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

For the three and six months ended September 30, 2022

Dated November 24, 2022

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BCFerries

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The following is our discussion and analysis of the financial condition and financial performance of British Columbia Ferry Services Inc. ("BC Ferries", the "Company" or "we") for the three and six months ended September 30, 2022 that has been prepared with information available as of November 24, 2022. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three and six month periods ended September 30, 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 and its corresponding preventative measures and imposed travel restrictions. Once travel restrictions were lifted, late in the first quarter of fiscal 2022, we experienced a significant increase in traffic. For the six months ended September 30, 2022, when we compare to the same year-to-date period in fiscal 2020, a pre-COVID period, passenger traffic is down 5% and vehicle traffic is up 4%, which is the highest vehicle traffic level on record.

BC Ferries carried 7.5 million passengers and 3.0 million vehicles during the three months ended September 30, 2022, compared to 7.0 million passengers and 3.0 million vehicles in the same period in the prior year. Year-to-date, we carried 12.9 million passengers and 5.4 million vehicles, an increase of 28% and 15%, 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.

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

General

- On July 21, 2022, the Company's Board ended Mark Collins' tenure as President and Chief Executive Officer of BC Ferries.

- 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 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. The protocol is the first step in building a stronger relationship between the two parties built on mutual respect, recognition, benefit and cooperation. There are four BC Ferry terminals currently operating in Snuneymuxw's territory, of which three are located in Nanaimo, BC and one is located on Gabriola Island, BC.

- On September 30, 2022, we filed with the British Columbia Ferries Commissioner (the "Commissioner"), our submission for the sixth performance term. This begins the process of price cap setting by the Commissioner and negotiations with the Province regarding changes in core service levels and related ferry transportation fees for the period April 1, 2024 through March 31, 2028 ("Performance Term Six"). The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating fares. The Commissioner will make a preliminary determination on the Performance Term Six price caps by March 31, 2023, and a final determination caps by September 30, 2023. The Commissioner welcomes public input throughout this process. Our submission document can be found at: www.bcferrycommission.ca.

- On October 14, 2022, the Commissioner issued Order 22-02A, approving an application for a major capital project to redevelop our Fleet Maintenance Unit site, which is BC Ferries primary vessel maintenance and refit facility located at Deas Basin in Richmond, BC near the George Massey Tunnel.

- On November 1, 2022, due to sustained high fuel prices, we increased fuel surcharges by 1.5% on all routes, bringing the fuel surcharge to 4%. A fuel surcharge of 2.5% had been in place on all routes since June 1, 2022.

FINANCIAL AND OPERATIONAL OVERVIEW

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

Financial Performance ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2022	**2021**	**Variance**	**2022**	**2021**	**Variance**
Total revenue	343.1	316.8	26.3	608.0	546.0	62.0
Operating expenses	248.9	223.3	25.6	491.0	434.1	56.9
Operating profit	94.2	93.5	0.7	117.0	111.9	5.1
Net finance and other expenses	13.8	13.6	0.2	28.7	27.3	1.4
Net earnings	80.4	79.9	0.5	88.3	84.6	3.7
Other comprehensive (loss) income	(5.8)	11.4	(17.2)	21.9	28.1	(6.2)
Total comprehensive income	74.6	91.3	(16.7)	110.2	112.7	(2.5)
Safe Restart Funding	3.1	2.8	0.3	5.6	62.8	(57.2)
Total revenue excluding *Safe Restart Funding*	340.0	314.0	26.0	602.4	483.2	119.2
Net earnings excluding *Safe Restart Funding*	77.3	77.1	0.2	82.7	21.8	60.9

In fiscal 2021, we received $308.0 million of funding from the Province as part of the provincial and federal governments' COVID-19 Safe Restart Funding program (the "Safe Restart Funding"). All of the direct operating relief funding had been exhausted by the fourth quarter of fiscal 2022, with the remaining funding intended to offset the costs of discretionary sailings and to limit fare increases to an average of 2.3% for fiscal 2022 through fiscal 2024. In the three months ended September 30, 2022, we recognized Safe Restart Funding of $3.1 million ($5.6 million year-to-date) compared to the $2.8 million ($62.8 million year-to-date) recognized in the same period in the prior year (see "Revenues" for more detail).

In the three months ended September 30, 2022, inclusive of the Safe Restart Funding, revenues increased $26.3 million or 8% compared to the same period in the prior year, primarily as a result of higher passenger traffic volumes, net retail sales, ferry transportation fees and fuel surcharges (see "Revenues" for more detail). Year-to-date, revenues increased $62.0 million or 11%. This increase is primarily a result of higher traffic volumes, net retail sales and fuel surcharges, partially offset by lower Safe Restart Funding.

In the three months ended September 30, 2022, our operating expenses increased by $25.6 million or 11% ($56.9 million or 13% year-to-date) compared to the same period in the prior year. This increase is mainly due to an increased number of sailings, with corresponding 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 September 30, 2022, our net earnings were $80.4 million, an increase of $0.5 million compared to net earnings of $79.9 million in the same period in the prior year. In the six months ended September 30, 2022, our net earnings were $88.3 million, an increase of $3.7 million compared to net earnings of $84.6 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 September 30, 2022, our total comprehensive income was $74.6 million compared to $91.3 million in the same period in the prior year. This is a decrease of $16.7 million, comprised of a decrease in other comprehensive income ("OCI") of $17.2 million ($5.8 million other comprehensive loss in the three months ended September 30, 2022 compared to $11.4 million of OCI in the same period in the prior year) and the $0.5 million increase in net earnings described above. The change in OCI reflects a $17.2 million decrease in the change in the fair value of our open fuel swap contracts.

In the six months ended September 30, 2022, our total comprehensive income was $110.2 million compared to $112.7 million in the same period in the prior year. This is a decrease of $2.5 million, comprised of the $3.7 million increase in net earnings described above and a decrease in OCI of $6.2 million ($21.9 million in the six months ended September 30, 2022 compared to $28.1 million in the same period in the prior year). The change in OCI reflects a $6.2 million decrease 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 and six months ended September 30, 2022 and 2021 are shown in the table below:

Operational Statistics	**Three months ended September 30**				**Six months ended September 30**			
Vehicle Traffic	**2022**	**2021**	**Increase (Decrease)**	**%**	**2022**	**2021**	**Increase**	**%**
Major Routes	1,766,208	1,763,319	2,889	0%	3,179,752	2,604,358	575,394	22%
Northern Routes	18,116	14,347	3,769	26%	27,757	20,098	7,659	38%
Minor Routes	1,209,903	1,215,690	(5,787)	(0%)	2,236,516	2,089,748	146,768	7%
Total Vehicle Traffic	2,994,227	2,993,356	871	0%	5,444,025	4,714,204	729,821	15%
Passenger Traffic								
Major Routes	4,805,332	4,386,186	419,146	10%	8,227,588	5,947,568	2,280,020	38%
Northern Routes	47,247	33,558	13,689	41%	68,846	43,122	25,724	60%
Minor Routes	2,614,271	2,575,877	38,394	1%	4,629,532	4,135,831	493,701	12%
Total Passenger Traffic	7,466,850	6,995,621	471,229	7%	12,925,966	10,126,521	2,799,445	28%
Round Trips								
Major Routes	3,862	3,966	(104)	(3%)	7,184	6,875	309	4%
Northern Routes	157	148	9	6%	253	231	22	10%
Minor Routes	19,063	18,359	704	4%	37,159	35,762	1,397	4%
Total Round Trips	23,082	22,473	609	3%	44,596	42,868	1,728	4%
Capacity Provided (AEQs)*								
Major Routes	2,427,786	2,470,504	(42,718)	(2%)	4,525,950	4,337,056	188,894	4%
Northern Routes	25,350	21,626	3,724	17%	39,122	32,897	6,225	19%
Minor Routes	1,995,926	1,968,042	27,884	1%	3,877,620	3,814,648	62,972	2%
Total Capacity Provided	4,449,062	4,460,172	(11,110)	(0%)	8,442,692	8,184,601	258,091	3%
AEQs Carried *								
Major Routes	2,048,002	2,042,434	5,568	0%	3,727,331	3,129,586	597,745	19%
Northern Routes	21,325	17,008	4,317	25%	33,037	24,388	8,649	35%
Minor Routes	1,300,884	1,307,343	(6,459)	(0%)	2,411,661	2,263,908	147,753	7%
Total AEQs Carried	3,370,211	3,366,785	3,426	0%	6,172,029	5,417,882	754,147	14%
Capacity Utilization								
Major Routes	84.4%	82.7%	1.7%		82.4%	72.2%	10.2%	
Northern Routes	84.1%	78.6%	5.5%		84.4%	74.1%	10.3%	
Minor Routes	65.2%	66.4%	(1.2%)		62.2%	59.3%	2.9%	
Total Capacity Utilization	75.8%	75.5%	0.3%		73.1%	66.2%	6.9%	

*An automobile equivalent ("AEQ") is our standard unit of measure for an approximation of one car length. AEQs are calculated by using a conversion factor for each vehicle type. For example, a standard passenger vehicle is one AEQ while a bus is three AEQs. The change in AEQs from one period to the next may not be proportionate to the change in vehicle traffic, due to variations in the mix of vehicle types (the relative number of buses, commercial vehicles and passenger vehicles) and the actual size of vehicles carried. Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period.

In the three months ended September 30, 2022, vehicle traffic was consistent with vehicle traffic in the same period in the prior year. Year-to-date, vehicle traffic increased 15% 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 September 30, 2022, passenger traffic increased 7% compared to the same period in the prior fiscal year, primarily from increases in the Major Routes. Year-to-date, passenger traffic increased 28% 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 of the prior fiscal year (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 and to achieve higher capacity utilization than in prior years. Since March 2021, over 1 million customers have taken advantage of saver fares.

In the three months ended September 30, 2022, we delivered 23,082 (44,596 year-to-date) round trips, an increase of 609 or 3% (1,728 or 4% year-to-date) compared to the same period in the prior year. In the three months ended September 30, 2022, round trips increased overall by 609, with an increase of 704 on the Minor Routes and 9 on the Northern Routes, offset by a decrease of 104 round trips on the Major Routes. Year-to-date, of the 1,728 additional round trips, 309 (18%) were on the Major Routes, 1,397 (81%) on the Minor Routes and 22 (1%) on the Northern Routes.

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 September 30, 2022, the change in round trips described above resulted in vehicle capacity provided remaining consistent with the vehicle capacity provided in the same period in the prior year. In the six months ended September 30, 2022, the additional round trips provided in the table above resulted in increased capacity of 3% compared to the same period in the prior year.

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

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 September 30, 2022, overall capacity utilization was 75.8%, an increase of 0.3% compared to capacity utilization of 75.5% during the same period in the prior year, primarily as a result of a slightly lower provision of AEQ capacity. Year-to-date, overall capacity utilization was 73.1%, an increase of 6.9% compared to capacity utilization of 66.2% during the same period in the prior year. The year-to-date 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 Routes and 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 availability, terminal dock maintenance or closures, and periods of high traffic demand.

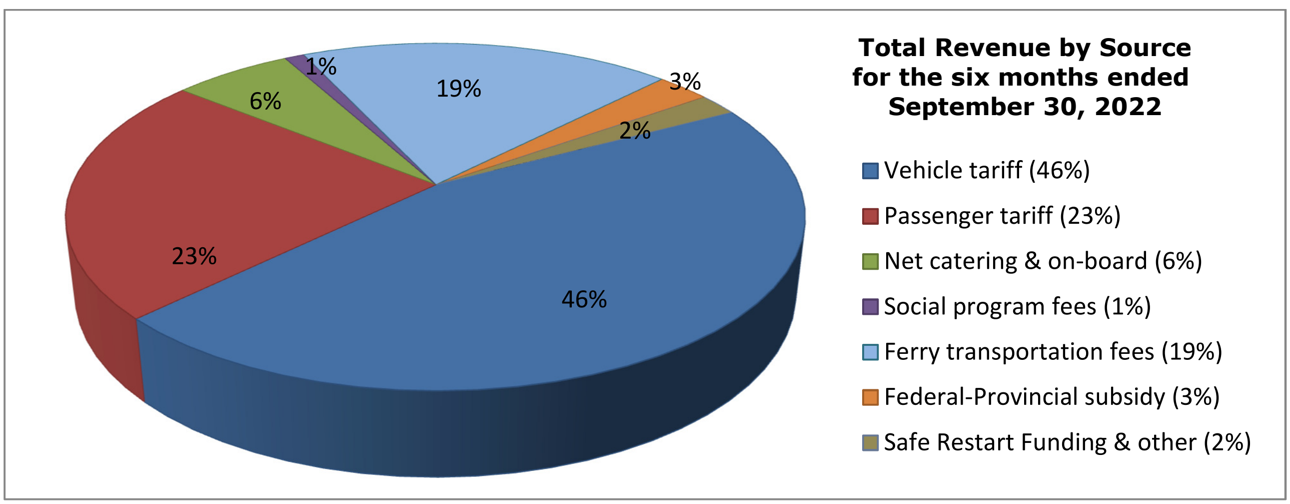
On-Time Performance	**Three months ended September 30**			**Six months ended September 30**		
	2022	**2021**	**Change**	**2022**	**2021**	**Change**
Major Routes	72.7%	74.0%	(1.3%)	71.4%	79.0%	(7.6%)
Northern Routes	75.5%	76.7%	(1.2%)	71.3%	76.8%	(5.5%)
Minor Routes	81.5%	79.7%	1.8%	82.8%	83.5%	(0.7%)
On-Time Performance	80.1%	78.8%	1.3%	81.0%	82.8%	(1.8%)

In the three months ended September 30, 2022, our fleet's overall on-time performance increased 1.3% from 78.8% to 80.1% compared to the same period in the prior year. This overall improvement reflects the improved on-time performance on the Minor Routes which has the highest number of sailings, somewhat offset by the lower on-time performance on the Majors and Northern Routes. Year-to-date, overall on–time performance decreased 1.8% from 82.8% to 81.0% 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 being unsuccessful in securing the required crew on some sailings.

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 six months ended September 30, 2022 are shown in the graph below:



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

Revenue ($ millions)	Three months ended September 30				Six months ended September 30			
	2022	2021	Increase (Decrease)	%	2022	2021	Increase (Decrease)	%
Direct Route Revenue	**267.2**	**243.3**	**23.9**	**10%**	**468.8**	**354.5**	**114.3**	**32%**
Vehicle tariff revenue								
Major Routes	126.2	124.7	1.5	1%	229.4	188.3	41.1	22%
Northern Routes	5.3	3.8	1.5	40%	7.8	5.3	2.5	47%
Minor Routes	20.0	20.2	(0.2)	(1%)	35.8	32.6	3.2	10%
Total vehicle tariff revenue	151.5	148.7	2.8	2%	273.0	226.2	46.8	21%
Passenger tariff revenue								
Major Routes	65.7	58.5	7.2	12%	112.3	78.2	34.1	44%
Northern Routes	4.4	2.7	1.7	63%	6.0	3.3	2.7	82%
Minor Routes	11.9	11.6	0.3	3%	20.2	17.4	2.8	16%
Total passenger tariff revenue	82.0	72.8	9.2	13%	138.5	98.9	39.6	40%
Net retail revenue								
Major Routes	18.2	15.5	2.7	17%	31.7	19.9	11.8	59%
Northern Routes	2.1	1.4	0.7	50%	3.0	1.9	1.1	58%
Minor Routes	1.5	1.4	0.1	7%	2.4	1.8	0.6	33%
Total net retail revenue	21.8	18.3	3.5	19%	37.1	23.6	13.5	57%
Social program fees	2.9	2.5	0.4	16%	6.1	5.0	1.1	22%
Other revenue	3.4	3.1	0.3	10%	6.0	4.6	1.4	30%
Fuel surcharge (rebate)	5.6	(2.1)	7.7	367%	8.1	(3.8)	11.9	313%
Indirect Route Revenue	**75.2**	**72.6**	**2.6**	**4%**	**137.8**	**190.4**	**(52.6)**	**(28%)**
Safe Restart Funding *	2.8	2.4	0.4	17%	4.9	62.1	(57.2)	(92%)
Ferry transportation fees	64.0	62.1	1.9	3%	116.2	112.2	4.0	4%
Federal-Provincial subsidy	8.4	8.1	0.3	4%	16.7	16.1	0.6	4%
Total Route Revenue	**342.4**	**315.9**	**26.5**	**8%**	**606.6**	**544.9**	**61.7**	**11%**
Other general revenue	0.7	0.9	(0.2)	(22%)	1.4	1.1	0.3	27%
Total Revenue	**343.1**	**316.8**	**26.3**	**8%**	**608.0**	**546.0**	**62.0**	**11%**

*Total Safe Restart Funding of $3.1 million was recorded for discretionary and fare increase relief, in the three months ended September 30, 2022 ($5.6 million year-to-date), of which $0.3 million ($0.7 million year-to-date) for discretionary sailings relief was included in ferry transportation fees. In the prior year, Safe Restart Funding of $2.8 million was recorded for fare increase relief, in the three months ended September 30, 2021 ($62.8 million year-to-date), of which $0.3 million ($0.7 million year-to-date) for discretionary sailings relief was included in ferry transportation fees.

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 our Safe Restart Funding commitments and the Commissioner's Order 19-04 dated September 30, 2019.

During the three months ended September 30, 2022, total direct route revenue increased $23.9 million or 10% compared to the same period in the prior year, primarily as a result of traffic and net retail increases on the Major Routes. During the six months ended September 30, 2022, total direct route revenue increased $114.3 million or 32%, primarily due to the removal of travel restrictions which were in place through most of the first quarter in the prior year, leading to an increase in vehicle and passenger traffic levels and net retail sales.

Average Tariff	Three months ended September 30				Six months ended September 30			
			Increase				Increase (Decrease)	
	2022	2021	$	%	2022	2021	$	%
Average vehicle tariff								
Major Routes	71.46	70.74	0.72	1%	72.15	72.33	(0.18)	(0%)
Northern Routes	290.24	265.00	25.24	10%	280.54	261.87	18.67	7%
Minor Routes	16.58	16.55	0.03	0%	16.01	15.58	0.43	3%
Average vehicle tariff	50.61	49.66	0.95	2%	50.15	47.98	2.17	5%
Average passenger tariff								
Major Routes	13.68	13.33	0.35	3%	13.65	13.14	0.51	4%
Northern Routes	92.01	81.35	10.66	13%	75.38	76.97	(1.59)	(2%)
Minor Routes	4.55	4.51	0.04	1%	4.36	4.21	0.15	4%
Average passenger tariff	10.98	10.41	0.57	5%	10.71	9.77	0.94	10%

During the three months ended September 30, 2022, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $0.95 or 2% ($2.17 or 5% year-to-date) 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. In the three months ended September 30, 2022, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.57 or 5% ($0.94 or 10% year-to-date) 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 $12.0 million or 5% ($86.4 million or 27% year-to-date) compared to the same period in the prior year.

Retail sales is a significant source of revenue from customers 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 and six months ended September 30, 2021, catering, retail and other on-board services were impacted by COVID-19 travel restrictions, restrictions for safe distancing and with limited food services available on select routes. In the three months ended September 30, 2022, net retail revenue increased by $3.5 million ($13.5 million year-to-date) compared to the same period in the prior year, primarily as a result of the increase in traffic levels and no travel restrictions.

Social program fees are reimbursements from the Province for discounted fares provided to students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Medical Travel Assistance Program (“MTAP”). Social program fees for the three months ended September 30, 2022 increased $0.4 million ($1.1 million year-to-date) 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 September 30, 2022, other revenue increased $0.3 million ($1.4 million year-to-date) compared to the same period in the prior year, primarily as a result of increased parking revenues.

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

Date range	% surcharge (rebate)	Applicable routes
April 1, 2020 - July 31, 2021	(1.5%)	All Routes
August 1, 2021 - September 30, 2021	(0.5%)	Major Routes and Minor Routes
August 1, 2021 - September 30, 2021	(1.5%)	Northern Routes
April 1, 2022 - May 31, 2022	0.0%	Northern Routes
April 1, 2022 - May 31, 2022	1.0%	Major Routes and Minor Routes
June 1, 2022 - September 30, 2022	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.

Safe Restart Funding increased by $0.4 million during the three months ended September 30, 2022 (decreased $57.2 million year-to-date) compared to the same period in the prior year, primarily as a result of differences in the amount of the Safe Restart Funding recognized in each period. The funding is recognized on a systematic basis in accordance with the Safe Restart Funding Agreement with the Province.

The Safe Restart Funding we received in fiscal 2021 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 performance term five 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 September 30, 2022	Six months ended September 30, 2022	Remainder of fiscal 2023	Fiscal 2024	Total Funding
Operating relief	$ 186.0	$ 94.0	$ -	$ -	$ -	$ -	$ 280.0
Fare increase relief	-	7.0	2.8	4.9	3.1	9.0	24.0
Discretionary sailings relief*	-	1.3	0.3	0.7	0.6	1.4	4.0
	$ 186.0	$ 102.3	$ 3.1	$ 5.6	$ 3.7	$ 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 $293.9 million: $186.0 million in fiscal 2021, $102.3 million in fiscal 2022 and $5.6 million in the six months ended September 30, 2022. We are projecting to recognize the remaining $14.1 million as follows: $3.7 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 five, 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. In the three months ended September 30, 2022, ferry transportation fees increased $1.9 million ($4.0 million year-to-date), primarily as a result of differences in the monthly schedule of round trips.

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 and six months ended September 30, 2022 and 2021 are summarized in the table below:

Operating expenses ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2022	**2021**	**Increase**	**2022**	**2021**	**Increase**
Operations	173.2	157.6	15.6	332.4	287.2	45.2
Maintenance	18.5	14.0	4.5	45.7	42.8	2.9
Administration	12.4	9.0	3.4	22.8	17.8	5.0
Total operations, maintenance & administration	204.1	180.6	23.5	400.9	347.8	53.1
Depreciation and amortization	44.8	42.7	2.1	90.1	86.3	3.8
Total operating expenses	248.9	223.3	25.6	491.0	434.1	56.9

During the three months ended September 30, 2022, total operations, maintenance and administration costs increased $23.5 million or 13% ($53.1 million or 15% year-to-date) compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 80% of our total operations, maintenance and administration costs (79% year-to-date) in the three months ended September 30, 2022, compared to 80% (78% year-to-date) in the same period in the prior year. These labour and fuel costs are primarily driven by the number of round trips provided, and an increase in fuel prices. In the three months ended September 30, 2022, round trips increased by 609 or 3% (1,728 or 4% year-to-date) compared to the same period in the prior year. 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 $15.6 million or 10% ($45.2 million or 16% year-to-date) increase in operations expenses in the three months ended September 30, 2022 compared to the same period in the prior year include:

- $9.3 million ($22.4 million year-to-date) increase in fuel expense, reflecting an increase of $0.3 million or 1% ($4.4 million or 6% year-to-date) increase in fuel consumption and a $9.0 million or 23% ($18.0 million or 27% year-to-date) increase due to higher fuel prices;
- $8.0 million ($19.6 million year-to-date) 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;
- $1.7 million decrease in the three months ended September 30, 2022, primarily related to higher insurance claims in the prior year; and
- a year-to-date increase of $3.2 million in credit card fees, travel, advertising, insurance, data communication, training supplies, and other miscellaneous expenses.

Maintenance costs increased by $4.5 million or 32% ($2.9 million or 7% year-to-date) in the three months ended September 30, 2022 compared to the same period in the prior year, as a result of the timing of planned vessel maintenance activity and an increase in the number of operating vessels in the fleet.

Administration costs increased $3.4 million or 38% ($5.0 million or 28% year-to-date) in the three months ended September 30, 2022 compared to the same period in the prior year, primarily as a result of increased labour costs, consulting, audit, software licencing, travel and advertising costs.

Depreciation and amortization increased $2.1 million ($3.8 million year-to-date) in the three months ended September 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.)

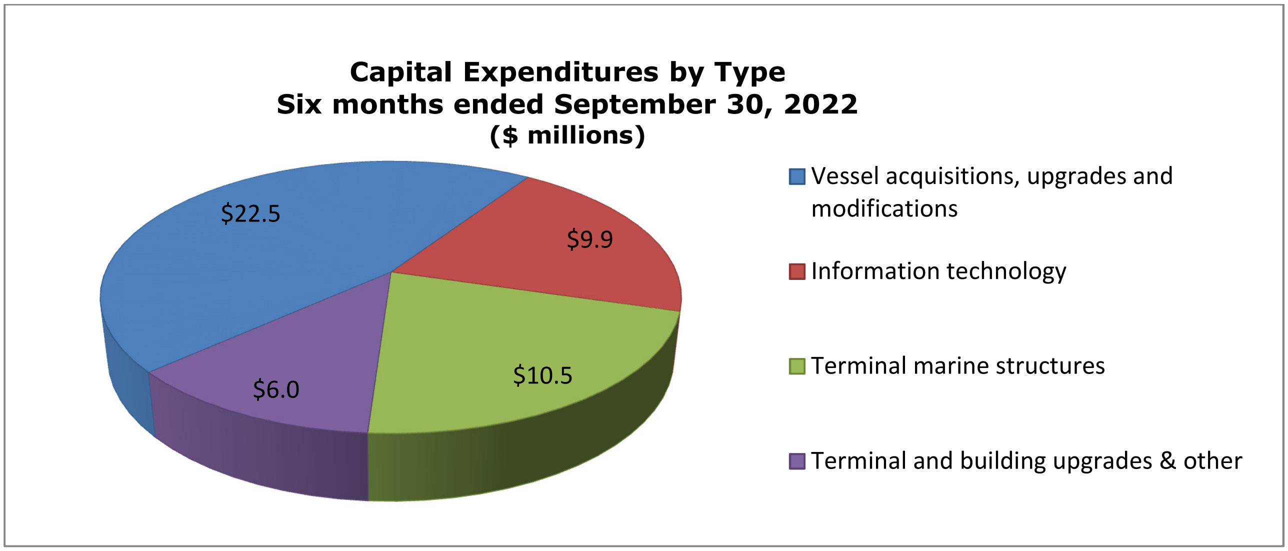
Net finance and other expenses ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2022	**2021**	**Increase (Decrease)**	**2022**	**2021**	**Increase (Decrease)**
Finance expense	17.1	14.8	2.3	33.8	29.6	4.2
Less: finance income	(3.3)	(1.3)	(2.0)	(5.1)	(2.4)	(2.7)
Net finance expense	13.8	13.5	0.3	28.7	27.2	1.5
Loss on disposal and impairment of property, plant and equipment, and intangible assets	0.0	0.1	(0.1)	0.0	0.1	(0.1)
Total net finance and other expenses	13.8	13.6	0.2	28.7	27.3	1.4

In the three months ended September 30, 2022, net finance and other expenses increased by $0.2 million ($1.4 million year-to-date) 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 vessel maintenance and refit facility, upgrades at our terminals and renewal of our information technology systems. On October 14, 2022, the Commissioner issued Order 22-02A, approving our application for a major capital project to redevelop our fleet maintenance unit, which is BC Ferries primary vessel maintenance and refit facility located in Richmond, BC.

In the six months ended September 30, 2022, capital expenditures comprised the following:



In the three and six months ended September 30, 2022, capital expenditures totalled $22.4 million and $48.9 million, respectively.

Capital Expenditures ($ millions)	**Three months ended September 30, 2022**	**Six months ended September 30, 2022**
Major overhauls and inspections	4.9	10.8
Hardware upgrades	2.9	6.5
Tsawwassen marine structure upgrade	2.2	5.3
Queen of Coquitlam - Life Extension	3.4	3.6
Coastal Inspiration - Quarter-life upgrade	0.3	3.4
Salish Heron	0.1	1.9
Various other projects	8.6	17.4
	22.4	48.9

Major overhauls and inspections

In the three months ended September 30, 2022, we had capital expenditures of $4.9 million ($10.8 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for five vessels that were completed or underway.

Hardware upgrades

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

Tsawwassen marine structure upgrade

Upgrades to the sheet pile walls and drainage systems at our Tsawwassen terminal are underway and expected to complete in the last quarter of fiscal 2023.

Queen of Coquitlam – Life extension

A project to extend the life of the *Queen of Coquitlam,* including upgrades to the hull, propulsion system and machinery, is underway and expected to complete in the third 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

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 marine structures at our Bella Coola 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 credit facility with a syndicate of Canadian banks (the "Credit Facility") from time to time, debt issuances, and other funding opportunities.

At September 30, 2022, our unrestricted cash and cash equivalents and other short-term investments totalled $218 million and $220 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 20, 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 September 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 ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR) is less than 1.50 times the debt service cost.

At September 30, 2022, we achieved a debt service coverage ratio of 3.47 times and were in compliance with the financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the six months ended September 30, 2022 has resulted in a $88.3 million improvement in equity before reserves, from $691.3 million as at March 31, 2022 to $779.6 million as at September 30, 2022. Correspondingly, BC Ferries' leverage ratio has decreased from 70% as of March 31, 2022 to 67% as of September 30, 2022 and includes the impact of a reduction in the amount of the Credit Facility.

($ thousands)	September 30, 2022		March 31, 2022	
	$	%	$	%
Aggregate borrowings *	1,562,401	67%	1,619,286	70%
Total equity before reserves	779,561	33%	691,254	30%
Total	2,341,962	100%	2,310,540	100%

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

Sources and Uses of Cash

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

Sources and uses of cash and cash equivalents for the six months ended September 30, 2022 and 2021 are summarized in the table below:

	Six months ended September 30		
($ millions)	**2022**	**2021**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	204.4	285.4	(81.0)
Cash from operating activities:			
Net earnings	88.3	84.6	3.7
Items not affecting cash	118.3	115.1	3.2
Changes in non-cash operating working capital	(53.8)	(83.2)	29.4
Net interest paid	(31.1)	(32.5)	1.4
Cash generated from operating activities	121.7	84.0	37.7
Cash used in financing activities	(7.1)	(7.1)	0.0
Cash used in investing activities	(101.1)	(130.8)	29.7
Net increase (decrease) in cash and cash equivalents	13.5	(53.9)	67.4
Cash and cash equivalents, end of period	217.9	231.5	(13.6)

For the six months ended September 30, 2022, cash generated from operating activities increased by $37.7 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 an increase in net 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 each of the six months ended September 30, 2022 and September 30, 2021 was $7.1 million. In each case, this amount consisted of $5.6 million in repayment of our loans from KfW IPEX-Bank GmbH ("KfW") and $1.5 million in repayment of lease obligations.

Cash used in investing activities for the six months ended September 30, 2022 decreased by $29.7 million compared to the same period in the prior year, mainly due to a $12.0 million decrease in short-term investment purchases and a $17.7 million decrease in purchases of capital assets.

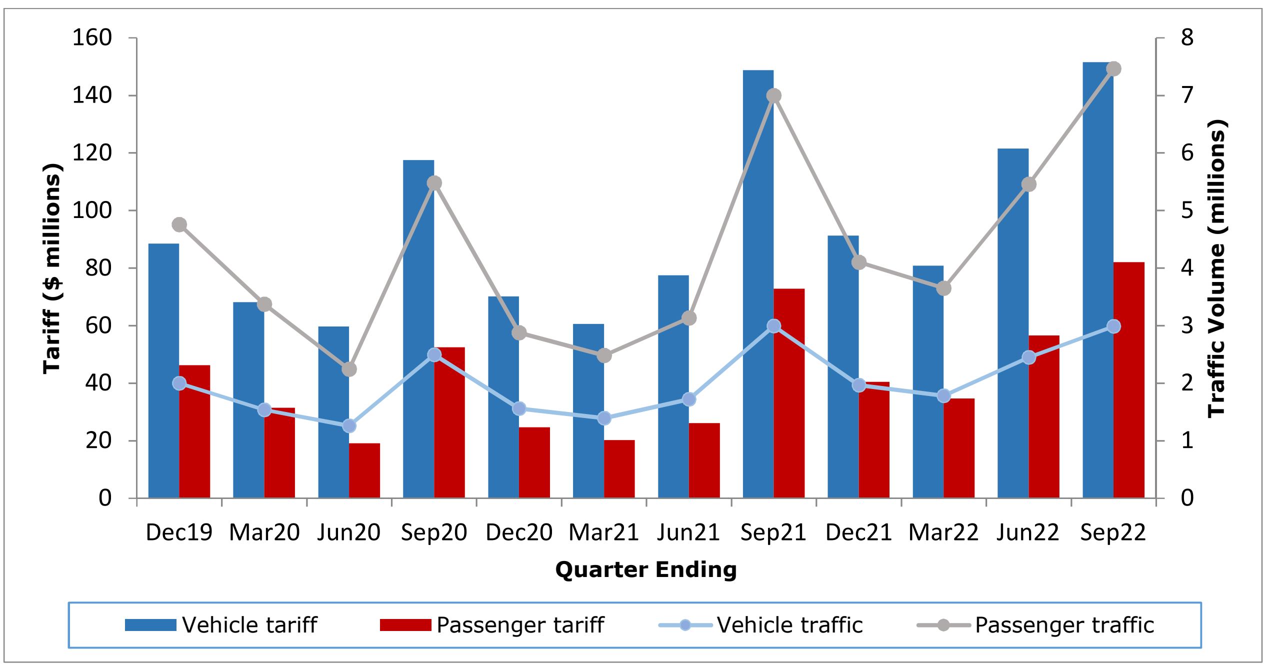
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Dec 19**	**Mar 20**	**Jun 20**	**Sep 20**	**Dec 20**	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**
Total revenue without Safe Restart Funding	211	155	137	248	157	137	169	314	203	177	262	340
Safe Restart Funding	-	-	-	-	155	31	60	3	19	20	3	3
Total revenue	211	155	137	248	312	168	229	317	222	197	265	343
Operating profit (loss)	5	(55)	(46)	52	113	(33)	18	94	13	(27)	23	94
Net (loss) earnings	(8)	(70)	(62)	38	99	(54)	5	80	(2)	(49)	8	80
Net (loss) earnings without Safe Restart Funding	(8)	(70)	(62)	38	(56)	(85)	(55)	77	(21)	(69)	5	77

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, late in the first quarter of fiscal 2022, we experienced a significant increase in traffic. For the six months ended September 30, 2022, when we compare to the same year-to-date period in fiscal 2020, a pre-COVID period, vehicle traffic is up 4% and passenger traffic is down 5%.

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 weather, transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, disposable personal income, and further pandemic impacts.

We are also experiencing challenges securing the required crew to sail our vessels, which have resulted in cancellations on some routes and are responding by continuing to actively recruit and invest in our employees.

With continued high 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 six months ended September 30, 2022.

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 resulting impact on operations, economic conditions and the resulting impact on customer demand and our costs, fuel prices and the impact of hedging, capital plans and major capital initiatives.

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.