Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and nine months ended December 31, 2023 and 2022

(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, 2023**	March 31, 2023
Assets			
Current assets			
Cash and cash equivalents		**133,696**	87,122
Restricted short-term investments	7(b)	**32,773**	32,858
Other short-term investments		**352,119**	340,821
Trade and other receivables		**25,639**	24,411
Prepaid expenses		**21,097**	16,926
Inventories		**44,851**	45,182
Derivative assets	9	**4,126**	19,161
		614,301	566,481
Non-current assets			
Loan receivable		**24,515**	24,515
Property, plant and equipment	3	**1,859,235**	1,838,006
Intangible assets	4	**50,799**	62,824
		1,934,549	1,925,345
Total assets		**2,548,850**	2,491,826
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	**197,757**	166,305
Provisions		**3,488**	3,441
Lease liabilities	6	**3,369**	3,192
Contract liabilities		**33,082**	52,367
Long-term debt	6,7	**10,989**	10,944
Interest payable on long-term debt	6	**17,273**	21,311
Accrued employee future benefits		**2,500**	2,500
Other liabilities		**5,576**	1,576
Derivative liabilities	9	**23**	3
		274,057	261,639
Non-current liabilities			
Lease liabilities	6	**33,344**	35,892
Long-term debt	6,7	**1,387,866**	1,395,819
Accrued employee future benefits		**16,722**	16,964
Other liabilities		**16,593**	21,656
Derivative liabilities	9	**16**	-
		1,454,541	1,470,331
Total liabilities		**1,728,598**	1,731,970
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**658,176**	582,896
Total equity before reserves		**758,654**	683,374
Reserves	10	**61,598**	76,482
Total equity including reserves		**820,252**	759,856
Total liabilities and equity		**2,548,850**	2,491,826

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)

		Three months ended December 31		Nine months ended December 31	
	Note	**2023**	2022	**2023**	2022
Revenue					
Vehicle and passenger fares		**153,104**	142,750	**587,845**	554,244
Net retail	11	**15,287**	13,739	**57,779**	51,749
Fuel surcharges	15	**6,105**	4,808	**23,181**	12,884
Other income		**3,263**	12,682	**27,725**	19,212
Revenue from customers		**177,759**	173,979	**696,530**	638,089
Safe Restart Funding		**1,977**	1,758	**7,539**	6,702
Ferry service fees		**52,946**	50,727	**179,201**	173,016
Federal-Provincial Subsidy Agreement		**8,909**	8,336	**26,728**	25,008
Total revenue		**241,591**	234,800	**909,998**	842,815
Expenses	12				
Operations		**180,970**	154,388	**538,998**	486,767
Maintenance		**33,545**	32,678	**87,874**	78,423
Administration		**13,710**	12,963	**38,803**	35,709
Depreciation and amortization		**46,305**	45,192	**139,017**	135,291
Total operating expenses		**274,530**	245,221	**804,692**	736,190
Operating (loss) profit		**(32,939)**	(10,421)	**105,306**	106,625
Net finance and other expenses	13				
Finance expenses		**17,016**	17,163	**51,049**	50,984
Finance income		**(7,960)**	(5,201)	**(21,239)**	(10,316)
Net finance expense		**9,056**	11,962	**29,810**	40,668
Net loss on disposal and impairment of property, plant and equipment and intangible assets		**60**	319	**216**	352
Net finance and other expenses		**9,116**	12,281	**30,026**	41,020
NET (LOSS) EARNINGS		**(42,055)**	(22,702)	**75,280**	65,605
Other comprehensive (loss) income					
Items that are or may be reclassified subsequently to net earnings:					
Hedge (losses) gains on fuel swaps		**(5,403)**	5,430	**5,208**	27,297
Total comprehensive (loss) income		**(47,458)**	(17,272)	**80,488**	92,902

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2023	**2022**
Operating activities		
Net earnings	**75,280**	65,605
Items not affecting cash:		
Net finance expense	**29,810**	40,668
Depreciation and amortization	**139,017**	135,291
Net loss on disposal and impairment of property, plant and equipment and intangible assets	**216**	352
Other non-cash changes to property, plant and equipment	**(2,758)**	(585)
Changes in:		
Accrued employee future benefits	**(242)**	(1,298)
Derivatives recognized in net earnings	**-**	(86)
Provisions	**47**	(1,995)
Accrued investment income	**549**	3,410
Total non-cash items	**166,639**	175,757
Movements in working capital:		
Trade and other receivables	**(1,228)**	(5,333)
Prepaid expenses	**(4,171)**	(9,289)
Inventories	**331**	(3,593)
Accounts payable and accrued liabilities	**31,452**	17,369
Contract liabilities	**(19,285)**	(15,572)
Change in non-cash working capital	**7,099**	(16,418)
Change in non-cash working capital attributable to investing activities	**351**	(827)
Change in non-cash operating working capital	**7,450**	(17,245)
Cash generated from operating activities before interest	**249,369**	224,117
Interest received	**20,680**	6,946
Interest paid	**(54,880)**	(55,001)
Cash generated from operating activities	**215,169**	176,062

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2023	2022
Financing activities		
Repayment of long-term debt	**(8,462)**	(8,462)
Repayment of lease liabilities	**(2,498)**	(2,250)
Cash used in financing activities	**(10,960)**	(10,712)
Investing activities		
Proceeds from disposal of property, plant and equipment	**101**	16
Purchase of property, plant and equipment and intangible assets	**(146,523)**	(83,849)
Changes in restricted short-term investments	**85**	90
Net purchase of other short-term investments	**(11,298)**	(174,718)
Cash used in investing activities	**(157,635)**	(258,461)
Net increase (decrease) in cash and cash equivalents	**46,574**	(93,111)
Cash and cash equivalents, beginning of period	**87,122**	204,446
Cash and cash equivalents, end of period	**133,696**	111,335

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 10)	Total equity including reserves
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 net earnings	-	-	-	-	(38,659)	(38,659)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2022	75,478	25,000	656,381	756,859	69,884	826,743
Balance as at April 1, 2023	**75,478**	**25,000**	**582,896**	**683,374**	**76,482**	**759,856**
Net earnings	**-**	**-**	**75,280**	**75,280**	**-**	**75,280**
Other comprehensive income	**-**	**-**	**-**	**-**	**5,208**	**5,208**
Realized hedge gains recognized in net earnings	**-**	**-**	**-**	**-**	**(20,279)**	**(20,279)**
Hedge losses on interest rate forward contract reclassified to net earnings	**-**	**-**	**-**	**-**	**187**	**187**
Balance as at December 31, 2023	**75,478**	**25,000**	**658,176**	**758,654**	**61,598**	**820,252**

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.

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, 2023 and 2022, comprise the Company and its subsidiary, Pacific Marine Leasing Inc. (together referred to as the "Group"). The Group's subsidiary, BCF Captive Insurance Company Ltd., was voluntarily dissolved on October 1, 2022.

(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, 2023, 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 22, 2024.

2. Adoption of new and amended standards:

During the three and nine months ended December 31, 2023, 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, 2023	2,090,243	743,975	180,690	46,064	73,892	68,068	3,202,932
Additions	(1,063)[1]	-	8	1,326	-	143,430	143,701
Reclassification to: assets held for sale	(5,335)	-	-	-	-	-	(5,335)
Disposals and impairments	(29,134)	(3,228)	(1,239)	(38)	-	(86)	(33,725)
Transfers from construction in progress	66,839	46,124	-	-	-	(112,963)	-
Balance as at December 31, 2023	**2,121,550**	**786,871**	**179,459**	**47,352**	**73,892**	**98,449**	**3,307,573**
Accumulated depreciation:							
Balance as at April 1, 2023	932,274	336,356	93,441	2,855	-	-	1,364,926
Reclassification to: assets held for sale	(5,335)	-	-	-	-	-	(5,335)
Depreciation	87,985	28,113	4,559	521	-	-	121,178
Disposals and impairments	(29,134)	(3,200)	(59)	(38)	-	-	(32,431)
Balance as at December 31, 2023	**985,790**	**361,269**	**97,941**	**3,338**	-	-	**1,448,338**
Net carrying value:							
As at April 1, 2023	1,157,969	407,619	87,249	43,209	73,892	68,068	1,838,006
As at December 31, 2023	**1,135,760**	**425,602**	**81,518**	**44,014**	73,892	98,449	**1,859,235**

[1] Reclassification from Other liabilities.

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2023, financing costs capitalized during construction of qualifying assets amounted to $0.5 million (December 31, 2022: $0.7 million) with an average capitalization rate of 3.31% (December 31, 2022: 4.43%).

As at December 31, 2023, contractual commitments for assets to be constructed totalled $187.5 million (March 31, 2023: $67.9 million). The majority of these contractual commitments relate to the redevelopment of the Fleet Maintenance Unit.

During the nine months ended December 31, 2023, the Group recognized property, plant and equipment asset impairments of $0.1 million (December 31, 2022: less than $0.1 million).

FortisBC Energy Inc. has provided the Group with funding as part of the Natural Gas for Transportation Incentive Funding. The contributions are dependent upon the purchase of liquefied natural gas ("LNG"). During the nine months ended December 31, 2023, the Group recognized $1.1 million (December 31, 2022: $1.1 million) reclassified from Other liabilities as a reduction of the cost of property, plant and equipment.

During the nine months ended December 31, 2023, the Group received $0.8 million (December 31, 2022: $0.8 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $5.7 million, respectively, as at December 31, 2023 (March 31, 2023: cost of $11.9 million and accumulated depreciation of $5.3 million).

The *Mayne Queen* (decommissioned during the three months ended September 30, 2023), *Powell River Queen* (decommissioned during the year ended March 31, 2023), *Bowen Queen* (decommissioned during the year ended March 31, 2022) and *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) are all 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, 2023	162,042	49,042	3,522	214,606
Additions	-	-	6,017	6,017
Disposals and impairments	-	-	(203)	(203)
Transfers from assets under development	1,406	1	(1,407)	-
Balance as at December 31, 2023	**163,448**	**49,043**	**7,929**	**220,420**
Accumulated amortization:				
Balance as at April 1, 2023	121,963	29,819	-	151,782
Amortization	12,210	5,629	-	17,839
Balance as at December 31, 2023	**134,173**	**35,448**	-	**169,621**
Net carrying value:				
As at April 1, 2023	40,079	19,223	3,522	62,824
As at December 31, 2023	**29,275**	**13,595**	7,929	**50,799**

During the nine months ended December 31, 2023, additions of intangible assets under development totalled $6.0 million (December 31, 2022: $4.6 million) of which $4.3 million (December 31, 2022: $3.0 million) were acquired and $1.7 million (December 31, 2022: $1.6 million) were internally developed.

During the nine months ended December 31, 2023, the Group recognized intangible impairments of $0.2 million (December 31, 2022: $0.3 million).

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

	As at	
	December 31, 2023	March 31, 2023
Trade payable and accrued liabilities	**79,636**	74,094
Wages payable	**118,121**	92,211
Total	**197,757**	166,305

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, 2023	1,406,763	39,084	21,311
Net additions	-	127	49,410
Payments	(8,462)	(2,498)	(53,448)
Amortization of debt issue costs	554	-	-
Balance as at December 31, 2023	**1,398,855**	**36,713**	**17,273**
Current	**10,989**	**3,369**	**17,273**
Non-current	**1,387,866**	**33,344**	**-**
Balance as at December 31, 2023	**1,398,855**	**36,713**	**17,273**

[1] Interest expense related to lease liabilities is presented in net finance expense (Note 13).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Long-term debt:

	As at	
	December 31, 2023	March 31, 2023
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%)	**18,681**	21,485
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**19,793**	22,622
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**19,793**	22,622
	1,408,267	1,416,729
Less: Unamortized deferred financing costs and bond discounts	**(9,412)**	(9,966)
Total	**1,398,855**	1,406,763
Current	**10,989**	10,944
Non-current	**1,387,866**	1,395,819
Total	**1,398,855**	1,406,763

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. On March 14, 2023, the Credit Facility was extended to April 20, 2027. There were no draws on this Credit Facility as at December 31, 2023 and March 31, 2023, and no interest was expensed during the nine months ended December 31, 2023 (December 31, 2022: $nil). Letters of credit outstanding against this Credit Facility as at December 31, 2023 totalled $0.6 million (March 31, 2023: $0.5 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, 2023, debt service reserves of $32.8 million (March 31, 2023: $32.9 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 covenant disclosure:

Under the Master Trust Indenture, 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, 2023, the debt service coverage ratio was 3.19.

The Group was in compliance with all of its covenants at December 31, 2023 and at March 31, 2023.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at December 31, 2023 and March 31, 2023 for all financial instruments except for long-term debt.

	As at December 31, 2023		As at March 31, 2023	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,398,855**	**1,449,856**	1,406,763	1,416,887

[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 condensed interim consolidated statements of financial position as at December 31, 2023 and March 31, 2023 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, 2023, or at March 31, 2023, valued using Level 3 inputs.

	As at December 31, 2023		As at March 31, 2023	
	Level 1	**Level 2**	Level 1	Level 2
Asset (liability):				
Cash[1,2]	**105,689**	**-**	87,115	-
Cash equivalents[1,2]	**7**	**-**	7	-
Derivative assets[3]	**-**	**4,126**	-	19,161
Derivative liabilities[3]	**-**	**(39)**	-	(3)
	105,696	**4,087**	87,122	19,158

[1] Excluding Cash and cash equivalents of $28 million (March 31, 2023: $nil) 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, 2023.

During the nine months ended December 31, 2023, gains or losses related to Level 2 derivatives designated as hedges have been recorded in other comprehensive (loss) income ("OCI").

8. Financial instruments (continued):

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.

9. Financial risk management:

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 for marine diesel fuel and LNG so that at any time the monthly hedges shall not exceed: a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36th month; and up to 70% of anticipated monthly fuel consumption for the period between the end of the 36th month and the end of the sixth performance term. Performance term five (“PT5”) commenced April 1, 2020 and will end on March 31, 2024. Performance term six will commence April 1, 2024 and will end on March 31, 2028.

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 15).

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, 2023, the Group entered into ULSD fuel swap contracts with a notional value of $4.4 million (December 31, 2022: $nil). The notional amount of all fuel swap contracts outstanding as at December 31, 2023 was $14.3 million (March 31, 2023: $41.3 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the nine months ended December 31, 2023 and no LNG swap contracts were outstanding as at December 31, 2023.

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.

9. Financial risk management (continued):

During the nine months ended December 31, 2023, open fuel swap contracts had unrealized hedging gains of $5.2 million (December 31, 2022: unrealized hedging gains of $27.3 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of $20.3 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2023 (December 31, 2022: net realized hedging gains of $38.7 million).

Cash flow hedges:

	Fiscal 2024	Fiscal 2025	Total
Fuel contracts (litres in thousands)	15,925	5,205	21,130
Contract price range ($/litre)	$0.5900-$0.6490	$0.8425-$0.8450	

The impact of hedging instruments designated in hedging relationships as of December 31, 2023 on the condensed interim consolidated statements of financial position and the condensed interim consolidated statements 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 the value used for measuring ineffectiveness for the period
Fuel swap contracts	10,679	4,126	Current derivative assets	4,126
Fuel swap contracts	2,706	(20)	Current derivative liabilities	(20)
Fuel swap contracts	913	(16)	Non-current derivative liabilities	(16)
Foreign exchange forward contracts	362	(3)	Current derivative liabilities	(3)

The impact of hedged items designated in hedging relationships as of December 31, 2023 on the condensed interim consolidated statement of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive (loss) income was as follows:

	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	4,092	4,090

(Tabular amounts expressed in thousands of Canadian dollars)

9. Financial risk management (continued):

Cash flow hedge reserve (Note 10):

	Three months ended December 31		Nine months ended December 31	
	2023	2022	**2023**	2022
Net hedging (losses) gains recognized in cash flow hedge reserve:				
Fuel swap contracts	**(5,403)**	5,430	**5,208**	27,297
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Fuel swap contracts – Gains recognized in net (loss) earnings	**(6,947)**	(11,292)	**(20,279)**	(38,659)
Interest rate forward contracts – Amortization of hedge losses	**63**	62	**187**	186
Net change in cash flow hedge reserve	**(12,287)**	(5,800)	**(14,884)**	(11,176)

10. Continuity of other comprehensive (loss) income reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2023		69,356	(6,811)	19,161	(5,224)	76,482
Derivatives designated as cash flow hedge reserves:	9					
Net change in fair value		-	-	**5,208**	-	**5,208**
Realized gains		-	-	**(20,279)**	-	**(20,279)**
Amortization of losses		-	-	-	**187**	**187**
Balance as at December 31, 2023		**69,356**	**(6,811)**	**4,090**	**(5,037)**	**61,598**

11. Net retail:

	Three months ended December 31		Nine months ended December 31	
	2023	2022	**2023**	2022
Retail revenue	**24,779**	22,723	**93,338**	83,527
Cost of goods sold	**(9,492)**	(8,984)	**(35,559)**	(31,778)
Net retail	**15,287**	13,739	**57,779**	51,749

(Tabular amounts expressed in thousands of Canadian dollars)

12. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2023	2022	**2023**	2022
Salaries, wages and benefits	**141,807**	115,140	**398,771**	344,604
Fuel	**34,873**	36,352	**116,749**	122,766
Materials, supplies and contracted services	**30,477**	31,643	**86,808**	78,302
Other operating expenses	**21,068**	16,894	**63,347**	55,227
Depreciation and amortization	**46,305**	45,192	**139,017**	135,291
Total operating expenses	**274,530**	245,221	**804,692**	736,190

13. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2023	2022	**2023**	2022
Finance expenses:				
Long-term debt	**16,513**	16,585	**49,410**	49,548
Short-term debt	**34**	36	**121**	138
Lease liabilities	**433**	392	**1,323**	1,199
Amortization of deferred financing costs, interest rate hedge losses and bond discounts	**245**	255	**739**	767
Interest capitalized in the cost of qualifying assets	**(209)**	(105)	**(544)**	(668)
Total finance expenses	**17,016**	17,163	**51,049**	50,984
Finance income	**(7,960)**	(5,201)	**(21,239)**	(10,316)
Net finance expense	**9,056**	11,962	**29,810**	40,668

14. 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, 2023, the Group paid $0.8 million (December 31, 2022: $0.5 million) of such expenses.

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

15. 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, fuel rebates or investing in approved carbon reduction initiatives. 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, 2023, are probable of future recovery through fuel surcharges. The regulatory liabilities at December 31, 2023 will partially fund further infrastructure investments identified in its Clean Futures Plan and progress greenhouse gases (“GHG”) emission projects.

(a) Deferred fuel costs:

As prescribed by regulatory order, the Group defers differences between actual fuel costs and approved fuel costs, which were used to develop the regulated price caps. The 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, 2023, the amount receivable from the Province in relation to fuel cost differences was $1.4 million (December 31, 2022: $1.9 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. 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, 2023 and March 31, 2023, tariffs charged to customers were below established price caps.

(c) Fare Increase Relief:

On May 3, 2021, the Commissioner approved the Group’s request to recognize 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 December 31, 2023, the deferred amount was $1.5 million (March 31, 2023: $9.0 million).

(Tabular amounts expressed in thousands of Canadian dollars)

15. 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 GHG emission projects. The Group may apply for the discontinuation of CRIA at any time or the Commissioner can terminate if 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. As at December 31, 2023, the deferred amount was $26.0 million (March 31, 2023: $9.6 million).

(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, 2023 would have been $5.7 million (March 31, 2023: $20.3 million), and the regulatory liabilities would have been $26.0 million (March 31, 2023: $9.6 million) on the interim consolidated statements of financial position as detailed below:

Regulatory accounts	**December 31, 2023**	March 31, 2023
Net Balance as at April 1	**10,777**	11,612
Changes in:		
Deferred fuel cost	**(7,079)**	6,536
Deferred fare increase relief	**(7,539)**	2,194
Deferred carbon reduction investment account	**(16,397)**	(9,565)
Net Balance	**(20,238)**	10,777
Regulatory assets	**5,724**	20,342
Regulatory liabilities	**25,962**	9,565
Net Balance	**(20,238)**	10,777

(Tabular amounts expressed in thousands of Canadian dollars)

15. Economic effect of rate regulation (continued):

If the Group were permitted under IFRS to recognize the effect of rate regulation, net loss for the three months ended December 31, 2023 would have increased by $2.2 million (December 31, 2022: $7.2 million), and net earnings during the nine months ended December 31, 2023 would have decreased by $31.0 million (December 31, 2022: $0.6 million) as detailed below:

	Three months ended December 31		Nine months ended December 31	
Effect of rate regulation on net (loss) earnings	**2023**	2022	**2023**	2022
Fuel costs over set price	**6,339**	9,039	**17,468**	26,523
Fuel surcharges	**(6,105)**	(4,808)	**(23,181)**	(12,884)
Fuel price risk recoveries receivable from the Province	**(438)**	(343)	**(1,366)**	(1,876)
Tariffs in excess of price cap	-	-	-	(6,309)
Deferred fare increase relief	**(1,977)**	(1,474)	**(7,539)**	3,492
Deferred carbon reduction investment account	-	(9,565)	**(16,397)**	(9,565)
Net effect on net (loss) earnings	**(2,181)**	(7,151)	**(31,015)**	(619)