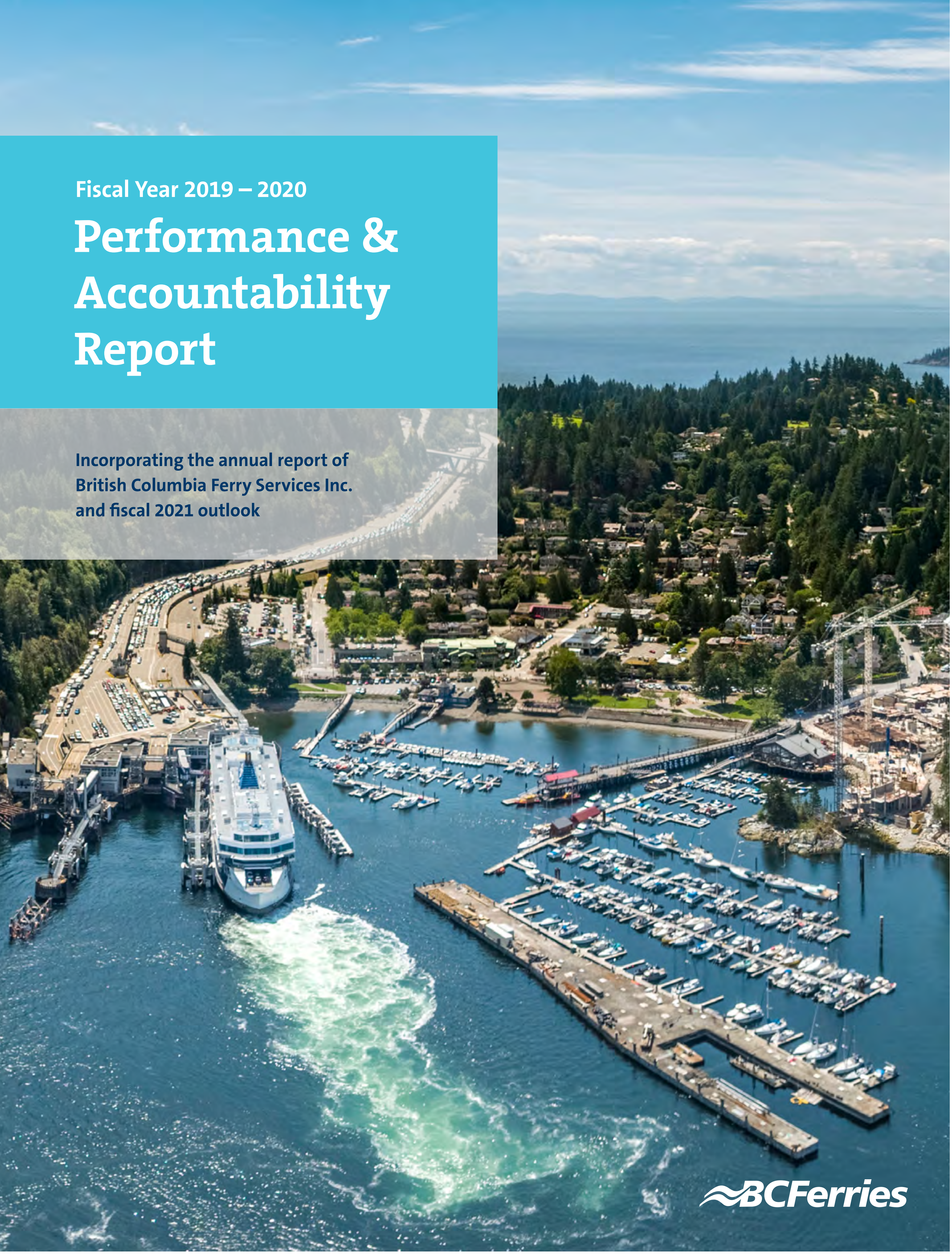
Fiscal Year 2019 – 2020

Performance & Accountability Report

Incorporating the annual report of British Columbia Ferry Services Inc. and fiscal 2021 outlook



BCFerries

Northern Sea Wolf at Bear Cove terminal

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Leadership Messages

Kids having fun on the outer deck

Message from the BC Ferry Services Board Chair

BC Ferries' fiscal year runs from the beginning of April to the end of March each year. This past fiscal saw one of the highest traffic volumes BC Ferries has experienced, and due to COVID-19, the lowest during March in the company's history.

The Board of Directors' role is to provide oversight to the activities of the CEO and Executive and provide strategic direction to the activities of the company. In a crisis like COVID-19, the stakes become higher and the Board takes on additional areas of responsibility.

As stewards of the company, the Board guides and supports management decisions. In a time of crisis, the Board ensures BC Ferries has done what it must to emerge from the challenge well positioned to serve the public interest.

The last two weeks of the fiscal year makes it easy to forget the accomplishments associated with the first 50. BC Ferries performed well in fiscal 2020, as this report details. The company presented to the Board of Directors a comprehensive, well-considered capital plan designed to replace an aging fleet of vessels, upgrade terminals, continue to improve the company's environmental performance, and keep the experience of customers and communities at the forefront of the decisions we make. The Company delivered strong network performance, carrying record numbers of British Columbians to their communities. BC Ferries' economic activity added to British Columbia's GDP.

Over the short term, BC Ferries' strong performance will help the company weather the immediate uncertainty that has accompanied the COVID-19 global pandemic. However, COVID-19 will have a considerable impact and will affect BC Ferries' capital plan, employment levels and community initiatives for several years.

We won't know the full impact until we better understand the course of the pandemic and how long it will be before traffic returns closer to normal levels. In the meantime, we have a clear line of sight on getting people and goods to where they need to go. We understand that we provide lifeline services to coastal communities and we are proud of the role BC Ferries plays connecting communities.

During these challenging times, the Board of Directors is providing critical oversight, while looking after the interests of customers, communities, employees and the general public. We will emerge from this crisis stronger and ready to meet the needs of all British Columbians.

John A. Horning
Chair of the Board of Directors
British Columbia Ferry Services Inc.

Message from the CEO

This past fiscal year (April 1, 2019 to March 31, 2020) will go down in memory as the year in which the first 50 weeks delivered one of BC Ferries' strongest performances to date, while the last two weeks of the fiscal year brought traffic to a near halt. The challenges of COVID-19 have been nothing short of profound, with impacts shared by all B.C. businesses, our province, our country and the world.

Safety is our top value, with ongoing investment in our SailSafe program. Thinking ahead to electrification of our new vessels, we created a three-phase electrical safety program to be certain our employees will remain safe around high voltage electric/diesel ships. Since 2014, we have received a Certificate of Recognition acknowledging that we go beyond the legal requirements of the Workers' Compensation Act and the Occupational Health & Safety Regulations. Injuries to passengers have declined 75% over the last 10 years and in fiscal 2020, passenger injuries decreased from 218 to 93 due to our many investments in safety. The number of time-loss injuries to employees also decreased over the previous year.

Our fleet reliability record exceeded our target at 99.7%. We carried up to $8 billion of cargo. We transported more than 22 million passengers and close to 9 million vehicles. We brought the *Northern Sea Wolf* into service, helping the mid-coast realize its tourism potential and piloted beer and wine sales on our major vessels. Under contract to the Province, we provided ferry services to 38 communities. We received two new ships, refurbished 23 terminals and invested more than $238 million in the ferry system.

Our customers asked for more reservable space on the major routes, and we developed a method to meet that request. We also designed and implemented promotional pricing that helped spread demand to less busy sailings, and provided customers with more affordable fare choices. We made a commitment to engage the public on decisions that impact them most and we have done this through community engagement initiatives on 10 major projects – from terminal development plans to input on new vessel design. We received comments from more than 11,000 members of the public on future vessel design and functionality, as well as 500 comments from our crew. We held 29 meetings with our Ferry Advisory Committees.

In fiscal 2020, we engaged with approximately 60 First Nations along the North and South Coast regarding proposed terminal development projects, including proposed upgrades to our terminals at Quathiaski Cove, Gabriola and Nanaimo Harbours and Swartz Bay.

We continued to advance our goal of being a leader in the transition to a more sustainable future. We explored electrification of new ferries that will be required to replace older ships and ways to introduce more electric vehicles on the land side of our operations. We also initiated the Underwater Noise Control technical program with an expert partner to pursue quiet design that is more sustainable for marine mammals.

We developed a fleet-wide environmental awareness program for all employees, and we partnered to support ongoing research and conservation initiatives with Oceans Network Canada, the Department of Fisheries and Oceans and Ocean Wise.

This past year, we pushed forward on standardization – repair and maintenance, tools and templates, and our classes of vessels. Standardization realizes efficiencies and makes it easier for crew to move between vessels, which reduces the long-term cost of ferry operations.

We received new vessels, continued to regularly maintain the vessels we have, and began to design the kind of vessel we will need in the future. We used local companies to help service and maintain our vessels, making a significant contribution to the B.C. economy.

Once again, BC Ferries was recognized as one of the best workplaces in British Columbia. Training and upgrading of skills continued unabated, and we worked to ensure we provided opportunity for our employees, with the goal to create a work environment where people want to work and remain throughout their career in productive, high-skill employment.

Throughout the year, we ensured our services remained customer focused as we planned for the next decade of coastal ferry service. Little did we know that what lay ahead would completely upend our plans.

In the last few weeks of fiscal 2020, COVID-19 was declared a global pandemic and reduced passenger traffic by 75-80% over a 15-day period. As a comparison, the 2008 financial crisis resulted in a traffic decline of 5% passenger traffic over a 12-month period.

I want to personally thank BC Ferries' employees for their courageous response to the COVID-19 pandemic, and the crisis it has created for our company. They have resolutely faced down the virus to maintain connectivity for coastal communities. We made sweeping changes to the way we operate to navigate an uncertain future and they have adapted to the changes, while demonstrating courage and commitment to essential ferry service. I also want to acknowledge the thousands of individuals and families in B.C. whose health has been directly impacted by COVID-19.

B.C.'s response to the global pandemic required us to initiate measures never before considered to keep our employees and the travelling public healthy and safe. This included installing barriers to support physical distancing, increasing cleaning and sanitization and screening passengers for COVID-19 as directed by Transport Canada. We had much to do, and thanks to our crew on the ground and many suggestions they made, we acted quickly to put these measures in place.

We also advocated with regulatory authorities to allow people to remain in their vehicles while travelling – all in an attempt to keep ferry travel safe for the public and our employees. We encouraged the public to stay home, avoid all non-essential travel and refrain from using ferry services. Working with the Province, we announced reduced service levels to meet the significant drop in demand. In reducing service, we kept top-of-mind the lifeline function ferries provide delivering goods to island communities and transporting essential workers to where they are needed most.

Service reductions eliminated the need to hire seasonal employees and we also had to temporarily lay off or furlough casual and regular employees, as there simply wasn't work for them to do. Fortunately, we were able to call back all these employees as traffic began to return in June.

We also focussed our efforts on what is essential to maintaining the safety and reliability of the service. We're operating in unprecedented and uncertain times, which can make it difficult to plan and predict the future. We know how important ferry service is to coastal communities and we are ensuring we have services in place to meet demand as traffic begins to return.

New ships under construction are continuing as scheduled. We also continue to develop our new website that is almost ready to launch. The new website will make it easier to book travel and provides our customers with more options to manage their travel experience.

For most everything else, we are taking a wait and see approach and cautiously and carefully developing plans that take into consideration the devastating impact COVID-19 has had on individuals and businesses. Our revised plans will focus on providing essential service to support coastal communities, while preserving capital and our ability to operate.

It will be some time before our traffic volume returns to what it was pre-COVID-19 – not months, but likely years. Business as usual may not be an option for BC Ferries and for the rest of our province and country for some time.

We will strive to make our customers' experience a positive one, despite the many restrictions we have all been experiencing. We ask our customers to be patient and please understand that we are working hard to meet your expectations.

Our priority remains the safety of our employees, our passengers and the environment. We will protect our ability to ensure reliable and dependable service to the communities we serve, and we will communicate transparently and honestly with each other and with those impacted by the decisions that we make.

As we respond to the impact COVID-19 has had on the ferry system, we will build a resilient ferry service and continue to pursue a path towards net zero emissions. It is in the public interest for our vessels to use technology that reduces CO_2 emissions, reduces underwater radiated noise that can affect marine mammals, and overall, reduces our environmental impact. BC Ferries will be part of the solution. It may take us longer to achieve these goals, but we intend to achieve them.

Our response to COVID-19 will focus on recovery for communities. We will champion our aspiration to be a world-class ferry operator and bring the best in customer service to our passengers and the communities we serve. We will engage with our customers and communities to involve them in decisions about the future of ferry service.

We will monitor traffic, service levels, and be prepared to ramp up services to meet demand as ferry travel begins to recover. We will look at our physical assets – our vessels and our terminals – and ensure they are ready to receive increased numbers of passengers and vehicles, with workplace health protocols firmly in place to continue to address ways to reduce the risk of spread of COVID-19.

BC Ferries has the potential to aid B.C. in its economic and social recovery, while connecting customers to the people and places important in their lives. We understand the vital role we play in maintaining the quality of life for people in British Columbia.

We create value for B.C. taxpayers and a place where employees can build a meaningful career. We intend to emerge from this crisis a strong and more resilient company that continues to serve the needs of coastal communities.

We look forward to welcoming British Columbians back as they travel to see their loved ones, return to work, and discover what our beautiful province has to offer. As things shift to a new normal, we will do this safely, keeping the health and well-being of our customers and employees at the forefront of the decisions we make.

Mark F. Collins
President & Chief Executive Officer
British Columbia Ferry Services Inc.

Our Leadership and Governance

We believe in operating in an open and transparent manner. Our Executive Team understands this commitment as it applies to the tasks of planning world-class, safe, affordable and environmentally and financially sustainable marine transportation. We do not underestimate the importance of ferry service to people's lives, as well as to the social and economic well-being of B.C.'s coastal communities. With strong, diverse expertise and experience, our leadership team is committed to meeting the expectations of the public, our employees, our stakeholders and our shareholders.

Navigating from the bridge on board the Spirit of British Columbia

Executive Team

Mark Collins
President & Chief Executive Officer

Janet Carson
Vice President, Marketing & Customer Experience

Erwin Martinez
Vice President & Chief Information Officer

Brian Anderson
Vice President, Strategy & Community Engagement

John D'Agnolo
Vice President, People

Jill Sharland
Vice President, Finance & Chief Financial Officer

Jason Barabash
Vice President, General Counsel & Corporate Secretary

Captain Jamie Marshall
Vice President, Business Development & Innovation

Corrine Storey
Vice President & Chief Operating Officer

Our Governance Structure

Coastal Ferry Act

The Coastal Ferry Act was enacted by the Province of British Columbia (the "Province") on April 1, 2003, and among other things, provided for the conversion of the company from a Crown corporation to an independent company.

It also established the office of the British Columbia Ferries Commissioner and authorized the Province to enter into contracts for the operation of ferries on specified ferry routes.

BC Ferry Authority

The Act created the B.C. Ferry Authority, a corporation without share capital, and BC Ferries' sole voting shareholder.

Relationship to the Provincial Government

The Coastal Ferry Services Contract is BC Ferries' contract with the Province to provide passenger and vehicle ferry services on the West Coast of B.C. We are the only ferry operator that has such a contract with the Province. The Province holds non-voting preferred shares in BC Ferries and is entitled to receive an annual dividend of $6.0 million, as and when declared by the BC Ferries' Board of Directors.

The Coastal Ferry Services Contract (CFSC)

This is a 60-year service contract with the Province that commenced April 1, 2003. The "Contract" stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry service route, in exchange for specified fees (ferry transportation fees). This fee-for-service arrangement provides that no fees are earned or paid for sailings not sailed. The services and fees are reviewed every four years. The most recent renewal of the contract was completed for the fifth performance term, which began on April 1, 2020 and will end March 31, 2024. Under the terms of the Contract, BC Ferries also receives an annual amount from the Government of Canada to fulfill the obligation of providing ferry services to coastal B.C.

British Columbia Ferries Commissioner

The Commissioner, independent of both the provincial government and BC Ferries, is responsible for monitoring service levels and other matters, and regulating average fare increases. The Commissioner uses a price cap mechanism to establish the fare BC Ferries can charge customers. The Commissioner undertakes this work in the public interest in accordance with several principles, including:

- To balance the interests of ferry users, taxpayers and the financial sustainability of ferry operators
- To encourage BC Ferries to meet provincial greenhouse gas emissions targets in its operations and when developing capital plans
- To encourage innovation and minimize expenses without adversely affecting safety

Vision, Mission, and Values

Our vision reflects our future desired state.
Our mission describes why we exist and what we do.

Everything we do at BC Ferries is in pursuit of achieving our Vision and Mission. There is perhaps nothing more important than being trusted and valued by our customers, stakeholders, shareholders and employees. We are more than a marine transportation company: We connect communities and customers to the people and places important in their lives.

Our Vision

Trusted, Valued

Our Mission

We connect communities and customers to the people and places important in their lives

Our Values

Safe
Safety is our highest value

Caring
We operate from a position of kindness and empathy for those who travel and work with us

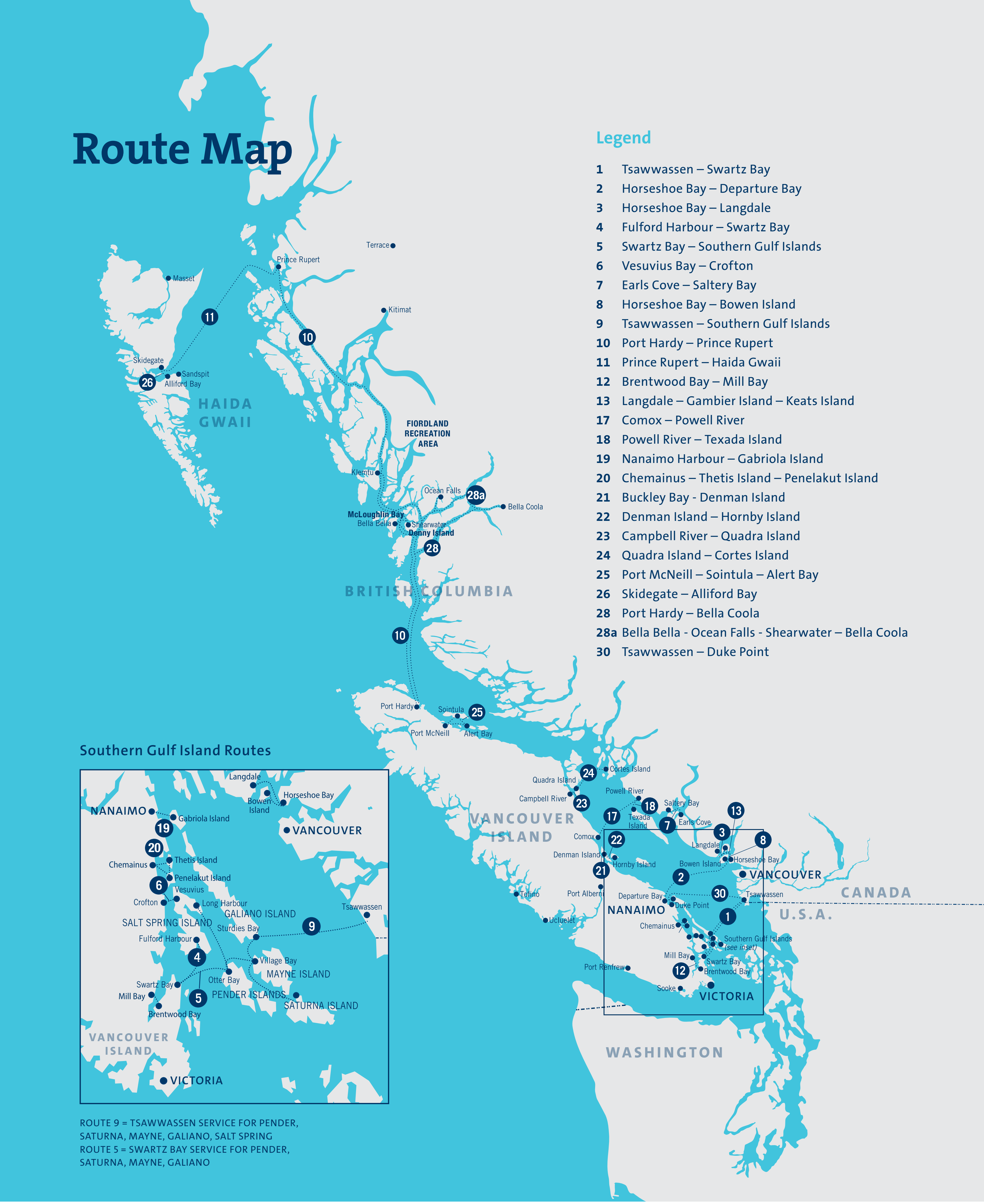
Honest
We conduct business with integrity, honesty and accountability

Collaborative
We collaborate with others to enhance the customer experience

Respectful
Respect is paramount in our interactions with others

Sustainable
Our environmental, social and economic impacts are central to the business decisions we make

Route Map



Legend

1 Tsawwassen – Swartz Bay
2 Horseshoe Bay – Departure Bay
3 Horseshoe Bay – Langdale
4 Fulford Harbour – Swartz Bay
5 Swartz Bay – Southern Gulf Islands
6 Vesuvius Bay – Crofton
7 Earls Cove – Saltery Bay
8 Horseshoe Bay – Bowen Island
9 Tsawwassen – Southern Gulf Islands
10 Port Hardy – Prince Rupert
11 Prince Rupert – Haida Gwaii
12 Brentwood Bay – Mill Bay
13 Langdale – Gambier Island – Keats Island
17 Comox – Powell River
18 Powell River – Texada Island
19 Nanaimo Harbour – Gabriola Island
20 Chemainus – Thetis Island – Penelakut Island
21 Buckley Bay - Denman Island
22 Denman Island – Hornby Island
23 Campbell River – Quadra Island
24 Quadra Island – Cortes Island
25 Port McNeill – Sointula – Alert Bay
26 Skidegate – Alliford Bay
28 Port Hardy – Bella Coola
28a Bella Bella - Ocean Falls - Shearwater – Bella Coola
30 Tsawwassen – Duke Point

Southern Gulf Island Routes

ROUTE 9 = TSAWWASSEN SERVICE FOR PENDER, SATURNA, MAYNE, GALIANO, SALT SPRING
ROUTE 5 = SWARTZ BAY SERVICE FOR PENDER, SATURNA, MAYNE, GALIANO

B.C.'s Coastal Ferry Fleet

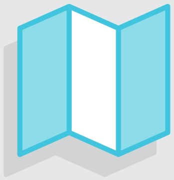
Vessel	Maximum Passenger & Crew Capacity	Maximum AEQ* Capacity
Spirit of British Columbia	2,100	358
Spirit of Vancouver Island	2,100	358
Coastal Celebration	1,604	310
Coastal Renaissance	1,604	310
Coastal Inspiration	1,604	310
Queen of Coquitlam	1,494	316
Queen of Cowichan	1,494	312
Queen of Oak Bay	1,494	308
Queen of Surrey	1,494	308
Queen of New Westminster	1,332	254
Queen of Alberni	1,200	280
Northern Adventure	640	87
Northern Expedition	638	115
Salish Orca	600	138
Salish Eagle	600	138
Salish Raven	600	138
Malaspina Sky	462	112
Queen of Cumberland	462	112
Queen of Capilano	457	100

Vessel	Maximum Passenger & Crew Capacity	Maximum AEQ* Capacity
Skeena Queen	450	92
Mayne Queen	400	58
Bowen Queen	400	61
Powell River Queen	400	59
Quinsam	400	63
Island Discovery	392	47
Island Aurora	392	47
Quinitsa	300	44
Kuper	269	26
Quadra Queen II	200	26
Kahloke	200	21
Baynes Sound Connector	150	45
North Island Princess	150	38
Northern Sea Wolf	150	35
Tachek	150	26
Klitsa	150	19
Kwuna	150	16
Nimpkish	100	12

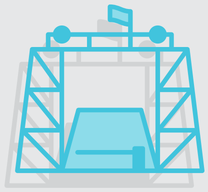
**Automobile Equivalent (AEQ) is used to determine vessel capacity based on a standard vehicle measure of 6.1 x 2.6 metres, roughly equal to a full size family vehicle.*

BC Ferries by the Numbers

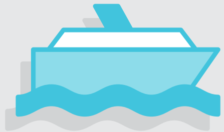
BC Ferries operates one of the largest and most complex ferry systems in the world. We provide safe, reliable and sustainable marine transportation year-round. We understand the important role we play in maintaining the quality of life of people who live, work and visit in British Columbia. In fiscal 2020, we accomplished a great deal and we are proud to share these results with you.



25 routes



47 terminals spread over 1,600 kilometres of coastline



35 vessels

5,074 employees in peak season

431 seasonal

1,037 casual and fixed term

3,606 regular full- and part-time

Did you know?

With 35 vessels, we have one of the largest ferry fleets in the world.

The typical life span of a vessel is approximately 45 years.

We move millions of passengers and vehicles every year

21.7 million passengers

8.8 million vehicles

86% Customer Satisfaction Rating (CSR)

We experienced an increase in both vehicle and passenger traffic in the first 11 months of fiscal 2020 — 1.5% and 0.4%, respectively, compared to the prior year. In March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic and resulted in a decrease of 30.3% and 41.7%, respectively. This decreased vehicle traffic year-to-date by 1.0% and passenger traffic by 2.7%, compared to the prior year.

180,000 Sailings

4,289 more than last year

Up from 99.73% in the prior year

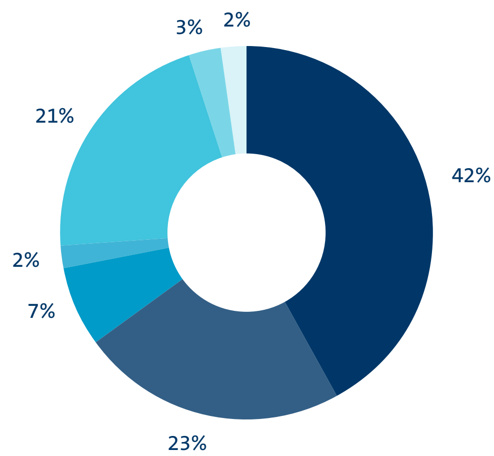
99.84% Fleet reliability

89.4% On-time performance

1% higher than last year

This reliability score means that BC Ferries only cancelled 0.2% of sailings in fiscal 2020 due to mechanical issues related to the vessels or terminals, or crew availability.

Total revenue by source



- 42% Vehicle tariff
- 23% Passenger tariff
- 7% Net retail
- 2% Social program fees
- 21% Ferry transportation fees
- 3% Federal-Provincial subsidy
- 2% Other

Did you know?

In the rare event of an emergency, all crew members have taken rigorous training and are certified by Transport Canada Marine Safety to effectively deal with emergency situations.

In fiscal 2020, we responded to 25 non-BC Ferries marine rescues and 80 medical emergencies

Additional services support base fares

$91.2 million commercial and drop-trailer

- Up to $8 billion cargo carried

$61.3 million net catering and onboard retail

We are proud to give back to the communities we serve

This year we made charitable donations to:

- Big Brothers & Big Sisters through annual Media Charity Golf Tournament
- The United Way

Supported local food banks:

- The Mustard Seed
- Mayne Island and Pender Island Food Banks

Kept our shorelines clean:

- Removed 1,725kg of garbage from 50 kilometres of shoreline

Provided sponsorship and in-kind travel to community and non-profit organizations including:

- Powell River Kings
- Cops for Cancer
- Make-a-Wish Foundation
- PRISMA
- BC Bike Race
- Nicholas Sonntag Marine Education Centre
- Parks Canada
- ViaSport
- Live It

We're social and serve our customers online

Channel	Followers	Growth YoY
	2019: **84,671** 2020: **92,114**	**9%**
	2019: **39,860** 2020: **42,849**	**7%**
	2019: **21,181** 2020: **29,132**	**38%**
	2019: **13,218** 2020: **17,093**	**29%**
	2019: **N/A** 2020: **215**	
Total	2019: **158,930** 2020: **181,403**	**14%**

We launched BC Ferries' YouTube channel in September 2019 and as of March 31, 2020, videos on the channel had been viewed 42,779 times.

9.5%
increase in new website users to 9.3 million

26%
increase in total website sessions to 41.7 million

4.9%
increase in number of completed reservations by account holders accounting for $140,000 increase in online revenue

6%
increase in number of completed reservations by guest users accounting for $1.2 million increase in online revenue over last year

Our Goals: What we Believe

Couple enjoying the outer deck on board the Queen of Cumberland

Goal 1
Customer and Community Centred

BC Ferries places our customers, Indigenous and coastal communities at the centre of everything we do. We provide a safe, reliable, memorable and seamless travel experience, and give back to coastal communities where we live and work. We communicate in an open, frank, honest and timely manner. We understand that our relationship with the natural environment is important to our customers, to our company and to the sustainability of coastal British Columbia.

Goal 2
Prepared for the Future

We are a resilient ferry system that is able to respond to changes in the way customers travel and adapt to decisions and circumstances that affect our operations.

Goal 3
An Employer of Choice

We create a workplace where people want to work and remain throughout their career in productive, competitive, high skilled employment. We provide opportunities for B.C. workers throughout the province, hire locally where we can, and develop and advance our people.

Goal 4
A Leader in the Transition to a More Sustainable Future

We employ our resources, services and relationships in recognition of our responsibility to continuously reduce our impact on the natural environment. We strive to be one of the most sustainable large-scale ferry operators in the world.

Goal 5
A Significant Contributor to the B.C. Economy

We manage finances, grow and profitably diversify our revenue base while ensuring fare affordability, financial sustainability and prudent asset management in the public interest and the interest of ferry users. We invest to create economic opportunities and support jobs in coastal British Columbia.

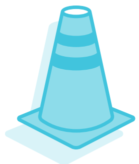
Goal 6
Innovative and Continually Improving

We promote a culture of risk-managed innovation and continuous improvement. We use our knowledge and technology to enhance employee learning, customer experience, asset investment and management.

Public Interest Delivered

June 15, 2020 marks a milestone for BC Ferries – 60 years of providing safe, reliable and efficient ferry service to meet the needs of British Columbia's coastal communities. We have come a long way since we began and now have 25 routes served by 35 ships travelling to 47 ports of call. Today, BC Ferries is one of the largest ferry operators in the world. We are committed to continual improvement. We comply with the specifications outlined in the Coastal Ferry Services Contract, putting the public interest, our customers and our employees at the heart of every decision we make. We are proud of all we have accomplished since we started and particularly, over the last 12 months.

Queen of Cumberland at Village Bay terminal, Mayne Island

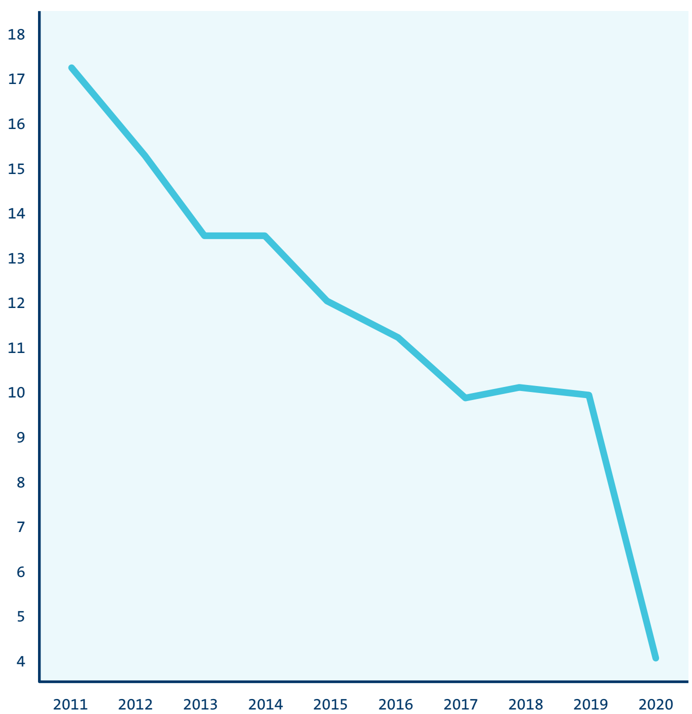


A continual focus on safety

As we look forward, standardize our operations to be more efficient and work to reduce our environmental impact, we do so with safety top of mind. Safety is our highest value, and to maintain a safe environment for our customers and employees, we must be diligent and focussed. In the last fiscal year, we updated and improved existing assets and met significant health and safety goals throughout the fleet.

Passenger Safety Index

The number of injuries per one million passengers for the last 10 years

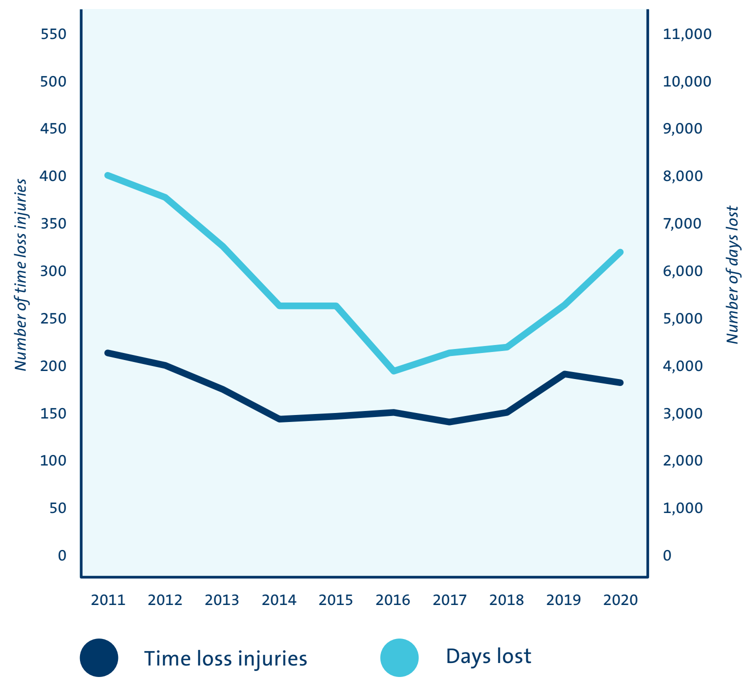


Injuries to passengers have declined 75% over the last 10 years. In fiscal 2020, passenger injuries decreased from 218 to 93 due to our many investments in safety. Passenger injuries consisted mainly of slips, trips or falls and occurred primarily onboard our vessels.

The number of time-loss injuries to employees decreased from 185 in fiscal 2019 to 181 in fiscal 2020. 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%.

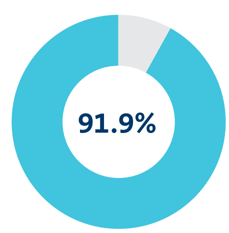
Employee Safety Performance

The number of time-loss injuries and days lost over the last 10 years

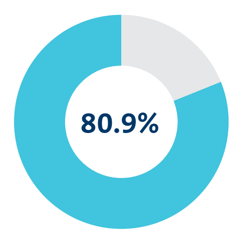


In fiscal 2020, injured employees took more time to recover and complete the return-to-work process than in years prior.

BC Ferries participates in a WorkSafeBC program that involves a series of internal and external safety audits designed to verify our compliance with our safety management system. Since 2014, we have received a Certificate of Recognition (COR), acknowledging that we go beyond the legal requirements of the Workers' Compensation Act and the Occupational Health & Safety Regulations. We are proud of our results in fiscal 2020. They highlight our commitment to taking a best practices approach to implementing health, safety and return to work programs.



Health and Safety score



Injury Management score

In addition to receiving a COR again, we made improvements to safety procedures for liquefied natural gas (LNG) bunkering, approved the full use of rescue boats for heights under 4.5 metres, and successfully completed trials of a rescue boat descent control device on the *Queen of New Westminster*. We updated baseline standards and guidelines for marine structures relating to accessibility, electrical shore-to-ship processes and pump-ashore procedures.

In support of increased digital safety and security, we increased BC Ferries Payment Card Industry Data Security Standards to the highest level.

We believe effective communication builds stronger teams, makes for better decision-making and collaboration, and increases employee engagement. To support improving our processes, we created a Standardized Education and Assessment (SEA) regional strategy and developed a SEA tracking process for improved forecasting. The completion and roll out of a new Terminal Asset Improvement Process was a major achievement this year, and fiscal 2020 saw us further strengthen the process to implement engineering changes to vessels, which helped us align same class vessels in terms of common or identical configuration.

Invested
$13.5 million
in employee development and training

Provided
30,700
training days related to safe sailing
up from 29,000 the year prior

At BC Ferries, we believe in life-long, career-long learning. It's important we stay up to date with the latest safety information and changes in our industry. This past year, we added three new online courses for easy learning.

We empower our employees with the training, tools and support they need to deliver a safe and consistently excellent customer experience. This year, we offered education and training support to engineers to further their Transport Canada certificates. We also provided financial support to employees enrolled in Nautical Sciences Program and supported students seeking sea-time work experience. Our cadet program includes participants from the British Columbia Institute of Technology, Georgian College of Ontario and the Memorial University of Newfoundland. We teamed up with Camosun College's trades program in Victoria, investing in the SailSafe Simulator to guarantee students have access to the best training tools. In addition, we have partnered with Aboriginal Community Career Employment Services Society, which supports the education and career development of Indigenous students in coastal communities.

In-house training continued year-round. We conducted train-the-trainer sessions for several programs to provide instructors with knowledge to sustain our delivery and redeveloped our leadership training program – Coaching for Business Success.

We learn from our people. Our SailSafe program gives everyone at BC Ferries a voice to offer suggestions to improve safety at their worksites. Between our SailSafe website, which was upgraded recently to make it more user-friendly, and our corporate Intranet site, employees can tap into a number of resources, including the WHEEL (Wellness and Health by Engaging Employees Locally) program. The WHEEL program supports healthy lifestyle choices with partial reimbursement of health and fitness activities.

$100k
In WHEEL program reimbursements

A high performing team and company

In support of our vision, mission and strategic goals, we regularly monitor how we're doing as a company, as a team and as a service provider. We improved our efforts towards standardization, improved customer satisfaction and our fleet reliability through a series of performance measures.

Performance Measures

Employee Safety
Employee injury frequency rate times severity rate divided by 1,000 passengers

Customer Safety
Number of passenger injuries per one million passengers

Reliability Index
Actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations

Customer Satisfaction
Rating on a scale of 1 to 5, based on three surveys performed during the year

EBITDA
Net earnings adjusted for the impact of regulatory assets and liabilities and before interest, taxes, depreciation and amortization

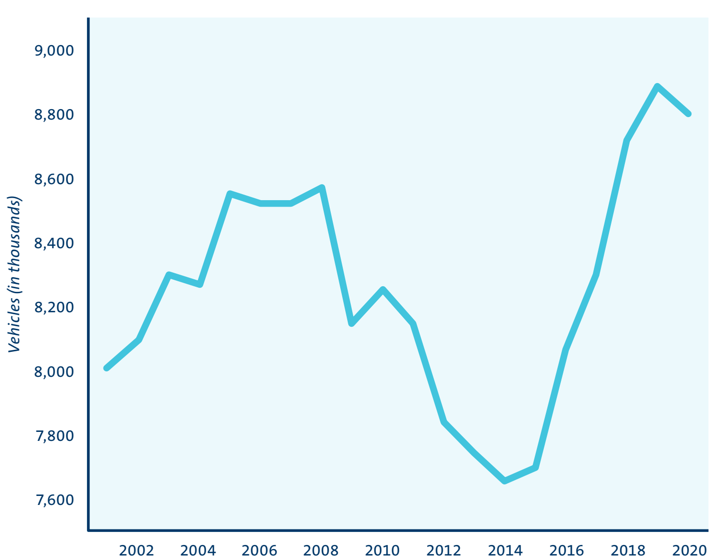
Regulatory Net Earnings
Net earnings adjusted for the impact of regulatory assets and liabilities

Results for fiscals 2015 through 2019, the target and actual results for fiscal 2020 and the target for fiscal 2021[1]

Operational Targets	Fiscal 2015 Results	Fiscal 2016 Results	Fiscal 2017 Results	Fiscal 2018 Results	Fiscal 2019 Results	Fiscal 2020 Results	Fiscal 2020 Targets	Fiscal 2021 Targets
Employee Safety Index (frequency x severity)/1,000)	0.65	0.48	0.43	0.46	0.64	0.74	0.41	0.62
Passenger Safety Index (# passenger injury incidents/1,000,000 passengers)	11.90	11.24	9.62	10.01	9.80	4.30	9.59	6.95
Reliability Index (scheduled #of round trips less controllable cancellations/ scheduled #of round trips)	99.75%	99.72%	99.69%	99.83%	99.73%	99.84%	99.55-99.74%	99.55-99.74%
On-time Performance (departures within 10 minutes of scheduled departure time)	91.2%	90.3%	88.9%	88.4%	87.8%	88.8%	91.0%	88%
Customer Satisfaction[1,2]	4.11	4.14	4.18	4.16	4.22	4.09	4.22	4.12
Financial Targets[3]								
EBITDA including subsidiaries ($ millions)	255.6	268.5	294.6	273.8	285.2	264.1	276.8	269.9
Regulatory Net Earnings ($ millions)	41.4	64.8	87.9	55.3	56.9	22.2	34.9	26.1

Over the past few years, BC Ferries' vehicle traffic has been growing significantly. This past year was on target for another outstanding year until we experienced a dramatic downturn in traffic in the last few weeks of March due to the impact of COVID-19.

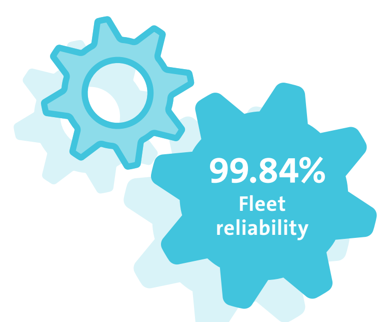
Annual vehicle traffic levels for the past 20 fiscal years



Capacity provided (AEQs)

Hours of Operation

during peak season
on major routes



1. *Customer Satisfaction scores are measures of consumer surveys done at timings different from fiscal quarters; actual scores displayed are results for the calendar year ended December 31, 2019. Intercept surveys were conducted on board vessels in June, August and November 2019.*
2. *In 2019, BCFS contracted a new vendor to conduct customer satisfaction intercept surveys. Based on recommendations from the new vendor, changes were made to the design of the survey. As a result of these factors, the satisfaction score for 2019 may not be a valid comparison to 2018 results. The 2019 survey will form a new baseline for comparisons moving forward.*
3. *Financial targets are net of regulatory adjustments.*

A company that supports our people and the local economy

We're a B.C. company that is serious about investing in other B.C. companies to help drive the marine economy here at home. We source local suppliers to complete crucial upgrades to our fleet, including repairs, dry-docking and life extension projects. Shipyards and drydock facilities, including Vancouver Drydock (Seaspan), Point Hope Maritime, Esquimalt Drydock Company and Allied Shipbuilders, as well as BC Ferries' own shipyard, the Fleet Maintenance Unit (FMU) in Richmond, B.C., have all completed work for us.

During our annual ship maintenance season, we turned once again to B.C. shipyards to complete necessary upgrades to our vessels:

$45 million

spent locally on refit activities

16 completed refit projects

On the human resources side, we made adjustments to support employees and the systems we use to manage staffing and crewing, recruitment and hiring. By improving our planning processes, we provided our highly skilled employees with more notice of their schedules, approved vacation requests faster, and developed models to better forecast staffing needs for peak travel weekends. In fiscal 2020, we also gained an 8-month head start on forecasting recruitment numbers for the next summer season.

BC Ferries sailed more than 180,000 times in fiscal 2020, an average of 493 sailings every day. On the occasional times that our business was disrupted, we recovered service for our customers more quickly by empowering the Duty Marine Superintendent and Operations and Security Centre to take a command and control role.

Our efforts to improve performance have not gone unnoticed. Our customers regularly share feedback, comments and suggestions. Working with a research agency to conduct on board surveys on select routes in June, August and November, our Customer Satisfaction Tracking (CST) program has shown strong results and continual improvement.

86% **Customer Satisfaction Rating (CSR)**

A company that engages our customers and communities in decisions that affect them most

Engaging our customers, the communities we serve and our employees ensures the decisions we make are in the public interest and contribute to the well-being of our province. Every day, we work to build a collaborative customer-focussed culture across our operations. Experts in community, Indigenous and government relations support our efforts to engage and consult on major initiatives we are undertaking.

Engaging with our customers

Many of our achievements are a direct result of community and customer engagement:

- Launched BC Ferries YouTube channel
- Launched **www.ferryfeedback.ca** that provides customers the opportunity to provide feedback and rate our services
- Introduced a new online engagement platform, enhancing our ability to engage with our customers and communities up and down the coast
- Engaged customers and communities in 10 major projects – from terminal redevelopment to new vessel design, receiving thousands of comments from customers and hundreds of comments from employees on the design requirements for our new major vessels
- Engaged with approximately 60 First Nations, requesting input on a number of projects and community celebrations
- Sought guidance from Indigenous communities on key terminal development projects including proposed upgrades to our terminals at Quathiaski Cove, Gabriola and Nanaimo Harbours and Swartz Bay
- Developed a new framework that facilitated a 25% increase in reservations on Major routes, reducing overloads and increasing traffic
- Designed and implemented promotional pricing to spread demand to less busy sailings and provide customers with more affordable fare choices
- Put the finishing touches on our mobile-first e-commerce website
- Developed a Gift Card and Rewards strategy that, when implemented, will lead to increased customer satisfaction, more traffic and revenue, and new revenue streams

- Introduced beer and wine on a trial basis in the Pacific Buffet on the *Spirit of Vancouver Island*, *Spirit of British Columbia* and *Coastal Celebration* and achieved a 15% uptake of eligible patrons
- Introduced the *Northern Sea Wolf* into service featuring the Coastal Café serving BC Ferries' signature Smoked Salmon Eggs Benedict
- Expanded the gift shop and added a new coffee bar to the Spirit of Vancouver Island during the ship's mid-life upgrade
- Installed digital signage at 37 of 40 minor terminals
- Encouraged Indigenous leaders to participate as members of our Ferry Advisory Committees and maintained valuable, collaborative relationships with Nations interested in taking part
- Invited Songhees, Esquimalt, Tla'amin and 'Namigis Nations to attend and participate in the Island Class Naming Ceremony

Engaging with employees

To be an employer of choice, we seek guidance and input from our employees and future employees:

- Conducted lifestyle interviews for candidates in small communities
- Developed an engineering cadet sponsorship program
- Created 'meet the crews' videos and other external recruitment initiatives with a new Employer Brand
- Enhanced employee referral program to include IT and other licensed positions
- Revamped the New Hire Orientation program to streamline and simplify training
- Provided Indigenous engagement and consultation training to enhance staff's cultural awareness and develop confidence to work effectively with Indigenous peoples
- Secured and subsidized affordable housing for employees who work at remote ports
- Offered paid co-op jobs in IT, Finance and Engineering
- Hosted 'lunch and learns' for mental health awareness week
- Celebrated and promoted Pink Shirt Day
- Displayed Pride flags around the fleet
- Promoted online wellness programs offered by our Employee and Family Assistance Program
- Optimized all internal websites, including the BC Ferries Intranet, to ensure employees have easy access to information and applications
- Redesigned the SailSafe website

SailSafe Website

Previous website design

New website design

2020 BC's Top Employers®

We are proud to receive the BC Top Employer Award for the third consecutive year. The award recognizes BC Ferries as a progressive workplace, along with the extensive training and career development opportunities we provide.

Engaging with industry peers

As one of the largest ferry operators in the world, we take seriously our responsibility as an industry leader. In fiscal 2020, we participated in local industry and economic studies, were active members of marine industry organizations, co-hosted this year's BC Ferries Opportunity Forum with the Association of British Columbia Marine Industries (ABCMI), and participated on municipal working groups.

A leader in the transition to a more sustainable future

Climate change is one of the greatest challenges our planet faces. We strive to be an environmentally sustainable company with a light footprint. We are fortunate that we live and work in coastal British Columbia and take steps every day to protect the pristine coastline our ferries sail. Over the past year, we have explored new fuel options and alternative energy sources, supported leading research organizations and kept an eye on the marine mammals who share the coastal waters we sail through.

- Developed a fleet-wide online Environmental Awareness program
- Launched "Whales in our Waters" online learning, a mariners' training guide to safe vessel operation in the presence of whales, developed by BC Ferries, and trained bridge teams on the modules
- Supported ongoing research and conservation initiatives with Oceans Network Canada, the Department of Fisheries and Oceans and Ocean Wise

As we move towards a lower carbon future, we are increasing our knowledge and understanding of leading-edge technology, fuel and energy sources. This year we:

- Continued exploring alternative renewable fuel options with major fuel suppliers
- Established a new Strategic Energy Management Plan focused on measurable performance indicators and low carbon intensive energy adoption
- Developed a strategy for vessel and maintenance vehicles electrification
- Explored ways to support the expanded use of electric vehicles in the fleet

Supporting vessel maintenance programs and new vessel construction, we:

- Initiated the Underwater Noise Control technical program with an expert partner to pursue quiet design
- Completed upgrades to our LNG programs that better prepare the workers for working on LNG-fuelled vessels
- Actively participated in establishing the specifications and contract for building additional four Island Class vessels, as well as an additional Salish Class vessel

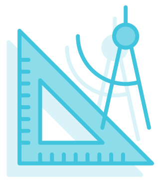
Island Class

There is one major project we completed this past year that stands out as and an example of all we're trying to achieve at BC Ferries. It is an achievement of all of our goals: the culmination of years of consultation, demonstrates that we are prepared for the future and a leader in the transition to a more sustainable future. It also demonstrates that we continue to be a significant contributor to the B.C. economy – innovative and continually improving – and gives people working towards a career in the marine industry one more reason to choose BC Ferries.

We are proud to have introduced a new class of ship, the Island Class, to our fleet this past year. From the initial concept, to the naming ceremony in late February 2020, every department within our company played a role in bringing the first two Island Class ships into the fleet. Four more are on order for delivery in 2023.

Island Discovery and *Island Aurora* enter service in mid-2020 and will serve the Powell River – Texada Island and Port McNeill – Alert Bay – Sointula routes, respectively. The ships' names were selected with community input, and they celebrate the beauty of the journey and the important connection to the coastal communities the ferries will serve.

Island Class ferries have the capacity to carry 47 vehicles and up to 392 passengers, depending on configuration. They are battery-equipped ships designed for future full electric operation. The ships are fitted with hybrid technology that bridges the gap until shore charging infrastructure and funding becomes available in B.C. From the exterior details to the engines, the design of the new vessels reduces underwater radiated noise, increases efficiencies and improves customer service. These ships deliver an improved customer experience with enhanced interior and exterior branding, static and digital wayfinding.



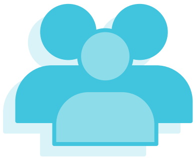
Stats

Built: 2019

Length: 81 metres

Service Speed: 14 knots

Built with 800 kWh of battery energy storage capacity *(can be upgraded to 2,000 kWh)*



Passengers

Vehicle Capacity: 47

Passenger Capacity: up to 392 *(depending on configuration)*

Comfortable passenger lounges and solariums for great views along the journey

Noise Reduction

The quietest underwater design in our fleet *(after the cable ferry Baynes Sound Connector)*

Designed to reduce ambient noise for the comfort of passengers and terminal neighbours

Environmental Impact

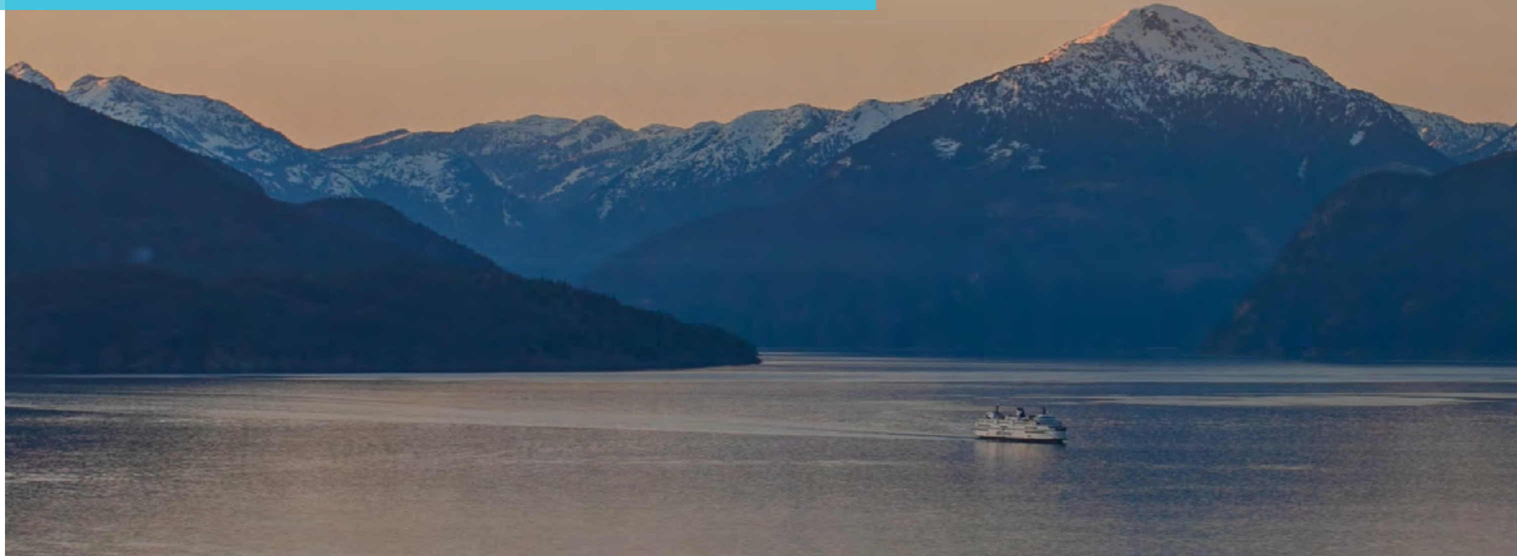
Low friction and biofouling resistant hull coating reduce fuel consumption

Equipped with Ocean Networks Canada's Oceanographic Sensors to monitor the marine environment

Helps BC Ferries move towards a lower carbon future

These ships represent the direction the company is heading towards. The future of BC Ferries is innovative, leading edge, and ready to adapt to changing economic and social climates, without compromising safety, efficiency and reliability. Bringing these ships into service is a major step forward as BC Ferries focusses on providing world-class service to communities up and down coastal British Columbia.

COVID-19 Changing the face of ferry service



The declaration of a global pandemic on March 11, dramatically affected every one of us, our families and the ferry system. Through it all, BC Ferries' dedicated team met the challenge, taking quick action to ensure the health and safety of our customers and employees, while maintaining the world-class service we are known to provide. Without the outstanding teamwork of our employees, none of this would be possible.

The decline in traffic demand across our ferry system has been nothing short of dramatic. The COVID-19 pandemic resulted in a 75% drop in traffic in 15 days. Adapting to new health and safety guidelines and temporary changes in policy on a near daily basis was no easy feat. We found new ways to look out for each other and our customers, while delivering essential service to coastal communities.

We were already operating with enhanced cleaning measures when the pandemic was declared. Then we sourced in-demand safety products such as hand sanitizer, closed on board amenities, shut down food service, and strongly encouraged our customers to pay electronically unless cash was their only option.

We activated our Emergency Operations Centre to navigate the constantly changing situation. Responding in real time, and following the guidance of health officials, we closed the iconic Pacific Buffet on three vessels serving the Vancouver – Victoria route. We asked employees working in our Customer Care call centre, finance department, IT and administration offices to work from home. We advised customers to avoid all non-essential travel — a welcome announcement for the remote communities we serve who feared visitors would spread the virus. We collaborated with Transport Canada and the Canadian Ferry Association to ease regulations to allow customers to remain in their vehicles on enclosed car decks, which supported physical distancing and self-isolation – beneficial for our customers and our employees.

Working with the Province, in early April, we reduced service to better match the significant drop in demand. On a daily basis going forward, we are reforecasting traffic levels and making adjustments as needed. We will continue to take additional actions as necessary to ensure the health and safety of our customers and employees.

Queen of Cowichan sailing in Horseshoe Bay

COVID-19 Response Timeline

January 24 Through safety bulletins, Company raises awareness with employees of coronavirus

January 30 Provides health information and recommendations to employees

March 3 Issues hygiene guidance to employees

March 4 Gives guidance to employees about personal safety and illness prevention

March 6 Emergency Operations Centre (EOC) assembles and activates to support the increasing management requirements resulting from COVID-19

March 9 Pandemic Plan revised to specifically address COVID-19

March 10 Develops a dedicated page on **www.bcferries.com** with messaging to customers and resource links

March 11 The World Health Organization declares COVID-19 a global pandemic

BC Ferries activates Phase One of its Pandemic Response Plan

March 14 BC Ferries activates Phase Two of the Pandemic Response Plan

March 16 Creates a dedicated COVID-19 resource page on our employee Intranet

March 17 BC Ferries activates Phase Three of the Pandemic Response Plan

With Transport Canada's agreement, BC Ferries allows passengers to remain in their vehicles on most enclosed car decks to support social distancing and self-isolation.

March 18 500+ employees working from home

Closes on-board retail and amenities including Passages Gift Shop, SeaWest Lounge, Kids Zone play area and Video Zone arcade

Week of March 11

- Increases communication & awareness
- Enhances cleaning routines
- Monitors employee health
- Increases delivery of key supplies, including in-demand hand sanitizer
- Directs sick employees to stay at home
- Encourages non-essential staff to begin working from home
- Develops contingency plan for reduced traffic and/or lack of staff
- Waives 1,700 reservation cancellation fees, amounting to approximately $24,000
- Instructs vessel Engineering departments to reduce air recirculation and maximize fresh air supply in HVAC systems
- Installs new signage and announcements to support social distancing
- Develops response plan for closure of retail outlets at Quays

Week of March 16

- Closes the Pacific Buffet on three ships: *Spirit of British Columbia, Spirit of Vancouver Island and Coastal Celebration*
- Reduces food service offerings to grab-and-go items only
- Changes ticket redemption procedure from handing the ticket over to dropping it in a box, in an effort to minimize contact between employees and customers
- Encourages customers to use electronic forms of payment, unless cash is the only option

March 19

Donates 727 pounds of perishable food from *Salish Orca* and *Salish Raven* to Salt Spring Island's Community Services Food Bank

Donates more than 2,400 pounds of food, including mashed potatoes, coleslaw and fresh produce, to The Rainbow Kitchen from five ships and Lands End café at Swartz Bay terminal

Begins installing plastic poly barriers to protect ticket agents at our terminals

Suspends all food services onboard our ships and at our terminals

Suspends baggage service on southern routes

March 20

Closes BC Ferries Vacations Centre in downtown Vancouver so agents can work from home

Announces service level adjustments to match capacity with demand starting in April. Cancels additional sailings in April on Metro Vancouver – Vancouver Island, Metro Vancouver – Sunshine Coast and Metro Vancouver – Southern Gulf Islands routes

March 24

Provides information to employees on new disinfectant products and how to use them safely

March 25

BC Ferries activates Phase Four of the Pandemic Response Plan

March 26

Publishes new graphics and messaging for social and digital assets

March 30

Develops a protocol and response plan in the event an employee has a positive COVID-19 test and has been in the workplace

April 4

Implements service reductions

April 7

Begins screening passengers to comply with new Transport Canada order

April 22

Adds extra cargo sailings between Vancouver and Victoria weekdays to ensure continued safe transport of essential goods

Spirit of Vancouver Island and Spirit of British Columbia, powered by natural gas

Planning for the future of ferry service

COVID-19 has had a significant impact on BC Ferries' fiscal 2021 to fiscal 2024 Financial Plan, and we must revise it recognizing BC Ferries is an essential service that operates in the public interest. We understand the important role we play in helping communities and supporting B.C.'s economy. We are committed to transporting essential workers, goods and services and remaining flexible, responsive and resilient. BC Ferries works within the Coastal Ferry Services Contract and associated agreements, and we are currently collaborating with government to establish core service levels to best meet travel demand. It is our intention to emerge from the COVID-19 crisis as a strong company, responsibly rebuilding our service and financial health, while supporting B.C.'s social and economic recovery.

Our go forward strategy has two prongs: 1) provide essential service to support coastal communities and 2) preserve and protect our capability to deliver service to these communities.

We are forecasting difficult passenger and vehicle traffic conditions for the next two to three years. In fiscal 2021, forecast demand is substantially lower than for any other comparable period in BC Ferries' history.

A downturn in traffic restricts BC Ferries' financial resources during the present performance term. We are working to protect the core of the ferry system: the provision of safe, reliable service to British Columbians in a financially sustainable manner. However, there will be trade-offs: some initiatives, investments and non-core services may need to be put on hold until business conditions improve. We will match capacity to demand to achieve operating savings.

Fortunately, BC Ferries is entering this challenging period in a strong financial position, following performance over the last few years that saw record numbers of passengers and vehicles, and strong growth and performance of our catering and retail services, BC Ferries Vacations™ and commercial drop trailer business. The value of good financial management is now apparent: we are able to weather this storm better than most and the ferry system can provide essential service when many transport systems cannot. We are doing so without external financial support.

Nevertheless, we may have some tough decisions to make. We are a well-run company that has prudently managed growth over the past few years, preparing us for these tough times. We will now turn our experience to managing the impact the global pandemic has had on ferry travel.

Going forward, we are collaborating with government and working closely with stakeholders and communities to keep them apprised of the changes we are making. We will continue to engage coastal communities in decisions that are important to them, be transparent about the progress we are making towards recovery and the role we play in helping the recovery of British Columbia.

With traffic beginning to return, we added sailings back. For example, in the month of June we added 300 sailings on the major routes and are looking for ways to add even more. These are challenging times, but working alongside coastal communities and closely with our customers will help us get through them. Our executive, our mariners, our office staff and the remainder of our workforce are ready to address this challenge head on. BC Ferries will support coastal communities as they adapt to the new normal amidst the economic recovery of British Columbia.

New hybrid-electric Island Discovery sailing through Blubber Bay

Dated June 11, 2020

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

For the fiscal year ended March 31, 2020

Exploring the outer deck on board the Queen of Surrey in the Sunshine Coast

Contents

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.

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). This fee-for-service arrangement provides that no fees are earned or paid for sailings not sailed. 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.bcferries.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.com.**

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:

	Three months ended March 31		Years ended March 31	
($ millions)	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	**(69.6)**	**(42.0)**	**22.2**	**56.9**

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.

	Years ended March 31		
($ millions)	2020	2019	2018
Total revenue	941.4	925.7	900.6
% increase	*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**

($ millions)	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.

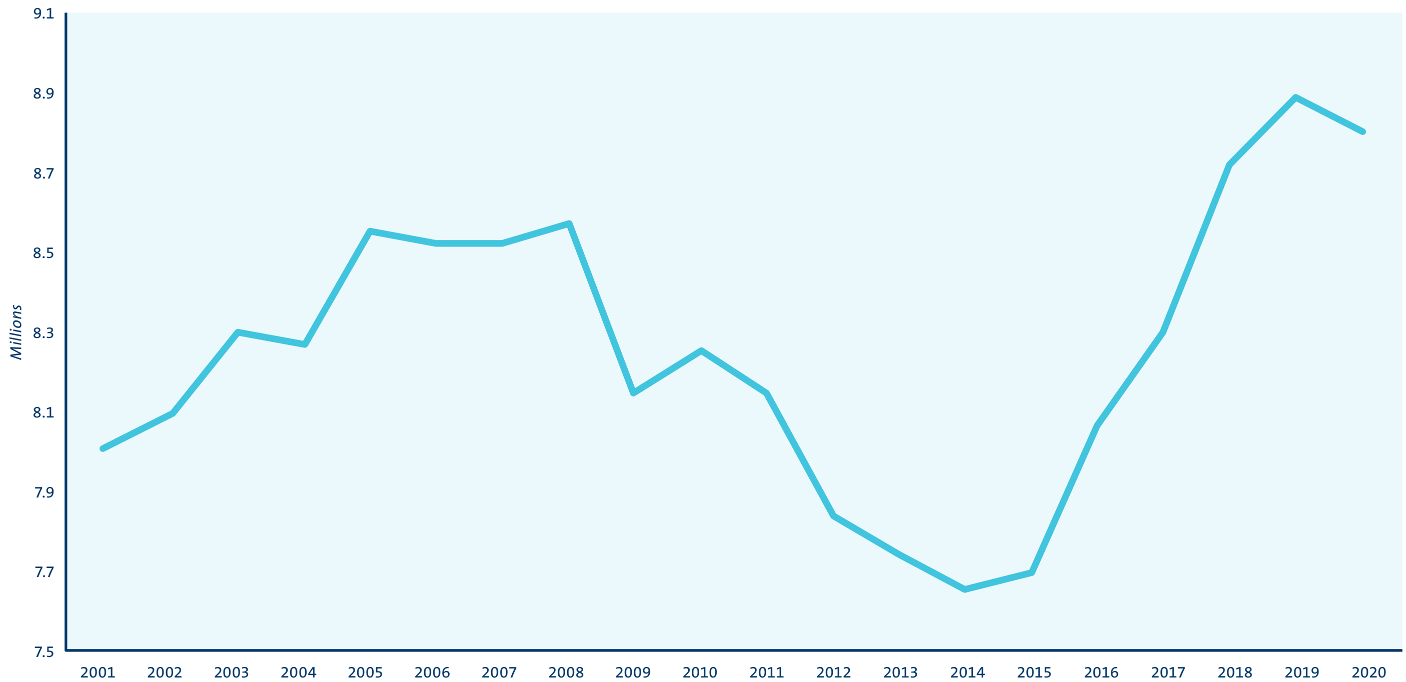
In fiscal 2020, year-to-date for the first 50 weeks, vehicle and passenger traffic reflected an increase of 1.3% and 0.1%, respectively, compared to the same period in the prior year. In the last two weeks of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with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

Vehicles

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



Passengers

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.

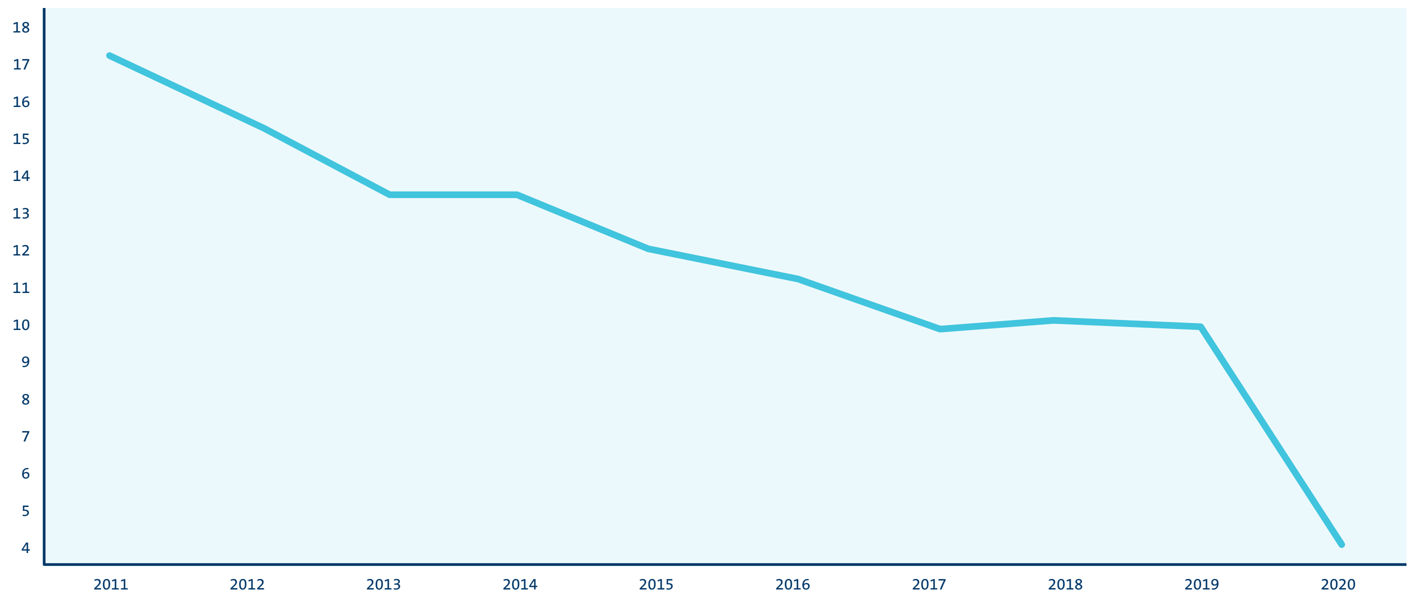
SailSafe, launched in fiscal 2007, is our safety program designed to achieve world-class safety performance. SailSafe embodies safety as a normal part of all business activities and ensures that safety is kept as the primary concern in the minds of our employees. SailSafe is driven by our employees, 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:

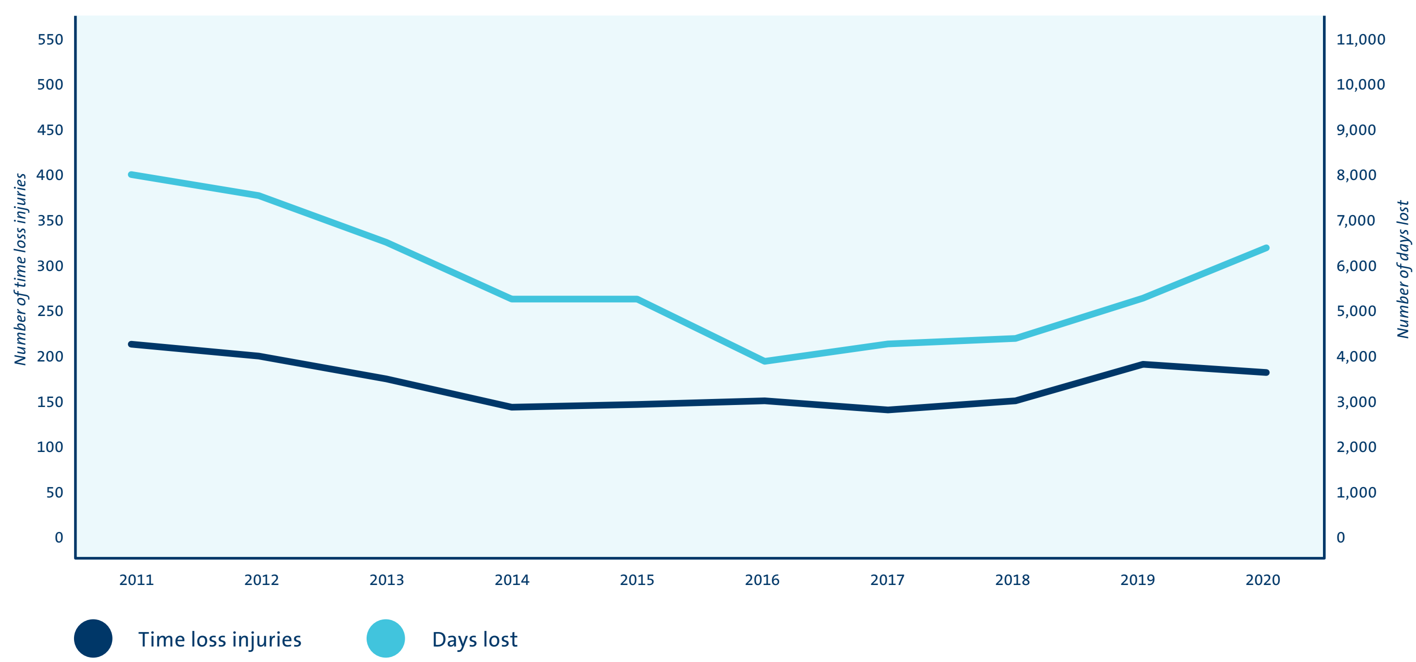
Passenger Safety Index

Number of injuries per one million passengers:



Employee Safety Performance

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.bcferries.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.

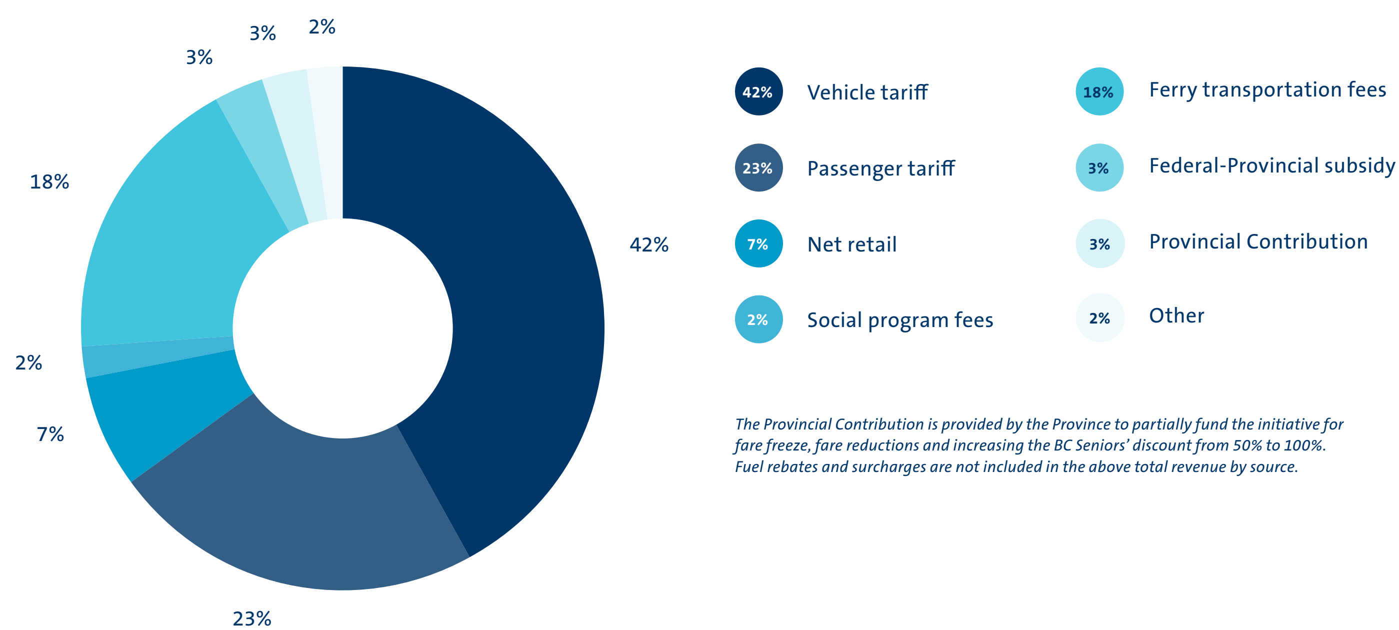
During fiscal 2020, we consulted with stakeholders and asked for their input on the future of the Horseshoe Bay terminal. We heard from more than 1,500 people through the engagement process to collect community input. The terminal development plan is a 25-year vision for the future of the terminal. We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

Total Revenue by Source in Fiscal 2020



The Provincial Contribution is provided by the Province to partially fund the initiative for fare freeze, 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.

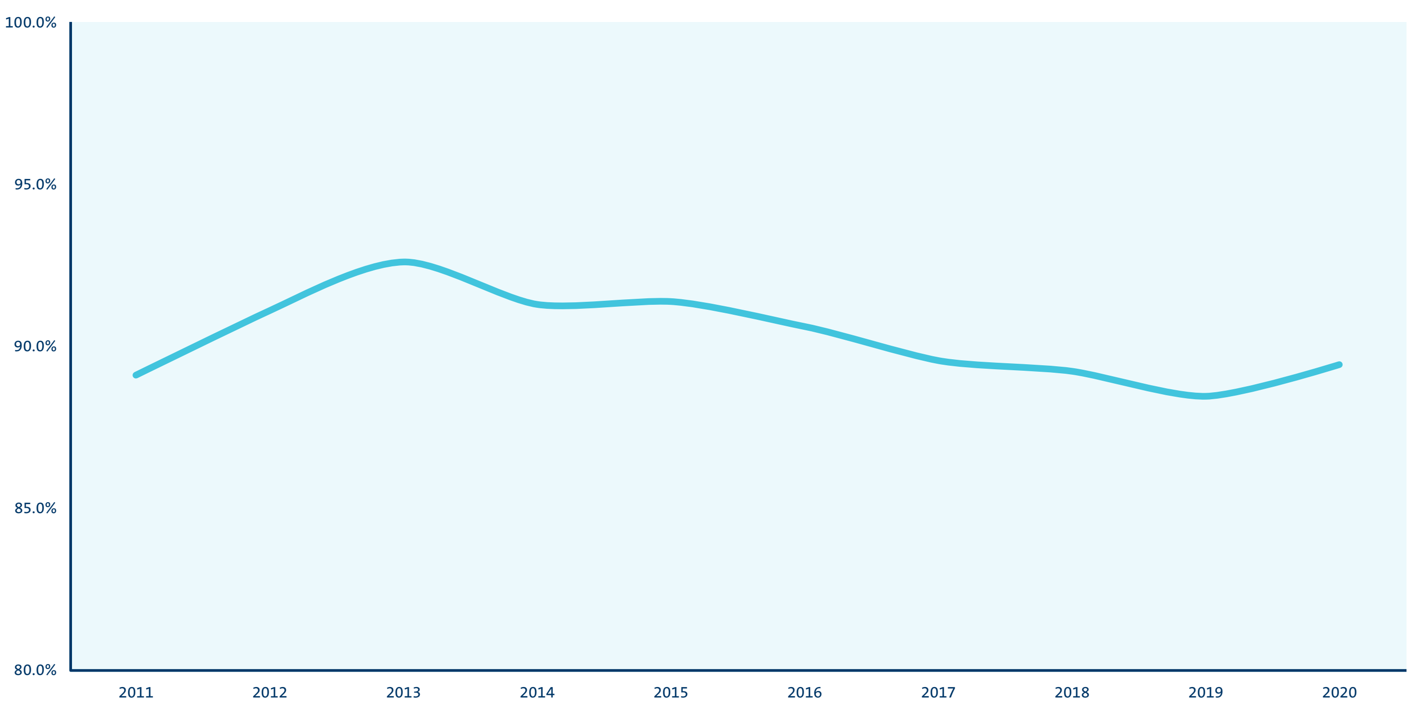
In fiscal 2019, vehicle and passenger traffic increased 1.9% and 1.2%, respectively, compared to fiscal 2018. We believe fare reductions and a strong local economy (driven by employment and tourism growth) had a positive impact on both passenger and vehicle traffic, partially offset by the impact of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

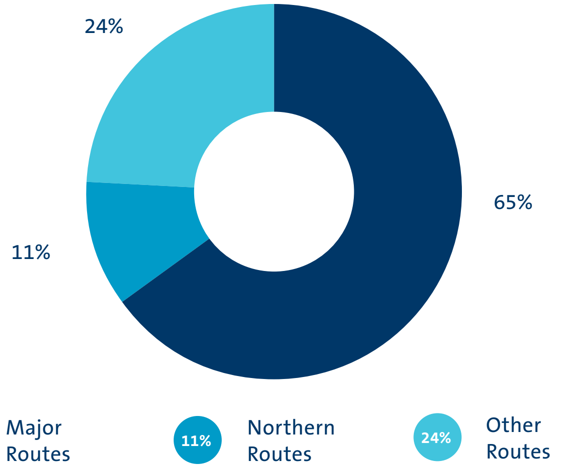
Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Capacity utilization varies significantly. 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 AEQs 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 AEQs 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:

	Years ended March 31		
Revenue ($ millions)	**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 Route Revenue	**941.4**	**925.7**	**900.6**

Total Route Revenue



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 – Dec 15, 2019	1.5%	Major and regulated Other Routes
June 1, 2019 – Dec 15, 2019	0.0%	Northern Routes
Dec 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. However, no specific funding for ongoing operations was provided in the Performance Term 5 (PT5) decision.

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%

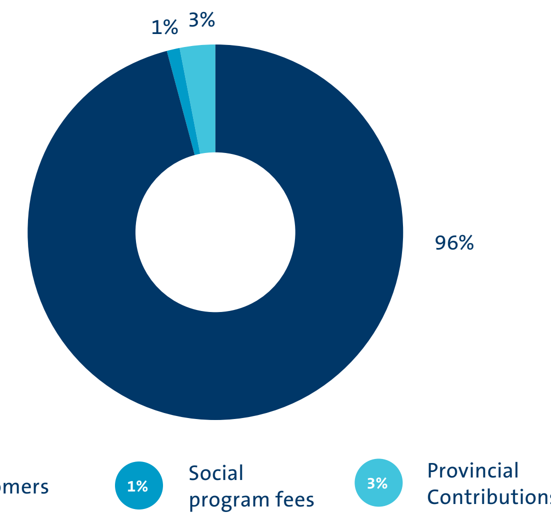
In fiscal 2020, vehicle and passenger traffic decreased 2.2% and 4.0%, respectively, compared to fiscal 2019. In fiscal 2020, year-to-date for the first 50 weeks, vehicle traffic reflected a 0.2% increase and passenger traffic reflected a 1.0% decrease compared to the same period in the prior year. In 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.

Route Revenue Sources



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).

	Years ended March 31		
Revenue ($ thousands)	**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**

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

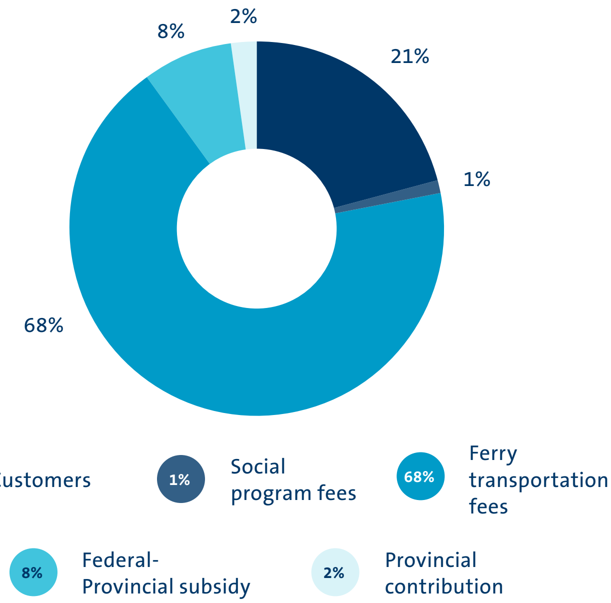
Operational Statistics	2020	2019
Vehicle traffic	37,957	33,728
% increase	12.5%	4.9%
Passenger traffic	100,403	91,664
% increase	9.5%	2.2%
On-time performance	85.6%	85.0%
Number of round trips	380.0	288.5
Capacity provided (AEQs)	64,470	59,266
AEQs carried	46,031	41,422
Capacity utilization	71.4%	69.9%

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.

Route Revenue Sources



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).

	Years ended March 31		
Revenue ($ thousands)	**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 surcharge (rebate)	-	(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**

	Years ended March 31		
Average tariff ($)	**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).

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.

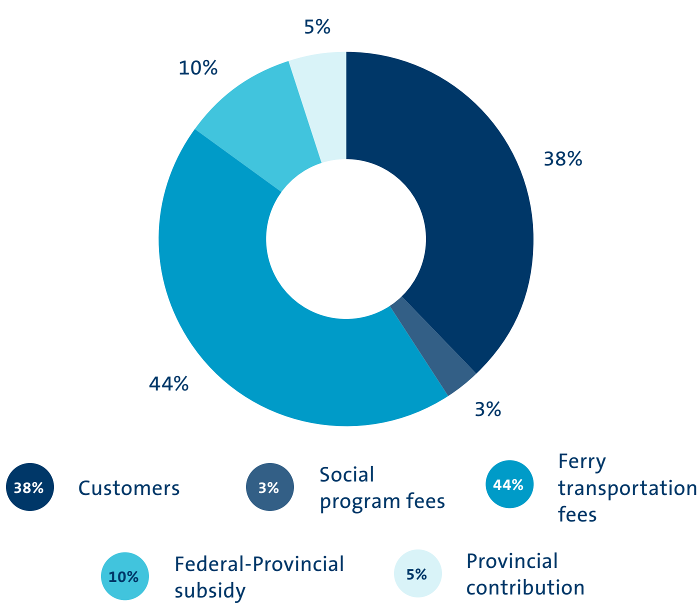
In fiscal 2020, on-time performance increased 0.6% compared to the same period in the prior year, primarily due to adjustments and/or expansion of sailing schedules.

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.

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.

Route Revenue Sources



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).

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.

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**
% increase	3.9%	3.7%	7.9%
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, plan and equipment, and intangible assets	2.3	(0.2)	1.2
Total net finance and other expenses	**56.5**	**52.8**	**56.4**

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

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.bcferries.com. The MTI established common security and a set of common covenants for the benefit of our lenders. Our financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings ranking *pari passu*. We do not currently view 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	4.46%	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
		1,461	**1,292**

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.

External 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:

	Years ended March 31		
($ millions)	2020	2019	Increase (Decrease)
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.

	Three months ended March 31			
			Variance	
($ millions)	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:

	Three months ended March 31			
			Increase (Decrease)	
Revenue ($ millions)	**2020**	**2019**	**$**	**%**
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:

	Three months ended March 31			
Operating expenses ($ millions)	**2020**	**2019**	**(Increase) Decrease $**	**(Increase) Decrease %**
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 and 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.

	Three months ended March 31			
Net finance and other expenses ($ millions)	**2020**	**2019**	**(Increase) $**	**Decrease %**
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.

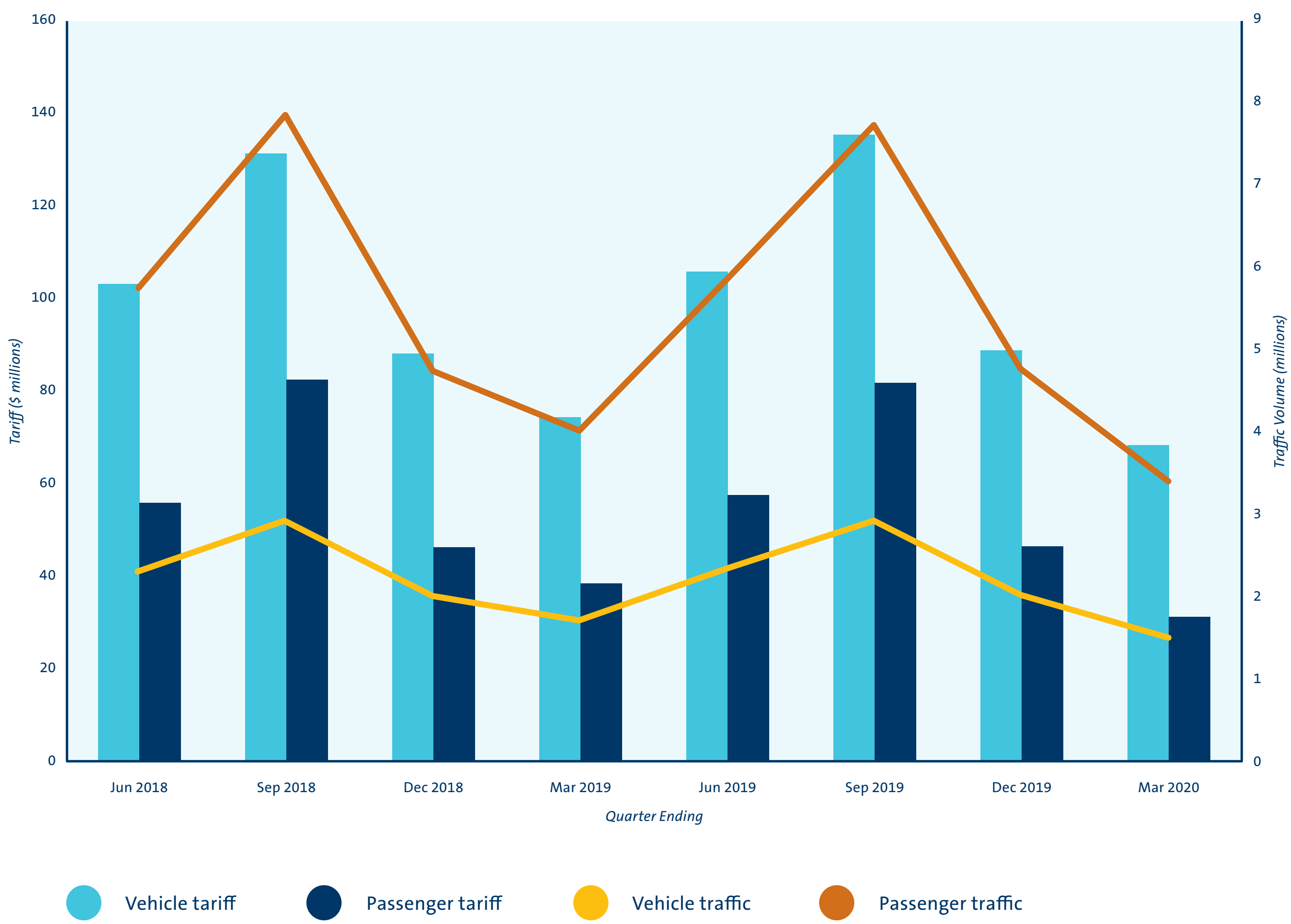
Summary of Quarterly Results

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

	Quarter Ended (unaudited)							
($ millions)	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.

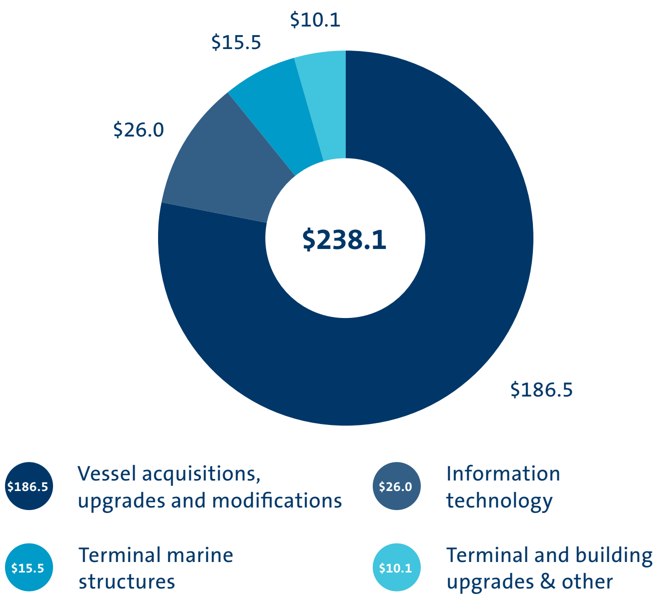
In total, we have been approved for up to $60.5 million in funding under the New Building Canada Fund. To date we have received a total of $35.8 million comprised of $15.1 million for the *Northern Sea Wolf* project and $20.7 million for the Island Class vessel project.

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 and 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:

	March 31, 2020	
($ millions)	**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
Skeena Queen 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:

	2020		2019	
($ millions)	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 of 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 pandemic. 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 reduced 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, B.C. 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 & 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 IAS 19 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. Hayes[1]
	Brian G. Kenning[1]
	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.

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.

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.*

Directorships

The following are directors of a reporting issuer (or the equivalent) in Canada or a foreign jurisdiction, other than BC Ferries:

Director, Canadian Western Bank:	**Sarah A. Morgan-Silvester**

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 executives[2] 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 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.

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.

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:

	Years ended March 31	
External Auditor billings ($ thousands)	**2020**	**2019**
Audit	203.9	220.3
Audit related*	104.4	105.2
Tax services	2.3	2.3
Accounting advisory	-	-
	310.6	**327.8**

** 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.

Board Committees Year-ended March 31, 2020

Director	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. Kukec[8]		(chair)			(chair)	
Sarah A. Morgan-Silvester[9]	(chair)					
P. Geoffrey Plant[10]			(chair)			
David R. Podmore[11]		(chair)				
Judith F. Sayers						

1. *The Strategic Projects Committee ceased to exist and the Capital Projects Committee was established effective Aug 15, 2019.*
2. *Donald P. Hayes ceased to be a director and Chair effective May 22, 2019.*
3. *John A. Horning was elected to serve as Chair and ceased to be Chair of the Human Resources & Compensation Committee effective May 22, 2019.*
4. *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.*
5. *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 Aug 15, 2019.*
6. *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 Aug 15, 2019, and ceased to be a member of the Capital Projects Committee effective Nov 22, 2019.*
7. *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.*
8. *Gordon M. Kukec 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 Aug 15, 2019.*
9. *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 Nov 22, 2019.*
10. *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.*
11. *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 Aug 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 Nov 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.

Departure Bay terminal

Consolidated Financial Statements of

British Columbia Ferry Services Inc.

Years ended March 31, 2020 and 2019

Passengers travelling by bicycles on the Sunshine Coast

Independent Auditors' Report

To the Shareholders of British Columbia Ferry Services Inc.

Opinion

We have audited the consolidated financial statements of British Columbia Ferry Services Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at March 31, 2020 and March 31, 2019
- the consolidated statements of profit or loss and other comprehensive (loss) income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2020 and March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Financial Statements"* section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in the Annual Report is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants
Victoria, Canada
June 11, 2020

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	2020	2019
		As at March 31	
Assets			
Current assets			
Cash and cash equivalents	3	169,141	59,888
Restricted and short-term investments	10(g)	33,393	31,651
Other short-term investments		91,588	74,648
Trade and other receivables	15(a)	19,488	23,246
Prepaid expenses		11,057	8,306
Inventories	4	31,897	30,870
Derivative assets	15(c)	28	8,145
		356,592	**236,754**
Non-current assets			
Loan receivable	12	24,515	24,515
Property, plant and equipment	5	1,879,517	1,820,232
Intangible assets	6	99,893	101,029
		2,003,925	**1,945,776**
Total assets		2,360,517	2,182,530
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7(a)	132,296	141,236
Provisions	7(b)	1,794	1,715
Interest payable on long-term debt	8	21,512	18,429
Contract liabilities	9	21,702	28,709
Current portion on long-term debt	8, 10	21,644	57,183
Current portion of accrued employee future benefits	11(d)	3,000	2,000
Current portion of lease liabilities	8, 12	2,536	2,184
Derivative liabilities	15(c)	15,507	-
		219,991	**251,456**
Non-current liabilities			
Accrued employee future benefits	11(d)	20,151	20,583
Long-term debt	8,10	1,427,426	1,222,860
Lease liabilities	8,12	38,675	39,797
Other liabilities	13	10,962	9,516
Derivative liabilities	15(c)	17,212	-
		1,514,426	**1,292,756**
Total liabilities		1,734,417	1,544,212
Equity			
Share capital	18	75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		547,745	525,006
Total equity before reserves		648,223	625,484
Reserves	20(a)	(22,123)	12,834
Total equity including reserves		626,100	638,318
Total liabilities and equity		**2,360,517**	**2,182,530**

Commitments (notes 5,16)
Contingencies (note 17)
Subsequent events (note 27)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Profit or Loss and Other Comprehensive (Loss) Income

(Expressed in thousands of Canadian dollars)

	Note	Years ended March 31 2020	2019
Revenue			
Vehicle and passenger fares		613,202	618,215
Net retail	21	63,714	63,860
Fuel surcharges (rebates)	28	5,440	(4,585)
Other income		11,711	11,093
Revenue from customers		694,067	688,583
Ferry service fees	25	215,987	206,566
Federal-Provincial Subsidy Agreement	26	31,340	30,504
Total revenue		941,394	925,653
Expenses	22		
Operations		550,026	525,895
Maintenance		85,499	81,697
Administration		37,555	39,868
Depreciation and amortization		183,070	173,250
Total operating expenses		856,150	820,710
Operating Profit		**85,244**	**104,943**
Net finance and other expenses	23		
Finance expenses		61,714	59,194
Finance income		(7,532)	(6,182)
Net finance expense		54,182	53,012
Loss (gain) on disposal and revaluation of property, plant and equipment and intangible assets		2,285	(258)
Total other comprehensive (loss) income		56,467	52,754
Net earnings		**28,777**	**52,189**
Other comprehensive (loss) income	20(b)		
Items that are or may be reclassified subsequently to net earnings		(36,451)	7,450
Items that will not be reclassified to net earnings		5,653	7,945
Net finance and other expenses		(30,798)	15,395
Total comprehensive (loss) income		**(2,021)**	**67,584**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2020	**2019**
Operating activities		
Net earnings	28,777	52,189
Items not affecting cash:		
Net finance expense	54,182	53,012
Depreciation and amortization	183,070	173,250
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets	(348)	59
Other non-cash changes to property, plant and equipment	2,291	(1,016)
Changes in:		
Accrued employee future benefits	442	(1,716)
Derivative assets and liabilities recognized in net earnings	(22)	52
Provisions	79	94
Accrued financing costs	(203)	378
Total non-cash items	239,491	224,113
Movements in operating working capital:		
Trade and other receivables	3,758	3,012
Prepaid expenses	(2,751)	128
Inventories	(1,027)	714
Accounts payable and accrued liabilities	(8,940)	5,252
Contract liabilities	(7,007)	(2,425)
Change in non-cash working capital	(15,967)	6,681
Change attributable to capital asset acquisitions	10,123	(3,298)
Change in non-cash operating working capital	(5,844)	3,383
Cash generated from operating activities	262,424	279,685
Interest received	7,894	5,649
Interest paid	(63,929)	(65,335)
Cash generated by operating activities	206,389	219,999

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2020	**2019**
Financing activities		
Repayment of long-term debt	(80,282)	(35,282)
Repayment of lease liabilities	(2,210)	(2,184)
Dividends paid on preferred shares	(6,038)	(6,038)
Proceeds from the issue of bonds	250,000	-
Transaction costs related to bonds	(1,587)	-
Cash from (used in) financing activities	159,883	(43,504)
Investing activities		
Proceeds from disposal of property, plant and equipment	353	292
Purchase of property, plant and equipment and intangible assets	(238,690)	(227,048)
Changes in restricted short-term investments	(1,742)	625
Net (purchase of) proceeds from other short-term investments	(16,940)	39,611
Cash used in investing activities	(257,019)	(186,520)
Net increase (decrease) in cash and cash equivalents	109,253	(10,025)
Cash and cash equivalents, beginning of year	59,888	69,913
Cash and cash equivalents, end of year	169,141	59,888

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)

	Share capital (note 19)	**Contributed surplus**	**Retained earnings**	**Total equity before reserves**	**Reserves (note 20(a))**	**Total equity including reserves**
Balance as at April 1, 2018	75,478	25,000	478,855	579,333	8,974	588,307
Net earnings	-	-	52,189	52,189	-	52,189
Other comprehensive income	-	-	-	-	15,395	15,395
Realized hedge gains recognized in fuel swaps	-	-	-	-	(11,783)	(11,783)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at April 1, 2019	**75,478**	**25,000**	**525,006**	**625,484**	**12,834**	**638,318**
Net earnings	-	-	28,777	28,777	-	28,777
Other comprehensive loss	-	-	-	-	(30,798)	(30,798)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(4,407)	(4,407)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2020	**75,478**	**25,000**	**547,745**	**648,223**	**(22,123)**	**626,100**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended March 31, 2020 and 2019

(Tabular amounts expressed in thousands of Canadian dollars)

British Columbia Ferry Services Inc. (the "Company") was incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, and now validly exists under the *Business Corporations Act* (British Columbia). The Company's primary business activity is the provision of coastal ferry services in British Columbia.

The Company is subject to the Coastal Ferry Act (the "Act") as amended, which came into force on April 1, 2003. Its common share is held by the B.C. Ferry Authority (the "Authority"), a corporation without share capital, and it is regulated by the British Columbia Ferries Commissioner (the "Commissioner") to ensure that rates are fair and reasonable and to monitor service provided.

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus, ("COVID-19"), a pandemic. The Company is facing an unprecedented drop in vehicle and passenger traffic with a corresponding decline in revenue as a result of the pandemic and the preventative measures and imposed travel restrictions. During the month of March 2020, the COVID-19 pandemic impacted the Company's earnings and cash from operations.

Historically, the Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and at terminals. However, given the impact of the COVID-19 pandemic, it is expected that the normal seasonal demand pattern will not occur in 2020, with traffic being considerably lower than normal (see note 27).

1. Accounting policies

A – Reporting entity:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These consolidated financial statements, as at and for the years ended March 31, 2020 and 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

B – Basis of preparation:

These consolidated financial statements represent the annual statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In accordance with IFRS, the Group has provided comparative financial information and applied the same accounting policies throughout all periods presented, unless otherwise indicated. For changes in accounting policies effective April 1, 2019, refer to note 2.

These consolidated financial statements have been prepared using the historical cost method, except for items that IFRS permits to be measured at fair value - owned land, head office land under lease and certain financial assets and liabilities including derivatives.

These consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in Canadian dollars and rounded to the nearest thousand, unless otherwise stated.

These consolidated financial statements were approved by the Board of Directors on June 11, 2020.

Transactions denominated in foreign currencies are translated by applying the exchange rate prevailing on the date of the transaction. At each reporting date, all monetary assets and liabilities denominated in foreign currencies are translated into CAD at the closing exchange rate. Any resulting translation adjustments are recognized in net earnings.

The Group operates within a single industry, within a single geographical area and under a single regulated contract. Review of operating results and decisions about resources to be allocated are done at a corporate level. Accordingly, no segment reporting is presented in these consolidated financial statements.

C – Basis of consolidation – subsidiaries:

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to manage, either directly or indirectly, the entity's financial and operational policies in order to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of all subsidiaries are prepared to the same reporting date as the Group using consistent accounting policies.

The Group's wholly-owned subsidiaries as at March 31, 2020 and 2019 are:

Pacific Marine Leasing Inc.
BCF Captive Insurance Company Ltd.

The primary business activities of Pacific Marine Leasing Inc. are the leasing of capital assets to the Group and lending to the developer of a downtown Victoria, BC office building.

The primary business activities of BCF Captive Insurance Company Ltd. are insurance and risk-mitigation services provided for the Group.

All inter-Group balances and transactions are eliminated on consolidation.

D – Estimates and judgments:

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting methods and the amounts recognized in the financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. They therefore serve as the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

Significant judgments and estimates relate to:

Property, plant and equipment and intangible assets

The calculation of depreciation and amortization involves estimates concerning the economic life and salvage value of property, plant and equipment and intangible assets. The Group applies judgment to determine expenditures eligible for capitalization and considers the future economic benefits of these expenditures in making this assessment.

Leases

The Group applies judgment to determine whether an arrangement contains a lease. The evaluation requires the Group to determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease.

Provisions and contingencies, including asset retirement obligations

Recognition and measurement of provisions and contingencies, including asset retirement obligations, is based on key assumptions about the likelihood and magnitude of an outflow of resources.

Employee future benefits

Accounting for the costs of future employee benefits is based on actuarial valuations, relying on key estimates for discount rates, future salary levels, employee turnover rates and mortality tables.

Derivative assets and liabilities

Fair values for the derivative assets and liabilities are estimated using period-end market rates. These fair values approximate the amount that the Group would pay to settle the contract at the date of the statement of financial position. The calculation of the effectiveness of instruments that have been designated for hedge accounting is based on key estimates for the market price, rate of interest and volatility, and the credit risk of the instruments.

E – Hedging relationships:

At the inception of a hedging relationship, the Group must set out formal documentation describing the relationship between hedging instrument and hedged items, as well as the Group's risk management objective and its strategy for undertaking the hedge, as well as the methods for assessing the effectiveness of the hedging relationship. The Group performs an assessment at the inception of the hedging relationship and on an ongoing basis to determine the hedging instrument's expected effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows during the entire period for which the hedge is designated.

Fair value hedges

The Group uses forward exchange contracts to manage the currency risk to which certain items in the statement of financial position are exposed. When a derivative is designated as a hedging item in a fair value hedge, the gain or loss on the hedging instrument is recognized in net earnings or loss. The hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognized in net earnings or loss.

Cash flow hedges

The Group designates ultra-low sulfur diesel ("ULSD") fuel swaps as cash flow hedges of forecast diesel fuel purchases. In addition, the Group designates forward foreign exchange contracts as cash flow hedges of forecast sales or purchases in foreign currencies. When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognized in other comprehensive income ("OCI") and accumulated in the cash flow hedge reserve in equity. The effective portion of the changes in the derivative's fair value recognized in OCI is limited to the present value of the cumulative change in the hedged expected cash flows from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings or loss. The accumulated amount in the cash flow hedge reserve is reclassified from equity to net earnings or loss in the same period during which the hedged cash flows affect net earnings or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the amount accumulated in the cash flow hedge reserve is included directly in the initial cost of the non-financial item.

When the hedging instrument ceases to qualify for hedge accounting, expires, or is sold, terminated or exercised, the Group discontinues hedge accounting prospectively. The amount accumulated in the cash flow hedge reserve in equity remains in equity until the forecast transaction affects net earnings or loss. If the forecast is no longer expected to occur, the balance in the cash flow hedge reserve in equity is recognized immediately in net earnings or loss.

F – Property, plant and equipment including right-of-use assets (note 1(h)):

Property, plant and equipment, excluding specific land assets, are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes all costs directly attributable to the acquisition such as direct overhead, financing costs and the initial estimate of retirement obligations.

Specific land assets include owned land and head office land under lease which are carried at fair value using the annual assessed values for property tax purposes as being representative of the fair values of these assets. Fair value increases of land assets are recognized in OCI except to the extent that such an increase represents a reversal of an amount previously recognized in net earnings or loss. Fair value decreases are recognized in net earnings or loss to the extent that the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

Right-of-use land assets, excluding head office land under lease, are carried at cost less accumulated depreciation and any recognized impairment loss.

The cost of self-constructed assets includes expenditures on materials, direct labour, borrowing costs and an allocated proportion of project overheads. Major parts of an item of property, plant and equipment with different estimated useful lives are accounted for as separate items (major components) of property, plant and equipment. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from disposal and the carrying amount of the asset less cost to sell and is recognized in net earnings or loss.

The cost of major overhauls and inspections is capitalized and depreciated over the period until the next major overhaul or inspection. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred.

Where major components of an asset have different estimated useful lives, depreciation is calculated on each separate component. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

Property, plant and equipment, including right-of-use assets, are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Asset class	Estimated useful life
Vessel hulls	45 years
Vessel propulsion and utility system	20 to 30 years
Vessel hull, propulsion and generator overhaul	4 to 5 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

G – Intangible assets:

Intangible assets consist of acquired computer software and licenses, internally generated computer software and website and other intangibles. These assets are carried at cost plus direct overhead and borrowing costs, less accumulated amortization and any recognized impairment loss.

Development costs are recognized as intangible assets if it is probable that the asset created will generate future economic benefits, the expenditure attributable to the intangible asset during development can be reliably measured, the product is technically feasible and the Group intends to, and has sufficient resources to, complete development and use the asset. Website costs are capitalized where the expenditure is incurred on developing an income generating website. Software and website costs capitalized include materials, direct labour and borrowing costs. Subsequent expenditure is capitalized only if the estimated useful life is extended by more than one year or there is new functionality that will be used. Costs associated with maintaining computer software are expensed in the period incurred.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives (2 to 7 years) since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Other intangible assets are amortized on a straight-line basis over their estimated useful lives of 10 to 30 years. Amortization commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually and adjusted when appropriate.

H – Leases:

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the supplier has a substantive substitution right;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

For contracts that contain a lease the Group recognizes a right-of-use asset, presented under property, plant and equipment in the consolidated statement of financial position, and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred in dismantling, removing or restoring the asset or site, on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

I – Borrowing costs:

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, as a part of the cost of those assets, until such time as the assets are substantially ready for their intended use. The Group identifies a qualifying asset as one that necessarily takes six months or more to be ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalizes the actual financing costs incurred during the period less any income generated from temporary investment of those borrowings.

To the extent that a qualifying asset is funded by general borrowings, the Group determines the borrowing costs eligible for capitalization by applying the weighted average cost of borrowings for the period to the expenditures on that asset.

All other borrowing costs are recognized in net earnings or loss in the period in which they are incurred.

J – Inventories:

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Fuel inventories are accounted for using the first-in, first-out principle. The cost of fuel inventories includes gains or losses on the settlement of fuel swap contracts. All other inventories are accounted for using the weighted average cost method. The cost of inventories includes expenditures incurred in acquiring the inventories and other direct costs incurred in bringing the inventories to their present location and condition.

K – Impairment of non-financial assets:

All non-financial assets are reviewed at the end of each reporting period to determine whether the carrying amount may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the asset is tested for impairment.

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 (this can be at the asset or cash-generating unit ("CGU") level).

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The impairment recognized in net earnings or loss is the excess of the carrying value over the recoverable amount of the asset or CGU.

Impairment losses are evaluated for potential reversals when events or changes warrant such consideration. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized. A reversal of impairment is recognized in net earnings or loss.

L – Asset retirement obligations:

In the period when it can be reasonably determined, the Group recognizes a liability at its fair value 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 amortized to expense on a systematic and rational basis.

It is possible that the Group's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Group's long-lived assets include certain vessels which contain undetermined amounts of asbestos. The Group handles and disposes of the asbestos and other controlled materials in a manner required by regulations. Where possible the Group will sell decommissioned vessels into the secondary markets to a responsible buyer who will keep them in active service. Under these circumstances the condition of the vessel, including the presence of any controlled material such as asbestos, will be fully disclosed and remediation and any eventual retirement obligation would become the responsibility of the new owner.

No amount has been recognized 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 will be sold to a responsible secondary market at a nominal salvage price.

M – Financial assets and liabilities:

Financial assets include cash and cash equivalents, trade and other receivables, restricted and other short-term investments, derivatives with a positive market value and loan receivables.

Financial liabilities include trade payables, long-term debt, interest on long-term debt and derivatives with a negative market value.

(i) – Recognition and measurement of non-derivative financial instruments

Financial instruments are initially recognized at fair value. If the financial instrument is not classified at fair value through profit or loss, then the initial measurement includes transaction costs directly attributable to the acquisition or issue of the financial instrument.

Subsequent to initial recognition, financial assets are measured at either amortized cost or at fair value through OCI or at fair value through net earnings or loss.

Financial liabilities are measured at either amortized cost or at fair value through net earnings or loss.

Classification depends on the nature and objective of each financial instrument and is determined when first recognized.

(ii) – Provision for impairment

Financial assets carried at amortized cost include short-term investments, restricted short-term investments, trade and other receivables, loan receivables and loans and advances. The Group recognizes a loss allowance for expected credit losses ("ECL") associated with its financial assets carried at amortized cost. ECL represents the expected credit loss that will result from all possible default events over the expected life of the financial instrument. The amount of ECL is updated at each reporting date to reflect changes in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition based on all information available, including reasonable and supportive forward-looking information. When a financial instrument is uncollectible, it is written off against the provision for impairment.

(iii) – Loans and advances

Loans and advances are initially recognized at fair value plus directly attributable transaction costs. Subsequently, loans and advances are measured at amortized cost using the effective interest rate method, less any recognized impairment loss. They are subject to recoverable value tests, carried out at each reporting date and whenever there are objective indicators that the recoverable value of these assets would be lower than the carrying value.

(iv) – Trade and other receivables

Trade and other receivables are initially recognized at fair value (in most cases the same as notional value) less provision for impairment. Subsequently, trade and other receivables are measured at amortized cost. As receivables are due in less than one year, they are not discounted. The provision established against trade and other receivables represents lifetime ECL and is updated at each reporting date. Any increase in the provision is recognized in net earnings or loss. When a trade receivable is uncollectible, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are recognized in net earnings or loss.

(v) – Cash and cash equivalents

Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of three months or less. Cash equivalents are short-term investments with a term of three months or less. Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value. The instruments held in this category can be liquidated or sold on short notice, and do not bear any significant risk of loss in value. Cash equivalents are held at amortized cost with the exception of cash equivalents invested in pooled funds which are recognized at fair value through net earnings or loss.

(vi) – Borrowings and other financial liabilities

Trade and other debts are initially recognized at fair value, which is generally the same as notional value plus or minus any premiums or discounts. Bank borrowings and other financial liabilities are subsequently measured at amortized cost calculated using the effective interest rate method. Interest accrued on short-term borrowings is included in accounts payable and accrued liabilities on the statement of financial position. Cash flows linked to short-term payable amounts are not discounted. Long-term cash flows are discounted whenever the impact is significant. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(vii) – Derivatives

The Group may use derivative financial instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The Group does not utilize derivatives for trading or speculative purposes. At the inception of each hedge, the Group determines whether it will or will not apply hedge accounting. Derivatives are initially recognized at fair value. Related transaction costs are recognized in net earnings or loss as incurred. After initial recognition, derivatives are measured at fair value based on market prices at each reporting date. Changes in the fair value of these instruments are recognized in net earnings or loss except where the instrument has been designated as a hedging instrument in a cash flow hedge. Derivatives designated as cash flow hedging instruments are recognized in accordance with note 1(e).

(viii) – Fair value hierarchy

In estimating fair value, the Group uses quoted market prices when available. Models incorporating observable market data along with transaction specific factors are also used in estimating fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of observability of inputs that are significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the following fair value hierarchy levels:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – techniques (other than quoted prices included in level 1) that are observable for the asset or liability, either directly (as prices), or indirectly (as derived from prices); and
- Level 3 – techniques which use inputs that are both significant to the overall fair value measurement of the asset or liability and are not based on observable market data (unobservable inputs).

N – Provisions:

A provision is recognized when:

- the Group has a current obligation (legal or constructive) resulting from a past event;
- it is likely that an outflow of resources will be required to settle the obligation; and
- the amount of the obligation can be measured reliably.

The amount of the provision is the best estimate of the outflow of resources required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense.

O – Employee benefits:

The Group has a number of defined benefit pension and post-retirement plans. The plans are generally funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

The Group participates in multi-employer defined benefit pension and long-term disability plans and accounts for the plans using defined contribution plan accounting. These plans are administered by external parties and the Group does not have sufficient information to apply defined benefit plan accounting. The Group's contributions are recognized as benefit expense when they are due.

The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected unit credit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). Under the projected unit credit method, the cost of these benefits is expensed over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans on a regularly scheduled basis, using actuarial techniques to measure the obligation with sufficient reliability. The defined benefit obligation is measured at the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the defined benefit obligation.

The Group funds the retirement benefit plan on a cash basis as benefits are paid. No assets have been segregated and restricted to provide the benefit. Actuarial gains (losses) arise from change in the present value of the defined benefit obligation resulting from the difference between the actual experience and previous actuarial assumptions and the effects of changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are recognized immediately in OCI and are not reclassified to net earnings or loss in subsequent periods.

Current service costs and net interest costs on the defined benefit obligation are recognized as benefit expense in the profit or loss.

Past service costs on change in the defined benefit obligation resulting from a plan amendment or curtailment are recognized as expense in the period the amendments or curtailment occurs. Gain or loss on settlement is recognized when the settlement occurs.

P – Debt transaction costs:

Legal and financing costs incurred for arranging long-term debt are capitalized. Once the debt is issued these costs are reclassified from deferred costs and recognized as an offset to the related long-term debt. These costs are subsequently amortized to net earnings or loss using the effective interest rate method.

Q – Revenues:

Revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), is recognized when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Payments for fares sold in advance of providing transportation are included in the statement of financial position as contract liabilities.

Ferry service fees and federal-provincial subsidies are recognized as revenue as services specified in the related agreements with the Province of British Columbia (the "Province") are provided.

Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods.

R – Taxes:

The Group is a "Tax Exempt Corporation" as described in the Income Tax Act and as such is exempt from federal and provincial income taxes.

The provision of vehicle and passenger ferry services is an exempt supply under the Excise Tax Act for HST/GST purposes.

S – Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year. Contractual liabilities to employees for deferred or accrued compensation of $69.7 million have been reclassified from provisions to accounts payable and accrued liabilities.

2. Adoption of new and amended standards

A – Changes in accounting policies:

Amendments to IAS 19 Employee Benefits:
On February 7, 2018, the IASB published Amendments to IAS 19 Employee Benefits. The amendments to IAS 19 require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

The Group adopted IAS 19 effective April 1, 2019, and the requirements of these amendments were applied to all plan amendments, curtailments or settlements occurring after this date. There was no adjustment to the Group's consolidated financial statements as a result of this adoption.

B – Future changes in accounting policies:

IFRS 17, Insurance Contracts:
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 IFRS 17, 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.

On March 17, 2020, the IASB has decided, due to the responses received from stakeholders during the comment period on the exposure draft, that the effective date of the Standard will be deferred to annual reporting periods beginning on or after January 1, 2023. The Group will evaluate the potential impact on its consolidated financial statements as further information becomes available.

3. Cash and cash equivalents

	As at March 31	
	2020	**2019**
Cash	140,703	49,486
Cash equivalents:		
Investments valued at fair value through net earnings	138	472
Investments valued at amortized cost	28,300	9,930
Total	**169,141**	**59,888**

4. Inventories

	As at March 31	
	2020	**2019**
Consumable parts and supplies	23,070	22,987
Provision for obsolescence	(1,300)	(1,200)
Net consumable parts and supplies	21,770	21,787
Retail inventories	6,207	4,744
Fuel inventories	3,920	4,339
Total	**31,897**	**30,870**

5. Property, plant and equipment

	Vessels	-Berths, buildings & equipment	Right-of-use assets - berths, buildings & equipment	Right-of-use assets - land	Land	Construction in progress	Total
Cost:							
Balance as at April 1, 2018	1,514,798	628,041	172,831	37,383	19,936	163,550	2,536,539
Additions	(859)	-	812	-	-	223,866	223,819
Revaluation	-	-	-	3,485	4,778	-	8,263
Disposals	(44,193)	(5,990)	(95)	-	-	-	(50,278)
Transfers from construction in progress	157,565	33,492	-	-	-	(191,057)	-
Balance as at March 31, 2019	**1,627,311**	**655,543**	**173,548**	**40,868**	**24,714**	**196,359**	**2,718,343**
Additions	(1,179)	-	1,184	256	-	219,304	219,565
Revaluation	-	-	-	1,414	4,473	-	5,887
Disposals	(42,959)	(4,713)	(11)	-	-	(14)	(47,697)
Transfers from construction in progress	186,602	28,556	-	-	478	(215,636)	-
Balance as at March 31, 2020	**1,769,775**	**679,386**	**174,721**	**42,538**	**29,665**	**200,013**	**2,896,098**
Accumulated depreciation:							
Balance as at April 1, 2018	552,990	177,691	60,075	-	-	-	790,756
Depreciation	115,475	33,941	7,261	606	-	-	157,283
Disposals	(43,872)	(5,961)	(95)	-	-	-	(49,928)
Balance as at April 1, 2019	**624,593**	**205,671**	**67,241**	**606**	**-**	**-**	**898,111**
Depreciation	123,929	34,601	6,821	689	-	-	166,040
Disposals	(42,877)	(4,682)	(11)	-	-	-	(47,570)
Balance as at March 31, 2020	**705,645**	**235,590**	**74,051**	**1,295**	**-**	**-**	**1,016,581**
Net carrying value:							
As at March 31, 2019	**1,002,718**	**449,872**	**106,307**	**40,262**	**24,714**	**196,359**	**1,820,232**
As at March 31, 2020	**1,064,130**	**443,796**	**100,670**	**41,243**	**29,665**	**200,013**	**1,879,517**

During the year ended March 31, 2020, financing costs capitalized during construction amounted to $5.2 million (March 31, 2019: $6.7 million) with an average capitalization rate of 4.92% (March 31, 2019: 4.97%).

Contractual commitments as at March 31, 2020, for assets to be constructed totalled $121.5 million (March 31, 2019: $47.5 million). The majority of these contractual commitments relate to the construction of four Island class vessels.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to $43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the year ended March 31, 2020, the Group recognized $9.7 million (March 31, 2019: $14.6 million) as a reduction of the cost of property, plant and equipment. Funding of $39.3 million was recorded as a cumulative reduction of the cost of the property, plant and equipment in fiscal years 2020, 2019 and 2018.

FortisBC Energy Inc. has committed to provide the Group with funding as part of the Natural Gas for Transportation ("NGT") incentive funding. The contributions are dependent upon the purchase of liquified natural gas ("LNG"). During the year ended March 31, 2020, $1.2 million was recognized as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2020, the Group received $1.0 million (March 31, 2019: $1.1 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $4.0 million, respectively, as at March 31, 2020.

During the year ended March 31, 2020, The *Howe Sound Queen* was decommissioned and sold. The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

6. Intangible assets

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at April 1, 2018	124,719	16,418	15,712	156,849
Additions	-	-	17,194	17,194
Disposals	(753)	(1,771)	-	(2,524)
Transfers from construction in progress	6,369	4,240	(10,609)	-
Balance as at March 31, 2019	**130,335**	**18,887**	**22,297**	**171,519**
Additions	-	-	18,513	18,513
Disposals	(169)	-	(2,619)	(2,788)
Transfers from construction in progress	7,711	1,011	(8,722)	-
Balance as at March 31, 2020	**137,877**	**19,898**	**29,469**	**187,244**
Accumulated amortization:				
Balance as at April 1, 2018	44,744	12,303	-	57,047
Amortization	14,888	1,079	-	15,967
Disposals	(753)	(1,771)	-	(2,524)
Balance as at March 31, 2019	**58,879**	**11,611**	**-**	**70,490**
Amortization	15,715	1,315	-	17,030
Disposals	(169)	-	-	(169)
Balance as at March 31, 2020	**74,425**	**12,926**	**-**	**87,351**
Net carrying value:				
As at March 31, 2019	**71,456**	**7,276**	**22,297**	**101,029**
As at March 31, 2020	**63,452**	**6,972**	**29,469**	**99,893**

The Group's intangible assets under construction, and not yet subject to amortization, are tested for impairment at the end of each reporting period or when there is an indication of impairment. The impairment test is based on a value in use model and is completed for the business as a whole, as it has been identified as a single CGU.

In testing for impairment the Group uses management's experience and future expectations for business performance to determine the recoverable amount of the CGU by assessing future cash flows, discounted using an appropriate rate reflecting the time value of money and risks specific to the CGU.

During the year ended March 31, 2020, the Group did not identify any impairment through the value in use model. However, in respect to certain individual obsolete or no longer expected to be recovered intangible assets the Group recognized asset impairments of $2.6 million (March 31, 2019: $nil). The impairment loss is reported under "Loss (gain) on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of profit or loss and other comprehensive (loss) income.

Capitalized financing costs during construction for intangible assets with an average capitalization rate of 4.92% for the year ended March 31, 2020 (March 31, 2019: 4.97%) totalled $1.1 million (March 31, 2019: $0.7 million).

During the year ended March 31, 2020, intangible assets totalling $10.3 million (March 31, 2019: $9.4 million) were acquired and $8.2 million (March 31, 2019: $7.8 million) were internally developed.

7. Accounts payable, accrued liabilities and provisions

A – Accounts payable and accrued liabilities:

Wages payable consists of contractual liabilities to employees for deferred or accrued compensation. Liabilities for deferred compensation amounts are generally settled through either payment or provision of paid time off.

	2020	2019
Trade payable and accrued liabilities	62,551	76,130
Wages payable	69,745	65,106
Balance as at March 31, 2020	**132,296**	**141,236**

B – Provisions:

Claims payable represents reserves for settlement amounts payable to third parties for injuries or damage to persons or property.

	Claims payable
Balance as at April 1, 2018	1,621
Provisions arising during the year	569
Provisions settled during the year	(475)
Balance as at April 1, 2019	**1,715**
Provisions arising during the year	414
Provisions settled during the year	(335)
Balance as at March 31, 2020	**1,794**

8. Liabilities arising from financing activities

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2018	1,314,369	43,353	18,537
Additions	-	812	62,760
Payments	(35,282)	(2,184)	(62,868)
Amortization of debt issue costs	956	-	-
Balance as at April 1, 2019	**1,280,043**	**41,981**	**18,429**
Additions	250,000	1,440	64,462
Payments	(80,282)	(2,210)	(61,379)
Additions to debt issue costs	(1,587)	-	-
Amortization of debt issue costs	896	-	-
Balance as at March 31, 2020	**1,449,070**	**41,211**	**21,512**
Current	21,644	2,536	21,512
Non-current	1,427,426	38,675	-
Balance as at March 31, 2020	**1,449,070**	**41,211**	**21,512**

9. Contract liabilities

Contract liabilities include payments for fares sold in advance of providing transportation and other customer prepaid revenues. During the year ended March 31, 2020, the Group recognized $18.4 million of revenue that was included in the contract liabilities balance at March 31, 2019 and represented revenue from transportation provided. During the year ended March 31, 2019, the Group recognized $15.1 million of revenue that was included in the contract liabilities balance at March 31, 2018.

1. Interest expense related to lease liabilities is presented in net finance expense (note 23).

10. Long-term debt

In May 2004, the Group entered into a master trust indenture which established common security and a set of common covenants for the benefit of all lenders under the Group's financing plan. The financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings, ranking *pari passu*.

The Group has six outstanding series of obligation bonds and a credit facility agreement secured by pledged bonds. In addition, the Group has one 12-year loan agreement, a 2.95% loan agreement and three 2.09% loans outstanding with KfW IPEX-Bank GmBH ("KfW"), a German export credit bank.

	As at March 31	
Long-term debt	**2020**	**2019**
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	200,000	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	250,000	-
12 Year Loan, matured March 2020		
Tranche A (fully paid in March 2020)	-	7,500
Tranche B (fully paid in December 2019)	-	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	1,875	9,375
Tranche B (fully paid in December 2019)	-	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	9,000	18,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	32,669	36,437
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	33,938	37,710
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	33,938	37,710
	1,461,450	**1,291,732**
Less: Unamortized deferred financing costs and bond discounts	**(12,380)**	**(11,689)**
Total	**1,449,070**	**1,280,043**
Current	**21,644**	**57,183**
Non-current	**1,427,426**	**1,222,860**
Balance as at March 31, 2020	**1,449,070**	**1,280,043**

A – Bonds:
Bonds are issued under supplemental indentures either as obligation bonds or as pledged bonds. The bonds are secured by a registered first mortgage and charge over vessels, an unregistered first mortgage and charge over ferry terminal leases, and by a general security agreement on property and contracts. The bonds are redeemable in whole or in part at the option of the Group. The following table shows the semi-annual interest payment dates for the obligation bonds each year through to maturity.

Bonds	Interest payment dates	
Series 04-4	April 13	October 13
Series 07-1	March 20	September 20
Series 08-1	January 11	July 11
Series 13-1	April 23	October 23
Series 14-1	April 28	October 28
Series 19-1	April 15	October 15

B – 2.79% Senior Secured Bonds, Series 19-1, due October 2049:
On October 15, 2019, the Group issued $250.0 million of senior secured bonds and established a debt service reserve for these bonds in the amount of $3.5 million. The Series 19-1 bonds bear interest at 2.794% per annum, payable semi-annually and will mature October 15, 2049. The net proceeds from the sale of the bonds will be used, together with additional cash on hand, to provide funding for capital expenditures and general corporate purposes, and to fund the series reserve account.

C – 12 Year Loans, maturing March and June 2020:
Proceeds of $90.0 million were received in each of February and May 2008 to coincide with conditional acceptance of the *Coastal Inspiration* and the *Coastal Celebration* and applied toward the purchase of the vessels. Quarterly payments are due in March, June, September and December each year of the term of the loans.

The principal payments on these loans were deferred for three years to a second tranche (Tranche B) until June 2014 in accordance with amendments made to the two loan agreements in September 2011. The Tranche B principal is due on maturity, with floating-rate interest paid in periods ranging from one to six months at the option of the Group. The interest rates on Tranche B can be reset at the beginning of each interest period at rates based on the prevailing CDOR rate plus 30 bps. As of June 2014, the Tranche B balance for each loan reached a maximum of $22.5 million and regular principal payments resumed on Tranche A.

In December 2019, the Group fully paid the outstanding Tranche B balance of both KfW 12 year loans ($22.5 million each) with a portion of the net proceeds of Series 19-1 bonds issued. In March 2020, the outstanding Tranche A balance of the first KfW 12 year loan was fully paid upon maturity.

D – 2.95% Loan, maturing January 2021:
Proceeds of $108.0 million from the loan were received in January 2009 to coincide with conditional acceptance of the *Northern Expedition* and applied toward the purchase of the vessel. Equal semi-annual principal payments plus interest are due in January and July each year of the 12 year term of the loan.

E – 2.09% Loans, maturing October 2028 and January 2029:
The Group has a loan agreement with KfW. This loan agreement is secured under the Master Trust Indenture (May 2004) ("MTI (May 2004)") and allows for three loans of up to $45.3 million each.

Proceeds of $44.9 million from the first loan and $45.3 million from the second loan were received during the year ended March 31, 2017, to coincide with the contract payment schedule for the *Salish Orca* and *Salish Eagle,* respectively, and applied toward the purchase of the vessels.

Proceeds of $45.3 million from the third and final loan were received during the year ended March 31, 2018, to coincide with the contract payment schedule for the *Salish Raven,* and applied toward the purchase of the vessel.

Each of these loans are payable over a 12-year term at an interest rate of 2.09% per annum. Quarterly principal payments plus interest are due in January, April, July and October each year of the term of the loans.

F – Credit facility:
The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on April 8, 2020 to extend the maturity date to April 20, 2025. There were no draws on this credit facility as at March 31, 2020 and as at March 31, 2019. There was no interest expensed during the years ended March 31, 2020 and March 31, 2019. Letters of credit outstanding against this facility as at March 31, 2020 totalled $0.6 million (March 31, 2019: $0.1 million).

G – Debt service reserves:
Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at March 31, 2020, debt service reserves of $33.4 million (March 31, 2019: $31.6 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

H – Debt service coverage:
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 the credit facility agreement. As at March 31, 2020, the debt service coverage ratio was 2.68.

In addition, there are other covenants contained in the Master Trust Indenture ("MTI") (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at March 31, 2020 and at March 31, 2019.

11. Accrued employee future benefits

A – Description of benefit plans:

	Funding status	Administrator	Plan type	Basis of accounting
Public Service Pension	Funded	Third Party	Multi-employer defined benefit	Defined contribution
Long-term disability	Funded	Third Party	Multi-employer defined benefit	Defined contribution
Retirement benefit	Unfunded	Group	Defined benefit	Defined benefit
Death benefit	Unfunded	Group	Defined benefit	Defined benefit
Sick Bank obligation	Unfunded	Group	Defined benefit	Defined benefit
Supplemental executive retirement plan	Unfunded	Group	Defined benefit	Defined benefit
WCB obligation	Unfunded	Third Party	Defined benefit	Defined benefit

The Group and its employees contribute to the Public Service Pension Plan (the "Plan"). The Pension Corporation of the Province of British Columbia administers the Plan, including the payment of retirement and post-employment benefits on behalf of employers. The Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions.

A funded long-term disability multi-employer plan provides disability income benefits after employment, but before retirement.

Sufficient information is not available for either multi-employer defined benefit plan to be accounted for as a defined benefit plan.

In addition, eligible employees are entitled to other retirement and future benefits as provided for under the collective agreement and terms of employment. These are unfunded defined benefit plans administered by the Group. Retirement and death benefits are based on years of service and final average salary. The accumulated sick leave bank ("Sick Bank obligation") consists of unused sick time credits earned prior to the discontinuation of the sick leave accumulation benefit in 1979. Accumulated sick leave may be drawn down at 100% or paid out at 50%. Benefits are paid out at current salary rates. No new credits are accumulated to this bank.

The Group also administers an unfunded supplemental executive retirement plan which encourages continued retention and provides additional pension compensation.

The Group's employees may also receive compensation benefits arising from claims prior to March 31, 2003, administered by the Workers' Compensation Board ("WCB obligation"). Prior to March 31, 2003, the Group participated in the Workers' Compensation Board deposit class coverage system. Subsequent to March 31, 2003, the Group has been covered under the Workers' Compensation Board rate system. The change to the rate system resulted in a residual liability from the deposit class system that has been valued by actuarial assumptions as appropriate for a closed plan. This obligation is unfunded.

B – Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2020, consisting of cash contributed by the Group to its multi-employer defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to a third party administrator of an unfunded plan, were $35.1 million (March 31, 2019: $36.1 million).

C – Multi-employer plans:

The total cost recognized for the Group's multi-employer plans is as follows:

	2020	2019
Public Service Pension Plan contributions (i)	29,021	27,921
Long-term disability plan contributions (ii)	4,046	4,151
Total	**33,067**	**32,072**

(i) The March 31, 2017 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees ("the Board") on December 4, 2017. This report indicated that the pension fund had an actuarial surplus of $1,896 million. Under the terms of the plan's joint trust agreement, plan members and employers' share in any increase or decrease in contribution rates.

On March 16, 2018, the Board announced plan changes which took effect April 1, 2018 for pensionable service earned on or after that date. The changes include contribution at a rate of 8.35 per cent of salary for members and 9.85 per cent of salary for employers, from member and employer contribution rates that were dependent on how much the salary was below and above the year's maximum pensionable earnings. The Board has also decided to use a portion of the surplus funds to improve the pension benefits for pensionable service accrued between April 1, 2006 and March 31, 2018. The change took effect on October 1, 2019. The next valuation, expected to be received during the fiscal year ending March 31, 2021, will be as at March 31, 2020.

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result the employer contribution rate was increased from 1.79% to 2.51% of covered payroll effective April 1, 2020. The most recent valuation, as at September 30, 2019, determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2021, will be as at March 31, 2020.

D – Other defined benefit plans:
All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans was as at March 31, 2017. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2021, will be as at March 31, 2020. The most recent actuarial valuation of the WCB obligation was as at March 31, 2019. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2023, will be as at March 31, 2022.

During the year ended March 31, 2020, a net loss of $0.1 million was recognized in OCI to reflect the actuarial valuation of the WCB obligation as at March 31, 2019.

	Other benefit plans	
Accrued benefit obligations	**2020**	**2019**
Balance, beginning of year	22,583	24,299
Current service cost	1,547	1,362
Interest cost	916	974
Benefits paid	(2,021)	(4,052)
Actuarial loss (note 20)	126	-
Balance, end of year	**23,151**	**22,583**

	Other benefit plans	
Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	**2020**	**2019**
Accrued benefit obligation	23,151	22,583
Funded status of plans – deficit	(23,151)	(22,583)
Accrued benefit liability	(23,151)	(22,583)
Current portion of accrued employee future benefits	3,000	2,000
Non-current portion of accrued employee future benefits	**(20,151)**	**(20,583)**

	Other benefit plans	
Elements of defined benefit costs recognized in the year	**2020**	**2019**
Current service cost	1,547	1,362
Interest cost	916	974
Defined benefit costs recognized	**2,463**	**2,336**

Significant assumptions: The significant assumptions used are as follows (weighted average)	**2020**	**2019**
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	4.8%	5.0%
Rate of compensation increase	1.8%	1.9%
Annual employee retention rate	95.4%	94.4%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	9.65	9.65

12. Lease liabilities

The Group incurs lease payments related to a lease for space in a downtown Victoria, BC office building ("head office lease") and other leases for land, buildings and equipment.

The Group discounted lease payments for the head office lease using the imputed interest rate of 4.45%. Lease payments related to other leases were discounted using the incremental borrowing rate of 5.21%.

Lease liabilities are payable as follows:

	Lease liabilities
Less than one year	2,536
Between one and five years	11,401
More than five years	2,759
Purchase option	24,515
Total	**41,211**
Current	2,536
Non-current	38,675
Total	**41,211**

Head office lease:

During the year ended March 31, 2011, agreements which constitute a lease for space in a downtown Victoria, BC office building took effect following the completion of construction of the building. The initial term of the building lease is for fifteen years, with four renewal options of five years each. The lease agreement includes payment of building operating costs and property taxes based on the Group's proportion of total rentable area.

Loan and purchase option:

The Group has advanced funds to, and has a loan receivable from, the developer of the office property in the amount at $24.5 million. The term of the loan is fifteen years, secured by a second mortgage on the property. 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, the Group was granted an option to purchase up to 50% of the owner's equity interest in the building. The purchase option expires at the end of the loan term. The Group expects to exercise the option and therefore has included it in the determination of the lease liability.

13. Other liabilities

FortisBC Energy Inc. has committed to provide the Group with funding of $6.0 million for the Salish Class vessels and up to $10.0 million for the two Spirit Class vessels to be applied towards their mid-life upgrade and conversion to LNG. The funding is part of the NGT incentive funding and is dependent upon the purchase of LNG and the incremental costs of building/converting vessels to be capable of using LNG for propulsion.

As of March 31, 2018, the Group had received all of the eligible contributions related to the Salish Class vessels.

During the year ended March 31, 2020, the Group recorded $2.6 million (March 31, 2019: $2.6 million and March 31, 2018: $1.8 million) of the eligible contributions related to the Spirit Class vessels.

During the year ended March 31, 2020, the Group recognized $1.2 million (March 31, 2019: $0.9 million) as an offset to the capital costs of the vessels.

	Salish Class	Spirit Class	Total
Balance as at April 1, 2018	6,000	1,750	7,750
Additions	-	2,625	2,625
Reclassifications to property, plant and equipment	(511)	(348)	(859)
Balance as at March 31, 2019	**5,489**	**4,027**	**9,516**
Additions	-	2,625	2,625
Reclassifications to property, plant and equipment	(514)	(665)	(1,179)
Balance as at March 31, 2020	**4,975**	**5,987**	**10,962**

14. Financial instruments

The carrying values of the Group's financial instruments approximate fair values as at March 31, 2020 and March 31, 2019 for all financial instruments except for long-term debt.

	As at March 31, 2020		As at March 31, 2019	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long term debt, including current portion[1]	1,449,070	1,758,082	1,280,043	1,623,838

1. Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Carrying value is measured at amortized cost using the effective interest rate method. Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statements of financial position, or by using available quoted market prices.

The following items shown in the consolidated statements of financial position as at March 31, 2020 and March 31, 2019 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at March 31, 2020 or at March 31, 2019, valued using Level 3 inputs.

	As at March 31, 2020		As at March 31, 2019	
	Level 1	**Level 2**	**Level 1**	**Level 2**
Asset (liability):				
Cash [1,2]	140,703	-	49,486	-
Cash equivalents[2]	138	-	472	-
Derivative assets[3]	-	28	-	8,145
Derivative liabilities[3]	-	(32,719)	-	-
	140,841	**(32,691)**	**49,958**	**8,145**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified into or out of fair value classifications in the year ended March 31, 2020.

During the year ended March 31, 2020, gains or losses related to Level 2 derivatives have been recognized in OCI.

There were no Level 3 instruments outstanding during the period.

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the period end dates.

15. Financial risk management

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Group's business. The source of risk exposure and how each is managed is outlined below.

A – Credit risk:

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and cash equivalents, short-term investments, derivative assets and trade and other receivables, the Group's credit risk is limited to the carrying value on the statement of financial position. Management does not believe that the Group is subject to any significant concentration of credit risk.

The Group limits its exposure to credit risk on cash and cash equivalents and investments by investing in liquid securities with high credit quality counterparties, placing limits on tenor of investment instruments and instituting maximum investment values per counter party. The Group undertakes to invest in instruments that are issued, insured or guaranteed by the Government of Canada or a provincial government or a deposit insurance corporation established by or on behalf of the Government of Canada or the Province; pooled funds comprised of investments issued, insured or guaranteed by any level of government in Canada; or issued by corporate short term issues of debt with a rating of no less than R-1 (Mid) by DBRS or equivalent, or in pooled funds of such investments.

Accounts receivable by source are as follows:

	As at March 31			
	2020		**2019**	
Trade customers and miscellaneous	12,016	61.7%	12,999	55.9%
Federal and Provincial governments	7,472	38.3%	10,247	44.1%
	19,488	**100%**	**23,246**	**100%**

Accounts receivable from trade customers are primarily due from commercial customers and transportation operators. Credit risk is reduced by a large and diversified customer base and is managed through the review of third party credit reports on customers both before extending credit and during the business relationship.

1. Excluding Cash and cash equivalents of $28.3 million (March 31, 2019: $9.9 million) held at amortized cost.

2. Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

3. Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

The Group manages its exposure to credit risk associated with all customers through the monitoring of aging of receivables, by collecting deposits from and adjusting credit terms for higher risk customers and customers who are not on a pre-authorized payment plan. Amounts due from tickets sold to passengers through the use of major credit cards are settled shortly after sale and are classified as cash and cash equivalents on the statements of financial position.

Trade and other receivables are due in the short term. As at March 31, 2020, 8.6% (March 31, 2019: 15%) of trade and other receivables were past due. The Group is using the lifetime expected credit loss ("ECL") simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.

Based on the historical default experience, the Group has established a lifetime ECL allowance of 1% of the trade receivables. Amounts due from the Government of Canada and the Province are considered low credit risk and are excluded. As at March 31, 2020, the provision for impairment was $0.1 million.

Based on historical default experience and financial position of the counterparties and estimating the probability of default, the lifetime ECL equals zero for the Group's restricted and other short-term investments.

The Group has a loan receivable with a term of 15 years, secured by a second mortgage. The collateral is expected to exceed the amount of the loan and be available while the loan is outstanding.

The Group is exposed to credit risk in the event that a counterparty to an investment contract or a derivative contract defaults on its obligation. The Group manages credit risk by entering into contracts with high credit quality counterparties, in accordance with established investment parameters, and by an ongoing review of its exposure to counterparties. Counterparty credit rating and exposures are monitored by management on an ongoing basis, and are subject to approved credit limits.

The counterparties with which the Group has significant derivative transactions must be rated A or higher. The Group had no material derivative assets at March 31, 2020.

B – Liquidity risk:

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with its financial liabilities. The Group's financial position could be adversely affected if it fails to arrange sufficient and cost effective financing to fund, among other things, capital expenditures and the repayment of maturing debt.
The ability to arrange sufficient and cost effective financing is subject to numerous factors, including the results of operations and financial position of the Group, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

The Group manages liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, maintaining access to a credit facility and the maintenance of debt service reserves (note 10(g)). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates.

As at March 31, 2020 and March 31, 2019, the Group's credit ratings were as follows:

British Columbia Ferry Services Inc.:	DBRS	Standard & Poor's
Senior secured long-term debt	A (high)(stable) (March 31, 2019: A (high)(stable)	AA - (stable) (March 31, 2019: AA - (positive)

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2020:

Financial liabilities	Note	< 1 year	2-3 years	4-5 years	>5 years	Total
Accounts payable and accrued liabilities	7	132,296	-	-	-	132,296
Provisions	7	1,794	-	-	-	1,794
Interest payable on long-term debt	8	21,512	-	-	-	21,512
Lease liabilities, including current portion	12	2,536	5,569	5,832	27,274	41,211
Long-term debt, including current portion (excluding deffered costs)[1]	10	22,157	22,564	22,564	1,394,165	1,461,450
Other liabilities		1,301	2,602	2,602	7,335	13,840
Total financial liabilities – Principal only		181,596	30,735	30,998	1,428,774	1,672,103
Interest payable – Long term debt		66,543	131,937	130,992	974,481	1,303,953
Interest payable – Lease liabilities		1,804	3,227	2,699	739	8,469
Total financial liabilities, including interest payable		**249,943**	**165,899**	**164,689**	**2,403,994**	**2,984,525**

1. Carrying value at March 31, 2020, excludes unamortized deferred financing costs of $12.4 million.
The majority of the Group's long-term debt relates to funds used for acquisition of property, plant and equipment.

C – Market risk:
Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market interest rates, foreign currency prices or fuel prices.

The Group manages market risk arising from the exposure to volatility in foreign currency, interest rates, and fuel prices in part through the use of derivative financial instruments including forward contracts and swaps. The Group does not utilize derivative financial instruments for trading or speculative purposes. At the inception of each hedge the Group determines whether it will or will not apply hedge accounting.

Interest rate risk:
The Group is exposed to interest rate risk associated with short-term borrowings, floating rate debt and the pricing of future issues of long-term debt. As at March 31, 2020, the Group's cash equivalents and short-term investments included fixed rate instruments with maturities of 364 days or less. Accordingly, the Group has exposure to interest rate movement that occurs beyond the term of the maturity of the fixed rate investments. The Group's credit facility is at a variable rate and is subject to interest rate risk.

To manage this risk, the Group targets to maintain between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2020, the Group had no debt in variable rate instruments.

Foreign currency price risk:
The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and enters into derivative instruments as necessary. As at March 31, 2020, the notional amount of the Group's foreign currency forward contracts was $0.4 million (March 31, 2019: $0.5 million). A 10% change in foreign exchange rates would have had an effect of less than $0.1 million on net earnings for the year ended March 31, 2020.

Fuel price risk:
The Group is exposed to risks associated with changes in the market price of marine diesel fuel and LNG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term. Performance term five commenced April 1, 2020 and will end on March 31, 2024.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its regulatory (non-IFRS) earnings (note 28).

The Group hedges using CAD denominated ULSD fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the year ended March 31, 2020, the Group entered into ULSD fuel swap contracts with a notional value of $132.2 million CAD which was the notional value of all fuel swap contracts outstanding as at March 31, 2020 (March 31, 2019: $50.6 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the year ended March 31, 2020 and no LNG swap contracts were outstanding as at March 31, 2020.

An economic relationship exists between the hedged item and the hedging instrument as the value of the hedging instrument and the value of the hedged item move in the opposite direction as a result of the change in the hedged risk. A change in the credit risk of the hedging instrument or the hedged item does not dominate the value changes that result from the economic relationship.

During the year ended March 31, 2020, open fuel swap contracts had unrealized hedging losses of $36.5 million recognized in OCI (March 31, 2019: unrealized hedging gains of $7.5 million). In addition, for closed fuel swap contracts, net realized hedging gains of $4.4 million were reclassified from reserves and included in the Group's fuel expense during the year ended March 31, 2020 (March 31, 2019: net realized hedging gains of $11.8 million).

Due to the impact of the anticipated fuel decline as a result of COVID-19, the Group reviewed the probability assessment of its hedged future fuel purchases. On the basis of that assessment, the Group determined that the hedged amounts related to one of the Group's contracts for fiscal Q1 2021 are no longer considered highly probable to occur and the Group has 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 2021 consolidated financial statements. The unrealized loss recognized within the cash flow hedging reserve related to this contract is approximately $1.0 million.

Cash flow hedges:

	Fiscal 2021	Fiscal 2022	Fiscal 2023-2024	Total
Fuel contracts (litres in thousands)	67,905	63,490	78,175	209,570
Contract price range ($/litre)	$0.5950-$0.6520	$0.6270-$0.6499	$0.6090-$0.6275	

The impact of hedging instruments designated in hedging relationships as of March 31, 2020 on the statements of financial position was as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
Fuel swap contracts	43,441	(15,507)	Current derivative liabilities	(15,507)
Fuel swap contracts	88,881	(17,212)	Non-current derivative liabilities	(17,212)
Foreign exchange forward contracts	364	28	Current derivative assets	28

The impact of hedged items designated in hedging relationships as of March 31, 2020 on the statements of financial position was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	31,188	32,720
Foreign exchange forward contracts	279	-

Cash flow hedge reserve (note 20(a)):

	As at March 31	
	2020	2019
Hedging (losses) gains recognized in cash flow hedge reserve:		
Fuel swap contracts	(36,451)	7,450
Hedging (gains) losses reclassified from cash flow hedge reserve:		
Interest rate forward contracts – Amortization of hedge loss	248	248
Fuel swap contracts – Gains recognized in net earnings	(4,407)	(11,783)
Net change in cash flow hedge reserve	**(40,610)**	**(4,085)**

16. Other commitments

The Group has various contracts for certain building spaces, land and equipment. These contracts do not meet the definition of a lease. Contract payments for the year ended March 31, 2020 were $0.8 million (March 31, 2019: $0.5 million).

Future contract payments are as follows:

Less than one year	910
Between one and five years	2,616
More than five years	215
Total	**3,741**

17. Contingent liabilities

The Group, in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is uncertain. It is the Group's policy to carry adequate insurance to minimize the financial risk associated with such matters.

Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation would not be significant to the Group. Any additional future costs or recoveries which differ from the accrued amounts will be recognized in net earnings or loss as determined.

18. Share capital

A – Authorized:

1,000,000	Class A voting common shares, without par value
1	Class B voting common share, without par value
80,000	Class C non-voting, 8% cumulative preferred shares, with a par value of $1,000 per share, convertible to Class A shares upon the sale of the outstanding Class B share by the initial shareholder. Special rights attached to the Class C shares restrict the Group's ability to issue shares and to declare dividends.

B – Issued and Outstanding:

	As at March 31			
	2020		**2019**	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Class B, common	1	1	1	1
Class C, preferred	75,477	75,477	75,477	75,477
		75,478		**75,478**

C – Dividends:

Dividends on the Class C cumulative preferred shares, if declared, are payable annually on March 31 of each year. All dividend entitlements to date have been paid.

19. Capital management

The Group's 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. On February 22, 2019, the Board of Directors approved the Group's fiscal 2020 12-year capital portfolio of $3.9 billion, covering fiscal years 2019 through 2030, which will be invested in renewing and maintaining the fleet and the terminals, and improving the customer experience through technology infrastructure. The Commissioner's approval is required for those projects deemed by the Commissioner to be major capital expenditures.

In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (note 15(b)).

The capital structure of the Group is presented in the following table:

	As at March 31			
	2020		**2019**	
	$	**%**	**$**	**%**
Aggregate borrowings[1]	1,657,661	71.89%	1,488,713	70.42%
Total equity before reserves	648,223	28.11%	625,484	29.58%
Total	**2,305,884**	**100%**	**2,114,197**	**100%**

The Group has covenants restricting the issuance of additional debt, distributions to shareholders, and guarantees and restricted investments. Incurrence of additional debt and distributions are restricted when aggregate borrowings exceed 85% of the Group's total capital while certain guarantees and certain investments may be restricted when aggregate borrowings exceed 75%.

Under the credit facility and the KfW loans, debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost. Under the MTI (May 2004), the Group is required to maintain debt service reserves (note 10). Incurrence of additional debt is restricted if the debt service coverage ratio is less than 1.5 times the debt service cost and distributions are restricted if the debt service coverage ratio is less than 1.3 times. In addition to these restrictions and requirements, there are other covenants contained in these loan documents. The Group was in compliance with all of its covenants during the years ended March 31, 2020 and March 31, 2019.

1. Includes long-term debt, including current portion, credit facility (drawn and undrawn) and short-term borrowings

20. Other comprehensive (loss) income

A – Continuity of reserves:

	Note	Land revaluation reserves[1]	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2018		8,934	(5,969)	12,471	(6,462)	8,974
Land revaluation		7,945	-	-	-	7,945
Derivatives designated as cash flow hedges:	15(c)					
Net change in fair value		-	-	7,450	-	7,450
Realized gains		-	-	(11,783)	-	(11,783)
Amortization of losses		-	-	-	248	248
Balance as at March 31, 2019		**16,879**	**(5,969)**	**8,138**	**(6,214)**	**12,834**
Land revaluation		5,779	-	-	-	5,779
Actuarial losses on post-employment benefit obligations	11(d)	-	(126)	-	-	(126)
Derivatives designated as cash flow hedges:	15(c)					
Net change in fair value		-	-	(36,451)	-	(36,451)
Realized gains		-	-	(4,407)	-	(4,407)
Amortization of losses		-	-	-	248	248
Balance as at March 31, 2020		**22,658**	**(6,095)**	**(32,720)**	**(5,966)**	**(22,123)**

B – Other comprehensive (loss) income:

	Note	As at March 31 2020	2019
Items that are or may be reclassified subsequently to net earnings:			
Hedge (losses) gains on fuel swaps	15(c)	(36,451)	7,450
Items that will not be reclassified to net earnings:			
Land revaluations		5,779	7,945
Actuarial losses on post-employment benefit obligations	11(d)	(126)	-
		(30,798)	**15,395**

21. Net retail

	As at March 31 2020	2019
Retail revenue	102,962	102,847
Cost of goods sold	(39,248)	(38,987)
Net retail	**63,714**	**63,860**

1. Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve increases during the years ended March 31, 2020 and March 31, 2019, are shown above. During the year ended March 31, 2020, the Group recognized $0.1 million (March 31, 2019: $0.3 million) in net earnings as a result of land revaluation.

22. Operating expenses

	As at March 31	
	2020	**2019**
Salaries, wages and benefits	413,333	388,370
Fuel	109,341	109,138
Materials, supplies and contracted services	87,207	85,952
Other operating expenses	63,199	64,000
Depreciation and amortization	183,070	173,250
Total operating expenses	**856,150**	**820,710**

23. Net finance expense

	As at March 31	
	2020	**2019**
Finance expenses:		
Long-term debt	64,462	62,770
Other interest	465	725
Lease liabilities	1,927	1,887
Amortization of deferred financing costs and bond discounts	1,144	1,203
Interest capitalized in the cost of qualifying assets	(6,284)	(7,391)
Total finance expenses	61,714	59,194
Finance income	(7,532)	(6,182)
Net finance expense	**54,182**	**53,012**

24. Related party transactions

A – Management compensation:

The compensation of the Group's directors and executive officers during the year is as follows:

	Years ended March 31	
	2020	**2019**
Short-term benefits	2,151	2,119
Post-employment benefits	861	302
Termination benefits	-	593
Total	**3,012**	**3,014**

B – B.C. Ferry Authority:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the year ended March 31, 2020, the Group paid $0.2 million (March 31, 2019: $0.1 million) of such expenses.

The Province owns the Group's 75,477 non voting preferred shares, but has no voting interest in either the Group or the Authority.

25. Ferry service fees

On April 1, 2003, the Group entered into an agreement with the Province to provide ferry services on specified routes that would not be commercially viable and to administer certain social policy initiatives on behalf of the Province. In exchange for these services and to compensate for these non-profitable routes, the Group receives ferry service fees. The agreement is for a period of sixty years, the details of which are renegotiated after a first term of five years and each four year term thereafter. The agreement has been amended from time to time to, among other things, establish the ferry service levels and the fees for the provision of such service for the fifth performance term ending March 31, 2024.

26. Federal-Provincial Subsidy Agreement

The Group receives revenue provided to the Province from the Government of Canada pursuant to a contract between the federal and provincial governments. The federal government gives financial assistance to fulfill the obligation of providing ferry services to coastal British Columbia. The annual payment increases with the Vancouver Consumer Price Index.

27. Subsequent events

On April 3, 2020 and April 8, 2020, the Group 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. These adjustments, if sustained over a long period, will likely result in significant declines in earnings and cash from operations.

On April 4, 2020, 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 reduced service levels through to September 7, 2020. The Group cannot predict the full impact or the timing for when conditions improve. The Group is actively monitoring the situation to ensure the transportation of essential goods and services, while managing to preserve cash and protect the financial well-being of the company.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement whereby the debt service coverage of the impacted quarters in fiscal 2021 (first, second and third) will be replaced by an average of the debt service coverage from the respective quarters in fiscal years 2018, 2019 and 2020. This will result in a modified debt service coverage calculation that will exceed 1.25:1. As a condition, for the duration of the relief period, the Group 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, 2020, KfW conditionally consented to waive the DSCR covenant until and including March 2021, subject to the parties finalizing an amending agreement.

Given the impact of the COVID-19 pandemic, it is expected that the normal seasonal demand pattern will not occur during the remainder of fiscal 2021, with certain revenues, expenses, and balance sheet items tied directly to sales and operating activities expected to be significantly impacted by the drop in vehicle and passenger traffic. The demand for the summer period cannot yet be established with any sufficient degree of confidence.

28. Economic effect of rate regulation

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, in extraordinary situations, allow increases in price caps over the set levels.

In January 2014, the IASB issued IFRS 14, Regulatory Deferral Accounts. IFRS 14 is an interim standard, pending the outcome of the IASB's more comprehensive rate regulated activities project.

The Standard addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities, such as the Group, that had already transitioned to IFRS. The Group transitioned to IFRS effective April 1, 2011, prior to the issuance of IFRS 14, and therefore does not recognize regulatory assets or liabilities. As a result, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the obligations represented by the regulatory liabilities at March 31, 2020, will be settled through future tariff reductions or fuel rebates.

If the Group was permitted under IFRS to recognize the effects of rate regulation, the following regulatory (liabilities) assets would be shown on the consolidated statements of financial position:

	As at March 31	
Regulatory (liabilities) assets	**2020**	**2019**
Deferred fuel costs (a):		
Balance, beginning of year	4,455	(239)
Fuel costs (under) over set price	(1,111)	84
(Surcharges) rebates	(5,440)	4,585
Fuel price risk recoveries payable to the Province	-	25
Balance, end of year	(2,096)	4,455
Total regulatory (liabilities) assets	**(2,096)**	**4,455**

A – Deferred fuel costs:

As prescribed by regulatory order, the Group defers differences between actual fuel costs and approved fuel costs which were used to develop the regulated price caps.

The regulatory deferred fuel cost accounts operate as follows:

i) for those routes operating on the mid-coast and to and from Prince Rupert;

A. the first 5 cents per litre of difference is recognized in deferral accounts for recovery or settlement through future tariffs to customers;

B. any difference beyond 5 cents per litre is recognized in accounts receivable or payable for subsequent recovery from or payment to the Province, and

ii) for all other routes;

A. recognized in deferral accounts for recovery or settlement through future tariffs to customers.

Also prescribed by regulatory order, the Group collects fuel surcharges or provides fuel rebates from time to time which are applied against deferred fuel cost account balances.

During the year ended March 31, 2020, the amount payable to the Province in relation to fuel cost differences was $nil (March 31, 2019: $25,000).

B – Tariffs in excess of price cap:

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At March 31, 2020 and March 31, 2019, tariffs charged to customers were below established price caps.

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the year ended March 31, 2020 would have been $6.6 million lower (March 31, 2019: $4.7 million higher) as detailed below:

	Years ended March 31	
Effect of rate regulation on net earnings	**2020**	**2019**
Regulatory accounts:		
Deferred fuel costs	(6,551)	4,694
Total regulatory (liabilities) assets	**(6,551)**	**4,694**

Family using the self-serving kiosks at Horseshoe Bay terminal