

Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three months ended June 30, 2005

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Balance Sheets
(expressed in thousands)

	June 30, 2005 (unaudited)	March 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,582	\$ 41,524
Restricted short-term investments	15,243	15,054
Accounts receivable	7,275	6,147
Prepaid expenses	8,566	5,095
Inventories	22,019	21,699
	<u>69,685</u>	<u>89,519</u>
Capital assets (note 2)	643,060	630,291
Deferred financing costs	7,866	7,987
Deferred fuel costs (note 3)	13,255	8,000
Long-term land lease	28,463	27,585
	<u>\$ 762,329</u>	<u>\$ 763,382</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 37,802	\$ 49,552
Interest payable on long-term debt	4,737	12,251
Accrued employee costs	38,702	39,371
Deferred revenue	18,111	13,756
Current portion of accrued employee future benefits	631	631
Current portion of obligation under capital lease	26	26
	<u>100,009</u>	<u>115,587</u>
Accrued employee future benefits (note 4)	16,933	16,849
Long-term debt (note 5)	499,587	499,581
Obligations under capital lease	155	164
	<u>616,684</u>	<u>632,181</u>
Shareholders' equity:		
Share capital	75,478	75,478
Retained earnings	70,167	55,723
	<u>145,645</u>	<u>131,201</u>
Commitments (note 2)		
	<u>\$ 762,329</u>	<u>\$ 763,382</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Original Signed by Elizabeth J. Harrison _____ Director

Original Signed by Graham M. Wilson _____ Director

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Earnings and Retained Earnings (unaudited)
(expressed in thousands)

	For the three months ended	
	June 30, 2005	June 30, 2004
Revenue:		
Tolls	\$ 89,694	\$ 86,588
Ferry service fees	26,997	26,649
Federal-Provincial Subsidy Agreement	6,222	6,086
Retail	17,289	16,650
Other income	4,987	4,442
	<u>145,189</u>	<u>140,415</u>
Expenses:		
Operations	75,030	73,854
Maintenance	18,137	22,507
Administration	11,953	9,345
Cost of retail goods sold	6,845	6,544
Amortization	12,088	10,858
	<u>124,053</u>	<u>123,108</u>
Earnings from operations	21,136	17,307
Gain on foreign exchange	75	88
Interest expense	(6,758)	(5,099)
Loss on disposal of capital assets	(9)	-
Net earnings	<u>14,444</u>	<u>12,296</u>
Retained earnings, beginning of period	55,723	21,947
Retained earnings, end of period	<u>\$ 70,167</u>	<u>\$ 34,243</u>

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows (unaudited)
(expressed in thousands)

	For the three months ended	
	June 30, 2005	June 30, 2004
Cash provided by (used in):		
Operations:		
Net earnings	\$ 14,444	\$ 12,296
Items not involving cash:		
Amortization	12,088	10,858
Other non-cash charges	36	591
Fuel costs deferred	(5,255)	-
Change in operating working capital	(28,381)	(3,242)
	<u>(7,068)</u>	<u>20,503</u>
Financing:		
Deferred financing costs incurred	(2)	(2,511)
Proceeds from issuance of bonds	-	249,868
Proceeds from issuance of bridge financing	-	198,703
Repayment of long-term debenture	-	(427,701)
Establishment of debt service reserve	-	(9,816)
	<u>(2)</u>	<u>8,543</u>
Investing:		
Cost of disposal of capital assets	(9)	-
Purchase of capital assets	(16,952)	(26,368)
Increase in lands under long-term lease	(911)	-
	<u>(17,872)</u>	<u>(26,368)</u>
(Decrease) increase in cash and cash equivalents	(24,942)	2,678
Cash and cash equivalents, beginning of period	41,524	17,939
Cash and cash equivalents, end of period	<u>\$ 16,582</u>	<u>\$ 20,617</u>

Supplemental cash flow information (note 6)

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to Consolidated Financial Statements (unaudited)
(columnar dollars expressed in thousands)

For the three months ended June 30, 2005

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 interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended March 31, 2005. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended March 31, 2005.

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 travelers and their preference to travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

1. Significant accounting policies:

(a) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

2. Capital assets:

June 30, 2005	Cost	Accumulated amortization	Net book value
Ships owned	\$ 758,130	\$ 464,943	\$ 293,187
Ships under capital lease	86,299	33,419	52,880
Berths, buildings and equipment	86,862	56,342	30,520
Berths, buildings and equipment under capital lease	424,617	212,133	212,484
Land	1,107	-	1,107
Construction-in-progress	52,882	-	52,882
	<u>\$ 1,409,897</u>	<u>\$ 766,837</u>	<u>\$ 643,060</u>

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to Consolidated Financial Statements (unaudited)
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For the three months ended June 30, 2005

2. Capital assets (continued):

March 31, 2005	Cost	Accumulated amortization	Net book value
Ships owned	\$ 758,130	\$ 458,115	\$ 300,015
Ships under capital lease	50,426	32,845	17,581
Berths, buildings and equipment	86,342	54,286	32,056
Berths, buildings and equipment under capital lease	417,096	209,503	207,593
Land	1,107	-	1,107
Construction-in-progress	71,939	-	71,939
	<u>\$ 1,385,040</u>	<u>\$ 754,749</u>	<u>\$ 630,291</u>

For the quarter ended June 30, 2005 capitalized financing costs during construction amounted to \$1.0 million (June 30, 2004 - \$0.4 million).

In addition to the construction-in-progress referenced above, contractual commitments at June 30, 2005 for capital assets to be constructed totaled \$319.9 million (March 31, 2005 - \$339.4 million). Included in the contractual commitments as at June 30, 2005 is \$308.8 million (March 31, 2005 - \$307.4 million) committed for design and construction of three "Super C" Class vessels. Delivery of the three vessels is scheduled to occur during the period from late 2007 to mid 2008.

3. Deferred fuel costs:

During the quarter ended June 30, 2005, the Company applied to the British Columbia Ferry Commissioner (the "Commissioner") for extraordinary price cap increases to enable fuel surcharges to be levied on passenger and vehicle tolls. On July 24, 2005, the Commissioner authorized price cap increases to enable fuel surcharges effective July 25, 2005. Amounts collected by the fuel surcharges will draw down the deferred fuel cost balances.

In addition, under the same order, effective July 24, 2005, the Commissioner increased the set prices to be used in the fuel deferral calculations that had been established during the year ended March 31, 2005. The Company maintains the deferral accounts to mitigate the effect on its earnings of unpredictable and uncontrollable price volatility in world fuel oil markets.

4. Accrued employee future benefits:

During the quarter ended June 30, 2005, the Company recognized total defined benefit costs of \$0.3 million (June 30, 2004 - \$0.3 million).

BRITISH COLUMBIA FERRY SERVICES INC.

Notes to Consolidated Financial Statements (unaudited)
(columnar dollars expressed in thousands)

For the three months ended June 30, 2005

5. Long-term debt:

	June 30 2005	March 31 2005
5.74% Senior Secured Bonds, Series 04-1, due May 2014	\$ 250,000	\$ 250,000
Unamortized discount	(118)	(121)
	249,882	249,879
6.25% Senior Secured Bonds, Series 04-4, due October 2034	250,000	250,000
Unamortized discount	(295)	(298)
	249,705	249,702
	\$ 499,587	\$ 499,581

6. Supplemental cash flow information:

For the three months ended	June 30 2005	June 30 2004
Cash paid during the period for interest	\$ 15,036	\$ 3,495
