



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

For the fiscal year ended
March 31, 2020

Dated June 11, 2020

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**Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the year ended March 31, 2020
Dated June 11, 2020**

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") for the year ended March 31, 2020 that has been prepared with information available as of June 11, 2020. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2020 ("fiscal 2020") and March 31, 2019 ("fiscal 2019"). These documents are available on SEDAR at www.sedar.com 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 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 35 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other remote 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 obligations.

Our Major Routes, which are our four busiest routes, consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. Our Northern Routes consist of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Other Routes consist of 18 regulated routes and eight unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.

We provided over 180,000 sailings during fiscal 2020, 4,289 more than in the prior year. We carried 8.8 million vehicles and 21.7 million passengers during fiscal 2020. In fiscal 2020, year-to-date for the first 50 weeks, vehicle and passenger traffic reflected an increase of 1.3% and 0.1%, respectively, compared to the prior year. On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus COVID-19, pandemic. In the last two weeks of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with a decrease of 55% and 69%, respectively, compared to the same period in the prior year, resulting in a year-to-date decrease of 1.0% to vehicle traffic and 2.7% to passenger traffic compared to the prior year. For a discussion of our traffic levels, see "Financial and Operational Overview" below.

BC Ferries is faced with an unprecedented drop in traffic and decline in revenue as a result of the COVID-19 pandemic and the resultant preventative measures and imposed travel restrictions. Traffic and revenue began to decline in early March 2020 and include declines in earnings and cash from operations. We have a limited ability to stimulate demand given the current travel restrictions in place and concerns about travel due to COVID-19. BC Ferries cannot predict the full impact of the pandemic or the timing for when conditions will improve.

We are actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions and passenger reaction, none of which can be predicted with any degree of certainty.

Significant events during or subsequent to fiscal 2020 include the following:

COVID-19 pandemic response measures

In March 2020:

- We gave the Province 90 days' notice of our intent to cancel certain discretionary sailings and in response to an approximate 40% decline in traffic as a result of COVID-19, on March 20, 2020, we announced the cancellation of sailings that would otherwise have been added in April on four routes.
- We activated our Emergency Operations Centre ("EOC") to be the central point of command and control for all planning, organizing and responding by BC Ferries with respect to COVID-19.
- We reduced licence levels on the vessels and crew profiles in response to reduced traffic demand.
- To help protect passengers and employees aboard our ferries and in all workplaces, we have been continually incorporating new information about COVID-19 into our health and safety policies and into our procedures for travelers. These include advising customers to avoid any non-essential travel, allowing passengers to remain in their vehicles on the enclosed car deck in compliance with a Transport Canada Ship Safety Bulletin, stopping our food services, enhancing cleaning routines, posting signs encouraging hand washing and social distancing, and implementing remote work policies where possible.
- On March 26, 2020, the Minister of Public Safety and Solicitor General issued Ministerial Order No. M084 pursuant to the *Emergency Program Act*. This order requires BC Ferries to implement procedures necessary to ensure priority loading on ferries for vehicles carrying essential goods and supplies, and residents of ferry sailing destinations.

In April 2020:

- On April 3, 2020 and April 8, 2020, we announced service level adjustments across multiple routes to protect the health and safety of communities and ferry workers, to ensure the resiliency of the coastal ferry service, and to better match ferry service to demand. Across the ferry network, capacity was reduced by as much as 50% compared to the same period last year. The Coastal Ferry Services Contract ("CFSC") with the Province of British Columbia was amended to reflect temporary reduced service levels in response to the COVID-19 pandemic and was effective for a 60-day period. On June 2, 2020, the CFSC was again amended to extend the temporary service level adjustments through to September 7, 2020. BC Ferries continues to monitor service levels in conjunction with the Province to ensure essential service levels are maintained and to determine when services should resume to normal levels.
- On April 4, 2020, we temporarily laid off some employees with plans to gradually bring them back as service levels increase along with increasing demand.
- We are engaging with the federal government to determine if BC Ferries can qualify as a "Prescribed Organization" under the Canada Emergency Wage Subsidy program.

- We have initiated a review of both operating and capital plans to reduce costs and defer spending in order to preserve cash.
- On April 7, 2020, we implemented new Transport Canada regulations for ferries during the COVID-19 pandemic. These measures include screening all customers for COVID-19 symptoms on routes longer than 30 minutes in duration and restricting travel to any customer that does not meet the screening requirements. These regulations also limit passenger capacity by 50 per cent to support physical distancing.

Tariffs

- For the period April 1, 2019 to March 31, 2020 (fiscal 2020), fares on all routes were held at the fiscal 2019 level. On April 1, 2018, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday to Thursday on the Major and Other Routes. The total combined estimated value of the fare reductions and increased BC seniors' discount during fiscal 2019 and fiscal 2020 was approximately \$98 million, of which the Province contributed \$26.5 million in fiscal 2019 and \$32.5 million in fiscal 2020. BC Ferries contributed the balance in the form of foregone revenue.
- On September 30, 2019, the British Columbia Ferries Commissioner (the "Commissioner") issued Order 19-04 which established final price cap increases of 2.3% for each of the four years of performance term five ("PT5"), which commences April 1, 2020 and ends on March 31, 2024. Order 19-04 also:
 - maintains the existing fuel deferral accounts;
 - sets a future efficiency target equivalent to 1% of annual operating, maintenance and administration costs; and
 - sets 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. (See "The Effect of Rate Regulation" for more detail.)
- On March 25, 2020, we announced a delay of adjustments to fares for fiscal 2021 in light of the COVID-19 pandemic, with the date for applying fare adjustments to be determined in the near-term. On March 25, 2020, we also announced that as of April 1, 2020, a fuel rebate of 1.5% would be implemented on all routes as a result of recent fuel prices. Previously, effective December 17, 2019, we eliminated fuel surcharges of 1.5% on average, on all routes with the exception of the Northern Routes. These fuel surcharges had been in place since June 1, 2019.

Vessels

- On April 18, 2019, the *Spirit of Vancouver Island* returned to service on our Tsawwassen – Swartz Bay route following its mid-life upgrade. This mid-life upgrade, which will enable the vessel to be in service for another 25 years, included major upgrades to the customer amenities, and the conversion to dual-fuel enabling the vessel to operate on liquefied natural gas ("LNG") or ultra-low sulphur marine diesel ("marine diesel"). (See "Investing in Our Capital Assets" for more detail.)
- On May 18, 2019, the *Northern Sea Wolf* entered service in the mid-coast and on June 3 started the direct seasonal service between Port Hardy and Bella Coola. The *Northern Sea Wolf*, a 75-metre vessel built in 2000, underwent extensive upgrades to meet BC Ferries' and Transport Canada's standards of safety and reliability. The vessel accommodates

approximately 35 vehicles and 150 passengers and crew. (See "Investing in Our Capital Assets" for more detail.)

- On October 25, 2019, contracts became effective with Damen Shipyard Group of the Netherlands for the construction of four new Island Class vessels expected to enter service during fiscal 2023. These four vessels are in addition to the two Island Class vessels constructed by Damen Shipyard Group which arrived in Canada on January 18, 2020. The Island Class vessels will be outfitted with hybrid diesel-electric propulsion and each have a capacity of up to 392 passengers and approximately 47 vehicles. The total project budget for the four additional vessels, including financing and project management costs, is approximately \$200 million. These four new vessels will allow for the retirement of the *Bowen Queen* and *Powell River Queen* and for the redeployment of certain other vessels around the fleet.
- On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. of Gdansk, Poland to build a new Salish Class vessel. The new vessel will be 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. This fourth Salish Class vessel will replace the 55-year old *Mayne Queen* and is expected to enter service in fiscal 2023.
- On January 18, 2020, two new Island Class vessels constructed by Damen Shipyard Group arrived in Canada and are expected to go into service in the first quarter of fiscal 2021. The addition of the *Island Discovery* and the *Island Aurora* will allow us to retire the 62-year old *North Island Princess* in fiscal 2021. The 54-year old *Howe Sound Queen* was retired during the first quarter of fiscal 2020. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula.

General

- On May 16, 2019, the Province enacted legislation to amend the *Coastal Ferry Act* (the "Act") based on the recommendations from the review the Province had conducted of coastal ferry services in British Columbia. (See "Coastal Ferry Services Contract" for more detail.)
- On October 15, 2019, we completed a private placement of \$250 million of 30-year senior secured bonds. These bonds bear interest at a rate of 2.794% per annum, payable semi-annually. The net proceeds of this new issue will be used, together with additional cash on hand, to provide for capital expenditures, general corporate purposes and to fund the bond series reserve account. These bonds were rated "A (high)" by DBRS and "AA-" by Standard & Poor's ("S&P").
- On February 21, 2020, we announced the appointment of Jill Sharland to the position of Vice President and Chief Financial Officer effective March 2, 2020. Ms. Sharland has extensive experience as a financial executive in various positions, most recently as a chief financial officer in the medical industry and prior to that, experience in the aviation and telecommunications industries. Ms. Sharland is a Chartered Professional Accountant and holds a Master of Business from Queens University as well as an Honors Bachelor of Science in Pharmacology and Physiology from Western University. The outgoing Vice President and Chief Financial Officer, Ms. Alana Gallagher, retired after 25 years of service at BC Ferries.
- On May 1, 2020, S&P Global Ratings revised our credit rating trend from "AA-" with a stable outlook to "AA-" with a negative outlook while at the same time, affirming the Company's "AA-" long-term issuer credit and senior secured debt ratings, as a result of COVID-19 preventative measures and travel restrictions triggering an unprecedented decline in ridership.

- On May 27, 2020, DBRS Morningstar (“DBRS”) changed the trend to negative from stable on the company’s “A (high)” rating and senior secured bonds rating, reflecting the impact of COVID-19 on key financial metrics during fiscal 2021 and uncertainties on speed of recovery.

CORPORATE STRUCTURE

Coastal Ferry Services Contract

We operate ferry services under a regulatory regime established by the Act, and under the terms set out in the CFSC between BC Ferries and the Province. This 60-year services contract, which commenced April 1, 2003, 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 webpage 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 2020 was the final year of performance term four ("PT4") which commenced April 1, 2016 and ended on March 31, 2020.

On May 16, 2019, the Province enacted legislation to amend the Act based on the recommendations from the review the Province had conducted of coastal ferry services in British Columbia. The amendments include:

- requiring the Commissioner to consider public interest when regulating ferry operators and encouraging ferry operators to meet the Province's greenhouse gas emission targets;
- authorizing the payment by the Commissioner of part or all costs incurred by an eligible organization participating in a proceeding under the Act, if the Commissioner considers it in the public interest;
- removing as a regulatory principle the requirement for the Commissioner to encourage BC Ferries to adopt a commercial approach;
- increasing the number of B.C. Ferry Authority ("Authority") directors appointed by government from two to four and eliminating the two director positions filled by the Authority from members of the community-at-large;
- mandating that the Authority oversee the strategic direction of BC Ferries in support of the public interest including the public's interest in safe, reliable and affordable coastal ferry services in British Columbia;
- requiring the Authority to set term limits when appointing directors to the BC Ferries board and limiting the consecutive years a director can serve on the Board to eight;
- expanding the definition of executive at BC Ferries to include vice-presidents of BC Ferries for the purposes of their remuneration being governed by an executive compensation plan approved by the Authority; and
- removing the requirement for ferry operators to seek alternative service providers for services on the designated ferry routes serviced by the ferry operator in an effort to reduce the costs of providing those services.

In addition to the amendments, on October 18, 2019, the Province announced a consultation process asking for public input on what coastal transportation should look like to develop a vision for British Columbia's coastal ferry services. The online vision survey for public input concluded on April 17, 2020.

The report and the terms of reference for the review are available on the Province's website at: www2.gov.bc.ca.

On April 1, 2018, and continuing through to March 31, 2020, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Additionally, the BC seniors' passenger discount was increased from 50% to 100% for travel Monday through Thursday on the Major Routes and regulated Other Routes. The discount for BC seniors on the Northern Routes has remained unchanged over the years at 33% every day. We reached an agreement with the Province regarding the funding of these initiatives. The total estimated value of the fare reductions and increased BC seniors' discount over two years was approximately \$98 million, of which the Province contributed \$59 million and we contributed the rest in foregone revenue. In fiscal 2020, the Province contributed \$32.5 million (fiscal 2019: \$26.5 million) towards these initiatives, which was comprised of a \$10.2 million (fiscal 2019: \$9.8 million) contribution for the increased BC seniors' discount and a \$22.3 million (fiscal 2019: \$16.7 million) contribution towards fare reductions.

On February 22, 2019, the Province announced additional service on routes to restore some of the service it had previously reduced. Effective April 1, 2019, we reached an agreement with the Province to amend service levels to include over 2,700 additional trips on the Minor Routes and Northern Routes for which the Province will contribute an incremental aggregate amount not to exceed \$5.8 million per year.

Effective April 1, 2020, the CFSC was amended for PT5 to, among other things, establish ferry transportation fees for the four year term. It was also established that the consolidated route group effective April 1, 2013, will remain in effect until March 31, 2024. In the absence of any further amendments, on April 1, 2024, the route group structure in the CFSC will revert to the structure that was in place at March 31, 2013. The structure at that time was comprised of three individual route groups, being the Major Routes, Northern Routes and Minor Routes. The establishment of a consolidated route group allows BC Ferries more flexibility in applying tariff changes to better match varying market conditions and community needs, while still complying with price cap regulations.

Effective April 4, 2020, the CFSC was amended to reflect temporary reduced service levels in response to the COVID-19 pandemic. The amendment document is available on our webpage at: http://www.bcferrries.com/about/More_Information.html.

Economic Regulatory Environment

The office of the Commissioner was created under the Act on April 1, 2003. The Act has been amended from time to time to expand and broaden the Commissioner's role and regulatory responsibilities. The Act specifies that the Commissioner must undertake the regulation of ferry operators in the public interest 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 four

In September 2015, the Commissioner issued Order 15-03 and Order 15-03A. These orders included the following:

- Establishment of the final price cap increase of 1.9% for each of the four years of PT4;
- Incorporation of an efficiency target (\$27.6 million over the four years of PT4);
- Requirement for a fuel management plan setting out our strategies for fuel procurement, minimizing fuel consumption and the transition to alternate fuels to be submitted prior to the start of PT4. Our plan was submitted March 30, 2016 and is available on our webpage at: <http://www.bcferries.com/about/fuel-savings-reports.html>;
- Authorization to continue to use fuel cost deferral accounts in PT4;
- Establishment of the set price per litre at 91.5 cents for marine diesel and at 46.4 cents for LNG in the first year of PT4 (The set price per litre is an input into the determination of fuel surcharges or rebates.); and
- Incorporation of an inflation factor of 2% per year on the price per litre of both marine diesel and LNG for the balance of PT4.

The orders also established that, for price cap calculations, the consolidated route group effective April 1, 2013 will be in effect until March 31, 2020.

Performance term five

On September 28, 2018, we filed our PT5 submission with the Commissioner as required by the Act. The purpose of this submission was to provide information to assist the Commissioner in establishing the price cap for PT5 (April 1, 2020 – March 31, 2024) for all regulated routes as specified in the CFSC between BC Ferries and the Province. The submission was comprised of five reports:

- Performance Term Four (April 1, 2016 to March 31, 2020) Report;
- Fuel Management Plan Outcomes in Performance Term Four;
- Capital Plan (fiscal years 2019 through 2030);
- Strategies for Enhancing Efficiency in Performance Term Five and Beyond; and
- Traffic Demand Forecast (fiscal years 2019 through 2024).

On September 30, 2019, the Commissioner issued Order 19-04, which established final price cap increases of 2.3% for each of the four years of PT5. Order 19-04 also:

- Maintains the existing fuel deferral accounts;
- Sets a future efficiency target equivalent to 1% of annual operating, maintenance and administration costs; and
- Sets 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.

Also on September 30, 2019, the Commissioner released a performance review of the efficiency of BC Ferries prepared by PricewaterhouseCoopers LLP. The report concludes that BC Ferries is exhibiting good cost control, and should continue the current efforts to manage costs and increase efficiencies. These documents are available on the Commissioner's website at: www.bcferrycommission.ca.

Other Commissioner's Orders

On October 18, 2019, the Commissioner issued Order 19-02B, approving a supplementary application to amend the previously approved major capital expenditure amount for the construction and introduction of one new Salish Class vessel and four new Island Class vessels. The initial Order 19-02 granted on January 7, 2019, and Order 19-02B are available on the Commissioner's website at www.bcferrycommission.com.

On December 24, 2019, the Commissioner issued Order 16-02B, approving a supplemental application to amend the previously approved amount for our Fare Flexibility and Digital Experience Initiative. The initial Order 16-02 granted on September 21, 2016 is available on the Commissioner's website at www.bcferrycommission.com.

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

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. 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.

We transitioned to IFRS effective April 1, 2011. At that time, IFRS did not provide any guidance with respect to accounting for rate-regulated activities.

In January 2014, the IASB issued an interim standard, IFRS 14 *Regulatory Deferral Accounts*, which addresses accounting for rate-regulated activities. However, it does not apply to entities, like ours, that transitioned to IFRS prior to that date. 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 27 to our March 31, 2020 audited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our net earnings for the quarters and years ended March 31, 2020 and 2019 would be as follows:

(\$ millions)	Three months ended		Years ended	
	March 31		March 31	
	2020	2019	2020	2019
Net (loss) earnings	(70.1)	(41.0)	28.8	52.2
Changes in net earnings:				
Regulatory asset or liability				
Deferred fuel costs				
Fuel costs over (under) set price	0.5	(1.0)	(1.1)	0.1
Fuel (surcharge) rebates	-	-	(5.5)	4.6
Increase (decrease) in total net earnings	0.5	(1.0)	(6.6)	4.7
Adjusted net earnings	<u>(69.6)</u>	<u>(42.0)</u>	<u>22.2</u>	<u>56.9</u>

Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs that were used to develop the regulated price caps. The difference between actual fuel costs (including fuel hedge gains and losses) and the regulated fuel costs (set price) is deferred for settlement in future tariffs. In addition, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time, which are applied against deferred fuel cost account balances. We may also receive payments from the Province to be applied against deferred fuel cost account balances.

FINANCIAL AND OPERATIONAL OVERVIEW

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

(\$ millions)	Years ended March 31		
	2020	2019	2018
Total revenue	941.4	925.7	900.6
<i>% increase</i>	1.7%	2.8%	4.6%
Operating expenses	856.1	820.7	784.3
Operating profit	85.3	105.0	116.3
Net finance and other	56.5	52.8	56.4
Net earnings	28.8	52.2	59.9
Other comprehensive (loss) gain	(30.8)	15.4	13.5
Total comprehensive (loss) income	(2.0)	67.6	73.4
	As at March 31		
Total assets	2,360.5	2,182.5	2,162.4
Total long-term financial liabilities	1,514.4	1,292.8	1,347.6
Dividends	6.0	6.0	6.0

Total revenue includes funds from the Province for ferry transportation fees, fare freezes, fare reductions and increasing the BC Seniors' discount from 50% to 100%.

Traffic and revenue began to decline in early March 2020 as we felt the impact of the COVID-19 pandemic. These impacts include declines in earnings and cash from operations.

Our net earnings in fiscal 2020 were \$23.4 million or 44.8% lower than in fiscal 2019. In fiscal 2020, revenues increased \$15.7 million or 1.7% compared to fiscal 2019, primarily as a result of the year over change from fuel rebates to fuel surcharge of \$10.0 million, increased contribution from the Province towards fare initiatives of \$6.0 million, and ferry transportation fees of \$3.8 million, partially offset by decreased traffic volumes and retail sales due to the impact of the COVID-19 pandemic.

In fiscal 2020, fuel surcharges of 1.5% on average on all routes with the exception of the Northern Routes were in place from June 1, 2019 until they were discontinued effective December 16, 2019 compared to fiscal 2019, when fuel rebates of 1.9% on the Northern Routes and 2.9% on our Major and regulated Other Routes were in place until they were discontinued effective June 27, 2018.

Our operating expenses in fiscal 2020 increased \$35.4 million or 4.3% compared to the prior year. In fiscal 2020, wages, benefits and fuel expenses totalled \$522.7 million or 77.7% (\$497.5 million or 76.8% in fiscal 2019) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by service improvements and the additional round trips provided. In fiscal 2020, we provided 2,329.5 additional round trips compared to the same period in the prior year to satisfy increased service levels agreed to with the Province, accommodate higher traffic volumes, and improve our customer experience. We introduced the *Northern Sea Wolf* and re-introduced the upgraded *Spirit of Vancouver Island* into service. These actions resulted in an increase in labour costs and a decrease in marine diesel fuel consumption (replaced by lower-cost LNG consumption). The increase in operating expenses also included increases of \$9.9 million in depreciation and \$13.4 million due to higher wage rates (in accordance with the Collective Agreement) and benefit costs (employer health tax, workers compensation and pension).

Other total comprehensive loss in fiscal 2020 was \$69.6 million higher than in fiscal 2019. We incurred an other comprehensive loss of \$30.8 million compared to income of \$15.4 million in the prior year, a negative change of \$46.2 million. The other comprehensive loss of \$30.8 million in fiscal 2020 reflects a \$36.5 million loss for the change in the fair value of our fuel swap contracts driven by the movement in fuel prices as compared to the hedged price and a \$0.1 million loss on the actuarial valuation of our employee benefit plans partially offset by a \$5.8 million gain on the revaluation of our land.

Our net earnings in fiscal 2019 were \$7.7 million lower than in fiscal 2018. In fiscal 2019, revenues increased by \$25.1 million or 2.8% compared to fiscal 2018, primarily as a result of increased traffic volumes, an increase in ferry transportation fees and the discontinuation of the fuel rebate, partially offset by a decrease in average tariffs. In fiscal 2019, operating expenses increased by \$36.4 million or 4.6% compared to the prior year. The year-to-date expense increase included increases of \$13.3 million in depreciation, \$11.8 million due to higher wage rates and benefit costs, \$5.7 million due to higher fuel prices, and \$2.4 million in one-time project-related costs. The remainder of the increase was primarily due to increases in labour, fuel consumption and training-related costs to accommodate the higher traffic volumes and to improve customer experience. In fiscal 2019, we provided 79,959 trips, 877 additional round trips compared to fiscal 2018, throughout the system and adjusted the schedules for the routes operating out of Horseshoe Bay terminal. We also re-introduced the upgraded *Spirit of British Columbia* into service and implemented our new internal reservation system. (See "Expenses" for more detail.)

Other comprehensive income in fiscal 2019 was \$1.9 million higher than in fiscal 2018. The \$15.4 million of other comprehensive income in fiscal 2019 reflects a \$7.5 million change in the fair value of our fuel swap contracts driven by the movement in fuel prices as compared to the hedged price and a \$7.9 million gain on the revaluation of our land.

Traffic

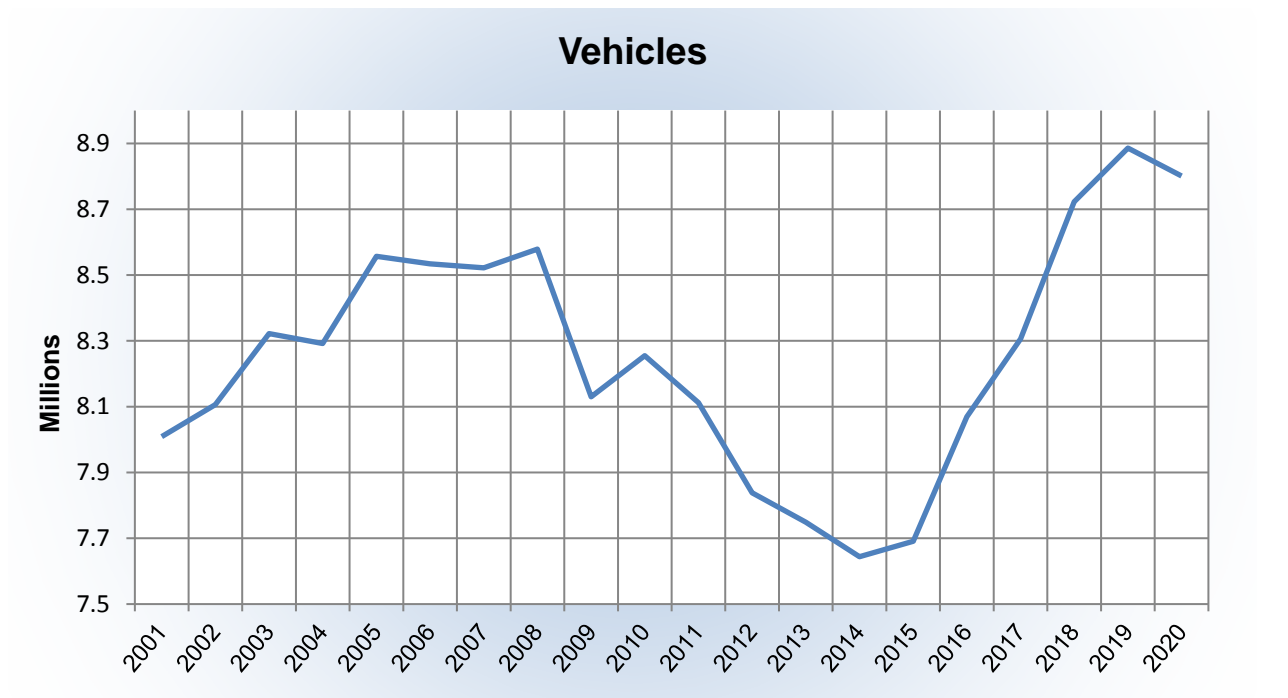
Over the past five years, we experienced a 9.1% increase in vehicle traffic and a 4.8% increase in passenger traffic. In fiscals 2016 through 2018, we saw vehicle and passenger traffic favourably impacted by a lower Canadian dollar, increases in tourism and general economic activity in British Columbia. The vehicle traffic levels in fiscal 2019 were the highest we have ever experienced and the passenger traffic levels in fiscal 2019 were the second highest we have ever experienced. In fiscal 2019, we believe fare reductions and our pricing promotions had a positive impact on both passenger and vehicle traffic, partially offset by the impact of unfavourable weather and service disruptions.

In fiscal 2020, year-to-date for the first 50 weeks, vehicle and passenger traffic reflected an increase of 1.3% and 0.1%, respectively, compared to the same period in the prior year. In the last two weeks of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with a decrease of 55% and 69%, respectively, compared to the same period in the prior year, resulting in a year-to-date decrease of 1.0% to vehicle traffic and 2.7% to passenger traffic compared to the prior year.

The following table details the traffic growth we have experienced in the past five fiscal years:

Traffic by fiscal year (thousands)	2016	2017	2018	2019	2020
Vehicle	8,069.5	8,305.8	8,723.4	8,886.5	8,800.9
Increase (decrease)	4.9%	2.9%	5.0%	1.9%	(1.0%)
Passenger	20,689.1	21,034.8	22,030.2	22,286.7	21,677.3
Increase (decrease)	4.5%	1.7%	4.7%	1.2%	(2.7%)

The following graph illustrates our annual vehicle traffic levels for the past 20 fiscal years:



The following graph illustrates our annual passenger traffic levels for the past 20 fiscal years:



Cost Management and Labour Relations

We continue to take proactive measures to contain and manage our expenses while operating a sustainable, safe and reliable service. Wages, benefits and fuel expenses are our largest expenses, representing approximately 78% (77% in fiscal 2019) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by the level of service provided.

In fiscal 2020, we provided 2,329.5 additional round trips compared to the same period in the prior year to satisfy increased service levels agreed to with the Province, accommodate higher traffic volumes, and improve our customer experience. We introduced the *Northern Sea Wolf* and re-introduced the upgraded *Spirit of Vancouver Island* into service. These actions resulted in an increase in labour costs and a decrease in marine diesel fuel consumption (replaced by lower-cost LNG consumption). The increase in operating expenses also included the impact of wage rate increases in accordance with the Collective Agreement, higher benefit costs (employer health tax, workers compensation and pension), and higher depreciation.

The majority of our employees are members of the BC Ferry & Marine Workers' Union (the "Union"). The current Memorandum of Agreement with the Union was ratified in fiscal 2016. This agreement provides certainty for our employees, helps ensure uninterrupted ferry service for our customers and marks 17 years of labour stability. The terms of the Collective Agreement provide for wage increases aggregating 8.55% over the five-year term of the agreement ending October 31, 2020, which is a 1.71% increase on average per year. Negotiations for a new agreement are beginning. The current agreement has a mechanism in place that allows for the orderly transition to the next collective agreement without the ability to strike and provides a unique and innovative dispute resolution process to facilitate future collective bargaining.

In response to COVID-19 pandemic, and in consultation with the Province, we have reduced service levels by as much as 50% across the system. We have reduced discretionary spend, including contracted services, travel, and non-safety related training, and plan to do more. These cost reduction measures will not offset the decline in revenues.

Safety & 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 our ability to meet operational service requirements, the environment, staff morale, our reputation and 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 an internal control framework with defined control objectives for information and related technology, which guides our governance and control processes. This assists 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.

We have significant food and beverage sales, both on our vessels and at our terminals, and there is a risk of a foodborne illness contracted from contaminated products purchased from our food services. Our food storage, handling, preparation and cooking procedures are aligned with the hazard analysis critical control point methodology, which is a preventive approach to ensuring food safety.

Our 24-hour operations and security centre ("OSC") officially began operations in 2009 and is a central location for monitoring day-to-day operations and providing incident management support. The primary purpose of the OSC is to collect information from throughout the Company, and to provide enhanced situational awareness and assessments, increased security monitoring and a coordinated response during any incidents. Security initiatives are in place to counter intentional attacks and we are in regular contact with government security agencies to ensure we have current information. Our EOC, 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.

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.

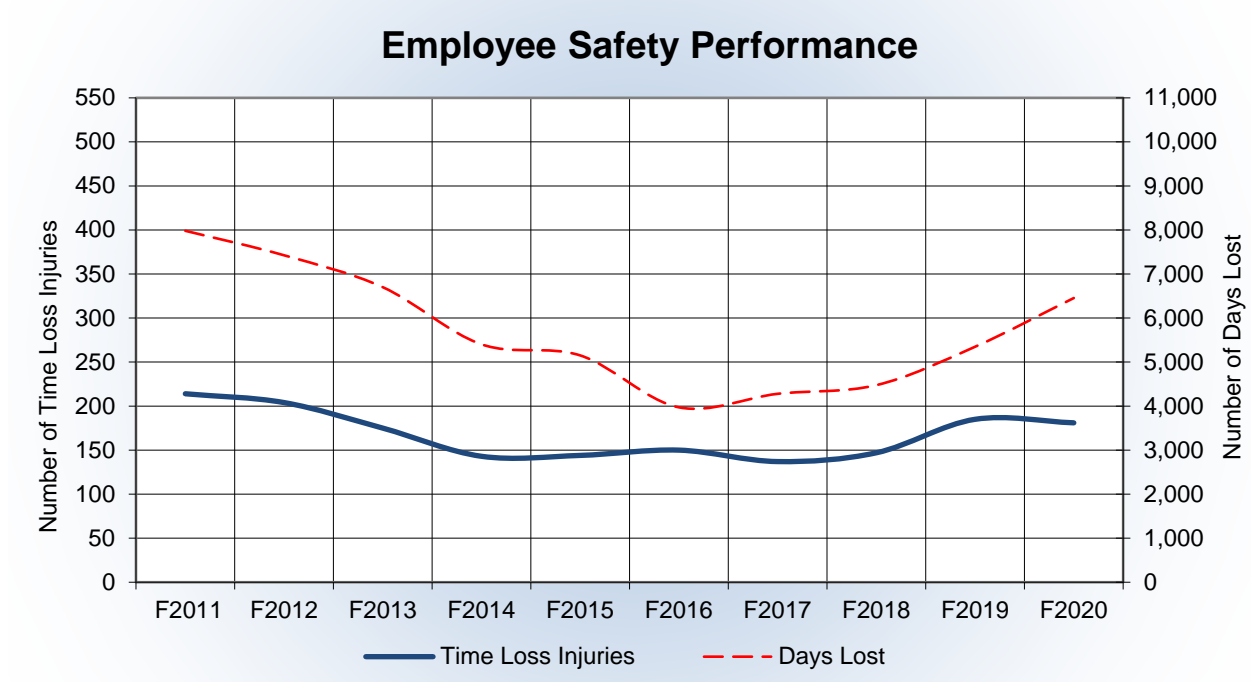
SailSafe, launched in fiscal 2007, is our safety program designed to achieve world-class safety performance. SailSafe embodies safety as a normal part of all business activities and ensures that safety is kept as the primary concern in the minds of our employees. SailSafe is driven by our employees, who play a vital part in identifying areas and methods for enhancing current safety practices. Employees are encouraged to engage in identifying areas for improvement, developing plans and implementing new or revised processes. We continue to work towards ensuring safety becomes completely ingrained in every activity undertaken, every day, throughout our business.

As part of the SailSafe program, we upgraded our safety management system ("SMS"), including an operational risk assessment and management process. The SMS 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.

In fiscal 2020, we carried 21.7 million passengers compared to 22.3 million in the prior year. Injuries to passengers decreased from 218 to 93 compared to fiscal 2019. These passenger injuries consisted mainly of slips, trips or falls and occurred primarily on vessels. Passenger injuries of 93 is an injury rate of 0.0004% or 4.3 injuries per one million passengers. Overall, our investments in safety have yielded significant positive results as injuries to passengers have declined 75% over the last 10 years. The number of injuries per 1 million passengers for the last ten years are below:



The number of time loss injuries to employees decreased from 185 in fiscal 2019 to 181 in fiscal 2020. Overall, since 2011, the number of time loss injuries has dropped by 9.6% and the number of days lost due to injury has declined by 19.1%. The results for fiscal 2011 through fiscal 2020 are below:



We adhere to a program of internal and external safety audits designed to verify our compliance with our safety management system. We first received the Certificate of Recognition (“COR”) from WorkSafeBC in fiscal 2014. A COR recognizes companies that go beyond the legal requirements of the Workers’ Compensation Act and the Occupational Health & Safety Regulations by taking a best practices approach to implementing health, safety and return to work programs. As a result of receiving a COR, WorkSafeBC provided us with rebates of approximately \$0.5 million of assessed premiums in each year from 2013 to 2019.

In fiscal 2019, we experienced a mechanical failure of a davit for the *Queen of Cumberland’s* rescue boat, which resulted in physical injuries to two employees, and an incident with a rescue boat during an emergency drill on the *Spirit of Vancouver Island*. As a consequence, WorkSafeBC imposed a financial penalty of \$0.6 million in fiscal 2020. In addition, in fiscal 2020, we did not receive a COR rebate on our assessed premiums.

During fiscal 2020, the COR audit resulted in a 91.9% score in Health and Safety and 80.9% score in Injury Management. A COR requires recertification every three years. In the last quarter of fiscal 2020, we received confirmation of renewal of the COR certification.

Environment

We are committed to safeguarding the environment. 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 continue to improve our training programs. In 2019, we updated the environmental awareness training and oil spill training. We have enhanced our Shipboard Oil Pollution Emergency Plans for every vessel and developed Terminal Spill Contingency Plans for all of our terminals. Through SMS, we monitor and report all environmental spills including those from external sources such as passenger vehicles. Our aging vessels can experience mechanical issues from time-to-time that may result in small oil leaks. In fiscal 2020, we replaced the 54-year old *Howe Sound Queen* and in fiscal 2021, we expect to replace the 62-year old *North Island Princess* and the 47-year old *Nimpkish*.

We have been a member of Green Marine since 2014, and are currently certified as a ship owner, terminal operator and a shipyard, making us one of three organizations with participation in three different areas of operations. Green Marine is a globally-recognized and voluntary industry sustainability initiative for ship operators, ports, terminals and shipyards. Green Marine participants try to reduce their environmental footprint by undertaking concrete and measurable actions. Environmental performance is annually benchmarked through the program’s comprehensive self-evaluation guides and the results are verified by an accredited external verifier. Our level of achievement for each Green Marine performance indicator is published annually on the Green Marine website at: <https://www.green-marine.org/certification/results/>.

We participate in the Enhancing Cetacean Habitat Observation Program (“ECHO”), established by Port of Vancouver, in collaboration with government agencies, First Nations, marine industry users, non-government organizations and scientific experts, to better understand and manage the potential impacts to cetaceans (whales, porpoises and dolphins) from commercial vessel activities. The long-term goal of ECHO is to develop mitigation measures that will lead to a quantifiable reduction in potential threats to cetaceans, which include acoustic

disturbance, physical disturbance and environmental contaminants. Since 2015, we have undertaken two noise measurement projects in addition to voluntary transiting the ECHO program's underwater listening station to help gather the baseline of ambient noise in the Salish Sea.

The online tutorial "Whales in our Waters" was released publicly in late fiscal 2019. This tutorial was a collaborative effort between BC Ferries, Port of Vancouver and Ocean Wise, with additional input from regulators, researchers, and industry stakeholders and is targeted toward mariners. It covers a range of topics including the need to protect local whale species, tips for identifying and reporting them, and best practices to implement when navigating ships in their presence. Approximately 99% of our Masters and 90% of our deckhands have now completed this tutorial which is available free of charge to the public and mariners on the Port of Vancouver website <https://echolearn.portvancouver.com/>.

We received the Blue Circle Award from the Port of Vancouver and the Green Wave Award from Prince Rupert Port Authority in 2019. These awards are given to ship owners that significantly reduce their environmental footprint of their operations.

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 fuel monitoring systems on others, and designing and building our new vessels to meet or exceed current environmental standards. Our cable ferry, the *Baynes Sound Connector*, consumes approximately 50% less fuel compared to the previous vessel providing the service.

We are actively pursuing alternative fuel options for new vessels and vessels undergoing major retrofits because we believe alternate fuels would reduce emissions as well as costs. We converted our two largest vessels, the *Spirit of British Columbia* and the *Spirit of Vancouver Island*, to dual-fuel capability, operating as much as possible on LNG. We expect these conversions to reduce CO2 emissions by 12,500 tonnes annually, the equivalent of taking approximately 2,500 vehicles off the road per year. We now have five vessels that operate on LNG; two Spirit Class and three Salish Class ferries. Our new Island Class vessels (two of which will enter service in fiscal 2021) will initially operate on marine diesel fuel with stored energy (battery) capability installed to provide the ship's service power. The 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. Over the last 5 years, we have invested resources to strengthen our shore power system and install shore-side and shipboard sub-meters to 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 are focusing on reducing energy waste and increasing our energy efficiency in operations, maintenance, and development projects. In 2019, we established a baseline for shore-side energy consumption for all our facilities. This baseline helps us better compare consumption patterns at our terminals to identify potential areas of priority for energy initiatives.

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. At seven other terminals, sewage is collected and transferred to treatment plants operated by local governments.

Training

We were named one of B.C.'s Top Employers (2020) for the fourth year in a row. This is an annual competition organized by the editors of Canada's Top 100 Employers and recognizes workplaces for offering progressive and forward-thinking programs for employees. In conjunction with the Union and our employees, we established SailSafe, a comprehensive safety program, including a health and wellness component, and invest heavily in extensive training and development opportunities.

Skilled trades are essential to keeping our operations safe and efficient. Camosun College is the largest provider of trades training, including marine trades, on Vancouver Island. We have invested in the SailSafe Simulator at Camosun College's trades facilities to guarantee access to the best training tools. The SailSafe Nautical Simulation lab is a 12-station teaching facility that allows trainees the experience of navigating in local waters, in a range of conditions, while interacting with other vessel traffic operated by their classmates. We also have a cadet program that includes participants from the British Columbia Institute of Technology, Georgian College of Ontario, Nova Scotia Community College and the Memorial University of Newfoundland.

In fiscal 2020, we provided over 30,700 personal training days, an increase of 6% compared to fiscal 2019. This includes training on our new Island Class vessels which are marine diesel-electric as well as LNG training on our vessels that have the ability to run on LNG.

Operational training focused on many programs, including new hire orientation, oil spill response, prevention of violence in the workplace, respect in the workplace and electrical safety. Training is both internal part-time trainers and, where necessary, external contractors to provide expert instruction.

Our Simulator Training Centre program provides training to operational crew in many areas including operations skill, navigation systems and standards, communication and team decision making and supports a continuous learning culture. Our signature course is Bridge Operations Skills and Systems as well as Electronic Chart Display (ECDIS) type specific training. Both courses focus on understanding and applying navigational policies, improving teamwork and enhancing situational awareness. Our in-house simulator allows us to construct simulation activities, reconstruct incidents and customize activities and learning for employees from all regions.

Our award-winning Standardized Education and Assessment ("SEA") program leverages technology and e-learning to enhance hands-on training in a phased, auditable and sustainable manner. Our SEA program has customized programs specific to the job, vessel, route or terminal. There are now 52 positions supported by SEA materials and education. Our program provides all employees with easy access to resources and materials and assists in planning and tracking employee career progression and succession. We have over 500 internal SEA trainers who take a break from their regular work to provide training to their co-workers.

Customer Service

Our long-term vision incorporates operational and financial sustainability, environmental, and community well-being goals and a focus on enhancing the customer experience. Our goals include providing a consistently reliable and safe ferry service for our customers.

In fiscal 2020, our on-time performance rate was 89.4% and our fleet reliability score was 99.84% compared to 88.5% and 99.73%, respectively, in the prior year. This reliability score means that less than 0.2% of sailings in fiscal 2020 were cancelled due to mechanical issues related to the vessels or terminals, or crew availability. Our November 2019 Customer Service Satisfaction Tracking Surveys indicated that 86% of customers surveyed (compared to 87% in 2018) reported being satisfied with their overall trip experience. A copy of the full report is available at http://www.bcferrries.com/about/cst_archive.html.

We will continue to survey our customers to understand and identify ways to enhance their experience. Our service enhancement program targets training for all customer-facing employees on three key attributes of friendliness, communication and listening skills, and professionalism. We are striving to make every individual customer interaction a safe, positive and satisfying experience.

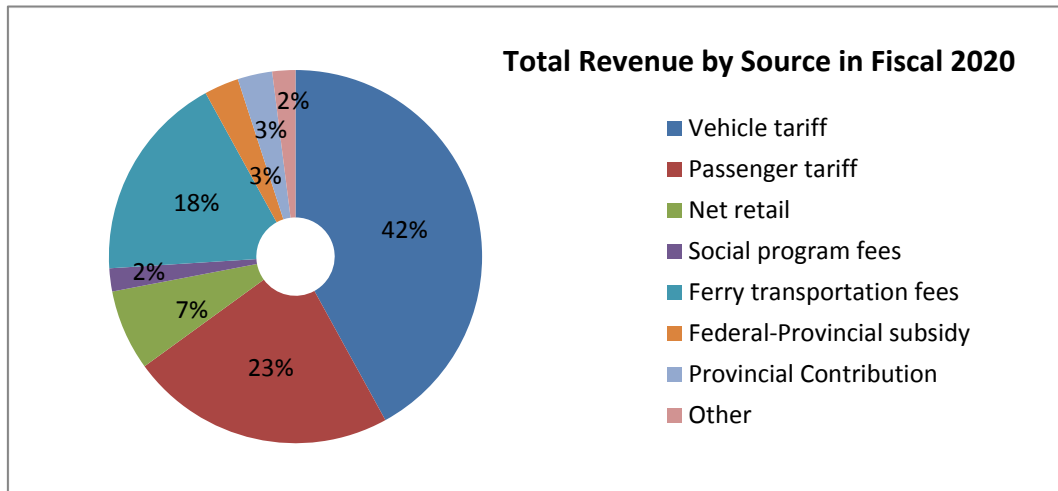
We have an active public consultation and community engagement program and continue to work closely with 13 ferry advisory committees representing the ferry-dependent communities we serve. These committees are appointed in cooperation with local governments, the Islands Trust and First Nations, to discuss day-to-day operations, planned improvements, broader policy issues and strategic planning.

During fiscal 2020, we consulted with stakeholders and asked for their input on the future of the Horseshoe Bay terminal. We heard from more than 1,500 people through the engagement process to collect community input. The terminal development plan is a 25-year vision for the future of the terminal. We will continue to engage with stakeholders to gather feedback for the detailed design.

We also consulted with stakeholders and asked for their input on such areas as amenities, innovative technologies, accessibility and enhancements for foot passengers for the new major class vessels. More than 9,600 people responded through online engagement and more than 1,700 customers took part in session on board our vessels and in community workshops. Feedback will be incorporated into the design of the vessels to ensure high levels of safety, reliability, customer service, sustainability and future flexibility.

Revenue and Operational Statistics - Overall

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (See "The Effect of Rate Regulation").



The Provincial Contribution is provided by the Province to partially fund the initiative for fare freezes, fare reductions and increasing the BC Seniors' discount from 50% to 100%. Fuel rebates and surcharges are not included in the above total revenue by source.

Select operational statistics over the past three fiscal years are shown in the tables below:

Operational Statistics	2020	2019	2018
Vehicle traffic	8,800,899	8,886,499	8,723,435
% (decrease) increase	(1.0%)	1.9%	5.0%
Passenger traffic	21,677,340	22,286,723	22,030,228
%(decrease) increase	(2.7%)	1.2%	4.7%
On-time performance	89.4%	88.5%	89.0%
Number of round trips	82,288.5	79,959.0	79,082.0
Capacity provided (AEQs)	15,595,722	15,348,496	15,165,616
AEQs carried	9,993,933	10,079,258	9,889,671
Capacity utilization	64.1%	65.7%	65.2%

In fiscal 2020, vehicle and passenger traffic decreased 1.0% and 2.7%, respectively, compared to fiscal 2019. In fiscal 2020, year-to-date for the first 50 weeks, vehicle and passenger traffic reflected an increase of 1.3% and 0.1%, respectively, compared to the same period in the prior year. In the last two weeks of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with a decrease of 55% and 69%, respectively, compared to the same period in the prior year, resulting in year over year traffic decreases.

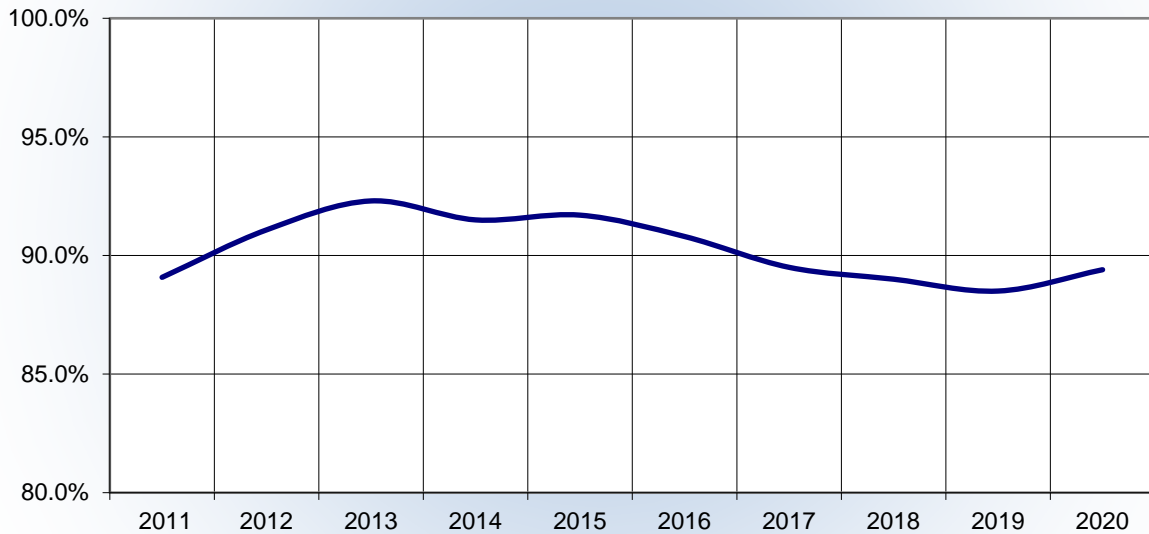
In fiscal 2019, vehicle and passenger traffic increased 1.9% and 1.2%, respectively, compared to fiscal 2018. We believe fare reductions and a strong local economy (driven by employment and tourism growth) had a positive impact on both passenger and vehicle traffic, partially offset by the impact of unfavourable weather and service disruptions.

We utilize promotional fares to stimulate growth in traffic, to direct traffic towards our less popular sailings and/or to ensure compliance with approved price cap orders. The utilization of promotional fares is one factor that may cause the average vehicle and passenger tariff to be under or over the allowed price cap in any one period. Under the Act, the average vehicle and passenger tariff cannot be over the price cap for more than four consecutive quarters.

The on-time performance results for fiscal 2011 through fiscal 2020 are below:

Fleet On-Time Performance

% of sailings within 10 minutes of scheduled sailing time



On-time performance on the Major and regulated Other 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.

Meeting customer service expectations in a safe and reliable manner is the principal factor guiding our focus on on-time performance. Our initiatives to improve on-time performance include adjusting and/or expanding sailing schedules, adjusting crewing schedules and refining vehicle loading processes during peak periods.

In fiscal 2020, on-time performance increased from 88.5% to 89.4% compared to the prior year, improving on the Major Routes, the Northern Routes and the Other Routes. In fiscal 2019, on-time performance decreased from 89.0% to 88.5% compared to the prior year. The Major Routes' on-time performance improved while decreases were experienced on both the Northern and Other Routes, primarily due to the impact of increased traffic demands during peak season.

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 passenger vehicle would be one AEQ while a bus would be 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 actual size of vehicles carried.

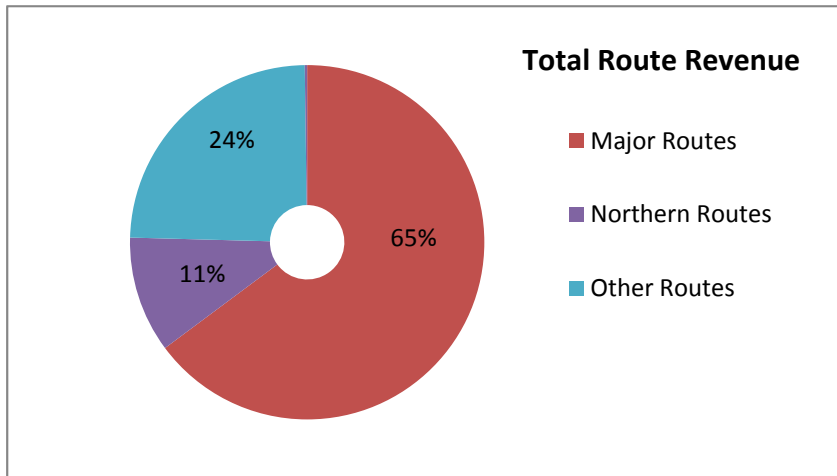
Vehicle capacity provided, measured in AEOs, is the available vehicle deck space on a vessel multiplied by the number of trips. The CFSC stipulates, among other things, the minimum number of round trips to be provided for each regulated ferry service route in exchange for ferry transportation fees by the Province. 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 2020, we provided 2,329.5 additional round trips and in fiscal 2019, we provided 877.0 additional round trips compared to the same periods in the prior years, resulting in an increase in capacity provided.

Capacity utilization in a period is calculated by dividing the AEOs carried during the period by the AEO 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. It is highest when traffic levels peak during the summer months and at popular sailing times throughout the year. Utilization is lowest during the winter months and for less popular sailings.

In fiscal 2020, capacity utilization decreased from 65.7% to 64.1% compared to fiscal 2019, primarily as a result of lower AEOs carried due to lower traffic levels as a result of COVID-19 and an increase in capacity provided from additional round trips. In fiscal 2019, capacity utilization increased from 65.2% to 65.7% compared to fiscal 2018, primarily as a result of a higher number of AEOs carried due to higher traffic levels, partially offset by an increase in capacity provided from additional round trips.

This table provides revenue details for the past three fiscal years.

Revenue (\$ millions)	Years ended March 31		
	2020	2019	2018
Direct Route Revenue			
Vehicle tariff	397.0	395.4	399.0
Passenger tariff	216.3	222.8	241.2
Net catering & on-board	61.3	61.4	57.6
Social program fees	15.2	15.6	17.3
Other revenue	11.9	11.7	11.6
Fuel surcharge (rebate)	5.4	(4.6)	(19.4)
Total Direct Route Revenue	707.1	702.3	707.3
Indirect Route Revenue			
Ferry transportation fees	168.3	164.5	161.2
Federal-Provincial subsidy	31.3	30.5	29.8
Provincial contribution: tariff	22.3	16.7	-
Provincial contribution: seniors	10.2	9.8	-
Total Route Revenue	939.2	923.8	898.30
Other general revenue	2.2	1.9	2.3
Total Revenue	941.4	925.7	900.6



In fiscal 2020, the greatest portion of our revenues, 65%, was earned on our Major Routes. Revenue from the Northern Routes contributed 11% and revenue from Other Routes contributed 24%.

Vehicle tariffs (which include reservation fee revenue) and passenger tariffs account for the majority of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types, and average tariff yields.

Net retail is our second largest source of direct revenue, which provides a gross margin of approximately 60%, contributing favourably to our net earnings and helps to keep fares affordable. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. As a result of travel restrictions and physical distancing measures due to COVID-19, all food and retail services have temporarily been closed, adding to revenue declines beginning in early March 2020 and continuing into fiscal 2021.

On April 1, 2019, fares on all routes for fiscal 2020 were held at fiscal 2019 levels. For fiscal 2019, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant for fiscal 2019 on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. In addition, the BC seniors' passenger discount for fiscal 2019 increased from 50% to 100% for travel Monday to Thursday on the Major Routes and Other Routes. The total value of these initiatives over two years was estimated to be approximately \$98 million, of which BC Ferries would contribute \$39 million in foregone revenue. The Province partially funded the fare reductions and the increase to the BC seniors' discount with a contribution of \$26.5 million in fiscal 2019 and \$32.5 million in fiscal 2020. In fiscal 2020, the Province contributed a total of \$32.5 million (\$26.5 million fiscal 2019), comprised of \$10.2 million (\$9.8 million in fiscal 2019) contribution for the increased BC seniors' discount and \$22.3 million (\$16.7 million fiscal 2019) contribution towards fare reductions, which has been recognized in revenue. In fiscal 2020, the number of BC seniors travelling with the discount increased 2.7% (18.8% in fiscal 2019) compared to the prior year.

Social program fees are reimbursements from the Province of discounts provided on fares for students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Travel Assistance Program ("MTAP").

From time to time, we implement fuel surcharges as a result of rising fuel prices or rebates as a result of falling fuel prices. In fiscal 2019, fuel rebates of 1.9% on the Northern Routes and 2.9% on our Major and regulated Other Routes were in place until they were discontinued effective June 27, 2018. In fiscal 2020, fuel surcharges of 1.5% on average on all routes with the exception of the Northern Routes were in place from June 1, 2019, until they were discontinued effective December 16, 2019.

A history of fuel surcharges in effect for fiscal 2018 through fiscal 2020 is below:

Date range	% surcharge (rebate)	Applicable routes
April 1, 2017 – June 27, 2018	(2.9%)	Major and regulated Other Routes
April 1, 2017 – June 27, 2018	(1.9%)	Northern Routes
June 28, 2018 – May 31, 2019	0.0%	All Routes
June 1, 2019 – December 15, 2019	1.5%	Major and regulated Other Routes
June 1, 2019 – December 15, 2019	0.0%	Northern Routes
December 16, 2019 – March 31, 2020	0.0%	All Routes

For the purpose of rate regulation, surcharges and/or rebates are applied to our deferred fuel cost accounts. (See “The Effect of Rate Regulation” for more detail.)

Effective April 1, 2019, we reached an agreement with the Province to amend service levels to include over 2,700 additional trips for which the Province will contribute an incremental aggregate amount not to exceed \$5.8 million per year. In fiscal 2020, the first phase of this was implemented with 1,722 additional trips provided and the Province paying an additional \$3.8 million in ferry transportation fees. In fiscal 2021, we expect to provide the full 2,700 additional trips.

In fiscal 2018, the Province contributed an additional \$15 million towards the provision of a new seasonal mid-coast ferry service. Of this, \$3 million in fiscal 2018, \$6 million in fiscal 2019 and \$6 million in fiscal 2020 was directed to ferry transportation fees on the Northern Routes.

Year to year changes in revenue and operational statistics for the Major Routes, Northern Routes and Other Routes are discussed separately below.

Year to Year Comparison of Revenues and Operational Statistics 2020 – 2019

Major Routes

Our Major Routes consist of our four busiest routes, carrying approximately 58% of our total vehicle traffic and 63% of our total passenger traffic, generating approximately 84% of our direct route revenue.

Operational Statistics	2020	2019
Vehicle traffic	5,097,363	5,209,991
% (decrease) increase	(2.2%)	0.6%
Passenger traffic	13,706,288	14,280,007
% (decrease) increase	(4.0%)	0.2%
On-time performance	86.6%	84.3%
Number of round trips	13,301.5	13,299.5
Capacity provided (AEQs)	8,330,506	8,269,748
AEQs carried	6,020,565	6,133,414
Capacity utilization	72.3%	74.2%

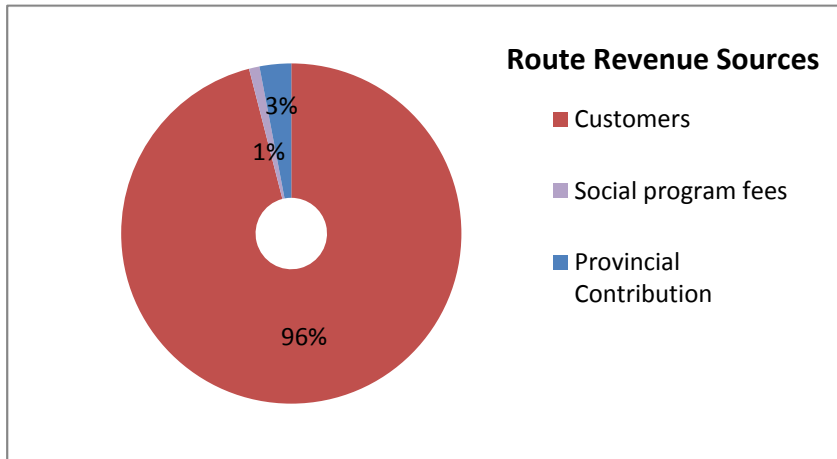
In fiscal 2020, vehicle and passenger traffic decreased 2.2% and 4.0%, respectively, compared to fiscal 2019. In fiscal 2020, year-to-date for the first 50 weeks, vehicle traffic reflected a 0.2% increase and passenger traffic reflected a 1.0% decrease compared to the same period in the prior year. In the last two weeks of March 2020, vehicle traffic declined 59.4% and our passenger traffic declined 73.9% compared to the same period in the prior year as a result of the COVID-19 pandemic, resulting in the year-over-year traffic decreases.

In fiscal 2020, overall on-time performance on the Major Routes increased 2.3% compared to the same period in the prior year, primarily due to adjustments made to both sailing and crewing schedules.

In fiscal 2020, capacity utilization decreased from 74.2% to 72.3% compared to the same period in the prior year, as a result of an increase in capacity provided from additional round trips and a lower number of AEQs carried.

We provide drop-trailer service on two of our Major Routes, where commercial customers can drop their trailers off at one terminal and pick them up at another with our employees loading and unloading the commercial trailers on and off the ferry with a hostling unit.

Major Routes cont'd



Fiscal 2020 revenue from our Major Routes consisted of 96% from customers and 4% from the Province (1% social program fees and 3% Provincial contributions).

Revenue (\$ thousands)	Years ended March 31		
	2020	2019	Increase (Decrease)
Direct Route Revenue			
Vehicle tariff	336,761	337,619	(858)
Passenger tariff	177,575	184,986	(7,411)
Net retail	53,337	54,311	(974)
Social program fees	7,869	8,261	(392)
Parking	7,265	7,173	92
Other revenue	4,074	3,966	108
Fuel surcharge (rebate)	4,649	(3,759)	8,408
Total Direct Route Revenue	591,530	592,557	(1,027)
Indirect Route Revenue			
Provincial contribution: tariff	10,938	8,284	2,654
Provincial contribution: seniors	7,609	7,298	311
Total Route Revenue	610,077	608,139	1,938

Major Routes cont'd

Average tariff (\$)	Years ended		
	March 31		
	2020	2019	Increase
Vehicle tariff (\$000's)	336,761	337,619	
Vehicle traffic	5,097,363	5,209,991	
Average tariff per vehicle	66.07	64.80	1.27
Passenger tariff (\$000's)	177,575	184,986	
Passenger traffic	13,706,288	14,280,007	
Average tariff per passenger	12.96	12.95	0.01

On April 1, 2019, fares on all routes for fiscal 2020 were held at fiscal 2019 levels.

In fiscal 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) increased \$1.27 or 2.0% compared to the prior year, mainly as a result of increased reservations and less traffic on promotional sailings partially offset by a change in the mix of traffic. In fiscal 2020, average tariff revenue per passenger increased \$0.01 or 0.01% compared to the prior year. The increase in average tariff revenue and the decrease in vehicle and passenger traffic levels, primarily from the impact of the COVID-19 pandemic, resulted in a total tariff revenue decrease of \$8.3 million compared to the prior year.

All vessels that provide service on our Major Routes have a gift shop and options for food service. In fiscal 2020, net retail sales decreased 1.8% compared to the prior year as a result a decline in passenger traffic due to COVID-19, partially offset by an increase in the average sales per passenger. Food sales remained strong until the COVID-19 pandemic, providing approximately 73% of total retail revenue and sales of quality apparel comprise approximately 10% of total retail revenue. Retail sales are presented net of cost of goods sold, which is approximately 40% of gross retail sales.

Social program fees are reimbursements from the Province of discounts provided on fares for students travelling to and from school, persons with disabilities and persons travelling under MTAP. In fiscal 2020, social program fees decreased compared to the prior year, mainly due to an decrease in the usage of the MTAP program and in the number of students travelling under the program.

In fiscal 2020, revenue from parking increased 1.3% compared to the same period in the prior year primarily as a result of higher usage.

Fuel surcharges and rebates are implemented or removed due to changes in fuel market conditions. On June 1, 2019, a fuel surcharge of 1.5% on our Major Routes was in place, until it was discontinued effective December 16, 2019. A fuel rebate of 2.9% on our Major Routes was in place during the first quarter of fiscal 2019, until it was discontinued effective June 27, 2018.

In fiscal 2020, the provincial contribution of \$18.5 million (\$15.6 million fiscal 2019) consisted of, a \$10.9 million (\$8.3 million fiscal 2019) contribution for fare initiatives (a fare reduction of 15% on the Horseshoe Bay – Langdale route and fares held constant on the other three Major Routes) and, a \$7.6 million (\$7.3 million fiscal 2019) contribution towards the higher BC seniors' discount.

Northern Routes

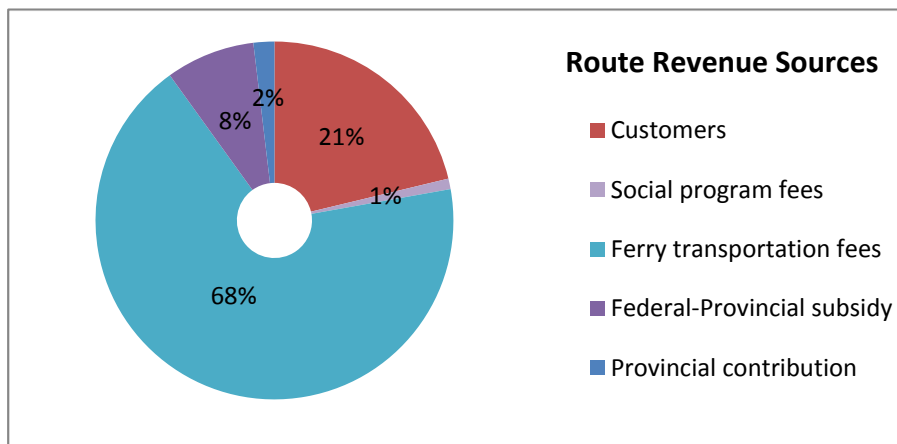
Our Northern Routes consist of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. This includes the route directly connecting Port Hardy and Bella Coola which commenced service in fiscal 2019.

Operational Statistics	2020	2019
Vehicle traffic	37,957	33,728
% increase	12.5%	4.9%
Passenger traffic	100,403	91,664
% increase	9.5%	2.2%
On-time performance	85.6%	85.0%
Number of round trips	380.0	288.5
Capacity provided (AEQs)	64,470	59,266
AEQs carried	46,031	41,422
Capacity utilization	71.4%	69.9%

In fiscal 2020, vehicle and passenger traffic increased 12.5% and 9.5%, respectively, compared to fiscal 2019 primarily as a result of the impact of the expanded service of the seasonal route connecting Port Hardy and Bella Coola. In fiscal 2020, year-to-date for the first 50 weeks, vehicle traffic reflected a 14.0% increase and passenger traffic reflected 12.4% increase, compared to the same period in the prior year. In the last two weeks of March 2020, vehicle traffic declined 31.3% and passenger traffic declined 62.4% compared to the same period in the prior year as a result of the COVID-19 pandemic and contributed to lower traffic increases year over year.

In fiscal 2020, on-time performance increased 0.6% compared to the same period in the prior year, primarily due to fewer weather-related delays.

In fiscal 2020, capacity utilization on these routes was 1.5% higher than the same period in the prior year, primarily as a result of the increase in the number of AEQs carried, somewhat offset by the increased capacity provided, much of it related to the expanded service of the seasonal route connecting Port Hardy and Bella Coola.



Fiscal 2020 revenue from our Northern Routes consisted of 21% from customers and 79% from the Province (1% social program fees, 68% ferry transportation fees, 8% from payments under the Federal-Provincial subsidy agreement and 2% Provincial contribution).

Northern Routes cont'd

Revenue (\$ thousands)	Years ended March 31		
	2020	2019	Increase (Decrease)
Direct Route Revenue			
Vehicle tariff	9,485	8,013	1,472
Passenger tariff	7,559	6,439	1,120
Stateroom rental	2,037	1,781	256
Net retail	1,865	1,557	308
Social program fees	950	952	(2)
Hostling & other	260	215	45
Fuel rebates	-	(104)	104
Total Direct Route Revenue	22,156	18,853	3,303
Indirect Route Revenue			
Ferry transportation fees	67,753	65,549	2,204
Federal-Provincial subsidy	8,041	7,827	214
Provincial contribution: tariff	1,881	1,391	490
Total Route Revenue	99,831	93,620	6,211

Average tariff (\$)	Years ended March 31		
	2020	2019	Increase
Vehicle tariff (\$000's)	9,485	8,013	
Vehicle traffic	37,957	33,728	
Average tariff per vehicle	249.89	237.58	12.31
Passenger tariff (\$000's)	7,559	6,439	
Passenger traffic	100,403	91,664	
Average tariff per passenger	75.29	70.25	5.04

On April 1, 2019, fares on all routes for fiscal 2020 were held at fiscal 2019 levels.

In fiscal 2020, average tariff revenue per vehicle increased \$12.31 or 5.2% and average tariff revenue per passenger increased \$5.04 or 7.2% compared to the prior year. Average tariff revenues reflect the impact of the expanded service of the Central Coast seasonal route and a change in the proportion of traffic on routes with higher versus lower tariffs. The increases in traffic levels and changes in average tariff revenue resulted in a total tariff revenue increase of \$2.6 million compared to the prior year.

Stateroom rental revenue increased due to higher utilization.

In fiscal 2020, revenue from net retail services increased \$0.3 million compared to the prior year as a result of higher average sales per passenger and higher passenger traffic.

No fuel rebate or surcharge was in place during fiscal 2020. A fuel rebate of 1.9% on the Northern Routes was in place during the first quarter of fiscal 2019, until it was discontinued effective June 27, 2018 (fiscal 2019).

Northern Routes cont'd

In fiscal 2020, ferry transportation fees increased \$2.2 million compared to the prior year, mainly as a result of additional funding from the Province for the provision of additional services.

The Federal-Provincial subsidy increased based on the percentage increase in the annual CPI (Vancouver).

The provincial contribution increase of \$0.5 million in fiscal 2020 compared to the prior year was due to a higher contribution towards the fare reduction initiative.

Other Routes

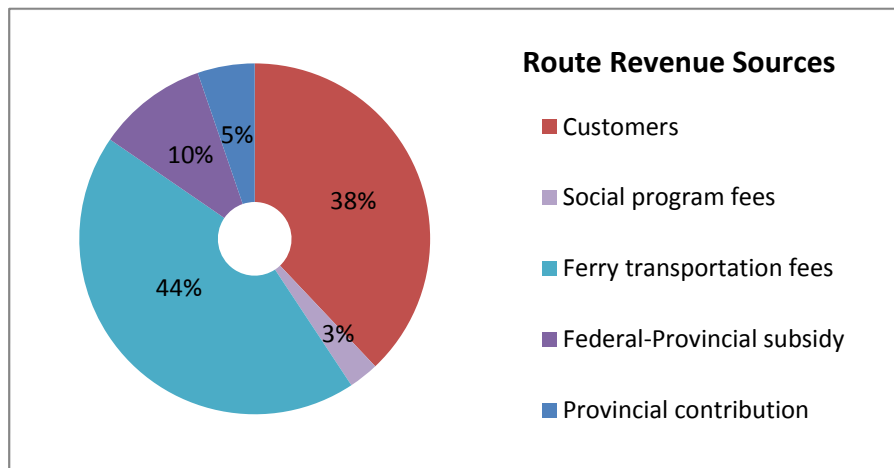
Our Other Routes primarily serve the northern and southern Gulf Islands and the northern Sunshine Coast. One of the 18 regulated routes and all eight of the unregulated routes are operated under contract by alternative service providers. We receive fees from the Province for the provision of contracted services on these routes, which are included in the ferry transportation fees in the table below. Unregulated routes are not incorporated in the following analysis.

Operational Statistics	2020	2019
Vehicle traffic	3,665,579	3,642,780
% increase	0.6%	3.8%
Passenger traffic	7,870,649	7,915,052
% (decrease) increase	(0.6%)	3.0%
On-time performance	89.9%	89.3%
Number of round trips	68,607.0	66,371.0
Capacity provided (AEQs)	7,200,746	7,019,482
AEQs carried	3,927,337	3,904,422
Capacity utilization	54.5%	55.6%

In fiscal 2020, vehicle traffic increased 0.6% and passenger traffic decreased 0.6% compared to fiscal 2019. In fiscal 2020, year-to-date for the first 50 weeks, vehicle traffic reflected a 2.7% increase and passenger traffic reflected 1.9% increase, compared to the same period in the prior year. In the last two weeks of March 2020, vehicle traffic declined 47.9% and passenger traffic declined 59.6% compared to the same period in the prior year as a result of the COVID-19 pandemic, resulting in a reduction in year-to-date traffic.

In fiscal 2020, on-time performance increased 0.6% compared to the same period in the prior year, primarily due to adjustments and/or expansion of sailing schedules.

In fiscal 2020, capacity utilization decreased 1.1% primarily due to an increase in capacity from additional round trips provided, partially offset by a higher number of AEQs carried.



Fiscal 2020 revenue from our Other Routes consisted of 38% from customers and 62% from the Province (3% social program fees, 44% ferry transportation fees, 10% from payments under the Federal-Provincial subsidy agreement and 5% Provincial contribution).

Other Routes cont'd

Revenue (\$ thousands)	Years ended March 31		
	2020	2019	Increase (Decrease)
Direct Route Revenue			
Vehicle tariff	50,702	49,803	899
Passenger tariff	31,120	31,355	(235)
Social program fees	6,346	6,340	6
Net retail	4,072	3,705	367
Parking & other	318	363	(45)
Fuel surcharge (rebate)	791	(722)	1,513
Total Direct Route Revenue	93,349	90,844	2,505
Indirect Route Revenue			
Ferry transportation fees	100,569	98,965	1,604
Federal-Provincial subsidy	23,299	22,677	622
Provincial contribution: tariff	9,481	7,025	2,456
Provincial contribution: seniors	2,590	2,502	88
Total Route Revenue	229,288	222,013	7,275

Average tariff (\$)	Years ended March 31		
	2020	2019	Increase (Decrease)
Vehicle tariff (\$000's)	50,702	49,803	
Vehicle traffic	3,665,579	3,642,780	
Average tariff per vehicle	13.83	13.67	0.16
Passenger tariff (\$000's)	31,120	31,355	
Passenger traffic	7,870,649	7,915,052	
Average tariff per passenger	3.95	3.96	(0.01)

On April 1, 2019, fares on all routes for fiscal 2020 were held at fiscal 2019 levels.

In fiscal 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) increased \$0.16 or 1.2% compared to the prior year, reflecting a change in the proportion of traffic on routes with higher versus lower tariffs. In fiscal 2020, average tariff revenue per passenger decreased \$0.01 or 0.3% compared to the prior year. The change in average tariff revenue and the overall increase in traffic levels resulted in a total tariff revenue increase of \$0.7 million compared to the prior year.

In fiscal 2020, social program fees increased slightly compared to the same period in the prior year mainly as a result of a higher number of students travelling under this program partially offset by a decrease in the usage of the MTAP program.

In fiscal 2020, net retail services revenue increased 9.9% compared to the same period in the prior year mainly due to higher number of round trips using the Salish Class vessels offering retail services and higher average sales per passenger.

Other Routes cont'd

Fuel surcharges and rebates are implemented or removed due to changes in fuel market conditions. On June 1, 2019, a fuel surcharge of 1.5% on our Other Routes was in place, until it was discontinued effective December 16, 2019. A fuel rebate of 2.9% on our Other Routes was in place during the first quarter of fiscal 2019, until it was discontinued effective June 27, 2018.

In fiscal 2020, ferry transportation fees received from the Province increased by \$1.6 million compared to the prior year, mainly as a result of additional funding from the Province for the provision of additional services.

The Federal-Provincial subsidy increased based on the percentage increase in the annual CPI (Vancouver).

In fiscal 2020, the provincial contribution of \$12.1 million (\$9.5 million fiscal 2019) consisted of \$9.5 million (\$7.0 million fiscal 2019) contribution for fare reductions and \$2.6 million (\$2.5 million fiscal 2019) contribution towards the higher BC seniors' discount.

Expenses

Expenses for the past three fiscal years are summarized in the tables below:

Operating expenses (\$ millions)	Years ended March 31		
	2020	2019	2018
Operations	550.0	525.9	498.4
Maintenance	85.5	81.7	87.6
Administration	37.5	39.9	38.4
Total operations, maintenance & administration	673.0	647.5	624.4
<i>% increase</i>	<i>3.9%</i>	<i>3.7%</i>	<i>7.9%</i>
Depreciation and amortization	183.1	173.2	159.9
Total operating expenses	856.1	820.7	784.3

Our fiscal 2020 total operations, maintenance and administration expenses increased \$25.5 million or 3.9% from fiscal 2019. In fiscal 2020, wages, benefits and fuel expenses totalled \$522.7 million or 77.7% (\$497.5 million or 76.8% in fiscal 2019) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by service improvements and the additional round trips provided.

In fiscal 2020, we provided 2,329.5 additional round trips compared to the same period in the prior year to satisfy increased service levels agreed to with the Province, accommodate higher traffic volumes, and improve our customer experience. We introduced the *Northern Sea Wolf* and re-introduced the upgraded *Spirit of Vancouver Island* into service. These actions resulted in an increase in labour costs and a decrease in marine diesel fuel consumption (replaced by lower-cost LNG consumption). The increase in operating expenses also included the impact of wage rate increases in accordance with the Collective Agreement, higher benefit costs (employer health tax, workers compensation and pension), and higher depreciation. We continue to take proactive measures to contain and manage expenses while operating a sustainable, safe and reliable service.

Net finance and other expenses (\$ millions)	Years ended March 31		
	2020	2019	2018
Finance expense	61.7	59.2	60.7
Less: finance income	(7.5)	(6.2)	(5.5)
Net finance expense	54.2	53.0	55.2
Loss (gain) on disposal and revaluation of property, plant and equipment, and intangible assets	2.3	(0.2)	1.2
Total net finance and other expenses	56.5	52.8	56.4

Year over year changes are described below:

Year to Year Comparison of Expenses 2020 – 2019

The \$24.1 million increase in operations expenses from fiscal 2019 to fiscal 2020 consists of:

- \$19.7 million increase in labour costs, mainly due to a wage rate increase of 1.9% effective April 1, 2019 in accordance with the Collective Agreement, benefit costs (Employer Health Tax, Workers Compensation and pension) and staffing level changes for additional round trips provided;
- \$3.2 million increase mainly due to incident related repairs to various vessels and terminals; and
- \$1.3 million increase in contracted services, credit card fees, insurance premiums, utilities and miscellaneous other costs;

partially offset by:

- \$0.1 million decrease in fuel expense, mainly due to a reduction in marine diesel consumption and a move to lower-cost LNG.

The \$3.8 million increase in maintenance costs compared to the prior year is a result of the cyclical nature of vessel refit activity.

The \$2.4 million decrease in administration costs compared to the same period in the prior year is primarily a result of reduced contracted services and consulting for information technology, labour costs, and materials and supplies.

Depreciation and amortization increased \$9.9 million compared to the same period in the prior year reflecting new capital assets that have entered service. (See "Investing in our Capital Assets" below for details of capital asset expenditures.)

Net finance and other expenses increased by \$3.7 million from fiscal 2019 to fiscal 2020, mainly due to:

- \$3.2 million increase in interest for our new bond issue;
- \$2.6 million increase primarily due to higher asset impairments; and
- \$1.1 million decrease in capitalized interest;

partially offset by:

- \$1.8 million decrease in interest on loans from KfW IPEX-Bank GmbH, a German export credit bank, ("KfW"), reflecting \$80.2 million in principal repayments; and
- \$1.4 million increase in interest earned on investments.

Year to Year Comparison of Expenses 2019 – 2018

The \$27.5 million increase in operations expenses from fiscal 2018 to fiscal 2019 consists of:

- \$19.0 million increase in wages, mainly due to staffing level changes for the service improvements and additional round trips provided, a wage rate increase and an increase in hours spent on training activities and benefits;
- \$6.7 million increase in fuel expense, reflecting an increase of a \$1.0 million or 1.0% due to an increase in fuel consumption and an increase of \$5.7 million or 5.5% due to higher fuel prices;
- \$3.2 million increase in contracted services, which includes services used for various projects and project feasibility, computer network and infrastructure, traffic control costs and expenses related to the *Spirit of British Columbia* re-entering service; and
- \$1.9 million increase in computer software and data communication costs;

partially offset by:

- \$1.6 million decrease in costs primarily due to an emergency drydocking in the prior year for the *Spirit of Vancouver Island*;
- \$1.0 million decrease in lease expense (with the adoption of IFRS 16 this expense is now included in depreciation and interest); and
- \$0.7 million decrease in other costs, including materials and supplies.

The \$5.9 million decrease in maintenance costs compared to the prior year is a result of the cyclical nature of vessel refit activity.

The \$1.5 million increase in administration costs compared to the prior year is primarily a result of contracted services for information technology, arbitrations, and other consulting.

Depreciation and amortization increased \$13.3 million, reflecting new capital assets that had entered service.

Net finance and other expenses decreased by \$3.6 million from fiscal 2018 to fiscal 2019, mainly due to:

- \$1.4 million increase in gain on the revaluation of land and higher asset impairments and loss on asset disposals in the prior year;
- \$0.9 million increase in capitalized interest;
- \$0.8 million decrease in interest on KfW loans, reflecting \$35.3 million in principal repayments; and
- \$0.7 million increase in interest earned on investments;

partially offset by:

- \$0.2 million increased interest on right-of-use asset leases.

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 issues. 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. This 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.

Over the last five years, our capital expenditures averaged \$230 million annually. Prior to the COVID-19 pandemic, we expected the average to increase to approximately \$400 million annually over the next 5 years (excluding external funding) as we proceed with our 12-year capital plan. Given the impact of the COVID-19 pandemic on our financial position, we are reviewing all capital plans to identify opportunities to defer expenditures that are not safety related or operationally necessary. In addition to cost savings associated with lower service levels, we are reducing costs across the Company in all areas.

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. Our cash forecasts indicate that, due to the capital expenditures planned, incremental long term borrowing may be required within the next two years.

At March 31, 2020, our unrestricted cash and cash equivalents and other short-term investments totalled \$169 million and \$92 million, respectively (at March 31, 2019: \$60 million and \$75 million, respectively). Our unrestricted cash and cash equivalents include cash on hand and fixed rate instruments with a maturity of three months or less. Other short-term investments include fixed rate instruments with a maturity of more than three months.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. On December 6, 2019, S&P affirmed our credit rating at "AA-" with a stable outlook and on January 24, 2020, DBRS reaffirmed our credit rating at "A (high)" with a stable trend. At March 31, 2020, our credit rating with S&P was "AA-" with a stable outlook and with DBRS was "A (high)" with a stable trend.

On May 1, 2020, S&P Global Ratings revised our credit rating trend from "AA-" with a stable outlook to "AA-" with a negative outlook while at the same time, affirming its "AA-" long-term issuer credit and senior secured debt ratings on BC Ferries.

On May 27, 2020, DBRS changed the trend to negative from stable on the company's "A (high)" rating and senior secured bonds rating, reflecting the impact of COVID-19 on key financial metrics during fiscal 2021 and uncertainties on speed of recovery.

In 2004, we entered into the Master Trust Indenture (May 2004) ("MTI"), a copy of which is available at <https://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 common share equity as a potential source of capital and have no intention of offering common shares to the public or other investors.

Our debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under our credit agreement. Under the MTI, securing this facility, we are subject to an additional indebtedness test that prohibits additional borrowing if our leverage ratio exceeds 85%. At March 31, 2020, we achieved a debt service coverage ratio of 2.68 and a leverage ratio of 71.9%.

Credit Facility

Under our credit agreement with a syndicate of Canadian banks, we have available a revolving facility in the amount of \$155 million. Our \$155 million credit facility was renewed on April 8, 2020 to extend the maturity date of the facility from April 2024 to April 2025. The facility is available to fund capital expenditures and for other general corporate purposes. At March 31, 2020, March 31, 2019 and March 31, 2018 there were no draws on this credit facility.

As noted above, BC Ferries' Credit Facility Agreement and KfW loan agreements require the company to maintain a Debt Service Coverage Ratio ("DSCR") of at least 1.25:1. Our forecasts indicate the DSCR will fall below 1.25:1 during fiscal 2021.

On May 15, BC Ferries' banking syndicate approved an Amendment to the Credit Facility Agreement whereby the EBITDAR of the impacted quarters in fiscal 2021 (Q1, Q2, and Q3) will be replaced by an average of the EBITDAR from the respective quarters in fiscal years 2018, 2019, and 2020. This will result in a modified DSCR calculation that will exceed 1.25:1. As a condition, for the duration of the relief period BC Ferries will be required to maintain \$50 million in unrestricted cash, which can be comprised of cash, short term investments, and undrawn facility.

On May 22, KfW conditionally consented to waive the DSCR covenant until and including March 2021, subject to the parties finalizing an amending agreement.

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	
		2020	2019
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	-
12 Year Loans			
Tranche A, due March 2020	5.17%	-	8
Tranche B, due March 2020		-	22
Tranche A, due June 2020	5.18%	2	9
Tranche B, due June 2020		-	23
2.95% Loan, due January 2021	3.08%	9	18
2.09% Loan, due October 2028	2.70%	33	36
2.09% Loan, due January 2029	2.68%	34	38
2.09% Loan, due January 2029	2.70%	34	38
		<u>1,461</u>	<u>1,292</u>

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

On October 15, 2019, we completed a private placement of \$250 million of 30-year senior secured bonds. These bonds bear interest at a rate of 2.794% per annum, payable semi-annually. The net proceeds of this new issue will be used, together with additional cash on hand, to provide for capital expenditures, general corporate purposes and to fund the series' debt service reserve account. These bonds were rated "A (high)" by DBRS and "AA-" by S&P.

We have six 12-year amortizing loan agreements with KfW, each of which is secured under the MTI. Two of these loans have a Tranche A at a fixed interest rate of 4.98%, payable quarterly. These agreements deferred the principal payments for three years to a second tranche (Tranche B) on which interest was payable at a floating rate. In December 2019, both Tranche B outstanding balances were paid in full. In March 2020, the outstanding Tranche A balance of the first KfW 12 year loan was fully paid upon maturity and the principal of the second KfW 12 year loan is due at maturity in June 2020. The third loan is at a fixed interest rate of 2.95%, payable semi-annually and matures in January 2021.

The other three amortizing loans bear interest of 2.09% per annum and mature in October 2028 and January 2029. In fiscal 2016, we executed an export loan agreement with KfW which allowed for three loans of up to \$45 million each. In fiscal 2017, we drew down a total of \$90 million, to coincide with the contract payment schedules for the purchase of the *Salish Orca* and the *Salish Eagle*. In fiscal 2018, we drew down the third and final \$45 million, to coincide with the contract payment schedule for the *Salish Raven*. The net proceeds were used to partially finance the purchase of these vessels.

Alternative Funding

In fiscal 2017, the Government of Canada approved funding of up to \$60.5 million under the New Building Canada Fund has been approved, of which \$35.8 million had been received as of March 31, 2020.

As part of the Natural Gas for Transportation ("NGT") incentive funding (included in other long-term liabilities) for the Salish Class vessels, we received \$6.0 million from FortisBC Energy Inc. by March 31, 2019. We have also received \$4.4 million prior to fiscal 2020 and \$2.6 million in fiscal 2020 of a total contribution of \$7.0 million 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 at least 10 million gigajoules of LNG and will be 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 2020, we applied \$0.5 million (\$0.5 million fiscal 2019) against the capital cost of the Salish Class vessels and \$0.7 million (\$0.3 million fiscal 2019) against the capital costs associated with the Spirit Class vessels.

Terminal Leases

We entered into a 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

We early adopted IFRS 16 *Leases* on April 1, 2018, and recognized nine leases, formerly classified as operating leases, with a total value of \$2.9 million, as right-of-use assets and with corresponding liabilities. We also reclassified our prepaid terminal land leases and related structures and our corporate office building and land as right-of-use assets. In fiscal 2020, we recognized leases or lease extensions valued at \$1.5 million (\$0.9 million).

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 \$24.5 million 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, issuance of bonds, and borrowings under our 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 2020 and 2019 are summarized in the table below:

(\$ millions)	Years ended March 31		Increase (Decrease)
	2020	2019	
Cash and cash equivalents, beginning of period	59.9	69.9	(10.0)
Cash from operating activities:			
Net earnings	28.8	52.2	(23.4)
Items not affecting cash	239.4	224.1	15.3
Changes in non-cash operating working capital	(5.8)	3.4	(9.2)
Net interest paid	(56.1)	(59.7)	3.6
Cash generated by operating activities	206.3	220.0	(13.7)
Cash generated by (used in) financing activities	159.9	(43.5)	203.4
Cash used in investing activities	(257.0)	(186.5)	(70.5)
Net increase in cash and cash equivalents	109.2	(10.0)	119.2
Cash and cash equivalents, end of period	169.1	59.9	109.2

For fiscal 2020, cash generated by operating activities decreased \$13.7 million compared to the prior year, primarily due to a decrease in net earnings, reflecting the impact of COVID-19 pandemic, and changes in working capital (receivables, inventories, prepaids, payables and contract liabilities), partially offset by in items not affecting cash changes in working capital and lower net interest paid.

Cash generated by financing activities in fiscal 2020 was \$159.9 million. The amount consisted of proceeds of \$250 million from our October 2019 bond Series 19-1 issuance offset by \$80.3 million repayment of loans from KfW, \$6.0 million in dividends paid on preferred shares, \$2.2 million in repayment of lease obligations and \$1.6 million in bond financing costs.

Cash used in financing activities in fiscal 2019 was \$43.5 million. This amount consisted of \$35.3 million in repayment of KfW loans, \$6.0 million in dividends paid on preferred shares and \$2.2 million in repayment of lease obligations.

Cash used in investing activities in fiscal 2020 increased by \$70.5 million compared to the prior year, mainly due to increases of \$56.5 million in cash used for short-term investing, \$11.6 million in capital expenditures and \$2.4 million in debt service reserves. (See "Investing in Our Capital Assets" below 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, 2020 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	2020	2019	Increase (Decrease)
Vehicle traffic	1,534,632	1,713,787	(179,155)
10.5% decrease			
Passenger traffic	3,371,696	4,019,619	(647,923)
16.1% decrease			
On-time performance	94.8%	93.7%	1.1%
Number of round trips	19,538.5	18,885.5	653.0
Capacity provided (AEQs)	3,479,938	3,436,269	43,669
AEQs carried	1,773,864	1,957,946	(184,082)
Capacity utilization	51.0%	57.0%	(6.0%)

In the month of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with a decrease of 30.3% and 41.7%, respectively, which resulted in a decrease of 10.5% in vehicle traffic and 16.1% in passenger traffic in the three months ending March 31, 2020 compared to the same period in the prior year.

Capacity utilization in the three months ended March 31, 2020 decreased by 6.0% over the same period in the prior year, mainly as a result of a decrease in the AEQs carried and higher capacity provided.

(\$ millions)	Three months ended March 31			
			Variance	
	2020	2019	\$	%
Total revenue	154.7	172.5	(17.8)	(10.3%)
Operating expenses	209.3	201.3	(8.0)	(4.0%)
Operating loss	(54.6)	(28.8)	(25.8)	(89.6%)
Net finance and other	15.5	12.2	(3.3)	(27.0%)
Net loss	(70.1)	(41.0)	(29.1)	(71.0%)

Our net loss in the quarter was \$29.1 million greater than our net loss in the same quarter in the prior year. The net loss in the three months ended March 31, 2020 reflects a decrease in revenue as a result of lower traffic levels due to the COVID-19 pandemic, an increase in operating expenses and an increase in financing expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2020 decreased by \$17.8 million or 10.3% compared to the same quarter in the prior year as a result of the impact of the COVID-19 pandemic, as shown in the following table:

Revenue (\$ millions)	Three months ended March 31			
	2020	2019	Increase (Decrease)	
			\$	%
Direct Route Revenue				
Vehicle tariff	68.1	74.2	(6.1)	-8.2%
Passenger tariff	31.5	38.3	(6.8)	-17.8%
Social program fees	3.2	3.7	(0.5)	-13.5%
Net retail	7.9	10.6	(2.7)	-25.5%
Other revenue	2.3	2.7	(0.4)	-14.8%
Total Direct Route Revenue	113.0	129.5	(16.5)	-12.7%
Indirect Route Revenue				
Ferry transportation fees	27.6	30.1	(2.5)	-8.3%
Federal-Provincial subsidy	7.8	7.6	0.2	2.6%
Provincial contribution: Tariffs	4.1	3.1	1.0	32.3%
Provincial contribution: Seniors	1.7	1.8	(0.1)	-5.6%
Total Route Revenue	154.2	172.1	(17.9)	-10.4%
Other general revenue	0.5	0.4	0.1	25.0%
Total Revenue	154.7	172.5	(17.8)	-10.3%

Average tariff revenue per vehicle increased \$1.03 or 2.4% and average tariff revenue per passenger decreased \$0.21 or 2.2% in the quarter compared to the same period in the prior year, mainly as a result of reflecting a change in the proportion of traffic on routes with higher versus lower tariffs, increased reservation fees and the expanded service on the seasonal route. The decrease in traffic levels and the change in average tariffs resulted in a \$12.9 million decrease in tariff revenue.

Social program fees in the fourth quarter decreased 13.5% compared to the same period in the prior year, mainly as a result of a decrease in the usage of the MTAP program.

Net retail revenue decreased in the fourth quarter of fiscal 2020 compared to the same period in the prior year primarily as a result of lower passenger traffic and the temporary closure of all food and retail services due to the COVID-19 pandemic.

Ferry transportation fees from the Province decreased in the fourth quarter of fiscal 2020 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).

The provincial contribution of \$5.8 million (\$4.9 million fiscal 2019) in the fourth quarter of fiscal 2020 consisted of \$4.1 million (3.1 million fiscal 2019) contribution for fare reductions and \$1.7 million (\$1.8 million fiscal 2019) contribution towards the higher BC seniors' discounts.

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2020 and fiscal 2019 are shown in the following tables:

Operating expenses (\$ millions)	Three months ended March 31			
			(Increase) Decrease	(Increase) Decrease
	2020	2019	\$	%
Operations	128.7	124.6	(4.1)	(3.3%)
Maintenance	23.6	21.4	(2.2)	(10.3%)
Administration	10.3	10.6	0.3	2.8%
Total operations, maintenance & administration	162.6	156.6	(6.0)	(3.8%)
Depreciation and amortization	46.7	44.7	(2.0)	(4.5%)
Total operating expenses	209.3	201.3	(8.0)	(4.0%)

The increase in operations costs of \$4.1 million for the quarter ended March 31, 2020 compared to the same period in the prior year is due to:

- \$4.6 million increase in wages and benefits mainly due to higher benefit premium rates (Employer Health Tax and pension) and wage rate increases in accordance with the Collective Agreement; and
- \$1.5 million increase in fuel costs (\$1.0 million in higher fuel prices and \$0.4 million in higher fuel usage).

partially offset by:

- \$1.3 million decrease in consulting, credit card fees and contracted repair services; and
- \$0.7 million decrease in insurance claims.

The increase in maintenance costs of \$2.2 million reflects the cyclical nature of vessel refits.

The decrease in administration costs of \$0.3 million is mainly due to lower contracted services related to the PT5 submission costs in the prior year slightly offset by higher wages.

The increase in depreciation and amortization of \$2.0 million reflected new capital assets that entered service.

Net finance and other expenses (\$ millions)	Three months ended March 31			
			(Increase) Decrease	(Increase) Decrease
	2020	2019	\$	%
Finance expense	15.3	14.2	(1.1)	(7.7%)
Less: finance income	(2.3)	(1.6)	0.7	(43.8%)
Net finance expense	13.0	12.6	(0.4)	(3.2%)
Loss (gain) on disposal and revaluation of property, plant and equipment, and intangible assets	2.5	(0.4)	(2.9)	(725%)
Total net finance and other expenses	15.5	12.2	(3.3)	(27.0)

Net finance expense in the quarter was \$0.4 million higher compared to the same period in the prior year, primarily due as a result of increased interest from our new bond issue, partially offset by higher income from investments. Loss on disposal and revaluation of property, plant and equipment and intangible assets was \$2.9 million higher compared to the same period in the prior year primarily as a result of asset impairment of \$2.5 million.

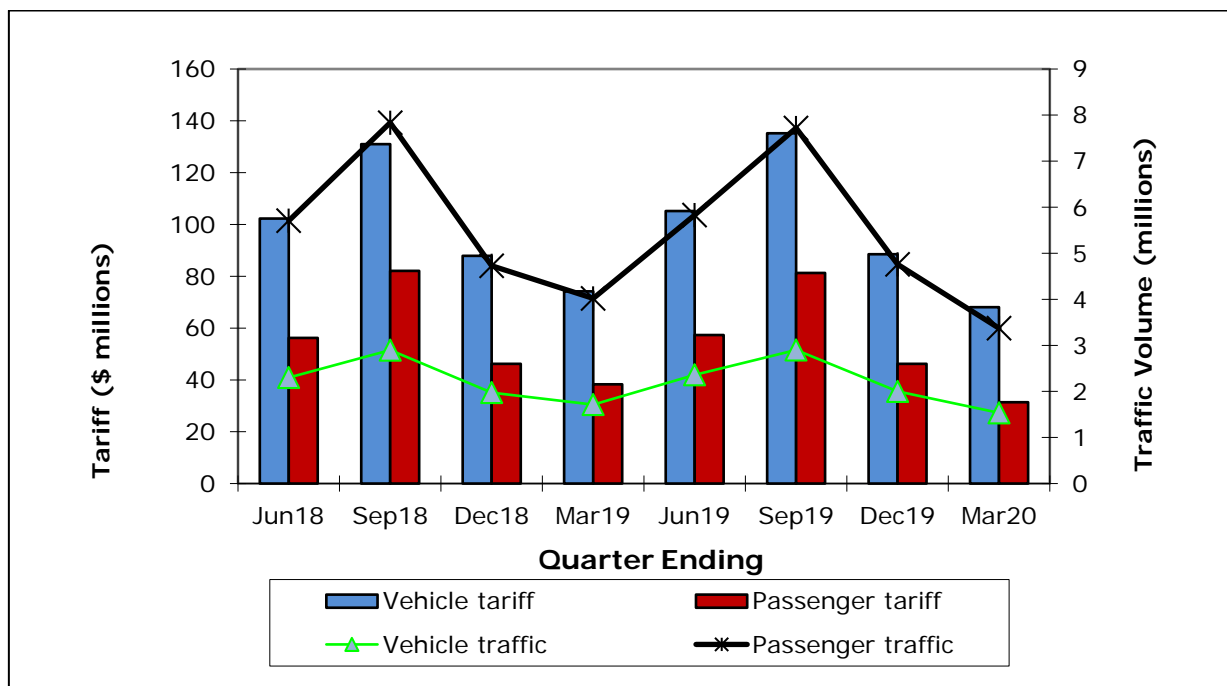
SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Quarter Ended (unaudited)							
	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20
Total revenue	229.7	315.8	207.7	172.5	246.4	329.3	211.0	154.7
Operating profit (loss)	19.8	104.6	9.4	(28.8)	26.0	108.6	5.3	(54.6)
Net earnings (loss)	6.0	90.9	(3.7)	(41.0)	12.2	95.0	(8.3)	(70.1)

Quarterly results are affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, experiences the highest traffic levels and the highest net earnings. The third and fourth quarters reflect a seasonal reduction in traffic. We utilize these periods to perform upgrades and major maintenance and refit programs, as well as to undertake mandatory inspections on the majority of our vessels.

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



INVESTING IN OUR CAPITAL ASSETS

We have established a formal project governance framework to ensure that capital investments meet our functional and business needs. This framework 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. It defines key roles and provides principles and guidelines for the governance of projects through the phases of the project lifecycle. Our capital asset planning is supported with formal business cases for all capital projects and the underlying framework is reviewed annually to ensure it continues to evolve and improve.

Capital Expenditures

Prior to COVID-19, our approved 12-year capital plan, covering fiscal 2019 through 2030, totals \$3.9 billion and addresses the need for a more resilient ferry service and emphasizes capacity, operational efficiency, affordability, and flexibility. The capital plan includes new vessels, upgrades and modifications for existing vessels, improvements at our fleet maintenance unit, infrastructure at three major terminals), upgrades at our other terminals and renewal of our information technology systems. Given the impact of the COVID-19 pandemic to our financial position, we are reviewing all capital plans to identify opportunities to defer any expenditures that are not regulatory, security or safety related and/or operationally necessary.

We have one of the largest ferry fleets in the world. The typical life span of vessels is approximately 45 years. We are currently operating 35 vessels with an average age of 33 years and, of these, 11 are 45 years old or older.

As vessels approach their planned retirement dates, we review the condition of these vessels to determine potential candidates for life extension rather than replacement. Our strategy for new vessels includes interoperability and standardization of vessels across the fleet, where possible, to provide more flexibility, consistent customer experience, and organizational efficiencies while enhancing a safe operation. Our vessel design, layout, operating characteristics, systems, procedures, and equipment will be standardized across a wide variety of applications to achieve operational efficiencies and enhance reliability. Our vessels will be designed for low energy consumption and clean environmental performance. We plan to adopt alternative fuel sources, 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.

Both LNG and the marine diesel we currently use meet all domestic and international emissions regulations. We analyze LNG as an option and intend to pursue the option where it is feasible. 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.

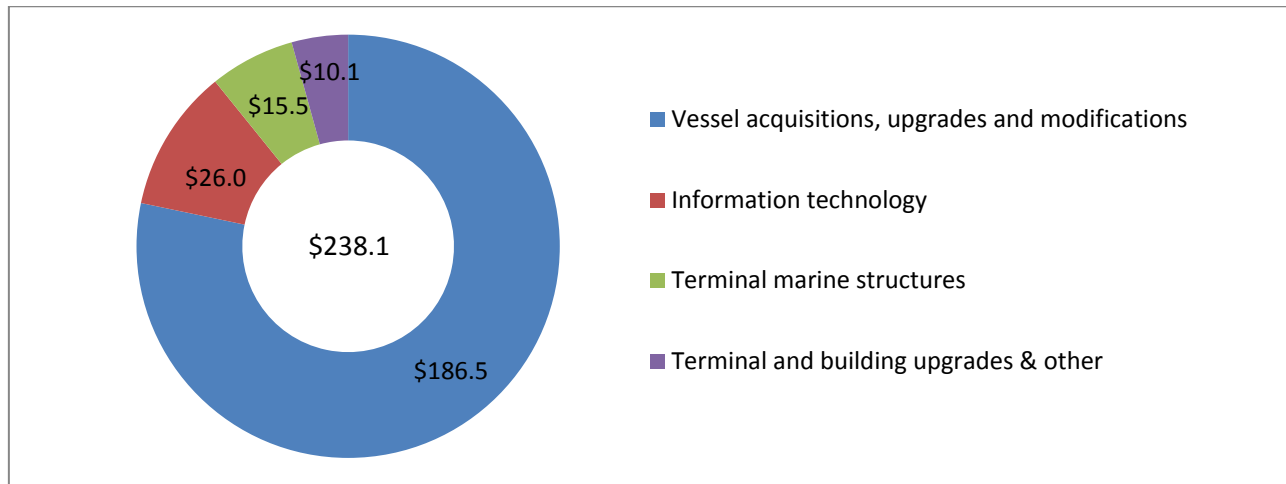
In total, we have been approved for up to \$60.5 million in funding under the New Building Canada Fund. To date we have received a total of \$35.8 million comprised of \$15.1 million for the *Northern Sea Wolf* project and \$20.7 million for the Island Class vessel project.

FortisBC has committed to provide us with up to \$16 million in incentive funding to help offset incremental capital costs associated with LNG for the Spirit Class and the Salish Class vessels. The contribution is dependent upon the purchase of LNG and is applied to the capital costs as LNG is purchased. In the year ended March 31, 2020, \$0.7 million (\$0.3 million fiscal 2019) was recorded to reduce the capital costs of the Spirit Class vessels and \$0.5 million (\$0.5 million fiscal 2019) to reduce the capital costs of the Salish Class vessels.

Capital expenditures, net of funding recorded from the New Building Canada Fund and FortisBC, during fiscal 2018 through fiscal 2020 are shown in the table below:

Capital expenditures by fiscal year			
(\$ millions)			
	2020	2019	2018
Vessel upgrades & modifications	45.6	133.5	110.1
New vessels	140.9	49.0	81.6
Terminal marine structures	15.5	10.9	20.5
Information technology	26.0	28.2	24.4
Terminal building upgrades & other	10.1	19.5	15.7
Total	238.1	241.1	252.3

Capital expenditures, net of funding recorded from the New Building Canada Fund and FortisBC, in the 12 months ended March 31, 2020 totalled \$238.1 million:



Capital expenditures, net of funding from the New Building Canada Fund and FortisBC, in the three and twelve months ended March 31, 2020 comprised the following:

(\$ millions)	March 31, 2020	
	3 months	12 months
Island Class vessels (additional 4 vessels)	7.3	71.1
Salish Class vessel	43.9	43.9
Island Class vessels (vessel 1 & 2)	6.8	23.0
Major overhauls and inspections	13.3	19.3
<i>Skeena Queen</i> mid-life upgrade	2.2	10.6
Customer experience program	3.4	10.2
Hardware upgrades	2.1	7.5
Spirit Class mid-life upgrades	-	6.6
Blubber Bay-wingwall replacement	0.1	4.0
Time collection & crew scheduling	0.9	3.6
Central Coast ferry service	-	2.9
Langdale upgrades	0.3	2.4
Fleet maintenance facility	-	1.5
Various other projects	10.1	31.5
	90.4	238.1

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. Two of these vessels are expected to enter service in late fiscal 2022 and two are expected to enter service in fiscal 2023. The Island Class vessels will be outfitted with hybrid diesel-electric propulsion and will each have a capacity of up to 392 passengers and approximately 47 vehicles. The total project budget for these four new vessels, including financing and project management costs, is approximately \$200 million. Two of these new vessels will service the route between Campbell River - Quadra Island and the other two will service the route between Nanaimo Harbour - Gabriola Island.

Salish Class Vessel

On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. of Gdansk, Poland to build a new Salish Class vessel. The new vessel will be 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. This fourth Salish Class vessel will replace the 55-year old *Mayne Queen* and is expected to enter service in fiscal 2023.

Island Class vessels

On April 13, 2017, we entered into design and build contracts with Damen Shipyard Group of Netherlands for the construction of two Island Class vessels. The Government of Canada has approved funding of up to \$28.3 million under the New Building Canada Fund toward these vessels, of which we recorded \$3.4 million in the three months ended March 31, 2019 (\$9.8 million year-to-date), \$11.3 million in fiscal 2019 and \$3.1 million in fiscal 2018. These vessels have been outfitted with hybrid diesel-electric propulsion and have a capacity of up to 392 passengers and crew and approximately 47 vehicles. These two Island Class vessels arrived in Canada on January 18, 2020 and are expected to go into service in the first quarter of fiscal 2021. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula. The addition of the *Island Discovery* and the *Island Aurora* will allow us to retire the 62-year old *North Island Princess* in fiscal 2021. The 54-year old *Howe Sound Queen* was retired during the first quarter of fiscal 2020.

Major overhauls and inspections

In the three months ended March 31, 2020, we had capital expenditures of \$13.3 million (\$19.3 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for eight vessels that were completed or underway.

Skeena Queen mid-life upgrade

The mid-life upgrade of the *Skeena Queen*, including propulsion, electrical, bridge equipment, safety equipment and interior modernization was completed in March 2020.

Customer experience program

Our customer experience program, which includes the Fare Flexibility and Digital Experience Initiative, will replace our aged website, reservation system and e-commerce platform and upgrade our point-of-sale. The main elements of this program will be implemented in stages during calendar 2020. This program will give our customers an opportunity to purchase travel in advance at discounted rates on select sailings on reservable routes and will allow us to respond in a more timely fashion to changing business needs and to better support marketing, travel services and pricing initiatives. Our customer experience program will introduce improved transaction processing and online booking with more choices in fares. We have implemented our new internal reservations system as well as enhancements to our customer relationship management system and point of sale system.

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.

Spirit Class mid-life upgrades

On June 6, 2018, the *Spirit of British Columbia* and on April 18, 2019, the *Spirit of Vancouver Island* returned to service on our Tsawwassen – Swartz Bay route. These mid-life upgrades will enable the vessels to be in service for another 25 years. The conversions of these vessels to dual-fuel have resulted in substantial savings as LNG costs are considerably less than marine diesel. The conversion has also resulted in significant environmental benefits, such as reducing carbon, sulphur and nitrogen dioxide emissions from our vessels. FortisBC committed to providing us with up to \$10 million in incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to use LNG. The contribution (\$7.0 million has been received as of March 31, 2020) is dependent upon the purchase of LNG and is applied to the capital cost of the vessels as LNG is purchased. In the three months ended March 31, 2020, \$0.1 million (\$0.7 million year-to-date) was recorded to reduce the capital costs. In fiscal 2019, \$0.3 million was recorded to reduce the capital costs.

Blubber Bay terminal

At Blubber Bay terminal, a project to replace wingwalls, increase capacity of a floating lead, upgrade mechanical and electrical systems, and replace the fencing around the terminal was completed in September 2019. These upgrades enable the Salish Class vessels to dock at Blubber Bay and thereby provide direct service between Texada Island and Comox.

Time collection and crew scheduling

A project to replace and enhance our aged time collection and crew scheduling system is underway.

Central Coast ferry service

On April 7, 2017, we finalized an agreement to acquire the *Northern Sea Wolf*, a 75-metre used vessel built in 2000, to provide the new seasonal direct ferry service between Port Hardy and Bella Coola. This project, which is now complete, included the acquisition and upgrading of the used vessel as well as modifying our terminal marine structures as necessary. On April 5, 2017, the Province contributed an initial \$15 million towards the provision of this service for the period up to March 31, 2020. On March 21, 2017, the Government of Canada approved funding towards the capital costs of this vessel of up to \$15.1 million from the New Building

Canada Fund, of which we recorded \$11.8 million in fiscal 2018 and \$3.3 million in fiscal 2019. The *Northern Sea Wolf* entered service in the Central Coast on May 18, 2019, and started the direct seasonal service between Port Hardy and Bella Coola on June 3, 2019. The *Northern Sea Wolf* accommodates approximately 35 vehicles and 150 passengers and crew.

Langdale terminal

Our Langdale terminal redevelopment project, to be constructed in phases, includes plans for parking lot and pick-up and drop-off area upgrades, an overhead passenger walkway, a new terminal building, as well as a ticketing plaza.

Fleet maintenance facility

In Richmond, a project to redevelop and modernize our ship repair and maintenance facility is in the design phase.

Various other projects

Various other projects include, among others, upgrades to our vessel navigational equipment, digital signage at various terminals, marine structures at Tsawwassen terminal, marine structures at our Campbell River terminal and the replacement of floating leads at Bear Cove terminal. It also includes the three-quarter life upgrade of the *Klitsa*, which was completed in May 2019 and upgrades to the *Queen of Oak Bay*, which was completed in March 2020.

OUTLOOK

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

Financial

BC Ferries is facing an unprecedented drop in vehicle and passenger traffic with a decline of 63% and 77%, respectively, in the month of April 2021 compared to the same period in the prior year. As a result of travel restrictions and physical distancing measures related to the COVID-19 pandemic, all food and retail services have temporarily been closed, adding to significant revenue declines and net losses beginning in early March 2020. At this time, it is uncertain as to the length of time the health risk related to the COVID-19 pandemic, will remain, along with the measures required to limit exposure. As a result, BC Ferries cannot predict with certainty the full impact of this health crisis.

As an asset intensive service, a large portion of our costs are fixed and do not meaningfully fluctuate with passenger demand in the short term. For those costs which are variable, we have implemented several curtailment measures to limit losses during this period. In consultation with the Province, we have reduced service levels by as much as 50% across the system. This has led to a temporary reduction of some employees. We are reviewing and plan to defer a significant portion of our capital expenditures and have and will continue to reduce discretionary spend, including contracted services, travel, and non-safety related training. While significant, these cost reduction measures will not offset the decline in revenues.

There is significant uncertainty around the overall economic environment. We will continue to monitor the situation to ensure the transportation of essential goods and services, while managing the preservation of cash and protecting the financial well-being of the company.

BC Ferries' Credit Facility Agreement and KfW loan agreements require the company to maintain a Debt Service Coverage Ratio ("DSCR") of at least 1.25:1. Our forecasts indicate the DSCR will fall below 1.25:1 during fiscal 2021.

On May 15, BC Ferries' banking syndicate approved an Amendment to the Credit Facility Agreement whereby the EBITDAR of the impacted quarters in fiscal 2021 (Q1, Q2, and Q3) will be replaced by an average of the EBITDAR from the respective quarters in fiscal years 2018, 2019, and 2020. This will result in a modified DSCR calculation that will exceed 1.25:1. As a condition, for the duration of the relief period BC Ferries will be required to maintain \$50 million in unrestricted cash, which can be comprised of cash, short term investments, and undrawn facility.

On May 22, KfW conditionally consented to waive the DSCR covenant until and including March 2021, subject to the parties finalizing an amending agreement.

On September 30, 2019, the Commissioner issued Order 19-04, which established final price cap increases of 2.3% for each of the four years of PT5.

On March 25, 2020, we announced that we delayed adjustments to fares for fiscal 2021 in light of the COVID-19 pandemic, with the date for applying fare adjustments to be determined in the near-term. We also announced that as of April 1, 2020, a fuel rebate of 1.5% would be implemented on all routes due to recent fuel prices.

Major Investments

Prior to COVID-19 pandemic, our 12-year capital plan for fiscal 2019 through fiscal 2030 totalled \$3.9 billion. The capital plan includes new vessels, upgrades and modifications for existing vessels, significant improvements at our fleet maintenance unit, infrastructure at three major terminals, upgrades at our other terminals and renewal of our information technology systems. The plan emphasizes system capacity, operational efficiency, resiliency and flexibility to ensure safe, reliable and efficient operations and to deliver an exceptional customer-focused travel experience. All major capital expenditures as defined by the Commissioner require approval.

Given the impact of the COVID-19 pandemic to our financial position, we are reviewing all capital plans to identify opportunities to defer any expenditures that are not regulatory, security or safety related and/or operationally necessary.

Salish Class

On December 20, 2019, a contract became effective with Remontowa Shipbuilding S.A. of Gdansk, Poland to build a new Salish Class vessel. The new vessel will be 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. The vessel design is part of our standardization strategy that we believe strengthens safety practices and improves interoperability with standardized bridges, engine rooms and life-saving equipment. This fourth Salish Class vessel will replace the 55-year old *Mayne Queen* and is expected to enter service in fiscal 2023.

Island Class

Construction for two Island Class vessels, *Island Discovery* and *Island Aurora*, is complete and the vessels are expected to enter into service in the first quarter of fiscal 2021. The Island Class vessels are outfitted with hybrid diesel-electric propulsion. They are built to be capable of conversion to all-electric propulsion as the technology permits and the necessary infrastructure is available. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula.

On October 25, 2019, contracts became effective with Damen Shipyard Group of Netherlands for the construction of four additional Island Class vessels reinforcing our plan for operational efficiency, resiliency and flexibility. Two of these new vessels will service the route between Campbell River - Quadra Island, the other two will service the route between Nanaimo Harbour - Gabriola Island and all four vessels are expected to enter service during fiscal 2023.

New Major Vessels

The next phase of vessel renewal will include replacement of four major vessels that will have an average age of over 50 years when their replacements are anticipated to begin service on our Major Routes. The new vessels will add capacity to the fleet, with vehicle and passenger capacity expected to be similar to the existing Spirit Class vessels. In August 2019, we issued a Request for Proposal for the design, build and delivery of four new major vessels with options for additional vessels, reinforcing our plan for operational efficiency, resiliency and flexibility.

Fare Flexibility and Digital Experience

Our Fare Flexibility and Digital Experience Initiative will be rolled out in fiscal 2021. It will offer more fare choices and an improved online booking experience. The new website will enable customers to quickly compare fare choices on the dates they are looking to travel. We expect these changes will help shift traffic to sailings that typically run with lower capacity utilization.

Fleet Maintenance Facility

Our Richmond fleet maintenance facility is a strategic asset requiring upgrades and redevelopment to replace aged infrastructure. The multi-year project to seismically upgrade the site, modernize infrastructure and build a centralized shop and life raft servicing centre is in the design and development stage. The upgrades will improve operational efficiency and allow us continual and immediate access to ship repair facilities for both planned and unplanned maintenance.

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 natural gas. 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 unprecedented 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 use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See "The Effect of Rate Regulation" for more detail.) 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, 2020, we had \$132.2 million (notional value) in fuel forward contracts for marine diesel related to 2020 through 2024. At March 31, 2020, 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. In fiscal 2021, we expect to record ineffectiveness on a portion of our fuel hedges as a result of over-hedging given our reduced service levels in response to the COVID-19 pandemic.

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, 2020, we held three foreign exchange forward contracts with a carrying and fair value receivable of \$28 thousand and with a notional value of \$0.4 million, while at March 31, 2019, we held three foreign exchange forward contracts with a carrying and fair value receivable of \$7 thousand and with a notional value of \$0.5 million. There were no interest rate forward contracts in place at March 31, 2020 or at March 31, 2019.

At March 31, 2020, we held fuel forward contracts for marine diesel with a carrying and fair value liability of \$32.7 million and a notional value of \$132.2 million. At March 31, 2019, we held fuel forward contracts for marine diesel with a carrying and fair value asset of \$8.1 million and a notional value of \$50.6 million. At March 31, 2020, with the application of hedge accounting, the unrealized loss of \$36.4 million was recognized in other comprehensive income. At March 31, 2019, with the application of hedge accounting, the unrealized gain of \$7.4 million was recognized in other comprehensive income. The fair value of commodity derivatives reflect only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel.

The fair values would reflect the estimated amounts we would receive or pay should the derivative contracts be terminated at the stated dates. Due to the impact of the anticipated fuel decline as a result of COVID 19, we reviewed the probability assessment of our hedged future fuel purchases. On the basis of that assessment, we determined that the hedged amounts related to one of our contracts for Q1 fiscal 2021 is no longer considered highly probable to occur and we have discontinued hedge accounting for this contract effective March 31, 2020. The impact of the discontinuation of this hedged transaction is being recognized in the Q1 fiscal 2021 financial statements. The unrealized loss recognized within the cash flow hedging reserve related to this contract is approximately \$1 million.

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, 2020, and 2019 are as follows:

(\$ millions)	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt, including current portion	1,449.1	1,758.1	1,280.0	1,623.8

The fair value of all financial instruments included above, 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 continue to 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 ensuring we have the appropriate policies, procedures and systems in place to identify and manage 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 for considering 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. One way we promote this culture is through our SailSafe 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.

BC Ferries is facing an unprecedented drop in traffic and revenue due to the COVID-19 pandemic and corresponding preventative measures and imposed travel restrictions. These unprecedented conditions have led to renegotiated service levels, and significant cost reductions and capital deferrals. Despite these efforts, BC Ferries may experience significant losses and be required to defer achievement of many its objectives, including the pace of capital renewal due to cash and incremental borrowing restrictions. While the time and pace is unknown, it is expected BC Ferries will recover alongside the post-pandemic recovery.

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 viable, profitable future.

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

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. A material decrease in customer demand could have an adverse impact on our financial results and thereby the ability to replace our aging assets.

As a result of COVID-19, traffic and revenue began to decline in early March 2020. These impacts include declines in earnings and cash from operations. We have limited visibility on travel demand given the travel restrictions in place and concerns about travel due to the COVID-19 virus. BC Ferries cannot predict the full impact or the timing for when conditions will improve.

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 meet requirements in an efficient and effective manner. 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. Our new customer facing technology will better enable us to generate incremental discretionary traffic by offering variable pricing alternatives.

In early April, we announced service level adjustments across multiple routes for to protect the health and safety of communities and ferry workers, to ensure the resiliency of the coastal ferry service, and better match ferry service to demand. Across the ferry network, capacity was reduced by as much as 50% over this time last year. The CFSC was amended to reflect temporary reduce service levels in response to the COVID-19 pandemic. BC Ferries will monitor service levels in conjunction with the Province to ensure essential service levels are maintained and to determine when services should resume to normal levels.

We have the opportunity to apply to the Commissioner under section 42 of the Act for an extraordinary price cap increase or other relief if there is an unanticipated and extraordinary change in traffic levels.

Major Capital Projects

We have several major capital projects underway, including the building of five new vessels and other ongoing vessel replacement projects, and the Fare Flexibility and Digital Experience Initiative. 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 are reviewing all capital plans to identify opportunities to defer any expenditures that are 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.

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.

On February 22, 2019, the Province released its report on the review of coastal ferry services in British Columbia. Based on the recommendations in the report, on May 16, 2019, the Province enacted legislation to amend the Act. (See "Coastal Ferry Services Contract" for more detail.)

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 and local Ferry Advisory Committees that represent the interests of ferry users and the communities we serve. In the event collaboration with the Province becomes strained, we have the opportunity to apply to the Commissioner under section 42 of the Act. 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.

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. Shortages of critical skills exist in some areas in which we operate.

Risk mitigation: We provide internal training and development opportunities and support external training for advancement. We have invested in the SailSafe Simulator at Camosun College's trades facilities to guarantee access to the best training tools. We have a cadet program which includes participants from the British Columbia Institute of Technology, Georgian College of Ontario, Nova Scotia Community College, and the Memorial University of Newfoundland. We have commenced a partnership with Aboriginal Community Career Employment Services Society which supports the education and career development of First Nations students in coastal communities. We were named one of B.C.'s Top Employers for the past four years. This award recognizes workplaces for offering progressive and forward-thinking programs for employees and aids in attracting employees to our Company.

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 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. In fiscal 2018, we entered into a five-year supply agreement with Point Hope Maritime Ltd. of Victoria, BC for the maintenance of eight of our minor vessels. We have plans to modernize our fleet maintenance and our internal ship repair capability. Alternatives to using local facilities are also being explored.

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 resulting 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 behavior 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. The board established an Information Technology Governance Committee to assist the board in fulfilling its oversight responsibilities with respect to information technology including cybersecurity.

Indigenous Peoples

Matters involving Indigenous rights may arise in British Columbia when a company seeks governmental approvals for new activities, typically involving land or water. Canadian courts have said that a government must consult before granting an approval that could affect Indigenous rights, even when the nature and strength of those rights has not been formally proved in court or formally recognized by government. Government 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 consultations must be appropriate to the strength of the Indigenous right, and the severity of the potential impact on that right. Government has the right to involve a corporation in the consultation process with an Indigenous group. Indigenous rights are especially significant in British Columbia because most of the Province is subject to far-reaching claims of Indigenous rights and title, including in coastal areas where we operate. These claims could have importance if we seek new property rights or approvals from government.

Risk mitigation: 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.

Climate Change

Climate change poses a number of potential risks and impacts to the Company, 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 sea levels, changing storm patterns and intensities and changing temperature levels, and the impact of these changes could be significant.

Risk mitigation: We are continually focussed 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.

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, 2020 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:

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. An actuarial valuation of the plan at March 31, 2017, was obtained and the accrued benefit obligation estimated at \$20.9 million. The retirement liability was increased and the actuarial loss of \$1.9 million was recognized in other comprehensive income during fiscal 2018. The main drivers of the increase in the liability were a higher annual increase in salaries and a higher number of employees than previously estimated. The liability included in accrued employee future benefits in our financial statements at March 31, 2020, was \$19.7 million (\$19.7 million at March 31, 2019).

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.

As disclosed in note 1 to our 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.

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. If the carrying value is greater than the recoverable amount, the excess is charged to net earnings. 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.

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 hedge, 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. In fiscal 2021, we expect to record ineffectiveness on a portion of our fuel hedges as a result of over-hedging given our reduced service levels in response to the COVID-19 pandemic.

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.

No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of any such liability due to the indeterminate magnitude, likelihood, or financial impact, if any, of this issue. In addition, there is a reasonable expectation that retired assets may be sold to a responsible secondary market at a nominal salvage price, and furthermore, 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.

Adoption of New Accounting Standards

The following is a discussion of changes in accounting standards that we adopted effective April 1, 2019:

On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits* which requires entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. It also requires that any reduction in surplus, even amounts not previously recognized due to an asset ceiling limitation, be recognized in profit or loss as part of past service cost of a gain or loss on settlement. We adopted IAS 19 effective April 1, 2019. The application of this standard had no impact on our consolidated financial statements.

Future Accounting Changes

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

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, the IASB has decided to defer to annual reporting periods beginning on or after January 1, 2023 as the effective date of IFRS 17. We do not expect the application of this standard to have any significant impact on our consolidated financial statements.

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, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the CFSC.

Forward looking statements included in this document include statements with respect to: economic conditions, traffic levels, fares, PT5, and fiscal 2020 net earnings; our short-term and long-range business plans, capital expenditure levels including our 12-year capital plan, availability of credit, asset renewal programs including the Spirit Class mid-life upgrades, the Langdale terminal redevelopment project, the fleet maintenance facility project, the minor class vessel replacements, the major class vessel replacements, the Island Class vessels, the *Northern Sea Wolf*, the sale of decommissioned vessels, our customer experience program, Fare Flexibility and Digital Experience Initiative, and pricing promotions; the agreement with FortisBC Energy Inc. regarding incentive funding, and the New Building Canada Fund; alternative fuel options, on-time performance, safety, security, environmental and training projects, and the impact of the COVID-19 pandemic; our expectations regarding food sales and sales of quality apparel; total revenue and expense projections, and how our cash requirements will be met; and our expectations regarding the impact of amendments to IAS19 on our consolidated financial 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; and Aboriginal rights and title claims.

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.

During the fiscal year ended March 31, 2020 ("fiscal 2020"), the board was composed of the following directors:

Chair: John A. Horning
Members: Bruce A. Chan
Brenda J. Eaton
Jan K. Grude (vice chair)
Donald P. Hayes¹
Brian G. Kenning¹
Gordon M. Kukec
Sarah A. Morgan-Silvester, O.B.C.
P. Geoffrey Plant, Q.C.¹
David R. Podmore, O.B.C.
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 & Nominating 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.

¹ Effective May 22, 2019, the *Coastal Ferry Act* was amended to limit the maximum period of time that a director can serve on the BC Ferries board to eight consecutive years, and having each served in excess of that time, Donald P. Hayes, Brian G. Kenning and P. Geoffrey Plant resigned from the board. Following the resignations, John A. Horning was elected Chair of the board and Jan K. Grude was elected Vice Chair of the board.

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 recruitment of directors is undertaken with the objective of ensuring the board is composed of qualified directors with a range of relevant expertise and experience. In addition, the board is committed to the principle that a majority of directors, including the chair, 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 & Nominating Committee and the corporate secretary, and are reported to the Governance & Nominating 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 2020 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

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 half- to full-day 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 & Nominating 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 site 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 sites.

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 & Nominating Committee and the corporate secretary, and are reported to the Governance & Nominating Committee and the board.

Nomination of Directors

As required by the CFA, when electing directors to the board of BC Ferries, the Authority must select individuals in such a way as to ensure that, as a group, the directors are qualified candidates who hold all of the skills and all of the experience needed to oversee the operation of BC Ferries in an efficient and cost-effective manner. The Authority has established a profile recommended by the board, which sets out the key skills and experience that the directors individually and collectively should possess to meet this legislative requirement ("Skills Profile"). The Skills Profile is reviewed regularly by the board and the Authority to ensure continued alignment of the skills and experience represented on the board.

A joint committee for the recruitment of directors of the Company ("Joint Committee") has been established to identify suitable candidates for election as directors of the Company. This committee is comprised of four members, two of whom are appointed by the BCFA board from among its members, one of whom must be the chair of the BCFA board, and two are appointed by the board from among its members, one of whom must be the chair of the board.

Prior to each search for a candidate, the Joint Committee reviews the skills and experience of the directors of the Company in the context of the Skills Profile and the ongoing governance needs of the Company. The Joint Committee develops the potential criteria that will guide the selection process, including the preferred skills, experience and expertise, as well as the specific priorities for diversity of background that will be the focus of the particular search.

Potential candidates for nomination are sought with the assistance of an external recruitment firm.

Once the search has been completed and a suitable candidate has been identified, the Joint Committee makes a recommendation to the BC Ferries and BCFA boards on the preferred candidate for election, including the recommended term of office. This recommendation reflects the board's succession plan, the talents and backgrounds of the existing directors and that of the preferred candidate, including knowledge of or presence in the communities served by BC Ferries, as well as the diversity priorities established for the particular director search.

The board considers the preferred candidate and makes a recommendation to the BCFA board. The BCFA board considers the preferred candidate, together with the recommendation of the board, and makes a determination on the possible appointment.

Board Diversity Policy

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

The board seeks to maintain a composition of talented and dedicated directors with 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.

The selection of candidates for nomination to the board is based on merit against objective criteria. Within that overriding emphasis, the board seeks to fill vacancies among its members by considering candidates that have skills and experience consistent with the Skills Profile, and bring additional diversity of background.

The board, through the Governance & Nominating Committee, regularly reviews the diversity achieved on the board, and this review informs the diversity priorities that are set each time a search is conducted for a new director. In setting these priorities, the level of representation of women on the board is specifically considered, with the objective being a balanced gender distribution.

The renewal process for the board has been structured in a manner that fosters regular action to further the board's diversity priorities. A succession plan is in place for the board, which, at maturity, envisages directors serving a maximum of two four-year terms. Under the plan, the terms of the directors are staggered, with the objective that each year there will be one new director appointed and one existing director reappointed. This plan helps ensure an appropriate balance on the board between the experienced perspective of long-term directors and new perspectives that bring fresh insights. With one director replaced annually, the plan also affords the opportunity to make timely progress in achieving the board's diversity priorities, generally without the need to increase the overall size of the board. From time to time, the board may seek a temporary increase in the size of the board to enable the early recruitment of one or more specific candidates as a means of enhancing or sustaining key skills, experience and/or the diversity objectives of the board.

Executive Compensation

The Human Resources & Compensation Committee is responsible for reviewing and making recommendations to the board on executive compensation.

Executive Compensation Plan

The CFA requires that the compensation of executives² of BC Ferries be set and administered within a remuneration limit prescribed by an executive compensation plan. The Authority is responsible under the CFA for approving such a plan and any amendments thereto.

An executive compensation 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 an executive compensation plan are established with the assistance of an independent third-party compensation expert and with reference to the CFA, which requires that the remuneration under an executive compensation plan be consistent with the remuneration 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.

An executive compensation plan applies to the executives of the Company, as that term is defined in the CFA, who in fiscal 2020 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO"), an Executive Vice President ("EVP"), or Vice President of BC Ferries. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* ("Bill 20"), an individual who held the positions of, or acted in a similar capacity or performed similar functions to, the CEO or an EVP, on the date Bill 20 received first reading in 2010, is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries. In fiscal 2020, the remuneration of the Company's President & CEO and Vice Presidents were governed by an executive compensation plan.

The Company's current executive compensation plan is available for public view on the Authority's website (www.bcferryauthority.com).

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 Human Resources & Compensation Committee, sets the performance requirements for the President & CEO and evaluates his performance against those requirements. Similarly, the Human Resources & Compensation Committee leads the board in an annual evaluation of the performance of each of the 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 the other executives is determined based on the evaluation results and, where applicable, 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

² The *Coastal Ferry Amendment Act - 2019* broadened the definition of "executive" in the *Coastal Ferry Act* to include Vice Presidents, effective May 16, 2019.

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 Human Resources & Compensation 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 approving a directors' compensation plan and 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.

The Governance & Nominating 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.

Protocol Agreement

The Authority and BC Ferries entered into a protocol agreement effective October 1, 2010, which clarified and confirmed their respective roles and responsibilities in relation to the authority of BCFA as shareholder of BC Ferries and the matters set forth in the CFA respecting the appointment and remuneration of BC Ferries' directors and the remuneration of certain executive officers of the Company.

During fiscal 2020, new processes regarding the appointment of BC Ferries' directors and the remuneration of executives of the Company were established. The Authority and the board created terms of reference for a Joint Committee for the Recruitment of Directors of BC Ferries and a committee of BC Ferries and Authority directors established an executive compensation plan dated September 2019.

As a result, on June 24, 2019, the Authority notified the board that it was terminating the protocol agreement effective June 25, 2020.

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 2020, the board had six 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 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)	Year ended March 31	
	2020	2019
Audit	203.9	220.3
Audit related*	104.4	105.2
Tax services	2.3	2.3
Accounting advisory	-	-
	<u>310.6</u>	<u>327.8</u>

*operational audit procedures as directed by internal audit

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 & Nominating Committee

The Governance & Nominating Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to ensuring that the corporate governance system of BC Ferries is effective. 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 and expertise and diversity of background that board members collectively and individually should have in order to oversee the operation of BC Ferries in an efficient and cost-effective manner;
- establish and implement effective processes for identifying and recommending suitable candidates for appointment as directors of BC Ferries; and
- make recommendations on the remuneration of directors of BC Ferries.

Human Resources & Compensation Committee

The Human Resources & Compensation Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities regarding the human resources and compensation strategies and policies of BC Ferries. The committee has the mandate to:

- 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.

Information Technology Governance Committee

The Information Technology Governance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to the role of information technology ("IT") in executing the business strategy of the Company. The committee has the mandate to:

- ensure that an appropriate governance structure is in place within which IT and information security are effectively managed;
- ensure alignment of the Company's IT master plan and strategy with the strategic and business priorities of the Company;
- review and make recommendations to the Audit & Finance Committee and the board on IT-related projects and investments that require board approval and, where such projects and investments are approved, monitor their implementation;
- review and ensure the adequacy of IT resourcing plans;
- monitor the management of the principal IT risks, including cybersecurity risks;
- ensure that an appropriate information governance structure is in place and that, in accordance with that structure, data is being managed effectively;
- review and ensure the adequacy of IT disaster recovery capabilities and contingency plans; and
- monitor significant and emerging trends in IT.

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 and authorize 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 2020 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, 2020					
	Audit & Finance	Strategic Projects/ Capital Projects ¹	Governance & Nominating	Human Resources & Compensation	Information Technology Governance	Safety, Health, Environment & Security
Donald P. Hayes ²	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
John A. Horning ³	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Bruce A. Chan ⁴	•	•		•	•	• (chair)
Brenda J. Eaton ⁵	•	•	•	• (chair)		
Jan K. Grude ⁶	•	•	• (chair)		•	
Brian G. Kenning ⁷	•			•		
Gordon M. Kuvec ⁸		• (chair)		•	• (chair)	•
Sarah A. Morgan-Silvester ⁹	• (chair)	•			•	•
P. Geoffrey Plant ¹⁰	•		• (chair)			•
David R. Podmore ¹¹	•	• (chair)	•	•		
Judith F. Sayers			•	•		•

Notes:

- The Strategic Projects Committee ceased to exist and the Capital Projects Committee was established effective August 15, 2019.
- Donald P. Hayes ceased to be a director and Chair effective May 22, 2019.
- John A. Horning was elected to serve as Chair and ceased to be Chair of the Human Resources & Compensation Committee effective May 22, 2019.
- Bruce A. Chan ceased to be a member of the Information Technology Governance Committee and was appointed a member of the Human Resources & Compensation Committee effective May 22, 2019, and ceased to be a member of the Strategic Projects Committee and was appointed a member of the Capital Projects Committee effective August 15, 2019.
- Brenda J. Eaton was appointed Chair of the Human Resources & Compensation Committee effective May 22, 2019, and ceased to be a member of the Strategic Projects Committee and was appointed a member of the Capital Projects Committee effective August 15, 2019.
- Jan K. Grude was appointed Chair of the Governance & Nominating Committee effective May 22, 2019, ceased to be a member of the Strategic Projects Committee and was appointed a member of the Capital Projects Committee and the Information Technology Governance Committee effective August 15, 2019, and ceased to be a member of the Capital Projects Committee effective November 22, 2019.
- Brian G. Kenning ceased to be a director and a member of the Audit & Finance Committee and the Human Resources & Compensation Committee effective May 22, 2019.
- Gordon M. Kuvec ceased to be a member of the Human Resources & Compensation Committee effective May 22, 2019, and ceased to be Chair of the Strategic Projects Committee and was appointed a member of the Capital Projects Committee effective August 15, 2019.
- Sarah A. Morgan-Silvester was appointed a member of the Capital Projects Committee and ceased to be a member of the Safety, Health, Environment & Security Committee effective November 22, 2019.
- P. Geoffrey Plant ceased to be a director, Chair of the Governance & Nominating Committee, and a member of the Audit & Finance Committee and the Safety, Health, Environment & Security Committee effective May 22, 2019.
- David R. Podmore was appointed a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee effective May 22, 2019, ceased to be a member of the Strategic Projects Committee and was appointed Chair of the Capital Projects Committee effective August 15, 2019, and ceased to be a member of the Human Resources & Compensation Committee and was appointed a member of the Audit & Finance Committee effective November 22, 2019.

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 & Nominating 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 2019, the board engaged an independent consultant to conduct the 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 & Nominating 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.