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

For the fiscal year ended
March 31, 2024

Dated June 13, 2024

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BCFerries

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The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries", the "Company" or "we") for the year ended March 31, 2024 that has been prepared with information available as of June 13, 2024. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2024 ("fiscal 2024") and March 31, 2023 ("fiscal 2023"). These documents are available on SEDAR+ at www.sedarplus.ca and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries provides 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 37 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 sufficient earnings and ongoing access to capital to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset investment needs.

Significant events during or subsequent to fiscal 2024 include the following:

Traffic and Service

- In fiscal 2024, BC Ferries carried 9.6 million vehicles and 22.6 million passengers, the highest vehicle and passenger traffic levels on record in a fiscal year. Vehicle and passenger traffic increased 2% and 5%, respectively, compared to fiscal 2023.

- In fiscal 2024, BC Ferries delivered 90,820 round trips compared to 86,835 in the prior year, an increase of 3,985 round trips or 5%, primarily on the Minor Routes and mainly driven by the introduction of two-ship service on the Campbell River – Quadra Island route.

Tariffs

- On April 12, 2023, BC Ferries implemented average tariff increases of 3.0% 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 dated November 11, 2020.

- On September 30, 2023, the Commissioner issued Order 23-04, which established final price cap increases of 3.2% for each of the four years of performance term six ("PT6"), being the four year period commencing April 1, 2024 and ending on March 31, 2028. The Commissioner's final price cap decision factored in the impact of $500 million in new funding for BC Ferries from the Province as announced on February 26, 2023 (see "Economic Regulatory Environment" for more details).

- On April 1, 2024, BC Ferries implemented average tariff increases of 3.2% in accordance with the Commissioner Order 23-04 dated September 30, 2023 as described above.

General

- On November 20, 2023, S&P Global Ratings revised BC Ferries' outlook to negative from stable, and affirmed our "AA-" credit rating. This outlook recognized our planned vessel replacements and other capital priorities in the coming years.

- On December 1, 2023, BC Ferries renamed its marine vessel *Kuper* to *Pune'luxutth*, to honor Indigenous heritage, at a name unveiling ceremony at Point Hope Maritime shipyard in Victoria. *Pune'luxutth* is the Hul'qumi'num' word for Penelakut and was the name chosen by the Penelakut Tribe. The vessel has been serving the route connecting Chemainus to Thetis Island and to Penelakut Island since 2007 and recently completed its five-year dry-docking and refit. The *Pune'luxutth* resumed service on December 9, 2023.

- On December 27, 2023, Joanne Carpendale was appointed to the position of Vice President and Chief Financial Officer. Ms. Carpendale brings over 25 years of finance-related experience to the CFO role, including almost 20 years at BC Ferries in various roles, most recently as the Treasurer. Ms. Carpendale is a Chartered Professional Accountant and holds a Master of Arts (Leadership).

- On February 9, 2024, DBRS Morningstar confirmed BC Ferries' credit rating at A (high) with a stable trend.

- On March 28, 2024, BC Ferries announced that members of the BC Ferry & Marine Workers' Union (the "Union") would receive a one-year 7.75% general wage increase, with many jobs receiving "special increases" including some licenced mariners receiving up to an additional 10.0%, with all increases retroactive to October 1, 2023. The collective agreement between BC Ferries and the Union ("Collective Agreement"), provides for wage a re-opener in year-four (for wage increase at April 1, 2024) and as such negotiations began in August 2023, and later moved to arbitration in October 2023. A panel of three independent arbitrators met in February 2024 to review the proposals and subsequently issue a binding decision for the year-four wages. These new compensation levels help address wage disparities, improve the standard of living for our people, and allow us to better compete for mariners in a challenging labour market. (See "Expenses" for more detail).

- On May 15, 2024, BC Ferries' announced the removal of the fuel surcharge effective June 1, 2024, from all routes.

Capital Assets

- On April 28, 2023, BC Ferries submitted a supplemental filing with the Commissioner to update the costs and revise certain other elements of the capital budget for the Fleet Maintenance Unit ("FMU") redevelopment project, which was originally approved on October 14, 2022. On May 12, 2023, the Commissioner issued supplemental Order 22-02A approving the redevelopment project. On the same day, BC Ferries signed a construction agreement with Bird Construction Group for the FMU redevelopment project.

- On December 7, 2023, the Commissioner issued Order 23-05 approving a major capital expenditure for the construction of four Island Class vessels and the electrification of four terminals (the "Island Class Phase 3 & Terminal Electrification Plan" or "IC3TEP"). IC3TEP will construct and deliver into service four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore at four terminals on the two routes connecting Nanaimo Harbour and Gabriola Island and Campbell River and Quadra Island.

- On December 21, 2023, BC Ferries awarded Damen Shipyards Group of Netherlands ("Damen") a design-build, fixed-price contract for four new hybrid electric Island Class vessels. These four new hybrid electric vessels will further standardize BC Ferries' fleet, both increasing capacity and improving our flexibility to move ships across routes. These new Island Class vessels will enter service by 2027 on the routes connecting Nanaimo Harbour to Gabriola Island (two vessels) and Campbell River to Quadra Island (two vessels). This will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with redundancy for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues. Island Class vessels have a capacity of up to 390 passengers and crew and at least 47 vehicles.

- On March 27, 2024, BC Ferries issued to the Canada Infrastructure Bank $75.0 million of senior secured bonds and established a project account for these bonds proceeds. These senior secured bonds bear interest at 2.474% per annum, payable semi-annually, commencing on September 27, 2026 and will mature March 27, 2049. The fair market value of the bond as of issuance date is $47.4 million. The difference between the net proceeds and fair market value of the bonds of $27.6 million was classified as government funding and will be recognized as an offset to the project costs of the Island Class Phase 3 & Terminal Electrification Plan. The net proceeds from the sale of the bonds shall be held in cash or invested in permitted investments, and used solely to provide funding for capital costs incurred toward electrification of two routes under the Island Class Phase 3 & Terminal Electrification Plan (see "Liquidity and Capital Resources" for more detail).

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 B.C. Ferry Authority ("BCFA" or 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.

Under the terms of the CFSC, we 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 2024 was the final year of performance term five ("PT5"), which commenced April 1, 2020 and ended on March 31, 2024.

On June 30, 2023, the CFSC was amended for PT6 to, among other things, establish ferry transportation fees for the four year term of April 1, 2024 through March 31, 2028. The CFSC and its amendments are available on our website at: https://www.bcferries.com.

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 GHG 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. A price cap is a regulatory mechanism that establishes a maximum allowable annual average fare increase in each year over the term. 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 liquefied natural gas ("LNG") in the first year of PT5, inflated in each case by 2% per year for the balance of PT5.

The difference between actual fuel costs incurred and approved fuel costs based on the set price, as established by the Commissioner, are recognized in deferral accounts for recovery or settlement through future tariffs to customers.

Performance term six

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 February 26, 2023, the Province, after collaboration with BC Ferries and in response to our PT6 submission, announced $500 million in new funding for BC Ferries with the goal of limiting annual average fare increases to 3% a year for PT6. In addition to helping control fare increases, this funding may also be used to support GHG emissions reductions through support for the electrification of vessels, terminals and other initiatives.

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. The decision to set increases for price caps at 9.2% per year did not take into account the $500 million contribution from the Province described above.

On September 30, 2023, the Commissioner issued Order 23-04, which established a final price cap decision for PT6 that factored in the impact of $500 million in funding from the Province. Order 23-04 included the following:

- establishes the final price cap average increase of 3.2% for each of the four years of PT6;
- maintains the existing fuel deferral accounts;
- sets the price per litre for the operation of the fuel deferral accounts for marine diesel and for LNG in each of the four years of PT6, which is a required input into the calculation of fuel surcharges or rebates, as follows;

Fuel Set Price:	**Fiscal Year**			
	2025	**2026**	**2027**	**2028**
Diesel ($/Litre)	1.44	1.44	1.43	1.49
LNG ($/Diesel Litre Equivalent)	0.72	0.75	0.79	0.83

and

- required BC Ferries to prepare a plan by April 1, 2024, to track on a quarterly basis during PT6, actual capital expenditures compared to the forecast capital expenditures on which the price cap decision is based, and to develop corporate key performance indicators to track cost and service effectiveness of investments made in human resources.

On December 7, 2023, the Commissioner issued Order 23-06, approving the withdrawal of funds from our Carbon Reduction Investment Account ("CRIA") for the purpose of funding the IC3TEP electrification work. By Order 22-01 issued on April 21, 2022, the Commissioner authorized BC Ferries to create the CRIA for a 5-year term in support of funding infrastructure investments identified in its Clean Futures Plan and to progress green house gas ("GHG") emission reduction projects. We are earning compliance units ("carbon credit") for the use of low carbon fuels under the British Columbia Low Carbon Fuel Standard.

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		
	2024	**2023**	**Variance**
Total revenue	1,110.9	1,042.8	68.1
Operating expenses	1,088.2	991.5	96.7
Operating profit	22.7	51.3	(28.6)
Net finance and other	54.1	53.1	1.0
Net (loss)	**(31.4)**	**(1.8)**	**(29.6)**
Other comprehensive income	18.3	40.0	(21.7)
Total comprehensive (loss) income	(13.1)	38.2	(51.3)
	As at March 31		
	2024	**2023**	
Total assets	2,627.7	2,491.8	
Total long-term liabilities	1,599.3	1,470.3	
Dividends paid	6.0	6.0	

In fiscal 2024, revenues increased $68.1 million or 7% compared to the prior year, primarily as a result of higher vehicle and passenger traffic volume and rates, higher net retail sales, higher fuel surcharges, and higher carbon credit sales (see "Operational Revenues" for more detail).

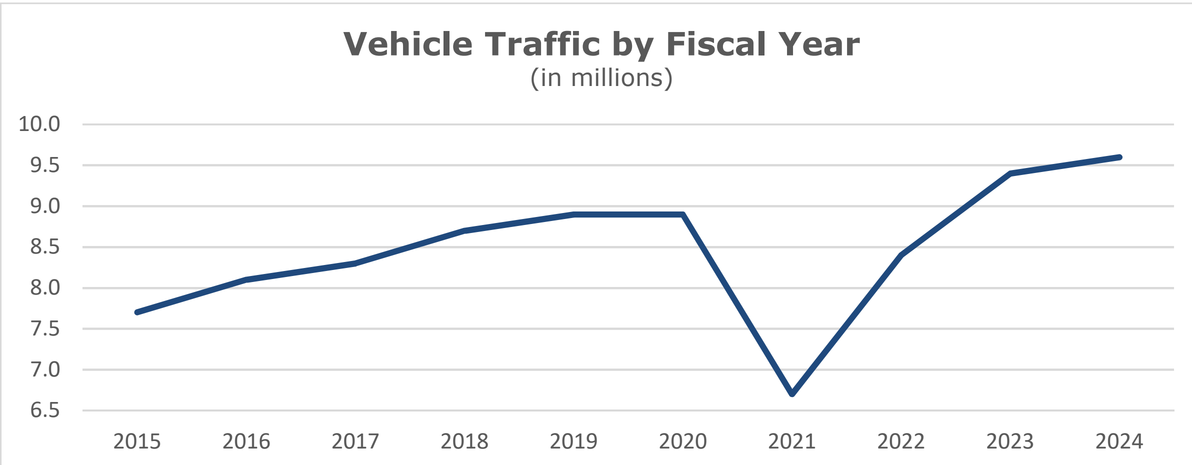
In fiscal 2024, operating expenses increased $96.7 million or 10% compared to the prior year. An increase in labour costs, resulting from higher wage rates and benefits, reflecting the increases from the binding decision for the year-four wage re-opener, and additional round trips provided, account for $74.5 million or 77% of the $96.7 million operating expense increase. In addition, other operating, maintenance, administration and depreciation expenses increased. (see "Expenses" for more detail).

In fiscal 2024, our net loss of $31.4 million was $29.6 million larger than our net loss of $1.8 million in the prior year. The increase in net loss reflects higher operating costs and higher asset impairment and other charges, somewhat offset by higher traffic volumes and tariffs, lower fuel costs, and an increase in net retail sales, interest earned and revenue from carbon credits.

In fiscal 2024, our total comprehensive loss was $13.1 million, a reduction of $51.3 million compared to a total comprehensive income of $38.2 million in the prior year. This decrease of $51.3 million comprised of the $29.6 million increase in net loss described above and a decrease in other comprehensive income ("OCI") of $21.7 million (a gain of $18.3 million in fiscal 2024, compared to gain of $40.0 million in the prior year). The reduction in OCI reflects a $10.9 million decrease in the change in the fair value of our fuel swap contracts, a $6.7 million decrease in the change on the revaluation of our land and $4.1 million decrease as a result of an actuarial loss on the valuation of our employee benefit plans.

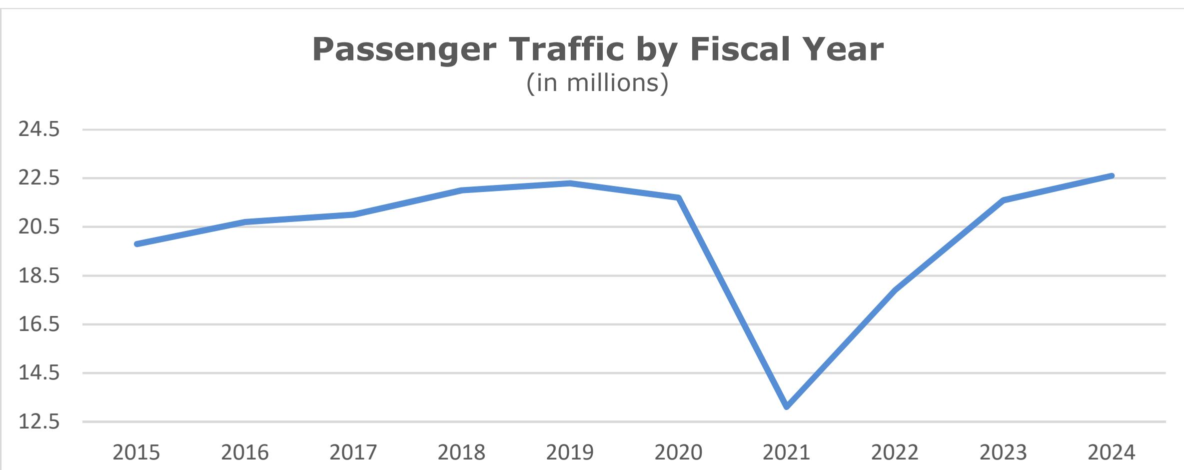
Traffic
In fiscal 2024, BC Ferries carried 9.6 million vehicles and 22.6 million passengers, the highest vehicle and passenger traffic levels on record in a fiscal year. Vehicle and passenger traffic increased 2% and 5%, respectively, compared to fiscal 2023.

The following tables and graphs detail the trends in traffic volumes over the past ten fiscal years which clearly shows the impact of COVID-19 in fiscal 2021 and the return of vehicle and passenger traffic since then:



Vehicle Traffic (thousands)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
7,691	8,069	8,306	8,723	8,887	8,801	6,704	8,467	9,371	9,552



Passenger Traffic (thousands)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
19,796	20,689	21,035	22,030	22,287	21,677	13,083	17,880	21,558	22,610

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 2024 and fiscal 2023 are shown in the tables below.

Operational Statistics	**Years ended March 31**			
Vehicle Traffic	**2024**	**2023**	**Increase (Decrease)**	**%**
Major Routes	5,402,083	5,389,436	12,647	0%
Northern Routes	43,136	41,265	1,871	5%
Minor Routes	4,106,414	3,940,640	165,774	4%
Total Vehicle Traffic	9,551,633	9,371,341	180,292	2%
Passenger Traffic				
Major Routes	14,250,191	13,615,223	634,968	5%
Northern Routes	104,360	98,458	5,902	6%
Minor Routes	8,255,544	7,844,765	410,779	5%
Total Passenger Traffic	22,610,095	21,558,446	1,051,649	5%
Round Trips				
Major Routes	13,070	12,994	76	1%
Northern Routes	411	401	10	2%
Minor Routes	77,339	73,440	3,899	5%
Total Round Trips	90,820	86,835	3,985	5%
Capacity Provided (AEQs)*				
Major Routes	8,204,574	8,194,190	10,384	0%
Northern Routes	69,515	66,638	2,877	4%
Minor Routes	8,216,239	7,680,412	535,827	7%
Total Capacity Provided	16,490,328	15,941,240	549,088	3%
AEQs Carried *				
Major Routes	6,395,001	6,363,480	31,521	0%
Northern Routes	52,147	49,688	2,459	5%
Minor Routes	4,417,381	4,251,841	165,540	4%
Total AEQs Carried	10,864,529	10,665,009	199,520	2%
Capacity Utilization				
Major Routes	77.9%	77.7%	0.2%	
Northern Routes	75.0%	74.6%	0.4%	
Minor Routes	53.8%	55.4%	(1.6%)	
Total Capacity Utilization	65.9%	66.9%	(1.0%)	

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

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 changes in demand or the number of trips stipulated by the CFSC between BC Ferries and the Province. In fiscal 2024, we delivered 90,820 round trips, representing 3,985 or 5% additional round trips compared to fiscal 2023. Increases in round trips resulted primarily from increases in round trips on the Minor Routes and mainly driven by the introduction of a two-ship service on the Campbell River – Quadra Island route. These additional round trips resulted in increased capacity of 7% on the Minor Routes compared to the prior year, primarily as a result of the increase in the number of trips provided and vessel replacements with larger available deck space.

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. 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). In fiscal 2024, overall capacity utilization was 65.9%, a decrease of 1.0% compared to a capacity utilization of 66.9% during the prior year. The decrease in capacity utilization is primarily a result of an increase in capacity provided from additional round trips, somewhat offset by a by a higher number of AEQs carried. The additional capacity enabled more traffic to be carried, supporting BC Ferries' record vehicle traffic levels.

Sailing Cancellations by Fiscal Year

	2020	**2021**	**2022**	**2023**	**2024**
Sailings	167,034	162,686	169,259	177,582	185,187
Cancelled Sailings by type:					
Weather	718	872	648	757	843
Mechanical	308	537	712	648	660
Crew	25	109	522	1,163	655
Other*	460	476	217	318	173
Total Cancelled Sailings	1,511	1,994	2,099	2,886	2,331
Cancellations as % of Sailings	0.9%	1.2%	1.2%	1.6%	1.3%
Crew Cancellations as % of Sailings	0.0%	0.1%	0.3%	0.7%	0.4%

* 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.

In fiscal 2024, we cancelled 1.3% of our scheduled sailings, primarily due to the impact of adverse weather, mechanical issues and being unable to secure the required crew. Cancellations due to crew shortages have decreased by 44% compared the prior year reflecting the positive impact of actively recruiting and investing in our employees.

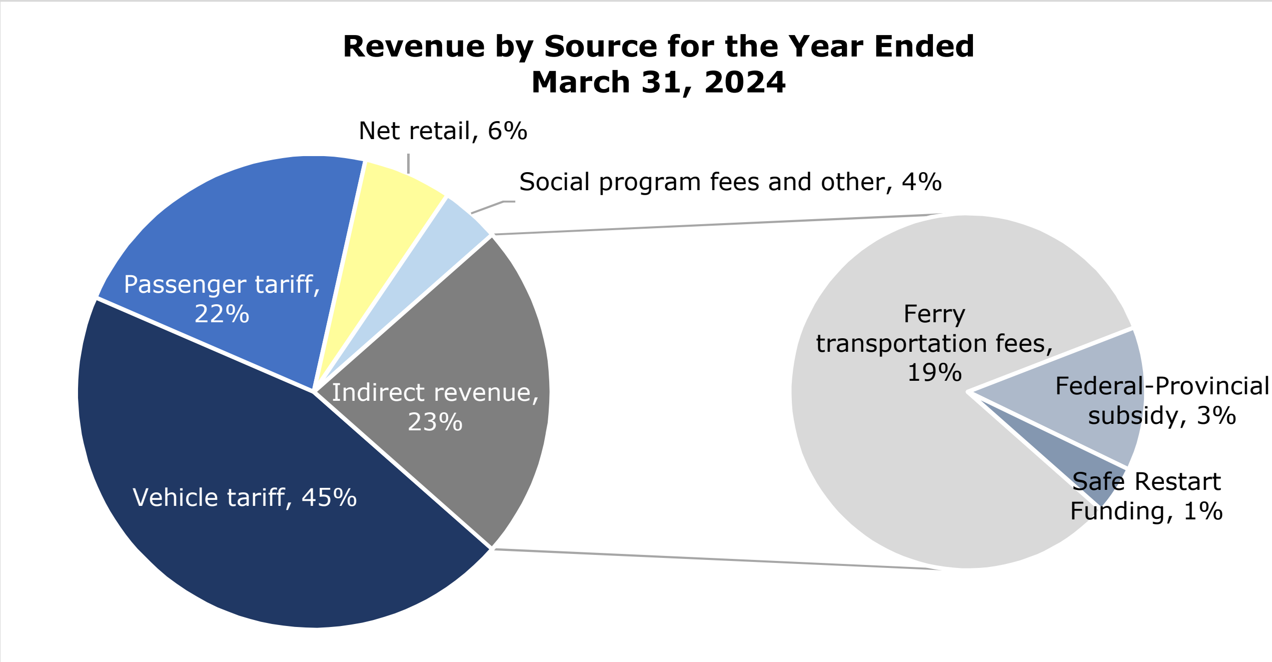
On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled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

On-Time Performance	Years ended March 31		
	2024	2023	Change
Major Routes	70.9%	76.2%	(5.3%)
Northern Routes	83.9%	75.2%	8.7%
Minor Routes	85.3%	86.5%	(1.2%)
On-Time Performance	83.3%	85.0%	(1.7%)

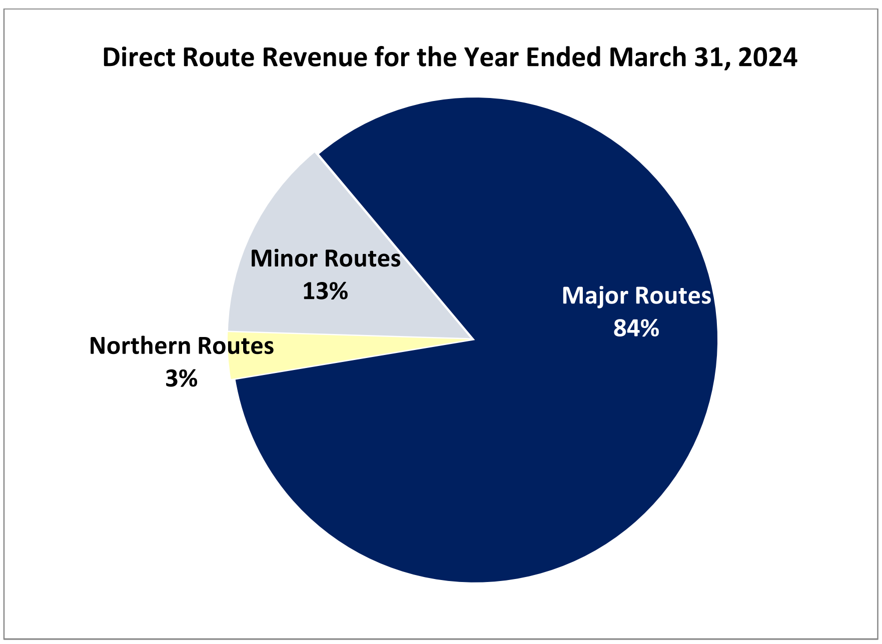
In fiscal 2024, overall on-time performance decreased 1.7% from 85.0% to 83.3% compared to the prior year. On-time performance decreased on the Major Routes as a result of strong traffic levels requiring additional time to load vessels, vessel mechanical issues and the impact of adverse weather. On-time performance decreased on the Minor Routes as a result of delays to source required crew, the impact of increased traffic demand and the impact of adverse weather.

Operational Revenues

Operational revenues for fiscal 2024 are shown in the graphs below:



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



In fiscal 2024, of our direct route revenues of $816.9 million (excluding fuel surcharges), 84%, was earned on our Major Routes.

Operational revenues for fiscal 2024 and fiscal 2023 are shown in the table below:

Revenue ($ millions)	**Years ended March 31**			
			Increase (Decrease)	
	2024	**2023**	**$**	**%**
Direct Route Revenue	**845.5**	**787.8**	**57.7**	**7%**
Vehicle tariff revenue				
Major Routes	406.9	387.8	19.1	5%
Northern Routes	11.4	10.8	0.6	6%
Minor Routes	63.6	60.2	3.4	6%
Total vehicle tariff revenue	481.9	458.8	23.1	5%
Passenger tariff revenue				
Major Routes	197.5	185.4	12.1	7%
Northern Routes	7.8	7.5	0.3	4%
Minor Routes	35.0	32.7	2.3	7%
Total passenger tariff revenue	240.3	225.6	14.7	7%
Net retail revenue				
Major Routes	58.2	53.1	5.1	10%
Northern Routes	4.7	4.4	0.3	7%
Minor Routes	4.9	3.9	1.0	26%
Total net retail revenue	67.8	61.4	6.4	10%
Social program fees	13.5	12.2	1.3	11%
Other revenue	13.4	11.7	1.7	15%
Fuel surcharge	28.6	18.1	10.5	58%
Indirect Route Revenue	**245.3**	**242.5**	**2.8**	**1%**
Safe Restart Funding *	9.0	8.0	1.0	13%
Ferry transportation fees	200.7	201.2	(0.5)	(0%)
Federal-Provincial subsidy	35.6	33.3	2.3	7%
Total Route Revenue	1,090.8	1,030.3	60.5	6%
Other general revenue **	20.1	12.5	7.6	61%
Total Revenue	1,110.9	1,042.8	68.1	7%

* In fiscal 2024, total Safe Restart Funding of $10.4 million was recorded for discretionary sailings and fare increase relief, of which $1.4 million ($1.3 million in the prior year) for discretionary sailings relief was included in ferry transportation fees.

**Other general revenue includes revenue from 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 12, 2023, we implemented average tariff increases of 3.0% 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, 2024, total direct route revenue increased $57.7 million or 7% compared to the prior year, primarily as a result of an increase in vehicle and passenger traffic levels, tariff rates, fuel surcharges and retail revenue.

Average Tariff	**Years ended March 31**			
			Increase (Decrease)	
	2024	**2023**	**$**	**%**
Average vehicle tariff				
Major Routes	75.32	71.96	3.36	5%
Northern Routes	264.28	261.72	2.56	1%
Minor Routes	15.49	15.28	0.21	1%
Average vehicle tariff	50.45	48.96	1.50	3%
Average passenger tariff				
Major Routes	13.86	13.62	0.24	2%
Northern Routes	74.74	76.17	(1.43)	(2%)
Minor Routes	4.24	4.17	0.07	2%
Average passenger tariff	10.63	10.46	0.17	2%

In fiscal 2024, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $1.50 or 3% compared to the prior year, primarily as a result of tariff rate increases. In fiscal 2024, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.17 or 2% compared to the prior year, primarily due to tariff rate increases, increases in passenger traffic on lower tariff routes and changes in passenger fare type mix. The increase in traffic levels and the change in average tariff increases resulted in a total tariff revenue increase of $37.8 million or 6% (an increase in vehicle tariff revenue of $23.1 million or 5%, and an increase in passenger tariff revenue of $14.7 million or 7%) compared to the prior year.

Retail sales is a significant source of revenue from customers, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In fiscal 2024, net retail revenue increased by $6.4 million or 10% compared to the prior year, supported by both higher average sales per passenger and an increased number of passengers carried.

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 fiscal 2024 increased $1.3 million or 11% compared to the prior year, mainly due to an increase in the usage of the MTAP and the number of students travelling under the applicable social program.

In fiscal 2024, other revenue increased $1.7 million or 15% compared to the prior year, primarily as a result of increased parking revenues.

From time to time, we implement fuel surcharges as a result of rising fuel prices or fuel rebates as a result of falling fuel prices. A history of fuel surcharges and fuel rebates in effect for fiscal 2024 and 2023 is below:

Date range	% surcharge	Applicable routes
April 1, 2022 - May 31, 2022	0.0%	Northern Routes
April 1, 2022 - May 31, 2022	1.0%	Major Routes and Minor Routes
June 1, 2022 - October 31, 2022	2.5%	All Routes
November 1, 2022 - March 31, 2024	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.)

In fiscal 2024, total indirect route revenue increased by $2.8 million or 1% compared to the prior year, mainly as a result of an increase in the Federal-Provincial subsidy.

In fiscal 2021, we received $308.0 million from the Province as part of the provincial and federal governments' Safe Restart Funding program for PT5. The Safe Restart Funding consisted of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit average fare increases and to cover the estimated costs of discretionary sailings. Of the $308.0 million Safe Restart Funding, we recognized a total of $297.6 million in prior fiscal years. The remaining $10.4 million was recognized in fiscal 2024, the final year of PT5, of which $1.4 million for discretionary sailings was included in ferry transportation fees. 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.sedarplus.ca on January 18, 2021.

In fiscal 2024, ferry transportation fees decreased by $0.5 million compared to the prior year, primarily as a result of recovering less 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 fulfill the obligation of providing 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).

In fiscal 2024, other general revenue increased by $7.6 million compared to the prior year, primarily as a result of higher carbon credit sales compared to the prior year. Carbon credits are earned through activities such as the purchase of natural gas and use of LNG (which are lower carbon fuel alternatives to diesel) and BC Ferries must have approval from the Ministry of Energy Mines and Low Carbon Innovation before a sale is recognized. For regulatory purposes, BC Ferries directs the revenue earned through the sale of earned carbon credits into the CRIA.

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

Operating Expenses ($ millions)	**Years ended March 31**		**Increase**	
	2024	**2023**	**$**	**%**
Operations	717.4	647.3	70.1	11%
Maintenance	129.7	115.4	14.3	12%
Administration	54.0	47.4	6.6	14%
Total operations, maintenance & administration	901.1	810.1	91.0	11%
Depreciation and amortization	187.1	181.4	5.7	3%
Total Operating Expenses	1,088.2	991.5	96.7	10%

In fiscal 2024, total operations, maintenance and administration expenses increased $91.0 million or 11% compared to the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 76.0% of our total operations, maintenance and administration costs. Total wages and benefits increased $74.5 million and accounts for 77% of the increase in total operating costs.

In accordance with the Collective Agreement, wage rates were increased by 2% at April 1, 2023. The Collective Agreement provides for wage re-openers in years four and five (for wage increases at April 1, 2024 and April 1, 2025). In August 2023, negotiations for the year-four wage increases began and moved to arbitration in October 2023. A panel of three independent arbitrators met in February 2024 to review the proposals for the year-four wages. On March 28, 2024, the arbitration panel released their binding decision. The arbitration panel determined that members of the Union would receive a one-year 7.75% general wage increase, with many jobs receiving "special increases", including some licenced mariners receiving up to an additional 10.0%. These increases were retroactive to October 1, 2023, effective six months prior to April 1, 2024. These new compensation levels will address wage disparities, improve the standard of living for our people and allow us to better compete for mariners in a challenging labour market. In the next 18 months, negotiations are scheduled for the year-five wage re-opener and for the full Collective Agreement, which expires in October 2025.

Wage rates for employees not covered by the Collective Agreement ("Exempt Employees") were increased by 5% effective July 1, 2023. This was a general wage increase to reflect a cost of living adjustment. In addition, BC Ferries also undertook a one-time market equity adjustment to align compensation with its goal of being at the 50th percentile of its market comparators. To do this, we engaged an external compensation expert to review the Exempt Employee compensation program to ensure it is both fair and market competitive. As a result of the review, effective October 1, 2023, wage rates were reset for targeted roles, with increases bringing those roles in line with their market comparators. The effect of this one-time adjustment resulted in an increase to overall Exempt Employee compensation by 7%. This competitive compensation structure will strengthen BC Ferries' ability to attract, retain and motivate its people.

The $70.1 million or 11% increase in operations expenses from fiscal 2023 to fiscal 2024 includes:

- a $66.0 million increase in labour costs, mainly due to wage rate increases as described above, staffing level changes for the higher number of round trips provided (introduction of two-ship service on the Campbell River – Quadra Island route), increased overtime, training, allowances, and benefit costs;
- a $12.6 million increase in contracted services, travel expenses, materials and supplies, credit card fees, computer data communication and other miscellaneous expenses; and partially offset by
- a $8.5 million year-to-date decrease in fuel expense, primarily reflecting lower fuel prices.

Maintenance costs increased $14.3 million or 12% in fiscal 2024 compared to the prior year, primarily as a result of the cyclical nature of vessel refit activity, unplanned vessel repairs, and increased labour rates and other inflationary cost increases.

Administration costs increased by $6.6 million or 14% in fiscal 2024 compared to the prior year, primarily as a result of increased wages and benefit costs, contracted services and miscellaneous expenses.

Depreciation and amortization increased $5.7 million or 3% in fiscal 2024 compared to the prior year, reflecting new 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**		
	2024	**2023**	**Variance**
Finance expense	67.6	67.8	(0.2)
Less: finance income	(28.6)	(16.5)	(12.1)
Net finance expense	39.0	51.3	(12.3)
Net loss on disposal and impairment of property, plant and equipment, intangible assets and other charges	15.1	1.8	13.3
Total net finance and other expenses	54.1	53.1	1.0

In fiscal 2024, net finance and other expenses increased by $1.0 million compared to the prior year. Asset impairments and other charges for the retirement of certain non-operating vessels at the end of their useful lives increased by $13.3 million, mostly offset by $12.1 million in higher interest earned on investments.

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 includes building new vessels, upgrades and modifications to existing vessels, improvements at our FMU, modifications to terminal infrastructure in anticipation of Island Class vessel electrification (shore-side power source to enable charging the Island Class vessel batteries), upgrades at our terminals and renewal of our information technology systems.

The typical life span of our vessels is approximately 45 years. Our operating fleet has an average age of 27 years and, of these, 10 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 *Salish Heron,* which is our fourth Salish Class vessel, entered service in fiscal 2023 and is designed to run primarily on LNG with marine diesel fuel as a backup.

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. On December 7, 2023, the Commissioner approved a major capital expenditure for the construction of four more Island Class vessels that will be able to operate exclusively in battery-electric mode and will increase our fleet of Island Class vessels to ten.

The *Salish Heron*, *Island Gwawis, Island Kwigwis, Island Nagalis* and *Island K'ulut'a* allowed for the retirement of the 57-year old *Bowen Queen* and the 58-year old *Powell River Queen* in fiscal 2023, and the 58-year old *Mayne Queen* in fiscal 2024.

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. During fiscal 2024, we recognized $1.2 million ($nil in fiscal 2023) of this funding, of which $0.8 million ($nil in fiscal 2023) was a reduction to the cost of the property, plant and equipment and $0.4 million was a reduction to operating expenses.

On September 30, 2023, BC Ferries received approval under the CleanBC Go Electric Commercial Vehicle Pilots Program ("CVP") to receive up to $15.1 million in funding. This funding is solely for project costs incurred for the purpose of electrifying two Island Class vessels and the terminals serving the Campbell River to Quadra Island route. The CVP funding will be paid against actual costs incurred for eligible expenses as approved by the program administrator. In fiscal 2024, $0.1 million ($nil in fiscal 2023) was recorded as a reduction to the cost of the property, plant and equipment.

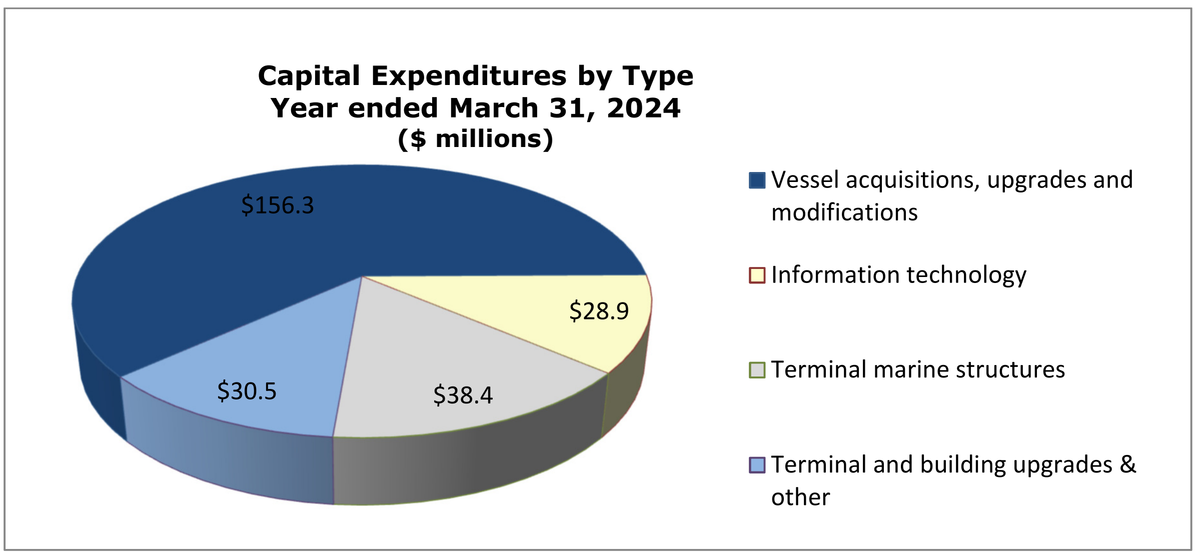
In fiscal 2024, additions to our capital assets totalled $323.1 million, comprising $254.1 million in capital expenditures (net of funding) and $69.0 million for an asset decommissioning provision.

In fiscal 2024, BC Ferries recognized a provision of $69.0 million in asset decommissioning costs for 41 vessels. This amount has been allocated appropriately to the carrying amount of each vessel and will be expensed over the remaining life of the vessel (See "Asset Decommissioning and Restoration Provisions" for more details).

Capital expenditures (net of funding from the Province and CVP) during the last two fiscal years are shown in the table below:

Capital Expenditures by Fiscal Year

($ millions)	**2024**	**2023**
Vessel upgrades & modifications	106.8	61.7
New vessels	49.5	4.1
Terminal marine structures	38.4	22.2
Information technology	28.9	20.5
Terminal building upgrades & equipment	30.5	22.9
Total	254.1	131.4



In fiscal 2024, capital expenditures comprised the following:

Capital Expenditures ($ millions)	**Year ended March 31, 2024**
Major overhauls and inspections	63.2
Island Class Phase 3	44.9
Hardware upgrades	20.7
Fleet maintenance unit redevelopment	15.7
Tsawwassen Breakwater life extension	9.2
Queen of Cowichan life extension	8.5
Fleet maintenance unit dolphins and sheet pile wall	5.9
Queen of New Westminster life extension	5.3
Vehicles and other equipment	5.0
Various other projects	75.7
	254.1

Major overhauls and inspections

In fiscal 2024, we incurred capital expenditures of $63.2 million in respect of major overhauls and inspections of components of hull, propulsion and generators for thirteen vessels that were completed or underway.

Island Class Phase 3

On December 7, 2023, the Commissioner issued Order 23-05 approving a major capital expenditure for the construction of four Island Class vessels and the electrification of four terminals. IC3TEP will construct and deliver into service four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore at four terminals on the two routes connecting Nanaimo Harbour to Gabriola Island, and Campbell River to Quadra Island. On December 21, 2023, BC Ferries awarded Damen a design-build, fixed-price contract for four new hybrid electric Island Class vessels. These four new hybrid electric vessels will further standardize BC Ferries' fleet, both increasing capacity, and improving our flexibility to move ships across routes. These new Island Class vessels will enter service by 2027 on the routes connecting Nanaimo Harbour and Gabriola Island (two vessels), and Campbell River and Quadra Island (two vessels). This will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with redundancy for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues. Island Class vessels have a capacity of up to 390 passengers and crew and at least 47 vehicles.

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 (including the equipment needed to refresh our data centre).

FMU redevelopment

On October 14, 2022, the Commissioner issued Order 22-02 and, on May 12, 2023, issued a further supplemental Order 22-02A approving a project for the redevelopment of BC Ferries' FMU located at Deas Basin in Richmond, BC. Also on May 12, 2023, BC Ferries signed a construction agreement with Bird Construction Group for the FMU redevelopment project. This project will redevelop the site to increase efficiencies, upgrade existing structures and develop a new building to improve capacity. The project is expected to be completed in fiscal 2027.

Tsawwassen breakwater

A project to upgrade and life extend the two berth breakwaters at Tsawwassen Terminal, which includes upgrades to the structures through steel patching, piling and steel strapping.

Queen of Cowichan life extension

An upgrade project to life extend the *Queen of Cowichan,* which includes upgrades to the steelwork, machinery, utilities and the galley, is substantially complete.

FMU marine structure upgrades

A project to replace three dolphins and extend the life of the existing sheet pile wall at our FMU is now complete.

Queen of New Westminster life extension

An upgrade project to life extend the *Queen of New Westminster*, which includes upgrades to the steelwork, elevators, utilities and outer decks, is substantially 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.

Various other projects

Various other projects expenditures of $75.7 million include, among others:

Various other projects ($ millions)	**Year ended March 31, 2024**
Rescue boats, davits, rotors and capital spares for various vessels	8.3
Various software upgrades	8.1
Coastal Class vessels quarter-life ugrades	7.0
Marine structure upgrades at Horseshoe Bay terminal	5.6
New major vessel project	4.6
Marine structure upgrades at Langdale terminal	4.1
Marine structure upgrades at Crofton terminal	2.7
Marine structure upgrades at Bowen Island terminal	2.7
Marine structure upgrades at Fulford terminal	2.7
Upgrades to the electrical system and café at Swartz Bay terminal	2.7
Engine room upgrades to *Northern Sea Wolf*	1.9
Upgrades at the Campbell River terminal	1.1
Roof replacement on several buildings at Duke Point terminal	1.0
All other projects	23.2
	75.7

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 external funding opportunities.

On February 26, 2023, the Province announced $500 million in new funding for BC Ferries. 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. A receipt, in the first year of PT6, of $50 million is expected on September 30, 2024 (the Contribution Agreement can be found on SEDAR+ at www.sedarplus.ca).

At March 31, 2024, our unrestricted cash and cash equivalents and other short-term investments totalled $32 million and $339 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of $87 million and $341 million, respectively, as at March 31, 2023.

Our $105 million Credit Facility was renewed on March 7, 2024, to extend the maturity date from April 2027 to April 2028. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At March 31, 2024, 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 20, 2023, S&P Global Ratings affirmed our "AA-" credit rating, and revised our outlook to negative from stable. This outlook recognized our planned vessel replacements and other capital priorities in the coming years. On February 9, 2024, 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, 2024, we achieved a debt service coverage ratio of 2.90 and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for fiscal 2024 has resulted in a $37.4 million decrease in equity before reserves (comprised of dividends of $6.0 million and net loss of $31.4 million), from $683.4 million as at March 31, 2023 to $646.0 million as at March 31, 2024. Correspondingly, BC Ferries' leverage ratio has increased from 70% as of March 31, 2023 to 72% as of March 31, 2024 and is in compliance with our financial covenant requirements.

($ thousands)	March 31, 2024		March 31, 2023	
	$	%	$	%
Aggregate borrowings *	1,621,367	72%	1,560,814	70%
Total equity before reserves	645,951	28%	683,374	30%
Total	2,267,318	100%	2,244,188	100%

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

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 2024	2023
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
2.47%, due March 2049	4.66%	75	-
12 Year Loans			
2.09% Loan, due October 2028	2.70%	17	21
2.09% Loan, due January 2029	2.68%	19	23
2.09% Loan, due January 2029	2.70%	19	23
		1,480	1,417

*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.

We have 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.

On March 27, 2024, BC Ferries issued to the CIB $75.0 million of senior secured bonds (Series 24-1 bond issuance) and established a project account for these bonds proceeds. These senior secured bonds bear interest at 2.474% per annum, payable semi-annually, commencing on September 27, 2026 and will mature March 27, 2049. The fair market value of the bond, calculated using a fair market interest rate of 4.66% and considering the payment free period, as of issuance date is $47.4 million. The difference between the net proceeds and fair market value of the bonds of $27.6 million was classified as government funding and will be recognized as an offset to the project costs of the Island Class Phase 3 & Terminal Electrification Plan. The net proceeds from the sale of the bonds shall be held in cash or invested in permitted investments, and used solely to provide funding for capital costs incurred toward electrification of two routes under the Island Class Phase 3 & Terminal Electrification Plan, including procuring four new fully electric Island Class vessels and infrastructure upgrades at four ferry terminals to supply necessary power to these vessels.

At March 31, 2024, 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

Prior to fiscal 2024, BC Ferries received $14 million in 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. During fiscal 2024, we applied $1.4 million ($1.4 million in fiscal 2023) against the capital cost of the Salish Class and Spirit Class vessels.

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 (See "Investing in Our Capital Assets" for more detail).

On September 30, 2023, BC Ferries received approval under the CVP to receive up to $15.1 million in funding. This funding is solely for project costs incurred for the purpose of electrifying two Island Class vessels and the terminals serving the Campbell River - Quadra Island route (See "Investing in Our Capital Assets" for more detail).

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 2024, we recognized $1.3 million ($6.4 million in fiscal 2023) as a right-of-use asset with a corresponding liability, primarily related to a lease for parking in Sidney, 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 2024 and 2023 are summarized in the table below:

	Years ended March 31		
($ millions)	**2024**	**2023**	**Increase (Decrease)**
Cash and cash equivalents, beginning of year	87.1	204.4	(117.3)
Cash from operating activities:			
Net earnings	(31.4)	(1.8)	(29.6)
Items not affecting cash	241.7	238.7	3.0
Changes in non-cash operating working capital	40.3	(4.4)	44.7
Net interest paid	(42.5)	(59.1)	16.6
Cash generated from operating activities	208.1	173.4	34.7
Cash from (used in) financing activities	54.4	(20.3)	74.7
Cash used in investing activities	(317.7)	(270.4)	(47.3)
Net decrease in cash and cash equivalents	(55.2)	(117.3)	62.1
Cash and cash equivalents, end of year	31.9	87.1	(55.2)

For fiscal 2024, cash generated from operating activities increased by $34.7 million compared to the prior year, primarily due to changes in working capital (receivables, prepaids, payables and contracted liabilities) and higher interest received offset by a decrease in net earnings. The decrease in net earnings reflects higher operating expenses and higher charges and asset impairments partially offset by the impact of increased traffic and revenues.

Cash from financing activities in fiscal 2024 was $54.4 million, a $74.7 million increase compared to the prior year. The $54.4 million amount consisted of proceeds of $75 million from our March 2024 bond issuance offset by $11.3 million in repayment of our loans from KfW, $6.0 million in dividends paid to the Province on preferred shares and $3.3 million in repayment of lease obligations.

Cash used in investing activities in fiscal 2024 increased by $47.3 million compared to the prior year, mainly due to a $145.9 million increase in purchases of capital assets and $75.0 million in purchases in restricted short-term investments (funds from Series 24-1 bond issuance), and partially offset by a $173.6 million decrease in other short-term investment purchases.

For fiscal 2024, cash and cash equivalents decreased $55.2 million (from $87.1 million to $31.9 million) and short-term investments decreased $1.8 million (from $340.8 million to $339.0 million) compared to the prior year.

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2024 to the same period in the prior year.

	Three months ended March 31			
Operational Statistics	**2024**	**2023**	**Increase**	**%**
Vehicle traffic	1,913,972	1,891,716	22,256	1%
Passenger traffic	4,255,586	4,122,308	133,278	3%
Number of round trips	21,828	21,331	497	2%
Capacity provided (AEQs)	3,771,654	3,715,407	56,247	2%
AEQs carried	2,194,440	2,170,131	24,309	1%
Capacity utilization	58.2%	58.4%		

In the three months ending March 31, 2024, vehicle and passenger traffic increased 1% and 3%, respectively, compared to the same period in the prior year.

	Three months ended March 31			
($ millions)	**2024**	**2023**	**Increase (Decrease)**	**%**
Total revenue	200.9	200.0	0.9	0%
Operating expenses	283.5	255.3	28.2	11%
Operating loss	(82.6)	(55.3)	(27.3)	(49%)
Net finance and other	24.1	12.1	12.0	99%
Net loss	(106.7)	(67.4)	(39.3)	(58%)

Our net loss in the quarter was $39.3 million higher than our net loss in the same quarter in the prior year. The net loss in the three months ended March 31, 2024 reflects an increase in operating expenses and an increase in asset impairments and other charges (increased provision to dispose of four non-operating vessels).

Revenue
Our total revenues for the fourth quarter of fiscal 2024 increased by $0.9 million compared to the same quarter in the prior year as a result of an increase in direct route revenue, partially offset by a reduction in ferry transportation fees recognized in the quarter as shown in the following table:

Revenue ($ millions)	**Three months ended March 31**			
			Increase (Decrease)	
	2024	**2023**	**$**	**%**
Direct Route Revenue	**157.7**	**152.5**	**5.2**	**3%**
Vehicle tariff revenue				
Major Routes	77.4	75.8	1.6	2%
Northern Routes	1.5	1.5	-	0%
Minor Routes	12.2	11.7	0.5	4%
Total vehicle tariff revenue	91.1	89.0	2.1	2%
Passenger tariff revenue				
Major Routes	36.1	34.4	1.7	5%
Northern Routes	0.8	0.8	-	0%
Minor Routes	6.4	6.0	0.4	7%
Total passenger tariff revenue	43.3	41.2	2.1	5%
Net retail revenue				
Major Routes	10.1	9.8	0.3	3%
Northern Routes	0.8	0.7	0.1	14%
Minor Routes	0.8	0.7	0.1	14%
Total net retail revenue	11.7	11.2	0.5	5%
Social program fees	3.2	3.1	0.1	3%
Other revenue	3.0	2.8	0.2	7%
Fuel surcharge	5.4	5.2	0.2	4%
Indirect Route Revenue	**42.1**	**46.9**	**(4.8)**	**(10%)**
Safe Restart Funding *	1.5	1.3	0.2	15%
Ferry transportation fees	31.7	37.3	(5.6)	(15%)
Federal-Provincial subsidy	8.9	8.3	0.6	7%
Total Route Revenue	199.8	199.4	0.4	0%
Other general revenue	1.1	0.6	0.5	83%
Total Revenue	200.9	200.0	0.9	0%

*Total Safe Restart Funding of $1.8 million was recorded for discretionary and fare increase relief, in the three months ended March 31, 2024 ($1.6 million in the prior year), of which $0.3 million ($0.3 million in the prior year) for discretionary sailings relief was included in ferry transportation fees.

Average tariff revenue per vehicle in the quarter increased $0.55 or 1% and average tariff revenue per passenger in the quarter increased $0.18 or 2% compared to the same period in the prior year, mainly as a result of tariff increases. The increase in traffic levels and the change in average tariffs resulted in a $4.2 million increase in tariff revenue.

Net retail revenue increased in the fourth quarter of fiscal 2024 increased $0.5 million or 5% compared to the same period in the prior year, primarily as a result of higher passenger traffic levels.

Social program fees in the fourth quarter increased $0.1 million or 3% 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 2024, Safe Restart Funding increased $0.2 million compared to the same period in the prior year and is now fully recognized.

Ferry transportation fees from the Province in the fourth quarter of fiscal 2024 decreased $5.6 million or 15% 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 2024 and fiscal 2023 are shown in the following tables:

Operating Expenses	**Three months ended March 31**			
($ millions)			**Increase**	
	2024	**2023**	**$**	**%**
Operations	178.4	160.5	17.9	11%
Maintenance	41.8	37.0	4.8	13%
Administration	15.2	11.7	3.5	30%
Total operations, maintenance & administration	235.4	209.2	26.2	13%
Depreciation and amortization	48.1	46.1	2.0	4%
Total Operating Expenses	283.5	255.3	28.2	11%

The increase in operations costs of $17.9 million for the quarter ended March 31, 2024 compared to the same period in the prior year is due to:

- $17.4 million increase in labour costs, mainly due to wage rate increases, staffing level changes for the higher number of round trips provided (introduction of two-ship service on the Campbell River – Quadra Island route), increased overtime, training, allowances, and benefit costs;
- $3.1 million increase in contracted services, travel, credit card fees, training supplies, materials and supplies, and other miscellaneous expenses; and is partially offset by
- $2.6 million decrease in fuel expense, primarily reflecting lower fuel prices.

The increase in maintenance costs of $4.8 million is a result of planned and unplanned vessel maintenance activity.

The increase in administration costs of $3.5 million is primarily as a result of increased labour and benefit costs, contracted services and miscellaneous expenses.

The increase in depreciation and amortization of $2.0 million reflects capital assets entering service.

Net Finance and Other Expenses	Three months ended March 31			
($ millions)			Variance	
	2024	2023	$	%
Finance expense	16.6	16.8	(0.2)	(1%)
Less: finance income	(7.4)	(6.2)	(1.2)	(19%)
Net finance expense	9.2	10.6	(1.4)	(13%)
Loss on disposal and revaluation of property, plant and equipment, intangible assets and other charges	14.9	1.5	13.4	(893%)
Total net finance and other expenses	24.1	12.1	12.0	99%

Net finance and other expense in the fourth quarter of fiscal 2024 was $12.0 million higher compared to the same period in the prior year, primarily due to an increase in asset impairments and other charges, and somewhat offset by higher interest earned on investments.

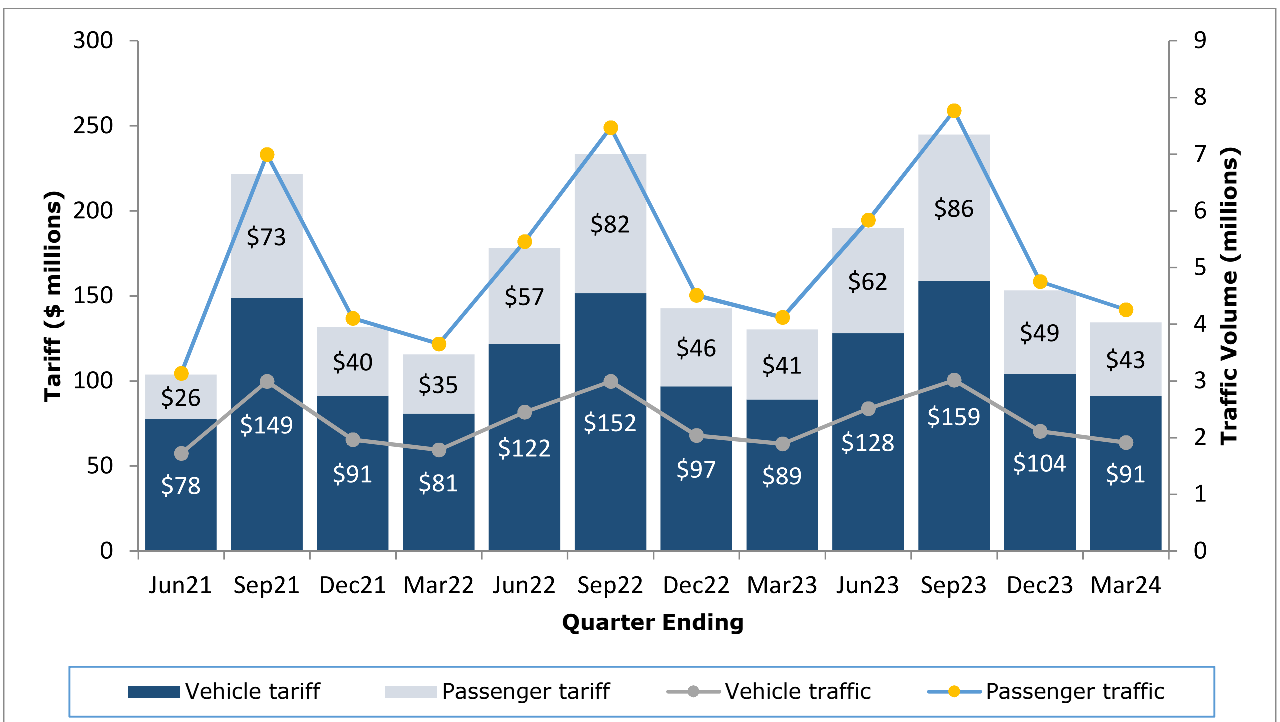
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)											
($ millions)	**Jun 21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**	**Mar 23**	**Jun 23**	**Sep 23**	**Dec 23**	**Mar 24**
Total revenue without Safe Restart Funding	169	314	203	177	262	340	233	199	284	378	240	199
Safe Restart Funding	60	3	19	20	3	3	2	1	3	3	2	2
Total revenue	229	317	222	197	265	343	235	200	287	381	242	201
Operating expenses	211	223	209	224	242	249	245	255	261	269	275	283
Operating profit (loss)	18	94	13	(27)	23	94	(10)	(55)	26	112	(33)	(82)
Net earnings (loss)	5	80	(2)	(49)	8	80	(23)	(67)	15	102	(42)	(106)
Net (loss) earnings without Safe Restart Funding	(55)	77	(21)	(69)	5	77	(25)	(68)	12	99	(44)	(108)

Quarterly results are normally affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, normally experiences the highest traffic levels and the highest net earnings. In the third and fourth quarters, when leisure traffic is lower, we perform upgrades and major maintenance and refit programs, as well as undertaking mandatory inspections on the majority of our vessels.

The following graph demonstrates the seasonality of our tariff revenue and shows the relationship of passenger traffic volume and tariff revenue over the most recent 12 quarters:



OUTLOOK

We continue to pursue strategies to create an affordable, reliable, sustainable and safe ferry system that meets the needs of our customers and the communities we serve for generations to come.

Financial

During fiscal 2024, BC Ferries carried the highest ever vehicle and passenger traffic.

While we are cautiously optimistic that traffic will continue to be strong, 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 vessel mechanical issues causing cancellations.

BC Ferries is also experiencing challenges securing the required crew to sail our vessels, which has resulted in cancellations on some routes. In fiscal 2024, we cancelled 0.4% of total sailings due to being unable to secure the required crew, an improvement of 0.3%, compared to the prior year. We continue to respond to these challenges by actively recruiting and investing in our employees. New compensation levels effective October 1, 2023, will allow us to better compete for mariners in a challenging labour market. In the next 18 months, negotiations are scheduled for the year-five wage re-opener and for the full collective agreement which expires in October 2025.

BC Ferries is experiencing upward pressure on both operating and capital costs. Continued high inflation and high interest rates may also result in impacts to customer demand. BC Ferries continues to identify efficiencies and opportunities to minimize cost.

On September 30, 2023, the Commissioner issued Order 23-04 which established final price cap increases of 3.2% for each of the four years of PT6, commencing April 1, 2024 and ending on March 31, 2028. The Commissioner’s final price cap decision factored in the impact of $500 million in fare affordability funding from the Province. In the near term, the higher costs we are experiencing may reduce our operating results despite the fare increase of 3.2% and the Fare Affordability Contribution from the Province for PT6.

PT6 incorporates significant capital investments to support growth and replacement of aging assets. BC Ferries’ vessel planning strategies, which include the Island Class vessels and the new major vessel program, will provide additional capacity and allow us to respond to increases in customer demand. Based on current levels of capital asset inflation, it is possible that capital investment costs will be higher than anticipated in PT6.

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, 2024, we had $8.1 million (notional value) in fuel forward contracts for marine diesel related to fiscal 2025 and fiscal 2026. At March 31, 2024, 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, 2024, we held fuel forward contracts for ultra-low sulfur diesel ("ULSD") with a carrying and fair value asset of $0.6 million and a notional value of $8.1 million. At March 31, 2023, we held fuel forward contracts for ULSD with a carrying and fair value asset of $19.2 million and a notional value of $41.3 million. At March 31, 2024, with the application of hedge accounting, an unrealized gain of $7.2 million was recognized in other comprehensive income. At March 31, 2023, with the application of hedge accounting, an unrealized gain of $18.2 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, 2024, and 2023 were as follows:

($ millions)	2024		2023	
	Carrying value	**Fair Value**	**Carrying value**	**Fair Value**
Financial Liabilities				
Long-term debt, including current portion	1,443.6	1,451.9	1,406.8	1,416.9

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 critical for our success. Attracting and retaining staff across all functions continues to be a challenge, but it is most acute in the licensed positions on the vessels, in particular across engineering. The impact of a global labour shortage, immigration challenges, license and training requirements, as well as retirements and turnover, are posing ongoing challenges to ensuring sufficient employees are in place to support increasing demand.

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. Ongoing initiatives to attract and retain staff include: investing in internal development and training; undertaking a significant recruitment push including presence at multiple career fairs as well as increased focus on international recruitment; a public marketing campaign; increasing wages; enhancing benefits; guaranteeing schedules and available hours for peak season employees; offering schedules that provide better work life balance; improved support for working in remote areas; 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 measures to prevent unauthorized access to our network and systems, 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.

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 of the Act, 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 major capital projects underway, including the building of four new Island Class vessels and the redevelopment of FMU. 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.

Risk mitigation: A project governance framework is in place to govern 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, and monitors project progress against the scope, budget, 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. We require major projects to maintain a risk register. The risk register identifies the risks, rates the risks in terms of likelihood and consequences, reviews the effectiveness and appropriateness of the control, and determines any actions needed to mitigate the risk.

Climate Risk
Natural disaster and extreme weather events, such as earthquakes, floods, heavy rains and winter storms pose 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 or natural disasters may have an adverse impact on our operations, our assets, our suppliers and our customers. These impacts may include rising sea levels, changing storm patterns and intensities and changing temperature levels, causing damage to our terminals and interrupting ferry services. 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; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents and an extended time period may be needed to fully remediate damaged infrastructure and vessels.

Pandemics and Public Health Crises
BC Ferries could be negatively impacted by an outbreak of infectious 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 or health crises, 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 (such as additional cleaning, mandatory wearing of a mask, and physical distancing) as necessary to mitigate risk to our employees and the travelling public. We would respond by renegotiating service levels, reducing costs where possible, negotiating covenant relief as a proactive measure and deferring capital expenditures as needed.

Vessel Repair Facilities
FMU is a vessel repair facility where we perform maintenance and refit work on our vessels; however, FMU 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. When regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. In addition, to ensure we have access to the shipyard facilities when required, BC Ferries is in the process of establishing long-term maintenance service agreements with shipyards. The establishment of long-term commercial contracts aims to strengthen partnerships, reduce costs and manage said risks. We are exploring alternatives and are modernizing our fleet maintenance and our internal ship repair capability.

CROWN CONSULTATION on AUTHORISATIONS

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 use of land or water. Canadian courts have said that the Crown must consult with impacted First Nations before granting an approval that could affect Aboriginal rights. The consultation process must be appropriate to the strength of the Aboriginal right, and the potential impact on that right, and may require substantive accommodation to avoid, reduce, or offset the potential impact. The Crown can delegate some aspects of consultation to the corporation requesting an approval, but it is ultimately up to the Crown to satisfy the duty to consult. A Memorandum between BC Ferries, the Ministry of Transportation and Infrastructure, and the BC Transportation Financing Authority (2020) allows for the delegation of Crown consultation on a Requested Ferries Decision, such as the expansion of a water lease lot. Aboriginal rights are especially significant in British Columbia due to the density of First Nation communities, the absence of historic treaties over much of the Province, and the strength of First Nation claims to constitutionally protected Aboriginal 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, depending on the facts of each situation. The Crown's duty to consult has to be considered in determining timelines for terminal upgrade projects. In addition, both the Province (in 2019) and the Government of Canada (in 2021) 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, specifically free, prior and informed consent, and to avoid unproductive and divisive litigation where reasonably possible. This process must be taken into consideration when planning the timelines for terminal upgrade projects.

There is also an increased recognition of the importance and legal protection of both unknown and registered archeological sites. Many of BC Ferries' terminals are in sheltered waters that may correlate to archaeological sites and sites of cultural importance. The provincial Heritage Branch requires permits to investigate or alter archaeological sites. Due to the volume of permits being submitted across the Province, processing times can be impactful to project timelines.

BC Ferries supports five strategic goals for Indigenous relations: to strengthen our relationships with Indigenous communities; to support communities and cultural recognition; to increase internal capacity and cultural awareness; to support Crown consultations for our projects; and to support economic participation of First Nations in BC Ferries' operations. BC Ferries has entered into three Protocol Agreements with First Nations to establish a framework of engagement and dialogue. In addition, since 2022 BC Ferries has hired two full time Indigenous Relations professionals to assist in the implementation of the company's strategic goals and to strengthen relationships with Indigenous communities.

Our terminal upgrade and construction projects are being planned further in advance in order to fulfill our commitment to engage with First Nations, to ensure the proper archaeological permits from Heritage Branch are in place, 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.

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.

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.

SailSafe is our award winning safety culture 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. The SailSafe program is in the middle off a revitalization with a goal of improving engagement with all employees to seek continuous improvement of safety across the system and includes establishing a framework to support the psychological health and safety of all employees.

BC Ferries has been responding to recent regulatory changes, including the implementation of Bill 41: Amendments to the Workers Compensation Act, with close coordination with the regulator. There are more regulatory changes coming both from the federal and provincial governments and we will continue to work with the applicable regulators to find reasonable approaches to implementing improvements in the marine sector.

We successfully completed recertification of the WorkSafeBC Certificate of Recognition ("COR"). The COR program recognizes and rewards employers who go beyond the current legal requirements, implementing an effective occupational health and safety management system, and pass a certification audit to the standards set out by the WorkSafeBC Board. The COR certification provides a discount on BC Ferries' WorkSafeBC premiums. In fiscal 2024, we received a COR rebate of $0.6 million ($0.7 million in fiscal 2023).

We successfully renewed our International Safety Management (ISM) Document of Compliance as a voluntary organization complying with the International Maritime Organization standards above those of the *Canada Shipping Act, 2001*.

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 GHG emissions. We use variable frequency drives and thruster propulsion solutions on our vessels to reduce underwater radiated noise and airborne noise. Both the LNG and marine diesel we currently use are below the sulphur content limit of marine fuel applicable within the Canadian jurisdiction of the North American Emissions Control Area. 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 more energy efficient new vessels.

We actively pursue alternative fuel options for new vessels and vessels undergoing major retrofits, because alternate fuels have the potential to reduce GHG emissions as well as costs. We currently have up to four vessels at any time utilizing renewable diesel with the potential to increase utilization to up to eight vessels. This year and for the next few years, we will continue investigating the feasibility of utilizing biodiesel because of its potential to offer similar if not better GHG emission reduction compared to renewable diesel. We continue to have six vessels that operate primarily on LNG: two Spirit Class and four Salish Class ferries. This year, we worked with these LNG vessel engine manufacturers to explore options to reduce methane slip and overall GHG emissions and have recently implemented engine control modifications on our two Spirit-class vessels.

We have six Island Class vessels, which are outfitted with hybrid diesel-electric (battery) propulsion with the potential to be converted to an all electric operation in the future. This year, we entered into contract to build four new hybrid diesel-electric Island Class vessels that will enter into service in 2027. These four Island Class vessels will be delivered with battery packs that will supply the electricity for the power trains and utilize associated shoreside electrical upgrades at the terminals they serve to recharge.

We are reinvesting in GHG emissions reduction initiatives through earning carbon credits for the use of low carbon fuels under the British Columbia Low Carbon Fuel Standard. We have recently qualified, based on our electrification usage, to earn carbon credits through the Government of Canada's *Canadian Fuel Regulation*. A CRIA was established for a 5-year term, which will allow BC Ferries to partially fund further infrastructure investments that will reduce GHG emissions, such as the shore infrastructure to support full electrification of the four new Island Class vessels.

In addition to implementing more low carbon fuels, our vessels continue to use shore power each night and during maintenance periods to offset diesel consumption. Using shore power replaces the need to operate on-ship generators, which reduces greenhouse gas 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.bcferries.com.

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 material accounting policies are contained in Note 1 to our March 31, 2024 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.

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, 2024 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 2024, we recorded $15.1 million ($1.8 million in fiscal 2023) in net loss on disposal and impairment of property, plant and equipment and intangible assets and other charges primarily due to an increase in asset impairments and other charges for the retirement of certain non-operating vessels at the end of their useful lives.

Asset Decommissioning and Restoration Provisions

Provisions are recognized by BC Ferries in the period when it can be reasonably determined, and when there are legal or constructive obligations associated with the decommissioning and restoration of long-lived assets, and those obligations result from the acquisition, construction, development or normal operation of the asset. Certain BC Ferries' vessels contain undetermined amounts of hazardous materials. We may be required to handle and dispose of the hazardous materials in a manner required by regulations.

In fiscal 2024, BC Ferries recognized a provision of $69.0 million in asset decommissioning costs for 41 vessels. A corresponding asset decommissioning provision is added to the carrying amount of the related asset and amortized to expense using a systematic and rational basis. Provisions for decommissioning and restoration obligations are measured at the present value of BC Ferries' best estimate of the future cash flows required to settle the present obligation, using the risk-free interest rate.

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.

Employee 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.

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 when 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 have differed 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.

The remaining $10.4 million of Safe Restart Funding was recognized in fiscal 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, 2024 was $35.9 million ($39.1 million at March 31, 2023).

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 deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers, which will be settled through future tariff reductions, fuel rebates or investing in approved carbon reduction initiatives.

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). This difference was 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 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). During fiscal 2024, BC Ferries directed $16.4 million ($9.6 million in the prior year) of funds earned from the sale of carbon credits of into the CRIA.

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, 2024 audited consolidated financial statements.

Adoption of New Accounting Standards
No new accounting standards were adopted effective April 1, 2023.

Future Accounting Changes
The following is a discussion of accounting changes that may be effective for us in future accounting periods:

IFRS 18, *Presentation and Disclosure in Financial Statements*:
In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements* which will replace IAS 1, *Presentation of Financial Statements* effective for reporting periods beginning on or after January 1, 2027. The new standard is not expected to change how BC Ferries recognizes and measures items in the financial statements. IFRS 18 may change how items in the financial statements are subtotalled and categorized and will require additional disclosure of certain management-defined performance measures in the financial statement notes. Early adoption of this standard is permitted.

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 is redeliberating the proposals in the exposure draft.

Exposure Draft, *Sustainability Standards:*
In March 2024, the Canadian Sustainability Standards Board ("CSSB") published two exposure drafts for comment: Canadian Sustainability Disclosure Standard 1 *General Requirements for Disclosure of Sustainability-related Financial Information ("CSDS 1")* and Canadian Sustainability Disclosure Standard 2 *Climate-related Disclosures ("CSDS 2")*. Exposure drafts CSDS1 and CSDS 2 are aligned with the global baseline disclosure standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* with the exception of a Canadian-specific effective date and transition relief to assist Canadian organizations with implementation. The CSSB has a proposed effective date for annual periods beginning on or after January 1, 2025; however, Canada's regulators and legislators will determine whether the Canadian Sustainability Disclosure Standards are mandatory, and if so, who will need to apply the standards and over what time frame. The CSSB is now soliciting feedback on the proposed CSDS 1 and CSDS 2 until June 10, 2024.

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, the impact of wage increases, upcoming negotiations regarding the year-five wage-reopener and Collective Agreement, anticipated government funding and our anticipated use of the same, our credit rating and credit risks, reliance on sources of external funding, future traffic volumes, 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 surcharges, fuel sources, vessel electrification, vessel replacement, repair and planning strategies, vessel standardization efforts and anticipated impacts on capacity, capital plans and major capital initiatives, the impact of capital asset inflation on capital investment costs, provisions for asset decommissioning and restoration obligations that use BC Ferries' best estimate of the future cash flows required to settle the present obligations, capital projects and the potential for delays due to processing times to obtain archaeological permits or 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.

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, 2024 ("fiscal 2024"), the board was composed of the following directors:

Chair:	Joy MacPhail, CM, O.B.C
Members:	Eric A. Denhoff (vice chair)
	Sarah A. Morgan-Silvester, O.B.C.
	Shona A. Moore, K.C.
	J. Dennis Blatchford
	Harold Calla
	Charlene Hiller
	Cathy McLay
	Tamim Raad

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, committee chairs, and president and chief executive officer 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 subsidiary. 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 2024 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.

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.

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.

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 & Process
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 within the remuneration limits prescribed by the Plan.

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: www.bcferryauthority.com.

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 2024, 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.

During Fiscal 2023, the board established a Joint Planning Committee with the B.C. Ferry Authority with a mandate to collaborate to develop a new strategic planning framework and the first long-term vision for BC Ferries. This Committee's activity was ongoing through Fiscal 2024.

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 2024	2023
Audit	338.5	297.7
Tax services	2.6	2.6
	341.1	300.3

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.

<u>Capital Projects Committee</u>
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 2024 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, 2024			
	Audit & Finance	**Capital Projects**	**Governance & Human Resources**	**Safety, Health, Environment & Security**
Joy MacPhail	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Eric A. Denhoff (vice chair)	•	•		
Shona A. Moore			• (chair)	•
Sarah A. Morgan-Silvester	• (chair to December 31, 2023)	•		
Tamim Raad		• (chair)	•	
Cathy McLay	• (chair effective January 1, 2024)		•	
Harold Calla	•			•
Dennis Blatchford			•	• (chair)
Charlene Hiller		•		•

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 2024, the board completed a survey comprised of topics ranging from board organization and financial and risk issues to communications and strategy. The survey also included an assessment of the effectiveness of each committee and the performance of the board as a whole. The survey results will 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.