Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and nine months ended December 31, 2025 and 2024

(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, 2025**	March 31, 2025
Assets			
Current assets			
Cash and cash equivalents		**171,993**	204,678
Restricted short-term investments		**97,714**	99,717
Other short-term investments		**30**	27,966
Trade and other receivables		**25,291**	39,902
Prepaid expenses		**28,346**	14,666
Inventories		**51,101**	48,206
Loan receivable		**37,753**	37,753
Derivative assets	11	**-**	2,441
		412,228	475,329
Non-current assets			
Property, plant and equipment	3	**2,209,397**	2,040,887
Intangible assets	4	**25,000**	29,736
		2,234,397	2,070,623
Total assets		**2,646,625**	2,545,952
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	**190,283**	227,693
Provisions	6	**3,263**	13,265
Lease liabilities	7	**3,813**	3,732
Contract liabilities		**35,295**	49,511
Long-term debt	7,8	**11,096**	11,045
Interest payable on long-term debt	7	**17,229**	21,271
Accrued employee future benefits		**2,600**	2,600
Deferred grants and other liabilities	9	**17,562**	12,429
Derivative liabilities	11	**239**	-
		281,380	341,546
Non-current liabilities			
Provisions	6	**91,879**	81,185
Lease liabilities	7	**20,559**	21,822
Long-term debt	7,8	**1,492,869**	1,422,122
Accrued employee future benefits		**19,718**	19,692
Deferred grants and other liabilities	9	**22,473**	31,785
		1,647,498	1,576,606
Total liabilities		**1,928,878**	1,918,152
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**566,140**	473,699
Total equity before reserves		**666,618**	574,177
Reserves	12	**51,129**	53,623
Total equity including reserves		**717,747**	627,800
Total liabilities and equity		**2,646,625**	2,545,952

Capital commitments (Note 3)
Subsequent event (Note 19)

BRITISH COLUMBIA FERRY SERVICES INC.

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

(Expressed in thousands of Canadian dollars)

		Three months ended December 31		Nine months ended December 31	
	Note	**2025**	2024	**2025**	2024
Revenue					
Vehicle and passenger fares		**167,786**	163,341	**652,505**	620,525
Net retail	13	**16,629**	16,031	**63,525**	60,639
Fuel surcharges	18	**-**	6	**-**	5,757
Other income		**3,788**	3,461	**13,548**	11,828
Revenue from customers		**188,203**	182,839	**729,578**	698,749
Ferry service fees		**51,964**	50,616	**163,693**	160,944
Fare affordability funding	14	**23,647**	14,740	**90,550**	56,244
Federal-Provincial Subsidy Agreement		**9,458**	9,231	**28,375**	27,693
Total revenue		**273,272**	257,426	**1,012,196**	943,630
Expenses	15				
Operations		**179,460**	179,401	**580,282**	584,542
Maintenance		**42,631**	35,171	**104,027**	101,874
Administration		**15,358**	14,072	**45,668**	41,406
Depreciation and amortization		**50,551**	50,077	**152,123**	149,855
Total operating expenses		**288,000**	278,721	**882,100**	877,677
Operating (loss) profit		**(14,728)**	(21,295)	**130,096**	65,953
Net finance and other expenses					
Finance expenses		**14,997**	17,441	**47,881**	52,752
Finance income		**(2,496)**	(6,170)	**(5,936)**	(18,313)
Net finance expense	16	**12,501**	11,271	**41,945**	34,439
Net (gain) loss on disposal and impairment of property, plant and equipment and intangible assets and other charges		**(145)**	5,642	**(4,290)**	7,190
Net finance and other expenses		**12,356**	16,913	**37,655**	41,629
NET (LOSS) EARNINGS		**(27,084)**	(38,208)	**92,441**	24,324
Other comprehensive (loss) income					
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge (losses) gains on fuel swaps	11	**(366)**	4,435	**(1,501)**	2,622
Total other comprehensive (loss) income		**(366)**	4,435	**(1,501)**	2,622
Total comprehensive (loss) income		**(27,450)**	(33,773)	**90,940**	26,946

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2025	2024
Operating activities		
Net earnings	**92,441**	24,324
Items not affecting cash:		
Net finance expense	**41,945**	34,439
Depreciation and amortization	**152,123**	149,855
Net (gain) loss on disposal and impairment of property, plant and equipment and intangible assets, and other charges	**(4,290)**	7,190
Other non-cash changes to property, plant and equipment	**(2,122)**	400
Employee future benefits	**26**	(280)
Provision recognized in net earnings	**1,942**	101
Deferred grants and other liabilities	**(2)**	(132)
Total non-cash items	**189,622**	191,573
Movements in working capital:		
Trade and other receivables	**14,611**	(44)
Prepaid expenses	**(13,680)**	(1,920)
Inventories	**(2,895)**	(4,852)
Accounts payable and accrued liabilities	**(37,410)**	(32,182)
Contract liabilities	**(14,216)**	(11,504)
Accrued financing cost	**(2,701)**	(8,487)
Change in non-cash working capital	**(56,291)**	(58,989)
Change in non-cash working capital attributable to investing activities	**22,790**	10,587
Change in non-cash operating working capital	**(33,501)**	(48,402)
Cash generated from operating activities before interest	**248,562**	167,495
Interest received	**9,203**	26,072
Interest paid	**(55,428)**	(54,779)
Cash generated from operating activities	**202,337**	138,788

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2025	2024
Financing activities		
Repayment of long-term debt	**(8,462)**	(8,462)
Repayment of lease liabilities	**(2,931)**	(2,656)
Proceeds from the issue of bonds	**133,000**	-
Transaction costs related to bonds	**(376)**	-
Cash generated from (used in) financing activities	**121,231**	(11,118)
Investing activities		
Disposal of property, plant and equipment	**(11,612)**	187
Purchase of property, plant and equipment and intangible assets	**(374,580)**	(171,860)
Changes in restricted short-term investments	**2,003**	90
Net redemption of other short-term investments	**27,936**	303,768
Cash (used in) generated from investing activities	**(356,253)**	132,185
Net (decrease) increase in cash and cash equivalents	**(32,685)**	259,855
Cash and cash equivalents, beginning of period	**204,678**	31,906
Cash and cash equivalents, end of period	**171,993**	291,761

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

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 12)	Total equity including reserves
Balance as at April 1, 2024	75,478	25,000	551,465	651,943	57,695	709,638
Net earnings	-	-	24,324	24,324	-	24,324
Other comprehensive income	-	-	-	-	2,622	2,622
Realized hedge gains recognized in fuel swaps	-	-	-	-	(201)	(201)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2024	75,478	25,000	575,789	676,267	60,302	736,569
Balance as at April 1, 2025	**75,478**	**25,000**	**473,699**	**574,177**	**53,623**	**627,800**
Net earnings	**-**	**-**	**92,441**	**92,441**	**-**	**92,441**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(1,501)**	**(1,501)**
Realized hedge gains recognized in fuel swaps	**-**	**-**	**-**	**-**	**(1,179)**	**(1,179)**
Hedge losses on interest rate forward contract reclassified to net earnings	**-**	**-**	**-**	**-**	**186**	**186**
Balance as at December 31, 2025	**75,478**	**25,000**	**566,140**	**666,618**	**51,129**	**717,747**

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 single issued 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 nine months ended December 31, 2025 and 2024, comprise the Company and its subsidiaries, Pacific Marine Leasing Inc., and Pacific Marine Holdings Inc. (together referred to as the "Group").

(b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with IFRS Accounting 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, 2025, as they follow the same accounting policies, except as disclosed in notes 1 and 2.

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, loan receivable and certain financial assets and liabilities, including derivatives.

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 12, 2026.

2. Adoption of new and amended standards:

The Group adopted amendments to IAS 21, the effects of changes in foreign exchange rates regarding lack of currency exchangeability. This amendment had no impact on the Group's 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, 2025	2,302,068	865,778	186,047	31,892	81,022	251,849	3,718,656
Additions	14,476[1]	-	1,461	288	-	359,634	375,859
Reclassifications from deferred grants and funding	(1,218)	-	-	-	-	(62,133)	(63,351)
Disposals and impairments	(69,124)	(3,482)	(780)	-	-	(1,836)	(75,222)
Transfers from construction in progress	52,468	32,202	-	-	-	(84,670)	-
Balance as at December 31, 2025	**2,298,670**	**894,498**	**186,728**	**32,180**	**81,022**	**462,844**	**3,955,942**
Accumulated depreciation:							
Balance as at April 1, 2025	1,151,464	402,456	120,228	3,621	-	-	1,677,769
Depreciation	100,318	34,544	6,709	560	-	-	142,131
Disposals and impairments	(69,124)	(3,451)	(780)	-	-	-	(73,355)
Balance as at December 31, 2025	**1,182,658**	**433,549**	**126,157**	**4,181**	-	-	**1,746,545**
Net carrying value:							
As at April 1, 2025	1,150,604	463,322	65,819	28,271	81,022	251,849	2,040,887
As at December 31, 2025	**1,116,012**	**460,949**	**60,571**	**27,999**	**81,022**	**462,844**	**2,209,397**

[1] Vessel decommissioning and restoration cost additions

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2025, financing costs capitalized during construction of qualifying assets amounted to $8.7 million (December 31, 2024: $2.2 million) with an average capitalization rate of 3.34% (December 31, 2024: 2.90%).

As at December 31, 2025, contractual commitments for assets to be constructed totaled $1,001.5 million (March 31, 2025: $272.3 million). The majority of these contractual commitments relate to constructing four new major vessels ("NMV") and four Island Class vessels.

During the nine months ended December 31, 2025, the Group recognized property, plant and equipment asset impairments of $1.8 million (December 31, 2024: $5.9 million).

During the nine months ended December 31, 2025, the Group received $1.0 million (December 31, 2024: $1.0 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $6.6 million, respectively, as at December 31, 2025 (March 31, 2025: cost of $11.9 million and accumulated depreciation of $6.2 million).

On September 30, 2023, the Group received approval under the Province's CleanBC Go Electric Commercial Vehicle Pilots Program for up to $15.1 million in funding. This funding is solely for costs incurred to electrify two Island Class vessels and the terminals serving the Campbell River to Quadra Island route. During the nine months ended December 31, 2025, the Group recognized $2.2 million (December 31, 2024: $0.5 million) as a reduction of the cost of property, plant and equipment.

During the nine months ended December 31, 2025, the Group recognized $61.1 million (December 31, 2024: $2.0 million) of funding as a reduction of the cost of property, plant and equipment that was transferred from Deferred grants and other liabilities (Note 9). During the nine months ended December 31, 2025, $56.4 million (December 31, 2024: $nil) of the funding recognized during the nine months ended December 31, 2025 was from Canada Infrastructure Bank ("CIB") for NMV capital project costs, with the remainder of the funding recognized from various other sources (Note 9).

(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, 2025	162,129	46,546	3,861	212,536
Additions	-	-	5,256	5,256
Disposals and impairment	(632)	(141)	-	(773)
Transfers from assets under development	2,194	-	(2,194)	-
Balance as at December 31, 2025	**163,691**	**46,405**	**6,923**	**217,019**
Accumulated amortization:				
Balance as at April 1, 2025	141,684	41,116	-	182,800
Amortization	5,520	4,472	-	9,992
Disposals and impairment	(632)	(141)	-	(773)
Balance as at December 31, 2025	**146,572**	**45,447**	**-**	**192,019**
Net carrying value:				
As at April 1, 2025	20,445	5,430	3,861	29,736
As at December 31, 2025	**17,119**	**958**	**6,923**	**25,000**

During the nine months ended December 31, 2025, additions of intangible assets under development totalled $5.3 million (December 31, 2024: $4.4 million) of which $4.4 million (December 31, 2024: $4.1 million) were acquired and $0.9 million (December 31, 2024: $0.3 million) were internally developed.

During the nine months ended December 31, 2025, the Group recognized intangible impairments of $nil (December 31, 2024: $1.5 million).

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

	As at	
	December 31, 2025	March 31, 2025
Trade payable and accrued liabilities	**76,867**	117,373
Wages payable	**113,416**	110,320
Total	**190,283**	227,693

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. Provisions:

	Asset decommissioning and restoration	Claims payable and other	Total
Balance as at April 1, 2025	93,129	1,321	94,450
Accretion expense	2,043	-	2,043
Net additions to provisions during the year	8,641	2,604	11,245
Provisions settled during the year	(11,934)	(662)	(12,596)
Balance as at December 31, 2025	**91,879**	**3,263**	**95,142**
Current	**-**	**3,263**	**3,263**
Non-current	**91,879**	**-**	**91,879**
Balance as at December 31, 2025	**91,879**	**3,263**	**95,142**

(a) Asset decommissioning and restoration:

The group maintains asset decommissioning and restoration provisions for probable and measurable legal and constructive present obligations for the disposal of its vessels.

The amount of asset decommissioning and restoration provisions recognized was determined based on the net present value of future expenditures required to fund the decommissioning and restoration of the Group’s assets. The obligation is estimated using current estimated costs to settle the obligations inflated to the dates that the obligations are expected to be settled and discounted to current present value using a risk-free rate.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Provisions (continued):

(a) Asset decommissioning and restoration (continued):

The key assumptions used to value the asset decommissioning and restoration provisions are as follows:

	As at	
	December 31, 2025	March 31, 2025
Total undiscounted future cash flows	**$103.3 Million**	$107.8 Million
Range of expected timing of outflows to settle obligations	**1-41 Years**	1-42 Years
Inflation rate	**2.5%**	2.0%
Discount rate	**3.2%**	3.0%

(b) Claims payable and other:

Claims payable represent provisions for settlement amounts payable to third parties for injuries or damage to persons or property and for legal proceedings and litigation.

7. 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, 2025	1,433,167	25,554	21,271
Additions	133,000	1,749	50,433
Payments	(8,462)	(2,931)	(54,475)
Additions to bond discounts and deferred financing costs	(56,745)	-	-
Amortization of bond discounts and deferred financing costs	3,005	-	-
Balance as at December 31, 2025	**1,503,965**	**24,372**	**17,229**
Current	**11,096**	**3,813**	**17,229**
Non-current	**1,492,869**	**20,559**	-
Balance as at December 31, 2025	**1,503,965**	**24,372**	**17,229**

[1] Interest expense related to lease liabilities is presented in net finance expense (Note 16).

(Tabular amounts expressed in thousands of Canadian dollars)

8. Long-term debt:

	As at	
	December 31, 2025	March 31, 2025
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.43%)	**250,000**	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.08%)	**250,000**	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.64%)	**200,000**	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.76%)	**200,000**	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.46%)	**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
2.47% Senior Secured Bonds, Series 24-1, due March 2049 (effective interest rate of 4.68%)	**75,000**	75,000
1.83% Senior Secured Bonds, Series 25-1, due June 2050 (effective interest rate of 4.76%)	**133,000**	-
2.09% Loan, maturing October 2028 (effective interest rate of 2.78%)	**11,204**	14,008
2.09% Loan, maturing January 2029 (effective interest rate of 2.71%)	**12,249**	15,078
2.09% Loan, maturing January 2029 (effective interest rate of 2.75%)	**12,249**	15,078
	1,593,702	1,469,164
Less: Unamortized deferred bond discounts and financing costs	**(89,737)**	(35,997)
Total	**1,503,965**	1,433,167
Current	**11,096**	11,045
Non-current	**1,492,869**	1,422,122
Total	**1,503,965**	1,433,167

8. Long-term debt (continued):

The Group has eight 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.

On March 28, 2025, BC Ferries entered into a bond purchase agreement with CIB to issue up to $1 Billion of senior secured bonds. These senior secured bonds bear interest at 1.828% per annum, are payable semi-annually, can be drawn in several tranches over a five-year period and will mature June 13, 2050. On May 22, 2025, the Group issued to CIB the first tranche of $133 million of senior secured bonds solely to fund eligible costs incurred directly in respect of Phase 1 of the New Major Vessels project ("Project Costs"). The net proceeds from the bonds are restricted for use towards Project Costs. The Group recognized the bond at fair market value on the date of issuance. The difference between the proceeds and fair market value of the bonds of $56.4 million was treated as a bond discount and deferred government funding (Note 9).

(a) Credit facility:

The Group has a $105.0 million revolving credit facility with a syndicate of Canadian banks, secured by pledged bonds (the "Credit Facility"). As of April 4, 2025, the Credit Facility was extended to April 20, 2029. Letters of credit outstanding against this Credit Facility as at December 31, 2025 totalled $10.0 million (March 31, 2025: $10.1 million). There was no interest expensed during the nine months ended December 31, 2025 (December 31, 2024: $nil).

(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, 2025, debt service reserves of $33.7 million (March 31, 2025: $32.6 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(c) Covenant disclosure:

Under the Master Trust Indenture ("MTI") effective during the period ended December 31, 2025, the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's 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, 2025, the debt service coverage ratio was 3.15.

The Group was in compliance with all of its covenants at December 31, 2025 and at March 31, 2025.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Deferred grants and other liabilities:

	CIB NMV	Electrification	LNG	Total
Balance as at April 1, 2025	-	38,846	5,368	44,214
Additions	56,368	567	-	56,935
Funding recognized	(56,368)	(3,528)	(1,218)	(61,114)
Balance as at December 31, 2025	**-**	**35,885**	**4,150**	**40,035**
Current	-	**15,996**	**1,566**	**17,562**
Non-current	-	**19,889**	**2,584**	**22,473**
Balance as at December 31, 2025	**-**	**35,885**	**4,150**	**40,035**

CIB NMV funding:

On May 22, 2025, the Group issued the first tranche of bond Series 25-1 for $133 million, to the CIB, a Crown Corporation of the Federal Government of Canada (Note 8). The fair market value of the bond as of issuance date was $76.6 million. The difference between the proceeds and fair market value of the bonds of $56.4 million was classified as government funding and recognized as an offset to the Project Costs of the New Major Vessels Program.

Recognizing the funding is dependent on the Group incurring eligible Project Costs. During the nine months ended December 31, 2025, the Group recognized $56.4 million (December 31, 2024: $nil) CIB New Major Vessels funding as a reduction to the cost of the property, plant and equipment.

Electrification funding:

(a) Provincial electrification funding:

During the year ended March 31, 2023, the Province provided funding of $15.0 million to support electrification of the Group’s vessels and terminals for use prior to March 31, 2028. The funding is dependent upon the Group incurring eligible costs to electrify new and existing vessels, as well as to modify terminals that the vessels operate between.

During the nine months ended December 31, 2025, the Group recognized $0.2 million (December 31, 2024: $0.4 million) of which $0.2 million (December 31, 2024: $0.2 million) was a reduction to the cost of the property, plant and equipment and less than $0.1 million (December 31, 2024: $0.2 million) was a reduction to operating expenses.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Deferred grants and other liabilities (continued):

Electrification funding (continued):

(b) CIB Island Class electrification program funding:

On March 27, 2024, the Group received $75 million of net proceeds from issuing Series 24-1 bonds to CIB. The fair market value of the bond as of issuance date was $47.4 million. The difference between the proceeds and fair market value of the bonds of $27.6 million was classified as government funding and will be recognized as an offset to the Project Costs of the Island Class Electrification Program.

During the nine months ended December 31, 2025, the Group recognized $0.6 million (December 31, 2024: $1.1 million) as additions to the funding from investment returns generated on the funding.

Recognizing the funding is dependent on the Group incurring Project Costs. During the nine months ended December 31, 2025, the Group recognized $3.3 million (December 31, 2024: $1.1 million) CIB island class electrification program funding as a reduction to the cost of the property, plant and equipment.

LNG funding:

FortisBC Energy Inc. provided the Group with funding of $14.0 million for the construction of four liquified natural gas ("LNG") Salish Class vessels and for two Spirit Class vessels to be converted to LNG. The funding is part of the Natural Gas for Transportation incentive funding and recognition of the funding is dependent upon the purchase of LNG and the incremental costs of building/converting vessels to be capable of using LNG for propulsion. The Group expects the funding to be fully recognized by March 31, 2028.

As of December 31, 2025, the Group recognized $1.2 million (December 31, 2024: $1.2 million) as a reduction to the cost of the property, plant and equipment.

10. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at December 31, 2025 and March 31, 2025 for all financial instruments except for long-term debt.

	As at December 31, 2025		As at March 31, 2025	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,503,965**	**1,504,354**	1,433,167	1,476,903

[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, 2025 and March 31, 2025 are carried at fair value on a recurring basis using Level 1, 2 or 3 inputs.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Financial instruments (continued):

	As at December 31, 2025			As at March 31, 2025		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Asset (liability):						
Cash[1]	**171,993**	**-**	**-**	204,678	-	-
Derivative assets[2]	**-**	**-**	**-**	-	2,441	-
Derivative liabilities[2]	**-**	**(239)**	**-**	-	-	-
Loan receivable[3]	**-**	**-**	**37,753**	-	-	37,753
	171,993	**(239)**	**37,753**	204,678	2,441	37,753

[1] Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.
[2] Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).
[3] Classified in Level 3 as the significant measurement inputs used in the valuation models are not based on observable market data (unobservable inputs).

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, 2025.

There is no observable market to value the Group's Loan receivable. Due to the absence of an observable market for the Group's Loan receivable, the fair value is estimated using a cap rate model. The cap rate model divides the Group's right to an office property's estimated net operating income by a discount rate. An (increase) decrease in the discount rate would result in a (decrease) increase in the fair value. An increase (decrease) in the net operating income of the Property would result in an increase (decrease) in the fair value. Reasonable changes in the inputs are not expected to have a significant impact on the fair value. As at December 31, 2025, the inputs used to value the Group's Loan receivable were consistent with the inputs used as at March 31, 2025.

During the nine months ended December 31, 2025, gains or losses related to Level 2 derivatives designated as hedges have been recorded in other comprehensive income (loss) ("OCI").

During the nine months ended December 31, 2025, no gains or losses related to Level 3 loan receivable have been recorded in other comprehensive income (loss).

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:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and natural gas. 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 volatility and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel derivatives contracts are recognized as a component of fuel costs.

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 swap contracts 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, 2025, the Group entered ULSD fuel swap contracts with a notional value of $nil (December 31, 2024: $43.8 million). The notional amount of all fuel swap contracts outstanding as at December 31, 2025 was $5.2 million (March 31, 2025: $31.9 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the nine months ended December 31, 2025 and no LNG swap contracts were outstanding as at December 31, 2025.

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.

During the nine months ended December 31, 2025, open fuel swap contracts had unrealized hedging losses of $1.5 million (December 31, 2024: unrealized hedging gains of $2.6 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of $1.2 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2025 (December 31, 2024: net realized hedging gains of $0.2 million).

The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the CAD. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and enters into derivative instruments as necessary.

Foreign currency risk arises when the value of financial instruments or forecasted transactions fluctuates due to changes in exchange rates. During the nine months ended December 31, 2025, the Group recognized a net foreign exchange loss of $1.7 million (December 31, 2024: net gain of $0.3 million) in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss), primarily related to exchange rates moving unfavorably prior to the payment dates.

To mitigate exposure, the Group monitors its foreign currency exposures regularly and may use derivative financial instruments such as foreign exchange forward contracts to hedge forecasted transactions and firm commitments. Derivative hedging activity is subject to the Group's risk management policies, which are approved by the Board of Directors.

11. Financial risk management (continued):

Cash flow hedges:

	Fiscal 2026	Total
Fuel contracts (litres in thousands)	6,480	6,480
Contract price range ($/litre)	$0.7842-$0.8290	

The impact of hedging instruments designated in hedging relationships as of December 31, 2025 on the condensed interim consolidated statements of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) 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	**5,170**	**(239)**	Current derivative liabilities	**(239)**

The impact of hedged items designated in hedging relationships as of December 31, 2025 on the condensed interim consolidated statement of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	**(239)**	**(239)**

(Tabular amounts expressed in thousands of Canadian dollars)

11. Financial risk management (continued):

Cash flow hedge reserve (Note 12):

	Three months ended December 31		Nine months ended December 31	
	2025	2024	**2025**	2024
Hedging gains (losses) recognized in cash flow hedge reserve:				
Fuel swap contracts	**(366)**	4,435	**(1,501)**	2,622
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Fuel swap contracts – Gains recognized in net earnings	**(390)**	(137)	**(1,179)**	(201)
Interest rate forward contracts – Amortization of hedge losses	**62**	63	**186**	186
Net change in cash flow hedge reserve	**(694)**	4,361	**(2,494)**	2,607

12. Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2025		66,179	(10,269)	2,441	(4,728)	53,623
Derivatives designated as						
cash flow hedge reserves:	11					
Net change in fair value		**-**	**-**	**(1,501)**	**-**	**(1,501)**
Realized gains		**-**	**-**	**(1,179)**	**-**	**(1,179)**
Amortization of losses		**-**	**-**	**-**	**186**	**186**
Balance as at December 31, 2025		**66,179**	**(10,269)**	**(239)**	**(4,542)**	**51,129**

13. Net retail:

	Three months ended December 31		Nine months ended December 31	
	2025	2024	**2025**	2024
Retail revenue	**26,809**	25,701	**101,316**	96,557
Cost of goods sold	**(10,180)**	(9,670)	**(37,791)**	(35,918)
Net retail	**16,629**	16,031	**63,525**	60,639

(Tabular amounts expressed in thousands of Canadian dollars)

14. Fare affordability funding:

On March 31, 2023, the Province and the Group entered into a $500 million contribution agreement to support achieving fare affordability and GHG emission reduction initiatives during Performance Term 6 ("PT6") which started on April 1, 2024 and ends on March 31, 2028. Installments are expected on September 30th of each year during PT6 although the agreement allows the Group to amend the payment schedule, if needed, to meet the initiatives in the agreement, provided that the combined contribution payments do not exceed the total contribution.

The purpose of the fare affordability initiative is to help safeguard affordability of the ferry fares for all ferry users, with the goal of limiting the annual fare increase during PT6 to around 3%.

In the three months ended December 31, 2025, $23.6 million (December 31, 2024: $14.7 million) and in the nine months ended December 31, 2025, $90.6 million (December 31, 2024: $56.2 million) of the funding was recognized under "Fare affordability funding" in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss).

In September 2025, the Group received a $100.0 million (September 2024: $50.0 million) installment payment from the Province. Contribution receivable of $9.4 million (March 31, 2025: $18.8 million) is included in "Trade and other receivable" in the condensed interim consolidated statement of financial position as at December 31, 2025.

15. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2025	2024	**2025**	2024
Salaries, wages and benefits	**143,253**	135,181	**444,657**	431,281
Fuel	**32,032**	35,706	**111,120**	128,535
Materials, supplies and contracted services	**40,322**	35,698	**106,682**	101,914
Other operating expenses	**21,842**	22,059	**67,518**	66,092
Depreciation and amortization	**50,551**	50,077	**152,123**	149,855
Total operating expenses	**288,000**	278,721	**882,100**	877,677

(Tabular amounts expressed in thousands of Canadian dollars)

16. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2025	2024	**2025**	2024
Finance expenses:				
Long-term debt	**16,903**	16,471	**50,433**	49,225
Short-term debt	**55**	33	**174**	271
Lease liabilities	**261**	424	**780**	1,228
Amortization of bond discounts and deferred financing costs	**1,110**	813	**3,192**	2,393
Accretion expense	**726**	616	**2,043**	1,848
Interest capitalized in the cost of qualifying assets	**(4,058)**	(916)	**(8,741)**	(2,213)
Total finance expenses	**14,997**	17,441	**47,881**	52,752
Finance income	**(2,496)**	(6,170)	**(5,936)**	(18,313)
Net finance expense	**12,501**	11,271	**41,945**	34,439

17. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the nine months ended December 31, 2025, the Group paid $0.6 million (December 31, 2024: $0.9 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.

18. Economic effect of rate regulation:

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, in extraordinary situations, allow increases in price caps over the set levels.

Under IFRS, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions, fuel rebates, and deferred sale of carbon credits to provide funding for carbon reduction investment projects. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes.

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. 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, 2025, the amount receivable from the Province in relation to fuel cost differences was $0.4 million (December 31, 2024: amount receivable less than $0.1 million).

As at December 31, 2025, the deferred liability amount was $3.5 million (March 31, 2025: deferred liability amount $7.9 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 December 31, 2025, tariffs charged to customers were below established price caps (March 31, 2025: tariffs were below established price caps).

(c) 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 the end of the term. The CRIA is funded through the sale of Carbon Credits, earned through activities such as its purchase and use of LNG, to partially fund further infrastructure investments identified in its Clean Futures Plan and to progress GHG emission reduction 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 the fuel deferral account. The use of the funds is subject to the Commissioner's approval.

During the nine months ended December 31, 2025, the Group generated credits for consumed LNG and electrification. As prescribed by regulatory order, the Group defers the net revenue from carbon credits and allocates the funding to the CRIA. As at December 31, 2025, the deferred amount was $28.1 million (March 31, 2025: $26.2 million).

(Tabular amounts expressed in thousands of Canadian dollars)

18. Economic effect of rate regulation (continued):

(d) Effect of rate regulation:

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory liabilities would have been $31.5 million (March 31, 2025: $34.0 million) on the condensed interim consolidated statements of financial position as detailed below:

Regulatory Liabilities	**December 31, 2025**	March 31, 2025
Net Balance as at April 1	**(34,038)**	(24,187)
Changes in:		
Deferred fuel cost	**4,393**	(9,644)
Deferred price cap	-	-
Deferred carbon reduction investment account	**(1,893)**	(207)
Net Balance as at December 31, 2025	**(31,538)**	(34,038)

If the Group were permitted under IFRS to recognize the effect of rate regulation, net loss for the three months ended December 31, 2025 would have decreased by $3.4 million (December 31, 2024: increased by $1.5 million), and for the nine months ended December 31, 2025, net earnings would have increased by $2.5 million (December 31, 2024: decreased by $9.4 million) as detailed below:

	Three months ended December 31		**Nine months ended December 31**	
Effect of rate regulation on net earnings	**2025**	2024	**2025**	2024
Fuel costs over (under) set price	**1,652**	(1,469)	**4,829**	(3,409)
Fuel surcharges	**-**	(6)	**-**	(5,757)
Fuel price risk recoveries receivable from the Province	**(112)**	-	**(436)**	(27)
Deferred price cap	**1,885**	-	**-**	-
Deferred carbon reduction investment account	**-**	-	**(1,893)**	(207)
Total increase (decrease) in net earnings	**3,425**	(1,475)	**2,500**	(9,400)

19. Subsequent event:

Subsequent to the reporting date of December 31, 2025, the Group decided not to exercise its purchase option to acquire a 50% interest in an office property. This decision was reached based on negotiations completed and additional facts obtained and assessed after the reporting date.

Management has assessed this matter and determined that it represents a non adjusting subsequent event, as the conditions giving rise to the decision did not exist at the reporting date. Accordingly, no adjustments have been made to the financial statements.

As a result of the decision not to exercise the purchase option, the Group expects to recognize an estimated impairment loss of approximately $11.2 million related to the purchase option in the fourth quarter of the current fiscal year.

The Group currently holds a loan receivable related to this property with an outstanding principal balance of $24.5 million, which is due to be repaid on March 1, 2026.