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

For the three and six months ended
September 30, 2023

Dated November 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 and six months ended September 30, 2023 that has been prepared with information available as of November 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 and six month periods ended September 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 SEDAR+ at www.sedarplus.ca 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 37 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other routes through contracts with independent operators.

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

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

BC Ferries carried 7.8 million passengers and 3.0 million vehicles during the three months ended September 30, 2023, compared to 7.5 million passengers and 3.0 million vehicles in the same period in the prior year. Year-to-date, we carried 13.6 million passengers and 5.5 million vehicles, an increase of 5% and 2%, respectively, compared to the same period in the prior year. In the three and six months ended September 30, 2023, BC Ferries experienced the highest vehicle traffic levels on record in a comparable period, contributing to BC Ferries' financial performance. In the three months ended September 30, 2023, BC Ferries delivered 24,277 (46,845 year-to-date) round trips, or 5% additional round trips compared to the same period in the prior year.

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

General

- For a nine-day period in the month of July, the *Coastal Celebration* was out of service to repair an ineffective propeller blade seal, which resulted in cancelled sailings on the Tsawwassen – Swartz Bay route.

- On August 17, 2023, BC Ferries experienced a mechanical issue with the *Coastal Renaissance* vessel, which is related to the drive motor of the vessel, and is not a simple repair. The *Coastal Renaissance* being out of service, impacted BC Ferries' ability to run planned service through Thanksgiving weekend. Every effort was made to manage resources to accommodate the traffic demand and minimize the impact to our customers. The *Coastal Renaissance* is expected to return to service in mid-December.

- On September 30, 2023, the British Columbia Ferries Commissioner (the "Commissioner") issued Order 23-04, which established final price cap[1] increases of 3.2% for each of the four years of performance term six ("PT6"), being the four year period commencing April 1, 2024 and ending on March 31, 2028. On March 31, 2023, the Commissioner had previously released a preliminary decision on price caps for PT6, setting increases at a maximum of 9.2% per year. On August 30, 2023, BC Ferries filed a second supplemental submission to update with the most current estimates on cost escalation across labour, fuel and capital. The Commissioner's final price cap decision factored in the impact of $500 million in new funding from the Province, which had the goal of keeping annual average fare increases at or below 3% a year for PT6. Order 23-04 also:
  - maintains the existing fuel deferral accounts;
  - sets the price per litre for the operation of the fuel deferral accounts for marine diesel and for liquefied natural gas ("LNG") in each of the four years of PT6, which is a required input into the calculation of fuel surcharges or rebates; and
  - requires BC Ferries to prepare a plan by April 1, 2024, to track on a quarterly basis during PT6, actual capital expenditures compared to the forecast capital expenditures cash flows on which the price cap decision is based, and to develop corporate key performance indicators to track cost and service effectiveness of investments made in human resources.

Capital Assets

- On October 10, 2023, BC Ferries submitted an application to the Commissioner under Section 55 of the Coastal Ferry Act (the "Act") seeking approval of a major capital expenditure for the Island Class Phase 3 & Terminal Electrification Program's ("IC3TEP") planned direct cost of electrification. IC3TEP proposes to construct and deliver into service four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore at four terminals on the two routes connecting Nanaimo Harbour and Gabriola Island and Campbell River and Quadra Island. This application followed Commissioner Order 23-03, which approved the withdrawal of the previous Island Class electrification application. On September 11, 2023, BC Ferries issued a Request for Proposal ("RFP") to prequalified shipyards, inviting them to submit a proposal for the design and construction of four new Island Class roll on/roll off passenger ferries by November 13, 2023. Award of any contract, as a result of this RFP, is pending the Commissioner's approval of IC3TEP.

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[1] The price cap is a regulatory mechanism that establishes a maximum allowable annual average fare increase in each year over the term.

FINANCIAL AND OPERATIONAL OVERVIEW

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

Financial performance ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2023	**2022**	**Variance**	**2023**	**2022**	**Variance**
Total revenue	381.5	343.1	38.4	668.4	608.0	60.4
Operating expenses	269.6	248.9	20.7	530.2	491.0	39.2
Operating profit	111.9	94.2	17.7	138.2	117.0	21.2
Net finance and other expenses	9.8	13.8	(4.0)	20.9	28.7	(7.8)
Net earnings	102.1	80.4	21.7	117.3	88.3	29.0
Other comprehensive income (loss)	14.2	(5.8)	20.0	10.6	21.9	(11.3)
Total comprehensive income	116.3	74.6	41.7	127.9	110.2	17.7

In the three months ended September 30, 2023, revenues increased $38.4 million or 11% ($60.4 million or 10% year-to-date) 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, fuel surcharges and the sale of carbon credits.

In the three months ended September 30, 2023, operating expenses increased $20.7 million or 8% ($39.2 million or 8% year-to-date) compared to the same period in the prior year. This increase is mainly due to an increase in labour costs to secure crew, as well as higher wage rates, maintenance, administration and depreciation expenses (see "Expenses" for more detail).

In the three months ended September 30, 2023, net earnings were $102.1 million or 27% ($117.3 million or 33% year-to-date) higher compared to 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 September 30, 2023, total comprehensive income was $116.3 million compared to $74.6 million in the same period in the prior year. This is an increase of $41.7 million comprised of an increase in other comprehensive income ("OCI") of $20.0 million (an income of $14.2 million in the three months ended September 30, 2023, compared to a loss of $5.8 million in the same period in the prior year) and the $21.7 million increase in net earnings described above. The increase in OCI reflects a $20.0 million increase in the change in the fair value of our fuel swap contracts.

In the six months ended September 30, 2023, total comprehensive income was $127.9 million compared to $110.2 million in the same period in the prior year. This is an increase of $17.7 million comprised of the $29.0 million increase in net earnings described above and a decrease in OCI of $11.3 million (a gain of $10.6 million in the six months ended September 30, 2023, compared to gain of $21.9 million in the same period in the prior year). The reduction in OCI reflects a $11.3 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 and six months ended September 30, 2023 and 2022 are shown in the tables below.

Operational Statistics	**Three months ended September 30**				**Six months ended September 30**			
Vehicle Traffic	**2023**	**2022**	**Increase (Decrease)**	**%**	**2023**	**2022**	**Increase (Decrease)**	**%**
Major Routes	1,732,731	1,766,208	(33,477)	(2%)	3,162,144	3,179,752	(17,608)	(1%)
Northern Routes	18,928	18,116	812	4%	29,144	27,757	1,387	5%
Minor Routes	1,261,455	1,209,903	51,552	4%	2,336,230	2,236,516	99,714	4%
Total Vehicle Traffic	3,013,114	2,994,227	18,887	1%	5,527,518	5,444,025	83,493	2%
Passenger Traffic								
Major Routes	4,962,811	4,805,332	157,479	3%	8,632,116	8,227,588	404,528	5%
Northern Routes	48,679	47,247	1,432	3%	72,234	68,846	3,388	5%
Minor Routes	2,755,894	2,614,271	141,623	5%	4,899,548	4,629,532	270,016	6%
Total Passenger Traffic	7,767,384	7,466,850	300,534	4%	13,603,898	12,925,966	677,932	5%
Round Trips								
Major Routes	3,809	3,862	(53)	(1%)	7,162	7,185	(23)	-
Northern Routes	168	157	11	7%	267	253	14	6%
Minor Routes	20,300	19,063	1,237	6%	39,416	37,158	2,258	6%
Total Round Trips	24,277	23,082	1,195	5%	46,845	44,596	2,249	5%
Capacity Provided (AEQs)*								
Major Routes	2,385,880	2,427,786	(41,906)	(2%)	4,495,738	4,525,950	(30,212)	(1%)
Northern Routes	27,444	25,350	2,094	8%	42,020	39,122	2,898	7%
Minor Routes	2,205,324	1,995,926	209,398	10%	4,224,866	3,877,620	347,246	9%
Total Capacity Provided	4,618,648	4,449,062	169,586	4%	8,762,624	8,442,692	319,932	4%
AEQs Carried *								
Major Routes	2,021,011	2,048,002	(26,991)	(1%)	3,716,295	3,727,331	(11,036)	-
Northern Routes	22,329	21,325	1,004	5%	34,917	33,037	1,880	6%
Minor Routes	1,352,735	1,300,884	51,851	4%	2,511,885	2,411,661	100,224	4%
Total AEQs Carried	3,396,075	3,370,211	25,864	1%	6,263,097	6,172,029	91,068	1%
Capacity Utilization								
Major Routes	84.7%	84.4%	0.3%		82.7%	82.4%	0.3%	
Northern Routes	81.4%	84.1%	(2.7%)		83.1%	84.4%	(1.3%)	
Minor Routes	61.3%	65.2%	(3.9%)		59.5%	62.2%	(2.7%)	
Total Capacity Utilization	73.5%	75.8%	(2.3%)		71.5%	73.1%	(1.6%)	

*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 September 30, 2023, vehicle traffic increased 1% and passenger traffic increased 4% compared to the same period in the prior fiscal year. Year-to-date, vehicle traffic increased 2% and passenger traffic increased 5%, compared to the same period in the prior fiscal year. In the three and six months ended September 30, 2023, vehicle traffic increased on both the Northern Routes and Minor Routes, and decreased on the Major Routes. In the three and six months ended September 30, 2023, passenger traffic increased on the Major Routes, Northern Routes and Minor Routes (see the Operational Statistics table for more detail).

Additional advance purchase fare choices, Prepaid and Saver, are available on the Major Routes. These fare choices, combined with more space allocated for customers to book in advance, contribute to increased vehicle traffic on traditionally lower utilized sailings and fewer 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 September 30, 2023, we delivered 24,277 (46,845 year-to-date) round trips, representing 1,195 or 5% (2,249 or 5% year-to-date) additional round trips compared with the same period in the prior year. The additional round trips were primarily added on the Minor Routes and mainly 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 Coastal Ferry Services Contract (the "CFSC") between BC Ferries and the Province. In the three months ended September 30, 2023, the additional round trips described above resulted in increased capacity of 4% (4% year-to-date) compared to the same period in the prior year. In the three months ended September 30, 2023, the capacity provided on the Major Routes decreased 2% (1% year-to-date) compared to the same period in the prior year, primarily as a result of the reduced number of trips provided due to vessel mechanical issues. In the three months ended September 30, 2023, the capacity provided on the Minor Routes increased 10% (9% year-to-date) compared to the same period in the prior year, primarily as a result of increase in the number of trips provided and vessel substitutions with larger available deck space.

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). In addition, most Minor Routes are serviced by one vessel and are non-reservable. In the three months ended September 30, 2023, overall capacity utilization was 73.5%, a decrease of 2.3% compared to capacity utilization of 75.8% during the same period in the prior year. Year-to-date, overall capacity utilization was 71.5%, a decrease of 1.6% compared to capacity utilization of 73.1% 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.

Sailing Cancellations	Three months ended September 30			Six months ended September 30		
	2023	2022	Change	2023	2022	Change
Sailings	49,453	47,058	2,395	95,455	91,079	4,376
Cancelled Sailings by type:						
Weather	46	4	42	268	44	224
Mechanical	226	112	114	333	229	104
Crew	187	302	(115)	461	524	(63)
Other *	48	105	(57)	110	207	(97)
Total Cancelled Sailings	507	523	(16)	1,172	1,004	168
Cancellations as % of Sailings	1.0%	1.1%	(0.1%)	1.2%	1.1%	0.1%
Crew Cancellations as % of Sailings	0.4%	0.6%	(0.2%)	0.5%	0.6%	(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.

In the three months ended September 30, 2023, we cancelled 1.0% (1.1% in the same period in the prior year) of our scheduled sailings primarily due to higher cancellations for vessel mechanical issues, offset by reduced cancellations due to crew shortages. Year-to-date, we cancelled 1.2% (1.1% in the same period in the prior year) of our scheduled sailings primarily due to being unable to secure the required crew, mechanical issues, and adverse weather. Cancellations due to crew shortages have decreased compared to the prior year reflecting the impact of actively recruiting and investing in our employees.

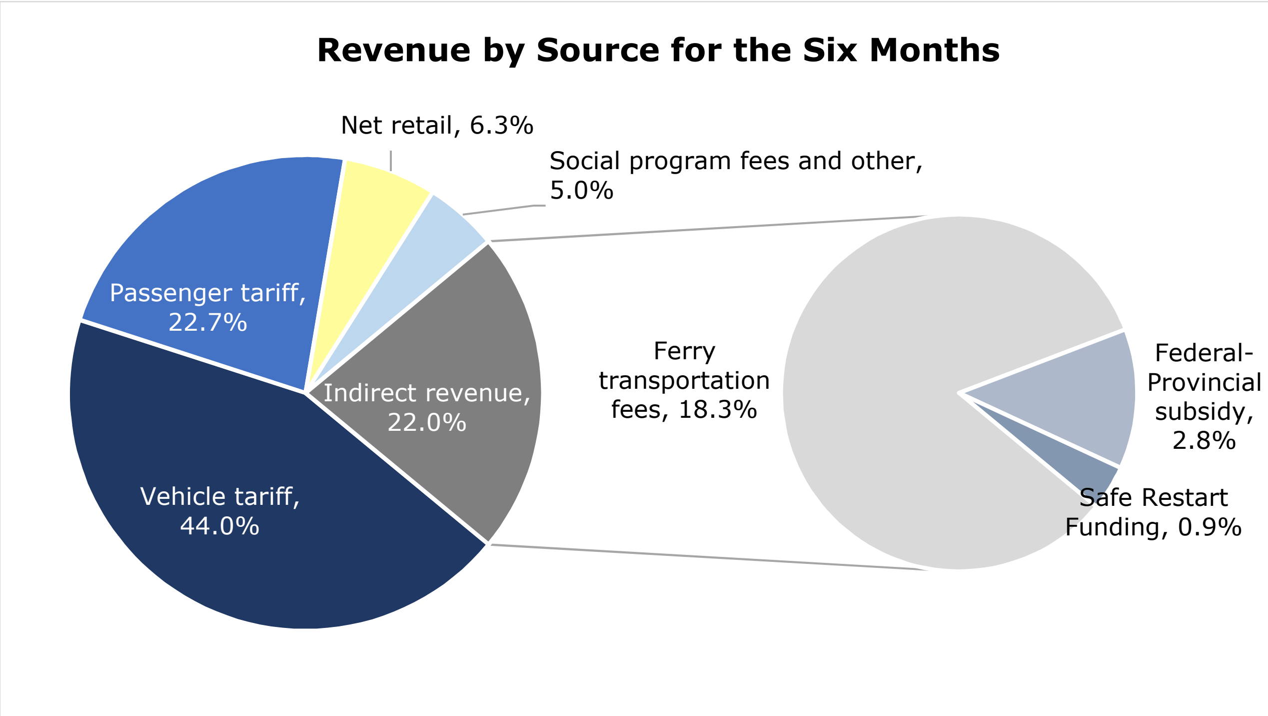
On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled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

On-Time Performance	Three months ended September 30			Six months ended September 30		
	2023	2022	Change	2023	2022	Change
Major Routes	63.8%	72.7%	(8.9%)	66.5%	71.4%	(4.9%)
Northern Routes	84.0%	75.5%	8.5%	81.6%	71.3%	10.3%
Minor Routes	78.5%	81.5%	(3.0%)	80.7%	82.8%	(2.1%)
On-Time Performance	76.5%	80.1%	(3.6%)	78.7%	81.0%	(2.3%)

In the three months ended September 30, 2023, overall on-time performance decreased 3.6% from 80.1% to 76.5% compared to the same period in the prior year. Year-to-date, overall on-time performance decreased 2.3% from 81.0% to 78.7% compared to the same period in the prior year. On-time performance decreased on the Major Routes as a result of increased traffic requiring additional time to load vessels in response to a reduction in round trips due to vessel mechanical issues. On-time performance decreased on the Minor Routes as a result of time delays due to crew shortages and the impact of increased traffic demand.

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 six months ended September 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 September 30				Six months ended September 30			
			Increase				Increase	
	2023	**2022**	**$**	**%**	**2023**	**2022**	**$**	**%**
Direct Route Revenue	**285.8**	**267.2**	**18.6**	**7%**	**507.2**	**468.8**	**38.4**	**8%**
Vehicle tariff revenue								
Major Routes	131.9	126.2	5.7	5%	240.6	229.4	11.2	5%
Northern Routes	5.5	5.3	0.2	4%	8.3	7.8	0.5	6%
Minor Routes	21.3	20.0	1.3	7%	37.8	35.8	2.0	6%
Total vehicle tariff revenue	158.7	151.5	7.2	5%	286.7	273.0	13.7	5%
Passenger tariff revenue								
Major Routes	69.1	65.7	3.4	5%	120.2	112.3	7.9	7%
Northern Routes	4.4	4.4	-	0%	6.2	6.0	0.2	3%
Minor Routes	12.7	11.9	0.8	7%	21.6	20.2	1.4	7%
Total passenger tariff revenue	86.2	82.0	4.2	5%	148.0	138.5	9.5	7%
Net retail revenue								
Major Routes	20.1	18.2	1.9	10%	35.1	31.7	3.4	11%
Northern Routes	2.2	2.1	0.1	5%	3.1	3.0	0.1	3%
Minor Routes	1.9	1.5	0.4	27%	3.1	2.4	0.7	29%
Total net retail revenue	24.2	21.8	2.4	11%	41.3	37.1	4.2	11%
Social program fees	3.1	2.9	0.2	7%	6.9	6.1	0.8	13%
Other revenue	4.0	3.4	0.6	18%	7.2	6.0	1.2	20%
Fuel surcharge	9.6	5.6	4.0	71%	17.1	8.1	9.0	111%
Indirect Route Revenue	**78.0**	**75.2**	**2.8**	**4%**	**142.7**	**137.8**	**4.9**	**4%**
Safe Restart Funding *	3.2	2.8	0.4	14%	5.6	4.9	0.7	14%
Ferry transportation fees	65.9	64.0	1.9	3%	119.3	116.2	3.1	3%
Federal-Provincial subsidy	8.9	8.4	0.5	6%	17.8	16.7	1.1	7%
Total Route Revenue	363.8	342.4	21.4	6%	649.9	606.6	43.3	7%
Other general revenue **	17.7	0.7	17.0	-	18.5	1.4	17.1	-
Total Revenue	381.5	343.1	38.4	11%	668.4	608.0	60.4	10%

*Total Safe Restart Funding of $3.6 million was recorded for discretionary and fare increase relief, in the three months ended September 30, 2023 ($6.3 million year-to-date), of which $0.4 million ($0.7 million year-to-date) for discretionary sailings relief was included in ferry transportation fees. In the prior year, Safe Restart Funding of $3.1 million was recorded for fare increase relief, in the three months ended September 30, 2022 ($5.6 million year-to-date), of which $0.3 million ($0.7 million year-to-date) for discretionary sailings relief was included in ferry transportation fees.

**Other general revenue increased by $17.0 million ($17.1 million year-to-date) primarily as a result of the sale of carbon credits.

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 September 30, 2023, total direct route revenue increased $18.6 million ($38.4 million year-to-date) 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 September 30				Six months ended September 30			
			Increase (Decrease)				Increase	
	2023	2022	$	%	2023	2022	$	%
Average vehicle tariff								
Major Routes	76.12	71.46	4.66	7%	76.09	72.15	3.94	5%
Northern Routes	290.57	290.24	0.33	0%	284.79	280.54	4.25	2%
Minor Routes	16.89	16.58	0.31	2%	16.18	16.01	0.17	1%
Average vehicle tariff	52.67	50.61	2.06	4%	51.87	50.15	1.72	4%
Average passenger tariff								
Major Routes	13.92	13.68	0.24	2%	13.92	13.65	0.27	2%
Northern Routes	90.39	92.01	(1.62)	(2%)	85.83	75.38	10.45	14%
Minor Routes	4.61	4.55	0.06	1%	4.41	4.36	0.05	1%
Average passenger tariff	11.10	10.98	0.12	1%	10.88	10.71	0.17	2%

During the three months ended September 30, 2023, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $2.06 or 4% ($1.72 or 4% year-to-date) compared to the same period in the prior year as a result of tariff fare increases and increases in vehicle traffic on higher tariff routes. In the three months ended September 30, 2023, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.12 or 1% ($0.17 or 2% year-to-date) 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 $11.4 million or 5% ($23.2 million or 6% year-to-date) 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 September 30, 2023, net retail revenue increased by $2.4 million ($4.2 million year-to-date) compared to the same period in the prior year, primarily as a result of higher average sales per passenger and higher 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 September 30, 2023, increased $0.2 million ($0.8 million year-to-date) compared to the same period in the prior year, mainly due to an increase in the usage of the MTAP and the number of students travelling under the social program.

In the three months ended September 30, 2023, other revenue increased $0.6 million ($1.2 million year-to-date) 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 six months ended September 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 September 30, 2023, total indirect route revenue increased by $2.8 million ($4.9 million year-to-date) 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 and an increase in the Federal-Provincial subsidy.

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 is being recognized in fiscal 2024, the final year of PT5.

In the three months ended September 30, 2023, we recognized $3.6 million ($6.3 million year-to-date) of the remaining $10.4 million of Safe Restart Funding. In the three months ended September 30, 2023, $0.4 million ($0.7 million year-to-date) for discretionary sailings is included in ferry transportation fees. 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.sedarplus.ca 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).

In the three months ended September 30, 2023, other general revenue increased $17.0 million ($17.1 million year-to-date) primarily from the sale of carbon credits earned through activities such as its purchase of natural gas and use of LNG (lower carbon fuel than diesel). BC Ferries received approval for the sale of carbon-credits related to calendar 2022 from the Ministry of Energy Mines and Low Carbon Innovation in September 2023. In the prior fiscal year, carbon credit revenue of $9.9 million was earned in the three months ended December 31, 2022. For regulatory purposes, BC Ferries directs the revenue earned through the sale of earned carbon credits into a Carbon Reduction Investment Account ("CRIA"). By Order 22-01, the Commissioner had authorized BC Ferries to create the CRIA in support of funding infrastructure investments identified in its Clean Futures Plan and to progress Green House Gas emission reduction projects.

Expenses

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

Operating expenses ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2023	**2022**	**Increase**	**2023**	**2022**	**Increase**
Operations	184.4	173.2	11.2	358.0	332.4	25.6
Maintenance	26.4	18.5	7.9	54.4	45.7	8.7
Administration	12.8	12.4	0.4	25.1	22.8	2.3
Total operations, maintenance & administration	223.6	204.1	19.5	437.5	400.9	36.6
Depreciation and amortization	46.0	44.8	1.2	92.7	90.1	2.6
Total operating expenses	269.6	248.9	20.7	530.2	491.0	39.2

During the three months ended September 30, 2023, total operating expenses increased $20.7 million or 8% ($39.2 million or 8% year-to-date) compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 78% (77% year-to-date) of our total operations, maintenance and administration costs. The $19.5 million or 10% ($36.6 million or 9% year-to-date) increase in operations, maintenance and administration expenses.

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 and are currently being reviewed through the wage re-opener. Wage rates for employees not covered by the Collective Agreement were increased by 5% effective July 1, 2023.

The $11.2 million ($25.6 million year-to-date) increase in operations expenses in the three months ended September 30, 2023 compared to the same period in the prior year include:

- $12.6 million ($24.6 million year-to-date) increase in labour costs to secure crew, wage rate increases, higher premium to licenced officers, increased training, overtime, illness and benefit costs;
- $1.5 million ($5.5 million year-to-date) increase in contracted services, credit card fees, travel, materials and supplies and other miscellaneous expenses; and
- $2.9 million ($4.5 million year-to-date) decrease in fuel expense, primarily reflecting lower fuel prices.

Maintenance costs increased by $7.9 million ($8.7 million year-to-date) in the three months ended September 30, 2023 compared to the same period in the prior year, primarily as a result of the cyclical nature of vessel refit activity, unplanned repairs on the Coastal Class vessels, an increase in labour rates and higher materials and supplies prices.

Administration costs increased $0.4 million ($2.3 million year-to-date) in the three months ended September 30, 2023 compared to the same period in the prior year, primarily as a result of increased labour and benefit costs and contracted services.

Depreciation and amortization increased $1.2 million ($2.6 million year-to-date) in the three months ended September 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 September 30**			**Six months ended September 30**		
	2023	**2022**	**Increase (Decrease)**	**2023**	**2022**	**Increase (Decrease)**
Finance expense	17.1	17.1	0.0	34.0	33.8	0.2
Less: finance income	(7.2)	(3.3)	(3.9)	(13.3)	(5.1)	(8.2)
Net finance expense	9.9	13.8	(3.9)	20.7	28.7	(8.0)
Net loss on disposal and impairment of property, plant and equipment and intangible assets	(0.1)	0.0	(0.1)	0.2	0.0	0.2
Total net finance and other expenses	9.8	13.8	(4.0)	20.9	28.7	(7.8)

In the three months ended September 30, 2023, net finance and other expenses decreased by $4.0 million ($7.8 million year-to-date) 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.

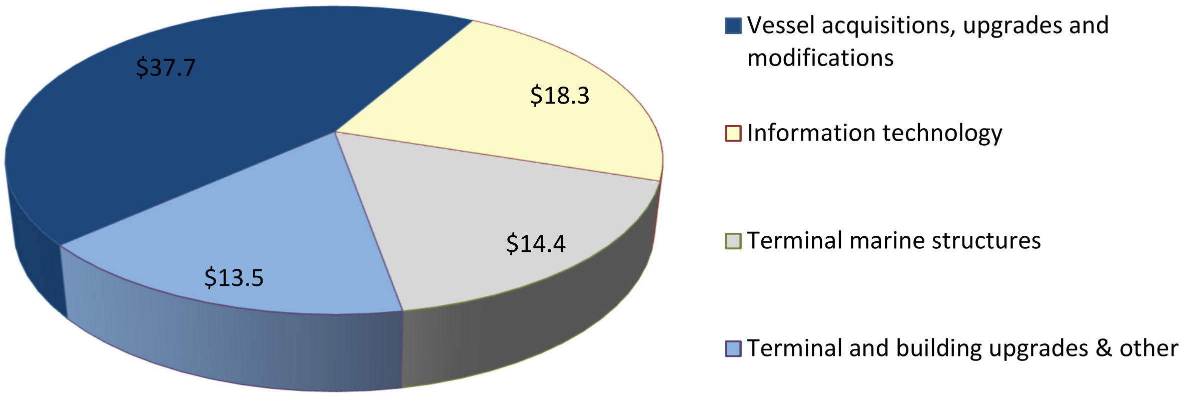
On June 7, 2023, BC Ferries submitted an application to the Commissioner seeking approval of a MTE project aimed at transforming check-in and boarding processes for customers at our five major terminals (Duke Point, Tsawwassen, Horseshoe Bay, Departure Bay and Swartz Bay). On October 17, 2023, BC Ferries submitted a request to the Commissioner to withdraw this application. BC Ferries expects to submit a new filing for this project in the future.

On October 10, 2023, BC Ferries submitted an application to the Commissioner under Section 55 of the *Coastal Ferry Act* (the "Act") seeking approval of a major capital expenditure for IC3TEP planned direct cost of electrification. IC3TEP proposes to construct and deliver into service four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore at four terminals on the two routes connecting Nanaimo Harbour and Gabriola Island and Campbell River and Quadra Island. This application followed Commissioner Order 23-03, which approved the withdrawal of the previous Island Class electrification application. On September 11, 2023, BC Ferries issued a RFP to prequalified shipyards, inviting them to submit a proposal for the design and construction of four new Island Class roll on/roll off passenger ferries by November 13, 2023. Award of any contract, as a result of this RFP, is pending the Commissioner's approval of IC3TEP.

In the three and six months ended September 30, 2023, capital expenditures comprised the following:

Capital Expenditures ($ millions)	**Three months ended September 30, 2023**	**Six months ended September 30, 2023**
Major overhauls and inspections	1.9	23.2
Hardware upgrades	10.6	14.7
Fleet maintenance unit redevelopment	2.3	5.9
Fleet maintainence unit dolphins and sheet pile wall	3.2	5.4
Various other projects	13.5	34.7
	31.5	83.9

Capital Expenditures by Type
Year ended September 30, 2023
($ millions)



Major overhauls and inspections

In the three months ended September 30, 2023, we incurred capital expenditures of $1.9 million ($23.2 million year-to-date) 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 22-02 and, 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 (the "Fleet Maintenance Unit"). 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.

Fleet Maintenance Unit marine structure upgrades

A project is underway to replace three dolphins and to extend the life of the existing sheet pile wall at our Fleet Maintenance Unit and is expected to be completed in the fall.

Various other projects

At September 30, 2023, approximately 120 projects, including those described above, are in progress. Various other projects include, among others, engine room upgrades to the *Northern Sea Wolf* vessel, Coastal Class vessel quarter-life upgrades, upgrades to marine structures at our Horseshoe Bay, Langdale, Fulford and Otter Bay terminals, replacing the roof on several buildings at our Duke Point terminal, 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 external funding opportunities.

At September 30, 2023, our unrestricted cash and cash equivalents and other short-term investments totalled $114 million and $390 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 September 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 September 30, 2023, we achieved a debt service coverage ratio of 3.44 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the six months ended September 30, 2023 has resulted in a $117.3 million improvement in equity before reserves, from $683.4 million as at March 31, 2023 to $800.7 million as at September 30, 2023. Correspondingly, BC Ferries' leverage ratio has decreased from 70% as of March 31, 2023 to 66% as of September 30, 2023 and is in compliance with our financial covenant requirements.

($ thousands)	**September 30, 2023**		**March 31, 2023**	
	$	%	$	%
Aggregate borrowings *	1,554,842	66%	1,560,814	70%
Total equity before reserves	800,709	34%	683,374	30%
Total	2,355,551	100%	2,244,188	100%

* 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 six month periods of September 30, 2023 and 2022 are summarized in the table below:

	Six months ended September 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	117.3	88.3	29.0
Items not affecting cash	111.4	118.3	(6.9)
Changes in non-cash operating working capital	(28.1)	(53.8)	25.7
Net interest paid	(20.6)	(31.1)	10.5
Cash generated from operating activities	180.0	121.7	58.3
Cash used in financing activities	(7.3)	(7.1)	(0.2)
Cash used in investing activities	(145.6)	(101.1)	(44.5)
Net increase in cash and cash equivalents	27.1	13.5	13.6
Cash and cash equivalents, end of period	114.2	217.9	(103.7)

For the six months ended September 30, 2023, cash generated from operating activities increased by $58.3 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 six months ended September 30, 2023 was $7.3 million ($7.1 million in fiscal 2023). This amount consisted of $5.6 million ($5.6 million in fiscal 2023) in repayment of our loans from KfW IPEX-Bank GmbH and $1.7 million ($1.5 million in fiscal 2023) in repayment of lease obligations.

Cash used in investing activities for the six months ended September 30, 2023 increased by $44.5 million compared to the prior year, mainly due to a $46.5 million increase in purchases of capital assets partially offset by a $2.0 million decrease in short-term investment purchases.

For the six months ended September 30, 2023, cash and cash equivalents decreased $103.7 million (from $217.9 million to $114.2 million) compared to the prior year mainly as a result of funds being transferred to short-term investments. Short-term investments increased $169.8 million (from $220.1 million to $389.9 million) compared to the prior year.

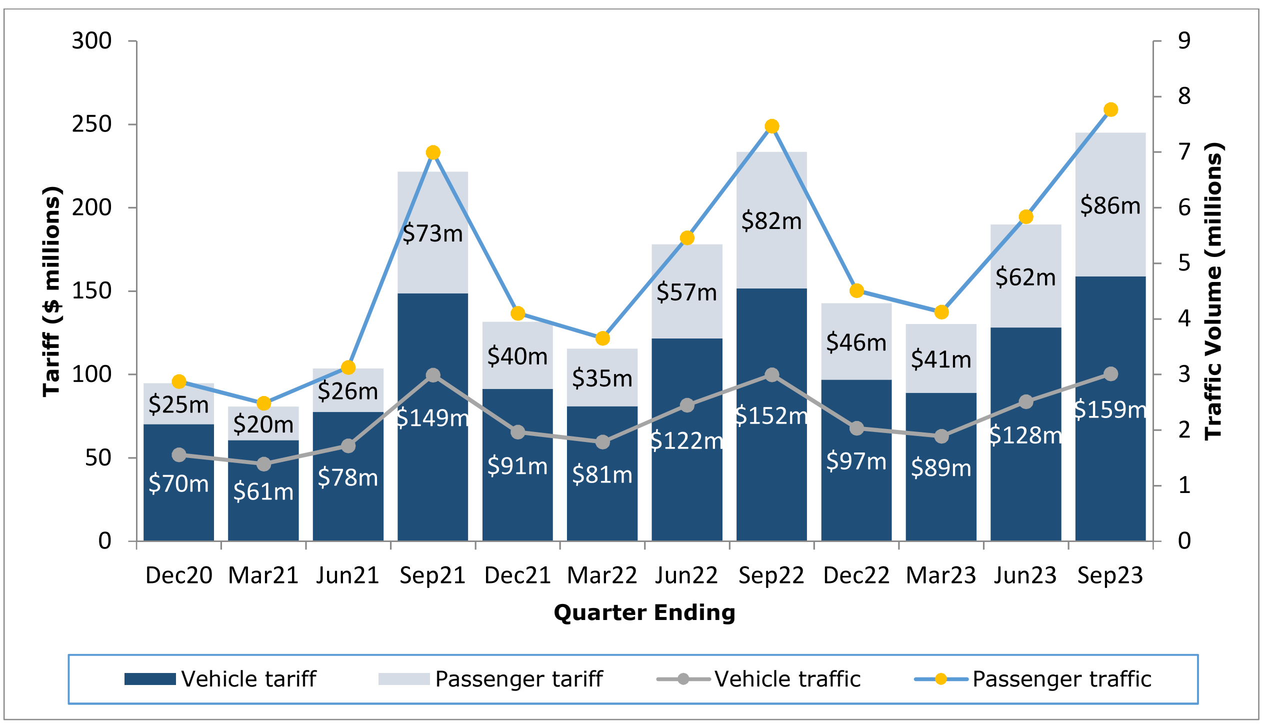
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Dec 20**	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**	**Mar 23**	**Jun 23**	**Sep 23**
Total revenue without Safe Restart Funding	157	137	169	314	203	177	262	340	233	199	284	378
Safe Restart Funding	155	31	60	3	19	20	3	3	2	1	3	3
Total revenue	312	168	229	317	222	197	265	343	235	200	287	381
Operating expenses	199	202	211	223	209	224	242	249	245	255	261	269
Operating profit (loss)	113	(34)	18	94	13	(27)	23	94	(10)	(55)	26	112
Net earnings (loss)	99	(54)	5	80	(2)	(49)	8	80	(23)	(67)	15	102
Net (loss) earnings without Safe Restart Funding	(56)	(85)	(55)	77	(21)	(69)	5	77	(25)	(68)	12	99

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 was the highest vehicle traffic on record in a fiscal year. In the six months ended September 30, 2023, BC Ferries carried 13.6 million passengers and 5.5 million vehicles, an increase of 5% and 2%, respectively, compared to the same period in the prior year. In the six months ended September 30, 2023, BC Ferries experienced the highest vehicle traffic level on record in a comparable period.

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 vessel mechanical issues causing cancellations.

We are also experiencing challenges securing the required crew to sail our vessels, which has resulted in cancellations on some routes. We 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 determined, with increases to commence April 1,2024, retroactive to October 1, 2023.

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

On September 30, 2023, the Commissioner issued Order 23-04 which established final price cap increases of 3.2% for each of the four years of PT6, being the four year period commencing April 1, 2024 and ending on March 31, 2028. On March 31, 2023, the Commissioner had previously released a preliminary decision on price caps for PT6, setting increases at a maximum of 9.2% per year. The Commissioner’s final price cap decision factored in the impact of $500 million in new funding from the Province, which had the goal of keeping annual average fare increases at or below 3% a year for PT6.

PT6 incorporates significant capital investments to support growth and replacement of aging assets. BC Ferries’ vessel planning strategies, such as new major vessels, will provide additional capacity and allow us to respond to increases in customer demand.

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.sedarplus.ca and on our investor webpage at https://www.bcferries.com/our-company/investor-relations. Our risk profile is substantially unchanged during the six months ended September 30, 2023.

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, wage re-opener negotiations pursuant to the Collective Agreement, future traffic volumes, the impact of high inflation and high interest rates, crew shortages, Safe Restart Funding, the need for sufficient 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 resulting impact on earnings and 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, vessel planning strategies, vessel repair, maintenance and return to service timelines.

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.