



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

For the fiscal year ended
March 31, 2022

Dated June 23, 2022

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**Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the year ended March 31, 2022
Dated June 23, 2022**

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, 2022 that has been prepared with information available as of June 23, 2022. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2022 ("fiscal 2022") and March 31, 2021 ("fiscal 2021"). These documents are available on the System for Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on our investor webpage at http://www.bcferrries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries is an independent company, providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 39 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other routes through contracts with independent operators.

Our service is an integral part of British Columbia's coastal transportation system and has been designated by the provincial government of British Columbia (the "Province") as an essential service for purposes of the provincial Labour Relations Code. This designation means our services are considered necessary for the protection of the health, safety and welfare of the residents of British Columbia.

Our principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset initiatives.

The impact of the COVID-19 pandemic with corresponding preventative measures and imposed travel restrictions began to be felt in passenger and vehicle traffic and revenue numbers in March 2020. The impact continued in fiscal 2022 and included significant declines in revenue, earnings and cash from operations compared to a pre-COVID-19 pandemic period. On June 15, 2021, during the first quarter of fiscal 2022, the Province lifted travel restrictions, imposed by the Province on April 23, 2021, which had denied travel to customers travelling for non-essential reasons. With the lifting of these restrictions, we experienced a significant increase in traffic during the remaining three quarters of the fiscal year.

In fiscal 2022, passenger traffic increased 37% and vehicle traffic increased 26% compared to fiscal 2021. While these increases are significant, passenger and vehicle traffic in fiscal 2022 was lower by 20% and 5%, respectively, compared to same period in fiscal 2019, a pre-COVID-19 year.

In December 2020, we received \$308.0 million from the Province (the "Safe Restart Funding") as part of the provincial and federal governments' Safe Restart Funding program, which significantly increased our cash position and mitigated the need for incremental borrowing. To date, we have recognized a total of \$288.3 million in Safe Restart Funding: \$102.3 million in fiscal 2022 and \$186.0 million in fiscal 2021. We are projecting to recognize the remaining \$19.7 million (comprised of \$17.0 million for fare relief and \$2.7 million for discretionary sailings) as follows: \$9.3 million in fiscal 2023 and \$10.4 million in fiscal 2024. (See "Operational Statistics and Revenues" for further details).

Significant events during or subsequent to fiscal 2022 include the following:

General

- Our principal priorities continue to be the safety of our passengers and employees and adhering to provincial and federal guidelines and directives as we provide essential ferry service. We are following closely the COVID-19 directives and guidance provided by the Province and Transport Canada. On June 15, 2021, the Provincial Health Officer lifted travel restrictions imposed by the Province on April 23, 2021, which prevented customers from travelling for non-essential reasons on routes crossing regional zones as defined by the Province in Ministerial Order M182. Effective as of March 11, 2022, BC Ferries removed the mandatory mask-wearing policy that had applied to passengers and employees to align with the notice of the Provincial Health Officer. Wearing face coverings is now encouraged, but not required in indoor public spaces.
- At April 1, 2021, we implemented average tariff increases of 2.3% in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 19-04 dated September 30, 2019 and in accordance with the Safe Restart Funding Agreement.
- On November 5, 2021, BC Ferries launched its COVID-19 Vaccination Policy for all employees. Ship-based employees were required to be fully vaccinated by January 24, 2022 and all other employees by February 28, 2022. The policy's application to vessel-based employees was mandated by Transport Canada, however, we believe implementing a mandatory vaccination policy for all employees is the right thing to do to protect everyone who works for, or travels with, BC Ferries.
- On January 10, 2022 and again on March 25, 2022, we informed the public of the potential risk to sailing times and service delivery as a result of crew shortages. (See "Business Risk Management" for more details).
- Effective June 1, 2022, a surcharge of 2.5% was implemented on all routes due to rising fuel costs. A fuel surcharge of 1.0% was introduced on March 1, 2022, on all routes except the Northern Routes. On the Northern Routes, the 1.5% fuel rebate, which had been in place since April 1, 2020, was removed effective March 1, 2022.
- On June 20, 2022, the B.C. Ferry Authority appointed six new board members to the British Columbia Ferry Services Inc. Board to replace six board members who have concluded their time on the board.

Capital Assets

- On March 3, 2022, the *Salish Heron* arrived in Canada from Remontowa Shipbuilding S.A. in Gdansk, Poland, sailing more than 10,400 nautical miles. The *Salish Heron* is identical to our three existing Salish Class vessels, which are dual-fuel capable, designed to run primarily on liquefied natural gas (“LNG”), a cleaner and lower carbon-intensity option. The vessel has the capacity to carry approximately 138 vehicles and up to 600 passengers and crew. This fourth Salish Class vessel replaced the 57-year old *Mayne Queen*, a diesel-fuelled vessel, and entered service in the Southern Gulf Islands on May 6, 2022.
- Four new Island Class vessels arrived in Canada from Damen Shipyard Galati in Romania on July 22, August 13, September 27 and December 21, 2021 respectively. All of the four new vessels are scheduled to enter service in 2022 and will bring the fleet total of Island Class vessels to six. The new vessels are outfitted with hybrid diesel-electric propulsion and each have the capacity to carry 47 vehicles and up to 400 passengers and crew.
- On April 12, 2022, we introduced two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities. This augmented service using two of the four new Island Class vessels, results in increased capacity and sailing frequency to these communities. (See “Investing in Our Capital Assets” for more detail).

CORPORATE STRUCTURE

Coastal Ferry Services Contract

We operate ferry services under a regulatory regime 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' one common share is held by the B.C. Ferry Authority (the "Authority").

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

Under the terms of the CFSC, we receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. 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 performance term or any subsequent four-year period during the term of the CFSC. Fiscal 2022 was the second year of performance term five ("PT5") which commenced April 1, 2020 and ends on March 31, 2024.

Effective April 1, 2020, the CFSC was amended for PT5 to, among other things, establish ferry transportation fees for the four-year period.

In April 2020, the CFSC was initially amended for a 60-day period, subsequently extended through to September 7, 2020, to permit temporarily reduced service levels in response to the COVID-19 pandemic while maintaining the related ferry transportation fees. The amendment is available at http://www.bcferries.com/about/More_Information.html.

On February 23, 2022, the Province tabled Bill 7 (first reading), introducing changes to the Act to strengthen the Authority's oversight of the delivery of coastal ferry services. The bill requires three readings in the B.C. Legislature and approval by the Lieutenant Governor before forming part of the laws of the Province of British Columbia. If enacted in its tabled form, the proposed amendments to the Act would, among other things, enable the Authority, by resolution of its directors, and in support of the public interest, to issue binding directions to the Company.

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

Performance term five

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

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

On July 26, 2021, the Commissioner issued Order 21-01, conditionally approving our application for a major capital expenditure for the Island Class electrification program.

On October 15, 2021, the Commissioner issued Order 21-02, conditionally approving our application to temporarily reduce core service levels on one of our Northern Routes.

On April 20, 2022, the Commissioner issued Order 22-01, approving the creation of a Carbon Reduction Investment Account for a 5-year term, subject to the Ministry of Energy Mines and Low Carbon Innovation's approval of BC Ferries' carbon-credit compliance report and the realization of the sale of carbon credits. On March 11, 2022, we submitted an application to the Commissioner seeking approval to direct revenue generated through the sale of earned carbon credits to reinvest in emission reduction initiatives.

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.

During fiscal 2022, we delivered 82,743 round trips, an increase of 3,289 or 4% compared to the prior year. We carried 17.9 million passengers and 8.5 million vehicles during fiscal 2022, an increase of 37% and 26%, respectively, compared to the prior year.

(\$ millions)	Year ended March 31		
	2022	2021	Variance
Total revenue	965.4	865.3	100.1
Operating expenses	868.0	779.8	88.2
Operating profit	97.4	85.5	11.9
Net finance and other	63.3	64.5	1.2
Net earnings	34.1	21.0	13.1
Other comprehensive income	73.1	27.7	45.4
Total comprehensive income	107.2	48.7	58.5
<i>Safe Restart Funding</i>	102.3	186.0	(83.7)
Total revenue excluding Safe Restart Funding	863.1	679.3	183.8
Net loss excluding Safe Restart Funding	(68.2)	(165.0)	96.8
	As at March 31		
Total assets	2,476.9	2,463.6	
Total long-term liabilities	1,476.1	1,504.0	
Dividends	6.0	6.0	

In fiscal 2022, we recognized Safe Restart Funding of \$102.3 million compared to the \$186.0 million recognized in the prior year (see "Operational Statistics and Revenues" for more detail).

Excluding the Safe Restart Funding from fiscal 2021 and fiscal 2022:

- our revenues for fiscal 2022 would have been \$863.1 million, an increase of \$183.8 million or 27% compared to the prior year, primarily resulting from higher traffic volumes and higher net retail sales; and
- our net loss for fiscal 2022 would have been \$68.2 million, an improvement of \$96.8 million compared to a net loss of \$165.0 million in the prior year.

In fiscal 2022, inclusive of the Safe Restart Funding, revenues increased \$100.1 million or 12% compared to the prior year. This increase is primarily a result of higher traffic volumes and net retail sales, partially offset by lower Safe Restart Funding.

In fiscal 2022, our operating expenses increased by \$88.2 million or 11% compared to the same period in the prior year. This is mainly due to delivering a higher number of round trips, which drove higher labour costs and fuel consumption, and higher fuel prices and maintenance costs (see "Expenses" for more detail).

In fiscal 2022, our net earnings were \$34.1 million, an increase of \$13.1 million compared to our net earnings of \$21.0 million in the prior year, primarily as a result of higher traffic volumes and net retail sales, partially offset by lower Safe Restart Funding and higher operating expenses.

During fiscal 2022, our total comprehensive income was \$107.2 million compared to \$48.7 million in the prior year. This is an increase of \$58.5 million compared to the prior year, comprised of the \$13.1 million increase in net earnings described above and an increase in other comprehensive income ("OCI") of \$45.4 million (\$73.1 million in fiscal 2022 compared to \$27.7 million in fiscal 2021).

In fiscal 2022, \$73.1 million of OCI reflects a \$63.0 million change in the fair value of our open fuel swap contracts and a \$10.1 million gain on the revaluation of our land.

In fiscal 2021, \$27.7 million of OCI reflects a \$13.7 million change in the fair value of our open fuel swap contracts, a \$15.8 million gain on the revaluation of our land and \$1.8 million in actuarial losses on the valuation of our employee benefit plan.

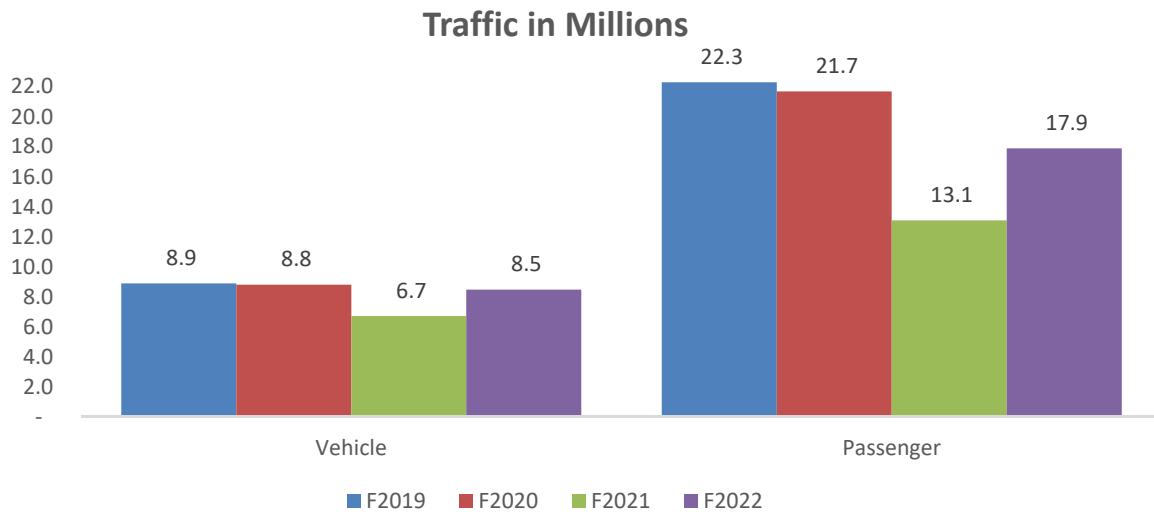
Traffic

In fiscal 2022, passenger traffic increased 37% and vehicle traffic increased 26% compared to the prior year, mainly due to the easing of COVID-19 travel restrictions. While these increases are significant, passenger and vehicle traffic in fiscal 2022 was lower by 20% and 5%, respectively, compared to fiscal 2019, a pre-COVID-19 year.

In fiscal 2021, the COVID-19 pandemic, together with the corresponding preventative measures and imposed travel restriction, adversely affected our passenger and vehicle traffic, with declines of 40% and 24%, respectively, compared to fiscal 2020.

The following table and graph details the trends in traffic volumes over the past four fiscal years:

Traffic by fiscal year (thousands)	F2019	F2020	F2021	F2022	Variance F2022 to F2019
Vehicle	8,887	8,801	6,704	8,467	(420)
<i>Increase (decrease)</i>	2%	(1%)	(24%)	26%	(5%)
Passenger	22,287	21,677	13,083	17,880	(4,407)
<i>Increase (decrease)</i>	1%	(3%)	(40%)	37%	(20%)



Operational Statistics and Revenues

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 2022 and fiscal 2021 are shown in the tables below.

Operational Statistics	Years ended March 31			
	2022	2021	Increase	%
Vehicle Traffic				
Major Routes	4,684,424	3,521,614	1,162,810	33%
Northern Routes	32,992	19,164	13,828	72%
Minor Routes	3,749,227	3,163,252	585,975	19%
Total Vehicle Traffic	8,466,643	6,704,030	1,762,613	26%
Passenger Traffic				
Major Routes	10,628,731	7,203,979	3,424,752	48%
Northern Routes	70,085	34,090	35,995	106%
Minor Routes	7,181,370	5,845,280	1,336,090	23%
Total Passenger Traffic	17,880,186	13,083,349	4,796,837	37%
Round Trips				
Major Routes	12,659	10,925	1,734	16%
Northern Routes	366	274	92	34%
Minor Routes	69,718	68,255	1,463	2%
Total Round Trips	82,743	79,454	3,289	4%
Capacity Provided (AEQs)				
Major Routes	7,964,802	6,903,554	1,061,248	15%
Northern Routes	59,072	51,364	7,708	15%
Minor Routes	7,365,538	7,168,575	196,963	3%
Total Capacity Provided	15,389,412	14,123,493	1,265,919	9%
AEQs Carried				
Major Routes	5,642,981	4,388,939	1,254,042	29%
Northern Routes	40,374	24,525	15,849	65%
Minor Routes	4,058,760	3,440,748	618,012	18%
Total AEQs Carried	9,742,115	7,854,212	1,887,903	24%
Capacity Utilization				
Major Routes	70.8%	63.6%	7.2%	
Northern Routes	68.3%	47.7%	20.6%	
Minor Routes	55.1%	48.0%	7.1%	
Total Capacity Utilization	63.3%	55.6%	7.7%	

In fiscal 2022, vehicle and passenger traffic increased 26% and 37%, respectively, compared to the prior fiscal year, mainly due to the easing of COVID-19 travel restrictions. In fiscal 2022, vehicle and passenger traffic increased on the Major Routes, Northern Routes and Minor Routes (See the Operational Statistics table for more detail.)

In fiscal 2022, new fare choices, including advance purchase saver fares, were available on the Major Routes. These new fare choices are contributing to increased vehicle traffic on traditionally lower utilised sailings, less sailing waits overall, and enabling us to carry higher overall levels of vehicle traffic than in prior years.

In fiscal 2022, we delivered 3,289 or 4% additional round trips than in fiscal 2021, primarily in response to the easing of COVID-19 travel restrictions. Of the 3,289 additional round trips, 53% were on the Major Routes, 44% on the Minor Routes and 3% on the Northern Routes.

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.

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of trips. The year over year change in the number of round trips provided can be impacted by cancellations and in response to changes in demand or the number of trips stipulated by the CFSC. In fiscal 2022, we provided 3,289 or 4% more additional round trips compared to the prior year, resulting in increased capacity of 9%.

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. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Capacity utilization varies significantly from month to month. Typically, capacity utilization is highest when traffic levels peak during the summer months and lowest during the winter months. In fiscal 2022, overall capacity utilization was 63.3%, an increase of 7.7% compared to capacity utilization of 55.6% during the prior year. The increase in capacity utilization is primarily a result of a higher number of AEQs carried due to higher traffic levels, somewhat offset by an increase in capacity provided from additional round trips.

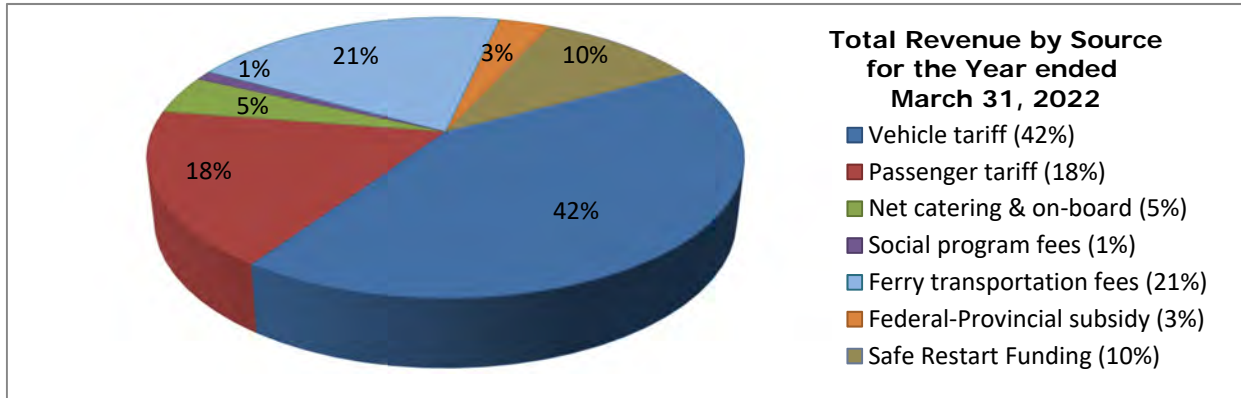
On-time performance on the Major and regulated Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled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

On-Time Performance	Years ended March 31		
	2022	2021	Change
Major Routes	78.8%	84.3%	(5.5%)
Northern Routes	79.0%	82.8%	(3.8%)
Minor Routes	86.7%	89.8%	(3.1%)
On-time Performance	85.6%	89.1%	(3.5%)

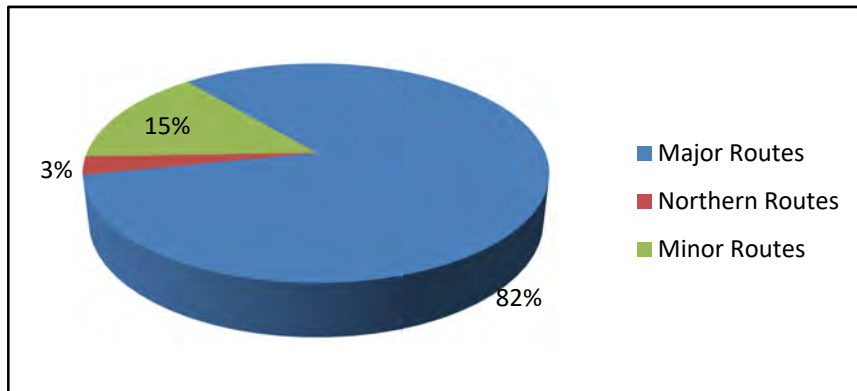
In fiscal 2022, overall on-time performance decreased 3.5% from 89.1% to 85.6% compared to the prior year, declining on the Major Routes, the Northern Routes and the Minor Routes. On-time

performance decreased both as a result of the impact of increased traffic demand in the peak season and delays due to weather.

Operational revenues for fiscal 2022 are shown in the graphs below:



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



In fiscal 2022, the greatest portion of our direct route revenues, 82%, was earned on our Major Routes. Revenue from the Northern Routes contributed 3% and revenue from Minor Routes contributed 15%.

Operational revenues for the comparable fiscal 2022 and fiscal 2021 are shown in the table below:

Revenue (\$ millions)	Years ended March 31			
	2022	2021	Increase (Decrease)	%
Direct Route Revenue	630.5	448.4	182.1	41%
Vehicle tariff revenue				
Major Routes	333.6	257.9	75.7	29%
Northern Routes	8.2	4.9	3.3	67%
Minor Routes	56.4	45.0	11.4	25%
Total vehicle tariff revenue	398.2	307.8	90.4	29%
Passenger tariff revenue				
Major Routes	140.0	91.3	48.7	53%
Northern Routes	4.7	2.2	2.5	114%
Minor Routes	29.3	22.8	6.5	29%
Total passenger tariff revenue	174.0	116.3	57.7	50%
Net retail revenue				
Major Routes	36.8	14.1	22.7	161%
Northern Routes	3.2	1.6	1.6	100%
Minor Routes	3.0	1.1	1.9	173%
Total net retail revenue	43.0	16.8	26.2	156%
Social program fees	10.4	7.7	2.7	35%
Other revenue	8.8	6.6	2.2	33%
Fuel rebates	(3.9)	(6.8)	2.9	43%
Indirect Route Revenue	332.3	415.7	(83.4)	(20%)
Safe Restart Funding	101.0	186.0	(85.0)	(46%)
Ferry transportation fees	199.1	197.7	1.4	1%
Federal-Provincial subsidy	32.2	32.0	0.2	1%
Total Route Revenue	962.8	864.1	98.7	11%
Other general revenue	2.6	1.2	1.4	117%
Total Revenue	965.4	865.3	100.1	12%

*Total Safe Restart Funding of \$102.3 million was recorded for operating and fare increase relief, in the year ended March 31, 2022 (\$186.0 million in the prior year), of which \$1.3 million year-to-date (\$Nil in the prior year) for discretionary sailings relief was included in ferry transportation fees.

Vehicle tariffs (which include reservation fee revenue) 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, 2021, we implemented average tariff increases of 2.3% in accordance with the Commissioner's Order 19-04 dated September 30, 2019 and in accordance with the Safe Restart Funding Agreement.

In the year ended March 31, 2022, total direct route revenue increased \$182.1 million or 41% compared to the prior year, primarily as a result of an increase in vehicle and passenger traffic levels with the easing of COVID-19 restrictions.

Average Tariff	Years ended March 31			
	2022	2021	Increase (Decrease)	%
Average vehicle tariff				
Major Routes	71.21	73.25	(2.04)	(2.8%)
Northern Routes	247.51	253.55	(6.04)	(2.4%)
Minor Routes	15.05	14.23	0.82	5.8%
Average vehicle tariff	47.03	45.92	1.11	2.4%
Average passenger tariff				
Major Routes	13.17	12.67	0.50	3.9%
Northern Routes	67.43	63.54	3.89	6.1%
Minor Routes	4.08	3.90	0.18	4.6%
Average passenger tariff	9.73	8.89	0.84	9.4%

In fiscal 2022, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased \$1.11 or 2.4% compared to the prior year as a result of tariff increases and a traffic change in the proportion of traffic on routes with higher versus lower tariff, partially offset by customers taking advantage of discounted fares on our Major Routes and changes in the traffic mix (from higher tariff commercial traffic to lower tariff vehicle traffic). In fiscal 2022, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased \$0.84 or 9.4% compared to the prior year, primarily due to tariff increases and increases in traffic on higher tariff routes (Major Routes). The increase in traffic levels and the change in average tariff revenue resulted in a total tariff revenue increase of \$148.1 million or 35% compared to the prior year.

Net retail sales is our second largest source of direct revenue and provides a gross margin of approximately 60%, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In fiscal 2022, catering, retail and other on-board services were impacted by COVID-19 restrictions for safe distancing and with limited food services available on select routes. In fiscal 2022, net retail revenue increased \$26.2 million compared to the prior year, when most of our food and on-board services were closed due to the COVID-19 pandemic. While this increase is significant, net retail revenue was lower by \$18 million or 30% compared to fiscal 2020, as COVID-19 only impacted the last month of the fiscal year.

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 2022 increased \$2.7 million compared to the prior year, mainly due to an increase in the usage of the MTAP and an increase in the number of students travelling under the program.

In fiscal 2022, other revenue increased \$2.2 million compared to the prior year, primarily as a result of increased parking revenues and increased retail rent and commissions.

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 2021 and fiscal 2022 is below:

Date range	% surcharge (rebate)	Applicable routes
April 1, 2020 - July 31, 2021	(1.5%)	All Routes
August 1, 2021 - November 30, 2021	(0.5%)	Major Routes and Minor Routes
August 1, 2021 - February 28, 2022	(1.5%)	Northern Routes
December 1, 2021 - February 28, 2022	0.0%	Major Routes and Minor Routes
March 1, 2022 - March 31, 2022	1.0%	Major Routes and Minor Routes
March 1, 2022 - March 31, 2022	0.0%	Northern Routes
June 1, 2022 - current	2.5%	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 2022, total indirect route revenue decreased by \$83.4 million or 20% compared to the prior year, primarily as a result of the amount of Safe Restart Funding recognized in each year as discussed below.

In December 2020, we received \$308.0 million from the Province under the Safe Restart Funding Program. The Safe Restart Funding consists of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit average fare increases to 2.3% per year for the remainder of PT5 and to cover the estimated costs of discretionary sailings as follows:

Safe Restart Funding	Year ended	Year ended	Fiscal	Total
Projected Recognition (\$ millions)	March 31, 2021	March 31, 2022	2023 to 2024	Funding
Operating relief	\$ 186.0	\$ 94.0	\$ -	\$ 280.0
Fare increase relief	-	7.0	17.0	\$ 24.0
Discretionary sailings relief*	-	1.3	2.7	\$ 4.0
	<u>\$ 186.0</u>	<u>\$ 102.3</u>	<u>\$ 19.7</u>	<u>\$ 308.0</u>

*The discretionary sailings relief is recorded in ferry transportation fees.

Of the \$308.0 million Safe Restart Funding, we have recognized a total of \$288.3 million: \$186.0 million in fiscal 2021 and \$102.3 million in fiscal 2022. We are projecting to recognize the remaining \$19.7 million as follows: \$9.3 million in fiscal 2023 and \$10.4 million in fiscal 2024.

The funding is recognized on a systematic basis, for the above three components, for each of fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement with the Province. The operating relief recognition was based on the estimated loss of earnings. Actual losses incurred and timing of losses may differ from projected losses originally outlined in the Safe Restart Funding Agreement. For more details on BC Ferries' obligations under the Safe Restart Funding Agreement, see the agreement filed under the Company's profile on SEDAR at www.sedar.com on January 18, 2021.

Effective April 1, 2020, the CFSC was amended for PT5, formalizing revised ferry transportation fees for the four-year term, which commenced April 1, 2020 and ends on March 31, 2024. As noted above, the discretionary sailings relief portion of the Safe Restart Funding is included in ferry transportation fees.

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 CPI (Vancouver).

Expenses

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

Operating Expenses (\$ millions)	Years ended March 31			
	2022	2021	Increase (Decrease)	Increase (Decrease)
Operations	558.4	476.0	82.4	17%
Maintenance	98.2	85.8	12.4	14%
Administration	38.1	38.5	(0.4)	(1%)
Total operations, maintenance & administration	694.7	600.3	94.4	16%
Depreciation and amortization	173.3	179.5	(6.2)	(3%)
Total Operating Expenses	868.0	779.8	88.2	11%

During fiscal 2022, total operating expenses increased \$88.2 million or 11% compared to the prior year. In fiscal 2022, we delivered 82,743 round trips, an increase of 3,289 or 4% compared to the prior year, with 53% of the increased trips being provided on the Major Routes.

Wages, benefits and fuel are our largest expenses, representing approximately 77% of our total operations, maintenance and administration costs. The \$94.4 million increase in costs is primarily driven by the 16% increase in round trips provided on the Major Routes, an increase in fuel prices and higher maintenance costs. In accordance with the Collective Agreement between the Company and the BC Ferry & Marine Workers' Union, no wage rates were increased at April 1, 2021.

The \$82.4 million or 17% increase in operations expenses from fiscal 2021 to fiscal 2022 reflects a 15% increase in capacity driving a 36% increase in Tariff revenue on the Major Routes. The increases in expenses include:

- \$33.0 million increase in fuel expense, reflecting an increase of \$17.8 million or 18% increase in fuel consumption and a \$15.2 million or 17% increase due to higher fuel prices;
- \$31.1 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, and increased overtime, training, illness and benefit costs; and
- \$18.3 million increase in contracted services, credit card fees, insurance costs, travel, property tax, materials and supplies, training, and other miscellaneous expenses.

Maintenance costs increased by \$12.4 million in fiscal 2022 compared to the prior year, as a result of unplanned repairs at our terminals and on several vessels, and due to the of planned vessel refit activity.

Administration costs decreased \$0.4 million in fiscal 2022 compared to the prior year, primarily as a result of a legal settlement in the prior year.

Depreciation and amortization decreased \$6.2 million in fiscal 2022 compared to the prior year, reflecting the timing of capital assets entering service. (See "Investing in our Capital Assets" for details of capital asset expenditures.)

Net Finance and Other Expenses (\$ millions)	Years ended March 31		
	2022	2021	Increase (Decrease)
Finance expense	60.9	60.6	0.3
Less: finance income	(4.9)	(4.6)	(0.3)
Net finance expense	56.0	56.0	(0.0)
Net loss on disposal and impairment of property, plant and equipment and intangible assets	7.3	8.5	(1.2)
Total Net Finance and Other Expenses	63.3	64.5	(1.2)

In fiscal 2022, net finance and other expenses decreased by \$1.2 million primarily due to reduced losses on the disposal of assets, lower interest on long term debt, and higher interest from investments somewhat offset by reduced capitalized interest compared to the prior year. We continually review our capital plan and identified specific asset impairments of \$6.9 million in fiscal 2022 and \$7.0 million in fiscal 2021.

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 to ensure it continues to evolve and improve, is the structure under which capital projects are identified, managed, monitored and delivered effectively and efficiently. It ensures we take a disciplined approach to the identification, approval, management, reporting, and delivery of projects and benefits realization, and defines key roles and provides principles and guidelines for the governance of projects through the phases of the project lifecycle.

Our capital plan aligns with our corporate goals by maintaining or improving safety and reliability, adding capacity, achieving efficiencies to reduce costs, supporting our environmental targets, extending lives of assets where possible, and aligning terminal upgrades with vessel renewal or redeployment. Our plan includes building new vessels, upgrades and modifications for existing vessels, improvements at our fleet maintenance unit, upgrades at our terminals and renewal of our information technology systems. Upgrades to our existing vessels include enabling the full electrification of our hybrid powered Island Class vessels and shore charging infrastructure.

The typical life span of our vessels is approximately 45 years. Our fleet (inclusive of four new Island Class vessels and one new Salish Class vessel) has an average age of 26 years and, of these, 12 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.

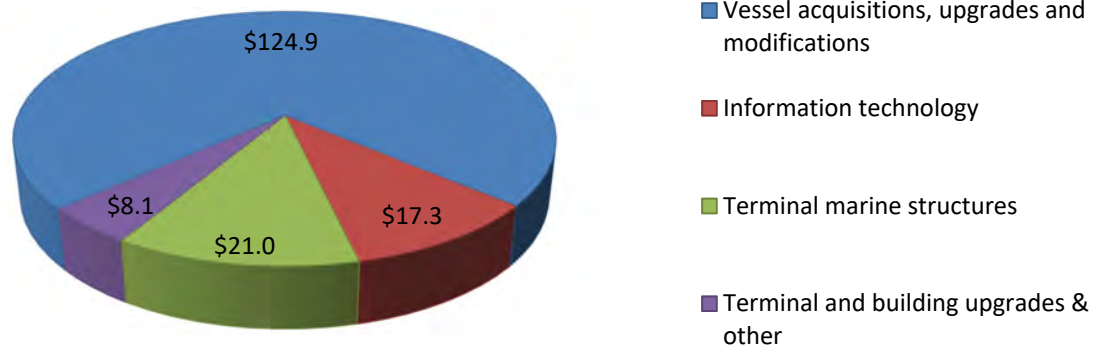
Our strategy for new vessels includes inter-operability and standardization, where possible, to provide more flexibility, consistent customer experience, and organizational efficiencies while enhancing a safe operation. We are standardizing our vessel design, layout, operating characteristics, systems, 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 and batteries, 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.

Our Salish Class vessels and Spirit Class vessels are dual-fuel capable, running primarily on LNG using marine diesel as backup. Our new Island Class vessels are outfitted with hybrid diesel-electric propulsion.

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

Capital Expenditures by Fiscal Year		
(\$ millions)	2022	2021
Vessel upgrades & modifications	43.2	23.8
New vessels	81.7	71.4
Terminal marine structures	21.0	6.1
Information technology	17.3	18.1
Terminal building upgrades & equipment	8.1	2.6
Total	171.3	122.0

**Capital Expenditures by Type
Year ended March 31, 2022
(\$ millions)**



In fiscal 2022, capital expenditures comprised the following:

Capital Expenditures (\$ millions)	Year ended March 31, 2022
Island Class vessels (additional 4 vessels)	57.3
Major overhauls and inspections	31.4
<i>Salish Heron</i>	24.4
Hardware upgrades	7.4
<i>Queen of Alberni</i> life extension	6.7
Campbell River and Quathiaski Cove marine structure upgrades	3.2
Various other projects	40.9
	171.3

Island Class vessels (additional four vessels)

On October 25, 2019, contracts became effective with Damen Shipyard Group of Netherlands for the construction of four new Island Class vessels. The total project budget for these four new Island Class vessels, including financing and project management costs, was approximately \$200 million. The four new Island Class vessels arrived in Canada from Damen Shipyard Galati in Romania on July 22, 2021, August 13, 2021, September 27, 2021 and December 2, 2021, respectively. These vessels made the transoceanic journey under their own power, operating approximately one-third of the journey using battery power, with the batteries being charged during the voyage by a diesel generator. On April 12, 2022, we introduced two-ship service on the Nanaimo Harbour – Gabriola Island route, providing enhanced vehicle and passenger service to these communities. This augmented service using two of these four new Island Class vessels results in increased capacity and sailing frequency to communities they will serve. The other two vessels will also enter service in calendar 2022 on the Campbell River – Quadra Island route and will allow for fleet deployments and retirements of existing diesel-fuelled vessels. The *Island Gwawis*, *Island Kwigwis*, *Island Nagalis* and *Island K’ulut’a* are identical to the *Island Discovery* and *Island Aurora*, which commenced service in fiscal 2021 between Powell River and Texada Island and between Port McNeill, Alert Bay and Sointula, respectively. These Island Class vessels are outfitted with hybrid diesel-electric propulsion and have the capacity to carry 47 vehicles and up to 400 passengers and crew.

Major overhauls and inspections

In fiscal 2022, we had capital expenditures of \$31.4 million year-to-date in respect of major overhauls and inspections of components of hull, propulsion and generators for 14 vessels that were completed or underway.

Salish Heron

On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. to build a new Salish Class vessel. On March 3, 2022, the *Salish Heron* arrived in Canada from Remontowa Shipbuilding S.A. in Gdansk, Poland sailing more than 10,400 nautical miles. The total project budget for the new vessel, including financing and project management costs, is approximately \$90 million. The *Salish Heron* is identical to our three existing Salish Class vessels, which are dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. Using primarily LNG, a cleaner and lower carbon-intensity option, to fuel the new ship will result in reduced emissions and reduced costs. The vessel has the capacity to carry approximately 138 vehicles and up to 600 passengers and crew. This fourth Salish Class vessel will replace the 57-year old *Mayne Queen*, a diesel-fuelled vessel, and entered service in the Southern Gulf Islands on May 6, 2022.

Hardware upgrades

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

Queen of Alberni life-extension

A project to extend the life of the *Queen of Alberni*, including upgrades to the hull, propulsion system and machinery, was completed in January 2022.

Campbell River and Quathiaski Cove marine structure upgrades

A project to upgrade the berth at our Campbell River terminal and construct a lay-by berth at Quathiaski Cove terminal to accommodate two new Island Class vessels, which will service the route between Campbell River - Quadra Island, was completed during the year.

Various other projects

Various other projects include, among others, Coastal Class vessels' quarter-life upgrades, upgrades to marine structures at our Tsawwassen terminal, upgrades to marine structures at our Horseshoe Bay terminal, upgrades to vessel navigation equipment and miscellaneous software upgrades to administrative software, operation logs, and safety management systems.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

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

We expect our cash requirements will be met through operating cash flows, accessing our existing credit facility from time to time, debt issuances, and other funding opportunities. In fiscal 2021, we received \$308 million from the Province under the Safe Restart Program, which significantly increased our cash position and mitigated the need for any current draws on our credit facility or incremental borrowing as a result of COVID-19.

At March 31, 2022, our unrestricted cash and cash equivalents and other short-term investments totalled \$204 million and \$169 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of \$285 million and \$125 million, respectively, as at March 31, 2021.

At March 31, 2022, under our credit facility with a syndicate of Canadian banks (the "Credit Facility"), we had available a revolving facility in the amount of \$155 million. The Credit Facility was amended and renewed on April 20, 2022 to a revolving facility in the amount of \$105 million, with a maturity date of April 2026. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At March 31, 2022, there were no draws on the Credit Facility.

On May 15, 2020, our banking syndicate approved an amendment to the Credit Facility Agreement (the "Amendment"), pursuant to which the financial covenants contained therein were amended effective until December 31, 2021. As a condition to the Amendment, which expired December 31, 2021, BC Ferries was required to maintain a total of \$50 million in unrestricted cash, which could be comprised of cash, short-term investments, and undrawn credit facility. At March 31, 2022, in compliance with the Credit Facility, we had debt service reserves of \$33 million, equal to a minimum of six months of interest payments.

At March 31, 2022, we achieved a debt service coverage ratio of 3.38 times and were in compliance with the current financial covenants in the Credit Facility's agreement.

We target maintaining a strong investment-grade credit rating to allow capital market access at competitive interest rates. On November 23, 2021, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" and revised the outlook to stable from negative. On February 9, 2022, DBRS confirmed our credit rating at "A (high)" rating with a stable trend.

In 2004, we entered into the Master Trust Indenture ("MTI"), a copy of which is available at <http://www.bcferrries.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 (earnings before interest, taxes, depreciation, amortization and rent) is less than 1.50 times the debt service cost.

With the recognition of \$102.3 million in revenue from the Safe Restart Funding, the Company's operational performance for the year ended March 31, 2022 has resulted in a \$28.1 million (comprised of net earnings of \$34.1 million less dividends paid of \$6.0 million) improvement in equity before reserves, from \$663.2 million as at March 31, 2021 to \$691.3 million as at March 31, 2022. Correspondingly, BC Ferries' leverage ratio has decreased from 71.1% as of March 31, 2021 to 70.1% as of March 31, 2022.

(\$ thousands)	March 31, 2022		March 31, 2021	
	\$	%	\$	%
Aggregate borrowings ¹	1,619,286	70.1%	1,632,970	71.1%
Total equity before reserves	691,254	29.9%	663,157	28.9%
Total	2,310,540	100.0%	2,296,127	100.0%

¹ 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	
		2022	2021
Senior Secured Bonds			
6.25%, due October 2034	6.41%	250	250
5.02%, due March 2037	5.06%	250	250
5.58%, due January 2038	5.62%	200	200
4.70%, due October 2043	4.75%	200	200
4.29%, due April 2044	4.45%	200	200
2.79%, due October 2049	2.83%	250	250
12 Year Loans			
2.09% Loan, due October 2028	2.70%	25	29
2.09% Loan, due January 2029	2.68%	26	30
2.09% Loan, due January 2029	2.70%	27	30
		<u>1,428</u>	<u>1,439</u>

*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.

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

At March 31, 2022, 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

The Government of Canada agreed to provide funding of up to \$60.5 million under the New Building Canada Fund. As of March 31, 2022, we were eligible for and had received \$39.6 million.

As part of the Natural Gas for Transportation ("NGT") incentive funding (included in other current and long-term liabilities) to help offset incremental capital costs for the Salish Class vessels, we received \$6.0 million from FortisBC Energy Inc. by March 31, 2019 and are eligible to receive another \$1.0 million once we meet certain conditions. We have also received \$7.0 million by March 31, 2020 of a total contribution of up to \$10.0 million from FortisBC Energy Inc. as part of the NGT incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to utilize LNG. The contributions are dependent upon the purchase of LNG and are applied towards the cost of purchasing the Salish Class vessels and converting the Spirit Class vessels. Based on our projected LNG consumption, we expect to meet the consumption requirements of these contribution agreements. During fiscal 2022, we applied \$1.2 million (\$1.2 million in fiscal 2021) in total against the capital cost of the Salish Class vessels and Spirit Class vessels.

Terminal Leases

We entered into a master agreement (the "Master Agreement") with the BC Transportation Financing Authority ("BCTFA"), effective March 31, 2003 as part of the restructuring of our Company. 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, we received recognition of prepayment of rent under terminal leases.

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.

Since the original transfer, a total of \$11.7 million of additional lands at Horseshoe Bay, Swartz Bay and Departure Bay have been added to the existing terminal leases in exchange for highway improvements.

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 monitoring and managing all other risks and ensuring we have mitigation plans for them.

Leases

Under IFRS 16 *Leases*, leases formerly classified as operating leases, are classified as right-of-use assets and with corresponding liabilities. We also classify our prepaid terminal land leases and related structures and our corporate office building and land as right-of-use assets. In fiscal 2022, we recognized \$0.5 million in new leases or lease extensions while in fiscal 2021, no leases or lease extensions were recognized.

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 2022 and 2021 are summarized in the table below:

(\$ millions)	Years ended March 31		
	2022	2021	Increase (Decrease)
Cash and cash equivalents, beginning of year	285.4	169.1	116.3
Cash from operating activities:			
Net earnings	34.1	21.0	13.1
Items not affecting cash	237.0	243.0	(6.0)
Changes in non-cash operating working capital	(72.3)	112.2	(184.5)
Net interest paid	(63.3)	(63.8)	0.5
Cash generated from operating activities	135.5	312.4	(176.9)
Cash used in financing activities	(20.2)	(30.7)	10.5
Cash used in investing activities	(196.3)	(165.4)	(30.9)
Net (decrease) increase in cash and cash equivalents	(81.0)	116.3	(197.3)
Cash and cash equivalents, end of year	204.4	285.4	(81.0)

For fiscal 2022, cash generated from operating activities decreased by \$176.9 million compared to the prior year, primarily due to a reduction in cash received (in fiscal 2020, we received \$308.0 million in Safe Restart Funding) and somewhat offset by a net increase in earnings. The increase in net earnings, excluding the impact of the Safe Restart Funding, reflects the impact of increased traffic and revenues, partially offset by an increase in operating expenses due to increased services levels.

Cash used in financing activities in fiscal 2022 was \$20.2 million. This amount consisted of \$11.3 million in repayment of our loans from KfW, \$6.0 million in dividends paid on preferred shares and \$2.9 million in repayment of lease obligations. Cash used in financing activities in fiscal 2021 was \$30.7 million. This amount consisted of \$22.2 million in repayment of KfW loans, \$6.0 million in dividends paid on preferred shares and \$2.5 million in repayment of finance lease obligations.

Cash used in investing activities for fiscal 2022 increased by \$30.9 million compared to the prior year, mainly due to a \$19.5 million increase in purchases of capital assets and \$11.4 million increase in short-term investment purchases. (See "Investing in Our Capital Assets" for detail of significant capital expenditures.)

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2022 to the same period in the prior year.

The fourth quarter reflects a seasonal reduction in traffic levels. We utilize this time to perform upgrades and major maintenance and refit programs as well as to undertake mandatory inspections on the majority of our vessels.

Operational Statistics	Three months ended March 31			
	2022	2021	Change	%
Vehicle traffic	1,785,030	1,392,831	392,199	28%
Passenger traffic	3,650,856	2,482,781	1,168,075	47%
Number of round trips	19,613	19,472	141	1%
Capacity provided (AEQs)	3,493,443	3,445,269	48,174	1%
AEQs carried	2,066,316	1,665,909	400,407	24%
Capacity utilization	59.1%	48.4%		11%

In the three months ending March 31, 2022, vehicle and passenger traffic increased 28% and 47%, respectively, compared to the same period in the prior year, mainly as COVID-19 restrictions, which were in place in the fourth quarter in fiscal 2021, were not in effect in the same period in fiscal 2022.

Capacity utilization in the three months ended March 31, 2022 increased by 11% compared to the same period in the prior year, mainly resulting from an increase in the AEQs carried, partially offset by the increased capacity provided.

(\$ millions)	Three months ended March 31			
	2022	2021	Increase (Decrease)	%
Total revenue	197.2	168.4	28.8	17%
Operating expenses	224.4	201.8	(22.6)	(11%)
Operating loss	(27.2)	(33.4)	6.2	19%
Net finance and other	21.6	19.9	(1.7)	(9%)
Net loss	(48.8)	(53.3)	4.5	8%

Our net loss in the quarter was \$4.5 million less than our net loss in the same quarter in the prior year. The net loss in the three months ended March 31, 2022 reflects an increase in revenue resulting from higher traffic levels and higher retail sales, partially offset by a decrease in Safe Restart Funding, an increase in operating expenses and an increase in net finance and other expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2022 increased by \$28.8 million or 17% compared to the same quarter in the prior year as a result an increase in Direct Route revenue, with increased traffic levels offset by a reduction in Safe Restart Funding recognized as shown in the following table:

Revenue (\$ millions)	Three months ended March 31			
			Increase	
	2022	2021	(Decrease)	%
Direct Route Revenue	128.9	86.3	42.6	49%
Vehicle tariff revenue				
Major Routes	68.1	49.9	18.2	36%
Northern Routes	1.3	1.0	0.3	30%
Minor Routes	11.3	9.6	1.7	18%
Total vehicle tariff revenue	80.7	60.5	20.2	33%
Passenger tariff revenue				
Major Routes	28.5	15.5	13.0	84%
Northern Routes	0.7	0.3	0.4	133%
Minor Routes	5.6	4.4	1.2	27%
Total passenger tariff revenue	34.8	20.2	14.6	72%
Net retail revenue				
Major Routes	7.4	3.0	4.4	147%
Northern Routes	0.7	0.3	0.4	133%
Minor Routes	0.5	0.3	0.2	67%
Total net retail revenue	8.6	3.6	5.0	139%
Social program fees	2.6	2.2	0.4	18%
Other revenue	1.8	1.2	0.6	50%
Fuel rebates (surcharges)	0.4	(1.4)	1.8	129%
Indirect Route Revenue	67.5	81.9	(14.4)	(18%)
Safe Restart Funding	20.0	31.2	(11.2)	(36%)
Ferry transportation fees	39.4	42.7	(3.3)	(8%)
Federal-Provincial subsidy	8.1	8.0	0.1	1%
Total Route Revenue	196.4	168.2	28.2	17%
Other general revenue	0.8	0.2	0.6	300%
Total Revenue	197.2	168.4	28.8	17%

Average tariff revenue per vehicle increased \$1.82 or 4.2% and average tariff revenue per passenger increased \$1.41 or 17.3% in the quarter compared to the same period in the prior year, mainly as a result of tariff increases and a change in the proportion of traffic on routes with higher versus lower tariffs. The increase in traffic levels and the change in average tariffs resulted in a \$34.8 million increase in tariff revenue.

Net retail revenue increased in the fourth quarter of fiscal 2022 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 compared to the same period in the prior year, mainly as a result of an increase in the usage of the MTAP program and in the number of students travelling.

In the fourth quarter of fiscal 2022, \$11.2 million less Safe Restart Funding was recognized in revenue compared to same period in the prior year.

Ferry transportation fees from the Province decreased in the fourth quarter of fiscal 2022 compared to the same period in the prior year 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 2022 and fiscal 2021 are shown in the following tables:

Operating Expenses (\$ millions)	Three months ended March 31			
	2022	2021	Increase (Decrease)	
			\$	%
Operations	137.4	123.3	14.1	11%
Maintenance	32.5	23.3	9.2	39%
Administration	10.7	9.9	0.8	8%
Total operations, maintenance & administration	180.6	156.5	24.1	15%
Depreciation and amortization	43.8	45.3	(1.5)	(3%)
Total Operating Expenses	224.4	201.8	22.6	11%

The increase in operations costs of \$14.1 million for the quarter ended March 31, 2022 compared to the same period in the prior year is due to:

- \$5.6 million increase in fuel costs, due to an 18% increase in fuel price and 6% in fuel consumption due to a higher number of round trips provided;
- \$5.1 million increase in labour costs, mainly due to staffing level changes for the higher number of round trips provided, and increased overtime, training, illness and benefit costs; and
- \$3.4 million increase in credit card fees, insurance costs, materials and supplies, travel, property tax and other miscellaneous expenses.

The increase in maintenance costs of \$9.2 million reflects unplanned repairs at our terminals and on several vessels and the cyclical nature and timing in the fiscal year of planned vessel refits.

The increase in administration costs of \$0.8 million is mainly due to higher labour, materials and supplies, contracted services and computer costs.

The decrease in depreciation and amortization of \$1.5 million reflects the timing of capital assets entering service.

Net Finance and Other Expenses (\$ millions)	Three months ended March 31			
	2022	2021	Increase (Decrease)	
			\$	%
Finance expense	15.8	14.6	1.2	8%
Less: finance income	(1.4)	(1.2)	(0.2)	(17%)
Net finance expense	14.4	13.4	1.0	7%
Net loss on disposal and impairment of property, plant and equipment, and intangible assets	7.2	6.5	0.7	11%
Total Net Finance and Other Expenses	21.6	19.9	1.7	9%

Net finance and other expense in the fourth quarter of fiscal 2022 was \$1.7 million higher compared to the same period in the prior year, primarily as a result of less interest capitalized and higher asset impairment recognized somewhat offset by a lower loss on disposal of property, plant and equipment.

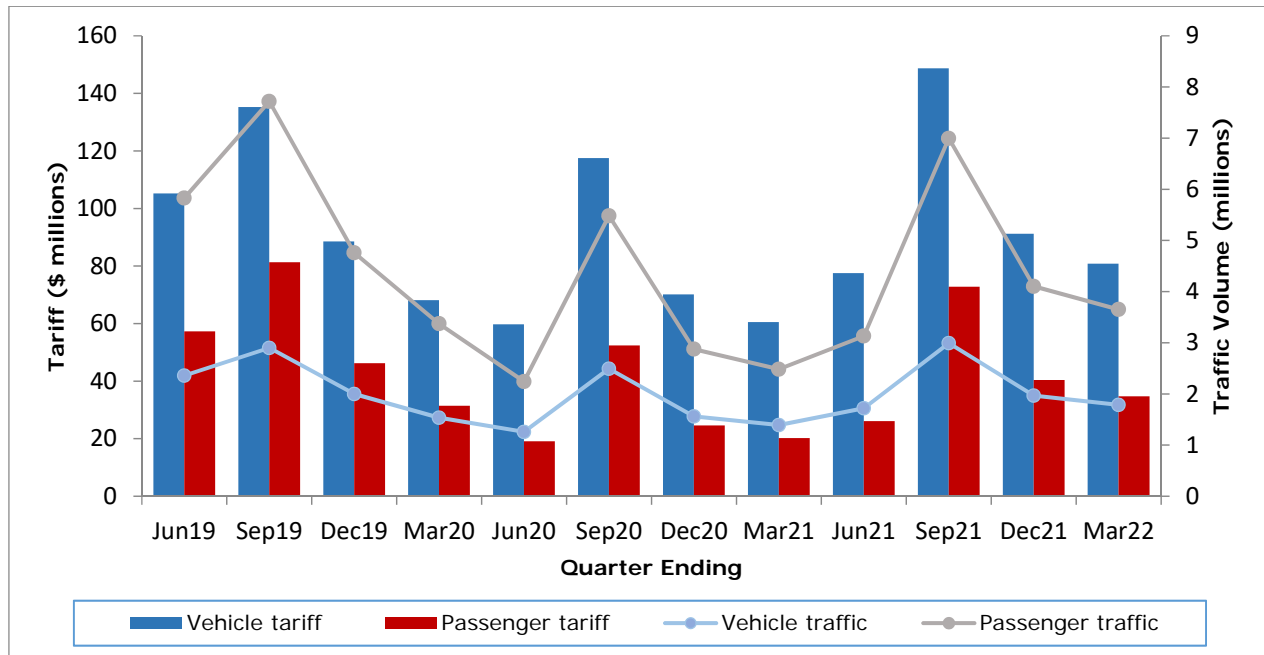
SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Quarter Ended (unaudited)											
	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
Total revenue without Safe Restart Funding	246	329	211	155	137	248	157	137	169	314	203	177
Safe Restart Funding	-	-	-	-	-	-	155	31	60	3	19	20
Total revenue	246	329	211	155	137	248	312	168	229	317	222	197
Operating profit (loss)	26	109	5	(55)	(46)	52	113	(33)	18	94	13	(27)
Net earnings (loss)	12	95	(8)	(70)	(62)	38	99	(54)	5	80	(2)	(49)
Net earnings (loss) without Safe Restart Funding	12	95	(8)	(70)	(62)	38	(56)	(85)	(55)	77	(21)	(69)

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 undertake mandatory inspections on the majority of our vessels.

The following graph demonstrates the seasonality of our tariff revenue and the impact of the COVID-19 pandemic, which began in March 2020 and shows the relationship of passenger traffic volume and tariff revenue over the most recent 12 quarters:



OUTLOOK

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

Financial

The COVID-19 pandemic has had a significant impact on our operations. Along with the reduced vehicle and passenger traffic, the impacts from the COVID-19 pandemic include declines in revenue, earnings and cash from operations.

Once the Province lifted restrictions on non-essential travel, we experienced a significant increase in customer demand. In fiscal 2022, passenger traffic increased 37% and vehicle traffic increased 26% compared to the prior year. In comparison to fiscal 2019, a pre-COVID-19 year, passenger and vehicle traffic in fiscal 2022 was lower by 20% and 5%, respectively. While we are optimistic that traffic will return to pre-COVID-19 levels, we are experiencing the impact of crew shortages, which could negatively affect sailing times and service delivery on some routes. We are actively recruiting however, the global shortage of professional mariners is currently impacting our ability to fill licenced crew positions.

In December 2020 (fiscal 2021), we received \$308.0 million from the Province as part of the provincial and federal governments' Safe Restart Funding Program, which significantly increased our cash position. We have recognized funding of \$288.3 million: \$102.3 million in fiscal 2022, \$186.0 million in fiscal 2021, and are projecting to recognize the remainder of the funding as follows: \$9.3 million in fiscal 2023 and \$10.4 million in fiscal 2024.

While we are optimistic, BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions return to pre-COVID-19 levels. With increasing evidence of heightened inflation, BC Ferries may experience impacts to customer demand along with upward pressure on our costs.

FINANCIAL RISKS and FINANCIAL INSTRUMENTS

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

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

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

Fuel Price

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

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

Risk mitigation: To mitigate the effect of volatility in fuel prices on our earnings, we may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used 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, 2022, we had \$86.5 million (notional value) in fuel forward contracts for marine diesel related to 2022 through 2024. At March 31, 2022, 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, 2022, we held fuel forward contracts for ultra-low sulfur diesel (“ULSD”) with a carrying and fair value asset of \$45.9 million and a notional value of \$86.5 million. At March 31, 2021, we held fuel forward contracts for ULSD with a carrying and fair value liability of \$5.7 million and a notional value of \$117.1 million. At March 31, 2022, with the application of hedge accounting, an unrealized gain of \$63.0 million was recognized in other comprehensive income. At March 31, 2021, with the application of hedge accounting, an unrealized gain of \$13.7 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, 2021, and 2022 were as follows:

(\$ millions)	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt, including current portion	1,417.3	1,582.0	1,427.8	1,738.1

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 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, with limited expense variability resulting from traffic fluctuations. The Company's ability to decrease 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 to as low as reasonably practicable. 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.

BC Ferries experienced a significant decline in demand and an increase in health protocols that impacted our service delivery due to the COVID-19 pandemic, beginning mid-March 2020, and corresponding preventative measures and imposed travel restrictions. With the onset of the COVID-19 pandemic, traffic declined along with earnings and cash from operations. We responded by renegotiating service levels, reducing costs where possible, negotiating covenant relief as a proactive measure and deferring capital expenditures. Despite these efforts, without the Safe Restart Funding received from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program, BC Ferries would have experienced significant losses. Receipt of \$308.0 million significantly increased our cash position and mitigated the need for incremental borrowing. On June 15, 2021, during the first quarter of fiscal 2022, the Province lifted the travel restrictions it imposed on April 23, 2021, which had denied travel to customers travelling for non-essential reasons. With the lifting of these restrictions, we experienced a significant increase in traffic during the remaining three quarters of the fiscal year. While the exact time and pace is unknown, it is expected BC Ferries will recover alongside the post-pandemic recovery.

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

Pandemics and Public Health Crises, including the COVID-19 Pandemic

BC Ferries could be negatively impacted by a widespread outbreak of communicable diseases or other public health crises that cause economic and/or other disruptions. The COVID-19 pandemic adversely impacted economic activity. The Province and Transport Canada provided COVID-19 directives and guidance. The virus and efforts to reduce the health impacts and control its spread have led to restrictions on travel and reduced food service offerings. 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 will depend on the duration and severity of the pandemic, potential government actions to mitigate public health effects or aid economic recovery, and other factors beyond the Company's control.

Risk mitigation: BC Ferries is adhering to provincial and federal guidelines as we provide essential ferry service. We implemented measures to mitigate risk to our employees, the travelling public and to prevent the spread of the virus. .

Human Resources

Our ability to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry is key to our success. Attracting and retaining staff across all functions has become more challenging, but it is most acute in the licensed positions on the vessels. The impact of higher than expected voluntary turnover and absenteeism for health related reasons in licenced positions, the impact of vaccination policies and difficulties recruiting international candidates due to COVID-19, as well as the 25-year global shortage of professional mariners are posing ongoing challenges to hiring sufficient employees for what is expected to be a busier than usual peak summer season. On March 25, 2022, we informed the public of the potential risk to sailing times and to service delivery on some routes as we experience the impact of crew shortages.

Risk mitigation: BC Ferries relies on staffing pools with crew held in reserve, cross-training employees to enable redeployment from one location to another as required, and overtime pay for employees who cover gaps. We are advancing several initiatives to address these challenges, including: investing in internal development and training; undertaking a significant recruitment push including presence at multiple career fairs; 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. 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.

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.

In fiscal 2021, the COVID-19 pandemic adversely affected our passenger and vehicle traffic with declines of 40% and 24%, respectively. While we cannot predict when traffic will return to pre-COVID-19 levels, once the Province lifted the travel restrictions, traffic levels significantly increased.

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.

During fiscal 2021, the CFSC was temporarily amended to reflect reduced service levels in response to the COVID-19 pandemic. In fiscal 2022, we delivered 3,289 or 4% additional round trips than in fiscal 2021 primarily in response to the easing of COVID-19 restrictions.

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, loss of data, or the unintended disclosure of confidential information or property damage. Cyberattacks or breaches of our systems could result in business disruptions, reputational damage, personal injury, and third-party claims, which could impact our operations, financial performance or reputation.

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

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. For example, the Act allows for an extraordinary price cap increase or other relief if the

introduction of new safety or other regulations impose a new, unexpected and significant cost burden.

Major Capital Projects

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

Risk mitigation: A project governance framework is in place to guide all corporate projects. 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.

Vessel Repair Facilities

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

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

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

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

Climate Change

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

Risk mitigation: We are continually focused on efficiency improvements, including increasing the use of low carbon intensive fuels, electrification of our vessels and reducing our carbon footprint where possible. We protect our assets and our customers by reducing and/or cancelling sailings when there are adverse weather conditions. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident.

Indigenous Peoples

Matters involving Indigenous rights may arise in British Columbia when a company seeks approvals from the Province or the Government of Canada (in either case, the “Crown”) for new activities, typically involving land or water. Canadian courts have said that the Crown must consult before granting an approval that could affect Indigenous rights, even when those rights have not been formally proved in court or recognized by the Crown. The Crown will also be required to consult with an Indigenous group if the requested approval could affect treaty rights, and there are significant limits on the power of a government to infringe treaty rights. The consultation process must be appropriate to the strength of the Indigenous right, and the severity of the potential impact on that right. The Crown can involve a corporation in the consultation process with an Indigenous group, but it is up to the Crown to satisfy the duty to consult. Indigenous rights are especially significant in British Columbia where First Nations assert far-reaching, unextinguished claims of Indigenous rights and title, including in coastal areas where we operate. These claims could require the Crown to engage in significant consultations with First Nations before granting new property rights or approvals to us, depending on the facts of each situation. The Crown’s duty to consult has delayed a number of our recent terminal upgrade projects. In 2021, the Province adopted legislation to give effect to the *UN Declaration on the Rights of Indigenous Peoples*. This legislation, combined with a new provincial Action Plan in relation to its Indigenous communities, and a new provincial policy relating to the conduct of litigation involving Indigenous rights, reflects a commitment on the part of the Province to meet a higher standard of consultation than required by the courts, and to avoid unproductive and divisive litigation where reasonably possible. This process may continue to delay terminal upgrade projects and/or impact our ability to complete a terminal upgrade.

Risk mitigation: In 2021, BC Ferries developed an Indigenous relations and engagement strategy to support government consultation processes for our projects, to expand historically under-represented Indigenous participation in our labour force, and to enhance our cultural awareness of Indigenous people.

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

Under the Master Agreement (see “Liquidity and Capital Resources – Terminal Leases” for more detail), the Province retains its liability, to the extent any exists, for the acts and omissions of the Province that occurred prior to our possession of the ferry terminal properties leased under the Terminal Leases and will reimburse us for any damages we suffer as a result. 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 as set out in the Terminal Leases.

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.

Our COVID-19 pandemic plan adheres to provincial and federal guidelines and directives as we provide essential ferry service. We continue to take measures to protect the health and safety of employees and customers. On November 5, 2021, we launched our COVID-19 Vaccination Policy for all employees. The policy's application to vessel-based employees was mandated by Transport Canada. The mandatory vaccination policy included all employees to protect everyone who works for, or travels with, BC Ferries.

Our COVID-19 pandemic plan included extra cleaning and disinfecting of all touch points, advising customers to stay in their vehicles while on board where Transport Canada regulations allowed, urging customers to practise social distancing if they must visit passenger areas, limiting food services, wearing of face masks and asking customers to use electronic forms of payment if possible. Effective as of March 11, 2022, BC Ferries removed the mandatory mask policy to align with the directive from the Provincial Health Officer. Wearing face coverings is encouraged, but not required, in indoor public spaces.

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 with respect to COVID-19.

SailSafe is our safety program, driven by our employees, and embodies safety as a normal part of all business activities and ensures that safety is kept as 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. We are focused on implementing a Fatigue Management Program, which will enhance safety, increase awareness, reduce fatigue and fatigue-related risks to employee well-being.

We have a safety management system, which focuses on occupational and operational safety and ensures an avenue for auditing, reporting, investigating and tracking of policies, procedures and incidents. This allows us to evaluate trends and identify changes to risk in specific areas and help prevent future incidents.

ENVIRONMENT

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

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

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

We actively pursue alternative fuel options for new vessels and vessels undergoing major retrofits because we believe alternate fuels reduce emissions as well as costs. We now have six vessels that operate primarily on LNG: two Spirit Class and four Salish Class ferries. We have six Island Class vessels, which are outfitted with hybrid diesel-electric (battery) propulsion. This stored energy capability will be expandable for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future.

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

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

We voluntarily comply with the International Maritime Organization's International Safety Management Code, which requires enhanced internal and external auditing of vessel operations with regards to Safety and Pollution Prevention.

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates

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

Our significant accounting policies are contained in Note 1 to our March 31, 2022 audited consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

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

Property, Plant and Equipment and Intangible assets

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

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

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

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

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

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

As disclosed in Note 1 to our 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 2022, we recorded \$7.3 million (\$8.5 million at March 31, 2021) in loss on disposal and impairment of property, plant and equipment and intangible assets primarily as a result of identifying specific asset impairments.

Hedging Relationships

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

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

Retirement Liability

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

Asset Retirement Obligations

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

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

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

Revenue

We recognize revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), when transportation is provided. Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods. We recognize ferry service fees and Federal-Provincial subsidies as revenue as services specified in the related agreements with the Province are provided.

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

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

Leases

We apply judgment to determine whether an arrangement contains a lease. We determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, we have the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease. Once we determine it is a lease, we recognize a right-of-use asset in property, plant and equipment and a lease liability. The liability included in lease liabilities in our financial statements at March 31, 2022 was \$36.3 million (\$38.7 million at March 31, 2021).

The Effect of Rate Regulation

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

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

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, 2022 audited consolidated financial statements.

Adoption of New Accounting Standards

No new accounting standards have been adopted since April 1, 2021.

Future Accounting Changes

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

IFRS 17, *Insurance Contracts*:

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, and subsequent Amendments to IFRS 17 in June 2020. The objective of the amendments to IFRS 17 is to assist entities implementing the Standard, while not unduly disrupting implementation or diminishing the usefulness of the information provided by applying IFRS 17. IFRS 17 will replace IFRS 4, *Insurance Contracts*, and is effective for annual reporting periods beginning on or after January 2023. We do not expect the application of this standard to have any impact on our consolidated financial statements.

Exposure Draft, *Regulatory Assets and Regulatory Liabilities*:

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

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

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

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 the impact of the COVID-19 pandemic, traffic trends, the value of the Canadian Dollar relative to the US Dollar, CPI, fuel costs, construction costs, the state of the economy, fluctuating financial markets, demographics, tax changes and the requirements of the CFSC.

Examples of forward looking statements included in this document include, but are not limited to, statements with respect to: Safe Restart Funding, the contents and implications of Bill 7, vehicle and passenger fares, cash requirements and sources of cash flows, our credit rating and credit risks, reliance on sources of external funding, seasonal traffic patterns and their impact on operations, economic conditions and their impact on financial performance, staffing requirements and the impacts of crew shortages, the ongoing impacts of COVID-19, fuel prices and the impact of hedging, capital projects and the potential for delays due to the Crown's duty to consult with Indigenous communities, among other statements.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance, capital market access, interest rate, foreign currency, fuel price, and traffic volume 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, Indigenous rights, and the COVID-19 pandemic.

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

Non-IFRS Measures

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

SCHEDULE A

Corporate Structure and Governance Board of Directors

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

During the fiscal year ended March 31, 2022 (“fiscal 2022”), the board was composed of the following directors:

Chair: Brenda J. Eaton
Members: Jan K. Grude (vice chair)
Bruce A. Chan
Eric A. Denhoff
Gordon M. Kukec
Shona A. Moore
Sarah A. Morgan-Silvester, O.B.C.
Janine M. North
David R. Podmore, O.B.C.
Michael W. Pucci
Judith F. Sayers

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, supervising management, which is responsible for the day-to-day conduct of the business, and endeavouring to ensure that all major issues affecting the business and affairs of the Company are given proper consideration.

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

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

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

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

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

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

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

All of the directors of the Company in fiscal 2022 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
Janine M. North:	Director, Conifex Timber Inc.
	Director, Imperial Metals Corp
	Director, Mercer International Inc.
Bruce A. Chan:	Director, Green Impact Partners
Gordon M. Kucek:	Director, Nano One

Orientation and Continuing Education

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

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

The board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. To facilitate ongoing education, presentations are made to directors from time to time on matters of particular importance or emerging significance to the Company. As well, attendance by directors at seminars, courses or conferences of relevance to their position as directors of the Company may be arranged. Directors are expected to maintain ongoing familiarization with the operations of BC Ferries through regular system-wide ferry travel. This, together with visits to other facilities and operations of BC Ferries, serves to enhance the directors’ ongoing knowledge and understanding of the Company.

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

Ethical Business Conduct

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

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

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

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

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

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

Appointment of Directors

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

On March 25, 2021, the Authority established a committee in order to help inform the considerations for the Authority in the decision-making process for appointing directors to the board. No board members of the Company are members of this committee.

In January 2022, the Authority posted an 'Expressions for Interest for BCFS Board Appointment' notice on its website inviting interested individuals to disclose their interest by January 31, 2022, in order to be considered for appointment to the board. This process resulted in the appointment of Cathy McLay, Charlene Hiller, Joy MacPhail, Harold Calla, J. Dennis Blatchford, and Tamim Raad to the board effective June 24, 2022. As of that date, they will join members David Podmore, Eric Denhoff, Michael Pucci, Sarah Morgan-Silvester, and Shona Moore.

Board Diversity Policy

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

The board, through the Skills Profile and its succession plan, seeks to communicate to the Authority the importance of maintaining a diverse mix of expertise, experience, skills and

backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. For purposes of board composition, diversity includes, but is not limited to, business and other experience, skills, education, gender, age, ethnicity, aboriginal status, and geographic location.

Executive Compensation

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

In fiscal 2020, a committee of directors of the Authority and the board, with the assistance of an independent compensation advisor, undertook a review of executive remuneration limits in conjunction with market data from appropriate Canadian general industry and transportation sector companies and provincial public sector employer organizations. Based on this review, a new executive compensation plan was approved by the Authority, with an effective date of September 1, 2019 (the "Plan"). The Plan is available for public view on the Authority's website (www.bcferryauthority.com).

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

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

Executive Compensation Process

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

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

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

Director Compensation

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

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

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

Board Committees

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

Mandates

In fiscal 2022, the board had four committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

Audit & Finance Committee

The Audit & Finance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities in matters related to finance, audit and enterprise risk. 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	
	2022	2021
Audit	283.9	213.7
Tax services	2.4	2.3
	<u>286.3</u>	<u>216.0</u>

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

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

Safety, Health, Environment & Security Committee

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

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

Governance & Human Resources Committee

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

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

Capital Projects Committee

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

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

Composition

The memberships of the committees in fiscal 2022 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, 2022			
	Audit & Finance	Capital Projects	Governance & Human Resources	Safety, Health, Environment & Security
Brenda J. Eaton	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Bruce A. Chan	•	•		
Eric A. Denhoff	•	•		
Jan K. Grude	•		•	
Gordon M. Kukec		•		•
Shona A. Moore			•	•
Sarah A. Morgan-Silvester	• (chair)	•		
Janine M. North			• (chair)	•
David R. Podmore	•	• (chair)		
Michael W. Pucci			•	•
Judith F. Sayers			•	• (chair)

Assessments

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

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

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