Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three months ended June 30, 2026 and 2025

(Unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

		As at	
	Note	**June 30, 2026**	March 31, 2026
Assets			
Current assets			
Cash and cash equivalents		**243,772**	363,972
Restricted short-term investments	8(b)	**101,215**	100,764
Other short-term investments		**88,090**	88,060
Trade and other receivables	14	**91,117**	49,755
Prepaid expenses		**53,536**	18,652
Inventories		**52,636**	51,276
		630,366	672,479
Non-current assets			
Property, plant and equipment	3	**2,292,991**	2,265,314
Intangible assets	4	**24,977**	25,704
		2,317,968	2,291,018
Total assets		**2,948,334**	2,963,497
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	**206,131**	249,413
Provisions	6	**2,040**	2,040
Lease liabilities	7	**3,884**	3,832
Contract liabilities		**75,190**	56,643
Long-term debt	7,8	**11,126**	11,113
Interest payable on long-term debt	7	**23,524**	23,830
Accrued employee future benefits		**2,500**	2,500
Deferred grants and other liabilities	9	**25,821**	20,126
		350,216	369,497
Non-current liabilities			
Provisions	6	**98,880**	92,523
Lease liabilities	7	**18,630**	19,628
Long-term debt	7,8	**1,836,791**	1,838,980
Accrued employee future benefits		**19,554**	19,939
Deferred grants and other liabilities	9	**12,527**	18,889
		1,986,382	1,989,959
Total liabilities		**2,336,598**	2,359,456
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**481,828**	474,194
Total equity before reserves		**582,306**	574,672
Reserves	12	**29,430**	29,369
Total equity including reserves		**611,736**	604,041
Total liabilities and equity		**2,948,334**	2,963,497

Capital commitments (Note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

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

(Expressed in thousands of Canadian dollars)

	Note	Three months ended June 30	
		2026	2025
Revenue			
Vehicle and passenger fares		**221,885**	209,683
Net retail	13	**20,397**	19,519
Fuel surcharges	18	**1,620**	-
Other income		**4,232**	5,239
Revenue from customers		**248,134**	234,441
Ferry service fees		**56,614**	53,683
Fare affordability funding	14	**37,388**	29,619
Federal-Provincial Subsidy Agreement		**9,650**	9,458
Total revenue		**351,786**	327,201
Expenses	15		
Operations		**225,876**	196,527
Maintenance		**36,790**	38,465
Administration		**16,136**	15,352
Depreciation and amortization		**50,760**	50,863
Total operating expenses		**329,562**	301,207
Operating profit		**22,224**	25,994
Net finance and other expenses			
Finance expenses		**17,777**	16,940
Finance income		**(3,438)**	(1,287)
Net finance expense	16	**14,339**	15,653
Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets and other charges		**251**	(49)
Net finance and other expenses		**14,590**	15,604
NET EARNINGS		**7,634**	10,390
Other comprehensive income (loss)			
Items that are or may be reclassified subsequently to net earnings:			
Hedge (losses) gains on fuel swaps	11	**-**	(2,209)
Total other comprehensive income (loss)		**-**	(2,209)
Total comprehensive income		**7,634**	8,181

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2026	2025
Operating activities		
Net earnings	**7,634**	10,390
Items not affecting cash:		
Net finance expense	**14,339**	15,653
Depreciation and amortization	**50,760**	50,863
Net loss (gain) on disposal and impairment of property, plant and equipment and intangible assets, and other charges	**251**	(49)
Other non-cash changes to property, plant and equipment	**(7,035)**	(273)
Employee future benefits	**(385)**	(216)
Provisions	**5,555**	761
Total non-cash items	**63,485**	66,739
Movements in working capital:		
Trade and other receivables	**(41,362)**	(28,637)
Prepaid expenses	**(34,884)**	(26,209)
Inventories	**(1,360)**	770
Accounts payable and accrued liabilities	**(43,282)**	14,779
Contract liabilities	**18,547**	17,819
Accrued investment income	**202**	(2,520)
Change in non-cash working capital	**(102,139)**	(23,998)
Change in non-cash working capital attributable to investing activities	**23,718**	(17,250)
Change in non-cash operating working capital	**(78,421)**	(41,248)
Cash generated from operating activities before interest	**(7,302)**	35,881
Interest received	**3,373**	3,999
Interest paid	**(21,983)**	(21,028)
Cash (used in) generated from operating activities	**(25,912)**	18,852

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2026	2025
Financing activities		
Repayment of long-term debt	**(2,821)**	(2,820)
Repayment of lease liabilities	**(978)**	(963)
Proceeds from the issue of bonds	**-**	133,000
Transaction costs related to bonds	**-**	(376)
Cash (used in) generated from financing activities	**(3,799)**	128,841
Investing activities		
Proceeds from disposal of property, plant and equipment	**-**	60
Purchase of property, plant and equipment and intangible assets	**(90,008)**	(193,368)
Changes in restricted short-term investments	**(451)**	(5,199)
Net (purchase) redemption of other short-term investments	**(30)**	7,876
Cash used in investing activities	**(90,489)**	(190,631)
Net decrease in cash and cash equivalents	**(120,200)**	(42,938)
Cash and cash equivalents, beginning of period	**363,972**	204,678
Cash and cash equivalents, end of period	**243,772**	161,740

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 12)	Total equity including reserves
Balance as at April 1, 2025	75,478	25,000	473,699	574,177	53,623	627,800
Net earnings	-	-	10,390	10,390	-	10,390
Other comprehensive loss	-	-	-	-	(2,209)	(2,209)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(57)	(57)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	62	62
Balance as at June 30, 2025	75,478	25,000	484,089	584,567	51,419	635,986
Balance as at April 1, 2026	**75,478**	**25,000**	**474,194**	**574,672**	**29,369**	**604,041**
Net earnings	**-**	**-**	**7,634**	**7,634**	**-**	**7,634**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**-**
Realized hedge gains recognized in fuel swaps	**-**	**-**	**-**	**-**	**-**	**-**
Hedge losses on interest rate forward contract reclassified to net earnings	**-**	**-**	**-**	**-**	**61**	**61**
Balance as at June 30, 2026	**75,478**	**25,000**	**481,828**	**582,306**	**29,430**	**611,736**

British Columbia Ferry Services Inc. (the "Company") was incorporated under the Company Act (British Columbia) by way of conversion on April 2, 2003, and now validly exists under the Business Corporations Act (British Columbia). The Company's primary business activity is the provision of coastal ferry services in British Columbia.

The Company is subject to the Coastal Ferry Act (the "Act") as amended, which originally came into force on April 1, 2003. The Act established the B.C. Ferry Authority (the "Authority"), a corporation without share capital, to hold the Company's single issued voting share, and the British Columbia Ferries Commissioner to regulate ferry operator's core ferry services and related tariffs, including reservation fees. In doing so, the Commissioner balances the interests of ferry users, taxpayers and the financial sustainability of ferry operators, while encouraging innovation, cost efficiency, and progress toward provincial greenhouse gas emission targets.

Historically, the Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months.

1. Material accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC, Canada. These condensed interim consolidated financial statements, as at and for the three months ended June 30, 2026 and 2025, comprise the Company and its subsidiaries, Pacific Marine Leasing Inc., and Pacific Marine Holdings Inc. (together referred to as the "Group").

(b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board, and comply with International Accounting Standard 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended March 31, 2026, as they follow the same accounting policies, except as disclosed in notes 1 and 2.

These condensed interim consolidated financial statements have been prepared using the historical cost method, except for items that IFRS permits to be measured at fair value - owned land and certain financial assets and liabilities.

These condensed interim consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in CAD and rounded to the nearest thousand, unless otherwise stated.

These condensed interim consolidated financial statements were approved by the Audit and Finance Committee on August 18, 2026 pursuant to its delegated authority from the Board of Directors.

2. Adoption of new and amended standards:

The Group adopted Amendments to IFRS 9 and IFRS 7 (Amendments to the Classification and Measurement of Financial Instruments), clarifying the derecognition of financial liabilities, including those settled through electronic payment systems, and introducing additional disclosure requirements for certain financial instruments. The new standard was effective for annual reporting periods beginning on or after January 1, 2026, and early adoption was permitted. The Group’s existing practices were compliant with the amendments.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Property, plant and equipment:

	Vessels	Berths, buildings and equipment	Right-of-use assets – Berths, buildings and equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:							
Balance as at April 1, 2026	2,321,261	911,549	185,873	32,180	58,982	538,527	4,048,372
Additions	5,421 [1]	563 [2]	(431)	11	-	72,616	78,180
Reclassifications from deferred grants and funding	(384)	-	-	-	-	(876)	(1,260)
Disposals and impairments	(4,532)	(421)	-	-	-	(227)	(5,180)
Transfers from construction in progress	104,467	89,110	-	-	-	(193,577)	-
Balance as at June 30, 2026	**2,426,233**	**1,000,801**	**185,442**	**32,191**	**58,982**	**416,463**	**4,120,112**
Accumulated depreciation:							
Balance as at April 1, 2026	1,206,260	445,402	127,026	4,370	-	-	1,783,058
Depreciation	34,672	12,897	1,258	189	-	-	49,016
Disposals and impairments	(4,532)	(421)	-	-	-	-	(4,953)
Balance as at June 30, 2026	**1,236,400**	**457,878**	**128,284**	**4,559**	-	-	**1,827,121**
Net carrying value:							
As at April 1, 2026	1,115,001	466,147	58,847	27,810	58,982	538,527	2,265,314
As at June 30, 2026	**1,189,833**	**542,923**	**57,158**	**27,632**	**58,982**	**416,463**	**2,292,991**

[1] Vessel decommissioning and restoration cost additions

[2] Includes terminal decommissioning and restoration cost additions of $0.1 million (March 31, 2026: $3.2 million)

3. Property, plant and equipment (continued):

During the three months ended June 30, 2026, financing costs capitalized during construction of qualifying assets amounted to $5.4 million (June 30, 2025: $1.6 million) with an average capitalization rate of 4.04% (June 30, 2025: 2.94%).

As at June 30, 2026, contractual commitments for assets to be constructed totaled $922.9 million (March 31, 2026: $938.4 million). The majority of these contractual commitments relate to constructing four Summit Class and three Island Class vessels.

During the three months ended June 30, 2026, the Group recognized property, plant and equipment asset impairments of $0.2 million (June 30, 2025: $nil).

During the three months ended June 30, 2026, the Group received $0.4 million (June 30, 2025: $0.4 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $6.8 million, respectively, as at June 30, 2026 (March 31, 2026: cost of $11.9 million and accumulated depreciation of $6.7 million).

On September 30, 2023, the Group received approval under the Province's CleanBC Go Electric Commercial Vehicle Pilots Program for up to $15.1 million in funding. This funding is solely for costs incurred to electrify two Island Class vessels and the terminals serving the Campbell River to Quadra Island route. During the three months ended June 30, 2026, the Group recognized $0.5 million (June 30, 2025: less than $0.1 million) as a reduction of the cost of property, plant and equipment.

During the three months ended June 30, 2026, the Group recognized $0.8 million (June 30, 2025: $58.1 million) of funding as a reduction of the cost of property, plant and equipment that was transferred from Deferred grants and other liabilities (Note 9). During the three months ended June 30, 2026, $nil (June 30, 2025: $56.4 million) of the funding recognized during the three months ended June 30, 2026 was from Canada Infrastructure Bank ("CIB") for Summit Class capital project costs, with the remainder of the funding recognized from various other sources (Note 9).

(Tabular amounts expressed in thousands of Canadian dollars)

4. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at April 1, 2026	163,998	46,405	9,228	219,631
Additions	-	-	1,017	1,017
Balance as at June 30, 2026	**163,998**	**46,405**	**10,245**	**220,648**
Accumulated amortization:				
Balance as at April 1, 2026	148,200	45,727	-	193,927
Amortization	1,464	280	-	1,744
Balance as at June 30, 2026	**149,664**	**46,007**	-	**195,671**
Net carrying value:				
As at April 1, 2026	15,798	678	9,228	25,704
As at June 30, 2026	**14,334**	**398**	**10,245**	**24,977**

During the three months ended June 30, 2026, additions of intangible assets under development totalled $1.0 million (June 30, 2025: $1.9 million) of which $1.0 million (June 30, 2025: $1.5 million) were acquired and less than $0.1 million (June 30, 2025: $0.4 million) were internally developed.

During the three months ended June 30, 2026, the Group recognized intangible impairments of $nil (June 30, 2025: $nil).

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

	As at	
	June 30, 2026	March 31, 2026
Trade payable and accrued liabilities	**80,268**	134,151
Wages payable	**125,863**	115,262
Total	**206,131**	249,413

Wages payable consists of contractual liabilities to employees for deferred or accrued compensation. Liabilities for deferred compensation amounts are generally settled through either payment or provision of paid time off.

6. Provisions:

	Asset decommissioning and restoration	Claims payable and other	Total
Balance as at April 1, 2026	92,523	2,040	94,563
Accretion expense	802	-	802
Net additions to provisions during the year	5,555	163	5,718
Provisions settled during the year	-	(163)	(163)
Balance as at June 30, 2026	**98,880**	**2,040**	**100,920**
Current	**-**	**2,040**	**2,040**
Non-current	**98,880**	**-**	**98,880**
Balance as at June 30, 2026	**98,880**	**2,040**	**100,920**

(a) Asset decommissioning and restoration:

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

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

(Tabular amounts expressed in thousands of Canadian dollars)

6. Provisions (continued):

(a) Asset decommissioning and restoration (continued):

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

	As at	
	June 30, 2026	March 31, 2026
Total undiscounted future cash flows	**$110.1 Million**	$108.5 Million
Range of expected timing of outflows to settle obligations	**1-46 Years**	1-41 Years
Inflation rate	**3.0%**	2.5%
Discount rate	**3.6%**	3.5%

(b) Claims payable and other:

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

7. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2026	1,850,093	23,460	23,830
Additions	-	32	21,375
Payments	(2,821)	(978)	(21,681)
Amortization of bond discounts and deferred financing costs	645	-	-
Balance as at June 30, 2026	**1,847,917**	**22,514**	**23,524**
Current	**11,126**	**3,884**	**23,524**
Non-current	**1,836,791**	**18,630**	-
Balance as at June 30, 2026	**1,847,917**	**22,514**	**23,524**

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

(Tabular amounts expressed in thousands of Canadian dollars)

8. Long-term debt:

	As at	
	June 30, 2026	March 31, 2026
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.43%)	**250,000**	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.08%)	**250,000**	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.64%)	**200,000**	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.76%)	**200,000**	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.46%)	**200,000**	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	**250,000**	250,000
2.47% Senior Secured Bonds, Series 24-1, due March 2049 (effective interest rate of 4.68%)	**75,000**	75,000
1.83% Senior Secured Bonds, Series 25-1, due June 2050 (effective interest rate of 4.76%)	**133,000**	133,000
4.69% Senior Secured Bonds, Series 26-1, due February 2056 (effective interest rate of 4.73%)	**350,000**	350,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.78%)	**9,335**	10,270
2.09% Loan, maturing January 2029 (effective interest rate of 2.71%)	**10,363**	11,306
2.09% Loan, maturing January 2029 (effective interest rate of 2.75%)	**10,363**	11,306
	1,938,061	1,940,882
Less: Unamortized deferred bond discounts and financing costs	**(90,144)**	(90,789)
Total	**1,847,917**	1,850,093
Current	**11,126**	11,113
Non-current	**1,836,791**	1,838,980
Total	**1,847,917**	1,850,093

8. Long-term debt (continued):

The Group has nine outstanding series of obligation bonds and a credit facility agreement secured by pledged bonds. In addition, the Group has three 2.09% loans outstanding with KfW IPEX-Bank GmbH, a German export credit bank.

On March 28, 2025, BC Ferries entered into a bond purchase agreement with Canada Infrastructure bank ("CIB") to issue up to $1 billion in aggregate of senior secured bonds to partially fund new major vessels and terminal electrification. These senior secured bonds bear interest at 1.828% per annum, are payable semi-annually and may be accessed in tranches over a five-year period with maturity date of June 13, 2050. On May 22, 2025, the Group issued to CIB the first tranche of $133.0 million of senior secured bonds solely to fund eligible costs incurred directly in respect of Phase 1 of the New Major Vessels project ("Project Costs"). The net proceeds from the bonds are restricted for use towards Project Costs. The Group recognized the bond at fair market value on the date of issuance. The difference between the proceeds and fair market value of the bonds of $56.4 million is treated as a bond discount and deferred government funding (Note 9).

(a) Credit facility:

The Group has a $105.0 million revolving credit facility with a syndicate of Canadian banks, secured by pledged bonds (the "Credit Facility"). On March 19, 2026, the Credit Facility was extended to April 20, 2030.

There were no draws on this Credit Facility as at June 30, 2026 (March 31, 2026: $nil), and no interest expensed during the three months ended June 30, 2026 (June 30, 2025: $nil). Letters of credit outstanding against this Credit Facility as at June 30, 2026 totalled $10.0 million (March 31, 2026: $10.0 million).

(b) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions.

As at June 30, 2026, debt service reserves of $42.8 million (March 31, 2026: $42.9 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(c) Covenant disclosure:

Under the Master Trust Indenture ("MTI") effective during the period ended June 30, 2026, the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.5.

As at June 30, 2026, the debt service coverage ratio was 3.06.

The Group was in compliance with all of covenants at June 30, 2026 and at March 31, 2026.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Deferred grants and other liabilities:

	Electrification	LNG	Total
Balance as at April 1, 2026	35,168	3,847	39,015
Additions	139	-	139
Funding recognized	(422)	(384)	(806)
Balance as at June 30, 2026	**34,885**	**3,463**	**38,348**
Current	**24,301**	**1,520**	**25,821**
Non-current	**10,584**	**1,943**	**12,527**
Balance as at June 30, 2026	**34,885**	**3,463**	**38,348**

CIB Summit Class funding:

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

Recognizing the funding is dependent on the Group incurring eligible Project Costs. During the three months ended June 30, 2026, the Group recognized $nil (June 30, 2025: $56.4 million) CIB Summit Class Vessels funding as a reduction to the cost of the property, plant and equipment.

Electrification funding:

(a) Provincial electrification funding:

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

During the three months ended June 30, 2026, the Group recognized less than $0.1 million (June 30, 2025: less than $0.1 million) of which less than $0.1 million (June 30, 2025: less than $0.1 million) was a reduction to the cost of the property, plant and equipment and $nil (June 30, 2025: $nil) was a reduction to operating expenses.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Deferred grants and other liabilities (continued):

Electrification funding (continued):

(b) CIB Island Class electrification program funding:

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

During the three months ended June 30, 2026, the Group recognized $0.1 million (June 30, 2025: $0.2 million) as additions to the funding from investment returns generated on the funding.

Recognizing the funding is dependent on the Group incurring Project Costs. During the three months ended June 30, 2026, the Group recognized $0.4 million (June 30, 2025: $1.3 million) CIB island class electrification program funding as a reduction to the cost of the property, plant and equipment.

LNG funding:

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

As of June 30, 2026, the Group recognized $0.4 million (June 30, 2025: $0.4 million) as a reduction to the cost of the property, plant and equipment.

10. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at June 30, 2026 and March 31, 2026 for all financial instruments except for long-term debt.

	As at June 30, 2026		As at March 31, 2026	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,847,917**	**1,856,769**	1,850,093	1,828,213

[1] Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Carrying value is measured at amortized cost using the effective interest rate method. Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statements of financial position, or by using available quoted market prices.

The following items shown in the condensed interim consolidated statements of financial position as at June 30, 2026 and March 31, 2026 are carried at fair value on a recurring basis using Level 1, 2 or 3 inputs.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Financial instruments (continued):

	As at	
	June 30, 2026	**March 31, 2026**
Asset:		
Cash[1]	**243,772**	363,972
	243,772	363,972

[1] Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified between levels during the three months ended June 30, 2026.

During the three months ended June 30, 2026, there have been no gain or loss (June 30, 2025: loss of $2.2 million) related to Level 2 derivatives designated as hedges that have been recorded in other comprehensive income (loss) (“OCI”).

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

11. Financial risk management:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and natural gas. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price volatility and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel derivatives contracts are recognized as a component of fuel costs.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its regulatory (non-IFRS) earnings (Note 18).

The Group may hedge using CAD denominated ultra-low sulfur diesel (“ULSD”) fuel swap contracts to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. No ULSD fuel swap contracts were entered into during the three months ended June 30, 2026 (June 30, 2025: $nil) and no ULSD fuel swap contracts were outstanding as at June 30, 2026 (March 31, 2026: $nil). No LNG swap contracts were entered into during the three months ended June 30, 2026 and no LNG swap contracts were outstanding as at March 31, 2026.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Financial risk management (continued):

An economic relationship exists between the hedged item and the hedging instrument as the value of the hedging instrument and the value of the hedged item move in the opposite direction as a result of the change in the hedged risk. A change in the credit risk of the hedging instrument or the hedged item does not dominate the value changes that result from the economic relationship.

During the three months ended June 30, 2026, no unrealized hedging gains or losses (June 30, 2025: unrealized hedging losses of $2.2 million) were recognized in OCI for open fuel swap contracts. In addition, for closed fuel swap contracts no net realized hedging gains or losses were reclassified from reserves and included in the Group’s fuel expense during the three months ended June 30, 2026 (June 30, 2025: net realized hedging gains of $0.1 million).

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

Foreign currency risk arises when the value of financial instruments or forecasted transactions fluctuates due to changes in exchange rates. During the three months ended June 30, 2026, the Group recognized a net foreign exchange gain of $0.1 million (June 30, 2025: net loss of $1.5 million) in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss), primarily related to exchange rates moving favorably prior to the payment dates.

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

The impact of hedged items designated in hedging relationships as of June 30, 2026 on the condensed interim consolidated statement of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) was as follows:

	Three months ended June 30	
	2026	2025
Hedging gains (losses) recognized in cash flow hedge reserve:		
Fuel swap contracts	**-**	(2,209)
Hedging (gains) losses reclassified from cash flow hedge reserve:		
Fuel swap contracts – Gains recognized in net earnings	**-**	(57)
Interest rate forward contracts – Amortization of hedge losses	**61**	62
Net change in cash flow hedge reserve	**61**	(2,204)

(Tabular amounts expressed in thousands of Canadian dollars)

12. Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Interest forward contract reserves	Total
Balance as at April 1, 2026		44,108	(10,259)	(4,480)	29,369
Derivatives designated as cash flow hedge reserves:					
Amortization of losses	11	**-**	**-**	**61**	**61**
Balance as at June 30, 2026		**44,108**	**(10,259)**	**(4,419)**	**29,430**

13. Net retail:

	Three months ended June 30 2026	2025
Retail revenue	**32,487**	31,502
Cost of goods sold	**(12,090)**	(11,983)
Net retail	**20,397**	19,519

14. Fare affordability funding:

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

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

In the three months ended June 30, 2026, $37.4 million (June 30, 2025: $29.6 million) of the funding was recognized under “Fare affordability funding” in the condensed interim consolidated statements of profit or loss and other comprehensive income.

In September 2025, the Group received a $100.0 million installment payment from the Province. Contribution receivable of $67.0 million (March 31, 2026: $29.6 million) is included in “Trade and other receivable” in the condensed interim consolidated statement of financial position as at June 30, 2026.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Operating expenses:

	Three months ended June 30	
	2026	2025
Salaries, wages and benefits	**163,288**	153,873
Fuel	**55,122**	35,185
Materials, supplies and contracted services	**37,858**	38,178
Other operating expenses	**22,534**	23,108
Depreciation and amortization	**50,760**	50,863
Total operating expenses	**329,562**	301,207

16. Net finance expense:

	Three months ended June 30	
	2026	2025
Finance expenses:		
Long-term debt	**21,375**	16,526
Short-term debt	**56**	83
Lease liabilities	**248**	263
Amortization of bond discounts and deferred financing costs	**706**	952
Accretion expense	**802**	668
Interest capitalized in the cost of qualifying assets	**(5,410)**	(1,552)
Total finance expenses	**17,777**	16,940
Finance income	**(3,438)**	(1,287)
Net finance expense	**14,339**	15,653

17. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the three months ended June 30, 2026, the Group paid $0.3 million (June 30, 2025: $0.2 million) of such expenses.

The Province owns the Group’s 75,477 non-voting preferred shares but has no voting interest in either the Group or the Authority.

18. Economic effect of rate regulation:

The Group is regulated by the Commissioner as explained further under Note 1. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, in extraordinary situations, allow increases in price caps over the set levels.

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

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

(a) Deferred fuel costs:

As prescribed by regulatory order, the Group defers differences between actual fuel costs and approved fuel costs, which were used to develop the regulated price caps. The Group collects fuel surcharges or provides fuel rebates from time to time, which are applied against deferred fuel cost account balances.

During the three months ended June 30, 2026, the amount receivable from the Province in relation to fuel cost differences was $2.1 million (June 30, 2025: amount payable $0.3 million).

As at June 30, 2026, the deferred asset amount was $14.7 million (March 31, 2026: deferred liability amount $2.8 million).

(b) Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps for four consecutive quarters, the excess amounts collected will be returned to customers through future tariff reductions. At June 30, 2026, tariffs charged to customers were over established price caps by $8.1 million (March 31, 2026: less than $0.1 million).

(c) Carbon Reduction Investment Account:

On April 21, 2022, the Commissioner approved the creation of a Carbon Reduction Investment Account ("CRIA") for a five-year term, subject to application for extension/modification after the end of the term. The CRIA is funded through the sale of Carbon Credits, earned through lower carbon fuel activities such as its purchase of natural gas and use of LNG, shore electrical connection, battery charging for hybrid diesel-electric Island Class vessels and light-duty electrical vehicle fleet, to partially fund further infrastructure investments identified in its Clean Futures Plan and to progress GHG emission reduction projects. The Group may apply for the discontinuation of CRIA at any time or the Commissioner can terminate it if it is deemed not necessary for funding further capital investments in cleaner technologies that lead to a reduction in GHG emissions or no longer deemed to be in the public interest. If terminated with positive balance, the funds must be returned to the ferry users through the fuel deferral account. The use of the funds is subject to the Commissioner's approval.

(Tabular amounts expressed in thousands of Canadian dollars)

18. Economic effect of rate regulation (continued):

(c) Carbon Reduction Investment Account (continued):

During the three months ended June 30, 2026, the Group did not recognize any net revenue (June 30, 2025: $1.6 million) from the sale of carbon credits generated from LNG used on various vessels and electricity used as a replacement for higher carbon transportation fuels. As prescribed by regulatory order, the Group defers the net revenue from the sale of Carbon Credits and allocates the funding to the CRIA. As at June 30, 2026, the deferred liability amount was $28.1 million (March 31, 2026: $28.1 million).

(d) Effect of rate regulation:

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory assets as at June 30, 2026 would have been $14.7 million (March 31, 2026: $nil), and the regulatory liabilities would have been $36.1 million (March 31, 2026: $30.9 million) on the condensed interim consolidated statements of financial position as detailed below:

Regulatory accounts	**June 30, 2026**	March 31, 2026
Net Balance as at April 1	**(30,894)**	(34,038)
Changes in:		
Deferred fuel cost	**17,517**	5,057
Deferred price cap	**(8,054)**	(20)
Deferred carbon reduction investment account	**-**	(1,893)
Net Balance as at June 30, 2026	**(21,431)**	(30,894)
Regulatory assets	**14,705**	-
Regulatory liabilities	**(36,136)**	(30,894)
Net Balance	**(21,431)**	(30,894)

If the Group were permitted under IFRS to recognize the effect of rate regulation, net earnings for the three months ended June 30, 2026 would have increased by $9.5 million (June 30, 2025: net earnings decreased by $9.7 million) as detailed below:

	Three months ended June 30	
Effect of rate regulation on net earnings	**2026**	2025
Fuel costs over (under) set price	**21,256**	(7,073)
Fuel surcharges	**(1,620)**	-
Fuel price risk recoveries (receivable from) payable to the Province	**(2,119)**	345
Deferred price cap	**(8,054)**	(1,397)
Deferred carbon reduction investment account	**-**	(1,620)
Total increase (decrease) in net earnings	**9,463**	(9,745)