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

For the three months ended
June 30, 2021

Dated August 18, 2021

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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" or the "Company") for the three months ended June 30, 2021 that has been prepared with information available as of August 18, 2021. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three month period ended June 30, 2021 and 2020, and our audited consolidated financial statements and related notes for the years ended March 31, 2021 ("fiscal 2021") and March 31, 2020 ("fiscal 2020"), together with our Management's Discussion and Analysis for fiscal 2021. These documents are available on 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 (the "IASB").

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 35 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other remote 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 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 obligations.

The impact of the COVID-19 pandemic and corresponding preventative measures and imposed travel restrictions began to be felt in March 2020 and continued to impact our passenger and vehicle traffic during the three months ended June 30, 2021. In the three months ended June 30, 2021, vehicle and passenger traffic increased 37% and 40%, respectively, compared to the same period in the prior year. While these increases are significant, vehicle and passenger traffic is lower by 27% and 46%, respectively, compared to the same period in fiscal 2020, a pre-COVID-19 time.

Along with the reduced passenger and vehicle traffic, the impacts from the COVID-19 pandemic include significant declines in revenue, earnings and cash from operations compared to a pre-COVID-19 time. In December 2020, we received $308 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. Safe Restart Funding of $60.0 million was applied towards losses in the three months ended June 30, 2021 (See "Operational Statistics and Revenues" for further details). During the three months ended June 30, 2021, we had net earnings of $4.7 million. Without recognition of $60.0 million of this funding, our June 30, 2021 results would have been a net loss of $55.3 million.

As a proactive measure, we negotiated covenant relief under our credit agreement with a syndicate of Canadian banks (the "Credit Facility") in May 2020 and were in compliance with all applicable covenants at June 30, 2021 (see "Liquidity and Capital Resources" for more detail). BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic, the future timing of when conditions might improve, and when traffic will return to pre-COVID-19 levels.

Significant events during and subsequent to the first quarter of the year ending March 31, 2022 ("fiscal 2022") include the following:

General

- At April 1, 2021, 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 Funding Agreement.

- On June 15, 2021, the Province lifted travel restrictions imposed by the Province on April 23, 2021, which denied travel to customers travelling for non-essential reasons on routes crossing regional zones as defined by the Province in Ministerial Order M182. Our principal priorities continue to be the safety of our passengers and employees and adhering to provincial and federal guidelines as we provide essential ferry service. We are following closely the COVID-19 directives and guidance provided by the Province and Transport Canada. As of July 1, 2021, BC Ferries relaxed the mandatory mask policy to align with the latest guidance. Wearing face coverings in indoor spaces at our terminals and on board our vessels is now recommended for all people 12 and older who are not fully vaccinated. BC Ferries continues with measures to mitigate risk including additional cleaning and sanitization.

- On July 15, 2021, we announced that due to current fuel market conditions, effective August 1, 2021, the fuel rebate will be revised to 0.5% on all routes with the exception of the Northern Routes, which will remain at 1.5% until further notice. The previous 1.5% fuel rebate had been in place on all routes since April 1, 2020.

- On August 2, 2021, the *Northern Expedition* returned to service. On June 3, 2021, the *Northern Expedition* was removed from service and required extensive repairs to both the vessel's main engines. During this period, we modified the Northern Routes from a summer to a winter schedule with the *Northern Adventure* covering service and supplemented with a barge service.

Capital assets

- On July 22, 2021, the first of four new Island Class vessels arrived in Canada, and on August 13, 2021, the second of four vessels arrived in Canada from Damen Shipyard Galati in Romania. These vessels made the transatlantic journey under their own power in approximately 60 days, operating one-third of the journey using battery power, with the batteries being charged during the voyage by a diesel generator. On July 31, 2021, the third of four vessels departed Romania for Canada with the last of the four new Island Class vessels expected to depart Romania for Canada late in the second quarter of fiscal 2022. The arrival of these new vessels will allow Quadra Island and Gabriola Island to each be serviced by two Island Class vessels. These new Island Class vessels are scheduled to enter service in the spring of next year. The new vessels are outfitted with hybrid diesel-electric propulsion and have a capacity of up to 400 passengers and crew and approximately 47 vehicles (See "Investing in Our Capital Assets" for more detail).

- On July 26, 2021, the Commissioner issued Order 21-01, conditionally approving our application for a major capital expenditure for the Island Class electrification program. On May 28, 2021, we submitted an application to the Commissioner under Section 55 of the *Coastal Ferry Act* (the "Act") seeking approval of a major capital expenditure. In the application, our proposal is to upgrade our six existing Island Class vessels with associated terminals to enable the vessels to operate predominantly in full battery-electric mode. This major capital expenditure requires funding to proceed and BC Ferries is seeking federal funding to accelerate the program to provide shore-charging infrastructure and to change the vessels from hybrid-diesel-electric to battery-electric operations.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three months ended June 30, 2021 compared with the same period in fiscal 2020.

	Three months ended June 30			
			Variance	
($ millions)	**2021**	**2020**	**$**	**%**
Total revenue	229.2	137.4	91.8	67%
Operating expenses	210.8	183.7	27.1	15%
Operating profit (loss)	18.4	(46.3)	64.7	-
Net finance and other expenses	13.7	15.7	2.0	13%
Net earnings (loss)	4.7	(62.0)	66.7	-
Other comprehensive income (loss)	16.7	(0.4)	17.1	-
Total comprehensive income (loss)	21.4	(62.4)	83.8	-

Financial performance continues to be affected as a result of the COVID-19 pandemic. The impacts include significant declines in passenger and vehicle traffic and significant declines in revenue, earnings and cash from operations (compared to a pre-COVID-19 year) which have been largely offset by the Safe Restart Funding.

In the three months ended June 30, 2021, we recognized Safe Restart Funding of $60.0 million (see "Revenue and Operational Statistics" for more detail). In the three months ended June 30, 2021, revenues, inclusive of Safe Restart Funding, increased $91.8 million or 67% compared to the same period in the prior year, primarily as a result of the Safe Restart Funding, increases in traffic volumes and net retail sales. Without the Safe Restart Funding of $60.0 million, our first quarter of fiscal 2022 revenues would have been $169.2 million, or 23% higher than in the same period in fiscal 2021.

During the three months ended June 30, 2021, we delivered 20,395 round trips, an increase of 2,145.5 or 12% additional round trips compared to the same period in the prior year. We carried 3.1 million passengers and 1.7 million vehicles during the three months ended June 30, 2021, an increase of 40% and 37%, respectively, compared to the same period in the prior year.

In the three months ended June 30, 2021, our operating expenses increased by $27.1 million or 15% compared to the same period in the prior year, mainly due to delivering a higher number of round trips which drove higher labour costs and fuel consumption.

In the three months ended June 30, 2021, our net earnings were $4.7 million, representing an increase of $66.7 million compared to net loss of $62.0 million in the same period in the prior year. Without $60.0 million in Safe Restart Funding, our net loss for the three months ended June 30, 2021 would have been $55.3 million.

During the three months ended June 30, 2021, our total comprehensive income was $21.4 million compared to a total comprehensive loss of $62.4 million in the same period in the prior year. This is an increase of $83.8 million, compared to the same period in the prior year, comprised of the $66.7 million increase in net earnings described above and an increase in other comprehensive income ("OCI") of $17.1 million. The change in OCI is due to an increase in the change in unrealized gains of our open fuel swap contracts, reflecting an increase in diesel prices, compared to the same period in the prior year.

Operational Statistics and 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 8 through 9 of our fiscal 2021 Management's Discussion and Analysis). Our Major Routes, which are our four busiest routes, consist of three routes connecting Metro Vancouver with mid and southern Vancouver Island and one route connecting Horseshoe Bay and Langdale. 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, 2021 and 2020 are shown in the tables below.

Operational Statistics	**Three months ended June 30**			
Vehicle Traffic	**2021**	**2020**	**Increase (Decrease)**	**%**
Major Routes	841,039	645,371	195,668	30%
Northern Routes	5,751	3,420	2,331	68%
Minor Routes	874,058	609,829	264,229	43%
Total Vehicle Traffic	1,720,848	1,258,620	462,228	37%
Passenger Traffic				
Major Routes	1,561,382	1,193,547	367,835	31%
Northern Routes	9,564	5,181	4,383	85%
Minor Routes	1,559,954	1,043,355	516,599	50%
Total Passenger Traffic	3,130,900	2,242,083	888,817	40%
Round Trips				
Major Routes	2,908.5	1,932.0	976.5	51%
Northern Routes	82.5	70.5	12.0	17%
Minor Routes	17,404.0	16,247.0	1,157.0	7%
Total Round Trips	20,395.0	18,249.5	2,145.5	12%
Capacity Provided (AEQs)				
Major Routes	1,866,552	1,232,546	634,006	51%
Northern Routes	11,271	13,652	(2,381)	(17%)
Minor Routes	1,846,606	1,762,355	84,251	5%
Total Capacity Provided	3,724,429	3,008,553	715,876	24%
AEQs Carried				
Major Routes	1,087,152	842,007	245,145	29%
Northern Routes	7,380	4,669	2,711	58%
Minor Routes	956,565	671,052	285,513	43%
Total AEQs Carried	2,051,097	1,517,728	533,369	35%
Capacity Utilization				
Major Routes	58.2%	68.3%	(10.1%)	
Northern Routes	65.5%	34.2%	31.3%	
Minor Routes	51.8%	38.1%	13.7%	
Total Capacity Utilization	55.1%	50.4%	4.7%	

In the three months ended June 30, 2021, vehicle and passenger traffic increased 37% and 40%, respectively, compared to the same period in the prior year mainly due to the easing of COVID-19 travel restrictions. While these increases are significant, vehicle and passenger traffic is lower by 27% and 46%, respectively, compared to the same period in fiscal 2020, a pre-COVID time.

In the three months ended June 30, 2021, we delivered 2,145.5 or 12% additional round trips than in the same period in fiscal 2021 in response to the easing of travel restrictions and increased customer demand.

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 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 ("CFSC). In the three months ended June 30, 2021, we provided 2,145.5 additional round trips compared to the same period in the prior year as a result of higher traffic levels, resulting in increased vehicle capacity of 24%. In the three months ended June 30, 2021, approximately 89% of the increase in vehicle capacity provided was a result of additional vehicle capacity provided on the Major Routes. In the three months ended June 30, 2021, vessel capacity declined 17% on the Northern Routes as a result of operating a smaller vessel while the *Northern Expedition* underwent repairs.

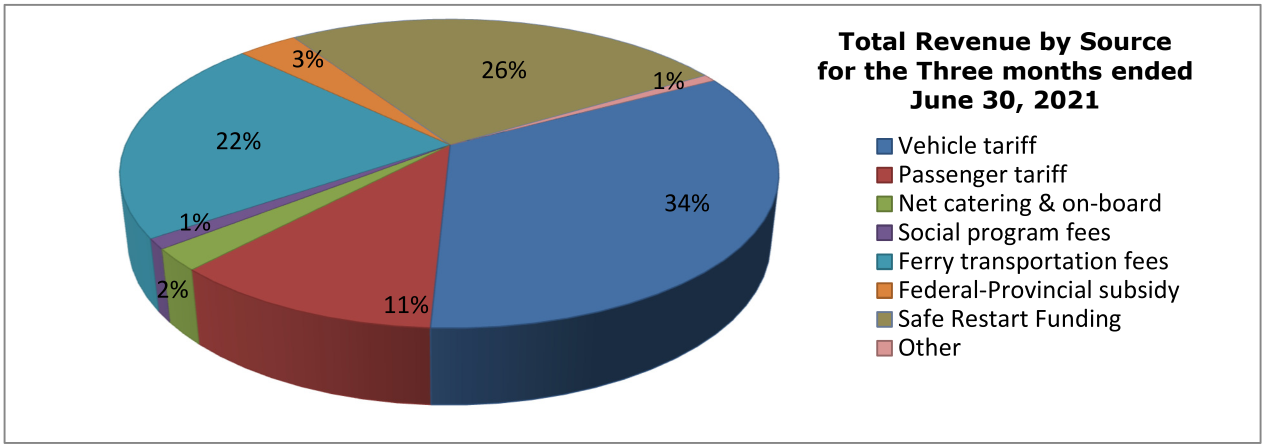
Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of 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 at popular sailing times throughout the year. Capacity utilization is lowest during the winter months and for less popular sailings. In the three months ended June 30, 2021, overall capacity utilization was 55.1%, an increase of 4.7% compared to capacity utilization of 50.4% during the prior year. The increase in capacity utilization during the three months ended June 30, 2021 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 regulated 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, terminal dock maintenance or closures, and periods of high traffic demand.

On-Time Performance	**Three months ended June 30**		
	2021	**2020**	
Major Routes	85.9%	65.3%	20.6%
Northern Routes	76.8%	86.1%	(9.3%)
Minor Routes	87.5%	92.9%	(5.4%)
On-time Performance	87.2%	90.2%	(3.0%)

In the three months ended June 30, 2021, overall on-time performance decreased by 3.0% to 87.2% compared to 90.2% in the same period in the prior year. The Major Routes' on-time performance improved primarily due to the removal of compressed sailing schedules and extra time needed to separate essential and non-essential traffic as a result of COVID-19 in the same period in the prior year, but was offset by a decrease in on-time performance on both the Northern and Minor Routes. On-time performance decreased on the Northern Routes and the Minor Routes primarily due to the impact of increased traffic demand.

Operational revenues for the three months ended June 30, 2021 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.

Operational revenues for the three month periods ended June 30, 2021 and 2020 are shown in the table below.

Revenue ($ millions)	**Three months ended June 30**			
	2021	**2020**	**Increase (Decrease)**	**%**
Direct Route Revenue	**111.2**	**80.3**	**30.9**	**38%**
Vehicle tariff revenue				
Major Routes	63.6	50.0	13.6	27%
Northern Routes	1.5	1.0	0.5	50%
Minor Routes	12.4	8.7	3.7	43%
Total vehicle tariff revenue	77.5	59.7	17.8	30%
Passenger tariff revenue				
Major Routes	19.7	14.9	4.8	32%
Northern Routes	0.6	0.3	0.3	100%
Minor Routes	5.8	3.9	1.9	49%
Total passenger tariff revenue	26.1	19.1	7.0	37%
Net retail revenue				
Major Routes	4.4	0.4	4.0	1000%
Northern Routes	0.5	0.2	0.3	150%
Minor Routes	0.4	-	0.4	-
Total net retail revenue	5.3	0.6	4.7	783%
Social program fees	2.5	1.1	1.4	127%
Other revenue	1.5	1.0	0.5	50%
Fuel rebates	(1.7)	(1.2)	(0.5)	42%
Indirect Route Revenue	**117.8**	**56.9**	**60.9**	**107%**
Safe Restart Funding (*)	59.7	-	59.7	-
Ferry transportation fees	50.1	48.9	1.2	3%
Federal-Provincial subsidy	8.0	8.0	-	-
Total Route Revenue	**229.0**	**137.2**	**91.8**	**67%**
Other general revenue	0.2	0.2	-	-
Total Revenue	**229.2**	**137.4**	**91.8**	**67%**

*Total Safe Restart Funding of $60.0 million was recorded, in the three months ended June 30, 2021, of which $0.3 million for discretionary sailings relief was included in ferry transportation fees.

Vehicle tariffs (which include reservation fee revenue) and passenger tariffs normally 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. At April 1, 2021, we implemented average tariff increases of 2.3%.

In the three months ended June 30, 2021, total direct route revenue increased $30.9 million or 38% compared to the same period in the prior year, primarily as a result of an increase in vehicle and passenger traffic levels.

Average Tariff	**Three months ended June 30**			
Average vehicle tariff	**2021**	**2020**	**Increase (Decrease)**	**%**
Major Routes	75.67	77.49	(1.82)	(2.3%)
Northern Routes	254.22	298.25	(44.03)	(14.8%)
Minor Routes	14.23	14.12	0.11	0.8%
Average vehicle tariff	45.06	47.38	(2.32)	(4.9%)
Average passenger tariff				
Major Routes	12.62	12.45	0.17	1.4%
Northern Routes	61.59	64.08	(2.49)	(3.9%)
Minor Routes	3.73	3.79	(0.06)	(1.6%)
Average passenger tariff	8.34	8.54	(0.20)	(2.3%)

In the three months ended June 30, 2021, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) decreased $2.32 or 4.9% compared to the same period in the prior year, mainly as a result of customers taking advantage of discounted fares and a lower percentage of customers making reservations on our Major Routes. In the three months ended June 30, 2021, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) decreased $0.20 or 2.3% compared to the same period in the prior year, primarily due to changes in the traffic mix on lower versus higher tariff routes. The change in average tariff revenue and the increase in traffic levels resulted in a total tariff revenue increase of $24.8 million or 31.5% compared to 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. During the three months ended June 30, 2021, catering, retail and other on-board services were impacted by COVID-19 restrictions for safe distancing and limited food services available on select routes. In the three months ended June 30, 2021, net retail revenue increased $4.7 million compared to the same period in the prior year when most of our food and on-board services were closed due to the COVID-19 pandemic. While this increase is significant, net retail revenue is lower by $10.9 million or 67.3% compared to the same period in fiscal 2020, a pre-COVID-19 time.

Social program fees are reimbursements of discounts from the Province provided on fares for 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, 2021, increased $1.4 million or 127% compared to the same period in the prior year, mainly due to an increase in the usage of the MTAP and an increase in the number of students travelling under the program.

In the three months ended June 30, 2021, other revenue increased $0.5 million compared to the same period in the prior year primarily from increased parking and stateroom usage as a result of higher traffic levels.

A fuel rebate of 1.5%, which was implemented on all routes as of April 1, 2020, continued to be in place during the three months ended June 30, 2021.

In the three months ended June 30, 2021, total indirect route revenue increased by $60.9 million or 107% compared to the same period in the prior year primarily as a result of $60.0 million in Safe Restart Funding as discussed below.

In fiscal 2021, we received $308 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program. The Safe Restart Funding consists of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit fare increases to 2.3% per year for the remainder of PT5 and to cover the estimated costs of discretionary sailings as follows:

Safe Restart Funding Projected Recognition ($ millions)	Fiscal 2021	Three months ended June 30, 2021	Remainder of Fiscal 2022	Fiscal 2023 to 2024	Total Funding
Operating relief	$ 186.0	$ 57.8	$ 36.2	$ -	$ 280.0
Fare increase relief	-	1.9	5.1	17.0	24.0
Discretionary sailings relief*	-	0.3	1.0	2.7	4.0
	$ 186.0	$ 60.0	$ 42.3	$ 19.7	$ 308.0

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

We recognized Safe Restart Funding of $60.0 million in the three months ended June 30, 2021, and are projecting to recognize the remainder of the funding as follows: $42.3 million in fiscal 2022, $9.3 million in fiscal 2023 and $10.4 million in fiscal 2024. The funding is recognized on a systematic basis, based on the estimated loss of earnings for the above three components, for each of the fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement with the Province. Actual losses incurred and timing of losses may differ from projected losses outlined in the Safe Restart Funding Agreement. For more details on BC Ferries' obligations under the Safe Restart Funding Agreement, see the agreement online under the Company's profile on: SEDAR at www.sedar.com.

Expenses
Expenses for the three months ended June 30, 2021 and 2020 are summarized in the tables below:

Operating expenses	**Three Months ended June 30**			
($ millions)			**Increase (Decrease)**	
	2021	**2020**	**$**	**%**
Operations	129.6	105.3	24.3	23.1%
Maintenance	28.8	23.1	5.7	24.7%
Administration	8.8	11.3	(2.5)	(22.1%)
Total operations, maintenance & administration	167.2	139.7	27.5	19.7%
Depreciation and amortization	43.6	44.0	(0.4)	(0.9%)
Total operating expenses	210.8	183.7	27.1	14.8%

During the three months ended June 30, 2021, total operating expenses increased $27.1 million or 14.8% compared to the same period in the prior year.

Wages, benefits and fuel expenses are our largest expenses, representing approximately 77% in the three months ended June 30, 2021 (78% in the same period in the prior year) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by the level of service provided. In accordance with the Collective Agreement, no wage rates were increased April 1, 2021. During the three months ended June 30, 2021, we delivered 20,395 round trips, an increase of 2,145.5 or 12% compared to the prior year.

During the three months ended June 30, 2021, expenses from operations increased $24.3 million compared to the same period in the prior year due to:

- $12.8 million increase in labour costs mainly due to staffing level changes for the higher number of round trips provided, and increased overtime, training and benefit costs;
- $7.7 million increase in fuel expense, primarily due to an increase in fuel consumption due to a higher number of round trips provided;
- $2.5 million increase in contracted services related to equipment repairs, contracted routes, traffic control, security, and parking costs;
- $0.7 million increase in property tax, insurance premiums, training, travel and other miscellaneous expenses; and
- $0.6 million increase in credit card fees, mainly due to increased vehicle and passenger tariff revenue.

Maintenance costs increased $5.7 million compared to the same period in the prior year, as a result of unplanned repairs on several vessels and timing differences related to vessel refit activity.

Administration costs decreased $2.5 million compared to the prior year, primarily as a result of a legal settlement in the prior year and lower labour and software licence costs.

Depreciation and amortization decreased $0.4 million compared to the prior year. (See "Investing in our Capital Assets" for details of capital asset expenditures.)

Net finance and other expenses ($ millions)	**Three months ended June 30**		
	2021	**2020**	**Increase (Decrease)**
Finance expense	14.8	15.0	(0.2)
Less: finance income	(1.1)	(1.2)	0.1
Net finance expense	13.7	13.8	(0.1)
Loss on disposal and impairment of property, plant, and equipment	-	1.9	(1.9)
Total net finance and other expenses	13.7	15.7	(2.0)

In the three months ended June 30, 2021, net finance and other expenses decreased $2.0 million primarily as result of no asset impairments, compared to $1.9 million in the prior year. In the three months ended June 30, 2020, in response to the COVID-19 pandemic, we reviewed our capital plan and deferred our new major vessel project, which resulted in an asset impairment of $1.8 million.

INVESTING IN OUR CAPITAL ASSETS

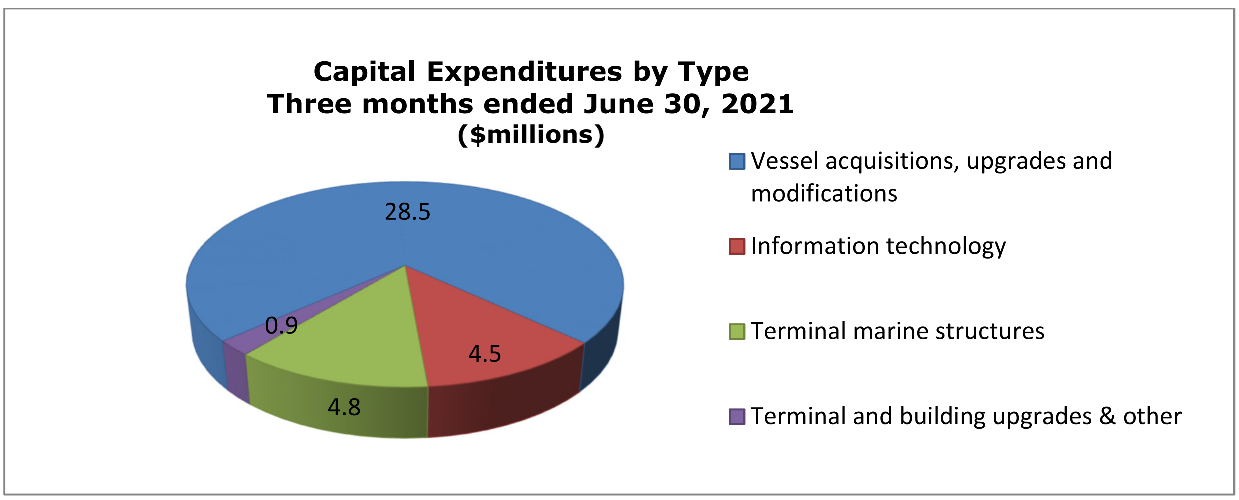
Over the next three years, we expect our capital expenditures to average approximately $250 million per year. Our capital plan includes new vessels, upgrades and modifications for existing vessels, improvements at our fleet maintenance unit, upgrades at our other terminals and renewal of our information technology systems. Upgrades to our existing vessels includes enabling the full electrification of our hybrid powered Island Class vessels, provided external funding can be secured to support a program to install shore charging infrastructure and the associated upgrades to the vessels.

On July 26, 2021, the Commissioner issued Order 21-01, conditionally approving our application for a major capital expenditure for the Island Class electrification program. On May 28, 2021, we submitted an application to the Commissioner under Section 55 of the Act seeking approval of a major capital expenditure. In the application, our proposal is to upgrade our six existing Island Class vessels with associated terminals to enable the vessels to operate predominantly in full battery-electric mode. This major capital expenditure requires funding to proceed and BC Ferries is seeking federal funding to accelerate the program to provide shore-charging infrastructure and to change the vessels from hybrid-diesel-electric to battery-electric operations.

Capital Expenditures

Capital expenditures, in the three months ended June 30, 2021 totalled $38.7 million.

Capital expenditures ($ millions)	**Three months ended June 30, 2021**
Island Class vessels (additional 4 vessels)	23.1
Major overhauls and inspections	2.7
Campbell River and Quathiaski Cove marine structure upgrades	2.5
Salish Heron	1.7
Hardware upgrades	1.7
Various other projects	7.0
	38.7



Island Class vessels (additional four vessels)

On October 25, 2019, contracts became effective with Damen Shipyard Group of Netherlands for the construction of four new Island Class vessels. The total project budget for these four new vessels, including financing and project management costs, is approximately $200 million. On July 22, 2021, the first of four new Island Class vessels arrived in Canada, and on August 13, 2021, the second of four vessels arrived in Canada, from Damen Shipyard Galati in Romania. These vessels made the transatlantic journey under their own power in approximately 60 days, operating one-third of the journey using battery power, with the batteries being charged during the voyage by a diesel generator. On July 31, 2021, the third of four vessels departed Romania for Canada with the last of the four new Island Class vessels expected to depart Romania for Canada late in the second quarter of fiscal 2022. All four vessels will enter service in spring of 2022 and will allow for fleet deployments and retirements of existing diesel-fuelled vessels. The arrival of these new vessels will allow Quadra Island and Gabriola Island to each be serviced by two Island Class vessels. These Island Class vessels will be identical to the *Island Discovery* and *Island Aurora* which commenced service in fiscal 2021, between Powell River and Texada Island and between Port McNeill, Alert Bay and Sointula, respectively. The Island Class vessels are outfitted with hybrid diesel-electric propulsion and have a capacity of up to 400 passengers and crew and approximately 47 vehicles.

Major overhauls and inspections

In the three months ended June 30, 2021, we had capital expenditures of $2.7 million in respect of major overhauls and inspections of components of hull, propulsion and generators for four vessels that were completed or underway.

Campbell River and Quathiaski Cove marine structure upgrades

A project is underway to upgrade the berths at our Quathiaski Cove terminal and our Campbell River terminal and construct a lay-by berth to accommodate two new Island Class vessels which will service the route between Campbell River - Quadra Island.

Salish Heron

On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. of 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*, which was launched December 19, 2020, will be 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 600 passengers and crew. This fourth Salish Class vessel will replace the 55-year old *Mayne Queen,* a diesel-fuelled vessel, and is expected to enter service in the Southern Gulf Islands in the summer of 2022.

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.

Various other projects

Various other projects include, among others, Coastal Class vessels' quarter-life upgrades, upgrades to marine structures at our Tsawwassen terminal, upgrades to marine structures at our Horseshoe Bay terminal, and miscellaneous software upgrades to administrative software, operation logs, dangerous goods and safety management systems.

Liquidity and Capital Resources

We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issues. 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 from time to time, debt issuances, and other funding opportunities. In fiscal 2021, we received $308 million from the Province under the Safe Restart Funding Program, which significantly increased our cash position and mitigated the need for any current draws on our Credit Facility or incremental borrowing.

At June 30, 2021, our unrestricted cash and cash equivalents and other short-term investments totalled $236 million and $129 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of $285 million and $125 million, respectively, as at March 31, 2021. This $45 million reduction in cash and cash equivalents and other short-term investments since March 31, 2021 primarily reflects the investments in property, plant and equipment and intangible assets and the cash used in operations.

Under our Credit Facility, we have available a revolving facility in the amount of $155 million. The Credit Facility was amended on April 7, 2020 to extend the maturity date of the facility from April 2024 to April 2025. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At June 30, 2021, there were no draws on the Credit Facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. On November 24, 2020, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a negative outlook. On February 9, 2021, DBRS changed the trend from negative to stable on the Company's "A (high)" rating and senior secured bonds rating reflecting the significant cash contribution received through the Safe Restart Funding Program as well as the Company's decision to defer capital expenditures.

Under the Master Trust Indenture, 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 (earnings before interest, taxes, depreciation, amortization and rent) is less than 1.50 times the debt service cost.

On May 15, 2020, our banking syndicate approved an amendment to the Credit Facility Agreement (the "Amendment"), pursuant to which the financial covenants contained therein were amended effective until December 31, 2021. As a condition to the Amendment to the Credit Facility, BC Ferries is required to maintain a total of $50 million in unrestricted cash, which can be comprised of cash, short-term investments, and undrawn credit facility, through to December 31, 2021.

At June 30, 2021, we achieved a debt service coverage ratio of 3.68 times and are in compliance with the financial covenants in the Credit Facility Agreement.

With the recognition of $60.0 million in revenue from the Safe Restart Funding, the Company's operational performance for the three months ended June 30, 2021 has resulted in a $4.7 million improvement in equity before reserves, from $663.1 million as at March 31, 2021 to $667.8 million as at June 30, 2021. Correspondingly, BC Ferries' leverage ratio has decreased from 71.1% as of March 31, 2021 to 70.9% as of June 30, 2021.

	June 30, 2021		March 31, 2021	
	$	%	$	%
Aggregate borrowings [1]	1,629,486	70.9%	1,632,970	71.1%
Total equity before reserves	667,826	29.1%	663,157	28.9%
Total	2,297,312	100.0%	2,296,127	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 our 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 2022 and 2021 are summarized in the table below:

	Three months ended June 30		
($ millions)	**2021**	**2020**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	285.4	169.1	116.3
Cash from operating activities:			
Net earnings (loss)	4.7	(62.0)	66.7
Items not affecting cash	57.9	57.8	0.1
Changes in non-cash operating working capital	(47.7)	(16.6)	(31.1)
Net interest paid	(20.6)	(20.5)	(0.1)
Cash used in operating activities	(5.7)	(41.3)	35.6
Cash used in financing activities	(3.5)	(5.3)	1.8
Cash used in investing activities	(39.9)	(20.1)	(19.8)
Net increase in cash and cash equivalents	(49.1)	(66.7)	17.6
Cash and cash equivalents, end of period	236.3	102.4	133.9

For the three months ended June 30, 2021, cash used in operating activities decreased by $35.6 million compared to the prior year, primarily due to an increase in net earnings reflecting the Safe Restart Funding recorded. This is somewhat offset by the change in deferred contract liabilities as a result of the Safe Restart Funding and an increase in fare prepayments related to travel on the Major Routes. The increase in net earnings, excluding the impact of the Safe Restart Funding, reflects the increase in traffic and revenue, partially offset by an increase in operating expenses due to higher service levels.

Cash used in financing activities in the three months ended 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 finance lease obligations. Cash used in financing activities in the three months ended June 30, 2020 was $5.3 million. This amount consisted of $4.7 million repayment of loans from KfW and $0.5 million in repayment of finance lease obligations.

Cash used in investing activities for the three months ended June 30, 2021 increased by $19.8 million compared to the prior year, mainly due to by $28.0 million increase in short-term investment purchases and somewhat offset by a $8.2 million decrease in capital expenditures. (See "Investing in Our Capital Assets" for detail of significant capital expenditures.)

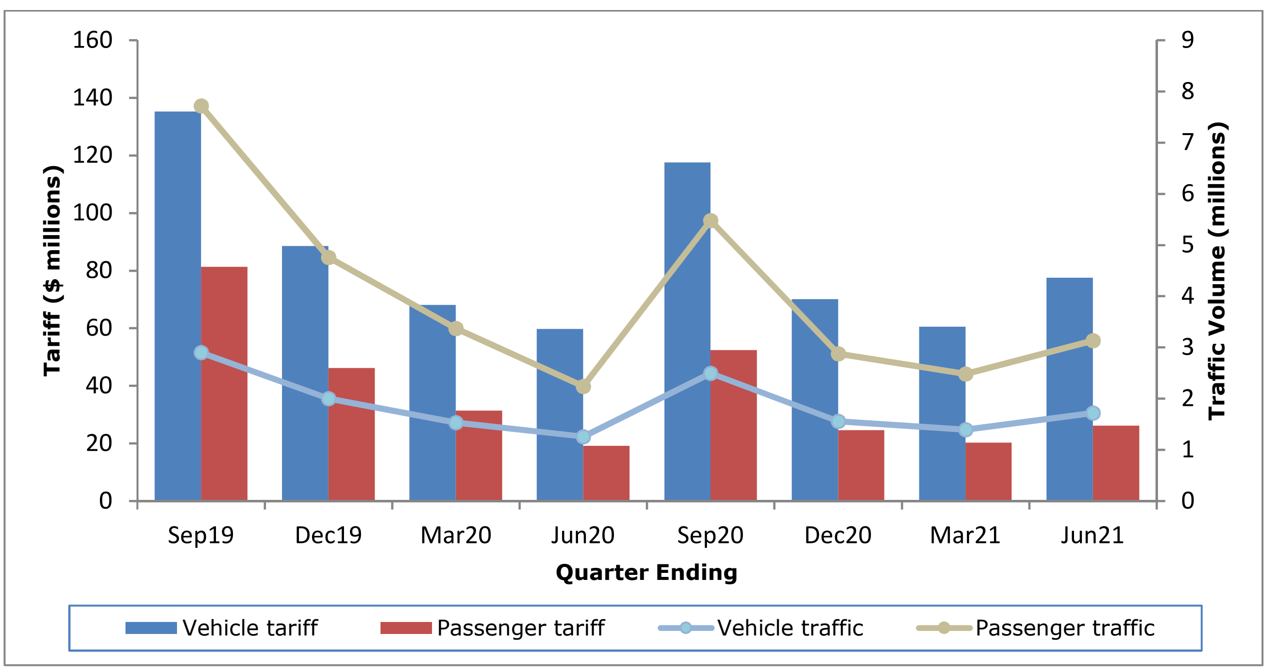
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)							
($ millions)	**Sep 19**	**Dec 19**	**Mar 20**	**Jun 20**	**Sep 20**	**Dec 20**	**Mar 21**	**Jun 21**
Total revenue	329.3	211.0	154.7	137.4	247.6	311.9	168.4	229.2
Operating profit (loss)	108.6	5.3	(54.6)	(46.3)	52.3	112.9	(33.4)	18.4
Net earnings (loss)	95.0	(8.3)	(70.1)	(62.0)	37.8	98.5	(53.3)	4.7
Net earnings (loss) w/o Safe Restart Funding	95.0	(8.3)	(70.1)	(62.0)	37.8	(56.3)	(84.5)	(55.3)

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. The third and fourth quarters reflect a seasonal reduction in traffic. We utilize these periods to perform upgrades and major maintenance and refit programs, as well as to undertake mandatory inspections on the majority of our vessels. Our total revenue, operating profit and net earnings in the quarter ended June 30, 2021 reflect the recognition of $60.0 million of Safe Restart Funding. Our total revenue, operating profit and net earnings in the quarter ended December 31, 2020 reflect $154.8 million of Safe Restart Funding, with the remaining $31.2 million recognized in the quarter ended March 31, 2021, for a total of $186.0 million in Safe Restart Funding in fiscal 2021.

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 eight 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
The COVID-19 pandemic has had a significant impact on our operations. While the increases experienced in the three months ended June 30, 2021 are significant, vehicle and passenger traffic is lower by 27% and 46%, respectively, compared to the same period in fiscal 2020, a pre-COVID-19 time.

On June 15, 2021, the Province lifted restrictions on non-essential travel. Given the vaccination process and the reduction in travel restrictions, we began experiencing a significant increase in customer demand in July 2021, but to what level the traffic returns remains uncertain. Our current and planned service levels are reflective of the requirements of the CFSC and the Safe Restart Funding Agreement.

Along with the reduced vehicle and passenger traffic, the impacts from the COVID-19 pandemic include significant declines in revenue, earnings and cash from operations.

In December 2020, we received $308 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program, which significantly increased our cash position. We recognized funding of $186.0 million in fiscal 2021 and funding of $60.0 million in the three months ended June 30, 2021, and are projecting to recognize the remainder of the funding as follows: $42.3 million in fiscal 2022, $9.3 million in fiscal 2023 and $10.4 million in fiscal 2024.

BC Ferries may continue to experience significantly reduced tariff and net retail revenue, with a negative impact on earnings, due to the COVID-19 pandemic. As a result, we may be required to defer achievement of many of our objectives, including the pace of capital renewal due to cash and incremental borrowing restrictions. BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions will improve and traffic return to pre-COVID-19 levels.

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 39 through 45 of our fiscal 2021 Management's Discussion & Analysis which is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html. Except with respect to risks and uncertainties related to the COVID-19 pandemic, our risk profile is substantially unchanged during the three months ended June 30, 2021.

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates
Our discussion and analysis of our financial condition and financial performance is based upon our unaudited 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, 2021 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 46 through 48 of our fiscal 2021 Management's Discussion & Analysis.

Adoption of New Accounting Standards
No new accounting standards were adopted effective April 1, 2021.

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, results of operations, performance, business prospects and opportunities, and industry performance and trends. They reflect management's current internal projections, expectations or 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, the value of the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the CFSC.

Forward looking statements included in this document include statements with respect to: the Safe Restart Funding Program, the COVID-19 pandemic, the construction and entering into service of the new Island Class vessels and *Salish Heron*, the impact of vessel standardization, tariff rate regulation, the impact of a major safety or security incident, alternative fuel sources and their impact on our emissions and costs, retail and catering sales, fixed costs, capital allocation and expenditures, FortisBC's incentive funding, the New Building Canada Fund, the Federal-Provincial subsidy, our reliance on external borrowing, the current credit facilities, equity financing, terminal property leases, fuel forward contracts for marine diesel, and traffic levels.

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, interest rate, foreign currency, fuel price, and traffic volume fluctuations, the implementation of major capital projects, security, safety, and environmental incidents, confidential or sensitive information breaches, changes in laws, vessel repair facility limitations, economic regulatory environment changes, tax changes, Indigenous rights, 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.