

Condensed Interim Consolidated Financial Statements of

**BRITISH COLUMBIA FERRY SERVICES INC.**

Three months ended June 30, 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	June 30, 2025	March 31, 2025
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		161,740	204,678
Restricted short-term investments		104,916	99,717
Other short-term investments		20,090	27,966
Trade and other receivables		68,539	39,902
Prepaid expenses		40,875	14,666
Inventories		47,436	48,206
Loan receivable		37,753	37,753
Derivative assets	10	402	2,441
		481,751	475,329
<b>Non-current assets</b>			
Property, plant and equipment	3	2,146,491	2,040,887
Intangible assets	4	27,642	29,736
		2,174,133	2,070,623
<b>Total assets</b>		<b>2,655,884</b>	<b>2,545,952</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5	242,472	227,693
Provisions		14,093	13,265
Lease liabilities	6	3,708	3,732
Contract liabilities		67,330	49,511
Long-term debt	6,7	11,062	11,045
Interest payable on long-term debt	6	17,109	21,271
Accrued employee future benefits		2,600	2,600
Deferred grants and other liabilities	8	12,832	12,429
Derivative liabilities	10	227	-
		371,433	341,546
<b>Non-current liabilities</b>			
Provisions		81,786	81,185
Lease liabilities	6	20,896	21,822
Long-term debt	6,7	1,496,430	1,422,122
Accrued employee future benefits		19,476	19,692
Deferred grants and other liabilities	8	29,877	31,785
		1,648,465	1,576,606
<b>Total liabilities</b>		<b>2,019,898</b>	<b>1,918,152</b>
<b>Equity</b>			
Share capital		75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		484,089	473,699
<b>Total equity before reserves</b>		<b>584,567</b>	<b>574,177</b>
Reserves	11	51,419	53,623
<b>Total equity including reserves</b>		<b>635,986</b>	<b>627,800</b>
<b>Total liabilities and equity</b>		<b>2,655,884</b>	<b>2,545,952</b>

Capital commitments (Note 3)

# 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 June 30	
	Note	2025	2024
			(As adjusted - note 1(c))
<b>Revenue</b>			
Vehicle and passenger fares		<b>209,683</b>	194,450
Net retail	12	<b>19,519</b>	18,384
Fuel surcharges	17	<b>-</b>	5,300
Other income		<b>5,239</b>	3,575
Revenue from customers		<b>234,441</b>	221,709
Ferry service fees		<b>53,683</b>	53,974
Fare affordability funding	13	<b>29,619</b>	18,235
Federal-Provincial Subsidy Agreement		<b>9,458</b>	9,231
<b>Total revenue</b>		<b>327,201</b>	303,149
<b>Expenses</b>	14		
Operations		<b>196,527</b>	197,490
Maintenance		<b>38,465</b>	39,006
Administration		<b>15,352</b>	13,485
Depreciation and amortization		<b>50,863</b>	48,962
<b>Total operating expenses</b>		<b>301,207</b>	298,943
<b>Operating profit</b>		<b>25,994</b>	4,206
<b>Net finance and other expenses</b>			
Finance expenses		<b>16,940</b>	17,537
Finance income		<b>(1,287)</b>	(6,461)
Net finance expense	15	<b>15,653</b>	11,076
Net (gain) loss on disposal and impairment of property, plant and equipment and intangible assets	3,4	<b>(49)</b>	1,553
<b>Net finance and other expenses</b>		<b>15,604</b>	12,629
<b>NET EARNINGS (LOSS)</b>		<b>10,390</b>	(8,423)
<b>Other comprehensive (loss) income</b>			
Items that are or may be reclassified subsequently to net (loss) earnings:			
Hedge (losses) gains on fuel swaps	10	<b>(2,209)</b>	57
<b>Total other comprehensive (loss) income</b>		<b>(2,209)</b>	57
<b>Total comprehensive income (loss)</b>		<b>8,181</b>	(8,366)

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2025	2024 (As adjusted - note 1(c))
<b>Operating activities</b>		
Net earnings (loss)	<b>10,390</b>	(8,423)
Items not affecting cash:		
Net finance expense	<b>15,653</b>	11,076
Depreciation and amortization	<b>50,863</b>	48,962
Net (gain) loss on disposal and impairment of property, plant and equipment and intangible assets	<b>(49)</b>	1,553
Other non-cash changes to property, plant and equipment	<b>(273)</b>	228
Employee future benefits	<b>(216)</b>	(106)
Derivative assets recognized in net loss	-	(6)
Provision recognized in net earnings (loss)	<b>761</b>	87
Accrued financing cost	<b>(2,520)</b>	(49)
Total non-cash items	<b>64,219</b>	61,745
Movements in working capital:		
Trade and other receivables	<b>(28,637)</b>	(20,133)
Prepaid expenses	<b>(26,209)</b>	(17,042)
Inventories	<b>770</b>	(1,578)
Accounts payable and accrued liabilities	<b>14,779</b>	(30,419)
Contract liabilities	<b>17,819</b>	15,438
Change in non-cash working capital	<b>(21,478)</b>	(53,734)
Change in non-cash working capital attributable to investing activities	<b>(17,250)</b>	11,946
Change in non-cash operating working capital	<b>(38,728)</b>	(41,788)
Cash generated from operating activities before interest	<b>35,881</b>	11,534
Interest received	<b>3,999</b>	6,265
Interest paid	<b>(21,028)</b>	(21,020)
Cash generated from (used in) operating activities	<b>18,852</b>	(3,221)

# BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2025	2024
		(As adjusted - note 1(c))
<b>Financing activities</b>		
Repayment of long-term debt	(2,820)	(2,821)
Repayment of lease liabilities	(963)	(896)
Proceeds from the issue of bonds	133,000	-
Transaction costs related to bonds	(376)	-
Cash generated from (used in) financing activities	128,841	(3,717)
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	60	160
Purchase of property, plant and equipment and intangible assets	(193,368)	(50,423)
Changes in restricted short-term investments	(5,199)	30
Net redemption of other short-term investments	7,876	96,970
Cash (used in) generated from investing activities	(190,631)	46,737
Net (decrease) increase in cash and cash equivalents	(42,938)	39,799
Cash and cash equivalents, beginning of period	204,678	31,906
<b>Cash and cash equivalents, end of period</b>	<b>161,740</b>	<b>71,705</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

## Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 11)	Total equity including reserves
Balance as at April 1, 2024	1(c)	75,478	25,000	551,465	651,943	57,695	709,638
Net loss		-	-	(8,423)	(8,423)	-	(8,423)
Other comprehensive income		-	-	-	-	57	57
Realized hedge gains recognized in fuel swaps		-	-	-	-	(82)	(82)
Hedge losses on interest rate forward contract reclassified to net earnings		-	-	-	-	61	61
<b>Balance as at June 30, 2024</b>		<b>75,478</b>	<b>25,000</b>	<b>543,042</b>	<b>643,520</b>	<b>57,731</b>	<b>701,251</b>
Balance as at April 1, 2025		<b>75,478</b>	<b>25,000</b>	<b>473,699</b>	<b>574,177</b>	<b>53,623</b>	<b>627,800</b>
Net earnings		-	-	<b>10,390</b>	<b>10,390</b>	-	<b>10,390</b>
Other comprehensive loss		-	-	-	-	<b>(2,209)</b>	<b>(2,209)</b>
Realized hedge gains recognized in fuel swaps		-	-	-	-	<b>(57)</b>	<b>(57)</b>
Hedge losses on interest rate forward contract reclassified to net earnings		-	-	-	-	<b>62</b>	<b>62</b>
<b>Balance as at June 30, 2025</b>		<b>75,478</b>	<b>25,000</b>	<b>484,089</b>	<b>584,567</b>	<b>51,419</b>	<b>635,986</b>

Balances as at April 1, 2024 and Net loss for the three months ended June 30, 2024 have been adjusted (Note 1(c)).

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
Three months ended June 30, 2025 and 2024  
(Tabular amounts expressed in thousands of Canadian dollars)

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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 months ended June 30, 2025 and 2024, comprise the Company and its subsidiary, Pacific Marine Leasing 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 August 21, 2025.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
Three months ended June 30, 2025 and 2024  
(Tabular amounts expressed in thousands of Canadian dollars)

## 1. Accounting policies (continued):

### (c) Adjustment of balances:

The Group identified that at the inception of an office building lease in 2010 an option to purchase was incorrectly included in the value of the right of use property, plant and equipment and the right of use lease liability, instead of included in the value of the loan receivable. The Group identified that the loan receivable was valued incorrectly at amortized cost instead of fair value through profit or loss. The Group concluded that the impact of this change is immaterial; however, has adjusted for the cumulative effect and adjusted the carrying amounts of retained earnings, net earnings and reserves. The affected notes to these interim condensed consolidated financial statements have been amended to reflect these changes. The following table summarizes the impacts on the Group's condensed interim consolidated financial statements. The impact of this adjustment on the June 30, 2023 statement of financial position is consistent with the adjustment to the June 30, 2024 statement of financial position.

	Three months ended June 30, 2024		
	Balance as previously reported	Adjustment	Balance as adjusted
<b>Statement of Profit or Loss</b>			
Finance income	(6,221)	(240)	(6,461)
Net loss	(8,663)	240	(8,423)
<b>Statement of Cash Flows</b>			
Net finance expense	11,316	(240)	11,076
	Balance as previously reported	Adjustment	Balance as adjusted
<b>Statement of Changes in Equity as at April 1, 2024</b>			
Retained earnings	545,473	5,992	551,465
Reserves	69,290	(11,595)	57,695

## 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.



# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(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
<b>Cost:</b>							
Balance as at April 1, 2025	2,302,068	865,778	186,047	31,892	81,022	251,849	3,718,656
Additions	-	-	-	13	-	210,536	210,549
Reclassifications from deferred grants and funding	(407)	-	-	-	-	(57,670)	(58,077)
Disposals and impairments	(6,340)	(905)	-	-	-	-	(7,245)
Transfers from construction in progress	31,740	16,161	-	-	-	(47,901)	-
<b>Balance as at June 30, 2025</b>	<b>2,327,061</b>	<b>881,034</b>	<b>186,047</b>	<b>31,905</b>	<b>81,022</b>	<b>356,814</b>	<b>3,863,883</b>
<b>Accumulated depreciation:</b>							
Balance as at April 1, 2025	1,151,464	402,456	120,228	3,621	-	-	1,677,769
Depreciation	32,787	11,255	2,631	184	-	-	46,857
Disposals and impairments	(6,341)	(893)	-	-	-	-	(7,234)
<b>Balance as at June 30, 2025</b>	<b>1,177,910</b>	<b>412,818</b>	<b>122,859</b>	<b>3,805</b>	<b>-</b>	<b>-</b>	<b>1,717,392</b>
<b>Net carrying value:</b>							
As at April 1, 2025	1,150,604	463,322	65,819	28,271	81,022	251,849	2,040,887
<b>As at June 30, 2025</b>	<b>1,149,151</b>	<b>468,216</b>	<b>63,188</b>	<b>28,100</b>	<b>81,022</b>	<b>356,814</b>	<b>2,146,491</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(Tabular amounts expressed in thousands of Canadian dollars)

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## **3. Property, plant and equipment (continued):**

During the three months ended June 30, 2025, financing costs capitalized during construction of qualifying assets amounted to \$1.6 million (June 30, 2024: \$0.6 million) with an average capitalization rate of 2.94% (June 30, 2024: 2.82%).

As at June 30, 2025, contractual commitments for assets to be constructed totaled \$1,019.8 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 three months ended June 30, 2025, the Group recognized property, plant and equipment asset impairments of \$nil (June 30, 2024: \$0.2 million).

During the three months ended June 30, 2025, the Group received \$0.4 million (June 30, 2024: \$0.4 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of \$11.9 million and \$6.3 million, respectively, as at June 30, 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 three months ended June 30, 2025, the Group recognized \$58.1 million (June 30, 2024: \$0.4 million) of funding as a reduction of the cost of property, plant and equipment that was transferred from Deferred grants and other liabilities (Note 8). During the three months ended June 30, 2025, \$56.4 million (June 30, 2024: \$nil) of the funding recognized during the three months ended June 30, 2025 was from Canada Infrastructure Bank ("CIB") for NMV capital project costs, with the remainder of the funding recognized from various other sources (Note 8).

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(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
<b>Cost:</b>				
Balance as at April 1, 2025	162,129	46,546	3,861	212,536
Additions	-	-	1,912	1,912
Disposals and impairment	-	(141)	-	(141)
Transfers from assets under development	1,758	-	(1,758)	-
<b>Balance as at June 30, 2025</b>	<b>163,887</b>	<b>46,405</b>	<b>4,015</b>	<b>214,307</b>
<b>Accumulated amortization:</b>				
Balance as at April 1, 2025	141,684	41,116	-	182,800
Amortization	1,869	2,137	-	4,006
Disposals and impairment	-	(141)	-	(141)
<b>Balance as at June 30, 2025</b>	<b>143,553</b>	<b>43,112</b>	<b>-</b>	<b>186,665</b>
<b>Net carrying value:</b>				
As at April 1, 2025	20,445	5,430	3,861	29,736
<b>As at June 30, 2025</b>	<b>20,334</b>	<b>3,293</b>	<b>4,015</b>	<b>27,642</b>

During the three months ended June 30, 2025, additions of intangible assets under development totalled \$1.9 million (June 30, 2024: \$2.9 million) of which \$1.5 million (June 30, 2024: \$2.7 million) were acquired and \$0.4 million (June 30, 2024: \$0.2 million) were internally developed.

During the three months ended June 30, 2025, the Group recognized intangible impairments of \$nil (June 30, 2024: \$1.5 million).

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(Tabular amounts expressed in thousands of Canadian dollars)

## 5. Accounts payable and accrued liabilities:

	As at	
	June 30, 2025	March 31, 2025
Trade payable and accrued liabilities	127,409	117,373
Wages payable	115,063	110,320
<b>Total</b>	<b>242,472</b>	<b>227,693</b>

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 <sup>1</sup>	Interest payable on long-term debt
Balance as at April 1, 2025	1,433,167	25,554	21,271
Additions	133,000	13	16,526
Payments	(2,820)	(963)	(20,688)
Additions to bond discounts and deferred financing costs	(56,745)	-	-
Amortization of bond discounts and deferred financing costs	890	-	-
<b>Balance as at June 30, 2025</b>	<b>1,507,492</b>	<b>24,604</b>	<b>17,109</b>
Current	11,062	3,708	17,109
Non-current	1,496,430	20,896	-
<b>Balance as at June 30, 2025</b>	<b>1,507,492</b>	<b>24,604</b>	<b>17,109</b>

<sup>1</sup> Interest expense related to lease liabilities is presented in net finance expense (Note 15).

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(Tabular amounts expressed in thousands of Canadian dollars)

## 7. Long-term debt:

	As at	
	June 30, 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%)	13,074	14,008
2.09% Loan, maturing January 2029 (effective interest rate of 2.71%)	14,135	15,078
2.09% Loan, maturing January 2029 (effective interest rate of 2.75%)	14,135	15,078
	1,599,344	1,469,164
Less: Unamortized deferred bond discounts and financing costs	(91,852)	(35,997)
<b>Total</b>	<b>1,507,492</b>	<b>1,433,167</b>
Current	11,062	11,045
Non-current	1,496,430	1,422,122
<b>Total</b>	<b>1,507,492</b>	<b>1,433,167</b>

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(Tabular amounts expressed in thousands of Canadian dollars)

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## 7. 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 May 22, 2025, the Group issued to CIB \$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 first tranche of the Series 25-1 bonds bear interest of 1.828% per annum, payable semi-annually, commencing on June 13, 2025 and will mature June 13, 2050. 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 8).

### (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 June 30, 2025 totalled \$10.1 million (March 31, 2025: \$10.1 million). There was no interest expensed during the three months ended June 30, 2025 (June 30, 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 June 30, 2025, debt service reserves of \$33.8 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 June 30, 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 June 30, 2025, the debt service coverage ratio was 2.68.

The Group was in compliance with all of its covenants at June 30, 2025 and at March 31, 2025.

# BRITISH COLUMBIA FERRY SERVICES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three months ended June 30, 2025 and 2024

(Tabular amounts expressed in thousands of Canadian dollars)

## 8. 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	198	-	56,566
Funding recognized	(56,368)	(1,296)	(407)	(58,071)
<b>Balance as at June 30, 2025</b>	<b>-</b>	<b>37,748</b>	<b>4,961</b>	<b>42,709</b>
Current	-	11,266	1,566	12,832
Non-current	-	26,482	3,395	29,877
<b>Balance as at June 30, 2025</b>	<b>-</b>	<b>37,748</b>	<b>4,961</b>	<b>42,709</b>

### 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 7). 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 three months ended June 30, 2025, the Group recognized \$56.4 million (June 30, 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 three months ended June 30, 2025, the Group recognized less than \$0.1 million (June 30, 2024: \$0.4 million) of which less than \$0.1 million (June 30, 2024: \$0.4 million) was a reduction to the cost of the property, plant and equipment and \$nil (June 30, 2024: \$nil) was a reduction to operating expenses.

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## 8. 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 three months ended June 30, 2025, the Group recognized \$0.2 million (June 30, 2024: \$0.4 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 three months ended June 30, 2025, the Group recognized \$1.3 million (June 30, 2024: \$nil) 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 June 30, 2025, the Group recognized \$0.4 million (June 30, 2024: \$0.4 million) as a reduction to the cost of the property, plant and equipment.

## 9. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at June 30, 2025 and March 31, 2025 for all financial instruments except for long-term debt.

	As at June 30, 2025		As at March 31, 2025	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion <sup>1</sup>	1,507,491	1,521,807	1,433,167	1,476,903

<sup>1</sup> 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 June 30, 2025 and March 31, 2025 are carried at fair value on a recurring basis using Level 1, 2 or 3 inputs.



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## 9. Financial instruments (continued):

	As at June 30, 2025			As at March 31, 2025		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Asset (liability):						
Cash <sup>1</sup>	161,740	-	-	204,678	-	-
Derivative assets <sup>2</sup>	-	402	-	-	2,441	-
Derivative liabilities <sup>2</sup>	-	(227)	-	-	-	-
Loan receivable <sup>3</sup>	-	-	37,753	-	-	37,753
	161,740	175	37,753	204,678	2,441	37,753

<sup>1</sup> Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

<sup>2</sup> Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

<sup>3</sup> 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 three months ended June 30, 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 June 30, 2025, the inputs used to value the Group's Loan receivable were consistent with the inputs used as at March 31, 2025.

During the three months ended June 30, 2025, gains or losses related to Level 2 derivatives designated as hedges have been recorded in other comprehensive income (loss) ("OCI").

During the three months ended June 30, 2025, no gains or losses related to Level 3 loan receivable have been recorded in other comprehensive income (loss) ("OCI").

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the period end dates.

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## 10. 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 volatility 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 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 17).

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 three months ended June 30, 2025, the Group entered ULSD fuel swap contracts with a notional value of \$nil (June 30, 2024: \$1.3 million). The notional amount of all fuel swap contracts outstanding as at June 30, 2025 was \$20.7 million (March 31, 2025: \$31.9 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the three months ended June 30, 2025 and no LNG swap contracts were outstanding as at June 30, 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 three months ended June 30, 2025, open fuel swap contracts had unrealized hedging losses of \$2.2 million (June 30, 2024: unrealized hedging gains of \$0.1 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of \$0.1 million were reclassified from reserves and included in the Group's fuel expense during the three months ended June 30, 2025 (June 30, 2024: net realized hedging gains of \$0.1 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 three months ended June 30, 2025, the Group recognized a net foreign exchange loss of \$1.5 million (June 30, 2024, \$nil) in the condensed interim consolidated statement of profit or 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 forward foreign exchange contracts to hedge forecasted transactions and firm commitments. Derivative hedging activity is subject to the Group's risk management policies, which are approved by senior management.

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## 10. Financial risk management (continued):

Cash flow hedges:

	Fiscal 2026	Total
Fuel contracts (litres in thousands)	25,708	25,708
Contract price range (\$/litre)	\$0.7842-\$0.8290	

The impact of hedging instruments designated in hedging relationships as of June 30, 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	<b>10,850</b>	<b>402</b>	Current derivative assets	<b>402</b>
Fuel swap contracts	<b>9,805</b>	<b>(227)</b>	Current derivative liabilities	<b>(227)</b>

The impact of hedged items designated in hedging relationships as of June 30, 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	<b>175</b>	<b>175</b>

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## 10. Financial risk management (continued):

Cash flow hedge reserve (Note 10):

	Three months ended	
	June 30	
	2025	2024
Hedging (losses) gains recognized in cash flow hedge reserve:		
Fuel swap contracts	(2,209)	57
Hedging (gains) losses reclassified from cash flow hedge reserve:		
Fuel swap contracts – Gains recognized in net loss	(57)	(82)
Interest rate forward contracts – Amortization of hedge losses	62	61
<b>Net change in cash flow hedge reserve</b>	<b>(2,204)</b>	<b>36</b>

## 11. 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:	10					
Net change in fair value		-	-	(2,209)	-	(2,209)
Realized gains		-	-	(57)	-	(57)
Amortization of losses		-	-	-	62	62
<b>Balance as at June 30, 2025</b>		<b>66,179</b>	<b>(10,269)</b>	<b>175</b>	<b>(4,666)</b>	<b>51,419</b>

## 12. Net retail:

	Three months ended	
	June 30	
	2025	2024
Retail revenue	31,502	29,784
Cost of goods sold	(11,983)	(11,400)
<b>Net retail</b>	<b>19,519</b>	<b>18,384</b>

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## 13. 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 30<sup>th</sup> 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 June 30, 2025, \$29.6 million (June 30, 2024: \$18.2 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 2024, the Group received a \$50.0 million installment payment from the Province and recorded a contribution receivable of \$48.4 million (March 31, 2025: \$18.8 million) included in "Trade and other receivables" in the condensed interim consolidated statement of financial position as at June 30, 2025.

## 14. Operating expenses:

	Three months ended	
	2025	2024
Salaries, wages and benefits	153,873	149,771
Fuel	35,185	42,224
Materials, supplies and contracted services	38,178	35,209
Other operating expenses	23,108	22,777
Depreciation and amortization	50,863	48,962
<b>Total operating expenses</b>	<b>301,207</b>	<b>298,943</b>

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## 15. Net finance expense:

	Three months ended	
	2025	June 30 2024
Finance expenses:		
Long-term debt	16,526	16,296
Short-term debt	83	37
Lease liabilities	263	404
Amortization of bond discounts and deferred financing costs	952	795
Accretion expense	668	616
Interest capitalized in the cost of qualifying assets	(1,552)	(611)
Total finance expenses	16,940	17,537
Finance income	(1,287)	(6,461)
<b>Net finance expense</b>	<b>15,653</b>	<b>11,076</b>

## 16. 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 three months ended June 30, 2025, the Group paid \$0.2 million (June 30, 2024: \$0.2 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.

## 17. 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.

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## **17. 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 three months ended June 30, 2025, the amount payable to the Province in relation to fuel cost differences was \$0.3 million (June 30, 2024: \$nil).

As at June 30, 2025, the deferred liability amount was \$14.6 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 June 30, 2025, tariffs charged to customers exceeded established price caps by \$1.4 million (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 three months ended June 30, 2025, the Group generated credits for LNG used. As prescribed by regulatory order, the Group defers the net revenue from carbon credits and allocates the funding to the CRIA. As at June 30, 2025, the deferred amount was \$27.8 million (March 31, 2025: \$26.2 million).

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## 17. 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 assets as at June 30, 2025 would have been \$nil (March 31, 2025: \$nil), and the regulatory liabilities would have been \$43.8 million (March 31, 2025: \$34.0 million) on the condensed interim consolidated statements of financial position as detailed below:

<b>Regulatory accounts</b>	<b>June 30, 2025</b>	<b>March 31, 2025</b>
Net Balance as at April 1	<b>(34,038)</b>	(24,187)
Changes in:		
Deferred fuel cost	<b>(6,728)</b>	(9,644)
Deferred price cap	<b>(1,397)</b>	-
Deferred carbon reduction investment account	<b>(1,620)</b>	(207)
<b>Net Balance</b>	<b>(43,783)</b>	(34,038)
Regulatory liabilities	<b>(43,783)</b>	(34,038)
<b>Net Balance</b>	<b>(43,783)</b>	(34,038)

If the Group were permitted under IFRS to recognize the effect of rate regulation, net earnings for the three months ended June 30, 2025 would have decreased by \$9.7 million (June 30, 2024: net loss increased by \$6.2 million) as detailed below:

	<b>Three months ended</b>	
	<b>June 30</b>	
<b>Effect of rate regulation on net earnings</b>	<b>2025</b>	<b>2024</b>
Fuel costs under set price	<b>(7,073)</b>	(948)
Fuel surcharges	-	(5,300)
Fuel price risk recoveries payable to the Province	<b>345</b>	-
Deferred price cap	<b>(1,397)</b>	-
Deferred carbon reduction investment account	<b>(1,620)</b>	-
<b>Total decrease in net earnings</b>	<b>(9,745)</b>	(6,248)