



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

For the fiscal year ended
March 31, 2023

Dated June 8, 2023

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**Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the year ended March 31, 2023
Dated June 8, 2023**

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries", the "Company" or "we") for the year ended March 31, 2023 that has been prepared with information available as of June 8, 2023. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2023 ("fiscal 2023") and March 31, 2022 ("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.bcferrries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 38 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 return of traffic which continued through fiscal 2023.

During fiscal 2023, BC Ferries carried 9.4 million vehicles, the highest vehicle traffic level on record in a fiscal year, and 21.6 million passengers. Vehicle and passenger traffic increased 11% and 21%, respectively, compared to fiscal 2022, primarily as a result of travel restrictions being in place through most of the first quarter of fiscal 2022.

In fiscal 2023, BC Ferries delivered 86,835 round trips compared to 82,743 in the prior year, an increase of 4,092 round trips or 5%.

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

Tariffs

- On each of April 8, 2022, and April 12, 2023, BC Ferries implemented average tariff increases of 2.3% in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 19-04 dated September 30, 2019 and in accordance with the Safe Restart Contribution Agreement between BC Ferries and the Province of British Columbia dated November 11, 2020.
- On September 30, 2022, we filed with the Commissioner, our submission for the sixth performance term. This began 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. Our submission document can be found at: www.bcferrycommission.ca.
- On November 1, 2022, due to sustained high fuel prices, BC Ferries 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. (See "Operational Revenue" for more detail).
- On February 26, 2023, the Province, after collaboration with BC Ferries and in response to our Performance Term Six submission, announced \$500 million in new funding for BC Ferries, with the goal of keeping annual average fare increases at or below 3% a year for Performance Term Six ("PT6"), April 1, 2024 through March 31, 2028. In addition to helping control fare increases, the \$500 million, to be received during PT6, may also be used to support greenhouse gas ("GHG") emissions reductions through support for the electrification of vessels, terminals and other initiatives.
- On March 3, 2023, BC Ferries submitted a Supplemental Filing in addition to the PT6 submission which had been provided to the Commissioner on September 30, 2022. This Supplemental Filing included updated assumptions to BC Ferries' traffic forecasts, projected labour and maintenance expenses and capital plan.
- On March 31, 2023, the Commissioner released a preliminary decision on price caps for PT6, April 1, 2024 and ends on March 31, 2028, setting increases at a maximum of 9.2% per year. This rate decision did not factor in the favourable impact of the \$500 million contribution towards fares. This contribution will be included in the Commissioner's final price cap determination on September 30, 2023.

General

- Effective June 24, 2022, the B.C. Ferry Authority (the "Authority") appointed six new members to the Company's Board of Directors, each for a two-year term. On June 29, 2022, Joy MacPhail was appointed as the Chair of the BC Ferries Board of Directors.
- On July 22, 2022, the Company's Board of directors ended Mark Collins' contract as President and Chief Executive Officer of BC Ferries and appointed Jill Sharland as interim President and Chief Executive Officer.
- 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 establishing 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 traditional territory, of which three are located in Nanaimo, BC and one is located on Gabriola Island, BC.

- On November 21, 2022, S&P Global Ratings affirmed BC Ferries' long-term issuer credit and senior secured debt ratings of "AA-" with a stable trend.
- On December 9, 2022, BC Ferries and W̱JŌŁŁŁP (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 W̱JŌŁŁŁP (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 British Columbia, including in the role of President and CEO for the last five years. Jill Sharland, who had 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 BC Ferries' credit rating at A (high) with a Stable trend.
- On March 31, 2023, BC Ferries received \$15 million from the Province, in one-time funding, to support initiatives to further the electrification of BC Ferries vessels and terminals for use prior to March 31, 2028.

Capital Assets

- On April 12, 2022, BC Ferries introduced a two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities. This augmented service, using two (the *Island Gwawis* and *Island Kwigwis*) of the four new Island Class vessels (*Island Gwawis*, *Island Kwigwis*, *Island Nagalis* and *Island K'ulut'a*), results in increased capacity and sailing frequency to these communities. (See "Investing in Our Capital Assets" for more detail).
- On May 6, 2022, the *Salish Heron* entered service in the Southern Gulf Islands. The *Salish Heron* is identical to our three existing Salish Class vessels, which are dual-fuel capable and designed to run primarily on liquefied natural gas ("LNG"), a cleaner and lower carbon-intensity option as compared to marine diesel. The vessel has the capacity to carry approximately 138 vehicles and up to 600 passengers and crew. This fourth Salish Class vessel replaced the 58-year old *Mayne Queen*, a diesel-fuelled vessel.
- On October 14, 2022 the Commissioner issued Order 22-02 and Order 22-02A approving a project for the redevelopment of our Fleet Maintenance Unit ("FMU"), 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 each have the capacity to carry 47 vehicles and up to 400 passengers.

- The introduction of the new Island Class vessels and the new Salish Class vessel allowed for the retirement of the 57-year old *Bowen Queen* and the 58-year old *Powell River Queen* in fiscal 2023. The 58-year old *Mayne Queen* is scheduled to retire from service in the fall of 2023.
- On April 28, 2023, BC Ferries submitted a supplemental filing with the Commissioner to update the pricing and revise other elements of the capital budget for the FMU project, which was originally approved on October 14, 2022.
- On May 12, 2023, the Commissioner issued supplemental Order 22-02A approving the project for the redevelopment of our FMU. On the same day, BC Ferries signed a construction agreement with Bird Construction Group for the redevelopment project.

CORPORATE STRUCTURE

Coastal Ferry Services Contract

We operate ferry services under a regulatory framework established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the Coastal Ferry Services Contract ("CFSC") between BC Ferries and the Province. BC Ferries' sole voting common share is held by the Authority.

The CFSC is a 60-year services contract, which commenced April 1, 2003, and stipulates, among other things, the number of round trips that must be provided for each regulated ferry service route in exchange for specified fees (ferry transportation fees). The CFSC has been amended from time to time. The CFSC and its amendments are available on our website at: <https://www.bcferrries.com>.

Under the terms of the CFSC, we also receive an annual subsidy from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia ("Federal-Provincial subsidy"). The amount of this payment is adjusted annually based on the Consumer Price Index ("CPI") (Vancouver).

The Act defines a performance term as the first and any subsequent four-year period during the term of the CFSC. Fiscal 2023 was the third year of performance term five ("PT5"), which commenced April 1, 2020 and ends on March 31, 2024.

Economic Regulatory Environment

The office of the Commissioner was created under the Act on April 1, 2003. The Act has been amended from time to time to expand and broaden the Commissioner's role and regulatory responsibilities. The Act specifies that the Commissioner must undertake the regulation of ferry operators in the public interest and in accordance with the following principles: (a) to balance the interests of ferry users, taxpayers, and the financial sustainability of ferry operators, (b) to meet provincial greenhouse gas emission targets in their operations and when developing capital plans, and (c) to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services. The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating tariffs. The Commissioner has the authority to authorize the establishment of deferred fuel cost accounts and to set the terms and conditions for their use, including fuel surcharges or rebates. The Commissioner is also responsible for regulating the reduction of service and discontinuance of routes, monitoring the service provided under the CFSC, authorizing major capital expenditures, conducting performance reviews, regulating ferry transportation services where the Commissioner has determined an unfair competitive advantage exists and approving the customer complaints process.

Performance term five

In September 2019, the Commissioner issued Order 19-04 which included the following:

- establishment of the final price cap average increase of 2.3% for each of the four years of PT5;
- authorization for the Company to maintain existing fuel deferral accounts;
- establishment of a future efficiency target equivalent to 1% of annual operating, maintenance and administration costs; and
- establishment of the price per litre for the operation of the fuel deferral accounts at \$1.03 per litre for marine diesel and 46.9 cents per litre for LNG in the first year of PT5, inflated in each case by 2% per year for the balance of PT5. The set price per litre is a required input into the calculation of fuel surcharges or rebates.

On March 11, 2022, we submitted an application to the Commissioner seeking approval to direct revenue generated through the sale of earned carbon credits to reinvest in emission reduction initiatives. On April 20, 2022, the Commissioner issued Order 22-01, approving the creation of a Carbon Reduction Investment Account ("CRIA") for a 5-year term, subject to the Ministry of Energy Mines and Low Carbon Innovation's (the "Ministry") approval of BC Ferries' carbon-credit compliance report and the realization of the sale of carbon credits. We received approval of carbon-credits and for the sale of carbon-credits related to calendar 2021 from the Ministry in October 2022. We directed \$9.6 million into a CRIA during fiscal 2023.

On September 30, 2022, we filed with the Commissioner, our submission for the sixth performance term. This began 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 PT6.

On March 31, 2023, the Commissioner released a preliminary decision on price caps for PT6, setting increases for price caps at 9.2% per year. While the price cap for PT6 has initially been set at 9.2% per year, this price cap did not take into account the \$500 million contribution from the Province which has the goal of keeping annual average fare increases at or below 3% a year. The Commissioner will make a final determination on PT6 price caps by September 30, 2023.

The Commissioner's orders and reports are available on the Commissioner's website at www.bcferrycommission.com.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the past two fiscal years.

(\$ millions)	Years ended March 31		
	2023	2022	Variance
Total revenue	1,042.8	965.4	77.4
Operating expenses	991.5	868.0	123.5
Operating profit	51.3	97.4	(46.1)
Net finance and other	53.1	63.3	10.2
Net (loss) earnings	(1.8)	34.1	(35.9)
Other comprehensive income	40.0	73.1	(33.1)
Total comprehensive income	38.2	107.2	(69.0)
<i>Safe Restart Funding</i>	9.3	102.3	(93.0)
Total revenue excluding Safe Restart Funding	1,033.5	863.1	170.4
Net loss excluding Safe Restart Funding	(11.1)	(68.2)	57.1
	As at March 31		
	2023	2022	
Total assets	2,491.8	2,476.9	
Total long-term liabilities	1,470.3	1,476.1	
Dividends	6.0	6.0	

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 fiscal 2023, we recognized Safe Restart Funding of \$9.3 million compared to the \$102.3 million recognized in the prior year (See "Operational Revenues" for more detail). In fiscal 2023, excluding the Safe Restart Funding, revenues increased \$170.4 million or 20% compared to the prior year, which was \$46.9 million higher than the \$123.5 million or 14% increase in expenses.

In fiscal 2023, inclusive of the Safe Restart Funding, revenues increased \$77.4 million or 8% compared to the prior year, primarily as a result of higher traffic volumes, net retail sales, fuel surcharges and revenue from the sale of carbon credits, partially offset by lower Safe Restart Funding (see "Operational Revenues" for more detail).

In fiscal 2023, our operating expenses increased by \$123.5 million or 14% compared to the prior year. This increase is mainly due to an increased number of round trips, 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 fiscal 2023, our net loss of \$1.8 million was \$35.9 million lower than the net earnings of \$34.1 million 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, higher net retail sales and revenue from carbon credits.

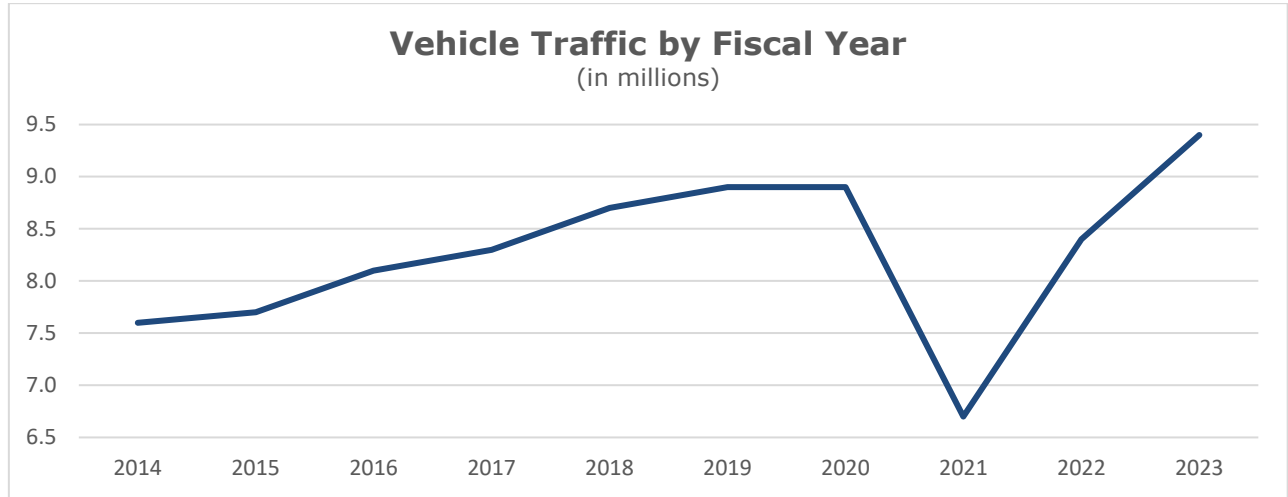
In fiscal 2023, our total comprehensive income was \$38.2 million compared to \$107.2 million in the prior year. This is a decrease of \$69.0 million, comprised of the \$35.9 million decrease in net earnings described above and a \$33.1 million decrease in Other Comprehensive Income ("OCI") (\$40.0 million of OCI in fiscal 2023 compared to \$73.1 million of OCI in the prior year). The change in OCI reflects a \$44.9 million decrease in the change in the fair value of our fuel swap contracts, partially offset by a \$10.7 change on the revaluation of our land and \$1.1 million in actuarial gains on the valuation of our employee benefit plans.

Traffic

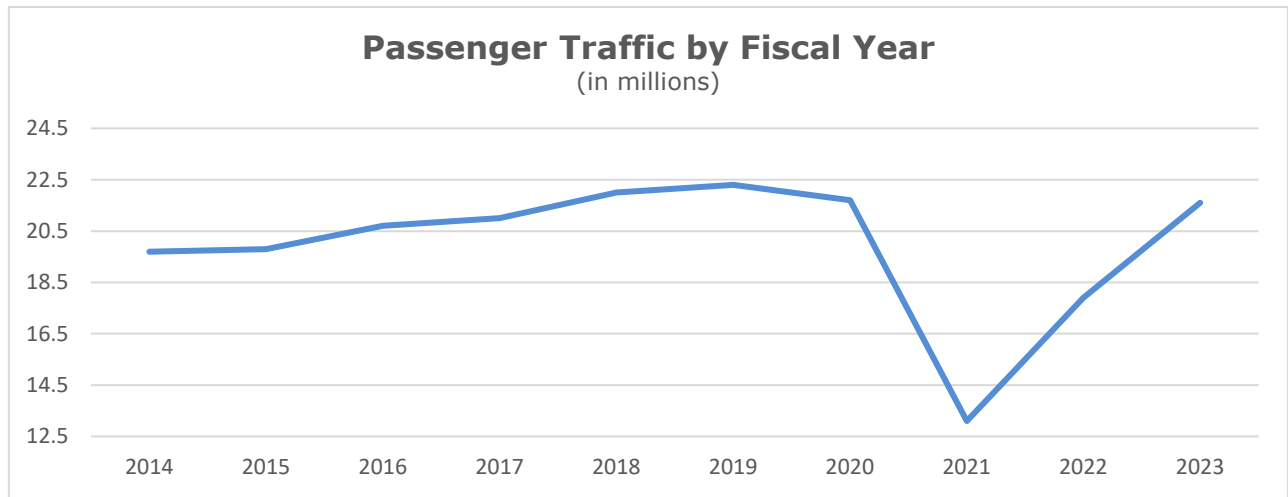
During fiscal 2023, BC Ferries carried 9.4 million vehicles, the highest vehicle traffic level on record in a fiscal year, and 21.6 million passengers. Vehicle and passenger traffic increased 11% and 21%, respectively, compared to fiscal 2022, primarily as a result of travel restrictions being in place through most of the first quarter of fiscal 2022.

Compared to fiscal 2019, which was a pre-COVID-19 period, passenger traffic is down 3% and vehicle traffic is up 5%.

The following tables and graphs detail the trends in traffic volumes over the past ten fiscal years:



Vehicle Traffic (thousands)									
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
7,644	7,691	8,069	8,306	8,723	8,887	8,801	6,704	8,467	9,371



Passenger Traffic (thousands)									
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
19,697	19,796	20,689	21,035	22,030	22,287	21,677	13,083	17,880	21,558

Operational Statistics

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (see "The Effect of Rate Regulation" for more details). 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 comparable fiscal 2023 and fiscal 2022 are shown in the tables below.

Operational Statistics	Years ended March 31			
	2023	2022	Increase	%
Vehicle Traffic				
Major Routes	5,389,436	4,684,424	705,012	15%
Northern Routes	41,265	32,992	8,273	25%
Minor Routes	3,940,640	3,749,227	191,413	5%
Total Vehicle Traffic	9,371,341	8,466,643	904,698	11%
Passenger Traffic				
Major Routes	13,615,223	10,628,731	2,986,492	28%
Northern Routes	98,458	70,085	28,373	40%
Minor Routes	7,844,765	7,181,370	663,395	9%
Total Passenger Traffic	21,558,446	17,880,186	3,678,260	21%
Round Trips				
Major Routes	12,994	12,659	335	3%
Northern Routes	401	366	35	10%
Minor Routes	73,440	69,718	3,722	5%
Total Round Trips	86,835	82,743	4,092	5%
Capacity Provided (AEQs)*				
Major Routes	8,194,190	7,964,802	229,388	3%
Northern Routes	66,638	59,072	7,566	13%
Minor Routes	7,680,412	7,365,538	314,874	4%
Total Capacity Provided	15,941,240	15,389,412	551,828	4%
AEQs Carried *				
Major Routes	6,363,480	5,642,981	720,499	13%
Northern Routes	49,688	40,374	9,314	23%
Minor Routes	4,251,841	4,058,760	193,081	5%
Total AEQs Carried	10,665,009	9,742,115	922,894	9%
Capacity Utilization				
Major Routes	77.7%	70.8%	6.9%	
Northern Routes	74.6%	68.3%	6.3%	
Minor Routes	55.4%	55.1%	0.3%	
Total Capacity Utilization	66.9%	63.3%	3.6%	

*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.

New fare choices, including advance purchase saver fares, are available on the Major Routes. These new fare choices, combined with more space allocated for customers to book in advance, are contributing to increased vehicle traffic on traditionally lower utilized 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.

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 CFSC. In fiscal 2023, we delivered 86,835 round trips, 4,092 or 5% additional round trips compared to fiscal 2022. Of the 4,092 additional round trips, 3,722 or 91% were on the Minor Routes, primarily driven by the introduction of two-ship service on the Nanaimo Harbour – Gabriola Island route. These additional round trips resulted in increased capacity of 4%.

In fiscal 2023, we cancelled 1.6% (1.2% in fiscal 2022) of our scheduled round trips, primarily due to being unable to secure the required crew, adverse weather and mechanical issues. 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.

Sailing Cancellations by Fiscal Year				
	2020	2021	2022	2023
Sailings	167,034	162,686	169,259	177,582
Cancelled Sailings by type:				
Weather	718	872	648	757
Mechanical	308	537	712	648
Crew	25	109	522	1,163
Other*	460	476	217	318
Total Cancelled Sailings	1,511	1,994	2,099	2,886
Cancellations as % of Sailings	0.9%	1.2%	1.2%	1.6%
Crew Cancellations as % of Sailings	0.0%	0.1%	0.3%	0.7%

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

Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Typically, capacity utilization is highest when traffic levels peak during the summer months and lowest during the winter months. In fiscal 2023, overall capacity utilization was 66.9%, an increase of 3.6% compared to a capacity utilization of 63.3% during 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. Capacity utilization on the Minor Routes, which is lower than the capacity utilization on the Major and Northern Routes, is mainly due to the traffic demand being directional based on the time of day or the day of the week, and under utilized in the other direction at the same time or day of the week (daily commuters and/or weekend visitors), and most Minor Routes are serviced by one vessel and are non-reservable.

On-time performance on the Major and regulated Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled arrival time. In each case, on-time performance can

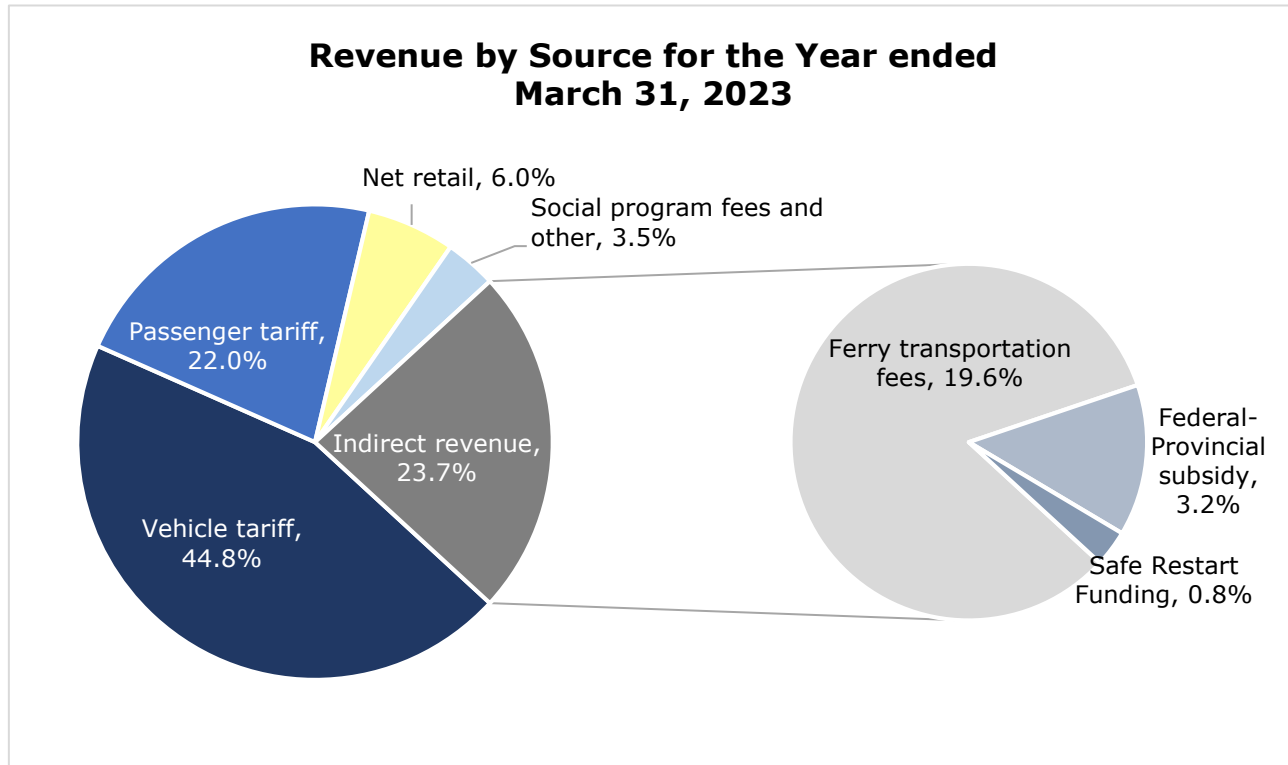
be impacted by delays due to weather, vessel substitution, mechanical issues, terminal dock maintenance or closures, and periods of high traffic demand.

On-Time Performance	Years ended March 31		
	2023	2022	Change
Major Routes	76.2%	78.8%	(2.6%)
Northern Routes	75.2%	79.0%	(3.8%)
Minor Routes	86.5%	86.7%	(0.2%)
On-Time Performance	85.0%	85.6%	(0.6%)

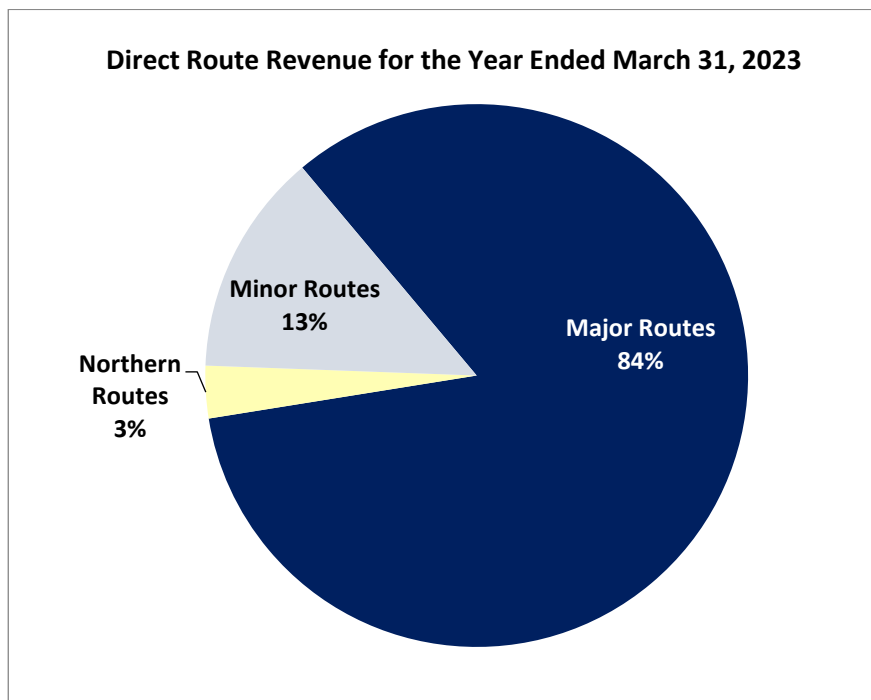
In fiscal 2023, our fleet's overall on-time performance decreased from 85.6% to 85.0% compared to the prior year, declining on the Major Routes, the Northern Routes and the Minor Routes. On-time year-to-date performance decreased primarily as a result of delays due to the impact of increased traffic demand and being unsuccessful in securing the required crew on some sailings.

Operational Revenues

Operational revenues for fiscal 2023 are shown in the graphs below:



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



In fiscal 2023, of our direct route revenues of \$769.7 million (excluding fuel surcharges), 84%, was earned on our Major Routes.

Operational revenues for fiscal 2023 and fiscal 2022 are shown in the table below:

Revenue (\$ millions)	Years ended March 31			
	2023	2022	Increase (Decrease)	%
Direct Route Revenue	787.8	630.5	157.3	25%
Vehicle tariff revenue				
Major Routes	387.8	333.6	54.2	16%
Northern Routes	10.8	8.2	2.6	32%
Minor Routes	60.2	56.4	3.8	7%
Total vehicle tariff revenue	458.8	398.2	60.6	15%
Passenger tariff revenue				
Major Routes	185.4	140.0	45.4	32%
Northern Routes	7.5	4.7	2.8	60%
Minor Routes	32.7	29.3	3.4	12%
Total passenger tariff revenue	225.6	174.0	51.6	30%
Net retail revenue				
Major Routes	53.1	36.8	16.3	44%
Northern Routes	4.4	3.2	1.2	38%
Minor Routes	3.9	3.0	0.9	30%
Total net retail revenue	61.4	43.0	18.4	43%
Social program fees	12.2	10.4	1.8	17%
Other revenue	11.7	8.8	2.9	33%
Fuel surcharge (rebate)	18.1	(3.9)	22.0	564%
Indirect Route Revenue	242.5	332.3	(89.8)	(27%)
Safe Restart Funding *	8.0	101.0	(93.0)	(92%)
Ferry transportation fees	201.2	199.1	2.1	1%
Federal-Provincial subsidy	33.3	32.2	1.1	3%
Total Route Revenue	1,030.3	962.8	67.5	7%
Other general revenue *	12.5	2.6	9.9	381%
Total Revenue	1,042.8	965.4	77.4	8%

* Total Safe Restart Funding of \$9.3 million was recorded for discretionary and fare increase relief, in the year ended March 31, 2023 (\$102.3 million in the prior year), of which \$1.3 million (\$1.3 million in the prior year) for discretionary sailings relief was included in ferry transportation fees.

* Other general revenue increased by \$9.9 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.

In the year ended March 31, 2023, total direct route revenue increased \$157.3 million or 25% compared to 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	Years ended March 31			
	2023	2022	Increase	
			\$	%
Average vehicle tariff				
Major Routes	71.96	71.21	0.75	1%
Northern Routes	261.72	247.51	14.21	6%
Minor Routes	15.28	15.05	0.23	2%
Average vehicle tariff	48.96	47.03	1.93	4%
Average passenger tariff				
Major Routes	13.62	13.17	0.45	3%
Northern Routes	76.17	67.43	8.74	13%
Minor Routes	4.17	4.08	0.09	2%
Average passenger tariff	10.46	9.73	0.73	8%

In fiscal 2023, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased \$1.93 or 4% compared to the prior year as a result of tariff rate increases and increases in vehicle traffic on higher tariff routes. In fiscal 2023, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased \$0.73 or 8% compared to the prior year, primarily due to tariff rate increases and increases in passenger traffic on higher tariff routes (Major Routes). The increase in traffic levels and the change in average tariff increases resulted in a total tariff revenue increase of \$112.2 million or 20% compared to the prior year.

Retail sales is a significant source of revenue, 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 fiscal 2022, catering, retail and other on-board services were impacted by COVID-19 travel restrictions and reduced food services on certain routes. In fiscal 2023, net retail revenue increased by \$18.4 million or 43% compared to 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 fiscal 2023 increased \$1.8 million or 17% compared to 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 fiscal 2023, other revenue increased \$2.9 million or 33% compared to the prior year, primarily as a result of increased parking revenues at our ferry terminals.

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

Date range	% (rebate) surcharge	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, surcharges and/or rebates are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" for more detail.)

Safe Restart Funding decreased by \$93.0 million in fiscal 2023 compared to 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 of \$308.0 million we received in fiscal 2021 from the Province significantly increased our cash position and mitigated the need for incremental borrowing. The Safe Restart Funding consisted of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit average fare increases to 2.3% per year for the remainder of PT5 and to cover the estimated costs of discretionary sailings and recognized as follows:

Safe Restart Funding Projected Recognition (\$ millions)	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023	Fiscal 2024	Total Funding
Operating relief	186.0	94.0	-	-	280.0
Fare increase relief	0.0	7.0	8.0	9.0	24.0
Discretionary sailings relief*	0.0	1.3	1.3	1.4	4.0
	186.0	102.3	9.3	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 \$297.6 million: \$186.0 million in fiscal 2021, \$102.3 million in fiscal 2022 and \$9.3 million in fiscal 2023. We will recognize the remaining \$10.4 million in fiscal 2024.

The funding is recognized on a systematic basis, for the above three components, for each of fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement with the Province. 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 [and a subsequent amendment filed on May 19, 2023](#).

In fiscal 2023, ferry transportation fees increased by \$2.1 million, primarily as a result of recovering higher fuel costs from the Province for the Northern Routes.

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 CPI (Vancouver).

Other general revenue increased by \$9.9 million in fiscal 2023 compared to the prior year, primarily resulting from the sale of carbon credits.

Expenses

Expenses for the past two fiscal years are summarized in the table below:

Operating Expenses (\$ millions)	Years ended March 31			
	2023	2022	Increase	Increase
Operations	647.3	558.4	88.9	16%
Maintenance	115.4	98.2	17.2	18%
Administration	47.4	38.1	9.3	24%
Total operations, maintenance & administration	810.1	694.7	115.4	17%
Depreciation and amortization	181.4	173.3	8.1	5%
Total Operating Expenses	991.5	868.0	123.5	14%

During fiscal 2023, total operations, maintenance and administration costs increased \$115.4 million or 17% compared to the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 77% of our total operations, maintenance and administration costs, in fiscal 2023 and fiscal 2022. These labour and fuel costs are primarily driven by the number of round trips provided and fuel prices. In fiscal 2023, we delivered 86,835 round trips, an increase of 4,902 or 5% compared to 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 Collective Agreement provides for wage re-openers in years four and five and these negotiations will begin in August 2023, with agreed to early wage increases to be effective October 2023.

The \$88.9 million or 16% increase in operations expenses from fiscal 2022 to fiscal 2023 reflects a 2% increase in capacity driving a 21% increase in Tariff revenue on the Major Routes. The increases in expenses include:

- \$45.9 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, wage rate increase per the Collective Agreement, increased overtime, training, allowances, and benefit costs;
- \$34.4 million increase in fuel expense, primarily reflecting a \$30.3 million or 23% increase due to higher fuel prices and a \$4.1 million increase due to higher consumptions; and
- \$8.6 million increase in contracted services, travel, credit card fees, advertising, data communication, utilities, and training supplies, somewhat offset by reduced insurance costs.

Maintenance costs increased by \$17.2 million or 18% in fiscal 2023 compared to the prior year, as a result of the timing of planned vessel maintenance activity and an increase in the number of vessels in the fleet.

Administration costs increased by \$9.3 million or 24% in fiscal 2023 compared to the prior year, primarily as a result of investments in People and Culture as well as increased labour and benefits, consulting, legal, software licencing, and travel costs.

Depreciation and amortization increased \$8.1 million or 5% in fiscal 2023 compared to 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)	Years ended		
	March 31		
	2023	2022	Increase (Decrease)
Finance expense	67.8	60.9	6.9
Less: finance income	(16.5)	(4.9)	(11.6)
Net finance expense	51.3	56.0	(4.7)
Net loss on disposal and impairment of property, plant and equipment and intangible assets	1.8	7.3	(5.5)
Total net finance and other expenses	53.1	63.3	(10.2)

In fiscal 2023, net finance and other expenses decreased by \$10.2 million compared to the prior year, primarily due to higher interest earned on investments and reduced asset impairments, partially offset by a reduction in interest being capitalized.

INVESTING IN OUR CAPITAL ASSETS

We have a formal project governance framework to ensure that capital investments meet our functional and business needs. This framework, which is reviewed annually by the Capital Planning and Budget Committee to ensure it continues to evolve and improve, is the structure under which capital projects are identified, managed, monitored and delivered effectively and efficiently. It ensures we take a disciplined approach to the identification, approval, management, reporting, and delivery of projects and benefits realization, and defines key roles and provides principles and guidelines for the governance of projects through the phases of the project lifecycle.

Our capital plan aligns with our corporate goals by maintaining or improving safety and reliability, adding capacity, achieving efficiencies to reduce costs, supporting our environmental targets, extending lives of assets where possible, and aligning terminal upgrades with vessel renewal or redeployment. Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our vessel maintenance and refit facility, preparatory work for modifications to terminal infrastructure in anticipation of Island Class electrification (shore-side power source to enable charging the Island Class vessel batteries), upgrades at our terminals, and renewal of our information technology systems. On March 31, 2023, BC Ferries received \$15 million from the Province, in one-time funding, to support initiatives to further the electrification of BC Ferries vessels and terminals for use prior to March 31, 2028.

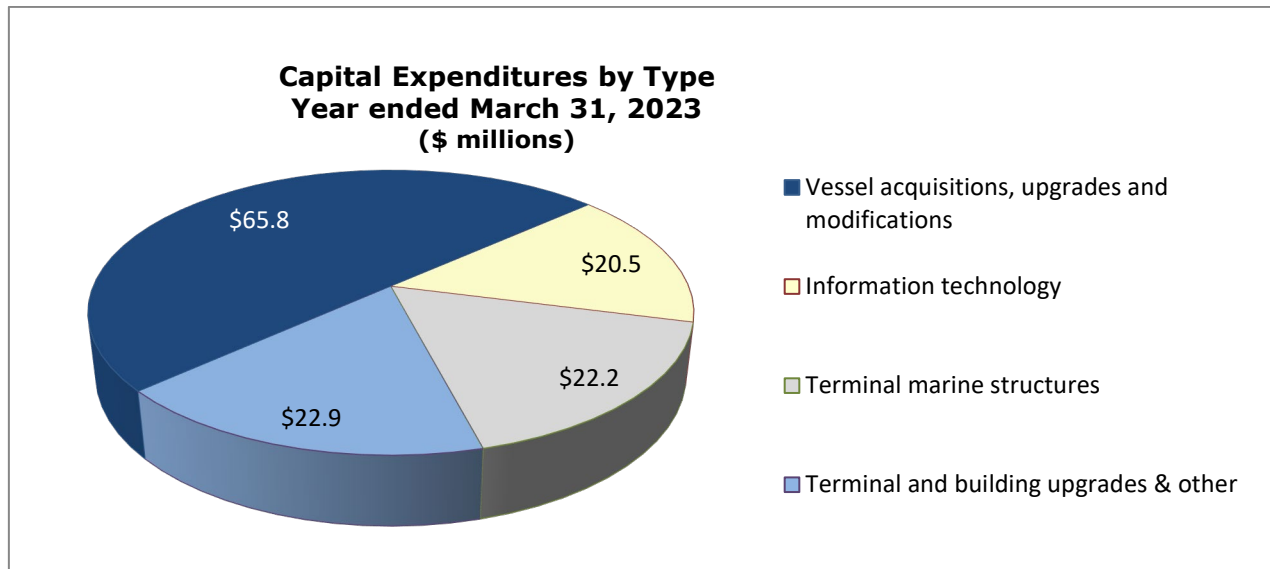
The typical life span of our vessels is approximately 45 years. Our fleet has an average age of 27 years and, of these, 11 are 45 years old or older. As vessels approach their planned retirement dates, we review their condition to determine potential candidates for life extension rather than replacement.

Our strategy for new vessels includes inter-operability and standardization, where possible, to provide more flexibility, consistent customer experience, and organizational efficiencies while enhancing a safe operation. We are standardizing our vessel design, layout, operating characteristics, systems, procedures, and equipment across a wide variety of applications to achieve operational efficiencies and enhance reliability. We are designing our vessels for low energy consumption and clean environmental performance. We are adopting alternative fuel sources, which are cleaner, lower carbon-intensive options, such as LNG, renewable fuels, biodiesels and electrification, where economically and technically feasible. Our vessel design and modifications will appropriately incorporate new proven technologies to address other key environmental considerations, such as noise and light pollution, waste management, emissions, and on-board water consumption.

The Island Gwawis, Island Kwigwis, Island Nagalis and Island K'ulut'a, entered service in fiscal 2023, bringing our fleet of Island Class vessels to six. These Island Class vessels are hybrid-electric ships designed for future full electric operation. The *Salish Heron* (our fourth Salish Class vessel) also entered service in fiscal 2023 and is designed to run primarily on LNG with marine diesel fuel as a backup. While these vessels entered service in fiscal 2023, the majority of the capital expenditures for these vessels was recognized in prior fiscal years as the vessels were being constructed. These new vessels allowed for the retirement of the 57-year old *Bowen Queen* and the 58-year old *Powell River Queen* in fiscal 2023, with the 58-year old *Mayne Queen* scheduled to retire from service in fiscal 2024.

Capital expenditures during the last two fiscal years are shown in the table below:

Capital Expenditures by Fiscal Year		
(\$ millions)	2023	2022
Vessel upgrades & modifications	61.7	43.2
New vessels	4.1	81.7
Terminal marine structures	22.2	21.0
Information technology	20.5	17.3
Terminal building upgrades & equipment	22.9	8.1
Total	131.4	171.3



In fiscal 2023, capital expenditures included the following:

Capital Expenditures (\$ millions)	Year ended March 31, 2023
Major overhauls and inspections	41.2
Hardware upgrades	14.4
<i>Queen of Coquitlam</i> - Life Extension	8.4
Tsawwassen marine structure upgrade	7.7
Vehicles and other equipment	6.2
<i>Coastal Inspiration</i> - Quarter-life upgrade	4.2
Fleet Maintenance Unit upgrade	2.4
<i>Salish Heron</i>	1.9
Various other projects	45.0
	131.4

Major overhauls and inspections

In fiscal 2023, we had capital expenditures of \$41.2 million in respect of major overhauls and inspections of components of hull, propulsion and generators for nine 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.

Vehicles and other equipment

Vehicles and other equipment includes equipment for employee bridge training, rescue boat training, and miscellaneous terminal equipment as well as replacement of hostling units.

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.

Fleet Maintenance Unit

On October 14, 2022 the Commissioner issued Order 22-02 and Order 22-02A approving a project for the redevelopment of our FMU, which is BC Ferries' primary vessel maintenance and refit facility located at Deas Basin in Richmond, BC. On April 28, 2023, BC Ferries submitted a supplemental filing with the Commissioner to update the pricing and revise other elements of the capital budget for the FMU project. On May 12, 2023, the Commissioner issued supplemental Order 22-02A approving the project for the redevelopment of our FMU. On the same day, BC Ferries signed a construction agreement with Bird Construction Group for the redevelopment project. This project will redevelop the site to increase efficiencies, upgrade existing structures, and develop a new building to improve capacity. It is expected to be completed in fiscal 2027.

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, to marine structures at our Bella Coola terminal, to navigation equipment, to the electrical system at our Swartz Bay terminal, to our website, to crew scheduling software, to our mobile booking application and other terminal improvement initiatives.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

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

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

At March 31, 2023, our unrestricted cash and cash equivalents and other short-term investments totalled \$87 million and \$341 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. On March 14, 2023, our \$105 million credit facility was renewed to extend the maturity date from April 2026 to April 2027. At March 31, 2023, there were no draws on the Credit Facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at competitive interest rates. On November 21, 2022, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a stable outlook. On February 9, 2023, DBRS Morningstar confirmed our credit rating at A (high) with a stable trend.

In 2004, we entered into the Master Trust Indenture ("MTI"), a copy of which is available at <http://www.bcferries.com>. The MTI established common security and a set of common covenants for the benefit of our lenders. Our financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings ranking *pari passu*. We do not currently view share equity as a potential source of capital and have no intention of offering shares to the public or other investors.

Under the MTI, 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 March 31, 2023, we achieved a debt service coverage ratio of 3.04 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for fiscal 2023 has resulted in a \$7.9 million decrease in equity before reserves (comprised of dividends of \$6.1 million and net loss \$1.8 million), from \$691.3 million as at March 31, 2022 to \$683.4 million as at March 31, 2023. BC Ferries' leverage ratio remains at 70% as of March 31, 2023 and includes the impact of a reduction in the amount of the Credit Facility.

(\$ thousands)	March 31, 2023		March 31, 2022	
	\$	%	\$	%
Aggregate borrowings *	1,560,814	70%	1,619,286	70%
Total equity before reserves	683,374	30%	691,254	30%
Total	2,244,188	100%	2,310,540	100%

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

On February 26, 2023, the Province announced \$500 million in new funding for BC Ferries with the goal of limiting average annual fare increases at or below 3% during the period of April 1, 2024 to March 31, 2028 with any remaining funds going to support GHG emission reductions. A Contribution Agreement signed with the Province on March 31, 2023, establishes the terms and scheduled distribution of this funding over the period of April 1, 2024 to March 31, 2028. The agreement requires BC Ferries to provide reports on how the contribution is used, among other things, and if the contribution is not used in accordance with the agreement by March 31, 2028, it must be repaid to the Province (the Contribution Agreement can be found at www.sedar.com).

Long-Term Debt

Our long-term debt at March 31 of the last two years is summarized below:

(\$ millions)	Effective interest rate *	Principal outstanding as at March 31	
		2023	2022
Senior Secured Bonds			
6.25%, due October 2034	6.41%	250	250
5.02%, due March 2037	5.06%	250	250
5.58%, due January 2038	5.62%	200	200
4.70%, due October 2043	4.75%	200	200
4.29%, due April 2044	4.45%	200	200
2.79%, due October 2049	2.83%	250	250
12 Year Loans			
2.09% Loan, due October 2028	2.70%	21	25
2.09% Loan, due January 2029	2.68%	23	26
2.09% Loan, due January 2029	2.70%	23	27
		1,417	1,428

*The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortized cost of a financial liability.

All six outstanding 30-year senior secured bond offerings have interest payable semi-annually. The bonds are redeemable in whole or in part, at our option.

At March 31, 2023, we have three 12-year amortizing loan agreements with KfW IPEX-Bank GmbH ("KfW"), each of which is secured under the MTI. These three amortizing loans bear interest of 2.09% per annum and mature in October 2028 and January 2029.

Alternative Funding

BC Ferries received funding as part of the Natural Gas for Transportation incentive funding from FortisBC Energy Inc. (included in other current and long-term liabilities), to help offset incremental capital costs for the Salish Class and Spirit Class vessels associated with the ability to utilize LNG. In fiscal 2023, BC Ferries received a final \$1.0 million incentive payment with the arrival of the *Salish Heron*, in addition to the \$6.0 million for the other Salish vessels received by March 31, 2019.

Also, by March 31, 2020, BC Ferries had received \$7.0 million of a possible total incentive contribution of \$10.0 million for the Spirit Class vessels. BC Ferries did not meet the criteria at March 31, 2023, to qualify for the additional \$3 million contribution from FortisBC. The contributions were dependent upon the purchase of LNG and were applied towards the cost of purchasing the Salish Class vessels and converting the Spirit Class vessels. During fiscal 2023, we applied \$1.4 million (\$1.2 million in fiscal 2022) against the capital cost of the Salish Class vessels and Spirit Class vessels.

Terminal Leases

We entered into a master agreement (the "Master Agreement") with the BC Transportation Financing Authority ("BCTFA"), effective March 31, 2003, as part of the restructuring of our Company. Under the Master Agreement, we received recognition of prepayment of rent under our terminal leases in return for the transfer of ownership interest in all ferry terminals from the former British Columbia Ferry Corporation to the BCTFA at the time of the corporate restructuring.

The leases grant us exclusive access and use of ferry terminal properties for a period of 60 years commencing April 1, 2003. The leases are renewable for an additional period of 20 years at a total cost of \$20 per lease provided the CFSC is renewed. We must manage, maintain and develop the terminals at our own cost.

If we fail to meet our obligations under the terminal leases or default under the CFSC, the BCTFA may, at its option, re-enter and take possession of the ferry terminal properties and, at its option, terminate the leases. The BCTFA has entered into an acknowledgement agreement with the Trustee under the MTI which sets out certain limitations on the use of this option. We mitigate this performance risk by actively monitoring our MTI covenants risks and ensuring we have mitigation plans for them.

Leases

Under IFRS 16 *Leases*, leases are classified as right-of-use assets and with corresponding liabilities. We classify our prepaid terminal land leases and related structures and our corporate office building and land as right-of-use assets. In fiscal 2023, we recognized \$6.4 million (\$0.5 million in fiscal 2022) as a right-of-use asset with a corresponding liability, primarily related to a lease for warehouse space in Delta, BC.

In September 2010, agreements, which constituted a finance lease for space in our corporate office building in downtown Victoria, took effect following the completion of construction of the building. The initial term of the lease was 15 years, with four renewal options of five years each.

Concurrent with the office lease, we advanced a \$24.5 million loan to the developer of the property pursuant to a loan agreement having a term of 15 years. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, we were granted an option to purchase up to 50% of the owner's equity interest in the new building. The purchase option expires at the end of the loan term. The loan is secured by a second mortgage on the property.

Sources & Uses of Cash

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

Sources and uses of cash and cash equivalents for fiscal 2023 and 2022 are summarized in the table below:

(\$ millions)	Years ended March 31		
	2023	2022	Increase (Decrease)
Cash and cash equivalents, beginning of year	204.4	285.4	(81.0)
Cash from operating activities:			
Net (loss) earnings	(1.8)	34.1	(35.9)
Items not affecting cash	238.7	237.0	1.7
Changes in non-cash operating working capital	(4.4)	(72.3)	67.9
Net interest paid	(59.1)	(63.3)	4.2
Cash generated from operating activities	173.4	135.5	37.9
Cash used in financing activities	(20.3)	(20.2)	(0.1)
Cash used in investing activities	(270.4)	(196.3)	(74.1)
Net decrease in cash and cash equivalents	(117.3)	(81.0)	(36.3)
Cash and cash equivalents, end of year	87.1	204.4	(117.3)

For fiscal 2023, cash generated from operating activities increased by \$37.9 million compared to the prior year, primarily due to a reduction in the amount of prepaid revenue, partially offset by a decrease in net earnings, compared to the same period in the prior year. The decrease in net earnings reflects the increased operating expenses, partially offset by the impact of increased traffic and revenues.

Cash used in financing activities in fiscal 2023 was \$20.3 million (\$20.2 million prior year), consisting of \$11.3 million (\$11.3 million prior year) in repayment of our loans from KfW, \$6.0 million (\$6.0 million prior year) in dividends paid to the Province on preferred shares and \$3.0 million (\$2.9 million prior year) in repayment of lease obligations.

Cash used in investing activities for fiscal 2023 increased by \$74.1 million compared to the same period in the prior year, mainly due to a \$127.4 million increase in short-term investment purchases, partially offset by a \$53.3 million decrease in purchases of capital assets.

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2023 to the same period in the prior year.

Operational Statistics	Three months ended March 31			
	2023	2022	Increase	%
Vehicle traffic	1,891,716	1,785,030	106,686	6%
Passenger traffic	4,122,308	3,650,856	471,452	13%
Number of round trips	21,331	19,613	1,718	9%
Capacity provided (AEQs)	3,715,407	3,493,443	221,964	6%
AEQs carried	2,170,131	2,066,316	103,815	5%
Capacity utilization	58.4%	59.1%		(1%)

In the three months ending March 31, 2023, vehicle and passenger traffic increased 6% and 13%, respectively, compared to the same period in the prior year. Compared to the three months ending March 31, 2019, a pre-COVID-19 period, vehicle traffic and passenger traffic increased by 10% and 3%, respectively.

(\$ millions)	Three months ended March 31			
	2023	2022	Increase (Decrease)	%
Total revenue	200.0	197.2	2.8	1%
Operating expenses	255.3	224.4	30.9	14%
Operating loss	(55.3)	(27.2)	(28.1)	(103%)
Net finance and other	12.1	21.6	9.5	44%
Net loss	(67.4)	(48.8)	(18.6)	(38%)

Our net loss in the quarter was \$18.6 million higher than our net loss in the same quarter in the prior year. The net loss in the three months ended March 31, 2023 reflects an increase in operating expenses, partially offset by reduced net finance and other expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2023 increased by \$2.8 million or 1% compared to the same quarter in the prior year as a result an increase in direct route revenue, partially offset by a reduction in Safe Restart Funding recognized as shown in the following table:

Revenue (\$ millions)	Three months ended March 31			
	2023	2022	Increase (Decrease)	%
Direct Route Revenue	152.5	128.9	23.6	18%
Vehicle tariff revenue				
Major Routes	75.8	68.1	7.7	11%
Northern Routes	1.5	1.4	0.1	7%
Minor Routes	11.7	11.3	0.4	4%
Total vehicle tariff revenue	89.0	80.8	8.2	10%
Passenger tariff revenue				
Major Routes	34.4	28.5	5.9	21%
Northern Routes	0.8	0.6	0.2	33%
Minor Routes	6.0	5.6	0.4	7%
Total passenger tariff revenue	41.2	34.7	6.5	19%
Net retail revenue				
Major Routes	9.8	7.4	2.4	32%
Northern Routes	0.7	0.7	-	0%
Minor Routes	0.7	0.5	0.2	40%
Total net retail revenue	11.2	8.6	2.6	30%
Social program fees	3.1	2.6	0.5	19%
Other revenue	2.8	1.8	1.0	56%
Fuel surcharge (rebate)	5.2	0.4	4.8	1200%
Indirect Route Revenue	46.9	67.5	(20.6)	(31%)
Safe Restart Funding *	1.3	20.0	(18.7)	(94%)
Ferry transportation fees	37.3	39.4	(2.1)	(5%)
Federal-Provincial subsidy	8.3	8.1	0.2	2%
Total Route Revenue	199.4	196.4	3.0	2%
Other general revenue *	0.6	0.8	(0.2)	(25%)
Total Revenue	200.0	197.2	2.8	1%

*Total Safe Restart Funding of \$2.6 million was recorded for discretionary and fare increase relief, in the three months ended March 31, 2023 (\$21.3 million in the prior year), of which \$1.3 million (\$1.3 million in the prior year) for discretionary sailings relief was included in ferry transportation fees.

Average tariff revenue per vehicle in the quarter increased \$0.68 or 1% and average tariff revenue per passenger in the quarter increased \$0.16 or 2% compared to the same period in the prior year, mainly as a result of tariff increases and a change in the proportion of traffic on routes with higher versus lower tariffs. The increase in traffic levels and the change in average tariffs resulted in a \$14.7 million increase in tariff revenue.

Net retail revenue increased in the fourth quarter of fiscal 2023 increased \$2.6 million compared to the same period in the prior year, primarily as a result of higher passenger traffic levels and more food services available during peak periods.

Social program fees in the fourth quarter increased \$0.5 million compared to the same period in the prior year, mainly as a result of an increase in the usage of the MTAP and in the number of students travelling.

In the fourth quarter of fiscal 2023, \$18.7 million less Safe Restart Funding was recognized compared to the same period in the prior year.

Ferry transportation fees from the Province in the fourth quarter of fiscal 2023 decreased \$2.1 million compared to the same period in the prior year, mainly as a result of timing in the monthly schedule of round trips.

The Federal-Provincial subsidy increased by the change in the annual CPI (Vancouver).

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2023 and fiscal 2022 are shown in the following tables:

Operating Expenses (\$ millions)	Three months ended March 31			
	2023	2022	Increase	%
Operations	160.5	137.4	23.1	17%
Maintenance	37.0	32.5	4.5	14%
Administration	11.7	10.7	1.0	9%
Total operations, maintenance & administration	209.2	180.6	28.6	16%
Depreciation and amortization	46.1	43.8	2.3	5%
Total Operating Expenses	255.3	224.4	30.9	14%

The increase in operations costs of \$23.1 million for the quarter ended March 31, 2023 compared to the same period in the prior year is due to:

- \$6.0 million increase in fuel costs, due to an 17% increase in fuel price and 4% in fuel consumption due to a higher number of round trips provided;
- \$13.8 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, wage rate increases per the Collective Agreement, increased overtime, training, illness and benefit costs; and
- \$3.3 million increase in contracted services, credit card fees, insurance costs, materials and supplies, travel and other miscellaneous expenses.

The increase in maintenance costs of \$4.5 million is a result of planned vessel maintenance activity and an increase in the number of operating vessels in the fleet.

The increase in administration costs of \$1.0 million is mainly due to higher labour, travel and computer costs.

The increase in depreciation and amortization of \$2.3 million reflects the timing of capital assets entering service.

Net Finance and Other Expenses (\$ millions)	Three months ended March 31			
	2023	2022	Variance	
			\$	%
Finance expense	16.8	15.8	1.0	6%
Less: finance income	(6.2)	(1.4)	(4.8)	(343%)
Net finance expense	10.6	14.4	(3.8)	(26%)
Gain on disposal and revaluation of property, plant and equipment and intangible assets	1.5	7.2	(5.7)	(79%)
Total net finance and other expenses	12.1	21.6	(9.5)	(44%)

Net finance and other expense in the fourth quarter of fiscal 2023 was \$9.5 million lower compared to the same period in the prior year, primarily as a result of higher interest earned on investments, lower asset impairment recognized, and somewhat offset by less interest capitalized.

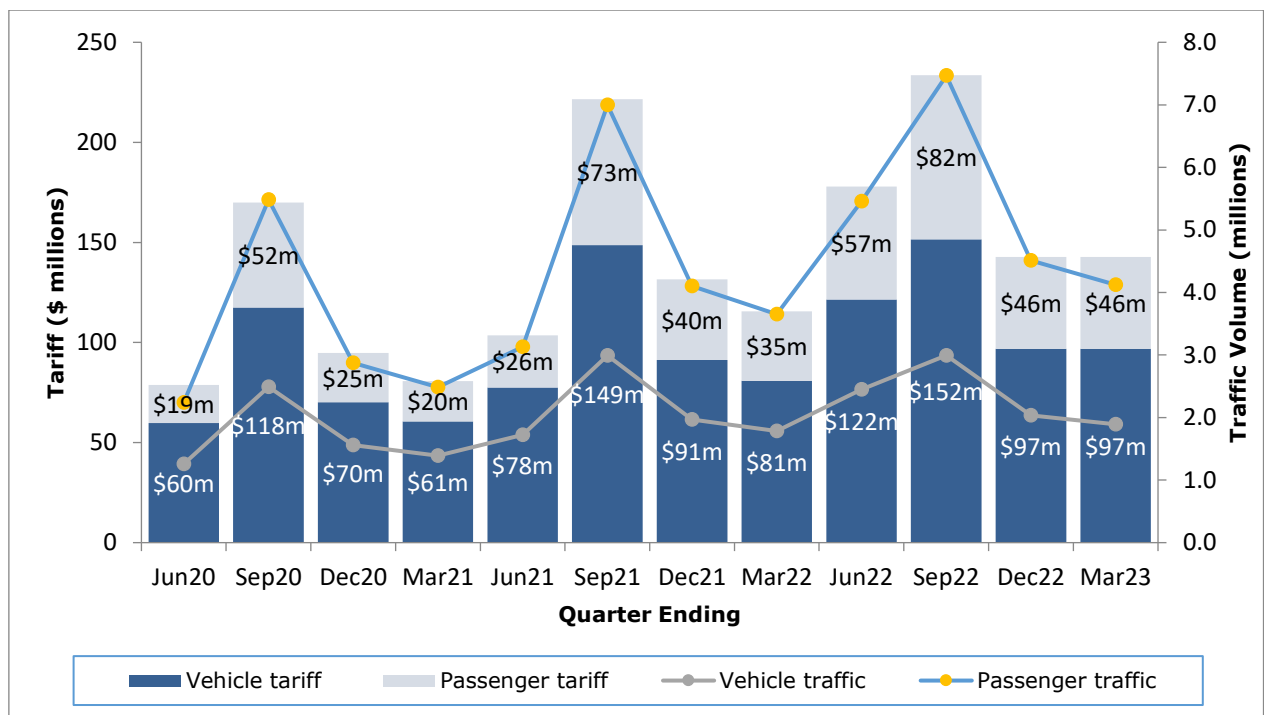
SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Quarter Ended (unaudited)											
	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Total revenue without Safe Restart Funding	137	248	157	137	169	314	203	177	262	340	233	199
Safe Restart Funding	-	-	155	31	60	3	19	20	3	3	2	1
Total revenue	137	248	312	168	229	317	222	197	265	343	235	200
Operating expenses	184	195	199	202	211	223	209	224	242	249	245	255
Operating (loss) profit	(47)	53	113	(34)	18	94	13	(27)	23	94	(10)	(55)
Net (loss) earnings	(62)	38	99	(54)	5	80	(2)	(49)	8	80	(23)	(67)
Net (loss) earnings without Safe Restart Funding	(62)	38	(56)	(85)	(55)	77	(21)	(69)	5	77	(25)	(68)

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, the impact of the COVID-19 pandemic which began in March 2020, and shows the relationship of 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 the lifting of travel restrictions late in the first quarter of fiscal 2022, we experienced a significant return of traffic which continued in fiscal 2023. During fiscal 2023, BC Ferries carried 9.4 million vehicles, which is the highest vehicle traffic on record in a fiscal year.

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. The Collective Agreement provides for wage re-opens in years four and five and these negotiations will begin in August 2023, with agreed to early wage increases to be effective October 2023.

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

On February 26, 2023, the Province announced \$500 million in new funding for BC Ferries with the goal of keeping annual average fare increases, for the four-year period of April 1, 2024 to March 31, 2028, at or below 3% a year.

On March 31, 2023, the Commissioner released a preliminary decision on price caps for PT6, April 1, 2024 through March 31, 2028, capping increases for average fares at 9.2% per year. The Commissioner will make a final determination on the PT6 price caps by September 30, 2023, considering updated assumptions to BC Ferries' traffic forecasts, projected expenses and the recent commitment of \$500 million in new funding from the Province to support maintaining average fare increases in the 3% range.

FINANCIAL RISKS and FINANCIAL INSTRUMENTS

Exposure to credit risk, liquidity risk and market risk arises in the normal course of our business. Our exposure to credit risk is limited to the carrying value on our statements of financial position for cash, short-term investments, derivative assets and trade and other receivables. While there is a risk that a third party may fail to meet its obligations under the terms of a financial instrument, we do not believe that it is a significant risk. We manage credit exposure related to financial instruments by dealing with high credit quality institutions, in accordance with established policy and parameters and by an ongoing review of our exposure to counterparties.

We manage liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, and the maintenance of a credit facility and debt service reserves. (See "Liquidity and Capital Resources" for more detail.)

We manage market risk arising from the volatility in foreign currency, interest rate and fuel price exposures in part through the use of derivative financial instruments including forward contracts, swaps and options. We do not utilize derivative financial instruments for trading or speculative purposes.

Fuel Price

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel and LNG. Fuel costs have fluctuated significantly over the past few years, and there is uncertainty of the cost of fuel in the future.

High fuel prices could translate into significant fuel surcharges and result in higher total tariff levels. Although there is uncertainty of the extent of the impact of fuel surcharges on future ferry traffic levels, there is a risk of a decline in ferry traffic levels as a result of increasing customer costs resulting from the implementation of fuel surcharges.

Risk mitigation: To mitigate the effect of volatility in fuel prices on our earnings, we may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. We use fuel price hedging instruments solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2023, we had \$41.3 million (notional value) in fuel forward contracts for marine diesel related to 2022 through 2024. At March 31, 2023, we had no fuel forward contracts for LNG. Realized gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. For the purpose of regulatory accounting, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See "The Effect of Rate Regulation" for more detail.)

Derivatives

We hedge our exposure to fluctuations in fuel prices, foreign currency exchange rates and interest rates from time to time through the use of derivative instruments.

At March 31, 2023, we held fuel forward contracts for ultra-low sulfur diesel ("ULSD") with a carrying and fair value asset of \$19.2 million and a notional value of \$41.3 million. At March 31, 2022, we held fuel forward contracts for ULSD with a carrying and fair value asset of \$45.9 million and a notional value of \$86.5 million. At March 31, 2023, with the application of hedge accounting, an unrealized gain of \$18.2 million was recognized in other comprehensive income. At March 31, 2022, with the application of hedge accounting, an unrealized gain of \$63.0 million was recognized in other comprehensive income. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel.

For regulatory purposes, any realized gains or losses related to fuel commodity swaps would be charged to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" for more detail.)

Non-Derivative Financial Instruments

The carrying and fair values of long-term debt at March 31, 2022, and 2023 were as follows:

(\$ millions)	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt, including current portion	1,406.8	1,416.9	1,417.3	1,582.0

The fair value of all financial instruments, with the exception of long-term debt, approximate their carrying amounts due to the nature of the item and/or the short time to maturity.

The carrying value of long-term debt is measured at amortized cost using the effective interest rate method. The fair value of long-term debt, the value if incurred at March 31 of each year, is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues, or by using available quoted market prices.

BUSINESS RISK MANAGEMENT

We employ a variety of commonly-accepted methodologies to identify, assess and mitigate risks. We have processes in place to manage risks that inevitably arise in the normal course of business. We have an integrated approach to managing risk, involving our Board of Directors, executive leadership team and our employees.

Our Board of Directors is responsible for overseeing strategy, risk appetite and key policies related to the principal risks of our business. Management keeps the Board and its Committees apprised of changing risks and the processes and systems used to mitigate them. The individual Committees of the Board regularly consider and review internal processes for managing those risks that are specific to the areas of our business for which they have oversight responsibility, and obtain assurance from management and internal audit, as appropriate, regarding the adequacy of the associated risk management processes.

Individual business units are responsible for considering risk exposures at all levels within their unit and the possible impact such risks may have on other areas. To ensure we focus on safety as our first priority, all operational meetings are expected to start with safety as the first item on the agenda.

A culture that promotes the management of risk as part of each employee's daily activities is integral to our program. Employees are provided with a risk-based tool to identify and assess hazards that can facilitate change in the specific task or process or within other areas of the Company if the risk is applicable to other aspects of operations. We have an online operational risk register to promote awareness of risk issues and facilitate continuous and consistent risk management.

Many economic conditions may affect the Company's financial performance. BC Ferries is an asset intensive business with high fixed costs and with limited expense variability resulting from traffic fluctuations. The Company's ability to reduce service in response to traffic decreases is restricted to levels negotiated with the Province under the CFSC. In addition, as a rate regulated entity, there is limited flexibility to increase revenue through tariff increases, as increases are limited to the average annual price caps as determined by the Commissioner.

There will always be inherent risk resulting from our business operations and we endeavor to minimize the risk. As part of our risk management strategies, we have considered many items such as profitability levels, cash generating potential, cash utilization requirements including debt repayment schedules and future capital expenditures, and working capital requirements. We have taken measures to allow us to adapt to changes in the economic environment and ensure a safe and, sustainable future.

The following are the principal factors affecting our business and the primary steps we take to mitigate the associated risks.

Our People

Our ability to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry is key to our success. Attracting and retaining staff across all functions has become more challenging, but it is most acute in the licensed positions on the vessels. The impact of higher than expected voluntary turnover, a pronounced labour shortage, retirements and difficulties recruiting, as well as a global shortage of professional mariners are posing ongoing challenges to hiring sufficient employees to support increasing demand. We inform the public of the potential risk to sailing times and to service delivery on some routes as we experience the impact of crew shortages.

Risk mitigation: BC Ferries relies on staffing pools with crew held in reserve, cross-training employees to enable redeployment from one location to another as required, and overtime pay for employees who cover gaps. We are advancing several initiatives to address these challenges, including: investing in internal development and training; undertaking a significant recruitment push including presence at multiple career fairs; a public marketing campaign, increasing wages, guaranteeing schedules and available hours for peak season employees, collaborating with a variety marine educational institutions, Ferry Advisory Committees, Transport Canada and Immigration Canada in an attempt to increase the available candidate pool for highly sought after licenced engineers and officers in addition to seasonal staff; and reaching out to retired employees to bring them back for the short term.

In the event these mitigations are not successful, we will modify service levels. While the CFSC permits a limited number of service cancellations, BC Ferries' goal is to avoid service disruptions wherever we can, to communicate service disruptions as soon as they become known, and to look for ways to minimize the impact these disruptions have on customers, using water taxis or other contracted marine service providers, where these services exist and are available. In extreme cases, we have also chartered flights to provide service to remote northern communities.

Cybersecurity Threats

Cyberattacks or breaches of our systems, including our digital platform or exposure to potential computer viruses, could lead to disruptions to our operations, theft of data, or the disclosure of confidential information. Cyberattacks or breaches of our systems could result in business disruptions, reputational damage, personal injury, and third-party claims, which could impact our operations, financial performance or reputation.

Risk mitigation: Governance is in place to maintain an enhanced focus on cybersecurity, including continuous monitoring of key systems for abnormal and elevated risk behaviour in conjunction with our cybersecurity strategy, policy and framework. Threat and risk assessments are completed for all new information technology systems, and our cybersecurity incident response processes are backstopped by external response capability.

Customer Demand

Many factors affect customer demand, including current economic conditions, the value of the Canadian dollar, levels of tourism, emerging transportation choices, consumer sentiment, threats to health and safety from outbreak of disease or security risks, demographics and population growth. The cost of transportation, including the price of fuel at the pump and ferry fares (including the implementation and removal of fuel surcharges or rebates), disposable personal income and weather conditions may have an effect on discretionary travel and levels of tourism.

During the COVID-19 pandemic (fiscal 2021 and fiscal 2022), BC Ferries' passenger and vehicle traffic was adversely affected. During fiscal 2023, while passenger traffic is down 3% to a pre-COVID-19 period, BC Ferries' vehicle traffic level was the highest on record in a fiscal year.

Risk mitigation: The CFSC stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry route. We continually monitor traffic demand and leading indicators to ensure essential service levels are maintained and service levels are responsive to demands. We respond to decreases in customer demand by reducing the number of round trips without going below the minimum required under the CFSC. We respond to increases in traffic demand by adding extra sailings and capacity where possible. Vessel planning strategies are in place so we can better respond to changes in customer demand.

Economic Regulatory Environment

The Province may make changes to the Act or to other legislation, and we cannot predict how the Commissioner's interpretation and administration of the Act may change over time. Such changes may impact our financial results and thereby our ability to replace aging assets.

Risk mitigation: We work to ensure that all key stakeholders know our business and understand the potential implications of legislative changes and decisions by the Commissioner. We strive to maintain regular and open communications and positive relationships with the Province, the Commissioner, the Authority and local Ferry Advisory Committees that represent the interests of ferry users and the communities we serve. We have the opportunity to apply to the Commissioner for relief under section 42 which allows for an extraordinary price cap increase or other relief if the introduction of new safety or other regulations impose a new, unexpected and significant cost burden.

Major Capital Projects

We have several major capital projects underway. Risks associated with the cost, schedule and the technical scope of major projects, as well as the implementation and sustainment of them, could cause critical systems or assets to be unavailable for use. Given the impact of the COVID-19 pandemic to our financial position, we reviewed all capital plans and identified expenditure deferrals that were not safety related or operationally necessary.

Risk mitigation: A project governance framework is in place to guide all corporate projects. Our Company's Board of directors appoints a Capital Projects Committee to assist in providing project oversight. This committee reviews specific projects, provides advice on whether the Company should proceed with the project, monitors the progress against the scope, budget, material changes in the schedule and risk profile of the project. We ensure each project has executive sponsorship, a project owner and a project manager. As well, each major project has a steering committee and associated governance to ensure business alignment with desired outcomes.

Pandemics and Public Health Crises

BC Ferries could be negatively impacted by a widespread outbreak of communicable diseases or other public health crises that cause economic and/or other disruptions. Other potential impacts on the Company's operations may include reduced labour availability and productivity, disruptions to capital markets leading to liquidity issues, supply chain disruptions, project construction delays and a prolonged reduction in economic activity. The overall impact would depend on the duration and severity of the pandemic, potential government actions to mitigate public health effects or aid economic recovery, and other factors beyond the Company's control.

Risk mitigation: BC Ferries adheres to provincial and federal guidelines as we provide essential ferry service. We implement measures to mitigate risk to our employees and the travelling public. During the COVID-19 pandemic, we responded by renegotiating service levels, reducing costs where possible, negotiating covenant relief as a proactive measure and deferring capital expenditures.

Climate Change

Climate change poses a number of potential risks and impacts to BC Ferries, which remain uncertain today, however these potential risks and impacts may increase over time. The prospective impact of climate change may have an adverse impact on our operations, our assets, our suppliers and our customers. The impacts of climate change may include rising sea levels, changing storm patterns and intensities and changing temperature levels, and the impact of these changes could be significant.

Risk mitigation: We factor impacts from climate change (such as sea level rise, storm surges, changes in wave and wind patterns, etc.) into our long term development plans and incorporate measures to reduce climate impacts and protect infrastructure as we redevelop terminals and FMU to ensure we can continue to provide reliable service to the communities we serve. We are continually focused on efficiency improvements, including increasing the use of low carbon intensive fuels, electrification of our vessels and reducing our carbon footprint where possible. We protect our assets and our customers by reducing and/or cancelling sailings when there are adverse weather conditions. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident.

Indigenous Peoples

Matters involving Indigenous rights may arise in British Columbia when a company seeks approvals or permits from the Province or the Government of Canada (in either case, the “Crown”) for new activities, typically involving land or water. Canadian courts have said that the Crown must consult with impacted Indigenous communities before granting an approval that could affect Indigenous rights. . The consultation process must be appropriate to the strength of the Indigenous right, and the potential impact on that right. The Crown can involve a corporation in the consultation process with an Indigenous group, but it is ultimately up to the Crown to satisfy the duty to consult. Indigenous rights are especially significant in British Columbia due to the density of First Nation communities and the relative strength of their Indigenous rights and title, particularly in coastal areas where we operate. These claims could require the Crown, or BC Ferries when delegated by the Crown, to engage in significant consultations with First Nations before granting new property rights or approvals to us, depending on the facts of each situation. The Crown’s duty to consult has delayed a number of recent terminal upgrade projects. In addition, in 2021, the Province and the Government of Canada adopted legislation to give effect to the *UN Declaration on the Rights of Indigenous Peoples*. This legislation reflects a commitment on the part of the Crown to meet a higher standard of consultation than required by the courts, and to avoid unproductive and divisive litigation where reasonably possible. This process may continue to delay terminal upgrade projects.

Risk mitigation: BC Ferries developed an Indigenous relations and engagement framework to support Crowns consultations for our projects, to expand historically under-represented Indigenous participation in our labour force, to enhance our cultural awareness of Indigenous peoples, and to strengthen our relationships with various Indigenous communities. As part of this framework, BC Ferries has entered into a number of Protocol Agreements with Indigenous communities to establish a framework of engagement and dialogue. In addition, since 2022 BC Ferries has hired two full time Indigenous Relations Managers to assist in the implementation of the company’s strategy and to strengthen relations with Indigenous communities.

Our terminal upgrade and construction projects are being planned further in advance in order to fulfill our commitment to engage with Indigenous groups and to cooperate with the Crown in its consultation obligations.

Under the Master Agreement (see “Liquidity and Capital Resources – Terminal Leases” for more detail), the Province retains its liability, to the extent any exists, for the acts and omissions of the Province that occurred prior to our possession of the ferry terminal properties leased under the Master Agreement. The Province will reimburse us for damages suffered if there is a final court decision or a treaty settlement that recognizes or confers upon an Indigenous group a proprietary or other interest in the ferry terminal properties if that right or interest interferes with our quiet enjoyment of the ferry terminal properties.

Vessel Repair Facilities

We have a vessel repair facility where we perform maintenance and refit work on our vessels; however, our facility does not have a dry-dock. There are only two shipyards with dry-docks in British Columbia that can accommodate large vessels. One of these shipyards dominates the vessel repair market, especially for large vessels.

The overall demand for ship repair and ship building facilities has been increasing with the national ship procurement strategy and local shipyards completing major upgrades for the Canadian Navy and for foreign ship owners. As a result, ship repair labour and dry-docking availability may become over-subscribed in the coming years.

The inability to acquire timely and cost-effective ship repair services has the potential to cause operational disruption which, in turn, has the potential to have an adverse effect on results of operations, cash flow and financial results.

Risk mitigation: We plan our vessel maintenance to minimize the number of out-of-service periods and to maximize the maintenance performed by our own staff. We have also established long-range maintenance plans for all vessels, which enable us to plan and reserve space with ship repair facilities well in advance. Further, when regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. We are exploring alternatives and have plans to modernize our fleet maintenance and our internal ship repair capability.

SAFETY AND SECURITY

Safety is our highest value. Maintaining a safe environment for our customers and employees requires our continued focus and diligence. A significant damage, injury or illness event could have an adverse effect on the lives of our employees and customers. Deliberate, malicious acts could cause operational disruption, death, injury or property damage. The occurrence of a major incident or mishap could negatively affect the environment, staff morale, our reputation and our ability to meet operational service requirements, our financial position and results of operations. The effectiveness of policies and procedures, equipment, maintenance, training, supervision, facility design and security measures reduces the risk to passenger and employee safety and/or property damage. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents.

On June 20, 2022, Transport Canada removed the requirement for mandatory vaccinations of our vessel-based employees and we ended our internal vaccination policy applicable to all employees and on-site contractors accordingly while maintaining a continued emphasis on personal protective measures. On August 8, 2022, our COVID-19 pandemic plans fully transitioned to apply the principles of communicable disease prevention in alignment with provincial and federal guidelines and as directed by WorkSafeBC. We continue to take measures to protect the health and safety of employees and customers and have left additional measures in place where reasonable.

We have an internal control framework with defined control objectives for information and related technology, which guides us in ensuring the security, confidentiality and integrity of our information. Our prime data centre facility, which serves as our production infrastructure, is in a location to mitigate risk in the event of a major incident such as an earthquake. Our secondary site houses our pre-production infrastructure and serves as our production environment for disaster recovery in the unlikely event that data centre production services are interrupted.

Our 24-hour Operations and Security Centre ("OSC") is a central location for monitoring day-to-day operations, collecting information from around the Company, providing enhanced situational awareness and assessments, security monitoring and a coordinating response during any incidents. Our Emergency Operations Centre, operating from our OSC, is the central point of command and control for all planning, organizing and responding by BC Ferries to any major service disruptions or events and was a key to managing the response to COVID-19 as effectively as possible.

SailSafe is our safety program, driven by our employees, and embodies safety as a normal part of all business activities and ensures that safety is the primary concern in the minds of our employees. Employees are engaged in identifying areas for improvement, developing plans and implementing new or revised processes. On July 21, 2022, the SailSafe program kicked off a revitalization with senior members of the company's leadership and the BCFMWU, with a goal of improving engagement with all employees to seek continuous improvement of safety across the system

We successfully upgraded the safety management system and launched an improved portal on March 1, 2022, which focuses on occupational and operational safety and ensures an avenue for auditing, reporting, investigating and tracking of policies, procedures and incidents and access for all employees. This allows us to evaluate trends and identify changes to risk in specific areas and help prevent future incidents.

ENVIRONMENT

We are committed to safeguarding the environment and conducting our operations in an environmentally responsible way. Our operations are subject to federal, provincial and local environmental laws and regulations dealing with various operations, including solid and liquid waste management, air quality, and oil spill response. If we were to be involved in an environmental accident or to be found in material violation of applicable law and regulations, we could be responsible for material clean-up costs, repair of property damage, and fines or other penalties.

We comply with environmental laws and regulations and actively search for ways to improve our environmental performance to help us become an industry leader in environmental management. Our environmental policy provides a framework for setting environmental targets and encouraging best practices.

We constantly look for clean and innovative technology to reduce underwater and airborne noise, fuel consumption and emissions on our vessels. We use variable frequency drives and thruster propulsion solutions on our vessels to reduce underwater radiated noise and airborne noise. Both LNG and the marine diesel we currently use, meet all current domestic and international emissions regulations. We have implemented a wide variety of fuel-saving measures ranging from operating our vessels more efficiently to installing new, more fuel-efficient engines on some of our vessels, and designing and building our new vessels to meet or exceed current environmental standards.

We actively pursue alternative fuel options for new vessels and vessels undergoing major retrofits, because we believe alternate fuels reduce emissions as well as costs. We now have six vessels that operate primarily on LNG: two Spirit Class and four Salish Class ferries. We have six Island Class vessels, which are outfitted with hybrid diesel-electric (battery) propulsion and have started the process to expand for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future. We are using more biodiesel and renewable diesel, and we are reinvesting in emissions reduction initiatives through earning carbon credits as a Part 3 fuel supplier (as defined under the Province's Greenhouse Gas Reduction (Renewable and Low Carbon Fuel Requirements) Act). A Carbon Reduction Investment Account was established for a 5-year term, which will allow BC Ferries to partially fund further infrastructure investments that will reduce greenhouse gas emissions, such as the shore infrastructure to support full electrification of some Island Class vessels.

In addition to moving towards low carbon intensive fuels, our vessels use shore power each night and during maintenance periods to offset diesel consumption. We monitor consumption and quantify environmental benefits. Using shore power replaces the need to operate on-ship generators, which reduces emissions and noise at our terminals and our shipyard.

We have other initiatives to mitigate our environmental impact. We have a sewage and wastewater treatment system so that, wherever possible, our vessels convey sewage to a terminal through pump-ashore infrastructure. Where terminal facilities were not available, small vessels were fitted with holding tanks, with truck pump-off. In all other cases, the vessels have been fitted with federally compliant marine sanitation devices. We have treatment plants at four of our terminals and at other terminals, sewage is collected and transferred to treatment plants operated by local governments.

We voluntarily comply with the International Maritime Organization's International Safety Management Code, which requires enhanced internal and external auditing of vessel operations with regards to Safety and Pollution Prevention. More information is available in the Clean Futures Plan which can be found on our website at: www.bcferrries.com.

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and financial performance is based upon our consolidated financial statements, which have been prepared in accordance with IFRS.

Our significant accounting policies are contained in Note 1 to our March 31, 2023 audited consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

We believe the following are the most critical accounting policies, estimates and judgements that we have used in the preparation of our financial statements:

Property, Plant and Equipment and Intangible assets

We apply judgment to determine expenditures eligible for capitalization and consider the future economic benefits of these expenditures in making this assessment.

Our capital assets, including right-of-use assets, are depreciated or amortized on a straight-line basis at varying rates. Depreciation and amortization rates require the use of estimates of the useful lives of the assets and of salvage value to be realized upon asset retirement.

We annually review asset lives in conjunction with our longer-term asset deployment, replacement and upgrade strategies. When we determine that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to the remaining period over which they are depreciated or amortized. Estimates of useful life are monitored routinely through maintenance and refit programs, ongoing long-term fleet management and comparable vessels in use internally and externally.

Salvage value for vessels is monitored through secondary markets. Our expectation is that decommissioned vessels will be sold at a nominal salvage price into world markets to buyers who will keep them in active service.

There are a number of uncertainties inherent in estimating our asset lives and residual value, and changes in these assumptions could result in material adjustments to our financial statements.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets. At each reporting date, we review for any potential indicators of impairment. If indicators are identified, we assess the recoverable amount. In addition, when we have intangible assets not yet subject to depreciation, we perform an annual impairment test. Impairment losses are evaluated for potential reversals and are only reversed to the extent an asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized.

As disclosed in Note 1 to our March 31, 2023 audited consolidated financial statements, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. In fiscal 2023, we recorded \$1.8 million (\$7.3 million in fiscal 2022)) in net loss on disposal and impairment of property, plant and equipment and intangible assets primarily as a result of identifying specific asset impairments.

Hedging Relationships

We utilize derivative financial instruments to manage market risk against the volatility in foreign currency, interest rate and fuel price exposures. We do not utilize derivative financial instruments for trading or speculative purposes. At the inception of each derivative, we determine whether or not to apply hedge accounting.

When applying hedge accounting, we document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecast transactions. We also assess, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When derivatives are designated in a cash flow hedging relationship, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income. Gains or losses on derivatives used in cash flow hedges of forecast purchases of non-financial assets are reclassified from equity (accumulated other comprehensive income) and are included in the initial carrying amount of the non-financial asset acquired. Gains or losses on derivatives for hedging relationships related to other cash flow hedges are reclassified from other accumulated comprehensive income to net earnings or loss when the hedged item affects net earnings or loss. Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity, are recognized in net earnings in the period in which they have been terminated or cease to be effective. We use judgement in estimating the quantum of transactions which are highly probable and if the transactions are expected to occur.

Retirement Liability

We sponsor a plan that provides a post-retirement benefit for eligible long-service employees. The valuation of this plan is estimated based on complex actuarial calculations using several assumptions. These assumptions are determined by management with significant input from our actuary. The valuation of the obligation depends on such assumptions as discount rate, number of employees, projected salary increases, retirement age, average years of service and termination rates.

Asset Retirement Obligations

When it can be reasonably determined, we estimate the present value of the expenditures required for any legal or constructive obligations associated with the retirement of long-lived assets when those obligations result from the acquisition, construction, development or normal operation of the assets. A corresponding asset retirement cost is added to the carrying amount of the related asset and depreciated or amortized to expense on a systematic and rational basis.

Certain of our vessels contain undetermined amounts of asbestos. We may be required to handle and dispose of the asbestos in a manner required by regulations. It is our intention to sell decommissioned vessels into world markets to buyers who will keep them in active service. Under these circumstances, asbestos remediation would become the responsibility of the new owner.

Additionally, because we are a regulated entity, any significant asset retirement costs that cannot be mitigated by the responsible sale of the retired asset, would be recoverable through future tariffs.

Revenue

We recognize revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Prepayments for fares received in advance of providing transportation are included in the statement of financial position as contract liabilities until such time as the performance obligation is satisfied.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods.

We recognize ferry service fees and Federal-Provincial subsidies as revenue as services specified in the related agreements with the Province are provided.

Other income comprises of sales of carbon credits, parking and other miscellaneous revenues. We recognize revenue from the sale of carbon credits when the award of the credits to the Group and the transfer of the credits from the Group to the customer are approved by the Ministry of Energy Mines and Low Carbon Innovation.

We recognize the Safe Restart Funding on a systematic basis, based on the estimated loss of earnings for three components, for each of the fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement with the Province. Actual losses incurred and timing of losses may differ from projected losses originally outlined in the agreement. The three components of the Safe Restart Funding are:

- Base Operating Relief – derived from the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief – derived from the estimated revenue losses during the Term from limiting fare increases to an average of 2.3% in each of fiscal years 2022, 2023 and 2024; and
- Discretionary Sailing Relief – derived from the estimated costs of discretionary sailings in fiscal years 2022, 2023 and 2024.

Leases

We apply judgment to determine whether an arrangement contains a lease. We determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, we have the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease. Once we determine it is a lease, we recognize a right-of-use asset in property, plant and equipment and a lease liability. The liability included in lease liabilities in our financial statements at March 31, 2023 was \$39.1 million (\$36.3 million at March 31, 2022).

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. A price cap sets the ceiling on the weighted average level of fares that can be charged. Under the Act, the average vehicle and passenger tariff cannot be over the price cap for more than four consecutive quarters. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers, which will be settled through future tariff reductions or fuel rebates.

IFRS 14 *Regulatory Deferral Accounts*, which addresses accounting for rate-regulated activities does not apply to entities, like ours, that transitioned to IFRS prior to January 2014. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Under IFRS, rather than being charged to regulatory asset or liability accounts on our consolidated statements of financial position, fuel surcharges collected or rebates granted are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes. Reporting for rate-regulated activities provides additional information, which we use to assess performance and to make operating decisions.

On May 3, 2021, the Commissioner approved our request to recognize the portion of the Safe Restart Funding earmarked for Fare Increase Relief as regulated revenue for the purposes of price cap reporting during PT5, and to allocate the funding using a drawdown approach. BC Ferries defers differences between the actual revenue under IFRS and approved regulated revenue (regulatory asset) and expects this difference to be nil at March 31, 2024.

On April 21, 2022, the Commissioner approved the creation of a CRIA for a five-year term, subject to application for extension/modification after end of the term. The CRIA is funded through the sale of carbon credits, earned through activities such as its purchase of natural gas and use of LNG, to partially fund further infrastructure investments identified in its Clean Futures plan and progress greenhouse gases ("GHG") emission projects. BC Ferries may apply for the discontinuation of CRIA at any time or the Commissioner can terminate it if it is deemed not necessary for funding further capital investments in cleaner technologies that lead to a reduction in GHG emissions or no longer deemed to be in the public interest. If terminated with positive balance, the funds must be returned to the ferry users through fuel deferral account. The use of the funds is subject to the Commissioner's approval. BC Ferries defers the net revenue from the sale of carbon credits and allocates the funding to the CRIA (regulatory liability).

Regulatory assets and liabilities do not have standardized meaning within IFRS. Our regulatory assets and liabilities should be considered in addition to, but not as a substitute for, measures of financial performance in accordance with IFRS.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in Note 29 of our March 31, 2023 audited consolidated financial statements.

Adoption of New Accounting Standards

No new accounting standards were adopted effective April 1, 2022.

Future Accounting Changes

The following is a discussion of accounting changes that will be effective for us in future accounting periods:

Exposure Draft, *Regulatory Assets and Regulatory Liabilities*:

In January 2021, the IASB issued an exposure draft, *Regulatory Assets and Regulatory Liabilities*, which, if finalized as a new IFRS Standard, will replace IFRS 14, *Regulatory Deferral Accounts*.

The exposure draft, *Regulatory Assets and Regulatory Liabilities*, proposes a new accounting model under which an entity subject to rate regulation that meets the scope criteria would recognise regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation. The IASB closed the period to receive comments on the exposure draft at July 30, 2021. The IASB is redeliberating the proposals in the exposure draft.

CORPORATE STRUCTURE AND GOVERNANCE

National Instrument 58-101 *Disclosure of Corporate Governance Practices* (the "NI 58-101") and a related National Policy 58-201 *Corporate Governance Guidelines* (the "Guidelines") issued by the Canadian Securities Administrators require reporting issuers to disclose annually their approach to corporate governance with reference to specific matters. See Schedule A for the disclosure required by NI 58-101.

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, CPI, fuel costs, construction costs, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the Act and the CFSC.

Examples of forward looking statements included in this document include, but are not limited to, statements with respect to: vehicle and passenger fares, cash requirements and sources of cash flows, anticipated government funding, our credit rating and credit risks, reliance on sources of external funding, seasonal traffic patterns and their impact on operations, economic conditions and their impact on our financial performance, anticipated customer demand, staffing requirements and the impacts of crew shortages, fuel prices and the impact of hedging, fuel sources, vessel replacement cycles, vessel standardization efforts, capital projects and the potential for delays due to the Crown's duty to consult with Indigenous communities, among other statements.

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

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.

SCHEDULE A

Corporate Structure and Governance Board of Directors

British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") is a company incorporated in British Columbia that is subject to British Columbia's *Business Corporations Act* and the *Coastal Ferry Act* (the "CFA"). The board of directors ("board") of BC Ferries is appointed by the Company's sole voting shareholder, B.C. Ferry Authority ("BCFA" or the "Authority"), a corporation without share capital established by the CFA. Directors appointed to the board must be "qualified" as defined in the CFA.

During the fiscal year ended March 31, 2023 ("fiscal 2023"), the board was composed of the following directors:

Chair: Joy MacPhail, CM, O.B.C (effective June 24, 2022)
Members: Eric A. Denhoff (vice chair)
Sarah A. Morgan-Silvester, O.B.C.
Shona A. Moore, K.C.
J. Dennis Blatchford (effective June 24, 2022)
Harold Calla (effective June 24, 2022)
Charlene Hiller (effective June 24, 2022)
Cathy McLay (effective June 24, 2022)
Tamim Raad (effective June 24, 2022)
David R. Podmore, O.B.C. (resigned August 9, 2022)
Michael W. Pucci (resigned October 17, 2022)
Brenda J. Eaton (term ended effective June 24, 2022)
Jan K. Grude (term ended effective June 24, 2022)
Bruce A. Chan (term ended effective June 24, 2022)
Gordon M. Kukec (term ended effective June 24, 2022)
Janine M. North (term ended effective June 24, 2022)
Judith F. Sayers (term ended effective June 24, 2022)

The directors are stewards of BC Ferries and set the strategic direction of the Company. The board exercises its stewardship responsibilities by overseeing the conduct of the business and supervising management, which is responsible for the day-to-day conduct of the business, and endeavouring to ensure that all major issues affecting the business and affairs of the Company are given proper consideration.

The board governance manual articulates the governance framework under which the board fulfills its stewardship responsibilities. The manual assembles in one document the essential elements for providing an appropriate level of governance for the organization. It includes, among other things, terms of reference for the board, chair, directors, committees and committee chairs, and serves as a practical guide for the board and management in fulfilling their respective duties and responsibilities. The governance manual is the product and responsibility of the board.

The board is committed to the principles of independence and accountability. The board has adopted policies and practices that ensure it has the capacity, independent of management, to fulfill the board's responsibilities, make objective assessments of management, and assess the merits of management initiatives. The board's Governance & Human Resources Committee has an ongoing responsibility to ensure that the board's governance structures and processes continue to enable the board to function independently.

The board and management recognize that there is a need for the board to meet regularly without management in attendance. It is the board's general practice to conduct a portion of every board and committee meeting with no members of management in attendance.

The board and its committees each have the authority to retain, at the Company's expense, any outside advisor that it determines to be necessary to permit it to carry out its duties.

The board is committed to the principle that a majority of directors, appointed by the Authority, should be independent of the Company.

Under guidelines adopted by the board, a director is independent if he or she has no direct or indirect material relationship with the Company. For this purpose, a "material relationship" is a relationship that could, in the view of the board, be reasonably expected to interfere with the exercise of a director's judgment. Members of the board's Audit & Finance Committee are subject to additional independence requirements consistent with the definition of independence in National Instrument 52-110 *Audit Committees*.

The board is responsible for determining whether directors are independent pursuant to the definition of independence adopted by the board. To do this, the board requires members to disclose their relationships with the Company and its subsidiaries. These disclosures are made annually and are reviewed by the chair of the board, the chair of the Governance & Human Resources Committee and the corporate secretary, and are reported to the Governance & Human Resources Committee and the board. If it has been previously determined that a director is independent of the Company but circumstances arise which could result in a determination that he or she is no longer independent, the director must promptly advise the board.

All of the directors of the Company in fiscal 2023 were determined by the board to be independent pursuant to the definition of independence adopted by the board.

Directorships

The following are directors of a reporting issuer (or the equivalent) in Canada or a foreign jurisdiction, other than BC Ferries:

Sarah A. Morgan-Silvester:	Director, Canadian Western Bank Director, Nav Canada
Eric A. Denhoff:	Director, H2 Ventures 1 Inc.
Cathy McLay	Director, Greenpower Motor Company Inc.
Janine M. North:	Director, Conifex Timber Inc. Director, Imperial Metals Corp Director, Mercer International Inc.
Bruce A. Chan:	Director, Green Impact Partners
Gordon M. Kukec:	Director, Nano One

Orientation and Continuing Education

The Company has a variety of orientation and education programs in place for directors. These programs are aimed at increasing the directors' familiarity with the operation of the Company and its governance practices.

All new directors are provided with the opportunity to participate in an orientation program. The orientation program is tailored to the individual director's needs and areas of interest. The program generally involves a comprehensive education session, usually held prior to a new director attending his/her first board meeting, during which the new director is briefed by members of senior management and receives information about the business and operations of BC Ferries and board governance practices, including the duties and obligations of directors. The board governance manual is made available to all directors. This manual provides a comprehensive overview of the roles and responsibilities of the board, its committees, and the contributions expected by each director.

The board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. To facilitate ongoing education, presentations are made to directors from time to time on matters of particular importance or

emerging significance to the Company. As well, attendance by directors at seminars, courses or conferences of relevance to their position as directors of the Company may be arranged. Directors are expected to maintain ongoing familiarization with the operations of BC Ferries through regular system-wide ferry travel. This, together with visits to other facilities and operations of BC Ferries, serves to enhance the directors' ongoing knowledge and understanding of the Company.

Responsibility for ensuring that orientation and ongoing education are provided to directors rests with the chair of the board. The Governance & Human Resources Committee has responsibility for reviewing the orientation and education programs to ensure they are effective and meet the needs of directors.

Ethical Business Conduct

The board has established a Code of Business Conduct and Ethics (the "Code") for the Company. The Code is posted on the Company's intranet website for Company personnel, and is available for public view on the Company's internet website and on SEDAR. The board has also adopted a Corporate Disclosure and Securities Trading Policy and a Corporate Communications Policy, both of which are posted on the Company's intranet and internet websites.

As part of the Company's disclosure controls process, in conjunction with quarter-end financial reporting, appropriate managers are required to confirm their compliance with the Code, the Corporate Disclosure and Securities Trading Policy and the Corporate Communications Policy.

As part of the communication process for the reporting of any questionable accounting and auditing matters, a secure telephone line and a secure e-mail address, each monitored by the executive director of internal audit, as well as a secure e-mail address monitored by the chair of the Audit & Finance Committee, have been established. This has been communicated to Company personnel by intra-Company information bulletin and BC Ferries' newsletter for personnel. The contact particulars are also posted with the Code on the Company's intranet site.

The board, through the Audit & Finance Committee, monitors compliance with the Code through reports received quarterly from management, the external auditor, and the internal auditor.

Directors and officers are required to review the Code annually, and acknowledge their support and understanding of the Code by signing an annual disclosure statement.

The Code requires that directors and officers disclose potential conflicts of interest at the time of their appointment and immediately upon a conflict of interest or potential conflict of interest arising. Such disclosures are communicated to and reviewed by the chair of the board, the chair of the Governance & Human Resources Committee and the corporate secretary, and are reported to the Governance & Human Resources Committee and the board.

Appointment of Directors

As required by the CFA, the Authority appoints directors to the board according to policies held by the Authority.

David Podmore resigned from the board effective August 9, 2022, and Michael Pucci resigned from the board effective October 17, 2022. The Authority has not filled these vacancies, and the board is currently comprised of nine directors.

Board Diversity Policy

The BC Ferries board holds the view that a diverse board makes prudent business sense and makes for better corporate governance.

The board, through the Skills Profile and its succession plan, seeks to communicate to the Authority the importance of maintaining a diverse mix of expertise, experience, skills and backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. For purposes of board composition, diversity includes, but is not limited to, business and other experience, skills, education, gender, age, ethnicity, aboriginal status, and geographic location.

Executive Compensation

The CFA requires that the compensation of executives of BC Ferries be set and administered within remuneration limits prescribed by an executive compensation plan. The Authority is responsible under the CFA for approving such a plan and any amendments thereto.

In fiscal 2023, a committee of directors of the Authority undertook a review of executive remuneration limits. Based on this review, a new executive compensation plan was approved by the Authority, with an effective date of December 13, 2022 (the "Plan"). The Plan is available for public view on the Authority's website (www.bcferryauthority.com).

The Plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such plan can receive in any fiscal year. The remuneration limits set out in the Plan were established in accordance with the CFA, which requires that the remuneration provided to the executives be consistent with the remuneration that is provided to individuals who, in organizations in Canada that are of a similar size and scope to BC Ferries, perform similar services or hold similar positions, and not be greater than the remuneration that provincial public sector employers in British Columbia provide to individuals who, in those organizations, perform similar services or hold similar positions.

The board approves the Company's compensation programs for the executives, including the compensation awards, within the remuneration limits prescribed by the Plan.

Executive Compensation Process

The executives of the Company participate in a salary holdback compensation plan that is designed to link their compensation with the achievement of specific annual operating objectives that are important to supporting the Company's overall business strategy. By its nature, the plan responds to the Company's pay-for-performance philosophy. Under the plan, a maximum salary is established for each participant, a portion of which is held back each fiscal year and payable upon achievement of pre-approved objectives and targets.

On an annual basis, the board, led by the Governance & Human Resources Committee, sets the performance requirements for the President & CEO and evaluates his performance against those requirements. Similarly, the Governance & Human Resources Committee leads the board in an annual evaluation of the performance of certain other executives with respect to their achievement of performance objectives set by the President & CEO. The amount, if any, of the salary holdback earned by the President & CEO and certain of the other executives is determined based on the evaluation results and the available room under the total remuneration limit set for the position in an executive compensation plan. Changes, if any, to the compensation of the executives are made in consideration of the individuals' performance, leadership skills, retention risk, and value to achieving corporate strategy and in conjunction with market compensation data from appropriate comparator organizations. All changes in compensation are made in accordance with an executive compensation plan, as applicable.

On an annual basis, the President & CEO formally assesses the development of each of the other executives. The President & CEO uses these assessments to design and update succession plans for all executive positions, including the position of President & CEO. These plans are reviewed by the Governance & Human Resources Committee on an annual or more frequent basis. With respect to all executives, succession planning is an important issue that receives ongoing and regular attention by the board and the President & CEO.

Director Compensation

The CFA requires that the compensation of directors of BC Ferries be set and administered within a remuneration limit prescribed by a directors' compensation plan. The Authority is responsible under the CFA for establishing a directors' compensation plan and approving any amendments thereto. The remuneration provided under a directors' compensation plan must be consistent with the remuneration that organizations in Canada that are of a similar size and scope to BC Ferries provide to their directors, and must not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors.

The Company's current compensation plan for directors was developed with the assistance of an independent third-party compensation expert and is available for public view on the Authority's website at: <https://www.bcferryauthority.com/corporate-resources/>.

The Governance & Human Resources Committee reviews director compensation regularly and provides advice to the board on any amendments to the directors' compensation plan to be recommended to the Authority.

Board Committees

The board has developed guidelines for the establishment and operation of committees of the board. The committee structure and membership is reviewed and confirmed by the board on an annual basis.

Mandates

In fiscal 2023, the board had four committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

Audit & Finance Committee

The Audit & Finance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to the financial reporting and disclosure processes of BC Ferries. The committee has the mandate to:

- review the financial reports and other financial information provided by the Company to its security holders;
- review the annual operating and capital budgets, modifications thereto, and details of any proposed financing;
- monitor the integrity of the financial reporting process and the system of internal controls that the board and management have established;
- monitor the management of the principal risks that could impact the financial reporting of the Company, and the Company's compliance with legal and regulatory requirements as they relate to the Company's financial statements;
- review and approve the audit plan, process, results, and performance of the Company's external auditors and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditors, and the internal auditor; and
- assess the qualifications and independence of the external auditors, and recommend to the board the nominations of the external auditors and the compensation to be paid to

the external auditors. The appointment of the external auditor is confirmed by the Authority at each annual general meeting or resolutions in lieu of such meeting.

The committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the Company's external auditor as well as anyone in the organization. The committee also has the authority to retain such legal, accounting, and other advisors or experts it deems necessary in the performance of its duties.

Each of the members of the committee has been determined by the board to be independent within the meaning of independence adopted by the board.

All members of the committee are financially literate within the meaning of National Instrument 52-110 *Audit Committees*; that is, each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

All recommendations of the committee to nominate or compensate an external auditor have been adopted by the board.

The aggregate fees billed by the Company's external auditor in each of the last two fiscal years were:

External Auditor billings (\$ thousands)	Years ended March 31	
	2023	2022
Audit	297.7	283.9
Tax services	2.6	2.4
	<u>300.3</u>	<u>286.3</u>

Pursuant to its terms of reference, the committee must pre-approve retaining the external auditor for any non-audit service to be provided to the Company or its subsidiaries, provided that no approval shall be provided for any service that is prohibited under the rules of the Canadian Public Accountability Board or the Public Company Accounting Oversight Board, or the Independence Standards of the Chartered Professional Accountants of Canada.

Before retaining the external auditor for any non-audit service, the committee must consider the compatibility of the service with the external auditor's independence. The committee may pre-approve retaining the external auditor for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the external auditor for the provision of such services. To date, no such policies and procedures have been established. In addition, the committee may delegate to one or more members the authority to pre-approve retaining the external auditor for any non-audit services to the extent permitted by applicable law.

Safety, Health, Environment & Security Committee

The Safety, Health, Environment & Security Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities in matters related to safety, health, environment and security. The committee has the mandate to:

- exercise due diligence over the safety, health, environmental and security operations of the Company;
- develop, review, and make recommendations, as required, on matters related to the Company's safety, health, environmental and security policies and practices; and
- monitor compliance with government regulations and with the Company's commitment to excellence in matters of safety, health, environment and security.

Governance & Human Resources Committee

The Governance & Human Resources Committee is appointed by the board to assist in ensuring that the corporate governance system of the Company is effective and to assist in fulfilling its oversight responsibilities with respect to the human resources and executive compensation strategies and policies of the Company. The committee has the mandate to:

- review, assess, and make recommendations regarding the effectiveness of the policies and practices of the board;
- ensure the board's continuing ability to fulfill its legislative mandate;
- implement effective due diligence over the operations of the Company;
- make recommendations on the skills, experience, expertise and diversity of background that board members collectively and individually should have in order to oversee the operation of the Company in an efficient and cost effective manner;
- establish and implement effective processes for identifying and recommending suitable candidates for appointment as directors of the Company;
- make recommendations on the remuneration of directors;
- regularly review at a strategic level, the approach taken to manage the Company's human resources, including the recruitment, retention, motivation, and engagement of employees in the interests and success of the Company;
- regularly review the succession and development plans for the President & CEO and executive management; and
- review and recommend to the board, a total compensation philosophy for the President & CEO and executive management that, subject to the CFA, attracts and retains executives, links total compensation to financial and operational performance, and provides competitive total compensation opportunities at a reasonable cost, while enhancing the ability to fulfill the Company's overall business strategies and objectives.

Capital Projects Committee

The Capital Projects Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to specific capital projects of BC Ferries as designated by the board from time to time. For the projects under its purview, the committee has the mandate to:

- in respect of projects which have not yet been approved by the board, review and provide advice to the board on whether the Company should proceed with the projects and, where approval to proceed is recommended, provide advice on the schedule, scope and budget for such projects; and
- in respect of projects which have been approved by the board, and as so directed by the board:
 - review the governance structure for the projects;
 - regularly review and monitor progress against scope and budget, as well as material changes in the schedule and risk profile of the projects;
 - regularly review the use of contingency funds for the projects; and
 - upon project completion, ascertain whether the projects have met their objectives.

Composition

The memberships of the committees in fiscal 2023 are set out below. The board chair serves as a non-voting ex-officio member of each of the committees.

Director	Board Committees Year Ended March 31, 2023			
	Audit & Finance	Capital Projects	Governance & Human Resources	Safety, Health, Environment & Security
Joy MacPhail ¹	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Eric A. Denhoff (vice chair) ²	•	•		
Shona A. Moore ³			• (chair)	•
Sarah A. Morgan-Silvester ⁴	• (chair)	•		
Tamim Raad ⁵		• (chair)	•	
Cathy McLay ⁶	•		•	
Harold Calla ⁷	•			•
Dennis Blatchford ⁸			•	• (chair)
Charlene Hiller ⁹		•		•
Brenda J. Eaton ¹⁰	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Jan K. Grude ¹¹	•		•	
Bruce A. Chan ¹²	•	•		
Gordon M. Kukec ¹²		•		•
Janine M. North ¹²			•	•
Judith F. Sayers ¹²			•	•
David R. Podmore ¹³	•	•		
Michael W. Pucci ¹⁴			•	•

¹ Joy MacPhail was appointed as a Director effective June 24, 2022, and appointed as Chair effective June 29, 2022

² Eric Denhoff was appointed as Vice Chair August 1, 2022

³ Shona Moore was appointed as Chair of the Governance & Human Resources Committee effective August 1, 2022

⁴ Sarah Morgan-Silvester was appointed as Interim Chair effective June 24, 2022, and ceased to be Interim Chair effective June 29, 2022

⁵ Tamim Raad was appointed as a Director effective June 24, 2022, and appointed as a member of the Governance & Human Resources Committee and Chair of the Capital Projects Committee effective August 1, 2022

⁶ Cathy McLay was appointed as a Director effective June 24, 2022, and appointed as a member of the Audit & Finance Committee and Governance & Human Resources Committee effective August 1, 2022

⁷ Harold Calla was appointed as a Director effective June 24, 2022, and appointed as a member of the Audit & Finance Committee and Safety, Health, Environment & Security Committee effective August 1, 2022

⁸ Dennis Blatchford was appointed as a Director effective June 24, 2022, and appointed as a member of the Governance & Human Resources Committee and Chair of the Safety, Health, Environment & Security Committee effective August 1, 2022

⁹ Charlene Hiller was appointed as a Director effective June 24, 2022, and appointed as a member of the Capital Projects Committee and Safety, Health, Environment & Security Committee effective August 1, 2022

¹⁰ Brenda Eaton ceased to be a director and Chair effective June 24, 2022

¹¹ Jan Grude ceased to be a director and Vice Chair effective June 24, 2022

¹² Bruce Chan, Gordon Kukec, Janine North, Judith Sayers ceased to be directors effective June 24, 2022

¹³ David Podmore was appointed as Interim Vice Chair effective June 24, 2022, ceased to be Interim Vice Chair effective August 1, 2022, and ceased to be a director effective August 9, 2022

¹⁴ Michael Pucci ceased to be a director effective October 17, 2022

Assessments

As part of its dedication to best governance practices, the board is committed to regular assessments of the effectiveness of the board, the board chair, committees, committee chairs, and individual directors. The board, on the recommendation of the Governance & Human Resources Committee, has implemented a process for such assessments consisting of a review facilitated by an independent consultant every second year. The process aims to ensure that the individual directors continue to contribute effectively to the board's performance, and that the board and its committees continue to function effectively.

In fiscal 2022, the board engaged an independent consultant to conduct the biennial review. The process involved obtaining the directors' views on matters related to the effectiveness of the board through the use of questionnaires and individual discussions with each director. The evaluation included an assessment of the performance of the board as a whole with respect to best practices in board governance, as well as a director self-assessment and peer review related to best practices for board directors. The peer review results for each director were shared with the respective director, the chair of the board, the vice chair designate and the chair of the Governance & Human Resources Committee, and discussions on the results were held between the individual directors and the consultant. The results and the recommendations arising from the board evaluation inform future deliberations and decisions of the board.

The performance of the board as a whole, and the performance of individual directors, is also assessed regularly throughout the year. This occurs primarily through discussions between the individual directors and the board chair.