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

For the three months ended
June 30, 2026

Dated August 18, 2026

Table of Contents

Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the three months ended June 30, 2026
Dated August 18, 2026

The following is Management's discussion and analysis ("MD&A") of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries", the "Company" or "we") for the three months ended June 30, 2026 that has been prepared with information available as of August 18, 2026. This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three month periods ended June 30, 2026 and 2025, our audited consolidated financial statements and related notes for the years ended March 31 ("fiscal"), 2026 and fiscal 2025, and our MD&A for fiscal 2026. These documents are available on the System for Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.ca and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

BC Ferries provides passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. Our ferry services are operated under a regulatory framework established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the Coastal Ferry Services Contract ("CFSC") between BC Ferries and the provincial government of British Columbia (the "Province"). The British Columbia Ferry Commissioner ("Commissioner") regulates ferry operators under the Act.

We provide frequent year-round transportation services, with 37 vessels operating on 25 routes, out of 47 terminals spread over 1,600 kilometres of coastline. We also administer ferry transportation services on other routes, on behalf of the Province through contracts with independent operators.

Our Major Routes, which are our four busiest routes, consist of three routes connecting Metro Vancouver with Vancouver Island and one route connecting West Vancouver with the Sunshine Coast. Our Northern Routes consist of three routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Minor Routes primarily serve the northern and southern Gulf Islands, and the northern Sunshine Coast.

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

Our principal business of ferry transportation requires sufficient earnings and ongoing access to capital to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset investment needs.

Significant events during or subsequent to the first quarter of fiscal 2027 include the following:

Traffic and Service

- In the three months ended June 30, 2026, BC Ferries carried 6.1 million passengers, a less than 1% decrease compared to the same period in the prior year, and 2.6 million vehicles, a 1% decrease compared to the same period in the prior year.

- In the three months ended June 30, 2026, we delivered 22,892 round trips, which is the highest number of round trips ever delivered in a first quarter period. This represented 18 (or less than 1%) additional round trips compared with the same period in the prior year, primarily on Major Routes.

General

- On April 8, 2026, BC Ferries implemented average tariff designed to enable 3.2% increase in the Price Cap Index by the end of fiscal 2027 in accordance with the Commissioner Order 23-04 dated September 30, 2023.

- On June 1, 2026, the Commissioner released Order 26-01, Establishment of the Criteria for a Major Capital Expenditure, requiring ferry operators to include, when estimating the amount of a planned capital expenditure, all costs necessarily incurred to bring the asset to the condition and location necessary for its intended use.

- Effective June 16, 2026, a temporary surcharge of 5% was implemented on all routes due to increases in global fuel prices and ongoing volatility in energy markets driven by geopolitical conflict overseas. The temporary surcharge will help manage significant fluctuations in fuel costs over time and its application on Northern Routes was authorized by the Commissioner (see "Operational Revenues" for more detail).

- On June 26, 2026, the terms of board of directors ("Board") Chair Joy MacPhail and fellow directors Eric Denhoff and Dennis Blatchford concluded. Effective June 27, 2026, the B.C. Ferry Authority ("Authority") appointed Jessica Bowering and Marlene Kowalski as directors of the Board. On July 13, 2026, Catherine McLay was elected Chair of the Board.

- On July 27, 2026, BC Ferries filed with the Commissioner two applications for approval of a capital expenditure, in accordance with section 55 of the Act, for certain phases of our Human Resources Transformation Program and our Asset Management Information Program.

Capital Assets

- On May 25, 2026, BC Ferries announced the naming of its new major class vessels. The four vessels will be named: *Summit Arbutus*, *Summit Cedar*, *Summit Maple* and *Summit Spruce* (collectively, "Summit Class"). These four new vessels are planned to enter service starting in 2029 at approximately six-month intervals and, as they are built, will be incorporated into the Major Routes fleet. Each of the four vessels are designed to have a capacity of up to 2,100 passengers and crew, and carry 360 standard sized vehicles. As the Summit Class are introduced, BC Ferries plans to retire four of its oldest major vessels that are smaller, approaching end of life and for which further life extensions are not reasonable (see "Investing in Our Capital Assets" for more detail).

- On June 20, 2026, the *Island xwsaĺuxul* entered service on the route connecting Nanaimo to Gabriola Island. The *Island xwsaĺuxul* is the first of four plug-in hybrid Island Class vessels that will be able to operate exclusively in battery-electric mode, in addition to electrical upgrades for rapid charging from ashore. The *Island sarlequun* arrived in Victoria on June 17, 2026 and is expected to enter service in August 2026, on the same route. The additional two vessels, the *Island Gwa'yam* and *Island K'asa,* are expected to enter service by the end of fiscal 2027 on the route between Campbell River and Quadra Island (see "Investing in Our Capital Assets" for more detail).

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three months ended June 30, 2026 compared to the same period in fiscal 2026.

($ millions)	Three months ended June 30		
	2026	**2025**	**Variance**
Total revenue	351.8	327.2	24.6
Operating expenses	329.6	301.2	28.4
Operating profit	22.2	26.0	(3.8)
Net finance and other expenses	14.6	15.6	(1.0)
Net earnings	**7.6**	**10.4**	**(2.8)**
Other comprehensive (loss)	0.0	(2.2)	2.2
Total comprehensive income	**7.6**	**8.2**	**(0.6)**

In the three months ended June 30, 2026, revenues increased from $327.2 million to $351.8 million, a $24.6 million or 8% increase compared to the same period in the prior year. This increase is primarily a result of higher tariff rates and higher Fare Affordability Funding, partially offset by slightly lower traffic volumes compared to the same period in the prior year (see "Revenue" for more detail).

In the three months ended June 30, 2026, operating expenses increased from $301.2 million to $329.6 million, a $28.4 million or 9% increase compared to the same period in the prior year. This increase is mainly due to higher labour costs and higher fuel costs (see "Expenses" for more detail).

In the three months ended June 30, 2026, net earnings were $7.6 million compared to net earnings of $10.4 million in the same period in the prior year. This decrease of $2.8 million was primarily a result of higher expenses, partially offset by higher revenue.

In the three months ended June 30, 2026, total comprehensive income was $7.6 million compared to a total comprehensive income of $8.2 million in the same period in the prior year. This decrease of $0.6 million comprised of a $2.8 million decrease in net earnings partially offset by an increase in other comprehensive income ("OCI") of $2.2 million (loss in OCI of $nil in the three months ended June 30, 2026, compared to loss in OCI of $2.2 million in the same period in the prior year). The increase in OCI reflects an increase in the change in the fair value of our fuel swap contracts.

Operational Statistics

Select operational statistics for the three months ended June 30, 2026 and 2025 are shown in the tables below.

Operational Statistics	Three months ended June 30			
Vehicle Traffic	**2026**	**2025**	**Increase (Decrease)**	**%**
Major Routes	1,463,337	1,478,965	(15,628)	(1%)
Northern Routes	10,688	11,395	(707)	(6%)
Minor Routes	1,127,429	1,133,820	(6,391)	(1%)
Total Vehicle Traffic	2,601,454	2,624,180	(22,726)	(1%)
Passenger Traffic				
Major Routes	3,761,190	3,785,385	(24,195)	(1%)
Northern Routes	24,483	25,822	(1,339)	(5%)
Minor Routes	2,268,360	2,262,015	6,345	0%
Total Passenger Traffic	6,054,033	6,073,222	(19,189)	(0%)
Round Trips				
Major Routes	3,593	3,475	118	3%
Northern Routes	88	88	-	0%
Minor Routes	19,211	19,311	(100)	(1%)
Total Round Trips	22,892	22,874	18	0%
Capacity Provided (AEQs)*				
Major Routes	2,248,824	2,183,593	65,231	3%
Northern Routes	14,973	15,112	(139)	(1%)
Minor Routes	2,004,402	2,068,728	(64,326)	(3%)
Total Capacity Provided	4,268,199	4,267,433	766	0%
AEQs Carried *				
Major Routes	1,745,819	1,759,864	(14,045)	(1%)
Northern Routes	13,019	13,869	(850)	(6%)
Minor Routes	1,217,941	1,223,039	(5,098)	(0%)
Total AEQs Carried	2,976,779	2,996,772	(19,993)	(1%)
Capacity Utilization				
Major Routes	77.6%	80.6%	(3.0%)	
Northern Routes	86.9%	91.8%	(4.9%)	
Minor Routes	60.8%	59.1%	1.7%	
Total Capacity Utilization	69.7%	70.2%	(0.5%)	
On-Time Performance**				
Major Routes	75.5%	71.2%	4.3%	
Northern Routes	78.1%	67.7%	10.4%	
Minor Routes	85.7%	85.7%	0.0%	
	84.2%	83.6%	0.6%	

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

**The on-time performance % is a weighted average calculation based on the number of sailings (in the three months ended June 30, 2026, 84.9% of sailings are on the Minor Routes, 14.5% on the Major Routes and 0.6% on the Northern Routes).

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of trips. The year-over-year change in the number of round trips provided can be impacted by cancellations and changes in demand or the number of trips stipulated by the CFSC between BC Ferries and the Province. In the three months ended June 30, 2026, we delivered 22,892 round trips, representing 18 additional round trips, compared to 22,874 round trips in the same period in the prior year. Round trips increased on the Major Routes, partially offset by reduced round trips on the Minor Routes.

Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Typically, capacity utilization is highest when traffic levels peak during the summer months and lowest during the winter months. Capacity utilization on the Minor Routes is significantly lower than the capacity utilization on the Major and Northern Routes, due to the traffic demand being directional based on the time of day or the day of the week. In the three months ended June 30, 2026, overall capacity utilization was 69.7%, a decrease of 0.5% compared to a capacity utilization of 70.2% during the same period in the prior year. The decrease in capacity utilization is primarily a result of a lower number of AEQs carried combined with an increase in the capacity provided from additional round trips.

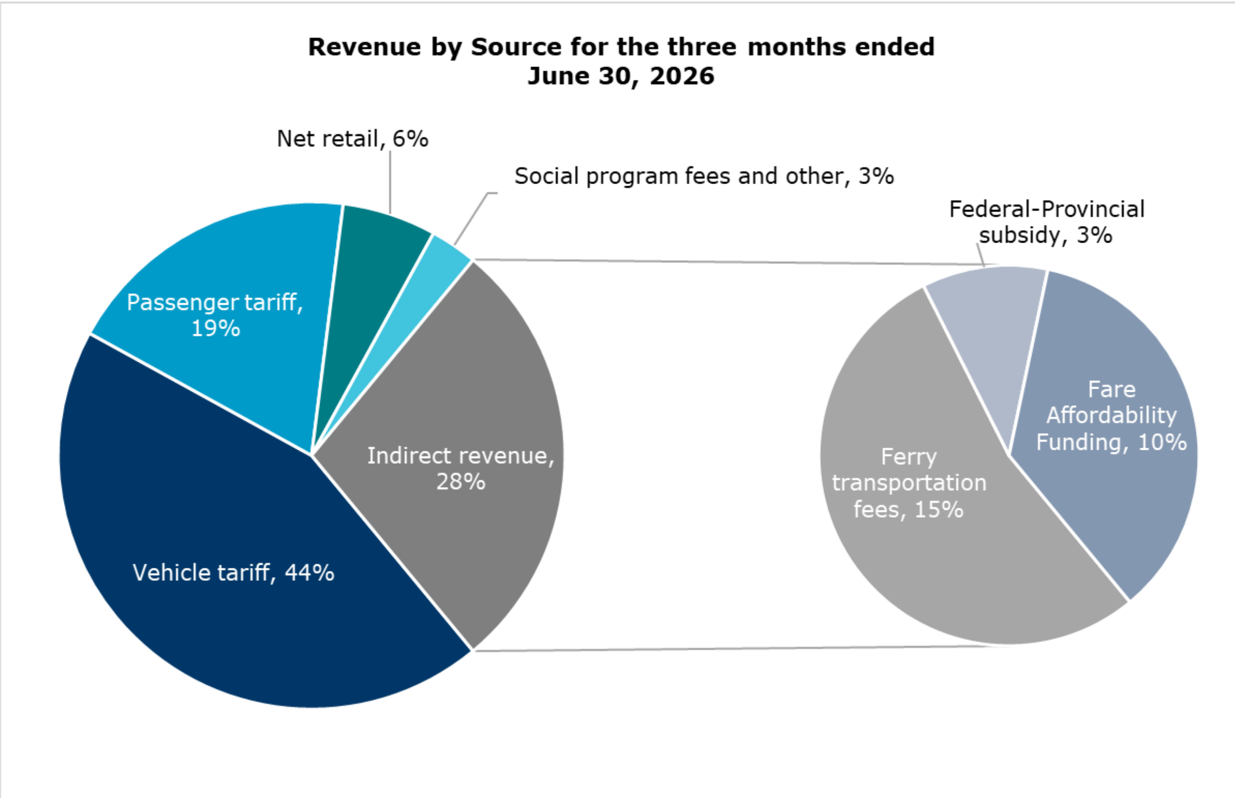
On-time performance on the Major and the Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled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

Sailing Cancellations	**Three months ended June 30**		
	2026	**2025**	**Change**
Sailings	49,574	49,541	33
Cancelled Sailings by type:			
Weather	14	4	10
Mechanical	820	99	721
Crew	8	20	(12)
Other*	61	29	32
Total Cancelled Sailings	903	152	751
Cancellations as % of Sailings	1.8%	0.3%	1.5%
Crew Cancellations as % of Sailings	0.0%	0.0%	0.0%

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

Revenue
The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (a discussion of the effect of rate regulation can be found on page 50 of our fiscal 2026 MD&A).

Operational revenues for the three months ended June 30, 2026 are shown in the graph below.



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

Revenue ($ millions)	**Three months ended June 30**			
			Increase (Decrease)	
	2026	**2025**	**$**	**%**
Direct Route Revenue	**252.4**	**236.5**	**15.9**	**7%**
Vehicle tariff revenue				
Major Routes	130.5	121.0	9.5	8%
Northern Routes	3.3	3.3	-	0%
Minor Routes	20.1	19.4	0.7	4%
Total vehicle tariff revenue	153.9	143.7	10.2	7%
Passenger tariff revenue				
Major Routes	55.4	53.8	1.6	3%
Northern Routes	2.1	2.1	-	0%
Minor Routes	10.5	10.1	0.4	4%
Total passenger tariff revenue	68.0	66.0	2.0	3%
Net retail revenue				
Major Routes	17.0	16.2	0.8	5%
Northern Routes	1.2	1.2	-	0%
Minor Routes	1.5	1.5	-	0%
Total net retail revenue	19.7	18.9	0.8	4%
Social program fees	4.6	4.1	0.5	12%
Other revenue	4.6	3.8	0.8	21%
Fuel surcharge	1.6	-	1.6	-
Indirect Route Revenue	**99.1**	**88.7**	**10.4**	**12%**
Fare Affordability Funding	37.4	29.6	7.8	26%
Ferry transportation fees	52.0	49.6	2.4	5%
Federal-Provincial subsidy	9.7	9.5	0.2	2%
Total Route Revenue	**351.5**	**325.2**	**26.3**	**8%**
Other general revenue	0.3	2.0	(1.7)	(85%)
Total Revenue	**351.8**	**327.2**	**24.6**	**8%**

Vehicle tariffs and passenger tariffs account for the largest share of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types and tariff rates. On April 8, 2026, BC Ferries implemented average tariff designed to enable 3.2% increase in the Price Cap Index by the end of fiscal 2027 in accordance with the Commissioner's Order 23-04 dated September 30, 2023.

During the three months ended June 30, 2026, total direct route revenue increased $15.9 million or 7% compared to the same period in the prior year, primarily as a result of an increase in vehicle and passenger tariff rates, and fuel surcharge, partially offset by a decrease of vehicle and passenger traffic levels during the period.

Average Tariff	Three months ended June 30			
			Increase	
	2026	2025	$	%
Average vehicle tariff				
Major Routes	89.18	81.81	7.37	9%
Northern Routes	308.76	289.60	19.16	7%
Minor Routes	17.83	17.11	0.72	4%
Average vehicle tariff	59.16	54.76	4.40	8%
Average passenger tariff				
Major Routes	14.73	14.21	0.52	4%
Northern Routes	85.77	81.33	4.45	5%
Minor Routes	4.63	4.47	0.16	4%
Average passenger tariff	11.23	10.87	0.36	3%

During the three months ended June 30, 2026, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $4.40 or 8% compared to the same period in the prior year, primarily as a result of tariff rate increases and less discounted vehicle fare sold when compared to previous year. In the three months ended June 30, 2026, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) increased $0.36 or 3% compared to the same period in the prior year primarily as a result of tariff rate increases, partially offset by more discounted passenger fares sold. The increase in average vehicle and passenger tariffs during the three months ended June 30, 2026 resulted in a total tariff revenue increase of $12.2 million or 6% (an increase in vehicle tariff revenue of $10.2 million, and an increase in passenger tariff revenue of $2.0 million), compared to the same period in the prior year.

Net retail sales is a significant source of revenue from customers, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. In the three months ended June 30, 2026, net retail revenue increased by $0.8 million or 4% compared to the same period in the prior year, primarily due to increase in spend per passenger partially offset by a decrease in passenger traffic.

Social program fees are reimbursements from the Province for discounted fares provided to students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Medical Travel Assistance Program (“MTAP”). Social program fees for the three months ended June 30, 2026 increased $0.5 million or 12% compared to the same period in the prior year, due to higher rates and an increase in the usage of the MTAP.

In the three months ended June 30, 2026, other revenue increased $0.8 million or 21% compared to the same period in the prior year, primarily from higher hostling revenue.

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. Effective June 16, 2026, a temporary surcharge of 5% was implemented on all routes due to increases in global fuel prices and ongoing volatility in energy markets driven by geopolitical conflict overseas. The temporary surcharge will help manage significant fluctuations in fuel costs over time and was authorized by the Commissioner. For the purpose of rate regulation and regulatory reporting, surcharges and rebates are applied to our deferred fuel cost accounts.

In the three months ended June 30, 2026, total indirect route revenue increased by $10.4 million or 12% compared to the same period in the prior year, mainly as a result of an increase in Fare Affordability Funding (see below).

Fare Affordability Funding of $500 million, provided by the Province to support the fare affordability initiative of keeping fare increases around 3% and GHG emissions reduction initiatives during performance term (“PT”) 6, is recognized on a systematic basis in accordance with the terms of the contribution agreement with the Province. To date, two installment payments totalling $150 million have been received, with the third installment payment of $150 million expected to be received on September 30, 2026. In the three months ended June 30, 2026, $37.4 million of Fare Affordability Funding was recognized in revenue, an increase of $7.8 million compared to the same period in the prior year. At June 30, 2026, $67.0 million of Fare Affordability Funding was receivable from the Province, compared to $29.6 million at March 31, 2026.

The April 1, 2003 CFSC is a 60-year services contract stipulating, among other things, the number of round trips that must be provided for each regulated ferry service route in exchange for specified ferry transportation fees. On June 30, 2023, the CFSC was amended to establish PT6 ferry transportation fees of $194 million per contract year, consistent with PT5. In the three months ended June 30, 2026, ferry transportation fees increased $2.4 million compared to the same period in the prior year, primarily related to a higher fuel price on the Northern Routes.

Under the terms of the CFSC, we receive an annual amount from the Province based on the Province’s agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. This Federal-Provincial subsidy increases April 1 of each year based on the percentage increase in the annual Consumer Price Index “CPI” (Vancouver).

In the three months ended June 30, 2026, total other general revenue decreased by $1.7 million (or 85%) compared to the same period in the prior year, primarily due to a decrease in carbon credit sales. BC Ferries generates carbon credits under the BC Low Carbon Fuel Standard (BCLCFS) and the Federal Clean Fuel Regulation (CFR), through operating activities that displace higher carbon transportation fuels. Proceeds received from the sale of carbon credits are recognized as other general revenue and, for regulatory purposes, are recorded in the Carbon Reduction Investment Account (CRIA) established by Commissioner Order 22-01 on April 21, 2022.

Expenses
Expenses for the three months ended June 30, 2026 and 2025 are summarized in the table below:

Operating expenses	**Three months ended June 30**			
($ millions)			**Increase (decrease)**	
	2026	**2025**	**$**	**%**
Operations	225.9	196.5	29.4	15%
Maintenance	36.8	38.5	(1.7)	(4%)
Administration	16.1	15.3	0.8	5%
Total operations, maintenance & administration	**278.8**	**250.3**	**28.5**	**11%**
Depreciation and amortization	50.8	50.9	(0.1)	-
Total operating expenses	**329.6**	**301.2**	**28.4**	**9%**

During the three months ended June 30, 2026, total operating expenses increased $28.4 million or 9% compared to the same period in the prior year.

Wages, benefits and fuel are our largest expenses, representing approximately 78% of our total operations, maintenance and administration costs. The $28.5 million or 11% increase in total operations, maintenance and administration costs is primarily driven by fuel expenses and labour costs. We continue our strong focus on operating as effectively and efficiently as possible, to maintain financial resiliency, while delivering on our customer service and safety objectives.

Approximately 81% of BC Ferries' workforce are members of the BC Ferry & Marine Workers' Union (the "Union"). The Collective Bargaining Agreement ("CBA") between BC Ferries and the Union expired in October 2025 and remains in effect while the parties continue collective bargaining. Under wage re-opener provisions in the CBA, Union employees received a 7.75% general wage increase with retrospective application to October 1, 2023, with certain positions receiving additional special increases of up to 10.0%, and a further 1.65% general wage increase effective April 1, 2025, including limited additional special increases for certain positions. BC Ferries has included a provision for anticipated wage and benefit increases in the results for the period ended June 30, 2026.

Wage rates for employees not covered by the Collective Agreement were increased by 2.25% for eligible employees, effective April 1, 2026.

The $29.4 million or 15% increase in operations expenses in the three months ended June 30, 2026, compared to the same period in the prior year, includes:

- $19.9 million increase in fuel expense, of which $18.9 million is the result of higher fuel prices and $1.0 million is the result of an increase in fuel consumption;
- $8.5 million increase in labour costs, mainly due to wage rate increases, higher benefit and overtime costs;
- $0.9 million increase in security services and credit card service fees and other miscellaneous expenses.

Maintenance costs decreased by $1.7 million or 4% in the three months ended June 30, 2026 compared to the same period in the prior year, primarily as a result of the cyclical nature of vessel refit activity.

Administration costs increased $0.8 million or 5% in the three months ended June 30, 2026 compared to the same period in the prior year, primarily from increased labour and benefit costs, investing in our administrative functions and other expenses.

Net finance and other expenses	**Three months ended June 30**			
($ millions)			**Variance**	
	2026	**2025**	**$**	**%**
Finance expense	17.8	16.9	0.9	5%
Less: finance income	(3.4)	(1.3)	(2.1)	
Net finance expense	**14.4**	**15.6**	**(1.2)**	**(8%)**
Net loss on disposal and impairment of property, plant and equipment, intangible assets and other charges	0.2	0.0	0.2	
Total net finance and other expenses	**14.6**	**15.6**	**(1.0)**	**(6%)**

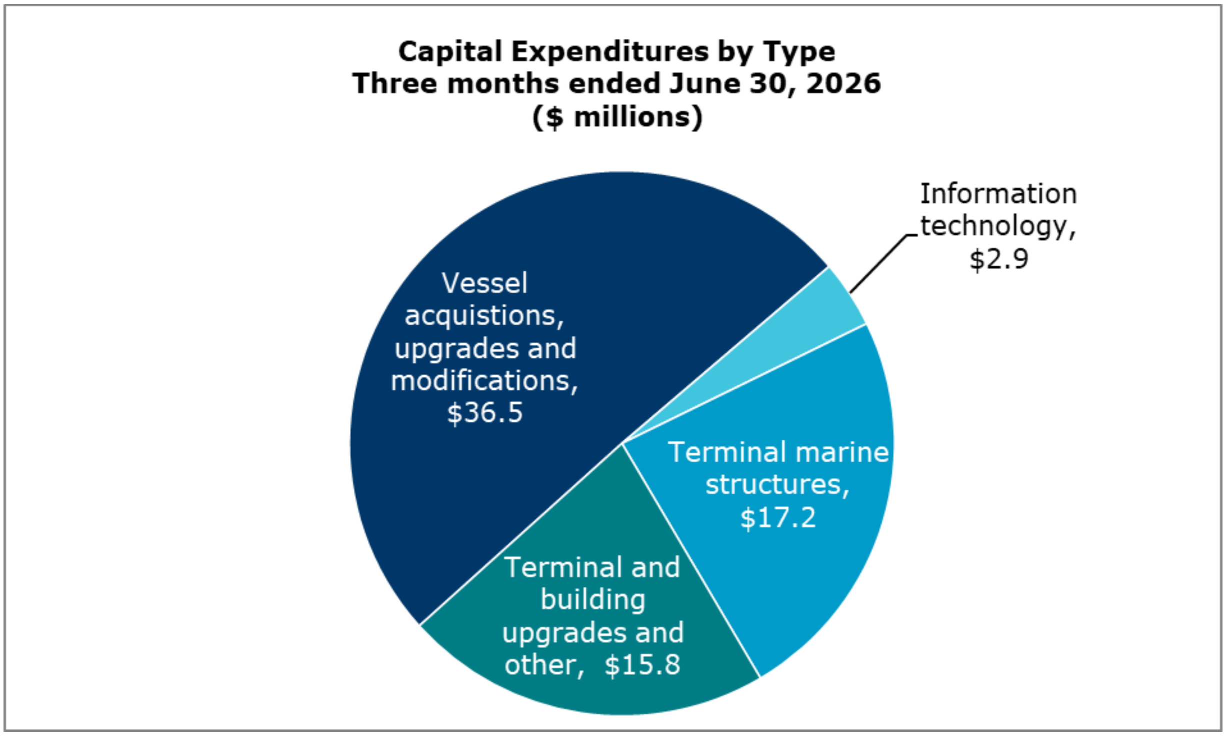
In the three months ended June 30, 2026, net finance and other expenses decreased by $1.0 million or 6% compared to the same period in the prior year, primarily a result of, a higher net gain on foreign exchange, higher capitalized interest during construction and higher interest earned partially offset by higher interest on bonds.

INVESTING IN OUR CAPITAL ASSETS

Our capital plan includes building new vessels, upgrades and modifications to existing vessels, improvements at our Fleet Maintenance Unit located at Deas Basin in Richmond, BC ("FMU"), modifications to terminal infrastructure in anticipation of vessel electrification (shore-side power source to enable charging vessel batteries), upgrades at our terminals and renewal of our information technology systems.

In the three months ending June 30, 2026, total additions to our capital assets totalled $72.4 million in capital expenditures net of funding and $5.5 million for asset decommissioning provision.

In the three months ended June 30, 2026, capital expenditures (net of funding) comprised the following:



Prior to fiscal 2026, BC Ferries received $14 million in funding as part of the Natural Gas for Transportation incentive funding from FortisBC Energy Inc. (included in deferred grants and other current and long-term liabilities) to help offset incremental capital costs for the Salish Class and Spirit Class vessels associated with the ability to utilize LNG. During the three months ended June 30, 2026, we applied $0.4 million ($0.4 million during the same period in fiscal 2026) of the funding to reduce the capital cost of the Salish Class and Spirit Class vessels.

On March 27, 2024, BC Ferries received $75 million of net proceeds from issuing Series 24-1 bonds to Canada Infrastructure Bank ("CIB"). The fair market value of the bonds as of issuance date was $47.4 million. The difference between the net proceeds and fair market value of the bonds of $27.6 million was classified as government funding to be recognized as an offset to the project costs of the Island Class Phase 3 project and the Island Class terminal electrification project. During the three months ended June 30, 2026, $0.4 million ($1.3 million during the same period in fiscal 2026) of this funding was recognized as a reduction to capital expenditures, consisting of $0.4 million for the terminal electrification project and less than $0.1 million for the Island Class Phase 3 project.

On May 22, 2025, BC Ferries received $133 million of net proceeds from issuing Series 25-1 bonds to CIB. The fair market value of the bonds as of issuance date was $76.6 million. The difference between the proceeds and fair market value of the bonds of $56.4 million was classified as government funding to be recognized as an offset to the project costs of the Summit Class vessels project. During the three months ended June 30, 2026, $nil ($56.4 million during the same period in fiscal 2026) of this funding was recognized as a reduction to capital expenditures for the Summit Class vessels project.

Capital Expenditures ($ millions)	**Three months ended June 30, 2026**
Island Class Phase 3	24.6
FMU redevelopment	11.5
Major overhauls and inspections	5.6
Crofton - New lay-by berth and life extension of trestle and berth	2.9
Horseshoe Bay elevated structures	2.9
Horseshoe Bay and Langdale Infrastructure Program	2.7
Summit Class Vessels	2.2
Heriot Bay berth replacement	2.2
Tsawwassen - Berth 3 - New Upper Apron and Lower Ramp Life Extension	1.7
Otter Bay berth life extension	1.1
Coastal Celebration quarter-life upgrade	1.1
Horseshoe Bay Transfer Deck Life Extension	1.0
Whaletown berth replacement	0.9
Various other projects	12.0
	72.4

Island Class Phase 3

The *Island xwsal̓uxul* (meaning Grassy Place) entered service on June 20, 2026 on the route connecting Nanaimo to Gabriola Island. The *Island sarlequun* (honouring the revered first peoples of Snuneymuxw) is expected to enter service in August 2026 on the same route.

The additional two vessels, the *Island Gwa'yam* (meaning Whale) and *Island K'asa* (meaning Otter), named in the Kwak'wala language as gifts by the We Wai Kai and Wei Wai Kum Nations, are expected to enter service on the route between Campbell River and Quadra Island by the end of fiscal 2027.

These four new hybrid electric vessels, with capacity to carry approximately 47 vehicles and 390 passengers, will further standardize BC Ferries' fleet, both increasing capacity, and improving our flexibility to move ships across routes. With the addition of these Island Class vessels, BC Ferries plans to redeploy other vessels to improve service on other routes and retire two of our older vessels.

FMU redevelopment

This project is redeveloping the site to increase efficiencies and the capacity of the site, building a new machine shop and upgrading existing buildings at the site. Civil works such as watermain, paving, earthworks were completed in June 2026. Construction of the new machine shop is underway and expected to be completed in September 2026, and other site upgrades are expected to finish by fiscal 2028.

Major overhauls and inspections

In the three months ended June 30, 2026, we incurred capital expenditures of $5.6 million in respect of major overhauls and inspections of components of hull, propulsion and generators for three vessels that were completed or underway.

Crofton - New lay-by berth and life extension of trestle and berth

A project to build a new lay-by berth to accommodate the Island Class vessel deployment on route and extend the life of the existing trestle and berth structure, is expected to be completed in the first quarter of fiscal 2028.

Horseshoe Bay elevated structures

A project to demolish the existing control tower, elevated holding area and elevated infill area, remove the pedestrian footbridge, install a temporary control tower and modify the transfer deck will be completed in several phases to minimize impacts to terminal operations.

Horseshoe Bay and Langdale Infrastructure Program

The Horseshoe Bay and Langdale Infrastructure Program consists of sixteen interconnected projects to upgrade the Horseshoe Bay berths and elevated structures and Langdale berths to accommodate the Coastal Class and Summit Class vessels. The program is expected to be completed in fiscal 2034.

Summit Class Vessels

On March 14, 2025, the Commissioner issued Order 25-01 which approved a major capital expenditure for four Summit Class vessels to replace four existing end-of-life vessels. On May 7, 2025, BC Ferries awarded four contracts for design, build and delivery of the Summit Class vessels to China Merchants Industry Weihai Shipyard Co., Ltd. These four vessels will be diesel-battery hybrid ships designed for future full electric operation and capability of carrying 360 vehicles and 2,100 passengers. These vessels are planned to enter service starting in 2029 at approximately six-month intervals. As these vessels are introduced, BC Ferries plans to retire four of its oldest major vessels: the *Queen of Alberni*, *Queen of New Westminster*, *Queen of Coquitlam* and *Queen of Cowichan*.

On May 25, 2026, BC Ferries announced the naming of its new major class vessels. The four vessels will be named: *Summit Arbutus*, *Summit Cedar*, *Summit Maple* and *Summit Spruce*.

Heriot Bay berth replacement

A project to replace the marine structures at Heriot Bay to accommodate Island Class vessels, including the pontoon, ramp and floating lead, was completed in the first quarter of fiscal 2027.

Tsawwassen - Berth 3 - New Upper Apron and Lower Ramp Life Extension

A project to replace the upper apron and extend the life of the lower ramp for berth 3 was completed in April 2026.

Otter Bay berth life extension

A project to life extend the marine structures including the vehicle ramp, apron, ramp towers and wingwalls was completed in May 2026.

Coastal Celebration quarter-life upgrade

The quarter-life upgrade of the *Coastal Celebration*, including upgrades to its propulsion, electrical, communication systems, and catering and safety equipment was completed in May 2026.

Horseshoe Bay Transfer Deck Life Extension

A project to extend the life of the transfer deck structure at Horseshoe Bay terminal is expected to be completed in the third quarter of fiscal 2027.

Whaletown berth replacement

A project to demolish the deteriorated marine structures and construct a new berth to support the deployment of the Island Class vessels is currently underway and was completed in the first quarter of fiscal 2027.

Various other projects

Various other project expenditures of $11.9 million include, among others, upgrades to various vessel’s navigational and catering equipment, upgrades to marine structures at certain terminals and various software upgrades.

LIQUIDITY AND CAPITAL RESOURCES

We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issuance to third parties and government funding. 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 debt servicing. 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, credit ratings assigned by rating agencies, and general economic conditions.

We expect our cash requirements will be met through operating cash flows, accessing our credit facility, debt issuances, government contributions and other external funding opportunities.

Fare Affordability Funding of $500 million, provided by the Province to support the fare affordability initiative of keeping fare increases around 3% and GHG emissions reduction initiatives during PT6, is recognized on a systematic basis in accordance with the terms of the contribution agreement with the Province. To date, two installment payments totalling $150 million have been received, with the third installment payment of $150 million expected to be received on September 30, 2026. In the three months ended June 30, 2026, $37.4 million of Fare Affordability Funding was recognized in revenue, an increase of $7.8 million compared to the same period in the prior year. At June 30, 2026, $67.0 million of Fare Affordability Funding was receivable from the Province, compared to $29.6 million at March 31, 2026. Additional information about the contribution agreement can be found on page 25 of our fiscal 2026 MD&A.

At June 30, 2026, our unrestricted cash and cash equivalents and other short-term investments totalled $244 million and $88 million, respectively, compared to unrestricted cash and cash equivalents and other short-term investments of $364 million and $88 million, respectively, as at March 31, 2026.

Our $105 million credit facility (the “Credit Facility”) was renewed on March 19, 2026 to extend the maturity date from April 20, 2029 to April 20, 2030. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At June 30, 2026, there were no draws on the Credit Facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at cost effective interest rates. S&P affirmed BC Ferries’ long-term issuer credit and senior secured debt ratings of “A+” with a Stable outlook on November 18, 2025 and subsequently assigned the same rating to our February 19, 2026 bond issuance. On December 5, 2025, DBRS confirmed BC Ferries’ issuer rating and senior secured bonds credit rating at “A (high)” with a Negative outlook and subsequently assigned the same rating to our February 19, 2026 bond issuance.

Under the Master Trust Indenture (“MTI”), an agreement that in part secures and governs the Company’s borrowings, we are subject to an indebtedness test that prohibits new borrowing if our debt service coverage ratio (earnings before interest, taxes, depreciation, amortization and rent or EBITDAR divided by debt service cost) is less than 1.50x. At June 30, 2026, we achieved a debt service coverage ratio of 3.06 and were in compliance with all of covenants under the MTI and the Credit Facility. Additional information about the MTI can be found on page 26 of our fiscal 2026 MD&A.

The Company’s operational performance for the three months ended June 30, 2026 resulted in a $7.6 million increase in equity before reserves, from $574.7 million as at March 31, 2026 to $582.3 million as at June 30, 2026. Correspondingly, BC Ferries’ 78% leverage ratio as at June 30, 2026 remained consistent with our leverage ratio as at March 31, 2026.

($ thousands)	June 30, 2026 $	%	March 31, 2026 $	%
Aggregate borrowings *	2,065,574	78%	2,069,341	78%
Total equity before reserves	582,306	22%	574,672	22%
Total	2,647,880	100%	2,644,013	100%

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

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, the issuance of bonds, external funding and borrowings under the Credit Facility. Our primary uses of funds are operational expenses, capital asset acquisitions and upgrades, and payments on our long-term debt. Sources and uses of cash and cash equivalents for the first quarter of fiscal 2027 and 2026 are summarized in the table below:

	Three months ended June 30		
($ millions)	2026	2025	Increase (Decrease)
Cash and cash equivalents, beginning of the period	364.0	204.7	159.3
Cash (used in) generated from operating activities:			
Net earnings	7.6	10.4	(2.8)
Items not affecting cash	63.5	64.2	(0.7)
Changes in non-cash operating working capital	(78.4)	(38.8)	(39.6)
Net interest paid	(18.6)	(17.0)	(1.6)
Cash (used in) generated from operating activities	(25.9)	18.8	(44.7)
Cash (used in) generated from financing activities	(3.8)	128.8	(132.6)
Cash used in investing activities	(90.5)	(190.6)	100.1
Net decrease in cash and cash equivalents	(120.2)	(43.0)	(77.2)
Cash and cash equivalents, end of the period	243.8	161.7	82.1

For the three months ended June 30, 2026, cash used in operating activities increased by $44.7 million compared to the same period in the prior year, primarily due to a decrease in non-cash operating working capital. The decrease in non-cash operating working capital is mainly due to a decrease in trade payables offset by an increase in non-cash working capital attributable to investing activities.

Cash used in financing activities in the three months ended June 30, 2026 was $3.8 million, a $132.6 million increase compared to same period in the prior year. The $3.8 million consisted of $2.8 million in repayment of our loans from KfW, and $1.0 million in repayment of lease obligations. The decrease in cash generated from financing activities is due to the net proceeds of $132.6 million from our May 2025 bond issuance and no net proceeds were obtained in the three months ended June 30, 2026.

Cash used in investing activities for the three months ended June 30, 2026 decreased by $100.1 million compared to the same period in the prior year, mainly due to a decrease of $103.3 million in capital asset purchases and $4.7 million in net change in restricted short-term investments partially offset by a decrease of $7.9 million in net change in short-term investments.

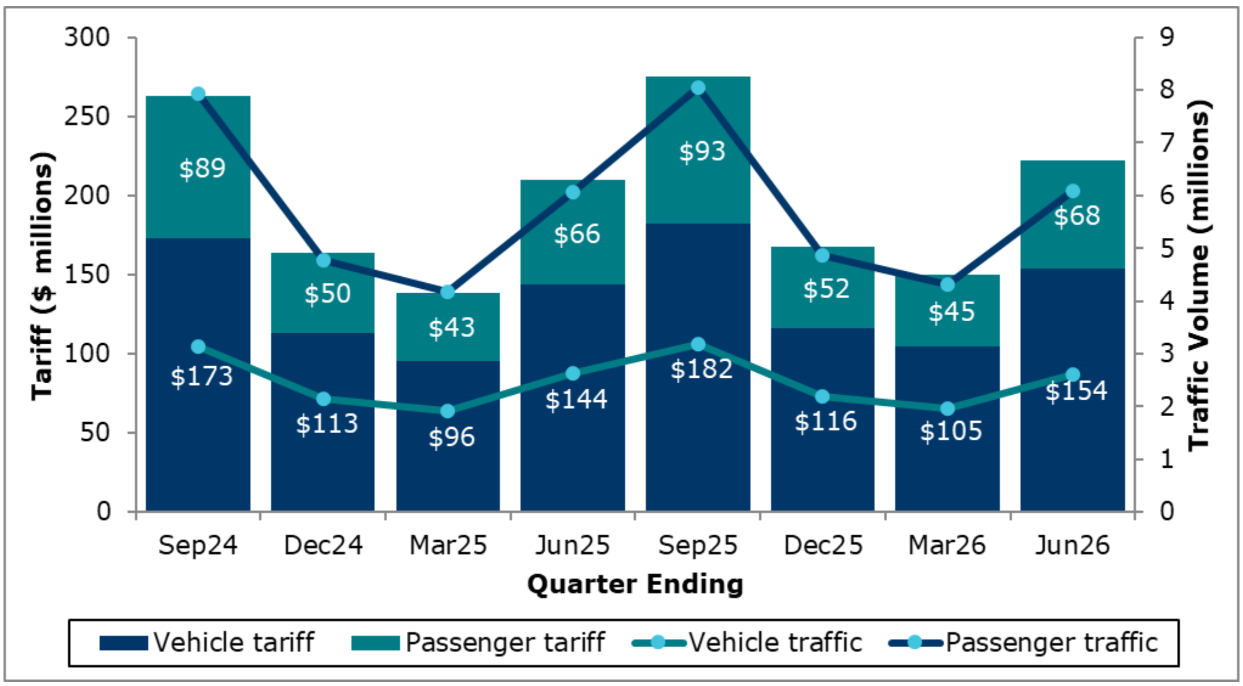
SUMMARY OF QUARTERLY RESULTS

The table below compares earnings by quarter for the most recent 8 quarters:

	Quarter Ended (unaudited)							
($ millions)	**Sep 24**	**Dec 24**	**Mar 25**	**Jun 25**	**Sep 25**	**Dec 25**	**Mar 26**	**Jun 26**
Total revenue	383	257	228	327	412	273	248	352
Operating expenses	300	279	306	301	293	288	306	330
Operating profit (loss)	83	(22)	(78)	26	119	(15)	(58)	22
Net (loss) earnings	71	(38)	(96)	10	109	(27)	(86)	8

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

The following graph demonstrates the seasonality of our tariff revenue and shows the relationship of passenger traffic volume and tariff revenue over the most recent 8 quarters:



OUTLOOK

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

Financial
During fiscal 2026, BC Ferries carried its highest ever vehicle and passenger traffic. In the three months ended June 30, 2026, BC Ferries continued to experience consistent vehicle and passenger traffic levels, with a slight decrease compared to the same period in the prior year.

While we are cautiously optimistic that traffic will continue to be strong, BC Ferries cannot predict with certainty future traffic volumes. Traffic levels can be affected by a variety of factors, such as weather, competition, transportation costs (including vehicle gasoline prices and ferry fares), economic conditions, political instability, risk of recession, fluctuations in disposable personal income and vessel mechanical issues causing cancellations.

BC Ferries is experiencing upward pressure on both operating and capital costs and we continue to pursue efficiencies and opportunities to minimize costs. Future increases in inflation, projected higher long-term interest rates and weakening economic conditions may impact customer demand, future profitability and future cost-effective funding opportunities.

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

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

Escalating costs and planned investments in PT6 and PT7 from April 1, 2028 to March 31, 2032 will rely upon a level of funding for PT7 that is currently uncommitted, either in the form of regulatory allowable price cap increases, or funding from the Province or other sources. The regulatory submission for PT7, due September 30, 2026, will begin the process of price cap determination by the Commission and may further facilitate negotiations with the Province on service and related transportation fees for PT7. Financial projections indicate that the Company will face significant annual funding deficits requiring revenue growth of greater than 40% by fiscal 2029 to address funding shortfalls. Failure to receive the necessary price cap increases, funding from the Province or otherwise achieve significant alternative revenues could have a material adverse effect on our financial condition and results of operations. As BC Ferries finalizes the PT7 regulatory submission, the Company continues to engage with relevant parties in an effort to secure long term funding that ensures ferry services continue to support the people, communities and economies of coastal British Columbia.

Risks and Uncertainties

Understanding and managing operational and financial risk is an important part of our business. We have processes in place to manage risks that inevitably arise in the normal course of business. A discussion of enterprise-wide risk management can be found on pages 37 through 46 of our fiscal 2026 MD&A, which is available on SEDAR+ at www.sedarplus.ca and on our investor webpage at https://www.bcferries.com/our-company/investor-relations. Our risk profile is substantially unchanged during the three months ended June 30, 2026.

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates

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

Our material accounting policies are contained in Note 1 to our March 31, 2026 audited consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 47 through 51 of our fiscal 2026 Management's Discussion & Analysis.

Adoption of New Accounting Standards

The Group adopted Amendments to IFRS 9 and IFRS 7 (Amendments to the Classification and Measurement of Financial Instruments), clarifying the derecognition of financial liabilities, including those settled through electronic payment systems, and introducing additional disclosure requirements for certain financial instruments. The new standard was effective for annual reporting periods beginning on or after January 1, 2026, and early adoption was permitted. The Group's existing practices were compliant with the amendments.

FORWARD LOOKING INFORMATION

This MD&A contains certain forward-looking statements and other information (collectively, "forward-looking information") about the Company's current expectations, estimates and projections, made in light of our experience and perception of historical trends. Although we believe that the expectations represented by this forward-looking information are reasonable, there can be no assurance that such expectations will provide to be correct.

The forward-looking information is identified by words such as "anticipate," "believe," "could," "expect," "may," "target," "plan," "predict," "will" or similar expressions and includes suggestions of future outcomes, including but not limited to, statements about: customer demand; vehicle and passenger fares; future traffic volumes; seasonal traffic patterns and their impact on operations; capacity constraints; cash requirements and sources of cash flows; future economic conditions and their impact on our financial performance and future investments; Province funding, including continuation of Fare Affordability Funding, and our anticipated use of any such funding; outcomes of our PT7 regulatory application; fuel prices; impact of hedging strategies; fuel surcharges; fuel sources; timing of implementation of vessel electrification capability; vessel replacement, including timing of new vessel construction for the Island Class and Summit Class; repair strategies; capital plans and major capital initiatives; impact of capital asset inflation on capital investment costs; provisions for asset decommissioning and restoration obligations that use our best estimate of the future cash flows required to settle the present obligations; timing of completion of capital projects; reduction of vehicle space during upcoming construction at our Horseshoe Bay terminal; and length of delays to completion of capital projects due to obligations to consult with Indigenous communities and/or processing times to obtain archaeological permits; and the Company's outlook for the Canadian dollar, the factors that affect such outlook and the influences and effects on BC Ferries.

Readers are cautioned not to place undue reliance on forward-looking information as the Company's actual results may differ materially from those expressed or implied. Developing forward-looking information involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to the Company and others that apply to operations in this industry more generally.

The factors or assumptions on which the forward-looking information is based include, but are not limited to: ferry traffic trends; climate conditions; fuel costs; construction costs; projected capital investment levels; the flexibility of current capital spending plans and associated sources of funding; our ability to access capital; existing credit facilities; interest rates; foreign exchange rates; the CPI (Vancouver); the Company's ability to obtain and retain qualified staff and equipment in a timely and cost-efficient manner; the absence of significant adverse changes to government policies, legislation and regulations; the political, economic and social stability of jurisdictions in which the Company operates; the absence of significant disruption of operations, including as a result of harsh weather, natural disaster, accident, third party actions, civil unrest or other similar events; provincial demographics; no adverse tax changes; and the requirements of the Act and the CFSC.

The risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking information primarily include those associated with operating and maintaining a large fleet of aging vessels and terminals, including, without limitation: the impact of an economic recession; the impact of fare increases or unforeseen events on customer demand; the reliability of aging assets; vendor non-performance; constraints on operations or necessary capital expenditures imposed by the Commissioner; the Company's ability to maintain desirable financial ratios; the Company's ability to access various sources and debt and capital generally and on acceptable terms; interest rate fluctuations; foreign currency fluctuations; rising fuel prices; traffic fluctuations; the potential for delays in completion of major capital projects; inflation of capital and operating costs; security, safety or environmental incidents; confidential or sensitive information breaches (including cyber security incidents); changes in the regulatory framework or any applicable laws; vessel repair facility limitations; changes to taxes, tariffs or duties impacting the company or its suppliers; impacts of sanctions and other compliance legislation on the company or its suppliers; climate change; the occurrence of unexpected events such as protests, pandemics, war, terrorist threats and the instability resulting therefrom; the assertion of Indigenous rights over land use in the province; and the status of Company's relationships with the communities in which it operates, including with Indigenous communities.

The forward-looking information is made as of the date of this MD&A and we do not undertake to update forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

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.