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

For the three months ended
June 30, 2023

Dated August 23, 2023

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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 three months ended June 30, 2023 that has been prepared with information available as of August 23, 2023. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three month periods ended June 30, 2023 and 2022, our audited consolidated financial statements and related notes for the years ended March 31, 2023 ("fiscal 2023") and March 31, 2022 ("fiscal 2022"), and our Management's Discussion and Analysis for fiscal 2023. These documents are available on the System for Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries is an independent company providing 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 38 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 principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset initiatives.

In the three months ended June 30, 2023, BC Ferries carried 5.8 million passengers and 2.5 million vehicles, an increase of 7% and 3%, respectively, compared to the same period in the prior year. Passenger and vehicle traffic levels are the highest we have ever experienced in a first quarter period. In the three months ended June 30, 2023, we delivered 22,568 round trips, which is the highest number of round trips ever delivered in a first quarter period. This represented 1,054 or 5% additional round trips compared with the same period in the prior year.

Significant events during or subsequent to the first quarter of fiscal 2024 include the following:

General

- On February 26, 2023, the Province, after collaboration with BC Ferries and in response to our Performance Term Six submission, announced $500 million in new funding for BC Ferries, with the goal of limiting annual average fare increases to 3% a year for Performance Term Six ("PT6"), April 1, 2024 through March 31, 2028. In addition to helping control fare increases, the $500 million, to be received during PT6, may also be used to support greenhouse gas emissions reductions through support for the electrification of vessels, terminals and other initiatives.

- On April 12, 2023, BC Ferries implemented average tariff increases of 3.0% in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 19-04 dated September 30, 2019 and in accordance with the Safe Restart Contribution Agreement between BC Ferries and the Province dated November 11, 2020, as amended.

- On June 30, 2023, the Coastal Ferry Services Contract (the "CFSC"), between BC Ferries and the Province, was amended for PT6 to, among other things, establish ferry transportation fees for the four year term of April 1, 2024 through March 31, 2028. The CFSC is a 60-year services contract, which commenced 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. The CFSC and its amendments are available on our website at: https://www.bcferries.com.

- On July 7, 2023, the Commissioner released their consultant's report, which informed her preliminary price cap determination for PT6. These documents can be found at: www.bcferrycommission.ca.

Capital Assets

- On April 28, 2023, BC Ferries submitted a supplemental filing with the Commissioner to update the costs and revise some elements of the capital budget for the Fleet Maintenance Unit ("FMU") project, which was originally approved on October 14, 2022. On May 12, 2023, the Commissioner issued supplemental Order 22-02A approving the project for the redevelopment of the FMU. On the same day, BC Ferries signed a construction agreement with Bird Construction Group for the redevelopment project.

- On June 7, 2023, BC Ferries submitted an application to the Commissioner seeking approval of a Major Terminal Efficiency ("MTE") project aimed at transforming check-in and boarding processes for customers at our five major terminals (Duke Point, Tsawwassen, Horseshoe Bay, Departure Bay, and Swartz Bay). On July 28, 2023, the Commissioner requested additional information from BC Ferries which the Commissioner needs in order to reach a decision on the application. The MTE project application proposes how customers arriving at the terminals will benefit from reduced ticketing and check-in wait times, with foot passengers being provided a seamless, contactless journey through enhanced kiosks, fare gates and boarding pass validation, and an express lane check-in at the terminals for pre-paid reserved customers in vehicles.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three months ended June 30, 2023 compared to the same period in fiscal 2023.

	Three months ended June 30			
			Variance	
($ millions)	**2023**	**2022**	**$**	**%**
Total revenue	286.9	264.9	22.0	8%
Operating expenses	260.6	242.1	18.5	8%
Operating profit	26.3	22.8	3.5	15%
Net finance and other expenses	11.1	14.9	(3.8)	(26%)
Net earnings	15.2	7.9	7.3	92%
Other comprehensive (loss) income	(3.6)	27.7	(31.3)	(113%)
Total comprehensive income	11.6	35.6	(24.0)	(67%)

In the three months ended June 30, 2023, revenues increased from $264.9 million to $286.9 million, a $22.0 million or 8% increase compared to the same period in the prior year. This increase is primarily a result of higher vehicle and passenger traffic volume and rates, net retail sales and fuel surcharges.

In the three months ended June 30, 2023, operating expenses increased from $242.1 million to $260.6 million, a $18.5 million or 8% increase compared to the same period in the prior year. This increase is mainly due to an increased number of sailings, and resulting higher labour costs and fuel consumption, as well as higher wage rates, maintenance, administration and depreciation expenses (see "Expenses" for more detail).

In the three months ended June 30, 2023, net earnings were $15.2 million, an increase of $7.3 million compared to net earnings of $7.9 million in the same period in the prior year, primarily as a result of higher revenues and interest earned, partially offset by higher operating expenses.

In the three months ended June 30, 2023, total comprehensive income was $11.6 million compared to $35.6 million in the same period in the prior year. This is a decrease of $24.0 million comprised of a decrease in other comprehensive income ("OCI") of $31.3 million (a loss of $3.6 million in the three months ended June 30, 2023 compared to gain of $27.7 million in the same period in the prior year) and the $7.3 million increase in net earnings described above. The reduction in OCI reflects a $31.3 million decrease in the change in the fair value of our fuel swap contracts.

Operational Statistics
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.

Select operational statistics for the three months ended June 30, 2023 and 2022 are shown in the tables below.

Operational Statistics	**Three months ended June 30**			
Vehicle Traffic	**2023**	**2022**	**Increase**	**%**
Major Routes	1,429,413	1,413,544	15,869	1%
Northern Routes	10,216	9,641	575	6%
Minor Routes	1,074,775	1,026,613	48,162	5%
Total Vehicle Traffic	2,514,404	2,449,798	64,606	3%
Passenger Traffic				
Major Routes	3,669,305	3,422,256	247,049	7%
Northern Routes	23,555	21,599	1,956	9%
Minor Routes	2,143,654	2,015,261	128,393	6%
Total Passenger Traffic	5,836,514	5,459,116	377,398	7%
Round Trips				
Major Routes	3,353	3,322	31	1%
Northern Routes	99	96	3	3%
Minor Routes	19,116	18,096	1,020	6%
Total Round Trips	22,568	21,514	1,054	5%
Capacity Provided (AEQs)*				
Major Routes	2,109,858	2,098,164	11,694	1%
Northern Routes	14,576	13,772	804	6%
Minor Routes	2,019,542	1,881,694	137,848	7%
Total Capacity Provided	4,143,976	3,993,630	150,346	4%
AEQs Carried *				
Major Routes	1,695,284	1,679,329	15,955	1%
Northern Routes	12,588	11,712	876	7%
Minor Routes	1,159,150	1,110,777	48,373	4%
Total AEQs Carried	2,867,022	2,801,818	65,204	2%
Capacity Utilization				
Major Routes	80.4%	80.0%	0.4%	
Northern Routes	86.4%	85.0%	1.4%	
Minor Routes	57.4%	59.0%	(1.6%)	
Total Capacity Utilization	69.2%	70.2%	(1.0%)	

*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.

In the three months ended June 30, 2023, vehicle and passenger traffic increased 3% and 7%, respectively, compared to the same period in the prior fiscal year. In the three months ended June 30, 2023, vehicle and passenger traffic increased on the Major Routes, Northern Routes and Minor Routes (see the Operational Statistics table for more detail).

Variable fare choices, including advance purchase saver fares, are available on the Major Routes. These fare choices, combined with more space allocated for customers to book in advance, are contributing to increased vehicle traffic on traditionally lower utilized sailings and less sailing waits overall, enabling us to carry higher overall levels of vehicle traffic and achieve higher capacity utilization than in prior years.

In the three months ended June 30, 2023, we delivered 22,568 trips, representing 1,054 or 5% additional round trips compared with the same period in the prior year. Of the 1,054 additional round trips, 1,020 or 97% were added on the Minor Routes, primarily driven by the introduction of two-ship service on the Campbell River – Quadra Island route.

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. In the three months ended June 30, 2023, the additional round trips described above resulted in increased capacity of 4% compared to the same period in 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 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), and most Minor Routes are serviced by one vessel and are non-reservable. In the three months ended June 30, 2023, overall capacity utilization was 69.2%, a decrease of 1.0% compared to capacity utilization of 70.2% during the same period in the prior year. The decrease in capacity utilization is primarily a result of an increase in capacity provided from additional round trips on the Minor Routes, somewhat offset by a higher number of AEQs carried.

In the three months ended June 30, 2023, we cancelled 1.4% (1.1% in the same period in fiscal 2023) of our scheduled sailings primarily due to being unable to secure the required crew, adverse weather and mechanical issues. While cancelling trips in response to weather conditions or vessel mechanical issues is not unusual, we have experienced a higher number of trips cancelled due to our inability to secure required crew. Like many other industries, we are facing a shortage of skilled workers, an aging workforce and higher levels of illness.

Sailing Cancellations	**Three months ended June 30**		**Increase**
	2023	**2022**	**(Decrease)**
Sailings	46,212	44,052	2,160
Cancelled Sailings by type:			
Weather	222	40	182
Mechanical	107	120	(13)
Crew	274	222	52
Other*	62	105	(43)
Total Cancelled Sailings	665	487	178
Cancellations as % of Sailings	1.4%	1.1%	0.3%
Crew Cancellations as % of Sailings	0.6%	0.5%	0.1%

* 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.

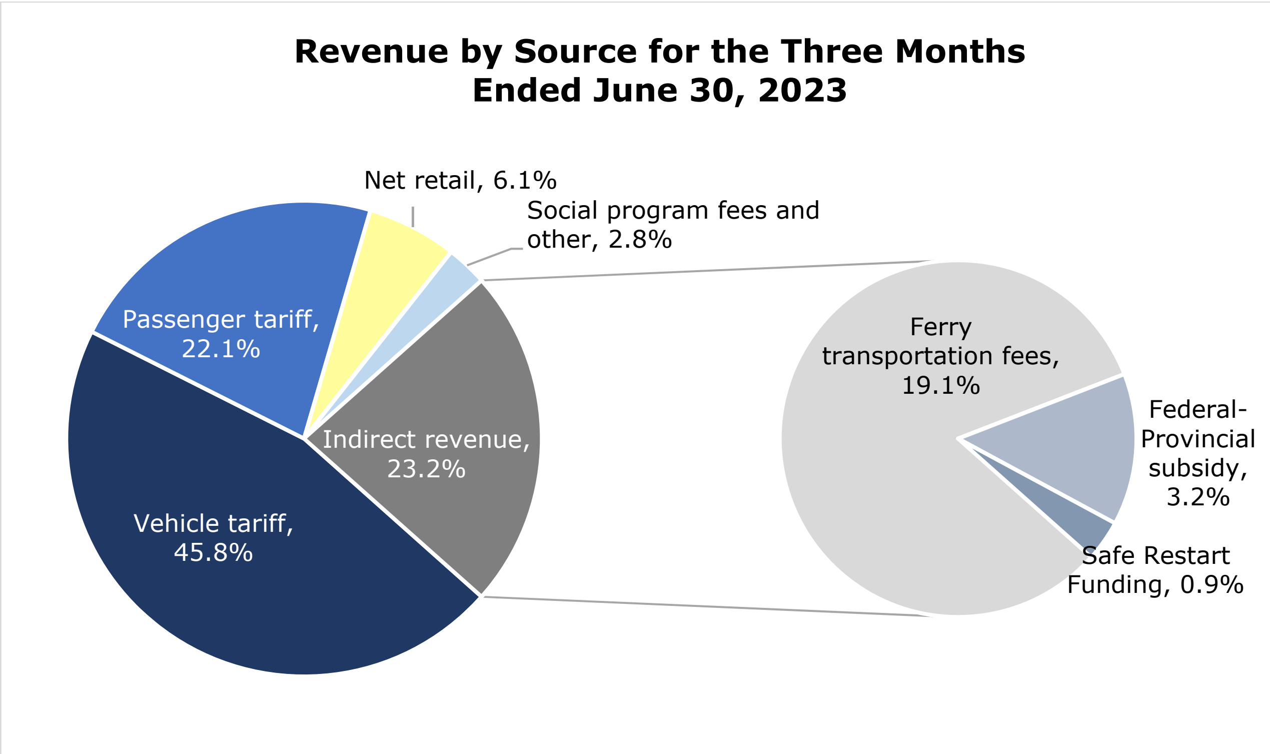
On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled 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	**Three months ended June 30**		
	2023	**2022**	**Change**
Major Routes	69.6%	69.8%	(0.2%)
Northern Routes	78.4%	65.9%	12.5%
Minor Routes	83.0%	84.2%	(1.2%)
On-Time Performance	81.1%	82.0%	(0.9%)

In the three months ended June 30, 2023, overall on-time performance decreased 0.9% from 82.0% to 81.1% compared to the same period in the prior year, primarily declining on the Minor Routes as a result of the impact of increased traffic demand and challenges due to crew shortages.

Revenues
The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (a discussion of the effect of rate regulation can be found on pages 47 and 48 of our fiscal 2023 Management's Discussion and Analysis).

Operational revenues for the three months ended June 30, 2023 are shown in the graph 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.

Revenue ($ millions)	**Three months ended June 30**			
	2023	**2022**	**Increase**	**%**
Direct Route Revenue	**221.4**	**201.6**	**19.8**	**10%**
Vehicle tariff revenue				
Major Routes	108.7	103.2	5.5	5%
Northern Routes	2.8	2.5	0.3	12%
Minor Routes	16.5	15.8	0.7	4%
Total vehicle tariff revenue	128.0	121.5	6.5	5%
Passenger tariff revenue				
Major Routes	51.1	46.6	4.5	10%
Northern Routes	1.8	1.6	0.2	13%
Minor Routes	8.9	8.3	0.6	7%
Total passenger tariff revenue	61.8	56.5	5.3	9%
Net retail revenue				
Major Routes	15.0	13.5	1.5	11%
Northern Routes	0.9	0.9	-	-
Minor Routes	1.2	0.9	0.3	33%
Total net retail revenue	17.1	15.3	1.8	12%
Social program fees	3.8	3.2	0.6	19%
Other revenue	3.2	2.6	0.6	23%
Fuel surcharge	7.5	2.5	5.0	200%
Indirect Route Revenue	**64.7**	**62.6**	**2.1**	**3%**
Safe Restart Funding *	2.4	2.1	0.3	14%
Ferry transportation fees	53.4	52.2	1.2	2%
Federal-Provincial subsidy	8.9	8.3	0.6	7%
Total Route Revenue	**286.1**	**264.2**	**21.9**	**8%**
Other general revenue	0.8	0.7	0.1	14%
Total Revenue	**286.9**	**264.9**	**22.0**	**8%**

*Total Safe Restart Funding of $2.7 million was recorded for operating and fare increase relief, in the three months ended June 30, 2022 ($2.5 million in the same period in the prior year), of which $0.3 million ($0.4 in the prior year) for discretionary sailings relief was included in ferry transportation fees.

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 overall traffic levels, traffic types and tariff rates. On April 12, 2023, we implemented average tariff increases of 3.0% in accordance with our Safe Restart Funding commitments and the Commissioner's Order 19-04 dated September 30, 2019.

During the three months ended June 30, 2023, total direct route revenue increased $19.8 million or 10% compared to the same period in the prior year, primarily as a result of an increase in vehicle and passenger traffic levels, tariff rates, fuel surcharges and retail revenue.

Average Tariff	Three months ended June 30			
			Increase	
	2023	2022	$	%
Average vehicle tariff				
Major Routes	76.05	73.01	3.04	4%
Northern Routes	274.08	262.32	11.76	4%
Minor Routes	15.35	15.34	0.01	0%
Average vehicle tariff	50.91	49.59	1.32	3%
Average passenger tariff				
Major Routes	13.93	13.61	0.32	2%
Northern Routes	76.42	75.38	1.04	1%
Minor Routes	4.15	4.13	0.02	1%
Average passenger tariff	10.59	10.35	0.24	2%

During the three months ended June 30, 2023, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $1.32 or 3% compared to the same period in the prior year as a result of tariff fare increases. In the three months ended June 30, 2023, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.24 or 2% compared to the same period in the prior year, primarily due to tariff rate increases. The increase in traffic levels and the change in average tariff revenue resulted in a total tariff revenue increase of $11.8 million or 7% 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, price, service quality and product offerings. In the three months ended June 30, 2023, net retail revenue increased by $1.8 million compared to the same period in the prior year, primarily as a result of the increase in passenger traffic levels.

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”). Social program fees for the three months ended June 30, 2023 increased $0.6 million compared to the same period in the prior year, mainly due to an increase in the usage of the MTAP and in the number of students travelling under the program.

In the three months ended June 30, 2023, other revenue increased $0.6 million compared to the same period in the prior year, primarily as a result of increased parking revenues.

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. In the three months ended June 30, 2023, a fuel surcharge of 4% was in place. In the same period in the prior year, a fuel surcharge of 1.0% was in place for April and May on all routes except the Northern Routes, and effective June 1, 2022, a fuel surcharge of 2.5% was implemented on all routes. For the purpose of rate regulation and regulatory reporting, surcharges and/or rebates are applied to our deferred fuel cost accounts.

In the three months ended June 30, 2023, total indirect route revenue increased by $2.1 million or 3% compared to the same period in the prior year, mainly as a result of an increase in ferry transportation fees from changes in the monthly schedule of round trips.

In fiscal 2021, we received $308.0 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 ends on March 31, 2024). The Safe Restart Funding consists 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. Of the $308.0 million Safe Restart Funding, we recognized a total of $297.6 million in prior fiscal years. The remaining $10.4 million will be recognized in fiscal 2024, the final year of PT5.

In the three months ended June 30, 2023, we recognized $2.7 million ($0.3 million for discretionary sailings is included in ferry transportation fees) of the remaining $10.4 million. For more details on BC Ferries' obligations under the Safe Restart Funding Agreement, see the agreement filed under the Company's profile on SEDAR at www.sedar.com on January 18, 2021.

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 increased based on the percentage increase in the annual Consumer Price Index (Vancouver).

Expenses
Expenses for the three months ended June 30, 2023 and 2022 are summarized in the table below:

Operating Expenses ($ millions)	**Three months ended June 30**			
			Increase	
	2023	**2022**	**$**	**%**
Operations	173.6	159.2	14.4	9%
Maintenance	28.0	27.2	0.8	3%
Administration	12.3	10.4	1.9	18%
Total operations, maintenance & administration	213.9	196.8	17.1	9%
Depreciation and amortization	46.7	45.3	1.4	3%
Total Operating Expenses	260.6	242.1	18.5	8%

During the three months ended June 30, 2023, total operating expenses increased $18.5 million or 8% compared to the same period in the prior year. In the three months ended June 30, 2023, we delivered 1,054 or 5% additional round trips compared to the same period in the prior year, primarily driven by the introduction of two-ship service on the Campbell River – Quadra Island route.

Wages, benefits and fuel are our largest expenses, representing approximately 77% of our total operations, maintenance and administration costs. The $17.1 million or 9% increase in operations, maintenance and administration costs is primarily driven by an increase in the number of round trips provided, resulting in higher labour costs and fuel consumption, and higher wage rates, benefits and training costs. In accordance with the Collective Agreement between the Company and the BC Ferry & Marine Workers' Union ("Collective Agreement"), wage rates were increased by 2% at April 1, 2023.

The $14.4 million or 9% increase in operations expenses in the three months ended June 30, 2023, compared to the same period in the prior year include:

- $12.0 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, wage rate increase per the Collective Agreement, higher premium to licenced officers, increased training, overtime, illness and benefit costs;
- $4.0 million increase in contracted services, credit card fees, travel, advertising, data communication, training supplies, and other miscellaneous expenses; and
- $1.6 million decrease in fuel expense, reflecting a $1.7 million or 5.8% lower fuel price and an increase of $0.1 million or 1.8% increase in fuel consumption.

Maintenance costs increased by $0.8 million or 3% in the three months ended June 30, 2023 compared to the same period in the prior year.

Administration costs increased $1.9 million or 18% in the three months ended June 30, 2023 compared to the same period in the prior year, primarily as a result of increased labour and benefit costs, contracted services, advertising, rental expense and travel expenses.

Depreciation and amortization increased $1.4 million in the three months ended June 30, 2023 compared to the same period in the prior year, reflecting the timing of capital assets entering service. (See "Investing in our Capital Assets" for details of capital asset expenditures.)

Net finance and other expenses ($ millions)	**Three months ended June 30**		
	2023	**2022**	**Increase (Decrease)**
Finance expense	17.0	16.7	0.3
Less: finance income	(6.1)	(1.8)	(4.3)
Net finance expense	10.9	14.9	(4.0)
Net loss on disposal and impairment of property, plant and equipment and intangible assets	0.2	0.0	0.2
Total net finance and other expenses	11.1	14.9	(3.8)

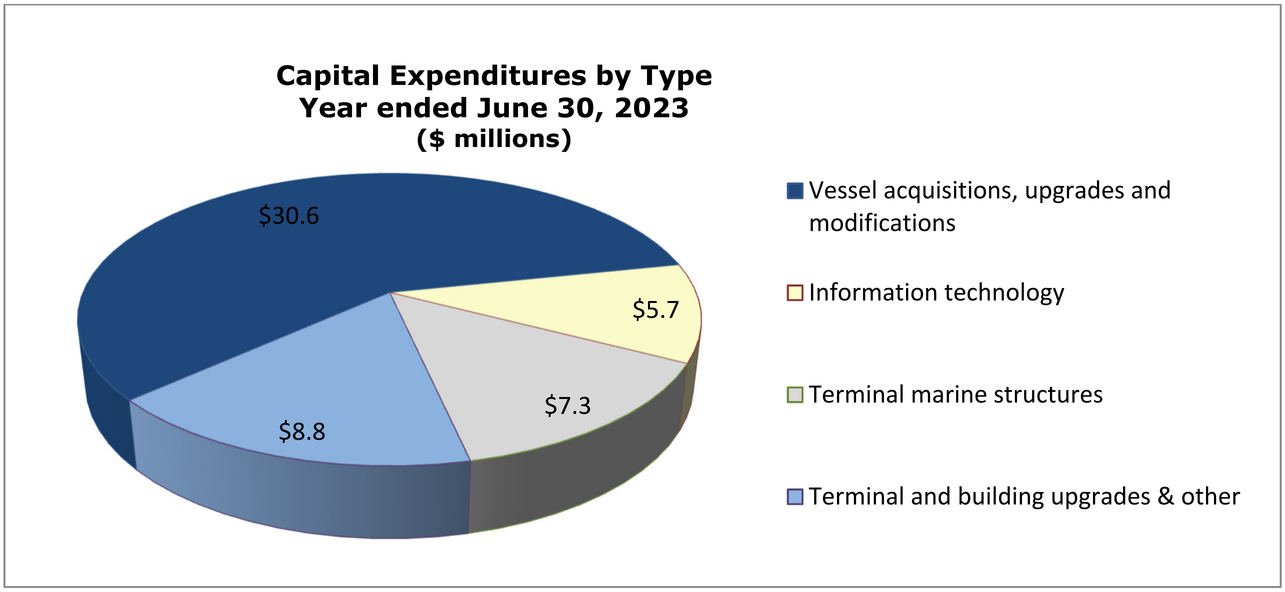
In the three months ended June 30, 2023, net finance and other expenses decreased by $3.8 million compared to the same period in the prior year, primarily related to higher interest earned on investments.

INVESTING IN OUR CAPITAL ASSETS

Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our vessel maintenance and refit facility, modifications to terminal infrastructure in anticipation of Island Class electrification (shore-side power source to enable charging the Island Class vessel batteries), upgrades at our terminals, and renewal of our information technology systems.

On June 7, 2023, BC Ferries submitted an application to the Commissioner seeking approval of a MTE project aimed at transforming check-in and boarding processes for customers at our five major terminals (Duke Point, Tsawwassen, Horseshoe Bay, Departure Bay, and Swartz Bay). The MTE project application proposes how customers arriving at the terminals will benefit from reduced ticketing and check-in wait times, with foot passengers being provided a seamless, contactless journey through enhanced kiosks, fare gates and boarding pass validation, and an express lane check-in at the terminals for pre-paid reserved customers in vehicles.

In the three months ended June 30, 2023, capital expenditures comprised the following:



Capital Expenditures ($ millions)	**Three months ended June 30, 2023**
Major overhauls and inspections	21.3
Hardware upgrades	4.1
Fleet maintenance unit redevelopment	3.6
Various other projects	23.4
	52.4

Major overhauls and inspections

In the three months ended June 30, 2023, we incurred capital expenditures of $21.3 million in respect of major overhauls and inspections of components of hull, propulsion and generators for five vessels that were completed or underway.

Hardware upgrades

Hardware upgrades include the replacement of aged computers, servers, printers, routers, closed-circuit cameras, antennas, digital signage and handheld units for inventory management.

Fleet Maintenance Unit

On October 14, 2022, the Commissioner issued Order 22-02and, on May 12, 2023, issued a further supplemental Order 22-02A approving a project for the redevelopment of BC Ferries' primary vessel maintenance and refit facility located at Deas Basin in Richmond, BC. Also on May 12, 2023, BC Ferries signed a construction agreement with Bird Construction Group for the redevelopment project. This project will redevelop the site to increase efficiencies, upgrade existing structures, and develop a new building to improve capacity. The project is expected to be completed in fiscal 2027.

Various other projects

Various other projects include, among others, engine room upgrades to the *Northern Sea Wolf* vessel, upgrades to marine structures at our Horseshoe Bay, Langdale, Fulford and Otter Bay terminals, upgrades to the café at our Swartz Bay terminal, and terminal efficiency initiatives.

Liquidity and Capital Resources
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 the repayment of maturing debt. 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.

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") from time to time, debt issuances, government contributions and other funding opportunities.

At June 30, 2023, our unrestricted cash and cash equivalents and other short-term investments totalled $44 million and $368 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of $87 million and $341 million, respectively, as at March 31, 2023.

Our $105 million credit facility was renewed on March 14, 2023, to extend the maturity date from April 2026 to April 2027. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At June 30, 2023, there were no draws on the Credit Facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at competitive interest rates. On November 21, 2022, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a stable outlook. On February 9, 2023, DBRS Morningstar confirmed our credit rating at A (high) with a stable trend.

Under the Master Trust Indenture ("MTI"), an agreement which secures and governs the Company's borrowings, we are subject to indebtedness tests that prohibit additional borrowing if our leverage ratio exceeds 85% or if our debt service coverage ratio is less than 1.50 (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost).

At June 30, 2023, we achieved a debt service coverage ratio of 3.15 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the three months ended June 30, 2023 has resulted in a $15.2 million improvement in equity before reserves, from $683.4 million as at March 31, 2023 to $698.6 million as at June 30, 2023. Correspondingly, BC Ferries' leverage ratio has decreased from 70% as of March 31, 2023 to 69% as of June 30, 2023 and is in compliance with our financial covenant requirements.

($ thousands)	June 30, 2023		March 31, 2023	
	$	%	$	%
Aggregate borrowings *	1,558,477	69%	1,560,814	70%
Total equity before reserves	698,585	31%	683,374	30%
Total	2,257,062	100%	2,244,188	100%

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

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, the issuance of bonds, external 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 the first quarter of fiscal 2024 and 2023 are summarized in the table below:

	Three months ended June 30		
($ millions)	**2023**	**2022**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	87.1	204.4	(117.3)
Cash from operating activities:			
Net earnings	15.2	7.9	7.3
Items not affecting cash	59.3	58.2	1.1
Changes in non-cash operating working capital	(5.7)	(20.1)	14.4
Net interest paid	(17.7)	(20.4)	2.7
Cash generated from operating activities	51.1	25.6	25.5
Cash used in financing activities	(3.6)	(3.5)	(0.1)
Cash used in investing activities	(90.1)	(55.9)	(34.2)
Net decrease in cash and cash equivalents	(42.6)	(33.8)	(8.8)
Cash and cash equivalents, end of period	44.5	170.6	(126.1)

For the three months ended June 30, 2023, cash generated from operating activities increased by $25.5 million compared to the prior year, primarily due to an increase in net earnings and changes in working capital (receivables, prepaids, payables and contracted liabilities). The increase in net earnings reflects the impact of increased traffic and revenues, partially offset by an increase in operating expenses due to increased services levels.

Cash used in financing activities in the three months ended June 30, 2023 was $3.6 million ($3.5 million in fiscal 2023). This amount consisted of $2.8 million ($2.8 million in fiscal 2023) in repayment of our loans from KfW IPEX-Bank GmbH and $0.8 million ($0.7 million in fiscal 2023) in repayment of lease obligations.

Cash used in investing activities for the three months ended June 30, 2023 increased by $34.2 million compared to the prior year, mainly due to a $41.4 million increase in purchases of capital assets partially offset by a $7.2 million decrease in short-term investment purchases.

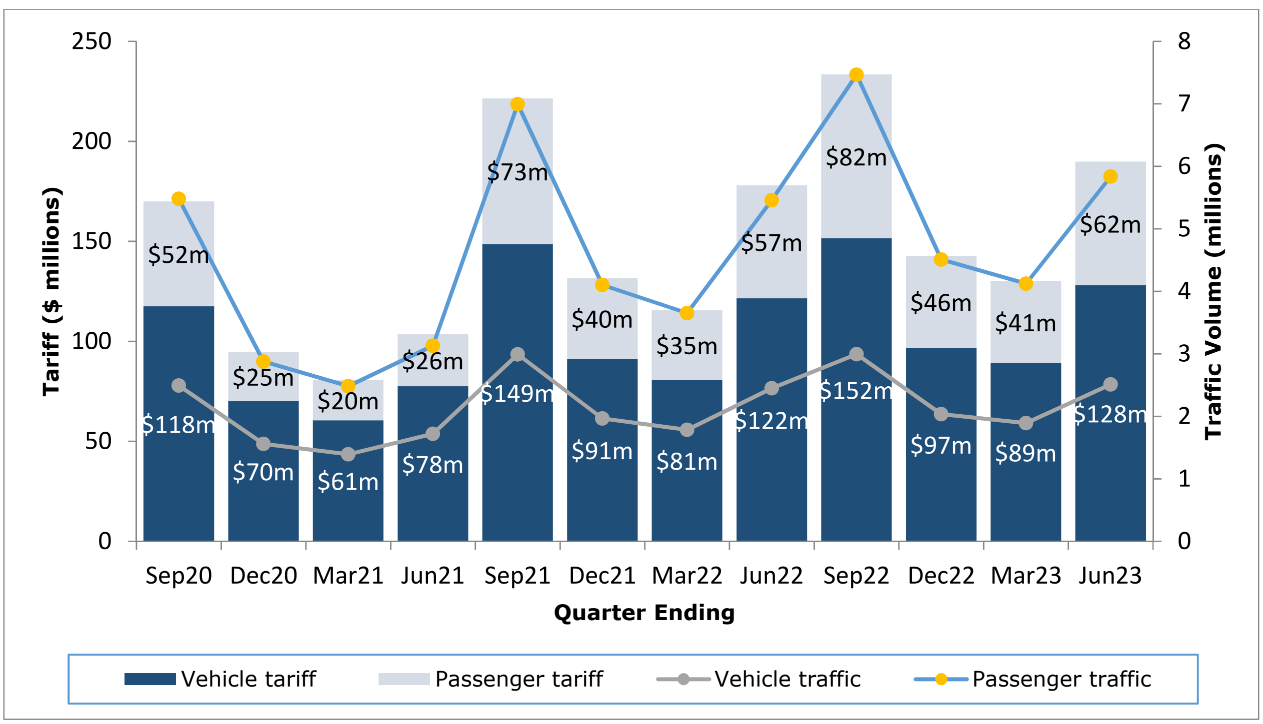
SUMMARY OF QUARTERLY RESULTS

The table below compares earnings by quarter for the most recent 12 quarters:

	Quarter Ended (unaudited)											
($ millions)	**Sep 20**	**Dec 20**	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**	**Mar 23**	**Jun 23**
Total revenue without Safe Restart Funding	248	157	137	169	314	203	177	262	340	233	199	284
Safe Restart Funding	-	155	31	60	3	19	20	3	3	2	1	3
Total revenue	248	312	168	229	317	222	197	265	343	235	200	287
Operating expenses	195	199	202	211	223	209	224	242	249	245	255	261
Operating profit (loss)	53	113	(34)	18	94	13	(27)	23	94	(10)	(55)	26
Net earnings (loss)	38	99	(54)	5	80	(2)	(49)	8	80	(23)	(67)	15
Net earnings (loss) without Safe Restart Funding	38	(56)	(85)	(55)	77	(21)	(69)	5	77	(25)	(68)	12

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 the impact of the COVID-19 pandemic, which began in March 2020 and shows the relationship of passenger traffic volume and tariff revenue over the most recent 12 quarters:



OUTLOOK

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

Financial
During fiscal 2023, BC Ferries carried 9.4 million vehicles, which is the highest vehicle traffic on record in a fiscal year. In the three months ended June 30, 2023, BC Ferries continued to experience higher traffic levels and carried 5.8 million passengers and 2.5 million vehicles, an increase of 7% and 3%, respectively, compared to the same period in the prior year.

While we are 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, transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, disposable personal income, and the full affects of the pandemic.

We are also experiencing challenges securing the required crew to sail our vessels, which has resulted in cancellations on some routes, and are responding to these challenges by continuing to actively recruit and invest in our employees. The Collective Agreement provides for wage re-openers in years four and five. In August 2023, negotiations for the year-four wage increases began, and once agreed to, wage increases will be effective October 2023.

With continued high inflation and rising interest rates, BC Ferries may experience impacts to customer demand along with upward pressure on our costs.

On March 31, 2023, the Commissioner released a preliminary decision on price caps for PT6, April 1, 2024 through March 31, 2028, capping increases for average fares at 9.2% per year. This preliminary decision did not reflect the Province’s commitment of $500 million in new funding for BC Ferries, which has the goal of limiting annual average fare increases to 3% a year.

The Commissioner will make a final determination on the PT6 price caps by September 30, 2023, incorporating the commitment of $500 million from the Province, considering updated assumptions to BC Ferries’ traffic forecasts, and projected expenses.

Risks and Uncertainties
Understanding and managing operational and financial risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 34 through 41 of our fiscal 2023 Management’s Discussion & Analysis, which is available on SEDAR at www.sedar.com and on our investor webpage at https://www.bcferries.com/our-company/investor-relations. Our risk profile is substantially unchanged during the three months ended June 30, 2023.

BC Ferries is experiencing record vehicle and passenger traffic levels. Our 12-year capital plan of $5.2 billion includes vessel planning strategies, such as new major vessels, and will provide additional capacity and allow us to respond to increases in customer demand.

ACCOUNTING PRACTICES

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

Our significant accounting policies are contained in Note 1 to our March 31, 2023 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.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 44 through 48 of our fiscal 2023 Management's Discussion & Analysis.

Adoption of New Accounting Standards
No new accounting standards were adopted effective April 1, 2023.

FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, financial and business risks, results of operations, performance, business prospects and opportunities, and industry performance and trends. They reflect management's current internal projections, expectations and beliefs, and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include the impact of the COVID-19 pandemic, traffic trends, the value of the Canadian Dollar relative to the US Dollar, inflation, interest rates, fuel costs, construction costs and timelines, cyclical demand, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the CFSC.

Examples of forward looking statements included in this document include, but are not limited to, statements with respect to: price caps, Collective Agreement negotiations, future traffic volumes, the impact of high inflation and rising interest rates, crew shortages, Safe Restart Funding, the need for positive net earnings, revenue sources, vehicle and passenger fares, cash requirements and sources of cash flows, our credit rating and credit risks, reliance on sources of external funding, cyclical traffic patterns and the impact on operations, economic conditions and their impact on financial performance, the availability of financing, fuel prices and the impact of hedging, capital plans and major capital initiatives, among other statements.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance, capital market access, inflation, interest rates, foreign currency, fuel prices, traffic fluctuations, timelines of major capital projects, security, safety, and environmental incidents, cyber security breaches, changes in laws, vessel repair facility limitations, economic regulatory environment changes, tax changes, and Indigenous consultations.

Actual results may differ materially from any forward looking statement. 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 made as of the date of this Management's Discussion and Analysis, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

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.