



***Management's Discussion &
Analysis
of Financial Condition and
Financial Performance***

For the fiscal year ended
March 31, 2025

Dated June 12, 2025

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**Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the year ended March 31, 2025
Dated June 12, 2025**

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries", the "Company" or "we") for the year ended March 31, 2025 that has been prepared with information available as of June 12, 2025. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2025 ("fiscal 2025") and March 31, 2024 ("fiscal 2024"). These documents are available on SEDAR+ at www.sedarplus.ca and on our investor webpage at http://www.bcferrries.com/investors/financial_reports.html.

Except where indicated, all financial information herein is expressed in Canadian dollars and determined on the basis of IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

BUSINESS OVERVIEW

BC Ferries provides passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 37 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other routes through contracts with independent operators.

Our service is an integral part of British Columbia's coastal transportation system and has been designated by the provincial government of British Columbia (the "Province") as an essential service for the purposes of the provincial *Labour Relations Code*. This designation means our services are considered necessary for the protection of the health, safety and welfare of the residents of British Columbia.

Our Major Routes, which are our four busiest routes, consist of three routes connecting Metro Vancouver with Vancouver Island and one route connecting West Vancouver with the Sunshine Coast. Our Northern Routes consist of three routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Minor Routes primarily serve the northern and southern Gulf Islands, and the northern Sunshine Coast.

Our principal business of ferry transportation requires sufficient earnings and ongoing access to capital to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset investment needs.

Significant events during or subsequent to fiscal 2025 include the following:

Traffic and Service

- In fiscal 2025, BC Ferries carried 9.7 million vehicles and 22.7 million passengers, the highest vehicle and passenger traffic levels on record in a fiscal year. Vehicle and passenger traffic increased 2% and 1%, respectively, compared to fiscal 2024.
- In fiscal 2025, BC Ferries delivered 90,685 round trips compared to 90,480 in the prior year, an increase of 205 round trips, primarily as a result of increases in round trips on the Major Routes.

Tariffs

- On April 1, 2024, BC Ferries implemented average tariff increases of 3.2% in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 23-04 dated September 30, 2023 ("Order 23-04"). Order 23-04 established final price cap increases of 3.2% for each of the four years of Performance Term Six ("PT6"), being the four year period commencing April 1, 2024 and ending on March 31, 2028.
- On April 1, 2025, BC Ferries implemented average tariff increases of 3.2% in accordance with the Order 23-04 as described above.

General

- On May 15, 2024, BC Ferries' announced the removal of the fuel surcharge, effective June 1, 2024, from all routes.
- On December 6, 2024, Morningstar DBRS ("DBRS") confirmed BC Ferries' issuer rating and senior secured bonds credit rating at A (high) and changed the trends to Negative from Stable.
- On January 20, 2025, BC Ferries announced that it has successfully obtained approval of an amendment to Section 6.5(e)(ii) of the Company's Master Trust Indenture dated May 19, 2004 ("MTI"), eliminating the leverage ratio as an Additional Indebtedness covenant under the condition the common shares of BC Ferries remain wholly owned by the BC Ferry Authority, the Province or any Crown Corporation.
- On March 10, 2025, Ms. Joanne Carpendale announced her retirement effective June 30, 2025. Ms. Carpendale had an extensive finance career with almost 20 years at BC Ferries in various roles, most recently as the Vice President and Chief Financial Officer. A search is underway for a new Vice President and Chief Financial Officer.
- On March 14, 2025, the 60-year-old *Queen of New Westminster* returned to service after extensive repairs and its scheduled annual refit. The vessel had been out of service since early September 2024 after a failure in the propeller shaft caused the propeller to detach. The repair involved the complete disassembly of the propulsion system, replacing one damaged propeller shaft and proactively replacing the other to ensure future reliability. With no backup vessel available, BC Ferries' adjusted sailing schedules and options, to minimize disruption to our customers and service, during the *Queen of New Westminster's* extended absence.
- On March 26, 2025, BC Ferries announced the launch of a once daily direct sailing between Tsawwassen terminal (Metro Vancouver) and Departure Bay terminal (Vancouver Island) from June 19 through September 1, 2025. This new direct sailing will allow BC Ferries to better manage peak-season demand, ease pressure on terminals, and give customers more choice.

- On March 28, 2025, BC Ferries entered into a bond purchase agreement with the Canada Infrastructure Bank, a Crown Corporation of the Federal Government of Canada ("CIB"), to issue up to \$1 billion of senior secured bonds. These senior secured bonds bear interest at 1.828% per annum, payable semi-annually, and may be issued in up to four tranches, with all funding to be received by March 28, 2030 and utilized by March 28, 2033, or the commitment amount is forfeited. The first tranche of \$133 million was issued on May 22, 2025. The net proceeds from the sale of the bonds shall be held in cash or invested in permitted investments and shall be used solely to provide funding for capital costs incurred toward the new major vessels ("NMV") project and the terminal electrification for the route connecting Metro Vancouver to Victoria and the route connecting Metro Vancouver to Nanaimo. The difference between the net proceeds and fair market value of the bonds will be considered a bond discount and will be classified as government funding (see "Liquidity and Capital Resources" for more detail).
- On April 4, 2025, S&P Global Ratings ("S&P") affirmed BC Ferries' long-term issuer credit and senior secured debt ratings as "A+" with a Stable outlook. On November 18, 2024, S&P had lowered BC Ferries' long-term issuer credit and senior secured debt rating to A+ from AA- while maintaining its outlook at Stable.

Capital Assets

- On November 1, 2024, BC Ferries announced the keel laying for the first two of four new battery-electric hybrid Island Class vessels at Damen Shipyards Galati in Romania ("Damen"). These vessels will each have the capacity to carry approximately 47 vehicles and 390 passengers and will further standardize BC Ferries' fleet, increasing capacity and comfort for our customers. These vessels are planned to enter service by 2027 on the routes connecting Nanaimo Harbour to Gabriola Island, and the route connecting Campbell River to Quadra Island (see "Investing in Our Capital Assets" for more detail).
- On March 14, 2025, the Commissioner issued Order 25-01, which approved a major capital expenditure for four new major vessels to replace four existing end-of-life vessels. In December 2024, BC Ferries formally submitted its regulatory application to the Commissioner for approval of BC Ferries' NMV project to procure five new major vessels. BC Ferries' proposal for a fifth vessel was not approved by the Commissioner.
- On May 1, 2025, BC Ferries announced that the first major phase of construction for renewal of critical infrastructure at Horseshoe Bay terminal, with planning and procurement underway, is set to begin this fall. Major construction activities include the deconstruction of the elevated concrete holding area and relocation of the terminal's traffic operations centre or control tower. During this phase of work, vehicle space inside the terminal is expected to be reduced by approximately 25%, with overall vehicle space to remain below current levels for several years as construction progresses. BC Ferries will increase vessel capacity provided by adding additional trips, will introduce a pre-booking only model for all vehicles travelling from Horseshoe Bay to Departure Bay, and add more travel options for travelling between Metro Vancouver and Nanaimo to minimize disruptions for customers and surrounding communities.
- On May 7, 2025, BC Ferries awarded four contracts for design, build and delivery of the New Major Vessels. These four new vessels are planned to enter service starting in 2029 at approximately six-month intervals and, as they are built, will be incorporated into the Major Routes fleet. Each of the four New Major Vessels are designed to have a capacity of up to 2100 passengers and crew and carry 360 standard sized vehicles. As these vessels are introduced, BC Ferries will retire four of its oldest major vessels that are smaller, have reached end of life and further life extensions are not reasonable (see "Investing in Our Capital Assets" for more detail).

CORPORATE STRUCTURE

Coastal Ferry Services Contract

We operate ferry services under a regulatory framework established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the Coastal Ferry Services Contract ("CFSC") between BC Ferries and the Province. BC Ferries' sole voting common share is held by the B.C. Ferry Authority ("BCFA" or the "Authority").

The CFSC has a term of 60 years, commencing on April 1, 2003, and stipulates, among other things, the number of round trips that must be provided for each regulated ferry service route in exchange for specified fees (ferry transportation fees). The CFSC has been amended from time to time.

Under the terms of the CFSC, we receive an annual subsidy from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia ("Federal-Provincial subsidy"). The amount of this payment is adjusted annually based on the Consumer Price Index ("CPI") (Vancouver).

The Act defines a performance term as the first and any subsequent four-year period during the term of the CFSC. Fiscal 2025 was the first year of PT6, which commenced April 1, 2024 and ends on March 31, 2028.

On June 30, 2023, the CFSC was amended to, among other things, establish ferry transportation fees for the four year term of PT6. The CFSC and its amendments are available on our website at: <https://www.bcferries.com>.

Economic Regulatory Environment

The office of the Commissioner was created under the Act on April 1, 2003. The Act has been amended from time to time to expand and broaden the Commissioner's role and regulatory responsibilities. The Act specifies that the Commissioner must undertake the regulation of ferry operators in the public interest and in accordance with the following principles: (a) to balance the interests of ferry users, taxpayers, and the financial sustainability of ferry operators, (b) to meet provincial green house gases ("GHG") emission targets in their operations and when developing capital plans, and (c) to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services. The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating tariffs. A price cap is a regulatory mechanism that establishes a maximum allowable annual average fare increase in each year over the term. The Commissioner has the authority to authorize the establishment of deferred fuel cost accounts and to set the terms and conditions for their use, including fuel surcharges or rebates. The Commissioner is also responsible for regulating the reduction of service and discontinuance of routes, monitoring the service provided under the CFSC, authorizing major capital expenditures, conducting performance reviews, regulating ferry transportation services where the Commissioner has determined an unfair competitive advantage exists, and approving the customer complaints process.

Performance term six

In February 2023, the Province, after collaboration with BC Ferries and in response to our PT6 submission, announced \$500 million in new funding ("Fare Affordability Funding") for BC Ferries with the goal of limiting annual average fare increases to approximately 3% a year for PT6. In addition to helping control fare increases, this Fare Affordability Funding may also be used to support GHG emissions reductions through support for the electrification of vessels, terminals and other initiatives.

In September 2023, Order 23-04, which established a final price cap decision for PT6 that factored in the impact of \$500 million in funding from the Province. Order 23-04 included the following:

- establishes the final price cap average increase of 3.2% for each of the four years of PT6;
- maintains the existing fuel deferral accounts;
- sets the price per litre for the operation of the fuel deferral accounts for marine diesel and for LNG in each of the four years of PT6, which is a required input into the calculation of fuel surcharges or rebates, as follows;

Fuel Set Price:	Fiscal Year			
	2025	2026	2027	2028
Diesel (\$/Litre)	1.44	1.44	1.43	1.49
LNG (\$/Diesel Litre Equivalent)	0.72	0.75	0.79	0.83

and

- required BC Ferries to prepare a plan to track, on a quarterly basis during PT6, actual capital expenditures compared to the forecast capital expenditures on which the price cap decision is based, and to develop corporate key performance indicators to track cost and service effectiveness of investments made in human resources.

The difference between actual fuel costs incurred and approved fuel costs based on the set price, as established by the Commissioner, are recognized in deferral accounts for recovery or settlement through future tariffs or through fuel rebates or surcharges to customers.

The Commissioner's orders and reports are available on the Commissioner's website at www.bcferrycommission.com.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the past two fiscal years. Results for the year ended March 31, 2024 include the immaterial impact of an adjustment of balances (see "Accounting Practices, Adjustment of balances" for details of the immaterial changes).

(\$ millions)	Years ended March 31		
	2025	2024	Variance
Total revenue	1,171.4	1,110.9	60.5
Operating expenses	1,183.8	1,088.2	95.6
Operating (loss) profit	(12.4)	22.7	(35.1)
Net finance and other expenses	59.3	53.2	6.1
Net loss	(71.7)	(30.5)	(41.2)
Other comprehensive (loss) income	(2.6)	18.3	(20.9)
Total comprehensive loss	(74.3)	(12.2)	(62.1)
As at March 31			
	2025	2024	
Total assets	2,546.0	2,599.1	
Total long-term liabilities	1,576.6	1,575.3	
Dividends paid	6.0	6.0	

In fiscal 2025, revenues increased \$60.5 million or 5% compared to the prior year, primarily as a result of the introduction of Fare Affordability Funding from the Province, higher vehicle and passenger traffic volumes and rates and higher net retail revenue, partially offset by lower fuel surcharges and lower carbon credit sales (see "Operational Revenues" for more detail).

In fiscal 2025, operating expenses increased \$95.6 million or 9% compared to the prior year. This increase is primarily due to higher wage rates, higher maintenance expenses (increased refit costs), increased fuel prices, and higher depreciation expenses (see "Expenses" for more detail).

In fiscal 2025, our net loss of \$71.7 million was \$41.2 million or 135% larger than our net loss of \$30.5 million in the prior year. The increase in net loss reflects higher operating costs, lower fuel surcharges, lower carbon credit sales and lower interest earned, partially offset by the introduction of Fare Affordability Funding, higher traffic volumes and tariffs, and an increase in net retail revenue.

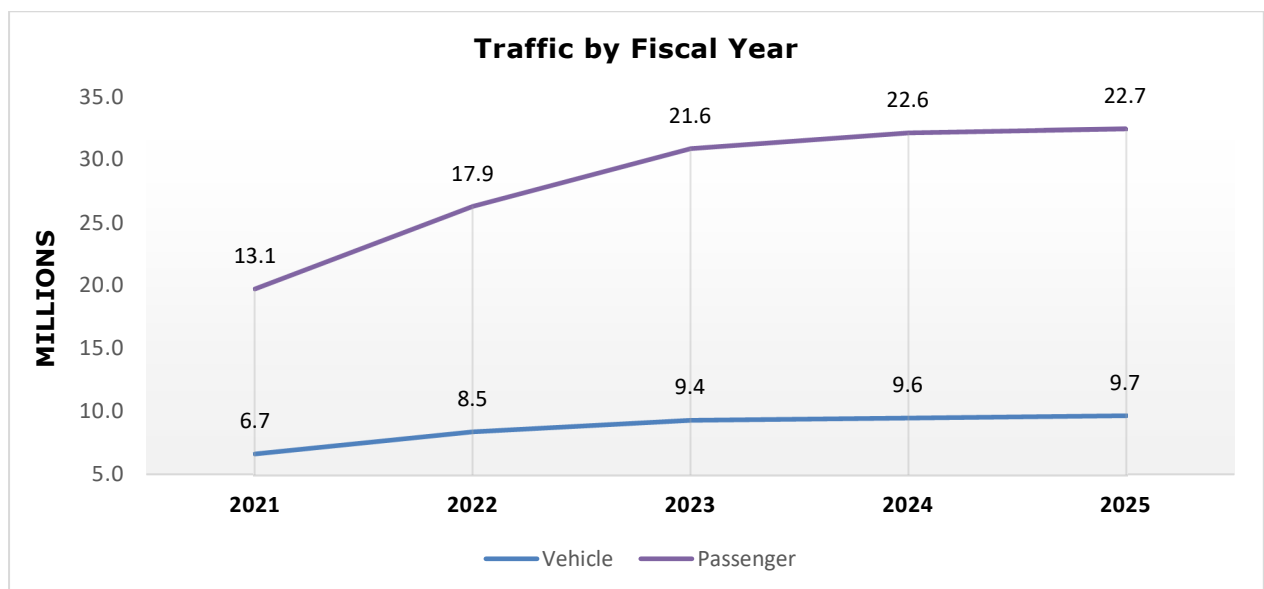
In fiscal 2025, our total comprehensive loss was \$74.3 million compared to a total comprehensive loss of \$12.2 million in the prior year. This increase in total comprehensive loss of \$62.1 million is comprised of the \$41.2 million increase in net loss described above and a decrease in other comprehensive income ("OCI") of \$20.9 million (a loss of \$2.6 million in fiscal 2025 compared to a gain of \$18.3 million in the prior year). The reduction in OCI reflects a \$19.7 million decrease in the change on the revaluation of our land, a \$3.7 million decrease in the change in the fair value of our fuel swap contracts, and a \$2.5 million increase in the change of an actuarial loss on the valuation of our employee benefit plans.

Traffic

In fiscal 2025, BC Ferries carried 9.7 million vehicles and 22.7 million passengers, the highest vehicle and passenger traffic levels on record in a fiscal year. Vehicle and passenger traffic increased 2% and 1%, respectively, compared to fiscal 2024.

The following table and graph detail the trends in traffic volumes over the past five fiscal years which shows the vehicle and passenger traffic growth since the impact of COVID-19 in fiscal 2021 to the highest traffic levels on record in fiscal 2025:

Traffic by Fiscal Year					
(in thousands)	2021	2022	2023	2024	2025
Vehicle	6,704	8,467	9,371	9,552	9,739
<i>(Decrease) Increase to prior fiscal year</i>	<i>(24%)</i>	<i>26%</i>	<i>11%</i>	<i>2%</i>	<i>2%</i>
Passenger	13,083	17,880	21,558	22,610	22,746
<i>(Decrease) Increase to prior fiscal year</i>	<i>(40%)</i>	<i>37%</i>	<i>21%</i>	<i>5%</i>	<i>1%</i>



Operational Statistics

Select operational statistics for the comparable fiscal 2025 and fiscal 2024 are shown in the tables below.

Operational Statistics	Years ended March 31			
	2025	2024	Increase (Decrease)	%
Vehicle Traffic				
Major Routes	5,521,187	5,402,083	119,104	2%
Northern Routes	43,695	43,136	559	1%
Minor Routes	4,174,154	4,106,414	67,740	2%
Total Vehicle Traffic	9,739,036	9,551,633	187,403	2%
Passenger Traffic				
Major Routes	14,334,803	14,250,191	84,612	1%
Northern Routes	104,928	104,360	568	1%
Minor Routes	8,306,257	8,255,544	50,713	1%
Total Passenger Traffic	22,745,988	22,610,095	135,893	1%
Round Trips*				
Major Routes	13,351	13,067	284	2%
Northern Routes	399	386	13	3%
Minor Routes	76,935	77,027	(92)	-
Total Round Trips	90,685	90,480	205	0%
Capacity Provided (AEQs)*				
Major Routes	8,379,722	8,192,350	187,372	2%
Northern Routes	69,591	68,579	1,012	1%
Minor Routes	8,172,649	8,175,754	(3,105)	-
Total Capacity Provided	16,621,962	16,436,683	185,279	1%
AEQs Carried *				
Major Routes	6,534,733	6,394,986	139,747	2%
Northern Routes	52,731	51,691	1,040	2%
Minor Routes	4,489,510	4,417,382	72,128	2%
Total AEQs Carried	11,076,974	10,864,059	212,915	2%
Capacity Utilization*				
Major Routes	78.0%	78.1%	(0.1%)	
Northern Routes	75.8%	75.4%	0.4%	
Minor Routes	54.9%	54.0%	0.9%	
Total Capacity Utilization	66.6%	66.1%	0.5%	

*In accordance with the CFSC terms for PT6, round trips provided by water taxi, tugs and barges no longer count towards required round trips. Prior year round trips, capacity provided, AEQs carried and capacity utilization have been updated to exclude round trips provided by water taxi, tugs and barges for comparative purposes.

*An automobile equivalent ("AEQ") is our standard unit of measure for an approximation of one car length. AEQs are calculated by using a conversion factor for each vehicle type. For example, a standard passenger vehicle is one AEQ while a bus is three AEQs. The change in AEQs from one period to the next may not be proportionate to the change in vehicle traffic, due to variations in the mix of vehicle types (the relative number of buses, commercial vehicles and passenger vehicles) and the actual size of vehicles carried. Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period.

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of trips. The year-over-year change in the number of round trips provided can be impacted by cancellations and changes in demand or the number of trips stipulated by the CFSC between BC Ferries and the Province. In fiscal 2025, we delivered 90,685 round trips, representing 205 additional round trips, compared to 90,480 round trips in fiscal 2024. Round trips increased on the Major Routes and Northern Routes, partially offset by reduced round trips on the Minor Routes. These additional round trips resulted in increased capacity of 2% on the Major Routes and 1% on the Northern Routes compared to the prior year.

Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Typically, capacity utilization is highest when traffic levels peak during the summer months and lowest during the winter months. Capacity utilization on the Minor Routes, which is significantly lower than the capacity utilization on the Major and Northern Routes, is mainly due to the traffic demand being directional based on the time of day or the day of the week, and under-utilized in the other direction at the same time or day of the week (daily commuters and/or weekend visitors). In fiscal 2025, overall capacity utilization was 66.6%, an increase of 0.5% compared to a capacity utilization of 66.1% during the prior year. The increase in capacity utilization is primarily a result of a higher number of AEQs carried, partially offset by the capacity provided from additional round trips, supporting higher vehicle traffic levels.

Sailing Cancellations	Years ended March 31		
	2025	2024	Change
Sailings	196,465	195,731	734
Cancelled Sailings by type:			
Weather	1,181	819	362
Mechanical	1,237	665	572
Crew	189	655	(466)
Other *	202	172	30
Total Cancelled Sailings	2,809	2,311	498
Cancellations as % of Sailings	1.4%	1.2%	0.2%
Crew Cancellations as % of Sailings	0.1%	0.3%	(0.2%)

* The other category includes cancellations such as: incidents to vessels or the terminal, a traffic accident where the crew cannot get to the terminal, no demand for the sailing, or other procedural/operational reasons.

In fiscal 2025 we cancelled 1.4% of our scheduled sailings, primarily due to the impact of mechanical issues and adverse weather. Cancellations due to mechanical issues increased 572 or 86%, primarily due to the impact of the 60-year old *Queen of New Westminster* being out of service as it underwent repairs following the loss of its propeller and not having another relief vessel available in the fleet. Cancellations due to crew shortages have decreased by 71% compared the prior year reflecting the positive impact of actively recruiting and investing in our employees.

On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled arrival time. In each case, on-time performance can be impacted by delays due to weather, vessel substitution, mechanical issues, crew absences, terminal dock maintenance or closures and periods of high traffic demand.

On-Time Performance*	Years ended March 31		
	2025	2024	Change
Major Routes	72.4%	70.9%	1.5%
Northern Routes	80.5%	84.9%	(4.4%)
Minor Routes	85.8%	85.2%	0.6%
On-Time Performance	84.0%	83.2%	0.8%

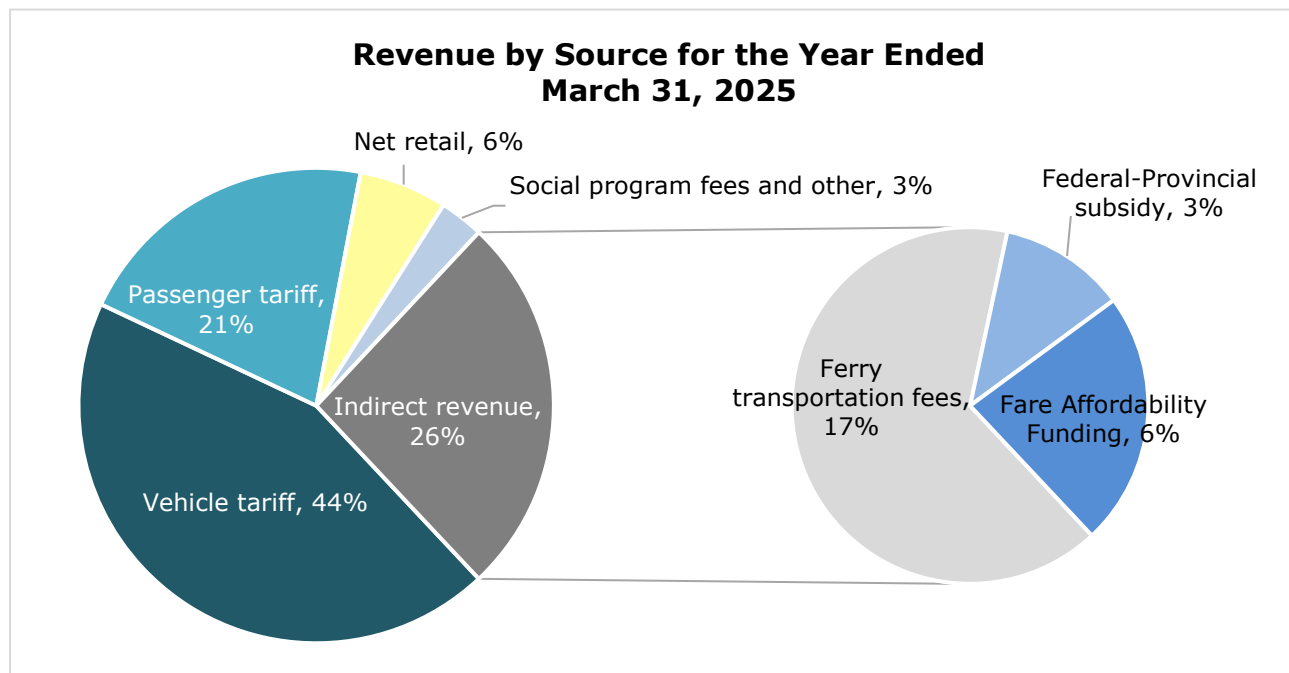
*The on-time performance % is a weighted average calculation based on the number of sailings (in fiscal 2025, 85.8% of sailings are on the Minor Routes, 13.6% on the Major Routes and 0.6% on the Northern Routes).

In fiscal 2025 overall on-time performance increased 0.8% from 83.2% to 84.0% compared to the prior year. On-time performance improved on the Major and Minor Routes, partially offset by lower on-time performance on the Northern Routes compared to the prior year.

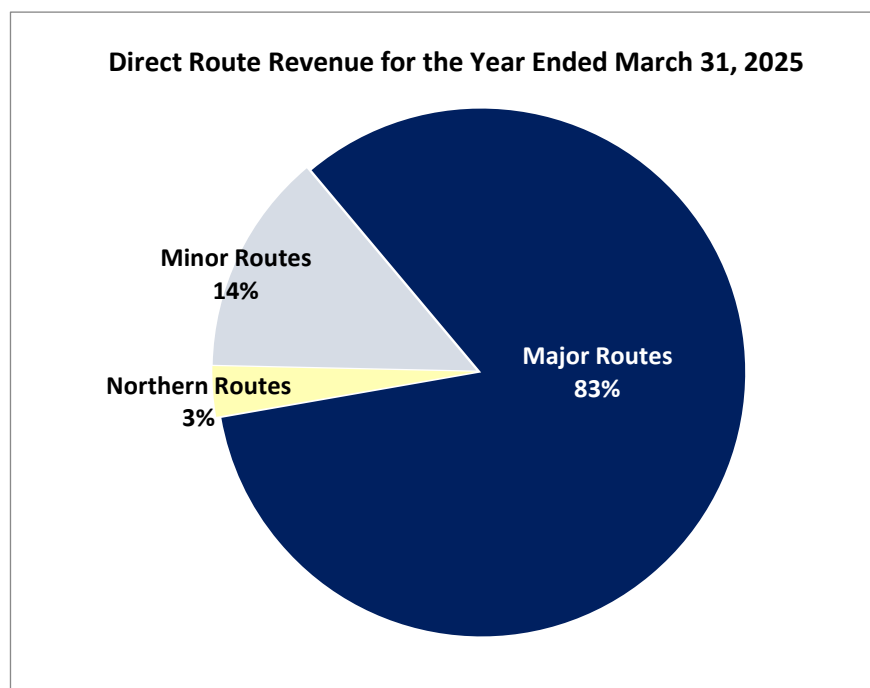
Operational Revenues

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (see "The Effect of Rate Regulation" for more details).

Operational revenues for fiscal 2025 are shown in the graphs below:



Fuel rebates and surcharges are not included in the above total revenue by source. Rebates and surcharges are recorded in our fuel deferral accounts for rate regulatory purposes as they are implemented as a direct result of rising and declining fuel prices.



In fiscal 2025, of our direct route revenues of \$862.3 million (excluding fuel surcharges), 83%, was earned on our Major Routes.

Operational revenues for fiscal 2025 and fiscal 2024 are shown in the table below:

Revenue (\$ millions)	Years ended March 31			
	Increase (Decrease)			
	2025	2024	\$	%
Direct Route Revenue	862.3	845.5	16.8	2%
Vehicle tariff revenue				
Major Routes	435.0	406.9	28.1	7%
Northern Routes	11.8	11.4	0.4	4%
Minor Routes	67.8	63.6	4.2	7%
Total vehicle tariff revenue	514.6	481.9	32.7	7%
Passenger tariff revenue				
Major Routes	200.3	197.5	2.8	1%
Northern Routes	7.9	7.8	0.1	1%
Minor Routes	36.2	35.0	1.2	3%
Total passenger tariff revenue	244.4	240.3	4.1	2%
Net retail revenue				
Major Routes	60.2	58.2	2.0	3%
Northern Routes	5.1	4.7	0.4	9%
Minor Routes	5.6	4.9	0.7	14%
Total net retail revenue	70.9	67.8	3.1	5%
Social program fees	13.0	13.5	(0.5)	(4%)
Other revenue	13.6	13.4	0.2	2%
Fuel surcharge	5.8	28.6	(22.8)	(80%)
Indirect Route Revenue	305.3	245.3	60.0	24%
Fare Affordability Funding	68.8	-	68.8	-
Safe Restart Funding*	-	9.0	(9.0)	-
Ferry transportation fees	199.6	200.7	(1.1)	(1%)
Federal-Provincial subsidy	36.9	35.6	1.3	4%
Total Route Revenue	1,167.6	1,090.8	76.8	7%
Other general revenue**	3.8	20.1	(16.3)	(81%)
Total Revenue	1,171.4	1,110.9	60.5	5%

* In fiscal 2024, total Safe Restart Funding of \$10.4 million was recorded for discretionary sailings and fare increase relief, of which \$1.4 million for discretionary sailings relief was included in ferry transportation fees.

**Other general revenue includes revenue from the sale of carbon credits. In fiscal 2025, carbon credit revenue of \$0.2 million was recognized compared to \$16.7 million in the prior fiscal year.

Vehicle tariffs and passenger tariffs account for the largest share of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in tariff rates, traffic levels, and traffic types. On April 1, 2024, we implemented average tariff increases of 3.2% in accordance with Order 23-04.

In the year ended March 31, 2025, total direct route revenue increased \$16.8 million or 2% compared to the prior year, primarily as a result of an increase in tariff rates, vehicle traffic levels and net retail revenue, partially offset by lower fuel surcharges.

Average Tariff	Years ended March 31			
	2025	2024	Increase	
			\$	%
Average vehicle tariff				
Major Routes	78.79	75.32	3.47	5%
Northern Routes	270.05	264.28	5.77	2%
Minor Routes	16.24	15.49	0.75	5%
Average vehicle tariff	52.84	50.45	2.39	5%
Average passenger tariff				
Major Routes	13.97	13.86	0.11	1%
Northern Routes	75.29	74.74	0.55	1%
Minor Routes	4.36	4.24	0.12	3%
Average passenger tariff	10.74	10.63	0.11	1%

In fiscal 2025, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased \$2.39 or 5% compared to the prior year, primarily as a result of higher tariff rates and the mix of traffic and fare types compared to the same period in the prior year. In fiscal 2025, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased \$0.11 or 1% compared to the prior year, primarily due to tariff rate increases partially offset by increases in passenger traffic on lower tariff routes and changes in passenger fare type mix. In fiscal 2025, the increase in average tariff rates and vehicle traffic levels resulted in a total tariff revenue increase of \$36.8 million or 5% year-to-date (an increase in vehicle tariff revenue of \$32.7 million and an increase in passenger tariff revenue of \$4.1 million) as a result of higher tariff rates and the mix of traffic and fare types compared to the same period in the prior year.

Retail sales is a significant source of revenue from customers, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, prices, service quality and product offerings. In fiscal 2025, net retail revenue increased by \$3.1 million or 5% compared to the prior year, primarily as a result of increased passenger traffic and an increase in average spend per passenger.

Social program fees are reimbursements from the Province for discounted fares provided to students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Medical Travel Assistance Program ("MTAP"). In fiscal 2025, social program fees decreased \$0.5 million or 4%, mainly due to reduced medical assured loading revenue, partially offset by higher tariff rates and increased student travel compared to the same period in the prior year.

From time to time, we implement fuel surcharges as a result of rising fuel prices or fuel rebates as a result of falling fuel prices. A fuel surcharge of 4% was in place on all routes during fiscal 2024 until it was removed in fiscal 2025, effective June 1, 2024. In fiscal 2025 fuel surcharges decreased \$22.8 million or 80% compared to the same period in the prior year. For the purpose of rate regulation, surcharges and/or rebates are applied to our deferred fuel cost accounts. (see "The Effect of Rate Regulation" for more detail.)

In fiscal 2025, total indirect route revenue increased by \$60.0 million or 24% compared to the prior year, mainly as a result of the introduction of Fare Affordability Funding (see below), partially offset by the final recognition of Safe Restart Funding in fiscal 2024.

Fare Affordability Funding of \$500 million, provided by the Province to support the fare affordability initiative of keeping fare increases around 3% and GHG emissions reduction initiatives during PT6, will be recognized on a systematic basis in accordance with the terms of the contribution agreement with the Province. The first installment payment of \$50 million was received on September 26, 2024. In fiscal 2025, \$68.8 million of Fare Affordability Funding was recognized in revenue and \$18.8 million was receivable from the Province as at March 31, 2025.

In fiscal 2021, we received \$308 million from the Province as part of the provincial and federal governments' Safe Restart Funding program for performance term five ("PT5") (which commenced April 1, 2020 and ended on March 31, 2024). The Safe Restart Funding consisted of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit average fare increases and to cover the estimated costs of discretionary sailings. The final \$10.4 million of Safe Restart Funding was recognized in fiscal 2024, the final year of PT5.

On June 30, 2023, the CFSC was amended for PT6 to, among other things, establish ferry transportation fees for PT6. The ferry transportation fees amount of \$194 million per contract year in PT6, was consistent with the annual ferry transportation fees amount in PT5. In fiscal 2025, ferry transportation fees decreased \$1.1 million compared to the prior year, primarily due to \$1.4 million of Safe Restart Funding for discretionary sailings relief in fiscal 2024, which was included in ferry transportation fees.

Under the terms of the CFSC, we receive an annual amount from the Province based on the Province's agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. This Federal-Provincial subsidy increases April 1 of each year based on the percentage increase in the annual CPI (Vancouver).

In fiscal 2025, other general revenue decreased \$16.3 million compared to the same period in the prior year, primarily as a result of reduced sales of carbon credits, which are earned through the use of electricity and purchase of natural gas and use of LNG (a lower carbon fuel than diesel). For regulatory purposes, BC Ferries directs the revenue earned from the sale of earned carbon credits into a Carbon Reduction Investment Account ("CRIA") (see "The Effect of Rate Regulation" for more detail).

Expenses

Expenses for the past two fiscal years are summarized in the table below:

Operating Expenses (\$ millions)	Years ended March 31			
			Increase	
	2025	2024	\$	%
Operations	771.1	717.4	53.7	7%
Maintenance	152.9	129.7	23.2	18%
Administration	57.3	54.0	3.3	6%
Total operations, maintenance & administration	981.3	901.1	80.2	9%
Depreciation and amortization	202.5	187.1	15.4	8%
Total Operating Expenses	1,183.8	1,088.2	95.6	9%

In fiscal 2025, total operating expenses (including depreciation and amortization) increased \$95.6 million or 9% compared to the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 75% of our total operations, maintenance and administration costs. Total operations, maintenance and administration expenses during fiscal 2025 increased \$80.2 million or 9% compared to the prior year, primarily driven by higher wage rates, benefits, maintenance expenses and fuel prices. We continue our strong focus on operating as effectively and efficiently as possible, to maintain financial resiliency, while delivering on our customer service and safety objectives.

Approximately 82% of BC Ferries' workforce are members of the BC Ferry & Marine Workers' Union (the "Union"). The collective agreement between the Company and the Union (the "Collective Agreement") provides for wage re-openers in years four and five (for wage increases at April 1, 2024 and April 1, 2025). On March 28, 2024, an arbitration panel released its binding decision for the year-four wages. Members of the Union received a one-year 7.75% general wage increase, with many jobs receiving "special increases", including some licenced mariners receiving up to an additional 10%. These increases were retroactive to October 1, 2023. On May 29, 2025, an arbitration panel issued its binding decision on wages for year-five of the current collective agreement. Members of the Union will receive a 1.65% general wage increase, effective April 1, 2025, with a few jobs receiving additional "special increases". Negotiations with the Union are expected to begin in the summer of 2025 as the full Collective Agreement expires in October 2025.

Wage rates for employees not covered by the Collective Agreement ("Exempt Employees") were increased by 5%, effective July 1, 2023 as a cost of living adjustment. In addition, BC Ferries also undertook a one-time market equity adjustment to align compensation with its goal of being at the 50th percentile of its market comparators. To do this, we engaged an external compensation expert to review the Exempt Employee compensation program to ensure it is both fair and market competitive. As a result of the review, wage rates were reset for targeted roles, effective October 1, 2023, with increases bringing those roles more in line with their market comparators. The effect of this one-time adjustment resulted in an increase to overall Exempt Employee compensation by 7%. This competitive compensation structure has strengthened BC Ferries' ability to attract, retain and motivate its people, and has contributed to reduced sailing cancellations from crew shortages in fiscal 2025 compared to the prior year. Eligible Exempt Employees received a further 2% general wage increase effective April 1, 2024.

The \$53.7 million or 7% increase in operations expenses from fiscal 2024 to fiscal 2025 includes:

- \$25.9 million increase in labour costs, mainly due to wage rate increases per the Collective Agreement, increased overtime, illness, training, and benefit costs;
- \$15.4 million increase in fuel expense primarily reflecting higher fuel prices; and
- \$12.4 million increase in contracted services, travel, materials and supplies, credit card service fees, and other miscellaneous expenses.

Maintenance costs increased \$23.2 million or 18% in fiscal 2025 compared to the prior year, primarily as a result of the cyclical nature of vessel refit activity, unplanned vessel repairs, increased labour rates and other inflationary cost increases. The *Queen of New Westminster* underwent extensive unplanned repairs of \$5.5 million in addition to its scheduled refit costs after a failure in the propeller shaft caused the propeller to detach.

Administration costs increased by \$3.3 million or 6% in fiscal 2025 compared to the prior year, primarily as a result of increased labour and benefits costs, computer software costs and public relations costs.

Depreciation and amortization increased \$15.4 million or 8% in fiscal 2025 compared to the prior year, reflecting increased depreciation of asset decommissioning and restoration costs and the timing of capital assets entering service. In fiscal 2024, BC Ferries recognized an increased provision of \$69.0 million in asset decommissioning costs for 41 vessels. In fiscal 2025, asset decommissioning provision costs increased by \$19.5 million. (see "Investing in our Capital Assets" for details of capital asset expenditures.)

Net finance and other expenses (\$ millions)	Years ended March 31		
	2025	2024	Variance
Finance expense	70.9	67.6	3.3
Less: finance income	(24.1)	(29.5)	5.4
Net finance expense	46.8	38.1	8.7
Net loss on disposal and impairment of property, plant and equipment, intangible assets and other charges	12.5	15.1	(2.6)
Total net finance and other expenses	59.3	53.2	6.1

In fiscal 2025, net finance and other expenses increased \$6.1 million compared to the prior year, primarily related to higher interest expense and lower interest earned, partially offset by lower asset decommissioning provision expenses and lower asset impairment charges.

INVESTING IN OUR CAPITAL ASSETS

We have a formal project governance framework to ensure that capital investments meet our functional and business needs. This framework, which is reviewed annually by BC Ferries' internal Capital Planning and Budget Committee to ensure it continues to evolve and improve, is the structure under which capital projects are identified, managed, monitored and delivered effectively and efficiently. It ensures we take a disciplined approach to the identification, approval, management, reporting, and delivery of projects and benefits realization, and defines key roles and provides principles and guidelines for the governance of projects through the phases of the project lifecycle.

Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our Fleet Maintenance Unit ("FMU"), modifications to terminal infrastructure in anticipation of vessel electrification (shore-side power source to enable charging vessel batteries), upgrades at our terminals and renewal of our information technology systems.

The typical life span of our vessels is approximately 45 years. Our current operating fleet has an average age of 28 years and, of these, ten are 45 years old or older. As vessels approach their planned retirement dates, we review their condition to determine potential candidates for life extension rather than replacement.

Our strategy for new vessels includes inter-operability and standardization, where possible, to provide more flexibility, consistent customer experience, and organizational efficiencies while enhancing a safe operation. We are standardizing our vessel design, layout, operating characteristics, systems, procedures, and equipment across a wide variety of applications to achieve operational and maintenance efficiencies and enhance reliability. We are designing our vessels for low energy consumption and clean environmental performance. We are adopting alternative fuel sources, which are cleaner, lower carbon-intensive options, such as LNG, renewable fuels, biodiesels and electrification, where economically and technically feasible. Our vessel design and modifications will appropriately incorporate new proven technologies to address other key environmental considerations, such as noise and light pollution, waste management, emissions, and on-board water consumption.

Our four Salish Class vessels run primarily on LNG with marine diesel fuel as a backup.

Our six Island Class vessels are hybrid-electric ships designed for full electric, future operation. On December 7, 2023, the Commissioner approved a major capital expenditure for the construction of four more Island Class vessels that will be able to operate exclusively in battery-electric mode and will increase our fleet of Island Class vessels to ten (see "Island Class Phase 3" below). These four new Island Class vessels are planned to enter service by 2027 and will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with resiliency for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues.

On March 14, 2025, the Commissioner issued Order 25-01, which approves a major capital expenditure for four new major vessels to replace four existing end-of-life vessels (see "New Major Vessels" below). These four vessels will be hybrid-electric ships designed for future full electric operation and will be capable of carrying at least 360 AEQ and 2,100 passengers. The new vessels are planned to enter service beginning in 2029 and will replace the oldest vessels in the fleet: the *Queen of Alberni*, *Queen of New Westminster*, *Queen of Coquitlam* and *Queen of Cowichan*.

Prior to fiscal 2025, BC Ferries received \$14 million in funding as part of the Natural Gas for Transportation incentive funding from FortisBC Energy Inc. (included in other current and long-term liabilities) to help offset incremental capital costs for the Salish Class and Spirit Class vessels associated with the ability to utilize LNG. During fiscal 2025, we applied \$1.5 million (\$1.4 million in fiscal 2024) of the funding to reduce the capital cost of the Salish Class and Spirit Class vessels.

On March 31, 2023, BC Ferries received \$15 million from the Province, in one-time funding, to support initiatives to further the electrification of BC Ferries vessels and terminals for use prior to March 31, 2028. During fiscal 2025, we applied \$0.3 million (\$0.8 million in fiscal 2024) to reduce the capital cost of the Terminal Electrification project and \$0.2 million (\$0.4 million in fiscal 2024) to reduce operating expenses in the NMV project.

In fiscal 2024, BC Ferries received approval under the CleanBC Go Electric Commercial Vehicle Pilots Program ("CVP") to receive up to \$15.1 million in funding from the Province. This funding is solely for project costs incurred for the purpose of electrifying two Island Class vessels and the terminals serving the Campbell River to Quadra Island route. The CVP funding will be paid against actual costs incurred for eligible expenses as approved by the program administrator. During fiscal 2025, we applied \$0.1 million (\$0.1 million in fiscal 2024) to reduce the capital cost of the Terminal Electrification project and \$0.5 million (\$nil in fiscal 2024) to reduce the cost of the Island Class vessel electrification project.

On March 27, 2024, BC Ferries received \$75 million of net proceeds from issuing Series 24-1 bonds to CIB. The fair market value of the bonds as of issuance date was \$47.4 million. The difference between the net proceeds and fair market value of the bonds of \$27.6 million was classified as government funding to be recognized as an offset to the Project Costs of the Island Class Phase 3 project and the Island Class terminal electrification project. In fiscal 2025, \$3.5 million (\$nil in fiscal 2024) of this funding was recognized as a reduction to capital expenditures, consisting of \$2.6 million for the Island Class Phase 3 project and \$0.9 million to the terminal electrification project.

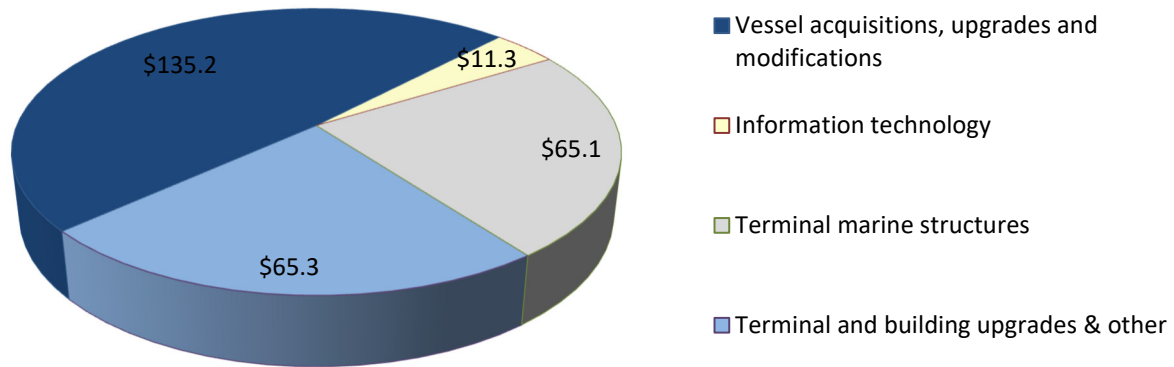
In fiscal 2025, additions to our capital assets totalled \$296.4 million, comprising \$276.9 million in capital expenditures (net of funding) and \$19.5 million for an asset decommissioning provision.

In fiscal 2025, BC Ferries increased its provision for decommissioning costs for 41 vessels by \$19.5 million (\$69.0 million in fiscal 2024). This amount has been allocated appropriately to the carrying amount of each vessel and will be expensed over the remaining life of each vessel (see "Asset Decommissioning and Restoration Provisions" for more details).

Capital expenditures (net of funding from FortisBC Energy Inc, the Province, CIB and CVP) during the last two fiscal years are shown in the table below:

Capital Expenditures by Fiscal Year		
(\$ millions)	2025	2024
Vessel upgrades & modifications	74.7	106.8
New vessels	60.5	49.5
Terminal marine structures	65.1	38.4
Information technology	11.3	28.9
Terminal building upgrades & equipment	65.3	30.5
Total	276.9	254.1

**Capital Expenditures by Type
Year ended March 31, 2025
(\$ millions)**



In fiscal 2025, capital expenditures comprised the following:

Capital Expenditures (\$ millions)	Year ended March 31, 2025
Island Class Phase 3	57.1
Fleet maintenance unit redevelopment	39.7
Major overhauls and inspections	36.4
Right-of-use assets	16.9
Swartz Bay berth 5 upgrade	14.4
<i>Coastal Renaissance</i> quarter-life upgrade	10.2
<i>Coastal Celebration</i> quarter-life upgrade	10.2
Shearwater berth replacement	8.7
<i>Coastal Inspiration</i> quarter-life upgrade	7.3
Tsawwassen breakwater life extension	6.6
Hardware upgrades	4.7
Vehicles and other equipment	4.4
<i>Queen of Capilano</i> three-quarter-life upgrade	3.6
New major vessels	3.4
Various other projects	53.3
	276.9

Island Class Phase 3

On December 7, 2023, the Commissioner issued Order 23-05 approving a major capital expenditure to construct and deliver into service four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore at four terminals on the two routes connecting Nanaimo Harbour to Gabriola Island, and Campbell River to Quadra Island. On December 21, 2023, BC Ferries awarded Damen a design-build, fixed-price contract for four new hybrid electric Island Class vessels. On November 1, 2024, BC Ferries announced the successful keel laying for the first two of four vessels. These four new hybrid electric vessels, with capacity to carry approximately 47 vehicles and 390 passengers, will further standardize BC Ferries' fleet, both increasing capacity, and improving our flexibility to move ships across routes. These new Island Class vessels are planned to enter service by 2027 on the routes connecting Nanaimo Harbour to Gabriola Island, and Campbell River to Quadra Island.

FMU redevelopment

On October 14, 2022, the Commissioner issued Order 22-02 and, on May 12, 2023, issued a further supplemental Order 22-02A approving a project for the redevelopment of BC Ferries' FMU located at Deas Basin in Richmond, BC. Also on May 12, 2023, BC Ferries signed a construction agreement with Bird Construction Group for the FMU redevelopment project. This project is redeveloping the site to increase efficiencies and the capacity of the site, building a new machine shop and upgrading existing buildings at the site. Upgrades to some of the existing buildings are expected to be completed in fiscal 2026 and the full scope of the project is expected to be completed by fiscal 2028.

Major overhauls and inspections

In the year ended March 31, 2025, we incurred capital expenditures of \$36.4 million in respect of major overhauls and inspections of components of hull, propulsion and generators for eight vessels that were completed or underway.

Right-of-use assets

Under IFRS 16 *Leases*, leases are classified as right-of-use assets and with corresponding liabilities. We classify our prepaid terminal land leases and related structures and our corporate office building as right-of-use assets. In the year ended March 31, 2025, we recognized \$16.9 million as a right-of-use asset with a corresponding liability, primarily related to an office space lease extension.

Swartz Bay berth 5 upgrade

A project to upgrade Swartz Bay Berth 5 to allow the operation of Salish Class vessels at the berth was completed in the fourth quarter of fiscal 2025.

Coastal Renaissance quarter-life upgrade

The quarter-life upgrade of the *Coastal Renaissance*, expected to complete in fiscal 2026, includes upgrades to its propulsion, electrical, communication systems, and catering and safety equipment.

Coastal Celebration quarter-life upgrade

The quarter-life upgrade of the *Coastal Celebration*, expected to complete in fiscal 2027, includes upgrades to its propulsion, electrical, communication systems, and catering and safety equipment.

Shearwater berth replacement

A project to replace the marine structures at Shearwater, including the pontoon, ramp and floating lead, was completed in the third quarter of fiscal 2025.

Coastal Inspiration quarter-life upgrade

The quarter-life upgrade of the *Coastal Inspiration*, expected to complete in fiscal 2026, includes upgrades to its propulsion, electrical, communication systems, and catering and safety equipment.

Tsawwassen breakwater life extension

A project to upgrade and life extend the two berth breakwaters at Tsawwassen Terminal, which includes upgrades to the structures through steel patching, piling and steel strapping, is expected to complete in the first quarter of fiscal 2026.

Hardware upgrades

Hardware upgrades include the replacement of aged computers, servers, printers, routers, closed-circuit cameras, antennas and handheld point of sale system units.

Vehicles and other equipment

Vehicles and other equipment include the replacement of fleet vehicles, trailer hostling units, forklifts, and various other terminal equipment.

Queen of Capilano three-quarter-life upgrade

The three-quarter-life upgrade of the *Queen of Capilano*, completed in fiscal 2025, included upgrades to its alarm and monitoring system, navigation equipment, utilities, elevator and passenger amenities.

New Major Vessels

On March 14, 2025, the Commissioner issued Order 25-01 which approves a major capital expenditure for four new major vessels to replace four existing end-of-life vessels. In December 2024, BC Ferries formally submitted its regulatory application to the Commissioner for approval of BC Ferries' NMV project to procure five NMV. BC Ferries' proposal for a fifth vessel was not approved by the Commissioner. These four vessels will be diesel-battery hybrid ships designed for future full electric operation and are designed to be capable of carrying 360 vehicles and 2,100 passengers. These vessels are planned to enter service starting in 2029 at approximately six-month intervals and, as they are built, will be incorporated into the Major Routes fleet. As these vessels are introduced, BC Ferries will retire four of its older vessels; the *Queen of Alberni*, *Queen of New Westminster*, *Queen of Coquitlam* and *Queen of Cowichan*.

On May 7, 2025, BC Ferries awarded four contracts for design, build and delivery of the New Major Vessels.

Various other projects

Various other projects expenditures of \$53.3 million include, among others, upgrades to various vessel's navigational and catering equipment, upgrades to marine structures at various terminals, various software upgrades and terminal efficiency initiatives.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

We expect our cash requirements will be met through operating cash flows, accessing our credit facility with a syndicate of Canadian banks (the "Credit Facility"), debt issuances, government contributions and other alternative funding opportunities.

We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issuance to third parties. Our financial position could be adversely affected if we fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and debt servicing. Our ability to arrange such financing is subject to numerous factors, including the results of our operations, our financial position, conditions in the capital and bank credit markets, ratings assigned by rating agencies, and general economic conditions.

On February 26, 2023, the Province announced \$500 million in Fare Affordability Funding for BC Ferries. A contribution agreement, signed with the Province on March 31, 2023, establishes the terms and scheduled payments of this funding over the period of April 1, 2024 to March 31, 2028. A payment of \$50 million was received in the first year of PT6, on September 26, 2024. The contribution agreement can be found on SEDAR+ at www.sedarplus.ca.

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, payable semi-annually, and are issued in up to four tranches, with funding to be received by March 28, 2030 and utilized by March 28, 2033, or the commitment amount is forfeited. The net proceeds from the sale of the bonds shall be held in cash or invested in permitted investments and shall be used solely to provide funding for capital costs incurred toward the NMV project and the terminal electrification for the route connecting metro Vancouver to Victoria and the route connecting metro Vancouver to Nanaimo. The first tranche of \$133 million was issued on May 22, 2025. The difference between the net proceeds and fair market value of the bonds will be considered a bond discount and will be classified as government funding.

At March 31, 2025, our unrestricted cash and cash equivalents and other short-term investments totalled \$205 million and \$28 million, respectively, compared to unrestricted cash and cash equivalents and other short-term investments of \$32 million and \$339 million, respectively, as at March 31, 2024.

Our \$105 million Credit Facility was renewed on April 4, 2025 to extend the maturity date from April 20, 2028 to April 20, 2029. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At March 31, 2025, there were no draws on the Credit Facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at cost effective interest rates. On November 18, 2024, S&P lowered BC Ferries' long-term issuer credit and senior secured debt ratings to A+ from AA- with a Stable outlook. Subsequently, on April 4, 2025, S&P affirmed BC Ferries' long-term issuer credit and senior secured debt ratings to "A+" with a Stable outlook. On December 6, 2024, DBRS confirmed BC Ferries' issuer rating and senior secured bonds credit rating at A (high) and changed the trends to Negative from Stable.

In 2004, we entered into a MTI, a copy of which is available at <http://www.bcferries.com>. The MTI established common security and a set of common covenants for the benefit of our lenders. Our financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings ranking *pari passu*. We do not currently view share equity as a potential source of capital and have no intention of offering shares to the public or other investors.

Under the MTI, an agreement that in part secures and governs the Company's borrowings, we are subject to indebtedness tests that prohibit additional borrowing if our debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.50x. Up to January 19, 2025, under the MTI, additional indebtedness was prohibited if our leverage ratio exceeded 85%. However, on January 20, 2025, BC Ferries announced that it had successfully obtained approval of an amendment to remove Section 6.5(e)(ii) of the Company's MTI, eliminating the leverage ratio as an additional indebtedness covenant under the condition the common shares of BC Ferries remain wholly owned by the BC Ferry Authority, the Province or any Crown Corporation.

At March 31, 2025, we achieved a debt service coverage ratio of 2.44x and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for fiscal 2025 has resulted in a \$77.7 million decrease in equity before reserves (comprised of dividends of \$6.0 million and net loss of \$71.7 million), from \$651.9 million as at March 31, 2024 to \$574.2 million as at March 31, 2025. Correspondingly, BC Ferries' leverage ratio has increased from 71% as of March 31, 2024 to 74% as of March 31, 2025.

(\$ thousands)	March 31, 2025		March 31, 2024**	
	\$	%	\$	%
Aggregate borrowings *	1,599,718	74%	1,598,400	71%
Total equity before reserves	574,177	26%	651,943	29%
Total	2,173,895	100%	2,250,343	100%

* Includes long-term debt, including current portion, Credit Facility (drawn and undrawn) and short-term borrowings.

** See "Accounting Practices, Adjustment of balances" for details of changes to March 31, 2024 amounts.

Escalating costs and investments underway or planned in PT6 and PT7 will rely upon a level of funding for PT7 that is currently uncommitted, either in the form of regulatory allowable price cap increases or funding from the Province. As work begins on the PT7 regulatory submission, the Company is engaging with relevant parties on long term funding options.

Long-Term Debt

Our long-term debt at March 31 of the last two years is summarized below:

	<u>Effective interest rate *</u>	<u>Principal outstanding as at March 31</u>	
(\$ millions)		<u>2025</u>	<u>2024</u>
Senior Secured Bonds			
6.25%, due October 2034	6.43%	\$ 250	\$ 250
5.02%, due March 2037	5.08%	250	250
5.58%, due January 2038	5.64%	200	200
4.70%, due October 2043	4.76%	200	200
4.29%, due April 2044	4.46%	200	200
2.79%, due October 2049	2.83%	250	250
2.47%, due March 2049	4.68%	75	75
12 Year Loans			
2.09% Loan, due October 2028	2.78%	14	17
2.09% Loan, due January 2029	2.71%	15	19
2.09% Loan, due January 2029	2.75%	15	19
		<u>1,469</u>	<u>1,480</u>

*The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortized cost of a financial liability.

We have six outstanding 30-year senior secured bond offerings have interest payable semi-annually. The bonds are redeemable in whole or in part, at our option.

We have one outstanding 25-year senior secured bond for \$75 million issued to CIB, bearing interest at 2.474% per annum, payable semi-annually, commencing on September 27, 2026 with a maturity date of March 27, 2049. The fair market value of the bond, calculated using a fair market interest rate of 4.66% and considering the interest free payment period, as of issuance date is \$47.4 million. The difference between the net 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 Phase 3 project and the Terminal Electrification Plan. The net proceeds from the sale of the bonds shall be held in cash or invested in permitted investments, and used solely to provide funding for capital costs incurred toward electrification of two routes under the Island Class Phase 3 project and the Terminal Electrification Plan, including procuring four new fully electric Island Class vessels and infrastructure upgrades at four ferry terminals to supply necessary power to these vessels. In fiscal 2025, \$3.5 million (\$nil in fiscal 2024) of this government grant funding was recognized as an offset, \$2.6 million to the Island Class Phase 3 project and \$0.9 million to the Terminal Electrification project. In fiscal 2025, \$1.5 million (\$nil in fiscal 2024) of interest on investment of the \$75 million was added to the government funding.

At March 31, 2025, we have three 12-year amortizing loan agreements with KfW IPEX-Bank GmbH ("KfW"), each of which is secured under the MTI. These three amortizing loans bear interest of 2.09% per annum and mature in October 2028 and January 2029.

Alternative Funding

Prior to fiscal 2025, BC Ferries received \$14 million in funding as part of the Natural Gas for Transportation incentive funding from FortisBC Energy Inc. (included in current and long-term deferred grants and other liabilities), to help offset incremental capital costs for the Salish Class and Spirit Class vessels associated with the ability to utilize LNG (see "Investing in Our Capital Assets" for more detail).

On March 31, 2023, BC Ferries received \$15 million from the Province, in one-time funding, to support initiatives to further the electrification of BC Ferries vessels and terminals for use prior to March 31, 2028 (see "Investing in Our Capital Assets" for more detail).

On September 30, 2023, BC Ferries received approval under the CVP to receive up to \$15.1 million in funding. This funding is solely for project costs incurred for the purpose of electrifying two Island Class vessels and the terminals serving the Campbell River - Quadra Island route (see "Investing in Our Capital Assets" for more detail).

Terminal Leases

We entered into a master agreement (the "Master Agreement") with the BC Transportation Financing Authority ("BCTFA"), effective March 31, 2003, as part of the restructuring of our Company. Under the Master Agreement, we received recognition of prepayment of rent under our terminal leases in return for the transfer of ownership interest in all ferry terminals from the former British Columbia Ferry Corporation to the BCTFA at the time of the corporate restructuring.

The leases grant us exclusive access and use of ferry terminal properties for a period of 60 years commencing April 1, 2003. The leases are renewable for an additional period of 20 years at a total cost of \$20 per lease provided the CFSC is renewed. We must manage, maintain and develop the terminals at our own cost.

If we fail to meet our obligations under the terminal leases or default under the CFSC, the BCTFA may, at its option, re-enter and take possession of the ferry terminal properties and, at its option, terminate the leases. The BCTFA has entered into an acknowledgement agreement with the Trustee under the MTI which sets out certain limitations on the use of this option. We mitigate this performance risk by actively monitoring our MTI covenants risks and ensuring we have mitigation plans for them.

Leases

Under IFRS 16 *Leases*, leases are classified as right-of-use assets and with corresponding liabilities. We classify our prepaid terminal land leases and related structures and our corporate office building lease as right-of-use assets. In fiscal 2025 we recognized \$16.9 million (\$1.3 million in fiscal 2024) as a right-of-use asset with a corresponding liability, primarily related to our office space lease extension.

In September 2010, agreements, which constituted a finance lease for space in our corporate office building in downtown Victoria, took effect following the completion of construction of the building. The initial term of the lease was 15 years, with four renewal options of five years each. In fiscal 2025, we exercised the first renewal option and extended the lease for five years.

Concurrent with the office lease, in November 2010, we advanced a \$24.5 million loan to the developer of the property pursuant to a loan agreement having a term of 15 years. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. BC Ferries was granted an option to purchase up to 50% interest in the new building and allowed to exercise the purchase option between the period of November 1, 2020 to February 1, 2026. The loan is secured by a second mortgage on the property.

During fiscal 2025, BC Ferries identified that at the inception of the 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 from the developer of the property. BC Ferries identified that the loan receivable was valued incorrectly at amortized cost instead of fair value through profit or loss and adjusted the carrying values of assets, liabilities, retained earnings and reserves (see "Accounting Practices, Adjustment of balances" for further details).

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, the issuance of bonds, alternative funding and borrowings under the Credit Facility. Our primary uses of funds are operational expenses, capital asset acquisitions and upgrades, and payments on our long-term debt.

Sources and uses of cash and cash equivalents for fiscal 2025 and 2024 are summarized in the table below:

(\$ millions)	Years ended March 31		
	2025	2024	Increase (Decrease)
Cash and cash equivalents, beginning of year	31.9	87.1	(55.2)
Cash from operating activities:			
Net loss	(71.7)	(30.4)	(41.3)
Items not affecting cash	254.3	240.8	13.5
Changes in non-cash operating working capital	(19.3)	40.3	(59.6)
Net interest paid	(38.6)	(42.6)	4.0
Cash generated from operating activities	124.7	208.1	(83.4)
Cash (used in) from financing activities	(23.7)	54.4	(78.1)
Cash from (used in) investing activities	71.8	(317.7)	389.5
Net increase (decrease) in cash and cash equivalents	172.8	(55.2)	228.0
Cash and cash equivalents, end of year	204.7	31.9	172.8

For fiscal 2025, cash generated from operating activities decreased \$83.4 million compared to the same period in the prior year, primarily due to a increase in net loss and changes in working capital (receivables, prepaids, payables and contracted liabilities). The increase in net loss reflects the increase in operating expenses, partially offset by an increase in revenues.

Cash used in financing activities in fiscal 2025 was \$23.7 million. This amount consisted of \$11.3 million in repayment of our loans from KfW, \$6.0 million in dividends paid to the Province on preferred shares, \$4.3 million in repayment of lease obligations and \$2.1 million in other costs related to the MTI amendment.

Cash from financing activities in fiscal 2024 was \$54.4 million and consisted of proceeds of \$75 million from our March 2024 bond issuance offset by \$11.3 million in repayment of our loans from KfW, \$6.0 million in dividends paid to the Province on preferred shares and \$3.3 million in repayment of lease obligations.

Cash from investing activities in fiscal 2025 increased by \$389.5 million compared to the prior year, mainly due to a \$309.2 million increase in redemptions of short-term investments and \$82.9 million reduction in restricted short-term investments (funds from Series 24-1 bond issuance received in fiscal 2024), partially offset by a \$2.6 million increase in purchases of capital assets.

For fiscal 2025, cash and cash equivalents increased \$172.8 million (from \$31.9 million to \$204.7 million) and short-term investments decreased \$311.0 million (from \$339.0 million to \$28.0 million) compared to the prior year.

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2025 to the same period in the prior year.

Operational Statistics	Three months ended March 31			
	2025	2024	Increase (decrease)	%
Vehicle traffic	1,916,979	1,913,972	3,007	0%
Passenger traffic	4,186,327	4,255,586	(69,259)	(2%)
Number of round trips	21,507	21,632	(125)	(1%)
Capacity provided (AEQs)	3,715,841	3,760,453	(44,612)	(1%)
AEQs carried	2,202,940	2,194,357	8,583	0%
Capacity utilization	59.3%	58.4%		

In the three months ended March 31, 2025, vehicle traffic was consistent with the same period in the prior year and passenger traffic decreased 2% compared to the same period in the prior year.

(\$ millions)	Three months ended March 31			
	2025	2024	Increase (Decrease)	%
Total revenue	227.8	200.9	26.9	13%
Operating expenses	306.1	283.5	22.6	8%
Operating loss	(78.3)	(82.6)	4.3	5%
Net finance and other expenses	17.7	23.8	(6.1)	(26%)
Net loss	(96.0)	(106.4)	10.4	10%

Our net loss in the quarter was \$10.4 million lower than our net loss in the same quarter in the prior year, primarily as a result of higher revenues and lower asset impairments and other charges, partially offset by higher operating expenses and higher interest expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2025 increased by \$26.9 million compared to the same quarter in the prior year, primarily as a result of an increase in ferry transportation fees and Fare Affordability Funding recognized in the quarter as shown in the following table:

Revenue (\$ millions)	Three months ended March 31			
			Increase (Decrease)	
	2025	2024	\$	%
Direct Route Revenue	156.8	157.7	(0.9)	(1%)
Vehicle tariff revenue				
Major Routes	81.2	77.4	3.8	5%
Northern Routes	1.5	1.5	-	-
Minor Routes	13.0	12.2	0.8	7%
Total vehicle tariff revenue	95.7	91.1	4.6	5%
Passenger tariff revenue				
Major Routes	35.6	36.1	(0.5)	(1%)
Northern Routes	0.7	0.8	(0.1)	(13%)
Minor Routes	6.4	6.4	-	-
Total passenger tariff revenue	42.7	43.3	(0.6)	(1%)
Net retail revenue				
Major Routes	10.4	10.1	0.3	3%
Northern Routes	0.8	0.8	-	-
Minor Routes	0.9	0.8	0.1	13%
Total net retail revenue	12.1	11.7	0.4	3%
Social program fees	3.3	3.2	0.1	3%
Other revenue	3.0	3.0	-	-
Fuel surcharge	-	5.4	(5.4)	-
Indirect Route Revenue	70.2	42.1	28.1	67%
Fare Affordability Funding	12.6	-	12.6	-
Safe Restart Funding	-	1.5	(1.5)	-
Ferry transportation fees	48.4	31.7	16.7	53%
Federal-Provincial subsidy	9.2	8.9	0.3	3%
Total Route Revenue	227.0	199.8	27.2	14%
Other general revenue	0.8	1.1	(0.3)	(27%)
Total Revenue	227.8	200.9	26.9	13%

*Total Safe Restart Funding of \$1.8 million was recorded for discretionary and fare increase relief, in the three months ended March 31, 2024, of which \$0.3 million for discretionary sailings relief was included in ferry transportation fees.

Average tariff revenue per vehicle in the quarter increased \$2.32 or 5% and average tariff revenue per passenger in the fourth quarter increased \$0.05 or 1% compared to the same period in the prior year, mainly as a result of tariff increases. The increase in traffic levels and the change in average tariffs resulted in a \$4.0 million increase in tariff revenue.

Net retail revenue increased in the fourth quarter of fiscal 2025 increased \$0.4 million or 3% compared to the same period in the prior year, primarily a result of an increase in average spend per passenger.

Social program fees in the fourth quarter increased \$0.1 million or 3% compared to the same period in the prior year, mainly as a result of an increase in the usage of the MTAP.

In the fourth quarter of fiscal 2025, Safe Restart Funding decreased \$1.5 million compared to the same period in the prior year as it was fully recognized in fiscal 2024.

Ferry transportation fees from the Province in the fourth quarter of fiscal 2025 increased \$16.7 million or 53% compared to the same period in the prior year, primarily due a change in the terms of the amendments to the CFSC for PT6.

The Federal-Provincial subsidy increased by the change in the annual CPI (Vancouver).

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2025 and fiscal 2024 are shown in the following tables:

Operating Expenses (\$ millions)	Three months ended March 31			
			Increase	
	2025	2024	\$	%
Operations	186.6	178.4	8.2	5%
Maintenance	51.0	41.8	9.2	22%
Administration	15.9	15.2	0.7	5%
Total operations, maintenance & administration	253.5	235.4	18.1	8%
Depreciation and amortization	52.6	48.1	4.5	9%
Total Operating Expenses	306.1	283.5	22.6	8%

The increase in operations costs of \$8.2 million for the quarter ended March 31, 2025 compared to the same period in the prior year is due to:

- \$4.0 million increase in fuel expense primarily from higher fuel prices,
- \$3.5 million increase in contracted services, training supplies, materials and supplies, and other miscellaneous expenses; and
- \$0.7 million increase in labour costs, mainly due to wage rate increases, illness and benefit costs.

The increase in maintenance costs of \$9.2 million is a result of the cyclical nature of vessel refit activity, unplanned vessel repairs, increased labour rates and other inflationary cost increases.

The increase in administration costs of \$0.7 million is primarily a result of increased consulting, public relations, computer software and legal expenses.

The increase in depreciation and amortization of \$4.5 million reflecting the depreciation of asset decommissioning and restoration costs and the timing of capital assets entering service.

Net Finance and Other Expenses (\$ millions)	Three months ended March 31			
	2025	2024	Variance	
			\$	%
Finance expense	18.2	16.6	1.6	10%
Less: finance income	(5.8)	(7.6)	1.8	24%
Net finance expense	12.4	9.0	3.4	38%
Loss on disposal and revaluation of property, plant and equipment, intangible assets and other charges	5.3	14.9	(9.6)	64%
Total net finance and other expenses	17.7	23.9	(6.2)	(26%)

Net finance and other expense in the fourth quarter of fiscal 2025 was \$6.2 million lower primarily due to reduced asset impairments and other charges compared to the same period in the prior year, partially offset by higher interest expense and lower interest earned on investments.

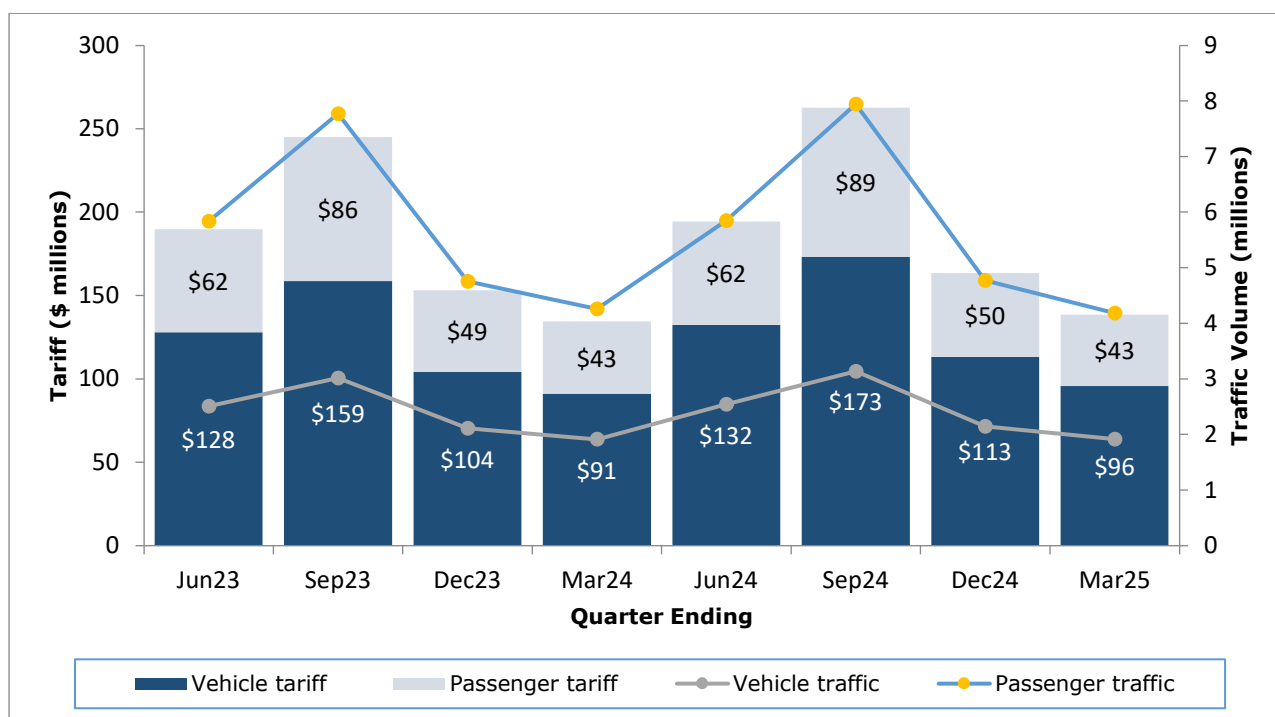
SUMMARY OF QUARTERLY RESULTS

The table below compares earnings by quarter for the most recent 8 quarters:

(\$ millions)	Quarter Ended (unaudited)							
	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25
Total revenue	287	381	242	201	303	383	257	228
Operating expenses	261	269	275	283	299	300	279	306
Operating profit (loss)	26	112	(33)	(82)	4	83	(22)	(78)
Net earnings (loss)	15	102	(42)	(106)	(9)	71	(38)	(96)

Quarterly results are normally affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, normally experiences the highest traffic levels and the highest net earnings. In the third and fourth quarters, when leisure traffic is lower, we perform upgrades and major maintenance and refit programs, as well as undertaking mandatory inspections on the majority of our vessels.

The following graph demonstrates the seasonality of our tariff revenue and shows the relationship of passenger traffic volume and tariff revenue over the most recent 8 quarters:



OUTLOOK

BC Ferries continues to pursue strategies to create an affordable, reliable, sustainable and safe ferry system that meets the needs of our customers and the communities we serve for generations to come.

Financial

During fiscal 2025, BC Ferries carried its highest ever vehicle and passenger traffic.

While we are cautiously optimistic that traffic will continue to be strong, BC Ferries cannot predict with certainty future traffic volumes. Traffic levels can be affected by a variety of factors, such as weather, competition, transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, political instability, risk of recession, disposable personal income and vessel mechanical issues causing cancellations.

BC Ferries is experiencing upward pressure on both operating and capital costs. Future increases in inflation, projected higher long-term interest rates and weakening economic conditions could result in impacts to customer demand, future profitability and future funding opportunities. BC Ferries continues to pursue efficiencies and opportunities to minimize costs.

On May 29, 2025, an arbitration panel issued its binding decision on wages for year-five of the current collective agreement. Members of the Union will receive a 1.65% general wage increase, effective April 1, 2025, with a few jobs receiving additional "special increases". Negotiations are expected to begin in the summer of 2025 as the full Collective Agreement expires in October 2025. Eligible Exempt Employees will receive a 2% general wage increase effective April 1, 2025.

On September 30, 2023, the Commissioner issued Order 23-04 which established final price cap increases of 3.2% for each of the four years of PT6. The Commissioner's final price cap decision factored in the impact of \$500 million in Fare Affordability Funding from the Province with the goal of limiting annual average fare increases to approximately 3% a year for PT6. In the near term, the higher costs we are experiencing may reduce our operating results despite the fare increase of 3.2% and the Fare Affordability Funding from the Province for PT6.

PT6 incorporates significant capital investments to support growth and replacement of aging assets. BC Ferries' vessel planning strategies, which include the Island Class vessels and the NMV program, will provide additional capacity and allow us to respond to increases in customer demand. Based on current levels of capital asset inflation, it is possible that capital investment costs will be higher than anticipated in PT6.

As part of supporting the future needs of the ferry system, BC Ferries has obtained approval from its bondholders to amend one of the additional indebtedness requirement covenants under the MTI. This amendment, in part, brings the MTI more closely in line with the indentures of other infrastructure issuers in the marketplace. BC Ferries remains focused on fiscal prudence and continues to adhere to covenants under the MTI, including debt service coverage ratio limitations and debt service reserve requirements.

Escalating costs and investments underway or planned in PT6 and PT7 will rely upon a level of funding for PT7 that is currently uncommitted, either in the form of regulatory allowable price cap increases or funding from the Province. As work begins on the PT7 regulatory submission, the Company is engaging with relevant parties on long term funding options.

FINANCIAL RISKS and FINANCIAL INSTRUMENTS

Exposure to credit risk, liquidity risk and market risk arises in the normal course of our business. Our exposure to credit risk is limited to the carrying value on our statements of financial position for cash, short-term investments, derivative assets and trade and other receivables. While there is a risk that a third party may fail to meet its obligations under the terms of a financial instrument, we do not believe that it is a significant risk. We manage credit exposure related to financial instruments by dealing with high credit quality institutions, in accordance with established policy and parameters and by an ongoing review of our exposure to counterparties.

We manage liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, and the maintenance of a credit facility and debt service reserves. (see "Liquidity and Capital Resources" for more detail).

We manage market risk arising from the volatility in foreign currency, interest rate and fuel price exposures in part through the use of derivative financial instruments including forward contracts, swaps and options. We do not utilize derivative financial instruments for trading or speculative purposes.

Fuel Price

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel and LNG. Fuel costs have fluctuated over the past few years, and there is uncertainty of the cost of fuel in the future.

High fuel prices could translate into significant fuel surcharges and result in higher total tariff levels. Although there is uncertainty of the extent of the impact of fuel surcharges on future ferry traffic levels, there is a risk of a decline in ferry traffic levels as a result of increasing costs to customers resulting from the implementation of fuel surcharges.

Risk mitigation: To mitigate the effect of volatility in fuel prices on our earnings, we may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. We use fuel price hedging instruments solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2025, we had \$31.9 million (notional value) in fuel forward contracts for marine diesel related to fiscal 2026. At March 31, 2025, we had no fuel forward contracts for LNG. Realized gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. For the purpose of regulatory accounting, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (see "The Effect of Rate Regulation" for more detail.)

Derivatives

We hedge our exposure to fluctuations in fuel prices, foreign currency exchange rates and interest rates from time to time through the use of derivative instruments.

At March 31, 2025, we held fuel forward contracts for ultra-low sulfur diesel ("ULSD") with a carrying and fair value asset of \$2.4 million and a notional value of \$31.9 million. At March 31, 2024, we held fuel forward contracts for ULSD with a carrying and fair value asset of \$0.6 million and a notional value of \$8.1 million. At March 31, 2025, with the application of hedge accounting, an unrealized gain of \$3.5 million was recognized in OCI. At March 31, 2024, with the application of hedge accounting, an unrealized gain of \$7.2 million was recognized in OCI. 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.

For regulatory purposes, any realized gains or losses related to fuel commodity swaps would be charged to our deferred fuel cost accounts. (see "The Effect of Rate Regulation" for more detail.)

Foreign Currency

We are also exposed to risk from foreign currency prices on financial instruments, such as future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure, we review our foreign currency denominated commitments and hedge through derivative instruments as appropriate. At the inception of each hedge we determine whether we will or will not apply hedge accounting. The currency exposure is limited by ensuring that currency derivative establishes a fixed Canadian dollar exchange rate for the amount of the commitment at the expected payment due date. As at March 31, 2025, the notional amount of the BC Ferries' foreign currency forward contracts was \$nil (March 31, 2024: \$0.2 million).

Non-Derivative Financial Instruments

The carrying and fair values of long-term debt at March 31, 2025, and 2024 were as follows:

(\$ millions)	2025		2024	
	Carrying value	Fair Value	Carrying value	Fair Value
Financial Liabilities				
Long-term debt, including current portion	1,433.2	1,476.9	1,443.6	1,451.9

The fair value of all financial instruments, with the exception of long-term debt, approximate their carrying amounts due to the nature of the item and/or the short time to maturity.

The carrying value of long-term debt is measured at amortized cost using the effective interest rate method. The fair value of long-term debt, the value if incurred at March 31 of each year, is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues, or by using available quoted market prices.

BUSINESS RISK MANAGEMENT

We employ a variety of commonly-accepted methodologies to identify, assess and mitigate risks. We have processes in place to manage risks that inevitably arise in the normal course of business. We have an integrated approach to managing risk, involving our Board of Directors, executive leadership team and our employees.

Our Board of Directors is responsible for overseeing strategy, risk appetite and key policies related to the principal risks of our business. Management keeps the Board and its Committees apprised of changing risks and the processes and systems used to mitigate them. The individual Committees of the Board regularly consider and review internal processes for managing those risks that are specific to the areas of our business for which they have oversight responsibility, and obtain assurance from management and internal audit, as appropriate, regarding the adequacy of the associated risk management processes.

Individual business units are responsible for considering risk exposures at all levels within their unit and the possible impact such risks may have on other areas. To ensure we focus on safety as our first priority, all operational meetings are expected to start with safety as the first item on the agenda.

A culture that promotes the management of risk as part of each employee's daily activities is integral to our program. Employees are provided with a risk-based tool to identify and assess hazards that can facilitate change in the specific task or process or within other areas of the Company if the risk is applicable to other aspects of operations. We have an online operational risk register to promote awareness of risk issues and facilitate continuous and consistent risk management.

Many economic conditions may affect the Company's operational and financial performance. The imposition of new or increased tariffs by the United States, Canada and other countries has caused volatility in the Canadian and global economy and increased uncertainty in supply chains and markets. BC Ferries is an asset intensive business with high fixed costs and with limited expense variability resulting from traffic fluctuations. The Company's ability to reduce service in response to traffic decreases is restricted to levels negotiated with the Province under the CFSC. In addition, as a rate regulated entity, there is limited flexibility to increase revenue through tariff increases, as increases are limited to the average annual price caps as determined by the Commissioner.

There will always be inherent risk resulting from our business operations and we endeavor to minimize the risk. As part of our risk management strategies, we have considered many items such as profitability levels, cash generating potential, cash utilization requirements including debt servicing schedules and future capital expenditures, and working capital requirements. We have taken measures to allow us to adapt to changes in the economic environment and ensure a safe and sustainable future.

The following are the principal risks affecting our business and the primary steps we take to mitigate the associated risks. There can be no assurance that these mitigation strategies will prevent adverse effects on our operations or financial condition.

Capital and Liquidity

BC Ferries may not be able to obtain sufficient funds in a timely way and on acceptable terms to provide adequate liquidity and to finance necessary operating and capital expenditures. BC Ferries' liquidity levels may be adversely impacted by risks identified in this report, including economic, regulatory, volatile fuel prices, competition, and traffic levels. As part of BC Ferries' efforts to manage risk and to support its business strategy, significant liquidity and significant ongoing operating and capital expenditures are required to support its business strategy and manage any challenges. Our financial position could be adversely affected if we fail to arrange sufficient and cost-effective debt financing to meet our ongoing cash requirements. Our ability to arrange debt financing is subject to numerous factors, including the results of our operations, our financial position, conditions in the capital and bank credit markets, ratings assigned by rating agencies, and general economic conditions.

Risk mitigation: BC Ferries remains focused on fiscal prudence and to pursue efficiencies and opportunities to minimize costs. We actively manage our cash generating potential, cash utilization requirements including debt servicing, future capital expenditures, and working capital requirements. We actively monitor and manage our DSCR to ensure compliance with all of our covenants as well as maintain compliance to a target liquidity ratio under our Financial Risk Management Policy. . Escalating costs and investments underway or planned in PT6 and PT7 will rely upon a level of funding for PT7 that is currently uncommitted, either in the form of regulatory allowable price cap increases or funding from the Province. As work begins on the PT7 regulatory submission, the Company is engaging with relevant parties on long term funding options.

Economic Regulatory Environment

The Province may make changes to the Act or to other legislation, and we cannot predict how the Commissioner's interpretation and administration of the Act may change over time. Such changes may impact our financial results and our operations, including our ability to replace aging assets.

Risk mitigation: We work to ensure that all key stakeholders know our business and understand the potential implications of legislative changes and decisions by the Commissioner. We strive to maintain regular and open communications and positive relationships with the Province, the Commissioner, the Authority, and local municipalities that represent the interests of ferry users and the communities we serve. We have the opportunity to apply to the Commissioner for relief under section 42 of the Act, which allows for an extraordinary price cap increase or other relief if the introduction of new safety or other regulations impose a new, unexpected and significant cost burden.

Major Capital Projects

We have major capital projects planned and underway, including the building of four new major vessels, four new Island Class vessels, the redevelopment of FMU and many terminal upgrade projects, including significant planned upgrades to our Horseshoe Bay terminal expected to commence in October 2025. Risks associated with the cost, schedule and the technical scope of major projects (including without limitation delays related to first nations consultation obligations – see “Crown Consultations on Authorizations”), as well as their implementation and sustainment, could cause critical systems or assets to be unavailable for use.

Risk mitigation: A project governance framework is in place to govern all corporate projects. This framework, which is reviewed annually by BC Ferries’ internal Capital Planning and Budget Committee to ensure it continues to evolve and improve, is the structure under which capital projects are identified, managed, monitored and delivered effectively and efficiently. Our Company’s Board of Directors appoints a Capital Projects Committee to assist in providing project oversight. This committee reviews the scope and key risks of major projects, provides advice on whether the Company should proceed with the project, and monitors project progress against the scope, budget, schedule and risk profile of the project. We ensure each project has executive sponsorship, a project owner and a project manager. In addition, each major project has a steering committee and associated governance to ensure business alignment with desired outcomes. We require major projects to maintain a risk register. The risk register identifies the risks, rates the risks in terms of likelihood and consequences, reviews the effectiveness and appropriateness of the control, and determines any actions needed to mitigate the risk. In Fiscal 2025, the Capital Projects Committee (Fleet Renewal Program) was established to provide governance oversight of the Fleet Renewal Program, including the NMV program.

Customer Demand

Many factors affect customer demand, including current economic conditions, the value of the Canadian dollar, levels of tourism, emerging transportation choices, consumer sentiment, political instability, risk of recession, threats to health and safety from outbreak of disease or security risks, demographics and population growth. The cost of transportation, including the price of fuel at the pump and ferry fares (including the implementation and removal of fuel surcharges or rebates), disposable personal income and weather conditions may have an effect on discretionary travel and levels of tourism. The CFSC stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry route, therefore our ability to decrease service levels in response to reductions in customer demand is limited by these obligations under the CFSC.

Risk mitigation: We continually monitor traffic demand and leading indicators to ensure essential service levels are maintained and service levels are responsive to demands. We respond to decreases in customer demand by reducing the number of round trips without going below the minimum required under the CFSC. We respond to increases in traffic demand by adding extra sailings and capacity where possible. Vessel planning strategies are in place so we can better respond to changes in customer demand. We have the opportunity to apply to the Commissioner to reduce service in extraordinary circumstances, under section 42 of the Act. Escalating costs and investments underway or planned in PT6 and PT7 will rely upon a level of funding for PT7 that is currently uncommitted, either in the form of regulatory allowable price cap increases (which could affect customer demand) or funding from the Province. As work begins on the PT7 regulatory submission, the Company is engaging with relevant parties on long term funding options.

Our People

Our ability to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry is critical for our success. Attracting and retaining staff across all functions continues to be a challenge, but it is most acute in the licensed positions on the vessels, in particular across engineering. The impact of global labour shortages for certain key roles, immigration challenges, license and training requirements, as well as retirements and turnover, are posing ongoing challenges to ensuring sufficient employees are in place to support increasing demand.

Risk mitigation: BC Ferries relies on staffing pools with crew held in reserve, cross-training employees to enable redeployment from one location to another as required, and overtime pay for employees who cover gaps. Ongoing initiatives to attract and retain staff include: investing in internal development and training; undertaking a significant recruitment push including presence at multiple career fairs as well as increased focus on international recruitment; a public marketing campaign; increasing wages; enhancing benefits; guaranteeing schedules and available hours for peak season employees; offering schedules that provide better work life balance; improved support for working in remote areas; collaborating with a variety of marine educational institutions, Transport Canada and Immigration Canada in an attempt to increase the available candidate pool for highly sought after licenced engineers and officers in addition to seasonal staff; and reaching out to retired employees to bring them back for the short term.

In the event these mitigations are not successful, we may modify service levels. While the CFSC permits a limited number of service cancellations, BC Ferries' goal is to avoid service disruptions wherever we can, to communicate service disruptions as soon as they become known, and to look for ways to minimize the impact these disruptions have on customers, using water taxis or other contracted marine service providers, where these services exist and are available. In extreme cases, we have also chartered flights to provide service to remote northern communities.

Cybersecurity Threats

Cyberattacks or breaches of our systems, including our digital platform or exposure to potential computer viruses, could lead to disruptions to our operations, theft of data, or the disclosure of confidential information. Cyberattacks or breaches of our systems could result in business disruptions, reputational damage, personal injury, and third-party claims, which could impact our operations, financial performance or reputation.

Risk mitigation: Governance is in place to maintain an enhanced focus on cybersecurity, including measures to prevent unauthorized access to our network and systems, continuous monitoring of key systems for abnormal and elevated risk behaviour in conjunction with our cybersecurity strategy, policy and framework. Threat and risk assessments are completed for all new information technology systems, and our cybersecurity incident response processes are backstopped by external response capability.

Climate Risk

Natural disaster and extreme weather events, such as earthquakes, floods, heavy rains and winter storms pose a number of potential risks and impacts to BC Ferries, which remain uncertain today, however these potential risks and impacts may increase over time. The prospective impact of climate change or natural disasters may have an adverse impact on our operations, our assets, our suppliers and our customers. These impacts may include rising sea levels, changing storm patterns and intensities and changing temperature levels, causing damage to our terminals and interrupting ferry services. The impact of these changes could be significant.

Risk mitigation: We factor impacts from climate change (such as sea level rise, storm surges, changes in wave and wind patterns, etc.) into our long-term development plans and incorporate measures to reduce climate impacts and protect infrastructure as we redevelop terminals and FMU to ensure we can continue to provide reliable service to the communities we serve. We are continually focused on efficiency improvements, including increasing the use of low carbon intensive fuels, electrification of our vessels and reducing our carbon footprint where possible. We protect our assets and our customers by reducing and/or cancelling sailings when there are adverse weather conditions. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents and an extended time period may be needed to fully remediate damaged infrastructure and vessels.

Vessel Repair Facilities

FMU is a vessel repair facility where we perform maintenance and refit work on our vessels; however, FMU does not have a dry-dock. There are only two shipyards with dry-docks in British Columbia that can accommodate large vessels. One of these shipyards dominates the vessel repair market, especially for large vessels.

The overall demand for ship repair and ship building facilities has been increasing with the national ship procurement strategy and local shipyards completing major upgrades for the Canadian Navy and for foreign ship owners. As a result, ship repair labour and dry-docking availability may become over-subscribed in the coming years.

The inability to acquire timely and cost-effective ship repair services has the potential to cause operational disruption which, in turn, has the potential to have an adverse effect on results of operations, cash flow and financial results.

Risk mitigation: We plan our vessel maintenance to minimize the number of out-of-service periods and to maximize the maintenance performed by our own staff. We have also established long-range maintenance plans for all vessels, which enable us to plan and reserve space with ship repair facilities well in advance. When regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. In addition, to ensure we have access to the shipyard facilities when required, BC Ferries is in the process of establishing long-term maintenance service agreements with shipyards. The establishment of long-term commercial contracts aims to strengthen partnerships, reduce costs and manage said risks. We are exploring alternatives and are modernizing our fleet maintenance and our internal ship repair capability.

CROWN CONSULTATION on AUTHORISATIONS

Matters involving Indigenous rights may arise in British Columbia when a company seeks approvals or permits from the Province or the Government of Canada (in either case, the "Crown") for new activities, typically involving use of land or water. Canadian courts have said that the Crown must consult with impacted First Nations before granting an approval that could affect Aboriginal rights. The consultation process must be appropriate to the strength of the Aboriginal right, and the potential impact on that right, and may require substantive accommodation to avoid, reduce, or offset the potential impact. The Crown can delegate some aspects of consultation to the corporation requesting an approval, but it is ultimately up to the Crown to satisfy the duty to consult.

A Memorandum between BC Ferries, the Ministry of Transportation and Infrastructure, and the BC Transportation Financing Authority (2020) allows for the delegation of Crown consultation on a Requested Ferries Decision, such as the expansion of a water lease lot. Aboriginal rights are especially significant in British Columbia due to the density of First Nation communities, the absence of historic treaties over much of the Province, and the strength of First Nation claims to constitutionally protected Aboriginal rights and title, particularly in coastal areas where we operate. These claims could require the Crown, or BC Ferries when delegated by the Crown, to engage in significant consultations with First Nations before granting new property rights or approvals, depending on the facts of each situation. The Crown's duty to consult has to be considered in determining timelines for terminal upgrade projects. In addition, both the Province (in 2019) and the Government of Canada (in 2021) adopted legislation to give effect to the *UN Declaration on the Rights of Indigenous Peoples*. This legislation reflects a commitment on the part of the Crown to meet a higher standard of consultation than required by the courts, specifically free, prior and informed consent, and to avoid unproductive and divisive litigation where reasonably possible. This process must be taken into consideration when planning the timelines for terminal upgrade projects.

There is also an increased recognition of the importance and legal protection of both unknown and registered archeological sites. Many of BC Ferries' terminals are in sheltered waters that may correlate to archaeological sites and sites of cultural importance. The provincial Heritage Branch requires permits to investigate or alter archaeological sites. Due to the volume of permits being submitted across the Province, processing times can be impactful to project timelines.

BC Ferries supports five strategic goals for Indigenous relations: to strengthen our relationships with Indigenous communities; to support communities and cultural recognition; to increase internal capacity and cultural awareness; to support Crown consultations for our projects; and to support economic participation of First Nations in BC Ferries' operations. BC Ferries has entered into three Protocol Agreements with First Nations to establish a framework of engagement and dialogue. In addition, since 2022 BC Ferries has added four full time staff to assist in the implementation of the company's strategic goals and to strengthen relationships with Indigenous communities.

Our terminal upgrade and construction projects are being planned further in advance in order to fulfill our commitment to engage with First Nations, to ensure the proper archaeological permits from Heritage Branch are in place, and to cooperate with the Crown in its consultation obligations.

Under the Master Agreement (see "Liquidity and Capital Resources – Terminal Leases" for more detail), the Province retains its liability, to the extent any exists, for the acts and omissions of the Province that occurred prior to our possession of the ferry terminal properties leased under the Master Agreement. The Province will reimburse us for damages suffered if there is a final court decision or a treaty settlement that recognizes or confers upon an Indigenous group a proprietary or other interest in the ferry terminal properties if that right or interest interferes with our quiet enjoyment of the ferry terminal properties.

SAFETY AND SECURITY

Safety is our highest value. Maintaining a safe environment for our customers and employees requires our continued focus and diligence. A significant damage, injury or illness event could have an adverse effect on the lives of our employees and customers. Deliberate, malicious acts could cause operational disruption, death, injury or property damage. The occurrence of a major incident or mishap could negatively affect the environment, staff morale, our reputation and our ability to meet operational service requirements, our financial position and results of operations. The effectiveness of policies and procedures, equipment, maintenance, training, supervision, facility design and security measures reduces the risk to passenger and employee safety and/or property damage. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents.

We have an internal control framework with defined control objectives for information and related technology, which guides us in ensuring the security, confidentiality and integrity of our information. Our prime data centre facility, which serves as our production infrastructure, is in a location to mitigate risk in the event of a major incident such as an earthquake. Our secondary site houses our pre-production infrastructure and serves as our production environment for disaster recovery in the unlikely event that data centre production services are interrupted.

Our 24-hour Operations and Security Centre ("OSC") is a central location for monitoring day-to-day operations, collecting information from around the Company, providing enhanced situational awareness and assessments, security monitoring and a coordinating response during any incidents. Our Emergency Operations Centre, operating from our OSC, is the central point of command and control for all planning, organizing and responding by BC Ferries to any major service disruptions or events.

SailSafe is our award winning safety culture program, driven by our employees, and embodies safety as a normal part of all business activities and ensures that safety is the primary concern in the minds of our employees. Employees are engaged in identifying areas for improvement, developing plans and implementing new or revised processes. The SailSafe program has been revitalized with an expansion to include more people centric opportunities improving engagement with all employees to seek continuous improvement of safety and people culture across the system utilizing a nationally recognized framework to support the psychological health and safety of all employees.

BC Ferries has been responding to recent regulatory changes, including the implementation of Bill 41: Amendments to the Workers Compensation Act, with close coordination with the regulator as well as changes to Occupational First Aid requirements, which also enhances support for customers. There are more regulatory changes coming both from the federal and provincial governments and we will continue to work with the applicable regulators to find reasonable approaches to implementing improvements in the marine sector.

We successfully completed recertification of the WorkSafeBC Certificate of Recognition ("COR"). The COR program recognizes and rewards employers who go beyond the current legal requirements, implementing an effective occupational health and safety management system, and pass a certification audit to the standards set out by the WorkSafeBC Board. The COR certification provides a discount on BC Ferries' WorkSafeBC premiums. In fiscal 2025, we received a COR rebate of \$0.6 million (\$0.6 million in fiscal 2024).

We successfully renewed our International Safety Management (ISM) Document of Compliance as a voluntary organization complying with the International Maritime Organization standards above those of the *Canada Shipping Act, 2001*.

ENVIRONMENT

We are committed to safeguarding the environment and conducting our operations in an environmentally responsible way. Our operations are subject to federal, provincial and local environmental laws and regulations dealing with various operations, including solid and liquid waste management, air quality, and oil spill response. If we were to be involved in an environmental accident or to be found in material violation of applicable law and regulations, we could be responsible for material clean-up costs, repair of property damage, and fines or other penalties.

We comply with environmental laws and regulations and actively search for ways to improve our environmental performance. Our environmental policy provides a framework for setting environmental targets and encouraging best practices.

We constantly look for clean and innovative technology to reduce underwater and airborne noise, fuel consumption and GHG emissions. We use variable frequency drives and thruster propulsion solutions on our vessels to reduce underwater radiated noise and airborne noise. All marine fuels that we currently use are below the sulphur content limit of marine fuel applicable within the Canadian jurisdiction of the North American Emissions Control Area. We have implemented a wide variety of fuel-saving measures ranging from operating our vessels more efficiently to updating vessel propulsion systems with key parts such as propellers and designing and building more energy efficient new vessels.

We recognize that multiple fuel types have a place in our long term decarbonization plan and are actively pursuing the use of low carbon fuels as an alternative to conventional fossil fuels for vessel operations to reduce GHG emissions and costs.

For the past three years, we have investigated and trialed the use of two biofuels (biodiesel and renewable diesel) in certain vessels to identify which fuel will provide optimal performance now and through the fleet's transition. Both biodiesel and renewable diesel have the potential to reduce well-to-wake GHG emissions by up to 80% compared to conventional fossil fuel-based ultra-low sulphur diesel currently used by the majority of our vessels. We completed our renewable diesel trial and determined that 100% renewable diesel is not suitable for use with the C Class vessel engines. We are also focussed on investigating the suitability of a fuel blend with less than 100% renewable diesel. This year, we successfully transitioned the *Queen of Oak Bay* from using 5% biodiesel to 100% biodiesel. Going forward, we hope to build on this success by scaling up our use of biodiesel to similar vessels.

We have entered into a contract to build four new major vessels. The current design of these vessels includes engines capable of using biodiesel and renewable diesel and a battery-hybrid propulsion system that will allow for conversion to full battery-electric operation once shore-based recharging infrastructure becomes available.

We continue to operate six vessels primarily on LNG: two Spirit Class and four Salish Class vessels. This year, we implemented and tested engine control modifications on our two Spirit Class vessels to reduce the unwanted release of methane emissions from the small amount of unburned LNG that is not fully combusted in the ships' engines.

We have six Island Class vessels, which are outfitted with hybrid diesel-electric (battery) propulsion with the potential to be converted to an all electric operation in the future. This year, we entered into contract to build four new hybrid diesel-electric Island Class vessels that will enter into service in 2027. The design of these four Island Class vessels includes battery packs that will supply the electricity for the power trains and utilize associated shoreside electrical upgrades at the terminals they serve to recharge.

We are reinvesting in GHG emissions reduction initiatives through earning carbon credits for the use of low carbon fuels under the British Columbia Low Carbon Fuel Standard. We have recently qualified, based on our electrification usage, to earn carbon credits through the Government of Canada's *Canadian Fuel Regulation*. A CRIA was established for a 5-year term, which will allow BC Ferries to partially fund further infrastructure investments that will reduce GHG emissions, such as the shore infrastructure to support full electrification of the four new Island Class vessels (see "The Effect of Rate Regulation" for more detail).

In addition to implementing more low carbon fuels, our vessels continue to use shore power each night and during maintenance periods to offset diesel consumption. Using shore power replaces the need to operate on-ship generators, which reduces GHG emissions and noise at our terminals and our shipyard.

We have other initiatives to mitigate our environmental impact. We have a sewage and wastewater treatment system so that, wherever possible, our vessels convey sewage to a terminal through pump-ashore infrastructure. Where terminal facilities were not available, small vessels were fitted with holding tanks, with truck pump-off. In all other cases, the vessels have been fitted with federally compliant marine sanitation devices. We have treatment plants at four of our terminals and at other terminals, sewage is collected and transferred to treatment plants operated by local governments.

We voluntarily comply with the International Maritime Organization's International Safety Management Code, which requires enhanced internal and external auditing of vessel operations with regards to Safety and Pollution Prevention. More information is available in the Clean Futures Plan which can be found on our website at: www.bcferrries.com.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and financial performance is based upon our consolidated financial statements, which have been prepared in accordance with IFRS.

Our material accounting policies are contained in Note 1 to our March 31, 2025 audited consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

We believe the following are the most critical accounting policies, estimates and judgements that we have used in the preparation of our financial statements:

Property, Plant and Equipment and Intangible Assets

We apply judgment to determine expenditures eligible for capitalization and consider the future economic benefits of these expenditures in making this assessment.

Our capital assets, including right-of-use assets, are depreciated or amortized on a straight-line basis at varying rates. Depreciation and amortization rates require the use of estimates of the useful lives of the assets and of salvage value to be realized upon asset retirement.

We annually review asset lives in conjunction with our longer-term asset deployment, replacement and upgrade strategies. When we determine that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to the remaining period over which they are depreciated or amortized. Estimates of useful life are monitored routinely through maintenance and refit programs, ongoing long-term fleet management and comparable vessels in use internally and externally.

There are a number of uncertainties inherent in estimating our asset lives and residual value, and changes in these assumptions could result in material adjustments to our financial statements.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets. At each reporting date, we review for any potential indicators of impairment. If indicators are identified, we assess the recoverable amount. In addition, when we have intangible assets not yet subject to depreciation, we perform an annual impairment test. Impairment losses are evaluated for potential reversals and are only reversed to the extent an asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized.

As disclosed in Note 1 to our March 31, 2025 audited consolidated financial statements, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. In fiscal 2025, we recorded \$12.5 million (\$15.1 million in fiscal 2024) in net loss on disposal and impairment of property, plant and equipment and intangible assets and other charges primarily due to an increase in asset impairments and other charges for the retirement of certain non-operating vessels at the end of their useful lives.

Asset Decommissioning and Restoration Provisions

Provisions are recognized by BC Ferries in the period when it can be reasonably determined, and when there are legal or constructive obligations associated with the decommissioning and restoration of long-lived assets, and those obligations result from the acquisition, construction, development or normal operation of the asset. Certain BC Ferries' vessels contain undetermined amounts of hazardous materials. We may be required to handle and dispose of the hazardous materials in a manner required by regulations.

In fiscal 2025, BC Ferries added \$19.5 million (\$69 million in fiscal 2024) of decommissioning costs for 41 vessels to provisions. A corresponding asset decommissioning provision was added to the carrying amount of the related asset and amortized to expense using a systematic and rational basis. Provisions for decommissioning and restoration obligations are measured at the present value of BC Ferries' best estimate of the future cash flows required to settle the present obligation, using the risk-free interest rate.

Hedging Relationships

We utilize derivative financial instruments to manage market risk against the volatility in foreign currency, interest rate and fuel price exposures. We do not utilize derivative financial instruments for trading or speculative purposes. At the inception of each derivative, we determine whether or not to apply hedge accounting.

When applying hedge accounting, we document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecast transactions. We also assess, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When derivatives are designated in a cash flow hedging relationship, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income. Gains or losses on derivatives used in cash flow hedges of forecast purchases of non-financial assets are reclassified from equity (accumulated other comprehensive income) and are included in the initial carrying amount of the non-financial asset acquired. Gains or losses on derivatives for hedging relationships related to other cash flow hedges are reclassified from other accumulated comprehensive income to net earnings or loss when the hedged item affects net earnings or loss. Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity, are recognized in net earnings in the period in which they have been terminated or cease to be effective. We use judgement in estimating the quantum of transactions which are highly probable and if the transactions are expected to occur.

Employee Retirement Liability

We sponsor a plan that provides a post-retirement benefit for eligible long-service employees. The valuation of this plan is estimated based on complex actuarial calculations using several assumptions. These assumptions are determined by management with significant input from our actuary. The valuation of the obligation depends on such assumptions as discount rate, number of employees, projected salary increases, retirement age, average years of service and termination rates.

Revenue

We recognize revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Prepayments for fares received in advance of providing transportation are included in the statement of financial position as contract liabilities until such time as the performance obligation is satisfied.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods.

We recognize ferry service fees and Federal-Provincial subsidies as revenue when services specified in the related agreements with the Province are provided.

Other income comprises of sales of carbon credits, parking and other miscellaneous revenues. We recognize revenue from the sale of carbon credits when the award of the credits to the Group and the transfer of the credits from the Group to the customer are approved by the Province's Ministry of Energy Mines and Low Carbon Innovation or the federal government's Ministry of Environment and Climate Change.

We recognize the Safe Restart Funding on a systematic basis, based on the estimated loss of earnings for three components, in accordance with the Safe Restart Funding Agreement with the Province. The remaining \$10.4 million of Safe Restart Funding was recognized in fiscal 2024.

Fare Affordability Funding is recognized systematically in accordance with the \$500 million contribution agreement between BC Ferries and the Province. This funding is recognized to support achieving the fare affordability initiative to keep annual fare increases around 3%. Any excess amount will be applied to GHG emission reduction initiatives. In fiscal 2025, BC Ferries recognized \$68.8 million (\$nil in fiscal 2024) of the Fare Affordability Funding in revenue.

Leases

We apply judgment to determine whether an arrangement contains a lease. We determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, we have the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease. Once we determine it is a lease, we recognize a right-of-use asset in property, plant and equipment and a lease liability. The liability included in lease liabilities in our financial statements at March 31, 2025 was \$25.6 million (\$13.0 million at March 31, 2024).

Loan receivable

We estimate the fair value of the loan receivable using key assumptions of the value of the loan receivable arrangement, and we estimate the fair value of the option to purchase 50% of an office building based on estimated operating net income, discount rates and inflation rates.

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. A price cap sets the ceiling on the weighted average level of fares that can be charged. Under the Act, the average vehicle and passenger tariff cannot be over the price cap for more than four consecutive quarters. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers, which will be settled through future tariff reductions, fuel rebates or investing in approved carbon reduction initiatives.

IFRS 14 *Regulatory Deferral Accounts*, which addresses accounting for rate-regulated activities does not apply to entities, like ours, that transitioned to IFRS prior to January 2014. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Under IFRS, rather than being charged to regulatory asset or liability accounts on our consolidated statements of financial position, fuel surcharges collected or rebates paid are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes. Reporting for rate-regulated activities provides additional information, which we use to assess performance and to make operating decisions.

On April 21, 2022, the Commissioner approved the creation of a CRIA for a five-year term, (subject to application for extension/modification after end of the term) to partially fund further infrastructure investments identified in its Clean Futures plan and progress GHG emission projects. The CRIA is funded through the sale of carbon credits, earned through activities such as purchase of natural gas and use of LNG. BC Ferries 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 fuel deferral account. The use of the funds is subject to the Commissioner's approval. On December 7, 2023, the Commissioner issued Order 23-06, approving the withdrawal of funds from our CRIA for the purpose of funding the IC3TEP electrification work. BC Ferries defers the net revenue from the sale of carbon credits and recognizes the funding to the CRIA (regulatory liability). During fiscal 2025, BC Ferries directed \$0.2 million (\$16.4 million in the prior year) of funds earned from the sale of carbon credits into the CRIA.

Regulatory assets and liabilities do not have standardized meaning within IFRS. Our regulatory assets and liabilities should be considered in addition to, but not as a substitute for, measures of financial performance in accordance with IFRS.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in Note 30 of our March 31, 2025 audited consolidated financial statements.

Adoption of New Accounting Standards

Effective April 1, 2024, we adopted amendments to IAS 1, *Presentation of Financial Statements* regarding the classification of liabilities as current or non-current, amendment to IFRS 16, *Leases* regarding sale-and-leaseback transactions and IAS 7, *Statement of Cash Flows* regarding supplier finance arrangements. These amendments had no impact on BC Ferries' financial statements.

Amended Accounting Policy

During the period ended December 31, 2024, we expanded our revenue accounting policy to include the accounting policy applied to the Fare Affordability Funding as below:

Fare Affordability Funding is recognized systematically in accordance with the \$500 million contribution agreement between BC Ferries and the Province. This funding is recognized to support achieving the fare affordability initiative to keep annual fare increases around 3%. Any excess amount will be applied to GHG emission reduction initiatives.

Adjustment of balances

BC Ferries 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 being included in the value of the loan receivable. BC Ferries identified that the loan receivable was valued incorrectly at amortized cost instead of fair value through profit or loss. BC Ferries has concluded that the impact of this change is immaterial, however, has adjusted for the cumulative effect and adjusted the comparative carrying amount of assets, liabilities, retained earnings, net earnings and reserves. The following table summarizes the impacts on BC Ferries' consolidated financial statements. The impact of this adjustment on the March 31, 2023 statement of financial position is consistent with the adjustment to the March 31, 2024 statement of financial position.

	Balance as previously reported	Adjustment	Balance as adjusted
Statement of Financial Position as at March 31, 2024			
Loan receivable	24,515	10,872	35,387
Property, plant & equipment	1,987,881	(39,442)	1,948,439
Current lease liabilities	3,298	1,020	4,318
Non-current lease liabilities	32,623	(23,987)	8,636
Retained earnings	545,473	5,992	551,465
Reserves	69,290	(11,595)	57,695
Statement of Changes in Equity as at April 1, 2023			
Retained earnings	582,896	5,070	587,966
Reserves	76,482	(11,595)	64,887

	Year ended March 31, 2024		
	Balance as previously reported	Adjustment	Balance as adjusted
Statements of Profit or Loss			
Finance income	(28,615)	(922)	(29,537)
Net (loss) earnings	(31,385)	922	(30,463)

	Year ended March 31, 2024		
	Balance as previously reported	Adjustment	Balance as adjusted
Statement of Cash Flows			
Net finance expense	39,001	(922)	38,079

Future Accounting Changes

The following is a discussion of accounting changes that may be effective for us in future accounting periods:

IFRS 18, *Presentation and Disclosure in Financial Statements*:

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* which will replace IAS 1, *Presentation of Financial Statements* effective for reporting periods beginning on or after January 1, 2027. The new standard is not expected to change how BC Ferries recognizes and measures items in the financial statements. IFRS 18 may change how items in the financial statements are subtotaled and categorized and will require additional disclosure of certain management-defined performance measures in the financial statement notes. Early adoption of this standard is permitted.

Exposure Draft, *Regulatory Assets and Regulatory Liabilities*:

The exposure draft issued by the IASB, proposes a new accounting model to replace IFRS 14, *Regulatory Deferral Accounts*. The exposure draft, *Regulatory Assets and Regulatory Liabilities*, proposes a new accounting model under which an entity, subject to rate regulation that meets the scope criteria, would recognise regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period. The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation. In July 2024, following redeliberation on the proposals, the IASB announced the new standard will be published in 2025 and is expected to be effective for periods annual periods starting on or after January 1, 2029.

Exposure Draft, *Sustainability Standards*:

In December 2024, the Canadian Sustainability Standards Board ("CSSB") published two standards; Canadian Sustainability Disclosure Standard 1 *General Requirements for Disclosure of Sustainability-related Financial Information* ("CSDS 1") and Canadian Sustainability Disclosure Standard 2 *Climate-related Disclosures* ("CSDS 2"). CSDS1 and CSDS 2 are aligned with the global baseline disclosure standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* with the exception of a Canadian-specific effective date and transition relief to assist Canadian organizations with implementation. CSDS 1 and CSDS 2 are currently voluntary and have an effective date for annual periods beginning on or after January 1, 2025, however, Canada's regulators and legislators have not yet determined whether the Canadian Sustainability Disclosure Standards are mandatory, and if so, who will need to apply the standards and over what time frame.

CORPORATE STRUCTURE AND GOVERNANCE

National Instrument 58-101 *Disclosure of Corporate Governance Practices* (the "NI 58-101") and a related National Policy 58-201 *Corporate Governance Guidelines* (the "Guidelines") issued by the Canadian Securities Administrators require reporting issuers to disclose annually their approach to corporate governance with reference to specific matters. See Schedule A for the disclosure required by NI 58-101.

FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis contains certain "forward-looking statements". These statements relate to future events or our future performance. All statements other than statements of historical fact are forward-looking statements. Statements that include the words "believes," "expects," "may," "will," "should," "potential," "estimates," "anticipates," "aim," "goal," "targets," "plan," "predict" or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

Examples of forward-looking statements in this document include, but are not limited to expected: customer demand; vehicle and passenger fares future traffic volumes, seasonal traffic patterns and their impact on operations; capacity constraints; cash requirements and sources of cash flows; investment strategies; future economic conditions and their impact on our financial performance and future investments; impact of wage increases, including increases resulting from upcoming negotiations regarding the year-five wage-reopener and Collective Agreement; government funding and our anticipated use of the same; credit risks; reliance on sources of external funding; outcomes of PT7 review; economic conditions and their impact on our financial performance; staffing requirements; impacts of crew shortages; fuel prices; impact of hedging strategies; fuel surcharges; fuel sources; timing of implementation of vessel electrification capability; vessel replacement timing including timing of completion of new vessel construction under the Island Class and New Major Vessel programs; repair and planning strategies; benefits of vessel standardization efforts including anticipated impacts on capacity; capital plans and major capital initiatives; impact of capital asset inflation on capital investment costs; provisions for asset decommissioning and restoration obligations that use BC Ferries' best estimate of the future cash flows required to settle the present obligations; timing of completion of capital projects; reduction of vehicle space during upcoming construction at our Horseshoe Bay terminal; and length of delays to completion of capital projects due to obligations to consult with Indigenous communities and/or processing times to obtain archaeological permits; among other statements.

Although management believes that the forward-looking statements contained in this Management's Discussion and Analysis are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements. These forward-looking statements are based on our experience, our perception of trends, current conditions and expected future developments as well as other factors. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward-looking statements are based include traffic trends, the value of the Canadian Dollar, CPI (Vancouver), fuel costs, construction costs, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the Coastal Ferry Act and the Coastal Ferry Services Contract.

However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties primarily include those attendant with operating and maintaining a large fleet of vessels and terminals and successfully carrying out major capital projects to upgrade or replace such vessels and terminals, including, without limitation the risks and uncertainties associated with: impact of an economic recession; impact of fare increases or unforeseen events on customer demand; reliability of aging assets; vendor non-performance; constraints on operations or necessary capital expenditures imposed by the Ferry Commissioner; capital market access; interest rate fluctuations; foreign currency fluctuations; rising fuel prices; traffic fluctuations; the potential for delays in completion of major capital projects; inflation of capital and operating costs; security, safety or environmental incidents; confidential or sensitive information breaches (including cyber security incidents), changes in laws, vessel repair facility limitations, regulatory changes, changes to taxes, tariffs or duties impacting the company or its suppliers; impacts of sanctions and other compliance legislation on the company or its suppliers; climate change; risk of

global pandemics in the future; and the assertion of Indigenous rights over land use in the province.

Having in mind these and other risks and factors, investors and other readers are cautioned not to place undue reliance on forward-looking statements. They are not a substitute for the exercise of one's own due diligence and judgment. The outcomes implied in forward-looking statements may not occur. These forward-looking statements are made as of the date of this Management's Discussion and Analysis and we do not undertake to update forward-looking statements except as required by applicable securities laws.

Non-IFRS Measures

In addition to providing measures prepared in accordance with IFRS, we present certain financial measures that do not have any standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These include, but are not limited to, net earnings adjusted for the effect of rate regulation and average tariff revenue per vehicle and per passenger. These supplemental financial measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.

SCHEDULE A

Corporate Structure and Governance Board of Directors

British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") is a company incorporated in British Columbia that is subject to British Columbia's *Business Corporations Act* and the *Coastal Ferry Act* (the "CFA"). The board of directors ("board") of BC Ferries is appointed by the Company's sole voting shareholder, B.C. Ferry Authority ("BCFA" or the "Authority"), a corporation without share capital established by the CFA. Directors appointed to the board must be "qualified" as defined in the CFA.

During the fiscal year ended March 31, 2025 ("fiscal 2025"), the board was composed of the following directors:

Chair:	Joy MacPhail, CM, O.B.C
Members:	Shona A. Moore, K.C. (vice chair effective January 15, 2025)
	Eric A. Denhoff (vice chair to January 14, 2025)
	Sarah A. Morgan-Silvester, O.B.C. (term ended effective June 25, 2024)
	J. Dennis Blatchford
	Harold Calla
	Charlene Hiller
	Cathy McLay
	Tamim Raad
	Lecia Stewart

The directors are stewards of BC Ferries and set the strategic direction of the Company. The board exercises its stewardship responsibilities by overseeing the conduct of the business and supervising management, which is responsible for the day-to-day conduct of the business, and endeavouring to ensure that all material risks affecting the business and affairs of the Company are given proper consideration.

The board governance manual articulates the governance framework under which the board fulfills its stewardship responsibilities. The manual assembles in one document the essential elements for providing an appropriate level of governance for the organization. It includes, among other things, terms of reference for the board, chair, directors, committees, committee chairs, and president and chief executive officer and serves as a practical guide for the board and management in fulfilling their respective duties and responsibilities. The governance manual is the product and responsibility of the board.

The board is committed to the principles of independence and accountability. The board has adopted policies and practices that ensure it has the capacity, independent of management, to fulfill the board's responsibilities, make objective assessments of management, and assess the merits of management initiatives. The board's Governance & Human Resources Committee has an ongoing responsibility to ensure that the board's governance structures and processes continue to enable the board to function independently.

The board and management recognize that there is a need for the board to meet regularly without management in attendance. It is the board's general practice to conduct a portion of every board and committee meeting with no members of management in attendance. The board and its committees each have the authority to retain, at the Company's expense, any outside advisor that it determines to be necessary to permit it to carry out its duties.

The Coastal Ferry Act states that in order to be qualified to become a director of the Company, a person must not (i) hold elected public office of any type, (b) be an employee, steward, officer, director, elected official or member of any union representing employees of BCFS, (c) be an employee of a municipality, regional district, trust council or greater board within the appointment area, or (d) be an employee, director or officer of the Authority or an employee, officer or executive of BCFS.

In addition, the board is committed to the principle that a majority of directors, appointed by the Authority, should be independent of the Company.

Under guidelines adopted by the board, a director is independent if he or she has no direct or indirect material relationship with the Company. For this purpose, a "material relationship" is a relationship that could, in the view of the board, be reasonably expected to interfere with the exercise of a director's judgment. Members of the board's Audit & Finance Committee are subject to additional independence requirements consistent with the definition of independence in National Instrument 52-110 *Audit Committees*.

The board is responsible for determining whether directors are independent pursuant to the definition of independence adopted by the board. To do this, the board requires members to disclose their relationships with the Company and its subsidiary. These disclosures are made annually and are reviewed by the chair of the board, the chair of the Governance & Human Resources Committee and the corporate secretary, and are reported to the Governance & Human Resources Committee and the board. If it has been previously determined that a director is independent of the Company but circumstances arise which could result in a determination that he or she is no longer independent, the director must promptly advise the board.

All of the directors of the Company in fiscal 2025 were determined by the board to be independent pursuant to the definition of independence adopted by the board.

Directorships

The following are directors of a reporting issuer (or the equivalent) in Canada or a foreign jurisdiction, other than BC Ferries:

Sarah A. Morgan-Silvester ¹ :	Director, Canadian Western Bank Director, Nav Canada
Eric A. Denhoff:	Director, H2 Ventures 1 Inc.
Cathy McLay	Director, Greenpower Motor Company Inc. ²

Orientation and Continuing Education

The Company has a variety of orientation and education programs in place for directors. These programs are aimed at increasing the directors' familiarity with the operation of the Company and its governance practices.

All new directors are provided with the opportunity to participate in an orientation program. The orientation program is tailored to the individual director's needs and areas of interest. The program generally involves a comprehensive education session, usually held prior to a new director attending his/her first board meeting, during which the new director is briefed by members of senior management and receives information about the business and operations of BC Ferries and board governance practices, including the duties and obligations of directors. The board governance manual is made available to all directors. This manual provides a comprehensive overview of the roles and responsibilities of the board, its committees, and the contributions expected by each director.

¹ Director Morgan-Silvester's term as a Director of the Company ended effective June 25, 2024

² Director McLay resigned as Director, Director, Greenpower Motor Company Inc. effective December 31, 2024

The board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. To facilitate ongoing education, presentations are made to directors from time to time on matters of particular importance or emerging significance to the Company. As well, attendance by directors at seminars, courses or conferences of relevance to their position as directors of the Company may be arranged. Directors are expected to maintain ongoing familiarization with the operations of BC Ferries through regular system-wide ferry travel. This, together with visits to other facilities and operations of BC Ferries, serves to enhance the directors' ongoing knowledge and understanding of the Company.

Responsibility for ensuring that orientation and ongoing education are provided to directors rests with the chair of the board. The Governance & Human Resources Committee has responsibility for reviewing the orientation and education programs to ensure they are effective and meet the needs of directors.

Ethical Business Conduct

The board has established a Code of Business Conduct and Ethics (the "Code") for the Company. The Code is posted on the Company's intranet website for Company personnel, and is available for public view on the Company's internet website and on SEDAR+. The board has also adopted a Corporate Disclosure and Securities Trading Policy and a Corporate Communications Policy, both of which are posted on the Company's intranet and internet websites.

As part of the Company's disclosure controls process, in conjunction with quarter-end financial reporting, appropriate managers are required to confirm their compliance with the Code, the Corporate Disclosure and Securities Trading Policy and the Corporate Communications Policy.

As part of the communication process for the reporting of any questionable accounting and auditing matters, a secure telephone line and a secure e-mail address, each monitored by the executive director of internal audit, as well as a secure e-mail address monitored by the chair of the Audit & Finance Committee, have been established.

The board, through the Audit & Finance Committee, monitors compliance with the Code through reports received quarterly from management, the external auditor, and the internal auditor.

Directors and officers are required to review the Code annually, and acknowledge their support and understanding of the Code by signing an annual disclosure statement.

The Code requires that directors and officers disclose potential conflicts of interest at the time of their appointment and immediately upon a conflict of interest or potential conflict of interest arising. Such disclosures are communicated to and reviewed by the chair of the board, the chair of the Governance & Human Resources Committee and the corporate secretary, and are reported to the Governance & Human Resources Committee and the board.

Appointment of Directors

As required by the CFA, the Authority appoints directors to the board according to the provisions of the Coast Ferry Act and the policies held by the Authority.

Board Diversity Policy

The BC Ferries board holds the view that a diverse board makes prudent business sense and makes for better corporate governance. The Board has developed a skills matrix as a tool to evaluate and ensure the board's composition provides a suitable mix of skills and experience and to identify areas where expertise may be lacking.

The board, through the skills matrix and its succession plan, seeks to communicate to the Authority the importance of maintaining a diverse mix of expertise, experience, skills and backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. For purposes of board composition, diversity includes, but is not limited to, business and other experience, skills, education, gender, age, ethnicity, aboriginal status, and geographic location.

Executive Compensation & Process

The CFA requires that the compensation of executives of BC Ferries be set and administered within remuneration limits prescribed by an executive compensation plan. The Authority is responsible under the CFA for approving such a plan and any amendments thereto.

In fiscal 2023, a committee of directors of the Authority undertook a review of executive remuneration limits. Based on this review, a new executive compensation plan was approved by the Authority, with an effective date of December 13, 2022 (the "Plan"). The Plan is available for public view on the Authority's website (www.bcferryauthority.com).

The Plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such plan can receive in any fiscal year. The remuneration limits set out in the Plan were established in accordance with the CFA, which requires that the remuneration provided to the executives be consistent with the remuneration that is provided to individuals who, in organizations in Canada that are of a similar size and scope to BC Ferries, perform similar services or hold similar positions, and not be greater than the remuneration that provincial public sector employers in British Columbia provide to individuals who, in those organizations, perform similar services or hold similar positions.

The board approves the Company's compensation programs for the executives within the remuneration limits prescribed by the Plan.

Director Compensation

The CFA requires that the compensation of directors of BC Ferries be set and administered within a remuneration limit prescribed by a directors' compensation plan. The Authority is responsible under the CFA for establishing a directors' compensation plan and approving any amendments thereto. The remuneration provided under a directors' compensation plan must be consistent with the remuneration that organizations in Canada that are of a similar size and scope to BC Ferries provide to their directors, and must not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors.

The Company's current compensation plan for directors was developed with the assistance of an independent third-party compensation expert and is available for public view on the Authority's website at: www.bcferryauthority.com.

The Governance & Human Resources Committee reviews director compensation regularly and provides advice to the board on any amendments to the directors' compensation plan to be recommended to the Authority.

Board Committees

The board has developed guidelines for the establishment and operation of committees of the board. The committee structure and membership is reviewed and confirmed by the board on an annual basis.

Mandates

In fiscal 2025, the board had four standing committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

Audit & Finance Committee

The Audit & Finance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to the financial reporting and disclosure processes of BC Ferries. The committee has the mandate to:

- review the financial reports and other financial information provided by the Company to its security holders;
- review the annual operating and capital budgets, modifications thereto, and details of any proposed financing;
- monitor the integrity of the financial reporting process and the system of internal controls that the board and management have established;
- monitor the management of the principal risks that could impact the financial reporting of the Company, and the Company's compliance with legal and regulatory requirements as they relate to the Company's financial statements;
- review and approve the audit plan, process, results, and performance of the Company's external auditors and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditors, and the internal auditor; and
- assess the qualifications and independence of the external auditors, and recommend to the board the nominations of the external auditors and the compensation to be paid to the external auditors. The appointment of the external auditor is confirmed by the Authority at each annual general meeting or resolutions in lieu of such meeting.

The committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the Company's external auditor as well as anyone in the organization. The committee also has the authority to retain such legal, accounting, and other advisors or experts it deems necessary in the performance of its duties.

Each of the members of the committee has been determined by the board to be independent within the meaning of independence adopted by the board.

All members of the committee are financially literate within the meaning of National Instrument 52-110 *Audit Committees*; that is, each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

All recommendations of the committee to nominate or compensate an external auditor have been adopted by the board.

The aggregate fees billed by the Company's external auditor in each of the last two fiscal years were:

External Auditor billings (\$ thousands)	Years ended March 31	
	2025	2024
Audit	438.1	338.5
Advisory services*	271.2	186.9
Tax services	2.9	2.6
	<u>712.2</u>	<u>528.0</u>

*Fiscal 2024 has been updated to include \$ 186.9k of Advisory services.

Pursuant to its terms of reference, the Committee Chair has authority to pre-approve the retaining of the External Auditors for any non-audit service to be provided to the Company or its subsidiaries, provided that no approval shall be provided for any service that is prohibited under the rules of the International Ethics Standards Board for Accountants ("IESBA") or the Canadian Chartered Professional Accountants Code of Professional Conduct.

Before retaining the external auditor for any non-audit service, the committee must consider the compatibility of the service with the external auditor's independence. The committee may pre-approve retaining the external auditor for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the external auditor for the provision of such services. To date, no such policies and procedures have been established. In addition, the committee may delegate to one or more members the authority to pre-approve retaining the external auditor for any non-audit services to the extent permitted by applicable law.

Safety, Health, Environment & Security Committee

The Safety, Health, Environment & Security Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities in matters related to safety, health, environment and security. The committee has the mandate to:

- exercise due diligence over the safety, health, environmental and security operations of the Company;
- develop, review, and make recommendations, as required, on matters related to the Company's safety, health, environmental and security policies and practices; and
- monitor compliance with government regulations and with the Company's commitment to excellence in matters of safety, health, environment and security.

Governance & Human Resources Committee

The Governance & Human Resources Committee is appointed by the board to assist in ensuring that the corporate governance system of the Company is effective and to assist in fulfilling its oversight responsibilities with respect to the human resources and executive compensation strategies and policies of the Company. The committee has the mandate to:

- review, assess, and make recommendations regarding the effectiveness of the policies and practices of the board;
- ensure the board's continuing ability to fulfill its legislative mandate;
- implement effective due diligence over the operations of the Company;
- make recommendations on the skills, experience, expertise and diversity of background that board members collectively and individually should have in order to oversee the operation of the Company in an efficient and cost effective manner;
- establish and implement effective processes for identifying and recommending suitable candidates for appointment as directors of the Company;
- make recommendations on the remuneration of directors;
- regularly review at a strategic level, the approach taken to manage the Company's human resources, including the recruitment, retention, motivation, and engagement of employees in the interests and success of the Company;
- regularly review the succession and development plans for the President & CEO and executive management; and
- review and recommend to the board, a total compensation philosophy for the President & CEO and executive management that, subject to the CFA, attracts and retains executives, links total compensation to financial and operational performance, and provides competitive total compensation opportunities at a reasonable cost, while enhancing the ability to fulfill the Company's overall business strategies and objectives.

Capital Projects Committee

The Capital Projects Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to major capital projects of BC Ferries as designated by the board from time to time. For the projects under its purview, the committee has the mandate to:

- in respect of projects which have not yet been approved by the board, review and provide advice to the board on whether the Company should proceed with the projects and, where approval to proceed is recommended, provide advice on the schedule, scope and budget for such projects; and
- in respect of projects which have been approved by the board, and as so directed by the board:
 - review the governance structure for the projects;
 - regularly review and monitor progress against scope and budget, as well as material changes in the schedule and risk profile of the projects;
 - regularly review the use of contingency funds for the projects; and
 - upon project completion, ascertain whether the projects have met their objectives.

Capital Projects Committee (Fleet Renewal Program)

In Fiscal 2025, the Capital Projects Committee (Fleet Renewal Program) was established to provide governance oversight of the Fleet Renewal Program, including the NMV program.

Joint Planning Committee

During Fiscal 2023, the board established a Joint Planning Committee with the B.C. Ferry Authority with a mandate to collaborate to develop a new strategic planning framework and the first long-term vision for BC Ferries. This Committee's activity was ongoing through Fiscal 2025.

Composition

The memberships of the committees in fiscal 2025 are set out below. The board chair serves as a non-voting ex-officio member of each of the committees.

Director	Board Committees Year Ended March 31, 2025			
	Audit & Finance	Capital Projects	Governance & Human Resources	Safety, Health, Environment & Security
Joy MacPhail	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Shona A. Moore (vice chair effective January 15, 2025)			• (chair)	•
Eric A. Denhoff (vice chair to January 14, 2025)	•	•		
Sarah A. Morgan-Silvester	• (member to June 25, 2024)	• (member to June 25, 2024)		
Tamim Raad		• (chair)	• (member to January 14, 2025)	• (member effective January 15, 2025)
Cathy McLay	• (chair effective January 1, 2024)		•	
Harold Calla	•		• (member effective January 15, 2025)	• (member to January 14, 2025)
Dennis Blatchford			•	• (chair)
Charlene Hiller		•		•
Lecia Stewart	• (member effective June 26, 2024)	• (member effective January 26, 2024)		

Assessments

As part of its dedication to best governance practices, the board is committed to regular assessments of the effectiveness of the board, the board chair, committees, committee chairs, and individual directors.

In fiscal 2024, the board, on the recommendation of the Governance & Human Resources Committee, implemented the process of completing a survey comprised of topics ranging from board organization and financial and risk issues to communications and strategy. The survey also included an assessment of the effectiveness of each committee and the performance of the board as a whole. This process was repeated in fiscal 2025, providing valuable benchmarking and insights into year-over-year trends. The findings from both surveys have informed board discussions and decisions, helping to enhance overall board performance. The Governance & Human Resources Committee will continue to monitor governance best practices and evolving board needs to recommend the most effective assessment approach going forward.

The performance of the board as a whole, and the performance of individual directors, is also assessed regularly throughout the year. This occurs primarily through discussions between the individual directors and the board chair.