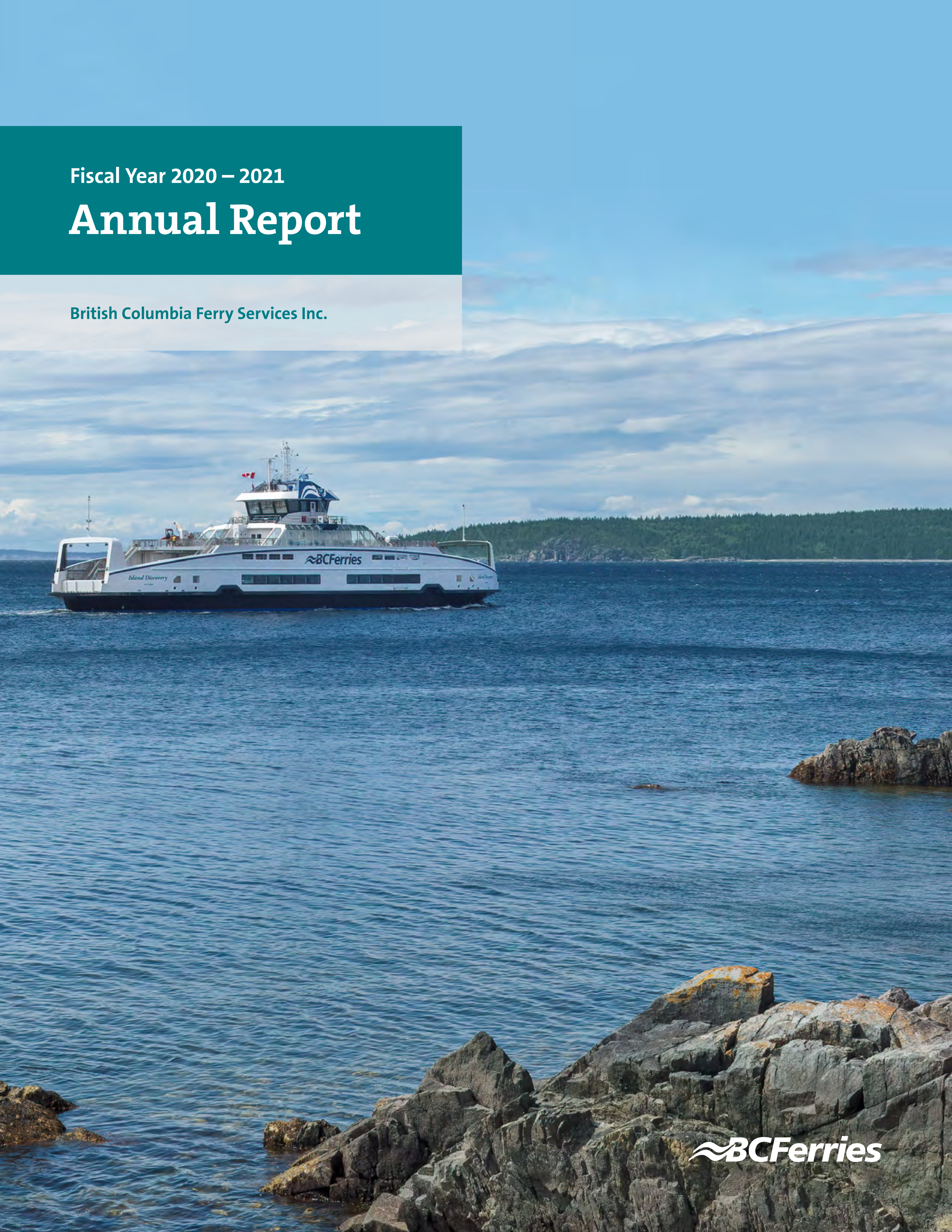
Fiscal Year 2020 – 2021

Annual Report

British Columbia Ferry Services Inc.



Leadership Messages

The *Spirit of British Columbia* connecting Tsawwassen and Swartz Bay

Message from the Chair

The past year presented the province, the country, and indeed the world, with a long list of challenges, and BC Ferries has not been immune. Since the onset of the COVID-19 pandemic, we have experienced unfathomable change – no corner of our business operations or daily lives have been untouched. I want to start by thanking every member of the BC Ferries' community for ensuring the ferry system weathered this difficult time. While we are not yet on the other side of this global health crisis, our team has been consistent in its service to British Columbians.

Throughout the pandemic, BC Ferries has delivered safe, affordable, and reliable lifeline ferry service to coastal communities, operating in our customers' and the public interest. We have succeeded in part because of our important relationships with our partners. Through close consultation, we have met the unique and distinct needs of coastal and Indigenous communities in British Columbia during this time of crisis. We are grateful for financial support from the provincial and federal governments through the Safe Restart Funding Agreement.

With any time of great challenge comes opportunity. The Company of the future must build on its strengths. BC Ferries is one of the largest ferry systems in the world, with an enviable record of efficiency, effectiveness, and sustainability – with a focus on serving the public interest. BC Ferries will maintain this record by embarking on a major capital program, modernizing systems, and continuing to focus on customers – both individuals and communities – all with safety at the forefront.

Transportation is one of the largest industries in B.C., and BC Ferries plays a critical role in moving goods and people. As we prepare for the next stage of BC Ferries' growth, we do so acknowledging that an exciting and challenging time lies ahead.

Brenda J. Eaton
Chair of the Board of Directors
British Columbia Ferry Services Inc.

Message from the CEO

In this year of challenge and change, I start by expressing my sincere appreciation to the entire staff of BC Ferries for their courageous work. Our team has faced the COVID-19 pandemic with bravery and determination, knowing the importance of their work to keep essential goods, services, and people moving to coastal communities.

Throughout the past year, BC Ferries has provided critical ferry service safely and effectively. We provided service at or above levels specified in the Coastal Ferry Services Contract, maintained on-time performance, reliability, and capacity. Our ability to do this was greatly buoyed by revenue replacement funding from the Province of British Columbia and the Government of Canada. We thank them for that support on behalf of the communities we serve.

While navigating the uncertainty of the pandemic, we have not lost sight of the other pressing issues facing coastal transportation in British Columbia. Capacity issues will return post pandemic and we maintained prudent capital investment this year in new ships, with five under construction. They will all enter service in 2022 and serve smaller communities on the coast. We continued to improve the digital online experience we provide to travellers with our new reservation system and website.

Ferry service cannot be delivered without dedicated employees, so we worked to improve our training and recruitment efforts, despite pandemic pressures. With many nationalities already represented, we seek to make BC Ferries an even more welcoming workplace. Diversity, inclusion, equity, and sincere relationships with Indigenous communities are all part of our efforts. We are making progress and were gratified to be recognized, for the fifth year in a row, as one of B.C.'s top employers. Yet, there is more to be done.

We are also addressing the other important issue of our time – climate change. This year our hybrid battery electric vessels demonstrated the benefits of electrifying the coastal ferry fleet, and we continued to invest in our new, innovative Island Class vessels. We are working with both levels of senior government to provide emission-free ferry service to four routes and six ships in the future. Combined with our leading investments in LNG propulsion, BC Ferries aims to reduce our carbon footprint in support of CleanBC and federal climate goals.

The pandemic has affected many of our plans. In the near term, we will focus on core operations and reversing the financial impacts of the health crisis. This will allow us to restore deferred capital investments that are critical to long-term reliable service to coastal communities. We plan to integrate modern clean technology to meet the needs of ferry users in a manner that supports the restart of B.C.'s economy and benefits coastal life in British Columbia.

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

Enjoying the outer deck of the *Queen of Surrey*

Dated June 17, 2021

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

Including the Consolidated Financial Statements of British Columbia Ferry Services Inc.

For the fiscal year ended March 31, 2021

Deckhands on board the Spirit Class keep B.C.'s coast safe and moving

Contents

Management's Discussion and Analysis of Financial Condition and Financial Performance For the year ended March 31, 2021

Dated June 17, 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 year ended March 31, 2021 that has been prepared with information available as of June 17, 2021. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2021 ("fiscal 2021") and March 31, 2020 ("fiscal 2020"). These documents are available on SEDAR at **www.sedar.com** and on our investor webpage at **http://www.bcferries.com/investors/financial_reports.html**.

Except where indicated, all financial information herein is expressed in Canadian dollars and determined on the basis of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

Business Overview

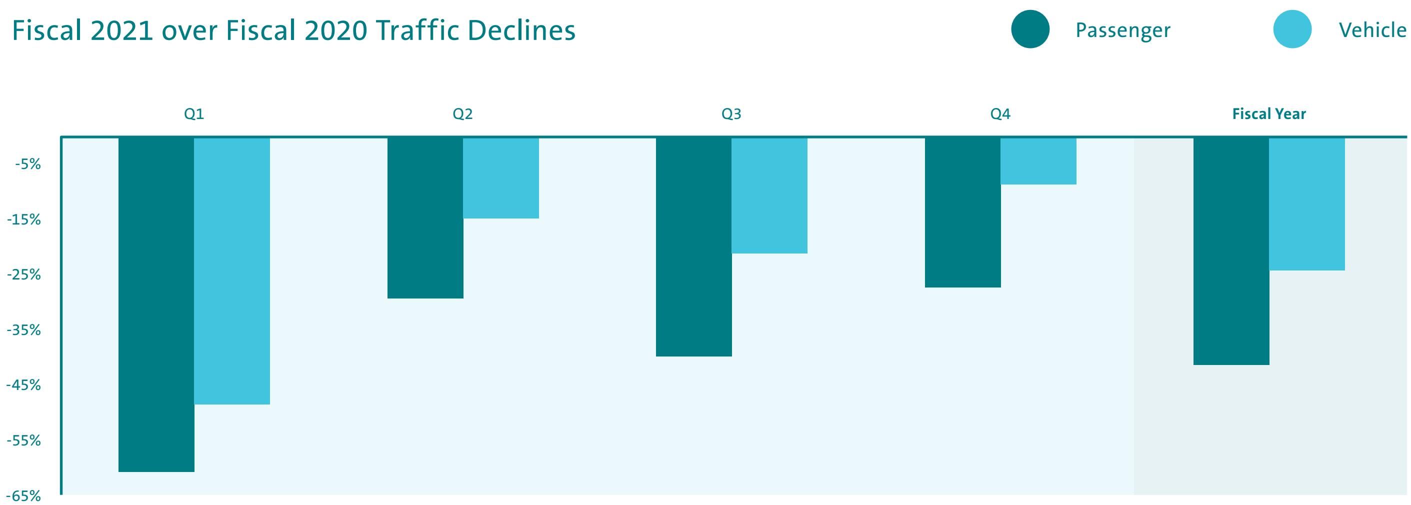
BC Ferries is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 35 vessels operating on 25 routes out of 47 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 impact of the COVID-19 pandemic and corresponding preventative measures and imposed travel restrictions began to be felt in March 2020 and continues to significantly impact our passenger and vehicle traffic. In fiscal 2021, our passenger and vehicle traffic declined 40% and 24%, respectively, compared to the prior year.

Fiscal 2021 over Fiscal 2020 Traffic Declines



Along with the decline in our passenger and vehicle traffic, the impacts from the COVID-19 pandemic include significant declines in revenue, earnings and cash from operations. In December 2020, we received $308 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program (see below for further details). The funding has been applied in part towards losses to date with the remainder to be applied to forecast losses in future periods. In fiscal 2021, $186.0 million of Safe Restart Funding was recognized in revenue (See "Operational Statistics and Revenues" for further details). Without recognition of this funding, our net earnings would have declined by $193.8 million compared to the prior year. Receipt of the full $308 million of Safe Restart Funding has significantly increased our cash position and mitigated the need for incremental borrowing.

In response to the reductions in traffic resulting from COVID-19, we reduced discretionary spending and deferred more than $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. As a proactive measure, we have also negotiated covenant relief under our credit agreement with a syndicate of Canadian banks (the "Credit Facility") and our loans from KfW IPEX-Bank GmbH ("KfW"), and were in compliance with all applicable covenants at March 31, 2021 (see "Liquidity and Capital Resources" for more detail). BC Ferries cannot predict with certainty the full impact of the COVID-19 pandemic, the future timing of when conditions might improve, and when traffic will return to pre-COVID-19 levels.

Significant events in fiscal 2021 include the following:

General

- On April 1, 2020, for fiscal 2021, fares on all routes were held at fiscal 2020 levels in light of the COVID-19 pandemic. As of April 1, 2020, a fuel rebate of 1.5% was implemented on all routes.
- The Coastal Ferry Services Contract ("CFSC") between BC Ferries and the Province was initially amended in April 2020 for a 60-day period, with the temporary amendments 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. These reductions, the majority of which were on the Major Routes, allowed us to reduce capacity in the six months ended September 30, 2020, by 16% compared to the same period in fiscal 2020. In the last six months of fiscal 2021, 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.
- 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 provincial Ministry of Transportation and Infrastructure and the provincial 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.
- In December 2020, we received a $308 million contribution from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program of $1.08 billion. Such funding consists of:

($ millions)	
Operating relief	280
Fare increase relief	24
Discretionary sailings relief	4
	308

(See "Operational Statistics and Revenues" for further details).

- On December 16, 2020, BC Ferries and the BC Ferry & Marine Workers' Union (the "Union") announced the ratification of a Memorandum of Agreement that was reached on October 22, 2020. 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. (See "Expenses" for more details.)
- On February 16, 2021, we were chosen for the fifth year in a row as one of B.C.'s Top 100 Employers by the editors of Canada's Top 100 Employers. This special designation recognizes the British Columbia employers that lead their industries in offering exceptional places to work. In announcing B.C.'s Top 100 Employers, it was noted that the province's leading employers stepped up with strong and comprehensive responses to keep employees safe and help protect the community in response to the pandemic.
- On March 3, 2021, we announced the launch of new fare options on three Metro Vancouver - Vancouver Island routes. We will be using our new fare choices to stimulate growth in traffic and to direct traffic towards our less popular sailings, reducing wait times on popular sailings.

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, we launched our new mobile-friendly website which allows customers to easily make and manage their bookings online, and delivers dynamically updated schedules and current conditions information.
- On December 19, 2020, our fourth Salish Class vessel, the *Salish Heron*, was launched from Remontowa Shipbuilding S.A. in Gdansk, Poland. The *Salish Heron* is scheduled to go into service in the Southern Gulf Islands in early fiscal 2023, 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).

Significant events subsequent to fiscal 2021 include the following:

- On April 23, 2021, and carrying through to June 14, 2021, travel restrictions were imposed by the Province which deny travel to customers travelling for non-essential reasons on routes crossing regional zones as defined by the Province in Ministerial Order M182. Our principal priorities are the safety of our 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. These measures include additional cleaning, sanitization, physical distancing and mandatory wearing of face coverings while at the terminal and onboard the vessel.
- At April 1, 2021, we implemented average tariff increases in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 19-04 dated September 30, 2019. Tariff increases were 2.3% on average. A fuel rebate of 1.5% which was implemented on all routes as of April 1, 2020, continues to be in place.
- On May 19, 2021, and on June 8, 2021, the first and second of four new Island Class vessels departed Damen Shipyard Galati in Romania for the voyage to Canada. These vessels will make the transatlantic journey under their own power in approximately 60 days. The last two of the four new Island Class vessels are expected to depart Romania for Canada in the second quarter of fiscal 2022. 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 late in fiscal 2022. The new vessels are outfitted with hybrid diesel-electric propulsion and have a capacity of up to 400 passengers and crew and approximately 47 vehicles (See "Investing in Our Capital Assets" for more detail).
- On May 28, 2021, we submitted an application under Section 55 of the *Coastal Ferry Act* (the "Act") to the Commissioner seeking approval of a major capital expenditure for the Island Class electrification program. In the application, our proposal is to upgrade our six existing Island Class vessels with associated terminals to enable the vessels' operation in battery-electric mode exclusively.

Corporate Structure

Coastal Ferry Services Contract

We operate ferry services under a regulatory regime established by the Act, and under the terms set out in the CFSC between BC Ferries and the Province. This 60-year services contract, which commenced April 1, 2003, stipulates, among other things, the number of round trips that must be provided for each regulated ferry service route in exchange for specified fees (ferry transportation fees). The CFSC has been amended from time to time. The CFSC and its amendments are available on our website at: **http://www.bcferries.com/about/More_Information.html**.

Under the terms of the CFSC, we receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Consumer Price Index ("CPI") (Vancouver).

The Act defines a performance term as the first performance term or any subsequent four-year period during the term of the CFSC. Fiscal 2021 was the first year of performance term five ("PT5") which commenced April 1, 2020 and ends on March 31, 2024.

Effective April 1, 2020, the CFSC was amended for PT5 to, among other things, establish ferry transportation fees for the four-year term. It was also established that the consolidated route group effective April 1, 2013 will remain in effect until March 31, 2024.

In the absence of any further amendments, on April 1, 2024, the route group structure in the CFSC will revert to the structure that was in place at March 31, 2013. The structure at that time was comprised of three individual route groups, being the Major Routes, Northern Routes and Minor Routes. The establishment of a consolidated route group allows BC Ferries more flexibility in applying tariff changes to better match varying market conditions and community needs, while still complying with price cap regulations.

In April 2020, the CFSC was initially amended 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 amendment document is available at **http://www.bcferries.com/about/More_Information.html**.

These reductions, the majority of which were on the Major Routes, allowed us to reduce capacity in the six months ended September 30, 2020 by 16% compared to the same period in fiscal 2020. In the last six months of fiscal 2021, 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 9% in capacity provided during fiscal 2021, overall capacity utilization during the year was 55.6% as compared to 64.1% in the prior year, reflecting a decrease of 8.5% in utilization.

In October 2019, the Province announced a consultation process asking for public input on what coastal transportation should look like to develop a vision for British Columbia's coastal ferry services. The online vision survey for public input concluded on April 17, 2020. The results of this process and final engagement report is available on the Province's website at: **www2.gov.bc.ca**.

Economic Regulatory Environment

The office of the Commissioner was created under the Act on April 1, 2003. The Act has been amended from time to time to expand and broaden the Commissioner's role and regulatory responsibilities. The Act specifies that the Commissioner must undertake the regulation of ferry operators in the public interest in accordance with the following principles: (a) the primary role of the Commissioner is to balance the interests of ferry users, taxpayers, and the financial sustainability of ferry operators, (b) ferry operators are to be encouraged to meet provincial greenhouse gas emission targets in their operations and when developing capital plans, and (c) ferry operators are to be encouraged to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services. The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating tariffs. The Commissioner has the authority to authorize the establishment of deferred fuel cost accounts and to set the terms and conditions for their use, including fuel surcharges or rebates. The Commissioner is also responsible for regulating the reduction of service and discontinuance of routes, monitoring the service provided under the CFSC, authorizing major capital expenditures, conducting performance reviews, regulating ferry transportation services where the Commissioner has determined an unfair competitive advantage exists and approving the customer complaints process.

Performance term five

In September 2019, the Commissioner issued Order 19-04 which included the following:

- establishment of the final price cap increase of 2.3% for each of the four years of PT5;
- authorization for the Company to maintain existing fuel deferral accounts;
- establishment of a future efficiency target equivalent to 1% of annual operating, maintenance and administration costs; and
- establishment of the price per litre for the operation of the fuel deferral accounts at $1.03 per litre for marine diesel and 46.9 cents per litre for LNG in the first year of PT5, inflated in each case by 2% per year for the balance of PT5. The set price per litre is a required input into the calculation of fuel surcharges or rebates.

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

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. A price cap sets the ceiling on the weighted average level of fares that can be charged. Under the Act, the average vehicle and passenger tariff cannot be over the price cap for more than four consecutive quarters. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers, which will be settled through future tariff reductions or fuel rebates.

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

In January 2014, the IASB issued an interim standard, IFRS 14 *Regulatory Deferral Accounts,* which addresses accounting for rate-regulated activities. However, it does not apply to entities, like ours, that transitioned to IFRS prior to that date. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Under IFRS, rather than being charged to regulatory asset or liability accounts on our consolidated statements of financial position, fuel surcharges collected or rebates granted are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes. Reporting for rate-regulated activities provides additional information, which we use to assess performance and to make operating decisions.

Regulatory assets and liabilities do not have standardized meaning within IFRS. Our regulatory assets and liabilities should be considered in addition to, but not as a substitute for, measures of financial performance in accordance with IFRS.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in Note 29 to our March 31, 2021 audited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our net earnings for the quarters and years ended March 31, 2021 and 2020 would be as follows:

	Three months ended March 31		Years ended March 31	
($ millions)	2021	2020	2021	2020
Net (loss) earnings	(53.3)	(70.1)	21.0	28.8
Changes in net earnings: Regulatory asset or liability				
Deferred fuel costs				
Fuel costs (under) over set price	(1.5)	0.5	(6.4)	(1.1)
Fuel rebates (surcharge)	1.4	–	6.8	(5.5)
Payments due to the Province	0.2	–	0.2	–
Increase (decrease) in total net earnings	0.1	0.5	0.6	(6.6)
Adjusted net (loss) earnings	**(53.2)**	**(69.6)**	**21.6**	**22.2**

Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs that were used to develop the regulated price caps. The difference between actual fuel costs (including fuel hedge gains and losses) and the regulated fuel costs (set price) is deferred for settlement in future tariffs. In addition, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time, which are applied against deferred fuel cost account balances. We may also receive payments from the Province or have amounts payable to the Province in relation to fuel cost differences which are applied against deferred fuel cost account balances. In fiscal 2021, a fuel rebate of 1.5% on all routes was in place and in fiscal 2020, fuel surcharges of 1.5% on average on all routes with the exception of the Northern Routes were in place from June 1, 2019, until they were discontinued effective December 16, 2019.

During fiscal 2021 and fiscal 2020, weighted average tariff remained below permitted price caps.

Financial and Operational Overview

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

($ millions)	2021	2020	Variance
	Years ended March 31		
Total revenue	865.3	941.4	(76.1)
Operating expenses	779.8	856.1	(76.3)
Operating profit	85.5	85.3	0.2
Net finance and other	64.5	56.5	(8.0)
Net earnings	**21.0**	**28.8**	**(7.8)**
Other comprehensive income (loss)	27.7	(30.8)	58.5
Total comprehensive income (loss)	**48.7**	**(2.0)**	**50.7**

($ millions)	As at March 31	
Total assets	2,463.6	2,360.5
Total long-term liabilities	1,505.2	1,514.4
Dividends	6.0	6.0

Financial performance was adversely affected in the year ended March 31, 2021 as a result of the COVID-19 pandemic. The impacts include significant declines in passenger and vehicle traffic and significant declines in revenue, earnings and cash from operations which have been largely offset by the Safe Restart Funding and a reduction in operating expenses.

In the year ended March 31, 2021, we recognized Safe Restart Funding of $186.0 million (see “Revenue and Operational Statistics” for more detail). In fiscal 2021, revenues, inclusive of Safe Restart Funding, decreased $76.1 million or 8.1% compared to the prior year, primarily as a result of the decreases in traffic volumes and net retail sales. Without the Safe Restart Funding of $186.0 million, our fiscal 2021 revenues would have been $679.3 million, or 27.8% lower than in fiscal 2020.

During fiscal 2021, we delivered 79,454 round trips, a decrease of 2,834.5 or 3.4% compared to 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. We carried 13.1 million passengers and 6.7 million vehicles during fiscal 2021, a decrease of 40% and 24%, respectively, compared to the prior year.

In fiscal 2021, our operating expenses decreased by $76.3 million or 8.9% compared to the prior year, mainly due to reduced round trips on the Major Routes and the deferral of certain discretionary costs. The operating expense reduction in the fiscal 2021 includes reduced labour costs, fuel consumption, contracted services, depreciation expense and other miscellaneous costs.

In fiscal 2021, our net earnings were $21.0 million, representing a decrease of $7.8 million or 27.1% compared to net earnings of $28.8 million in the prior year. Without $186.0 million in Safe Restart Funding, our net loss for the year ended March 31, 2021, would have been $165.0 million.

Our total comprehensive income in fiscal 2021 was $48.7 million, representing an increase of $50.7 million compared to the same period in the prior year. This increase is comprised of an increase in other comprehensive income of $58.5 million and a decrease in net earnings of $7.8 million. The $58.5 million increase in other comprehensive income includes a $50.2 million decrease in the unrealized losses of our open fuel swap contracts, reflecting an increase in diesel prices at March 31, 2021 from a COVID-19 low point at March 31, 2020. Also included in the $58.5 million increase in other comprehensive income is a $10.0 million gain on the revaluation of our property, partially offset by $1.7 million loss as a result of an actuarial valuation of our post-employment benefit plan.

Traffic

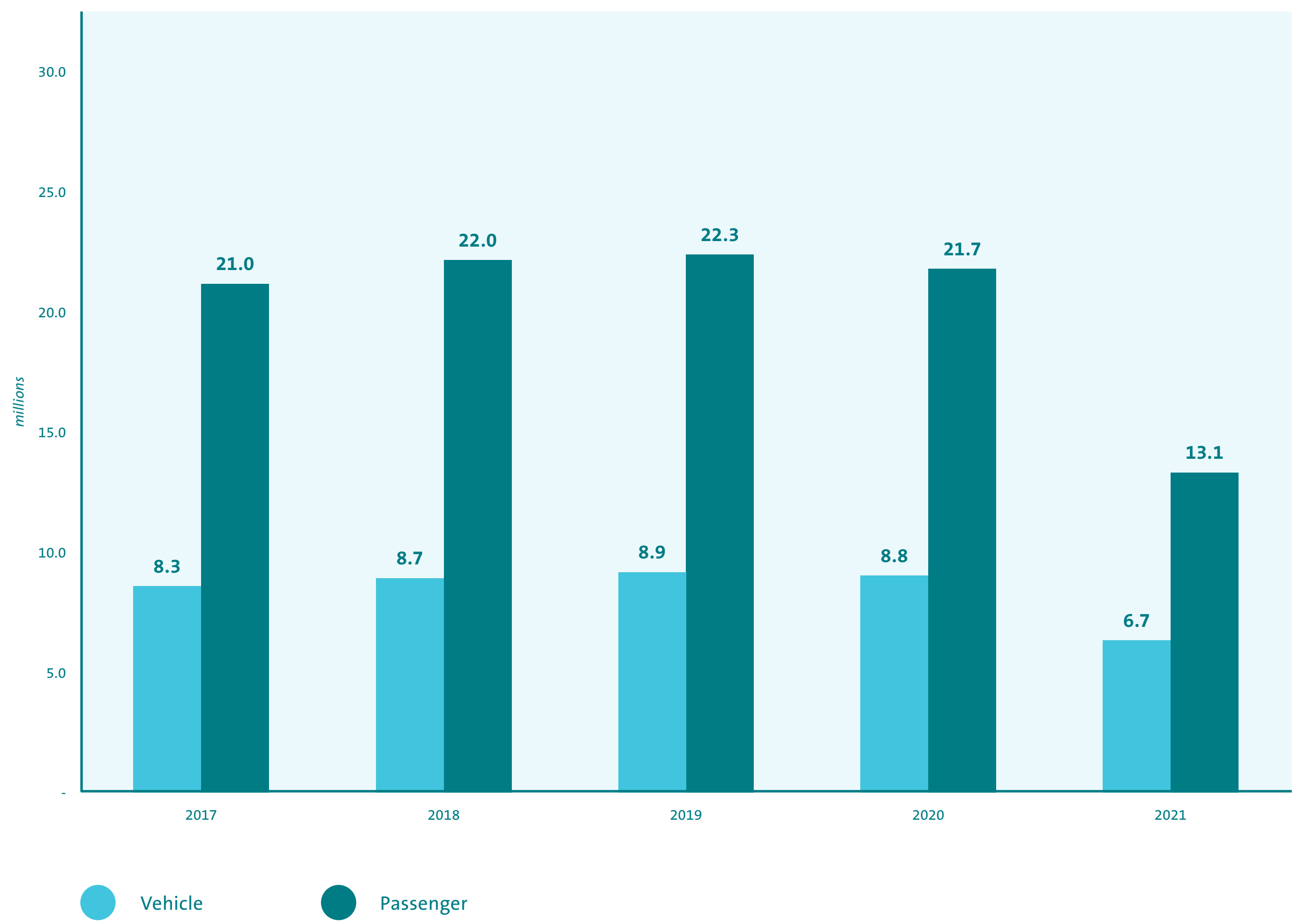
In fiscal 2019, our vehicle traffic levels were the highest we had ever experienced and our passenger traffic levels were the second highest we had ever experienced. When the COVID-19 coronavirus was declared a pandemic, we were 50 weeks into fiscal 2020. In the last two weeks of March 2020, the COVID-19 pandemic significantly impacted our vehicle and passenger traffic with a decrease of 55% and 69%, respectively, compared to the same period in the prior year, resulting in year-to-date decreases of 1% to vehicle traffic and 3% to passenger traffic compared to the prior year.

In fiscal 2021, the COVID-19 pandemic continued to adversely affect our passenger and vehicle traffic, with declines of 40% and 24%, respectively, compared to fiscal 2020.

The following table and graph details the trends in traffic volumes over the past five fiscal years:

Traffic by fiscal year (thousands)	**2017**	**2018**	**2019**	**2020**	**2021**
Vehicle	8,305.8	8,723.4	8,886.5	8,800.9	*6,704.0*
Increase (decrease)	*3%*	*5%*	*2%*	*(1%)*	*(24%)*
Passenger	21,034.8	22,030.2	22,286.7	21,677.3	*13,083.3*
Increase (decrease)	*2%*	*5%*	*1%*	*(3%)*	*(40%)*

Traffic



Safety and Security

Safety is our highest value. Maintaining a safe environment for our customers and employees requires our continued focus and diligence. A significant damage, injury or illness event could have an adverse effect on the lives of our employees and customers. Deliberate, malicious acts could cause operational disruption, death, injury or property damage. The occurrence of a major incident or mishap could negatively affect the environment, staff morale, our reputation and our ability to meet operational service requirements, our financial position and results of operations. The effectiveness of policies and procedures, equipment, maintenance, training, supervision, facility design and security measures reduces the risk to passenger and employee safety and/or property damage. In fiscal 2021, one of our employees passed away while working at our fleet maintenance unit. We are working with WorkSafeBC to fully investigate what happened and understand how this tragic incident occurred.

We have a COVID-19 pandemic plan that follows advice from health experts from provincial and federal agencies. We continue to take measures to protect the health and safety of employees and customers. This plan includes extra cleaning and disinfecting of all touch points, advising customers to stay in their vehicles while on board, urging customers to practice social distancing if they must visit passenger areas, limiting food services, wearing of face masks and asking customers to use electronic forms of payment if possible.

We have an internal control framework with defined control objectives for information and related technology, which guides our governance and control processes. This assists us in ensuring the security, confidentiality and integrity of our information. Our prime data centre facility, which serves as our production infrastructure, is in a location to mitigate risk in the event of a major incident such as an earthquake. Our secondary site houses our pre-production infrastructure and serves as our production environment for disaster recovery in the unlikely event that data centre production services are interrupted.

Our 24-hour Operations and Security Centre (“OSC”) is a central location for monitoring day-to-day operations and providing incident management support. Our Emergency Operations Centre, operating from our OSC, is the central point of command and control for all planning, organizing and responding by BC Ferries with respect to COVID-19. The primary purpose of the OSC is to collect information from throughout the Company, and to provide enhanced situational awareness and assessments, increased security monitoring and a coordinated response during any incidents. Security initiatives are in place to counter intentional attacks and we are in regular contact with government security agencies to ensure we have current information.

We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents.

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

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

As part of the SailSafe program, we upgraded our Safety Management System (“SMS”), including an operational risk assessment and management process. The SMS focusses on occupational and operational safety and ensures an avenue for auditing, reporting, investigating and tracking of policies, procedures and incidents. This allows us to evaluate trends and identify changes to risk in specific areas and help prevent future incidents.

Environment

We are committed to safeguarding the environment. Our operations are subject to federal, provincial and local environmental laws and regulations dealing with various operations, including solid and liquid waste management, air quality, and oil spill response. If we were to be involved in an environmental accident or to be found in material violation of applicable law and regulations, we could be responsible for material clean-up costs, repair of property damage, and fines or other penalties.

We comply with environmental laws and regulations and actively search for ways to improve our environmental performance to help us become an industry leader in environmental management. Our environmental policy provides a framework for setting environmental targets and encouraging best practices.

We constantly look for clean and innovative technology to reduce underwater and airborne noise, fuel consumption and emissions on our vessels. We use variable frequency drives and thruster propulsion solutions on our vessels to reduce radiated noise and airborne noise. Both LNG and the marine diesel we currently use meet all current domestic and international emissions regulations. We have implemented a wide variety of fuel-saving measures ranging from operating our vessels more efficiently to installing new, more fuel-efficient engines on some of our vessels and fuel monitoring systems on others, and designing and building our new vessels to meet or exceed current environmental standards. Our cable ferry, the *Baynes Sound Connector*, consumes approximately 50% less fuel compared to the previous vessel providing the service.

We are actively pursuing alternative fuel options for new vessels and vessels undergoing major retrofits because we believe alternate fuels would reduce emissions as well as costs. We now have five vessels that operate primarily on LNG; two Spirit Class and three Salish Class ferries. Our new Island Class vessels (two of which entered service in fiscal 2021) are outfitted with hybrid diesel-electric (battery) propulsion. The stored energy capability will be expandable for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future.

In addition to moving towards low carbon intensive fuels, our vessels use shore power each night and during maintenance periods to offset diesel consumption. Over the last five years, we have invested resources to strengthen our shore power system and install shore-side and shipboard sub-meters to monitor consumption and quantify environmental benefits. Using shore power replaces the need to operate on-ship generators, which reduces emissions and noise at our terminals and our shipyard.

We have other initiatives to mitigate our environmental impact. We have a sewage and wastewater treatment system so that, wherever possible, our vessels convey sewage to a terminal through pump-ashore infrastructure. Where terminal facilities were not available, small vessels were fitted with holding tanks, with truck pump-off. In all other cases, the vessels have been fitted with federally compliant marine sanitation devices. We have treatment plants at four of our terminals. At seven other terminals, sewage is collected and transferred to treatment plants operated by local governments.

Operational Statistics and Revenues

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation (See "The Effect of Rate Regulation"). Our Major Routes, which are our four busiest routes, consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. Our Northern Routes consist of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Minor Routes 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 for the comparable fiscal 2021 and fiscal 2020 are shown in the tables below.

	Years ended March 31			
Operational Statistics	**2021**	**2020**	**Increase (Decrease)**	**%**
Vehicle Traffic				
Major Routes	3,521,614	5,097,363	(1,575,749)	(31%)
Northern Routes	19,164	37,957	(18,793)	(50%)
Minor Routes	3,163,252	3,665,579	(502,327)	(14%)
Total Vehicle Traffic	**6,704,030**	**8,800,899**	**(2,096,869)**	**(24%)**
Passenger Traffic				
Major Routes	7,203,979	13,706,288	(6,502,309)	(47%)
Northern Routes	34,090	100,403	(66,313)	(66%)
Minor Routes	5,845,280	7,870,649	(2,025,369)	(26%)
Total Passenger Traffic	**13,083,349**	**21,677,340**	**(8,593,991)**	**(40%)**
Round Trips				
Major Routes	10,924.5	13,301.5	(2,377.0)	(18%)
Northern Routes	274.0	380.0	(106.0)	(28%)
Minor Routes	68,255.5	68,607.0	(351.5)	(1%)
Total Round Trips	**79,454.0**	**82,288.5**	**(2,834.5)**	**(3%)**
Capacity Provided (AEQs)				
Major Routes	6,903,554	8,330,506	(1,426,952)	(17%)
Northern Routes	51,364	64,470	(13,106)	(20%)
Minor Routes	7,168,575	7,200,746	(32,171)	(0%)
Total Capacity Provided	**14,123,493**	**15,595,722**	**(1,472,229)**	**(9%)**

Operational Statistics	2021	2020	Increase (Decrease)	%
	Years ended March 31			
AEQs Carried				
Major Routes	4,388,939	6,020,565	(1,631,626)	(27%)
Northern Routes	24,525	46,031	(21,506)	(47%)
Minor Routes	3,440,748	3,932,417	(491,669)	(13%)
Total AEQs Carried	**7,854,212**	**9,999,013**	**(2,144,801)**	**(21%)**
Capacity Utilization				
Major Routes	63.6%	72.3%	(8.7%)	
Northern Routes	47.7%	71.4%	(23.7%)	
Minor Routes	48.0%	54.6%	(6.6%)	
Total Vehicle Traffic	**55.6%**	**64.1%**	**(8.5%)**	

In fiscal 2021, vehicle and passenger traffic decreased 24% and 40%, respectively, compared to the prior fiscal year as a result of the COVID-19 pandemic. In fiscal 2021, vehicle and passenger traffic decreased on the Major Routes, Northern Routes and Minor Routes (see the Operational Statistics table for more detail.) The decline in non-commercial vehicle traffic was partially offset by a 2.9% increase in total commercial traffic compared to the prior year, including an 8.4% increase in drop trailer traffic. Our drop trailer service is available on two of our Major Routes, where commercial customers can drop their trailers off at one terminal and pick them up at another.

In fiscal 2021, we delivered 2,834.5 or 3% fewer round trips than in fiscal 2020, with the majority of service level reductions on the Major Routes. Despite providing fewer round trips compared to the prior year, the decrease in demand (21%) exceeded the reduction in capacity (9%).

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 fiscal 2021, we provided 2,834.5 fewer round trips compared to 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 9%. In fiscal 2021, approximately 97% 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 fiscal 2021, despite a decrease of 9% in capacity provided, overall capacity utilization was 55.6%, a decrease of 8.5% compared to capacity utilization of 64.1% during the prior year. The reduction in capacity utilization is primarily due to lower traffic levels as a result of the COVID-19 pandemic. On the Major Routes and Northern Routes, despite a 18% and 28% reduction in round trips, respectively, capacity utilization declined by 8.7% and 23.7%, respectively, compared to the prior year. On the Minor Routes, round trips were reduced by 1%, and capacity utilization declined 6.6% compared to the prior year.

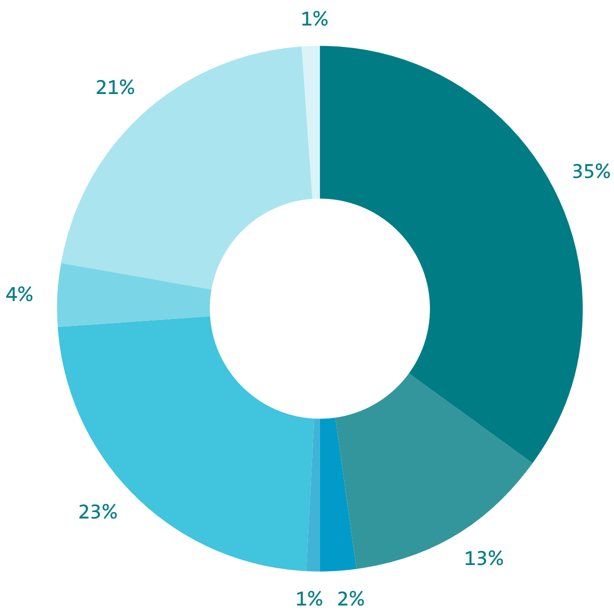
On-time performance on the Major and regulated Minor Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled departure time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled 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	2021	2020	
	Years ended March 31		
Major Routes	84.3%	86.6%	(2.3%)
Northern Routes	82.8%	85.6%	(2.8%)
Minor Routes	89.8%	89.9%	(0.1%)
On-Time Performance	**89.1%**	**89.4%**	**(0.3%)**

In fiscal 2021, overall on-time performance declined 0.3% compared to the prior year, declining on the Major Routes, the Northern Routes and the Minor Routes. In fiscal 2021, on-time performance on the Major Routes decreased primarily due to operating compressed sailing schedules, and extra time needed to separate essential and non-essential traffic in accordance with the Province's Ministerial Order M182. In fiscal 2021, on-time performance on the Northern Routes decreased primarily due to operating compressed sailing schedules and delays due to weather.

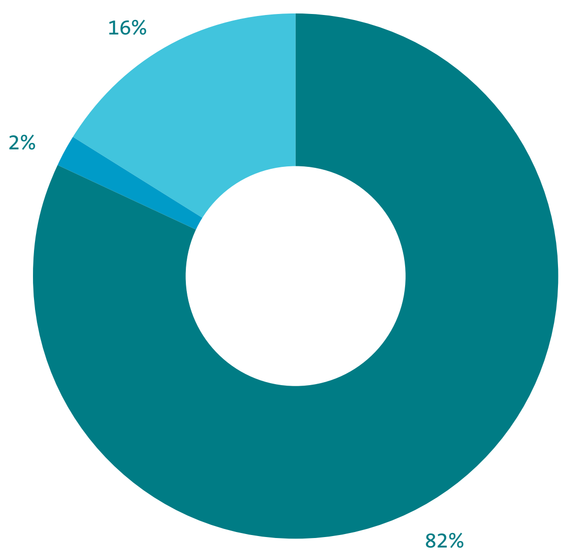
Operational revenues for fiscal 2021 are shown in the graphs below:

Total Revenue by Source for the Year ended March 31, 2021



- 35% Vehicle tariff
- 13% Passenger tariff
- 2% Net catering & on-board
- 1% Social program fees
- 23% Ferry transportation fees
- 4% Federal-Provincial subsidy
- 21% Safe Restart Funding
- 1% Other

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.



- 82% Major Routes
- 2% Northern Routes
- 16% Minor Routes

In fiscal 2021, the greatest portion of our direct route revenues, 82%, was earned on our Major Routes. Revenue from the Northern Routes contributed 2% and revenue from Minor Routes contributed 16%.

Operational revenues for the comparable fiscal 2021 and fiscal 2020 are shown in the table below:

	Years ended March 31			
Revenue ($ millions)	**2021**	**2020**	**Increase (Decrease)**	**%**
Direct Route Revenue	**448.4**	**707.1**	**(258.7)**	**(37%)**
Vehicle Tariff Revenue				
Major Routes	257.9	336.8	(78.9)	(23%)
Northern Routes	4.9	9.5	(4.6)	(48%)
Minor Routes	45.0	50.7	(5.7)	(11%)
Total Vehicle Tariff Revenue	**307.8**	**397.0**	**(89.2)**	**(23%)**
Passenger Tariff Revenue				
Major Routes	91.3	177.6	(86.3)	(49%)
Northern Routes	2.2	7.6	(5.4)	(71%)
Minor Routes	22.8	31.1	(8.3)	(27%)
Total Passenger Tariff Revenue	**116.3**	**216.3**	**(100.0)**	**(46%)**
Net Retail Revenue				
Major Routes	14.1	53.3	(39.2)	(74%)
Northern Routes	1.6	3.9	(2.3)	(59%)
Minor Routes	1.1	4.1	(3.0)	(73%)
Total Net Retail Revenue	**16.8**	**61.3**	**(44.5)**	**(73%)**
Social program fees	7.7	15.2	(7.5)	(49%)
Other revenue	6.6	11.9	(5.3)	(45%)
Fuel (rebate) surcharge	(6.8)	5.4	(12.2)	(226%)
Indirect Route Revenue	**415.7**	**232.1**	**183.6**	**79%**
Safe Restart Funding	186.0	-	186.0	-
Ferry transportation fees	197.7	200.8	(3.1)	(2%)
Federal-Provincial subsidy	32.0	31.3	0.7	2%
Total Route Revenue	**864.1**	**939.2**	**(75.1)**	**(8%)**
Other general revenue	1.2	2.2	(1.0)	(46%)
Total Revenue	**865.3**	**941.4**	**(76.1)**	**(8%)**

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, fares on all routes for fiscal 2021 were held at fiscal 2020 levels.

In the year ended March 31, 2021, total direct route revenue decreased $258.7 million or 37% compared to the prior year, primarily as a result of the decrease in vehicle and passenger traffic levels from the impact of the COVID-19 pandemic.

Average Tariff	2021	2020	Increase (Decrease)	%
	Years ended March 31			
Average Vehicle Tariff				
Major Routes	73.25	66.07	7.18	10.9%
Northern Routes	253.55	254.42	(0.87)	(0.3%)
Minor Routes	14.23	14.06	0.17	1.2%
Average Vehicle Tariff	**45.92**	**45.10**	**0.82**	**1.8%**
Average Passenger Tariff				
Major Routes	12.67	12.96	(0.29)	(2.2%)
Northern Routes	63.54	75.28	(11.74)	(15.6%)
Minor Routes	3.90	3.95	(0.05)	(1.3%)
Average Passenger Tariff	**8.89**	**9.98**	**(1.09)**	**(10.9%)**

In fiscal 2021, average tariff revenue per vehicle (vehicle tariff revenue divided by vehicle traffic volume) increased $0.82 or 1.8% compared to 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 fiscal 2021, average tariff revenue per passenger (passenger tariff revenue divided by passenger traffic volume) decreased $1.09 or 10.9% compared to 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 resulted in a total tariff revenue decrease of $189.2 million or 30.8% compared to the prior year. Of the $189.2 million reduction in total tariff revenue, approximately 87% 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. In fiscal 2021, catering, retail and other on-board services were also impacted by COVID-19 restrictions for safe distancing. In the year ended March 31, 2021, net retail revenue decreased $44.5 million or 73%. 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 and through the remainder of fiscal 2021, limited food services were 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 fiscal 2021 decreased $7.5 million or 49% compared to 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 fiscal 2021, other revenue decreased $5.3 million compared to 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 history of fuel surcharges and fuel rebates in effect for fiscal 2020 and fiscal 2021 is below:

Date range	% surcharge (rebate)	Applicable routes
June 1, 2019 – Dec 15, 2019	1.5%	Major and regulated Minor Routes
June 1, 2019 – Dec 15, 2019	0.0%	Northern Routes
Dec 16, 2019 – March 31, 2020	0.0%	All Routes
April 1, 2020 – March 31, 2021	(1.5%)	All Routes

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

In fiscal 2021, total indirect route revenue increased by $183.6 million or 79% compared to the prior year as a result of $186.0 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% per year for the remainder of PT5 and to cover the estimated costs of discretionary sailings as follows:

Safe Restart Funding Projected Recognition ($ millions)	Year ended March 31,2021	Fiscal 2022 to 2024	Total Funding
Operating relief	186.0	94.0	280.0
Fare increase relief	–	24.0	24.0
Discretionary sailings relief	–	4.0	4.0
	186.0	**122.0**	**308.0**

In fiscal 2021, Safe Restart Funding of $186.0 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 Safe Restart Funding Agreement. For more details on BC Ferries' obligations under the Safe Restart Funding Agreement, see the agreement online under the Company's profile on: SEDAR at **www.sedar.com**.

	Years ended March 31		
Ferry Transportation Fees ($ thousands)	**2021**	**2020**	**Increase (Decrease)**
Major Routes			
B.C. seniors' discounts	6,821	7,609	(788)
Fare initiatives	–	10,938	(10,938)
Major Routes Fees	**6,821**	**18,547**	**(11,726)**
Northern Routes			
Fees received	54,701	67,753	(13,052)
B.C. seniors' discounts	78	–	78
Fare initiatives	–	1,881	(1,881)
Fuel cost recovery	(230)	–	(230)
Northern Routes Fees	**54,549**	**69,634**	**(15,085)**
Minor Routes			
Fees received	128,531	97,753	30,778
B.C. seniors' discounts	4,095	2,590	1,505
Fare initiatives	–	9,481	(9,481)
Contracted routes	3,675	2,816	859
Minor Routes Fees	**136,301**	**112,640**	**23,661**
Total Ferry Transportation Fees	**197,671**	**200,821**	**(3,150)**

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 $3.2 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.

In 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 B.C. 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.

Changes in ferry transportation fees, by Major Routes, Northern Routes and Minor Routes, for fiscal 2021 and fiscal 2020 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 CPI (Vancouver).

Expenses

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

	Years ended March 31			
Operating expenses ($ millions)	**2021**	**2020**	**Increase (Decrease) $**	**Increase (Decrease) %**
Operations	476.0	550.0	(74.0)	(13.5%)
Maintenance	85.8	85.5	0.3	0.4%
Administration	38.5	37.5	1.0	2.7%
Total operations, maintenance and administration	**600.3**	**673.0**	**(72.7)**	**(10.8%)**
Depreciation and amortization	179.5	183.1	(3.6)	(2.0%)
Total operating expenses	**779.8**	**856.1**	**(76.3)**	**(8.9%)**

During fiscal 2021, total operating expenses decreased $76.3 million or 8.9% compared to 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.

Wages, benefits and fuel expenses are our largest expenses, representing approximately 78% (78% in fiscal 2020) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by the level of service provided. During fiscal 2021, we delivered 79,454.0 round trips, a decrease of 2,834.5 or 3.4% compared to the prior year. 84% of the reduced round trips were on the Major Routes.

The majority of our employees are members of the BC Ferry & Marine Workers' Union. On December 16, 2020, BC Ferries and the Union announced the ratification of a Memorandum of Agreement that was reached on October 22, 2020. This new agreement provides certainty for our employees and helps ensure uninterrupted ferry service for our customers, marking 22 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.

The $74.0 million decrease in operations expenses from fiscal 2020 to fiscal 2021 includes:

- $38.3 million decrease in labour costs mainly due to staffing level changes for reduced round trips provided, reduced overtime, reduced training and lower benefit usage, somewhat offset by a wage rate increase of 1.9% effective April 1, 2020 in accordance with the Collective Agreement;
- $19.9 million decrease in fuel expense, primarily due to a reduction in fuel consumption due to a lower number of round trips provided on the Major Routes;
- $6.5 million decrease in advertising, travel, training, property tax, data communication and other miscellaneous expenses;
- $4.2 million decrease in credit card fees, mainly due to decreased vehicle and passenger tariff revenue;
- $2.2 million decrease in materials and supplies relating to uniform, catering, and office; and
- $2.9 million decrease in contracted services related to contracted parking costs, traffic control, and consulting costs.

Maintenance cost increased $0.3 million compared to the prior year, as a result of timing differences related to vessel refit activity.

In fiscal 2021, there was a $1.0 million increase in administration costs compared to the prior year primarily as a result of a legal settlement.

Depreciation and amortization decreased $3.6 million compared to 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)	Years ended March 31 **2021**	**2020**	**Increase**
Finance expense	60.6	61.7	(1.1)
Less: finance income	(4.6)	(7.5)	2.9
Net finance expense	56.0	54.2	1.8
Loss on disposal and impairment of property, plant and equipment, and intangible assets	8.5	2.3	6.2
Total net finance and other expenses	**64.5**	**56.5**	**8.0**

In fiscal 2021, net finance and other expenses increased $8.0 million compared to the prior year. Finance expense decreased $1.1 million as a result of higher capitalized interest and decreased interest on KfW loans partially offset by an increase in interest for the $250 million of 30-year senior secured bonds issued by the Company in October 2019. Finance income decreased $2.9 million as result of lower interest rates.

Loss on disposal and impairment of property, plant and equipment, and intangible assets increased to $8.5 million as a result of higher asset impairments as well as a provision for liabilities associated with the disposal of property, plant and equipment. In response to the COVID-19 pandemic, we reviewed our capital plan and deferred many projects which resulted in asset impairments of $7.0 million.

Investing in our Capital Assets

We have established a formal project governance framework to ensure that capital investments meet our functional and business needs. This framework, which is reviewed annually to ensure it continues to evolve and improve, is the structure under which capital projects are identified, managed, monitored and delivered effectively and efficiently. It ensures we take a disciplined approach to the identification, approval, management, reporting, and delivery of projects and benefits realization, and defines key roles and provides principles and guidelines for the governance of projects through the phases of the project lifecycle.

Capital Expenditures

Given the impact of the COVID-19 pandemic on our financial position, we reviewed all capital plans and identified expenditures that were not regulatory, security or safety related and/or operationally necessary. We deferred more than $100 million of our planned fiscal 2021 capital expenditures and extended the timeline for our new major vessel project plan by five years. Over the next three years, we expect our capital expenditures to average approximately $250 million per year. Our capital plan includes new vessels, upgrades and modifications for existing vessels, improvements at our fleet maintenance unit, upgrades at our other terminals and renewal of our information technology systems. Upgrades to our existing vessels includes enabling the full electrification of our hybrid powered Island Class vessels provided external funding can be secured to support a program to install shore charging infrastructure and the associated upgrades to the vessels. On May 28, 2021, we submitted an application under Section 55 of the Act to the Commissioner seeking approval of a major capital expenditure for the Island Class electrification program.

We have one of the largest ferry fleets in the world. The typical life span of vessels is approximately 45 years. We are currently operating 35 vessels with an average age of 30 years and, of these, 12 are 45 years old or older.

As vessels approach their planned retirement dates, we review the condition of these vessels to determine potential candidates for life extension rather than replacement. Our strategy for new vessels includes inter-operability and standardization of vessels across the fleet, where possible, to provide more flexibility, consistent customer experience, and organizational efficiencies while enhancing a safe operation. Our vessel design, layout, operating characteristics, systems, procedures, and equipment will be standardized across a wide variety of applications to achieve operational efficiencies and enhance reliability. Our vessels will be designed for low energy consumption and clean environmental performance. We plan to adopt alternative fuel sources which are cleaner, less carbon-intensity options, such as LNG and batteries, where economically and technically feasible. Our vessel design and modifications will appropriately incorporate new proven technologies to address other key environmental considerations, such as noise and light pollution, waste management, emissions, and on-board water consumption.

Our Salish Class vessels and Spirit Class vessels are dual-fuel capable, running primarily on LNG using marine diesel as backup. Our new Island Class vessels are outfitted with hybrid diesel-electric propulsion.

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 $24.3 million, of which $0.3 million was recorded to reduce capital costs in the year ended March 31, 2021.

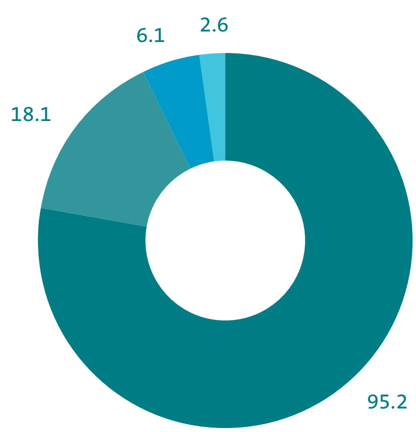
FortisBC Energy Inc. ("FortisBC") has committed to provide us with up to $16 million in incentive funding to help offset incremental capital costs associated with LNG for the Spirit Class and the Salish Class vessels, of which $13 million has been received. The contribution is dependent upon the purchase of LNG and is applied to the capital costs as LNG is purchased. In the year ended March 31, 2021, $0.7 million ($0.7 million fiscal 2020) was recorded to reduce the capital costs of the Spirit Class vessels and $0.5 million ($0.5 million fiscal 2020) to reduce the capital costs of the Salish Class vessels.

Capital expenditures, net of funding from the New Building Canada Fund and FortisBC, during the last two fiscal years are shown in the table below:

Capital expenditures by fiscal year ($ millions)	**2021**	**2020**
Vessel upgrades & modifications	23.8	45.6
New vessels	71.4	140.9
Terminal marine structures	6.1	15.5
Information technology	18.1	26.0
Terminal building upgrades & equipment	2.6	10.1
Total (including new vessels)	**122.0**	**238.1**

Capital expenditures, net of funding recorded from the New Building Canada Fund and FortisBC, in the year ended March 31, 2021 totalled $122.0 million:

Capital Expenditures by Type
Year ended March 31, 2021 ($ millions)



95.2 Vessel acquisitions, upgrades & modifications
18.1 Information technology
6.1 Terminal marine structures
2.6 Terminal and building upgrades & other

Capital expenditures, net of funding from the New Building Canada Fund and FortisBC, in the three and twelve months ended March 31, 2021 comprised the following:

Capital Expenditures ($ millions)	**3 months ended March 31, 2021**	**12 months ended March 31, 2021**
Island Class vessels (additional 4 vessels)	9.8	52.5
Salish Heron	1.5	18.9
Major overhauls & inspections	8.8	18.8
Time collection & crew scheduling	0.9	4.6
Hardware upgrades	0.7	4.5
Customer experience program	0.6	4.1
Various other projects	8.9	18.6
	31.2	**122.0**

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. On May 19, 2021, and on June 8, 2021, the first and second of four new Island Class vessels departed Damen Shipyard Galati in Romania for the voyage to Canada. These vessels will make the transatlantic journey under their own power in approximately 60 days. The last two of the four new Island Class vessels are expected to depart Romania for Canada in the second quarter of fiscal 2022. On April 21, 2021, the fourth of these four new Island Class vessels was launched from the Damen Shipyards Galati in Romania. The other three vessels were launched on February 18, 2021, December 16, 2020, and October 28, 2020. All four vessels are expected to enter service in fiscal 2022 and will allow for fleet deployments and retirements of existing diesel-fuelled vessels. 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. Replacing one larger ship with two smaller vessels on these routes will provide customers with increased capacity per hour and more frequent service. 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 are outfitted with hybrid diesel-electric propulsion and have a capacity of up to 400 passengers and crew 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 Heron

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 *Salish Heron*, which was launched December 19, 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. Using primarily LNG, a cleaner, lower carbon-intensity option to fuel the new ship will result in reduced emissions and reduced costs. 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*, a diesel-fuelled vessel, and is expected to enter service in the Southern Gulf Islands in fiscal 2023.

Major overhauls and inspections

In the three months ended March 31, 2021, we had capital expenditures of $8.8 million ($18.8 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for nine vessels that were completed or underway.

Time collection and crew scheduling

A project to replace and enhance our aged time collection and crew scheduling system is underway and expected to be phased in during fiscal 2022 and fiscal 2023.

Hardware upgrades

Hardware upgrades include the replacement of aged computers, servers, printers, routers, closed-circuit cameras, antennas, digital signage and handheld units for inventory management.

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. 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. With the launch of our new mobile-friendly website on September, 22, 2020, this project is substantially complete.

Various other projects

Various other projects include, among others, Coastal Class vessels' quarter-life upgrades, upgrades to marine structures 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 to administrative software, operation logs, dangerous goods and safety management systems.

Liquidity and Capital Resources

We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issues. In addition, from time to time we receive funding from external sources. Our financial position could be adversely affected if we fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. This is subject to numerous factors, including the results of our operations, our financial position, conditions in the capital and bank credit markets, ratings assigned by rating agencies, and general economic conditions.

We expect our cash requirements will be met through operating cash flows, accessing our existing credit facility from time to time, debt issuances, and other funding opportunities. As a result of the decrease in vehicle and passenger traffic levels from the impact of the COVID-19 pandemic, we reduced service levels, which resulted in cost savings and we reduced discretionary 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.

At March 31, 2021, our unrestricted cash and cash equivalents and other short-term investments totalled $285 million and $125 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 $149 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 and cash generated from operations, partially offset by investments in property, plant and equipment, and intangible assets.

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 March 31, 2021, there were no draws on the Credit Facility.

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. Previously, in May 2020, DBRS had 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.

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.

In 2004, we entered into the Master Trust Indenture, a copy of which is available at **http://www.bcferries.com**. The Master Trust Indenture established common security and a set of common covenants for the benefit of our lenders. Our financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings ranking *pari passu*. We do not currently view share equity as a potential source of capital and have no intention of offering shares to the public or other investors.

Under the Master Trust Indenture, 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 reverted to an amount equal to six months of interest payments or $33.2 million. At March 31, 2021, we achieved a debt service coverage ratio of 2.90 times.

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

On May 15, 2020 and in effect until December 31, 2021, 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 March 31, 2021, the debt service coverage ratio using the modified calculation was 3.06 times, which is in compliance with the amended covenants and enables the Company to have continued access to funding through the Credit Facility.

On June 19, 2020, KfW waived compliance with the prescribed debt service coverage ratio under the KfW loans until the end of March 2021. This allowed the Company to avoid an event of default should our debt service coverage ratio have fallen 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 $186.0 million in revenue from the Safe Restart Funding, the Company's operational performance for the year ended March 31, 2021 has resulted in a $15 million (comprised of net earnings of $21 million less dividends paid of $6 million) improvement in equity before reserves, from $648.2 million as at March 31, 2020 to $663.2 million as at March 31, 2021. Correspondingly, BC Ferries' leverage ratio has decreased from 71.9% as of March 31, 2020 to 71.1% as of March 31, 2021.

	March 31, 2021		March 31, 2020	
	$	**%**	**$**	**%**
Aggregate borrowings[1]	1,632,970	71.1%	1,657,661	71.9%
Total equity before reserves	663,157	28.9%	648,223	28.1%
Total	**2,296,127**	**100.0%**	**2,305,884**	**100.0%**

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

Long-Term Debt

Our long-term debt at March 31 of the last two years is summarized below:

($ millions)	Effective interest rate	Principal outstanding as at March 31 2021	2020
Senior Secured Bonds			
6.25%, due October 2034	6.41%	250	250
5.02%, due March 2037	5.06%	250	250
5.58%, due January 2038	5.62%	200	200
4.70%, due October 2043	4.75%	200	200
4.29%, due April 2044	4.45%	200	200
2.79%, due October 2049	2.83%	250	250
12 Year Loans			
Tranche A, due June 2020	5.18%	–	2
2.95% Loan, due January 2021	3.08%	–	9
2.09% Loan, due October 2028	2.70%	29	33
2.09% Loan, due January 2029	2.68%	30	34
2.09% Loan, due January 2029	2.70%	30	34
		1,439	**1,461**

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortised cost of a financial liability.

Of the six senior secured bond offerings outstanding, all have interest payable semi-annually. On October 15, 2019, we completed a private placement of $250 million of 30-year senior secured bonds. These bonds bear interest at a rate of 2.794% per annum, payable semi-annually. These bonds were rated “A (high)” by DBRS and “AA-” by S&P. The bonds are redeemable in whole or in part, at our option.

At March 31, 2021, we have three 12-year amortizing loan agreements with KfW, each of which is secured under the Master Trust Indenture. These three amortizing loans bear interest of 2.09% per annum and mature in October 2028 and January 2029. In fiscal 2020, the balance of two other amortizing loans, bore interest rates of 4.98% and 2.95%, and were paid at maturity.

Alternative Funding

The Government of Canada has approved funding of up to $43.4 million under the New Building Canada Fund, of which $39.4 million had been received as of March 31, 2021.

As part of the Natural Gas for Transportation (“NGT”) incentive funding (included in other long-term liabilities) for the Salish Class vessels, we received $6.0 million from FortisBC Energy Inc. by March 31, 2019. We have also received $7.0 million by March 31, 2020 of a total contribution of up to $10.0 million from FortisBC Energy Inc. as part of the NGT incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to utilize LNG. The contributions are dependent upon the purchase of at least 10 million gigajoules of LNG and are applied towards the cost of purchasing the Salish Class vessels and converting the Spirit Class vessels. Based on our projected LNG consumption, we expect to meet the consumption requirements of these contribution agreements. During fiscal 2021, we applied $1.2 million ($1.2 million fiscal 2020) in total against the capital cost of the Salish Class vessels and Spirit Class vessels.

Terminal Leases

We entered into a master agreement (the “Master Agreement”) with the BC Transportation Financing Authority (“BCTFA”) effective March 31, 2003 as part of the restructuring of our Company. In return for the transfer of ownership interest in all ferry terminals from the former British Columbia Ferry Corporation to the BCTFA at the time of the corporate restructuring, we received recognition of prepayment of rent under terminal leases.

The leases grant us exclusive access and use of ferry terminal properties for a period of 60 years commencing April 1, 2003. The leases are renewable for an additional period of 20 years at a total cost of $20 per lease provided the CFSC is renewed. We must manage, maintain and develop the terminals at our own cost.

Since the original transfer, a total of $11.7 million of additional lands at Horseshoe Bay, Swartz Bay and Departure Bay have been added to the existing terminal leases in exchange for highway improvements.

If we fail to meet our obligations under the terminal leases or default under the CFSC, the BCTFA may, at its option, re-enter and take possession of the ferry terminal properties and, at its option, terminate the leases. The BCTFA has entered into an acknowledgment agreement with the Trustee under the Master Trust Indenture which sets out certain limitations on the use of this option. We mitigate this performance risk by monitoring and managing all other risks and ensuring we have mitigation plans for them.

Leases

Under IFRS 16 *Leases*, leases formerly classified as operating leases, are classified as right-of-use assets and with corresponding liabilities. We also classify our prepaid terminal land leases and related structures and our corporate office building and land as right-of-use assets. In fiscal 2021, we recognized no new leases or lease extensions while in fiscal 2020, we recognized leases or lease extensions valued at $1.5 million.

In September 2010, agreements which constituted a finance lease for space in our corporate office building in downtown Victoria took effect following the completion of construction of the building. The initial term of the lease was 15 years, with four renewal options of five years each.

Concurrent with the office lease, we advanced a $24.5 million loan to the developer of the property pursuant to a loan agreement having a term of 15 years. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, we were granted an option to purchase up to 50% of the owner's equity interest in the new building. The purchase option expires at the end of the loan term. The loan is secured by a second mortgage on the property.

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, the issuance of bonds, external funding and borrowings under our credit facility. Our primary uses of funds are operational expenses, capital asset acquisitions and upgrades, and payments on our long-term debt.

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

	Years ended March 31		
($ millions)	2021	2020	Increase (Decrease)
Cash & cash equivalents, beginning of year	**169.1**	**59.9**	**109.2**
Cash from operating activities:			
Net earnings	21.0	28.8	(7.8)
Items not affecting cash	243.0	239.4	3.6
Changes in non-cash operating working capital	112.2	(5.8)	118.0
Net interest paid	(63.8)	(56.1)	(7.7)
Cash generated by operating activities	312.4	206.3	106.1
Cash (used in) generated by financing activities	(30.7)	159.9	(190.6)
Cash used in investing activities	(165.4)	(257.0)	91.6
Net increase in cash & cash equivalents	**116.3**	**109.2**	**7.1**
Cash & cash equivalents, end of year	**285.4**	**169.1**	**116.3**

For fiscal 2021, cash generated by operating activities increased by $106.1 million compared to 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 year ended March 31, 2021, changes in non-cash operating working capital increased by $118.0 million compared to the same period in the prior year, primarily due to the increase in deferred contract liabilities as a result of the Safe Restart Funding received.

Cash used in financing activities in fiscal 2021 was $30.7 million. This amount consisted of $22.2 million in repayment of KfW loans, $6.0 million in dividends paid on preferred shares and $2.5 million in repayment of finance lease obligations. Cash generated by financing activities in fiscal 2020 was $159.9 million. This amount consisted of proceeds of $250 million from our October 2019 bond issuance, offset by $80.3 million in repayment of KfW loans, $6.0 million in dividends paid on preferred shares, $2.2 million in repayment of finance lease obligations and $1.6 million in bond financing costs.

Cash used in investing activities for fiscal 2021 decreased by $91.6 million compared to the prior year, mainly due to a $105.8 million decrease in capital expenditures and a $2.0 million decrease in our debt service reserves, offset by $16.2 million increase in short-term investment purchases. (See “Investing in Our Capital Assets” for detail of significant capital expenditures.)

Fourth Quarter Results

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2021 to the same period in the prior year.

The fourth quarter reflects a seasonal reduction in traffic levels. We utilize this time to perform upgrades and major maintenance and refit programs as well as to undertake mandatory inspections on the majority of our vessels.

	Three months ended March 31			
Operational Statistics	**2021**	**2020**	**Change**	**%**
Vehicle traffic	1,392,831	1,534,632	(141,801)	(9%)
Passenger traffic	2,482,781	3,371,696	(888,915)	(26%)
Number of round trips	19,471.5	19,538.5	(67)	(0%)
Capacity provided (AEQs)	3,445,269	3,479,938	(34,669)	(1%)
AEQs carried	1,665,909	1,778,944	(113,035)	(6%)
Capacity utilization	48.4%	51.1%		(3%)

In the three months ending March 31, 2021, vehicle and passenger traffic decreased 9% and 26%, respectively, compared to the same period in the prior year, mainly as a result of the COVID-19 pandemic.

Capacity utilization in the three months ended March 31, 2021 decreased by 2.7% compared to the same period in the prior year, mainly as a result of a decrease in the AEQs carried, partially offset by reduced capacity provided.

	Three months ended March 31			
($ millions)	**2021**	**2020**	**Variance $**	**Variance %**
Total revenue	168.4	154.7	13.7	9%
Operating expenses	201.8	209.3	7.5	4%
Operating loss	(33.4)	(54.6)	21.2	39%
Net finance & other	19.9	15.5	(4.4)	(28%)
Net loss	**(53.3)**	**(70.1)**	**16.8**	**24%**

Our net loss in the quarter was $16.8 million less than our net loss in the same quarter in the prior year. The net loss in the three months ended March 31, 2021 reflects an increase in revenue as a result recognizing $32 million in Safe Restart Funding and higher ferry transportation fees but partially offset by lower traffic levels due to the COVID-19 pandemic, a decrease in operating expenses and an increase in net finance and other expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2021 increased by $13.7 million or 9% compared to the same quarter in the prior year as a result of the Safe Restart Funding recognized and the increase in Ferry Transportation fees, offset by reduction to Direct Route revenue due to the impact of the COVID-19 pandemic, as shown in the following table:

	Years ended March 31			
Revenue ($ millions)	**2021**	**2020**	**Increase (Decrease)**	**%**
Direct Route Revenue	**86.3**	**113.0**	**(26.7)**	**(24%)**
Vehicle Tariff Revenue				
Major Routes	49.9	58.2	(8.3)	(14%)
Northern Routes	1.0	1.1	(0.1)	(9%)
Minor Routes	9.6	8.8	0.8	9%
Total Vehicle Tariff Revenue	**60.5**	**68.1**	**(7.6)**	**(11%)**
Passenger Tariff Revenue				
Major Routes	15.5	25.9	(10.4)	(40%)
Northern Routes	0.3	0.6	(0.3)	(50%)
Minor Routes	4.4	5.0	(0.6)	(12%)
Total Passenger Tariff Revenue	**20.2**	**31.5**	**(11.3)**	**(36%)**
Net Retail Revenue				
Major Routes	3.0	6.9	(3.9)	(57%)
Northern Routes	0.3	0.4	(0.1)	(25%)
Minor Routes	0.3	0.6	(0.3)	(50%)
Total Net Retail Revenue	**3.6**	**7.9**	**(4.3)**	**(54%)**
Social program fees	2.2	3.2	(1.0)	(31%)
Other revenue	1.2	2.3	(1.1)	(48%)
Fuel (rebate) surcharge	(1.4)	–	(1.4)	–
Indirect Route Revenue	**81.9**	**41.2**	**40.7**	**99%**
Safe Restart Funding	31.2	–	31.2	–
Ferry transportation fees	42.7	33.4	9.3	28%
Federal-Provincial subsidy	8.0	7.8	0.2	3%
Total Route Revenue	**168.2**	**154.2**	**14.0**	**9%**
Other general revenue	0.2	0.5	(0.3)	(60%)
Total Revenue	**168.4**	**154.7**	**13.7**	**9%**

Average tariff revenue per vehicle decreased $0.94 or 2.1% and average tariff revenue per passenger decreased $1.21 or 12.9% in the quarter compared to the same period in the prior year, mainly as a result of a change in the proportion of traffic on routes with lower versus higher tariffs. The decrease in traffic levels and the change in average tariffs resulted in a $18.9 million decrease in tariff revenue.

Net retail revenue decreased in the fourth quarter of fiscal 2021 compared to the same period in the prior year primarily as a result of lower passenger traffic and limited food services which we had available due to the COVID-19 pandemic.

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

In the fourth quarter, Safe Restart Funding of $31.2 million was recognized in revenue.

Ferry transportation fees from the Province increased in the fourth quarter of fiscal 2021 compared to the same period in the prior year as a result of timing in the monthly schedule of round trips and in revised fees per round trip per the amendments to the CFSC for PT5.

The Federal-Provincial subsidy increased by the change in the annual CPI (Vancouver).

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2021 and fiscal 2020 are shown in the following tables:

	Three months ended March 31			
Operating expenses ($ millions)	**2021**	**2020**	**(Decrease) $**	**(Decrease) %**
Operations	123.3	128.7	(5.4)	(4.2%)
Maintenance	23.3	23.6	(0.3)	(1.3%)
Administration	9.9	10.3	(0.4)	(3.9%)
Total operations, maintenance & administration	**156.5**	**162.6**	**(6.1)**	**(3.8%)**
Depreciation & amortization	45.3	46.7	(1.4)	(3.0%)
Total operating expenses	**201.8**	**209.3**	**(7.5)**	**(3.6%)**

The decrease in operations costs of $5.4 million for the quarter ended March 31, 2021 compared to the same period in the prior year is due to:

- $4.2 million decrease in labour costs, mainly due to staffing level changes for reduced round trips provided and lower overtime, somewhat offset by wage rate increases in accordance with the Collective Agreement;
- $1.0 million decrease in fuel costs, primarily due to a reduction in fuel consumption due to a lower number of round trips provided; and
- $1.5 million decrease in materials and supplies, insurance, travel, training and property taxes;

partially offset by:

- $1.3 million increase in contracted services.

The decrease in maintenance costs of $0.3 million reflects the cyclical nature of vessel refits.

The decrease in administration costs of $0.4 million is mainly due to lower labour, advertising and travel costs and offset by higher consulting services.

The decrease in depreciation and amortization of $1.4 million reflects changes to the useful lives of select vessels and the timing of capital assets entering service.

	Three months ended March 31			
Net finance & other expenses ($ millions)	**2021**	**2020**	**(Increase) $**	**Decrease %**
Finance expense	14.6	15.3	0.7	4.6%
Less: finance income	(1.2)	(2.3)	(1.1)	47.8%
Net finance expense	13.4	13.0	(0.4)	(3.1%)
Loss on disposal & impairment of property, plant & equipment, & intangible assets	6.5	2.5	(4.0)	(160.0%)
Total net finance & other expenses	**19.9**	**15.5**	**(4.4)**	**(28.4%)**

Net finance expense in the quarter was $0.4 million higher compared to the same period in the prior year, primarily as a result of lower income from investments partially offset by decreased interest on KfW loans reflecting principal payments and an increase in interest capitalized. Loss on disposal and revaluation of property, plant and equipment and intangible assets was $4.0 million higher compared to the same period in the prior year primarily as a result of higher asset disposal and impairment costs. In response to the COVID-19 pandemic, we reviewed our capital plan and deferred many projects which resulted in the recognition of impairments.

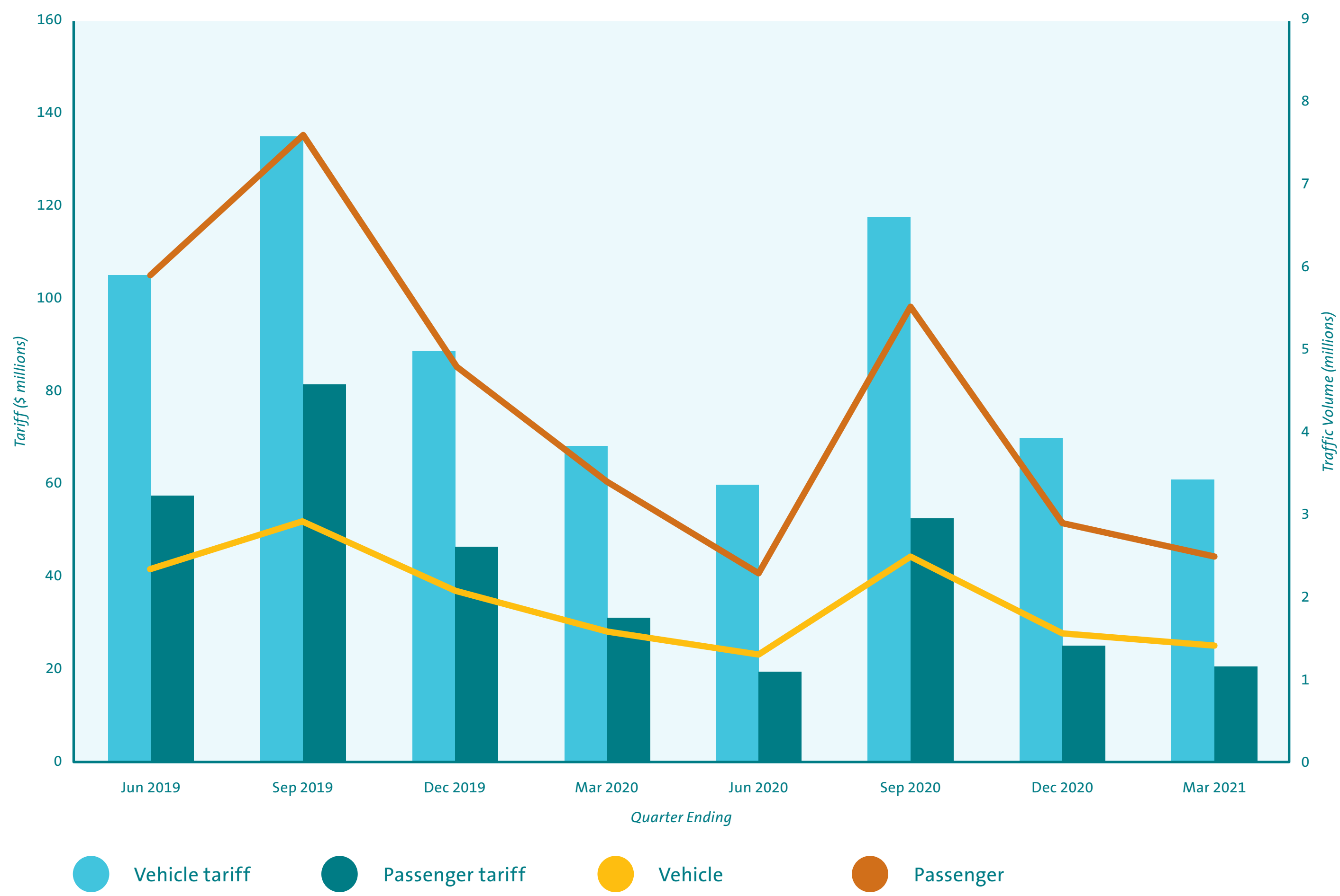
Summary of Quarterly Results

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

	Quarter Ended (unaudited)							
($ millions)	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Total revenue	246.4	329.3	211.0	154.7	137.4	247.6	311.9	168.4
Operating profit (loss)	26.0	108.6	5.3	(54.6)	(46.3)	52.3	112.9	(33.4)
Net earnings (loss)	12.2	95.0	(8.3)	(70.1)	(62.0)	37.8	98.5	(53.3)
Net earnings (loss) w/o Safe Restart Funding	12.2	95.0	(8.3)	(70.1)	(62.0)	37.8	(56.3)	(84.5)

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 total revenue, operating profit and net earnings in the quarter ended December 31, 2020 reflect $154.8 million of Safe Restart Funding with the remaining $31.2 million recognized in the quarter ended March 31, 2021, for total of $186.0 million in Safe Restart Funding in fiscal 2021.

The following graph demonstrates the seasonality of our tariff revenue and the impact of the COVID-19 pandemic in fiscal 2021 and shows the relationship of passenger traffic volume and tariff revenue for each quarter of fiscal 2021 and fiscal 2020:



Outlook

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

Financial

We believe it will be two to three years before traffic and retail and catering sales return to pre-COVID-19 pandemic levels. The COVID-19 pandemic has had a significant impact on our operations during the year ended March 31, 2021, with passenger and vehicle traffic declining 40% and 24%, respectively. As a result of travel restrictions and physical distancing measures, we offered limited food and retail services in fiscal 2021, resulting in our net retail sales decreasing 73% compared to the prior year.

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, was in effect from early April through to September 7, 2020. Our current and planned service levels are reflective of the requirements of the CFSC and the Safe Restart Funding Agreement.

We deferred more than a $100 million of our capital expenditures beyond fiscal 2021 and extended the timeline for our new major vessel project plan by five years. Over the next three years, we expect our capital expenditures to average approximately $250 million per year.

We reduced, and will continue to assess opportunities 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 in fiscal 2021 and fiscal 2022, 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. We recognized funding of $186.0 million in fiscal 2021 and are projecting to recognize the remainder of the funding as follows: $102.3 million in fiscal 2022, $9.3 million in fiscal 2023 and $10.4 million in fiscal 2024.

There is uncertainty around the overall economic environment. On April 23, 2021, and carrying through to June 14, 2021, travel restrictions were imposed which deny travel to customers travelling for non-essential reasons on routes crossing regional zones as defined in the order. These travel restrictions have negatively affected our traffic levels. We continue to monitor and respond as the impact of the COVID-19 pandemic evolves to ensure the transportation of essential travel, while managing the preservation of cash and protecting the financial well-being of the Company.

Financial Risks and Financial Instruments

Exposure to credit risk, liquidity risk and market risk arises in the normal course of our business. Our exposure to credit risk is limited to the carrying value on our statements of financial position for cash, short-term investments, derivative assets and trade and other receivables. While there is a risk that a third party may fail to meet its obligations under the terms of a financial instrument, we do not believe that it is a significant risk. We manage credit exposure related to financial instruments by dealing with high credit quality institutions, in accordance with established policy and parameters and by an ongoing review of our exposure to counterparties.

We manage liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models and the maintenance of a credit facility and debt service reserves. (See "Liquidity and Capital Resources" for more detail.)

We manage market risk arising from the volatility in foreign currency, interest rate, and fuel price exposures in part through the use of derivative financial instruments including forward contracts, swaps and options. We do not utilize derivative financial instruments for trading or speculative purposes.

Fuel Price

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel and natural gas.

Fuel costs have fluctuated significantly over the past few years, and there is uncertainty of the cost of fuel in the future.

High fuel prices could translate into significant fuel surcharges and result in higher total tariff levels. Although there is uncertainty of the extent of the impact of fuel surcharges on future ferry traffic levels, there is a risk of a decline in ferry traffic levels as a result of increasing customer costs resulting from the implementation of fuel surcharges.

Risk mitigation

To mitigate the effect of volatility in fuel prices on our earnings, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See “The Effect of Rate Regulation” for more detail.) We may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2021, we had $117.1 million (notional value) in fuel forward contracts for marine diesel related to 2021 through 2024. At March 31, 2021, we had no fuel forward contracts for LNG. Realized gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs.

Derivatives

We hedge our exposure to fluctuations in fuel prices, foreign currency exchange rates and interest rates from time to time through the use of derivative instruments. At March 31, 2021, we held eight foreign exchange forward contracts with a carrying and fair value receivable of $44,000 and with a notional value of $1.4 million, while at March 31, 2020, we held three foreign exchange forward contracts with a carrying and fair value receivable of $28,000 and with a notional value of $0.4 million. There were no interest rate forward contracts in place at March 31, 2021 or at March 31, 2020.

At March 31, 2021, we held fuel forward contracts for ultra-low sulfur diesel (“ULSD”) with a carrying and fair value liability of $5.7 million and a notional value of $117.1 million. At March 31, 2020, we held fuel forward contracts for ULSD with a carrying and fair value liability of $32.7 million and a notional value of $132.2 million. At March 31, 2021, with the application of hedge accounting, an unrealized gain of $13.7 million was recognized in other comprehensive income. At March 31, 2020, with the application of hedge accounting, an unrealized loss of $36.4 million was recognized in other comprehensive income. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel.

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

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

Non-Derivative Financial Instruments

The carrying and fair values of long-term debt at March 31, 2021, and 2020 are as follows:

	2021		2020	
($ millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt, including current portion	1,427.7	1,738.1	1,449.1	1,758.1

The fair value of all financial instruments, with the exception of long-term debt, approximate their carrying amounts due to the nature of the item and/or the short time to maturity.

The carrying value of long-term debt is measured at amortized cost using the effective interest rate method. The fair value of long-term debt, the value if incurred at March 31 of each year, is calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues, or by using available quoted market prices.

Business Risk Management

We employ a variety of commonly-accepted methodologies to identify, assess and mitigate risks. We have processes in place to manage risks that inevitably arise in the normal course of business. We have an integrated approach to managing risk, involving our Board of Directors and our employees.

Our Board of Directors is responsible for ensuring we have the appropriate policies, procedures and systems in place to identify and manage the principal risks of our business. Management keeps the Board and its Committees apprised of changing risks and the processes and systems used to mitigate them. The individual Committees of the Board regularly consider and review internal processes for managing those risks that are specific to the areas of our business for which they have oversight responsibility, and obtain assurance from management and internal audit, as appropriate, regarding the adequacy of the associated risk management processes.

Individual business units are responsible for considering risk exposures at all levels within their unit and the possible impact such risks may have on other areas. To ensure we focus on safety as our first priority, all operational meetings are expected to start with safety as the first item on the agenda.

A culture that promotes the management of risk as part of each employee's daily activities is integral to our program. One way we promote this culture is through our SailSafe program. Employees are provided with a risk-based tool to identify and assess hazards that can facilitate change in the specific task or process or within other areas of the Company if the risk is applicable to other aspects of operations. We have an online operational risk register to promote awareness of risk issues and facilitate continuous and consistent risk management.

Many economic conditions may affect the Company's financial performance. BC Ferries is an asset intensive business with high fixed costs, with limited expense variability resulting from traffic fluctuations. The Company's ability to decrease service in response to traffic decreases is restricted to levels negotiated with the Province under the CFSC. In addition, as a rate regulated entity, there is limited flexibility to increase revenue through tariff increases, as increases are limited to the average annual price caps as determined by the Commissioner.

There will always be inherent risk resulting from our business operations and we endeavor to minimize the risk to as low as reasonably practicable. As part of our risk management strategies, we have considered many items such as profitability levels, cash generating potential, cash utilization requirements including debt repayment schedules and future capital expenditures, and working capital requirements. We have taken measures to allow us to adapt to changes in the economic environment and ensure a safe and sustainable future.

BC Ferries continues to experience a significant decline in demand and an increase in health protocols that impact our service delivery due to the COVID-19 pandemic and corresponding preventative measures and imposed travel restrictions. With the onset of the COVID-19 pandemic, traffic declined along with earnings and cash from operations. We responded by renegotiating service levels, reducing costs where possible, negotiating covenant relief as a proactive measure and deferring capital expenditures. Despite these efforts, BC Ferries has experienced significant losses. These losses have been mitigated by the funds received through a Contribution agreement from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program (as previously discussed). Receipt of $308 million has significantly increased our cash position and mitigated the need for incremental borrowing. BC Ferries will continue to respond as the impact of the COVID-19 pandemic evolves. While the time and pace is unknown, it is expected BC Ferries will recover alongside the post-pandemic recovery.

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

Pandemics and Public Health Crises, including the COVID-19 Pandemic

BC Ferries could be negatively impacted by a widespread outbreak of communicable diseases or other public health crises that cause economic and/or other disruptions. The COVID-19 pandemic continues to be an evolving situation that has adversely impacted economic activity. The Province and Transport Canada have provided COVID-19 directives and guidance. The virus and efforts to reduce the health impacts and control its spread have led to restrictions on travel and reduced food service offerings. Other potential impacts on the Company's operations may include reduced labour availability and productivity, disruptions to capital markets leading to liquidity issues, supply chain disruptions, project construction delays and a prolonged reduction in economic activity. The overall impact will depend on the duration and severity of the pandemic, potential government actions to mitigate public health effects or aid economic recovery, and other factors beyond the Company's control.

Risk mitigation

BC Ferries is adhering to provincial and federal guidelines as we provide essential ferry service. We have implemented measures to mitigate risk to our employees, the travelling public and to prevent the spread of the virus. These measures include additional cleaning, sanitization, physical distancing and mandatory wearing of face coverings while at the terminal and onboard the vessel. BC Ferries has experienced significant losses which have been mitigated by the funds received through a Contribution agreement from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program.

Customer Demand

Many factors affect customer demand, including current economic conditions, the value of the Canadian dollar, levels of tourism, emerging transportation choices, consumer sentiment, threats to health and safety from outbreak of disease or security risks, demographics and population growth. The cost of transportation, including the price of fuel at the pump and ferry fares (including the implementation and removal of fuel surcharges or rebates), disposable personal income and weather conditions may have an effect on discretionary travel and levels of tourism. A material decrease in customer demand could have an adverse impact on our financial results and thereby the ability to replace our aging assets.

In fiscal 2021, the COVID-19 pandemic adversely affected our passenger and vehicle traffic with declines of 40% and 24%, respectively. We cannot predict when traffic will return to pre-COVID-19 levels given the travel restrictions in place and concerns about travel due to the COVID-19 virus.

Risk mitigation
The CFSC stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry route. We continually monitor traffic demand and leading indicators to meet requirements in an efficient and effective manner. We respond to decreases in customer demand by reducing the number of round trips without going below the minimum required under the CFSC. We respond to increases in traffic demand by adding extra sailings and capacity where possible. Our new customer facing technology will better enable us to generate incremental discretionary traffic by offering variable pricing alternatives.

In early April 2020, we announced service level adjustments across multiple routes to protect the health and safety of communities and ferry workers, to ensure the resiliency of the coastal ferry service, and better match ferry service to demand. The CFSC was temporarily amended to reflect temporarily reduced service levels in response to the COVID-19 pandemic. 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. BC Ferries will monitor service levels in conjunction with the Province to ensure essential service levels are maintained and service levels are responsive to demands.

Human Resources

Our ability to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry is key to our success. Shortages of critical skills exist in some areas in which we operate.

Risk mitigation
We provide internal training and development opportunities and support external training for advancement. We have augmented our internal training programs including, increased sponsorship for deck and engineering employees to obtain higher level tickets and provided online leadership training for new managers. We have invested in the SailSafe Simulator at Camosun College's trades facilities to guarantee access to the best training tools. Strategies and programs are being developed to promote our unique operational differences. We have a cadet program which includes participants from the British Columbia Institute of Technology, Georgian College of Ontario, Nova Scotia Community College, and the Memorial University of Newfoundland. We have a partnership with Aboriginal Community Career Employment Services Society which supports the education and career development of First Nations students in coastal communities. We were named one of B.C.'s top employers for the past five years. This award recognizes workplaces for offering progressive and forward-thinking programs for employees and aids in attracting employees to our Company.

Major Capital Projects

We have several major capital projects underway, including the building of five new vessels. Risks associated with the cost, schedule and the technical scope of major projects, as well as the implementation and sustainment of them, could cause critical systems or assets to be unavailable for use. Given the impact of the COVID-19 pandemic to our financial position, we reviewed all capital plans and identified expenditure deferrals that were not safety related or operationally necessary.

Risk mitigation
A project governance framework is in place to guide all corporate projects. We ensure each project has executive sponsorship, a project owner and a project manager. As well, each major project has a steering committee and associated governance to ensure business alignment with desired outcomes.

Economic Regulatory Environment

The Province may make changes to the Act or to other legislation, and we cannot predict how the Commissioner's interpretation and administration of the Act may change over time. Such changes may impact our financial results and thereby our ability to replace aging assets.

Risk mitigation

We work to ensure that all key stakeholders know our business and understand the potential implications of legislative changes and decisions by the Commissioner. We strive to maintain regular and open communications and positive relationships with the Province, the Commissioner and local Ferry Advisory Committees that represent the interests of ferry users and the communities we serve. In the event collaboration with the Province becomes strained, we have the opportunity to apply to the Commissioner under section 42 of the Act. The Act allows for an extraordinary price cap increase or other relief if the introduction of new safety or other regulations impose a new, unexpected and significant cost burden.

Cybersecurity Threats

Cyberattacks or breaches of our systems, including our digital platform or exposure to potential computer viruses, could lead to disruptions to our operations, loss of data, or the unintended disclosure of confidential information or property damage resulting in business disruptions, reputational damage, personal injury, and third-party claims, which could impact our operations, financial performance or reputation.

Risk mitigation

Governance is in place to maintain an enhanced focus on cybersecurity, including continuous monitoring of key systems for abnormal and elevated risk behaviour in conjunction with our cybersecurity strategy, policy and framework. Threat and risk assessments are completed for all new information technology systems, and our cybersecurity incident response processes are backstopped by external response capability.

Vessel Repair Facilities

We have a vessel repair facility in Richmond where we perform maintenance and refit work on our vessels; however, our facility does not have a dry-dock. There are only two shipyards with dry-docks in British Columbia that can accommodate large vessels. One of these shipyards dominates the vessel repair market, especially for large vessels.

The overall demand for ship repair and ship building facilities has been increasing with the national ship procurement strategy and local shipyards completing major upgrades for the Canadian Navy and for foreign ship owners. As a result, ship repair labour and dry-docking availability may become over-subscribed in the coming years.

The inability to acquire timely and cost-effective ship repair services has the potential to cause operational disruption which, in turn, has the potential to have an adverse effect on results of operations, cash flow and financial results.

Risk mitigation

We plan our vessel maintenance to minimize the number of out-of-service periods and to maximize the maintenance performed by our own staff. We have also established long-range maintenance plans for all vessels, which enable us to plan and reserve space with ship repair facilities well in advance. Further, when regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. We have a five-year supply agreement with Point Hope Maritime Ltd. of Victoria, B.C., which began in 2018, for the maintenance of eight of our minor vessels. We are exploring alternatives and have plans to modernize our fleet maintenance and our internal ship repair capability.

Indigenous Peoples

Matters involving Indigenous rights may arise in British Columbia when a company seeks approvals from the Province or the Government of Canada (in either case, the "**Crown**") for new activities, typically involving land or water. Canadian courts have said that the Crown must consult before granting an approval that could affect Indigenous rights, even when those rights have not been formally proved in court or recognized by the Crown. The Crown will also be required to consult with an Indigenous group if the requested approval could affect treaty rights, and there are significant limits on the power of a government to infringe treaty rights. The consultation process must be appropriate to the strength of the Indigenous right, and the severity of the potential impact on that right. The Crown can involve a corporation in the consultation process with an Indigenous group, but it is up to the Crown to satisfy the duty to consult. Indigenous rights are especially significant in British Columbia where First Nations assert far-reaching, unextinguished claims of Indigenous rights and title, including in coastal areas where we operate. These claims could require the Crown to engage in significant consultations with First Nations before granting new property rights or approvals to us. Many First Nations believe that British Columbia's adoption of legislation to give effect to the UN Declaration on the Rights of Indigenous Peoples now requires the Province to meet a higher standard of consultation before making decisions that could affect them.

Risk mitigation

Under the Master Agreement (see "Liquidity and Capital Resources – Terminal Leases" for more detail), the Province retains its liability, to the extent any exists, for the acts and omissions of the Province that occurred prior to our possession of the ferry terminal properties leased under the Terminal Leases and will reimburse us for any damages we suffer as a result. The Province will reimburse us for damages suffered if there is a final court decision or a treaty settlement that recognizes or confers upon an Indigenous group a proprietary or other interest in the ferry terminal properties if that right or interest interferes with our quiet enjoyment of the ferry terminal properties as set out in the Terminal Leases.

Climate Change

Climate change poses a number of potential risks and impacts to BC Ferries, which remain uncertain today, however these potential risks and impacts may increase over time. The prospective impact of climate change may have an adverse impact on our operations, our suppliers and our customers and therefore impact our Company. The impacts of climate change may include changing storm patterns and intensities and changing temperature levels, and the impact of these changes could be significant.

Risk mitigation

We are continually focused on efficiency improvements, including increasing the use of low carbon intensive fuels, electrification of our vessels, and reducing our carbon footprint where possible. We protect our assets and our customers by reducing and/or cancelling sailings when there are adverse weather conditions. We have a sound conventional insurance program designed to mitigate the financial impact of a major incident.

Accounting Practices

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and financial performance is based upon our consolidated financial statements, which have been prepared in accordance with IFRS.

Our significant accounting policies are contained in Note 1 to our March 31, 2021 audited consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments 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 judgments, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained, and as the general operating environment changes.

We believe the following are the most critical accounting policies, estimates, and judgments that we have used in the preparation of our financial statements:

Property, Plant and Equipment and Intangible Assets

We apply judgment to determine expenditures eligible for capitalization and consider the future economic benefits of these expenditures in making this assessment.

Our capital assets, including right-of-use assets, are depreciated or amortized on a straight-line basis at varying rates. Depreciation and amortization rates require the use of estimates of the useful lives of the assets and of salvage value to be realized upon asset retirement.

We annually review asset lives in conjunction with our longer-term asset deployment, replacement and upgrade strategies. When we determine that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to the remaining period over which they are depreciated or amortized. Estimates of useful life are monitored routinely through maintenance and refit programs, ongoing long-term fleet management and comparable vessels in use internally and externally.

Salvage value for vessels is monitored through secondary markets. Our expectation is that decommissioned vessels will be sold at a nominal salvage price into world markets to buyers who will keep them in active service.

There are a number of uncertainties inherent in estimating our asset lives and residual value, and changes in these assumptions could result in material adjustments to our financial statements.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets. At each reporting date, we review for any potential indicators of impairment. If indicators are identified, we assess the recoverable amount. In addition, when we have intangible assets not yet subject to depreciation, we perform an annual impairment test. Impairment losses are evaluated for potential reversals and are only reversed to the extent an asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized.

As disclosed in Note 1 to our financial statements, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. In fiscal 2021, we recorded $8.5 million ($2.3 million at March 31, 2020) in loss on disposal and impairment of property, plant and equipment and intangible assets primarily as a result of deferring projects in response to the impact of COVID-19 pandemic.

Hedging Relationships

We utilize derivative financial instruments to manage market risk against the volatility in foreign currency, interest rate, and fuel price exposures. We do not utilize derivative financial instruments for trading or speculative purposes. At the inception of each hedge, we determine whether or not to apply hedge accounting.

When applying hedge accounting, we document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the statement of financial position or to specific firm commitments or forecast transactions. We also assess, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When derivatives are designated in a cash flow hedging relationship, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income. Gains or losses on derivatives used in cash flow hedges of forecast purchases of non-financial assets are reclassified from equity (accumulated other comprehensive income) and are included in the initial carrying amount of the non-financial asset acquired. Gains or losses on derivatives for hedging relationships related to other cash flow hedges are reclassified from other accumulated comprehensive income to net earnings or loss when the hedged item affects net earnings or loss. Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity, are recognized in net earnings in the period in which they have been terminated or cease to be effective. We use judgment in estimating the quantum of transactions which are highly probable and if the transactions are expected to occur. In fiscal 2021, we recorded ineffectiveness on a small portion of our fuel hedges as a result of over-hedging given our reduced service levels in response to the COVID-19 pandemic.

Retirement Liability

We sponsor a plan that provides a post-retirement benefit for eligible long-service employees. The valuation of this plan is estimated based on complex actuarial calculations using several assumptions. These assumptions are determined by management with significant input from our actuary. The valuation of the obligation depends on such assumptions as discount rate, number of employees, projected salary increases, retirement age, average years of service and termination rates. An actuarial valuation of the plan at March 31, 2020, was obtained and the accrued benefit obligation estimated at $21.5 million. The retirement liability was increased and the actuarial loss of $1.8 million was recognized in other comprehensive income during fiscal 2021. The main drivers of the increase in the liability were a higher number of employees than previously estimated and a change in the discount rate. The liability included in accrued employee future benefits in our financial statements at March 31, 2021, was $20.5 million ($19.7 million at March 31, 2020).

Asset Retirement Obligations

When it can be reasonably determined, we recognize the fair value of a liability for any legal obligations associated with the retirement of long-lived assets when those obligations result from the acquisition, construction, development or normal operation of the assets. A corresponding asset retirement cost is added to the carrying amount of the related asset and depreciated or amortized to expense on a systematic and rational basis.

Certain of our vessels contain undetermined amounts of asbestos. We may be required to handle and dispose of the asbestos in a manner required by regulations. It is our intention to sell decommissioned vessels into world markets to buyers who will keep them in active service. Under these circumstances, asbestos remediation would become the responsibility of the new owner.

Additionally, because we are a regulated entity, any significant asset retirement costs that cannot be mitigated by the responsible sale of the retired asset, would be recoverable through future tariffs.

Revenue

We recognize revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), when transportation is provided. Net retail revenue consists primarily of food services and gift shop sales less the cost of goods sold and is recognized when the customer receives the goods. We recognize ferry service fees and federal-provincial subsidies as revenue as services specified in the related agreements with the Province are provided.

We recognize the Safe Restart Funding on a systematic basis, based on the estimated loss of earnings for 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. The three components of the Safe Restart Funding are:

- Base Operating Relief – derived from the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief – derived from the estimated revenue losses during the Term from limiting fare increases to an average of 2.3% in each of fiscal years 2022, 2023 and 2024; and
- Discretionary Sailing Relief – derived from the estimated costs of discretionary sailings in fiscal years 2022, 2023 and 2024.

Leases

We apply judgment to determine whether an arrangement contains a lease. We determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, we have the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgment is required to determine the lease term and the rate implicit in the lease. Once we determine it is a lease, we recognize a right-of-use asset in property, plant and equipment and a lease liability. The liability included in lease liabilities in our financial statements at March 31, 2021 was $38.7 million ($41.2 million at March 31, 2020).

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 January 2021, the IASB issued an exposure draft, *Regulatory Assets and Regulatory Liabilities*, which, if finalized as a new IFRS Standard, will replace IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 *Regulatory Deferral Accounts*, which addresses accounting for rate-regulated activities, does not apply to entities, like ours, that transitioned to IFRS prior to the date of this standard. As a result, we are currently not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts.

The exposure draft, *Regulatory Assets and Regulatory Liabilities*, proposes a new accounting model under which an entity subject to rate regulation that meets the scope criteria would recognise regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation. The IASB has requested comments on the exposure draft by July 30, 2021.

Corporate Structure and Governance

National Instrument 58-101 *Disclosure of Corporate Governance Practices* (the "NI 58-101") and a related National Policy 58-201 *Corporate Governance Guidelines* (the "Guidelines") issued by the Canadian Securities Administrators require reporting issuers to disclose annually their approach to corporate governance with reference to specific matters. See Schedule A for the disclosure required by NI 58-101.

Forward Looking Statements

This Management's Discussion and Analysis contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, results of operations, performance, business prospects and opportunities, and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include the impact of the COVID-19 pandemic, traffic, the value of 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: the Safe Restart Funding Program, the COVID-19 pandemic, the construction and entering into service of the new Island Class vessels and *Salish Heron*, the impact of vessel standardization, tariff rate regulation, the impact of a major safety or security incident, alternative fuel sources and their impact on our emissions and costs, retail and catering sales, fixed costs, capital allocation and expenditures, FortisBC's incentive funding, the New Building Canada Fund, the Federal-Provincial subsidy, our reliance on external borrowing, the current credit facilities, equity financing, terminal property leases, fuel forward contracts for marine diesel, and traffic levels.

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, Indigenous rights, and the 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.

Schedule A

Corporate Structure and Governance Board of Directors

British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") is a company incorporated in British Columbia that is subject to *British Columbia's Business Corporations Act* and the *Coastal Ferry Act* (the "CFA"). The board of directors ("board") of BC Ferries is appointed by the Company's sole voting shareholder, B.C. Ferry Authority ("BCFA" or the "Authority"), a corporation without share capital established by the CFA. Directors appointed to the Company's board must be "qualified" as defined in the CFA.

During the fiscal year ended March 31, 2021 ("fiscal 2021"), the board was composed of the following directors:

Chair: **John A. Horning**[1]

Members:
Bruce A. Chan
Eric A. Denhoff (effective August 14, 2020)
Brenda J. Eaton[2]
Jan K. Grude (vice chair)
Gordon M. Kukec
Shona A. Moore (effective August 14, 2020)
Sarah A. Morgan-Silvester, O.B.C.
Janine M. North (effective June 23, 2020)
David R. Podmore, O.B.C.
Michael W. Pucci (effective August, 14, 2020)
Judith F. Sayers

The directors are stewards of BC Ferries and set the strategic direction of the Company. The board exercises its stewardship responsibilities by overseeing the conduct of the business, supervising management, which is responsible for the day-to-day conduct of the business, and endeavouring to ensure that all major issues affecting the business and affairs of the Company are given proper consideration.

The board governance manual articulates the governance framework under which the board fulfills its stewardship responsibilities. The manual assembles in one document the essential elements for providing an appropriate level of governance for the organization. It includes, among other things, terms of reference for the board, chair, directors, committees and committee chairs, and serves as a practical guide for the board and management in fulfilling their respective duties and responsibilities. The governance manual is the product and responsibility of the board.

The board is committed to the principles of independence and accountability. The board has adopted policies and practices that ensure it has the capacity, independent of management, to fulfill the board's responsibilities, make objective assessments of management, and assess the merits of management initiatives. The board's Governance & Nominating Committee has an ongoing responsibility to ensure that the board's governance structures and processes continue to enable the board to function independently.

1. *On March 31, 2021, having served a maximum of eight consecutive years, John A. Horning retired from the board.*
2. *Effective April 1, 2021, Brenda J. Eaton was elected Chair of the board.*

The board and management recognize that there is a need for the board to meet regularly without management in attendance. It is the board's general practice to conduct a portion of every board and committee meeting with no members of management in attendance.

The board and its committees each have the authority to retain, at the Company's expense, any outside advisor that it determines to be necessary to permit it to carry out its duties.

The board is committed to the principle that a majority of directors, appointed by the Authority, should be independent of the Company.

Under guidelines adopted by the board, a director is independent if he or she has no direct or indirect material relationship with the Company. For this purpose, a "material relationship" is a relationship that could, in the view of the board, be reasonably expected to interfere with the exercise of a director's judgment. Members of the board's Audit & Finance Committee are subject to additional independence requirements consistent with the definition of independence in National Instrument 52-110 Audit Committees.

The board is responsible for determining whether directors are independent pursuant to the definition of independence adopted by the board. To do this, the board requires members to disclose their relationships with the Company and its subsidiaries. These disclosures are made annually and are reviewed by the chair of the board, the chair of the Governance & Nominating Committee and the corporate secretary, and are reported to the Governance & Nominating Committee and the board. If it has been previously determined that a director is independent of the Company but circumstances arise which could result in a determination that he or she is no longer independent, the director must promptly advise the board.

All of the directors of the Company in fiscal 2021 were determined by the board to be independent pursuant to the definition of independence adopted by the board.

Directorships

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

Sarah A. Morgan-Silvester:	**Director, Canadian Western Bank**
Janine M. North:	**Director, Conifex Timber Inc.** **Director, Imperial Metals Corp** **Director, Mercer International Inc.**
Bruce Chan:	**Director, Green Impact Partners** (as of May 27, 2021)

Orientation and Continuing Education

The Company has a variety of orientation and education programs in place for directors. These programs are aimed at increasing the directors' familiarity with the operation of the Company and its governance practices.

All new directors are provided with the opportunity to participate in an orientation program. The orientation program is tailored to the individual director's needs and areas of interest. The program generally involves a comprehensive education session, usually held prior to a new director attending his/her first board meeting, during which the new director is briefed by members of senior management and receives information about the business and operations of BC Ferries and board governance practices, including the duties and obligations of directors. The board governance manual is made available to all directors. This manual provides a comprehensive overview of the roles and responsibilities of the board, its committees, and the contributions expected by each director.

The board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. To facilitate ongoing education, presentations are made to directors from time to time on matters of particular importance or emerging significance to the Company. As well, attendance by directors at seminars, courses or conferences of relevance to their position as directors of the Company may be arranged. Directors are expected to maintain ongoing familiarization with the operations of BC Ferries through regular system-wide ferry travel. This, together with visits to other facilities and operations of BC Ferries, serves to enhance the directors' ongoing knowledge and understanding of the Company.

Responsibility for ensuring that orientation and ongoing education are provided to directors rests with the chair of the board. The Governance & Nominating Committee has responsibility for reviewing the orientation and education programs to ensure they are effective and meet the needs of directors.

Ethical Business Conduct

The board has established a Code of Business Conduct and Ethics (the "Code") for the Company. The Code is posted on the Company's intranet website for Company personnel, and is available for public view on the Company's internet site and on SEDAR. The board has also adopted a Corporate Disclosure and Securities Trading Policy and a Corporate Communications Policy, both of which are posted on the Company's intranet and internet sites.

As part of the Company's disclosure controls process, in conjunction with quarter-end financial reporting, appropriate managers are required to confirm their compliance with the Code, the Corporate Disclosure and Securities Trading Policy and the Corporate Communications Policy.

As part of the communication process for the reporting of any questionable accounting and auditing matters, a secure telephone line and a secure e-mail address, each monitored by the executive director of internal audit, as well as a secure e-mail address monitored by the chair of the Audit & Finance Committee, have been established. This has been communicated to Company personnel by intra-Company information bulletin and BC Ferries' newsletter for personnel. The contact particulars are also posted with the Code on the Company's intranet site.

The board, through the Audit & Finance Committee, monitors compliance with the Code through reports received quarterly from management, the external auditor, and the internal auditor.

Directors and officers are required to review the Code annually, and acknowledge their support and understanding of the Code by signing an annual disclosure statement.

The Code requires that directors and officers disclose potential conflicts of interest at the time of their appointment and immediately upon a conflict of interest or potential conflict of interest arising. Such disclosures are communicated to and reviewed by the chair of the board, the chair of the Governance & Nominating Committee and the corporate secretary, and are reported to the Governance & Nominating Committee and the board.

Appointment of Directors

As required by the CFA, the Authority appoints directors to the board according to policies held by the Authority.

On March 25, 2021, the Authority established a committee to review board appointments in order to help inform considerations for the Authority in the decision-making process for appointing directors to the board. This review is currently ongoing. No board members of the Company are members of this committee.

Board Diversity Policy

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

The board, through the Skills Profile and its succession plan, seeks to communicate to the Authority the importance of maintaining a diverse mix of expertise, experience, skills and backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. For purposes of board composition, diversity includes, but is not limited to, business and other experience, skills, education, gender, age, ethnicity, aboriginal status, and geographic location.

Executive Compensation

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

Executive Compensation Plan

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

An executive compensation plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such plan can receive in any fiscal year. The remuneration limits set out in an executive compensation plan are established with the assistance of an independent third-party compensation expert and with reference to the CFA, which requires that the remuneration under an executive compensation plan be consistent with the remuneration provided to individuals who, in organizations in Canada that are of a similar size and scope to BC Ferries, perform similar services or hold similar positions, and not be greater than the remuneration that provincial public sector employers in British Columbia provide to individuals who, in those organizations, perform similar services or hold similar positions.

An executive compensation plan applies to the executives of the Company, as that term is defined in the CFA, who in fiscal 2021 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO"), an Executive Vice President ("EVP"), or Vice President of BC Ferries. In fiscal 2021, the remuneration of the Company's President & CEO and Vice Presidents was governed by an executive compensation plan.

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

Executive Compensation Process

The executives of the Company participate in a salary holdback compensation plan that is designed to link their compensation with the achievement of specific annual operating objectives that are important to supporting the Company's overall business strategy. By its nature, the plan responds to the Company's pay-for-performance philosophy. Under the plan, a maximum salary is established for each participant, a portion of which is held back each fiscal year and payable upon achievement of pre-approved objectives and targets.

On an annual basis, the board, led by the Human Resources & Compensation Committee, sets the performance requirements for the President & CEO and evaluates his performance against those requirements. Similarly, the Human Resources & Compensation Committee leads the board in an annual evaluation of the performance of certain of the other executives with respect to their achievement of performance objectives set by the President & CEO. The amount, if any, of the salary holdback earned by the President & CEO and certain of the other executives is determined based on the evaluation results and the available room under the total remuneration limit set for the position in an executive compensation plan. Changes, if any, to the compensation of the executives are made in consideration of the individuals' performance, leadership skills, retention risk, and value to achieving corporate strategy, and in conjunction with market compensation data from appropriate comparator organizations. All changes in compensation are made in accordance with an executive compensation plan, as applicable.

On an annual basis, the President & CEO formally assesses the development of each of the other executives. The President & CEO uses these assessments to design and update succession plans for all executive positions, including the position of President & CEO. These plans are reviewed by the Human Resources & Compensation Committee on an annual or more frequent basis. With respect to all executives, succession planning is an important issue that receives ongoing and regular attention by the board and the President & CEO.

Director Compensation

The CFA requires that the compensation of directors of BC Ferries be set and administered within a remuneration limit prescribed by a directors' compensation plan. The Authority is responsible under the CFA for approving a directors' compensation plan and any amendments thereto. The remuneration provided under a directors' compensation plan must be consistent with the remuneration that organizations in Canada that are of a similar size and scope to BC Ferries provide to their directors, and must not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors.

The Company's current compensation plan for directors was developed with the assistance of an independent third-party compensation expert and is available for public view on the Authority's website at: **www.bcferryauthority.com**.

The Governance & Nominating Committee reviews director compensation regularly and provides advice to the board on any amendments to the directors' compensation plan to be recommended to the Authority.

Board Committees

The board has developed guidelines for the establishment and operation of committees of the board. The committee structure and membership is reviewed and confirmed by the board on an annual basis.

Mandates

In fiscal 2021, the board had six committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

Audit & Finance Committee

The Audit & Finance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities in matters related to finance, audit and enterprise risk. The committee has the mandate to:

- review the financial reports and other financial information provided by the Company to its security holders;
- review the annual operating and capital budgets, modifications thereto, and details of any proposed financing;
- monitor the integrity of the financial reporting process and the system of internal controls that the board and management have established;
- monitor the management of the principal risks that could impact the financial reporting of the Company, and the Company's compliance with legal and regulatory requirements as they relate to the Company's financial statements;

- review and approve the audit plan, process, results, and performance of the Company's external auditors and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditors, and the internal auditor; and
- assess the qualifications and independence of the external auditors, and recommend to the board the nominations of the external auditors and the compensation to be paid to the external auditors.

The committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the Company's external auditor as well as anyone in the organization. The committee also has the authority to retain such legal, accounting, and other advisors or experts it deems necessary in the performance of its duties.

Each of the members of the committee has been determined by the board to be independent within the meaning of independence adopted by the board.

All members of the committee are financially literate within the meaning of National Instrument 52-110 *Audit Committees;* that is, each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

All recommendations of the committee to nominate or compensate an external auditor have been adopted by the board.

The aggregate fees billed by the Company's external auditor in each of the last two fiscal years were:

	Years ended March 31	
External Auditor billings ($ thousands)	**2021**	**2020**
Audit	213.7	203.9
Audit related*	–	104.4
Tax services	2.3	2.3
	216.0	**310.6**

**operational audit procedures as directed by internal audit*

Pursuant to its terms of reference, the committee must pre-approve retaining the external auditor for any non-audit service to be provided to the Company or its subsidiaries, provided that no approval shall be provided for any service that is prohibited under the rules of the Canadian Public Accountability Board or the Public Company Accounting Oversight Board, or the Independence Standards of the Chartered Professional Accountants of Canada.

Before retaining the external auditor for any non-audit service, the committee must consider the compatibility of the service with the external auditor's independence. The committee may pre-approve retaining the external auditor for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the external auditor for the provision of such services. To date, no such policies and procedures have been established. In addition, the committee may delegate to one or more members the authority to pre-approve retaining the external auditor for any non-audit services to the extent permitted by applicable law.

Safety, Health, Environment & Security Committee

The Safety, Health, Environment & Security Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities in matters related to safety, health, environment and security. The committee has the mandate to:

- exercise due diligence over the safety, health, environmental and security operations of the Company;
- develop, review, and make recommendations, as required, on matters related to the Company's safety, health, environmental and security policies and practices; and
- monitor compliance with government regulations and with the Company's commitment to excellence in matters of safety, health, environment and security.

Governance & Nominating Committee[3]

The Governance & Nominating Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to ensuring that the corporate governance system of BC Ferries is effective. The committee has the mandate to:

- review, assess, and make recommendations regarding the effectiveness of the policies and practices of the board;
- ensure the board's continuing ability to fulfill its legislative mandate;
- implement effective due diligence over the operations of the Company;
- make recommendations to the Authority on the skills, experience and expertise, and diversity of background that board members collectively and individually should have in order to oversee the operation of BC Ferries in an efficient and cost-effective manner; and
- make recommendations on the remuneration of directors of BC Ferries.

Human Resources & Compensation Committee[3]

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

- regularly review, at a strategic level, the approach taken to manage the Company's human resources, including the recruitment, retention, motivation and engagement of employees, in the interests and success of the Company;
- regularly review the succession and development plans for the President & CEO and executive management; and

3. Effective April 1, 2021, these committees were combined to form the Governance & Human Resources Committee.

- review and recommend to the board a total compensation philosophy for the President & CEO and executive management that, subject to the CFA, attracts and retains executives, links total compensation to financial and operational performance, and provides competitive total compensation opportunities at a reasonable cost, while enhancing the ability to fulfill the Company's overall business strategies and objectives.

Information Technology Governance Committee[4]

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

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

Capital Projects Committee

The Capital Projects Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities with respect to specific capital projects of BC Ferries as designated by the board from time to time. For the projects under its purview, the committee has the mandate to:

- in respect of projects which have not yet been approved by the board, review and provide advice to the board on whether the Company should proceed with the projects and, where approval to proceed is recommended, provide advice on the schedule, scope and budget for such projects; and
- in respect of projects which have been approved by the board, and as so directed by the board:
  - review the governance structure for the projects;
  - regularly review and monitor progress against scope and budget, as well as material changes in the schedule and risk profile of the projects;
  - regularly review and authorize the use of contingency funds for the projects; and
  - upon project completion, ascertain whether the projects have met their objectives.

4. *Effective April 1, 2021, this committee was dissolved and its responsibilities and functions were assigned to the Audit & Finance Committee, the Capital Projects Committee, and the board as a whole.*

The *Malaspina Sky* prepares to board customers at Saltery Bay on the Sunshine Coast

Composition

The memberships of the committees in fiscal 2021 are set out below. The board chair serves as a non-voting ex-officio member of each of the committees.

Board Committees Year-ended March 31, 2021

Director	Audit & Finance	Capital Projects	Governance & Nominating	Human Resources & Compensation	Information Technology Governance	Safety, Health, Environment & Security
John A. Horning	(ex-officio)	(ex-officio)	(ex-officio)	(ex-officio)	(ex-officio)	(ex-officio)
Bruce A. Chan[1]						(chair)
Eric A. Denhoff[2]						
Brenda J. Eaton[3]				(chair)		
Jan K. Grude			(chair)			
Shona A. Moore[4]						
Gordon M. Kukec					(chair)	
Sarah A. Morgan-Silvester[5]	(chair)					
Janine M. North[6]						
David R. Podmore		(chair)				
Michael W. Pucci[7]						
Judith F. Sayers						

Notes:

1. *Bruce A. Chan ceased to be a member of the Human Resources & Compensation Committee effective June 23, 2020.*
2. *Eric A. Denhoff was appointed a member of the Capital Projects Committee effective November 19, 2020.*
3. *Brenda J. Eaton ceased to be a member of the Capital Projects Committee effective June 23, 2020.*
4. *Shona A. Moore was appointed a member of the Human Resources & Compensation Committee effective November 19, 2020.*
5. *Sarah A. Morgan-Silvester was appointed a member of the Information Technology Governance Committee effective June 23, 2020.*
6. *Janine M. North was appointed a member of the Human Resources & Compensation Committee, the Information Technology Committee and the Safety, Health, Environment & Security Committee effective June 23, 2020.*
7. *Michael W. Pucci was appointed a member of the Safety, Health, Environment & Security Committee effective November 19, 2020.*

Assessments

As part of its dedication to best governance practices, the board is committed to regular assessments of the effectiveness of the board, the board chair, committees, committee chairs, and individual directors. The board, on the recommendation of the Governance & Nominating Committee, has implemented a process for such assessments consisting of a review facilitated by an independent consultant every second year. The process aims to ensure that the individual directors continue to contribute effectively to the board's performance, and that the board and its committees continue to function effectively.

In fiscal 2019, the board engaged an independent consultant to conduct the review. The process involved obtaining the directors' views on matters related to the effectiveness of the board through the use of questionnaires and individual discussions with each director. The evaluation included an assessment of the performance of the board as a whole with respect to best practices in board governance, as well as a director self-assessment and peer review related to best practices for board directors. The peer review results for each director were shared with the respective director, the chair of the board, the vice chair designate and the chair of the Governance & Nominating Committee, and discussions on the results were held between the individual directors and the consultant. The results and the recommendations arising from the board evaluation inform future deliberations and decisions of the board. In fiscal 2021, the engagement of an independent consultant to conduct the biennial review was postponed to fiscal 2022 in order to allow the new directors an opportunity to gain experience as a member of the board.

The performance of the board as a whole, and the performance of individual directors, is also assessed regularly throughout the year. This occurs primarily through discussions between the individual directors and the board chair.

Consolidated Financial Statements of

British Columbia Ferry Services Inc.

Years ended March 31, 2021 and 2020

Passengers enjoying the
view from the outer deck

Independent Auditors' Report

To the Shareholders of British Columbia Ferry Services Inc.

Opinion

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

- the consolidated statements of financial position as at March 31, 2021 and March 31, 2020
- the consolidated statements of profit or loss and other comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021 and March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants
Victoria, Canada
June 17, 2021

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	As at March 31 2021	2020
Assets			
Current assets			
Cash and cash equivalents	3	285,389	169,141
Restricted and short-term investments	11(g)	33,098	33,393
Other short-term investments		124,730	91,588
Trade and other receivables	16(a)	17,320	19,488
Prepaid expenses		12,914	11,057
Inventories	4	35,160	31,897
Derivative assets	16(c)	-	28
		508,611	**356,592**
Non-current assets			
Loan receivable	13	24,515	24,515
Property, plant and equipment	5	1,836,561	1,879,517
Intangible assets	6	93,901	99,893
		1,954,977	**2,003,925**
Total assets		2,463,588	2,360,517
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	105,333	132,296
Provisions	8	4,570	1,794
Current portion of lease liabilities	9,13	2,794	2,536
Contract liabilities	10	125,577	21,702
Current portion on long-term debt	9,11	10,831	21,644
Interest payable on long-term debt	9	21,434	21,512
Current portion of accrued employee future benefits	12(d)	2,600	3,000
Derivative liabilities	16(c)	2,900	15,507
		276,039	**219,991**
Non-current liabilities			
Lease liabilities	9,13	35,883	38,675
Contract liabilities	10	19,667	-
Long-term debt	9,11	1,416,928	1,427,426
Accrued employee future benefits	12(d)	20,083	20,151
Other liabilities	14	9,800	10,962
Derivative liabilities	16(c)	2,863	17,212
		1,505,224	**1,514,426**
Total liabilities		1,781,263	1,734,417
Equity			
Share capital	19	75,478	75,478
Contributed surplus		25,000	25,000
Retained earnings		562,679	547,745
Total equity before reserves		663,157	648,223
Reserves	21(a)	19,168	(22,123)
Total equity including reserves		682,325	626,100
Total liabilities and equity		**2,463,588**	**2,360,517**

Commitments (Notes 5,17)

Contingencies (Note 18)

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

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

(Expressed in thousands of Canadian dollars)

	Note	Years ended March 31 2021	2020
Revenue			
Vehicle and passenger fares		424,077	613,202
Net retail	22	17,835	63,714
Fuel (rebates) surcharges	29	(6,761)	5,440
Other income		6,747	11,711
Revenue from customers		441,898	694,067
Safe Restart Funding	23,30	186,000	-
Ferry service fees	27	205,420	215,987
Federal-Provincial Subsidy Agreement	28	32,028	31,340
Total revenue		865,346	941,394
Expenses	24		
Operations		476,054	550,026
Maintenance		85,783	85,499
Administration		38,487	37,555
Depreciation and amortization		179,541	183,070
Total operating expenses		779,865	856,150
Operating Profit		**85,481**	**85,244**
Net finance and other expenses	25		
Finance expenses		60,623	61,714
Finance income		(4,615)	(7,532)
Net finance expense		56,008	54,182
Loss on disposal and impairment of property plant and equipment and intangible assets		8,501	2,285
Net finance and other expenses		64,509	56,467
Net earnings		**20,972**	**28,777**
Other comprehensive income (loss)	21(b)		
Items that are or may be reclassified subsequently to net earnings		13,707	(36,451)
Items not to be reclassified to net earnings		14,042	5,653
Total other comprehensive income (loss)		27,749	(30,798)
Total comprehensive income (loss)		**48,721**	**(2,021)**

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

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2021	**2020**
Operating activities		
Net earnings	20,972	28,777
Items not affecting cash:		
Net finance expense	56,008	54,182
Depreciation and amortization	179,541	183,070
Loss on disposal and impairment of property, plant and equipment and intangible assets	8,501	2,285
Other non-cash changes to property, plant and equipment	(1,334)	(342)
Changes in:		
Accrued employee future benefits	(2,275)	442
Derivative assets and liabilities recognized in net loss	73	(22)
Provisions	2,776	79
Accrued financing costs	(218)	(203)
Total non-cash items	243,072	239,491
Movements in operating working capital:		
Trade and other receivables	2,168	3,758
Prepaid expenses	(1,857)	(2,751)
Inventories	(3,263)	(1,027)
Accounts payable and accrued liabilities	(26,963)	(8,940)
Contract liabilities	123,542	(7,007)
Change in non-cash working capital	93,627	(15,967)
Change in non-cash working capital attributable to investing activities	18,566	10,123
Change in non-cash operating working capital	112,193	(5,844)
Cash generated from operating activities before interest	376,237	262,424
Interest received	4,830	7,894
Interest paid	(68,667)	(63,929)
Cash generated by operating activities	312,400	206,389

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

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Years ended March 31	
	2021	**2020**
Financing activities		
Repayment of long-term debt	(22,157)	(80,282)
Repayment of lease liabilities	(2,536)	(2,210)
Dividends paid on preferred shares	(6,038)	(6,038)
Proceeds from the issue of bonds	-	250,000
Transaction costs related to bonds	-	(1,587)
Cash (used in) from financing activities	(30,731)	159,883
Investing activities		
Proceeds from disposal of property, plant and equipment	99	353
Purchase of property, plant and equipment and intangible assets	(132,673)	(238,690)
Changes in restricted short-term investments	295	(1,742)
Net purchase of other short-term investments	(33,142)	(16,940)
Cash used in investing activities	(165,421)	(257,019)
Net increase in cash and cash equivalents	116,248	109,253
Cash and cash equivalents, beginning of year	169,141	59,888
Cash and cash equivalents, end of year	285,389	169,141

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 21(a))	Total equity including reserves
Balance as at April 1, 2019	75,478	25,000	525,006	625,484	12,834	638,318
Net earnings	-	-	28,777	28,777	-	28,777
Other comprehensive loss	-	-	-	-	(30,798)	(30,798)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(4,407)	(4,407)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at April 1, 2020	**75,478**	**25,000**	**547,745**	**648,223**	**(22,123)**	**626,100**
Net earnings	-	-	20,972	20,972	-	20,972
Other comprehensive income	-	-	-	-	27,749	27,749
Realized hedge losses recognized in fuel swaps	-	-	-	-	13,294	13,294
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	248	248
Preferred share dividends	-	-	(6,038)	(6,038)	-	(6,038)
Balance as at March 31, 2021	**75,478**	**25,000**	**562,679**	**663,157**	**19,168**	**682,325**

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

Notes to the Consolidated Financial Statements

Years ended March 31, 2021 and 2020
(Tabular amounts expressed in thousands of Canadian dollars)

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

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

The novel coronavirus ("COVID-19") pandemic has significantly impacted the Company's passenger and vehicle traffic. The preventative measures and imposed travel restrictions significantly impacted the Company's earnings and cash from operations during the year ended March 31, 2021.

Historically, the Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and at terminals. However, given the impact of the COVID-19 pandemic, the normal seasonal pattern did not occur in fiscal 2021; certain revenues, expenses, and balance sheet items tied directly to sales and operating activities were significantly impacted by the drop in vehicle and passenger traffic. Refer to Notes 23 and 30 for information on a one-time contribution of $308.0 million received from the Province of British Columbia ("the Province"), following the Contribution Agreement signed with the Province in November 2020 ("Safe Restart Funding Agreement"). The purpose of the funding is to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Company continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases.

The Company 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.

The Company's principal priorities are protecting passengers and employees aboard the vessels, terminals and in all workplaces, and adhering to the COVID-19 directives and guidance provided by the Province and Transport Canada while providing essential ferry services. The Company has implemented measures to mitigate risk to the travelling public and to prevent the spread of the virus, which in turn resulted in reduced capacity on select routes.

1. Accounting policies

A – Reporting entity:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, B.C. Canada, V8W 0B7. These consolidated financial statements, as at and for the years ended March 31, 2021 and 2020, comprise the Company and its subsidiaries (together referred to as the "Group").

B – Basis of preparation:

These consolidated financial statements represent the annual statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS"), and its interpretations, as issued by the International Accounting Standard Board ("IASB").

These consolidated financial statements are based on accounting policies as described below. These policies have been consistently applied to all the periods presented, except as otherwise stated.

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

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

These consolidated financial statements were approved by the Board of Directors on June 17, 2021.

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

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

C – Basis of consolidation – subsidiaries:

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

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

The Group's wholly-owned subsidiaries as at March 31, 2021 and 2020 are:

Pacific Marine Leasing Inc.
BCF Captive Insurance Company Ltd.

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

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

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

D – Estimates and judgments:

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

Significant judgments and estimates relate to:

Property, plant and equipment and intangible assets

The calculation of depreciation and amortization involves estimates concerning the economic life and salvage value of property, plant and equipment and intangible assets. The Group applies judgment to determine expenditures eligible for capitalization and considers the future economic benefits of these expenditures in making this assessment. At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of impairment. If any such indication exists, then the Group applies judgment to estimate the asset's recoverable amount. The impairment test is based on a value in use model and is completed for the business as a whole, as it has been identified as a single CGU.

Leases

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

Provisions and contingencies, including asset retirement obligations

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

Employee future benefits

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

Derivative assets and liabilities

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

E – Hedging relationships:

At the inception of a hedging relationship, the Group must set out formal documentation describing the relationship between hedging instrument and hedged items, as well as the Group's risk management objective and its strategy for undertaking the hedge, as well as the methods for assessing the effectiveness of the hedging relationship.

The Group performs an assessment at the inception of the hedging relationship and on an ongoing basis to determine the hedging instrument's expected effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows during the entire period for which the hedge is designated.

Fair value hedges

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

Cash flow hedges

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

The accumulated amount in the cash flow hedge reserve is reclassified from equity to net earnings or loss in the same period during which the hedged cash flows affect net earnings or loss.

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

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

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

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

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

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

The cost of self-constructed assets includes expenditures on materials, direct labour, borrowing costs and an allocated proportion of project overheads. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from disposal and the carrying amount of the asset less cost to sell and is recognized in net earnings or loss.

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

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

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

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

G – Intangible assets:

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

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

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

H – Leases:

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

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

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

I – Borrowing costs:

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, as a part of the cost of those assets, until such time as the assets are substantially ready for their intended use.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, it determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets.

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

J – Inventories:

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

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

K – Impairment of non-financial assets:

The carrying amounts of the Group's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indicator exists or if the Group holds intangible assets not yet available for use and not subject to amortization, the Group performs an impairment test.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets (this can be at the asset or cash-generating unit ("CGU") level).

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

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

L – Asset retirement obligations:

In the period when it can be reasonably determined, the Group recognizes a liability at its fair value for any legal obligations associated with the retirement of long-lived assets when those obligations result from the acquisition, construction, development or normal operation of the assets. A corresponding asset retirement cost is added to the carrying amount of the related asset and amortized to expense on a systematic and rational basis.

It is possible that the Group's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in cost estimates.

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

M – Financial assets and liabilities:

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

Financial liabilities include accounts payable and accrued liabilities, lease liabilities, long-term debt, interest on long-term debt and derivatives with a negative market value.

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

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

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

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

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

(ii) – Provision for impairment

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

(iii) – Loans receivable

The Group's loan receivable is initially recognized at fair value plus directly attributable transaction costs. Subsequently, it is measured at amortized cost using the effective interest rate method, less any recognized impairment loss. The loan receivable is subject to recoverable value tests, carried out at each reporting date and whenever there are objective indicators that the recoverable value of the loan receivable would be lower than the carrying value.

(iv) – Trade and other receivables

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

(v) – Cash and cash equivalents

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

(vi) – Borrowings and other financial liabilities

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

(vii) – Derivatives

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

(viii) – Fair value hierarchy

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

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

N – Provisions:
A provision is recognized when:

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

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

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

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

The actuarial determination of the accrued benefit obligations for retirement benefits uses the projected unit credit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). Under the projected unit credit method, the cost of these benefits is expensed over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans on a regularly scheduled basis, using actuarial techniques to measure the obligation with sufficient reliability.

The defined benefit obligation is measured at the present value of estimated future cash outflows using interest rates based on the yield of long-term high quality corporate bonds with maturities matching the defined benefit obligation.

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

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

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

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

Q – Revenues:
Revenue from vehicle fares, including reservation fees, passenger fares and fuel surcharges (rebates), is recognized when transportation is provided. Revenue from fares represents a single performance obligation to which the entire transaction price is allocated. Prepayments for fares received in advance of providing transportation are included in the statement of financial position as contract liabilities until such time as the performance obligation is satisfied.

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

Safe Restart Funding revenue is recognized based on the estimated loss of earnings for the following three components, for each of the fiscal years 2021 to 2024, in accordance with the Safe Restart Funding Agreement:

- Base Operating Relief – derived from the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief – derived from the estimated revenue losses in each of fiscal years 2022, 2023 and 2024 from limiting fare increases to an average of 2.3%; and
- Discretionary Sailing Relief – derived from the estimated costs of maintaining discretionary sailings in fiscal years 2022, 2023 and 2024.

Ferry service fees and federal-provincial subsidies are recognized as revenue as services specified in the related agreements with the Province are provided.

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

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

2. Adoption of new and amended standards

Future changes in accounting policies:

IFRS 17, Insurance Contracts:
In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*.

On 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. The Group will continue to evaluate the potential impact on its consolidated financial statements as further information becomes available.

Exposure Draft, Regulatory Assets and Regulatory Liabilities:

In January 2021, the IASB issued the exposure draft, *Regulatory Assets and Regulatory Liabilities,* which, if finalized as a new IFRS Standard, will replace IFRS 14, *Regulatory Deferral Accounts*. IFRS 14, *Regulatory Deferral Accounts*, addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities, such as the Group, that had already transitioned to IFRS. As a result, the Group is currently not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

The exposure draft proposes a new accounting model under which an entity, subject to rate regulation that meets the scope criteria, would recognise regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation. The IASB has requested comments on the exposure draft by July 30, 2021.

3. Cash and cash equivalents

	As at March 31	
	2021	**2020**
Cash	246,855	140,703
Cash equivalents:		
Investments valued at fair value through net earnings	138	138
Investments valued at amortized cost	38,396	28,300
Total	**285,389**	**169,141**

4. Inventories

	As at March 31	
	2021	**2020**
Consumable parts and supplies	26,797	23,070
Provision for obsolescence	(1,500)	(1,300)
Net consumable parts and supplies	25,297	21,770
Retail inventories	5,777	6,207
Fuel inventories	4,086	3,920
Total	**35,160**	**31,897**

5. Property, plant and equipment

	Vessels	Berths, buildings & equipment	Right-of-use assets - Berths, buildings & equipment	Right-of-use assets - Land	Land	Construction in progress	Total
Cost:							
Balance as at April 1, 2019	1,627,311	655,543	173,548	40,868	24,714	196,359	2,718,343
Additions	(1,179)[1]	-	1,184	256	-	219,304	219,565
Revaluation	-	-	-	1,414	4,473	-	5,887
Disposals	(42,959)	(4,713)	(11)	-	-	(14)	(47,697)
Transfers from construction in progress	186,602	28,556	-	-	478	(215,636)	-
Balance as at March 31, 2020	**1,769,775**	**679,386**	**174,721**	**42,538**	**29,665**	**200,013**	**2,896,098**
Additions	(1,162)[1]	-	7	-	-	109,645	108,490
Revaluation	-	-	-	3,406	12,457	-	15,863
Disposals and impairments	(33,637)	(1,850)	(30)	(4)	-	(5,937)	(41,458)
Transfers from construction in progress	77,138	11,391	-	-	-	(88,529)	-
Balance as at March 31, 2021	**1,812,114**	**688,927**	**174,698**	**45,940**	**42,122**	**215,192**	**2,978,993**
Accumulated depreciation:							
Balance as at April 1, 2019	624,593	205,671	67,241	606	-	-	898,111
Depreciation	123,929	34,601	6,821	689	-	-	166,040
Disposals	(42,877)	(4,682)	(11)	-	-	-	(47,570)
Balance as at March 31, 2020	**705,645**	**235,590**	**74,051**	**1,295**	**-**	**-**	**1,016,581**
Depreciation	118,444	34,420	6,756	561	-	-	160,181
Disposals and impairments	(32,730)	(1,570)	(30)	-	-	-	(34,330)
Balance as at March 31, 2021	**791,359**	**268,440**	**80,777**	**1,856**	**-**	**-**	**1,142,432**
Net carrying value:							
As at March 31, 2020	**1,064,130**	**443,796**	**100,670**	**41,243**	**29,665**	**200,013**	**1,879,517**
As at March 31, 2021	**1,020,755**	**420,487**	**93,921**	**44,084**	**42,122**	**215,192**	**1,836,561**

[1] *Reclassifications from Other liabilities (Note 14)*

During the year ended March 31, 2021, financing costs capitalized during construction amounted to $8.3 million (March 31, 2020: $5.2 million) with an average capitalization rate of 4.58% (March 31, 2020: 4.92%).

Contractual commitments as at March 31, 2021, for assets to be constructed totalled $77.0 million (March 31, 2020: $121.5 million). The majority of these contractual commitments relate to the construction of four Island Class vessels, one Salish Class vessel and Coastal Class quarter life upgrades.

The Group's property, plant and equipment assets are tested for impairment at the end of each reporting period or when there is an indication of impairment. The impairment test is based on a value in use model and is completed for the business as a whole, as it has been identified as a single CGU.

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

During the year ended March 31, 2021, the Group did not identify any impairment through the value in use model. However, the Group recognized property, plant and equipment impairments of $6.8 million (March 31, 2020: $nil) due to certain individual property, plant and equipment assets, or parts thereof, no longer being expected to be recovered. The impairment loss is reported under "Loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss and other comprehensive income (loss) for the year ended March 31, 2021.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to $43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the year ended

March 31, 2021, the Group recognized $0.3 million (March 31, 2020: $9.7 million) as a reduction of the cost of property, plant and equipment. Funding of $39.6 million was recorded as a cumulative reduction of the cost of the property, plant and equipment in fiscal years 2018 to 2021.

FortisBC Energy Inc. has committed to provide the Group with funding as part of the Natural Gas for Transportation ("NGT") incentive funding. The contributions are dependent upon the purchase of liquefied natural gas ("LNG"). During the year ended March 31, 2021, the Group recognized $1.2 million (March 31, 2020: $1.2 million) as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2021, the Group received $0.5 million (March 31, 2020: $1.0 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $4.5 million, respectively, as at March 31, 2021 (March 31, 2020: cost of $11.9 million and accumulated depreciation of $4.0 million).

During the year ended March 31, 2021, the *North Island Princess* and the *Nimpkish* were decommissioned and sold. The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

6. Intangible assets

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at April 1, 2019	130,335	18,887	22,297	171,519
Additions	-	-	18,513	18,513
Disposals and impairments	(169)	-	(2,619)	(2,788)
Transfers from assets under development	7,711	1,011	(8,722)	-
Balance as at March 31, 2020	**137,877**	**19,898**	**29,469**	**187,244**
Additions	-	-	13,553	13,553
Disposals and impairments	(431)	(167)	(185)	(783)
Transfers from assets under development	2,448	24,010	(26,458)	-
Balance as at March 31, 2021	**139,894**	**43,741**	**16,379**	**200,014**
Accumulated amortization:				
Balance as at April 1, 2019	58,879	11,611	-	70,490
Amortization	15,715	1,315	-	17,030
Disposals and impairments	(169)	-	-	(169)
Balance as at March 31, 2020	**74,425**	**12,926**	**-**	**87,351**
Amortization	15,518	3,842	-	19,360
Disposals and impairments	(431)	(167)	-	(598)
Balance as at March 31, 2021	**89,512**	**16,601**	**-**	**106,113**
Net carrying value:				
As at March 31, 2020	**63,452**	**6,972**	**29,469**	**99,893**
As at March 31, 2021	**50,382**	**27,140**	**16,379**	**93,901**

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

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

During the year ended March 31, 2021, the Group did not identify any impairment through the value in use model. However, in respect to certain individual obsolete or no longer expected to be recovered intangible assets the Group recognized asset impairments of $0.2 million (March 31, 2020: $2.6 million). The impairment loss is reported under "Loss on disposal and impairment of property, plant and equipment and intangible assets" in the consolidated statement of profit or loss and other comprehensive income (loss) for the year ended March 31, 2021.

Capitalized financing costs during construction for intangible assets with an average capitalization rate of 4.58% (March 31, 2020: 4.92%) for the year ended March 31, 2021 totalled $0.8 million (March 31, 2020: $1.1 million).

During the year ended March 31, 2021, intangible assets totalling $9.8 million (March 31, 2020: $10.3 million) were acquired and $3.8 million (March 31, 2020: $8.2 million) were internally developed.

7. Accounts payable and accrued liabilities

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

	As at March 31	
	2021	**2020**
Trade payable and accrued liabilities	32,848	62,551
Wages payable	72,485	69,745
Accounts payable and accrued liabilities	**105,333**	**132,296**

8. Provisions

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

The Group established a provision for liabilities associated with the disposal of property, plant and equipment.

	Claims payable	Other	Total
Balance as at April 1, 2019	1,715	-	1,715
Provisions arising during the year	414	-	414
Provisions settled during the year	(335)	-	(335)
Balance as at March 31, 2020	**1,794**	**-**	**1,794**
Provisions arising during the year	2,218	1,500	3,718
Provisions settled during the year	(942)	-	(942)
Balance as at March 31, 2021	**3,070**	**1,500**	**4,570**

9. Liabilities arising from financing activities

Continuity of liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at April 1, 2019	1,280,043	41,981	18,429
Additions	250,000	1,440	64,462
Payments	(80,282)	(2,210)	(61,379)
Additions to debt issue costs	(1,587)	-	-
Amortization of debt issue costs	896	-	-
Balance as at March 31, 2020	**1,449,070**	**41,211**	**21,512**
Additions	-	2	66,464
Payments	(22,157)	(2,536)	(66,542)
Amortization to debt issue costs	846	-	-
Balance as at March 31, 2021	**1,427,759**	**38,677**	**21,434**
Current	10,831	2,794	21,434
Non-current	1,416,928	35,883	-
Balance as at March 31, 2021	**1,427,759**	**38,677**	**21,434**

[1] Interest expense related to lease liabilities is presented in net finance expense (note 25).

10. Contract liabilities

Prepayments for fares received in advance of providing transportation and other customer prepaid revenues are included in the statement of financial position as contract liabilities until such time as the performance obligation is satisfied.

Safe Restart Funding is a one-time contribution of $308.0 million received from the Province during the year ended March 31, 2021, to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Group continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases. The revenue recognition of the contribution is consistent with the Group's submission to the Province from August 2020. Refer to Notes 23 and 30 for more information on the contribution.

	Other	Safe Restart Funding	Total
Balance as at April 1, 2019	22,709	-	22,709
Additions	17,408	-	17,408
Recognized in profit or loss	(18,415)	-	(18,415)
Balance as at March 31, 2020	**21,702**	**-**	**21,702**
Additions	13,775	308,000	321,775
Recognized in profit or loss	(12,233)	(186,000)	(198,233)
Balance as at March 31, 2021	**23,244**	**122,000**	**145,244**
Current	23,244	102,333	125,577
Non-current	-	19,667	19,667
Balance as at March 31, 2021	**23,244**	**122,000**	**145,244**

11. Long-term debt

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

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

	As at March 31	
Long-term debt	**2021**	**2020**
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	200,000	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	250,000	250,000
12 Year Loan, maturing June 2020 Tranche A (effective interest rate of 5.18%)	-	1,875
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	-	9,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	28,961	32,699
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	30,166	33,938
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	30,166	33,938
	1,439,293	**1,461,450**
Less: Unamortized deferred financing costs and bond discounts	**(11,534)**	**(12,380)**
Total	**1,427,759**	**1,449,070**
Current	**10,831**	**21,644**
Non-current	**1,416,928**	**1,427,426**
Total	**1,427,759**	**1,449,070**

A – Bonds:

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

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

B – 2.79% Senior Secured Bonds, Series 19-1, due October 2049:

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

C – 12 Year Loans, maturing March and June 2020:

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

In June 2020, the Group fully paid the outstanding balance of the KfW 12 year loan.

D – 2.95% Loan, maturing January 2021:

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

In January 2021, the Group fully paid the outstanding balance of the 2.95% KfW loan.

E – 2.09% Loans, maturing October 2028 and January 2029:

The Group has a loan agreement with KfW. This loan agreement is secured under the Master Trust Indenture (May 2004) ("MTI (May 2004)") and allows for three loans of up to $45.3 million each. The proceeds from the loan agreement were applied toward the purchase of the *Salish Orca*, the *Salish Eagle* and the *Salish Raven*.

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

F – Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on April 7, 2020 to extend the maturity date to April 20, 2025. There were no draws on this Credit Facility as at March 31, 2021 or March 31, 2020. There was no interest expensed during the years ended March 31, 2021 and March 31, 2020. Letters of credit outstanding against this Facility as at March 31, 2021 totalled $0.6 million (March 31, 2020: $0.6 million).

G – Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments. In the event that the debt service coverage ratio is less than 1.50, the Group is required to increase the amount in the debt service reserves to an amount equal to 12 months of interest payments no later than 12 months after the occurrence of such event. As at March 31, 2021, the debt service coverage ratio was 2.90 times.

As at March 31, 2021, debt service reserves of $33.1 million (March 31, 2020: $33.4 million) were held in short-term investments and have been classified as restricted short-term investments on the statement of financial position.

H – Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization and rent or ("EBITDAR")) is required to be at least 1.25 times the debt service cost under the Credit Facility Agreement and the KfW loans.

On May 15, 2020, the Group's banking syndicate approved an Amendment to the Credit Facility Agreement pursuant to which, for the purposes of calculating the bank covenants, the EBITDAR of the impacted quarters in fiscal 2021 (first, second and third) is replaced by an average of the EBITDAR from the respective quarters in fiscal years 2018 to 2020. As at March 31, 2021, the debt service coverage ratio using the modified calculation was 3.06 times.

On June 19, 2020, KfW waived the debt service coverage covenant until and including March 2021.

As a condition for both the Credit Facility Agreement and the KfW loans, for the duration of the relief period, the Group will be required to maintain $50.0 million in unrestricted cash, which can be comprised of cash, short-term investments, and undrawn credit facility.

In addition, there are other covenants contained in the MTI (May 2004) available at **www.SEDAR.com**. The Group was in compliance with all of its covenants at March 31, 2021 and at March 31, 2020.

12. Accrued employee future benefits

A – Description of benefit plans:

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

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

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

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

In addition, eligible employees are entitled to other retirement and future benefits as provided for under the collective agreement and terms of employment. These are unfunded defined benefit plans administered by the Group. Retirement and death benefits are based on years of service and final average salary.

The accumulated sick leave bank consisted of unused sick time credits earned prior to the discontinuation of the sick leave accumulation benefit in 1979. The outstanding balance of this bank was fully drawn during the fiscal year ended March 31, 2021.

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

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

B – Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2021, consisting of cash contributed by the Group to its multi-employer defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to a third party administrator of an unfunded plan, were $37.7 million (March 31, 2020: $35.1 million).

C – Multi-employer plans:

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

	2021	2020
Public Service Pension Plan contributions (i)	27,884	29,021
Long-term disability plan contributions (ii)	5,322	4,046
Total	**32,206**	**33,067**

(i) The March 31, 2020 actuarial valuation report for the Public Service Pension Plan was received by the Public Service Pension Board of Trustees on December 11, 2020. This report indicated that the pension fund had an actuarial surplus of $2.7 billion. Under the terms of the plan's joint trust agreement, plan members and employers' share in any increase or decrease in contribution rates. The next valuation, expected to be received during the fiscal year ending March 31, 2024, will be as at March 31, 2023.

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result, the employer contribution rate was increased from 1.79% to 2.51% of covered payroll effective April 1, 2020. The actuarial valuation as at March 31, 2020 determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2022, will be as at March 31, 2021.

D – Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans was as at March 31, 2020. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The next scheduled valuation for the retirement and death benefit plans, expected to be received during the fiscal year ending March 31, 2024, will be as at March 31, 2023. The most recent actuarial valuation of the WCB obligation was as at March 31, 2019. The next scheduled valuation, expected to be received during the fiscal year ending March 31, 2023, will be as at March 31, 2022.

During the year ended March 31, 2021, the Group recognized a net loss of $1.8 million in reserves, as amounts that will not be reclassified to net earnings in the future, reflecting the actuarial valuation for the retirement and death benefit plans as at March 31, 2020.

	Other benefit plans	
Accrued benefit obligations	**2021**	**2020**
Balance, beginning of year	23,151	22,583
Current service cost	1,270	1,547
Interest cost	961	916
Benefits paid	(4,506)	(2,021)
Actuarial loss (note 21)	1,807	126
Balance, end of year	**22,683**	**23,151**

	Other benefit plans	
Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	**2021**	**2020**
Accrued benefit obligation	22,683	23,151
Funded status of plans – deficit	(22,683)	(23,151)
Accrued benefit liability	(22,683)	(23,151)
Current portion of accrued employee future benefits	2,600	3,000
Non-current portion of accrued employee future benefits	**(20,083)**	**(20,151)**

	Other benefit plans	
Elements of defined benefit costs recognized in the year	**2021**	**2020**
Current service cost	1,270	1,547
Interest cost	961	916
Defined benefit costs recognized	**2,231**	**2,463**

Significant assumptions: The significant assumptions used are as follows (weighted average)	**2021**	**2020**
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	4.5%	4.8%
Rate of compensation increase	2.0%	1.8%
Annual employee retention rate	92.4%	95.4%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	10.2	9.65

13. Lease liabilities

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

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

Lease liabilities are payable as follows:

	Lease liabilities
Less than one year	2,794
Between one and five years	10,282
More than five years	1,086
Purchase option	24,515
Total	**38,677**
Current	2,794
Non-current	35,883
Total	**38,677**

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

Loan and purchase option:
The Group has advanced funds to, and has a loan receivable from, the developer of the office property in the amount at $24.5 million. The term of the loan is fifteen years, secured by a second mortgage on the property. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, the Group was granted an option to purchase up to 50% of the owner's equity interest in the building. The purchase option expires at the end of the loan term. The Group expects to exercise the option and therefore has included it in the determination of the lease liability.

14. Other liabilities

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

As of March 31, 2021, the Group had received $7.0 million of the total eligible contributions related to the Spirit Class vessels, and all of the eligible contributions related to the Salish Class vessels.

During the year ended March 31, 2021, the Group recognized $1.2 million (March 31, 2020: $1.2 million) as an offset to the capital costs of the vessels.

	Note	Salish Class	Spirit Class	Total
Balance as at April 1, 2019		5,489	4,027	9,516
Additions		-	2,625	2,625
Reclassifications to property, plant and equipment		(514)	(665)	(1,179)
Balance as at March 31, 2020		**4,975**	**5,987**	**10,962**
Reclassifications to property, plant and equipment	5	(366)	(796)	(1,162)
Balance as at March 31, 2021		**4,609**	**5,191**	**9,800**

15. Financial instruments

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2021 and March 31, 2020 for all financial instruments except for long-term debt.

	As at March 31, 2021		As at March 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion[1]	1,427,759	1,738,088	1,449,070	1,758,082

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

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

The following items shown in the consolidated statements of financial position as at March 31, 2021 and March 31, 2020 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at March 31, 2021, or at March 31, 2020, valued using Level 3 inputs.

	As at March 31, 2021		As at March 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash [1,2]	246,855	-	140,703	-
Cash equivalents [1,2]	138	-	138	-
Derivative assets[3]	-	-	-	28
Derivative liabilities[3]	-	(5,763)	-	(32,719)
	246,993	**(5,763)**	**140,841**	**(32,691)**

[1] Excluding Cash and cash equivalents of $38.4 million (March 31, 2020: $28.3 million) held at amortized cost.

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

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified between levels during the year ended March 31, 2021 or March 31, 2020.

During the year ended March 31, 2021, gains or losses related to Level 2 derivatives have been recorded in OCI.

There were no Level 3 instruments outstanding during the period.

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

16. Financial risk management

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

A – Credit risk:

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

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

Accounts receivable by source are as follows:

	As at March 31			
	2021		2020	
Trade customers and miscellaneous	13,520	78.1%	12,016	61.7%
Federal and Provincial governments	3,800	21.9%	7,472	38.3%
Total	**17,320**	**100%**	**19,488**	**100%**

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

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

Trade and other receivables are due in the short term. As at March 31, 2021, 1.4% (March 31, 2020: 8.6%) of trade and other receivables were past due. The Group is using the lifetime ECL simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.

Based on the historical default experience, the Group has established a lifetime ECL allowance of 1% of the trade receivables. Amounts due from the Government of Canada and the Province are considered low credit risk and are excluded. As at March 31, 2021, the provision for impairment was $0.1 million.

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

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

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

The counterparties with which the Group has significant derivative transactions must be rated A or higher. The Group had no derivative assets at March 31, 2021.

B – Liquidity risk:

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

The Group manages liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models, maintaining access to a credit facility and the maintenance of debt service reserves (Note 11(g)). The Group targets a strong investment grade credit rating to maintain capital market access at reasonable interest rates.

As at March 31, 2021 and March 31, 2020, the Group's credit ratings for senior secured long-term debt were as follows:

	As at March 31	
	2021	**2020**
DBRS	A (high)(stable)	A (high)(stable)
Standard & Poor's	AA - (negative)	AA - (stable)

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2021:

Financial liabilities	**Note**	**< 1 year**	**2-3 years**	**4-5 years**	**>5 years**	**Total**
Accounts payable and accrued liabilities	7	105,333	-	-	-	105,333
Provisions	8	4,570	-	-	-	4,570
Interest payable on long-term debt	9	21,434	-	-	-	21,434
Lease liabilities, including current portion	13	2,794	5,650	4,632	25,601	38,677
Long-term debt, including current portion (excluding deffered costs)[1]	11	11,282	22,564	22,564	1,382,883	1,439,293
Other liabilities		1,388	2,771	2,917	5,724	12,800
Total financial liabilities – Principal only		146,801	30,985	30,113	1,414,208	1,622,107
Interest payable – Long term debt		66,094	131,455	130,520	899,232	1,227,301
Interest payable – Lease liabilities		1,678	2,967	1,903	118	6,666
Total financial liabilities, including interest payable		**214,573**	**165,407**	**162,536**	**2,313,558**	**2,856,074**

[1] Carrying value at March 31, 2021, excludes unamortized deferred financing costs of $11.5 million.
The majority of the Group's long-term debt relates to funds used for acquisition of property, plant and equipment.

C – Market risk:

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

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

Interest rate risk:

The Group is exposed to interest rate risk associated with short-term borrowings, floating rate debt and the pricing of future issues of long-term debt. As at March 31, 2021, the Group's cash equivalents and short-term investments included fixed rate instruments with maturities of 364 days or less. Accordingly, the Group has exposure to interest rate movement that occurs beyond the term of the maturity of the fixed rate investments. The Group's credit facility is at a variable rate and is subject to interest rate risk.

To manage this risk, the Group targets to maintain between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2021, the Group had no debt in variable rate instruments.

Foreign currency price risk:

The Group is exposed to risk from foreign currency prices on financial instruments, such as accounts payable and future purchase commitments denominated in currencies other than the Canadian dollar. To manage exposure on future purchase commitments, the Group reviews foreign currency denominated commitments and enters into derivative instruments as necessary. As at March 31, 2021, the notional amount of the Group's foreign currency forward contracts was $1.4 million (March 31, 2020: $0.4 million). A 10% change in foreign exchange rates would have had an effect of $0.1 million on net earnings for the year ended March 31, 2021.

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and LNG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12-month period; 90% of anticipated monthly fuel consumption for the 12-month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of 36-month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term ("PT5"). PT5 commenced April 1, 2020 and will end on March 31, 2024.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its regulatory (non-IFRS) earnings (Note 29).

The Group hedges using CAD denominated ULSD fuel swaps to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the year ended March 31, 2021, the Group entered into ULSD fuel swap contracts with a notional value of $28.3 million. The notional value of all fuel swap contracts outstanding as at March 31, 2021 was $117.1 million (March 31, 2020: $132.2 million). Hedge accounting was applied to these contracts. No LNG swap contracts were entered into during the year ended March 31, 2021 and no LNG swap contracts were outstanding as at March 31, 2021.

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

During the year ended March 31, 2021, open fuel swap contracts had unrealized hedging gains of $13.7 million recognized in OCI (March 31, 2020: unrealized hedging losses of $36.5 million). In addition, for closed fuel swap contracts net realized hedging losses of $13.3 million were reclassified from reserves and included in the Group's fuel expense during the year ended March 31, 2021 (March 31, 2020: net realized hedging gains of $4.4 million).

Due to the drastic reduction in fuel consumption as a result of COVID-19, the Group determined that the hedged amounts related to one of the Group's contracts for the three months ended June 30, 2020 were no longer considered highly probable to occur and the Group discontinued hedge accounting for this contract effective March 31, 2020. The hedging loss related to this contract was included within the $13.3 million of fuel swap contract losses recognized in the consolidated statement of profit or loss for the year ended March 31, 2021.

Cash flow hedges:

	Fiscal 2022	Fiscal 2023	Fiscal 2024	Total
Fuel contracts (litres in thousands)	72,091	72,792	44,290	189,173
Contract price range ($/litre)	$0.6060-$0.6499	$0.5960-$0.6336	$0.5885-$0.6090	

The impact of hedging instruments designated in hedging relationships as of March 31, 2021 on the statement of financial position and the statement of profit or loss and other comprehensive income (loss) was as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
Fuel swap contracts	45,522	(2,856)	Current derivative liabilities	(2,856)
Fuel swap contracts	71,639	(2,863)	Non-current derivative liabilities	(2,863)
Foreign exchange forward contracts	1,384	(44)	Current derivative liabilities	(44)

The impact of hedged items designated in hedging relationships as of March 31, 2021 on the statement of financial position was as follows:

	Change in value used for measuring ineffectiveness	Cash flow hedge reserve
Fuel swap contracts	5,736	5,719

Cash flow hedge reserve (note 21(b)):

	As at March 31	
	2021	2020
Hedging losses (gains) recognized in cash flow hedge reserve:		
Fuel swap contracts	13,707	(36,451)
Hedging gains (losses) reclassified from cash flow hedge reserve:		
Interest rate forward contracts – Amortization of hedge loss	248	248
Fuel swap contracts – Losses (gains) recognized in net earnings	13,294	(4,407)
Net change in cash flow hedge reserve	**27,249**	**(40,610)**

17. Other commitments

The Group has various contracts for certain building spaces, land and equipment. These contracts do not meet the definition of a lease. Contract payments for the year ended March 31, 2021 were $0.9 million (March 31, 2020: $0.8 million).

Future contract payments are as follows:

	Other Commitments
Less than one year	919
Between one and five years	1,868
More than five years	209
Total	**2,996**

18. Contingent liabilities

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

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

19. Share capital

A – Authorized:

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

B – Issued and outstanding:

As at March 31

	2021		2020	
	Number of shares	Amount $	Number of shares	Amount $
Class B, common	1	1	1	1
Class C, preferred	75,477	75,477	75,477	75,477
		75,478		**75,478**

C – Dividends:

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

20. Capital management

The Group's principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations. Given the impact of COVID-19 on the Group's financial position, the Group continues to review all capital plans to identify opportunities to defer expenditures that are not regulatory, security or safety related or operationally necessary.

In order to ensure capital market access is maintained, the Group targets maintaining strong investment grade credit ratings (Note 16(b)).

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

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

Under the Credit Facility Agreement and the KfW loans, the EBITDAR must be at least 1.25 times the debt service cost. Refer to Note 11 for additional information.

The Group was in compliance with all of its covenants at March 31, 2021 and at March 31, 2020.

	2021		2020	
	$	%	$	%
Aggregate borrowings[1]	1,632,970	71.12%	1,657,661	71.89%
Total equity before reserves	663,157	28.88%	648,223	28.11%
Total	**2,296,127**	**100%**	**2,305,884**	**100%**

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

21. Other comprehensive (loss) income

A – Continuity of reserves:

	Note	Land revaluation reserves[1]	Employee future benefit revaluation reserves	Fuel swap reserves	Interest rate forward contract reserves	Total
Balance as at April 1, 2019		16,879	(5,969)	8,138	(6,214)	12,834
Land revaluation		5,779	-	-	-	5,779
Actuarial losses on post-employment benefit obligations:	12(d)	-	(126)	-	-	(126)
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		-	-	(36,451)	-	(36,451)
Realized gains		-	-	(4,407)	-	4,407)
Amortization of losses		-	-	-	248	248
Balance as at March 31, 2020		**22,658**	**(6,095)**	**(32,720)**	**(5,966)**	**(22,123)**
Land revaluation		15,849	-	-	-	15,849
Actuarial losses on post-employment benefit obligations:	12(d)	-	(1,807)	-	-	(1,807)
Derivatives designated as cash flow hedges:	16(c)					
Net change in fair value		-	-	13,707	-	13,707
Realized losses		-	-	13,294	-	13,294
Amortization of losses		-	-	-	248	248
Balance as at March 31, 2021		**38,507**	**(7,902)**	**(5,719)**	**(5,718)**	**19,168**

[1] *Land revaluation reserves represent the valuation surplus resulting from changes in fair value of land assets. The reserve increases during the years ended March 31, 2021 and March 31, 2020, are shown above. During the year ended March 31, 2021, the Group recognized less than $0.1 million (March 31, 2020: $0.1 million) in net earnings as a result of land revaluation.*

B –Other comprehensive income (loss):

	Note	Years ended March 31 2021	2020
Items that are or may be reclassified subsequently to net earnings:			
Hedge gains (losses) on fuel swaps	16(c)	13,707	(36,451)
Items that will not be reclassified to net earnings:			
Land revaluations		15,849	5,779
Actuarial losses on post-employment benefit obligations	12(d)	(1,807)	(126)
Total other comprehensive income (loss)		**27,749**	**(30,798)**

22. Net retail

	Years ended March 31 2021	2020
Retail revenue	29,762	102,962
Cost of goods sold	(11,927)	(39,248)
Net retail	**17,835**	**63,714**

23. Safe Restart Funding

In December 2020, the Group received a contribution of $308.0 million from the Province under the Safe Restart Funding Agreement.

The contribution consists of the following three components:

- Base Operating Relief - $280.0 million in respect of the estimated operational fiscal impact or loss of earnings in fiscal years 2021 and 2022 due to COVID-19;
- Fare Increase Relief - $24.0 million in respect of the estimated revenue losses during the term of the Safe Restart Funding Agreement from limiting fare increases to an average of 2.3% in each of fiscal years 2022, 2023 and 2024; and
- Discretionary Sailing Relief - $4.0 million in respect of the estimated costs of discretionary sailings in fiscal years 2022, 2023 and 2024.

The revenue recognition of the contribution is consistent with the Group's submission to the Province from August 2020 which was based on the estimated loss of earnings in relation to the above three components for fiscal years 2021 to 2024, and reflects the normal seasonal pattern of earnings.

The Group recognized $186.0 million of the contribution under "Safe Restart Funding" in the consolidated statement of profit or loss for the year ended March 31, 2021. The remaining balance of $122.0 million was included in contract liabilities in the consolidated statement of financial position.

For more details on the Group's obligations under the Safe Restart Funding Agreement, see the agreement online on SEDAR at **http://www.sedar.com.**

24. Operating expenses

	Years ended March 31	
	2021	**2020**
Salaries, wages and benefits	380,697	413,333
Fuel	89,699	109,341
Materials, supplies and contracted services	79,725	87,207
Other operating expenses	50,203	63,199
Depreciation and amortization	179,541	183,070
Total operating expenses	**779,865**	**856,150**

25. Net finance expense

	Years ended March 31	
	2021	**2020**
Finance expenses:		
Long-term debt	66,512	64,462
Short-term debt	275	465
Lease liabilities	1,803	1,927
Amortization of deferred financing costs and bond discounts	1,094	1,144
Interest capitalized in the cost of qualifying assets	(9,061)	(6,284)
Total finance expenses	60,623	61,714
Finance income	(4,615)	(7,532)
Net finance expense	**56,008**	**54,182**

26. Related party transactions

A – Management compensation:

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

	Years ended March 31	
	2021	**2020**
Short-term benefits	1,840	2,151
Post-employment benefits	106	861
Termination benefits	-	-
Total	**1,946**	**3,012**

B – B.C. Ferry Authority:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the year ended March 31, 2021, the Group paid $0.2 million (March 31, 2020: $0.2 million) of such expenses.

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

27. Ferry service fees

On April 1, 2003, the Group entered into an agreement with the Province to provide ferry services on specified routes that would not be commercially viable and to administer certain social policy initiatives on behalf of the Province. In exchange for these services and to compensate for these non-profitable routes, the Group receives ferry service fees. The agreement is for a period of sixty years, the details of which are renegotiated after a first term of five years and each four-year term thereafter. The agreement has been amended from time to time to, among other things, establish the ferry service levels and the fees for the provision of such service for PT5 ending March 31, 2024.

28. Federal-Provincial Subsidy Agreement

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

29. Economic effect of rate regulation

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

Under IFRS, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the obligations represented by the regulatory liabilities at March 31, 2021, will be settled through future tariff reductions or fuel rebates.

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At March 31, 2021 and March 31, 2020, tariffs charged to customers were below established price caps.

A – Deferred fuel costs:

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

The regulatory deferred fuel cost accounts operate as follows:

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

- a. the first 5 cents per litre of difference is recognized in deferral accounts for recovery or settlement through future tariffs to customers;
- b. any difference beyond 5 cents per litre is recognized in accounts receivable or payable for subsequent recovery from or payment to the Province, and

ii) for all other routes;

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

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

During the year ended March 31, 2021, the amount payable to the Province in relation to fuel cost differences was $0.2 million (March 31, 2020: $nil).

B – Tariffs in excess of price cap:
The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At March 31, 2021 and March 31, 2020, tariffs charged to customers were below established price caps.

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory liabilities at March 31, 2021 would have been $1.5 million (March 31, 2020: $2.1 million).

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the year ended March 31, 2021 would have been $0.6 million higher (March 31, 2020: $6.6 million lower) as detailed below:

	As at March 31	
Effect of rate regulation on net earnings	**2021**	**2020**
Regulatory accounts:		
Deferred fuel costs:		
Fuel costs under set price	(6,351)	(1,111)
Rebates (surcharges)	6,761	(5,440)
Fuel price risk recoveries payable to the Province	230	-
Total increase (decrease) in net earnings	**640**	**(6,551)**

30. Economic effect of Safe Restart Funding

The Group received a one-time contribution of $308.0 million from the Province, following the Safe Restart Funding Agreement signed with the Province in November 2020. The purpose of the funding is to provide relief from the operating fiscal impacts of COVID-19, and help ensure that the Group continues to deliver essential ferry services to coastal communities through pandemic recovery while avoiding service reductions and minimizing fare increases.

If the Group did not receive and recognize $186.0 million of the Safe Restart Funding, the net loss for the year ended March 31, 2021 would have been $165.0 million, $193.8 million lower than the prior year period as detailed below:

	Years ended March 31		
Effect of Safe Restart Funding on net earnings	**2021**	**2020**	**Decrease**
Net earnings	20,972	28,777	(7,805)
Safe Restart Funding	(186,000)	-	(186,000)
Net (loss) earnings excluding Safe Restart Funding	**(165,028)**	**28,777**	**(193,805)**

If the Group did not receive Safe Restart Funding of $308.0 million, the net decrease in cash and cash equivalents for the year ended March 31, 2021 would have been $191.8 million, $301.0 million lower than the prior year period as detailed below:

	Years ended March 31		
Effect of Safe Restart Funding on Net increase in cash and cash equivalents	**2021**	**2020**	**Increase (Decrease)**
Increase in cash and cash equivalents	116,248	109,253	6,995
Safe Restart Funding	(308,000)	-	(308,000)
Net (decrease) increase in cash and cash equivalents excluding Safe Restart Funding	**(191,752)**	**109,253**	**(301,005)**