Funding		**(24,793)**	(20,870)	(3,923)	**57,903**	967	56,936