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

For the three months ended
June 30, 2022

Dated August 17, 2022

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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 months ended June 30, 2022 that has been prepared with information available as of August 17, 2022. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three month periods ended June 30, 2022 and 2021, our audited consolidated financial statements and related notes for the years ended March 31, 2022 ("fiscal 2022") and March 31, 2021 ("fiscal 2021"), and our Management's Discussion and Analysis for fiscal 2022. These documents are available on the System for Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 39 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other routes through contracts with independent operators.

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

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

BC Ferries faced significant declines in revenue, earnings and cash from operations as a result of the COVID-19 pandemic with its corresponding preventative measures and imposed travel restrictions. Travel restrictions, which had denied travel to customers travelling for non-essential reasons, were in place until late in the first quarter of fiscal 2022. Once travel restrictions were lifted, we experienced a significant increase in traffic through the remainder of fiscal 2022 and into the first quarter of the year ending March 31, 2023 ("fiscal 2023").

BC Ferries carried 5.4 million passengers and 2.4 million vehicles during the three months ended June 30, 2022, an increase of 74% and 42%, respectively, compared to the same period in the prior year, primarily as a result of travel restrictions being in place through most of the first quarter in the prior year. The increase in customer demand in the three months ended June 30, 2022 resulted in the highest vehicle traffic we have ever experienced in the first quarter of a fiscal year. When compared to the same period in fiscal 2020, a pre-COVID period, vehicle traffic was higher by 3.8% while passenger traffic was lower by 6.3%.

Significant events during or subsequent to the first quarter of fiscal 2023 include the following:

General

- On April 8, 2022, we implemented average tariff increases of 2.3% in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 19-04 dated September 30, 2019 and in accordance with the Safe Restart Contribution Agreement between BC Ferries and the Province of British Columbia dated November 11, 2020.

- Effective June 1, 2022, a surcharge of 2.5% was implemented on all routes due to rising fuel costs. (See "Revenues" for more detail.)

- Effective June 24, 2022, the B.C. Ferry Authority appointed six new members to the Company's Board of Directors, each for a two-year term. They join five existing members on the board. On June 29, 2022, Joy MacPhail was appointed as the Chair of the BC Ferries Board.

- On July 22, 2022, the Company's Board ended Mark Collins' contract as President and Chief Executive Officer, effective immediately.

- On July 22, 2022, Jill Sharland was appointed Interim President and Chief Executive Officer. Ms. Sharland is a senior finance and operations executive who also serves as Vice President and Chief Financial Officer of BC Ferries.

- On July 28, 2022, BC Ferries and Snuneymuxw First Nation entered into a relationship protocol agreement to guide their work together going forward. The agreement is the first step in building a strong partnership between the two parties built on mutual respect, recognition, mutual benefit and cooperation. There are four BC Ferry terminals currently operating in the Snuneymuxw territory.

Capital Assets

- On April 12, 2022, we introduced two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities. This augmented service, using two of our four new Island Class vessels, results in a vehicle capacity increase of 49% and an increase in sailing frequency to these communities.

- On May 6, 2022, the *Salish Heron* entered service in the Southern Gulf Islands. The *Salish Heron* is identical to our three existing Salish Class vessels, which are dual-fuel capable and designed to run primarily on liquefied natural gas ("LNG"), a cleaner and lower carbon-intensity option as compared to marine diesel. The vessel has the capacity to carry approximately 138 vehicles and up to 600 passengers and crew.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three months ended June 30, 2022 compared to the same period in fiscal 2022.

	Three months ended June 30			
			Variance	
($ millions)	**2022**	**2021**	**$**	**%**
Total revenue	264.9	229.2	35.7	16%
Operating expenses	242.1	210.8	31.3	15%
Operating profit	22.8	18.4	4.4	24%
Net finance and other expenses	14.9	13.7	1.2	9%
Net earnings	7.9	4.7	3.2	68%
Other comprehensive income	27.7	16.7	11.0	66%
Total comprehensive income	35.6	21.4	14.2	66%
Safe Restart Funding	2.5	60.0	(57.5)	(96%)
Total revenue, excluding *Safe Restart Funding*	262.4	169.2	93.2	55%
Net earnings (loss) excluding *Safe Restart Funding*	5.4	(55.3)	60.7	-

In fiscal 2021, we received $308.0 million from the Province as part of the provincial and federal governments' Safe Restart Funding program (the "Safe Restart Funding"). All of the direct operating relief funding has been exhausted with the remaining funding intended to offset the costs of discretionary sailings and to limit fare increases (for example, in fiscal 2021, no fares were increased). In the three months ended June 30, 2022, we recognized Safe Restart Funding of $2.5 million compared to the $60.0 million recognized in the same period in the prior year (see "Revenues" for more detail).

Excluding the Safe Restart Funding:

- our revenues for the three months ended June 30, 2022 would have been $262.4 million, an increase of $93.2 million or 55% compared to the same period in the prior year, primarily resulting from higher traffic volumes and higher net retail sales; and
- our net earnings for the three months ended June 30, 2022 would have been $5.4 million, an increase of $60.7 million compared to a net loss of $55.3 million in the same period in the prior year.

In the three months ended June 30, 2022, inclusive of the Safe Restart Funding, revenues increased $35.7 million or 16% compared to the same period in the prior year. This increase is primarily a result of higher traffic volumes and higher net retail sales, partially offset by lower Safe Restart Funding.

In the three months ended June 30, 2022, our operating expenses increased by $31.3 million or 15% compared to the same period in the prior year. This increase is mainly due to an increased number of sailings, and resulting higher labour costs and fuel consumption, as well as higher fuel prices and higher depreciation (see "Expenses" for more detail).

In the three months ended June 30, 2022, our net earnings were $7.9 million, an increase of $3.2 million compared to net earnings of $4.7 million in the same period in the prior year, primarily as a result of higher traffic volumes, tariff increases and higher net retail sales, partially offset by lower Safe Restart Funding and higher operating expenses.

In the three months ended June 30, 2022, our total comprehensive income was $35.6 million compared to $21.4 million in the same period in the prior year. This is an increase of $14.2 million comprised of the $3.2 million increase in net earnings described above and an increase in other comprehensive income (“OCI”) of $11.0 million ($27.7 million in the three months ended June 30, 2022 compared to $16.7 million in the same period in the prior year). The change in OCI reflects an $11.0 million increase in the change in the fair value of our open fuel swap contracts.

Operational Statistics
Our Major Routes, which are our four busiest routes, consist of three routes connecting Metro Vancouver with Vancouver Island and one route connecting West Vancouver with the Sunshine Coast. Our Northern Routes consist of three routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Minor Routes primarily serve the northern and southern Gulf Islands and the northern Sunshine Coast.

Select operational statistics for the three months ended June 30, 2022 and 2021 are shown in the tables below.

Operational Statistics	**Three months ended June 30**			
Vehicle Traffic	**2022**	**2021**	**Increase**	**%**
Major Routes	1,413,544	841,039	572,505	68%
Northern Routes	9,641	5,751	3,890	68%
Minor Routes	1,026,613	874,058	152,555	17%
Total Vehicle Traffic	2,449,798	1,720,848	728,950	42%
Passenger Traffic				
Major Routes	3,422,256	1,561,382	1,860,874	119%
Northern Routes	21,599	9,564	12,035	126%
Minor Routes	2,015,261	1,559,954	455,307	29%
Total Passenger Traffic	5,459,116	3,130,900	2,328,216	74%
Round Trips				
Major Routes	3,322	2,908	414	14%
Northern Routes	96	83	13	16%
Minor Routes	18,096	17,404	692	4%
Total Round Trips	21,514	20,395	1,119	5%
Capacity Provided (AEQs)				
Major Routes	2,098,164	1,866,552	231,612	12%
Northern Routes	13,772	11,271	2,501	22%
Minor Routes	1,881,694	1,846,606	35,088	2%
Total Capacity Provided	3,993,630	3,724,429	269,201	7%
AEQs Carried				
Major Routes	1,679,329	1,087,152	592,177	54%
Northern Routes	11,712	7,380	4,332	59%
Minor Routes	1,110,777	956,565	154,212	16%
Total AEQs Carried	2,801,818	2,051,097	750,721	37%
Capacity Utilization				
Major Routes	80.0%	58.2%	21.8%	
Northern Routes	85.0%	65.5%	19.5%	
Minor Routes	59.0%	51.8%	7.2%	
Total Capacity Utilization	70.2%	55.1%	15.1%	

In the three months ended June 30, 2022, vehicle and passenger traffic increased 42% and 74%, respectively, compared to the same period in the prior fiscal year, primarily as a result of travel restrictions being in place through most of the first quarter of the prior year. In the three months ended June 30, 2022, vehicle and passenger traffic increased on the Major Routes, Northern Routes and Minor Routes (see the Operational Statistics table for more detail).

New fare choices, including advance purchase saver fares, are available on the Major Routes. These new fare choices are contributing to increased vehicle traffic on traditionally lower utilised sailings and less sailing waits overall, enabling us to carry higher overall levels of vehicle traffic than in prior years.

In the three months ended June 30, 2022, we delivered 21,514 trips, 1,119 or 5% additional round trips than in the same period in the prior year, primarily in response to the easing of COVID-19 travel restrictions. Of the 1,119 additional round trips, 37% were on the Major Routes, 62% on the Minor Routes and 1% on the Northern Routes.

In the three months ended June 30, 2022, we cancelled less than 1% of our scheduled round trips due to crew shortages. While cancelling trips in response to weather conditions or vessel mechanical issues is not unusual, in the three months ended June 30, 2022, we experienced a higher number of trips cancelled due to crew shortages. Like many other industries, we are facing a shortage of skilled workers, an aging workforce and higher levels of illness.

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.

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 in response to changes in demand or the number of trips stipulated by the Coastal Ferry Services Contract (the “CFSC”) between the Company and the Province. In the three months ended June 30, 2022, the additional round trips described above resulted in increased capacity of 7% compared to the same period in the prior year.

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. 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. Capacity utilization varies significantly from month to month. Typically, capacity utilization is highest when traffic levels peak during the summer months and lowest during the winter months. In the three months ended June 30, 2022, overall capacity utilization was 70.2%, an increase of 15.1% compared to capacity utilization of 55.1% during the same period in the prior year. The increase in capacity utilization is primarily a result of a higher number of AEQs carried due to higher traffic levels, somewhat offset by an increase in capacity provided from additional round trips.

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

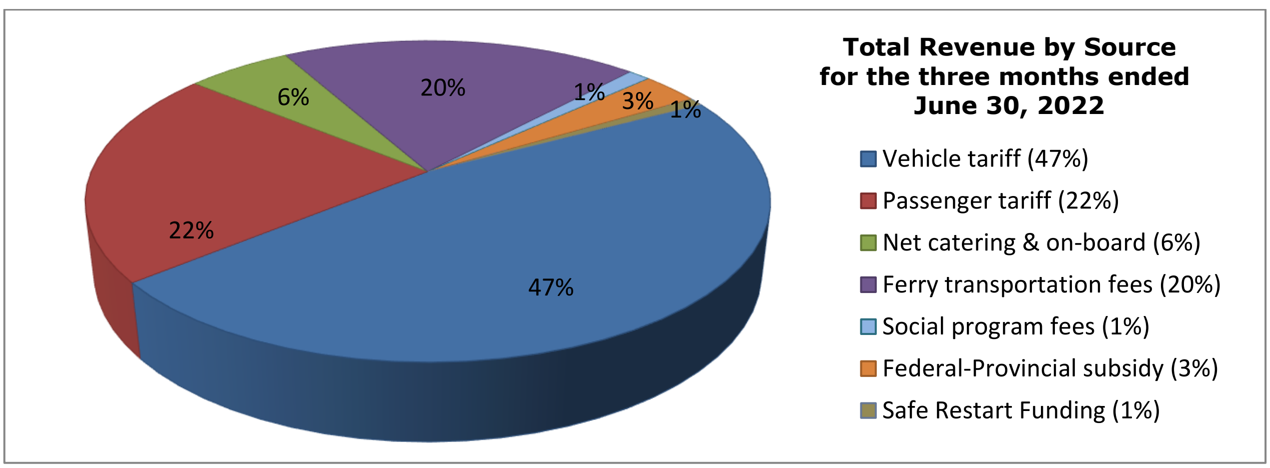
On-Time Performance	**Three months ended June 30**		
	2022	**2021**	
Major Routes	69.8%	85.9%	(16.1%)
Northern Routes	65.9%	76.8%	(10.9%)
Minor Routes	84.2%	87.5%	(3.3%)
On-Time Performance	82.0%	87.2%	(5.2%)

In the three months ended June 30, 2022, overall on-time performance decreased 5.2% from 87.2% to 82.0% compared to the same period in the prior year, declining on the Major Routes, the Northern Routes and the Minor Routes. On-time performance decreased primarily as a result of the impact of increased traffic demand and challenges due to crew shortages.

Revenues

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (a discussion of the effect of rate regulation can be found on pages 44 and 45 of our fiscal 2022 Management's Discussion and Analysis).

Operational revenues for the three months ended June 30, 2022 are shown in the graph below.



Fuel rebates and surcharges are not included in the above total revenue by source. Rebates and surcharges are recorded in our fuel deferral accounts for rate regulatory purposes as they are implemented as a direct result of rising and declining fuel prices.

Revenue ($ millions)	**Three months ended June 30**			
	2022	**2021**	**Increase (Decrease)**	**%**
Direct Route Revenue	**201.6**	**111.2**	**90.4**	**81%**
Vehicle tariff revenue				
Major Routes	103.2	63.6	39.6	62%
Northern Routes	2.5	1.5	1.0	67%
Minor Routes	15.8	12.4	3.4	27%
Total vehicle tariff revenue	121.5	77.5	44.0	57%
Passenger tariff revenue				
Major Routes	46.6	19.7	26.9	137%
Northern Routes	1.6	0.6	1.0	167%
Minor Routes	8.3	5.8	2.5	43%
Total passenger tariff revenue	56.5	26.1	30.4	117%
Net retail revenue				
Major Routes	13.5	4.4	9.1	207%
Northern Routes	0.9	0.5	0.4	80%
Minor Routes	0.9	0.4	0.5	125%
Total net retail revenue	15.3	5.3	10.0	189%
Social program fees	3.2	2.5	0.7	28%
Other revenue	2.6	1.5	1.1	73%
Fuel surcharge (rebates)	2.5	(1.7)	4.2	(247%)
Indirect Route Revenue	**62.6**	**117.8**	**(55.2)**	**(47%)**
Safe Restart Funding (*)	2.1	59.7	(57.6)	(97%)
Ferry transportation fees	52.2	50.1	2.1	4%
Federal-Provincial subsidy	8.3	8.0	0.3	4%
Total Route Revenue	**264.2**	**229.0**	**35.2**	**15%**
Other general revenue	0.7	0.2	0.5	250%
Total Revenue	**264.9**	**229.2**	**35.7**	**16%**

*Total Safe Restart Funding of $2.5 million was recorded for operating and fare increase relief, in the three months ended June 30, 2022 ($60.0 million in the same period in the prior year), of which $0.4 million ($0.3 in the prior year) for discretionary sailings relief was included in ferry transportation fees.

Vehicle tariffs and passenger tariffs account for the largest share of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types and tariff rates. On April 8, 2022, we implemented average tariff increases of 2.3% in accordance with the Commissioner's Order 19-04 dated September 30, 2019.

During the three months ended June 30, 2022, total direct route revenue increased $90.4 million or 81% compared to the same period in the prior year, primarily as a result of an increase in vehicle and passenger traffic levels, primarily as a result of travel restrictions being in place through most of the first quarter in the prior year.

Average Tariff	**Three months ended June 30**			
			Increase (Decrease)	
Average vehicle tariff	**2022**	**2021**	**$**	**%**
Major Routes	73.01	75.67	(2.66)	(4%)
Northern Routes	262.32	254.22	8.10	3%
Minor Routes	15.34	14.23	1.11	8%
Average vehicle tariff	49.59	45.06	4.53	10%
Average passenger tariff				
Major Routes	13.61	12.62	0.99	8%
Northern Routes	75.38	61.59	13.79	22%
Minor Routes	4.13	3.73	0.40	11%
Average passenger tariff	10.35	8.34	2.01	24%

During the three months ended June 30, 2022, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $4.53 or 10% compared to the same period in the prior year as a result of tariff increases and a significant increase in traffic on the higher tariff Major Routes, partially offset by a lower mix of higher paying commercial traffic. In the three months ended June 30, 2022, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $2.01 or 24% compared to the same period in the prior year, primarily due to tariff increases and increases in passenger traffic on higher tariff routes. The increase in traffic levels and the change in average tariff revenue resulted in a total tariff revenue increase of $74.4 million or 72% compared to the same period in the prior year.

Net retail sales is our second largest source of direct revenue and provides a gross margin of approximately 60%, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In the three months ended June 30, 2021, catering, retail and other on-board services were impacted by COVID-19 travel restrictions and restrictions for safe distancing and with limited food services available on select routes. In the three months ended June 30, 2022, net retail revenue increased by $10.0 million compared to the same period in the prior year as a result of the increase in traffic levels and that no travel restrictions were in place.

Social program fees are reimbursements from the Province for discounted fares provided to students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Medical Travel Assistance Program (“MTAP”). Social program fees for the three months ended June 30, 2022 increased $0.7 million compared to the same period in the prior year, mainly due to an increase in the number of students travelling under the program and in the usage of the MTAP.

In the three months ended June 30, 2022, other revenue increased $1.1 million compared to the same period in the prior year, primarily as a result of increased parking revenues.

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

Date range	% surcharge (rebate)	Applicable routes
April 1, 2021 - June 30, 2021	(1.5%)	All Routes
April 1, 2022 - May 31, 2022	1.0%	Major Routes and Minor Routes
April 1, 2022 - May 31, 2022	0.0%	Northern Routes
June 1, 2022 - current	2.5%	All Routes

For the purpose of rate regulation and regulatory reporting, surcharges and/or rebates are applied to our deferred fuel cost accounts.

In the three months ended June 30, 2022, total indirect route revenue decreased by $55.2 million compared to the same period in the prior year, primarily as a result of the amount of the Safe Restart Funding recognized in each period.

In fiscal 2021, we received $308.0 million from the Province as part of the provincial and federal governments' Safe Restart Funding program, which significantly increased our cash position and mitigated the need for incremental borrowing. The Safe Restart Funding consists of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit average fare increases to 2.3% per year for the remainder of PT5 (as defined below) and to cover the estimated costs of discretionary sailings to be recognized as follows:

Safe Restart Funding Projected Recognition ($ millions)	Fiscal 2021	Fiscal 2022	Three months ended June 30, 2022	Remainder of fiscal 2023	Fiscal 2023 to 2024	Total Funding
Operating relief	$ 186.0	$ 94.0	$ -	$ -	$ -	$ 280.0
Fare increase relief	-	7.0	2.1	5.9	9.0	24.0
Discretionary sailings relief*	-	1.3	0.4	0.9	1.4	4.0
	$ 186.0	$ 102.3	$ 2.5	$ 6.8	$ 10.4	$ 308.0

*The discretionary sailings relief is recorded in ferry transportation fees.

Of the $308.0 million Safe Restart Funding, we have recognized a total of $290.8 million: $186.0 million in fiscal 2021, $102.3 million in fiscal 2022 and $2.5 million in the three months ended June 30, 2022. We are projecting to recognize the remaining $17.2 million as follows: $6.8 million in the remainder of fiscal 2023 and $10.4 million in fiscal 2024.

For more details on BC Ferries' obligations under the Safe Restart Funding Agreement, see the agreement filed under the Company's profile on SEDAR at www.sedar.com on January 18, 2021.

Effective April 1, 2020, the CFSC was amended to formalize revised ferry transportation fees for the four-year performance term ("PT5"), which commenced April 1, 2020 and ends on March 31, 2024. As noted above, the discretionary sailings relief portion of the Safe Restart Funding is included in ferry transportation fees.

Under the terms of the CFSC, we receive an annual amount from the Province based on the Province's agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. This Federal-Provincial subsidy increased based on the percentage increase in the annual Consumer Price Index (Vancouver).

Expenses
Expenses for the three months ended June 30, 2022 and 2021 are summarized in the table below:

Operating Expenses ($ millions)	**Three months ended June 30**			
	2022	**2021**	**Increase (Decrease)**	**Increase (Decrease)**
Operations	159.2	129.6	29.6	23%
Maintenance	27.2	28.8	(1.6)	(6%)
Administration	10.4	8.8	1.6	18%
Total operations, maintenance & administration	196.8	167.2	29.6	18%
Depreciation and amortization	45.3	43.6	1.7	4%
Total Operating Expenses	242.1	210.8	31.3	15%

During the three months ended June 30, 2022, total operating expenses increased $31.3 million or 15% compared to the same period in the prior year. In the three months ended June 30, 2022, we delivered 21,514 round trips, which provided a 12% increase in capacity, compared to the same period in the prior year, with 37% of the increased trips being provided on the Major Routes.

Wages, benefits and fuel are our largest expenses, representing approximately 77% of our total operations, maintenance and administration costs. The $29.6 million or 18% increase in operations, maintenance and administration costs is primarily driven by the increase in the number of round trips provided on the Major Routes, and an increase in fuel prices. In the three months ended June 30, 2022, the Major Routes carried approximately 58% of our vehicle traffic and 63% of passenger traffic and accounted for 84% of total tariff revenue. 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, 2022.

The $29.6 million or 23% increase in operations expenses in the three months ended June 30, 2022, compared to the same period in the prior year include:

- $13.1 million increase in fuel expense, reflecting an increase of $4.0 million or 13% increase in fuel consumption and a $9.1 million or 33.9% increase due to higher fuel prices;
- $11.6 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, wage rate increase per the Collective Agreement, increased overtime, training, illness and benefit costs; and
- $4.9 million increase in credit card fees, travel, advertising, insurance costs, data communication, training supplies, and other miscellaneous expenses.

Maintenance costs decreased by $1.6 million or 6% in the three months ended June 30, 2022 compared to the same period in the prior year, as a result of the timing of planned vessel refit activity.

Administration costs increased $1.6 million or 18% in the three months ended June 30, 2022 compared to the same period in the prior year, primarily as a result of increased labour costs, arbitration, audit, travel and software licence costs.

Depreciation and amortization increased $1.7 million in the three months ended June 30, 2022 compared to the same period in the prior year, reflecting the timing of capital assets entering service. (See "Investing in our Capital Assets" for details of capital asset expenditures.)

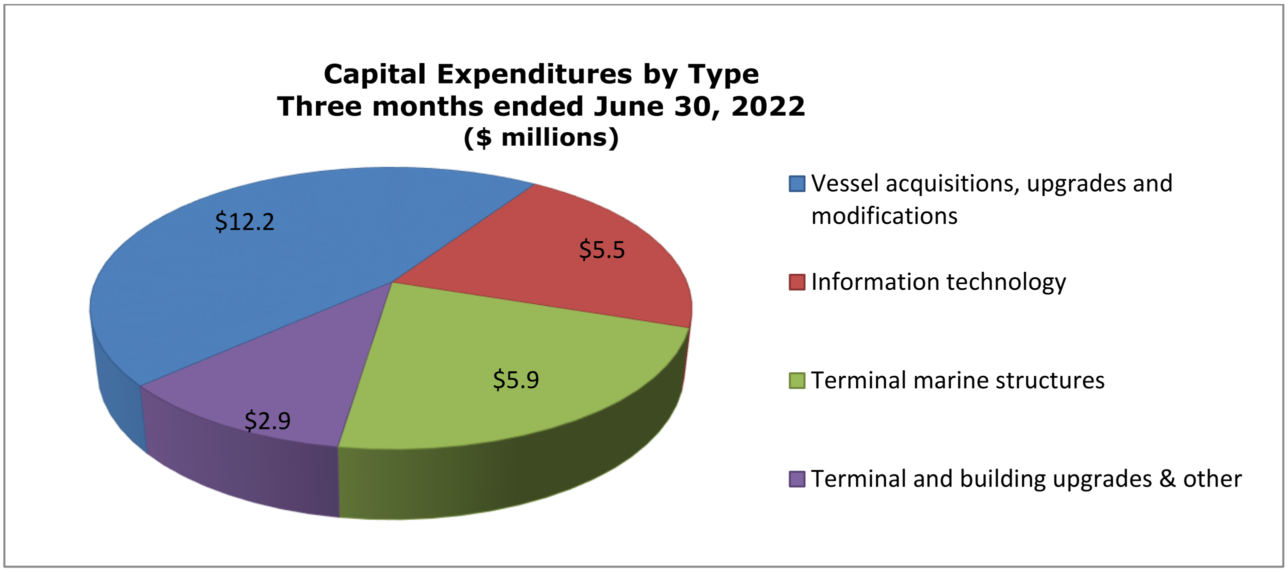
Net finance and other expenses ($ millions)	**Three months ended June 30**		
	2022	**2021**	**Increase (Decrease)**
Finance expense	16.7	14.8	1.9
Less: finance income	(1.8)	(1.1)	(0.7)
Total net finance and other expenses	14.9	13.7	1.2

In the three months ended June 30, 2022, net finance and other expenses increased by $1.2 million compared to the same period in the prior year, primarily due to a reduction in interest being capitalized compared to the prior year, and partially offset by higher interest earned on investments.

INVESTING IN OUR CAPITAL ASSETS

Our capital plan includes upgrades and modifications for existing vessels, improvements at our fleet maintenance unit, upgrades at our terminals and renewal of our information technology systems. Planned upgrades to our existing vessels include enabling the full electrification of our hybrid powered Island Class vessels and shore charging infrastructure.

In the three months ended June 30, 2022, capital expenditures comprised the following:



Capital Expenditures ($ millions)	**Three months ended June 30, 2022**
Major overhauls and inspections	5.9
Hardware upgrades	3.6
Tsawwassen marine structure upgrade	3.1
Coastal Inspiration - quarter-life upgrade	3.1
Salish Heron	1.8
Various other projects	9.0
	26.5

Major overhauls and inspections

In the three months ended June 30, 2022, we had capital expenditures of $5.9 million in respect of major overhauls and inspections of components of hull, propulsion and generators for three 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.

Tsawwassen marine structure upgrade

A project to upgrade the sheet pile wall and drainage systems at our Tsawwassen terminal is underway and expected to complete in the last quarter of fiscal 2023.

Coastal Inspiration – quarter-life upgrade

The quarter-life upgrade of the *Coastal Inspiration* including propulsion, electrical systems, communication and catering equipment is underway and expected to complete in fiscal 2023.

Salish Heron

On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. in Gdansk, Poland, to build a new Salish Class vessel. The total project budget for the new vessel, including financing and project management costs, is approximately $90 million. The *Salish Heron*, the fourth Salish Class vessel, entered service in the Southern Gulf Islands on May 6, 2022. The *Salish Heron* is identical to our three existing Salish Class vessels, which are dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. Using primarily LNG, a cleaner and lower carbon-intensity option, to fuel the new ship will result in reduced emissions and reduced costs. The vessel has the capacity to carry approximately 138 vehicles and up to 600 passengers and crew.

Various other projects

Various other projects include, among others, upgrades to marine structures at our Horseshoe Bay terminal, upgrades to navigation equipment, crew scheduling software, mobile booking application, 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. In addition, from time to time we receive funding from external sources. 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 existing Credit Facility (described below) from time to time, debt issuances, and other funding opportunities.

At June 30, 2022, our unrestricted cash and cash equivalents and other short-term investments totalled $171 million and $203 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of $204 million and $169 million, respectively, as at March 31, 2022.

The Credit Facility was amended and restated on April 19, 2022, to, among other things, reduce the amount of the revolving facility from $155 million to $105 million and set a maturity date of April 2026. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At June 30, 2022, 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 23, 2021, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" and revised the outlook to stable from negative. On February 9, 2022, DBRS confirmed our credit rating at "A (high)" rating 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 (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR) is less than 1.50 times the debt service cost.

At June 30, 2022, we achieved a debt service coverage ratio of 3.44 times and were in compliance with the financial covenants under the MTI and the Credit Facility's agreement.

The Company's operational performance for the three months ended June 30, 2022 has resulted in a $7.9 million improvement in equity before reserves, from $691.3 million as at March 31, 2022 to $699.2 million as at June 30, 2022. Correspondingly, BC Ferries' leverage ratio has decreased from 70.1% as of March 31, 2022 to 69.1% as of June 30, 2022 and includes the impact of a reduction in the amount of the Credit Facility.

($ thousands)	June 30, 2022		March 31, 2022	
	$	%	$	%
Aggregate borrowings [1]	1,565,958	69.1%	1,619,286	70.1%
Total equity before reserves	699,155	30.9%	691,254	29.9%
Total	2,265,113	100.0%	2,310,540	100.0%

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

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, the issuance of bonds, external funding and borrowings under the Credit Facility. Our primary uses of funds are operational expenses, capital asset acquisitions and upgrades, and payments on our long-term debt.

Sources and uses of cash and cash equivalents for the first quarter of fiscal 2032 and 2022 are summarized in the table below:

	Three months ended June 30		
($ millions)	2022	2021	Increase (Decrease)
Cash and cash equivalents, beginning of year	204.4	285.4	(81.0)
Cash from operating activities:			
Net earnings	7.9	4.7	3.2
Items not affecting cash	58.2	57.9	0.3
Changes in non-cash operating working capital	(20.1)	(47.7)	27.6
Net interest paid	(20.4)	(20.6)	0.2
Cash generated from (used in) operating activities	25.6	(5.7)	31.3
Cash used in financing activities	(3.5)	(3.5)	0.0
Cash used in investing activities	(55.9)	(39.9)	(16.0)
Net decrease in cash and cash equivalents	(33.8)	(49.1)	15.3
Cash and cash equivalents, end of year	170.6	236.3	(65.7)

For the three months ended June 30, 2022, cash generated from operating activities increased by $31.3 million compared to the prior year, primarily due to an increase in cash received for prepaid fares compared to the same period in the prior year and a net increase in earnings. The increase in net earnings reflects the impact of increased traffic and revenues, partially offset by less Safe Restart Funding and an increase in operating expenses due to higher fuel prices and increased services levels.

Cash used in financing activities in the three months ended June 30, 2022 and June 30, 2021 was $3.5 million. This amount consisted of $2.8 million in repayment of our loans from KfW IPEX-Bank GmbH ("KfW") and $0.7 million in repayment of lease obligations.

Cash used in investing activities for the three months ended June 30, 2022 increased by $16.0 million compared to the prior year, mainly due to a $30.2 million increase in short-term investment purchases partially offset by a $14.2 million decrease in purchases of capital assets.

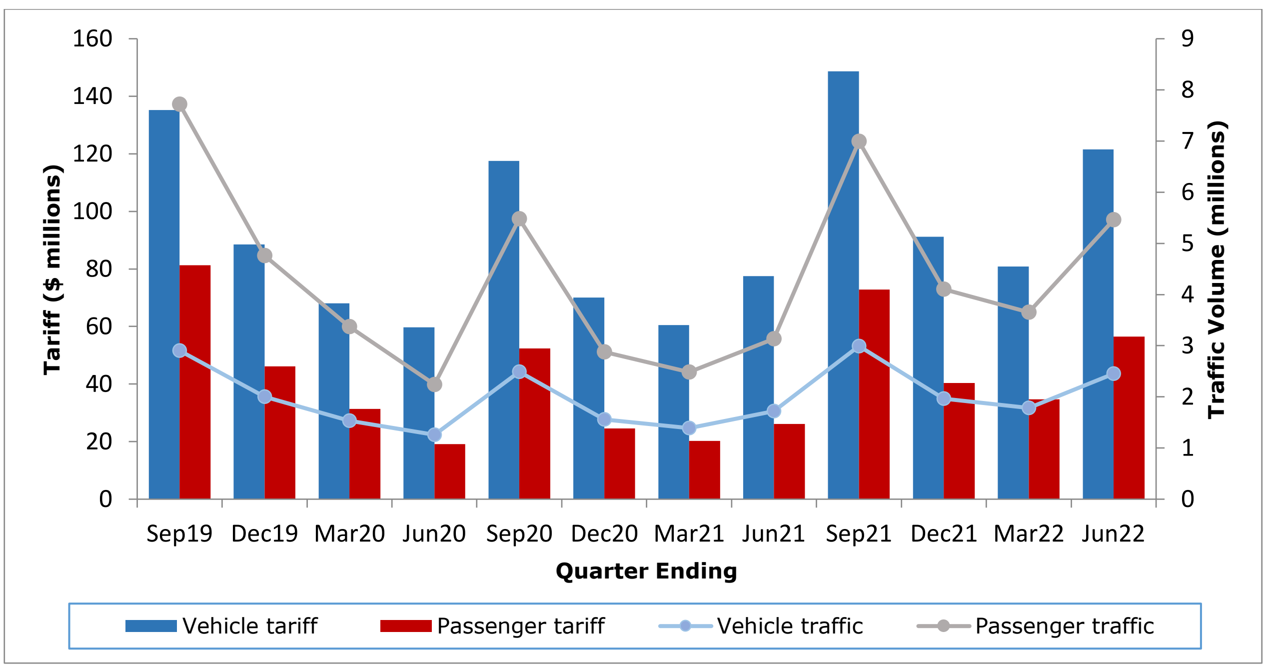
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Sep 19**	**Dec 19**	**Mar 20**	**Jun 20**	**Sep 20**	**Dec 20**	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**
Total revenue without Safe Restart Funding	329	211	155	137	248	157	137	169	314	203	177	262
Safe Restart Funding	-	-	-	-	-	155	31	60	3	19	20	3
Total revenue	329	211	155	137	248	312	168	229	317	222	197	265
Operating profit (loss)	109	5	(55)	(46)	52	113	(33)	18	94	13	(27)	23
Net earnings (loss)	95	(8)	(70)	(62)	38	99	(54)	5	80	(2)	(49)	8
Net earnings (loss) without Safe Restart Funding	95	(8)	(70)	(62)	38	(56)	(85)	(55)	77	(21)	(69)	5

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
BC Ferries faced significant declines in revenue, earnings, and cash from operations as a result of the COVID-19 pandemic with its corresponding preventative measures and imposed travel restrictions. Once travel restrictions were lifted, we experienced a significant increase in customer demand through the last three quarters of fiscal 2022 and into the first quarter of this fiscal year. The vehicle traffic levels in the three months ended June 30, 2022 were the highest we have ever experienced. When comparing the traffic in the first quarter of fiscal 2023 to the same period in fiscal 2020, a pre-COVID period, vehicle traffic is higher by 3.8% while passenger traffic is lower by 6.3%.

While we are optimistic that traffic will continue to be strong and conditions have improved, BC Ferries cannot predict with certainty future traffic volumes. Traffic levels can be affected by factors, such as transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, disposable personal income, and further pandemic impacts.

We are also experiencing the impact of crew shortages, which have resulted in cancellations on some routes. In the three months ended June 30, 2022 we cancelled less than 1% of our scheduled round trips. We continue to actively recruit and manage employee illness and absenteeism to reduce the impact to our customers.

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

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 33 through 39 of our fiscal 2022 Management's Discussion & Analysis, which is available on SEDAR at www.sedar.com and on our investor webpage at https://www.bcferries.com/our-company/investor-relations. Our risk profile is substantially unchanged, during the three months ended June 30, 2022.

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, 2022 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 42 through 45 of our fiscal 2022 Management's Discussion & Analysis.

Adoption of New Accounting Standards
No new accounting standards were adopted effective April 1, 2022.

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: Safe Restart Funding, the need for positive net earnings, revenue sources vehicle and passenger fares, cash requirements and sources of cash flows, our credit rating and credit risks, reliance on sources of external funding, cyclical traffic patterns and the impact on operations, economic conditions and their impact on financial performance, fuel prices and the impact of hedging, capital plans and major capital initiatives, among other statements.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance, capital market access, inflation, interest rates, foreign currency, fuel prices, traffic fluctuations, timelines of major capital projects, security, safety, and environmental incidents, cyber security breaches, changes in laws, vessel repair facility limitations, economic regulatory environment changes, tax changes, Indigenous consultations, and the COVID-19 pandemic.

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.