

Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Six months ended September 30, 2005

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Balance Sheets
(expressed in thousands)

	September 30, 2005 (unaudited)	March 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 67,040	\$ 41,524
Restricted short-term investments	14,988	14,988
Accounts receivable	12,749	6,213
Prepaid expenses	9,441	5,095
Inventories	22,286	21,699
	<u>126,504</u>	<u>89,519</u>
Capital assets (note 2)	644,360	630,291
Deferred financing costs	7,741	7,987
Deferred fuel costs (note 3)	16,495	8,000
Long-term land lease	28,554	27,585
	<u>\$ 823,654</u>	<u>\$ 763,382</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 35,447	\$ 49,552
Interest payable on long-term debt	12,292	12,251
Accrued employee costs	38,649	39,371
Deferred revenue	12,759	13,756
Current portion of accrued employee future benefits	631	631
Current portion of obligation under capital lease	26	26
	<u>99,804</u>	<u>115,587</u>
Accrued employee future benefits (note 4)	17,304	16,849
Long-term debt (note 5)	499,593	499,581
Obligations under capital lease	149	164
	<u>616,850</u>	<u>632,181</u>
Shareholders' equity:		
Share capital	75,478	75,478
Retained earnings	131,326	55,723
	<u>206,804</u>	<u>131,201</u>
Commitments (note 2)		
Interest rate support (note 6)		
	<u>\$ 823,654</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)

	Three months ended September 30		Six months ended September 30	
	2005	2004	2005	2004
Revenue:				
Tolls	\$ 128,528	\$ 126,032	\$ 218,222	\$ 212,620
Ferry service fees	31,186	30,743	58,183	57,392
Federal-Provincial Subsidy Agreement	6,223	6,086	12,445	12,172
Retail	24,478	24,577	41,767	41,227
Other income	7,844	6,935	12,831	11,377
	<u>198,259</u>	<u>194,373</u>	<u>343,448</u>	<u>334,788</u>
Expenses:				
Operations	84,918	81,040	159,950	154,780
Maintenance	13,052	13,676	31,189	36,303
Administration	10,474	10,422	22,425	19,761
Cost of retail goods sold	8,982	9,348	15,827	15,892
Amortization	13,534	12,017	25,622	22,875
	<u>130,960</u>	<u>126,503</u>	<u>255,013</u>	<u>249,611</u>
Earnings from operations	67,299	67,870	88,435	85,177
Gain (loss) on foreign exchange	102	(163)	177	(75)
Interest expense	(6,208)	(4,715)	(12,966)	(9,814)
Gain (loss) on disposal of capital assets	(34)	13	(43)	13
Net earnings	<u>61,159</u>	<u>63,005</u>	<u>75,603</u>	<u>75,301</u>
Retained earnings, beginning of period	70,167	34,243	55,723	21,947
Retained earnings, end of period	<u>\$ 131,326</u>	<u>\$ 97,248</u>	<u>\$ 131,326</u>	<u>\$ 97,248</u>

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA FERRY SERVICES INC.

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

	Three months ended September 30		Six months ended September 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Net earnings	\$ 61,159	\$ 63,005	\$ 75,603	\$ 75,301
Items not involving cash:				
Amortization	13,534	12,017	25,622	22,875
Other non-cash charges	163	(225)	199	366
Net fuel costs deferred	(3,240)	(1,198)	(8,495)	(1,198)
Change in operating working capital (note 7)	(7,820)	(13,778)	(20,265)	(17,020)
	63,796	59,821	72,664	80,324
Financing:				
Deferred financing costs incurred	(1)	(793)	(3)	(3,304)
Proceeds from issuance of bonds	-	-	-	249,868
Proceeds from issuance of bridge financing	-	1,077	-	199,780
Repayment of long-term debenture	-	-	-	(427,701)
Establishment of debt service reserve	-	(15)	-	(9,831)
	(1)	269	(3)	8,812
Investing:				
Proceeds from (cost of) disposal of capital assets	5	13	(4)	13
Purchase of capital assets (note 7)	(13,106)	(11,519)	(45,994)	(37,887)
Increase in lands under long-term lease	(236)	-	(1,147)	-
	(13,337)	(11,506)	(47,145)	(37,874)
Increase in cash and cash equivalents	50,458	48,584	25,516	51,262
Cash and cash equivalents, beginning of period	16,582	20,617	41,524	17,939
Cash and cash equivalents, end of period	\$ 67,040	\$ 69,201	\$ 67,040	\$ 69,201

Supplemental cash flow information (note 8)

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 six months ended September 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.

(b) Interest rate support:

The Company receives interest rate support from the Government of Canada for eligible new Canadian built vessels or major refurbishment of vessels. Amounts receivable in regard to capitalized interest are recognized as a reduction of capitalized interest upon completion of the project. Amounts receivable in regard to post-completion debt service costs are recognized as a reduction to interest expense.

BRITISH COLUMBIA FERRY SERVICES INC.

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

For the six months ended September 30, 2005

2. Capital assets:

September 30, 2005	Cost	Accumulated amortization	Net book value
Ships owned	\$ 758,130	\$ 471,811	\$ 286,319
Ships under capital lease	85,541	34,335	51,206
Berths, buildings and equipment	92,873	58,655	34,218
Berths, buildings and equipment under capital lease	442,695	214,818	227,877
Land	1,107	-	1,107
Construction-in-progress	43,633	-	43,633
	<u>\$ 1,423,979</u>	<u>\$ 779,619</u>	<u>\$ 644,360</u>

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 six months ended September 30, 2005 capitalized financing costs during construction, net of recoveries, amounted to \$1.0 million (six months ended Sept 30, 2004 - \$0.9 million; twelve months ended March 31, 2005 - \$1.5 million).

In addition to the construction-in-progress included above, contractual commitments at September 30, 2005 for capital assets to be constructed totaled \$359.1 million (March 31, 2005 - \$339.4 million). Included in the contractual commitments as at September 30, 2005 is \$308.7 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:

Deferred fuel cost balances consist of differences between the set unit prices established by the British Columbia Ferries Commissioner (the "Commissioner") and actual unit prices of fuel oil (net of hedge gains and losses), less fuel costs recovered through surcharge collections. The Company maintains the deferral accounts to mitigate the effect on its earnings of unpredictable and uncontrollable price volatility in world fuel oil markets.

BRITISH COLUMBIA FERRY SERVICES INC.

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

For the six months ended September 30, 2005

3. Deferred fuel costs (continued):

During the quarter ended June 30, 2005, the Company applied to the Commissioner for extraordinary price cap increases to enable fuel surcharges to be levied on passenger and vehicle tolls. The Commissioner authorized the price cap increases and the Company implemented fuel surcharges effective July 25, 2005.

In addition, the Commissioner increased by 5%, effective July 24, 2005, the set prices to be used in fuel cost deferral calculations which had been established in a previous order. In his Order, the Commissioner also authorized interest to be calculated on and added to the deferred fuel cost balances, effective July 25, 2005.

	September 30 2005	March 31 2005
Balance, beginning of period	\$ 8,000	\$ -
Current period fuel costs deferred	11,968	8,000
Fuel surcharges collected	(3,649)	-
	16,319	8,000
6% interest accrued	176	-
Balance, end of period	\$ 16,495	\$ 8,000

4. Accrued employee future benefits:

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

For the six months ended September 30, 2005 the Company recognized total defined benefit costs of \$0.6 million (September 30, 2004 - \$0.6 million).

5. Long-term debt:

	September 30 2005	March 31 2005
5.74% Senior Secured Bonds, Series 04-1, due May 2014	\$ 250,000	\$ 250,000
Unamortized discount	(114)	(121)
	249,886	249,879
6.25% Senior Secured Bonds, Series 04-4, due October 2034	250,000	250,000
Unamortized discount	(293)	(298)
	249,707	249,702
	\$ 499,593	\$ 499,581

BRITISH COLUMBIA FERRY SERVICES INC.

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

For the six months ended September 30, 2005

5. Long-term debt (continued):

In addition, the Company has entered into loan agreements which make up to \$180 million available to finance the Company's purchase of two "Super C" Class vessels. These funds will be released to coincide with the conditional acceptance dates of the vessels, expected in 2008.

6. Interest rate support:

During the period, the Company received interest rate support from the Government of Canada. The government has agreed to provide \$4.0 million in the form of interest rate support to the Company. Of this, \$0.5 million has been recorded as a reduction of capitalized interest and \$1.0 million as reduction of interest expense. The remaining \$2.5 million will be recognized over the next fifteen months as a reduction of interest expense.

The Company has no requirement to repay these funds, other than as a result of an event of default on bond interest payments.

7. Reclassification of cash flow statement for the three months ended June 30, 2005:

The June 30, 2005 cash flow statement has been amended to correct a misclassification of non-operating working capital totaling \$15.9 million. The effect of this reclassification is to decrease previously reported cash used by changes in operating working capital by \$15.9 million and to increase previously reported cash used in the purchase of capital assets by \$15.9 million during the three months ended June 30, 2005.

8. Supplemental cash flow information:

	Three months ended		Six months ended	
	September 30		September 30	
	2005	2004	2005	2004
Cash paid during the period for interest	\$ 48	\$ 48	\$ 15,083	\$ 3,543
