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

For the three and nine months ended December 31, 2024

Dated February 13, 2025

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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 three and nine months ended December 31, 2024 that has been prepared with information available as of February 13, 2025. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended December 31, 2024 and 2023, our audited consolidated financial statements and related notes for the years ended March 31, 2024 ("fiscal 2024") and March 31, 2023 ("fiscal 2023"), and our Management's Discussion and Analysis for fiscal 2024. These documents are available on the System for Document Analysis and Retrieval ("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.

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 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.

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 the third quarter of the year ending March 31, 2025 ("fiscal 2025") include the following:

Traffic and Service

- In the three months ended December 31, 2024, BC Ferries carried 4.8 million passengers, consistent with the same period in the prior year and 2.1 million vehicles, a 2% increase compared to the same period in the prior year. Year-to-date, we carried 18.6 million passengers and 7.8 million vehicles compared to 18.4 million passengers and 7.6 million vehicles in the same period in the prior year. BC Ferries carried the highest passenger and vehicle traffic levels on record for the three and nine months ended December 31, 2024.

- In the three months ended December 31, 2024, we delivered 21,932 round trips, representing 196 or 1% decrease in round trips compared to the same period in the prior year. Year-to-date, we delivered 69,178 round trips or 330 more round trips compared to the same period in the prior year.

General

- On November 18, 2024, S&P Global Ratings ("S&P") lowered BC Ferries' long-term issuer credit and senior secured debt ratings to "A+" from "AA-", with a stable outlook.

- On December 6, 2024, Morningstar DBRS ("DBRS") confirmed BC Ferries' issuer rating and senior secured bonds credit rating at A (high) and changed the trend to negative from stable.

- On January 6, 2025, BC Ferries announced that it had called a meeting of the holders of its outstanding bonds issued under the Company's Master Trust Indenture dated May 19, 2004 ("MTI") and commenced a solicitation of written consents and proxies to approve an amendment to the MTI.

- On January 20, 2025, BC Ferries announced that it has successfully obtained approval of an amendment to Section 6.5(e)(ii) of the Company's MTI, eliminating the leverage ratio as an Additional Indebtedness covenant under the condition the common shares of BC Ferries remain wholly owned by the BC Ferry Authority, the Province or any Crown Corporation.

Capital Assets

- On November 1, 2024, BC Ferries announced the keel laying for the first two of four new battery-electric hybrid Island Class vessels at Damen Shipyards Galati in Romania ("Damen"). These vessels will each have the capacity to carry approximately 47 vehicles and 400 passengers and will further standardize BC Ferries' fleet, increasing capacity and comfort for our customers. These vessels are planned to enter service by 2027 on the routes connecting Nanaimo Harbour to Gabriola Island, and the route connecting Campbell River to Quadra Island (see "Investing in Our Capital Assets" for more detail).

- On December 13, 2024, BC Ferries announced that it is has formally submitted its regulatory application to the British Columbia Ferries Commissioner (the "Commissioner") for approval of BC Ferries' New Major Vessel ("NMV") project to procure five new major vessels. These new vessels are planned to enter service starting in 2029 at approximately six-month intervals and, as they are built, will be incorporated into the Major Routes fleet. As these vessels are introduced, BC Ferries will retire four of its oldest vessels that are smaller and have reached end of life. On September 16, 2024, BC Ferries issued a Request for Proposals ("RFP"), with contracts expected to be awarded in spring of 2025, subject to the NMV project receiving approval from the Commissioner (see "Investing in Our Capital Assets" for more detail).

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three and nine months ended December 31, 2024 compared to the same periods in fiscal 2024. Results for the three and nine months ended December 31, 2023 include the immaterial impact of an adjustment of balances (see "Accounting Practices, Adjustment of balances" for details of the immaterial changes.

Financial performance ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2024	**2023**	**Variance**	**2024**	**2023**	**Variance**
Total revenue	257.4	241.6	15.8	943.6	910.0	33.6
Operating expenses	278.7	274.5	4.2	877.7	804.7	73.0
Operating (loss) profit	(21.3)	(32.9)	11.6	65.9	105.3	(39.4)
Net finance and other expenses	16.9	8.9	8.0	41.6	29.3	12.3
Net (loss) earnings	(38.2)	(41.8)	3.6	24.3	76.0	(51.7)
Other comprehensive income (loss)	4.4	(5.4)	9.8	2.6	5.2	(2.6)
Total comprehensive (loss) income	(33.8)	(47.2)	13.4	26.9	81.2	(54.3)

In the three months ended December 31, 2024, revenues increased $15.8 million or 6.5% ($33.6 million or 3.7% year-to-date) compared to the same period in the prior year. This increase is primarily a result of higher vehicle traffic volume and rates, higher net retail sales, and the introduction of Fare Affordability Funding from the Province, partially offset by lower carbon credit sales, reduced fuel surcharges, lower ferry transportation fees (see "Revenue" for more detail) and the ending of Safe Restart Funding in fiscal 2024.

In the three months ended December 31, 2024, operating expenses increased $4.2 million or 1.5% compared to the same period in the prior year. This increase is mainly due to higher depreciation and amortization and maintenance expenses. In the nine months ended December 31, 2024, operating expenses increased $73.0 million or 9.1% compared to the same period in the prior year. This increase is mainly due to higher wage rates, increased fuel prices, higher maintenance expenses (increased refit costs), higher depreciation and higher administration expenses. Also, an increased number of round trips contributed to higher labour costs and fuel consumption (see "Expenses" for more detail).

In the three months ended December 31, 2024, the net loss was $38.2 million, or 8.6% lower compared to the net loss in the same period in the prior year, primarily as a result of higher revenues partially offset by higher operating expenses and increased net finance and other expenses. In the nine months ended December 31, 2024, net earnings was $24.3 million, $51.7 million or 68.0% lower compared to the same period in the prior year, primarily as a result of higher operating expenses, increased asset impairment expenses and lower interest income, partially offset by higher revenue.

In the three months ended December 31, 2024, our total comprehensive loss decreased $13.4 million compared to the same period in the prior year comprised of a $3.6 million decrease in net loss and an increase in other comprehensive income ("OCI") of $9.8 million (a gain in OCI of $4.4 million in the three months ended December 31, 2024 compared to a loss in OCI of $5.4 million in the same period in the prior year). The increase in OCI reflects an increase in the change in the fair value of our fuel swap contracts.

In the nine months ended December 31, 2024, total comprehensive income was $26.9 million compared to $81.2 million in the same period in the prior year. This decrease of $54.3 million is comprised of a $51.7 million decrease in net earnings and a $2.6 million decrease in OCI. The decrease in OCI reflects a decrease in the change in the fair value of our fuel swap contracts.

Operational Statistics

Select operational statistics for the three and nine months ended December 31, 2024 and 2023 are shown in the table below.

Operational Statistics	**Three months ended December 31**				**Nine months ended December 31**			
Vehicle Traffic	**2024**	**2023**	**Increase (Decrease)**	**%**	**2024**	**2023**	**Increase (Decrease)**	**%**
Major Routes	1,197,942	1,178,705	19,237	2%	4,467,057	4,340,849	126,208	3%
Northern Routes	7,581	7,329	252	3%	37,170	36,473	697	2%
Minor Routes	937,267	924,109	13,158	1%	3,317,830	3,260,339	57,491	2%
Total Vehicle Traffic	2,142,790	2,110,143	32,647	2%	7,822,057	7,637,661	184,396	2%
Passenger Traffic								
Major Routes	2,988,084	2,978,663	9,421	0%	11,745,414	11,610,779	134,635	1%
Northern Routes	16,724	16,246	478	3%	89,587	88,480	1,107	1%
Minor Routes	1,763,571	1,755,702	7,869	0%	6,724,660	6,655,250	69,410	1%
Total Passenger Traffic	4,768,379	4,750,611	17,768	0%	18,559,661	18,354,509	205,152	1%
Round Trips								
Major Routes	3,005	3,007	(2)	-	10,502	10,170	332	3%
Northern Routes	72	69	3	4%	331	316	15	5%
Minor Routes	18,855	19,052	(197)	(1%)	58,345	58,362	(17)	-
Total Round Trips	21,932	22,128	(196)	(1%)	69,178	68,848	330	0%
Capacity Provided (AEQs)*								
Major Routes	1,914,644	1,904,448	10,196	1%	6,610,396	6,391,713	218,683	3%
Northern Routes	14,170	13,745	425	3%	56,780	55,093	1,687	3%
Minor Routes	1,994,200	2,025,569	(31,369)	(2%)	6,238,945	6,229,424	9,521	0%
Total Capacity Provided	3,923,014	3,943,762	(20,748)	(1%)	12,906,121	12,676,230	229,891	2%
AEQs Carried *								
Major Routes	1,427,183	1,404,151	23,032	2%	5,261,633	5,120,446	141,187	3%
Northern Routes	9,364	9,017	347	4%	44,649	43,620	1,029	2%
Minor Routes	1,008,658	993,751	14,907	2%	3,567,752	3,505,636	62,116	2%
Total AEQs Carried	2,445,205	2,406,919	38,286	2%	8,874,034	8,669,702	204,332	2%
Capacity Utilization								
Major Routes	74.5%	73.7%	0.8%		79.6%	80.1%	(0.5%)	
Northern Routes	66.1%	65.6%	0.5%		78.6%	79.2%	(0.6%)	
Minor Routes	50.6%	49.1%	1.5%		57.2%	56.3%	0.9%	
Total Capacity Utilization	62.3%	61.0%	1.3%		68.8%	68.4%	0.4%	

* In accordance with the Coastal Ferry Services Contract terms for Performance Term Six (April 1, 2024 to March 31, 2028), round trips provided by water taxi, tugs and barges no longer count towards required round trips. Prior year round trips, capacity provided, AEQs carried and capacity utilization have been updated to exclude round trips provided by water taxi, tugs and barges for comparative purposes.

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

In the three months ended December 31, 2024, vehicle traffic increased 2% and passenger traffic was consistent with the same period in the prior fiscal year. Year-to-date, vehicle traffic increased 2% and passenger traffic increased 1% compared to the same period in the prior fiscal year (see "Operational Statistics" table for more detail).

In the three months ended December 31, 2024, we delivered 21,932 round trips, representing 196 less round trips compared to the same period in the prior year. In the nine months ended December 31, 2024, we delivered 69,178 round trips representing 330 additional round trips compared to the same period in the prior year, primarily as a result of 332 additional round trips provided on the Major Routes.

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of trips. The year-over-year change in the number of round trips provided can be impacted by cancellations and changes in demand or the number of trips stipulated by the Coastal Ferry Services Contract ("CFSC") between BC Ferries and the Province. In the three months ended December 31, 2024, the reduced round trips described above resulted in reduced capacity of 1% compared to the same period in the prior year, primarily on the Minor Routes. In the nine months ended December 31, 2024, the additional round trips described above resulted in increased capacity of 2% compared to the same period in the prior year, primarily as a result of increased round trips on the Major Routes.

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 underutilized in the other direction at the same time or day of the week (daily commuters and/or weekend visitors). In the three months ended December 31, 2024, overall capacity utilization was 62.3%, an increase of 1.3% compared to capacity utilization of 61.0% during the same period in the prior year. The increase in capacity utilization experienced during the three months ended December 31, 2024 was primarily the result of a higher number of AEQs carried and reduced capacity provided on the Minor Routes. Year-to-date, overall capacity utilization was 68.8% compared to capacity utilization of 68.4% during the same period in the prior year. This 0.4% increase in capacity utilization is primarily due to higher AEQs carried, partially offset by higher capacity provided.

In the three months ended December 31, 2024, we cancelled 2.7% (1.4% in the same period in the prior year) of our scheduled sailings, primarily due to the impact of adverse weather. Overall, during the three months ended December 31, 2024, cancelled sailings increased by 595 or 88% compared to the same period in the prior year, primarily due to adverse weather. The adverse weather cancellations in the three months ended December 31, 2024 primarily related to strong winds. Year-to-date, we cancelled 1.4% (1.2% in the same period in the prior year) of our scheduled sailings primarily due to adverse weather and mechanical issues. Cancellations due to crew shortages have decreased by 71% year-to-date compared to the same period in the prior year, reflecting the positive impact of actively recruiting and investing in our employees. Year-to-date, cancellations due to mechanical issues increased 252 or 48%, primarily due to the impact of the *Queen of New Westminster* being out of service as it undergoes repairs following the loss of its propeller.

Sailing Cancellations	**Three months ended December 31**			**Nine months ended December 31**		
	2024	**2023**	**Change**	**2024**	**2023**	**Change**
Sailings	47,650	47,828	(178)	149,737	148,799	938
Cancelled Sailings by type:						
Weather	864	356	508	977	624	353
Mechanical	282	197	85	782	530	252
Crew	75	100	(25)	162	561	(399)
Other *	48	21	27	154	132	22
Total Cancelled Sailings	1,269	674	595	2,075	1,847	228
Cancellations as % of Sailings	2.7%	1.4%	1.3%	1.4%	1.2%	0.2%
Crew Cancellations as % of Sailings	0.2%	0.2%	-	0.1%	0.4%	(0.3%)

*Sailing counts in the three months ended December 31, 2024 include route 13 sailings of 2,813 (8,703 year-to-date). Prior year sailings have been updated to include route 13 sailings of 2,830 (8,658 year-to-date) for comparison purposes.
** 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.

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.

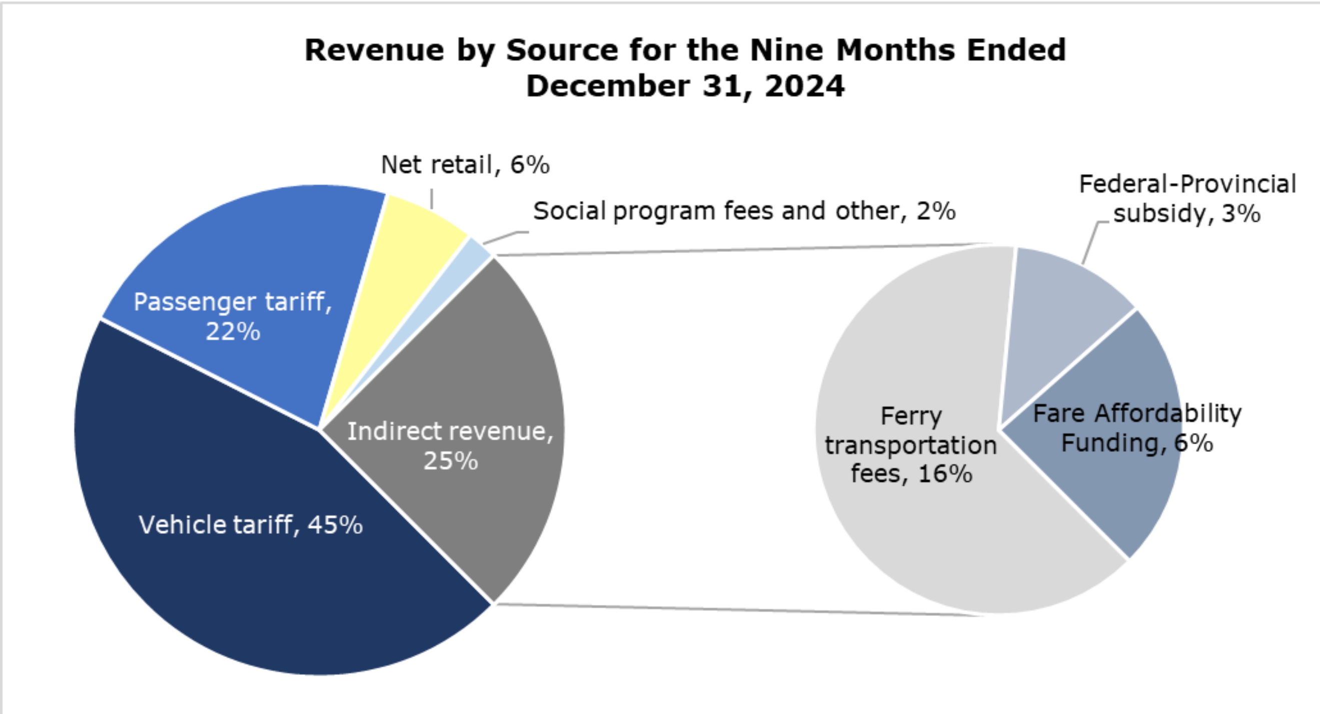
On-Time Performance*	**Three months ended December 31**			**Nine months ended December 30**		
	2024	**2023**	**Change**	**2024**	**2023**	**Change**
Major Routes	80.5%	77.8%	2.7%	71.6%	69.9%	1.7%
Northern Routes	90.3%	92.2%	(1.9%)	82.2%	84.6%	(2.4%)
Minor Routes	88.3%	89.1%	(0.8%)	83.5%	83.4%	0.1%
On-Time Performance	87.3%	87.7%	(0.4%)	81.9%	81.5%	0.4%

*The on-time performance % is a weighted average calculation based on the number of sailings (Major Routes account for 14% of the sailings for the nine months ended December 31, 2024).

In the three months ended December 31, 2024, overall on-time performance decreased 0.4% from 87.7% to 87.3% compared to the same period in the prior year. In the three months ended December 31, 2024, on-time performance declined in the Northern and Minor Routes, partially offset by increased on-time performance on the Major Routes compared to the same period in the prior year. Year-to-date, overall on-time performance increased 0.4% from 81.5% to 81.9% compared to the same period in the prior year. Year-to-date, on-time performance improved on the Major and Minor Routes, partially offset by lower on-time performance on the Northern Routes compared to the same period in the prior year.

Revenue
The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (a discussion of the effect of rate regulation can be found on page 49 of our fiscal 2024 Management's Discussion and Analysis).

Operational revenues for the nine months ended December 31, 2024 are shown in the graph below.



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

Revenue ($ millions)	Three months ended December 31				Nine months ended December 31			
			Increase (Decrease)				**Increase (Decrease)**	
	2024	**2023**	**$**	**%**	**2024**	**2023**	**$**	**%**
Direct Route Revenue	**184.5**	**180.6**	**3.9**	**2%**	**705.5**	**687.8**	**17.7**	**3%**
Vehicle tariff revenue								
Major Routes	96.8	88.9	7.9	9%	353.8	329.5	24.3	7%
Northern Routes	1.8	1.6	0.2	13%	10.3	9.9	0.4	4%
Minor Routes	14.6	13.6	1.0	7%	54.8	51.4	3.4	7%
Total vehicle tariff revenue	113.2	104.1	9.1	9%	418.9	390.8	28.1	7%
Passenger tariff revenue								
Major Routes	42.1	41.2	0.9	2%	164.7	161.4	3.3	2%
Northern Routes	0.9	0.8	0.1	13%	7.2	7.0	0.2	3%
Minor Routes	7.3	7.0	0.3	4%	29.8	28.6	1.2	4%
Total passenger tariff revenue	50.3	49.0	1.3	3%	201.7	197.0	4.7	2%
Net retail revenue								
Major Routes	13.3	13.0	0.3	2%	49.8	48.1	1.7	4%
Northern Routes	0.9	0.8	0.1	13%	4.3	3.9	0.4	10%
Minor Routes	1.2	1.0	0.2	20%	4.7	4.1	0.6	15%
Total net retail revenue	15.4	14.8	0.6	4%	58.8	56.1	2.7	5%
Social program fees	2.3	3.4	(1.1)	(32%)	9.7	10.3	(0.6)	(6%)
Other revenue	3.3	3.2	0.1	3%	10.6	10.4	0.2	2%
Fuel surcharge	-	6.1	(6.1)	-	5.8	23.2	(17.4)	(75%)
Indirect Route Revenue	**72.1**	**60.5**	**11.6**	**19%**	**235.1**	**203.2**	**31.9**	**16%**
Fare Affordability Funding	14.7	-	14.7	-	56.2	-	56.2	-
Safe Restart Funding	-	1.9	(1.9)	-	-	7.5	(7.5)	-
Ferry transportation fees	48.2	49.7	(1.5)	(3%)	151.2	169.0	(17.8)	(11%)
Federal-Provincial subsidy	9.2	8.9	0.3	3%	27.7	26.7	1.0	4%
Total Route Revenue	256.6	241.1	15.5	6%	**940.6**	**891.0**	**49.6**	**6%**
Other general revenue	0.8	0.5	0.3	60%	3.0	19.0	(16.0)	(84%)
Total Revenue	257.4	241.6	15.8	7%	**943.6**	**910.0**	**33.6**	**4%**

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 1, 2024, BC Ferries implemented average tariff increases of 3.2% in accordance with the Commissioner's Order 23-04 dated September 30, 2023.

During the three months ended December 31, 2024, total direct route revenue increased $3.9 million or 2% ($17.7 million or 3% year-to-date) compared to the same period in the prior year, primarily as a result of an increase in tariff rates, vehicle traffic levels and net retail revenue, partially offset by lower fuel surcharges.

Average Tariff	Three months ended December 31				Nine months ended December 31			
			Increase				Increase	
	2024	2023	$	%	2024	2023	$	%
Average vehicle tariff								
Major Routes	80.81	75.42	5.39	7%	79.20	75.91	3.29	4%
Northern Routes	237.44	218.31	19.13	9%	277.11	271.43	5.68	2%
Minor Routes	15.58	14.72	0.86	6%	16.52	15.77	0.75	5%
Average vehicle tariff	52.83	49.33	3.50	7%	53.55	51.17	2.39	5%
Average passenger tariff								
Major Routes	14.09	13.83	0.26	2%	14.02	13.90	0.12	1%
Northern Routes	53.81	49.24	4.57	9%	80.37	79.11	1.26	2%
Minor Routes	4.14	3.99	0.15	4%	4.43	4.30	0.13	3%
Average passenger tariff	10.55	10.31	0.24	2%	10.87	10.73	0.14	1%

During the three months ended December 31, 2024, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $3.50 or 7% ($2.39 or 5% year-to-date) as a result of the mix of traffic and fare types compared to the same period in the prior year. In the three months ended December 31, 2024, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.24 or 2% ($0.14 or 1% year-to-date) compared to the same period in the prior year. In the three months ended December 31, 2024, the increase in vehicle traffic levels and the change in average tariff revenue resulted in a total tariff revenue increase of $10.4 million or 7% (an increase in vehicle tariff revenue of $9.1 million and an increase in passenger tariff revenue of $1.3 million) compared to the same period in the prior year. Year-to-date, the increase in average tariff rates and vehicle traffic levels resulted in a total tariff revenue increase of $32.8 million or 6% year-to-date (an increase in vehicle tariff revenue of $28.1 million and an increase in passenger tariff revenue of $4.7 million) as a result of the mix of traffic and fare types compared to the same period in the prior year.

Retail sales are a significant source of revenue from customers, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In the three months ended December 31, 2024, net retail revenue increased $0.6 million ($2.7 million year-to-date) compared to the same period in the prior year, primarily as a result of an increase in average spend per passenger.

Social program fees are reimbursements from the Province for discounted fares provided to students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Medical Travel Assistance Program ("MTAP"). Social program fees for the three months ended December 31, 2024 decreased $1.1 million compared to the same period in the prior year, mainly due to reduced medical assured loading revenue. Social program fees for the nine months ended December 31, 2024 decreased $0.6 million, mainly due to reduced medical assured loading revenue, partially offset by higher tariff rates and increased student travel compared to the same period in the prior year.

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 fuel surcharge of 4% was in place on all routes during fiscal 2024 until it was removed in fiscal 2025 effective June 1, 2024. In the three months ended December 31, 2024, fuel surcharges decreased $6.1 million ($17.4 million year-to-date) compared to the same period in the prior year. For the purpose of rate regulation and regulatory reporting, surcharges and/or rebates are applied to our deferred fuel cost accounts.

In the three months ended December 31, 2024, total indirect route revenue increased by $11.6 million ($31.9 million year-to-date) compared to the same period in the prior year, mainly as a result of the introduction of Fare Affordability Funding (see below), partially offset by a decrease in ferry transportation fees due to timing of service provided in the year and the final recognition of Safe Restart Funding in fiscal 2024.

On March 31, 2023, the Province and BC Ferries entered into a $500 million contribution agreement to support the fare affordability initiative of keeping fare increases around 3% ("Fare Affordability Funding") and green house gas ("GHG") emissions reduction initiatives during performance term six ("PT6") under the CFSC, which covers the period from April 1, 2024 to March 31, 2028.

The first installment payment of $50 million was received on September 26, 2024. The Fare Affordability Funding will be recognized on a systematic basis in accordance with the terms of the contribution agreement with the Province. In the three months ended December 31, 2024, $14.7 million ($56.2 million year-to-date) of Fare Affordability Funding was recognized in revenue and $6.2 million was receivable from the Province as at December 31, 2024.

In fiscal 2021, we received $308 million from the Province as part of the provincial and federal governments' Safe Restart Funding program for performance term five ("PT5") (which commenced April 1, 2020 and ended on March 31, 2024). The final $10.4 million of Safe Restart Funding was recognized in fiscal 2024, the final year of PT5.

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 ferry transportation fees. On June 30, 2023, the CFSC was amended for PT6 to, among other things, establish ferry transportation fees for PT6. The ferry transportation fees of $194 million per contract year in PT6, was consistent with the ferry transportation fees amount in PT5, but the timing of the revenue recognition differs within each year. In the three months ended December 31, 2024, ferry transportation fees decreased $1.5 million ($17.8 million year-to-date) compared to the same period in the prior year, primarily due a change in the terms of the amendments to the CFSC for PT6.

Under the terms of the CFSC, we receive an annual amount from the Province based on the Province's agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. This Federal-Provincial subsidy increased based on the percentage increase in the annual Consumer Price Index (Vancouver).

In the three months ended December 31, 2024, other general revenue increased $0.3 million compared to the same period in the prior year. In the nine months ended December 31, 2024, other general revenue decreased $16.0 million compared to the same period in the prior year, primarily as a result of reduced sales of carbon credits, which are earned through the use of electricity and purchase of natural gas and use of LNG (a lower carbon fuel than diesel). For regulatory purposes, BC Ferries directs the revenue earned through the sale of earned carbon credits into a Carbon Reduction Investment Account ("CRIA"). By Order 22-01, the Commissioner had authorized BC Ferries to create the CRIA in support of funding infrastructure investments identified in its Clean Futures Plan and to progress GHG emission reduction projects.

Expenses
Expenses for the three and nine months ended December 31, 2024 and 2023 are summarized in the table below:

Operating expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2024	**2023**	**Increase (decrease)**	**2024**	**2023**	**Increase**
Operations	179.3	181.0	(1.7)	584.5	539.0	45.5
Maintenance	35.2	33.5	1.7	101.9	87.9	14.0
Administration	14.1	13.7	0.4	41.4	38.8	2.6
Total operations, maintenance & administration	228.6	228.2	0.4	727.8	665.7	62.1
Depreciation and amortization	50.1	46.3	3.8	149.9	139.0	10.9
Total operating expenses	278.7	274.5	4.2	877.7	804.7	73.0

During the three months ended December 31, 2024, total operating expenses increased $4.2 million or 2% ($73.0 million or 9% year-to-date) compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 75% (77% year-to-date) of our total operations, maintenance and administration costs. Total operations, maintenance and administration expenses during the three months ended December 31, 2024 increased $0.4 million or less than 1% ($62.1 million or 9% year-to-date) primarily driven by higher wage rates, benefits and fuel prices. We continue our strong focus on operating as effectively and efficiently to maximize operating profit and net earning results.

The collective agreement between the Company and the BC Ferry & Marine Workers' Union ("Collective Agreement") provides for wage re-openers in years four and five (for wage increases at April 1, 2024 and April 1, 2025). On March 28, 2024, an arbitration panel released its binding decision for the year-four wages. Members of the Union received a one-year 7.75% general wage increase, with many jobs receiving "special increases", including some licenced mariners receiving up to an additional 10%. These increases were retroactive to October 1, 2023, effective six months prior to April 1, 2024. Negotiations are currently underway for the year-five wage re-opener, followed by the full Collective Agreement negotiations expected to begin in the summer of 2025 as the agreement 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 more 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. Eligible Exempt Employees received a further 2% general wage increase effective April 1, 2024.

The $1.7 million or 1% decrease in operations expenses in the three months ended December 31, 2024, compared to the same period in the prior year, includes:

- $5.4 million decrease in labour costs, mainly due to revaluation of unionized employee timebank values as at October 1, 2023;
  partially offset by:
- $3.2 million increase in contracted services, insurance and other miscellaneous expenses; and
- $0.5 million increase in fuel expense reflecting higher fuel prices, partially offset by lower fuel consumption.

The $45.5 million or 8% increase in operations expenses for the nine months ended December 31, 2024, compared to the same period in the prior year, includes:

- $25.2 million increase in labour costs, mainly due to wage rate increases per the Collective Agreement, increased overtime, illness, training, and benefit costs;
- $11.4 million increase in fuel expense primarily reflecting higher fuel prices; and
- $8.9 million increase in contracted services, travel, materials and supplies, credit card fees, and other miscellaneous expenses.

Maintenance costs increased $1.7 million or 5% ($14.0 million or 16% year-to-date) in the three months ended December 31, 2024 compared to the same period in the prior year, primarily as a result of the cyclical nature of vessel refit activity, unplanned vessel repairs, increased labour rates and other inflationary cost increases.

Administration costs increased $0.4 million or 3% in the three months ended December 31, 2024 compared to the same period in the prior year. Administration costs increased $2.6 million or 7% year-to-date compared to the same period in the prior year, primarily as a result of increased labour and benefits.

Depreciation and amortization increased $3.8 million or 8% ($10.9 million or 8% year-to-date) in the three months ended December 31, 2024 compared to the same period in the prior year, reflecting the depreciation of asset decommissioning and restoration costs and the timing of capital assets entering service. In fiscal 2024, BC Ferries recognized a provision of $69.0 million in asset decommissioning costs for 41 vessels. (see "Investing in our Capital Assets" for details of capital asset expenditures.)

Net finance and other expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2024	**2023**	**Variance**	**2024**	**2023**	**Variance**
Finance expense	17.4	17.0	0.4	52.7	51.0	1.7
Less: finance income	(6.2)	(8.2)	2.0	(18.3)	(21.9)	3.6
Net finance expense	11.2	8.8	2.4	34.4	29.1	5.3
Net loss on disposal and impairment of property, plant and equipment, intangible assets and other charges	5.7	0.1	5.6	7.2	0.2	7.0
Total net finance and other expenses	16.9	8.9	8.0	41.6	29.3	12.3

In the three months ended December 31, 2024, net finance and other expenses increased $8.0 million ($12.3 million year-to-date) compared to the same period in the prior year, primarily related to higher property, plant and equipment impairment costs, lower interest earned and increased asset decommissioning provision accretion expenses.

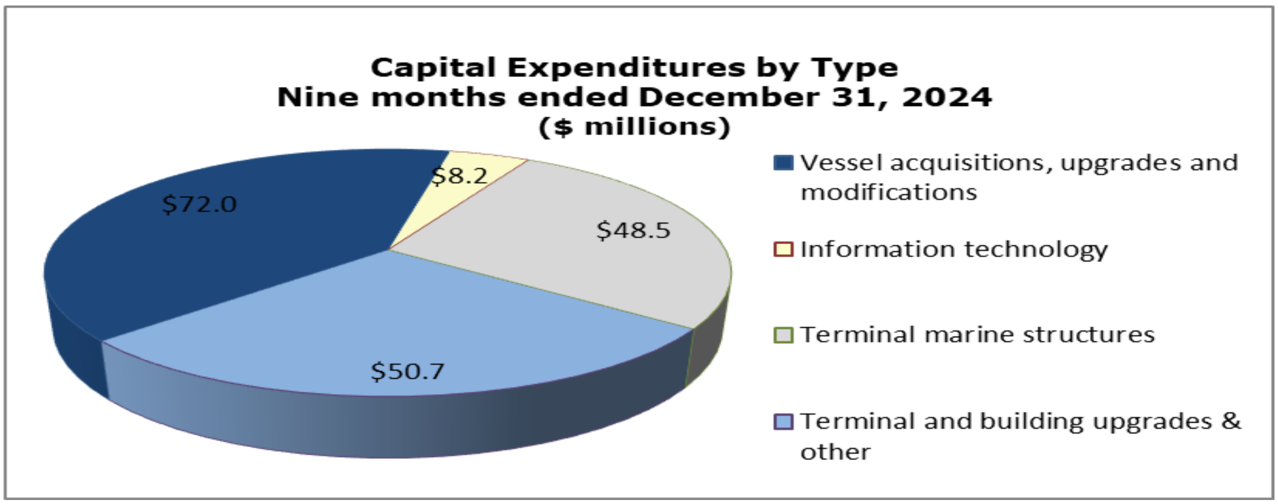
INVESTING IN OUR CAPITAL ASSETS

Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our Fleet Maintenance Unit ("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.

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 the nine months ended December 31, 2024 we recognized $0.2 million ($nil in fiscal 2024) of this funding, as a reduction to the cost of the property, plant and equipment.

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 from the Province. 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. During the nine months ended December 31, 2024, we recognized $0.5 million ($nil in fiscal 2024) of this funding as a reduction to the cost of the property, plant and equipment.

In the nine months ended December 31, 2024, capital expenditures (net of funding) comprised the following:



Capital Expenditures ($ millions)	**Three months ended December 31, 2024**	**Nine months ended December 31, 2024**
Fleet maintenance unit redevelopment	8.5	28.1
Island Class Phase 3	1.2	24.8
Major overhauls and inspections	18.4	20.8
Right-of-use assets	16.1	16.8
Swartz Bay berth 5 upgrade	3.5	11.9
Renaissance quarter-life upgrade	6.1	10.0
Shearwater berth life replacement	1.0	8.7
Celebration quarter-life upgrade	0.3	5.6
Tsawwassen breakwater life extension	1.1	6.3
Hardware upgrades	1.7	3.9
New major vessels	0.7	2.4
Sturdies Bay marine structure life extension	0.1	1.4
Coastal Class rotor replacements	-	1.3
Various other projects	9.1	37.4
	67.8	179.4

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 is redeveloping the site to increase efficiencies and the capacity of the site, building a new machine shop and upgrading existing buildings at the site. Upgrades to some of the existing buildings are nearing completion and the full scope of the project is expected to be completed by fiscal 2028.

Island Class Phase 3

On December 7, 2023, the Commissioner issued Order 23-05 approving a major capital expenditure to 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 Shipyards Group of Netherlands a design-build, fixed-price contract for four new hybrid electric Island Class vessels. On July 16, 2024, BC Ferries announced that the first steel cuts were made, marking the start of production of the first two of four new Island Class vessels at Damen. On November 1, 2024, BC Ferries announced the successful keel laying for the first two of four 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 are planned to enter service by 2027 on the routes connecting Nanaimo Harbour to Gabriola Island, and Campbell River to Quadra Island. This will enable the redeployment of the current Island Class vessels, resulting in a cascading effect of capacity improvements elsewhere, along with resiliency for all routes serviced by Island Class vessels during refit periods and unexpected vessel issues. Island Class vessels have a capacity to carry approximately 47 vehicles and 400 passengers.

Major overhauls and inspections

In the three months ended December 31, 2024, we incurred capital expenditures of $18.4 million ($20.8 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for four vessels that was completed or underway.

Right-of-use assets

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 the three months ended December 31, 2024, we recognized $16.1 million ($16.8 million year-to-date) as a right-of-use asset with a corresponding liability, primarily related to an office space lease extension.

Swartz Bay berth 5 upgrade

A project to upgrade Swartz Bay Berth 5 to allow the operation of Salish Class vessels at the berth is expected to complete in fall of fiscal 2026.

Coastal Renaissance quarter-life upgrade

The quarter-life upgrade of the *Coastal Renaissance,* expected to complete in fiscal 2026, includes upgrades to its propulsion, electrical, communication systems and catering and safety equipment.

Shearwater berth life replacement

A project to replace the marine structures at Shearwater, including the pontoon, ramp and floating lead, and was completed in the third quarter of fiscal 2025.

Coastal Celebration quarter-life upgrade

The quarter-life upgrade of the *Coastal Celebration,* expected to complete in fiscal 2026, includes upgrades to its propulsion, electrical, communication systems and catering and safety equipment.

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 is expected to complete in the first quarter of fiscal 2026.

Hardware upgrades

Hardware upgrades which includes the replacement of aged computers, servers, printers, routers, closed-circuit cameras, antennas and handheld point of sale system units.

New Major Vessels

On December 13, 2024, BC Ferries announced that is has formally submitted its application to the Commissioner for approval of BC Ferries' NMV project.

The NMV project announced on September 16, 2024, that the RFP process had began with contracts expected to be awarded in spring of 2025, subject to project approval from the Commissioner. To address projected population growth, replace aging vessels and meet customer travel needs, BC Ferries is progressing the procurement process for the first five of seven new vessels necessary to provide capacity for its busiest routes, with the remaining two new vessels to be built in a later phase. In addition, upgrades will be planned to extend the operational lives of the Queen of Surrey and the Queen of Oak Bay.

The first ship is expected to start service in 2029, with all five anticipated to be in service by 2031. The RFP and regulatory application to the Commissioner represent a significant milestone in BC Ferries' fleet renewal strategy and efforts to increase capacity and resilience on the Major Routes. The second phase of the NMV project will be conducted with the aim to award contracts for the additional two vessels by 2033, and have these ships enter service by approximately 2037.

Sturdies Bay marine structure life extension

A project to upgrade the marine structures at Sturdies Bay, including the trestle and ramp, is underway and expected to complete in the first quarter of fiscal 2026.

Various other projects

Various other projects expenditures of $37.4 million include, among others, upgrades to various vessel's navigational and catering equipment, a three-quarter life upgrade to the *Queen of Capilano*, vehicle and other equipment replacements, upgrades to marine structures at various terminals, various software upgrades and terminal efficiency initiatives.

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

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

On February 26, 2023, the Province announced $500 million in Fare Affordability 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 was received on September 26, 2024. The contribution agreement can be found on SEDAR+ at www.sedarplus.ca.

At December 31, 2024, our unrestricted cash and cash equivalents and other short-term investments totalled $292 million and $35 million, respectively, compared to unrestricted cash and cash equivalents and other short-term investments of $32 million and $339 million, respectively, as at March 31, 2024.

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 December 31, 2024, letters of credit outstanding against this Credit Facility totalled $10.1 million.

We target maintaining a strong investment-grade credit rating to allow capital market access at cost effective interest rates. On November 18, 2024, S&P lowered BC Ferries' long-term issuer credit and senior secured debt ratings to "A+" from "AA-", with a stable outlook. On December 6, 2024, DBRS confirmed BC Ferries' issuer rating and senior secured bonds credit rating at A (high) and changed the trends to negative from stable.

Under the MTI, effective during the period ended December 31, 2024, an agreement that in part secures and governs the Company's borrowings, we are subject to indebtedness tests that prohibit additional borrowing if our leverage ratio exceeds 85% or if our debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.50x. On January 20, 2025, BC Ferries announced that it has successfully obtained approval of an amendment to remove Section 6.5(e)(ii) of the Company's MTI, eliminating the leverage ratio as an Additional Indebtedness covenant under the condition the common shares of BC Ferries remain wholly owned by the BC Ferry Authority, the Province or any Crown Corporation.

At December 31, 2024, we achieved a debt service coverage ratio of 2.42x and were in compliance with our financial covenants under the MTI and the Credit Facility.

The Company's operational performance for the nine months ended December 31, 2024 has resulted in a $24.3 million increase in equity before reserves, from $651.9 million as at March 31, 2024 to $676.3 million as at December 31, 2024. BC Ferries' leverage ratio of 70% as at December 31, 2024 and 71% March 31, 2024 is in compliance with our indebtedness test requirements.

($ thousands)	**December 31, 2024**		**March 31, 2024****	
	$	%	$	%
Aggregate borrowings *	1,604,119	70%	1,598,400	71%
Total equity before reserves	676,267	30%	651,943	29%
Total	2,280,386	100%	2,250,343	100%

* Includes long-term debt, lease liabilities including current portions, Credit Facility (drawn and undrawn) and short-term borrowings.
** See "Accounting Practices, Adjustment of balances" for details of changes to March 31, 2024 amounts.

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 the nine month periods of December 31, 2024 and 2023 are summarized in the table below:

	Nine months ended December 31		
($ millions)	**2024**	**2023**	**Increase (Decrease)**
Cash and cash equivalents, beginning of year	31.9	87.1	(55.2)
Cash from operating activities:			
Net earnings	24.3	76.0	(51.7)
Items not affecting cash	183.1	166.0	17.1
Changes in non-cash operating working capital	(39.9)	7.4	(47.3)
Net interest paid	(28.7)	(34.2)	5.5
Cash generated from operating activities	138.8	215.2	(76.4)
Cash (used in) financing activities	(11.1)	(11.0)	(0.1)
Cash from (used in) investing activities	132.2	(157.6)	289.8
Net increase in cash and cash equivalents	259.9	46.6	213.3
Cash and cash equivalents, end of year	291.8	133.7	158.1

For the nine months ended December 31, 2024, cash generated from operating activities decreased $76.4 million compared to the same period in the prior year, primarily due to a decrease in net earnings and changes in working capital (receivables, prepaids, payables and contracted liabilities). The decrease in net earnings reflects the increase in operating expenses, partially offset by an increase in revenues.

Cash used in financing activities in the nine months ended December 31, 2024 was $11.1 million ($11.0 million in fiscal 2024). This amount consisted of $8.5 million ($8.5 million in fiscal 2024) in repayment of our loans from KfW IPEX-Bank GmbH and $2.6 million ($2.5 million in fiscal 2024) in repayment of lease obligations.

Cash generated from investing activities for the nine months ended December 31, 2024 was $132.2 million comprised of a $303.9 million increase in net redemptions of short-term investments partially offset by capital asset purchases of $171.7 million. Cash used in investing activities for the nine months ended December 31, 2023 was $157.6 million, comprised of $146.4 million in capital asset purchases and $11.2 million used in short-term investing.

For the nine months ended December 31, 2024, cash and cash equivalents increased $158.1 million (from $133.7 million to $291.8 million) compared to the same period in the prior year, mainly as a result of funds being transferred from short-term investments, partially offset by reduced cash generated from operating activities and capital asset purchases. Unrestricted short-term investments for the nine months ended December 31, 2024 decreased $303.8 million (from $339.0 million to $35.2 million) compared to the same period in the prior year.

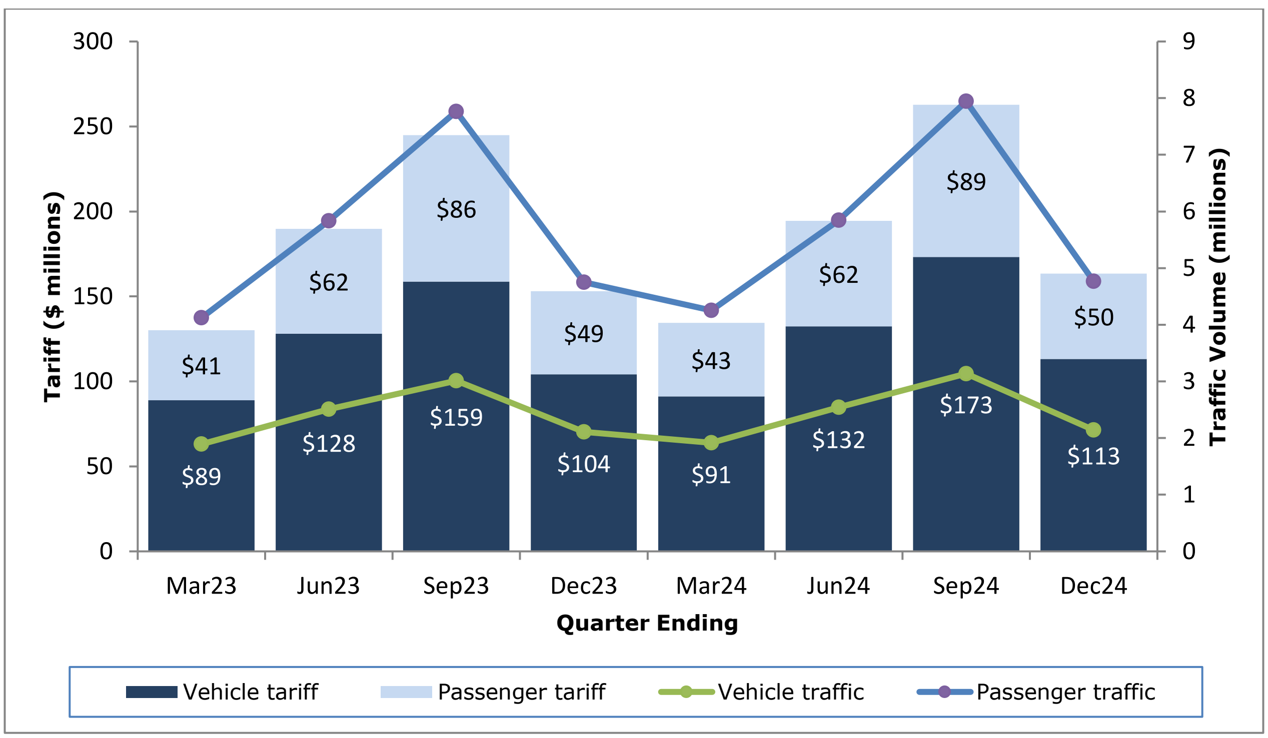
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)							
($ millions)	**Mar 23**	**Jun 23**	**Sep 23**	**Dec 23**	**Mar 24**	**Jun 24**	**Sep 24**	**Dec 24**
Total revenue	200	287	381	242	201	303	383	257
Operating expenses	255	261	269	275	283	299	300	279
Operating (loss) profit	(55)	26	112	(33)	(82)	4	83	(22)
Net (loss) earnings	(67)	15	102	(42)	(106)	(9)	71	(38)

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 eight 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 its highest ever vehicle and passenger traffic. In the nine months ended December 31, 2024, BC Ferries continued to experience higher passenger and vehicle traffic levels compared to the same period in the prior year.

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, competition, transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, disposable personal income and vessel mechanical issues causing cancellations.

BC Ferries is experiencing upward pressure on both operating and capital costs. Future increases in inflation, higher interest rates and weakening economic conditions could result in impacts to customer demand, future profitability and future funding opportunities. BC Ferries continues to pursue efficiencies and opportunities to minimize costs.

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 Funding 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.

As part of supporting the future needs of the ferry system, BC Ferries has obtained approval from its bondholders to amend one of its additional indebtedness requirement covenants under its MTI. This amendment, in part, brings the MTI more closely in line with the indentures of other infrastructure issuers in the marketplace. BC Ferries remains focused on fiscal prudence and continues to adhere to covenants as an additional indebtedness test under the MTI, including debt service coverage ratio limitations and debt service reserve requirements.

Risks and Uncertainties
Understanding and managing operational and financial risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 35 through 45 of our fiscal 2024 Management's Discussion & Analysis, which is available on SEDAR+ at www.sedarplus.ca and on our investor webpage at https://www.bcferries.com/our-company/investor-relations. Our risk profile is substantially unchanged during the nine months ended December 31, 2024.

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

Our significant accounting policies are contained in Note 1 to our March 31, 2024 audited consolidated financial statements and remain unchanged except as noted below. Some of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 46 through 49 of our fiscal 2024 Management's Discussion & Analysis.

Amended Accounting Policy
During the period ended December 31, 2024, we expanded our revenue accounting policy to include the accounting policy applied to the Fare Affordability Funding as below:

Fare Affordability Funding is recognized systematically in accordance with the $500 million contribution agreement between BC Ferries and the Province. This funding is recognized to support achieving the fare affordability initiative to keep annual fare increases around 3%. Any excess amount will be applied to GHG emission reduction initiatives.

Adjustment of balances
BC Ferries identified that at the inception of an office building lease in 2010 an option to purchase was incorrectly included in the value of the right of use property, plant and equipment and the right of use lease liability, instead of included in the value of the loan receivable. BC Ferries identified that the loan receivable was valued incorrectly at amortized cost instead of fair value through profit or loss. BC Ferries has concluded that the impact of this change is immaterial, however, has adjusted for the cumulative effect and adjusted the carrying amount of assets, liabilities, retained earnings, net earnings and reserves. The following table summarizes the impacts on BC Ferries' condensed interim consolidated financial statements. The impact of this adjustment on the March 31, 2023 statement of financial position is consistent with the adjustment to the March 31, 2024 statement of financial position.

	Balance as reported	Adjustment	Balance as adjusted
Statement of Financial Position as at March 31, 2024			
Loan receivable	**24,515**	**10,872**	**35,387**
Property, plant & equipment	**1,987,881**	**(39,442)**	**1,948,439**
Current lease liabilities	**3,298**	**1,020**	**4,318**
Non-current lease liabilities	**32,623**	**(23,987)**	**8,636**
Retained earnings	**545,473**	**5,992**	**551,465**
Reserves	**69,290**	**(11,595)**	**57,695**
Statement of Changes in Equity as at April 1, 2023			
Retained earnings	**582,896**	**5,070**	**587,966**
Reserves	**76,482**	**(11,595)**	**64,887**

	Three months ended December 31, 2023			Nine months ended December 31, 2023		
	Balance as reported	**Adjustment**	**Balance as adjusted**	**Balance as reported**	**Adjustment**	**Balance as adjusted**
Statements of Profit or Loss						
Finance income	**(7,960)**	**(232)**	**(8,192)**	**(21,239)**	**(686)**	**(21,925)**
Net (loss) earnings	**(42,055)**	**232**	**(41,823)**	**75,280**	**686**	**75,966**

	Nine months ended December 31, 2023		
	Balance as reported	**Adjustment**	**Balance as adjusted**
Statement of Cash Flows			
Net finance expense	**29,810**	**(686)**	**29,124**

Adoption of New Accounting Standards

Effective April 1, 2024, we adopted amendments to IAS 1, *Presentation of Financial Statements* regarding the classification of liabilities as current or non-current, amendment to IFRS 16, *Leases* regarding sale-and-leaseback transactions and IAS 7, *Statement of Cash Flows* regarding supplier finance arrangements. These amendments had no impact on BC Ferries' financial statements.

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 relative to the US Dollar, inflation, interest rates, fuel costs, construction costs and timelines, cyclical demand, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the CFSC.

Examples of forward looking statements included in this document include, but are not limited to, statements with respect to: price caps and the impact of high costs on operating results, anticipated customer demand, upcoming negotiations regarding the year-five wage-reopener and Collective Agreement, the impact of wage increases, future traffic volumes, fuel surcharges, the impact of high inflation and rising interest rates, anticipated government funding and our anticipated use of the same, the need for sufficient net earnings and ongoing access to capital, vehicle and passenger fares, cash requirements and sources of cash flows, debt issuances, our credit rating and credit risks, reliance on sources of external funding, cyclical traffic patterns and adverse weather events and the impact on operations, economic conditions and their impact on financial performance, the availability of financing, fuel prices, vessel electrification, vessel replacement, repair and planning strategies (including the Island Class and NMV projects), vessel standardization efforts and anticipated impacts on capacity, capital plans and major capital initiatives, including anticipated timelines for completion and the potential for delays, anticipated approvals including commissioner approval, the impact of capital asset inflation on capital investment costs, investment in information technology systems, 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, inflation, interest rates, foreign currency, fuel prices, traffic fluctuations, timelines of major capital projects, security, safety, and environmental incidents, cyber security breaches, changes in laws, vessel repair facility limitations, economic regulatory environment changes, tax changes, and Indigenous consultations.

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

Non-IFRS Measures

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