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

For the three months ended
June 30, 2020

Dated August 19, 2020

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BCFerries

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The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") for the three months ended June 30, 2020 that has been prepared with information available as of August 19, 2020. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three month periods ended June 30, 2020 and 2019, and our audited consolidated financial statements and related notes for the years ended March 31, 2020 ("fiscal 2020") and March 31, 2019 ("fiscal 2019"), together with our Management's Discussion and Analysis for fiscal 2020. 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 36 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.

During the three months ended June 30, 2020 (the first quarter of fiscal 2021), we delivered 18,249.5 round trips, a decrease of 2,340 or 11.4% compared to the same period in the prior year. On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus COVID-19 as a pandemic. The COVID-19 pandemic has significantly impacted our vehicle and passenger traffic. We carried 2.2 million passengers and 1.3 million vehicles during the quarter, a decrease of 61.5% and 46.7%, respectively, compared to the same quarter in the prior year. For a discussion of our traffic levels, see "Financial and Operational Overview" below.

BC Ferries is continuing to monitor and respond the impact of the COVID-19 pandemic. Although traffic was significantly down compared to the first quarter of fiscal 2020, we have seen improvements in traffic during the quarter. Tariff revenue was over 120% higher in June than April 2020, with significant increases in both vehicle and passenger traffic due to an increase in service levels and returning customer demand. In response to the COVID-19 pandemic related reductions in traffic, we have reduced discretionary spending and deferred $100 million of capital spending beyond fiscal 2021. We have also negotiated covenant relief on our credit facility and KfW IPEX-Bank GmbH ("KfW") loans. BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions will improve and traffic returns to normal levels. The recent announcement, on August 11 (see below for further details), by the Province confirming BC Ferries' eligibility for Federal/Provincial transit funding is a possible funding opportunity for the Company. We believe that we are positioned appropriately to sustain our business in this challenging environment and adapt to the changing circumstances as the COVID-19 pandemic evolves.

Significant events during or subsequent to the first quarter of fiscal 2021 include the following:

COVID-19 Pandemic Response Update

- The Coastal Ferry Services Contract ("CFSC") was initially amended in April 2020 for a 60-day period, expiring in early June, to reflect temporary reduced service levels in response to the COVID-19 pandemic while maintaining the related ferry transportation fees. On June 2, 2020, the CFSC with the Province was amended to extend temporary service level adjustments through to September 7, 2020. The initial reductions meant that capacity across our network was reduced by approximately 24% compared to the same quarter in fiscal 2020. The majority of the service reductions were on the Major Routes. The current service level plan gradually increases service levels across multiple routes to match ferry service to demand and meet the needs of customers and communities. As we increase service levels in accordance with the service level plan, our capacity is planned to exceed projected summer demand by an average of 20%.
- On August 11, 2020, the Province announced BC Ferries is one of the entities included in the Federal Government's previously announced transit funding of $540 million in response to the impact of COVID-19. This transit funding is to be matched equally by the Province for a total funding envelope of $1.08 billion. Over the past few months, BC Ferries has been working closely with the Province, having formed a task force to collaboratively work together on strategic options to sustain the ferry system for the long term. The task force consists of representatives from the B.C. Ferry Authority Board, the BC Ferries Board, BC Ferries management, the Ministry of Transportation, and the Ministry of Finance.
- Our priorities are protecting passengers and employees aboard our ferries and in all workplaces, and adhering to provincial and federal guidelines during this gradual resumption of service. We are following the directives and guidance provided by the Province and Transport Canada. These government measures were put in place and include limiting passenger capacity to support physical distancing, screening customers on arrival at the terminal, allowing customers to remain in their vehicles on all decks during the sailing, and enhanced cleaning.
- Effective June 15, 2020, in keeping with directives and guidance provided by Transport Canada, BC Ferries requires passengers travelling on the ferry to be in possession of a face covering that covers their mouth and nose, and we ask them to wear this covering in situations when a physical separation of two metres cannot be maintained.
- Late in June 2020, we carefully introduced limited food services on select routes. Early July 2020, we announced the reopening of additional terminal and onboard amenities across the fleet.
- We continue to review and amend both operating and capital plans to reduce costs and defer spending in order to preserve cash.

Tariffs

- On April 1, 2020, 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. As of April 1, 2020, a fuel rebate of 1.5% was implemented on all routes as a result of recent fuel prices.

Vessels

- On June 10, 2020, the *Island Discovery* commenced service between Powell River and Texada Island and on June 18, 2020, the *Island Aurora* commenced service between Port McNeill, Alert Bay and Sointula. These two new Island Class vessels, constructed by Damen Shipyard Group are hybrid-electric ships designed for future full electric operation. The addition of the *Island Discovery* and the *Island Aurora* allowed us to retire the 62-year old *North Island Princess* in the first quarter of fiscal 2021 and the 54-year old *Howe Sound Queen* in fiscal 2020.

General

- 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.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three month periods ended June 30, 2020 and 2019.

	Three months ended June 30			
			Variance	
($ millions)	**2020**	**2019**	**$**	**%**
Total revenue	137.4	246.4	(109.0)	(44.2%)
Operating expenses	183.7	220.4	(36.7)	(16.7%)
Operating (loss) profit	(46.3)	26.0	(72.3)	(278.1%)
Net finance and other	15.7	13.8	(1.9)	(13.8%)
Net (loss) earnings	(62.0)	12.2	(74.2)	(608.2%)
Other comprehensive loss	(0.4)	(0.1)	(0.3)	(300.0%)
Total comprehensive (loss) income	(62.4)	12.1	(74.5)	(615.7%)

Traffic and revenue declined in the three months ended June 30, 2020 as we felt the impact of the COVID-19 pandemic. These impacts include declines in revenue, earnings, and cash from operations. In addition, the use of our cash reserves to fund operations, will adversely affect our ability to borrow in the future.

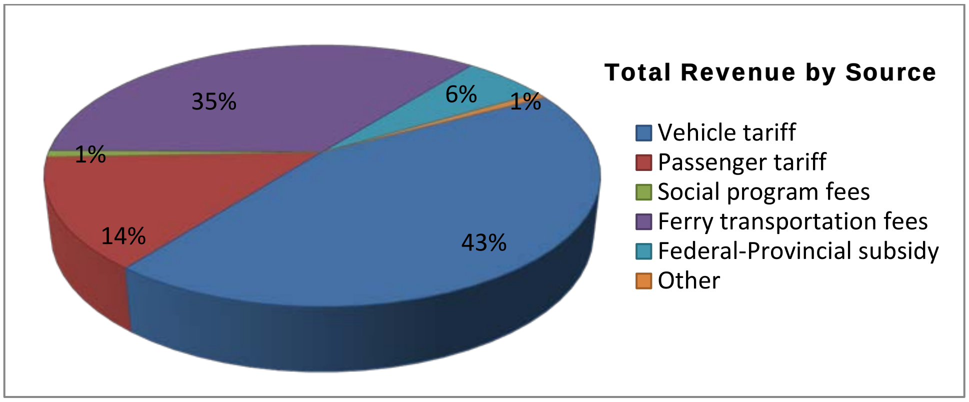
In the three months ended June 30, 2020, our net loss was $62.0 million compared to net earnings of $12.2 million in the same period in the prior year. In the three months ended June 30, 2020, revenues decreased by $109 million or 44.2% compared to the first quarter of the previous fiscal year, primarily as a result of the decreases in traffic volumes and net retail sales. Our vehicle and passenger traffic decreased 46.7% and 61.5% respectively, compared to the same period in the prior year. On April 1, 2020, 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. A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent reductions in fuel prices.

In the three months ended June 30, 2020, in response to the decline in traffic resulting from the COVID-19 pandemic, we provided 2,340 fewer round trips compared to the same period in the prior year. In the three months ended June 30, 2020, operating expenses decreased by $36.7 million or 16.7% compared to the first quarter of the previous fiscal year and includes reduced labour costs, fuel consumption, maintenance, contracted services, depreciation expense and other miscellaneous costs. We deferred material capital expenditures and will continue to reduce discretionary spend while operating a sustainable, safe, and reliable service. During the month of June 2020, we also introduced the *Island Discovery and Island Aurora* into service and retired the *North Island Princess*.

During the three months ended June 30, 2020, our total comprehensive loss was $62.4 million compared to a total comprehensive income of $12.1 million in the same period in the prior year. This was a decrease of $74.5 million or 615.7%, compared to the same period in the prior year, comprised of an increase in the other comprehensive loss by $0.3 million and a decrease in net earnings of $74.2 million. The other comprehensive loss of $0.4 million reflects the decrease in fair value of our open fuel swap contracts.

Revenue and Operational Statistics - Overall

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (See “Accounting Practices - The Effect of Rate Regulation”). 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 Minor Routes consist of 18 regulated routes and 8 unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.



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

Select operational statistics and total revenues for the three month periods ended June 30, 2020 and 2019 are shown in the tables below.

	Three months ended June 30		
Operational Statistics	**2020**	**2019**	**Change**
Vehicle traffic	1,258,620	2,360,276	(46.7%)
Passenger traffic	2,242,083	5,828,909	(61.5%)
On-time performance	90.2%	86.9%	3.3%
Number of round trips	18,249.5	20,589.5	(11.4%)
Capacity provided (AEQs)	3,008,553	3,960,925	(24.0%)
AEQs carried	1,517,728	2,683,711	(43.4%)
Capacity utilization	50.4%	67.8%	(17.4%)

During the three months ended June 30, 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic, with a decrease of 46.7% and 61.5%, respectively, compared to the same period in the prior year. The CFSC stipulates, among other things, the minimum number of round trips to be provided for each regulated ferry service route. In agreement with the Province, the CFSC was amended to reflect temporary service level adjustments with the majority of reductions on the Major Routes. Despite providing 2,340 fewer round trips in the three months ended June 30, 2020 compared to the same period in the prior year, (of which there were 65% fewer on the Major Routes, 34% fewer on the Minor Routes and 1% fewer on the Northern Routes), the decrease in demand exceeded the reduction in capacity.

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

In the three months ended June 30, 2020, overall on-time performance increased by 3.3% to 90.2% compared to 86.9% in the same period in the prior year. The on-time performance on the Major Routes declined primarily due to operating compressed sailing schedules, and extra time needed to separate essential and non-essential traffic as a result of COVID-19, but was offset by an increase in on-time performance on both the Northern and Minor Routes.

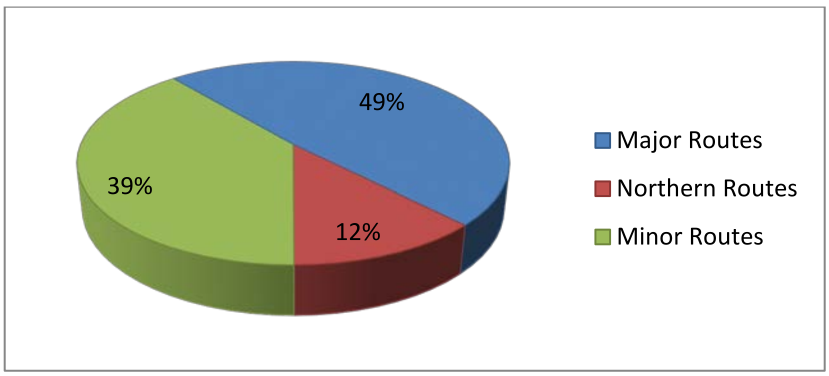
An automobile equivalent (“AEQ”) is our standard unit of measure for an approximation of one car length. AEQs are calculated by using a conversion factor for each vehicle type. For example, a passenger vehicle would be one AEQ while a bus would be three AEQs. The change in AEQs from one period to the 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 and the amount of ferry transportation fees payable by the Province for the Minor Routes and Northern Routes. 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 the three months ended June 30, 2020, we provided 2,340 fewer round trips compared to the same period in the prior year due to the impact of the COVID-19 pandemic, resulting in a decrease in capacity provided of 24.0%.

	Three months ended June 30			
Round Trips	**2020**	**2019**	**Decrease**	**%**
Major Routes	1,932.0	3,445.0	(1,513.0)	(43.9%)
Northern Routes	70.5	87.0	(16.5)	(19.0%)
Minor Routes	16,247.0	17,057.5	(810.5)	(4.8%)
Number of round trips	18,249.5	20,589.5	(2,340.0)	(11.4%)

Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Capacity utilization varies significantly from month to month. Typically, 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. Despite a decrease of 24% in capacity provided, overall, capacity utilization for the three months ended June 30, 2020, was still only 50.4%. This was a decrease of 17.4% compared to capacity utilization of 67.8% during the same quarter in the prior year, primarily due to lower traffic levels as a result of the COVID-19 pandemic.

Revenue	**Three months ended June 30**			
($ millions)			**Increase (Decrease)**	
	2020	**2019**	**$**	**%**
Direct Route Revenue				
Vehicle tariff	59.7	105.2	(45.5)	(43.3%)
Passenger tariff	19.1	57.3	(38.2)	(66.7%)
Net catering & on-board	0.6	16.2	(15.6)	(96.3%)
Social program fees	1.1	4.5	(3.4)	(75.6%)
Other revenue	1.0	3.0	(2.0)	(66.7%)
Fuel (rebate) surcharge	(1.2)	0.8	(2.0)	(250.0%)
Total Direct Route Revenue	80.3	187.0	(106.7)	(57.1%)
Indirect Route Revenue				
Ferry transportation fees	48.9	51.0	(2.1)	(4.1%)
Federal-Provincial subsidy	8.0	7.8	0.2	2.6%
Total Route Revenue	137.2	245.8	(108.6)	(44.2%)
Other general revenue	0.2	0.6	(0.4)	(66.7%)
Total Revenue	137.4	246.4	(109.0)	(44.2%)



In the three months ended June 30, 2020, the greatest portion of our revenues (49%) was earned on our Major Routes. Revenue from the Northern Routes contributed 12% and revenue from Minor Routes contributed 39%.

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 tariff rates.

Net catering and on-board sales is normally our second largest source of direct revenue and provided a gross margin of approximately 60%, which contributed favourably to our net earnings and helped to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. Most of our food and on-board services were closed for the first quarter of fiscal 2021 due to the COVID-19 pandemic. Late in June 2020, we carefully introduced limited food services on select routes.

Social program fees, from the Province, are reimbursements 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. A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent fuel price reductions. Fuel surcharges of 1.5% on average on all routes, with the exception of the Northern Routes, were in place during the first quarter of fiscal 2020. For the purpose of rate regulation, surcharges and/or rebates are applied to our deferred fuel cost accounts. (See "Accounting Practices - The Effect of Rate Regulation" for more detail.)

We operate ferry services under a regulatory regime established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the CFSC between BC Ferries and the Province. The CFSC 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). Effective April 1, 2020, the CFSC was amended for performance term five ("PT5'), formalizing revised ferry transportation fees for the four-year term which commenced April 1, 2020 and ends on March 31, 2024. The annual maximum ferry transportation fees for fiscal 2021 is lower by $3.8 million compared to fiscal 2020, as the Province reduced contributions towards fare initiatives. As well, the amendments to the CFSC resulted in revised fees per round trip, with the Northern Routes receiving lower maximum annual fees overall while the Minor Routes received higher maximum annual fees. These rate changes were based on a review of the average net loss (before ferry transportation fees) of the last fifteen years for each route.

Beginning 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 remained unchanged over the years at 33% every day. The Province partially funded these fare initiatives and it was included in ferry transportation fees in fiscal 2020.

Year to year changes in ferry transportation fess for the three month periods ended June 30, 2020 and 2019 are shown in this table:

Ferry Transportation Fees ($ thousands)	**Three months ended June 30**			
	2020	**2019**	**Increase (Decrease)**	**%**
Major Routes				
BC seniors' discounts	1,126	1,960	(834)	(42.5%)
Fare initiatives	-	2,843	(2,843)	(100.0%)
Major Routes fees	1,126	4,802	(3,677)	(76.6%)
Northern Routes				
Fees per trip	13,127	15,890	(2,763)	(17.4%)
BC seniors' discounts	11	-	11	n/a
Fare initiatives	-	408	(408)	(100.0%)
Northern Routes fees	13,137	16,297	(3,160)	(19.4%)
Minor Routes				
Fees per trip	33,158	25,999	7,159	27.5%
BC seniors' discounts	770	679	91	13.4%
Fare initiatives	-	2,406	(2,406)	(100.0%)
Contracted routes	691	773	(82)	(10.6%)
Minor Routes fees	34,619	29,857	4,762	16.0%
Total Ferry Transportation Fees	48,882	50,956	(2,074)	(4.1%)

Year to year changes in revenue and operational statistics for the three month periods ended June 30, 2020 and 2019 for the Major, Northern and Minor Routes are discussed separately below.

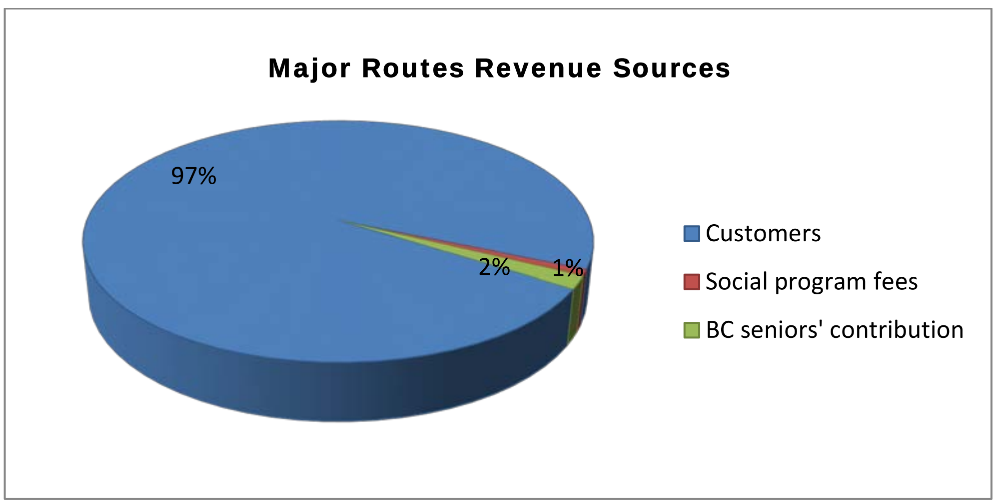
Revenue and Operational Statistics - Major Routes

Our Major Routes consist of our four busiest routes, carrying approximately 51% of our total vehicle traffic and 53% of our total passenger traffic in the three months ended June 30, 2020, and generating approximately 82% of our direct route revenue.

Operational Statistics	Three months ended June 30 2020	2019	Change
Vehicle traffic	645,371	1,363,020	(52.7%)
Passenger traffic	1,193,547	3,670,214	(67.5%)
On-time performance	65.3%	79.8%	(14.5%)
Number of round trips	1,932.0	3,445.0	(43.9%)
Capacity provided (AEQs)	1,232,546	2,140,022	(42.4%)
AEQs carried	842,007	1,611,334	(47.7%)
Capacity utilization	68.3%	75.3%	(7.0%)

Over the three months ended June 30, 2020, vehicle traffic decreased 52.7% and passenger traffic decreased 67.5% compared to the same period in the prior year as a result of the COVID-19 pandemic.

During the first quarter of fiscal 2021, overall on-time performance on the Major Routes decreased from 79.8% to 65.3% or 14.5% compared to the same period in the prior year. On-time performance on all of the Major Routes decreased, primarily due to operating compressed sailing schedules, and extra time needed to separate essential and non-essential traffic as a result of the COVID-19 pandemic.



In the three months ended June 30, 2020, revenue from our Major Routes consisted of 97% from customers and the remaining 3% from the Province.

Major Routes (continued)

Revenue ($ thousands)	**Three months ended June 30**			
	2020	**2019**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	50,008	89,338	(39,330)	(44.0%)
Passenger tariff	14,857	47,348	(32,491)	(68.6%)
Net catering & on-board	434	14,404	(13,970)	(97.0%)
Social program fees	546	2,374	(1,828)	(77.0%)
Parking	347	1,872	(1,525)	(81.5%)
Other revenue	550	1,008	(458)	(45.4%)
Fuel (rebate) surcharge	(994)	719	(1,713)	(238.2%)
Total Direct Route Revenue	65,748	157,063	(91,315)	(58.1%)
Indirect Route Revenue				
Ferry transportation fees	1,126	4,802	(3,676)	(76.6%)
Total Route Revenue	66,874	161,865	(94,991)	(58.7%)

Average tariff ($)	**Three months ended June 30**		
	2020	**2019**	**Increase (Decrease)**
Vehicle tariff ($000's)	50,008	89,338	
Vehicle traffic	645,371	1,363,020	
Average tariff per vehicle	77.49	65.54	11.95
Passenger tariff ($000's)	14,857	47,348	
Passenger traffic	1,193,547	3,670,214	
Average tariff per passenger	12.45	12.90	(0.45)

On April 1, 2020 and throughout the first quarter of fiscal 2021, fares on all routes were held at fiscal 2020 levels.

In the three months ended June 30, 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) was $77.49, which is 18.2% higher than the same period in the prior year, mainly as a result of a change in the traffic mix (increased commercial traffic with higher tariffs) and a higher proportion of vehicles travelling with a reservation. In the three months ended June 30, 2020, average tariff revenue per passenger was $12.45, which is a decrease of $0.45 or 3.5% compared to the same period in the prior year. The change in average tariff revenue and the decrease in traffic levels during the first quarter of fiscal 2021 from the impact of the COVID-19 pandemic resulted in a total tariff revenue decrease of $71.8 million compared to the same period in the prior year.

All vessels that provide service on our Major Routes have a gift shop and options for food service. In the three months ended June 30, 2020, net retail sales decreased $14.0 million or 97.0% compared to the same period in the prior year as a result of closing our food service in response to the COVID-19 pandemic.

Major Routes (continued)

Social program fees for the three months ended June 30, 2020 decreased $1.8 million or 77.0% compared to the same period in the prior year, mainly due to a decrease in the usage of the MTAP program and a reduction in the number of students travelling under the program during the COVID-19 pandemic.

Revenue from parking decreased $1.5 million or 81.5% in the three months ended June 30, 2020 compared to the same period in the prior year as a result of decline in passenger traffic.

Other revenue decreased $0.5 million or 45.4% in the three months ended June 30, 2020 compared to the same period in the prior year as a result of closing our retail services and therefore not receiving retail rents and commissions.

A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent reductions in fuel prices. Fuel surcharges of 1.5% on average were in place during the first quarter of fiscal 2020.

The ferry transportation fees of $1.1 million reflect reimbursement for the BC seniors' discount in the three months ended June 30, 2020. The $4.8 million in the three months ended June 30, 2019 consisted of $2.0 million towards the increased BC seniors' discount and $2.8 million for fare initiatives.

Revenue and Operational Statistics - Northern Routes

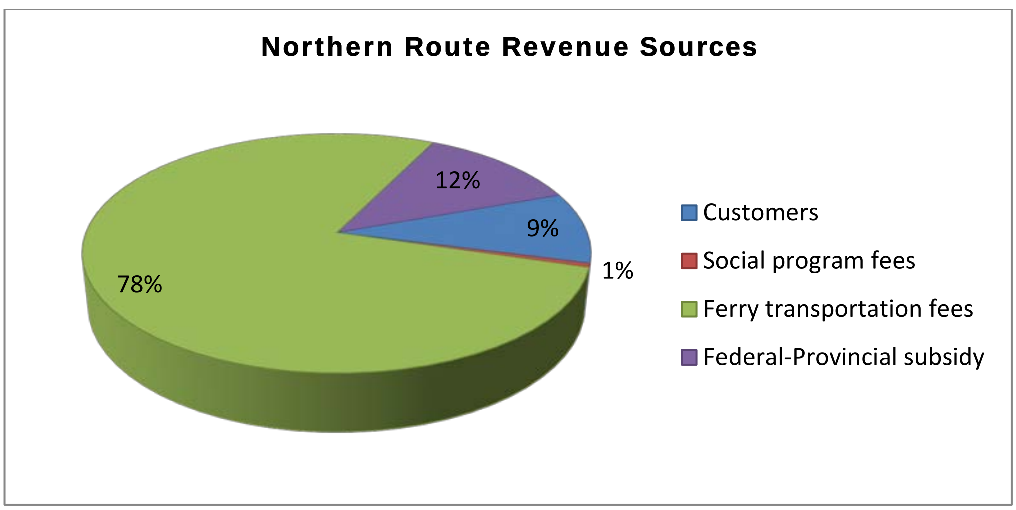
Our Northern Routes currently consist of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island.

Operational Statistics	Three months ended June 30 2020	2019	Change
Vehicle traffic	3,420	8,957	(61.8%)
Passenger traffic	5,181	22,616	(77.1%)
On-time performance	86.1%	85.5%	0.6%
Number of round trips	70.5	87.0	(19.0%)
Capacity provided (AEQs)	13,652	13,134	3.9%
AEQs carried	4,669	11,100	(57.9%)
Capacity utilization	34.2%	84.5%	(50.3%)

In the three months ended June 30, 2020, vehicle traffic decreased 61.8% and passenger traffic decreased 77.1% compared to the same period in the prior year as a result of the COVID-19 pandemic.

On-time performance in the three months ended June 30, 2020 increased slightly from 85.5% to 86.1% or 0.6% compared to the same period in the prior year.

Capacity utilization on these routes during the three months ended June 30, 2020 was 50.3% lower than the same period in the prior year, primarily as a result of the decrease in the number of AEQs carried.



In the three months ended June 30, 2020, revenue from our Northern Routes consisted of 10% from customers and the remaining 90% from the Province.

Northern Routes (continued)

Revenue ($ thousands)	Three months ended June 30			
	2020	**2019**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	1,020	2,279	(1,259)	(55.2%)
Passenger tariff	332	1,637	(1,305)	(79.7%)
Net catering & on-board	16	282	(266)	(94.3%)
Social program fees	96	264	(168)	(63.6%)
Stateroom rental	226	509	(283)	(55.6%)
Hostling & other	56	61	(5)	(8.2%)
Fuel (rebate)	(22)	-	(22)	n/a
Total Direct Route Revenue	1,724	5,032	(3,308)	(65.7%)
Indirect Route Revenue				
Ferry transportation fees	13,137	16,297	(3,160)	(19.4%)
Federal-Provincial subsidy	2,054	2,010	44	2.2%
Total Route Revenue	16,915	23,339	(6,424)	(27.5%)

Average tariff ($)	Three months ended June 30		
	2020	**2019**	**Increase (Decrease)**
Vehicle tariff ($000's)	1,020	2,279	
Vehicle traffic	3,420	8,957	
Average tariff per vehicle	298.25	254.44	43.81
Passenger tariff ($000's)	332	1,637	
Passenger traffic	5,181	22,616	
Average tariff per passenger	64.08	72.38	(8.30)

In the three months ended June 30, 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) was $298.25, which is an increase of $43.81 or 17.2% compared to the same period in the prior year, primarily due to an increase in the proportion of traffic on routes with higher versus lower tariffs. In the three months ended June 30, 2020, average tariff revenue per passenger was $64.08, which is a decrease of $8.30 or 11.5% compared to the same period in the prior year. The change in average tariff revenue and the decrease in traffic levels during the first quarter of fiscal 2021 from the impact of the COVID-19 pandemic resulted in a total tariff revenue decrease of $2.6 million compared to the same period in the prior year.

Revenue from net retail services decreased $0.3 million or 94.3% in the quarter compared to the same period in the prior year as a result of closing our food service during the COVID-19 pandemic.

Reimbursements from the Province for social program fees decreased $0.2 million or 63.6% compared to the same period in the prior year, mainly as a result of a reduction in the usage of the MTAP program during the COVID-19 pandemic.

Northern Routes (continued)

Stateroom rental revenue decreased $0.3 million or 55.6% compared to the same period in the prior year as result of less passenger traffic.

A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent reductions in fuel prices. No fuel rebate or surcharge was in place during the first quarter of fiscal 2020.

Ferry transportation fees received from the Province decreased $3.2 million in the quarter compared to the same period in the prior year, mainly as a result of a reduction in fees per round trip and maximum fees for PT5 and differences in the monthly schedule of round trips.

The Federal-Provincial subsidy increased based on the percentage increase in the annual Consumer Price Index (“CPI”) (Vancouver).

Revenue and Operational Statistics - Minor Routes

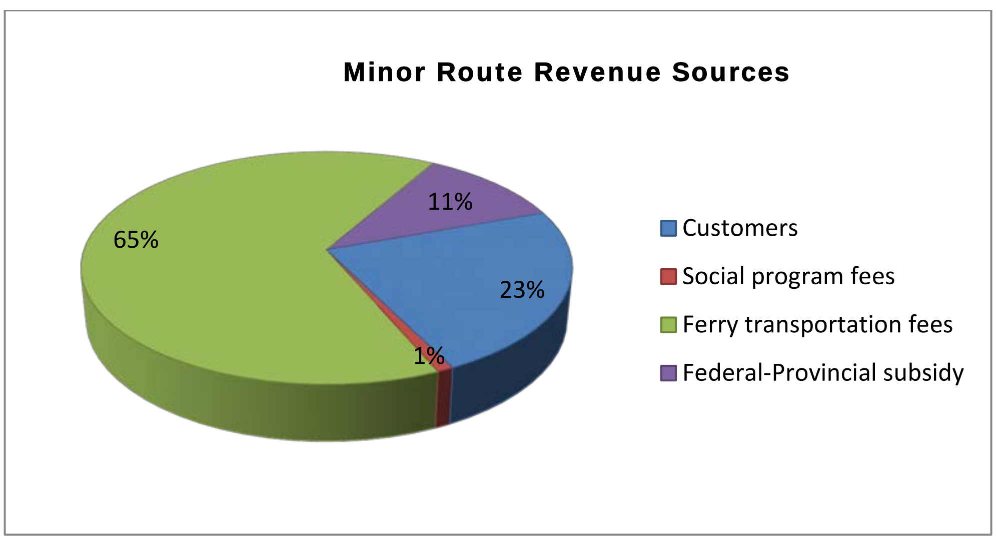
Our Minor Routes primarily serve the northern and southern Gulf Islands and the northern Sunshine Coast. One of the 18 regulated routes and all eight of the unregulated routes are operated under contract by alternative service providers. We receive fees from the Province for the provision of contracted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

Operational Statistics	Three months ended June 30 2020	2019	Change
Vehicle traffic	609,829	988,299	(38.3%)
Passenger traffic	1,043,355	2,136,079	(51.2%)
On-time performance	92.9%	88.2%	4.7%
Number of round trips	16,247.0	17,057.5	(4.8%)
Capacity provided (AEQs)	1,762,355	1,807,769	(2.5%)
AEQs carried	671,052	1,061,277	(36.8%)
Capacity utilization	38.1%	58.7%	(20.6%)

During the three months ended June 30, 2020, vehicle traffic decreased 38.3% and passenger traffic decreased 51.2% compared to the same period in the prior year primarily as a result of the COVID-19 pandemic.

On-time performance in the three months ended June 30, 2020 increased from 88.2% to 92.9% or 4.7% compared to the same period in the prior year, primarily due to significantly reduced traffic as a result of the COVID-19 pandemic and only a small reduction in capacity.

Capacity utilization on these routes during the three months ended June 30, 2020 decreased 20.6% compared to the same period in the prior year, primarily due to a lower number of AEQs carried.



In the three months ended June 30, 2020, revenue from our Minor Routes consisted of 23% from customers and 77% from the Province.

Minor Routes (continued)

Revenue ($ thousands)	Three months ended June 30			
	2020	**2019**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	8,611	13,547	(4,936)	(36.4%)
Passenger tariff	3,953	8,328	(4,375)	(52.5%)
Social program fees	505	1,816	(1,311)	(72.2%)
Net catering & on-board	(7)	1,023	(1,030)	(100.7%)
Parking & other	43	72	(29)	(40.3%)
Fuel (rebate) surcharge	(226)	119	(345)	(289.9%)
Total Direct Route Revenue	12,879	24,905	(12,026)	(48.3%)
Indirect Route Revenue				
Ferry transportation fees	34,619	29,857	4,762	15.9%
Federal-Provincial subsidy	5,953	5,825	128	2.2%
Total Route Revenue	53,451	60,587	(7,136)	(11.8%)

Average tariff ($)	Three months ended June 30		
	2020	**2019**	**Increase (Decrease)**
Vehicle tariff ($000's)	8,611	13,547	
Vehicle traffic	609,829	988,299	
Average tariff per vehicle	14.12	13.71	0.41
Passenger tariff ($000's)	3,953	8,328	
Passenger traffic	1,043,355	2,136,079	
Average tariff per passenger	3.79	3.90	(0.11)

During the three months ended June 30, 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) was $14.12, an increase of $0.41 or 3.0% compared to the same period in the prior year reflecting an increase in the proportion of traffic on routes with higher versus lower tariffs. During the three months ended June 30, 2020, average tariff revenue per passenger was $3.79, a decrease of $0.11 or 2.8% compared to the same period in the prior year. The change in average tariff revenue and the decrease in traffic levels during the first quarter of fiscal 2021 from the impact of the COVID-19 pandemic resulted in a total tariff revenue decrease of $9.3 million compared to the same period in the prior year.

Social program fees for the three months ended June 30, 2020 decreased $1.3 million or 72.2% compared to the same period in the prior year, mainly due to a decrease in the usage of the MTAP program and a reduction in the number of students travelling under the program during the COVID-19 pandemic.

In the three months ended June 30, 2020, net retail sales decreased $1.0 million or 100.7% compared to the same period in the prior year as a result of closing our food service during the COVID-19 pandemic.

A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent reductions in fuel prices. Fuel surcharges of 1.5% on average were in place during the first quarter of fiscal 2020.

Minor Routes (continued)

Ferry transportation fees received from the Province increased $4.8 million in the quarter compared to the same period in the prior year, mainly as a result of an increase in fees per round trip and maximum fees for PT5.

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

Expenses
Expenses for the three month periods ended June 30, 2020 and 2019 are summarized in the table below:

Operating expenses	Three months ended June 30			
($ millions)	2020	2019	(Increase) Decrease $	(Increase) Decrease %
Operations	105.3	140.7	35.4	25.2%
Maintenance	23.1	26.3	3.2	12.2%
Administration	11.3	8.7	(2.6)	(29.9%)
Total operations, maintenance & administration	139.7	175.7	36.0	20.5%
Depreciation and amortization	44.0	44.7	0.7	1.6%
Total operating expenses	183.7	220.4	36.7	16.7%

In the three months ended June 30, 2020, in response to the decline in traffic as a result of the COVID-19 pandemic, we provided 2,340 fewer round trips compared to the same period in the prior year. Total operating expenses decreased $36.7 million or 16.7% compared to the same period in the prior year and includes reduced labour costs, fuel consumption, maintenance, contracted services, depreciation expense, and other miscellaneous costs. These cost reduction measures will not fully offset the decline in revenues as a significant portion of our costs are fixed, such as depreciation, and do not meaningfully fluctuate with reduced traffic demand.

During the three months ended June 30, 2020, expenses from operations decreased $35.4 million compared to the same period in the prior year due to:

- $19.2 million decrease in labour costs, mainly due to staffing level changes for reduced round trips provided, reduced training, and lower benefit usage, somewhat offset by a wage rate increase of 1.9% effective April 1, 2020 in accordance with the Collective Agreement;
- $9.0 million decrease in fuel expense, primarily due to a reduction in fuel consumption due to a lower number of round trips provided;
- $2.0 million decrease in contracted services related to information technology, traffic control, contracted parking costs and consulting costs;
- $1.6 million decrease in credit card fees;
- $1.0 million decrease in materials and supplies relating to office, catering and uniform costs; and
- $2.6 million decrease in insurance, property tax, travel, advertising, training and other miscellaneous expenses.

The $3.2 million decrease in maintenance costs compared to the prior year is a result of the cyclical nature of vessel refit activity and reduced contracted services and materials and supplies.

The $2.6 million increase in administration costs compared to the prior year is primarily a result of a pending legal settlement and higher computer software and licencing costs.

Expenses (continued)

Depreciation and amortization decreased $0.7 million, 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 ($ millions)	**Three months ended June 30**			
			(Increase)	
	2020	**2019**	**$**	**%**
Finance expense	15.0	15.0	0.0	-
Less: finance income	(1.2)	(1.2)	0.0	-
Net finance expense	13.8	13.8	0.0	-
Loss (gain) on disposal and revaluation of property, plant and equipment, and intangible assets	1.9	-	(1.9)	-
Total net finance and other expenses	15.7	13.8	(1.9)	(13.8%)

In the three months ended June 30, 2020, net finance and other expenses increased $1.9 million compared to the same period in the prior year as result of higher asset impairments. In response to the COVID-19 pandemic, we reviewed our capital plan and deferred our new major vessel project, which resulted in an asset impairment of $1.8 million.

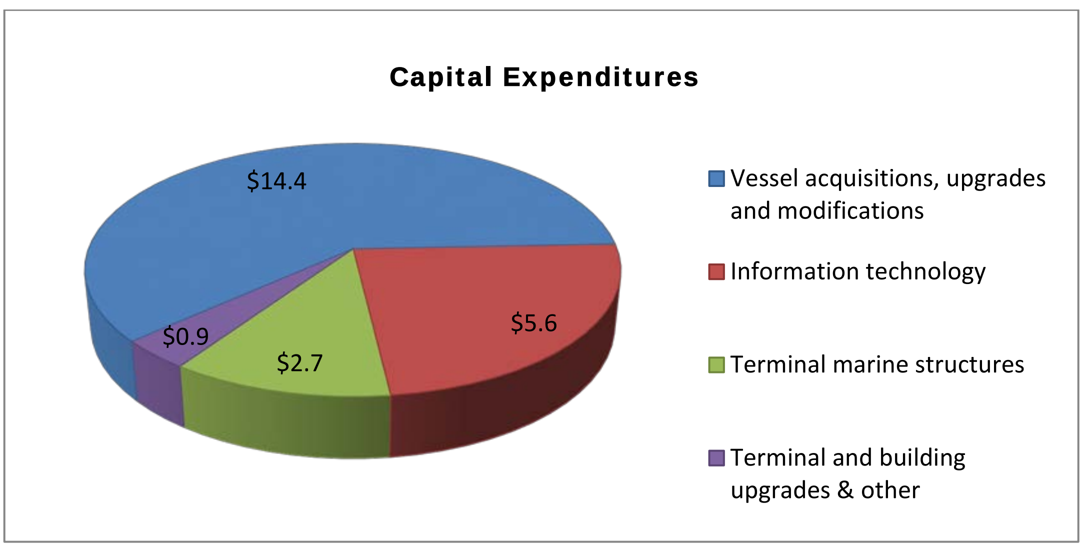
INVESTING IN OUR CAPITAL ASSETS

Capital Expenditures
Capital expenditures, net of funding from the New Building Canada Fund and FortisBC Energy Inc. (“FortisBC”), in the three months ended June 30, 2020 totalled $23.6 million.

In total, we have been approved for up to $28.3 million in funding under the New Building Canada Fund for the Island Class vessel project. To date we have received $20.7 million, and in the three months ended June 30, 2020, $0.2 million was recorded to reduce the capital costs.

FortisBC committed to provide funding as part of the Natural Gas for Transportation incentive funding. The contributions are dependent upon the purchase of liquefied natural gas. In the three months ended June 30, 2020, $0.3 million was recorded to reduce the capital costs.

($ millions)	**June 30, 2020** **3 months**
Island Class vessels (additional 4 vessels)	8.9
Major overhauls and inspections	4.1
Customer experience program	2.6
Time collection & crew scheduling	1.3
Salish Class vessel (additional vessel)	0.9
Hardware upgrades	0.4
Various other projects	5.4
	23.6



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 300 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.

Major overhauls and inspections

In the three months ended June 30, 2020, we had capital expenditures of $4.1 million in respect of major overhauls and inspections of components of hull, propulsion and generators for four vessels that were completed or underway.

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.

Time collection and crew scheduling

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

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. The vessel has the capacity to carry approximately 138 vehicles and 600 passengers and crew. This fourth Salish Class vessel will replace the 55-year old *Mayne Queen* and is expected to enter service in fiscal 2023.

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.

Various other projects

Various other projects include, among others, upgrades to the breakwater at our Tsawwassen terminal, upgrades to marine structures at our Horseshoe Bay terminal, upgrades to the cable system for the *Baynes Sound Connector*, and miscellaneous software upgrades for operation logs, dangerous goods, and safety management systems.

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.

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. 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.

At June 30, 2020, our unrestricted cash and cash equivalents and other short-term investments totalled $102 million and $68 million, respectively, compared to unrestricted cash and cash equivalent and other short-term investments of $169 million and $92 million, respectively, as at March 31, 2020. This $91 million reduction in cash and cash equivalents and other short-term investments during the quarter primarily reflects the decrease in cash being generated from operations as a result of the COVID-19 pandemic.

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 June 30, 2020, there were no draws on this credit facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. 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 pandemic on key financial metrics during fiscal 2021 and uncertainties on speed of recovery.

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 Facility Agreement with our banking syndicate and KfW loans. Under the Master Trust Indenture which secures and governs the Company’s borrowing, we are subject to an additional indebtedness test that prohibits additional borrowing if our leverage ratio exceeds 85%. At June 30, 2020, we achieved a debt service coverage ratio of 1.99.

Under the credit facility, our debt service coverage ratio and leverage ratio are calculated with reference to earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs (“EBITDAR”). On May 15, 2020, our banking syndicate approved an Amendment to the Credit Facility Agreement pursuant to which, for the purposes of calculating the bank covenants, EBITDAR of the impacted quarters in fiscal 2021 (Q1, Q2, and Q3) is replaced by an average of the EBITDAR from the respective quarters in fiscal years 2018, 2019, and 2020. At June 30, 2020, the leverage ratio was 73.8% and the debt service coverage ratio calculated using the modified calculation was 2.68 and are in compliance with the amended covenants.

On June 19, 2020, KfW waived compliance with the prescribed debt service coverage ratio until the end of March 2021.

As a condition, BC Ferries will be required to maintain $50 million in unrestricted cash, which can be comprised of cash, short term investments, and undrawn credit facility, for the duration of the relief period.

BC Ferries operational performance for the three months ended June 30, 2020 has resulted in an erosion of equity of $62 million, from $648.2 million as of March 31, 2020 to $586.2 million as at June 30, 2020. Correspondingly, BC Ferries' leverage ratio has increased from 71.89% as of March 31, 2020 to 73.81% as of June 30, 2020.

	June 30, 2020		**March 31, 2020**	
	$	%	$	%
Aggregate borrowings	1,652,356	73.81%	1,657,661	71.89%
Total equity before reserves	586,187	26.19%	648,223	28.11%
Total	2,238,543	100.00%	2,305,884	100.00%

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

In October 2019, BC Ferries completed a private placement of $250 million of 30-year senior secured bonds. The proceeds were to be used for capital expenditures, general corporate purposes and to fund the series reserve account. Due to the COVID-19 pandemic and the significant revenue losses, proceeds from these bonds have been used to fund day-to-day operating expenses.

Sources & Uses of Cash
Sources and uses of cash and cash equivalents for the first quarter of fiscal 2021 and 2020 are summarized in the table below:

	Three months ended June 30		
($ millions)	**2020**	**2019**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	169.1	59.9	109.2
Cash from operating activities:			
Net (loss) earnings	(62.0)	12.2	(74.2)
Items not affecting cash	57.8	61.2	(3.4)
Changes in non-cash operating working capital	(16.6)	(15.7)	(0.9)
Net interest paid	(20.5)	(17.9)	(2.6)
Cash (used in) generated by operating activities	(41.3)	39.8	(81.1)
Cash used in financing activities	(5.3)	(7.1)	1.8
Cash used in investing activities	(20.1)	(32.3)	12.2
Net increase (decrease) in cash and cash equivalents	(66.7)	0.4	(67.1)
Cash and cash equivalents, end of period	102.4	60.3	42.1

For the three months ended June 30, 2020, cash (used in) generated by operating activities decreased $81.1 million compared to the same period in the prior year, primarily due to a decrease in net earnings reflecting the significant impact of the COVID-19 pandemic reducing traffic and revenue, partially offset by a decrease in operating expenses due to reduced service levels and reduced discretionary spending. Cash (used in) generated by operating activities also reflects changes in items not affecting cash including depreciation, employee future benefits and provisions.

Cash used in financing activities in the three months ended June 30, 2020 was $5.3 million. This amount consisted of $4.7 million repayment of loans from KfW and $0.6 million in repayment of finance lease obligations.

Cash used in financing activities in the three months ended June 30, 2019, was $7.1 million. This amount consisted of $6.6 million repayment of loans from KfW and $0.5 million in repayment of finance lease obligations.

Cash used in investing activities for the three months ended June 30, 2020 decreased by $12.2 million compared to the same period in the prior year, mainly due to a $4.7 million reduction in year-over-year capital expenditures and $7.5 million decrease in cash used for short-term investing. (See “Investing in Our Capital Assets” below for detail of significant capital expenditures.)

SUMMARY OF QUARTERLY RESULTS

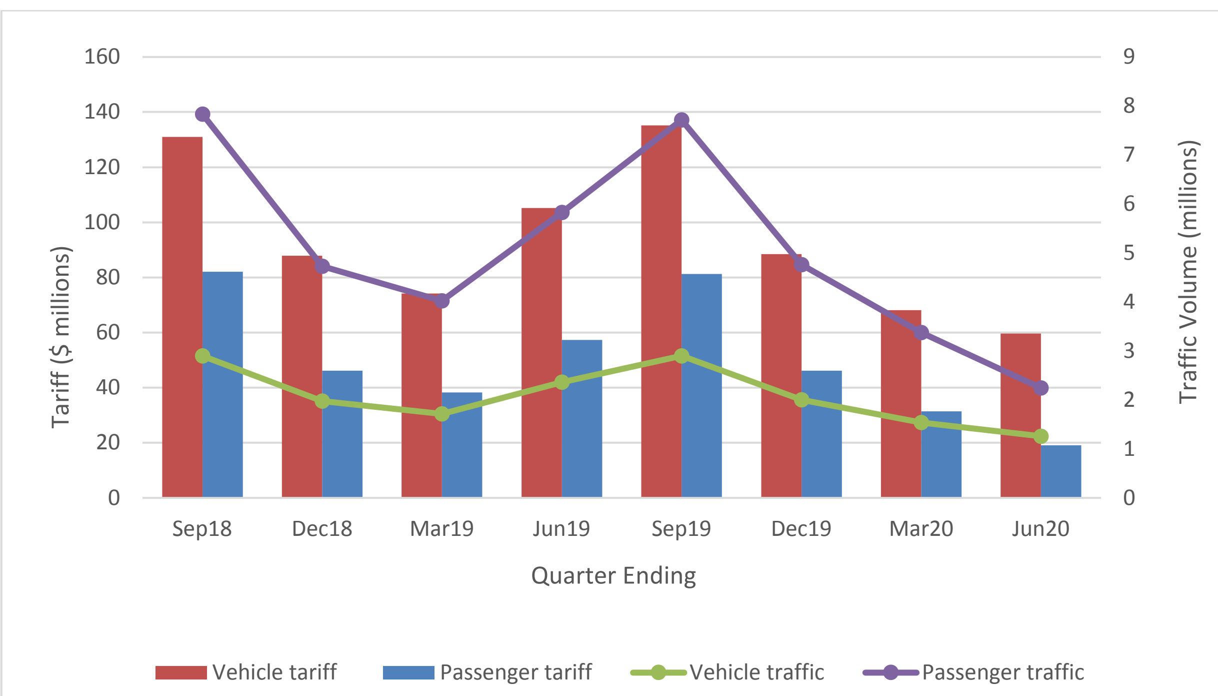
The table below compares earnings by quarter for the most recent eight quarters:

	Quarter Ended (unaudited)							
($ millions)	**Sep 18**	**Dec 18**	**Mar 19**	**Jun 19**	**Sep 19**	**Dec 19**	**Mar 20**	**Jun 20**
Total revenue	315.8	207.7	172.5	246.4	329.3	211.0	154.7	137.4
Operating profit (loss)	104.6	9.4	(28.8)	26.0	108.6	5.3	(54.6)	(46.3)
Net earnings (loss)	90.9	(3.7)	(41.0)	12.2	95.0	(8.3)	(70.1)	(62.0)

Quarterly results are normally affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, normally experiences the highest traffic levels and the highest net earnings. 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.

In the first quarter of fiscal 2021, the COVID-19 pandemic significantly impacted our passenger and vehicle and traffic with a decrease of 61.5% and 46.7%, respectively, compared to the same period in the prior year, resulting in year over year traffic decreases and corresponding loss of revenue.

The following graph demonstrates the seasonality of our revenue and the impact of the COVID-19 pandemic on the first quarter of fiscal 2021 and shows the relationship of traffic volume and tariff revenue over the most recent eight quarters:



OUTLOOK

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

Financial

Due to the impact of the COVID-19 pandemic, BC Ferries experienced a drop in vehicle and passenger traffic with a decline of 46.7% and 61.5%, respectively, in the first three months of fiscal 2021 compared to the same period in the prior year. Although traffic for the quarter was significantly down compared to the first quarter of fiscal 2020, we have seen improvements in traffic during the quarter. Tariff revenue was over 120% higher in June than April 2020, with significant increases in both vehicle and passenger traffic due to an increase in service levels and returning customer demand. We believe it will be two to three years before traffic returns to pre-COVID-19 pandemic levels.

We reduced capacity across the ferry network by approximately 24% compared to the same period last year. Our current service level plan gradually increases service levels across multiple routes to match ferry service to demand and meet the needs of customers and communities. As we increase service levels in accordance with the service level plan, our capacity is planned to exceed projected summer demand by an average of 20%. Customer demand at popular sailing times may exceed capacity resulting in sailing waits.

As a result of travel restrictions and physical distancing measures related to the COVID-19 pandemic, all food and retail services were temporarily closed, adding to significant revenue declines and net losses. Late in June 2020, we carefully introduced limited food services on select routes and in early July 2020, we announced the reopening of additional terminal and onboard amenities across the fleet and expect these services and amenities to contribute to reducing our net loss.

At April 1, 2020, 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. Also as of April 1, 2020, a fuel rebate of 1.5% was implemented on all routes as a result of recent fuel price reductions.

We are deferring $100 million of our capital expenditures beyond fiscal 2021 and extended the timeline for our new major vessel project plan by five years. We reduced, 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.

For the three months ended June 30, 2020, we experienced a net loss of $62 million and cash generated by operating activities decreased $81.1 million compared to the same period in the prior year primarily driven by lower traffic levels. Cash proceeds from the $250 million private placement of 30-year senior secured bonds, completed in October 2019, have been used to fund day-to-day operations. As a consequence, our debt to total capital ratio is increasing, which may adversely affecting our ability to borrow in the future.
On August 11, 2020, the Province announced BC Ferries is one of the entities included in the Federal Government's previously announced transit funding of $540 million in response to the impact of COVID-19. This transit funding is to be matched equally by the Province for a total funding envelope of $1.08 billion. Over the past few months, BC Ferries has been working closely with the Province, having formed a task force to collaboratively work together on strategic options to sustain the ferry system for the long term. BC Ferries will continue to collaborate with the Province in connection with this funding initiative and the long term strategies for the ferry system.

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

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 British Columbia Ferries Commissioner (the “Commissioner”) require the Commissioner’s 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.

BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions will improve and traffic return to normal levels. However, we believe that we are positioned appropriately to sustain our business in this challenging environment and adapt to the changing circumstances as the COVID-19 pandemic evolves.

FINANCIAL RISKS

Exposure to credit risk, liquidity risk, and market risk arises in the normal course of our business. 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.

A discussion of financial risks can be found on pages 57 through 58 of our fiscal 2020 Management's Discussion & Analysis. Our risk profile is substantially unchanged from the prior quarter during the three months ended June 30, 2020. Our 2020 Management's Discussion & Analysis is available at http://www.bcferries.com/investors/financial_reports.html on our investor webpage.

Operational Cash Flows and Liquidity

Due to the impact of the COVID-19 pandemic, BC Ferries is facing a drop in vehicle and passenger traffic with a decline of 46.7% and 61.5%, respectively, in the first three months of fiscal 2021 compared to the same period in the prior year. As a result, cash of $41.3 million was used by operating activities in the first quarter. In response to the impact of the COVID-19 pandemic we are deferring $100 million of our capital expenditures beyond fiscal 2021 and pushed our new major vessel project plan out five years. We reduced, 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. BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions will improve and traffic return to normal levels. The recent announcement, on August 11, by the Province (see "Business Overview" for further details) confirming BC Ferries' eligibility for Federal/Provincial transit funding is a possible funding opportunity for the Company.

Derivatives

At June 30, 2020, we held fuel forward contracts for marine diesel with a carrying and fair value liability of $28.3 million and a notional value of $121.5 million. At June 30, 2019, we held fuel forward contracts for marine diesel with a carrying and fair value asset of $5.1 million and a notional value of $82.1 million. At June 30, 2020, with the application of hedge accounting, the unrealized loss of $0.4 million was recognized in other comprehensive loss. At June 30, 2019, with the application of hedge accounting, the unrealized loss of $0.1 million was recognized in other comprehensive loss. 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.

The fair values would reflect the estimated amounts we would receive or pay should the derivative contracts be terminated at the stated dates. At March 31, 2020, due to the impact of the anticipated fuel decline as a result of COVID 19 pandemic, 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 was no longer considered highly probable to occur. The impact of the discontinuation of this hedged contract was recognized in the Q1 fiscal 2021 financial statements.

At June 30, 2020, we reviewed the probability assessment of our hedged fuel purchases and concluded that all the contracts are highly probably to occur.

For regulatory purposes, any realized gains or losses related to fuel commodity swaps are charged to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" for more detail.)

BUSINESS RISK MANAGEMENT

Understanding and managing operational risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 59 through 63 of our fiscal 2020 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the three months ended June 30, 2020. Our 2020 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

BC Ferries is facing a significant 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, significant cost reductions, and capital deferrals. Despite these efforts, BC Ferries may experience significant losses and be required to defer achievement of many its objectives, including the pace of capital renewal due to cash and incremental borrowing restrictions. While the time and pace is unknown, it is expected BC Ferries will recover alongside the post-pandemic recovery.

There will always be inherent risk resulting from our business operations and we endeavor to minimize the risk to as low as reasonably practicable. As part of our risk management strategies, we have considered many items such as profitability levels, cash generating potential, cash utilization requirements including debt repayment schedules and future capital expenditures, and working capital requirements. We have taken measures to allow us to adapt to changes in the economic environment and ensure a viable, profitable future. We do not believe that material uncertainties exist, beyond what we have identified, in regard to our future as we believe our risk mitigation strategies are sufficient.

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

Our significant accounting policies are contained in Note 1 to our March 31, 2020 audited consolidated financial statements and our June 30, 2020 condensed interim consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 64 and 65 of our fiscal 2020 Management's Discussion & Analysis. The following describes the changes to critical accounting policies we have used in the preparation of our condensed interim consolidated financial statements for the three months ended June 30, 2020, or expect to use in the future.

Adoption of New Accounting Standards
No new accounting standards were adopted effective April 1, 2020.

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.

On March, 17, 2020, the IASB 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. We will evaluate the potential impact on our consolidated financial statements as more information becomes available.

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 17 to our June 30, 2020 unaudited condensed interim 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 three months ended June 30, 2020 and 2019 would be as follows:

($ millions)	**Three months ended June 30**	
	2020	**2019**
Net (loss) earnings	(62.0)	12.2
Changes in net earnings:		
Regulatory asset or liability		
Deferred fuel costs		
Fuel costs (under) set price	(0.4)	(0.9)
Fuel rebates (surcharge)	1.2	(0.8)
Increase (decrease) in total net (loss) earnings	0.8	(1.7)
Adjusted net (loss) earnings	(61.2)	10.5

Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs, which 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.

On April 1, 2020, we implemented a fuel rebate of 1.5% on all routes. Fuel surcharges of 1.5% on average on all routes with the exception of the Northern Routes were in place during the first quarter of fiscal 2020.

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 the COVID-19 pandemic, traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the 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, ferry transportation fees, the impact of the COVID-19 pandemic, accounting changes, our short-term and long-range business plans, our service level adjustment plan, capacity expectations relative to demand, a legal settlement, transit funding, capital expenditure levels, our 12-year capital plan, asset renewal programs for vessels and terminals, our customer experience program, the Fare Flexibility and Digital Experience Initiative, upgrades to the fleet maintenance facility, the Island Class vessels, the Salish Class vessels, FortisBC's LNG incentive funding, the New Building Canada Fund, expectations regarding incremental long-term borrowing, total revenue and expense projections, reductions to discretionary spending, our cash forecasts and how our cash requirements will be met.

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; Aboriginal rights and title claims; and the ongoing COVID-19 pandemic.

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

Non-IFRS Measures

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