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

For the three and nine months ended December 31, 2023

Dated February 22, 2024

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BCFerries

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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 nine months ended December 31, 2023 that has been prepared with information available as of February 22, 2024. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended December 31, 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 investment needs.

BC Ferries carried 4.8 million passengers and 2.1 million vehicles during the three months ended December 31, 2023, compared to 4.5 million passengers and 2.0 million vehicles in the same period in the prior year. Year-to-date, we carried 18.4 million passengers and 7.6 million vehicles, an increase of 5% and 2%, respectively, compared to the same period in the prior year. In the three and nine months ended December 31, 2023, BC Ferries experienced the highest vehicle traffic levels on record in a comparable period. In the three months ended December 31, 2023, BC Ferries delivered 22,147 (68,992 year-to-date) round trips, or 6% (5% year-to-date) additional round trips compared to the same period in the prior year.

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

General

- On December 1, 2023, BC Ferries renamed its marine vessel *Kuper* to *Pune'luxutth*, to honor Indigenous heritage, at a name unveiling ceremony at Point Hope Maritime shipyard in Victoria. *Pune'luxutth* is the Hul'qumi'num' word for Penelakut and was the name chosen by the Penelakut Tribe. The vessel has been serving the route connecting Chemainus to Thetis Island and to Penelakut Island since 2007 and over the past few months has been undergoing its five-year dry-docking and refit. The renaming of the vessel reflects BC Ferries' commitment to reconciliation, listening and making changes in support of Indigenous communities. The *Pune'luxutth* resumed service on December 9, 2023.

- On December 27, 2023, Joanne Carpendale was appointed to the position of Vice President and Chief Financial Officer. Ms. Carpendale brings over 25 years of finance-related experience to the CFO role, including almost 20 years at BC Ferries in various roles, most recently as the Treasurer. Ms. Carpendale is a Chartered Professional Accountant and holds a Master of Arts (Leadership). In November 2023, the outgoing Vice President and Chief Financial Officer, Ms. Jill Sharland, announced her intention to leave BC Ferries.

Capital Asset

- On December 7, 2023, the British Columbia Ferries Commissioner (the "Commissioner") issued Order 23-05 approving a major capital expenditure for the construction of four Island Class vessels and the electrification of four terminals (the "Island Class Phase 3 & Terminal Electrification Plan" or "IC3TEP"). IC3TEP will 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.

- On December 7, 2023, the Commissioner issued Order 23-06, approving the withdrawal of funds from the Carbon Reduction Investment Account ("CRIA") for the purpose of funding the IC3TEP electrification work. By Order 22-01 issued on April 21, 2022, 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.

- On December 21, 2023, BC Ferries awarded Damen Shipyards Group of Netherlands ("Damen") a design-build, fixed-price contract for four new hybrid electric Island Class vessels. These four new hybrid electric vessels will further standardize BC Ferries' fleet, both increasing capacity, and improving our flexibility to move ships across routes. These new Island Class vessels will enter service by 2027 on the routes connecting Nanaimo Harbour and Gabriola Island (two vessels) and Campbell River and Quadra Island (two vessels). This will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with redundancy for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues. Island Class vessels have a capacity of up to 390 passengers and crew and at least 47 vehicles.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three and nine months ended December 31, 2023 compared to the same periods in fiscal 2023.

Financial performance ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2023	**2022**	**Variance**	**2023**	**2022**	**Variance**
Total revenue	241.6	234.8	6.8	910.0	842.8	67.2
Operating expenses	274.5	245.2	29.3	804.7	736.2	68.5
Operating (loss) profit	(32.9)	(10.4)	(22.5)	105.3	106.6	(1.3)
Net finance and other expenses	9.1	12.3	(3.2)	30.0	41.0	(11.0)
Net (loss) earnings	(42.0)	(22.7)	(19.3)	75.3	65.6	9.7
Other comprehensive (loss) income	(5.4)	5.4	(10.8)	5.2	27.3	(22.1)
Total comprehensive (loss) income	(47.4)	(17.3)	(30.1)	80.5	92.9	(12.4)

In the three months ended December 31, 2023, revenues increased $6.8 million or 3% compared to the same period in the prior year, primarily a result of higher vehicle and passenger traffic volume and rates, net retail sales, fuel surcharges, and ferry transportation fees, partially offset by lower carbon credit revenue (Carbon credit sales were recorded in the second quarter in fiscal 2024 and in the third quarter in Fiscal 2023). Year-to-date, revenues increased $67.2 million or 8% compared to the same period in the prior year, primarily a result of higher vehicle and passenger traffic volume and rates, net retail sales, fuel surcharges, ferry transportation fees, and higher carbon credit sales.

In the three months ended December 31, 2023, operating expenses increased $29.3 million or 12% ($68.5 million or 9% 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 December 31, 2023, our net loss was $19.3 million larger than the loss in the same period in the prior year, primarily as a result of higher operating costs, somewhat offset by higher revenues and interest earned. In the nine months ended December 31, 2023, net earnings were $75.3 million, $9.7 million or 15% 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 December 31, 2023, our total comprehensive loss was $47.4 million compared to $17.3 million in the same period in the prior year. The total comprehensive loss increased by $30.1 million as a result of the increase in net loss of $19.3 million as described above and the change in other comprehensive income (“OCI”) from income of $5.4 million to a loss of $5.4 million. The reduction in OCI reflects a $10.8 million decrease in the change in the fair value of our fuel swap contracts.

In the nine months ended December 31, 2023, total comprehensive income was $80.5 million compared to $92.9 million in the same period in the prior year. This decrease of $12.4 million comprised of the $9.7 million increase in net earnings described above and a decrease in OCI of $22.1 million (a gain of $5.2 million in the nine months ended December 31, 2023, compared to gain of $27.3 million in the same period in the prior year). The reduction in OCI reflects a $22.1 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 nine months ended December 31, 2023 and 2022 are shown in the tables below.

Operational Statistics	Three months ended December 31				Nine months ended December 31			
Vehicle Traffic	**2023**	**2022**	**Increase (Decrease)**	**%**	**2023**	**2022**	**Increase (Decrease)**	**%**
Major Routes	1,178,705	1,161,920	16,785	1%	4,340,849	4,341,672	(823)	0%
Northern Routes	7,329	7,143	186	3%	36,473	34,900	1,573	5%
Minor Routes	924,109	866,537	57,572	7%	3,260,339	3,103,053	157,286	5%
Total Vehicle Traffic	2,110,143	2,035,600	74,543	4%	7,637,661	7,479,625	158,036	2%
Passenger Traffic								
Major Routes	2,978,663	2,841,631	137,032	5%	11,610,779	11,069,219	541,560	5%
Northern Routes	16,246	15,221	1,025	7%	88,480	84,067	4,413	5%
Minor Routes	1,755,702	1,653,320	102,382	6%	6,655,250	6,282,852	372,398	6%
Total Passenger Traffic	4,750,611	4,510,172	240,439	5%	18,354,509	17,436,138	918,371	5%
Round Trips								
Major Routes	3,011	2,964	47	2%	10,173	10,148	25	0%
Northern Routes	69	72	(3)	(4%)	336	325	11	3%
Minor Routes	19,067	17,872	1,195	7%	58,483	55,031	3,452	6%
Total Round Trips	22,147	20,908	1,239	6%	68,992	65,504	3,488	5%
Capacity Provided (AEQs)*								
Major Routes	1,906,362	1,892,508	13,854	1%	6,402,100	6,418,458	(16,358)	0%
Northern Routes	13,745	14,057	(312)	(2%)	55,765	53,179	2,586	5%
Minor Routes	2,035,943	1,876,576	159,367	8%	6,260,809	5,754,196	506,613	9%
Total Capacity Provided	3,956,050	3,783,141	172,909	5%	12,718,674	12,225,833	492,841	4%
AEQs Carried *								
Major Routes	1,404,151	1,379,551	24,600	2%	5,120,446	5,106,882	13,564	0%
Northern Routes	9,090	8,731	359	4%	44,007	41,768	2,239	5%
Minor Routes	993,751	934,567	59,184	6%	3,505,636	3,346,228	159,408	5%
Total AEQs Carried	2,406,992	2,322,849	84,143	4%	8,670,089	8,494,878	175,211	2%
Capacity Utilization								
Major Routes	73.7%	72.9%	0.8%		80.0%	79.6%	0.4%	
Northern Routes	66.1%	62.1%	4.0%		78.9%	78.5%	0.4%	
Minor Routes	48.8%	49.8%	(1.0%)		56.0%	58.2%	(2.2%)	
Total Capacity Utilization	60.8%	61.4%	(0.6%)		68.2%	69.5%	(1.3%)	

*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 December 31, 2023, vehicle traffic increased 4% and passenger traffic increased 5% compared to the same period in the prior 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 nine months ended December 31, 2023, vehicle traffic increased on both the Northern Routes and Minor Routes. In the nine months ended December 31, 2023, on the Major Routes, vehicle traffic was consistent with the same period in the prior year (see the Operational Statistics table for more detail).

In the three months ended December 31, 2023, we delivered 22,147 (68,992 year-to-date) round trips, representing 1,239 or 6% (3,488 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 December 31, 2023, the additional round trips described above resulted in increased capacity of 5% (4% year-to-date) compared to the same period in the prior year. In the three months ended December 31, 2023, the capacity provided on the Minor Routes increased 8% (9% year-to-date) compared to the same period in the prior year, primarily as a result of the 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 December 31, 2023, overall capacity utilization was 60.8%, a decrease of 0.6% compared to the same period in the prior year. Year-to-date, overall capacity utilization was 68.2%, a decrease of 1.3% compared to 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, mainly driven by the introduction of two-ship service on the Campbell River – Quadra Island route, mostly offset by a higher number of AEQs carried. The additional capacity provided enabled more traffic to be carried, supporting BC Ferries' record vehicle traffic levels.

Sailing Cancellations	Three months ended December 31			Nine months ended December 31		
	2023	**2022**	**Change**	**2023**	**2022**	**Change**
Sailings	45,083	42,799	2,284	140,538	133,878	6,660
Cancelled Sailings by type:						
Weather	364	549	(185)	632	593	39
Mechanical	194	237	(43)	527	466	61
Crew	100	308	(208)	561	832	(271)
Other *	20	54	(34)	130	261	(131)
Total Cancelled Sailings	678	1,148	(470)	1,850	2,152	(302)
Cancellations as % of Sailings	1.5%	2.7%	(1.2%)	1.3%	1.6%	(0.3%)
Crew Cancellations as % of Sailings	0.2%	0.7%	(0.5%)	0.4%	0.6%	(0.2%)

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

In the three months ended December 31, 2023, we cancelled 1.5% (2.7% in the same period in the prior year) of our scheduled sailings primarily due to the impact of adverse weather, mechanical issues and being unable to secure the required crew. Year-to-date, we cancelled 1.3% (1.6% in the same period in the prior year) of our scheduled sailings primarily due to the impact of adverse weather, being unable to secure the required crew, and mechanical issues. Cancellations due to crew shortages have decreased by 33% (68% year-to-date) compared to the same period in the prior year reflecting the positive impact of actively recruiting and investing in our employees.

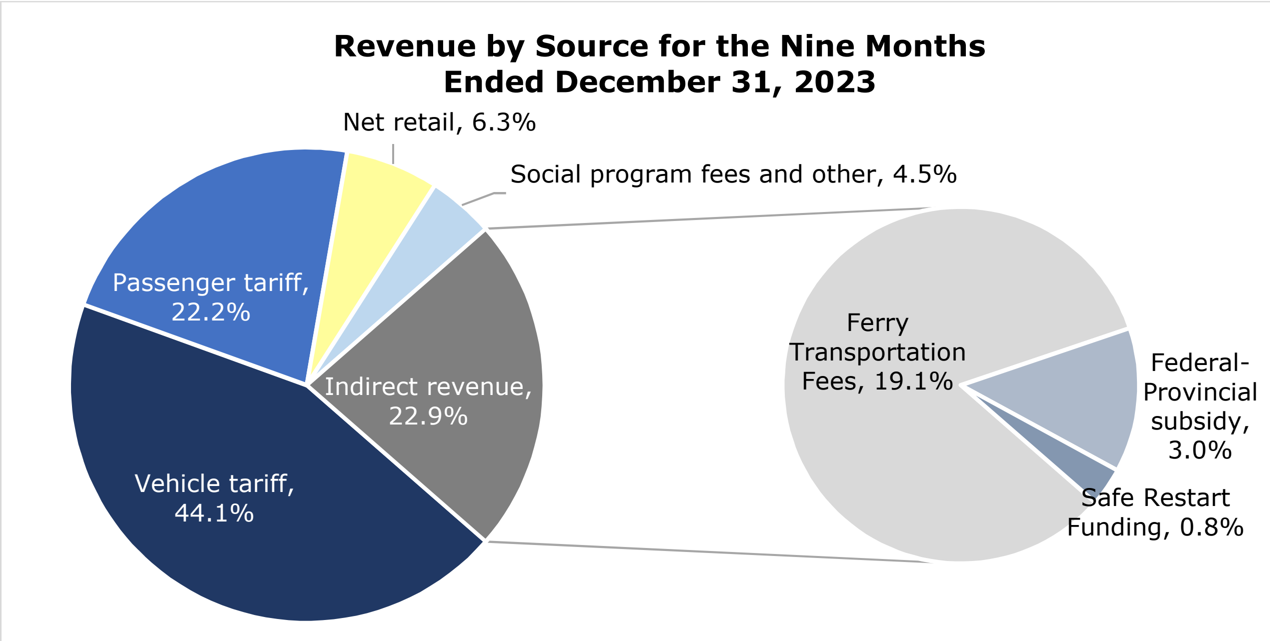
On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled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

On-Time Performance	Three months ended December 31			Nine months ended December 31		
	2023	**2022**	**Change**	**2023**	**2022**	**Change**
Major Routes	77.8%	78.9%	(1.1%)	69.9%	73.6%	(3.7%)
Northern Routes	89.8%	81.6%	8.2%	83.8%	74.0%	9.8%
Minor Routes	89.2%	89.4%	(0.2%)	83.5%	85.0%	(1.5%)
On-Time Performance	87.7%	88.0%	(0.3%)	81.6%	83.2%	(1.6%)

In the three months ended December 31, 2023, overall on-time performance decreased 0.3% from 88.0% to 87.7% compared to the same period in the prior year. Year-to-date, overall on-time performance decreased 1.6% from 83.2% to 81.6% compared to the same period in the prior year. On-time performance decreased on the Major Routes as a result of strong traffic levels requiring additional time to load vessels, vessel mechanical issues and the impact of adverse weather. On-time performance decreased on the Minor Routes as a result of delays to source required crew, the impact of increased traffic demand and the impact of adverse weather.

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 nine months ended December 31, 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 December 31				Nine months ended December 31			
			Increase				Increase	
	2023	2022	$	%	2023	2022	$	%
Direct Route Revenue	**180.6**	**166.5**	**14.1**	**8%**	**687.8**	**635.3**	**52.5**	**8%**
Vehicle tariff revenue								
Major Routes	88.9	82.6	6.3	8%	329.5	312.0	17.5	6%
Northern Routes	1.6	1.5	0.1	7%	9.9	9.3	0.6	7%
Minor Routes	13.6	12.7	0.9	7%	51.4	48.5	2.9	6%
Total vehicle tariff revenue	104.1	96.8	7.3	8%	390.8	369.8	21.0	6%
Passenger tariff revenue								
Major Routes	41.2	38.7	2.5	7%	161.4	151.0	10.4	7%
Northern Routes	0.8	0.7	0.1	14%	7.0	6.7	0.3	5%
Minor Routes	7.0	6.5	0.5	8%	28.6	26.7	1.9	7%
Total passenger tariff revenue	49.0	45.9	3.1	7%	197.0	184.4	12.6	7%
Net retail revenue								
Major Routes	13.0	11.6	1.4	12%	48.1	43.3	4.8	11%
Northern Routes	0.8	0.7	0.1	14%	3.9	3.7	0.2	5%
Minor Routes	1.0	0.8	0.2	25%	4.1	3.2	0.9	28%
Total net retail revenue	14.8	13.1	1.7	13%	56.1	50.2	5.9	12%
Social program fees	3.4	3.0	0.4	13%	10.3	9.1	1.2	13%
Other revenue	3.2	2.9	0.3	10%	10.4	8.9	1.5	17%
Fuel surcharge	6.1	4.8	1.3	27%	23.2	12.9	10.3	80%
Indirect Route Revenue	**60.5**	**57.8**	**2.7**	**5%**	**203.2**	**195.6**	**7.6**	**4%**
Safe Restart Funding *	1.9	1.8	0.1	6%	7.5	6.7	0.8	12%
Ferry transportation fees	49.7	47.7	2.0	4%	169.0	163.9	5.1	3%
Federal-Provincial subsidy	8.9	8.3	0.6	7%	26.7	25.0	1.7	7%
Total Route Revenue	241.1	224.3	16.8	7%	891.0	830.9	60.1	7%
Other general revenue **	0.5	10.5	(10.0)	-	19.0	11.9	7.1	-
Total Revenue	241.6	234.8	6.8	3%	910.0	842.8	67.2	8%

*Total Safe Restart Funding of $2.2 million was recorded for discretionary sailings and fare increase relief, in the three months ended December 31, 2023 ($8.5 million year-to-date), of which $0.3 million ($1.0 million year-to-date) for discretionary sailings relief was included in ferry transportation fees. In the prior year, Safe Restart Funding of $2.1 million was recorded for discretionary sailings and fare increase relief, in the three months ended December 31, 2022 ($7.7 million year-to-date), of which $0.3 million ($1.0 million year-to-date) for discretionary sailings relief was included in ferry transportation fees.

**Other general revenue includes revenue from the sale of carbon credits. In fiscal 2024, carbon credit sales were recorded in the three months ended September 30, 2023 and in fiscal 2023, recorded in the three months ended December 31, 2022.

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 December 31, 2023, total direct route revenue increased $14.1 million ($52.5 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 December 31				Nine months ended December 31			
			Increase (Decrease)				Increase (Decrease)	
	2023	2022	$	%	2023	2022	$	%
Average vehicle tariff								
Major Routes	75.42	71.05	4.37	6%	75.91	71.85	4.06	6%
Northern Routes	218.31	217.98	0.33	0%	271.43	267.74	3.69	1%
Minor Routes	14.72	14.60	0.12	1%	15.77	15.62	0.15	1%
Average vehicle tariff	49.33	47.54	1.79	4%	51.17	49.44	1.73	4%
Average passenger tariff								
Major Routes	13.83	13.62	0.21	2%	13.90	13.64	0.26	2%
Northern Routes	49.24	50.52	(1.28)	(3%)	79.11	80.22	(1.11)	(1%)
Minor Routes	3.99	3.94	0.05	1%	4.30	4.25	0.05	1%
Average passenger tariff	10.31	10.20	0.11	1%	10.73	10.58	0.15	1%

During the three months ended December 31, 2023, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $1.79 or 4% ($1.73 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 December 31, 2023, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.11 or 1% ($0.15 or 1% 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 $10.4 million or 7% ($33.6 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 December 31, 2023, net retail revenue increased by $1.7 million or 13% ($5.9 million or 12% 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 December 31, 2023 increased $0.4 million or 13% ($1.2 million or 13% 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 applicable social program.

In the three months ended December 31, 2023, other revenue increased $0.3 million or 10% ($1.5 million or 17% year-to-date) compared to the same period in the prior year, primarily as a result of increased parking revenues driven by increased traffic levels.

From time to time, we implement fuel surcharges as a result of rising fuel prices or fuel rebates as a result of falling fuel prices. A history of fuel surcharges and fuel rebates in effect for fiscal 2023 and 2022 is below:

Date range	% surcharge	Applicable routes
April 1, 2022 - May 31, 2022	0.0%	Northern Routes
April 1, 2022 - May 31, 2022	1.0%	Major Routes and Minor Routes
June 1, 2022 - October 31, 2022	2.5%	All Routes
November 1, 2022 - present	4.0%	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 December 31, 2023, total indirect route revenue increased by $2.7 million or 5% ($7.6 million or 4% 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 December 31, 2023, we recognized $2.2 million ($8.5 million year-to-date) of the remaining $10.4 million of Safe Restart Funding. In the three months ended December 31, 2023, $0.3 million ($1.0 million year-to-date) for discretionary sailings was 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 December 31, 2023, other general revenue decreased $10.0 million primarily as a result of carbon credit sales from fiscal 2023 being earned in the three months ended December 31, 2022 compared to in fiscal 2024, where it was earned in the three months ended September 30, 2023. Year-to-date, other general revenue increased $7.1 million as a result of higher carbon credit sales compared to the same period in the prior year. Carbon credits are earned through activities such as the purchase of natural gas and use of liquefied natural gas ("LNG") (which are lower carbon fuel alternatives to diesel) and must have approval from the Ministry of Energy Mines and Low Carbon Innovation before a sale is recognized. For regulatory purposes, BC Ferries directs the revenue earned through the sale of earned carbon credits into the CRIA. By Order 22-01 issued on April 21, 2022, 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 nine months ended December 31, 2023 and 2022 are summarized in the table below:

Operating expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2023	**2022**	**Increase**	**2023**	**2022**	**Increase**
Operations	181.0	154.4	26.6	539.0	486.8	52.2
Maintenance	33.5	32.7	0.8	87.9	78.4	9.5
Administration	13.7	12.9	0.8	38.8	35.7	3.1
Total operations, maintenance & administration	228.2	200.0	28.2	665.7	600.9	64.8
Depreciation and amortization	46.3	45.2	1.1	139.0	135.3	3.7
Total operating expenses	274.5	245.2	29.3	804.7	736.2	68.5

During the three months ended December 31, 2023, total operating expenses increased $29.3 million or 12% ($68.5 million or 9% year-to-date) compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 77% (78% year-to-date) of our total operations, maintenance and administration costs. Total operations, maintenance and administration expenses increased $28.2 million or 14% ($64.8 million or 11% year-to-date).

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 Collective Agreement provides for wage re-openers in years four and five. In August 2023, negotiations for the year-four wage increases began. BC Ferries' proposal (retroactive to October 1, 2023) was not accepted by the BC Ferry & Marine Workers' Union (the "Union"). Negotiations between BC Ferries and the Union moved to arbitration in October 2023. A panel of three independent arbitrators, who have been chosen by BC Ferries and the Union, met during the first week in February 2024 to review the proposals and will issue a binding decision for the year-four wages in the coming weeks.

Wage rates for employees not covered by the Collective Agreement ("Exempt Employees") were increased by 5% effective July 1, 2023. This was a general wage increase to reflect a cost of living adjustment. In addition, BC Ferries also undertook a one-time market equity adjustment to align compensation with its goal of being at the 50th percentile of its market comparators. To do this, we engaged an external compensation expert to review the Exempt Employee compensation program to ensure it is both fair and market competitive. As a result of the review, effective October 1, 2023, wage rates were reset for targeted roles, with increases bringing those roles in line with their market comparators. The effect of this one-time adjustment resulted in an increase to overall exempt compensation by 7%. This competitive compensation structure will strengthen BC Ferries' ability to attract, retain and motivate its people.

The $26.6 million ($52.2 million year-to-date) increase in operations expenses in the three months ended December 31, 2023 compared to the same period in the prior year include:

- $24.0 million ($48.6 million year-to-date) increase in labour costs to secure crew, wage rate increases, increased training, overtime, and benefit costs;
- $4.0 million ($9.5 million year-to-date) increase in contracted services, travel expenses, materials and supplies, credit card fees, and other miscellaneous expenses; and
- $1.4 million ($5.9 million year-to-date) decrease in fuel expense, primarily reflecting lower fuel prices.

Maintenance costs increased by $0.8 million in the three months ended December 31, 2023 compared to the same period in the prior year, primarily as a result of an increase in labour rates and partially offset by lower materials and supplies. Year-to-date, maintenance costs increased $9.5 million compared to the same period in the prior year primarily as a result of the cyclical nature of vessel refit activity, repairs on the Coastal Class vessels, an increase in labour rates and higher materials and supplies.

Administration costs increased $0.8 million in the three months ended December 31, 2023 compared to the same period in the prior year, primarily as a result of increased labour and benefit costs. Year-to-date, administration costs increased $3.1 million compared to the same period in the prior year, primarily as a result of increased labour and benefit costs, contracted services and miscellaneous expenses.

Depreciation and amortization increased $1.1 million ($3.7 million year-to-date) in the three months ended December 31, 2023 compared to the same period in the prior year, reflecting new capital assets entering service with higher values and 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 December 31**			**Nine months ended December 31**		
	2023	**2022**	**Variance**	**2023**	**2022**	**Variance**
Finance expense	17.0	17.2	(0.2)	51.0	51.0	-
Less: finance income	(8.0)	(5.2)	(2.8)	(21.2)	(10.3)	(10.9)
Net finance expense	9.0	12.0	(3.0)	29.8	40.7	(10.9)
Net loss on disposal and impairment of property, plant and equipment and intangible assets	0.1	0.3	(0.2)	0.2	0.3	(0.1)
Total net finance and other expenses	9.1	12.3	(3.2)	30.0	41.0	(11.0)

In the three months ended December 31, 2023, net finance and other expenses decreased by $3.2 million ($11.0 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

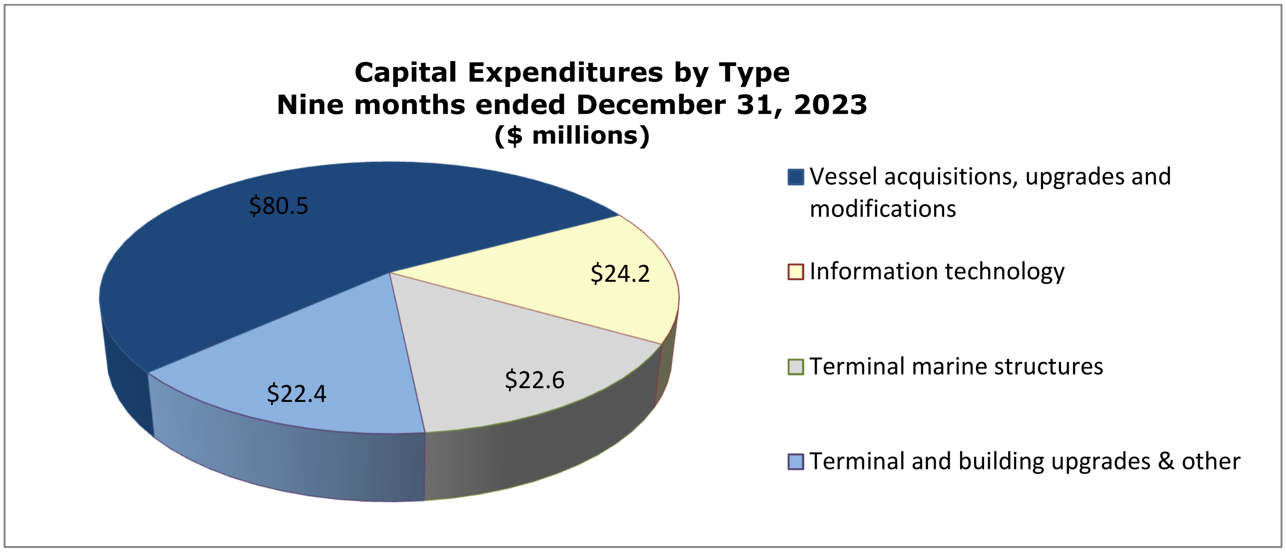
Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our vessel maintenance and refit facility, modifications to terminal infrastructure in anticipation of Island Class vessel electrification (shore-side power source to enable charging the Island 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 Major Terminal Efficiency 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 December 7, 2023, the Commissioner issued Order 23-05 approving a major capital expenditure for the construction of four Island Class vessels and the electrification of four terminals. IC3TEP will 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.

On December 21, 2023, 2024, BC Ferries awarded Damen a design-build, fixed-price contract for four new hybrid electric Island Class vessels. These four new hybrid electric vessels will further standardize BC Ferries' fleet, both increasing capacity, and improving our flexibility to move ships across routes. These new Island Class vessels will enter service by 2027 on the routes connecting Nanaimo Harbour and Gabriola Island (two vessels), and Campbell River and Quadra Island (two vessels). This will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with redundancy for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues. Island Class vessels have a capacity of up to 390 passengers and crew and at least 47 vehicles.

In the three and nine months ended December 31, 2023, capital expenditures comprised the following:



Capital Expenditures ($ millions)	**Three months ended December 31, 2023**	**Nine months ended December 31, 2023**
Major overhauls and inspections	21.3	44.5
Hardware upgrades	3.5	18.2
Fleet maintenance unit redevelopment	4.2	10.1
Queen of Cowichan life extension	7.2	7.8
Fleet maintainence unit dolphins and sheet pile wall	0.3	5.7
Queen of New Westminster life extension	4.4	4.7
Various other projects	24.9	58.7
	65.8	149.7

Major overhauls and inspections

In the three months ended December 31, 2023, we incurred capital expenditures of $21.3 million ($44.5 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for ten 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 (including the equipment needed to refresh our data centre).

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.

Queen of Cowichan life extension

An upgrade project to life extend the *Queen of Cowichan,* which includes upgrades to the steelwork, machinery, utilities and the galley, is substantially complete.

Fleet Maintenance Unit marine structure upgrades

A project to replace three dolphins and extend the life of the existing sheet pile wall at our Fleet Maintenance Unit is now complete.

Queen of New Westminster life extension

An upgrade project to life extend the *Queen of New Westminster*, which includes upgrades to the steelwork, elevators, utilities and outer decks, is substantially complete.

Various other projects

At December 31, 2023, approximately 140 projects, including those described above, are in progress. Various other projects include, among others, engine room upgrades to the *Northern Sea Wolf* , Coastal Class vessel quarter-life upgrades, upgrades to marine structures at our Tsawwassen, Horseshoe Bay, Langdale, Fulford and Otter Bay terminals, replacement of the roof on several buildings at our Duke Point terminal, upgrades to the electrical system and the café at our Swartz Bay terminal, software upgrades, replacement of vehicles, and other 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 December 31, 2023, our unrestricted cash and cash equivalents and other short-term investments totalled $134 million and $352 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 December 31, 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 20, 2023, S&P Global Ratings revised our outlook to negative from stable, and affirmed our "AA-" credit rating. On February 9, 2024, 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 December 31, 2023, we achieved a debt service coverage ratio of 3.19 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the nine months ended December 31, 2023 has resulted in a $75.3 million improvement in equity before reserves, from $683.4 million as at March 31, 2023 to $758.7 million as at December 31, 2023. Correspondingly, BC Ferries' leverage ratio has decreased from 70% as of March 31, 2023 to 67% as of December 31, 2023 and is in compliance with our financial covenant requirements.

($ thousands)	December 31, 2023		March 31, 2023	
	$	%	$	%
Aggregate borrowings *	1,549,980	67%	1,560,814	70%
Total equity before reserves	758,654	33%	683,374	30%
Total	2,308,634	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 nine month periods of December 31, 2023 and 2022 are summarized in the table below:

	Nine months ended December 31		
($ millions)	**2023**	**2022**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	87.1	204.4	(117.3)
Cash from operating activities:			
Net earnings	75.3	65.6	9.7
Items not affecting cash	166.6	175.8	(9.2)
Changes in non-cash operating working capital	7.5	(17.2)	24.7
Net interest paid	(34.2)	(48.1)	13.9
Cash generated from operating activities	215.2	176.1	39.1
Cash used in financing activities	(11.0)	(10.7)	(0.3)
Cash used in investing activities	(157.6)	(258.5)	100.9
Net increase (decrease) in cash and cash equivalents	46.6	(93.1)	139.7
Cash and cash equivalents, end of period	133.7	111.3	22.4

For the nine months ended December 31, 2023, cash generated from operating activities increased by $39.1 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 higher interest on investments, increased traffic and revenues, partially offset by an increase in operating expenses.

Cash used in financing activities in the nine months ended December 31, 2023 was $11.0 million ($10.7 million in fiscal 2023). This amount consisted of $8.5 million ($8.5 million in fiscal 2023) in repayment of our loans from KfW IPEX-Bank GmbH and $2.5 million ($2.2 million in fiscal 2023) in repayment of lease obligations.

Cash used in investing activities for the nine months ended December 31, 2023 decreased by $100.9 million compared to the prior year, mainly due to a $163.4 million decrease in short-term investment purchases and partially offset by a $62.5 million increase in purchases of capital assets.

For the nine months ended December 31, 2023, cash and cash equivalents increased $46.6 million (from $87.1 million to $133.7 million) compared to the prior year mainly as a result of funds being transferred to short-term investments. Short-term investments increased $11.3 million (from $340.8 million to $352.1 million) compared to the prior year.

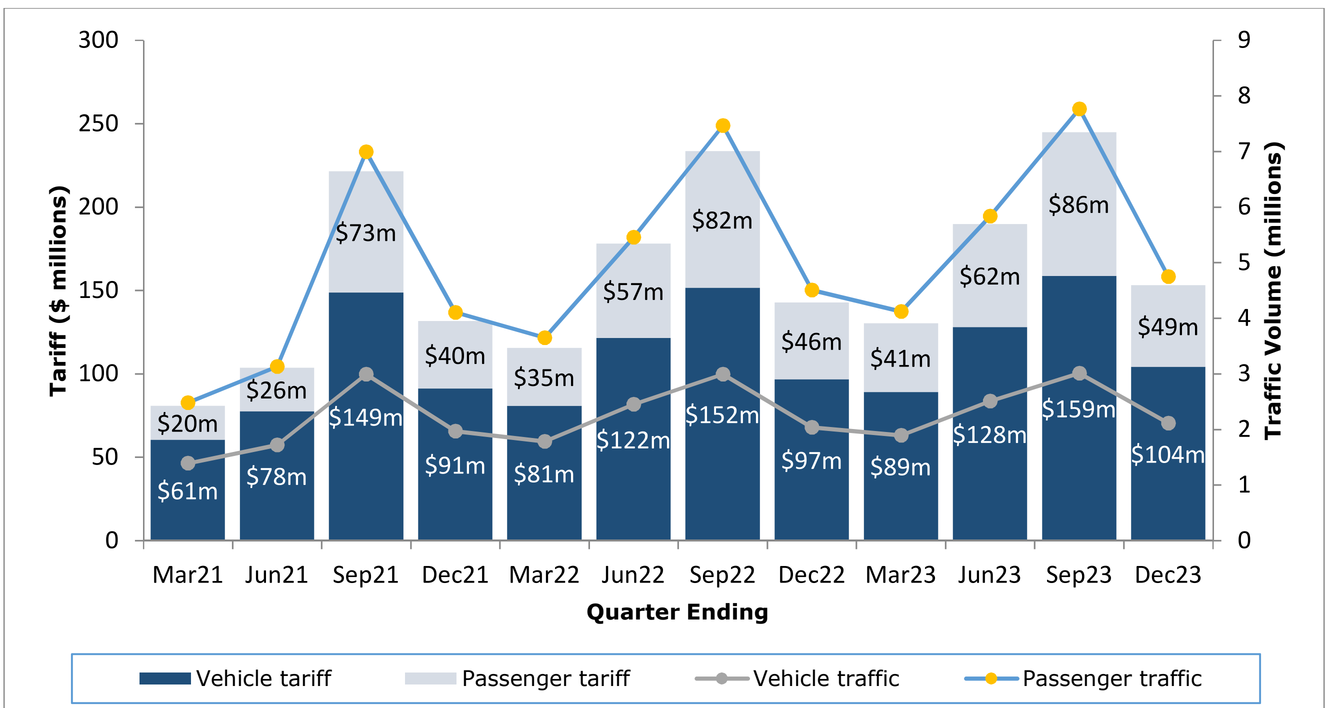
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**	**Mar 23**	**Jun 23**	**Sep 23**	**Dec 23**
Total revenue without Safe Restart Funding	137	169	314	203	177	262	340	233	199	284	378	240
Safe Restart Funding	31	60	3	19	20	3	3	2	1	3	3	2
Total revenue	168	229	317	222	197	265	343	235	200	287	381	242
Operating expenses	202	211	223	209	224	242	249	245	255	261	269	275
Operating (loss) profit	(34)	18	94	13	(27)	23	94	(10)	(55)	26	112	(33)
Net (loss) earnings	(54)	5	80	(2)	(49)	8	80	(23)	(67)	15	102	(42)
Net (loss) earnings without Safe Restart Funding	(85)	(55)	77	(21)	(69)	5	77	(25)	(68)	12	99	(44)

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 recovery from 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
In the nine months ended December 31, 2023, BC Ferries carried 18.4 million passengers and 7.6 million vehicles, an increase of 5% and 2%, respectively, compared to the same period in the prior year. In the nine months ended December 31, 2023, BC Ferries experienced the highest vehicle traffic level on record in a comparable period.

While we are cautiously optimistic that traffic will continue to be strong, BC Ferries cannot predict with certainty future traffic volumes. Traffic levels can be affected by a variety of factors, such as weather, 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.

BC Ferries is experiencing upward pressure on both operating and capital costs. Continued high inflation and high interest rates may also result in impacts to customer demand.

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 Performance Term Six ("PT6"), commencing April 1, 2024 and ending on March 31, 2028. The Commissioner's final price cap decision factored in the impact of $500 million in fare affordability funding from the Province. 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.

PT6 incorporates significant capital investments to support growth and replacement of aging assets. BC Ferries' vessel planning strategies, which include the Island Class vessels and the new major vessel program, 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 nine months ended December 31, 2023.

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, additional information is obtained, and 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, the arbitration regarding year-four wages under the Collective Agreement, the impact of new compensation structures, future traffic volumes, the impact of high inflation and high interest rates on customer demand, 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, including IC3TEP and cascading impacts on capacity improvements, 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.