Condensed Interim Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three and nine months ended December 31, 2024 and 2023

(Unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

	Note	As at December 31, 2024	As at March 31, 2024 (As adjusted - note 1(d))
Assets			
Current assets			
Cash and cash equivalents		**291,761**	31,906
Restricted short-term investments		**107,653**	107,743
Other short-term investments		**35,227**	338,995
Trade and other receivables		**29,545**	29,501
Prepaid expenses		**18,966**	17,046
Inventories		**47,710**	42,858
Derivative assets	9	**2,836**	441
		533,698	568,490
Non-current assets			
Loan receivable		**36,120**	35,387
Property, plant and equipment	3	**1,985,397**	1,948,439
Intangible assets	4	**31,906**	46,610
Derivative assets	9	**222**	197
		2,053,645	2,030,633
Total assets		**2,587,343**	2,599,123
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	**191,390**	223,572
Provisions		**15,310**	1,152
Lease liabilities	6	**4,458**	4,318
Contract liabilities		**33,401**	44,905
Long-term debt	6,7	**11,050**	11,009
Interest payable on long-term debt	6	**17,270**	21,320
Accrued employee future benefits		**2,500**	2,500
Deferred grants and other liabilities		**3,960**	5,419
Derivative liabilities	9	**-**	1
		279,339	314,196
Non-current liabilities			
Provisions		**58,972**	71,181
Lease liabilities	6	**22,676**	8,636
Long-term debt	6,7	**1,426,332**	1,432,628
Accrued employee future benefits		**19,738**	20,018
Deferred grants and other liabilities		**43,717**	42,826
		1,571,435	1,575,289
Total liabilities		**1,850,774**	1,889,485
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**575,789**	551,465
Total equity before reserves		**676,267**	651,943
Reserves	10	**60,302**	57,695
Total equity including reserves		**736,569**	709,638
Total liabilities and equity		**2,587,343**	2,599,123

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 December 31 2024	Three months ended December 31 2023 (As adjusted - note 1(d))	Nine months ended December 31 2024	Nine months ended December 31 2023 (As adjusted - note 1(d))
Revenue					
Vehicle and passenger fares		**163,341**	153,104	**620,525**	587,845
Net retail	11	**16,031**	15,287	**60,639**	57,779
Fuel surcharges	16	**6**	6,105	**5,757**	23,181
Other income		**3,461**	3,263	**11,828**	27,725
Revenue from customers		**182,839**	177,759	**698,749**	696,530
Ferry service fees		**50,616**	52,946	**160,944**	179,201
Fare affordability funding	12	**14,740**	-	**56,244**	-
Federal-Provincial Subsidy Agreement		**9,231**	8,909	**27,693**	26,728
Safe Restart Funding		**-**	1,977	**-**	7,539
Total revenue		**257,426**	241,591	**943,630**	909,998
Expenses	13				
Operations		**179,401**	180,970	**584,542**	538,998
Maintenance		**35,171**	33,545	**101,874**	87,874
Administration		**14,072**	13,710	**41,406**	38,803
Depreciation and amortization		**50,077**	46,305	**149,855**	139,017
Total operating expenses		**278,721**	274,530	**877,677**	804,692
Operating (loss) profit		**(21,295)**	(32,939)	**65,953**	105,306
Net finance and other expenses					
Finance expenses		**17,441**	17,016	**52,752**	51,049
Finance income		**(6,170)**	(8,192)	**(18,313)**	(21,925)
Net finance expense	14	**11,271**	8,824	**34,439**	29,124
Net loss on disposal and impairment of property, plant and equipment and intangible assets	3,4	**5,642**	60	**7,190**	216
Net finance and other expenses		**16,913**	8,884	**41,629**	29,340
NET (LOSS) EARNINGS		**(38,208)**	(41,823)	**24,324**	75,966
Other comprehensive income (loss)					
Items that are or may be reclassified subsequently to net (loss) earnings:					
Hedge gains (losses) on fuel swaps	9	**4,435**	(5,403)	**2,622**	5,208
Total other comprehensive income		**4,435**	(5,403)	**2,622**	5,208
Total comprehensive (loss) income		**(33,773)**	(47,226)	**26,946**	81,174

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2024	**2023**
		(As adjusted - note 1(d))
Operating activities		
Net earnings	**24,324**	75,966
Items not affecting cash:		
Net finance expense	**34,439**	29,124
Depreciation and amortization	**149,855**	139,017
Net loss on disposal and impairment of property, plant and equipment and intangible assets	**7,190**	216
Other non-cash changes to property, plant and equipment	**400**	(2,758)
Employee future benefits	**(280)**	(242)
Provision recognized in net earnings	**101**	47
Deferred grants and other liabilities	**(132)**	-
Accrued investment income	**(8,487)**	549
Total non-cash items	**183,086**	165,953
Movements in working capital:		
Trade and other receivables	**(44)**	(1,228)
Prepaid expenses	**(1,920)**	(4,171)
Inventories	**(4,852)**	331
Accounts payable and accrued liabilities	**(32,182)**	31,452
Contract liabilities	**(11,504)**	(19,285)
Change in non-cash working capital	**(50,502)**	7,099
Change in non-cash working capital attributable to investing activities	**10,587**	351
Change in non-cash operating working capital	**(39,915)**	7,450
Cash generated from operating activities before interest	**167,495**	249,369
Interest received	**26,072**	20,680
Interest paid	**(54,779)**	(54,880)
Cash generated from operating activities	**138,788**	215,169

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flow (Unaudited)

(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2024	2023
		(As adjusted - note 1(d))
Financing activities		
Repayment of long-term debt	**(8,462)**	(8,462)
Repayment of lease liabilities	**(2,656)**	(2,498)
Cash used in financing activities	**(11,118)**	(10,960)
Investing activities		
Proceeds from disposal of property, plant and equipment	**187**	101
Purchase of property, plant and equipment and intangible assets	**(171,860)**	(146,523)
Changes in restricted short-term investments	**90**	85
Net redemption (purchase) of other short-term investments	**303,768**	(11,298)
Cash generated from (used in) investing activities	**132,185**	(157,635)
Net increase in cash and cash equivalents	**259,855**	46,574
Cash and cash equivalents, beginning of period	**31,906**	87,122
Cash and cash equivalents, end of period	**291,761**	133,696

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 10)	Total equity including reserves
Balance as at April 1, 2023	1(d)	75,478	25,000	587,966	688,444	64,887	753,331
Net earnings		-	-	75,966	75,966	-	75,966
Other comprehensive income		-	-	-	-	5,208	5,208
Realized hedge gains recognized in fuel swaps		-	-	-	-	(20,279)	(20,279)
Hedge losses on interest rate forward contract reclassified to net earnings		-	-	-	-	187	187
Balance as at December 31, 2023		75,478	25,000	663,932	764,410	50,003	814,413
Balance as at April 1, 2024		**75,478**	**25,000**	**551,465**	**651,943**	**57,695**	**709,638**
Net earnings		**-**	**-**	**24,324**	**24,324**	**-**	**24,324**
Other comprehensive income		**-**	**-**	**-**	**-**	**2,622**	**2,622**
Realized hedge gains recognized in fuel swaps		**-**	**-**	**-**	**-**	**(201)**	**(201)**
Hedge losses on interest rate forward contract reclassified to net earnings		**-**	**-**	**-**	**-**	**186**	**186**
Balance as at December 31, 2024		**75,478**	**25,000**	**575,789**	**676,267**	**60,302**	**736,569**

Balances as at April 1, 2023 and April 1, 2024 and Net earnings for the nine months ended December 31, 2023 have been adjusted (Note 1(d))

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

The Company is subject to the Coastal Ferry Act (the "Act") as amended, which originally came into force on April 1, 2003. Its common share is held by the B.C. Ferry Authority (the "Authority"), a corporation without share capital, and it is regulated by the British Columbia Ferries Commissioner (the "Commissioner") to ensure that rates are fair and reasonable and to monitor service levels.

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

1. Accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC, Canada. These condensed interim consolidated financial statements, as at and for the three and nine months ended December 31, 2024 and 2023, comprise the Company and its subsidiary, Pacific Marine Leasing Inc. (together referred to as the "Group").

(b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") and its interpretations, as issued by the International Accounting Standards Board, and comply with International Accounting Standard 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended March 31, 2024, as they follow the same accounting policies except as disclosed in notes 1 and 2.

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

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

These condensed interim consolidated financial statements were approved by the Board of Directors on February 13, 2025.

(Tabular amounts expressed in thousands of Canadian dollars)

1. Accounting policies (continued):

(c) Addition to Revenues accounting policy effective April 1, 2024:

Fare affordability funding is recognized systematically in accordance with the $500 million contribution agreement between the Group and the provincial government of British Columbia (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 green house gas ("GHG") emission reduction initiatives.

(d) Adjustment of balances:

The Group identified that at the inception of an office building lease in 2010 an option to purchase was incorrectly included in the value of the right of use property, plant and equipment and the right of use lease liability, instead of included in the value of the loan receivable. The Group identified that the loan receivable was valued incorrectly at amortized cost instead of fair value through profit or loss. The Group has concluded that the impact of this change is immaterial; however has adjusted for the cumulative effect and adjusted the carrying amounts of assets, liabilities, retained earnings, net earnings and reserves. The affected notes to these interim condensed consolidated financial statements have been amended to reflect these changes. The following table summarizes the impacts on the Group's condensed interim consolidated financial statements. The impact of this adjustment on the March 31, 2023 statement of financial position is consistent with the adjustment to the March 31, 2024 statement of financial position.

	Balance as reported	Adjustment	Balance as adjusted
Statement of Financial Position as at March 31, 2024			
Loan arrangement 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

	Three months ended December 31, 2023			Nine months ended December 31, 2023		
	Balance as reported	Adjustment	Balance as adjusted	Balance as reported	Adjustment	Balance as adjusted
Statements of Profit or Loss						
Finance income	(7,960)	(232)	(8,192)	(21,239)	(686)	(21,925)
Net (loss) earnings	(42,055)	232	(41,823)	75,280	686	75,966

	Nine months ended December 31, 2023		
	Balance as reported	Adjustment	Balance as adjusted
Statement of Cash Flows			
Net finance expense	29,810	(686)	29,124

2. Adoption of new and amended standards:

The Group adopted amendments to IAS 1, Presentation of Financial Statements regarding the classification of liabilities as current or non-current, an 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 the Group's financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Property, plant and equipment:

	Vessels	Berths, buildings and equipment	Right-of-use assets – Berths, buildings and equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:							
Balance as at April 1, 2024	2,240,340	799,484	138,997	31,869	86,695	150,793	3,448,178
Additions	(1,240)[1]	-	16,181	655	-	159,522	175,118
Disposals and impairments	(7,719)	(12,189)	(60)	(632)	-	(5,889)	(26,489)
Transfers from construction in progress	47,137	42,846	-	-	-	(89,983)	-
Balance as at December 31, 2024	**2,278,518**	**830,141**	**155,118**	**31,892**	**86,695**	**214,443**	**3,596,807**
Accumulated depreciation:							
Balance as at April 1, 2024	1,043,279	371,306	81,632	3,522	-	-	1,499,739
Depreciation	95,314	31,901	4,498	548	-	-	132,261
Disposals and impairments	(7,718)	(12,180)	(60)	(632)	-	-	(20,590)
Balance as at December 31, 2024	**1,130,875**	**391,027**	**86,070**	**3,438**	-	-	**1,611,410**
Net carrying value:							
As at April 1, 2024	1,197,061	428,178	57,365	28,347	86,695	150,793	1,948,439
As at December 31, 2024	**1,147,643**	**439,114**	**69,048**	**28,454**	**86,695**	**214,443**	**1,985,397**

[1] Reclassification from Deferred grants and other liabilities.

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2024, financing costs capitalized during construction of qualifying assets amounted to $2.2 million (December 31, 2023: $0.5 million) with an average capitalization rate of 2.90% (December 31, 2023: 3.31%).

As at December 31, 2024, contractual commitments for assets to be constructed totaled $289.9 million (March 31, 2024: $349.3 million). The majority of these contractual commitments relate to constructing four Island Class vessels and the redevelopment of the Fleet Maintenance Unit.

During the nine months ended December 31, 2024, the Group recognized property, plant and equipment asset impairments of $5.9 million (December 31, 2023: $0.1 million) related to construction in progress.

During the nine months ended December 31, 2024, the Group recognized $2.0 million (December 31, 2023: $1.1 million) as a reduction of the cost of property, plant and equipment from electrification and liquefied natural gas (“LNG”) funding.

During the nine months ended December 31, 2024, the Group received $1.0 million (December 31, 2023: $0.8 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $6.1 million, respectively, as at December 31, 2024 (March 31, 2024: cost of $11.9 million and accumulated depreciation of $5.8 million).

During the nine months ended December 31, 2024, the group recognized $16.8 million (March 31, 2024: $1.3 million) as an addition to the cost of right-of-use assets, primarily relating to an office space lease.

(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, 2024	166,044	49,479	6,240	221,763
Additions	-	-	4,368	4,368
Disposals and impairment	(9,144)	(5,247)	(1,478)	(15,869)
Transfers from assets under development	4,920	2,314	(7,234)	-
Balance as at December 31, 2024	**161,820**	**46,546**	**1,896**	**210,262**
Accumulated amortization:				
Balance as at April 1, 2024	137,807	37,346	-	175,153
Amortization	10,785	6,809	-	17,594
Disposals and impairment	(9,144)	(5,247)	-	(14,391)
Balance as at December 31, 2024	**139,448**	**38,908**	-	**178,356**
Net carrying value:				
As at April 1, 2024	28,237	12,133	6,240	46,610
As at December 31, 2024	**22,372**	**7,638**	**1,896**	**31,906**

During the nine months ended December 31, 2024, additions of intangible assets under development totalled $4.4 million (December 31, 2023: $6.0 million) of which $4.1 million (December 31, 2023: $4.3 million) were acquired and $0.3 million (December 31, 2023: $1.7 million) were internally developed.

During the nine months ended December 31, 2024, the Group recognized intangible impairments of $1.5 million (December 31, 2023: $0.2 million).

(Tabular amounts expressed in thousands of Canadian dollars)

5. Accounts payable and accrued liabilities:

	As at	
	December 31, 2024	March 31, 2024
Trade payable and accrued liabilities	**79,957**	91,304
Wages payable	**111,433**	132,268
Total	**191,390**	223,572

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

6. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2024	1,443,637	12,954	21,320
Net additions	-	16,836	49,225
Payments	(8,462)	(2,656)	(53,275)
Amortization of bond discounts and deferred financing costs	2,207	-	-
Balance as at December 31, 2024	**1,437,382**	**27,134**	**17,270**
Current	**11,050**	**4,458**	**17,270**
Non-current	**1,426,332**	**22,676**	-
Balance as at December 31, 2024	**1,437,382**	**27,134**	**17,270**

[1] Interest expense related to lease liabilities is presented in net finance expense (Note 14).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Long-term debt:

	As at	
	December 31, 2024	March 31, 2024
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	**250,000**	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	**250,000**	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	**200,000**	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	**200,000**	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	**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 4.66%)	**75,000**	75,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	**14,942**	17,746
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**16,021**	18,850
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**16,021**	18,850
	1,471,984	1,480,446
Less: Unamortized deferred bond discounts and financing costs	**(34,602)**	(36,809)
Total	**1,437,382**	1,443,637
Current	**11,050**	11,009
Non-current	**1,426,332**	1,432,628
Total	**1,437,382**	1,443,637

7. Long-term debt (continued):

The Group has seven 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.

(a) Credit facility:

The Group has a $105.0 million revolving credit facility with a syndicate of Canadian banks, secured by pledged bonds (the "Credit Facility"). As of March 7, 2024, the Credit Facility was extended to April 20, 2028. Letters of credit outstanding against this Credit Facility as at December 31, 2024 totalled $10.1 million (March 31, 2024: $0.6 million). There was no interest expensed during the nine months ended December 31, 2024 (December 31, 2023: $nil).

(b) Debt service reserves:

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

As at December 31, 2024, debt service reserves of $32.7 million (March 31, 2024: $32.7 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

(c) Covenant disclosure:

Under the Master Trust Indenture ("MTI") effective during the period ended December 31, 2024, an agreement which secures and governs the Group's borrowings, the Group is subject to indebtedness tests that prohibit additional borrowing if the Group's leverage ratio exceeds 85% or if the debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.5.

On January 20, 2025, the Group announced that it had successfully obtained approval of an amendment to remove Section 6.5(e)(ii) of the Group's MTI, eliminating the leverage ratio as an Additional Indebtedness covenant through the consent and proxy solicitation process.

As at December 31, 2024, the debt service coverage ratio was 2.42 and the leverage ratio was 70%.

The Group was in compliance with all of its covenants at December 31, 2024 and at March 31, 2024.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at December 31, 2024 and March 31, 2024 for all financial instruments except for long-term debt.

	As at December 31, 2024		As at March 31, 2024	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt, including current portion[1]	**1,437,382**	**1,475,112**	1,443,637	1,451,934

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

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

The following items shown in the condensed interim consolidated statements of financial position as at December 31, 2024 and March 31, 2024 are carried at fair value on a recurring basis using Level 1, 2 or 3 inputs.

	As at December 31, 2024			**As at March 31, 2024**		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Asset (liability):						
Cash[1]	**291,761**	**-**	-	31,906	-	-
Derivative assets[2]	**-**	**3,058**	-	-	638	-
Derivative liabilities[2]	**-**	**-**	-	-	(1)	-
Loan receivable[3]	**-**	**-**	**36,120**	-	-	35,387
	291,761	**3,058**	**36,120**	31,906	637	35,387

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified between levels during the nine months ended December 31, 2024.

During the nine months ended December 31, 2024, gains or losses related to Level 2 derivatives designated as hedges have been recorded in other comprehensive income (loss) ("OCI").

During the nine months ended December 31, 2024, gains related to Level 3 assets have been recorded in Finance income.

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.

9. Financial risk management:

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

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its regulatory (non-IFRS) earnings (Note 16).

The Group incorporates hedges using CAD denominated ultra-low sulfur diesel ("ULSD") fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the nine months ended December 31, 2024, the Group entered ULSD fuel swap contracts with a notional value of $43.8 million (December 31, 2023: $4.4 million). The notional amount of all fuel swap contracts outstanding as at December 31, 2024 was $43.0 million (March 31, 2024: $8.1 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the nine months ended December 31, 2024 and no LNG swap contracts were outstanding as at December 31, 2024.

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

During the nine months ended December 31, 2024, open fuel swap contracts had unrealized hedging gains of $2.6 million (December 31, 2023: unrealized hedging gains of $5.2 million) recognized in OCI. In addition, for closed fuel swap contracts net realized hedging gains of $0.2 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2024 (December 31, 2023: net realized hedging gains of $20.3 million).

Cash flow hedges:

	Fiscal 2025	Fiscal 2026	Total
Fuel contracts (litres in thousands)	13,950	40,268	54,218
Contract price range ($/litre)	$0.7703-$0.8450	$0.7698-$0.8290	

(Tabular amounts expressed in thousands of Canadian dollars)

9. Financial risk management (continued):

The impact of hedging instruments designated in hedging relationships as of December 31, 2024 on the condensed interim consolidated statements of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) was as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
Fuel swap contracts	**11,035**	**2,836**	Current derivative assets	**2,836**
Fuel swap contracts	**31,920**	**222**	Non-current derivative assets	**222**

The impact of hedged items designated in hedging relationships as of December 31, 2024 on the condensed interim consolidated statement of financial position and the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	**3,061**	**3,058**

Cash flow hedge reserve (Note 10):

	Three months ended December 31		Nine months ended December 31	
	2024	2023	**2024**	2023
Hedging gains (losses) recognized in cash flow hedge reserve:				
Fuel swap contracts	**4,435**	(5,403)	**2,622**	5,208
Hedging (gains) losses reclassified from cash flow hedge reserve:				
Fuel swap contracts – Gains recognized in net earnings	**(137)**	(6,947)	**(201)**	(20,279)
Interest rate forward contracts – Amortization of hedge losses	**63**	63	**186**	187
Net change in cash flow hedge reserve	**4,361**	(12,287)	**2,607**	(14,884)

(Tabular amounts expressed in thousands of Canadian dollars)

10. Continuity of reserves:

	Note	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2024		71,837	(9,804)	637	(4,975)	57,695
Derivatives designated as cash flow hedge reserves:	9					
Net change in fair value		-	-	**2,622**	-	**2,622**
Realized gains		-	-	**(201)**	-	**(201)**
Amortization of losses		-	-	-	**186**	**186**
Balance as at December 31, 2024		**71,837**	**(9,804)**	**3,058**	**(4,789)**	**60,302**

11. Net retail:

	Three months ended December 31		Nine months ended December 31	
	2024	2023	**2024**	2023
Retail revenue	**25,701**	24,779	**96,557**	93,338
Cost of goods sold	**(9,670)**	(9,492)	**(35,918)**	(35,559)
Net retail	**16,031**	15,287	**60,639**	57,779

12. Fare affordability funding:

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

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

In the three months ended December 31, 2024, $14.7 million (December 31, 2023: $nil) and in the nine months ended December 31, 2024, $56.2 million (December 31, 2023: $nil) of the funding was recognized under "Fare affordability funding" in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss).

In September 2024, the Group received a $50.0 million installment payment from the Province and recorded a contribution receivable of $6.2 million (March 31, 2024: $nil) included in "Trade and other receivables" in the condensed interim consolidated statement of financial position as at December 31, 2024.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2024	2023	**2024**	2023
Salaries, wages and benefits	**135,181**	141,807	**431,281**	398,771
Fuel	**35,706**	34,873	**128,535**	116,749
Materials, supplies and contracted services	**35,698**	30,477	**101,914**	86,808
Other operating expenses	**22,059**	21,068	**66,092**	63,347
Depreciation and amortization	**50,077**	46,305	**149,855**	139,017
Total operating expenses	**278,721**	274,530	**877,677**	804,692

14. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2024	2023	**2024**	2023
Finance expenses:				
Long-term debt	**16,471**	16,513	**49,225**	49,410
Short-term debt	**33**	34	**271**	121
Lease liabilities	**424**	433	**1,228**	1,323
Amortization of bond discounts and deferred financing costs	**813**	245	**2,393**	739
Accretion expense	**616**	-	**1,848**	-
Interest capitalized in the cost of qualifying assets	**(916)**	(209)	**(2,213)**	(544)
Total finance expenses	**17,441**	17,016	**52,752**	51,049
Finance income	**(6,170)**	(8,192)	**(18,313)**	(21,925)
Net finance expense	**11,271**	8,824	**34,439**	29,124

15. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the nine months ended December 31, 2024, the Group paid $0.9 million (December 31, 2023: $0.8 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.

16. Economic effect of rate regulation:

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

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

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

(a) Deferred fuel costs:

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

During the nine months ended December 31, 2024, the amount receivable from the Province in relation to fuel cost differences was less than $0.1 million (December 31, 2023: amount receivable $1.4 million).

As at December 31, 2024, the deferred liability amount was $7.4 million (March 31, 2024: deferred asset amount $1.8 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 December 31, 2024 and March 31, 2024, tariffs charged to customers were below established price caps.

(c) Carbon Reduction Investment Account:

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

(Tabular amounts expressed in thousands of Canadian dollars)

16. Economic effect of rate regulation (continued):

(c) Carbon Reduction Investment Account (continued):

During the nine months ended December 31, 2024, the Group generated credits for electricity used for the Island Class vessels under the Government of Canada's Clean Fuel Regulations. As prescribed by regulatory order, the Group defers the net revenue from carbon credits and allocates the funding to the CRIA. As at December 31, 2024, the deferred amount was $26.2 million (March 31, 2024: $26.0 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 December 31, 2024 would have been $nil (March 31, 2024: $1.8 million), and the regulatory liabilities would have been $33.6 million (March 31, 2024: $26.0 million) on the interim consolidated statements of financial position as detailed below:

Regulatory accounts	**December 31, 2024**	March 31, 2024
Net Balance as at April 1	**(24,187)**	10,777
Changes in:		
Deferred fuel cost	**(9,193)**	(9,567)
Deferred fare increase relief	**-**	(9,000)
Deferred carbon reduction investment account	**(207)**	(16,397)
Net Balance	**(33,587)**	(24,187)
Regulatory assets	**-**	1,775
Regulatory liabilities	**(33,587)**	(25,962)
Net Balance	**(33,587)**	(24,187)

If the Group were permitted under IFRS to recognize the effect of rate regulation, net loss for the three months ended December 31, 2024 would have increased by $1.5 million (December 31, 2023: $2.2 million), and during the nine months ended December 31, 2024 net earnings would have decreased by $9.4 million (December 31, 2023: $31.0 million) as detailed below:

	Three months ended December 31		**Nine months ended December 31**	
Effect of rate regulation on net earnings	**2024**	2023	**2024**	2023
Fuel costs (under) over set price	**(1,469)**	6,339	**(3,409)**	17,468
Fuel surcharges	**(6)**	(6,105)	**(5,757)**	(23,181)
Fuel price risk recoveries receivable from the Province	-	(438)	**(27)**	(1,366)
Deferred fare increase relief	-	(1,977)	-	(7,539)
Deferred carbon reduction investment account	-	-	**(207)**	(16,397)
Total decrease in net earnings	**(1,475)**	(2,181)	**(9,400)**	(31,015)