BCFerries

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

For the three and nine months ended December 31, 2022

Dated February 16, 2023

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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 nine months ended December 31, 2022 that has been prepared with information available as of February 16, 2023. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended December 31, 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 the government imposed travel restrictions. With the lifting of travel restrictions late in the first quarter of fiscal 2022, we experienced a significant increase in traffic. Compared to the nine months ended December 31, 2019, which was a pre-COVID period, passenger traffic for the nine months ended December 31, 2022 is down 5% and vehicle traffic is up 3%, which is the highest vehicle traffic level on record for this year-to-date period.

BC Ferries carried 4.5 million passengers and 2.0 million vehicles during the three months ended December 31, 2022, an increase of 10% and 3%, respectively, compared to the same period in the prior year. Year-to-date, we carried 17.4 million passengers and 7.5 million vehicles, an increase of 23% and 12%, 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 third quarter of fiscal 2023 include the following:

General

- On October 4, 2022, we announced that BC Ferries' Performance Term Six submission had been provided to the British Columbia Ferries Commissioner (the "Commissioner"). 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 four year period from April 1, 2024 through March 31, 2028 ("PT6"). 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 PT6 price caps by March 31, 2023, and a final price caps determination by September 30, 2023. The Commissioner welcomes public input throughout this process. The submission document can be found at: www.bcferrycommission.ca.

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

- On November 21, 2022, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a stable trend.

- On December 9, 2022, BC Ferries and W̱JOȽEȽP (Tsartlip First Nation) entered into a relationship protocol agreement to establish a framework for collaborating on areas of mutual interest. Currently, BC Ferries operates eleven terminals within W̱JOȽEȽP (Tsartlip)'s traditional territory. The agreement outlines shared goals, is grounded in mutual respect and recognition, establishes lines of communication, and identifies topics for ongoing collaboration.

- On January 17, 2023, the Company's board of directors appointed Nicolas Jimenez as President and Chief Executive Officer of BC Ferries, effective March 6, 2023. Over the last 20 years, Mr. Jimenez has held a number of senior roles at the Insurance Corporation of B.C., including as President and CEO for the last five years. Jill Sharland, who has been serving as Interim President and Chief Executive Officer, remains as Vice President and Chief Financial Officer of BC Ferries.

- On February 9, 2023, DBRS Morningstar confirmed our credit rating at A (high) with Stable trend.

Capital Assets

- 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 January 18, 2023, the *Island Nagalis* and *Island K'ulut'a* began service on the Campbell River – Quadra Island route enabling round trip service to grow from up to 18 trips per day, to up to 29 trips per day, delivering more service at peak times and providing more capacity overall. These two hybrid-electric Island Class vessels replaced and allowed for the retirement of the 58-year old *Powell River Queen*.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three and nine months ended December 31, 2022 compared to the same periods in fiscal 2022.

Financial Performance ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2022	**2021**	**Variance**	**2022**	**2021**	**Variance**
Total revenue	234.8	222.2	12.6	842.8	768.2	74.6
Operating expenses	245.2	209.5	35.7	736.2	643.6	92.6
Operating (loss) profit	(10.4)	12.7	(23.1)	106.6	124.6	(18.0)
Net finance and other expenses	12.3	14.3	(2.0)	41.0	41.6	(0.6)
Net (loss) earnings	(22.7)	(1.6)	(21.1)	65.6	83.0	(17.4)
Other comprehensive income	5.4	1.9	3.5	27.3	30.1	(2.8)
Total comprehensive (loss) income	(17.3)	0.3	(17.6)	92.9	113.1	(20.2)
Safe Restart Funding	2.1	19.2	(17.1)	7.7	82.0	(74.3)
Total revenue excluding *Safe Restart Funding*	232.7	203.0	29.7	835.1	686.2	148.9
Net (loss) earnings excluding *Safe Restart Funding*	(24.8)	(20.8)	(4.0)	57.9	1.0	56.9

Quarterly results are normally affected by the seasonality of leisure travel patterns. Our third quarter results reflect a seasonal reduction in traffic. We utilize this period to perform upgrades and major maintenance and refit programs, as well as undertaking mandatory inspections on the majority of our vessels.

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"). The direct operating relief funding portion of the Safe Restart Funding had been exhausted by the fourth quarter of fiscal 2022, with the remaining Safe Restart 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 December 31, 2022, we recognized Safe Restart Funding of $2.1 million ($7.7 million year-to-date) compared to the $19.2 million ($82.0 million year-to-date) recognized in the same period in the prior year (see "Revenues" for more detail).

In the three months ended December 31, 2022, inclusive of the Safe Restart Funding, revenues increased $12.6 million or 6% ($74.6 million or 10% year-to-date) compared to the same period in the prior year, primarily a result of the sale of carbon credits, higher traffic volumes, net retail sales and fuel surcharges, partially offset by lower Safe Restart Funding (see "Revenues" for more detail).

In the three months ended December 31, 2022, our operating expenses increased by $35.7 million or 17% ($92.6 million or 14% 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, higher maintenance expenses and higher depreciation (see "Expenses" for more detail).

In the three months ended December 31, 2022, our net loss of $22.7 million was $21.1 million larger than the net loss of $1.6 million in the same period in the prior year. In the nine months ended December 31, 2022, our net earnings were $65.6 million, a decrease of $17.4 million compared to net earnings of $83.0 million in the same period in the prior year. The decrease in net earnings reflects higher operating expenses and lower Safe Restart Funding, partially offset by the effects of higher traffic volumes, tariff increases and higher net retail sales.

In the three months ended December 31, 2022, our total comprehensive loss was $17.3 million compared to total comprehensive income of $0.3 million in the same period in the prior year. This is a decrease of $17.6 million, comprised of the $21.1 million increase in net loss described above, partially offset by an increase of $3.5 million in other comprehensive income ("OCI") reflecting an increase in the change in the fair value of our open fuel swap contracts.

In the nine months ended December 31, 2022, our total comprehensive income was $92.9 million compared to $113.1 million in the same period in the prior year. This is a decrease of $20.2 million, comprised of the $17.4 million decrease in net earnings described above and a $2.8 million decrease in OCI ($27.3 million of OCI in the nine months ended December 31, 2022 compared to $30.1 million of OCI in the same period in the prior year). The change in OCI reflects a $2.8 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 nine months ended December 31, 2022 and 2021 are shown in the table below:

Operational Statistics	**Three months ended December 31**				**Nine months ended December 31**			
Vehicle Traffic	**2022**	**2021**	**Increase (Decrease)**	**%**	**2022**	**2021**	**Increase**	**%**
Major Routes	1,161,920	1,104,627	57,293	5%	4,341,672	3,708,985	632,687	17%
Northern Routes	7,143	6,600	543	8%	34,900	26,698	8,202	31%
Minor Routes	866,537	856,182	10,355	1%	3,103,053	2,945,930	157,123	5%
Total Vehicle Traffic	2,035,600	1,967,409	68,191	3%	7,479,625	6,681,613	798,012	12%
Passenger Traffic								
Major Routes	2,841,631	2,507,187	334,444	13%	11,069,219	8,454,755	2,614,464	31%
Northern Routes	15,221	13,748	1,473	11%	84,067	56,870	27,197	48%
Minor Routes	1,653,320	1,581,874	71,446	5%	6,282,852	5,717,705	565,147	10%
Total Passenger Traffic	4,510,172	4,102,809	407,363	10%	17,436,138	14,229,330	3,206,808	23%
Round Trips								
Major Routes	2,964	3,002	(38)	(1%)	10,148	9,877	271	3%
Northern Routes	72	66	6	9%	325	297	28	9%
Minor Routes	17,872	17,194	678	4%	55,031	52,956	2,075	4%
Total Round Trips	20,908	20,262	646	3%	65,504	63,130	2,374	4%
Capacity Provided (AEQs)*								
Major Routes	1,892,508	1,883,698	8,810	0%	6,418,458	6,220,754	197,704	3%
Northern Routes	14,057	12,616	1,441	11%	53,179	45,513	7,666	17%
Minor Routes	1,876,576	1,815,054	61,522	3%	5,754,196	5,629,702	124,494	2%
Total Capacity Provided	3,783,141	3,711,368	71,773	2%	12,225,833	11,895,969	329,864	3%
AEQs Carried *								
Major Routes	1,379,551	1,324,214	55,337	4%	5,106,882	4,453,800	653,082	15%
Northern Routes	8,731	8,188	543	7%	41,768	32,576	9,192	28%
Minor Routes	934,567	925,515	9,052	1%	3,346,228	3,189,423	156,805	5%
Total AEQs Carried	2,322,849	2,257,917	64,932	3%	8,494,878	7,675,799	819,079	11%
Capacity Utilization								
Major Routes	72.9%	70.3%	2.6%		79.6%	71.6%	8.0%	
Northern Routes	62.1%	64.9%	(2.8%)		78.5%	71.6%	6.9%	
Minor Routes	49.8%	51.0%	(1.2%)		58.2%	56.7%	1.5%	
Total Capacity Utilization	61.4%	60.8%	0.6%		69.5%	64.5%	5.0%	

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

In the three months ended December 31, 2022, vehicle traffic increased 3% and passenger traffic increased 10% compared to the same period in the prior year. Year-to-date, vehicle traffic increased 12% and passenger traffic increased 23% 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 (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 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 December 31, 2022, we delivered 20,908 (65,504 year-to-date) round trips, an increase of 646 or 3% (2,374 or 4% year-to-date) compared to the same period in the prior year. In the three months ended December 31, 2022, round trips increased by 678 on the Minor Routes and by 6 on the Northern Routes, and decreased on the Major Routes by 38. Year-to-date, of the 2,374 additional round trips, 271 (11%) were on the Major Routes, 2,075 (88%) were on the Minor Routes and 28 (1%) were 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 sailing 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 December 31, 2022, the additional round trips provided, and resulting increased capacity of 2% (3% year-to-date) compared to the same period in the prior year, is primarily driven by the introduction of two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities.

In the three months ended December 31, 2022, we cancelled 2% (1% year-to-date) of our scheduled round trips, primarily due to the impact of adverse weather conditions and being unsuccessful in securing the required crew. While cancelling trips in response to weather conditions or vessel mechanical issues is not unusual, we are experiencing 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 December 31, 2022, overall capacity utilization was 61.4%, an increase of 0.6% compared to a capacity utilization of 60.8% during the same period in the prior year. Year-to-date, overall capacity utilization was 69.5%, an increase of 5.0% compared to a capacity utilization of 64.5% during the same period in the prior year. The increase in capacity utilization is primarily a result of a higher number of AEQs carried from 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.

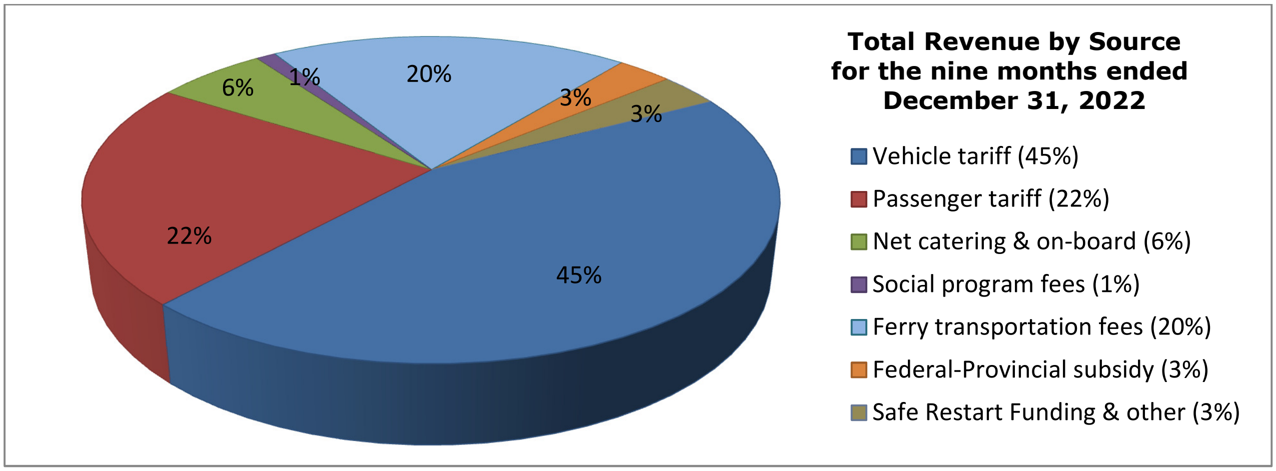
On-Time Performance	**Three months ended December 31**			**Nine months ended December 31**		
	2022	**2021**	**Change**	**2022**	**2021**	**Change**
Major Routes	78.9%	76.6%	2.3%	73.6%	78.3%	(4.7%)
Northern Routes	81.6%	82.2%	(0.6%)	74.0%	78.1%	(4.1%)
Minor Routes	89.4%	88.7%	0.7%	85.0%	85.2%	(0.2%)
On-Time Performance	88.0%	87.0%	1.0%	83.2%	84.2%	(1.0%)

In the three months ended December 31, 2022, our fleet's overall on-time performance increased 1.0% from 87% to 88% compared to the same period in the prior year. Year-to-date, overall on–time performance decreased 1.0% from 84% to 83% compared to the same period in the prior year, declining on the Major Routes, the Northern Routes and the Minor Routes. On-time year-to-date performance decreased primarily as a result of delays due to 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 nine months ended December 31, 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 December 31**				**Nine months ended December 31**			
	2022	**2021**	**Increase (Decrease)**	**%**	**2022**	**2021**	**Increase (Decrease)**	**%**
Direct Route Revenue	**166.5**	**147.1**	**19.4**	**13%**	**635.3**	**501.6**	**133.7**	**27%**
Vehicle tariff revenue								
Major Routes	82.6	77.2	5.4	7%	312.0	265.5	46.5	18%
Northern Routes	1.5	1.5	-	0%	9.3	6.8	2.5	37%
Minor Routes	12.7	12.5	0.2	2%	48.5	45.1	3.4	8%
Total vehicle tariff revenue	96.8	91.2	5.6	6%	369.8	317.4	52.4	17%
Passenger tariff revenue								
Major Routes	38.7	33.3	5.4	16%	151.0	111.5	39.5	35%
Northern Routes	0.7	0.8	(0.1)	(13%)	6.7	4.1	2.6	63%
Minor Routes	6.5	6.3	0.2	3%	26.7	23.7	3.0	13%
Total passenger tariff revenue	45.9	40.4	5.5	14%	184.4	139.3	45.1	32%
Net retail revenue								
Major Routes	11.6	9.5	2.1	22%	43.3	29.4	13.9	47%
Northern Routes	0.7	0.6	0.1	17%	3.7	2.5	1.2	48%
Minor Routes	0.8	0.7	0.1	14%	3.2	2.5	0.7	28%
Total net retail revenue	13.1	10.8	2.3	21%	50.2	34.4	15.8	46%
Social program fees	3.0	2.8	0.2	7%	9.1	7.8	1.3	17%
Other revenue	2.9	2.4	0.5	21%	8.9	7.0	1.9	27%
Fuel surcharge (rebate)	4.8	(0.5)	5.3	1060%	12.9	(4.3)	17.2	400%
Indirect Route Revenue	**57.8**	**74.4**	**(16.6)**	**(22%)**	**195.6**	**264.8**	**(69.2)**	**(26%)**
Safe Restart Funding *	1.8	18.9	(17.1)	(90%)	6.7	81.0	(74.3)	(92%)
Ferry transportation fees	47.7	47.5	0.2	0%	163.9	159.7	4.2	3%
Federal-Provincial subsidy	8.3	8.0	0.3	4%	25.0	24.1	0.9	4%
Total Route Revenue	**224.3**	**221.5**	**2.8**	**1%**	**830.9**	**766.4**	**64.5**	**8%**
Other general revenue *	10.5	0.7	9.8	1400%	11.9	1.8	10.1	561%
Total Revenue	**234.8**	**222.2**	**12.6**	**6%**	**842.8**	**768.2**	**74.6**	**10%**

*Total Safe Restart Funding of $2.1 million was recorded for discretionary and fare increase relief, in the three months ended December 31, 2022 ($7.7 million year-to-date), of which $0.3 million ($1.0 million year-to-date) for discretionary sailings relief was included in ferry transportation fees. In the prior year, Safe Restart Funding of $19.2 million was recorded for discretionary and fare increase relief, in the three months ended December 31, 2021 ($82.0 million year-to-date), of which $0.3 million ($1.0 million year-to-date) for discretionary sailings relief was included in ferry transportation fees.

*Other general revenue increased by $9.8 million primarily as a result of the sale of carbon credits.

Vehicle tariffs and passenger tariffs account for the largest share of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types and tariff rates. On April 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 December 31, 2022, total direct route revenue increased $19.4 million or 13% 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 nine months ended December 31, 2022, total direct route revenue increased $133.7 million or 27% compared to the same period in the prior year, 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 December 31				Nine months ended December 31			
			Increase (Decrease)				Increase	
	2022	2021	$	%	2022	2021	$	%
Average vehicle tariff								
Major Routes	71.05	69.81	1.24	2%	71.85	71.58	0.27	0%
Northern Routes	217.98	236.21	(18.23)	(8%)	267.74	255.52	12.22	5%
Minor Routes	14.60	14.66	(0.06)	(0%)	15.62	15.31	0.31	2%
Average vehicle tariff	47.54	46.37	1.17	3%	49.44	47.51	1.93	4%
Average passenger tariff								
Major Routes	13.62	13.29	0.33	2%	13.64	13.19	0.45	3%
Northern Routes	50.52	53.68	(3.16)	(6%)	80.22	71.34	8.88	12%
Minor Routes	3.94	3.96	(0.02)	(0%)	4.25	4.15	0.10	2%
Average passenger tariff	10.20	9.83	0.37	4%	10.58	9.79	0.79	8%

During the three months ended December 31, 2022, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $1.17 or 3% ($1.93 or 4% year-to-date) compared to the same period in the prior year as a result of tariff increases and increases in vehicle traffic on higher tariff routes. In the three months ended December 31, 2022, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.37 or 4% ($0.79 or 8% 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 increases resulted in a total tariff revenue increase of $11.1 million or 8% ($97.5 million or 21% year-to-date) compared to the same period in the prior year.

Retail sales is a significant source of revenue from customers, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In the three and nine months ended December 31, 2021, catering, retail and other on-board services were impacted by COVID-19 travel restrictions, restrictions for safe distancing and reduced food services on certain routes. In the three months ended December 31, 2022, net retail revenue increased by $2.3 million ($15.8 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 December 31, 2022 increased $0.2 million ($1.3 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 December 31, 2022, other revenue increased $0.5 million ($1.9 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 in response to rising fuel prices or fuel rebates in response to falling fuel prices. A history of fuel surcharges and fuel rebates in effect for 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 - November 30, 2021	(0.5%)	Major Routes and Minor Routes
August 1, 2021 - February 28, 2022	(1.5%)	Northern Routes
March 1, 2022 - May 31, 2022	0.0%	Northern Routes
December 1, 2021 - February 28, 2022	0.0%	Major Routes and Minor Routes
March 1, 2022 - May 31, 2022	1.0%	Major Routes and Minor Routes
June 1, 2022 - October 31, 2022	2.5%	All Routes
November 1, 2022 - present	4.0%	All Routes

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

Safe Restart Funding decreased by $17.1 million during the three months ended December 31, 2022 ($74.3 million year-to-date) compared to the same period in the prior year, primarily as a result of the operating relief component of the Safe Restart Funding being fully recognized in fiscal 2022. The Safe Restart 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 the four-year performance which commenced April 1, 2020 and ends on March 31, 2024 ("PT5") 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 December 31, 2022	Nine months ended December 31, 2022	Remainder of fiscal 2023	Fiscal 2024	Total Funding
Operating relief	186.0	94.0	-	-	-	-	280.0
Fare increase relief	-	7.0	1.8	6.7	1.3	9.0	24.0
Discretionary sailings relief*	-	1.3	0.3	1.0	0.3	1.4	4.0
	186.0	102.3	2.1	7.7	1.6	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 $296.0 million: $186.0 million in fiscal 2021, $102.3 million in fiscal 2022 and $7.7 million in the nine months ended December 31, 2022. We are projecting to recognize the remaining $12.0 million as follows: $1.6 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 PT5. As noted above, the discretionary sailings relief portion of the Safe Restart Funding is included in ferry transportation fees. In the three months ended December 31, 2022, ferry transportation fees increased by $0.2 million ($4.2 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 provide ferry services to coastal British Columbia. This Federal-Provincial subsidy increases April 1 of each year, based on the percentage increase in the annual Consumer Price Index (Vancouver).

Other general revenue increased by $9.8 million during the three months ended December 31, 2022 ($10.1 million year-to-date) compared to the same period in the prior year, primarily resulting from the sale of carbon credits.

Expenses

Expenses for the three and nine months ended December 31, 2022 and 2021 are summarized in the table below:

Operating expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2022	**2021**	**Increase**	**2022**	**2021**	**Increase**
Operations	154.4	133.8	20.6	486.8	421.0	65.8
Maintenance	32.7	22.9	9.8	78.4	65.7	12.7
Administration	12.9	9.6	3.3	35.7	27.4	8.3
Total operations, maintenance & administration	200.0	166.3	33.7	600.9	514.1	86.8
Depreciation and amortization	45.2	43.2	2.0	135.3	129.5	5.8
Total operating expenses	245.2	209.5	35.7	736.2	643.6	92.6

During the three months ended December 31, 2022, total operations, maintenance and administration costs increased $33.7 million or 20% ($86.8 million or 17% year-to-date) compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 76% (78% year-to-date) of our total operations, maintenance and administration costs in the three months ended December 31, 2022, compared to 77% (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 fuel prices. In the three months ended December 31, 2022, round trips increased by 646 or 3% (2,374 or 4% year-to-date) compared to the same period in the prior year, primarily driven by the introduction of two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities. In accordance with the Collective Agreement between the Company and the BC Ferry & Marine Workers' Union ("Collective Agreement"), unionized employees' wages were increased by 2% on April 1, 2022.

The $20.6 million or 15% ($65.8 million or 16% year-to-date) increase in operations expenses in the three months ended December 31, 2022 compared to the same period in the prior year include:

- $12.5 million ($32.1 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, allowances, illness and benefit costs;
- $5.9 million ($28.3 million year-to-date) increase in fuel expense, primarily reflecting a $7.0 million or 20% ($25.0 million or 25% year-to-date) increase due to higher fuel prices; and
- $2.2 million ($5.4 million year-to-date) increase in contracted services, credit card fees, travel, advertising, data communication, and training supplies, somewhat offset by reduced insurance costs.

Maintenance costs increased by $9.8 million or 43% ($12.7 million or 19% year-to-date) in the three months ended December 31, 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 $3.3 million or 34% ($8.3 million or 30% year-to-date) in the three months ended December 31, 2022 compared to the same period in the prior year, primarily as a result of increased labour and benefits, consulting, audit, software licencing, advertising and travel costs.

Depreciation and amortization increased $2.0 million ($5.8 million year-to-date) in the three months ended December 31, 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 December 31**			**Nine months ended December 31**		
	2022	**2021**	**Increase (Decrease)**	**2022**	**2021**	**Increase (Decrease)**
Finance expense	17.2	15.5	1.7	51.0	45.1	5.9
Less: finance income	(5.2)	(1.2)	(4.0)	(10.3)	(3.6)	(6.7)
Net finance expense	12.0	14.3	(2.3)	40.7	41.5	(0.8)
Net loss on disposal and impairment of property, plant and equipment, and intangible assets	0.3	-	0.3	0.3	0.1	0.2
Total net finance and other expenses	12.3	14.3	(2.0)	41.0	41.6	(0.6)

In the three months ended December 31, 2022, net finance and other expenses decreased by $2.0 million ($0.6 million year-to-date) compared to the same period in the prior year, primarily due to higher interest earned on investments and partially offset by a reduction in interest being capitalized.

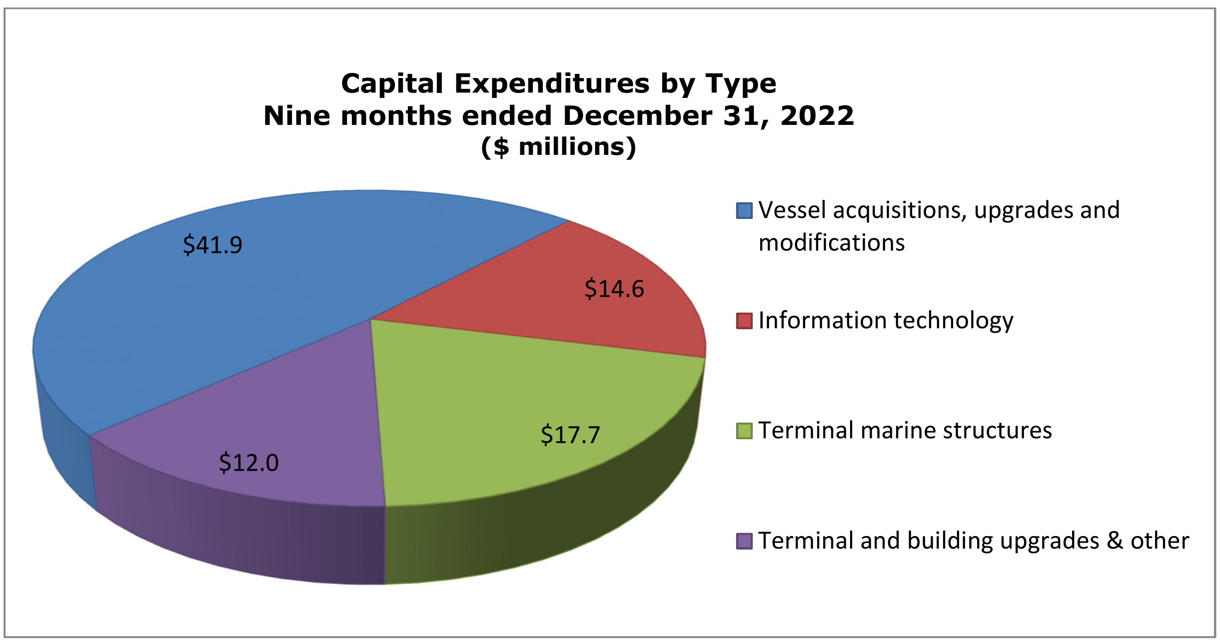
INVESTING IN OUR CAPITAL ASSETS

Our capital plan includes upgrades and modifications to 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.

On December 9, 2022, we submitted an application to the Commissioner under Section 55(1) of the *Coastal Ferry Act* seeking confirmation that our proposed capital expenditure for preparatory work associated with modifications to terminal infrastructure in anticipation of Island Class electrification, is reasonably required and that it may proceed. On January 6, 2023, the Commissioner issued Order 23-01 declaring that the requested amount is reasonably required and we may proceed with preparatory work. This preparatory work includes the engineering for detailed design work for the shore-based infrastructure upgrades that will accommodate vessel electrification at the terminals supporting the routes providing service between Nanaimo and Gabriola Island, and between Campbell River and Quadra Island.

In the nine months ended December 31, 2022, capital expenditures comprised the following:



In the three and nine months ended December 31, 2022, capital expenditures totalled $37.3 million and $86.2 million, respectively.

Capital Expenditures ($ millions)	**Three months ended December 31, 2022**	**Nine months ended December 31, 2022**
Major overhauls and inspections	12.2	23.0
Hardware upgrades	3.5	10.0
Queen of Coquitlam - Life Extension	4.8	8.4
Tsawwassen marine structure upgrade	2.2	7.5
Coastal Inspiration - Quarter-life upgrade	0.4	3.8
Salish Heron	-	1.9
Various other projects	14.2	31.6
	37.3	86.2

Major overhauls and inspections

In the three months ended December 31, 2022, we had capital expenditures of $12.2 million ($23.0 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for eight 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.

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 now complete.

Tsawwassen marine structure upgrade

Upgrades to the sheet pile walls and drainage systems at our Tsawwassen terminal are now complete.

Coastal Inspiration – Quarter-life upgrade

The quarter-life upgrade of the *Coastal Inspiration,* including propulsion, electrical systems, communication and catering equipment, is complete. Additional upgrades to propulsion are needed and are expected to be completed in fiscal 2026.

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, redeveloping our fleet maintenance unit, upgrades to navigation equipment, crew scheduling software, mobile booking application, training software and terminal efficiency initiatives.

Liquidity and Capital Resources
We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issuance to third parties. Our financial position could be adversely affected if we fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Our ability to arrange such financing is subject to numerous factors, including the results of our operations, our financial position, conditions in the capital and bank credit markets, ratings assigned by rating agencies, and general economic conditions.

We expect our cash requirements will be met through operating cash flows, accessing our credit facility with a syndicate of Canadian banks (the "Credit Facility") from time to time, debt issuances, and other funding opportunities.

At December 31, 2022, our unrestricted cash and cash equivalents and other short-term investments totalled $111 million and $344 million, respectively, compared to unrestricted cash and cash equivalents 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 extend the maturity date to April 2026. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At December 31, 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 21, 2022, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a stable trend. On February 9, 2023, DBRS Morningstar confirmed our credit rating at A (high) rating with a stable trend.

Under the Master Trust Indenture ("MTI"), an agreement which governs the Company's borrowings, we are subject to indebtedness tests that prohibit additional borrowing if our leverage ratio exceeds 85% or if our debt service coverage ratio is less than 1.50 (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost).

At December 31, 2022, we achieved a debt service coverage ratio of 3.25 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the nine months ended December 31, 2022 has resulted in a $65.6 million improvement in equity before reserves, from $691.3 million as at March 31, 2022 to $756.9 million as at December 31, 2022. Correspondingly, BC Ferries' leverage ratio has decreased from 70% as of March 31, 2022 to 67% as of December 31, 2022 and includes the impact of a reduction in the amount of the Credit Facility.

($ thousands)	December 31, 2022		March 31, 2022	
	$	%	$	%
Aggregate borrowings *	1,558,894	67%	1,619,286	70%
Total equity before reserves	756,859	33%	691,254	30%
Total	2,315,753	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 nine month periods ended December 31, 2022 and 2021 are summarized in the table below:

	Nine months ended December 31		
($ millions)	**2022**	**2021**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	204.4	285.4	(81.0)
Cash from operating activities:			
Net earnings	65.6	83.0	(17.4)
Items not affecting cash	175.8	171.3	4.5
Changes in non-cash operating working capital	(17.2)	(71.8)	54.6
Net interest paid	(48.1)	(51.4)	3.3
Cash generated from operating activities	176.1	131.1	45.0
Cash used in financing activities	(10.7)	(10.6)	(0.1)
Cash used in investing activities	(258.5)	(157.4)	(101.1)
Net decrease in cash and cash equivalents	(93.1)	(36.9)	(56.2)
Cash and cash equivalents, end of period	111.3	248.5	(137.2)

For the nine months ended December 31, 2022, cash generated from operating activities increased by $45.0 million compared to the prior year, primarily due to a smaller reduction in the amount of prepaid revenue compared to the same period in the prior year, partially offset by a decrease in net earnings.

Cash used in financing activities in the nine months ended December 31, 2022 was $10.7 million, consisting of $8.5 million in repayment of our loans from KfW IPEX-Bank GmbH ("KfW") and $2.2 million in repayment of lease obligations. Cash used in financing activities in the nine months ended December 31, 2021 was $10.6 million, consisting of $8.5 million in repayment of our loans from KfW and $2.1 million in repayment of lease obligations.

Cash used in investing activities for the nine months ended December 31, 2022 increased by $101.1 million compared to the same period in the prior year, mainly due to a $132.2 million increase in short-term investment purchases, partially offset by a $31.1 million decrease in purchases of capital assets.

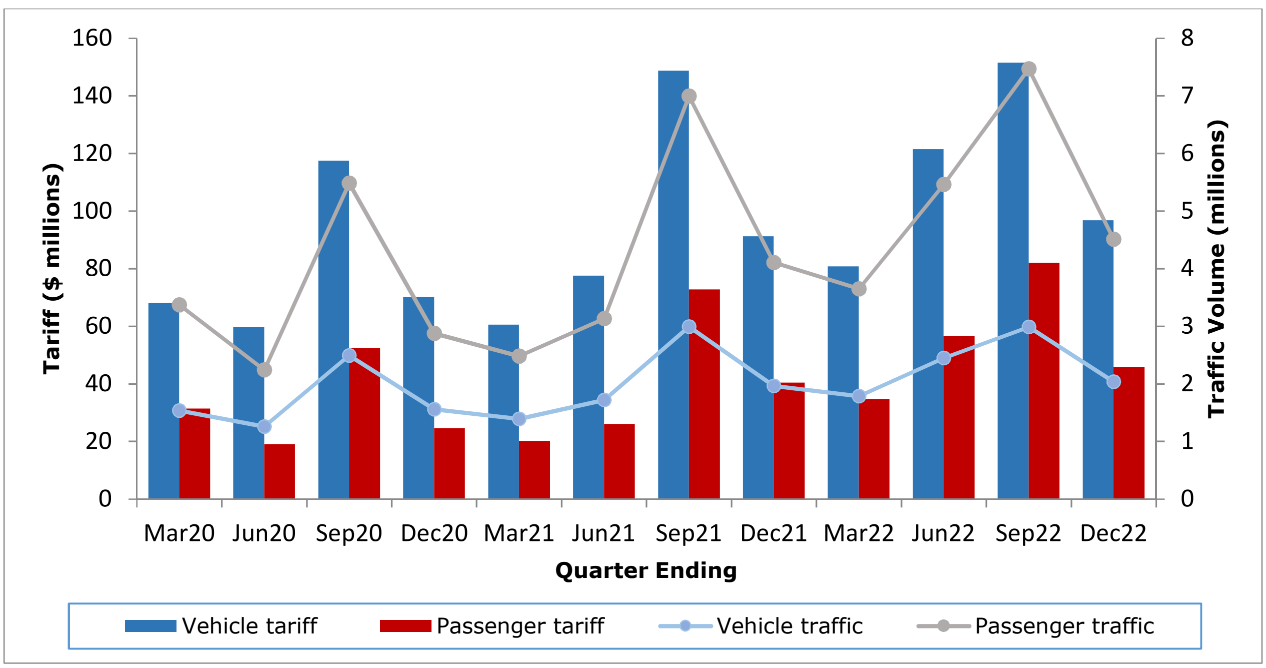
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Mar 20**	**Jun 20**	**Sep 20**	**Dec 20**	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**
Total revenue without Safe Restart Funding	155	137	248	157	137	169	314	203	177	262	340	233
Safe Restart Funding	-	-	-	155	31	60	3	19	20	3	3	2
Total revenue	155	137	248	312	168	229	317	222	197	265	343	235
Operating (loss) profit	(55)	(46)	52	113	(33)	18	94	13	(27)	23	94	(10)
Net (loss) earnings	(70)	(62)	38	99	(54)	5	80	(2)	(49)	8	80	(23)
Net (loss) earnings without Safe Restart Funding	(70)	(62)	38	(56)	(85)	(55)	77	(21)	(69)	5	77	(25)

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 and the corresponding travel restrictions. With the lifting of travel restrictions late in the first quarter of fiscal 2022, we experienced a significant increase in traffic. For the nine months ended December 31, 2022, when we compare to the nine months ended December 31, 2019, a pre-COVID period, passenger traffic is down 5% and vehicle traffic is up 3%.

While we are optimistic that traffic will continue to be strong and conditions have improved, BC Ferries cannot predict with certainty future traffic volumes. Traffic levels can be affected by a variety of 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 has resulted in cancellations on some routes, and are responding to these challenges 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 nine months ended December 31, 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 traffic trends, the value of the Canadian Dollar, inflation, interest rates, fuel costs, construction costs and timelines, cyclical demand, the state of the economy, financial markets, demographics, tax changes, and regulatory and contractual requirements.

Examples of forward looking statements included in this document include, but are not limited to, statements with respect to: Safe Restart Funding, executive management changes, the need for positive net earnings, revenue sources, cash requirements and sources of cash flows, reliance on sources of external funding, seasonality of demand and the impact on operations, fuel prices and the impact of hedging, 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 the risks and uncertainties associated with, among other things: vendor non-performance, capital market access, inflation, interest rates, exchange rates, fuel prices, traffic fluctuations, timelines of major capital projects, security, safety, environmental incidents, cyber security, legislative and regulatory changes, vessel repair facility limitations, tax changes, and Indigenous consultations.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Management's Discussion and Analysis are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward-looking statements are made as of the date of this Management's Discussion and Analysis, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

Non-IFRS Measures

In addition to providing measures prepared in accordance with IFRS, we present certain financial measures that do not have any standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These include, but are not limited to, net earnings adjusted for the effect of rate regulation and average tariff revenue per vehicle and per passenger. These supplemental financial measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.