



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

For the three and six months ended
September 30, 2020

Dated November 19, 2020

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**Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the three and six months ended September 30, 2020
Dated November 19, 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 three and six months ended September 30, 2020 that has been prepared with information available as of November 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 and six month periods ended September 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 our investor webpage at http://www.bcferrys.com/investors/financial_reports.html and on SEDAR at www.sedar.com.

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.

The COVID-19 pandemic has significantly impacted our passenger and vehicle traffic. However, BC Ferries is continuing to monitor and respond to the impact of the pandemic. Although passenger and vehicle traffic in the second quarter of fiscal 2021 was down 29.0% and 14.0%, respectively, compared to the second quarter of fiscal 2020, we saw improvements from the first quarter of fiscal 2021, in which passenger and vehicle traffic had decreased 61.5% and 46.7%, respectively, compared to the same period in the prior year. Increases in both vehicle and passenger traffic, due to returning customer demand, resulted in an improvement to tariff revenues, from a decline of 51.5% in the first quarter of fiscal 2021 to a decline of 21.5% in the second quarter of fiscal 2021 as compared to traffic revenue in the same periods in the prior year.

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 continue to review and amend both operating and capital plans to reduce costs and defer spending in order to preserve cash while operating a sustainable, safe, and reliable service. We have also negotiated covenant relief under the credit facility and KfW IPEX-Bank GmbH (“KfW”) loans and are in compliance at September 30, 2020 (see “Liquidity and Capital Resources” for more detail). BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic or the future timing of when conditions will improve and when traffic will return to normal levels.

The Provincial government recently announced that BC Ferries will receive \$308 million as part of the Provincial and Federal governments’ Safe Restart Agreement (see below for further details). The funding will cover losses to date and be applied towards losses in future periods. We believe that, with this funding, we are positioned appropriately to sustain our business in this challenging environment. As of the date of this document, the funds have not been received and the timing of receipt and recognition within the financial statements is currently under review.

Significant events year to date in fiscal 2021 include the following:

- The Coastal Ferry Services Contract (“CFSC”) was initially amended in April 2020 for a 60-day period and subsequently, extended through to September 7, 2020, to reflect temporary reduced service levels in response to the COVID-19 pandemic while maintaining the related ferry transportation fees. The initial reductions, of which the majority were on the Major Routes, allowed us to reduce capacity across our network by approximately 24% in the first quarter of fiscal 2021 and 8.3% in the second quarter of fiscal 2021, in each case compared to the same quarter in fiscal 2020. Our service level plan gradually increased service levels across multiple routes to match ferry services to demand and meet the needs of customers and communities. Despite a decrease of 15.7% in capacity provided during the six months ended September 30, 2020, overall capacity utilization during the period was only 61.5%, a decrease of 9.4% compared to the same period in the prior year.
- On September 18, 2020, the Federal and Provincial Governments announced that BC Ferries will receive \$308 million under the Safe Restart Funding Program. Previously, on August 11, 2020, the Province had announced that BC Ferries is one of the entities included in the Federal Government’s announced transit funding of \$540 million in response to the impact of the COVID-19 pandemic. This transit funding is to be matched equally by the Province for a total funding envelope of \$1.08 billion. Since the beginning of the pandemic, 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. In collaboration with the Province, BC Ferries submitted a detailed plan to meet the public interest and the interests of customers in the provision of safe, reliable and affordable ferry service. We reached a formal agreement with the Province regarding the \$308 million from the Safe Restart Funding Program earlier this month.
- Our priorities are protecting passengers and employees aboard our ferries and in all workplaces, and adhering to provincial and federal guidelines. We are following the COVID-19 directives and guidance provided by the Province and Transport Canada. On September 9, 2020, we issued a statement to inform customers that, effective as of September 30, 2020, Transport Canada rescinded the temporary flexibility it granted to ferry operators allowing passengers to remain in their vehicles on enclosed decks, in response to the COVID-19 pandemic. BC Ferries has implemented measures to mitigate risk to the travelling public and prevent the spread of the virus which resulted in reduced capacity on select routes. These measures include additional cleaning, sanitization,

physical distancing and mandatory wearing of face coverings while at the terminal and onboard the vessel.

- As a result of travel restrictions and physical distancing measures related to the COVID-19 pandemic, all food and retail services were temporarily closed in March 2020. 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.
- 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.
- On September 22, 2020, the Company launched its new mobile-friendly website, which allows customers to easily book and manage their bookings online and delivers dynamically updated schedules and current conditions information. Features of the new website include dynamically generated, real-time daily and seasonal schedules available for all routes, as well as travel conditions at major terminals to provide greater travel certainty.
- As of October 23, 2020, the debt service reserve fund was increased from \$34.0 million to \$66.4 million, an amount equal to 12 months of interest payments. Under the Master Trust Indenture ("MTI"), which secures and governs the company's borrowings, the debt service reserve accounts are required to hold a balance of 9 months of interest payments if the debt service coverage ratio ("DSCR") is between 1.75 times and 1.50 times, and 12 months' interest if the DSCR is below 1.50 times. At September 30, 2020, we achieved a debt service coverage ratio of 1.46 times.

FINANCIAL AND OPERATIONAL OVERVIEW

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

(\$ millions)	Three months ended September 30			Six months ended September 30		
	2020	2019	Variance	2020	2019	Variance
Total revenue	247.6	329.3	(81.7)	385.0	575.7	(190.7)
Operating expenses	195.3	220.7	(25.4)	379.0	441.1	(62.1)
Operating profit	52.3	108.6	(56.3)	6.0	134.6	(128.6)
Net finance and other	14.5	13.6	(0.9)	30.2	27.4	(2.8)
Net earnings (loss)	37.8	95.0	(57.2)	(24.2)	107.2	(131.4)
Other comprehensive (loss) income	(7.0)	(4.0)	(3.0)	(7.4)	(4.0)	(3.4)
Total comprehensive income (loss)	30.8	91.0	(60.2)	(31.6)	103.2	(134.8)

Operations were adversely affected in the three and six months ended September 30, 2020 as a result of the COVID-19 pandemic. These impacts include declines in revenue, earnings and cash from operations.

During the three months ended September 30, 2020 (the second quarter of fiscal 2021), we delivered 21,612.5 round trips, a decrease of 454 or 2.1% compared to the same period in the prior year. We carried 5.5 million passengers and 2.5 million vehicles, a decrease of 29.0% and 14.0%, respectively, compared to the same period in the prior year. Year-to-date, we carried 7.7 million passengers and 3.8 million vehicles, a decrease of 43.0% and 28.7%, respectively, compared to the same period in the prior year. In the three months ended September 30, 2020, revenues decreased by \$81.7 million or 24.8% (\$190.7 million or 33.1% year-to-date) compared to the same period in the prior year, primarily as a result of the decreases in traffic volumes and net retail sales.

In the three months ended September 30, 2020, operating expenses decreased by \$25.4 million or 11.5% (\$62.1 million or 14.1% year-to-date) compared to the same period in the prior year, mainly due to reduced round trips on the Major Routes and the deferral of certain discretionary costs. The expense reduction includes reduced labour costs, fuel consumption, maintenance, contracted services, depreciation expense and other miscellaneous costs (see "Expenses" for more detail).

Overall, the impact of COVID-19 on revenue greatly exceeded the reductions in expenses. In the three months ended September 30, 2020, our net earnings were \$37.8 million, representing a decline of \$57.2 million or 60.2% compared to net earnings of \$95.0 million in the same period in the prior year. Year-to-date, our net loss was \$24.2 million compared to net earnings of \$107.2 million in the same period in the prior year.

During the three months ended September 30, 2020, total comprehensive income decreased \$60.2 million or 66.2% (\$134.8 million or 130.6% year-to-date) compared to the same period in the prior year, comprised of a decrease in net earnings of \$57.2 million (\$131.4 million year-to-date) and an increase in other comprehensive loss of \$3.0 million (\$3.4 million year-to-date). The \$3.0 million increase in other comprehensive loss (\$3.4 million year-to-date) reflects a \$1.8 million (\$1.8 million year-to-date) decrease in the actuarial valuations of our employee benefit plans and a \$1.2 million (\$1.6 million year-to-date) increase in the unrealized losses of our open fuel swap contracts.

Revenue and Operational Statistics

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (A discussion of the effect of rate regulation can be found on pages 11 through 12 of our fiscal 2020 Management's Discussion & Analysis). 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 primarily serve the northern and southern Gulf Islands and the northern Sunshine Coast. One of these 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.

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

Operational Statistics	Three months ended September 30				Six months ended September 30			
	2020	2019	Increase (Decrease)	%	2020	2019	Increase (Decrease)	%
Vehicle Traffic								
Major Routes	1,412,276	1,736,523	(324,247)	(18.7%)	2,057,647	3,099,543	(1,041,896)	(33.6%)
Northern Routes	6,782	18,047	(11,265)	(62.4%)	10,202	27,004	(16,802)	(62.2%)
Minor Routes	1,073,980	1,145,205	(71,225)	(6.2%)	1,683,809	2,133,504	(449,695)	(21.1%)
Total Vehicle Traffic	2,493,038	2,899,775	(406,737)	(14.0%)	3,751,658	5,260,051	(1,508,393)	(28.7%)
Passenger Traffic								
Major Routes	3,264,898	5,026,182	(1,761,284)	(35.0%)	4,458,445	8,696,396	(4,237,951)	(48.7%)
Northern Routes	13,898	51,052	(37,154)	(72.8%)	19,079	73,668	(54,589)	(74.1%)
Minor Routes	2,203,342	2,640,934	(437,592)	(16.6%)	3,246,697	4,777,013	(1,530,316)	(32.0%)
Total Passenger Traffic	5,482,138	7,718,168	(2,236,030)	(29.0%)	7,724,221	13,547,077	(5,822,856)	(43.0%)
Round Trips								
Major Routes	3,408.0	3,985.0	(577.0)	(14.5%)	5,340.0	7,430.0	(2,090.0)	(28.1%)
Northern Routes	71.0	153.0	(82.0)	(53.6%)	141.5	240.0	(98.5)	(41.0%)
Minor Routes	18,133.5	17,928.5	205.0	1.1%	34,380.5	34,986.0	(605.5)	(1.7%)
Total Round Trips	21,612.5	22,066.5	(454.0)	(2.1%)	39,862.0	42,656.0	(2,794.0)	(6.6%)
On-time Performance								
Major Routes	81.6%	83.7%	(2.1%)		75.7%	81.9%	(6.2%)	
Northern Routes	78.5%	88.6%	(10.1%)		82.3%	87.4%	(5.1%)	
Minor Routes	83.8%	85.5%	(1.7%)		88.1%	86.8%	1.3%	
On-time Performance	83.5%	85.2%	(1.7%)		86.6%	86.0%	0.6%	
Capacity Provided (AEQs)								
Major Routes	2,145,498	2,486,288	(340,790)	(13.7%)	3,378,044	4,626,310	(1,248,266)	(27.0%)
Northern Routes	12,349	24,526	(12,177)	(49.6%)	26,001	37,660	(11,659)	(31.0%)
Minor Routes	1,896,950	1,909,268	(12,318)	(0.6%)	3,659,305	3,717,037	(57,732)	(1.6%)
Total Capacity Provided	4,054,797	4,420,082	(365,285)	(8.3%)	7,063,350	8,381,007	(1,317,657)	(15.7%)
AEQs Carried								
Major Routes	1,663,427	2,009,755	(346,328)	(17.2%)	2,505,434	3,621,089	(1,115,655)	(30.8%)
Northern Routes	8,317	21,358	(13,041)	(61.1%)	12,986	32,458	(19,472)	(60.0%)
Minor Routes	1,157,315	1,226,983	(69,668)	(5.7%)	1,828,367	2,288,260	(459,893)	(20.1%)
Total AEQs Carried	2,829,059	3,258,096	(429,037)	(13.2%)	4,346,787	5,941,807	(1,595,020)	(26.8%)
Capacity Utilization								
Major Routes	77.5%	80.8%	(3.3%)		74.2%	78.3%	(4.1%)	
Northern Routes	67.3%	87.1%	(19.8%)		49.9%	86.2%	(36.3%)	
Minor Routes	61.0%	64.3%	(3.3%)		50.0%	61.6%	(11.6%)	
Total Capacity Utilization	69.8%	73.7%	(3.9%)		61.5%	70.9%	(9.4%)	

During the three months ended September 30, 2020, vehicle traffic decreased 14.0% (28.7% year-to-date) and passenger traffic decreased 29.0% (43.0% year-to-date) compared to the same period in the prior year as a result of the COVID-19 pandemic. Vehicle and passenger traffic decreased on the Major Routes, Northern Routes and Minor Routes (see the Operational Statistics table 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). In agreement with the Province, the CFSC was amended on April 1, 2020 and June 2, 2020 to temporarily reduce service level in response to COVID-19, with the majority of reductions on the Major Routes. This temporary service level adjustment agreement expired on September 7, 2020. Despite providing 454 fewer round trips in the three months ended September 30, 2020 (2,794 year-to-date) compared to the same periods in the prior year, the decrease in demand exceeded the reduction in capacity.

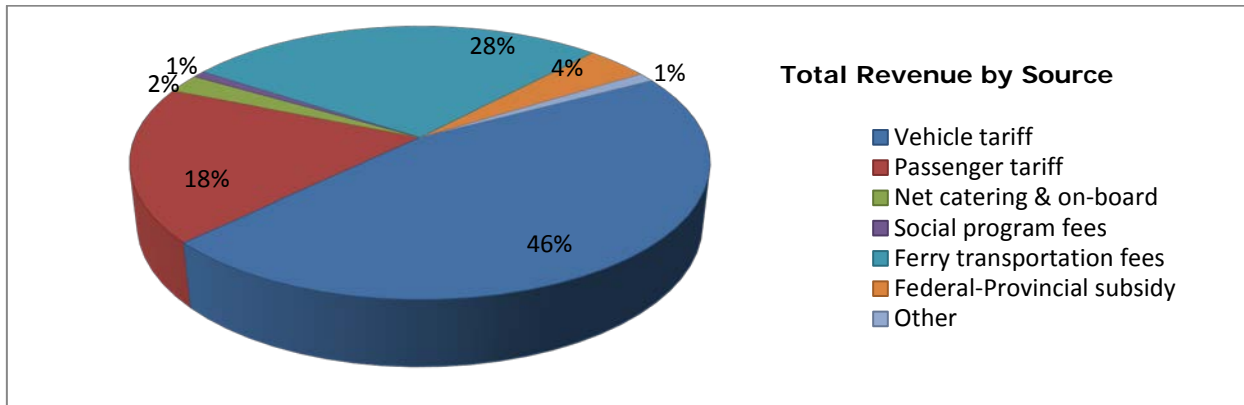
On-time performance on the Major and regulated Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled 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 September 30, 2020, overall on-time performance decreased by 1.7%, from 85.2% to 83.5% compared to the same period in the prior year. Year-to-date, overall on-time performance increased 0.6% compared to the same period in the prior year. In the three months ended September 30, 2020, overall on-time performance on the Major Routes decreased 2.1% (6.2% year-to-date) compared to the same period in the prior year, 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.

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 the actual size of vehicles carried.

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of trips. The year over year change in the number of round trips provided can be impacted by cancellations and in response to changes in demand or the number of trips stipulated by the CFSC. In the three months ended September 30, 2020, we provided fewer round trips, as a result of lower traffic levels due to the impact of the COVID-19 pandemic, compared to the same period in the prior year, resulting in reduced capacity provided of 8.3% (15.7% year-to-date). Year-to-date, approximately 95.0% of the reduction to capacity provided was on the Major Routes.

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. In the three months ended September 30, 2020, overall capacity utilization decreased 3.9% compared to the same period in the prior year. Year-to-date, despite a decrease of 15.7% in capacity provided, overall capacity utilization was only 61.5%, a decrease of 9.4% compared to capacity utilization of 70.9% during the same quarter in the prior year and is primarily due to lower traffic levels as a result of the COVID-19 pandemic. On the Major Routes and Northern routes, despite a large reduction in round trips, year-to-date capacity utilization declined 4.1% and 36.3%, respectively, compared to the same period in the prior year. On the Minor Routes, year-to-date round trips were reduced by only 1.7%, and capacity utilization declined 11.6% compared to the same period in the prior year.



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

Revenue (\$ millions)	Three months ended September 30				Six months ended September 30			
	2020	2019	Increase		2020	2019	Increase	
			(Decrease)	%			(Decrease)	%
Direct Route Revenue								
Vehicle tariff revenue								
Major Routes	99.5	113.0	(13.5)	(11.9%)	149.5	202.3	(52.8)	(26.1%)
Northern Routes	1.7	4.9	(3.2)	(65.3%)	2.7	7.2	(4.5)	(62.5%)
Minor Routes	16.4	17.3	(0.9)	(5.2%)	25.0	30.9	(5.9)	(19.1%)
Total vehicle tariff revenue	117.6	135.2	(17.6)	(13.0%)	177.2	240.4	(63.2)	(26.3%)
Passenger tariff revenue								
Major Routes	41.8	65.3	(23.5)	(36.0%)	56.7	112.7	(56.0)	(49.7%)
Northern Routes	1.1	4.7	(3.6)	(76.6%)	1.4	6.3	(4.9)	(77.8%)
Minor Routes	9.5	11.3	(1.8)	(15.9%)	13.4	19.6	(6.2)	(31.6%)
Total passenger tariff revenue	52.4	81.3	(28.9)	(35.5%)	71.5	138.6	(67.1)	(48.4%)
Net retail revenue								
Major Routes	6.8	19.5	(12.7)	(65.1%)	7.3	33.9	(26.6)	(78.5%)
Northern Routes	0.6	2.0	(1.4)	(70.0%)	0.8	2.8	(2.0)	(71.4%)
Minor Routes	0.6	1.6	(1.0)	(62.5%)	0.5	2.6	(2.1)	(80.8%)
Total net retail revenue	8.0	23.1	(15.1)	(65.4%)	8.6	39.3	(30.7)	(78.1%)
Social program fees	2.1	3.6	(1.5)	(41.7%)	3.2	8.1	(4.9)	(60.5%)
Other revenue	2.5	3.6	(1.1)	(30.6%)	3.6	6.6	(3.0)	(45.5%)
Fuel (rebate) surcharge	(2.7)	3.0	(5.7)	(190.0%)	(3.9)	3.8	(7.7)	(202.6%)
Total Direct Route Revenue	179.9	249.8	(69.9)	(28.0%)	260.2	436.8	(176.6)	(40.4%)
Indirect Route Revenue								
Ferry transportation fees	59.3	70.8	(11.5)	(16.2%)	108.2	121.8	(13.6)	(11.2%)
Federal-Provincial subsidy	8.0	7.9	0.1	1.3%	16.0	15.7	0.3	1.9%
Total Route Revenue	247.2	328.5	(81.3)	(24.7%)	384.4	574.3	(189.9)	(33.1%)
Other general revenue	0.4	0.8	(0.4)	(50.0%)	0.6	1.4	(0.8)	(57.1%)
Total Revenue	247.6	329.3	(81.7)	(24.8%)	385.0	575.7	(190.7)	(33.1%)

Average Tariff	Three months ended September 30				Six months ended September 30			
	2020	2019	Increase		2020	2019	Increase	
			(Decrease)	%			(Decrease)	%
Average vehicle tariff								
Major Routes	70.47	65.05	5.42	8.3%	72.67	65.27	7.40	11.3%
Northern Routes	250.96	270.96	(20.00)	(7.4%)	266.81	265.48	1.33	0.5%
Minor Routes	15.29	15.15	0.14	0.9%	14.86	14.48	0.38	2.6%
Average Vehicle tariff	47.19	46.63	0.56	1.2%	47.25	45.70	1.55	3.4%
Average Passenger tariff								
Major Routes	12.81	13.01	(0.20)	(1.5%)	12.71	12.96	(0.25)	(1.9%)
Northern Routes	76.63	91.20	(14.57)	(16.0%)	73.22	85.42	(12.20)	(14.3%)
Minor Routes	4.28	4.26	0.02	0.5%	4.12	4.10	0.02	0.5%
Average passenger tariff	9.54	10.53	(0.99)	(9.4%)	9.25	10.23	(0.98)	(9.6%)

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. On April 1, 2020 and throughout the first and second quarters of fiscal 2021, fares on all routes were held at fiscal 2020 levels. In the three months ended September 30, 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) increased \$0.56 or 1.2% (\$1.55 or 3.4% year-to-date) higher than the same period in the prior year. On the Major Routes, in the three months ended September 30, 2020, average tariff revenue per vehicle increased \$5.42 or 8.3% (\$7.40 or 11.3% year-to-date) 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 September 30, 2020, average tariff revenue per passenger decreased \$0.99 or 9.4% (\$0.98 or 9.6% year-to-date) compared to the same period in the prior year primarily due to change in the traffic mix on higher versus lower tariff routes. The change in average tariff revenue and the decrease in traffic levels from the impact of the COVID-19 pandemic resulted in a total tariff revenue decrease of \$46.5 million (\$130.2 million year-to-date) compared to the same period in the prior year. 83.5% of the year-to-date reduction in total tariff revenue is attributable to decreased revenue on the Major Routes.

Net retail sales is our second largest source of direct revenue and provides a gross margin of approximately 60%, which contributes favourably to our net earnings and helps to minimize fare increases. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings. 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 and carrying into the second quarter of fiscal 2021, limited food services were carefully introduced 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 Medical Travel Assistance Program ("MTAP"). Social program fees for the three months ended September 30, 2020 decreased \$1.5 million (\$4.9 million year-to-date) compared to the same period in the prior year, mainly due to a decrease in the usage of the MTAP and a reduction in the number of students travelling under the program.

In the three months ended September 30, 2020, other revenue decreased \$1.1 million (\$3.0 million year-to-date) compared to the same period in the prior year primarily from reduced parking and stateroom sales as a result of reduced traffic levels.

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 and second 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.)

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.

During fiscal 2020, the Province partially funded fare initiatives which included a fare reduction of 15% on the Northern Routes, the regulated Minor Routes and on the Major Route connecting Horseshoe Bay and Langdale and holding fares 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 Minor Routes. In fiscal 2021, the fare initiative funding was consolidated into ferry transportation fees and forms part of the fees received per round trip.

In the three months ended September 30, 2020, ferry transportation fee revenue decreased \$11.6 million (\$13.7 million year-to-date) compared to the same period in the prior year primarily due to timing differences caused by changes in the method used to allocate the fees. By the end of fiscal 2021, we expect to be only \$3.8 million below F2020's ferry transportation fee revenue. Year to year changes in ferry transportation fees, by Major Routes, Northern Routes and Minor Routes, for the three and six month periods ended September 30, 2020 and 2019 are detailed in this table:

	Three months ended September 30			Six months ended September 30		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Ferry Transportation Fees (\$ thousands)						
Major Routes						
BC seniors' discounts	3,061	2,566	495	4,186	4,525	(339)
Fare initiatives	-	3,640	(3,640)	-	6,482	(6,482)
Major Routes fees	3,061	6,206	(3,145)	4,186	11,007	(6,821)
Northern Routes						
Fees received	20,284	30,148	(9,864)	33,411	46,038	(12,627)
BC seniors' discounts	45	-	45	56	-	56
Fare initiatives	-	1,099	(1,099)	-	1,507	(1,507)
Fuel cost recovery	(47)	-	(47)	(47)	-	(47)
Northern Routes fees	20,282	31,247	(10,965)	33,420	47,545	(14,125)
Minor Routes						
Fees received	33,748	28,805	4,943	66,906	54,804	12,102
BC seniors' discounts	1,415	831	584	2,185	1,510	675
Fare initiatives	-	3,193	(3,193)	-	5,600	(5,600)
Contracted routes	780	626	154	1,471	1,398	73
Minor Routes fees	35,943	33,455	2,488	70,562	63,312	7,250
Total Ferry Transportation Fees	59,286	70,908	(11,622)	108,168	121,864	(13,696)

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

Expenses

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

Operating expenses (\$ millions)	Three months ended September 30			Six months ended September 30		
	2020	2019	Increase	2020	2019	Increase
			(Decrease)			(Decrease)
Operations	126.8	152.2	(25.4)	232.1	292.9	(60.8)
Maintenance	15.2	13.4	1.8	38.2	39.7	(1.5)
Administration	8.8	9.3	(0.5)	20.1	18.0	2.1
Total operations, maintenance & administration	150.8	174.9	(24.1)	290.4	350.6	(60.2)
Depreciation and amortization	44.5	45.8	(1.3)	88.6	90.5	(1.9)
Total operating expenses	195.3	220.7	(25.4)	379.0	441.1	(62.1)

In the three months ended September 30, 2020, in response to the decline in traffic as a result of the COVID-19 pandemic, we provided 454 (2,794 year-to-date) fewer round trips and deferred certain discretionary expenditures. During the three months ended September 30, 2020, total operating expenses decreased \$25.4 million or 11.5% (\$62.1 million or 14.1% year-to-date) compared to the same period in the prior year. Decreases in operating expenses do 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 September 30, 2020, expenses from operations decreased \$25.4 million (\$60.8 million decrease year-to-date) compared to the same period in the prior year due to:

- \$12.3 million decrease in labour costs (\$31.5 million decrease year-to-date), mainly due to staffing level changes for reduced round trips provided, reduced overtime and lower benefit usage, somewhat offset by a wage rate increase of 1.9% effective April 1, 2020 in accordance with the Collective Agreement;
- \$6.7 million decrease (\$15.7 million decrease year-to-date) in fuel expense, primarily due to a reduction in fuel consumption due to a lower number of round trips provided;
- \$2.6 million decrease (\$4.6 million decrease year-to-date) in contracted services related to information technology, traffic control, contracted parking costs and consulting costs;
- \$2.3 million decrease (\$4.9 million decrease year-to-date) in insurance, advertising, travel, training, property tax and other miscellaneous expenses;
- \$1.2 million decrease (\$2.8 million decrease year-to-date) in credit card fees; and
- \$0.3 million decrease (\$1.3 million decrease year-to-date) in materials and supplies relating to office, catering and uniform costs.

In the three months ended September 30, 2020, maintenance cost increased \$1.8 million compared to the same period in the prior year, as a result of timing differences related to vessel refit activity. Year-to-date there was a decrease in maintenance costs of \$1.5 million compared to the prior year due to reduced contracted services and materials and supplies.

In the three months ended September 30, 2020, administration costs decreased \$0.5 million primarily as a result of reduced contracted services and travel expenses. Year-to-date, there was a \$2.1 million increase in administration costs compared to the prior year primarily as a result of a legal settlement.

Expenses (continued)

Depreciation and amortization decreased \$1.3 million (\$1.9 million year-to-date) compared to the same period in the prior year, reflecting changes to the useful lives of select vessels and the timing of capital assets entering service. (See "Investing in our Capital Assets" for details of capital asset expenditures.)

Net finance and other expenses (\$ millions)	Three months ended September 30			Six months ended September 30		
	2020	2019	Increase	2020	2019	Increase
Finance expense	15.5	15.3	0.2	30.5	30.3	0.2
Less: finance income	(1.1)	(1.5)	0.4	(2.3)	(2.7)	0.4
Net finance expense	14.4	13.8	0.6	28.2	27.6	0.6
Loss (gain) on disposal and revaluation of property, plant and equipment, and intangible assets	0.1	(0.2)	0.3	2.0	(0.2)	2.2
Total net finance and other expenses	14.5	13.6	0.9	30.2	27.4	2.8

In the three months ended September 30, 2020, net finance and other expenses increased \$0.9 million (\$2.8 million year-to-date) compared to the same period in the prior year primarily as result of higher asset impairments and less investment income. In response to the COVID-19 pandemic, we reviewed our capital plan and deferred many projects including our new major vessel project, which resulted in asset impairments of \$2.0 million.

INVESTING IN OUR CAPITAL ASSETS

Capital Expenditures

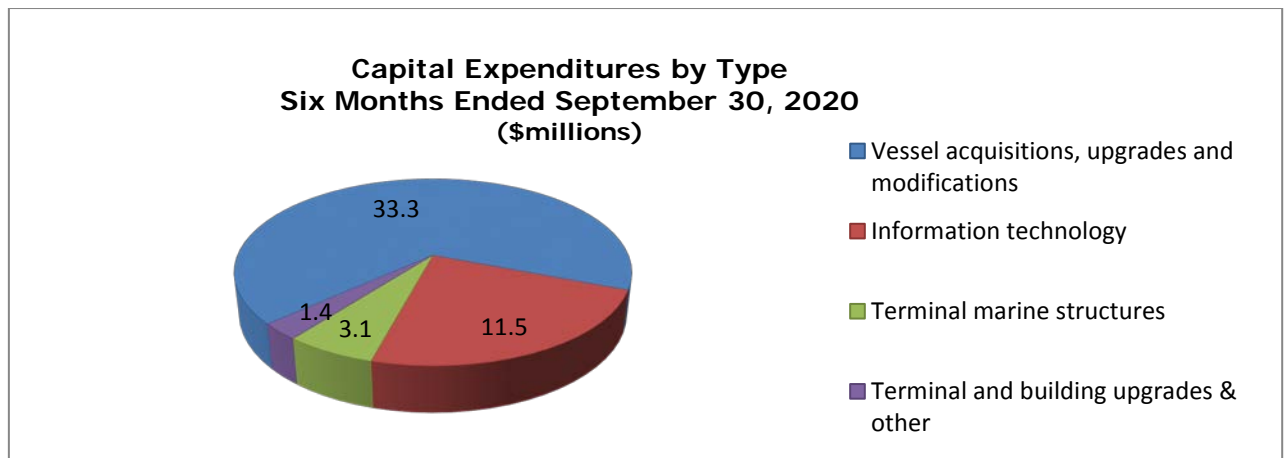
Prior to the COVID-19 pandemic, our 12-year capital plan for fiscal 2019 through fiscal 2030 totalled \$3.9 billion. This capital plan includes new vessels, upgrades and modifications for existing vessels, significant improvements at our fleet maintenance unit, infrastructure at three major terminals, 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 on 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.

Capital expenditures, net of funding from the New Building Canada Fund and FortisBC Energy Inc. ("FortisBC"), in the six months ended September 30, 2020 totalled \$49.3 million.

We have been approved for up to \$28.3 million in funding under the federal government's New Building Canada Fund for the Island Class vessel project. To date we have received \$20.7 million, of which \$0.2 million was recorded to reduce the capital costs in the six months ended September 30, 2020.

FortisBC committed to provide funding as part of their Natural Gas for Transportation incentive funding. The contributions are dependent upon the purchase of liquefied natural gas. In the six months ended September 30, 2020, \$0.6 million of funding from FortisBC was recorded to reduce the capital costs.

(\$ millions)	Three months ended September 30, 2020	Six months ended September 30, 2020
Island Class vessels (additional 4 vessels)	16.8	25.7
Major overhauls and inspections	2.0	6.1
Customer experience program	0.7	3.3
Hardware upgrades	2.9	3.3
Time collection & crew scheduling	1.3	2.6
Salish Class vessel (additional vessel)	1.0	1.9
Various other projects	1.0	6.4
	25.7	49.3



Island Class vessels (additional four vessels)

On October 25, 2019, contracts became effective with Damen Shipyard Group of Netherlands for the construction of four new Island Class vessels. The total project budget for these four new vessels, including financing and project management costs, is approximately \$200 million. These vessels are expected to enter service in 2022. 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. These Island Class vessels will be identical to the *Island Discovery* which commenced service between Powell River and Texada Island on June 10, 2020, and the *Island Aurora* which commenced service between Port McNeill, Alert Bay and Sointula on June 18, 2020. The Island Class vessels will be outfitted with hybrid diesel-electric propulsion and have a capacity of up to 300 passengers and approximately 47 vehicles. 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.

Major overhauls and inspections

In the three months ended September 30, 2020, we had capital expenditures of \$2.0 million (\$6.1 million year-to-date) 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, replaces our aged website, reservation system and e-commerce platform and upgrades our point-of-sale. This program will give our customers an opportunity to purchase travel in advance at discounted rates on select sailings on reservable routes and allows us to respond in a timely fashion to changing business needs and to better support marketing, travel services, and pricing initiatives. We previously implemented our new internal reservations system as well as enhancements to our customer relationship management system and point of sale system. On September 22, 2020, we launched our new mobile-friendly website. This project is substantially complete.

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.

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 total project budget for the new vessel, including financing and project management costs, is approximately \$90 million. 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 2022.

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

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. The recent announcement by the Province as discussed above, indicates potential funding of \$308 million for BC Ferries, and would significantly increase our cash position and mitigate the need for incremental borrowing.

At September 30, 2020, our unrestricted cash and cash equivalents and other short-term investments totalled \$163 million and \$55 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 \$43 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 (the "Credit Facility"), we have available a revolving facility in the amount of \$155 million. The Credit Facility was amended on April 8, 2020 to extend the maturity date of the facility from April 2024 to April 2025. The Credit Facility is available to fund capital expenditures and for other general corporate purposes. At September 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 from stable to negative on the Company's "A (high)" rating and senior secured bonds rating, reflecting the impact of the COVID-19 pandemic on key financial metrics during fiscal 2021 and uncertainties on speed of recovery.

Under the Master Trust Indenture, which secures and governs the Company's borrowings, we are subject to indebtedness tests that prohibits additional borrowing if our leverage ratio exceeds 85% or if our debt service coverage ratio (earnings before interest, taxes, depreciation, amortization, and rent or ("EBITDAR")), is less than 1.50 times the debt service cost. At September 30, 2020, we achieved a debt service coverage ratio of 1.46 times which restricts us from incurring additional indebtedness and triggered the requirement to increase debt service reserves to an amount equal to 12 months of interest payments. As of October 23, 2020, the debt service reserve fund was increased from \$34.0 million to \$66.4 million.

Under the Credit Facility agreement and our loans from KfW ("KfW loans"), our debt service coverage ratio is required to be at least 1.25 times. This requirement does not apply to our senior secured bonds.

Under the Credit Facility, 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 September 30, 2020, the debt service coverage ratio using the modified calculation was 2.71 times, which is in compliance with the amended covenants and enables the Company to have continued access to funding through the Credit Facility.

Under the KfW loans, on June 19, 2020, KfW waived compliance with the prescribed debt service coverage ratio until the end of March 2021. This will allow the Company to avoid an event of default should our debt service coverage ratio fall below 1.25 times.

As a condition to the Credit Facility and the KfW amendments, BC Ferries will be required to maintain a total of \$50 million in unrestricted cash, which can be comprised of cash, short-term investments, and undrawn credit facility, through December 31, 2021. The amount of \$50 million is sufficient to meet the requirements of both the Credit Facility and the KfW amendments.

The Company's operational performance for the six months ended September 30, 2020 has resulted in a \$24 million erosion of equity before reserves, from \$648.2 million as at March 31, 2020 to \$624.1 million as at September 30, 2020. Correspondingly, BC Ferries' leverage ratio has increased from 71.9% as of March 31, 2020 to 72.5% as of September 30, 2020.

	September 30, 2020		March 31, 2020	
	\$	%	\$	%
Aggregate borrowings ¹	1,644,430	72.5%	1,657,661	71.9%
Total equity before reserves	624,054	27.5%	648,223	28.1%
Total	2,268,484	100.0%	2,305,884	100.0%

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 partially used to fund day-to-day operating expenses.

Sources & Uses of Cash

Sources and uses of cash and cash equivalents for the second quarter of fiscal 2021 and 2020 are summarized in the table below:

(\$ millions)	Six months ended September 30		
	2020	2019	Increase (Decrease)
Cash and cash equivalents, beginning of period	169.1	59.9	109.2
Cash from operating activities:			
Net earnings	(24.2)	107.2	(131.4)
Items not affecting cash	117.2	119.8	(2.6)
Changes in non-cash operating working capital	(17.7)	(30.4)	12.7
Net interest paid	(32.5)	(28.9)	(3.6)
Cash generated by operating activities	42.8	167.7	(124.9)
Cash used in financing activities	(13.2)	(18.7)	5.5
Cash used in investing activities	(36.1)	(74.0)	37.9
Net (decrease) increase in cash and cash equivalents	(6.5)	75.0	(81.5)
Cash and cash equivalents, end of period	162.6	134.9	27.7

For the six months ended September 30, 2020, cash generated by operating activities decreased by \$124.9 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 financing activities in the six months ended September 30, 2020 was \$13.2 million. This amount consisted of \$12.0 million repayment of KfW loans and \$1.2 million in repayment of finance lease obligations. Cash used in financing activities in the same period in the prior was \$18.7 million. This amount consisted of \$17.6 million repayment of KfW loans and \$1.1 million in repayment of finance lease obligations.

Cash used in investing activities for the six months ended September 30, 2020 decreased by \$37.9 million compared to the same period in the prior year, mainly due to a \$38.7 million increase in net proceeds from short-term investing offset by \$1.0 million increase in our debt service reserves. (See "Investing in Our Capital Assets" for detail of significant capital expenditures.)

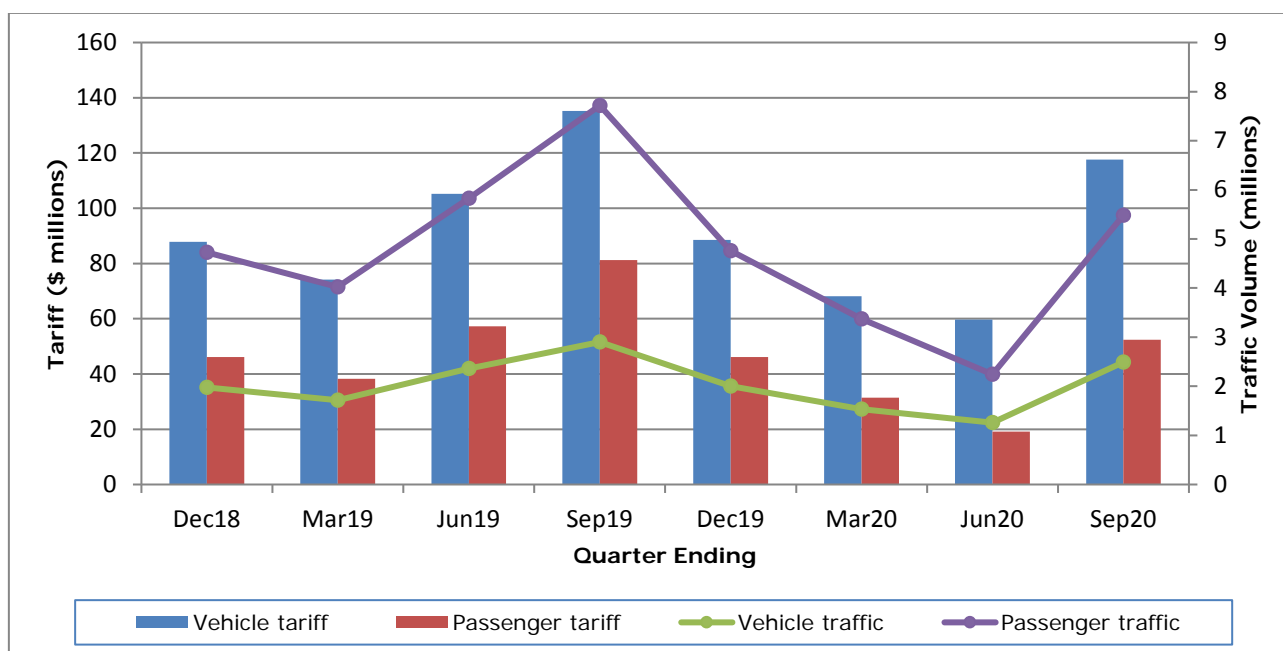
SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Quarter Ended (unaudited)							
	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
Total revenue	207.7	172.5	246.4	329.3	211.0	154.7	137.4	247.6
Operating profit (loss)	9.4	(28.8)	26.0	108.6	5.3	(54.6)	(46.3)	52.3
Net (loss) earnings	(3.7)	(41.0)	12.2	95.0	(8.3)	(70.1)	(62.0)	37.8

Quarterly results are normally affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, normally experiences the highest traffic levels and the highest net earnings. 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 the impact of the COVID-19 pandemic on the first and second quarters 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

The COVID-19 pandemic has had a significant impact on our operations during the six months ended September 30, 2020, including a 28.7% decline in vehicle traffic and a 43.0% decline in passenger traffic compared to the same period in the prior year. We believe it will be two to three years before traffic and retail and catering sales return to pre-COVID-19 pandemic levels.

The amendment to the CFSC, to reflect temporary reduced service levels in response to the COVID-19 pandemic while maintaining the related ferry transportation fees, began in early April through to September 7, 2020. Effectively, capacity was reduced by approximately 15.7% during the first six months of fiscal 2021 compared to the same period last year, primarily on the Major Routes. Our current service level plan returns us to service levels reflective of the requirements of the CFSC.

As a result of travel restrictions and physical distancing measures related to the COVID-19 pandemic, all food and retail services were temporarily closed through most of the first quarter of fiscal 2021. Early in the second quarter, 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.

We deferred \$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 spending. While significant, these cost reduction measures will not offset the decline in revenues.

For the six months ended September 30, 2020, we experienced a net loss of \$24 million and cash generated by operating activities decreased \$125 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 partially used to fund day-to-day operations. As a consequence, our debt to total capital ratio is increasing, which may adversely affect our ability to borrow in the future.

On September 18, 2020, the federal government and the Province announced that BC Ferries will receive \$308 million under the Safe Restart Funding Program. In collaboration with the Province, BC Ferries has submitted a detailed plan to meet the public interest and the interests of customers in the provision of safe, reliable and affordable ferry service. We reached a formal agreement with the Province regarding the Safe Restart Funding Program earlier this month. As of the date of this document, the funds have not been received and the timing of receipt and recognition within the financial statements is currently under review.

There is uncertainty around the overall economic environment. On November 8, 2020, travel restrictions were imposed for two weeks in the Vancouver Coastal and Fraser Health regions and could negatively affect our traffic levels. We 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.

Risks and Uncertainties

Understanding and managing operational and financial 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 57 through 63 of our fiscal 2020 Management's Discussion & Analysis which is available on our investor webpage at http://www.bcferrries.com/investors/financial_reports.html. Except with respect to risks and uncertainties related to the COVID-19 pandemic, our risk profile is substantially unchanged during the six months ended September 30, 2020.

BC Ferries may continue to experience significant losses as a result of the COVID-19 pandemic and be required to defer achievement of many of our objectives, including the pace of capital renewal due to cash and incremental borrowing restrictions. 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.

ACCOUNTING PRACTICES

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 September 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 and six months ended September 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.

In June 2020, the IASB issued Amendments to IFRS 17. The objective of the amendments is to assist entities implementing the standard, while not unduly disrupting implementation or diminishing the usefulness of the information provided by applying IFRS 17. We will evaluate the potential impact on our consolidated financial statements as more information becomes available.

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.