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

For the three and nine months ended  
December 31, 2020

Dated February 18, 2021

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**Management's Discussion & Analysis  
of Financial Condition and Financial Performance  
For the three and nine months ended December 31, 2020  
Dated February 18, 2021**

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 nine months ended December 31, 2020 that has been prepared with information available as of February 18, 2021. This discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended December 31, 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 Relations webpage at [http://www.bcferrries.com/investors/financial\\_reports.html](http://www.bcferrries.com/investors/financial_reports.html) and on SEDAR at [www.sedar.com](http://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***

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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. BC Ferries is continuing to monitor and respond to the impact of the pandemic. On November 8, 2020, the Provincial Health Officer issued a travel advisory recommending essential travel only, which negatively impacted our third quarter passenger and vehicle traffic in contrast to improvements we experienced in the second quarter of fiscal 2021. In the third quarter of fiscal 2021, our passenger and vehicle traffic decreased 39.6% and 22.3%, respectively, compared to the same quarter in the fiscal 2020. In the second quarter of fiscal 2021, passenger and vehicle traffic was down 29.0% and 14.0%, respectively, compared to the second quarter of fiscal 2020. In the first quarter of fiscal 2021, passenger and vehicle traffic decreased 61.5% and 46.7%, respectively, compared to the same period in the prior year. Year-to-date, our passenger and vehicle traffic was down 42.1% and 26.9%, respectively, which has resulted in a decrease in total tariff revenue of \$170.3 million or 33.1% compared to the same period in the prior year.

In December 2020, we received the previously announced \$308 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program (see below for further details). The funding will be applied in part towards losses to date and losses in future periods. In the three months ended December 31, 2020, \$154.8 million of Safe Restart Funding was recognized in revenue (See "Revenue and Operational Statistics" for further details). Prior to the recognition of this funding, our net earnings had declined by \$179.4 million compared to the same period in the prior year. Receipt of the full \$308 million Safe Restart Funding has significantly increased our cash position and mitigated the need for incremental borrowing.

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 responsibly defer spending in order to preserve cash while operating a sustainable, safe, and reliable service. We have also negotiated covenant relief under our credit agreement with a syndicate of Canadian banks (the "Credit Facility") and KfW IPEX-Bank GmbH ("KfW") loans as a proactive measure, and are in compliance with all applicable covenants at December 31, 2020 (see "Liquidity and Capital Resources" for more detail). BC Ferries cannot predict the full impact of the COVID-19 pandemic, the future timing of when conditions might improve, and when traffic will return to normal levels.

Significant events in fiscal 2021 include the following:

#### General

- The Coastal Ferry Services Contract ("CFSC") was initially amended in April 2020 for a 60-day period, subsequently extended through to September 7, 2020, to reflect temporarily reduced service levels in response to the COVID-19 pandemic while maintaining the related ferry transportation fees. The initial reductions, the majority of which 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. In the third quarter, service levels returned to levels necessary to meet the requirements of the CFSC, and increased to match both demand and the needs of customers and communities. Despite a decrease of 11.9% in capacity provided during the nine months ended December 31, 2020, overall capacity utilization during the period was only 58.0%, a decrease of 9.8% compared to the same period in the prior year.
- Our principal priorities are protecting passengers and employees aboard our ferries and in all workplaces, and adhering to provincial and federal guidelines as we provide essential ferry service. We are following closely the COVID-19 directives and guidance provided by the Province and Transport Canada. BC Ferries has implemented measures to mitigate risk to the travelling public and to prevent the spread of the virus, which has in turn 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.
- In December 2020, we received the previously announced \$308 million contribution from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program of \$1.08 billion. We reached a formal agreement with the Province in November, 2020 which was publicly released on December 4, 2020 and consists of:

#### Safe Restart Funding (\$ millions)

1 Operating relief	\$	280
2 Fare increase relief		24
3 Discretionary sailings relief		4
	<u>\$</u>	<u>308</u>

(See “Revenue and Operational Statistics” for further details). On August 11, 2020, the Province announced that BC Ferries was 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 was matched equally by the Province for a total funding envelope of \$1.08 billion. Since the beginning of the pandemic, BC Ferries has worked closely with the Province, forming 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’s board of directors, the BC Ferries’ board of directors, 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 both the broad public interest and the interests of customers in the provision of safe, reliable and affordable ferry service.

- On December 16, 2020, BC Ferries and the BC Ferry & Marine Workers’ Union announced the ratification of a Memorandum of Agreement that was reached on October 22, 2020. This labour-management settlement took several months of extensive negotiations and was achieved before the October 31, 2020 expiration of the in-force Collective Agreement. This new agreement provides certainty for our employees and helps ensure uninterrupted ferry service for our customers, marking twenty-two years of labour stability. The term of the new Collective Agreement is October 31, 2020 through October 31, 2025 and provides for wage increases of 0%, 2% and 2% over the first three years of the agreement, with wage re-openers in years four and five.
- At December 31, 2020, we achieved a debt service coverage ratio (“DSCR”) of 2.62, reducing the debt service reserve fund requirements under the Master Trust Indenture (the “MTI”) which secures and governs the company’s borrowings to \$33.2 million. Under the MTI, the debt service reserve accounts are required to hold a balance of 6 months of interest payments if the DSCR is above 1.75, 9 months of interest payments if the DSCR is between 1.75 and 1.50, and 12 months’ interest if the DSCR is below 1.50. At September 30, 2020, our DSCR was 1.46 with a resulting increase in the amount required to be held in our debt service reserve account from \$34.0 million to \$66.4 million. This increase in our DSCR resulted in the release of \$32 million of funds which were placed in our debt service reserve account on September 30, 2020.

### **Capital assets**

- 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 make 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 current travel conditions at major terminals which will provide greater travel certainty for customers.
- On December 16, 2020, and on October 28, 2020, the first two of four new Island Class vessels were launched from the Damen Shipyards Galati in Romania. Two of the four new vessels will service the route between Campbell River and Quadra Island and the other two will service the route between Nanaimo Harbour and Gabriola Island. These new Island Class vessels are expected to enter service in 2022. The new vessels are outfitted with hybrid diesel-electric propulsion and have a capacity of up to 300 passengers and approximately 47 vehicles (See “Investing in Our Capital Assets” for more detail).

- On December 19, 2020, our fourth Salish Class vessel, was launched from Remontowa Shipbuilding S.A. in Gdansk, Poland. This vessel is scheduled to go into service in the Southern Gulf Islands in 2022, and will be identical to our three existing Salish Class vessels. The Salish Class are dual-fuel capable, designed to run primarily on liquefied natural gas (“LNG”) with marine diesel fuel as a backup (See “Investing in Our Capital Assets” for more detail).

## **FINANCIAL AND OPERATIONAL OVERVIEW**

This section provides an overview of our financial and operational performance for the three and nine month periods ended December 31, 2020 compared with the same periods in 2019.

(\$ millions)	Three months ended December 31			Nine months ended December 31		
	2020	2019	Variance	2020	2019	Variance
Total revenue	311.9	210.9	101.0	696.9	786.7	(89.8)
Operating expenses	199.0	205.7	(6.7)	578.0	646.8	(68.8)
Operating profit	112.9	5.2	107.7	118.9	139.9	(21.0)
Net finance and other	14.4	13.5	0.9	44.6	41.0	3.6
<b>Net earnings (loss)</b>	<b>98.5</b>	<b>(8.3)</b>	<b>106.8</b>	<b>74.3</b>	<b>98.9</b>	<b>(24.6)</b>
Other comprehensive income	7.5	4.6	2.9	0.1	0.6	(0.5)
<b>Total comprehensive income (loss)</b>	<b>106.0</b>	<b>(3.7)</b>	<b>109.7</b>	<b>74.4</b>	<b>99.5</b>	<b>(25.1)</b>

Operations were adversely affected in the three and nine month periods ended December 31, 2020 as a result of the COVID-19 pandemic. These impacts include significant declines in passenger and vehicle traffic and significant declines in revenue, earnings and cash from operations which have been partially offset by the Safe Restart Funding.

In the three months ended December 31, 2020, we recognized Safe Restart Funding of \$154.8 million (see "Revenue and Operational Statistics" for more detail). As a result, in the quarter ending December 31, 2020, revenues increased by \$101.0 million or 47.9% compared to the same period in the prior year. Year-to-date revenues decreased \$89.8 million or 11.4% compared to the same period in the prior year, primarily as a result of the decreases in traffic volumes and net retail sales, again partially offset by the Safe Restart Funding. Without the Safe Restart Funding our year-to-date revenues would be \$542.1 million, or 31.1% lower than the same period in the prior year.

During the three months ended December 31, 2020 (the third quarter of fiscal 2021), we delivered 20,120.5 round trips, an increase of 26.5 or 0.1% compared to the same period in the prior year. This was the result of additional round trips on the Minor Routes in the CFSC for Performance Term 5 ("PT5" 2021-2025) as per the agreement with the Province. Year-to-date, we delivered 59,982.5 round trips, a decrease of 2,767.5 or 4.4% compared to the same period in the prior year, primarily as a result of the temporary service level adjustments in the first two quarters in response to the COVID-19 pandemic. During the third quarter of fiscal 2021, we carried 2.9 million passengers and 1.6 million vehicles, a decrease of 39.6% and 22.3%, respectively, compared to the same period in the prior year. Year-to-date, we carried 10.6 million passengers and 5.3 million vehicles, a decrease of 42.1% and 26.9%, respectively, compared to the same period in the prior year.

In the three months ended December 31, 2020, operating expenses decreased by \$6.7 million or 3.3% (\$68.8 million or 10.6% 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 in the three month and nine month periods ended December 31, 2020, includes reduced labour costs, fuel consumption, contracted services, depreciation expense and other miscellaneous costs (see "Expenses" for more detail).

In the three months ended December 31, 2020, our net earnings were \$98.5 million, representing an improvement of \$106.8 million compared to net losses of \$8.3 million in the same period in the prior year. Year-to-date, our net earnings were \$74.3 million, representing a decrease of \$24.6 million compared to net earnings of \$98.9 million in the same period in the prior year. Without \$154.8 million in Safe Restart Funding, our net loss for the three months ended December 31, 2020, would have been \$56.3 million (\$80.5 million year-to-date).

During the three months ended December 31, 2020, total comprehensive income was \$106.0 million, representing an increase of \$109.7 million compared to the same period in the prior year, comprised of an increase in net earnings of \$106.8 million and an increase in other comprehensive income of \$2.9 million. The \$2.9 million increase in other comprehensive income reflects a decrease in the unrealized losses of our open fuel swap contracts.

Year-to-date, total comprehensive income was \$74.4 million, representing a decrease of \$25.1 million compared to the same period in the prior year. This reduction is comprised of a decrease in net earnings of \$24.6 million and decrease in other comprehensive income of \$0.5 million. The \$0.5 million decrease in other comprehensive income reflects a \$1.8 million increase in the actuarial valuations of our employee death and retirement plan liability, partially offset by a \$1.3 million decrease 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 our 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 comparable three and nine month periods ended December 31, 2020 and December 31, 2019 are shown in the tables below.

Operational Statistics	Three months ended December 31				Nine months ended December 31			
	2020	2019	Increase (Decrease)	%	2020	2019	Increase (Decrease)	%
<b>Vehicle Traffic</b>								
Major Routes	788,634	1,153,989	(365,355)	(31.7%)	2,846,281	4,253,532	(1,407,251)	(33.1%)
Northern Routes	5,122	6,032	(910)	(15.1%)	15,324	33,036	(17,712)	(53.6%)
Minor Routes	765,785	846,195	(80,410)	(9.5%)	2,449,594	2,979,699	(530,105)	(17.8%)
<b>Total Vehicle Traffic</b>	<b>1,559,541</b>	<b>2,006,216</b>	<b>(446,675)</b>	<b>(22.3%)</b>	<b>5,311,199</b>	<b>7,266,267</b>	<b>(1,955,068)</b>	<b>(26.9%)</b>
<b>Passenger Traffic</b>								
Major Routes	1,506,110	3,006,277	(1,500,167)	(49.9%)	5,964,555	11,702,673	(5,738,118)	(49.0%)
Northern Routes	9,104	14,962	(5,858)	(39.2%)	28,183	88,630	(60,447)	(68.2%)
Minor Routes	1,361,133	1,737,328	(376,195)	(21.7%)	4,607,830	6,514,341	(1,906,511)	(29.3%)
<b>Total Passenger Traffic</b>	<b>2,876,347</b>	<b>4,758,567</b>	<b>(1,882,220)</b>	<b>(39.6%)</b>	<b>10,600,568</b>	<b>18,305,644</b>	<b>(7,705,076)</b>	<b>(42.1%)</b>
<b>Round Trips</b>								
Major Routes	2,896.5	3,079.5	(183.0)	(5.9%)	8,236.5	10,509.5	(2,273.0)	(21.6%)
Northern Routes	69.0	72.5	(3.5)	(4.8%)	210.5	312.5	(102.0)	(32.6%)
Minor Routes	17,155.0	16,942.0	213.0	1.3%	51,535.5	51,928.0	(392.5)	(0.8%)
<b>Total Round Trips</b>	<b>20,120.5</b>	<b>20,094.0</b>	<b>26.5</b>	<b>0.1%</b>	<b>59,982.5</b>	<b>62,750.0</b>	<b>(2,767.5)</b>	<b>(4.4%)</b>
<b>Capacity Provided (AEQs)</b>								
Major Routes	1,845,670	1,947,176	(101,506)	(5.2%)	5,223,714	6,573,486	(1,349,772)	(20.5%)
Northern Routes	12,978	13,872	(894)	(6.4%)	38,979	51,532	(12,553)	(24.4%)
Minor Routes	1,756,226	1,773,729	(17,503)	(1.0%)	5,415,531	5,490,766	(75,235)	(1.4%)
<b>Total Capacity Provided</b>	<b>3,614,874</b>	<b>3,734,777</b>	<b>(119,903)</b>	<b>(3.2%)</b>	<b>10,678,224</b>	<b>12,115,784</b>	<b>(1,437,560)</b>	<b>(11.9%)</b>
<b>AEQs Carried</b>								
Major Routes	1,001,646	1,365,458	(363,812)	(26.6%)	3,507,080	4,986,547	(1,479,467)	(29.7%)
Northern Routes	6,508	7,439	(931)	(12.5%)	19,494	39,897	(20,403)	(51.1%)
Minor Routes	833,362	905,365	(72,003)	(8.0%)	2,661,729	3,193,625	(531,896)	(16.7%)
<b>Total AEQs Carried</b>	<b>1,841,516</b>	<b>2,278,262</b>	<b>(436,746)</b>	<b>(19.2%)</b>	<b>6,188,303</b>	<b>8,220,069</b>	<b>(2,031,766)</b>	<b>(24.7%)</b>
<b>Capacity Utilization</b>								
Major Routes	54.3%	70.1%	(15.8%)		67.1%	75.9%	(8.8%)	
Northern Routes	50.1%	53.6%	(3.5%)		50.0%	77.4%	(27.4%)	
Minor Routes	47.5%	51.0%	(3.5%)		49.1%	58.2%	(9.1%)	
<b>Total Capacity Utilization</b>	<b>50.9%</b>	<b>61.0%</b>	<b>(10.1%)</b>		<b>58.0%</b>	<b>67.8%</b>	<b>(9.8%)</b>	

During the three months ended December 31, 2020, vehicle traffic decreased 22.3% (26.9% year-to-date) and passenger traffic decreased 39.6% (42.1% 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 levels through to September 7, 2020, in response to COVID-19. The majority of service level reductions were on the Major Routes. The temporary reduction in service levels expired on September 7, 2020 and, in the three months ended December 31, 2020, 26.5 additional trips were provided compared to the same period in the prior year. In the three months ended December 31, 2020, while round trips were reduced on the Major and Northern Routes, additional round trips on the Minor Routes resulted from added round trips in the CFSC for PT5 and the Supplemental Service Agreement with the Province. Year-to-date, despite providing 2,767.5 fewer round trips compared to the same periods in the prior year, the decrease in demand exceeded the reduction in capacity.

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 is one AEQ while a bus is three AEQs. The change in AEQs from one period to the next may not be proportionate to the change in vehicle traffic, due to variations in the mix of vehicle types (the relative number of buses, commercial vehicles and passenger vehicles) and the actual size of vehicles carried.

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 December 31, 2020, despite providing 26.5 additional trips, compared to the same period in the prior year, vehicle capacity provided was reduced by 3.2% primarily as a result of the reduction in the number of round trips provided on the Major Routes which use larger vessels. Year-to-date, we provided 2,767.5 fewer round trips, compared to the same period in the prior year, as a result of lower traffic levels due to the impact of the COVID-19 pandemic, resulting in reduced vehicle capacity of 11.9%. Year-to-date, approximately 93.9% of the reduction to vehicle capacity provided was a result of reductions in vehicle capacity provided on the Major Routes.

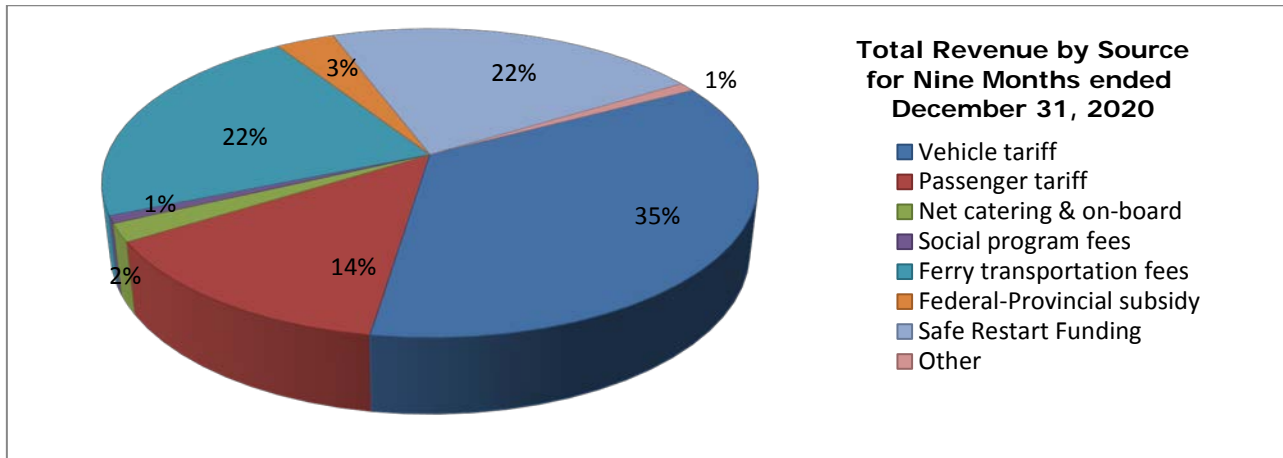
Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels in the same period. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of 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 December 31, 2020, overall capacity utilization decreased 10.1% compared to the same period in the prior year. Year-to-date, despite a decrease of 11.9% in capacity provided, overall capacity utilization was only 58.0%, a decrease of 9.8% compared to capacity utilization of 67.8% during the same period in the prior year. The reduction in capacity utilization in both periods is primarily due to lower traffic levels as a result of the COVID-19 pandemic. On the Major Routes and Northern Routes, despite a 21.6% and 32.6%, reduction in round trips, respectively, year-to-date capacity utilization declined by 8.8% and 27.4%, on such routes, compared to the same period in the prior year. On the Minor Routes, year-to-date round trips were reduced by only 0.8%, and capacity utilization declined 9.1% compared to the same period in the prior year.

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.

On-Time Performance	Three months ended December 31			Nine months ended December 31		
	2020	2019	Increase	2020	2019	Increase
			(Decrease)			(Decrease)
Major Routes	92.3%	90.4%	1.9%	81.6%	84.4%	(2.8%)
Northern Routes	87.5%	82.4%	5.1%	84.0%	86.1%	(2.1%)
Minor Routes	90.3%	91.5%	(1.2%)	88.9%	88.4%	0.5%
<b>On-time Performance</b>	<b>90.6%</b>	<b>91.3%</b>	<b>(0.7%)</b>	<b>87.9%</b>	<b>87.7%</b>	<b>0.2%</b>

In the three months ended December 31, 2020, overall on-time performance decreased by 0.7%, from 91.3% to 90.6% compared to the same period in the prior year. Year-to-date, overall on-time performance increased 0.2% compared to the same period in the prior year.

Revenue (\$ millions)	Three months ended December 31				Nine months ended December 31			
	2020	2019	Increase	%	2020	2019	Increase	%
			(Decrease)				(Decrease)	
<b>Direct Route Revenue</b>	<b>101.8</b>	<b>157.3</b>	<b>(55.5)</b>	<b>(35%)</b>	<b>362.1</b>	<b>594.1</b>	<b>(232.0)</b>	<b>(39%)</b>
Vehicle tariff revenue								
Major Routes	58.5	76.3	(17.8)	(23%)	208.0	278.6	(70.6)	(25%)
Northern Routes	1.2	1.2	-	0%	3.9	8.4	(4.5)	(54%)
Minor Routes	10.4	11.0	(0.6)	(6%)	35.4	41.9	(6.5)	(16%)
Total vehicle tariff revenue	70.1	88.5	(18.4)	(21%)	247.3	328.9	(81.6)	(25%)
Passenger tariff revenue								
Major Routes	19.1	39.0	(19.9)	(51%)	75.8	151.7	(75.9)	(50%)
Northern Routes	0.5	0.7	(0.2)	(29%)	1.9	7.0	(5.1)	(73%)
Minor Routes	5.0	6.5	(1.5)	(23%)	18.4	26.1	(7.7)	(30%)
Total passenger tariff revenue	24.6	46.2	(21.6)	(47%)	96.1	184.8	(88.7)	(48%)
Net retail revenue								
Major Routes	3.8	12.5	(8.7)	(70%)	11.1	46.4	(35.3)	(76%)
Northern Routes	0.5	0.7	(0.2)	(29%)	1.3	3.5	(2.2)	(63%)
Minor Routes	0.3	0.9	(0.6)	(67%)	0.8	3.5	(2.7)	(77%)
Total net retail revenue	4.6	14.1	(9.5)	(67%)	13.2	53.4	(40.2)	(75%)
Social program fees	2.2	3.9	(1.7)	(44%)	5.5	12.0	(6.5)	(54%)
Other revenue	1.8	3.0	(1.2)	(40%)	5.4	9.6	(4.2)	(44%)
Fuel (rebate) surcharge	(1.5)	1.6	(3.1)	(194%)	(5.4)	5.4	(10.8)	(200%)
<b>Indirect Route Revenue</b>	<b>209.7</b>	<b>53.4</b>	<b>156.3</b>	<b>293%</b>	<b>333.8</b>	<b>190.9</b>	<b>142.9</b>	<b>75%</b>
Safe Restart Funding	154.8	-	154.8	-	154.8	-	154.8	-
Ferry transportation fees	46.9	45.6	1.3	3%	155.0	167.4	(12.4)	(7%)
Federal-Provincial subsidy	8.0	7.8	0.2	3%	24.0	23.5	0.5	2%
<b>Total Route Revenue</b>	<b>311.5</b>	<b>210.7</b>	<b>100.8</b>	<b>48%</b>	<b>695.9</b>	<b>785.0</b>	<b>(89.1)</b>	<b>(11%)</b>
Other general revenue	0.3	0.3	-	-	1.0	1.7	(0.7)	(41%)
<b>Total Revenue</b>	<b>311.8</b>	<b>211.0</b>	<b>100.8</b>	<b>48%</b>	<b>696.9</b>	<b>786.7</b>	<b>(89.8)</b>	<b>(11%)</b>



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.

In the three months ended December 31, 2020, total direct route revenue decreased \$55.4 million or 35.2% (\$232.0 million or 39.1% year-to-date), primarily as a result of the impact of the decrease in vehicle and passenger traffic levels from the impact of the COVID-19 pandemic.

Vehicle tariffs (which include reservation fee revenue) and passenger tariffs normally account for the largest share of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types and tariff rates. On April 1, 2020 and throughout the first three quarters of fiscal 2021, fares on all routes were held at fiscal 2020 levels.

In the three months ended December 31, 2020, average tariff revenue per vehicle (tariff revenue divided by traffic volume) increased \$0.83 or 1.9% (\$1.31 or 2.9% year-to-date) compared to 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 December 31, 2020, average tariff revenue per passenger decreased \$1.15 or 11.8% (\$1.04 or 10.3% year-to-date) compared to the same period in the prior year primarily due to changes in the traffic mix on lower versus higher 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 \$40.0 million (\$170.3 million year-to-date) compared to the same period in the prior year. 86.0% 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, COVID-19 restrictions for safe distancing, service quality and product offerings. In the three months ended December 31, 2020, net retail revenue decreased \$9.5 million (\$40.2 million year-to-date). Most of our food and on-board services were closed for the first quarter of fiscal 2021 due to the COVID-19 pandemic. Commencing in late June 2020 limited food services have been available on select routes.

Social program fees are reimbursements of discounts from the Province 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 December 31, 2020 decreased \$1.6 million (\$6.5 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 December 31, 2020, other revenue decreased \$1.2 million (\$4.2 million year-to-date) compared to the same period in the prior year primarily from reduced parking, stateroom and seating lounge sales as a result of reduced traffic levels.

From time to time, we implement fuel surcharges as a result of rising fuel prices or fuel rebates as a result of falling fuel prices. A fuel rebate of 1.5% was implemented on all routes as of April 1, 2020, as a result of recent fuel price reductions. In the prior fiscal year, fuel surcharges of 1.5% on average on all routes, with the exception of the Northern Routes, were in place until they were discontinued effective December 16, 2019. For the purpose of rate regulation, surcharges and/or rebates are applied to our deferred fuel cost accounts.

In the three months ended December 31, 2020, total indirect route revenue increased \$156.3 million or 292.7% (\$142.9 million or 74.9% year-to-date), primarily as a result of \$154.8 million in Safe Restart Funding as discussed below.

In December 2020, we received \$308 million from the Province under the Safe Restart Funding Program. The Safe Restart Funding consists of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit fare increases to 2.3% and to cover the estimated costs of discretionary sailings as follows:

Safe Restart Funding Projected Recognition (\$ millions)	Nine months ended December 31	Fiscal		
		Fiscal 2021	2022 to 2024	Total
1 Operating relief	\$ 154.8	\$ 186.0	\$ 94.0	\$ 280.0
2 Fare increase relief	-	-	24.0	24.0
3 Discretionary sailings relief	-	-	4.0	4.0
	\$ 154.8	\$ 186.0	\$ 122.0	\$ 308.0

In the three and nine months ended December 31, 2020, Safe Restart Funding of \$154.8 million was recognized in revenue. The funding is recognized on a systematic basis, based on the estimated loss of earnings for the above three components, for each of the fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement with the Province. Actual losses incurred and timing of losses may differ from projected losses outlined in the agreement. For more details on BC Ferries' obligations under the Safe Restart Funding agreement, see the agreement online at: SEDAR at [www.sedar.com](http://www.sedar.com).

	Three months ended December 31			Nine months ended December 31		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
<b>Ferry Transportation Fees</b>						
(\$ thousands)						
Major Routes						
BC seniors' discounts	1,518	1,820	(302)	5,704	6,345	(641)
Fare initiatives	-	2,394	(2,394)	-	8,876	(8,876)
Major Routes fees	1,518	4,214	(2,696)	5,704	15,221	(9,517)
Northern Routes						
Fees received	10,783	12,461	(1,678)	44,195	58,499	(14,304)
BC seniors' discounts	14	-	14	70	-	70
Fare initiatives	-	201	(201)	-	1,709	(1,709)
Fuel cost recovery	(101)	-	(101)	(148)	-	(148)
Northern Routes fees	10,696	12,662	(1,966)	44,117	60,208	(16,091)
Minor Routes						
Fees received	32,605	25,299	7,306	99,511	80,103	19,408
BC seniors' discounts	1,010	598	412	3,194	2,108	1,086
Fare initiatives	-	2,047	(2,047)	-	7,647	(7,647)
Contracted routes	1,051	718	333	2,522	2,116	406
Minor Routes fees	34,666	28,662	6,004	105,227	91,974	13,253
<b>Total Ferry Transportation Fees</b>	<b>46,880</b>	<b>45,538</b>	<b>1,342</b>	<b>155,048</b>	<b>167,403</b>	<b>(12,355)</b>

Effective April 1, 2020, the CFSC was amended for 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 has decreased by \$3.8 million compared to fiscal 2020, as the Province eliminated contributions towards fare initiatives and increased the contribution to the Seniors' discounts to a maximum of \$30 million. As well, the amendments to the CFSC resulted in revised fees per round trip, with the Northern Routes receiving lower maximum annual fees overall and the Minor Routes receiving 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 December 31, 2020, ferry transportation fee revenue increased \$1.3 million (\$12.4 million year-to-date decrease) 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. Year over year, we expect ferry transportation revenue for fiscal 2021 to be only \$3.8 million below ferry transportation fee revenue for fiscal 2020. Year to year changes in ferry transportation fees, by Major Routes, Northern Routes and Minor Routes, for the three and nine month periods ended December 31, 2020 and 2019 are detailed in the table.

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

## Expenses

Expenses for the three and nine month periods ended December 31, 2020 and 2019 are summarized in the table below:

Operating expenses (\$ millions)	Three months ended December 31			Nine months ended December 31		
	2020	2019	Increase	2020	2019	Increase
			(Decrease)			(Decrease)
Operations	120.6	128.4	(7.8)	352.7	421.3	(68.6)
Maintenance	24.3	22.2	2.1	62.5	61.9	0.6
Administration	8.5	9.2	(0.7)	28.6	27.2	1.4
<b>Total operations, maintenance &amp; administration</b>	153.4	159.8	(6.4)	443.8	510.4	(66.6)
Depreciation and amortization	45.6	45.9	(0.3)	134.2	136.4	(2.2)
<b>Total operating expenses</b>	199.0	205.7	(6.7)	578.0	646.8	(68.8)

During the three months ended December 31, 2020, total operating expenses decreased \$6.7 million or 3.3% (\$68.8 million or 10.6% year-to-date) compared to the same period in the prior year. Decreases in operating expenses only partially offset the decline in revenues resulting from the COVID-19 pandemic as a significant portion of our costs, such as depreciation, are fixed and do not meaningfully fluctuate with reduced traffic demand.

During the three months ended December 31, 2020, expenses from operations decreased \$7.8 million (\$68.6 million decrease year-to-date) compared to the same period in the prior year due to:

- \$2.6 million decrease in labour costs (\$34.1 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;
- \$3.2 million decrease (\$18.9 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 on the Major Routes;
- \$1.2 million decrease (\$6.1 million decrease year-to-date) in insurance, advertising, travel, training, property tax and other miscellaneous expenses;
- \$1.0 million decrease (\$3.8 million decrease year-to-date) in credit card fees, mainly due to decreased vehicle and passenger tariff revenue;
- \$0.2 million decrease (\$1.5 million decrease year-to-date) in materials and supplies relating to office, catering and uniform costs; and
- \$0.4 million increase (\$4.2 million decrease year-to-date) in contracted services related to information technology, traffic control, contracted parking costs and consulting costs slightly offset by increases in contracted route fees and contracted equipment repairs.

In the three months ended December 31, 2020, maintenance cost increased \$2.1 million (\$0.6 million year-to-date) compared to the same period in the prior year, as a result of timing differences related to vessel refit activity.

In the three months ended December 31, 2020, administration costs decreased \$0.7 million compared to the same period in the prior year primarily as a result of reduced contracted services and materials and supplies. Year-to-date, there was a \$1.4 million increase in administration costs compared to the prior year primarily as a result of a legal settlement.

### Expenses (continued)

Depreciation and amortization decreased \$0.3 million (\$2.2 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 December 31			Nine months ended December 31		
	2020	2019	Increase	2020	2019	Increase
<b>Finance expense</b>	15.5	16.0	(0.5)	46.0	46.4	(0.4)
Less: finance income	(1.1)	(2.5)	1.4	(3.4)	(5.2)	1.8
<b>Net finance expense</b>	14.4	13.5	0.9	42.6	41.2	1.4
Loss (gain) on disposal and revaluation of property, plant and equipment, and intangible assets	-	-	-	2.0	(0.2)	2.2
<b>Total net finance and other expenses</b>	14.4	13.5	0.9	44.6	41.0	3.6

In the three months ended December 31, 2020, net finance and other expenses increased \$0.9 million compared to the same period in the prior year primarily, as result of less investment income partially offset by increased interest capitalized to qualifying assets. Year-to-date, net finance and other expenses increased \$3.6 million compared to the same period in the prior year, primarily as result of higher asset impairments, increased interest for the bond issued October 2019 and reduced investment income, partially offset by an increase in interest capitalized. In response to the COVID-19 pandemic, we reviewed our capital plan and deferred many projects which resulted in asset impairments of \$2.2 million to-date.



## **INVESTING IN OUR CAPITAL ASSETS**

### **Capital Expenditures**

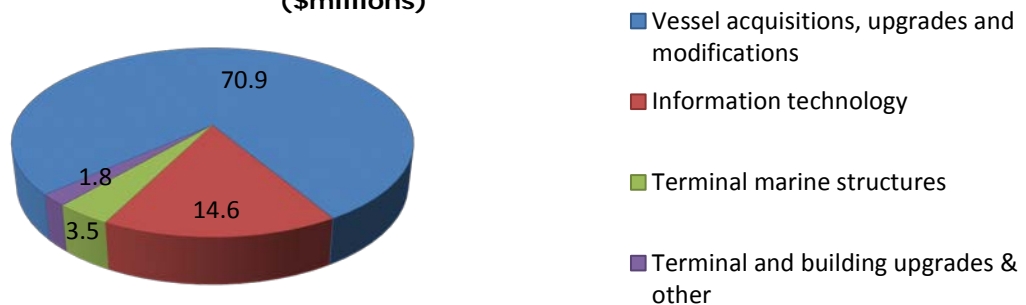
Prior to the COVID-19 pandemic, our 12-year capital plan for fiscal 2019 through fiscal 2030 totalled \$3.9 billion. Given the impact of the COVID-19 pandemic on our financial position, we are reviewing all capital plans to identify opportunities to defer any expenditures that are not regulatory, security or safety related and/or operationally necessary. 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.

Capital expenditures, net of funding from the New Building Canada Fund and FortisBC Energy Inc. ("FortisBC"), in the nine months ended December 31, 2020 totalled \$90.8 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 \$20.8 million, of which \$0.3 million was recorded to reduce capital costs in the nine months ended December 31, 2020.

<b>Capital expenditures</b> (\$ millions)	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>December 31, 2020</b>	
Island Class vessels (additional 4 vessels)	17.0	42.7
Salish Class vessel (additional vessel)	15.5	17.4
Major overhauls and inspections	3.9	10.0
Hardware upgrades	0.5	3.8
Time collection & crew scheduling	1.1	3.7
Customer experience program	0.2	3.5
Various other projects	3.3	9.7
	<b>41.5</b>	<b>90.8</b>

**Capital Expenditures by Type**  
**Nine Months Ended December 31, 2020**  
**(\$millions)**



#### *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. The first two of four Island Class vessels were launched in the third quarter of fiscal 2021, and all four 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.

#### *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, which was launched December 20, 2020, 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.

#### *Major overhauls and inspections*

In the three months ended December 31, 2020, we had capital expenditures of \$3.9 million (\$10.0 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for six vessels that were completed or underway.

#### *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 and expected to complete in fiscal 2023.

#### *Customer experience program*

Our customer experience program, which includes the Fare Flexibility and Digital Experience Initiative, replaced our aged website, reservation system and e-commerce platform and upgraded our point-of-sale. This program gives 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. With the launching of our new mobile-friendly website on September, 22, 2020, this project is substantially complete.

#### *Various other projects*

Various other projects include, among others, upgrades to the breakwater at our Tsawwassen terminal, upgrades to the breakwater and berth at our Campbell River 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***

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### **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. In addition to cost savings associated with lower service levels, we are reducing costs across the Company in all areas. As discussed earlier, we received \$308 million from the Province under the Safe Restart Funding Program which significantly increased our cash position and mitigated the need for any current draws on our Credit Facility or incremental borrowing. 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 regulatory, security or safety related or operationally necessary. Our cash forecasts indicate that, due to the capital expenditures planned, incremental long-term borrowing may not be required for the balance of PT5.

At December 31, 2020, our unrestricted cash and cash equivalents and other short-term investments totalled \$323 million and \$145 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 \$207 million increase in cash and cash equivalents and other short-term investments since March 31, 2020 primarily reflects the cash received through the Safe Restart Funding Program, partially offset by investments in property, plant and equipment and intangible assets and the decrease in cash being generated from operations (excluding the Safe Restart Funding) as a result of the COVID-19 pandemic.

Under our Credit Facility, we have available a revolving facility in the amount of \$155 million. The Credit Facility was amended on April 7, 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 December 31, 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 November 24, 2020, S&P Global Ratings affirmed our long-term issuer credit and senior secured debt ratings of "AA-" with a negative outlook.

On February 9, 2021, DBRS changed the trend from negative to stable reflecting the significant cash contribution received through the Safe Restart Funding Program as well as the Company's decision to defer capital expenditures. In May 2020, DBRS had previously changed the trend from stable to negative, reflecting the impact of the COVID-19 pandemic on key financial metrics during fiscal 2021 and uncertainties on speed of recovery.

Under the MTI, which secures and governs the Company's borrowings, we are subject to indebtedness tests that prohibit 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 restricted us from incurring additional indebtedness and triggered the requirement to increase our debt service reserves to an amount equal to 12 months of interest payments. As a result, we increased our debt service reserve fund from \$34.0 million to \$66.4 million on October 23, 2020. At December 31, 2020, we achieved a debt service coverage ratio of 2.62 times and, as a result,

our debt service reserve fund requirement reverts to an amount equal to 6 months of interest payments or \$33.2 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 December 31, 2020, the debt service coverage ratio using the modified calculation was 2.77 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 during this period.

As a condition to the Credit Facility and the KfW loan 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.

With the recognition of \$154.8 million in revenue from the Safe Restart Funding, the Company’s operational performance for the nine months ended December 31, 2020 has resulted in a \$74 million improvement in equity before reserves, from \$648.2 million as at March 31, 2020 to \$722.5 million as at December 31, 2020. Correspondingly, BC Ferries’ leverage ratio has decreased from 71.9% as of March 31, 2020 to 69.4% as of December 31, 2020.

	December 31, 2020		March 31, 2020	
	\$	%	\$	%
Aggregate borrowings <sup>1</sup>	1,640,943	69.4%	1,657,661	71.9%
Total equity before reserves	722,490	30.6%	648,223	28.1%
<b>Total</b>	<b>2,363,433</b>	<b>100.0%</b>	<b>2,305,884</b>	<b>100.0%</b>

<sup>1</sup> 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 third quarter of fiscal 2021 and 2020 are summarized in the table below:

(\$ millions)	Nine months ended December 31		
	2020	2019	Increase (Decrease)
<b>Cash and cash equivalents, beginning of period</b>	169.1	59.9	109.2
Cash from operating activities:			
Net earnings	74.3	98.9	(24.6)
Items not affecting cash	213.7	181.8	31.9
Changes in non-cash operating working capital	98.2	(25.6)	123.8
Net interest paid	(52.1)	(45.2)	(6.9)
Cash generated by operating activities	334.1	209.9	124.2
Cash (used in) generated by financing activities	(16.7)	177.5	(194.2)
Cash used in investing activities	(163.2)	(219.9)	56.7
<b>Net increase in cash and cash equivalents</b>	154.2	167.5	(13.3)
<b>Cash and cash equivalents, end of period</b>	323.3	227.4	95.9

For the nine months ended December 31, 2020, cash generated by operating activities increased by \$124.2 million compared to the same period in the prior year, primarily due to the Safe Restart Funding received, and somewhat offset by a decrease in net earnings. The decrease in net earnings, excluding the impact of the Safe Restart Funding, reflects 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. For the nine months ended December 31, 2020, changes in non-cash operating working capital increased by \$123.8 million compared to the same period in the prior year, primarily due to the increase in deferred revenue as a result of the Safe Restart Funding received.

Cash used in financing activities in the nine months ended December 31, 2020 was \$16.7 million. This amount consisted of \$14.8 million repayment of KfW loans and \$1.9 million in repayment of finance lease obligations. Cash generated by financing activities in the same period in the prior was \$177.5 million. This amount consisted of proceeds of \$250 million from our October 2019 bond issuance, offset by \$69.2 million repayment of KfW loans, \$1.7 million in repayment of finance lease obligations and \$1.6 million in bond financing costs.

Cash used in investing activities for the nine months ended December 31, 2020 decreased by \$56.7 million compared to the same period in the prior year, mainly due to a \$61.8 million decrease in capital expenditures and a \$2.1 million decrease in our debt service reserves, offset by \$7.0 million increase in short-term investment purchases. (See "Investing in Our Capital Assets" for detail of significant capital expenditures.)

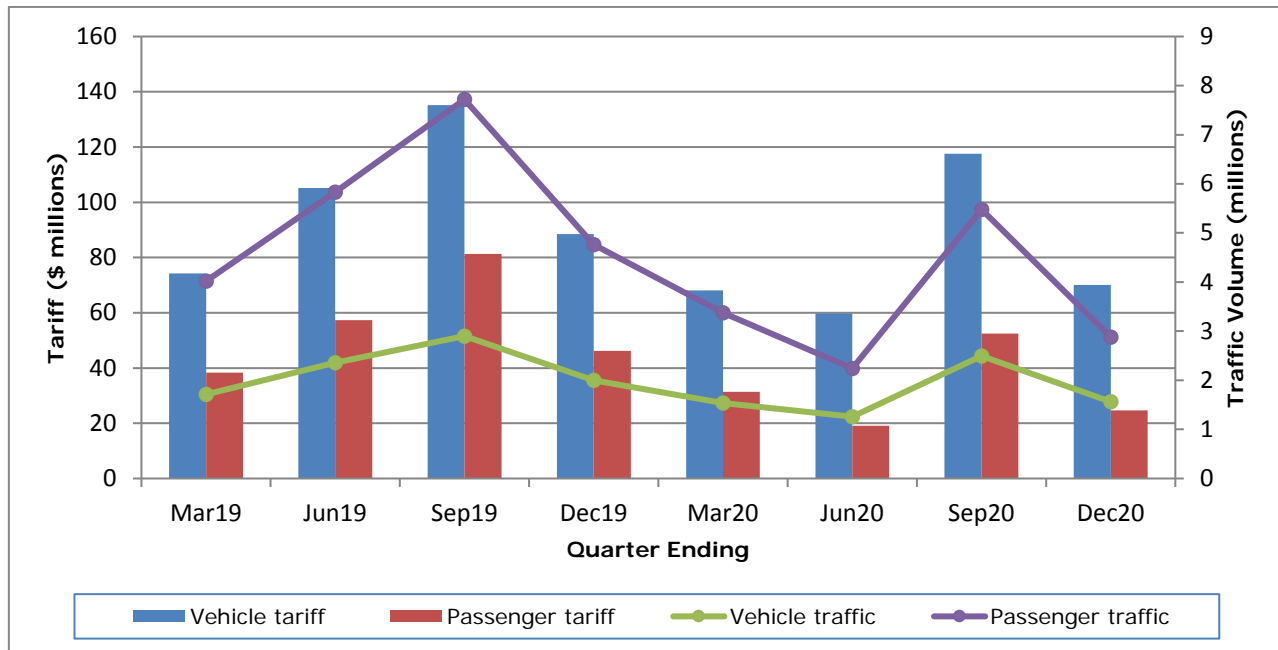
## SUMMARY OF QUARTERLY RESULTS

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

(\$ millions)	Quarter Ended (unaudited)							
	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20
Total revenue	172.5	246.4	329.3	211.0	154.7	137.4	247.6	311.9
Operating (loss) profit	(28.8)	26.0	108.6	5.3	(54.6)	(46.3)	52.3	112.9
Net (loss) earnings	(41.0)	12.2	95.0	(8.3)	(70.1)	(62.0)	37.8	98.5

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 three quarters of fiscal 2021 and shows the relationship of traffic volume and tariff revenue over the most recent eight quarters:



## **OUTLOOK**

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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 nine months ended December 31, 2020, including a 26.9% decline in vehicle traffic and a 42.1% 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 levels are reflective of the requirements of the CFSC and, in the three months ended December 31, 2020, capacity was reduced by only 3.2% compared to the same period in the prior year.

As a result of travel restrictions and physical distancing measures related to the COVID-19 pandemic, all food and retail services 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.

In December 2020, we received \$308 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program. We reached a formal agreement with the Province in November, 2020 which consists of funding towards the estimated operational impacts of the COVID-19 pandemic, to limit fare increases to 2.3% in fiscal 2022, fiscal 2023 and fiscal 2024 and to cover the estimated costs of discretionary sailings for fiscal 2022 through fiscal 2024. The recognition of funding for each of these years is projected to be \$186.0 million in fiscal 2021, \$102.3 million in fiscal 2022, \$9.3 million in fiscal 2023 and \$10.4 million in fiscal 2024.

Without taking into account the Safe Restart Funding, we incurred a net loss of \$81 million during the nine months ended December 31, 2020, primarily as a result of lower traffic levels. Taking into account the \$154.8 million of Safe Restart Funding recognized during this period, we recorded a net income of \$74 million. As a result of this funding, our debt to total capital ratio, which would otherwise have increased, has decreased from 71.9% as of March 31, 2020 to 69.4% as of December 31, 2020.

There is uncertainty around the overall economic environment. On November 8, 2020, travel restrictions were imposed and have negatively affected 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.bcferries.com/investors/financial\\_reports.html](http://www.bcferries.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 nine months ended December 31, 2020.

BC Ferries may continue to experience significantly reduced tariff and net retail revenue, with a negative impact on earnings, due to the COVID-19 pandemic. As a result, we may 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***

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### **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 December 31, 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 December 31, 2020 condensed interim consolidated financial statements contain one amended accounting policy for revenues to address the revenue recognition of the Safe Restart Funding.

### **Adoption of New Accounting Standards**

No new accounting standards were adopted effective April 1, 2020.



## ***FORWARD LOOKING STATEMENTS***

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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, reliance on positive net earnings and access to capital resources to ensure liquidity, traffic levels, retail and catering sales, fares and limits on fare increases, ferry transportation fees, the impact of the COVID-19 pandemic, application and obligation of the Safe Restart Funding Program, accounting changes, our short-term and long-range business plans, ferry transportation revenue, capital expenditure levels and deferrals, 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 new Island Class vessels, the new Salish Class vessels, FortisBC's LNG incentive funding, the New Building Canada Fund, long-term borrowing expectations, total revenue and expense projections, reductions to discretionary spending, and our cash forecasts.

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.