PERFORMANCE & ACCOUNTABILITY

Annual Reports of British Columbia Ferry Services Inc. & BC Ferry Authority and Business Plan

2018-19

BCFerries

The *Skeena Queen* at Fulford Harbour Terminal, Salt Spring Island. Connecting the Southern Gulf Islands and Vancouver Island.

CONTENTS

WELCOME

Message from the Chair 4
Message from the President 5
Our leadership team 6
Our vision, mission, values 8
Our year in review 10

EXECUTIVE SUMMARY

BC Ferries by the numbers 12
Safety and performance 16
How we sustain a safe and reliable service 22

WHAT WE BELIEVE, OUR ACHIEVEMENTS, WHAT'S NEXT FOR 2020

1 Customer and community centred 24
2 Prepared for the future 28
3 An employer of choice 32
4 A leader in the transition to a more sustainable future 36
5 A significant contributor to the BC economy 40
6 Innovative and continually improving 44

BUILDING A FLEET FOR THE FUTURE

How our company is governed 48
Our capital plan 50
Forward looking statements 54

Incorporates the Annual Reports of British Columbia Ferry Services Inc. and BC Ferry Authority for the year-ended March 31, 2019 and the Business Plan of BC Ferries for the year-ended March 31, 2020

The past year has been an extremely busy one for BC Ferry Services Inc. (BC Ferries). Traffic volumes are at record highs, the company has undertaken a range of planning initiatives for major terminal upgrades, and has developed a comprehensive capital plan to ensure BC Ferries continues to provide exceptional service to our customers and communities. Recognized as a leader in environmental stewardship, BC Ferries is reducing our carbon footprint as we transition some of the fleet from diesel to liquefied natural gas (LNG) and ultimately, to electric power. Through these efforts and other environmental initiatives, the company has earned Green Marine certification for the fifth year in-a-row.

The Directors of BC Ferries serve as stewards of the company, primarily responsible to set strategy, which focusses the company's activities, and to ensure all major issues affecting BC Ferries are given proper consideration. The British Columbia Ferry Authority is the owner of BC Ferries and appoints the Directors of BC Ferries. The Boards of both organizations work collaboratively to meet our respective responsibilities. To do this, we consider the interests of those who rely on the coastal ferry system; customers, communities, and the public. The Board of BC Ferries ensures a succession plan is in place for the CEO and key members of management, and reviews the goals and strategies developed by BC Ferries in light of emerging risks and opportunities.

The members of BC Ferries' Board are independent of management, and meet quarterly to review financial objectives, and the progress the company is making towards its strategic goals and objectives. Directors ensure the company always keeps sight of its core values: safe and reliable service, environmental leadership, well-managed operations and is fiscally prudent. We work to ensure BC Ferries is an employer of choice and a company that works in the public's interest, always putting people at the centre of every decision we make.

On behalf of the Board of Directors, I would like to thank all our employees for their continued commitment for delivering on our goals and objectives. This document speaks to the valuable work BC Ferries completed and initiated over the past year, in service of our customers and the communities that depend on reliable, safe marine transportation.

JOHN A. HORNING
CHAIR OF THE BOARD OF DIRECTORS
BRITISH COLUMBIA FERRY SERVICES INC.

MESSAGE FROM THE PRESIDENT & CEO

Welcome to the first edition of BC Ferries' Performance and Accountability Report. We have compiled the information in this document to provide our customers, the communities we serve, and the general public with a transparent accounting of our performance over the past year.

BC Ferries employs more than 5,000 dedicated staff who ensure coastal communities that depend on marine transportation have safe and reliable service throughout the year. We welcome visitors to the province and are an important part of BC's tourism economy. Island communities depend on BC Ferries to transport and deliver goods and services, as well as transport residents to school, appointments and work.

This past year, we experienced strong traffic volumes – 22.3 million passengers and 8.9 million vehicles – some of the highest numbers in the company's history. Given the number of passengers and vehicles we transport, we take seriously our responsibility as a steward of safe, reliable, efficient and sustainable marine transportation, and have set as a goal to improve further our environmental stewardship activities.

In the past year, we have made serious progress towards this goal. We have expanded the use of liquefied natural gas (LNG), which emits significantly lower GHGs compared to ultra low-sulphur diesel. This past spring, the *Spirit of Vancouver Island* returned to service following a successful mid-life upgrade, including switching to LNG. The ship is the second Spirit Class vessel to complete the conversion. We estimate fuel switching to reduce CO_2 emissions by 12,500 tonnes each year, as well as significantly reduce operating costs. BC Ferries now has five ships that operate on cleaner natural gas – the two Spirit Class and three Salish Class ferries, more than 22 per cent of our fleet capacity.

Progress is occurring in other areas, too. The *Baynes Sound Connector*, our cable-ferry that travels between Buckley Bay and Denman Island, has dramatically reduced that route's environmental impact, dropping fuel consumption and associated air emissions by about 50 per cent. Later in 2019, BC Ferries will introduce the world's most advanced electric battery hybrid ferries to serve inter-island routes.

We know our customers want us to move quickly to all-electric ships. We do, too. However, the technology is not yet ready. We need to balance our responsibility to maintain reliable, affordable service, while adopting clean technology. Before we can achieve a large-scale transition to all-electric, we need stable technology and an affordable supply of power. We don't think we are far away from that reality, and are designing our new vessels to be "future ready".

Being a leader in meeting the public interest is just one of our priorities at BC Ferries. This document provides an accounting of our other priorities: working to ensure we are customer and community centred, preparing for the future and the changes in the way people will travel, being an employer of choice for our 5,000+ employees, and a significant contributor to the BC economy. We will accomplish these goals by listening, learning and leading alongside the communities we serve.

MARK F. COLLINS
PRESIDENT & CHIEF EXECUTIVE OFFICER
BRITISH COLUMBIA FERRY SERVICES INC.

OUR LEADERSHIP TEAM

BC Ferries is committed to operating in an open and transparent manner. Our Executive Team understands the importance of a safe, reliable, sustainable ferry service to people's lives, as well as to the social and economic well being of BC's coastal communities. Our leadership team brings strong, diverse expertise and experience to the tasks of planning world-class safe, affordable, environmentaly and financially sustainable marine transportation. We work to meet the expectations of British Columbians, and include our employees, the public, and our stakeholders in the decisions we make.

MARK COLLINS
PRESIDENT & CHIEF EXECUTIVE OFFICER

JANET CARSON
VICE PRESIDENT, MARKETING & CUSTOMER EXPERIENCE

ALANA GALLAGHER
VICE PRESIDENT & CHIEF FINANCIAL OFFICER

CYNTHIA LUKAITIS
VICE PRESIDENT & CORPORATE SECRETARY

CAPTAIN JAMIE MARSHALL
VICE PRESIDENT, BUSINESS DEVELOPMENT & INNOVATION

ERWIN MARTINEZ
VICE PRESIDENT & CHIEF INFORMATION OFFICER

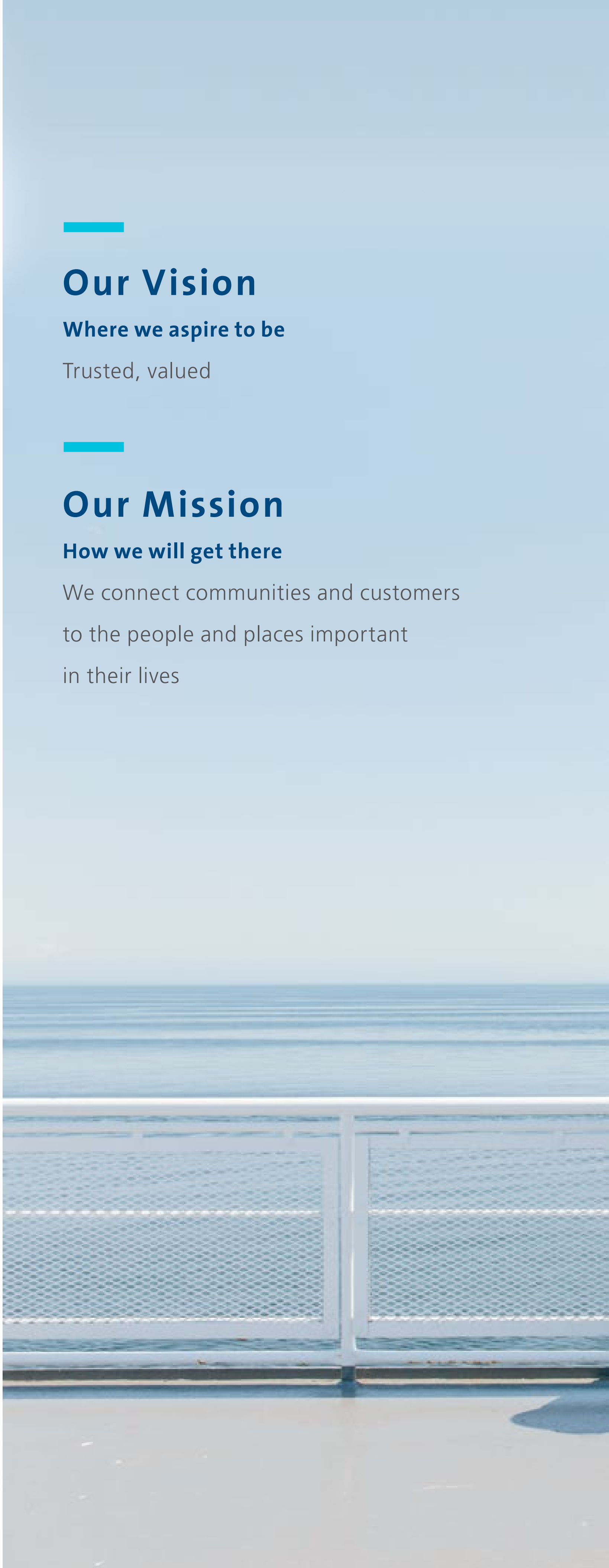
GLEN SCHWARTZ
EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES & CORPORATE DEVELOPMENT

CORRINE STOREY
VICE PRESIDENT & CHIEF OPERATING OFFICER

MARK WILSON
VICE PRESIDENT, STRATEGY & COMMUNITY ENGAGEMENT

OUR VISION, MISSION, VALUES

Everything we do at BC Ferries is framed by our Vision and Mission. We strive to become trusted and valued by our customers, stakeholders, shareholders and employees. We know we are expected to do more than provide marine transportation: we connect communities and customers to the people and places important in their lives.



Our Vision

Where we aspire to be

Trusted, valued

Our Mission

How we will get there

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

Our Values

The principles which guide our actions and decisions

SAFE Safety is our highest value

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

HONEST We conduct business with integrity, honesty and accountability

COLLABORATIVE We collaborate with others to enhance the customer experience

RESPECTFUL Respect is paramount in our interactions with others

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

OUR YEAR IN REVIEW

BC Ferries is one of the largest ferry operators in the world. For almost 60 years, we have proudly provided safe, efficient, year-round travel up and down the west coast of British Columbia. We offer more than just marine transportation. BC Ferries provides an essential link that connects coastal communities and facilitates the movement of people, goods and services.

BC Ferries began in 1960 with two ships, two terminals, and around 200 employees. Today we operate 35 vessels that regularly transport vehicles and passengers to 47 destinations. Our 25 routes cover more than 1,600 kilometres of coastline. Our service is more popular than it has ever been. In the last year, we carried a record number of vehicles, and our passenger levels were the second highest in the company's history.

8.9M
VEHICLES

22.3M
PASSENGERS

2018/19 TRAFFIC VOLUME INCREASED BY 1.9%
AND 1.2% RESPECTIVELY FOR VEHICLE AND PASSENGER LEVELS

We have a serious responsibility as the steward of safe, reliable, efficient and sustainable marine transportation in coastal BC We play an important role in maintaining the quality of life of people who live and work in British Columbia, as well as those who visit. BC Ferries is a significant contributor to the provincial and national economy, an enabler of commerce for coastal communities, and a vital connection on which communities rely.

For some of our customers, BC Ferries is their only transportation option, while many other customers have a choice – whether to travel to a destination we serve, and whether to travel with BC Ferries. Our key priorities are fare affordability, travel certainty, reliability and ensuring every customer feels they receive value for the money they spend.

We place our customers at the heart of all we do. We regularly evaluate all aspects of our service to find ways to improve the on-board experience and keep ferry travel affordable. We listen, engage and respond to our customers and stakeholders, and work with coastal communities and Indigenous Peoples to develop routes and services that promote tourism, economic activity and connectivity for residents and visitors alike. While we serve our customers, we also serve the general public by being a significant contributor to the BC economy. We consider our customers, the public, and Indigenous and coastal communities in the decisions we make, and give back to coastal communities where we live and work.

Our mandate goes beyond the daily operations of providing transportation. BC Ferries is charged with the long-term environmental, social and financial sustainability of British Columbia's coastal ferry service. It is our responsibility to prepare for the future and develop a trusted and valued ferry system for our children's grandchildren.

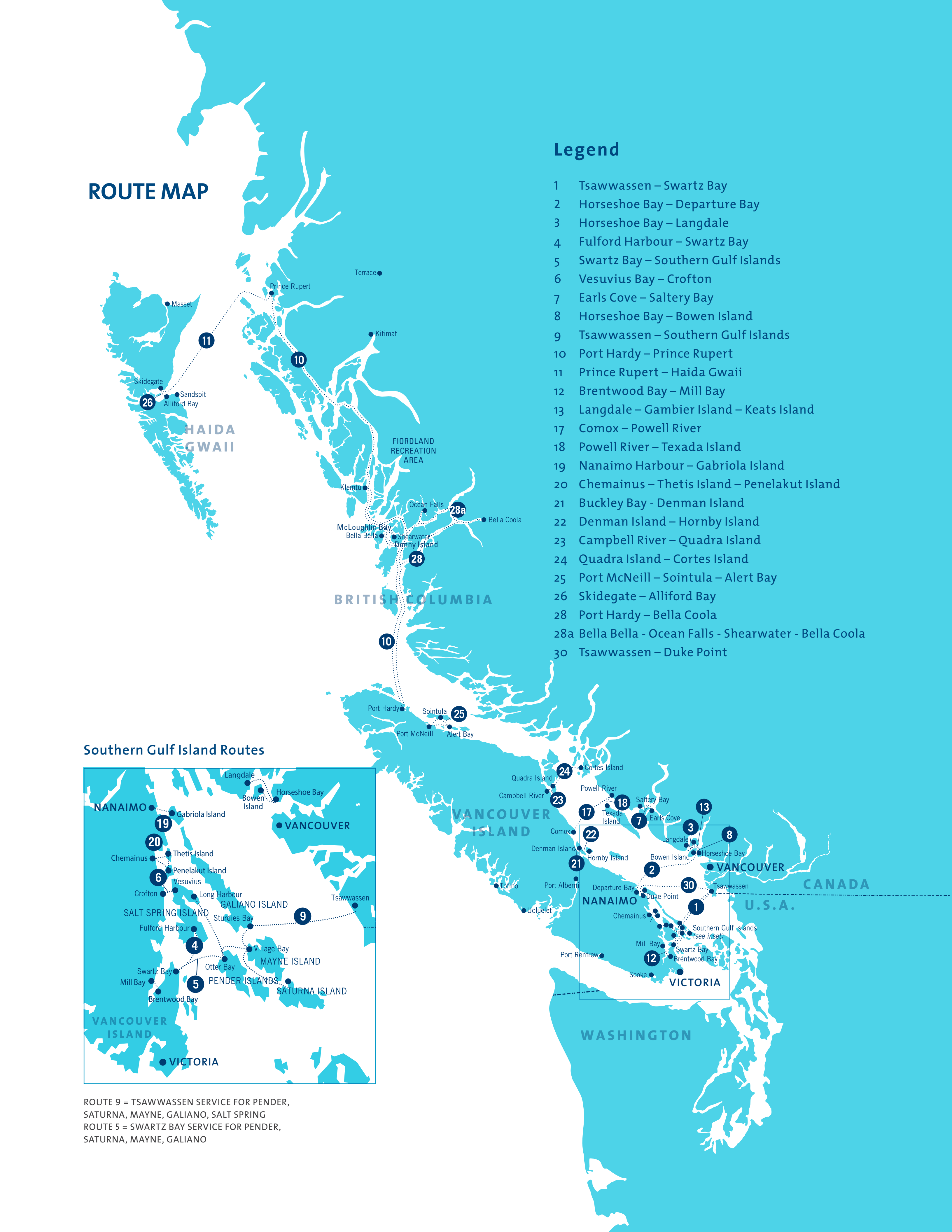
As we prepare for the future, we look out as much as we focus in. We are moving forward, growing and getting better. We have plans to replace half of our aged fleet in the next 15 years. We will use this opportunity to modernize with ferries that feature clean technology, increased capacity and improved customer experience.

BC Ferries has come a long way since its first voyage on June 15, 1960. We are proud of what we have accomplished in the last year, and are excited about what comes next.

ROUTE MAP

Legend

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



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

BC FERRIES BY THE NUMBERS

We understand our responsibility as a steward of safe, reliable and sustainable marine transporation and the role we play in maintaining the quality of life of people who live, work and visit in British Columbia. These responsibilities are the premise on which our capital plan is built and we work to ensure stakeholders understand the necessity of positive earnings for the successful delivery of this plan.

This past year has been a busy one. We accomplished a great deal and want to share some of the highlights.

1

CUSTOMER AND COMMUNITY CENTRED

Our customer service vision is to put our customers first in every decision we make. Success in realizing this vision is that our customers feel respected, listened to and cared for, and are provided with services they value.

22.3M
PASSENGERS
UP **1.2%**

176K
SAILINGS PER YEAR
1,309 MORE THAN THE PRIOR YEAR

88.5%
ON-TIME PERFORMANCE
CONSISTENT WITH THE PRIOR YEAR

79,959
ROUND TRIPS
3,282 MORE THAN REQUIRED UNDER THE COASTAL FERRY SERVICES CONTRACT

482
AVERAGE DAILY SAILINGS
24/7

8.9M
VEHICLES
UP **1.9%**

99.73%
FLEET RELIABILITY

$7-8B
CARGO TRANSPORTED

1.3M
NAUTICAL MILES
EQUIVALENT OF SAILING AROUND THE WORLD 62 TIMES

88%
CUSTOMER SATISFACTION SURVEY RANKING
UP FROM 87% IN THE YEAR PRIOR

2

PREPARED FOR THE FUTURE

Our Fleet Master Plan envisions replacing half of our aged fleet over the next 15 years. We will modernize our fleet with ferries that embrace LNG fuel and/or electric and other technologies to operate cleanly, quietly, efficiently and with the lowest environmental footprint possible.

Other internal documents that guide us:

- Terminal Network Master Plan
- Customer Experience Master Plan
- IT Master Plan

3

AN EMPLOYER OF CHOICE

Each year, BC Ferries hires, on average, approximately 400 new employees including seasonal workers, making BC Ferries one of the largest employers of new workers in British Columbia.

The people who make it work:

5,019 EMPLOYEES

179 FERRY CAPTAINS

112 CHIEF ENGINEERS

37 COOKS

Where our people work:

METRO VANCOUVER	1,597
NANAIMO	774
NORTH CENTRAL COAST	302
NORTHERN GULF ISLANDS	388
SOUTHERN GULF ISLANDS	311
SUNSHINE COAST	314
VICTORIA	1,333
TOTAL	**5,019**

$

$388.4M
IN OPERATING WAGES AND BENEFITS

4

A LEADER IN THE TRANSITION TO A MORE SUSTAINABLE FUTURE

BC Ferries' responsibilities go beyond technical and commercial operations. We are charged with the long-term environmental, social and financial sustainability of British Columbia's coastal ferry service.

COMPOSTED **690 TONNES** OF ORGANICS

DIVERTED **1,273,290 KG** OF WASTE FROM LANDFILLS

USED LNG AND REDUCED **9,000 MT** OF CO_2 ANNUALLY

RECYCLED **47,790 L** OF USED COOKING OIL

INVESTED CLOSE TO **$400 MILLION** IN THE PAST 5 YEARS IN CLEAN TECHNOLOGY

5

A SIGNIFICANT CONTRIBUTOR TO THE BC ECONOMY

Over the past decade, BC Ferries spent more than $1 billion at British Columbia shipyards, equivalent to the value of building 10 new ships.

Some of our costs

- Since 2003, we have spent nearly $1.5 billion on fuel procurement
- Since 2003, we have spent approximately $4.8 billion on gross wages and benefits
- $25.9 million spent on food and liquor in the last year
- $9.8 million spent on BC Ferries retail merchandise in the last 12 months (excluding magazines, books and newspapers)

$

Our diverse revenue sources

$90.2M
COMMERCIAL AND DROP TRAILER

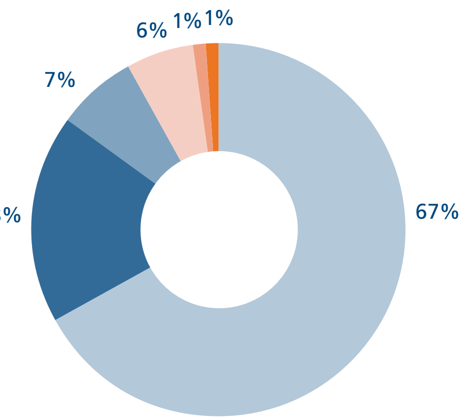
$102.8M
CATERING AND ONBOARD RETAIL

$6.3M
BC FERRIES VACATIONS

$12.5M
TRAVEL TRADE REVENUE (VACATION PACKAGES WHICH BUNDLE IN BC FERRIES FARES)

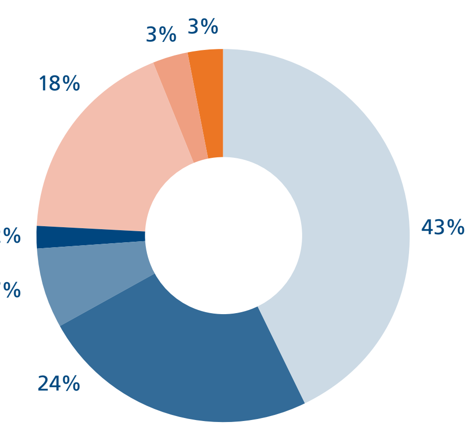
18%
OF OUR PACKAGES ARE BOOKED BY PEOPLE OUTSIDE BRITISH COLUMBIA

Where our money comes from



67% FARES
18% FERRY TRANSPORTATION FEES
7% CATERING & RETAIL (NET)
6% FEDERAL-PROVINCIAL CONTRIBUTIONS
1% SOCIAL PROGRAM FEES
1% FUEL REBATES

Total revenue by source



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.

- VEHICLE TARIFF
- PASSENGER TARIFF
- NET RETAIL
- SOCIAL PROGRAM FEES
- FERRY TRANSPORTATION FEES
- FEDERAL-PROVINCIAL SUBSIDY
- PROVINCIAL CONTRIBUTION

6

INNOVATIVE AND CONTINUALLY IMPROVING

BC Ferries is a leader in North America when it comes to clean and innovative technology that lowers emissions. The *Spirit of British Columbia* is the first passenger vessel in the world to refuel liquefied natural gas (LNG) via delivery on a fully enclosed vehicle deck.

INVESTED

$392.5M

IN CLEAN SHIP TECHNOLOGY
IN THE LAST 5 YEARS

2019
Spirit of Vancouver Island
(mid-life upgrade)

2018
Spirit of British Columbia
(mid-life upgrade)

2017
Salish Orca, Salish Eagle, Salish Raven

2016
Baynes Sound Connector

The world's first on deck LNG fuelling system
Longest saltwater cable ferry in the world
2017 DuPont Global Safety Award
2019 Shippax Retrofit Award

Current Age of our Fleet – Vessel Vintage by Decade

1950s	–	1	VESSEL
1960s	–	6	VESSELS
1970s	–	8	VESSELS
1980s	–	4	VESSELS
1990s	–	5	VESSELS
2000s	–	7	VESSELS
2010s	–	4	VESSELS
TOTAL		**35**	**VESSELS**

Did you know?

Over the last 58 years, 27 babies have been born on board

1.3 million White Spot burgers and 1.5 million servings of White Spot fries sold annually

150,000 people learn about the BC coast every year through our Coastal Naturalist Program

SAFETY

Safety is our highest value. Maintaining a safe environment for our customers and employees requires our continued focus and diligence.

29,000

TRAINING DAYS

UP

1,000

TRAINING DAYS FROM 2018

Some areas of focus:

Workplace violence, Respect in the workplace, Fall Protection and Dangerous Goods certification, LNG safety training, and FoodSafe

SINCE 2010, THE NUMBER OF TIME-LOSS INJURIES HAS DROPPED BY

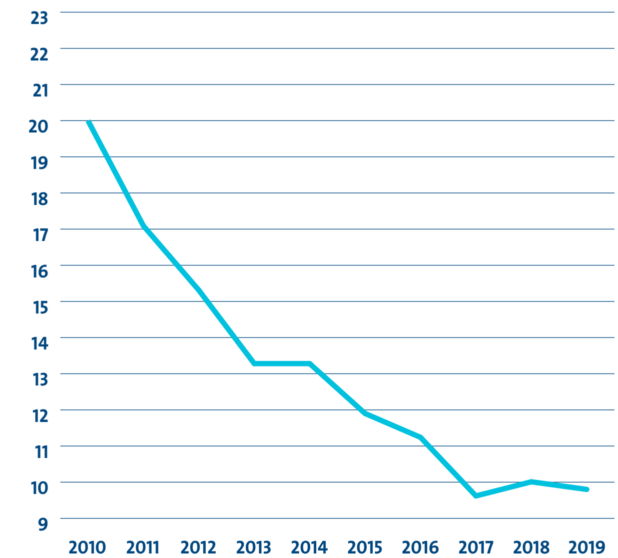
22.8%

AND THE NUMBER OF DAYS LOST DUE TO INJURY HAS DECLINED BY

33%

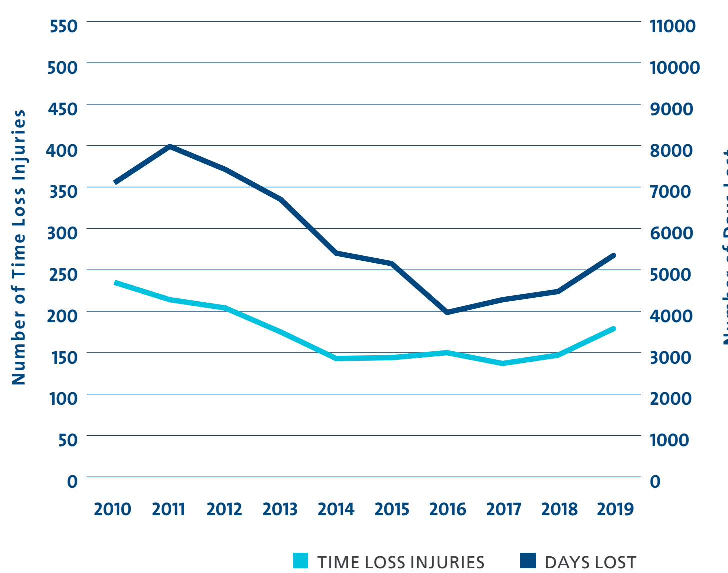
Passenger Safety Index

Number of injuries per one million passengers



Passenger injuries of 218 is an injury rate of .00001% or 9.8 injuries per one million passengers. Overall, our investments in safety have yielded significant positive results as injuries to passengers have declined 48.2% over the last 10 years.

Employee Safety Performance



PERFORMANCE MEASURES

With a clear focus on safety and reliability to better serve our customers, revitalizing our assets and developing our employees, we made substantial progress last year in building a better BC Ferries.

85.5%

ON-TIME PERFORMANCE

88.0%

CUSTOMER SATISFACTION – STRIVING FOR 100%, AND GETTING BETTER EVERY YEAR

99.73%

FLEET RELIABILITY – AMONG THE HIGHEST IN THE WORLD

GOAL: Deliver core internal fleet maintenance and refit services to support Fleet Reliability Index target of 99.5% to 99.74%.

NETWORK CAPACITY

Over the past five years, vehicle traffic has grown by 15.6% to the highest levels ever experienced. We have responded by increasing capacity to levels not seen since 2010, when Vancouver hosted the Winter Olympics.

2010

15,370,215

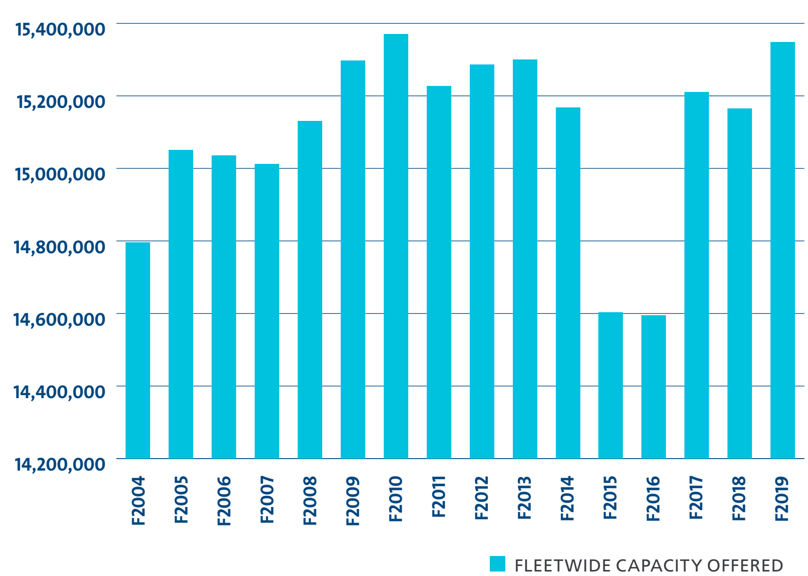
RECORD CAPACITY

2019

15,348,496

SECOND HIGHEST

Fleetwide Capacity Offered



Coastal Renaissance

In support of our vision, mission and strategic goals, we have implemented performance measures to monitor the progress of the business and our commitment to continuous improvement. The following are the results for fiscals 2016 through 2018, the target and actual results for fiscal 2019, and the target for fiscal 2020.

EMPLOYEE SAFETY: employee injury frequency rate x severity rate divided by 1,000 passengers

SAFETY: number of passenger injuries per one million passengers

RELIABILITY INDEX: actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations

CUSTOMER SATISFACTION: rating on a scale of 1-5, based on three surveys performed during the year

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

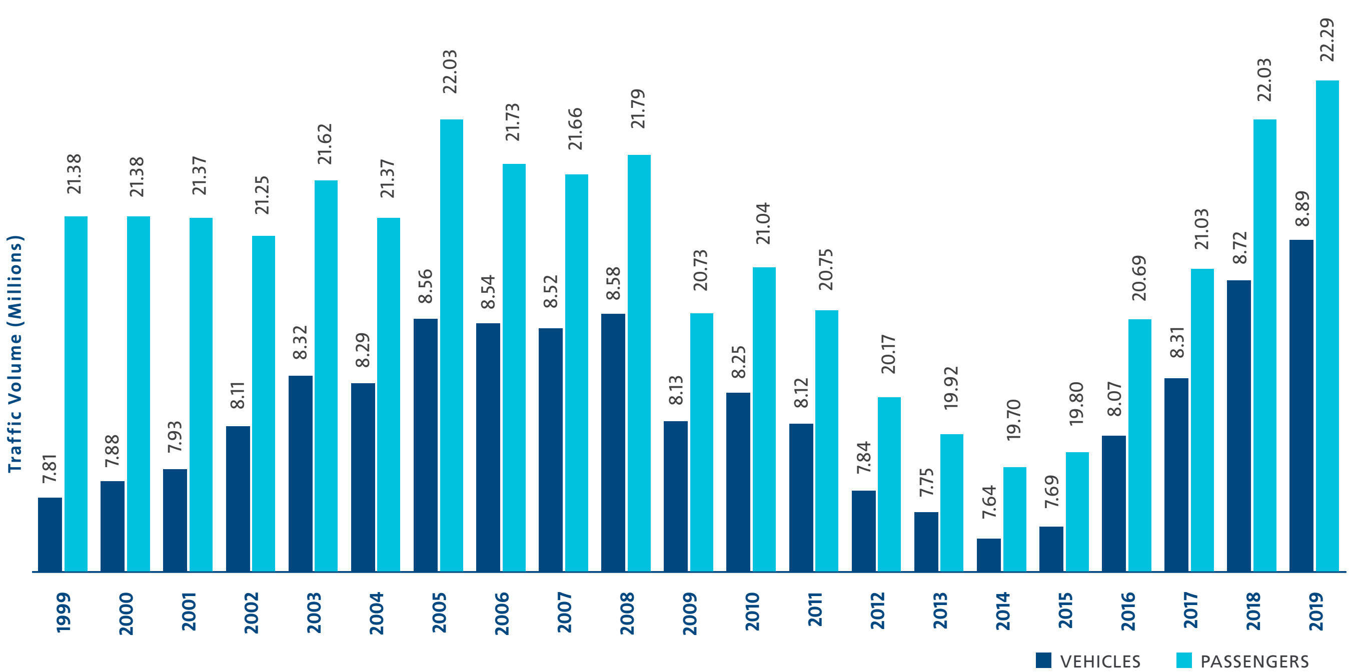
REGULATORY NET EARNINGS: Net earnings adjusted for the impact of regulatory assets and liabilities

Performance Measures	FISCAL 2014 RESULTS	FISCAL 2015 RESULTS	FISCAL 2016 RESULTS	FISCAL 2017 RESULTS	FISCAL 2018 RESULTS	FISCAL 2019 RESULTS	FISCAL 2019 TARGETS	FISCAL 2020 TARGETS
Operational Targets								
Employee Safety Index	0.67	0.65	0.48	0.43	0.46	0.64	0.39	0.41
Passenger Safety Index	13.28	11.90	11.24	9.62	10.01	9.80	9.59	9.59
Reliability Index	99.71%	99.75%	99.72%	99.69%	99.83%	99.73%	99.55-99.74%	99.55-99.74%
Customer Satisfaction[1]	4.17	4.11	4.14	4.18	4.16	4.22[2]	4.20	4.22
Financial Targets[3]								
EBITDA including subsidiaries ($ millions)	232.3	255.6	268.5	294.6	273.8	285.2	295.8	
Regulatory Net Earnings ($ millions)	25.5	41.4	64.8	87.9	55.3	56.9	63.6	

1. Customer Satisfaction scores are measures of consumer surveys done at timings different from fiscal quarters; actual scores displayed are results for the calendar year ended December 31, 2018. Intercept surveys were conducted on board vessels in June, August and November 2018.
2. Starting with the survey done in June 2018, 5 routes (8, 12, 17, 18 and 23) have been added to the mix of routes that customers are surveyed on; only the customers on the major routes (1, 2, 3, 30), the Southern Gulf Islands routes (4, 5, and 9) and Nanaimo-Gabriola route (19) were surveyed in the past; excluding the 5 additional routes, the Customer Satisfaction score would still be at 4.22 as the score is calculated as a passenger counts weighted average; this increase from prior surveys is primarily driven by improvements on satisfaction scores recorded on the Major routes (1, 2, 3 and 30).
3. Financial targets are net of regulatory adjustments.

Traffic Analysis

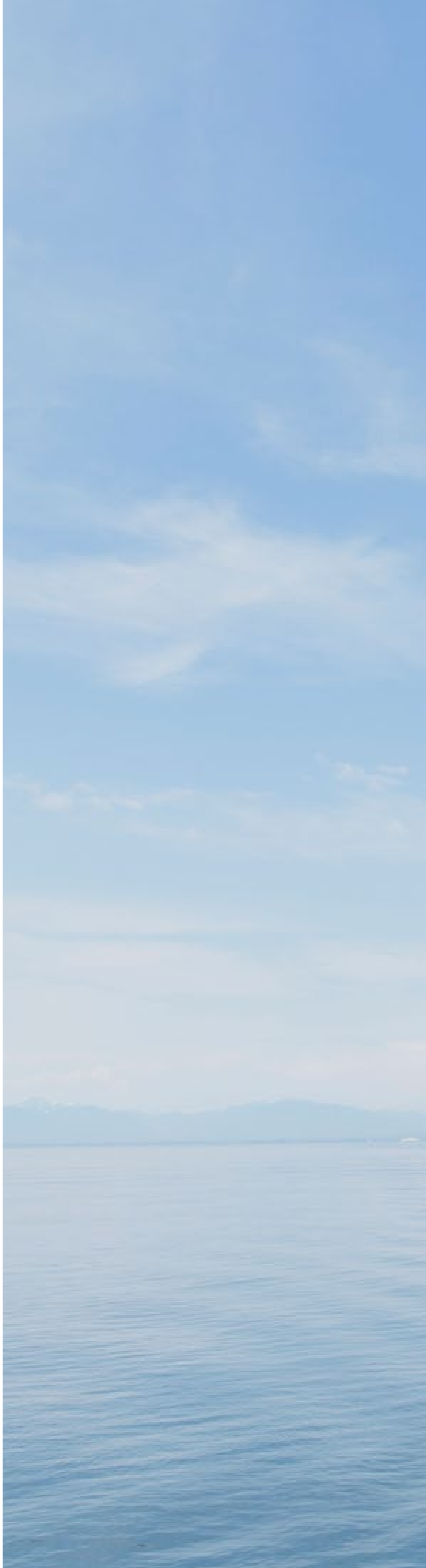
The following graph illustrates our annual vehicle and passenger traffic levels for the most recent 20 years:



HOW WE SUSTAIN A SAFE AND RELIABLE SERVICE

We reinvest all money earned back into the ferry system. This is important and allows us to invest in and improve our vessels, terminals and information technology infrastructure.

($ Millions)	2019 ACTUAL
Revenue	
Customer Fares	$633.8
Ferry Transportation Fees	191.0
Net Catering & Retail Revenue	63.9
Federal – Provincial Subsidy Agreement	30.5
Other Revenue	11.1
Total Revenue	**$930.3**
Operating Expenses	
Operations, Maintenance and Administration	643.2
Total Operating Expenses	**643.2**
Earnings Before Interest, Amortization & Subsidiaries	**287.1**
Net Financing	55.4
Depreciation & Amortization Expense	173.2
Loss (gain) on Disposal of Capital Assets	(0.2)
Gain on Pacific Marine Leasing	(2.0)
Loss / (Gain) on BCF Captive	3.9
Regulatory Net Earnings	**$56.9**



WHERE DO NET EARNINGS GO?

Help renew the fleet
 buy new ferries and terminal equipment

Provide services above contract

Pay down debt and reduce our future borrowing and associated costs

Reduce fares

Save for unexpected events

Customer & Community Centred

1

WHAT WE BELIEVE

To become a company worthy of the public's trust and valued by our customers for the services we provide, we believe our customers and communities need to be at the core of everything we do. We work hard to provide a seamless and enjoyable experience, from booking to disembarking. At every point along the way, we want our customers to feel they are valued, listened to and cared for.

WHAT WE ACHIEVED

Here are just some of the ways we supported and responded to our customers and communities.

CUSTOMER RESPONSE

577,615

CALLS RECEIVED THROUGH OUR CUSTOMER CARE CENTRE

80% OF CALLS ANSWERED IN LESS THAN 60 SECONDS

9M

USERS TO THE BC FERRIES WEBSITE

BEING SOCIAL

BC FERRIES SOCIAL MEDIA FOLLOWERS

CHANNEL	MARCH 31 F18	MARCH 31 F19	YEAR-OVER-YEAR GROWTH
Facebook	34,930	39,860	14%
Twitter	78,619	84,671	7%
Instagram	16,114	21,181	31%
LinkedIn	10,598	13,218	24%

COMMUNITY ENGAGEMENT

BC Ferries is building a customer-focussed culture across all parts of our organization. We work collaboratively with communities and Indigenous Peoples to ensure they have input in the decisions that affect them most.

- 28 meetings with Ferry Advisory Committees and Terminal Liaison Committees
- Feedback from 16,600 people on terminal development plans and new vessel designs

Myth Busting Sailing Waits

Myth: A "sailing wait" means our customers won't get on the ferry and lineups will be long.

Fact: On our bookable routes, a sailing wait only applies to people without reservations, when a vessel has reached capacity. Customers who make a reservation are guaranteed to be on the sailing of choice. Reserved traffic moves smoothly. If a sailing wait occurs, it means that non-reserved traffic will be placed on the next available ferry. In the summertime, when sailings are hourly between Tsawwassen and Swartz Bay for example, a one-sailing wait can mean staying in the terminal for just an additional 60 minutes.

GIVING BACK

BC Ferries and our employees believe in giving back to the communities we serve. From employee bake sales to corporate donations and sponsorships, in fiscal 2019, our financial and in-kind contributions totaled more than $650,000.

$50,000
RAISED FOR BIG BROTHERS BIG SISTERS

$30,000
UNITED WAY CAMPAIGN DONATIONS

1,500 KG
OF GARBAGE REMOVED FROM BC BEACHES IN THE ANNUAL GREAT CANADIAN SHORELINE CLEANUP

- United Way
  - 1,000 pounds of food donated
  - $515 raised in a bake sale by Tsawwassen – Southern Gulf Island staff
- $3,420 raised for food banks in Bella Coola and Port Hardy
- Donated $3,500+ to food banks in communities we serve
- We have sponsorships and partnerships with:
  - PRISMA – Pacific Region International Summer Music Academy
  - BC Bike Race
  - BC Summer Games Cowichan
  - World Junior Hockey Championship
- Supported 48 communities from Haida Gwaii, the Central Coast, the Sunshine Coast, Metro Vancouver and Southern Vancouver Island through Community Investments
- Fulfilled more than 100 ferry travel donation requests

MEETING OUR CUSTOMERS' NEEDS

BC Ferries regularly reviews our sailing schedules to ensure we are providing the best service possible for our customers' day-to-day needs. We also put on extra services to cater for those holiday periods when many residents are visiting their friends and family, and we work with our local communities to adjust schedules for one- off events.

- Provided close to 3,300 more round trips than required in our *Coastal Ferries Service Contract*
- Provided 450+ additional sailings for low-season holidays
- Delayed the last sailing of the day so high school graduates from Sointula and Alert Bay could attend their graduation celebrations in Port McNeill and return home safely
- Revised sailing schedules between Skidegate, Prince Rupert and Port Hardy to support the All Native Basketball Tournament

ENHANCING THE CUSTOMER EXPERIENCE

- Installed an expanded covered ticket area at Langdale terminal
- Created a pet area at Langdale terminal
- Added artwork from Malahat Nation at Mill Bay terminal
- Added children's art to greet travellers at Saturna Island terminal

WHAT'S NEXT FOR 2020

Our goal next year is to score a customer satisfaction rating that meets or exceeds the 88% we achieved this past year. To achieve this goal, we plan to:

- Introduce flexible fares, providing more fare choices to our customers, including discounts
- Improve the online experience by introducing a new website
- Engage with our customers about new amenities for new major vessels
- Provide direct service from Port Hardy to Bella Coola all summer long
- Help get customers to their sailing on time by increasing traffic control at popular times
- Expand community and stakeholder engagement on terminal development plans
- Work with 30 new hotel partners on new itineraries and themed packages
- Celebrate 60-years of ferry service on the BC coast

2020

Celebrating 60-years of ferry service on the coast of BC

2

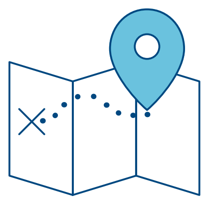
Prepared for the Future

WHAT WE BELIEVE

We continue to reinvest in our ferry system for our children's grandchildren. BC Ferries' intent is to be a global leader in providing safe, reliable, efficient and sustainable ferry service for many years to come.

WHAT WE ACHIEVED

We are building a resilient ferry service that is responsive to the future of the way people will travel with us.



CHARTING OUR COURSE

Planning is key to BC Ferries making prudent decisions that will ensure we operate and evolve in the interests of ferry users and British Columbians.

- Constructed the first two Island Class electric battery hybrid vessels with the potential to convert to full electric in the future
- Commissioned a pre-feasibility study for Westshore passenger ferry service
  - Map of proposed Westshore-Downtown-Esquimalt route
- Worked with regional transportation providers and municipalities to integrate with, and support regional transportation plans and initiatives
- Completed detailed and comprehensive long-range planning to inform our capital plan and guide strategic planning
- Developed master plans to set out what ship, terminal, information technology and other infrastructure investments the company will make over the next 12 years
- Designing advanced hybrid major vessels
- Planned for electrification
- Enhanced our company vehicle policy to make electric vehicles a priority

SAFETY-FOCUSSED

Safety, reliability and efficiency are cornerstones of what we do. We empower our employees with the training, tools and support to deliver a safe and consistently excellent customer experience.

WorkSafeBC Certificate of Recognition (COR)

The Occupational Health and Safety Certificate of Recognition is awarded for implementing and maintaining an occupational health and safety management system that meets and exceeds regulatory requirements. We are regularly audited to verify our compliance.

2019 COR audit results

91.8%

IN HEALTH AND SAFETY

89.4%

IN INJURY MANAGEMENT

2018 Safety at Sea Employer of the Year Award

2018 Rescue of the Year Award from the Canadian Safe Boating Council

2017 DuPont Global Safety Award

From the Captain and Officers on the bridge deck, to the Officers and crew in food and retail services, right down to the Officers and crew in the engine room, all our employees are certified by Transport Canada Marine Safety to deal effectively with emergency situations. As part of our ongoing commitment to safety, operational guidelines call for regular and frequent safety drills for all crew members on every ship.

Did you know?

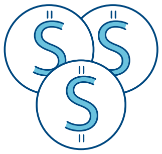
15 RESCUES

AT SEA THIS YEAR

WE PERFORM

1,000 DRILLS

EVERY YEAR TO ENSURE THE HIGHEST SAFETY STANDARDS FOR BC FERRIES' VESSELS AND CREWS



CAPITAL PLANNING

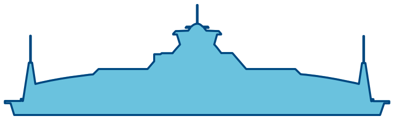
Through our capital planning process, we look to ensure that the ships, terminals and other physical resources necessary for ongoing safe, efficient, reliable and sustainable operations will be in place to meet the needs of customers and communities now and into the future. With traffic at an all-time high, and more than half of our fleet needing to be replaced over the next 15 years, BC Ferries is building a more resilient ferry service with increased capacity and capability.

We are building a more resilient ferry service with new world-class ships

WHAT'S NEXT FOR 2020

We believe the future of ferry service in British Columbia is cleaner, quieter and adaptive. We will introduce world-leading ships to our fleet, and continue to be an industry leader in managing and reducing underwater radiated noise (URN).

- Introduce new Island Class ferries
- Develop a strategy for a loyalty program
- Procure one additional Salish Class vessel and four additional Island Class vessels to replace aging Bowen Class ships
- Procure new major vessels
- Add innovative technology to our vessels
- Maintain our leadership role as we manage underwater radiated noise (URN)
- Introduce the first two Island Class vessels into service



– 2020 –

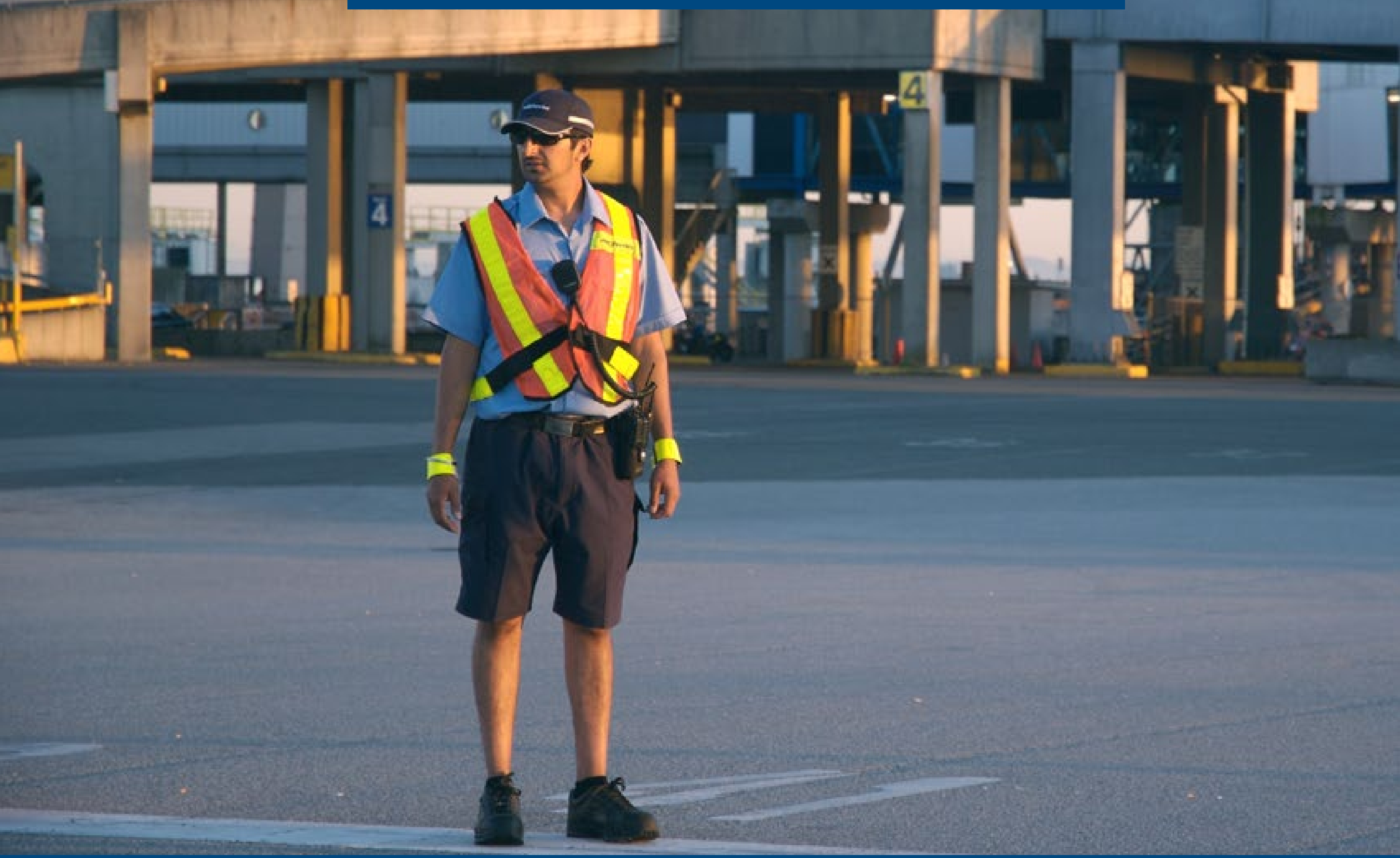
Introducing 2 new battery hybrid-electric Island Class ferries to the fleet

3

An Employer Of Choice

WHAT WE BELIEVE

Our people are our greatest asset. We create a workplace where people want to work and remain throughout their career in productive, competitive, high skilled employment. Each of our employees is a key contributor to what we do and we are proud to offer a unique west coast working environment with diverse challenges and opportunities.



WHAT WE ACHIEVED

Our employees are the reason our company is a global leader in marine transportation.

2019 BC's Top Employers

GREAT PLACE TO WORK

We are proud to be recognized as an employer of choice. We invest in the development of our employees and support their career goals in our ever-changing workplace.

BC Top Employer Award – for a third year in a row. Recognized for the physical workspace, work atmosphere, benefits, employee communications, training and skills development and community involvement

5,000+ employees

179 Ferry Captains

112 Chief Engineers

37 Cooks

CONTINUING EDUCATION

We are one of the largest training organizations in Canada, and train employees for lifelong careers at BC Ferries. Training for safe sailing is a top priority.

29,000
ANNUAL TRAINING DAYS

$20.5M
INVESTED IN OPERATIONAL TRAINING EACH YEAR

5,567
HOURS OF MARINE SIMULATOR TRAINING

BRINGING PEOPLE ON BOARD

We take pride in hiring locally. The majority of our employees live in the communities we serve. We are always excited to share the benefits of working at BC Ferries with people who are considering a career with us.

- Actively recruited skilled trades for positions at Fleet Maintenance Unit
- Sponsored five employees in Apprenticeship Trades positions
- Posted 1,091 jobs for internal and external candidates
- Work closely with educational institutions to place engineering and accounting students in co-op and internship roles and provide them with practical experience and mentorship opportunities.

WHAT'S NEXT FOR 2020

We champion our employees and look for ways to develop progressive and innovative employee-centric practices.

- Update time collection and scheduling systems
- Support work-life balance strategies
- Actively recruit technicians, trades people and marine engineers
- Invest in employee training and recertification
- Support apprenticeship programs for succession planning, knowledge transfer and business continuity
- Upgrade our Safety Management System
- Improve safety procedures for employees involved in rescue boat operations
- Collective bargaining

Our employees are our most important assets in delivering our commitment to customer safety, service and satisfaction.

3

A Leader in the Transition to a More Sustainable Future

WHAT WE BELIEVE

Our customers are concerned about the health of our planet, and we are, too. We are reducing impacts of our operation. We do this by the choices we make, the fuel we use, the products we purchase, the food we serve and the relationships we nurture. We invite our customers to join us on our journey towards a more sustainable future.

Baynes Sound Connector

WHAT WE ACHIEVED

We provided 176,000 sailings on 25 routes spread over 1,600 kilometres of pristine coastline. We go to great lengths to protect our natural surroundings and operate in an environmentally conscious way.

ADOPTING CLEAN TECHNOLOGY

- Completed the conversion of two Spirit Class vessels to operate on dual-fuel: liquefied natural gas (LNG) and ultra-low sulphur diesel
- Reduced CO_2 emissions by 9,000 tonnes per year by using LNG on Salish Class vessels
  - the equivalent of removing 1,900 cars from the road every year
- Updated our company vehicle policy to favour electric vehicles over gas or diesel fuelled cars and trucks

FACT:

At 1,900 metres, the *Baynes Sound Connector* is the longest saltwater cable ferry in the world. It reduces emissions by approximately 50% compared to the conventional ferry it replaced.

REDUCE, REUSE, RECYCLE

Our quest to shrink our environmental footprint is as simple as the three R's – we reduce, reuse and recycle wherever possible.

- Composted 690 tonnes of organics
- Diverted 1,273,290 kg of waste from landfills
- Recycled 54,789 litres of used cooking oil
- Removed more than one million plastic straws from our food service operations

RECYCLED
583 TONNES
OF MATERIAL

FACT:

An employee-led "Waste & Shrink" program positively influenced the Spirit of British Columbia's waste reduction and crew engagement.

The *Spirit of British Columbia* is now redefining what is achievable in terms of annual waste targets. This staff-led initiative will soon be fleet-wide.

CARING FOR OUR NATURAL SURROUNDINGS

We care about the waterways we share with diverse marine life. As a stakeholder in the Salish Sea, BC Ferries takes our role seriously in understanding how ship activity affects marine wildlife in the region.

- Launched the Whales in our Waters educational tutorial in partnership with the Vancouver Fraser Port Authority
- Removed 1,500 kg of garbage from 19 BC beaches in our annual Shoreline Cleanup
- Supported environmental programming broadcast live from Race Rocks Ecological Reserve

MARINE INDUSTRY LEADER

We are proud to be recognized for our environmental leadership.

- Green Marine recertification of the Fleet Maintenance Unit shipyard with advancement in Spill Prevention and Environmental Leadership.
- Winner of the Port of Vancouver's Blue Circle Award for the 2nd year. This is awarded to vessel operators who go above and beyond regulatory requirements to reduce air emissions and have the highest rate of participation in the Port's EcoAction Program
- Shippax Retrofit Award for completing the conversion of a large passenger ferry from diesel to LNG

WHAT'S NEXT FOR 2020

As an environmentally responsible ferry operator, we will continue to invest in leading-edge practices related to environmental stewardship.

- Introduce Island Class electric battery hybrid ferries to inter-island routes
- Reduce CO_2 emissions by 12,500 tonnes per year by using LNG on Spirit Class vessels
  - the equivalent of removing 2,500 cars from the road every year
- Explore electrification options, as well as alternative fuels, including the possibility of hydrogen technology
- Explore ways to support the expanded use of electric vehicles
- Develop green specifications for new major vessels
- Build BC Ferries' Corporate Social Responsibility Program
  - Promote conservation initiatives through partnerships with Nicholas Sonntag Marine Education Centre and Ocean Wise
- Improve shipyard waste management
- Develop specifications for new major vessels that focus on reducing underwater radiated noise and emissions, environmental stewardship, efficient operations, green technology, LNG and dual fuel, and diesel-electric capabilities
- When and where possible, maximize electricity from shore to power vessels
- Introduce and normalize new, interim energy sources (LNG, hybrid, fuel cells) on our vessels, and advance electrical innovation at our terminals.
- Develop a Greening Energy and Emissions in Transport strategy to further lower our carbon footprint
- Design new major vessels for the lowest energy consumption

5

A Significant Contributor to the BC Economy

WHAT WE BELIEVE

We keep the interests of ferry users in mind with every financial decision we make. We manage our finances in a prudent and sustainable way, and find ways to grow and diversify our revenue base, all with our customers in mind. BC Ferries is a significant contributor to the BC economy. We invest to create economic opportunities and support jobs in coastal BC.

WHAT WE ACHIEVED

Since 2003, when we became an independent company, BC Ferries has injected more than $2 billion into the BC economy, with the majority of this spending in high value, technically advanced projects.

Each year we plan, manage and implement more marine construction and ship repair projects in British Columbia than any other company. Last year we spent approximately $60 million at BC shipyards on repairs and maintenance, dry-docking and refits for 17 vessels.

150

SKILLED TRADESPEOPLE EMPLOYED BY BC FERRIES' FLEET MAINTENANCE UNIT

$48 MILLION

SPENT IN MUNICIPAL, PROVINCIAL AND FEDERAL TAXES ANNUALLY

5,000+

JOBS – OUR PEOPLE LIVE IN THE COMMUNITIES WE SERVE

FUELLING OUR FLEET

BC Ferries now has five ships that operate on cleaner burning LNG – two Spirit Class and three Salish Class ferries. Until we can be fully electric, LNG is a good option. It is the cleanest fossil fuel available to us at this time. It is produced in Canada, and there is an abundant supply at good prices.

- Used 121.1 million litres of fuel
  - 107.6 million litres of diesel
  - 13.5 million litres of LNG
- Spent $109 million on fuel

FUEL EFFICIENCY MEASURES

- Transition to alternative fuels
- Redeploy vessels to match capacity levels and optimize fuel efficiency when and where possible
- Revise sailing schedules when and where possible to improve on-time performance and realize fuel efficiency

Did you know?

WE INVESTED
$39 MILLION
TO REDUCE FARES FOR FISCAL 2019 AND 2020

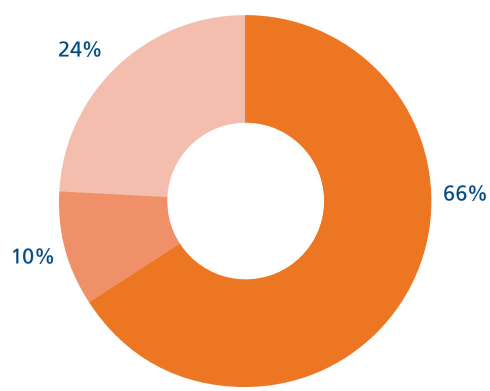
REDUCING FARES THROUGH ADDITIONAL REVENUE

We reinvest our earnings back into the ferry system and look to maximize additional revenue streams, which helps keep fares affordable for our customers. We earn:

- $90M in Commercial revenue
  - Commercial business up 2%
- $6.3 million from BC Ferries Vacations
- $12.5 million travel trade revenue (vacation packages that bundle in BC Ferries fares)
- $102.8 million from catering and onboard retail sales

In fiscal 2019, we earned the greatest portion of our revenues, 66%, on our Major Routes. Revenue from the Northern Routes contributed 10% and revenue from all the Other Routes contributed 24%.

TOTAL ROUTE REVENUE



MAJOR ROUTES
NORTHERN ROUTES
OTHER ROUTES

Major Routes
Vancouver-Victoria
Vancouver-Nanaimo
Vancouver-Sechelt Peninsula

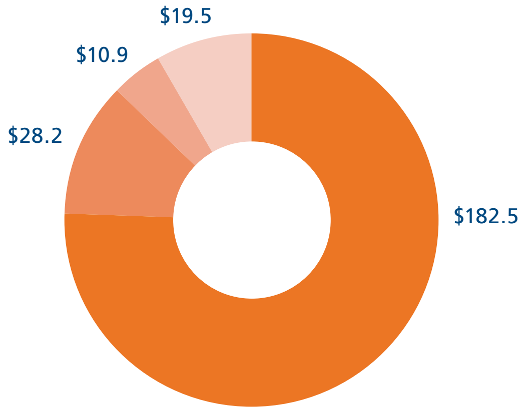
Northern Routes
Inside Passage
Prince Rupert-Skidegate
Port Hardy-Bella Coola

CAPITAL PROGRAM

BC Ferries is building a sustainable, future ready, efficient marine transport system for British Columbia.

$241.1 million spent on capital expenditures in the last 12 months

- Spirit Class mid-life upgrades
- *Northern Sea Wolf*
- New Island Class vessels
- New website design and e-commerce platform
- *Queen of Surrey* upgrade
- *MV Kuper* upgrade
- Shoreline causeway stabilization at Tsawwassen terminal
- Development of Fleet Maintenance Unit expansion project



- VESSEL ACQUISITIONS, UPGRADES AND MODIFICATIONS
- INFORMATION TECHNOLOGY
- TERMINAL MARINE STRUCTURES
- TERMINAL AND BUILDING UPGRADES & OTHER

WHAT'S NEXT FOR 2020

We are building capacity and resilience within our fleet, which will provide greater travel certainty for our customers. Investments in our ships and terminals are made possible through positive net earnings.

- We expect to spend on average $400 million per year over the next five years
  - Complete commissioning of the first two Island Class vessels
  - Develop local partnerships
  - Identify local suppliers to outfit our new major vessels
  - Procure four Island Class vessels to enable two-ship service on two of our routes currently served by a single vessel
  - Proceed with the procurement process for the new major vessels
- Continue to encourage competition for quality and fairly priced goods and services
- Promote direct seasonal service between Port Hardy and Bella Coola, featuring Great Bear Rainforest tours

We will provide greater travel certainty by investing in our ships and terminals

6

Innovative and Continually Improving

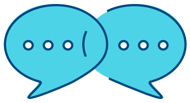
WHAT WE BELIEVE

Innovation needs to be in the DNA of BC Ferries to help ensure we are ahead of travel trends, knowledgeable about the latest technology and mindful of our role as stewards of a sustainable ferry service. We continually look for ways to improve the customer experience and identify new revenue streams.

Northern Adventure

WHAT WE ACHIEVED

Here are some of the innovative ways we have enhanced our operations in the last year.



ENGAGEMENT

To ensure we meet our customers' needs, we asked the public for feedback on our new major vessel designs, our terminal development plans, service level enhancements, and our new website and booking process.

ENGAGED WITH
9,600
PEOPLE

RECEIVED
36,969
INDIVIDUAL COMMENTS
ONLINE
POP-UP EVENTS
ON BOARD ACTIVITIES

TECHNOLOGY

We focus on making necessary investments in technology, internal processes and employee training to ensure a truly consistent, seamless and personalized customer experience.

- We now take debit cards on 21 ships
- We have 37 digital customer information screens that feature sailing information at 32 minor terminals
- We have upgraded our point of sale, reservation systems and our customer relationship management system

We continually update our technology to support our teams, no matter where they work across our operations.

NETWORK REFRESH (IT UPGRADES)

47 TERMINALS

32 VESSELS

ADMINISTRATION OFFICES

MAINTENANCE OFFICES

RESTRUNG
19.5 KILOMETRES
OF CABLE

Did you know?

WE SPENT
$2.2 BILLION
ON SHIP REPAIR AND MAINTENANCE IN BC OVER THE LAST 15 YEARS

WE SPENT
$651.6 MILLION
ON TERMINAL MARINE STRUCTURES, BUILDINGS AND UPGRADES SINCE 2004

WE DEVELOPED AND USE THE WORLD'S FIRST ON-DECK LNG FUELLING SYSTEM

WHAT'S NEXT FOR 2020

Our $3.9 billion capital plan addresses the need for a more resilient ferry service that emphasizes capacity, operational efficiency, affordability and flexibility. Our net earnings are reinvested to support the achievement of this capital plan with customers, communities and the public served by the contribution we make to the BC economy.

CAPITAL PLAN

$3.9 BILLION

REQUIRED OVER 12 YEARS

LARGEST 12-YEAR CAPITAL PLAN IN BC FERRIES' HISTORY

HALF OF OUR VESSELS WILL REACH THE END OF THEIR USEFUL LIFE OVER THE NEXT 15 YEARS

SIGNIFICANT UPGRADES TO TERMINALS AND FLEET MAINTENANCE FACILITY

SERVICE AND OTHER AMENITIES

- Launch a new website and mobile app
- Introduce two new Island Class vessels equipped with electric battery hybrid power generation and propulsion
- Offer beer and wine on a trial basis in the Pacific Buffet on the Swartz Bay – Tsawwassen route
- Plan for pre-order/pre-payment apps and kiosks for onboard amenities
- Commence Langdale terminal upgrades
  - Foot passenger waiting room with connected overhead walkway
  - Covered walking and waiting areas

SHIP AND SHORE UPGRADES

- IT - Modernization of Data Centre
- Refurbish *Klitsa* and *Skeena Queen*
- Enter *Northern Sea Wolf* into service
- Dock improvements at Tsawwassen, Blubber Bay, Bear Cove and Swartz Bay

HOW OUR COMPANY IS GOVERNED

We operate within a complex legislative and economic regulatory framework that was established in 2003 when government enacted provincial legislation to create a new model for the delivery of coastal ferry services.

COASTAL FERRY ACT

The *Coastal Ferry Act*, enacted by the Province of British Columbia (the "Province") on April 1, 2003, among other things, provided for the conversion of the company from a Crown corporation to an independent company and created the BC Ferry Authority, a corporation without share capital, as BC Ferries' sole voting shareholder. It also established the office of the British Columbia Ferries Commissioner (the "Commissioner") and authorized the Province to enter into contracts for the operation of ferries on specified ferry routes.

RELATIONSHIP TO THE PROVINCIAL GOVERNMENT

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

COASTAL FERRY SERVICES CONTRACT ("CFSC")

Our 60-year service contract with the Province, which commenced April 1, 2003, stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry service route, in exchange for specified fees (ferry transportation fees). The Contract states that after the first five-year contract term, the services and fees are to be reviewed every four years. The most recent renewal of the contract was completed for the fourth performance term, which began on April 1, 2016 and will end March 31, 2020. Under the terms of the Contract, BC Ferries also receives 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 BC.

BRITISH COLUMBIA FERRIES COMMISSIONER

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

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


BC FERRIES
Service Provider
Provide Safe & Efficient Service
BC FERRIES COMISSIONER
Regulator
Holds BC Ferries Accountable
PROVINCIAL GOVERNMENT
60-Year Contract
Sets Service Levels

OUR CAPITAL PLAN

Funded through our net earnings, BC Ferries' capital plan ensures that customers' needs are met today and tomorrow. The Plan identifies the spending required to modernize and replace aging ferries, and to account for growth in numbers of passengers and vehicles. Our capital plan addresses needed additional system capacity and takes into account the type of vessels that will be required to accommodate growth in traffic and changes to the way people travel.

BC Ferries plans to invest more than $3.9 billion over the next 12 years – the largest capital plan in BC Ferries' history.

- Replace 19 vessels over the next 15 years
  - Replace older ships with new, modern ships to help with reliability and sustainability
- Build modern, clean-technology vessels designed for the 21st century
- Reduce the number of vessel classes

RETIRING VESSELS	REPLACEMENT VESSEL CLASS
5 C-Class 1 V-Class	7 new Major Class
3 Bowen Class 2 Q-Class 2 K-Class 2 T-Class Howe Sound Queen North Island Princess	13 Island Class 1 Salish Class
Nimpkish Kwuna	Northern Sea Wolf 1 Unique

Planned Vessel Replacements

- Upgrade three major terminals over 12 years: Langdale, Horseshoe Bay and Swartz Bay
- Upgrade Fleet Maintenance Unit
- Strategically invest in technology

We have ambitious plans to ensure BC Ferries remains a company prepared for the future. We are poised to accommodate changes in demand, provide needed resiliency and provide a more consistent service offering across all routes in an environmentally responsible and financially sustainable manner.

Village Bay Terminal

OUR FLEET

Vessel	Capacity: Passenger	Capacity: Car
Spirit of British Columbia	2,100	358
Spirit of Vancouver Island	2,100	358
Coastal Celebration	1,604	310
Coastal Renaissance	1,604	310
Coastal Inspiration	1,604	310
Queen of Cowichan	1,494	312
Queen of Coquitlam	1,494	316
Queen of Oak Bay	1,494	308
Queen of Surrey	1,494	308
Queen of New Westminster	1,332	254
Queen of Alberni	1,200	280
Northern Adventure	640	87

Vessel	Capacity: Passenger	Capacity: Car
Northern Expedition	638	115
Salish Orca	600	138
Salish Eagle	600	138
Salish Raven	600	138
Island Sky	462	112
Queen of Cumberland	462	112
Queen of Capilano	457	100
Skeena Queen	450	92
Mayne Queen	400	58
Bowen Queen	400	61
Powell River Queen	400	59
Quinsam	400	63

Vessel	Capacity: Passenger	Capacity: Car
Howe Sound Queen	300	52
Quinitsa	300	44
Kuper	269	26
Quadra Queen II	200	26
Kahloke	200	21
Baynes Sound Connector	150	45
North Island Princess	150	38
Northern Sea Wolf	150	35
Tachek	150	26
Klitsa	150	19
Kwuna	150	16
Nimpkish	100	12

FORWARD LOOKING STATEMENTS

This report contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the CFSC.

Forward looking statements included in this document include statements with respect to: our 12 year capital plan, our short-term and long-range business plans, capital expenditure levels, asset renewal programs for vessels and terminals, our customer experience program, alternative fuel options, the Langdale terminal redevelopment project, the fleet maintenance facility project, the minor class vessel replacements, the major class vessel replacements, the Island Class vessels, the *Baynes Sound Connector*, the *Northern Sea Wolf* and the seasonal direct ferry service between Port Hardy and Bella Coola, and safety, human resources, environmental and training projects.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance; capital market access; interest rate, foreign currency, fuel price, and traffic volume fluctuations; the implementation of major capital projects; security, safety, and environmental incidents; confidential or sensitive information breaches; changes in laws; vessel repair facility limitations; economic regulatory environment changes; tax changes; and Aboriginal rights and title claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this report 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 report, 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 International Financial Reporting Standards (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. 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.

ANNUAL REPORT

BRITISH COLUMBIA FERRY SERVICES INC.

Management's Discussion & Analysis of Financial Condition and Financial Performance 56

Consolidated Financial Statements 112

Corporate Directory 146

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND FINANCIAL PERFORMANCE FOR THE YEAR ENDED MARCH 31, 2019 DATED JUNE 21, 2019

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, 2019 that has been prepared with information available as of June 21, 2019. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2019 ("fiscal 2019") and March 31, 2018 ("fiscal 2018"). 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

British Columbia Ferry Services Inc. 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 Province 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.

We provided nearly 176,000 sailings during fiscal 2019, 1,309 more than in the prior year. We carried 8.9 million vehicles and 22.3 million passengers, an increase of 1.9% and 1.2%, respectively. The vehicle traffic levels in fiscal 2019 were the highest we have ever experienced and the passenger traffic levels in fiscal 2019 were the second highest we have ever experienced. For a discussion of our traffic levels, see "Financial and Operational Overview" below.

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. During fiscal 2018, our Northern Routes consisted of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. In fiscal 2019, we added a new route directly connecting Port Hardy and Bella Coola. Our Other Routes consist of 18 regulated routes and 8 unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.

Significant events during or subsequent to fiscal 2019 include the following:

Tariffs

- On April 1, 2018, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on the Major and Other Routes.
- On April 1, 2019, as agreed with the Province, fares on all routes were held at the same level. The total estimated value of these initiatives over fiscal 2019 and fiscal 2020 is approximately $98 million, of which BC Ferries will contribute $39 million in foregone revenue and the Province will contribute $59 million towards the fare reduction and increase to the BC seniors' discount.
- On June 1, 2019, due to current fuel market conditions, we implemented a fuel surcharge of 1.5% on average on all routes with the exception of the Northern Routes.

Vessels

- On June 6, 2018, the *Spirit of British Columbia* and on April 18, 2019, the *Spirit of Vancouver Island* returned to service on our Tsawwassen – Swartz Bay route following their mid-life upgrades. These mid-life upgrades, which will enable the vessels to be in service for another 25 years, included major upgrades to the customer amenities, and the conversion to dual-fuel so the vessels can operate on liquefied natural gas ("LNG") or ultra-low sulphur marine diesel ("Marine Diesel"). (See "Investing in Our Capital Assets" for more detail.)
- On September 16, 2018, we commenced direct seasonal service between Port Hardy and Bella Coola using the *Northern Adventure*, running through to October 11, 2018. On May 18, 2019, the *Northern Sea Wolf* entered service in the mid-coast and on June 3 started the direct seasonal service between Port Hardy and Bella Coola. The *Northern Sea Wolf*, a 75-metre vessel built in 2000, underwent extensive upgrades necessary to bring it up to our and Transport Canada's standards of safety and reliability. The vessel accommodates approximately 35 vehicles and 150 passengers and crew. (See "Investing in Our Capital Assets" for more detail.)
- On October 5, 2018, we issued a request for expression of interest ("RFEOI") for the procurement of up to five new major vessels to replace aged fleet assets with the procurement process open to local, national and international shipyards. These new major vessels will reflect capacity and levels of service similar to the current Coastal and Spirit Class vessels in size, capabilities and passenger amenities. These vessels will provide service on our Major Routes between Metro Vancouver and Vancouver Island, which will allow for the retirement of the *Queen of Alberni*, *Queen of New Westminster*, *Queen of Cowichan* and *Queen of Coquitlam*. We also expect to introduce an additional vessel to the fleet to accommodate future traffic and build resiliency in the fleet. We expect to issue requests for proposals and to submit our application to the British Columbia Ferries Commissioner (the "Commissioner") for approval of this major capital expenditure later this fiscal year.
- On January 7, 2019, the Commissioner approved our application for a major capital expenditure for one Salish Class vessel and four Island Class vessels. The procurement process includes two request for proposals ("RFP") open to local, national and international shipyards. The first RFP issued in November 2018 is for the construction of one vessel, identical to our existing Salish Class vessels, with a capacity of 600 passengers and approximately 138 vehicles. The Salish Class vessel will be dual-fuel capable, running primarily on LNG using marine diesel as backup. The second RFP issued in December 2018 is for the construction of four additional 81-metre Island Class ferries, each with a capacity of up to 450 passengers and approximately 47 vehicles. The Island Class vessels will have hybrid diesel-electric propulsion and will be built to be capable of conversion to all-electric propulsion as the technology permits and the necessary infrastructure is in place. The five new vessels will allow for the retirement of the *Bowen Queen*, *Mayne Queen* and *Powell River Queen* and for the redeployment of certain other vessels around the fleet. We expect to complete the procurement process and award contracts in the year ended March 31, 2020 ("fiscal 2020").
- On February 7, 2019 and on March 14, 2019, two new Island Class vessels were launched with provisional acceptance in Romania expected in the summer. These new vessels allow us to retire the 60-year old *North Island Princess* and the 54-year old *Howe Sound Queen*. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula. (See "Investing in Our Capital Assets" for more detail.)

General

- On January 25, 2019, the Commissioner issued Order 19-03, superceding Order 17-02. It re-established the criteria for determining a major capital expenditure requiring advance approval. The Commissioner's orders are available on the Commissioner's website at www.bcferrycommission.com.
- On February 22, 2019, the Province released its report on the review of coastal ferry services in British Columbia. Based on recommendations in the report, on May 16, 2019, the Province enacted legislation to amend the *Coastal Ferry Act* (the "Act"). (See "Coastal Ferry Services Contract" for more detail.)
- On April 1, 2019, the Commissioner released a Preliminary Decision on Price Caps for Performance Term Five ("PT5"), April 1, 2020 through March 31, 2024, setting increases in the price cap at 2.3% per year. We will be reviewing the preliminary decision and providing additional information to the Commissioner as input for the final price cap decision which is expected on or before September 30, 2019. (See "Coastal Ferry Services Contract" for more detail.)

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 Coastal Ferry Services Contract ("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 amendment documents are available on our webpage at: http://www.bcferries.com/about/More_Information.html.

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

The Act defines a performance term as the first performance term or any subsequent four-year period during the term of the CFSC. Performance term four ("PT4") commenced April 1, 2016 and ends on March 31, 2020.

On February 22, 2019, the Province released its report which reviews coastal ferry services in British Columbia. The report confirms that the services are a vital part of the provincial economy and critical to those who use the ferry services and for the Province as a whole. The review also concludes that "BC Ferries is on the whole a well run company". The report and the terms of reference for the review are available on the Province's website at www2.gov.bc.ca.

Based on recommendations in the report, on May 16, 2019, the Province enacted legislation to amend the Act. The amendments include:

- requiring the Commissioner to consider public interest when regulating ferry operators and encouraging ferry operators to meet the Province's greenhouse gas emission targets;
- authorizing the payment by the Commissioner of part or all costs incurred by an eligible organization participating in a proceeding under the Act, if the Commissioner considers it in the public interest;
- removing as a regulatory principle, the requirement for the Commissioner to encourage BC Ferries to adopt a commercial approach;
- increasing the number of B.C. Ferry Authority ("Authority") directors appointed by government from two to four and eliminating the two director positions filled by the Authority from members of the community-at-large;
- mandating that the Authority oversee the strategic direction of BC Ferries in support of the public interest including the public's interest in safe, reliable and affordable coastal ferry services in British Columbia;
- requiring the Authority to set term limits when appointing directors to the BC Ferries board and limiting the consecutive years a director can serve on the Board to eight;
- expanding the definition of executive at BC Ferries to include vice-presidents of BC Ferries for the purposes of their remuneration being governed by an executive compensation plan approved by the Authority; and
- removing the requirement for ferry operators to seek alternative service providers for services on the designated ferry routes serviced by the ferry operator in an effort to reduce the costs of providing those services.

On April 1, 2018, and continuing through to March 31, 2020, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount was increased from 50% to 100% for travel Monday through Thursday on the Major Routes and regulated Other Routes. The discount for BC seniors on the Northern Routes has remained unchanged over the years at 33% every day. We reached an agreement with the Province regarding the funding of these initiatives. The total estimated value of these initiatives over two years is approximately $98 million, of which we will contribute $39 million in foregone revenue and the Province will contribute $59 million towards the fare reduction and increase to the BC seniors' discount. In fiscal 2019, the Province contributed a total of $26.5 million towards these initiatives, comprised of $9.8 million contribution for the increased BC seniors' discount and $16.7 million contribution towards fare reductions.

Also on February 22, 2019, the Province announced additional service on routes to restore some of the service it had previously reduced. On March 18, 2019, an agreement was reached to reflect the additional service and the additional ferry transportation fees payable by the Province.

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.

In September 2015, the Commissioner issued Order 15-03 and Order 15-03A. These orders included the following:

- Establishment of the final price cap increase of 1.9% for each of the four years of PT4;
- Incorporation of an efficiency target ($27.6 million over the four years of PT4);
- Requirement for a fuel management plan setting out our strategies for fuel procurement, minimizing fuel consumption and the transition to alternate fuels to be submitted prior to the start of PT4. Our plan was submitted March 30, 2016 and is available on our webpage at: http://www.bcferries.com/about/fuel-savings-reports.html;
- Authorization to continue to use fuel cost deferral accounts in PT4;
- Establishment of the set price per litre at 91.5 cents for marine diesel and at 46.4 cents for LNG in the first year of PT4 (The set price per litre is an input into the determination of fuel surcharges or rebates.); and
- Incorporation of an inflation factor of 2% per year on the price per litre of both marine diesel and LNG for the balance of PT4.

The orders also established that, for price cap calculations, the consolidated route group effective April 1, 2013 will be in effect until March 31, 2020. In the absence of any further amendments, on April 1, 2020, 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 (regulated Other) Routes.

On September 28, 2018, we filed our PT5 submission with the Commissioner as required by the Act. The purpose of this submission was to provide information to assist the Commissioner in establishing the price cap for PT5 (April 1, 2020 – March 31, 2024) for all regulated routes as specified in the CFSC between BC Ferries and the Province. The submission was comprised of five reports:

- Performance Term Four (April 1, 2016 to March 31, 2020) Report;
- Fuel Management Plan Outcomes in Performance Term Four;
- Capital Plan (fiscal years 2019 through 2030);
- Strategies for Enhancing Efficiency in Performance Term Five and Beyond; and
- Traffic Demand Forecast (fiscal years 2019 through 2024).

On April 1, 2019, the Commissioner released a Preliminary Decision on Price Caps for PT5, setting increases in the price cap at 2.3% per year from April 1, 2020 through March 31, 2024. We will be reviewing the preliminary decision and providing additional information to the Commissioner as input for the final decision which is expected on or before September 30, 2019.

Commissioner's Orders

Due to a mechanical failure of a davit on the *Queen of Cumberland*, we applied for authorization to temporarily reduce service below the core services levels included in the CFSC for two designated ferry routes (Swartz Bay to the Southern Gulf Islands and Tsawwassen to the Southern Gulf Islands). On May 10, 2018, the Commissioner issued Order 18-02, which approved our request. Service was modified from April 18, 2018 through to May 18, 2018, when the *Queen of Cumberland* returned to regular service.

We also applied to temporarily reduce service below the core service levels on the route connecting Thetis Island and Penelakut Island as a result of weather induced damages to the trestle and berth at Penelakut Island. The Commissioner issued Order 19-01, which approved our request and service was modified from December 20, 2018 through January 2, 2019.

On January 7, 2019, the Commissioner issued Order 19-02, which approved our application of a major capital expenditure for one Salish Class vessel and four Island Class vessels.

On January 25, 2019, the Commissioner issued Order 19-03, superceding Order 17-02. It re-established the criteria for determining a major capital expenditure requiring advance approval.

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

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. A price cap sets the ceiling on the weighted average level of fares that can be charged. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

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

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

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

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in note 26 to our March 31, 2019 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, 2019 and 2018 would be as follows:

		THREE MONTHS ENDED MARCH 31		YEARS ENDED MARCH 31	
($ millions)		**2019**	**2018**	**2019**	**2018**
Net (loss) earnings		(41.0)	(41.0)	52.2	59.9
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs					
Fuel costs (under) over set price	Operations expense	(1.0)	(1.1)	0.1	(8.6)
Fuel rebates	Fuel rebates	–	3.7	4.6	19.4
Payments from the Province	Ferry service fees	–	–	–	0.3
		(1.0)	2.6	4.7	11.1
Corporate contribution	Operations expense	–	(15.7)	–	(15.7)
Decrease (increase) in total net earnings		(1.0)	(13.1)	4.7	(4.6)
Adjusted net (loss) earnings		(42.0)	(54.1)	56.9	55.3

Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs which were used to develop the regulated price caps. The difference between actual fuel costs (including fuel hedge gains and losses) and the regulated fuel costs (set price) is deferred for settlement in future tariffs. In addition, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time, which are applied against deferred fuel cost account balances. We may also receive payments from the Province to be applied against deferred fuel cost account balances.

During fiscal 2018, fuel rebates totalled $19.4 million, contributing to the deferred fuel cost account receivable balance growing to $15.5 million. In response to this growing balance, we would typically reduce the fuel rebate to avoid further growth. However, during this same period we were also assessing fare affordability initiatives with the Province. As part of this endeavour, we assessed the elimination of the deferral account balance, and its impact on future customers and on BC Ferries. At March 31, 2018, we chose to eliminate the non-northern routes' deferred fuel cost account balance of $15.7 million. Fuel rebates were discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

FINANCIAL AND OPERATIONAL OVERVIEW

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

Years ended March 31 ($ millions)	2019	2018	2017
Total revenue	925.7	900.6	860.7
% increase	*2.8%*	*4.6%*	*3.1%*
Operating expenses	820.7	784.3	727.6
Operating profit	105.0	116.3	133.1
Net finance and other	52.8	56.4	55.7
Net earnings	52.2	59.9	77.4
Other comprehensive gain (loss)	15.4	13.5	14.6
Total comprehensive income	67.6	73.4	92.0
As at March 31			
Total assets	2,182.5	2,162.4	2,046.9
Total long-term financial liabilities	1,292.8	1,347.6	1,340.4
Dividends on preferred shares	6.0	6.0	6.0

Our net earnings in fiscal 2019 were $7.7 million lower than in fiscal 2018. In fiscal 2019, revenues increased by $25.1 million or 2.8% compared to fiscal 2018, primarily as a result of increased traffic volumes, an increase in ferry transportation fees and the discontinuation of the fuel rebate, partially offset by a decrease in average tariffs. On April 1, 2018, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on the Major and Other Routes. The total estimated value of these initiatives over fiscal 2019 and fiscal 2020 is approximately $98 million, of which we will contribute $39 million in foregone revenue and the Province will contribute $59 million. In fiscal 2019, $26.5 million received from the Province was recorded towards the fare reductions and the increase to the BC seniors' discount. (See "Revenue and Operational Statistics" for more detail.)

In fiscal 2019, operating expenses increased by $36.4 million or 4.6% compared to the prior year. The year-to-date expense increase included increases of $13.3 million in depreciation, $11.8 million due to higher wage rates and benefit costs, $5.7 million due to higher fuel prices, and $2.4 million in one-time project-related costs. The remainder of the increase was primarily due to increases in labour, fuel consumption and training-related costs to accommodate the higher traffic volumes and to improve customer experience. In fiscal 2019, we provided 79,959 trips, 877 additional round trips compared to fiscal 2018, throughout the system and adjusted the schedules for the routes operating out of Horseshoe Bay terminal. We also re-introduced the upgraded *Spirit of British Columbia* into service and implemented our new internal reservation system. (See "Expenses" for more detail.)

Other comprehensive income was $1.9 million higher than in fiscal 2018. The $15.4 million of other comprehensive income in fiscal 2019 reflects a $7.5 million change in the fair value of our fuel swap contracts and a $7.9 million gain on the revaluation of our land.

Our net earnings in fiscal 2018 were $59.9 million, $17.5 million lower than in fiscal 2017. In fiscal 2018, our revenues increased $39.9 million compared to fiscal 2017, mainly as a result of increased traffic levels. In fiscal 2018, our operating expenses increased $56.7 million, compared to fiscal 2017, primarily due to increases in wages and benefits, maintenance and depreciation costs. We provided 2,962 more round trips in fiscal 2018 than required under the CFSC and 1,190 more round trips compared to the prior year, to accommodate higher traffic volumes and to implement service enhancements. These additional trips and the introduction of three new vessels resulted in an increase in fuel consumption, labour and training related costs. Also, planned maintenance costs in fiscal 2018 were significantly higher than in the prior year.

Other comprehensive income in fiscal 2018 was $1.1 million lower than in fiscal 2017. The other comprehensive gain of $13.5 million in fiscal 2018 reflects a $13.6 million gain for the change in the fair value of our fuel swap contracts and a $1.8 million gain on the revaluation of our land, partially offset by a $1.9 million loss on the actuarial valuation of our employee benefit plans.

Traffic

Over the past five years, we experienced a 15.6% increase in vehicle traffic and a 12.6% increase in passenger traffic. The vehicle traffic levels in fiscal 2019 were the highest we have ever experienced and the passenger traffic levels in fiscal 2019 were the second highest we have ever experienced.

Beginning late in fiscal 2015, after experiencing a decline in traffic for fiscal years 2009 through 2014, we began to experience an increase in traffic, which has continued through fiscal 2019. In fiscals 2016 through 2018, we believe traffic was favourably impacted by a lower Canadian dollar, increases in tourism and general economic activity in British Columbia. In fiscal 2019, we believe fare reductions and our pricing promotions had a positive impact on both passenger and vehicle traffic, partially offset by the impact of unfavourable weather and service disruptions.

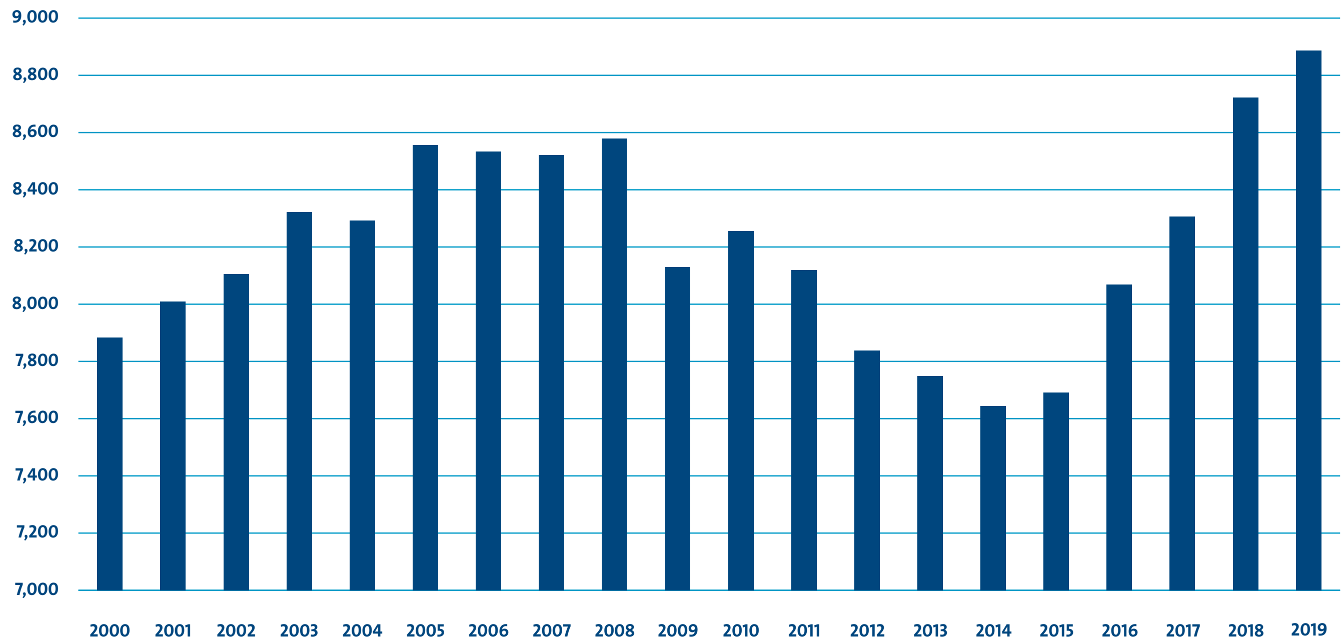
The following table details the traffic growth we have experienced in the past five fiscal years:

TRAFFIC BY FISCAL YEAR (in thousands)	**2015**	**2016**	**2017**	**2018**	**2019**
Vehicle	7,690.9	8,069.5	8,305.8	8,723.4	8,886.5
Increase	*0.6%*	*4.9%*	*2.9%*	*5.0%*	*1.9%*
Passenger	19,796.0	20,689.1	21,034.8	22,030.2	22,286.7
Increase	*0.5%*	*4.5%*	*1.7%*	*4.7%*	*1.2%*

We offered a variety of pricing promotions in fiscal 2017 through fiscal 2019. We believe these pricing promotions played a part in shifting some discretionary traffic to off-peak sailings, and, to a small degree, an increase in traffic each year compared to the prior year.

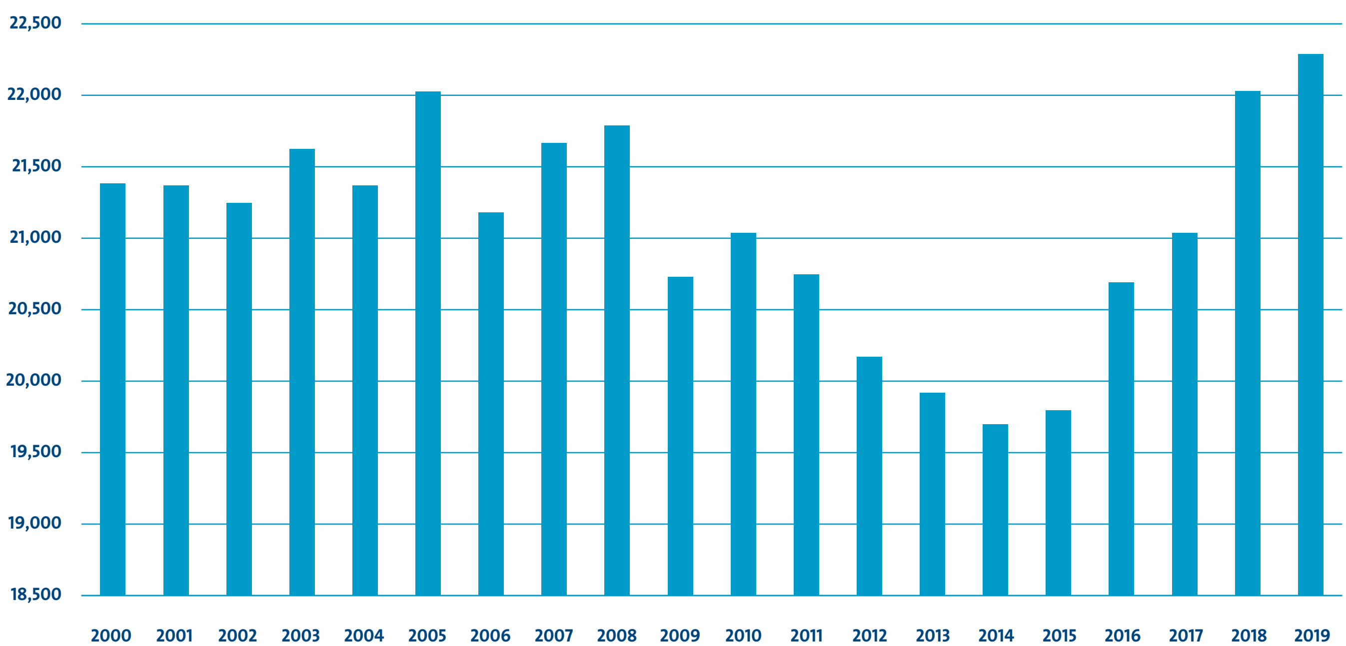
The following graph illustrates our annual vehicle traffic levels for the past 20 fiscal years:

Vehicles (in thousands)



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

Passengers (in thousands)



Cost Management and Labour Relations

We continue to take proactive measures to contain and manage our expenses while operating a sustainable, safe and reliable service. Wages, benefits and fuel expenses are our largest expenses, representing approximately 77% of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by the level of service provided.

To accommodate higher traffic volumes and improve customer experience, we provided 79,959 trips, 877 additional round trips throughout the system in fiscal 2019 compared to the same period in the prior year, which was 3,281.5 more trips than the annual minimum required under the CFSC, and adjusted the schedule for the routes operating out of Horseshoe Bay terminal. We also re-introduced the upgraded *Spirit of British Columbia* into service and implemented our new internal reservation system. Together, these actions resulted in an increase in labour, fuel consumption, and training-related costs partially offset by the lower cost of the *Spirit of British Columbia*'s consumption of LNG rather than marine diesel. The increase in operating expense also included the impact of higher marine diesel prices, wage rate increases and higher depreciation.

The majority of our employees are members of the BC Ferry & Marine Workers' Union (the "Union"). The current Memorandum of Agreement with the Union was ratified in fiscal 2016. This agreement provides certainty for our employees, helps ensure uninterrupted ferry service for our customers and marks 17 years of labour stability. The terms of the Collective Agreement provide for wage increases aggregating 8.55% over the five-year term of the agreement ending October 31, 2020, which is a 1.71% increase on average per year.

Safety & Security

Safety is our highest value. Maintaining a safe environment for our customers and employees requires our continued focus and diligence. A significant damage, injury or illness event could have an adverse effect on the lives of our employees and customers. Deliberate, malicious acts could cause operational disruption, death, injury or property damage. The occurrence of a major incident or mishap could negatively affect our ability to meet operational service requirements, the environment, staff morale, our reputation and our financial position and results of operations. The effectiveness of policies and procedures, equipment, maintenance, training, supervision, facility design and security measures reduces the risk to passenger and employee safety and/or property damage.

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

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

Our 24-hour operations and security centre ("OSC") officially began operations in 2009 and is a central location for monitoring day-to-day operations and providing incident management support. The primary purpose of the OSC is to collect information from throughout the Company, and to provide enhanced situational awareness and assessments, increased security monitoring and a coordinated response during any incidents. Security initiatives are in place to counter intentional attacks and we are in regular contact with government security agencies to ensure we have current information.

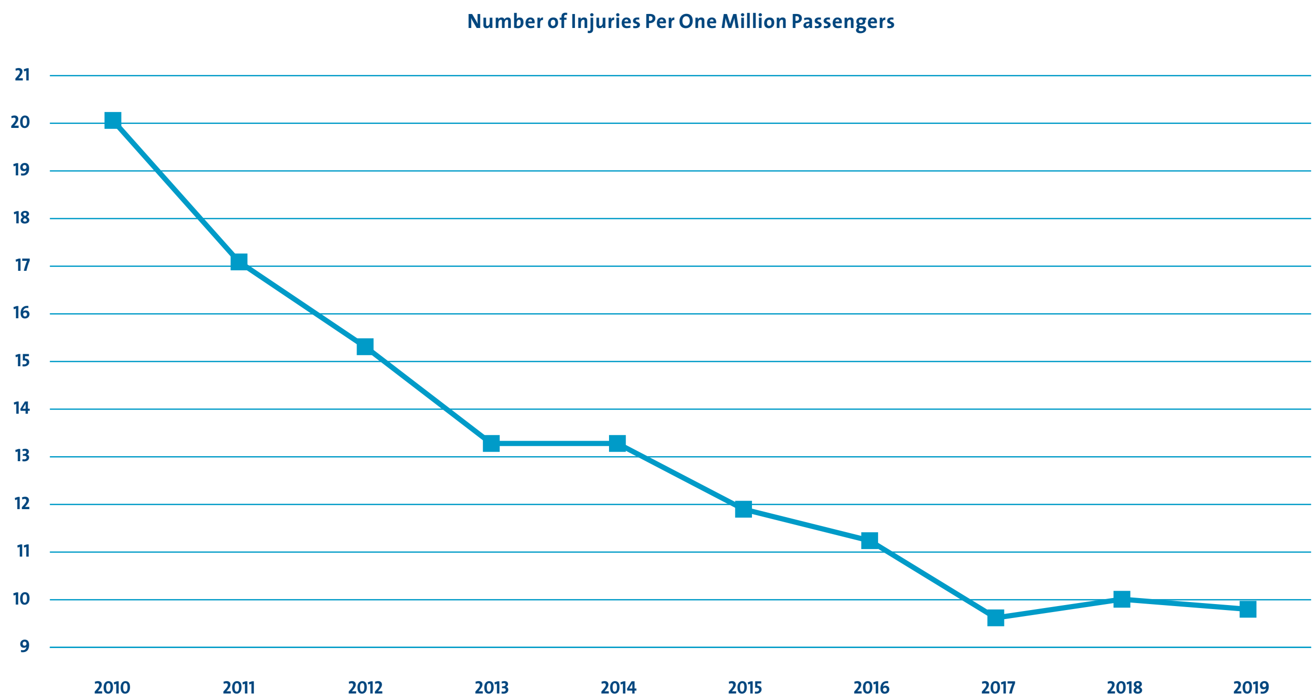
We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents.

SailSafe, launched in fiscal 2007, is designed to achieve world-class safety performance. SailSafe embodies safety as a normal part of all business activities and ensures that safety is kept as the primary concern in the minds of our employees. SailSafe is driven by our employees, who play a vital part in identifying areas and methods for enhancing current safety practices. Employees are encouraged to engage in identifying areas for improvement, developing plans and implementing new or revised processes. We continue to work towards ensuring safety becomes completely ingrained in every activity undertaken, every day, throughout our business.

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

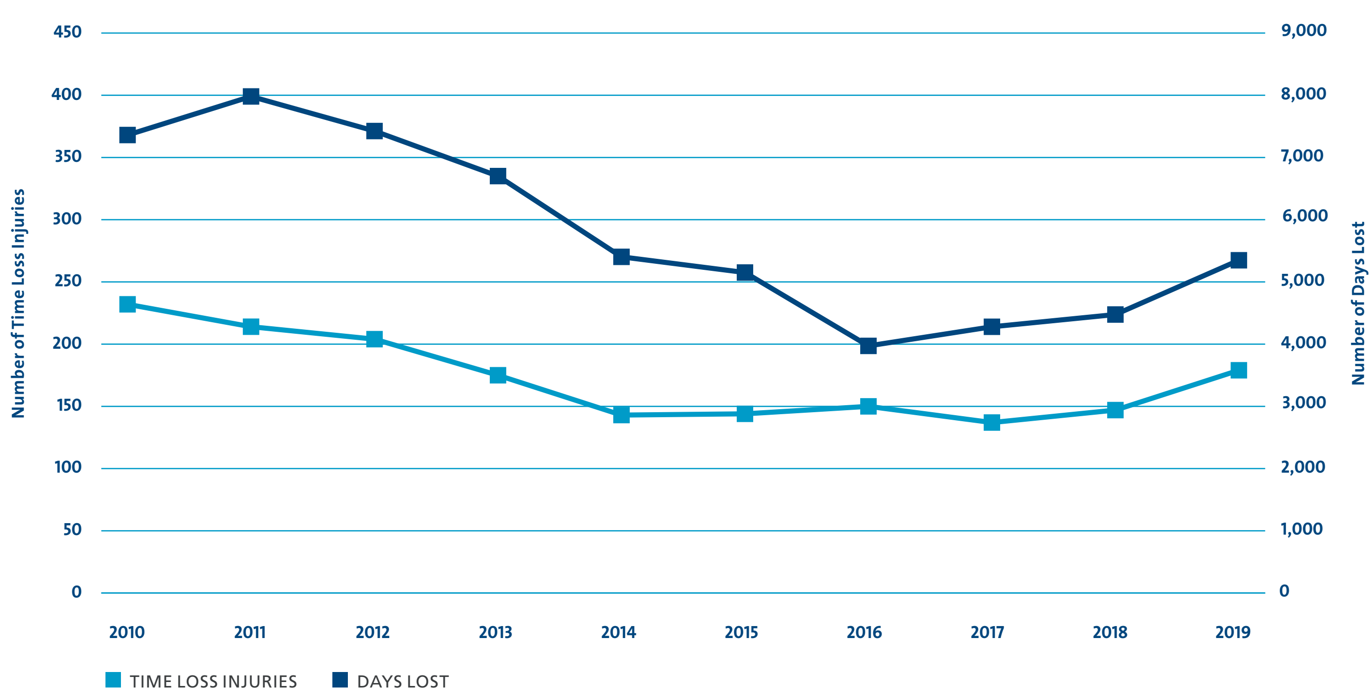
In fiscal 2019, we carried 22.3 million passengers compared to 22.0 million in the prior year. Injuries to passengers decreased from 220 to 218 compared to fiscal 2018. These passenger injuries consisted mainly of slips, trips or falls and occurred primarily on vessels. Passenger injuries of 218 is an injury rate of 0.00001% or 9.8 injuries per one million passengers. Overall, our investments in safety have yielded significant positive results as injuries to passengers have declined 48.2% over the last 10 years. The number of injuries per 1 million passengers for the last ten years are below:

Passenger Safey Index



The number of time loss injuries to employees increased from 147 in fiscal 2018 to 179 in fiscal 2019. Overall, since 2010, the number of time loss injuries has dropped by 22.8% and the number of days lost due to injury has declined by 33.0%. The results for fiscal 2010 through fiscal 2019 are below:

Employee Safety Performance



In fiscal 2019, we experienced a mechanical failure of a davit for the *Queen of Cumberland*'s rescue boat which resulted in physical injuries to two employees. Investigations are ongoing by WorkSafeBC and the Transportation Safety Board. Our own internal safety department conducted investigations. Remediation plans were developed and have either been implemented or are in process of being implemented. We are focussing on reducing both time loss injuries and days lost.

We adhere to a program of internal and external safety audits designed to verify our compliance with our safety management system. We first received the Certificate of Recognition ("COR") from WorkSafeBC in fiscal 2014. A COR recognizes companies that go beyond the legal requirements of the Workers' Compensation Act and the Occupational Health & Safety Regulations by taking a best practices approach to implementing health, safety and return to work programs. As a result of receiving a COR, WorkSafeBC provided us with rebates of approximately $0.5 million of assessed premiums in each year from 2013 to 2019. During fiscal 2019, the COR audit resulted in a 91.8% score in Health and Safety and 89.4% score in Injury Management. A COR requires recertification every three years. In the first quarter of fiscal 2020, we received confirmation of renewal of the COR.

Environment

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

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

We continue to improve our training programs, including training our staff in environmental awareness and first response to an oil spill. Through SMS, we monitor and report all environmental spills including those from external sources such as passenger vehicles. Our aging vessels can experience mechanical issues from time-to-time that may result in small oil leaks. In fiscal 2020, we expect to replace the 54-year old *Howe Sound Queen*, the 60-year old *North Island Princess* and the 45-year old *Nimpkish*.

We joined Green Marine in 2014, and in May 2015 we were certified by an independent verifier in two areas of operations, as both a ship owner and terminal operator. In 2017, we also received certification as a shipyard, making us one of three organizations with participation in three different areas of operations (shipyard, ship owner and terminal operator). Green Marine is a globally-recognized and voluntary industry sustainability initiative for ship operators, ports, terminals and shipyards. Green Marine participants try to reduce their environmental footprint by undertaking concrete and measurable actions. Environmental performance is annually benchmarked through the program's comprehensive self-evaluation guides and the results are verified by an accredited external verifier. Our level of achievement for each Green Marine performance indicator is published annually on the Green Marine website at https://www.green-marine.org/certification/results/.

We participate in the Enhancing Cetacean Habitat Observation Program ("ECHO"), established by Port of Vancouver, in collaboration with government agencies, First Nations, marine industry users, non-government organizations and scientific experts, to better understand and manage the potential impacts to cetaceans (whales, porpoises and dolphins) from commercial vessel activities. The long-term goal of ECHO is to develop mitigation measures that will lead to a quantifiable reduction in potential threats to cetaceans, which include acoustic disturbance, physical disturbance and environmental contaminants. Since 2015, we have undertaken two noise measurement projects in addition to voluntary transiting the ECHO program's underwater listening station to help gather the baseline of ambient noise in the Salish Sea.

Late in fiscal 2019, the online tutorial "Whales in our Waters" was released publicly. This was a collaborative effort between BC Ferries, Port of Vancouver and Ocean Wise, with additional input from regulators, researchers, and industry stakeholders. The tutorial is targeted toward mariners and covers a range of topics including the need to protect local whale species, tips for identifying and reporting them, and best practices to implement when navigating ships in their presence. The tutorial is available free of charge to the public and mariners on the Port of Vancouver website https://echolearn.portvancouver.com/.

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 also 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. In the spring of 2019, we were recognized by our international peers with the Shippax Retrofit Award for completing the conversion of the *Spirit of British Columbia* to dual-fuel capability, operating as much as possible on LNG. We expect the mid-life upgrades of the Spirit Class vessels to reduce CO2 emissions by 12,500 tonnes annually, the equivalent of taking approximately 2,500 vehicles off the road per year, by using natural gas with marine diesel as backup. We now have five vessels that operate on LNG; two Spirit Class and three Salish Class ferries. Our new Island Class vessels will initially operate on marine diesel fuel with stored energy (battery) capability installed to provide the ship's service power. The stored energy capability will be expandable for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future.

We continue to focus on our composting program. We use biodegradable hydraulic oils and recycle beverage containers, cardboard, newsprint, plastics, wood, metal, spent fluorescent tubes, batteries, aerosol spray cans, old upholstery foam and used cooking oil. We transfer vessels to shore-power while berthed overnight at several of our terminals, promoting anti-idling and increasing waste diversion. We expanded our shore-power program to additional terminals by adding shore-power installations where necessary to provide sufficient capacity to provide power to the vessels.

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

Training

We were named one of B.C.'s Top Employers (2019) for the third year in a row. This is an annual competition organized by the editors of Canada's Top 100 Employers and recognizes workplaces for offering progressive and forward-thinking programs for employees. In conjunction with the Union and our employees, we established SailSafe, a comprehensive safety program, including a health and wellness component, and invest heavily in extensive training and development opportunities.

Skilled trades are essential to keeping our operations safe and efficient. Camosun College is the largest provider of trades training, including marine trades, on Vancouver Island. We have invested in the SailSafe Simulator at Camosun College's trades facilities to guarantee access to the best training tools. The SailSafe Nautical Simulation lab is a 12-station teaching facility that allows trainees the experience of navigating in local waters, in a range of conditions, while interacting with other vessel traffic operated by their classmates. We also have a cadet program that includes participants from the British Columbia Institute of Technology, Georgian College of Ontario and the Memorial University of Newfoundland.

In fiscal 2019, we provided over 29,000 personal training days, an increase of 1,000 compared to fiscal 2018. This includes training on the upgraded Spirit Class vessels, as well as job specific simulation and safety training.

Operational training focused on many programs, including new hire orientation, oil spill response, Foodsafe, prevention of violence in the workplace, respect in the workplace and LNG. Training is provided on-line and in the classroom as well as through practicing exercises and drills. On-line learning continues to expand, this year adding Fall Protection and Dangerous Goods recertification.

Our Simulator Training Centre ("STC") program provides training to operational crew in many areas including operations skill, navigation systems and standards, communication and team decision making and supports a continuous learning culture. Our signature course is Bridge Operations Skills and Systems, for which we received a Lloyd's List Safety Training award for outstanding commitment in training our employees ashore and at sea. It focuses on gaining, maintaining and enhancing shared bridge team situational awareness and allows us to construct simulation activities and scenarios to customize the education.

Our award-winning Standardized Education and Assessment ("SEA") program leverages technology and e-learning to enhance hands-on training in a phased, auditable and sustainable manner. Our SEA program has customized programs specific to the job, vessel, route or terminal. There are now 52 job positions supported by SEA materials and education. For example, officers receive training in ship handling and navigation in three unique modules of the SEA program. Our program provides all employees with easy access to resources and materials and assists in planning and tracking employee career progression and succession.

We developed a comprehensive training plan for familiarization with the new equipment on the Spirit Class vessels. This plan included LNG training, manufacturer's equipment training and SEA and operational training for all employees working on a Spirit Class vessel. A web-based LNG safety awareness program provides training to all employees involved with the Salish Class and Spirit Class vessels, with additional advanced LNG training for deck and engineering crews.

Customer Service

Our long-term vision incorporates operational and financial sustainability, environmental and community well-being goals and a focus on enhancing the customer experience. Our strategic planning process captures internal and external factors as well as direct input from our community engagement process.

In fiscal 2019, consistent with the prior year, our on-time performance rate was 88.5%, and our fleet reliability score was 99.73%. This reliability score means that only 0.3% of sailings in fiscal 2019 were cancelled due to mechanical issues related to the vessels or terminals, or crew availability. Our 2018 Customer Service Satisfaction Tracking Surveys indicated that 87% of customers surveyed (compared to 87% in 2017) reported being satisfied with their overall trip experience. A copy of the full report is available at http://www.bcferries.com/about/cst_archive.html.

We will continue to survey our customers to understand and identify ways to enhance their experience. We have a customer service enhancement program that targets training for all customer-facing employees on three key attributes of friendliness, communication and listening skills, and professionalism. We are striving to make every individual customer interaction a safe, positive and satisfying experience.

We have an active public consultation and community engagement program and continue to work closely with 13 ferry advisory committees that represent the ferry-dependent communities we serve. These committees are appointed in cooperation with local governments, the Islands Trust and First Nations and discuss day-to-day operations, planned improvements, broader policy issues and strategic planning.

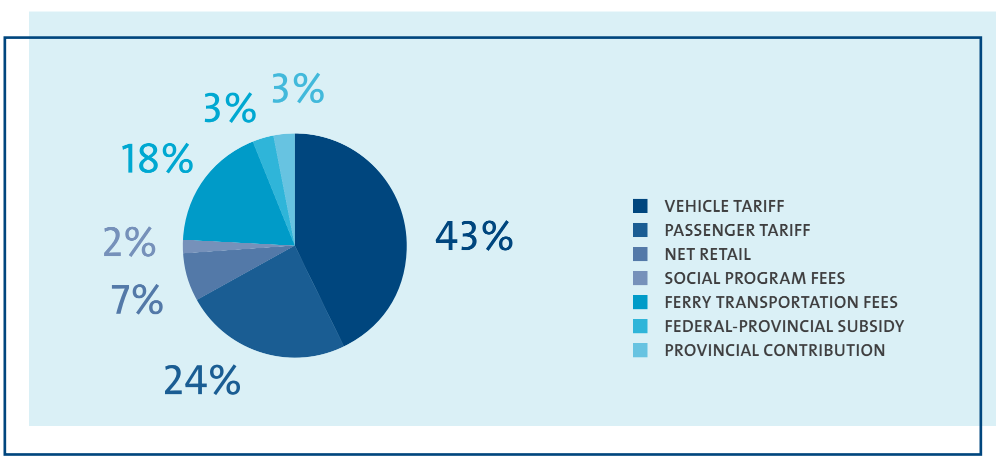
For instance, during fiscal 2019, we consulted with stakeholders and asked for their input on the future of the Swartz Bay terminal. We heard from more than 1,000 people through the engagement process to collect community input. On March 19, 2019, we released the Swartz Bay Terminal Development Plan ("TDP"). The TDP is a 25-year vision for the future of the terminal which incorporated community feedback. We will continue to engage with stakeholders to gather feedback for the detailed design for each phase.

We are consulting with stakeholders and have asked for their input on such areas as amenities, innovative technologies, accessibility and enhancements for foot passengers for the five new major class vessels which will join the fleet in the mid-2020s. Feedback and operational needs around size, capacity, speed and maneuverability will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability.

Revenue and Operational Statistics

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 Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. Our Northern Routes consist of three regulated routes, including the new route connecting Port Hardy and Bella Coola, operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Other Routes consist of 18 regulated routes and 8 unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.

Total Revenue by Source



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

Select operational statistics over the past three fiscal years are shown in the tables below.

	2019	2018	2017
Operational Statistics			
Vehicle traffic	8,886,499	8,723,435	8,305,842
% increase	1.9%	5.0%	2.9%
Passenger traffic	22,286,723	22,030,228	21,034,756
% increase	1.2%	4.7%	1.7%
On-time performance	88.5%	89.0%	89.5%
Number of round trips	79,959.0	79,082.0	77,892.0
Capacity provided (AEQs)	15,348,496	15,165,616	15,210,705
AEQs carried	10,079,258	9,889,671	9,437,585
Capacity utilization	65.7%	65.2%	62.0%

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

In fiscal 2018, vehicle and passenger traffic increased 5.0% and 4.7%, respectively, compared to fiscal 2017. Overall, we believe traffic was positively impacted by favourable economic activity in British Columbia and the lower Canadian dollar. We also believe our pricing promotions also had a positive impact on both passenger and vehicle traffic.

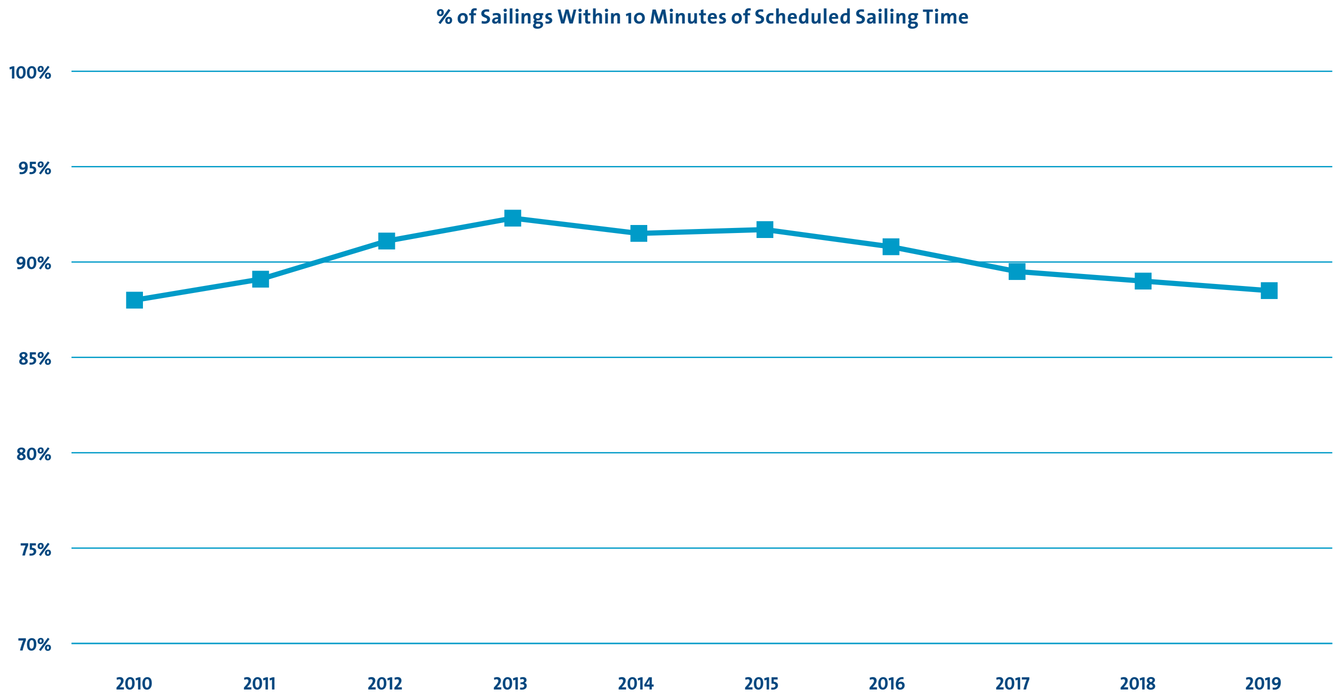
Traffic has also been positively impacted by our travel centre, conveniently located for tourists in downtown Vancouver. Using an integrated marketing approach, we are able to leverage our core business to generate incremental ferry traffic and commissions from the related services.

We utilize promotional fares to stimulate growth in traffic, to direct traffic towards our less popular sailings and/or to ensure we are in compliance with approved price cap orders. The utilization of promotional fares is one factor that may cause the average vehicle and passenger tariff to be under or over the allowed price cap in any one period. Under the Act, the average vehicle and passenger tariff cannot be over the price cap for more than four consecutive quarters.

In fiscal 2019, we offered approximately $5.7 million ($8.7 million in fiscal 2018) in discounts to passengers travelling on the Major Routes. We believe that these fare discounts had a positive impact on both passenger and vehicle traffic. We also believe these pricing promotions shifted some traffic to less popular sailings, resulting in higher overall capacity utilization and reduced wait times for our customers.

The on-time performance results for fiscal 2010 through fiscal 2019 are below:

Fleet On-Time Performance



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

Meeting customer service expectations in a safe and reliable manner is the principal factor guiding our focus on on-time performance. Our initiatives to improve on-time performance include adjusting and/or expanding sailing schedules, adjusting crewing schedules and refining vehicle loading processes during peak periods.

In fiscal 2018, on-time performance decreased from 89.5% to 89.0% compared to the prior year. On-time performance on the regulated Other Routes declined in fiscal 2018, primarily due to the impact of increased traffic demand and delays due to weather, which offset improvement in on-time performance on the Major Routes. In fiscal 2019, on-time performance decreased from 89.0% to 88.5% compared to the prior year. The Major Routes' on-time performance improved but was offset by a decrease on both the Northern and Other Routes, primarily due to the impact of increased traffic demands.

An automobile equivalent ("AEQ") is our standard unit of measure for an approximation of one car length. AEQs are calculated by using a conversion factor for each vehicle type. For example, a passenger vehicle would be one AEQ while a bus would be three AEQs. The change in AEQs from one period to the next may not be proportionate to the change in vehicle traffic, due to variations in the mix of vehicle types (the relative number of buses, commercial vehicles and passenger vehicles) and actual size of vehicles carried.

Vehicle capacity provided, measured in AEQs, is the available vehicle deck space on a vessel multiplied by the number of round trips. The CFSC stipulates, among other things, the minimum number of round trips to be provided for each regulated ferry service route in exchange for ferry transportation fees. The number of round trips provided can be positively or negatively impacted by cancellations due to weather, vessel substitution, terminal dock closures and extra round trips made in response to high demand, or by changes to the number of trips stipulated by the CFSC.

In fiscal 2017, only a single ramp berth was available for use during the 2.5 months of berth construction at Langdale Terminal. To accommodate demand during this time, an alternative service was provided with two vessels using only their main car decks. The upper car decks, although unavailable, are included in the metric for AEQ capacity provided. If we adjusted for this event, AEQ capacity provided would have been

14,939,429 in fiscal 2017. In fiscal 2018, we provided 1,190.0 additional round trips compared to fiscal 2017. Overall, capacity provided in fiscal 2018 was 1.5% higher than in fiscal 2017, after adjusting for the unavailable capacity during construction at Langdale. In fiscal 2019, we provided 877.0 additional round trips compared to fiscal 2018 and 3,281.5 more trips than the annual minimum required under the CFSC, resulting in an increase in capacity provided.

The statistics for fiscal 2019, shown in the table above, include the impact of schedule modifications required to accommodate the temporary removal of the *Queen of Cumberland* from service because of a mechanical failure. We applied for authorization to temporarily reduce service below the core services levels included in the CFSC for two ferry routes (Swartz Bay to the Southern Gulf Islands and Tsawwassen to the Southern Gulf Islands). The Commissioner approved our request and service was modified from April 18 through to May 18, 2018, when the *Queen of Cumberland* returned to regular service. We also applied to temporarily reduce service below the core service levels on the route connecting Thetis Island and Penelakut Island because of weather induced damages to the trestle and berth at Penelakut Island. The Commissioner approved our request and service was modified from December 20, 2018 through January 2, 2019.

Capacity utilization in a period is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types, the size of the vessels utilized and the number of round trips in each period. Capacity utilization varies significantly. It is highest when traffic levels peak during the summer months and at popular sailing times throughout the year. Utilization is lowest during the winter months and for less popular sailings.

If we adjusted fiscal 2017 for the unavailable vehicle capacity during construction at Langdale, capacity utilization during fiscal 2017 would have been 63.1%, rather than 62.0%. In fiscal 2018, capacity utilization increased from the normalized 63.1% to 65.2% compared to fiscal 2017. In fiscal 2019, capacity utilization increased from 65.2% to 65.7% compared to fiscal 2018, primarily as a result of a higher number of AEQs carried due to higher traffic levels, partially offset by an increase in capacity provided from additional round trips.

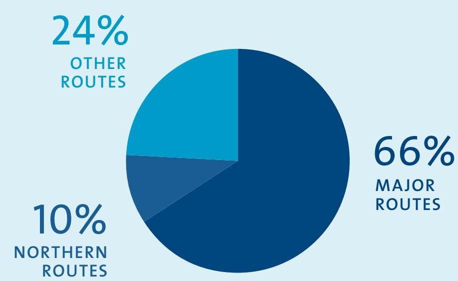
This table provides revenue details for the past three fiscal years.

REVENUE

Years ended March 31 ($ millions)	2019	2018	2017
Direct Route Revenue			
Vehicle tariff	395.4	399.0	380.3
Passenger tariff	222.8	241.2	228.4
Social program fees	15.6	17.3	16.9
Fuel rebates	(4.6)	(19.4)	(18.1)
Net retail	61.4	57.6	52.9
Other revenue	11.7	11.6	10.7
Total Direct Route Revenue	702.3	707.3	671.1
Indirect Route Revenue			
Ferry transportation fees	164.5	161.2	157.9
Federal-Provincial subsidy	30.5	29.8	29.2
Provincial contribution: tariff	16.7	–	–
Provincial contribution: seniors	9.8	–	–
Total Route Revenue	923.8	898.3	858.2
Other general revenue	1.9	2.3	2.5
Total Revenue	925.7	900.6	860.7

Total Route Revenue

In fiscal 2019, the greatest portion of our revenues, 66%, was earned on our Major Routes. Revenue from the Northern Routes contributed 10% and revenue from Other Routes contributed 24%.



Vehicle tariffs (which include reservation fee revenue) and passenger tariffs account for the majority of our revenues. Our year-over-year tariff revenues are impacted by factors such as changes in overall traffic levels, traffic types, and tariff rates.

Net retail 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 keep fares affordable. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings.

In fiscal 2017, we implemented tariff increases of 1.9% on average, as allowed by the Commissioner's Order 15-03 dated September 16, 2015, by which price cap increases for PT4 were established. In fiscal 2018, we implemented average fare increases below those allowed by the Commissioner. No increases in vehicle fares or passenger fares were implemented on the Horseshoe Bay – Langdale route, the regulated Other Routes, or the Northern Routes. Vehicle fares were increased on average by 1.9% on three of the Major Routes: Tsawwassen – Swartz Bay, Tsawwassen – Duke Point and Horseshoe Bay - Departure Bay. No increase in passenger fares was implemented on these routes. In fiscal 2018 as part of our tariff changes, we also reduced reservation fees.

On April 1, 2018 (fiscal 2019), we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes, and on the Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on the Major and Other Routes. The total estimated value of these initiatives over two years is approximately $98 million, of which the Province agreed to contribute $59 million. In fiscal 2019, the Province contributed a total of $26.5 million, comprised of $9.8 million contribution for the increased BC seniors' discount and $16.7 million contribution towards fare reductions, which has been recognized in revenue. In fiscal 2019, the number of BC seniors travelling with the discount increased 18.8% compared to the prior year.

Surcharges and/or rebates are implemented as a direct result of rising and declining fuel prices. In fiscal 2017, we implemented a fuel rebate of 1.9% on the Northern Routes and increased fuel rebates from 1% to 2.9% on our Major and regulated Other Routes. These fuel rebates were in place throughout fiscal 2018 and were discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

A history of fuel surcharges in effect for fiscal 2017 through to the current date is below:

DATE RANGE	% SURCHARGE (REBATE)	APPLICABLE ROUTES
April 1, 2016 – June 27, 2018	(2.9%)	Major and regulated Other Routes
April 1, 2016 – June 27, 2018	(1.9%)	Northern Routes
June 28, 2018 – Present	0.0%	All Routes

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

In fiscal 2018, the Province contributed an additional $15 million towards the provision of a new seasonal mid-coast ferry service. Of this, $3 million in fiscal 2018 and $6 million in fiscal 2019 was directed to ferry transportation fees on the Northern Routes, with the remainder to be directed to ferry transportation fees on the Northern Routes in fiscal 2020.

Year to year changes in revenue and operational statistics for the Major, Northern and Other Routes are discussed separately below.

YEAR TO YEAR COMPARISON OF REVENUES AND OPERATIONAL STATISTICS 2019 – 2018

MAJOR ROUTES

Our Major Routes are our four busiest routes, carrying approximately 60% of our vehicle traffic and 65% of our passenger traffic, and generating approximately 85% of our total direct route revenue.

	2019	2018
Operational Statistics		
Vehicle traffic	5,209,991	5,181,363
% increase	0.6%	4.2%
Passenger traffic	14,280,007	14,258,286
% increase	0.2%	4.3%
On-time performance	84.3%	82.8%
Number of round trips	13,299.5	13,257.5
Capacity provided (AEQs)	8,269,748	8,257,703
AEQs carried	6,133,414	6,090,940
Capacity utilization	74.2%	73.8%

In fiscal 2019, vehicle and passenger traffic increased 0.6% and 0.2%, respectively, compared to fiscal 2018. We believe our pricing promotions, a strong local economy (driven by employment and tourism growth) had a positive impact on both passenger and vehicle traffic, partially offset by the impact of unfavourable weather and service disruptions.

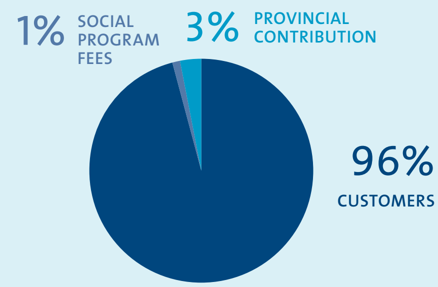
In fiscal 2019, on-time performance on the Major Routes improved 1.5% compared to the prior year, with all of the Major Routes on par or increasing with the exception of the route connecting Duke Point and Tsawwassen, which declined 3.5% compared to the prior year, primarily due to the increased vehicle traffic demands. On-time performance on the Horseshoe Bay – Departure Bay route remained constant and the Horseshoe Bay – Langdale route improved 6.7% (from 74.7% to 81.4%) in fiscal 2019 compared to the prior year. Our initiatives to improve on-time performance at Horseshoe Bay terminal, where we have had challenges, included adjusting and/or expanding sailing schedules, adjusting crewing schedules, changing operational procedures and refining vehicle loading processes during peak periods. We expect to make further adjustments in the timing of scheduled service in our ongoing efforts to further improve our service delivery and on-time performance.

In fiscal 2019, capacity utilization increased from 73.8% to 74.2% compared to the prior year, mainly as a result of a higher number of AEQs carried due to higher traffic levels partially offset by an increase in capacity provided from additional round trips.

We provide drop-trailer service on two of our Major Routes, where commercial customers can drop their trailers off at one terminal and pick them up at another with our employees loading and unloading the commercial trailers on and off the ferry with a hostling unit. This service improves our overall productivity by utilizing otherwise unused capacity.

Route Revenue Sources

Fiscal 2019 revenue from our Major Routes consisted of 96% from customers and 4% from the Province (1% social program fees and 3% Provincial contributions).



REVENUE

Years ended March 31 ($ thousands)	2019	2018	INCREASE (DECREASE)
Direct Route Revenue			
Vehicle tariff	337,619	334,360	3,259
Passenger tariff	184,986	194,998	(10,012)
Social program fees	8,261	8,714	(453)
Fuel rebates	(3,759)	(15,667)	11,908
Net retail	54,311	51,101	3,210
Parking	7,173	6,876	297
Other revenue	3,966	4,117	(151)
Total Direct Route Revenue	592,557	584,499	8,058
Indirect Route Revenue			
Provincial contribution: tariff	8,284	–	8,284
Provincial contribution: seniors	7,298	–	7,298
Total Route Revenue	608,139	584,499	23,640

On April 1, 2018, we applied a 15% fare reduction on our Major Route connecting Horseshoe Bay and Langdale. Fares were held constant on our three Major Routes connecting Metro Vancouver with Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on our Major Routes.

In fiscal 2019, average tariff (tariff revenue divided by traffic volume) per vehicle increased $0.27 or 0.4% compared to the prior year, mainly as result of increased reservations, fewer promotional discounts, and somewhat offset by the 15% reduction on our Major Route connecting Horseshoe Bay and Langdale. In fiscal 2018, passenger tariff revenue included $5.8 million in revenue for BC seniors' passenger fares, which was prior to increasing the BC seniors' passenger discount from 50% to 100% discount in fiscal 2019. In fiscal 2019, average tariff per passenger decreased $0.72 or 5.3% compared to the prior year, primarily as a result of the increased BC seniors' discount and the 15% fare reduction on our Major Route connecting Horseshoe Bay and Langdale. The decrease in average tariff, partially offset by increased traffic, resulted in a total tariff revenue decrease of $6.8 million compared to the prior year.

A fuel rebate of 2.9% on our Major Routes was in place throughout fiscal 2018. This fuel rebate was discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

All vessels that provide service on our Major Routes have a gift shop and options for food service. In fiscal 2019, net retail sales increased 6.3% compared to the prior year, primarily as a result of higher average sales per passenger. Food sales remain strong, providing approximately 72% of total retail revenue and sales of quality apparel comprise approximately 10% of total retail revenue. Cost of goods sold is approximately 40% of total sales. The new coffee bar and the gift shop expansion on the *Spirit of British Columbia* contributed to the increase in net retail sales.

Social program fees are reimbursements from the Province of discounts provided on fares for students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Travel Assistance Program ("MTAP"). In fiscal 2019, social program fees decreased 5.2% compared to the prior year, mainly as a result of the 15% fare reduction and a decrease in the usage of the MTAP program.

Revenue from parking increased 4.3% in fiscal 2019 compared to the prior year, as a result of both an increase in parking rates and higher usage.

Other revenue decreased in fiscal 2019 compared to the prior year, mainly as a result of a decrease in commissions earned from retail space rentals and on the sale of books and magazines.

The provincial contribution of $15.6 million in fiscal 2019 consisted of $8.3 million contribution for fare initiatives (a fare reduction of 15% on the Horseshoe Bay – Langdale route and fares held constant on the other three Major Routes) and $7.3 million contribution towards the higher BC seniors' discount.

NORTHERN ROUTES

Until mid-September in fiscal 2019, our Northern Routes consisted of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. In September, we commenced a new seasonal direct ferry service connecting Port Hardy and Bella Coola.

	2019	2018
Operational Statistics		
Vehicle traffic	33,728	32,166
% increase	4.9%	3.4%
Passenger traffic	91,664	89,666
% increase	2.2%	3.9%
On-time performance	85.0%	88.5%
Number of round trips	288.5	252.5
Capacity provided (AEQs)	59,266	58,551
AEQs carried	41,422	39,460
Capacity utilization	69.9%	67.4%

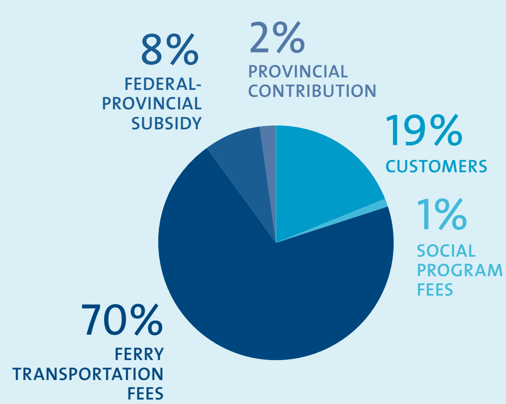
In fiscal 2019, vehicle traffic increased 4.9% and passenger traffic increased 2.2% compared to the prior year, primarily as a result of the impact of fare reductions, the introduction of the new seasonal route connecting Port Hardy and Bella Coola and pricing promotions.

In fiscal 2019, on-time performance declined compared to the prior year primarily due to the increased vehicle traffic demands and delays due to weather.

In fiscal 2019, capacity utilization on these routes was 2.5% higher than in the prior year, primarily as a result of a higher number of AEQs carried, partially offset by increased capacity provided to service the new route.

Route Revenue Sources

Fiscal 2019 revenue from our Northern Routes consisted of 19% from customers and 81% from the Province (1% social program fees, 70% ferry transportation fees, 8% from payments under the Federal-Provincial subsidy agreement and 2% Provincial contribution).



REVENUE

Years ended March 31 ($ thousands)	2019	2018	INCREASE (DECREASE)
Direct Route Revenue			
Vehicle tariff	8,013	9,143	(1,130)
Passenger tariff	6,439	7,736	(1,297)
Social program fees	952	1,109	(157)
Fuel rebates	(104)	(373)	269
Net retail	1,557	1,509	48
Stateroom rental	1,781	1,691	90
Hostling & other	215	237	(22)
Total Direct Route Revenue	18,853	21,052	(2,199)
Indirect Route Revenue			
Ferry transportation fees	65,549	62,284	3,265
Federal-Provincial subsidy	7,827	7,642	185
Provincial contribution: tariff	1,391	–	1,391
Total Route Revenue	93,620	90,978	2,642

In fiscal 2019, average tariff (tariff revenue divided by traffic volume) per vehicle decreased 16.4% and average tariff per passenger decreased 18.6% compared to the prior year, mainly as a result of the 15% fare reduction introduced on April 1, 2018 and as a result of promotional pricing. Average tariffs also reflect a change in the proportion of traffic on routes with lower versus higher tariffs. The changes in traffic levels and decreases in average tariff during fiscal 2019 resulted in a total tariff revenue decrease of $2.4 million compared to the prior year.

A fuel rebate of 1.9% on the Northern Routes was in place throughout fiscal 2018. This fuel rebate was discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

Net retail revenue increased 3.2% in fiscal 2019 compared to the prior year as a result of higher passenger levels and higher average sales per passenger.

In fiscal 2019, reimbursements from the Province for social program fees decreased 14.2% compared to the same period in the prior year, primarily as a result of the 15% fare reduction.

Stateroom rental revenue increased due to higher utilization.

Ferry transportation fees received from the Province in fiscal 2019 increased $3.3 million compared to the prior year, mainly as a result of additional funding from the Province for the provision of additional services.

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

The provincial contribution of $1.4 million in fiscal 2019 consisted of a contribution towards the 15% fare reductions.

OTHER ROUTES

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

	2019	2018
Operational Statistics		
Vehicle traffic	3,642,780	3,509,906
% increase	3.8%	6.3%
Passenger traffic	7,915,052	7,682,276
% increase	3.0%	5.6%
On-time performance	89.3%	90.2%
Number of round trips	66,371.0	65,572.0
Capacity provided (AEQs)	7,019,482	6,849,362
AEQs carried	3,904,422	3,759,271
Capacity utilization	55.6%	54.9%

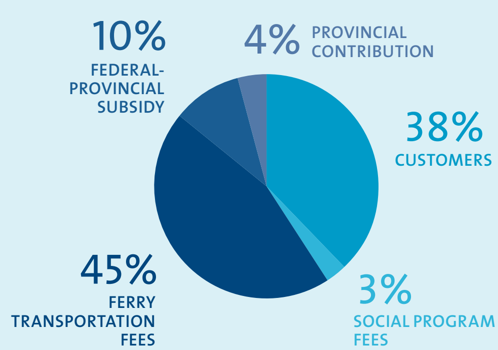
In fiscal 2019, vehicle traffic increased 3.8% and passenger traffic increased 3.0% compared to the prior year. We believe fare reductions and the increased BC seniors' passenger discount had a positive impact on both vehicle and passenger traffic.

In fiscal 2019, on-time performance decreased 0.9% from the prior year, primarily due to the increased vehicle traffic demands and delays due to stormy weather at peak times.

In fiscal 2019, capacity utilization on these routes was 0.7% higher compared to the prior year, primarily due to a higher number of AEQs carried, partially offset by an increase in capacity provided.

Route Revenue Sources

Fiscal 2019 revenue from our Other Routes consisted of 38% from customers and 62% from the Province (3% social program fees, 45% ferry transportation fees, 10% from payments under the Federal-Provincial subsidy agreement and 4% Provincial contribution).



REVENUE

Years ended March 31 ($ thousands)	2019	2018	INCREASE (DECREASE)
Direct Route Revenue			
Vehicle tariff	49,803	55,509	(5,706)
Passenger tariff	31,355	38,488	(7,133)
Social program fees	6,340	7,509	(1,169)
Fuel rebates	(722)	(3,346)	2,624
Net retail	3,705	3,256	449
Parking & other	363	371	(8)
Total Direct Route Revenue	90,844	101,787	(10,943)
Indirect Route Revenue			
Ferry transportation fees	98,965	98,924	41
Federal-Provincial subsidy	22,677	22,141	536
Provincial contribution: tariff	7,025	–	7,025
Provincial contribution: seniors	2,502	–	2,502
Total Route Revenue	222,013	222,852	(839)

On April 1, 2018, we introduced a fare reduction of 15% from fares in place at March 31, 2018 on our Other Routes. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on these routes.

In fiscal 2019, average tariff (tariff revenue divided by traffic volume) per vehicle decreased 13.6%, reflecting the fare reduction, partially offset by an increase in the proportion of traffic on routes with higher versus lower tariffs. In fiscal 2019, average tariff per passenger decreased 20.9%, mainly reflecting the fare reduction of 15% and increased BC seniors' passenger discount implemented at April 1, 2018 on our Other Routes. Passenger tariff revenue in fiscal 2018 included $2.7 million in revenue for BC seniors' passenger fares prior to increasing the BC seniors' passenger discount from 50% to 100% in fiscal 2019. The decrease in average tariff, partially offset by the increase in traffic levels, resulted in a total tariff revenue decrease of $12.8 million year-to-date compared to the prior year.

A fuel rebate of 2.9% was in place on our Other Routes throughout fiscal 2018. This fuel rebate was discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

In fiscal 2019, social program fees decreased 15.6% compared to the prior year, mainly as a result of the 15% fare reduction and a decrease in the usage of the MTAP program.

Net retail services revenue increased in fiscal 2019 compared to the prior year as a result of both higher passenger traffic and higher average sales per passenger.

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

The provincial contribution of $9.5 million in fiscal 2019 consisted of $7.0 million contribution for fare reductions and $2.5 million contribution towards the higher BC seniors' discount.

EXPENSES

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

Years ended March 31 ($ millions)	2019	2018	2017
Operating expenses			
Operations	525.9	498.4	468.6
Maintenance	81.7	87.6	74.2
Administration	39.9	38.4	35.8
Total operations, maintenance & administration	647.5	624.4	578.6
% increase	*3.7%*	*7.9%*	*2.4%*
Depreciation and amortization	173.2	159.9	149.0
Total operating expenses	820.7	784.3	727.6

To accommodate higher traffic volumes and to improve customer experience, in fiscal 2019 we provided 877 additional round trips throughout the system compared to fiscal 2018 and adjusted the schedule for routes operating out of Horseshoe Bay terminal. We also re-introduced the upgraded *Spirit of British Columbia* into service and implemented our new internal reservation system. Together, these actions resulted in an increase in labour, fuel consumption, and training-related costs partially offset by the lower cost reflecting the *Spirit of British Columbia*'s consumption of LNG rather than marine diesel. The increase in operations expense also included the impact of higher marine diesel prices, wage rate increases in accordance with the Collective Agreement and higher depreciation.

Our fiscal 2019 total operations, maintenance and administration expenses increased $23.1 million from fiscal 2018. In fiscal 2019, wages, benefits and fuel expenses totalled $497.5 million or 76.8% (76.0% in fiscal 2018) of total operations, maintenance and administration costs. These labour and fuel costs are primarily driven by service improvements and the additional round trips provided. We continue to take proactive measures to contain and manage expenses while operating a sustainable, safe and reliable service.

Years ended March 31 ($ millions)	2019	2018	2017
Net finance and other expenses			
Finance expense	59.2	60.7	58.8
Less: finance income	(6.2)	(5.5)	(4.7)
Net finance expense	53.0	55.2	54.1
(Gain) loss on disposal and revaluation of property, plant and equipment, and intangible assets	(0.2)	1.2	1.6
Total net finance and other expenses	52.8	56.4	55.7

Year over year changes are described below:

YEAR TO YEAR COMPARISON OF EXPENSES 2019 – 2018

The $27.5 million increase in operations expenses from fiscal 2018 to fiscal 2019 consists of:

- $19.0 million increase in wages, mainly due to staffing level changes for the service improvements and additional round trips provided, a wage rate increase of 1.75% effective April 1, 2018 in accordance with the Collective Agreement, and an increase in hours spent on training activities and benefits (Employer Health Tax and pension);
- $6.7 million increase in fuel expense, reflecting an increase of a $1.0 million or 1.0% due to an increase in fuel consumption and an increase of $5.7 million or 5.5% due to higher fuel prices;
- $3.2 million increase in contracted services, which includes services used for various projects and project feasibility, computer network and infrastructure, traffic control costs and expenses related to the *Spirit of British Columbia* re-entering service; and
- $1.9 million increase in computer software and data communication costs;

partially offset by:

- $1.6 million decrease in costs primarily due to an emergency drydocking in the prior year for the *Spirit of Vancouver Island*;
- $1.0 million decrease in lease expense (with the adoption of IFRS 16 this expense is now included in depreciation and interest); and
- $0.7 million decrease in other costs, including materials and supplies.

The $5.9 million decrease in maintenance costs compared to the prior year is a result of the cyclical nature of vessel refit activity.

The $1.5 million increase in administration costs compared to the prior year is primarily a result of contracted services for information technology, arbitrations, and other consulting.

Depreciation and amortization increased $13.3 million, reflecting new capital assets that have entered service. (See "Investing in our Capital Assets" for details.)

Net finance and other expenses decreased by $3.6 million from fiscal 2018 to fiscal 2019, mainly due to:

- $1.4 million increase in gain on the revaluation of land and higher asset impairments and loss on asset disposals in the prior year;
- $0.8 million decrease in interest on KfW loans, reflecting $35.3 million in principal repayments;
- $0.9 million increase in capitalized interest; and
- $0.7 million increase in interest earned on investments;

partially offset by:

- $0.2 million increased interest on right-of-use asset leases.

YEAR TO YEAR COMPARISON OF EXPENSES 2018 – 2017

The $29.8 million increase in operations expenses from fiscal 2017 to fiscal 2018 consists of:

- $17.7 million increase in wages and benefits costs mainly due to staffing level changes for the additional round trips provided, a wage rate increase, an increase in overtime, and an increase in hours spent on training activities;
- $2.7 million increase in contracted services, which includes terminal redevelopment planning, security and traffic control costs;
- $2.0 million increase in fuel expense, reflecting an increase of a $1.6 million or 1.6% due to an increase in fuel consumption and an increase of $0.4 million or 0.4% due to higher fuel prices;
- $1.7 million increase in costs primarily due to a hydraulic issue with a controllable pitch propeller on the *Spirit of Vancouver Island* which resulted in an emergency drydocking;
- $1.6 million increase in crew deployment costs as a result of training activities;
- $1.6 million increase in parts and supplies, mainly resulting from increased traffic volumes; and
- $2.5 million increase in other costs including credit card fees, promotional advertising and computer software licences.

The $13.4 million increase in maintenance costs compared to the prior year is a result of the cyclical nature of vessel refit activity, unplanned vessel maintenance and timing of repairs to our terminals.

The $2.6 million increase in administration costs is mainly the result of higher wages and benefits partially resulting from filling positions that were vacant in the prior year.

Depreciation and amortization increased $10.9 million, reflecting new capital assets that entered service.

Net finance and other expenses increased by $0.7 million from fiscal 2017 to fiscal 2018 mainly due to:

- $1.1 million increase in interest on KfW loans, reflecting interest on the additional KfW loans for the Salish Class vessels; and
- $0.6 million increase in amortization of debt issue costs;

partially offset by:

- $0.8 million increase in interest on investments; and
- $0.4 million decrease in loss on asset disposals.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

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

Over the last five years, our capital expenditures averaged $200 million annually. Over the next five years, we expect the average to increase to approximately $400 million annually (excluding external funding) as we proceed with the replacement and upgrade of our aged vessels and make significant improvements to our fleet maintenance unit and terminals serving our Major Routes, as well as making investments in information technology. Our net earnings are reinvested in support of our capital expenditure requirements.

We expect our cash requirements will be met through operating cash flows, accessing our credit facility from time to time, alternative funding opportunities and borrowings. Our cash forecasts indicate that, due to the significant capital expenditures planned, incremental long term borrowing may be required within the next two years. We are monitoring the capital markets for appropriate borrowing opportunities.

At March 31, 2019, our unrestricted cash and cash equivalents and other short-term investments totalled $60 million and $75 million, respectively (at March 31, 2018: $70 million and $114 million, respectively). Our unrestricted cash and cash equivalents include cash on hand and fixed rate instruments with a maturity of three months or less. Other short-term investments include fixed rate instruments with a maturity of more than three months.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. On December 6, 2018, Standard & Poor's reaffirmed our credit rating at "AA-" with a positive outlook and on January 17, 2019 DBRS reaffirmed our credit rating at "A (high)" with a stable trend. At March 31, 2019 and March 31, 2018, our credit rating with Standard & Poor's was "AA-" with a positive outlook and with DBRS was "A (high)" with a stable trend.

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

Our debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under our credit agreement. Under the MTI, securing this facility, we are subject to an additional indebtedness test that prohibits additional borrowing if our leverage ratio exceeds 85%. At March 31, 2019, we achieved a debt service coverage ratio of 2.84 and a leverage ratio of 70.4%.

Credit Facility

Under our credit agreement with a syndicate of Canadian banks, we have available a revolving facility in the amount of $155 million. Our $155 million credit facility was renewed on March 6, 2019 to extend the maturity date of the facility from April 2023 to April 2024. The facility is available to fund capital expenditures and for other general corporate purposes. At March 31, 2019, March 31, 2018 and March 31, 2017 there were no draws on this credit facility.

Long-Term Debt

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

($ millions)	EFFECTIVE INTEREST RATE	PRINCIPAL OUTSTANDING AS AT MARCH 31 2019	2018	2017
Senior Secured Bonds				
6.25%, due October 2034	6.41%	250	250	250
5.02%, due March 2037	5.06%	250	250	250
5.58%, due January 2038	5.62%	200	200	200
4.70%, due October 2043	4.75%	200	200	200
4.29%, due April 2044	4.45%	200	200	200
12 Year Loans				
Tranche A, due March 2020	5.17%	8	15	23
Tranche B, due March 2020	2.34%*	22	23	22
Tranche A, due June 2020	5.18%	9	17	24
Tranche B, due June 2020	2.32%*	23	23	23
2.95% Loan, due January 2021	3.08%	18	27	36
2.09% Loan, due October 2028	2.70%	36	40	44
2.09% Loan, due January 2029	2.68%	38	41	45
2.09% Loan, due January 2029	2.70%	38	41	–
		1,292	1,327	1,317

*Floating rate as at March 31, 2019

Of the five senior secured bond offerings outstanding, all have interest payable semi-annually. The bonds are redeemable in whole or in part, at our option.

We have three 12-year amortizing loan agreements with KfW, each of which is secured under the MTI. Two of these loans have a Tranche A at a fixed interest rate of 4.98%, payable quarterly. These agreements deferred the principal payments for three years to a second tranche (Tranche B) on which interest is payable at a floating rate and the principal is due at maturity (March 2020 and June 2020). The third loan is at a fixed interest rate of 2.95%, payable semi-annually.

On November 12, 2015, we executed an export loan agreement with KfW IPEX-Bank GmbH, a German export credit bank. This loan agreement is secured under the MTI and allowed for three loans of up to $45 million each. These amortizing loans will be repaid over a 12-year term and bear interest at 2.09% per annum. In fiscal 2017, we drew down a total of $90 million, to coincide with the contract payment schedules for the purchase of the *Salish Orca* and the *Salish Eagle*. In fiscal 2018, we drew down the third and final $45 million, to coincide with the contract payment schedule for the *Salish Raven*. The net proceeds were used to partially finance the purchase of these vessels.

Alternative Funding

On March 21, 2017, the Government of Canada approved funding of up to $15.1 million under the New Building Canada Fund towards the new seasonal direct ferry service between Port Hardy and Bella Coola. In addition to the $15.1 million, in fiscal 2017, the Government of Canada also approved funding of up to $45.4 million under the New Building Canada Fund towards the purchase of two new Island Class vessels currently under construction and a major upgrade of our Langdale terminal. In total, up to $60.5 million in funding under the New Building Canada Fund has been approved, of which $23.8 million had been received as of March 31, 2019.

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. The contribution is dependent upon the purchase of at least 3 million gigajoules of LNG over a 10-year period and will be applied towards the purchase of these vessels. We have also received $4.4 million 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 contribution is dependent upon the purchase of at least 10 million gigajoules of LNG over a 10-year period and will be applied towards the cost of converting the vessels. Based on our projected LNG consumption, we expect to meet the consumption requirements of these contribution agreements. During fiscal 2019, we applied $0.5 million against the capital cost of the Salish Class vessels and $0.3 million against the capital costs associated with the Spirit Class vessels.

Terminal Leases

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

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

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

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

Leases

We early adopted IFRS 16 *Leases* on April 1, 2018, and recognized nine leases, formerly classified as operating leases, with a total value of $2.9 million, as right-of-use assets and with corresponding liabilities. We also reclassified our prepaid terminal land leases and related structures and our corporate office building and land as right-of-use assets.

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

Sources & Uses of Cash

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

Sources and uses of cash and cash equivalents for fiscal 2019 and 2018 are summarized in the table below:

Years ended March 31 ($ millions)	2019	2018	INCREASE (DECREASE)
Cash and cash equivalents, beginning of period	69.9	72.0	(2.1)
Cash from operating activities:			
Net earnings	52.2	59.9	(7.7)
Items not affecting cash	226.4	222.2	4.2
Changes in non-cash operating working capital	1.1	(6.1)	7.2
Net interest paid	(59.7)	(60.1)	0.4
Cash generated by operating activities	220.0	215.9	4.1
Cash (used in) generated by financing activities	(43.5)	1.0	(44.5)
Cash used in investing activities	(186.5)	(219.0)	32.5
Net decrease in cash and cash equivalents	(10.0)	(2.1)	(7.9)
Cash and cash equivalents, end of period	59.9	69.9	(10.0)

For fiscal 2019, cash generated by operating activities increased $4.1 million compared to the prior year, primarily due to changes in working capital (receivables, prepaids, payables and contract liabilities) and items not affecting cash partially offset by a decrease in net earnings, reflecting the impact of higher operating expenses partially offset by increased traffic levels, higher revenues and lower finance expenses.

Cash used in financing activities in fiscal 2019 was $43.5 million. This amount consisted of $35.3 million in repayment of KfW loans, $6.0 million in dividends paid on preferred shares and $2.2 million in repayment of lease obligations.

Cash generated by financing activities in fiscal 2018 was $1.0 million. This amount consisted of our new $45.3 million loan with KfW IPEX-Bank GmbH, mostly offset by: $35.3 million in repayment of other KfW loans; $1.6 million in repayment of lease obligations; $6.0 million in dividends paid on preferred shares; and $1.4 million in deferred financing costs.

Cash used in investing activities in fiscal 2019 decreased by $32.5 million compared to the prior year, mainly due to a $38.3 million decrease in cash used for short-term investing, a $5.1 million increase in cash used for capital expenditures and a $0.5 million change in debt service reserves. (See "Investing in Our Capital Assets" below for detail of significant capital expenditures.)

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2019 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.

	2019	2018	INCREASE (DECREASE)
Operational Statistics			
Vehicle traffic	1,713,787	1,691,983	21,804
1.3% increase			
Passenger traffic	4,019,619	3,984,543	35,076
0.9% increase			
On-time performance	93.7%	95.1%	(1.4%)
Number of round trips	18,885.5	18,861.0	24.5
Capacity provided (AEQs)	3,436,269	3,423,665	12,604
AEQs carried	1,957,946	1,932,721	25,225
Capacity utilization	57.0%	56.5%	0.5%

Vehicle traffic increased 1.3% and passenger traffic increased 0.9% in the fourth quarter of fiscal 2019 compared to the same quarter in fiscal 2018. We believe fare reductions and a strong local economy had a positive impact on both passenger and vehicle traffic.

Capacity utilization in the three months ended March 31, 2019 increased by 0.5% over the same period in the prior year, mainly as a result of an increase in the AEQs carried, partially offset by the higher capacity provided.

			VARIANCE	
Three months ended March 31 ($ millions)	2019	2018	$	%
Total revenue	172.5	168.8	3.7	2.2%
Operating expenses	201.3	196.6	(4.7)	(2.4%)
Operating loss	(28.8)	(27.8)	(1.0)	(3.6%)
Net finance and other	12.2	13.2	1.0	7.6%
Net loss	(41.0)	(41.0)	(0.0)	(0.0%)

Our net loss in the quarter was on par with the same quarter of fiscal 2018 and was expected due to the seasonality of our traffic patterns. The net loss in the three months ended March 31, 2019 reflects an increase in revenue and a decrease in net finance expense offset by an increase in operating expenses.

Revenue

Our total revenues for the fourth quarter of fiscal 2019 increased by $3.7 million or 2.2% compared to the same quarter in the prior year, as shown in the following table:

Three months ended March 31 ($ millions)	2019	2018	INCREASE (DECREASE) $	%
Direct Route Revenue				
Vehicle tariff	74.2	74.1	0.1	0.1%
Passenger tariff	38.3	41.5	(3.2)	(7.7%)
Social program fees	3.7	4.1	(0.4)	(9.8%)
Fuel rebates	–	(3.6)	3.6	(100.0%)
Net retail	10.6	9.6	1.0	10.4%
Other revenue	2.7	2.7	–	–
Total Direct Route Revenue	129.5	128.4	1.1	0.9%
Indirect Route Revenue				
Ferry transportation fees	30.1	32.5	(2.4)	(7.4%)
Federal-Provincial subsidy	7.6	7.5	0.1	1.3%
Provincial contribution: tariffs	3.1	–	3.1	–
Provincial contribution: seniors	1.8	–	1.8	–
Total Route Revenue	172.1	168.4	3.7	2.2%
Other general revenue	0.4	0.4	–	–
Total Revenue	172.5	168.8	3.7	2.2%

Average tariff revenue per vehicle decreased $2.46 or 5.6% and average tariff revenue per passenger decreased $0.86 or 8.3% in the quarter compared to the same period in the prior year, mainly as a result of the 15% fare reductions and the higher BC seniors' discount partially offset by increased traffic volumes. The increase in traffic levels and the decrease in average tariffs resulted in a $3.1 million decrease in tariff revenue.

A fuel rebate of 2.9% was in place on our Major and Other Routes and a rebate of 1.9% was in place on our Northern Routes throughout fiscal 2018. These fuel rebates were discontinued on June 27, 2018 (fiscal 2019) due to the rise in fuel prices.

Net retail revenue increased in the fourth quarter of fiscal 2019 compared to the same period in the prior year as a result of both higher passenger traffic and higher average sales per passenger.

Social program fees in the fourth quarter decreased 9.8% compared to the same period in the prior year, mainly as a result of the 15% fare reduction and a decrease in the usage of the MTAP program.

Ferry transportation fees decreased in the fourth quarter of fiscal 2019 compared to the same period in the prior year as a result of timing of funding from the Province.

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

The provincial contribution of $4.9 million in the fourth quarter of fiscal 2019 consisted of $1.8 million contribution towards the higher BC seniors' discount and $3.1 million contribution for fare reductions.

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2019 and fiscal 2018 are shown in the following tables:

Three months ended March 31 ($ millions)	2019	2018	(INCREASE) DECREASE $	%
Operating expenses				
Operations	124.6	120.8	(3.8)	(3.1%)
Maintenance	21.4	24.9	3.5	14.1%
Administration	10.6	10.1	(0.5)	(5.0%)
Total operations, maintenance & administration	156.6	155.8	(0.8)	(0.5%)
Depreciation and amortization	44.7	40.8	(3.9)	(9.6%)
Total operating expenses	201.3	196.6	(4.7)	(2.4%)

The increase in operations costs of $3.8 million for the quarter ended March 31, 2019 compared to the same period in the prior year is due to:

- $3.6 million increase in wages and benefits mainly due to higher benefit premium rates (Employer Health Tax and pension) and wage rate increases in accordance with the Collective Agreement; and
- $0.5 million increase in parts and supplies and contracted services;

partially offset by:

- $0.3 million decrease in fuel costs ($0.2 million in lower fuel prices and $0.1 million in lower fuel usage). (For purposes of rate regulation, $1.0 million of fuel expenses in the quarter were recorded in deferred fuel cost accounts.)

The decrease in maintenance costs of $3.5 million reflects the cyclical nature of vessel refits.

The increase in administration costs of $0.5 million is mainly due to higher contracted services related to the PT5 submission partially offset by lower wages.

The increase in depreciation and amortization of $3.9 million reflected new capital assets that entered service.

Three months ended March 31 ($ millions)	2019	2018	(INCREASE) DECREASE $	%
Net finance and other expenses				
Finance expense	14.2	14.8	0.6	4.1%
Less: finance income	(1.6)	(1.6)	–	–
Net finance expense	12.6	13.2	0.6	4.5%
Gain on disposal and revaluation of property, plant and equipment, and intangible assets	(0.4)	–	0.4	–
Total net finance and other expenses	12.2	13.2	1.0	7.6%

Net finance expense in the quarter was $0.6 million lower compared to the same period in the prior year, primarily due to a $0.4 million increase in capitalized interest.

Gain on disposal and revaluation of property, plant and equipment and intangible assets was $0.4 million in the quarter.

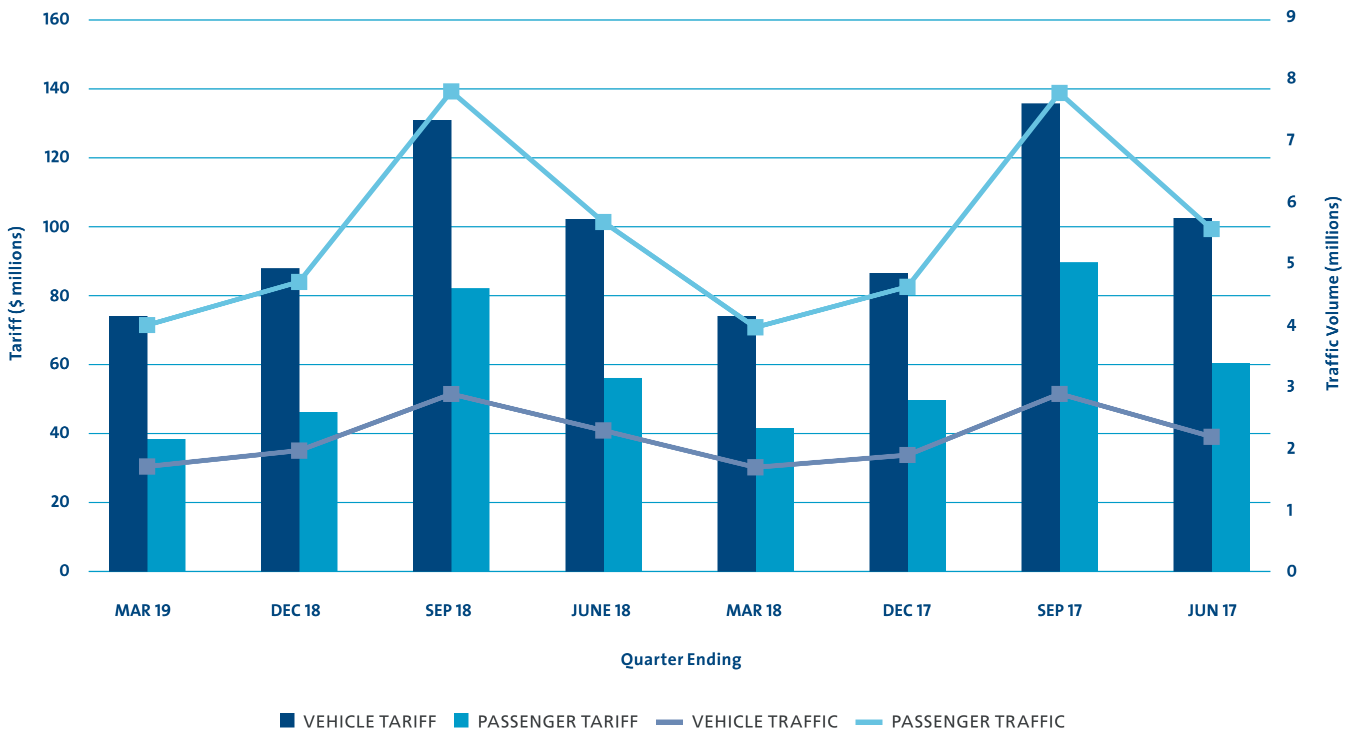
SUMMARY OF QUARTERLY RESULTS

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

Quarter Ended (unaudited) ($ millions)	MAR 19	DEC 18	SEP 18	JUN 18	MAR 18	DEC 17	SEP 17	JUN 17
Total revenue	172.5	207.7	315.8	229.7	168.8	195.7	309.9	226.2
Operating (loss) profit	(28.8)	9.4	104.6	19.8	(27.8)	–	112.6	31.5
Net (loss) earnings	(41.0)	(3.7)	90.9	6.0	(41.0)	(14.8)	98.4	17.3

Quarterly results are affected by the seasonality of leisure travel patterns. The second quarter, covering the summer period, experiences the highest traffic levels and the highest net earnings. The third and fourth quarters reflect a seasonal reduction in traffic. We utilize these periods to perform upgrades and major maintenance and refit programs, as well as to undertake mandatory inspections on the majority of our vessels.

The following graph demonstrates the seasonality of our revenue and shows the relationship of traffic volume and tariff revenue over the most recent eight quarters:



INVESTING IN OUR CAPITAL ASSETS

We have established a formal project governance framework and guidelines to ensure that capital investments meet our functional and business needs. This framework is the structure under which capital projects are identified, managed, monitored and delivered as effectively and efficiently as possible. It ensures we take a disciplined approach to capital investment by outlining the key principles, techniques and tools for managing and monitoring capital projects throughout the various stages of the project lifecycle.

Our capital asset planning is supported with formal business cases for all capital projects, project management principles, and clear assignment of accountabilities to project managers, project owners and project sponsors. We require regular project reporting to monitor scope, schedule, budget and project risks at an individual project level and report against the capital expenditure budget. This regular reporting is used to prepare a summary report, which is presented to a capital planning and budget committee on a monthly basis and to the Board of Directors on a quarterly basis.

Capital Expenditures

Our 12-year capital plan, covering fiscal 2019 through 2030, totals $3.9 billion and addresses the need for a more resilient ferry service and emphasizes capacity, operational efficiency, affordability, and flexibility. The capital plan includes 4 new incremental vessels and the replacement of 13 aged vessels which will be, on average, over the age of 50 years at the time of their replacement. It also includes upgrades and modifications for existing vessels, significant improvements at our fleet maintenance unit, infrastructure at three major terminals (Horseshoe Bay, Langdale and Swartz Bay), upgrades at our other terminals and renewal of our information technology systems. Our net earnings are reinvested to support the achievement of this capital plan.

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 32 years and, of these, 11 are 45 years old or older.

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

Both LNG and the marine diesel we currently use meet all domestic and international emissions regulations. LNG is forecast to remain less expensive than the marine diesel we currently use and has significantly less emissions. We analyze LNG as an option and intend to pursue the option where it is feasible. Our Salish Class vessels and Spirit Class vessels are dual-fuel capable, running primarily on LNG using marine diesel as backup.

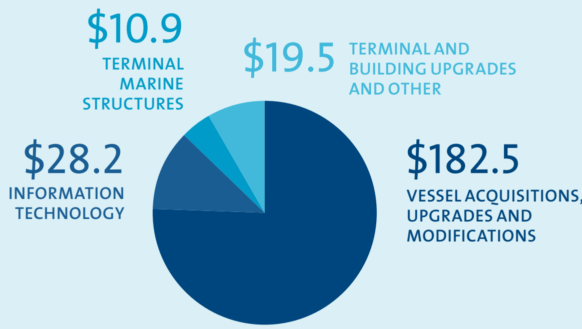
In total, we have been approved for up to $60.5 million in funding under the New Building Canada Fund, consisting of $15.1 million for the *Northern Sea Wolf* project, $28.3 million for the new Island Class vessel project and $17.1 million for the Langdale terminal development project.

FortisBC has committed to provide us with up to $16 million in incentive funding to help offset incremental capital costs associated with LNG for the Spirit Class and the Salish Class vessels. The contribution is dependent upon the purchase of LNG and is applied to the capital costs as LNG is purchased. In the year ended March 31, 2019, $0.3 million was recorded to reduce the capital costs of the Spirit Class vessels and $0.5 million to reduce the capital costs of the Salish Class vessels.

Total capital expenditures, net of funding recorded from the New Building Canada Fund and FortisBC, during fiscal 2017 through fiscal 2019 are shown in the table below:

Capital expenditures by fiscal year ($ millions)	2019	2018	2017
Vessel upgrades & modifications	133.5	110.1	71.2
New vessels	49.0	81.6	105.9
Terminal marine structures	10.9	20.5	22.9
Information technology	28.2	24.4	30.9
Terminal building upgrades & other	19.5	15.7	12.8
Total	241.1	252.3	243.7

Capital expenditures in the 12 months ended March 31, 2019 totalled $241.1 million:



Capital expenditures, net of funding recorded from the New Building Canada Fund and FortisBC, in the 3 and 12 months ended March 31, 2019 comprised the following:

March 31, 2019 ($ millions)	3 MONTHS	12 MONTHS
Spirit Class mid-life upgrades	21.6	67.5
Major overhauls and inspections	10.9	48.5
Mid-coast ferry service	2.8	27.4
Island Class vessels	9.2	25.1
Customer experience program	3.0	12.1
Hardware upgrades	2.6	11.0
Queen of Surrey 3/4 Life Upgrade Phase 2	7.2	8.3
Fleet maintenance facility	1.3	6.6
Tsawwassen-shoreline stabilization	–	3.0
Kuper quarter-life upgrade	–	2.3
Various other projects	10.6	29.3
	69.2	241.1

Spirit Class mid-life upgrades

In March 2016, we awarded contracts to Remontowa Ship Repair Yard S.A. to conduct the mid-life upgrades, including major upgrades to customer amenities and conversion to dual-fuel, of our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia*. On June 6, 2018, the *Spirit of British Columbia* and on April 18, 2019, the *Spirit of Vancouver Island* returned to service on our Tsawwassen – Swartz Bay route. The mid-life upgrades will enable the vessels to be in service for another 25 years. We expect the conversion of these vessels to result in substantial savings, as LNG costs are considerably less than marine diesel. We also expect the conversion to result in significant environmental benefits, such as reducing carbon, sulphur and nitrogen dioxide emissions from our vessels. FortisBC has committed to provide us with up to $10 million in incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to use LNG. The contribution ($4.4 million has been received as of March 31, 2019) is dependent upon the purchase of at least 10 million gigajoules of LNG over a 10-year period and will be applied to the capital costs as LNG is purchased. In fiscal 2019, $0.3 million was recorded to reduce the capital costs.

Major overhauls and inspections

In the three months ended March 31, 2019, we had capital expenditures of $10.9 million ($48.5 million year-to-date) in respect of major overhauls and inspections of components of hull, propulsion and generators for 17 vessels that were completed or underway.

Mid-coast ferry service

On April 7, 2017, we finalized an agreement to acquire a 75-metre used vessel built in 2000, to provide the new seasonal direct ferry service between Port Hardy and Bella Coola. This project included the acquisition and upgrading of the used vessel as well as modifying our terminal marine structures as necessary. On April 5, 2017, the Province contributed an initial $15 million towards the provision of this service for the period up to March 31, 2020. On March 21, 2017, the Government of Canada approved funding of up to $15.1 million from the New Building Canada Fund, of which we recorded $11.8 million in fiscal 2018 and $3.3 million in fiscal 2019. The vessel underwent extensive upgrades necessary to bring it up to our and Transport Canada's standards of safety and reliability. On May 18, 2019, the *Northern Sea Wolf* entered service in the mid-coast and on June 3 started the direct seasonal service between Port Hardy and Bella Coola. The *Northern Sea Wolf* accommodates approximately 35 vehicles and 150 passengers and crew.

Island Class vessels

On April 13, 2017, we entered into design and build contracts with Damen Shipyard Group of Netherlands for the construction of two Island Class vessels. The Government of Canada has approved funding of up to $28.3 million under the New Building Canada Fund toward these vessels, of which we recorded $3.1 million in fiscal 2018 and $11.3 million in fiscal 2019. These vessels will each have a capacity of up to 450 passengers and crew and approximately 47 vehicles. These two Island Class vessels were launched in the last quarter of fiscal 2019, with provisional acceptance in Romania expected in the summer. These new vessels will allow us to retire the 60-year old *North Island Princess* and the 54-year old *Howe Sound Queen*. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula.

Customer experience program

Our customer experience program, which includes the Fare Flexibility and Digital Experience Initiative, will replace our aged website, reservation system and e-commerce platform and upgrade our point-of-sale. The main elements will be implemented in stages during fiscal 2020. This program will give customers an opportunity to purchase travel in advance at discounted rates on select sailings on reservable routes and will allow us to respond in a more timely fashion to changing business needs and to better support marketing, travel services and pricing initiatives. Our customer experience program will introduce improved transaction processing and online booking with more choices in fares. We have implemented our new internal reservations system as well as enhancements to our customer relationship management system and point of sale system.

Hardware upgrades

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

Queen of Surrey three quarter-life upgrade

The three quarter-life upgrade of the *Queen of Surrey*, including bridge equipment upgrades, interior modernization, steering gear upgrades and replacement of electrical and mechanical components, completed in March 2019.

Fleet maintenance facility

In Richmond, a project to redevelop and modernize our ship repair and maintenance facility is in the design and development stage.

Tsawwassen terminal

At Tsawwassen, the project to prevent shoreline erosion and increase stability and drainage on both sides of the causeway completed in September 2018.

Kuper quarter-life upgrade

The quarter-life upgrade of the *Kuper*, including a wheelhouse expansion, bridge equipment upgrades, interior modernization and replacement of electrical and mechanical components, completed in December 2018.

OUTLOOK

Financial

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. We are committed to being a company worthy of the public's trust and valued for the services we provide.

We expect positive net earnings in fiscal 2020, reflecting a moderate increase in discretionary traffic. These positive financial results are necessary to continue to provide safe and reliable ferry transportation. We use net earnings to fund operations, satisfy long-term debt obligations, replace our aging assets, support our environmental initiatives and to respond to traffic volatility.

On April 1, 2018, we applied a 15% fare reduction on the Northern Routes, the regulated Other Routes and on one Major Route (Horseshoe Bay – Langdale). Fares remained unchanged on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday through Thursday on the Major and Other Routes. On April 1, 2019, as agreed with the Province, fares were held at the same level. The total estimated value of these initiatives over the two years is approximately $98 million, of which BC Ferries will contribute $39 million in foregone revenue. The Province contributed $26.5 million towards the fare reduction and increase to the BC seniors' discount in fiscal 2019 and will contribute $32.5 million in fiscal 2020.

We expect an increase in total revenue in fiscal 2020, reflecting higher traffic levels, net retail revenues and ferry transportation fees.

We expect an increase in total expenses in fiscal 2020, reflecting higher wage and benefit costs resulting from the implementation of the Collective Agreement, the new Employer Health Tax, increased service levels and other route changes, and higher vessel maintenance costs, partially offset by savings from operating the Spirit Class vessels on LNG. We continue to manage our costs prudently without compromising safe operations.

Major Investments

Our 12-year capital plan for fiscal 2019 through fiscal 2030 is $3.9 billion. This plan addresses the need to replace our aged assets and for resiliency. It includes 17 new vessels and significant upgrades to our terminals and our fleet maintenance facility. The plan emphasizes system capacity, operational efficiency, resiliency and flexibility to ensure safe, reliable and efficient operations and to deliver an exceptional customer-focused travel experience. Over the next 5 years, our capital spending is projected to be an average of $400 million per year and in fiscal 2020, includes costs related to the following projects. All major capital expenditures as defined by the Commissioner require approval.

In November 2018, we issued an RFP for a fourth Salish Class vessel, which will replace the 54-year old *Mayne Queen*. Our three existing Salish Class vessels, brought into service in fiscal 2018, are dual-fuel capable, running primarily on LNG using marine diesel as backup. The vessel design is part of our standardization strategy which we believe strengthens safety practises and improves interoperability with standardized bridges, engine rooms and life-saving equipment.

Construction is underway for two Island Class vessels which will allow us to retire the 60-year old *North Island Princess* and the 54-year old *Howe Sound Queen*. These two Island Class vessels were launched in the fourth quarter of fiscal 2019, with provisional acceptance in Romania expected in the summer. The new vessels will be outfitted with hybrid diesel-electric propulsion. They will be built to be capable of conversion to all-electric propulsion as the technology permits and the necessary infrastructure is available. In December 2018, we issued an RFP for an additional four Island Class vessels, reinforcing our plan for operational efficiency, resiliency and flexibility.

The next phase of vessel renewal will include replacement of four major vessels that will have over an average age of 50 when their replacements are anticipated to begin service on our Major Routes. The new vessels will reflect capacity and levels of service consistent with the current Coastal and Spirit Class vessels in size, capabilities and passenger amenities. In October 2018, we issued a RFEOI for the procurement of up to five new major vessels. We expect to introduce an additional vessel to the fleet to accommodate future traffic and to build resiliency in the fleet.

Our Langdale terminal redevelopment project is expected to start later this year. The project includes an overhead passenger walkway, a new terminal building, parking lot and pick-up and drop-off area upgrades, as well as a ticketing plaza. This project is expected to be complete within three years and will contribute to improved safety and customer travel experience.

Our Richmond fleet maintenance facility is a strategic asset requiring upgrades and redevelopment to replace aged infrastructure. The multi-year project to seismically upgrade the site, modernize infrastructure and build a centralized shop and life raft servicing centre is in the design and development stage. The upgrades will improve operational efficiency and allow us continual and immediate access to ship repair facilities for both planned and unplanned maintenance.

Service Enhancements

During fiscal 2019, we provided 877 more round trips than in fiscal 2018 and 3,281.5 more trips than the annual minimum required under the CFSC. In fiscal 2019, we offered approximately $5.7 million ($8.7 million in fiscal 2018) in discounts on the Major Routes. We continue to respond to customer demand to find the optimal service levels.

Our customer experience program, which includes the Fare Flexibility and Digital Experience Initiative, will replace our aged website, reservation system and e-commerce platform and upgrade our point-of-sale. This multi-year program will allow us to respond in a more timely fashion to changing business needs and to better support marketing, travel services and flexible pricing initiatives. In May 2018, the customer-facing portion of our new internal reservations system was put into service. Our customer service program will introduce improved transaction processing and online booking with more choices in fares. We believe our information technology systems must be significantly improved to evolve our business model. The rigid technology systems we currently use limit our ability to design attractive and relevant pricing. The Fare Flexibility and Digital Experience Initiative, expected to be in service in the fall of fiscal 2020, will provide customers with enhanced fare choices and a more intuitive online and mobile booking experience. In addition, our use of new demand forecasting and inventory management capabilities will help limit sailing waits and improve capacity utilization.

In fiscal 2017, we executed an amendment to the CFSC that included a new seasonal direct ferry service between Port Hardy and Bella Coola. On September 16, 2018, we commenced mid-coast service between Port Hardy and Bella Coola using the Northern Adventure and running through to October 11, 2018. On May 18, 2019, the *Northern Sea Wolf* entered service in the mid-coast and will provide seasonal direct sailings between Port Hardy and Bella Coola. The *Northern Sea Wolf*, a 75-metre vessel built in 2000, underwent extensive upgrades necessary to bring it up to our and Transport Canada's standards of safety and reliability.

On February 22, 2019, the Province announced additional service on routes to restore some of the service it had previously reduced. We reached an agreement with the Province to amend the service levels to include over 2,700 additional trips for which the Province will contribute an incremental aggregate amount not to exceed $5.8 million per contract year.

Summary

We continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2020 by optimizing our service on routes, standardizing our vessels, optimizing our fuel consumption, and reducing our environmental impact. We also continue to look for ways to improve the customer experience, diversify our revenue sources, increase operational efficiencies, and leverage opportunities for federal infrastructure funding and provincial incentive funding to renew our fleet and terminals.

Ferry traffic levels are affected by a number of factors, such as the economic conditions, transportation costs (including vehicle gasoline prices and ferry fares), the value of the Canadian dollar, tourism levels, disposable personal income, demographics, and population growth. Traffic levels are also impacted by short-term factors such as weather conditions and local events.

We remain confident that as long as the Canadian dollar stays low relative to the U.S. dollar and oil prices do not increase significantly, the fundamentals impacting our traffic will remain favourable, and we should continue to see stable traffic in the near-term.

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

Risk mitigation: To mitigate the effect of volatility in fuel prices on our earnings, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See "The Effect of Rate Regulation" for more detail.) We may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2019, we had $50.6 million (notional value) in fuel forward contracts for marine diesel related to 2019 and 2020. At March 31, 2019, 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, 2019, we held three foreign exchange forward contracts with a carrying and fair value receivable of $7 thousand and with a notional value of $0.5 million, while at March 31, 2018 we held six such contracts with a carrying and fair value liability of $58 thousand and with a notional value of $1.7 million. There were no interest rate forward contracts in place at March 31, 2019 or at March 31, 2018.

At March 31, 2019, we held fuel forward contracts for marine diesel with a carrying and fair value asset of $8.1 million and a notional value of $50.6 million. At March 31, 2018, we held fuel forward contracts for marine diesel with a carrying and fair value asset of $12.5 million and with a notional value of $54.6 million. At March 31, 2019, with the application of hedge accounting, the unrealized gain of $7.4 million was recognized in other comprehensive income. At March 31, 2018, with the application of hedge accounting, the unrealized gain of $13.6 million was recognized in other comprehensive income. The fair value of commodity derivatives would reflect only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel.

The fair values would reflect the estimated amounts we would receive or pay should the derivative contracts be terminated at the stated dates. 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 non-derivative financial instruments at March 31, 2019, and 2018 are as follows:

	2019		2018	
($ millions)	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial Assets				
Cash and cash equivalents	59.9	59.9	69.9	69.9
Restricted short-term investments	31.7	31.7	32.3	32.3
Other short-term investments	74.6	74.6	114.3	114.3
Trade and other receivables	23.2	23.2	26.3	26.3
Long-term loan receivable	24.5	24.5	24.5	24.5
	213.9	213.9	267.3	267.3
Financial Liabilities				
Accounts payable and accrued liabilities	80.2	80.2	77.2	77.2
Interest payable on long-term debt	18.4	18.4	18.5	18.5
Other long-term liabilities	9.5	9.5	7.8	7.8
Long-term debt, including current portion	1,280.0	1,623.8	1,314.4	1,614.1
	1,388.1	1,731.9	1,417.9	1,717.6

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

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

BUSINESS RISK MANAGEMENT

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

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

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

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

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

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

Customer Demand

Our vehicle and passenger traffic levels in fiscal 2019, as compared to the prior year, increased 1.9% and 1.2%, respectively. The vehicle traffic levels were the highest we have ever experienced and the passenger traffic levels experienced in fiscal 2019 are the second highest we have ever experienced.

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.

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.

We have the opportunity to apply to the Commissioner under section 42 of the Act for an extraordinary price cap increase or other relief if there is an unanticipated and extraordinary change in traffic levels.

Vessel planning strategies are in place with the goal of standardization. Standardization will allow us to better respond to changes in customer demand. With a number of vessels interoperable on several routes and operational staff familiar with the standard vessel, we will be able to easily redeploy vessels and/or crew if and when the need arises. We also regularly review and update our short and long-term financial and operating plans to ensure service aligns with customer demands.

Major Capital Projects

We have several major capital projects underway, including the building of two new minor class vessels and other ongoing vessel replacement projects, upgrade to our Langdale terminal and fleet maintenance unit, and the Fare Flexibility and Digital Experience Initiative. Risks associated with the cost, schedule and the technical scope of major projects, as well as the implementation and sustainment of them, could cause critical systems or assets to be unavailable for use.

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.

We require regular project reporting to monitor scope, schedule, budget and project risks at an individual project level and report against the capital expenditure budget. This regular reporting is used to prepare a summary report which is presented to a capital planning and budget committee on a monthly basis and to the Board of Directors on a quarterly basis.

Economic Regulatory Environment

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

On February 22, 2019, the Province released its report on the review of coastal ferry services in British Columbia. Based on the recommendations in the report, on May 16, 2019, the Province enacted legislation to amend the Act. (See "Coastal Ferry Services Contract" for more detail.)

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

Human Resources

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

Risk mitigation: We provide internal training and development opportunities and support external training for advancement. We have invested in the SailSafe Simulator at Camosun College's trades facilities to guarantee access to the best training tools. We have a cadet program which includes participants from the British Columbia Institute of Technology, Georgian College of Ontario, Nova Scotia Community College, and the Memorial University of Newfoundland. We have commenced a partnership with Aboriginal Community Career Employment Services Society which supports the education and career development of First Nations students in coastal communities and are interviewing 40% of the first graduating class. We continue to use social media collaboration and on-board advertising and career fairs to both inform the public of career possibilities and to connect with potential employees. We were named one of B.C.'s Top Employers for the past three years. This award recognizes workplaces for offering progressive and forward-thinking programs for employees and aids in attracting employees to our Company.

Vessel Repair Facilities

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

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

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

Risk mitigation: We plan our vessel maintenance to minimize the number of out-of-service periods and to maximize the maintenance performed by our own staff. We have also established long-range maintenance plans for all vessels, which enable us to plan and reserve space with ship repair facilities well in advance. Further, when regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. In fiscal 2018, we entered into a five-year supply agreement with Point Hope Maritime Ltd. of Victoria, BC for the maintenance of eight of our minor vessels. We are in the design and development stage of a multi-year project to seismically upgrade, modernize infrastructure and build a centralized shop and life raft servicing centre at our fleet maintenance facility to maintain our internal ship repair capability. Alternatives to using local facilities are also being explored.

Cybersecurity Threats

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

Risk mitigation: Governance is in place to maintain an enhanced focus on cybersecurity, including continuous monitoring of key systems for abnormal and elevated risk behavior in conjunction with our cybersecurity strategy, policy and framework. Threat and risk assessments are completed for all new information technology systems, and our cybersecurity incident response processes are backstopped by external response capability. The board established an Information Technology Governance Committee to assist the board in fulfilling its oversight responsibilities with respect to information technology including cybersecurity.

Indigenous Peoples

Indigenous issues normally arise in British Columbia when a company seeks governmental approvals for new activities, typically involving land or water. Canadian courts have said that a government must consult before granting an approval that could affect a First Nation's Aboriginal rights, even when the nature and strength of those rights has not been formally proved in court or formally recognized by government. Government will also be required to consult with a First Nation if the requested approval could affect treaty rights, and there are significant limits on the power of a government to infringe treaty rights. The consultations must be appropriate to the strength of the Aboriginal right, and the severity of the potential impact on that right. Government has the right to involve a corporation in the consultation process with a First Nation. Aboriginal rights are especially significant in British Columbia because most of the Province is subject to far-reaching claims of Aboriginal rights and title, including in coastal areas where we operate. These claims could have importance if we seek new property rights or approvals from government.

Risk mitigation: Under the master agreement (see "Liquidity and Capital Resources – Terminal Leases" for more detail), the Province retains its liability, to the extent any exists, for the acts and omissions of the Province that occurred prior to our possession of the ferry terminal properties leased under the Terminal Leases and will reimburse us for any damages we suffer as a result. The Province will reimburse us for damages suffered if there is a final court decision or a treaty settlement that recognizes or confers upon an Aboriginal 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.

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

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

Retirement Liability

We sponsor a plan that provides a post-retirement benefit for eligible long-service employees. The valuation of this plan is estimated based on complex actuarial calculations using several assumptions. These assumptions are determined by management with significant input from our actuary. The valuation of the obligation depends on such assumptions as discount rate, number of employees, projected salary increases, retirement age, average years of service and termination rates. An actuarial valuation of the plan at March 31, 2017, was obtained and the accrued benefit obligation estimated at $20.9 million. The retirement liability was increased and the actuarial loss of $1.9 million was recognized in other comprehensive income during fiscal 2018. The main drivers of the increase in the liability were a higher annual increase in salaries and a higher number of employees than previously estimated. The liability included in accrued employee future benefits in our financial statements at March 31, 2019, was $19.7 million ($20.2 million at March 31, 2018).

Depreciation and Amortization Expense

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

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

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

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

As disclosed in note 1 to our financial statements, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets. If the carrying value is greater than the recoverable amount, the excess is charged to net earnings. Impairment losses are evaluated for potential reversals and are only reversed to the extent an asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized.

Hedging Relationships

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

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

Asset Retirement Obligations

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

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

No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of any such liability due to the indeterminate magnitude, likelihood, or financial impact, if any, of this issue. In addition, there is a reasonable expectation that retired assets may be sold to a responsible secondary market at a nominal salvage price, and furthermore, because we are a regulated entity, any significant asset retirement costs that cannot be mitigated by the responsible sale of the retired asset, would be recoverable through future tariffs.

Adoption of New Accounting Standards

The following is a discussion of changes in accounting standards that we adopted effective April 1, 2018:

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, providing guidance on the amount and/or timing of recognition of revenue. We adopted IFRS 15 effective April 1, 2018 using the modified retrospective with cumulative effect method. We have assessed the recognition of our revenues under IFRS 15, using the five-step model. There is no change in our revenue recognition for the majority of our revenues. IFRS 15 requires us to recognize revenue from the expected breakage (a customer's unexercised, contractual rights to receive future services which have not been exercised but for which the customer has made a non-refundable prepayment) when the likelihood of the customer exercising their remaining rights becomes remote. At April 1, 2018, we recognized breakage revenue of $1.2 million from our prepaid stored value card as an increase to opening retained earnings and a decrease to contract liabilities. Also at April 1, 2018, we recognized a $0.3 million increase to contract liabilities and decrease to opening retained earnings to reflect a timing change in revenue recognition for a third party travel voucher. The application of IFRS 15 did not have a significant impact on our consolidated financial statements.

IFRS 9 *Financial Instruments* (2014) introduces a new expected credit loss model for calculating impairment, and incorporates guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). We adopted IFRS 9 *Financial Instruments* (2013) in fiscal 2015, and as such, were only impacted by the expected credit loss model when we adopted IFRS 9 (2014), effective April 1, 2018. This model applies to our financial assets measured at amortized cost. The application of IFRS 9 did not have a significant impact on our consolidated financial statements, as we had an existing provision for impairment.

IFRS 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. We elected to early adopt IFRS 16, effective April 1, 2018, using the modified retrospective with cumulative effect method and applying the following practical expedients on initial application:

- use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, we elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- electing to not recognize leases for which the underlying asset is of low value.

We recognized nine leases, formerly classified as operating leases, with a total value of $2.9 million, as right-of-use assets with corresponding liabilities. We also reclassified our prepaid land lease and related structures as right-of-use assets.

Future Accounting Changes

The following is a discussion of accounting changes that will be effective for us in future accounting periods:

On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits* which requires entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. It also requires that any reduction in surplus, even amounts not previously recognized due to an asset ceiling limitation, be recognized in profit or loss as part of past service cost of a gain or loss on settlement. The amendments are effective for us on April 1, 2019. We do not expect the application of this standard to have a significant impact on our consolidated financial statements.

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 traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the CFSC.

Forward looking statements included in this document include statements with respect to: economic conditions, traffic levels, fares, Performance Term Five, and fiscal 2020 net earnings; our short-term and long-range business plans, capital expenditure levels, asset renewal programs for vessels and terminals, our customer experience program, Fare Flexibility and Digital Experience Initiative, and pricing promotions; the agreement with FortisBC Energy Inc. regarding incentive funding, and the New Building Canada Fund; alternative fuel options, on-time performance, Spirit Class mid-life upgrades, the Langdale terminal redevelopment project, the fleet maintenance facility project, the minor class vessel replacements, the major class vessel replacements, the Island Class vessels, the *Northern Sea Wolf* and the seasonal direct ferry service between Port Hardy and Bella Coola, and safety, security, environmental and training projects; our expectations regarding food sales and sales of quality apparel; total revenue and expense projections, and how our cash requirements will be met; and our expectations regarding the impact of amendments to IAS19 on our consolidated financial statements. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance; capital market access; interest rate, foreign currency, fuel price, and traffic volume fluctuations; the implementation of major capital projects; security, safety, and environmental incidents; confidential or sensitive information breaches; changes in laws; vessel repair facility limitations; economic regulatory environment changes; tax changes; and Aboriginal rights and title claims.

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

Non-IFRS Measures

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

SCHEDULE A

Corporate Structure and Governance
Board of Directors

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

During the fiscal year ended March 31, 2019 ("fiscal 2019"), the board was composed of the following directors:

Chair: Donald P. Hayes[1]

Members: Bruce A. Chan
Brenda J. Eaton (effective January 1, 2019)
Jan K. Grude
John A. Horning (vice chair designate)
Brian G. Kenning[1]
Gordon M. Kukec
Sarah A. Morgan-Silvester, O.B.C.
David R. Podmore (effective February 1, 2019)
P. Geoffrey Plant, Q.C. (vice chair)[1]
Judith F. Sayers (effective June 28, 2018)

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

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

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

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

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

The recruitment of directors is undertaken with the objective of ensuring the board is composed of qualified directors with a range of relevant expertise and experience. In addition, the board is committed to the principle that a majority of directors, including the chair, should be independent of the Company.

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

1. Effective May 22, 2019, the *Coastal Ferry Act* was amended to limit the maximum period of time that a director can serve on the BC Ferries board to eight consecutive years, and having each served in excess of that time, Donald P. Hayes, P. Geoffrey Plant and Brian G. Kenning resigned from the board. Following the resignations, John A. Horning was elected Chair of the board and Jan K. Grude was elected Vice Chair of the board.

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 2019 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

Orientation and Continuing Education

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

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

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

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

Ethical Business Conduct

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

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

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

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

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

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

Nomination of Directors

The board nominates qualified candidates to the Authority for election as directors of the Company, and also recommends to the Authority the size of the board.

The Governance & Nominating Committee has responsibility for the director nomination process. The committee is composed entirely of directors who are independent within the meaning of independence adopted by the board, and operates under terms of reference adopted by the board.

Prior to each search for a nominee to the board, the Governance & Nominating Committee, in consultation with the board chair, develops the potential criteria that will guide the selection process, including the preferred skills, experience and expertise, as well as the specific priorities for diversity of background that will be the focus of the particular search. Generally, once approved by the board, the selection criteria are confirmed with the Authority, and potential candidates for nomination are then sought by the Governance & Nominating Committee with the assistance of an external recruitment firm.

The Governance & Nominating Committee, in collaboration with the chair of the board, makes recommendations to the board on suitable candidates for nomination. These recommendations reflect the board's succession plan, the talents and backgrounds of the existing directors and that of the nominees, including knowledge of or presence in the communities served by BC Ferries, as well as the diversity priorities established for the particular director search. Upon having made a decision on prospective directors, the board forwards its nominations to the Authority.

As required by the CFA, the Authority selects nominees for election to the board in such a way as to ensure that, as a group, the directors are qualified candidates who hold all of the skills and all of the experience needed to oversee the operation of BC Ferries in an efficient and cost-effective manner. The Authority has established a profile recommended by the board, which sets out the key skills and experience that the directors individually and collectively should possess to meet this legislative requirement ("Skills Profile"). The Skills Profile is reviewed regularly by the board and the Authority to ensure continued alignment of the skills and experience represented on the board with the key operational and strategic objectives of the Company for which the directors collectively have oversight responsibility.

Board Diversity Policy

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

The board seeks to maintain a composition of talented and dedicated directors with a diverse mix of expertise, experience, skills and backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. For purposes of board composition, diversity includes, but is not limited to, business and other experience, skills, education, gender, age, ethnicity, aboriginal status, and geographic location.

The selection of candidates for nomination to the board is based on merit against objective criteria. Within that overriding emphasis, the board seeks to fill vacancies among its members by considering candidates that have skills and experience consistent with the Skills Profile, and bring additional diversity of background.

The board, through the Governance & Nominating Committee, regularly reviews the diversity achieved on the board, and this review informs the diversity priorities that are set each time a search is conducted for a new director. In setting these priorities, the level of representation of women on the board is specifically considered, with the objective being a balanced gender distribution.

The renewal process for the board has been structured in a manner that fosters regular action to further the board's diversity priorities. A succession plan is in place for the board which, at maturity, envisages directors serving a maximum of two four-year terms. Under the plan, the terms of the directors are staggered, with the objective that each year there will be one new director appointed and one existing director reappointed. This plan helps ensure an appropriate balance on the board between the experienced perspective of long term directors and new perspectives that bring fresh insights. With one director replaced annually, the plan also affords the opportunity to make timely progress in achieving the board's diversity priorities, generally without the need to increase the overall size of the board. From time to time, the board may seek a temporary increase in the size of the board to enable the early recruitment of one or more specific candidates as a means of enhancing or sustaining key skills, experience and/or the diversity objectives of the board.

Executive Compensation

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

Executive Compensation Plan

The CFA requires that the compensation of certain executive officers 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, which in fiscal 2019 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO") or an Executive Vice President of BC Ferries[2]. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* ("Bill 20"), an individual who held such a position on the date Bill 20 received first reading in 2010 is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries. In fiscal 2019, the remuneration of the Company's President & CEO, Chief Financial Officer and Chief Operating Officer 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 executive officers of the Company participate in a salary holdback compensation plan which is designed to link their compensation with the achievement of specific annual operating objectives that are important to supporting the Company's overall business strategy. By its nature, the plan responds to the Company's pay-for-performance philosophy. Under the plan, a maximum salary is established for each participant, a portion of which is held back each fiscal year and payable upon achievement of pre-approved objectives and targets.

On an annual basis, the board, led by the Human Resources & Compensation Committee, sets the performance requirements for the President & CEO and evaluates his performance against those requirements. Similarly, the Human Resources & Compensation Committee leads the board in an annual evaluation of the performance of each of the other executive officers with respect to their achievement of performance objectives set by the President & CEO. The amount, if any, of the salary holdback earned by the President & CEO and the other executive officers is determined based on the evaluation results and, where applicable, the available room under the total remuneration limit set for the position in an executive compensation plan. Changes, if any, to the compensation of the executive officers 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 executive officers. The President & CEO uses these assessments to design and update succession plans for all executive officer 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 executive officers, 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.

2. The *Coastal Ferry Amendment Act - 2019* has broadened the definition of "executive" in the *Coastal Ferry Act* to include Vice Presidents, effective May 16, 2019 (post fiscal 2019).

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

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

Protocol Agreement

The Authority and BC Ferries have entered into a protocol agreement which clarifies and confirms their respective roles and responsibilities in relation to the authority of BCFA as shareholder of BC Ferries and the matters set forth in the CFA respecting the appointment and remuneration of BC Ferries' directors and the remuneration of certain executive officers of the Company.

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 2019, 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 auditor and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditor, and the internal auditor; and
- assess the qualifications and independence of the external auditor, and recommend to the board the nominations of the external auditor and the compensation to be paid to the external auditor.

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:

Year ended March 31 ($ thousands)	2019	2018
External Auditor billings		
Audit	220.3	176.0
Audit related*	105.2	0.6
Tax services	2.3	2.3
Accounting advisory	–	–
	327.8	178.9

*Operational audit procedures as directed by internal audit

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

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

Safety, Health, Environment & Security Committee

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

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

Governance & Nominating Committee

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

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

Human Resources & Compensation Committee

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

- regularly review, at a strategic level, the approach taken to manage the Company's human resources, including the recruitment, retention, motivation and engagement of employees, in the interests and success of the Company;
- regularly review the succession and development plans for the President & CEO and executive management; and
- review and recommend to the board a total compensation philosophy for the President & CEO and executive management that, subject to the CFA, attracts and retains executives, links total compensation to financial and operational performance, and provides competitive total compensation opportunities at a reasonable cost, while enhancing the ability to fulfill the Company's overall business strategies and objectives.

Information Technology Governance Committee

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

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

Strategic Projects Committee

The Strategic 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 Audit & Finance Committee and 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;
  - review and recommend to the Audit & Finance Committee and the board any changes in authorized scope and budget of the projects; and
  - upon project completion, ascertain whether the projects have met their objectives.

Composition

The memberships of the committees in fiscal 2019 are set out below. The board chair serves as a non-voting ex-officio member of each of the committees.

DIRECTOR	BOARD COMMITTEES YEAR ENDED MARCH 31, 2019					
	AUDIT & FINANCE	SAFETY, HEALTH, ENVIRONMENT & SECURITY	GOVERNANCE & NOMINATING	HUMAN RESOURCES & COMPENSATION	INFORMATION TECHNOLOGY GOVERNANCE	STRATEGIC PROJECTS
Donald P. Hayes	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)		• (ex-officio)
Bruce A. Chan[1]	•	• (chair)			•	•
Brenda J. Eaton[2]	•		•	•		•
Jan A. Grude	•		•			•
John A. Horning[3]	•		•	• (chair)		•
Brian G. Kenning[4]	•			•		
Gordon M. Kukec[5]		•	•	•	• (chair)	• (chair)
Sarah A. Morgan-Silvester[6]	• (chair)	•		•	•	
P. Geoffrey Plant	•	•	• (chair)			
David R. Podmore[7]						•
Judith F. Sayers[8]		•	•	•		•

1. Effective June 16, 2018, Bruce A. Chan was appointed chair of the Safety, Health, Environment & Security Committee and a member of the Information Technology Governance Committee.
2. Brenda J. Eaton was appointed a member of each of the Audit & Finance Committee, the Governance & Nominating Committee and the Strategic Projects Committee effective January 1, 2019, and a member of the Human Resources & Compensation Committee effective February 23, 2019.
3. John A. Horning was appointed a member of the Governance & Nominating Committee effective June 16, 2018, and ceased to be a member of each of the Audit & Finance Committee and the Strategic Projects Committee effective January 1, 2019.
4. Brian G. Kenning ceased to be chair of the Audit & Finance Committee effective November 21, 2018.
5. Gordon M. Kukec was appointed chair of the Information Technology Governance Committee effective June 16, 2018, and effective February 23, 2019, was appointed a member of the Human Resources & Compensation Committee and ceased to be a member of the Governance & Nominating Committee.
6. Sarah Morgan-Silvester was appointed a member of the Information Technology Governance Committee effective June 16, 2018 and chair of the Audit & Finance Committee effective November 21, 2018, and ceased to be a member of the Human Resources & Compensation Committee effective February 23, 2019.
7. David R. Podmore was appointed a member of Strategic Projects Committee effective February 23, 2019.
8. Judith F. Sayers was appointed a member of each of the Human Resources & Compensation Committee, the Safety, Health, Environment & Security Committee and the Strategic Projects Committee effective August 24, 2018, and effective February 23, 2019, was appointed a member of the Governance & Nominating Committee and ceased to be a member of the Strategic Projects Committee.

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. Each director will prepare a plan for discussion with the board chair setting out their goals and development activities in their role as a director for the upcoming fiscal year.

The consultant will meet with the board to review the results of the board evaluation, together with recommendations for follow-up action. The results and the recommendations arising from the board evaluation will inform future deliberations and decisions of the board.

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

MANAGEMENT'S REPORT

BC Ferries management is responsible for presentation and preparation of the annual consolidated financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements and information in the MD&A necessarily include amounts based on management's informed judgements and best estimates. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control that are designed to provide reasonable assurance that assets are safeguarded from loss and that reliable financial records are maintained. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by KPMG LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Board of Directors, through its Audit & Finance Committee, oversees management's responsibilities for financial reporting and internal control. The Audit & Finance Committee meets with the internal auditors, the independent auditors and management to discuss auditing and financial matters and to review the consolidated financial statements and the independent auditors' report. The Audit & Finance Committee reports its findings to the Board for consideration in approving the consolidated financial statements for issuance.

MARK F. COLLINS
President & Chief Executive Officer

ALANA GALLAGHER
Vice President, Finance & Chief Financial Officer

Victoria, Canada
June 21, 2019

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, 2019 and March 31, 2018
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2019 and March 31, 2018, 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 responsibilities in accordance with these requirements.

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

OTHER INFORMATION

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

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

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

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

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

We have nothing to report in this regard.

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

We also:

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

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
June 21, 2019

BRITISH COLUMBIA FERRY SERVICES, INC.

Consolidated Statements of Financial Position (Expressed in thousands of Canadian dollars)

As at March 31	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	59,888	69,913
Restricted short-term investments (note 10(f))	31,651	32,276
Other short-term investments	74,648	114,259
Trade and other receivables (note 15(a))	23,246	26,258
Prepaid expenses	8,306	8,434
Inventories (note 4)	30,870	31,584
Derivative assets (note 15(c))	8,145	12,530
	236,754	295,254
Non-current assets		
Loan receivable (note 12)	24,515	24,515
Land lease	–	29,771
Property, plant and equipment (note 5)	1,820,232	1,713,080
Intangible assets (note 6)	101,029	99,802
	1,945,776	1,867,168
Total assets	2,182,530	2,162,422
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	80,173	77,233
Interest payable on long-term debt (note 7)	18,429	18,537
Contract liabilities (note 8)	28,709	32,034
Current portion of long-term debt (notes 7,10)	57,183	34,594
Current portion of accrued employee future benefits (note 11(d))	2,000	3,000
Current portion of lease liabilities (notes 7,12)	2,184	1,652
Provisions (note 9)	62,778	60,372
	251,456	227,422
Non-current liabilities		
Accrued employee future benefits (note 11(d))	20,583	21,299
Long-term debt (notes 7,10)	1,222,860	1,279,775
Lease liabilities (notes 7,12)	39,797	38,769
Other liabilities (note 13)	9,516	7,750
	1,292,756	1,347,593
Total liabilities	1,544,212	1,575,015
EQUITY		
Share capital (note 18)	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	525,006	477,955
Total equity before reserves	625,484	578,433
Reserves (note 20(a))	12,834	8,974
Total equity including reserves	638,318	587,407
Total liabilities and equity	2,182,530	2,162,422

Commitments (notes 5,16)

Contingencies (note 17)

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

BRITISH COLUMBIA FERRY SERVICES, INC.

Consolidated Statements of Comprehensive Income (Expressed in thousands of Canadian dollars)

Years ended March 31	2019	2018
Revenue		
Vehicle and passenger fares	618,215	640,234
Net retail (note 21)	63,860	60,071
Fuel rebates (note 27)	(4,585)	(19,386)
Other income	11,093	11,367
Revenue from customers	688,583	692,286
Ferry service fees (note 25)	206,566	178,540
Federal-Provincial Subsidy Agreement (note 26)	30,504	29,782
Total revenue	925,653	900,608
Expenses (note 22)		
Operations	525,895	498,343
Maintenance	81,697	87,615
Administration	39,868	38,399
Depreciation and amortization	173,250	159,916
Total operating expenses	820,710	784,273
Operating profit	104,943	116,335
Net finance and other expenses (note 23)		
Finance expenses	59,194	60,679
Finance income	(6,182)	(5,495)
Net finance expense	53,012	55,184
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets	(258)	1,178
Net finance and other expenses	52,754	56,362
NET EARNINGS	52,189	59,973
Other comprehensive income (note 20(b))		
Items that will be reclassified subsequently to net earnings	7,450	13,580
Items that will not be reclassified subsequently to net earnings	7,945	(118)
Total other comprehensive income	15,395	13,462
Total comprehensive income	67,584	73,435

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

BRITISH COLUMBIA FERRY SERVICES, INC.

Consolidated Statements of Cash Flows (Expressed in thousands of Canadian dollars)

Years ended March 31	2019	2018
Cash flows from operating activities		
Net earnings	52,189	59,973
Items not affecting cash		
Net finance expense	53,012	55,184
Depreciation and amortization	173,250	159,916
Loss on disposal of property, plant and equipment	59	376
Other non-cash changes to property, plant and equipment	(1,016)	1,809
Changes in:		
Accrued employee future benefits	(1,716)	43
Derivative assets and liabilities recognized in net earnings	52	(64)
Provisions	2,406	4,661
Long-term land lease	–	459
Accrued financing costs	378	(233)
Total non-cash items	226,425	222,151
Movements in operating working capital		
Trade and other receivables	3,012	(10,939)
Prepaid expenses	128	(980)
Inventories	714	(3,327)
Accounts payable and accrued liabilities	2,940	22,060
Contract liabilities	(2,425)	11,329
Change in non-cash working capital	4,369	18,143
Change attributable to capital asset acquisitions	(3,298)	(24,258)
Change in non-cash operating working capital	1,071	(6,115)
Cash generated from operating activities	279,685	276,009
Interest received	5,649	5,560
Interest paid	(65,335)	(65,615)
Net cash generated by operating activities	219,999	215,954
Cash flows from financing activities		
Proceeds from long-term debt	–	45,264
Repayment of long-term debt	(35,282)	(35,312)
Repayment of lease liabilities	(2,184)	(1,583)
Dividends paid on preferred shares	(6,038)	(6,038)
Deferred financing costs	–	(1,417)
Net cash (used in) generated by financing activities	(43,504)	914
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	292	476
Purchase of property, plant and equipment and intangible assets	(227,048)	(220,936)
Changes in debt service reserve	625	150
Net proceeds from short-term investments	39,611	1,323
Net cash used in investing activities	(186,520)	(218,987)
Net decrease in cash and cash equivalents	(10,025)	(2,119)
Cash and cash equivalents, beginning of year	69,913	72,032
Cash and cash equivalents, end of year	59,888	69,913

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

BRITISH COLUMBIA FERRY SERVICES, INC.

Consolidated Statements of Changes in Equity (Expressed in thousands of Canadian dollars)

	SHARE CAPITAL (NOTE 19)	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY BEFORE RESERVES	RESERVES (NOTE 20(A))	TOTAL EQUITY INCLUDING RESERVES
Balance as at April 1, 2017	75,478	25,000	424,020	524,498	(3,066)	521,432
Net earnings	–	–	59,973	59,973	–	59,973
Other comprehensive income	–	–	–	–	13,462	13,462
Realized hedge gains recognized in fuel swaps	–	–	–	–	(1,670)	(1,670)
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, 2018	75,478	25,000	477,955	578,433	8,974	587,407
Impact of adoption of IFRS 15	–	–	900	900	–	900
Balance as at April 1, 2018	75,478	25,000	478,855	579,333	8,974	588,307
Net earnings	–	–	52,189	52,189	–	52,189
Other comprehensive income	–	–	–	–	15,395	15,395
Realized hedge gains recognized in fuel swaps	–	–	–	–	(11,783)	(11,783)
Hedge losses on interest rate forward contract reclassified to net earnings	–	–	–	–	248	248
Preferred share dividends	–	–	(6,038)	(6,038)	–	(6,038)
Balance as at March 31, 2019	75,478	25,000	525,006	625,484	12,834	638,318

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

YEARS ENDED MARCH 31, 2019 AND 2018
(Tabular amounts expressed in thousands of Canadian dollars)

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

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

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.

1. ACCOUNTING POLICIES:

(a) Basis of preparation:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC, Canada, V8W 0B7. These consolidated financial statements as at and for the years ended March 31, 2019 and 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

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

These are the first annual consolidated financial statements in which IFRS 9 *Financial Instruments (2014)*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* have been applied. Changes to significant accounting policies are described in Note 2.

These consolidated financial statements have been prepared using the historical cost method, except for 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 thousands of Canadian dollars.

These consolidated financial statements were approved by the Board of Directors on June 21, 2019.

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.

(b) 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, 2019 and 2018 are:

Pacific Marine Leasing Inc.

BCF Captive Insurance Company Ltd.

The financial results of these subsidiaries are not material to the Group's consolidated financial statements. All inter-Group balances and transactions are eliminated on consolidation.

(c) 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 judgements and estimates relate to:

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

- Leases
  The Group applies judgement 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 judgement 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.

(d) Hedging relationships:

When applying hedge accounting, the Group documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging 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. The Group also assesses, 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 a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income ("OCI") and accumulated in the hedging reserve. The amount accumulated in the hedging reserve is reclassified to net earnings or loss in the period or periods during which the expected future cash flows affect net earnings or loss. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in 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 hedging reserve is included directly in the initial cost of the non-financial item.

When the derivative in a hedging relationship expires or is sold and the forecast transaction is still expected to occur, any cumulative gains or losses relating to the derivative remain in the hedging reserve and are recognized in net earnings or loss when the forecast transaction occurs. If the hedged future cash flows are no longer expected to occur, the cumulative gains or losses are immediately reclassified to net earnings or loss.

(e) Property, plant and equipment including right-of-use assets (note 1(g)):

Property, plant and equipment, excluding specific land assets, are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes 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, financing costs and an allocated proportion of project overheads. Major parts of an item of property, plant and equipment with different estimated useful lives are accounted for as separate items (major components) of property, plant and equipment. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from disposal and the carrying amount of the asset less cost to sell and is recognized in net earnings or loss.

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

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

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

ASSET CLASS	ESTIMATED USEFUL LIFE
Vessel hulls	45 years
Vessel propulsion and utility system	20 to 30 years
Vessel hull, propulsion and generator overhaul	4 to 5 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

(f) Intangible assets:

Intangible assets consist of acquired computer software and licenses, internally developed computer software and website and other intangibles. These assets are carried at cost plus direct overhead and financing 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 costs 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 financing costs. Subsequent expenditure is capitalized only if the estimated useful life is extended or functionality of the existing software is enhanced. 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 (3 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.

(g) 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 dismantle and remove the underlying asset or to restore the underlying asset or the 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 unpaid 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.

(h) Financing costs:

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

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

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

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

(i) 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 the estimated costs to make the sale.

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 them to their existing location and condition.

(j) Impairment of non-financial assets:

Non-financial assets with finite lives, including property, plant and equipment, intangible assets, and right-of-use assets, are tested for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

The impairment recognized in net earnings or loss is the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

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.

(k) Asset retirement obligations:

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

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

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

No amount has been recognized for asset retirement obligations relating to these assets as it is not possible to make a reasonable estimate of the fair value of any such liability due to the indeterminate magnitude, likelihood or financial impact, if any, of this issue. In addition, there is a reasonable expectation that retired assets will be sold to a responsible secondary market at a nominal salvage price.

(l) Financial assets and liabilities:

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

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

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

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

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

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

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

(ii) Provision for impairment

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

(iii) Loans and advances

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

(iv) Trade and other receivables

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

(v) Cash and cash equivalents

Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of three months or less. Cash equivalents are short-term investments with a term of three months or less. Due to the nature and/or short-term maturity of these financial instruments, carrying value approximates fair value. The instruments held in this category can be liquidated or sold on short notice, and do not bear any significant risk of loss in value. Cash and 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 and any associated transaction costs are recognized in net earnings or loss when 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 item in a cash flow hedge. Derivatives designated as cash flow hedging instruments are recognized in accordance with note 1(d).

(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).

(m) 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.

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.

(n) 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's multi-employer defined benefit pension and long-term disability plans are accounted for 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 cost of these benefits is expensed as contributions are made to the plans.

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. The pension 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 pension obligation.

Assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Actuarial gains (losses) arise from the difference between the actual and expected long-term rate of return on plan assets 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.

Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested. Where the benefits are not vested, the costs are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The obligation recognized for all benefit plans includes any past service costs still to be amortized.

When a plan amendment gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(o) 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.

(p) Revenues:

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

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

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

(q) 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:

(a) Changes in accounting policies:

The Group has adopted the following new standards effective April 1, 2018:

IFRS 9 *Financial Instruments (2014)*:

The Group adopted IFRS 9 (2013) in the year ended March 31, 2015, and IFRS 9 (2014) effective April 1, 2018. IFRS 9 (2014) introduces a single, forward-looking ECL model for assessing impairment of financial assets, and incorporates the guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013).

The application of IFRS 9 (2014) did not have a significant impact on the Group's consolidated financial statements as the Group had an existing provision for impairment.

IFRS 15 *Revenue from Contracts with Customers*:

The Group adopted IFRS 15 effective April 1, 2018. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers. The Group has applied IFRS 15 using a modified retrospective approach by recognizing the cumulative effect on initial adoption as an increase of $0.9 million to the opening balance of retained earnings and a corresponding reduction in contract liabilities. The comparative information has not been restated and continues to be presented in accordance with IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

The majority of the Group's revenue is recognized at the time the travel or service is provided.

Previously, the Group did not recognize revenue from the expected breakage relating to its prepaid stored value card. Under IFRS 15, the Group recognizes revenue from the expected breakage in vehicle and passenger fares when the likelihood of the customer exercising their remaining rights becomes remote.

IFRS 16 *Leases*:

The Group early adopted IFRS 16 effective April 1, 2018. The standard introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group applied the following practical expedients on initial application:

- use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, the Group has elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- electing to not recognize leases for which the underlying asset is of low value.

The Group's assessment of non-cancellable operating lease commitments indicated that nine arrangements met the definition of a lease under IFRS 16. The Group recognized $2.9 million as a right-of-use asset and a corresponding liability in respect of these leases at April 1, 2018.

LEASE LIABILITIES

Operating lease commitments as at March 31, 2018 as disclosed in the Group's consolidated financial statements	2,284
Commitments reclassified as right-of-use assets on transition to IFRS 16	(1,749)
Other commitments as at April 1, 2018	535
Lease liabilities as at April 1, 2018	1,749
Extension options reasonably certain to be exercised	1,822
Total lease liabilities as at April 1, 2018	3,571
Discount using the incremental borrowing rate of 5.21%	(639)
Lease liabilities recognized as at April 1, 2018 (note 7)	2,932

When measuring new lease liabilities, the Group discounted lease payments using the incremental borrowing rate of 5.21%.

On April 1, 2018, the Group's land lease and structures were reclassified to right-of-use assets and are reported under property, plant and equipment in the consolidated statements of financial position. This reclassification resulted in an increase in property, plant and equipment of $29.8 million and a corresponding reduction in land lease. The Group's land and structures comprising its terminals were transferred by the Group to the BC Transportation Financing Authority, a British Columbia Crown Corporation and related party on April 1, 2003. In exchange, the Group received recognition of a prepayment for leases of the transferred terminal structures and land. The structures, having lives of less than the lease term, were considered a finance lease and as such were capitalized and included with property, plant and equipment and depreciated in accordance with the Group's depreciation policy. The prepayment of the land lease is being depreciated on a straight-line basis over eighty years, being the initial sixty year lease period plus an additional twenty year bargain renewal option.

The application of IFRS 16 did not have any impact on the amounts recognized in the Group's consolidated financial statements for leases where the Group is a lessor.

(b) Future changes in accounting policies:

Amendments to IAS 19 *Employee Benefits*:

On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits*.

The amendments to IAS 19 require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual reporting periods beginning on or after January 1, 2019. The Group will adopt the amendments for the annual reporting period beginning on April 1, 2019. There will be no impact on the Group's consolidated financial statements upon adoption as there were no applicable plan amendments, curtailments or settlements.

3. CASH AND CASH EQUIVALENTS:

As at March 31	2019	2018
Cash	49,486	69,443
Cash equivalents:		
Investments valued at fair value through net earnings	472	470
Investments valued at amortized cost	9,930	–
Total	59,888	69,913

4. INVENTORIES:

As at March 31	2019	2018
Consumable parts and supplies	22,987	23,665
Provision for obsolescence	(1,200)	(1,400)
Net consumable parts and supplies	21,787	22,265
Retail inventories	4,744	4,813
Fuel inventories	4,339	4,506
Total	30,870	31,584

5. PROPERTY, PLANT AND EQUIPMENT:

	VESSELS	BERTHS, BUILDINGS AND EQUIPMENT UNDER FINANCE LEASE	BERTHS, BUILDINGS AND EQUIPMENT	LAND UNDER FINANCE LEASE	RIGHT-OF-USE ASSETS – BERTHS, BUILDINGS AND EQUIPMENT	RIGHT-OF-USE ASSETS – LAND	LAND	CONSTRUCTION IN PROGRESS	TOTAL
Cost:									
Balance as at April 1, 2017	1,305,845	642,436	104,332	6,824	–	–	18,433	212,467	2,290,337
Additions	–	–	–	–	–	–	–	236,463	236,463
Revaluation	–	–	–	353	–	–	1,503	–	1,856
Disposals	(20,982)	(2,097)	(1,113)	–	–	–	–	(628)	(24,820)
Transfers from construction in progress	229,935	42,488	12,329	–	–	–	–	(284,752)	–
Balance as at March 31, 2018	1,514,798	682,827	115,548	7,177	–	–	19,936	163,550	2,503,836
Impact of adoption of IFRS 16	–	(682,827)	512,493	(7,177)	172,831	37,383	–	–	32,703
Balance as at April 1, 2018	1,514,798	–	628,041	–	172,831	37,383	19,936	163,550	2,536,539
Additions	(859)	–	–	–	812	–	–	223,866	223,819
Revaluation	–	–	–	–	–	3,485	4,778	–	8,263
Disposals	(44,193)	–	(5,990)	–	(95)	–	–	–	(50,278)
Transfers from construction in progress	157,565	–	33,492	–	–	–	–	(191,057)	–
Balance as at March 31, 2019	1,627,311	–	655,543	–	173,548	40,868	24,714	196,359	2,718,343
Accumulated depreciation:									
Balance as at April 1, 2017	467,454	149,958	51,123	–	–	–	–	–	668,535
Depreciation	106,517	29,359	10,480	–	–	–	–	–	146,356
Disposals	(20,981)	(2,065)	(1,089)	–	–	–	–	–	(24,135)
Balance as at March 31, 2018	552,990	177,252	60,514	–	–	–	–	–	790,756
Impact of adoption of IFRS 16	–	(177,252)	117,177	–	60,075	–	–	–	–
Balance as at April 1, 2018	552,990	–	177,691	–	60,075	–	–	–	790,756
Depreciation	115,475	–	33,941	–	7,261	606	–	–	157,283
Disposals	(43,872)	–	(5,961)	–	(95)	–	–	–	(49,928)
Balance as at March 31, 2019	624,593	–	205,671	–	67,241	606	–	–	898,111
Net carrying value:									
As at March 31, 2018	961,808	505,575	55,034	7,177	–	–	19,936	163,550	1,713,080
As at April 1, 2018	961,808	–	450,350	–	112,756	37,383	19,936	163,550	1,745,783
As at March 31, 2019	1,002,718	–	449,872	–	106,307	40,262	24,714	196,359	1,820,232

During the year ended March 31, 2019, financing costs capitalized during construction amounted to $6.7 million (March 31, 2018: $5.5 million) with an average capitalization rate 4.97% (March 31, 2018: 5.03%).

Contractual commitments as at March 31, 2019, for assets to be constructed totalled $47.5 million (March 31, 2018: $122.0 million). The majority of these contractual commitments relate to the construction of two Island class vessels.

During the year ended March 31, 2019, the Group recognized asset impairment of $nil (March 31, 2018: $0.6 million). The impairment loss is reported under "(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of comprehensive income.

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, 2019, the Group recognized $14.6 million (March 31, 2018: $14.9 million) as a reduction of the cost of property, plant and equipment.

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 natural gas ("NG"). During the year ended March 31, 2019, $0.9 million was recognized as a reduction of the cost of property, plant and equipment.

During the year ended March 31, 2019, the Group received $1.1 million (March 31, 2018: $1.1 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $3.6 million, respectively, as at March 31, 2019.

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, 2017	103,249	13,324	24,646	141,219
Additions	–	–	15,892	15,892
Disposals	(2)	(57)	(203)	(262)
Transfers from assets under development	21,472	3,151	(24,623)	–
Balance as at March 31, 2018	124,719	16,418	15,712	156,849
Additions	–	–	17,194	17,194
Disposals	(753)	(1,771)	–	(2,524)
Transfers from assets under development	6,369	4,240	(10,609)	–
Balance as at March 31, 2019	130,335	18,887	22,297	171,519
Accumulated amortization:				
Balance as at April 1, 2017	31,895	11,651	–	43,546
Amortization	12,851	709	–	13,560
Disposals	(2)	(57)	–	(59)
Balance as at March 31, 2018	44,744	12,303	–	57,047
Amortization	14,888	1,079	–	15,967
Disposals	(753)	(1,771)	–	(2,524)
Balance as at March 31, 2019	58,879	11,611	–	70,490
Net carrying value:				
As at March 31, 2018	79,975	4,115	15,712	99,802
As at March 31, 2019	71,456	7,276	22,297	101,029

During the year ended March 31, 2019, the Group recognized asset impairment of $nil (March 31, 2018: $0.2 million). The impairment loss is reported under "(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets" in the consolidated statements of comprehensive income.

Capitalized financing costs during construction for intangible assets for the year ended March 31, 2019 totalled $0.7 million (March 31, 2018: $1.0 million).

During the year ended March 31, 2019, intangible assets totalling $9.4 million (March 31, 2018: $8.9 million) were acquired and $7.8 million (March 31, 2018: $7.0 million) were internally developed.

7. LIABILITIES ARISING FROM FINANCING ACTIVITIES:

Continuity of liabilities arising from financing activities:

	LONG-TERM DEBT	LEASE LIABILITIES	INTEREST PAYABLE ON LONG-TERM DEBT
Balance as at April 1, 2017	1,304,799	42,005	18,458
Additions	45,264	–	63,591
Payments	(35,312)	(1,584)	(63,512)
Additions to debt issue costs	(1,417)	–	–
Amortization of debt issue costs	1,035	–	–
Balance as at March 31, 2018	1,314,369	40,421	18,537
Impact of adoption of IFRS 16 (note 2)	–	2,932	–
Balance as at April 1, 2018	1,314,369	43,353	18,537
Additions	–	812	62,760
Payments	(35,282)	(2,184)	(62,868)
Amortization of debt issue costs	956	–	–
Balance as at March 31, 2019	1,280,043	41,981	18,429
Current	57,183	2,184	18,429
Non-current	1,222,860	39,797	–
Balance as at March 31, 2019	1,280,043	41,981	18,429

During the year ended March 31, 2019, the Group recognized $1.9 million (March 31, 2018: $1.8 million) of interest expense related to lease liabilities.

8. CONTRACT LIABILITIES:

Contract liabilities include payments for fares sold in advance of providing transportation and other customer prepaid revenues. During the year ended March 31, 2019, the Group recognized $15.1 million of revenue that was included in the contract liabilities balance at March 31, 2018 and represented revenue from transportation provided. During the year ended March 31, 2018, the Group recognized $16.4 million of revenue that was included in the contract liabilities balance at March 31, 2017.

9. PROVISIONS:

	WAGES PAYABLE	CLAIMS PAYABLE	TOTAL
Balance as at April 1, 2017	54,120	1,591	55,711
Provisions arising during the year	60,234	1,179	61,413
Provisions settled during the year	(55,603)	(1,149)	(56,752)
Balance as at March 31, 2018	58,751	1,621	60,372
Provisions arising during the year	60,303	569	60,872
Provisions settled during the year	(57,991)	(475)	(58,466)
Balance as at March 31, 2019	61,063	1,715	62,778

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

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

10. LOANS:

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

Long-term debt: **As at March 31**	**2019**	**2018**
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
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	7,500	15,000
Tranche B (floating interest rate of 2.34% at March 31, 2019)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	9,375	16,875
Tranche B (floating interest rate of 2.32% at March 31, 2019)	22,500	22,500
2.95% Loan, maturing January 2021		
(effective interest rate of 3.08%)	18,000	27,000
2.09% Loan, maturing October 2028		
(effective interest rate of 2.70%)	36,437	40,175
2.09% Loan, maturing January 2029		
(effective interest rate of 2.68%)	37,710	41,482
2.09% Loan, maturing January 2029		
(effective interest rate of 2.70%)	37,710	41,482
	1,291,732	1,327,014
Less: Unamortized deferred financing costs and bond discounts	(11,689)	(12,645)
Total	1,280,043	1,314,369
Current	57,183	34,594
Non-current	1,222,860	1,279,775
Total	1,280,043	1,314,369

(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

(b) 12 Year Loans, maturing March and June 2020:

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

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

(c) 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.

(d) 2.09% Loans, maturing October 2028 and January 2029:

The Group has a loan agreement with KfW. This loan agreement is secured under the Master Trust Indenture (May 2004) ("MTI (May 2004)") and allows for three loans of up to $45.3 million each.

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

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

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

(e) 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 March 6, 2019 to extend the maturity date to April 20, 2024. There were no draws on this credit facility as at March 31, 2019 and as at March 31, 2018. There was no interest expensed during the years ended March 31, 2019 and March 31, 2018. Letters of credit outstanding against this facility as at March 31, 2019 totalled $0.1 million (March 31, 2018: $0.1 million).

(f) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at March 31, 2019, debt service reserves of $31.6 million (March 31, 2018: $32.3 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

(g) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement. As at March 31, 2019, the debt service coverage ratio was 2.84.

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, 2019 and at March 31, 2018.

11. ACCRUED EMPLOYEE FUTURE BENEFITS:

(a) Description of benefit plans:

	FUNDING STATUS	ADMINISTRATOR	PLAN TYPE	BASIS OF ACCOUNTING
Public Service Pension	funded	Third Party	Multi-employer defined benefit	Defined contribution
Long-term disability	funded	Third Party	Multi-employer defined benefit	Defined contribution
Retirement benefit	unfunded	Group	Defined benefit	Defined benefit
Death benefit	unfunded	Group	Defined benefit	Defined benefit
Sick Bank obligation	unfunded	Group	Defined benefit	Defined benefit
Supplemental executive retirement plan	unfunded	Group	Defined benefit	Defined benefit
WCB obligation	unfunded	Third Party	Defined benefit	Defined benefit

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

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

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

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

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

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

(b) Total cash payments:

Total cash payments for employee future benefits for the year ended March 31, 2019, 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, was $36.1 million (March 31, 2018: $32.6 million).

(c) Multi-employer plans:

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

	2019	2018
Public Service Pension Plan contributions (i)	27,921	25,814
Long-term disability plan contributions (ii)	4,151	4,269
Total	32,072	30,083

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

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

(ii) Contribution rates for the long-term disability plan are actuarially determined every year as a percentage of covered payroll. The funding policy for this plan calls for amortization of individual participating employer deficits and surpluses over 5 years and a 110% funding target for each participant in 5 years. As a result the employer contribution rate was reduced from 1.91% to 1.79% of covered payroll effective April 1, 2019. The most recent valuation, as at September 30, 2018, determined an overall fund surplus. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2020, will be as at March 31, 2019.

(d) Other defined benefit plans:

All of the Group's defined benefit plans, except its multi-employer plans, are currently unfunded. The most recent actuarial valuation of the retirement and death benefit plans was as at March 31, 2017. A plan amendment at December 31, 2007 restricts exempt employees from joining the retirement and death benefit plans. As part of an implementation plan to assist with the transition of certain shipboard management to excluded positions, a further plan amendment was made during the year ended March 31, 2011. This amendment allows bargaining unit employees transferring to excluded positions to continue to be eligible for the retirement benefit, provided the transfer happened on or before December 31, 2013. The most recent actuarial valuation of the WCB obligation was at March 31, 2016. The next scheduled valuation, expected to be received during the fiscal year ended March 31, 2020, will be as at March 31, 2019.

During the year ended March 31, 2018, a net loss of $1.9 million was recognized in OCI to reflect the actuarial valuation of the liability as at March 31, 2017, for the retirement and death benefit plans.

	OTHER BENEFIT PLANS	
Accrued benefit obligations	**2019**	**2018**
Balance, beginning of year	24,299	22,313
Current service cost	1,362	1,473
Interest cost	974	1,044
Benefits paid	(4,052)	(2,474)
Actuarial loss (note 20)	–	1,943
Balance, end of year	22,583	24,299

	OTHER BENEFIT PLANS	
Reconciliation of funded status of the benefit plans to the amounts recognized in the financial statements	**2019**	**2018**
Fair value of plan assets	–	–
Accrued benefit obligation	22,583	24,299
Funded status of plans – deficit	(22,583)	(24,299)
Accrued benefit liability	(22,583)	(24,299)
Current portion of accrued employee future benefits	2,000	3,000
Non-current portion of accrued employee future benefits	(20,583)	(21,299)

	OTHER BENEFIT PLANS	
Elements of defined benefit costs recognized in the year	**2019**	**2018**
Current service cost	1,362	1,473
Interest cost	974	1,044
Defined benefit costs recognized	2,336	2,517

Significant assumptions:

The significant assumptions used are as follows (weighted average):

	2019	**2018**
Accrued benefit obligation as at March 31 and benefit cost for the years ended March 31:		
Discount rate	5.0%	5.0%
Rate of compensation increase	1.9%	1.8%
Annual employee retention rate	94.4%	93.7%
Employees with eligible dependents at pre-retirement death	43.0%	43.0%
Average remaining service period of active employees (years)	9.65	9.65

12. LEASE LIABILITIES:

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

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

Lease liabilities are payable as follows:

	LEASE LIABILITIES
Less than one year	2,184
Between one and five years	10,803
More than five years	4,479
Purchase option	24,515
Total	41,981
Current	2,184
Non-current	39,797
Total	41,981

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

Loan and purchase option:

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

13. OTHER LIABILITIES:

FortisBC Energy Inc. has committed to provide the Group with funding as part of the NGT incentive funding. The funding is dependent upon the purchase of NG and the incremental costs of building/converting vessels to be capable of using NG for propulsion.

During the year ended March 31, 2019, the Group received $2.6 million of the total contribution of $10.0 million to be applied towards the mid-life upgrade, including conversion to NG, of the two Spirit class vessels. As at March 31, 2019, the Group has received a total of $10.4 million in contributions related to the Spirit Class and Salish Class vessels. As of March 31, 2018, the Group had received all of the eligible contributions related to the Salish Class vessels.

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

	SALISH CLASS	SPIRIT CLASS	TOTAL
Balance as at March 31, 2018	6,000	1,750	7,750
Additions	–	2,625	2,625
Reclassifications to property, plant and equipment	(511)	(348)	(859)
Balance as at March 31, 2019	5,489	4,027	9,516

14. FINANCIAL INSTRUMENTS:

The carrying values of the Group's financial instruments approximate fair value as at March 31, 2019 and March 31, 2018 for all financial instruments except for long-term debt:

As at March 31	2019 CARRYING VALUE	2019 APPROX FAIR VALUE	2018 CARRYING VALUE	2018 APPROX FAIR VALUE
Long-term debt, including current portion[1]	1,280,043	1,623,838	1,314,369	1,614,108

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, 2019 and March 31, 2018 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, 2019 or at March 31, 2018, valued using Level 3 inputs.

As at March 31	2019 LEVEL 1	2019 LEVEL 2	2018 LEVEL 1	2018 LEVEL 2
Asset:				
Cash[1]	49,486	–	69,443	–
Cash equivalents[1]	472	–	470	–
Derivatives[2]	–	8,145	–	12,530
	49,958	8,145	69,913	12,530

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

2. 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 into or out of fair value classifications in the year ended March 31, 2019.

During the year ended March 31, 2019, gains or losses related to Level 2 derivatives have been recognized in OCI. There were no Level 3 instruments outstanding during the period.

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

15. FINANCIAL RISK MANAGEMENT:

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

The source of risk exposure and how each is managed is outlined below.

(a) Credit risk:

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

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

Accounts receivable by source are as follows:

	2019		2018	
As at March 31	**$**	**%**	**$**	**%**
Trade customers and miscellaneous	12,999	55.9	16,926	64.5
Federal and Provincial governments	10,247	44.1	9,332	35.5
Total	23,246	100.0	26,258	100.0

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, 2019, 85% of trade and other receivables were current. The Group is using the lifetime ECL (expected credit loss) 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, 2019, the provision for impairment was $0.1 million.

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

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

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

The counterparties with which the Group has significant derivative transactions must be rated A or higher. The Group does not expect any counterparties to default on their obligations.

(b) Liquidity risk:

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

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

As at March 31, 2019 and March 31, 2018 the Group's credit ratings were as follows:

	DBRS	STANDARD & POOR'S
British Columbia Ferry Services Inc.:		
Senior secured long-term debt	A (high)(stable)	AA- (positive)

The following is an analysis of the contractual maturities of the Group's financial liabilities as at March 31, 2019:

FINANCIAL LIABILITIES	< 1 YEAR	2-3 YEARS	4-5 YEARS	> 5 YEARS	TOTAL
Accounts payable and accrued liabilities	80,173	–	–	–	80,173
Interest payable on long-term debt	18,429	–	–	–	18,429
Provisions (note 9)	62,778	–	–	–	62,778
Lease liabilities, including current portion (note 12)	2,184	5,135	5,668	28,994	41,981
Long-term debt, including current portion (excluding deferred costs)[1] (note 10)	57,782	55,939	22,564	1,155,447	1,291,732
Other liabilities	1,301	2,602	2,602	8,636	15,141
Total financial liabilities – principal only	222,647	63,676	30,834	1,193,077	1,510,234
Interest payable – long-term debt[2]	60,591	118,667	117,485	848,141	1,144,884
Interest payable – lease liabilities	1,859	3,348	2,843	1,796	9,846
Total financial liabilities, including interest payable	285,097	185,691	151,162	2,043,014	2,664,964

1. Carrying value at March 31, 2019, excludes unamortized deferred financing costs of $11.7 million. The majority of the Group's long-term debt relates to funds used for acquisition of property, plant and equipment.

2. Interest payable on long-term debt excludes the variable rate interest payable on Tranche B of the 12-Year loans (note 10(b)).

(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, 2019, the Group's cash equivalents and short-term investments include fixed rate instruments with maturities of 182 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 and the second tranche of each of the two 12-Year loans are at variable rates and are subject to interest rate risk.

To manage this risk, the Group maintains between 70% and 100% of its debt portfolio in fixed rate debt, in aggregate. As at March 31, 2019, the Group had approximately 3.4% of total debt in variable rate instruments. A 50 basis point change in interest rates would have had an effect of less than $0.2 million on net earnings for the year ended March 31, 2019.

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, 2019, the notional amount of the Group's foreign currency forward contracts was $0.5 million (March 31, 2018: $1.7 million). A 10% change in foreign exchange rates would have had an effect of approximately $0.1 million on net earnings for the year ended March 31, 2019.

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and NG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term. Performance term five will commence April 1, 2020 and 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 earnings (note 27).

The Group hedges using CAD denominated ultra-low sulfur diesel ("ULSD") 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, 2019, the Group entered into ULSD fuel swap contracts with a notional value of $35.3 million CAD. The notional value of all fuel swap contracts outstanding as at March 31, 2019 was $50.6 million CAD (March 31, 2018: $54.6 million). Hedge accounting was applied to these contracts. No NG swap contracts were entered into during the year ended March 31, 2019 and no NG swap contracts were outstanding as at March 31, 2019.

An economic relationship exists between the hedged item and the hedging instrument as the fair values of both the hedged item and hedging instrument move in opposite directions in response to the same risk. The inclusion of credit risk in the fair value of the hedging instrument which is not replicated in the hedged item is a potential source of ineffectiveness, however, the Group does not consider this risk to be material.

During the year ended March 31, 2019, the total reduction in the fair value of fuel swap contracts was $4.3 million (March 31, 2018: $11.9 million increase). The realized fair value gain of $7.5 million was recognized in OCI. The net realized hedging gain of $11.8 million was reclassified from reserves and included in the Group's fuel expense during the year ended March 31, 2019. There was no hedge ineffectiveness for the year ended March 31, 2019.

Contracts maturing during the year ending March 31, 2020	
Cash flow hedges:	
Fuel price risk:	
Fuel contracts (litres in thousands)	83,928
Contract price range ($/litre)	$0.5308 - $0.6570

(i) As at March 31, 2019, the Group's derivative assets of $8.1 million included fuel swap contracts and foreign exchange forward contracts. All of the Group's derivative assets will mature within twelve months.

Fuel swap contracts as at March 31, 2019:

					FAIR VALUE CHANGES USED FOR CALCULATING HEDGE INEFFECTIVENESS	
	NOTIONAL VALUE OF THE HEDGING INSTRUMENT	CARRYING VALUE OF THE HEDGING INSTRUMENT	ITEM LOCATION	CASH FLOW HEDGE RESERVE	HEDGING INSTRUMENTS	HEDGED ITEMS
Cash flow hedges:						
Fuel price risk	50,616	8,138	Derivative assets	8,138	8,138	8,151

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

As at March 31	2019	2018
Hedging gains recognized in cash flow hedge reserve:		
Fuel swap contracts	7,450	13,580
Hedging (gains) losses reclassified from cash flow hedge reserve:		
Interest rate forward contracts – amortization of hedge loss	248	248
Fuel swap contracts – gain recognized in net earnings	(11,783)	(1,670)
Net change in cash flow hedge reserve	(4,085)	12,158

16. OTHER COMMITMENTS:

The Group has various contracts for certain building spaces, land and equipment. These contracts do not meet the definition of a lease. Contract payments for the year ended March 31, 2019 were $0.5 million (March 31, 2018: $1.1 million).

Future contract payments are as follows:

Less than one year	623
Between one and five years	2,341
More than five years	97
Total	3,061

17. CONTINGENT LIABILITIES:

The Group, in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is uncertain. It is the Group's policy to carry adequate insurance to minimize the financial risk associated with such matters. Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation would not be significant to the Group. Any additional future costs or recoveries which differ from the accrued amounts will be recognized in net earnings or loss as determined.

18. SHARE CAPITAL:

(a) Authorized:

1,000,000 Class A voting common shares, without par value

1 Class B voting common share, without par value

80,000 Class C non-voting, 8% cumulative preferred shares, with a par value of $1,000 per share, convertible to Class A shares upon the sale of the outstanding Class B share by the initial shareholder. Special rights attached to the Class C shares restrict the Group's ability to issue shares and to declare dividends.

(b) Issued and outstanding:

	2019		2018	
As at March 31	NUMBER OF SHARES	AMOUNT $	NUMBER OF SHARES	AMOUNT $
Class B, common	1	1	1	1
Class C, preferred	75,477	75,477	75,477	75,477
		75,478		75,478

(c) Dividends:

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

19. CAPITAL MANAGEMENT:

The Group's principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations. On February 22, 2019, the Board of Directors approved the Group's fiscal 2020 12-year capital portfolio of $3.9 billion, covering fiscal years 2019 through 2030, which will be invested in renewing and maintaining the fleet and the terminals, and improving the customer experience through technology infrastructure. The Commissioner's approval is required for those projects deemed by the Commissioner to be major capital expenditures.

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

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

	2019		2018	
As at March 31	$	%	$	%
Aggregate borrowings[1]	1,488,713	70.42	1,522,435	72.47
Total equity before reserves	625,484	29.58	578,433	27.53
Total	2,114,197	100.00	2,100,868	100.00

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

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

Under the credit facility and the KfW loans, debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) must be at least 1.25 times the debt service cost. Under the MTI, the Group is required to maintain debt service reserves (note 10). Incurrence of additional debt is restricted if the debt service coverage ratio is less than 1.5 times the debt service cost and distributions are restricted if the debt service coverage ratio is less than 1.3 times. In addition to these restrictions and requirements, there are other covenants contained in these loan documents. The Group was in compliance with all of its covenants during the years ended March 31, 2019 and March 31, 2018.

20. OTHER COMPREHENSIVE INCOME (LOSS):

(a) Continuity of reserves:

	LAND REVALUATION RESERVES[1]	EMPLOYEE FUTURE BENEFIT REVALUATION RESERVES	FUEL SWAP RESERVES	INTEREST RATE FORWARD CONTRACT RESERVES	TOTAL
Balance as at April 1, 2017	7,109	(4,026)	561	(6,710)	(3,066)
Land revaluation	1,825	–	–	–	1,825
Actuarial loss on defined benefit plans (note 11(d))	–	(1,943)	–	–	(1,943)
Derivatives designated as cash flow hedges (note 15(c)):					
Net change in fair value	–	–	13,580	–	13,580
Realized gains	–	–	(1,670)	–	(1,670)
Amortization of losses	–	–	–	248	248
Balance as at March 31, 2018	8,934	(5,969)	12,471	(6,462)	8,974
Land revaluation	7,945	–	–	–	7,945
Derivatives designated as cash flow hedges (note 15(c)):					
Net change in fair value	–	–	7,450	–	7,450
Realized gains	–	–	(11,783)	–	(11,783)
Amortization of losses	–	–	–	248	248
Balance as at March 31, 2019	16,879	(5,969)	8,138	(6,214)	12,834

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, 2019 and March 31, 2018, are shown above. During the year ended March 31, 2019, the Group recognized less than $0.3 million (March 31, 2018: less than $0.1 million) in net earnings as a result of land revaluation.

(b) Other comprehensive income:

Years ended March 31	2019	2018
Items to be reclassified to net earnings:		
Hedge gains on fuel swaps (note 15(c))	7,450	13,580
Items not to be reclassified to net earnings:		
Land revaluations	7,945	1,825
Actuarial losses on defined benefit plans (note 11(d))	–	(1,943)
Total other comprehensive income	15,395	13,462

21. NET RETAIL:

Years ended March 31	2019	2018
Retail revenue	102,847	98,339
Cost of goods sold	(38,987)	(38,268)
Net retail	63,860	60,071

22. OPERATING EXPENSES:

Years ended March 31	2019	2018
Salaries, wages & benefits	388,370	371,988
Fuel	109,138	102,485
Materials, supplies and contracted services	85,952	86,315
Other operating expenses	64,000	63,569
Depreciation and amortization	173,250	159,916
Total operating expenses	820,710	784,273

23. NET FINANCE EXPENSE:

Years ended March 31	2019	2018
Finance expenses:		
Long-term debt	62,770	63,612
Other interest	725	451
Lease liabilities	1,887	1,799
Amortization of deferred financing costs and bond discounts	1,203	1,283
Interest capitalized in the cost of qualifying assets	(7,391)	(6,466)
Total finance expenses	59,194	60,679
Finance income	(6,182)	(5,495)
Net finance expense	53,012	55,184

24. RELATED PARTY TRANSACTIONS:

(a) Management compensation:

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

Years ended March 31	2019	2018
Short-term benefits	2,119	2,120
Post-employment benefits	302	260
Termination benefits	593	593
Total	3,014	2,973

(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, 2019, the Group paid $0.1 million (March 31, 2018: $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.

25. FERRY SERVICE FEES:

On April 1, 2003, the Group entered into an agreement with the Province to provide ferry services on specified routes that would not be commercially viable and to administer certain social policy initiatives on behalf of the Province. In exchange for these services and to compensate for these non-profitable routes, the Group receives ferry service fees. The agreement is for a period of sixty years, the details of which are renegotiated after a first term of five years and each four year term thereafter. The agreement has been amended from time to time to, among other things, establish the ferry service levels and the fees for the provision of such service for the fourth performance term ending March 31, 2020.

26. FEDERAL-PROVINCIAL SUBSIDY AGREEMENT:

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

27. ECONOMIC EFFECT OF RATE REGULATION:

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

In January 2014 the IASB issued IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 is an interim standard that 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 that had already transitioned to IFRS. The Group transitioned to IFRS effective April 1, 2011. As a result, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the regulatory assets at March 31, 2019, are probable of future recovery in tariff or fuel surcharges.

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

Regulatory assets (liabilities)

As at March 31	2019	2018
Deferred fuel costs (a):		
Balance, beginning of year	(239)	4,450
Fuel costs over (under) set price	84	(8,630)
Rebates	4,585	19,386
Fuel price risk recoveries payable to the Province	25	291
Corporate contribution	–	(15,736)
Balance, end of year	4,455	(239)
Total regulatory assets (liabilities)	4,455	(239)

(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, 2019, the amounts payable to the Province in relation to fuel cost differences totalled $25 thousand (March 31, 2018: $0.3 million). At March 31, 2018, the Group contributed $15.7 million to cover the balance in the non-northern routes' deferred fuel cost account and eliminate the need to recoup these costs from customers in the future.

(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, 2019 and March 31, 2018, tariffs charged to customers were below established price caps.

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the year ended March 31, 2019 would have been $4.7 million higher (March 31, 2018: $4.7 million lower) as detailed below:

Effect of rate regulation on net earnings

Years ended March 31	2019	2018
Regulatory accounts:		
Deferred fuel costs	4,694	(4,689)
Total increase (decrease) in net earnings	4,694	(4,689)

CORPORATE DIRECTORY

Board of Directors

(fiscal year ended March 31, 2019)

DONALD P. HAYES[1]
CHAIR

BRUCE A. CHAN

BRENDA J. EATON
(EFFECTIVE JANUARY 1, 2019)

JAN K. GRUDE

JOHN A. HORNING
(VICE CHAIR DESIGNATE)

BRIAN G. KENNING[1]

GORDON M. KUKEC

SARAH A. MORGAN-SILVESTER
O.B.C.

DAVID R. PODMORE
O.B.C. (EFFECTIVE FEBRUARY 1, 2019)

P. GEOFFREY PLANT
Q.C. (VICE CHAIR)[1]

JUDITH F. SAYERS
(EFFECTIVE JUNE 28, 2019)

1. Effective May 22, 2019, the *Coastal Ferry Act* was amended to limit the maximum period of time that a director can serve on the BC Ferries board to eight consecutive years, and having each served in excess of that time, Donald P. Hayes, P. Geoffrey Plant and Brian G. Kenning resigned from the board. Following the resignations, John A. Horning was elected Chair of the board and Jan K. Grude was elected Vice Chair of the board.

Senior Officers of the Company

(fiscal year ended March 31, 2019)

MARK F. COLLINS
PRESIDENT & CHIEF EXECUTIVE OFFICER

GLEN N. SCHWARTZ
EXECUTIVE VICE PRESIDENT,
HUMAN RESOURCES
& CORPORATE DEVELOPMENT

CORRINE E. STOREY
VICE PRESIDENT & CHIEF OPERATING OFFICER

M. ALANA GALLAGHER
VICE PRESIDENT & CHIEF FINANCIAL OFFICER

Officers of the Company

(fiscal year ended March 31, 2019)

JOANNE E. CARPENDALE
TREASURER

JANET E. CARSON
VICE PRESIDENT, MARKETING & CUSTOMER EXPERIENCE

CYNTHIA M. LUKAITIS
VICE PRESIDENT & CORPORATE SECRETARY

CAPTAIN D. W. JAMES MARSHALL
VICE PRESIDENT, BUSINESS DEVELOPMENT & INNOVATION

ERWIN MARTINEZ
VICE PRESIDENT & CHIEF INFORMATION OFFICER

MARK C. WILSON
VICE PRESIDENT, STRATEGY & COMMUNITY ENGAGEMENT

ANNUAL REPORT

B.C. FERRY AUTHORITY

Message from the Chair	148
Annual Report	149
Financial Statements	156
Corporate Directory	164

On behalf of the board of directors of the B.C. Ferry Authority (the "Authority"), I am pleased to present the Authority's annual report for the fiscal year ended March 31, 2019.

As the shareholder of British Columbia Ferry Services Inc. ("BC Ferries"), the Authority plays an important role in ensuring that BC Ferries provides a service that is responsive to the needs of both ferry customers and the many stakeholders who have a connection with the company.

One of the mandates of the Authority is to appoint directors to the board of BC Ferries. Through these appointments, we ensure that the board as a whole has the right blend of experience, expertise and knowledge to provide sound governance of the company. This past year we appointed three new directors to the board. These three accomplished individuals have added new perspectives and skills.

Legislative changes that took shortly after the fiscal year end, place renewed emphasis on the role of the Authority in providing strategic oversight of BC Ferries in support of the public interest, including the public's interest in safe, reliable and affordable coastal ferry services in British Columbia. As we begin this new fiscal year we are well on our way to implementing the legislative amendments.

On behalf of the board, I would like to thank the Authority directors who completed their terms during the year – former Chair Yuri Fulmer, Fiona Macdonald and Paul Williams – for their years of service and commitment to the organization.

We welcome new directors Shona Moore, Marvin Shaffer and Lecia Stewart to the board each for a three-year term and look forward to working with them.

SANDRA A. STODDART-HANSEN
CHAIR OF THE BOARD OF DIRECTORS
B.C. FERRY AUTHORITY

The B.C. Ferry Authority (the "Authority" or "BCFA") is established and governed by the *Coastal Ferry Act*. The Authority is a corporation without share capital which owns the single issued voting share of British Columbia Ferry Services Inc. ("BC Ferries" or the "Company"), the service provider under contract to the Province of British Columbia (the "Province") responsible for the delivery of ferry service along coastal British Columbia. The Province is the holder of all of the preferred shares of BC Ferries and has no voting interest in either the Authority or BC Ferries.

The Authority's principal responsibilities are set out in the *Coastal Ferry Act*, and in the fiscal year ended March 31, 2019 ("fiscal 2019") were to appoint the directors of BC Ferries and to establish compensation plans for the directors and certain executive officers of the Company.

The Authority and BC Ferries have entered into a protocol agreement which clarifies and confirms their respective roles and responsibilities in relation to the authority of BCFA as shareholder of BC Ferries and the matters respecting the appointment and remuneration of BC Ferries' directors, and the remuneration of certain executive officers of the Company.

The Authority has adopted high standards of public and stakeholder accountability that require the Authority's financial and operating performance, the plans it has established in respect of BC Ferries' director and executive compensation, and its processes for appointing directors of the Authority and BC Ferries to be open to public view.

APPOINTMENT OF DIRECTORS OF BC FERRIES

In accordance with the *Coastal Ferry Act*, the Authority makes its determinations on the composition of the BC Ferries board of directors (the "board") in consideration of the skills and experience that each director holds. The Authority selects individuals for appointment or renewal of term in such a way as to ensure that, as a group, the directors of the Company are qualified candidates who hold all of the skills and all of the experience needed to oversee the operation of BC Ferries in an efficient and cost-effective manner. The Authority has established a profile setting out the key skills and experience that BC Ferries' directors individually and collectively should possess to meet this legislative requirement. The skills and experience profile is reviewed regularly by BCFA to ensure alignment of the skills and experience represented on the BC Ferries board with the key operational and strategic objectives of the Company for which the directors collectively have oversight responsibility.

The Authority holds the view that a diverse board makes prudent business sense and makes for good corporate governance. Within the over-riding objective of ensuring that the board of BC Ferries possesses the appropriate skills and experience, the Authority also seeks to maintain a composition of talented and dedicated directors with a diverse mix of backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. Residency in a ferry-dependent community and regular ferry usage are seen as valuable attributes for directors and, in fiscal 2019, the skills and experience profile was amended by BCFA to recognize this.

Also in fiscal 2019, the Authority increased the size of the BC Ferries board from nine to 11eleven and elected three new directors, Judith F. Sayers, Brenda J. Eaton and David R. Podmore for terms ending 2021, 2022 and 2023, respectively. The Authority also re-elected incumbent director Gordon M. Kukec for a subsequent term ending 2022.

The directors of BC Ferries in fiscal 2019 are listed in Table 1.

Table 1 – BC Ferries Board of Directors

Year ended March 31, 2019

DIRECTOR	TERM ENDING
Donald P. Hayes, Chair	2019
Bruce A. Chan	2019
Brenda J. Eaton[1]	2022
Jan K. Grude	2021
John A. Horning	2020
Brian G. Kenning	2019
Gordon M. Kukec	2022
Sarah A. Morgan-Silvester, O.B.C.	2020
P. Geoffrey Plant, Q.C.	2019
David R. Podmore[2]	2023
Judith F. Sayers[3]	2021

1. Brenda J. Eaton was elected to the board effective January 1, 2019.
2. David R. Podmore was elected to the board effective February 1, 2019.
3. Judith F. Sayers was elected to the board effective June 28, 2018.

In fiscal 2019 the Authority also determined to reduce the size of the BC Ferries board to nine upon the planned retirements of Donald P. Hayes and Brian G. Kenning in June 2019, and to re-elect incumbent directors Bruce A. Chan and P. Geoffrey Plant each for a subsequent term ending 2023 and 2020, respectively.

Effective May 22, 2019, the *Coastal Ferry Act* was amended to limit the maximum period of time that a director can serve on the BC Ferries board to eight consecutive years, and having each served in excess of that time, Donald P. Hayes, P. Geoffrey Plant and Brian G. Kenning resigned from the board. In response to the legislative amendment, the Authority also reduced the term of Bruce A. Chan's re-election by one year to 2022 such that his consecutive years of service will not exceed the maximum allowable. This change was effective June 24, 2019. Also effective that date, the Authority further reduced the size of the board to eight.

BC FERRIES COMPENSATION PLANS

As required by the *Coastal Ferry Act*, the Authority has established director and executive compensation plans for BC Ferries. The current plans are available for public view on the Authority's website: www.bcferryauthority.com.

Directors' Compensation Plan

The compensation plan for the directors of BC Ferries was established in the year ended March 31, 2011. The remuneration limits set out in the plan were established with the assistance of an independent third-party compensation expert and with reference to the *Coastal Ferry Act*, which requires that the remuneration under a directors' compensation plan 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 not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors. The remuneration for the directors of the Company was set by BCFA in accordance with the plan effective October 1, 2010. The directors' compensation plan and the remuneration framework for the Company's directors have remained unchanged since their establishment.

Executive Compensation Plan

An executive compensation plan applies to the executives of the Company, as that term is defined in the *Coastal Ferry Act*, which in fiscal 2019 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO") or an Executive Vice President.[1] Pursuant to *Miscellaneous Statutes Amendment Act No. 3 – 2010* ("Bill 20"), an individual who held such a position on the date Bill 20 received first reading in 2010 is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries.

An executive compensation plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such a plan can receive in any 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 *Coastal Ferry Act,* 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.

In the year-ended March 31, 2017, the Authority approved an executive compensation plan with an effective date of September 1, 2016 (the "2017 plan"). In fiscal 2019, this plan governed the remuneration of the Company's President and CEO, Chief Financial Officer and Chief Operating Officer.

In fiscal 2019, as a consequence of the Company's need to recruit a new Chief Financial Officer to replace the incumbent who had indicated that she will be stepping down from the position in fiscal 2020, the Authority, with input from the BC Ferries board and an independent compensation advisor, undertook a review of the remuneration limits set out in the 2017 plan in conjunction with market data from appropriate Canadian and provincial public sector employer organizations. Based on this review, the Authority determined that adjustments to the maximum levels of remuneration set out in the 2017 plan were warranted, and a new executive compensation plan incorporating those adjustments (the "new plan") was established effective March 31, 2019. The new plan provides for adjustments in the remuneration limits for the three positions covered by the plan which will serve to reduce compression in executive compensation levels in the future. The new plan provides that an individual whose remuneration was set under the 2017 plan will continue to be governed by that plan for so long as that individual's remuneration remains unchanged. As such, the new remuneration limits will apply only to those individuals who are appointed to the positions in the future and/or to the incumbents should the Company change their remuneration.

1. The *Coastal Ferry Amendment Act – 2019* has broadened the definition of "executive" in the *Coastal Ferry Act* to include Vice Presidents, effective May 16, 2019.

APPOINTMENT OF BCFA DIRECTORS

The composition of the board of the Authority is set out in the *Coastal Ferry Act* and, in fiscal 2019, the board was comprised of four directors appointed by the board from nominees of four appointment areas composed of coastal regional districts, one director appointed by the board from the nominees of the BC Ferry & Marine Workers' Union, the trade union representing the employees of BC Ferries, two directors appointed by the Province and two additional directors appointed by the board from members of the community-at-large.

At the conclusion of fiscal 2019, Paul L. Williams, appointed by the Province, retired from the board, and the Province appointed Lecia Stewart as a director effective April 1, 2019. Also effective that date, the board reappointed Fiona L. Macdonald, a qualified candidate from the community-at-large, and Shirley J. Mathieson, a qualified candidate nominated by the BC Ferries & Marine Workers' Union, each for a subsequent three-year term ending March 31, 2022.[2]

The directors of BCFA in fiscal 2019 are listed in Table 2. In selecting individuals to serve as directors of the Authority, two primary objectives continued to guide the board in its deliberations. The first objective was to ensure that the composition of the board continues to meet the requirements of the *Coastal Ferry Act*, and the second was to ensure that, collectively, the board includes qualified individuals with the skills and experience necessary to ensure the sound performance of the Authority and the effective interaction and operation of the board. The skills and experience profile for the BCFA board guided the board in its appointment process during the year. The profile is reviewed by the board on an annual basis to ensure it encompasses the appropriate set of skills and experience. A copy of the current profile is attached as Schedule "A" to the general bylaws of the Authority.

The Authority believes that a diverse board serves to strengthen decision making and enhances overall board governance. Within the overarching objective of ensuring that the board is composed of members that collectively possess the appropriate skills and experience to enable the Authority to perform its stewardship role effectively, the board, in selecting candidates for appointment, also seeks to maintain and/or enhance the diversity of background among its members.

Table 2 – BCFA Board of Directors

Year Ended March 31, 2019

DIRECTOR		TERM ENDING MARCH 31
Yuri L. Fulmer, O.B.C.,Chair	Community-at-Large	2021
Shelley L. Chrest	Central Vancouver Island & Northern Georgia Strait Appointment Area	2021
Fiona L. Macdonald[1]	Community-at-Large	2019
Shirley J. Mathieson[2]	Organized Labour	2019
Susan G. Mehinagic	Southern Vancouver Island Appointment Area	2020
G. Wynne Powell	Province of British Columbia	2020
Michael W. Pucci	Northern Coastal and North Island Appointment Area	2021
Sandra A. Stoddart-Hansen	Southern Mainland Appointment Area	2020
Paul L. Williams[3]	Province of British Columbia	2019

1. Fiona L. Macdonald was reappointed to the board from the community-at-large effective April 1, 2019 for a subsequent term ending 2022. However, amendments to the *Coastal Ferry Act* were brought into effect on May 22, 2019 that eliminated the community-at-large positions from the board, and effective that date, Ms. Macdonald retired from the board.

2. Shirley J. Mathieson, a nominee of the BC Ferry & Marine Workers' Union was reappointed to the board effective April 1, 2019 for a subsequent term ending 2022.

3. Paul L. Williams retired from the board on March 31, 2019, and Lecia Stewart was appointed to the board by the Province effective April 1, 2019 for a term ending 2022.

BCFA GENERAL BYLAWS

The general bylaws of the Authority are available for public view on the Authority's website. There were no amendments made to the general bylaws in fiscal 2019.

2. *The Coastal Ferry Amendment Act – 2019* has altered the composition of the board, by eliminating the two positions appointed from the community-at-large and increasing the number of positions appointed by the Province from two to four. These changes were effective May 22, 2019 and, as at that date, Yuri L. Fulmer and Fiona L. Macdonald, members appointed from the community-at-large, retired from the board, and Shona Moore and Marvin Shaffer were appointed by the Province to the board.

BCFA BOARD MEETINGS

The board meets regularly to conduct its business. In fiscal 2019, the board met on five occasions. This included the annual general meeting of the Authority held in accordance with the *Coastal Ferry Act*. A summary of the outcomes of the meetings of the board is provided in Table 3.

Table 3 – Summary of Meeting Outcomes

Year Ended March 31, 2019

DATE	TYPE	OUTCOMES[1]
June 28, 2018	Board of Directors	• Fiscal 2018 audited financial statements of the Authority approved. • Fiscal 2018 annual report of the Authority approved. • Fiscal 2018 report on the Authority's compliance with the *Coastal Ferry Act* approved for submission to the British Columbia Ferries Commissioner. • Amendments to the Authority board's governance manual approved. • Amendments to the Authority's Code of Business Conduct and Ethics and Corporate Disclosure and Securities Trading Policy approved. • Corporate Secretary authorized to execute the shareholder's unanimous consent resolutions pertaining to matters respecting the business required to be transacted at the 2018 annual general meeting of BC Ferries, including the election of Judith F. Sayers as a director of BC Ferries for a term ending 2021, and the re-election of Gordon M. Kukec as a director of BC Ferries for a term ending 2022. • Fiona L. Macdonald reappointed a director of the Authority from the community-at-large effective April 1, 2019 for a subsequent term ending March 31, 2022. • Size of the BC Ferries board increased to ten and Brenda J. Eaton elected a director effective January 1, 2019 for a term ending 2022.
August 23, 2018	Board of Directors	*No resolutions passed.*
August 24, 2018	Annual General Meeting	*Annual General Meeting open to the public held in Vancouver, British Columbia.*
January 17, 2019	Board of Directors	• Size of the BC Ferries board increased to eleven and David R. Podmore elected a director effective February 1, 2019 for a term ending 2023. • Intent to reduce the size of the BC Ferries board to nine effective the 2019 annual general meeting of the Company confirmed; • Intent to re-elect Bruce A. Chan and P. Geoffrey Plant as directors of BC Ferries for terms ending 2023 and 2020, respectively, confirmed.
March 28, 2019	Board of Directors	• Shirley J. Mathieson appointed to the Authority board from qualified candidates nominated by the B.C. Ferry & Marine Workers' Union effective April 1, 2019 for a subsequent term ending March 31, 2022. • Appointment of Yuri L. Fulmer as Chair of the board continued. • Fiscal 2019 terms of engagement of the external auditor approved. • Fiscal 2020 operating budget of the Authority approved. • Time and location of the 2019 annual general meeting of the Authority confirmed. • Skills and experience profile of the BC Ferries board amended. • BC Ferries' executive compensation plan dated March 2019 approved and established effective March 31, 2019. • Alterations to the Articles of BC Ferries to address the establishment of the new executive compensation plan approved, subject to their approval by the Province as holder of the preferred shares of the Company.

1. Meeting outcomes are resolutions passed by the board.

Meeting attendance for board members is an important issue and one that the Authority monitors on a regular basis. In fiscal 2019, meeting attendance by board members was 98 percent.

REMUNERATION OF BCFA DIRECTORS

An outline of the current remuneration framework for directors of the Authority is provided in Table 4. The framework, which was set by the board effective October 1, 2010, is regularly reviewed and has remained unchanged since that date. The amount each director received for remuneration and expenses in fiscal 2019 is set out in Table 5.

Table 4 – BCFA Director Remuneration Framework

Year Ended March 31, 2019

ANNUAL RETAINERS	
Board Chair Retainer	$25,000
Board Member Retainers:	
Base Retainer (all directors excluding board Chair)	$ 6,250
Committee Chair Retainer[1]	$ 2,000
Committee Member Retainer[1]	$ 750
PER DIEM FEES[2]	
Board Member Fees (all directors excluding board Chair)	Up to $1,200 per day
FERRY TRAVEL PASS	
Ferry pass for directors and eligible members of their respective immediate families, for complimentary vehicle and personal travel on BC Ferries' vessels.	

1. There currently are no committees of the board.

2. Directors are also eligible for reimbursement of reasonable expenses incurred on board-related business.

Table 5 – BCFA Director Remuneration and Expenses

Year Ended March 31, 2019

DIRECTOR	REMUNERATION[1] $	EXPENSES REIMBURSED $
Yuri L. Fulmer, O.B.C.[2]	29,824	Nil
Shelley L. Chrest	14,992	1,096
Fiona L. Macdonald	11,406	Nil
Shirley J. Mathieson	11,788	Nil
Susan G. Mehinagic	13,063	Nil
G. Wynne Powell	13,657	Nil
Michael W. Pucci	15,607	573
Sandra A. Stoddart-Hansen	16,154	1,826
Paul L. Williams	11,650	Nil

1. Remuneration includes retainers, per diem fees and taxable income from the ferry travel pass program.

2. Yuri L. Fulmer served as Chair of the board in fiscal 2019.

TO THE BOARD OF DIRECTORS, B.C. FERRY AUTHORITY

OPINION

We have audited the financial statements of B.C. Ferry Authority ("the Entity"), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at March 31, 2019, and its financial performance and its cash flows for the year 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 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.

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’s 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.
- 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 24, 2019

B.C. FERRY AUTHORITY

Statements of Financial Position (Expressed in thousands of Canadian dollars)

As at March 31	2019	2018
ASSETS		
Investment in British Columbia Ferry Services Inc.	562,841	511,930
Total assets	562,841	511,930
EQUITY		
Invested in common share of British Columbia Ferry Services Inc.	1	1
Contributed surplus of British Columbia Ferry Services Inc.	25,000	25,000
Accumulated undistributed earnings of British Columbia Ferry Services Inc.	537,840	486,929
Total equity	562,841	511,930

Statements of Comprehensive Income (Expressed in thousands of Canadian dollars)

Years ended March 31	2019	2018
EARNINGS		
Distributable earnings of British Columbia Ferry Services Inc. (note 3)	50,011	65,975
Total revenue	50,011	65,975
EXPENSES		
Administration	141	164
Recovery from British Columbia Ferry Services Inc. (note 4)	(141)	(164)
Total expenses	–	–
Total comprehensive income	50,011	65,975

Statements of Cash Flows (Expressed in thousands of Canadian dollars)

Years ended March 31	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	50,011	65,975
Items not affecting cash		
Distributable earnings of British Columbia Ferry Services Inc. (note 3)	(50,011)	(65,975)
Net increase in cash	–	–

See accompanying notes to the financial statements.

Statements of Changes in Equity (Expressed in thousands of Canadian dollars)

	INVESTED IN BCFS	CONTRIBUTED SURPLUS OF BCFS	ACCUMULATED UNDISTRIBUTED EARNINGS OF BCFS	TOTAL EQUITY
Balance as at April 1, 2017	1	25,000	420,954	445,955
Total comprehensive income	–	–	65,975	65,975
Balance as at March 31, 2018	1	25,000	486,929	511,930
Impact of adoption of IFRS 15 on BCFS	–	–	900	900
Balance as at April 1, 2018	**1**	**25,000**	**487,829**	**512,830**
Total comprehensive income	–	–	50,011	50,011
Balance as at March 31, 2019	**1**	**25,000**	**537,840**	**562,841**

See accompanying notes to the financial statements.

YEARS ENDED MARCH 31, 2019 AND 2018
(Tabular amounts expressed in thousands of Canadian dollars)

B.C. Ferry Authority (the "Authority") was established by the *Coastal Ferry Act* (British Columbia) (the "Act") on April 1, 2003, as a corporation without share capital. The Act specifies that the Authority is governed by a board of nine directors. The terms of three director positions expire each fiscal year. The board of directors appoints replacements for outgoing directors for seven of the positions as follows:

- four appointed from nominees of qualified individuals, as defined in the Act, provided to the board by each of the four appointment areas consisting of those coastal regional districts that the Lieutenant Governor in Council of British Columbia may prescribe, with one director appointed from each area;
- one appointed from nominees of qualified individuals provided by the trade union representing the employees of British Columbia Ferry Services Inc. ("BCFS");
- two appointed from qualified individuals selected by the board of directors.

The Lieutenant Governor in Council of British Columbia appoints the other two directors from qualified individuals as terms expire.

The Authority's primary purposes are set out in the Act and are to hold the single-issued common voting share of BCFS, a company incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, and which now validly exists under the *Business Corporations Act* (British Columbia), to appoint the directors of BCFS, and to establish compensation plans for the directors and certain executive officers of BCFS. BCFS's primary business is the provision of coastal ferry services in British Columbia. The Province of British Columbia (the "Province") contributed the initial capital to the Authority to fund the purchase of the BCFS common share. The Act provides that upon a sale of the common share of BCFS held by the Authority, the Authority shall repay the Province its initial contribution and be dissolved. The Act also provides that upon dissolution of the Authority, all remaining assets of the Authority, if any, vest in the Province. As part of his annual report to the Lieutenant Governor in Council, the British Columbia Ferries Commissioner is required by the Act to issue an opinion on the performance of the Authority in carrying out its legislated responsibilities.

1. ACCOUNTING POLICIES:

(a) Basis of preparation:

B.C. Ferry Authority is a corporation domiciled in Canada. The address of the Authority's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC, Canada, V8W 0B7.

These financial statements represent the annual statements of the Authority as at and for the years ended March 31, 2019 and 2018, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In accordance with IFRS, the Authority has provided comparative financial information and applied the same accounting policies throughout all periods presented unless otherwise indicated.

These financial statements are prepared in accordance with IAS 27 *Separate Financial Statements* and therefore do not consolidate the results of the Authority's wholly-owned subsidiary, BCFS. The Authority has elected to account for its investment in BCFS using the equity method. Under the equity method the original cost of the investment is adjusted for the Authority's share of post-acquisition earnings or losses, dividends and any other post-acquisition changes in the equity of BCFS.

These financial statements have been prepared using the historical cost method and are presented in Canadian dollars which is the Authority's functional currency. All tabular financial data is presented in thousands of Canadian dollars.

These financial statements were approved by the Board of Directors on June 24, 2019.

(b) Use of estimates and judgments:

The preparation of financial statements in accordance with IFRS requires management to make judgements, 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.

(c) Taxes:

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

2. ADOPTION OF NEW AND AMENDED STANDARDS:

(a) Changes in accounting policies:

The Authority has adopted the following new standards effective April 1, 2018:

IFRS 9 *Financial Instruments (2014)*:
IFRS 9 *Financial Instruments* (2014) introduces a single, forward-looking expected credit loss model for assessing impairment of financial assets, and incorporates the guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). The application of IFRS 9 (2014) had no impact on the Authority's financial statements.

IFRS 15 *Revenue from Contracts with Customers*:
IFRS 15 *Revenue from Contracts with Customers* provides a single, principle based five-step model to be applied to all contracts with customers. The application of IFRS 15 had no impact on the Authority's financial statements other than an increase of $0.9 million to the opening balance of accumulated undistributed earnings of BCFS.

IFRS 16 *Leases*:
The Authority early adopted IFRS 16 *Leases* effective April 1, 2018. The standard introduces a single lessee accounting model that requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. The application of IFRS 16 had no impact on the Authority's financial statements.

(b) Future changes in accounting policies:

Amendments to IAS 19 *Employee Benefits*:
On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits*.

The amendments to IAS 19 require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual reporting periods beginning on or after January 1, 2019. The Authority will adopt the amendments for the annual reporting period beginning on April 1, 2019. There will be no impact on the Authority's financial statements upon adoption.

3. DISTRIBUTABLE EARNINGS OF BRITISH COLUMBIA FERRY SERVICES INC.:

The distributable earnings of BCFS consist of the current period total comprehensive income, less amounts reclassified from equity and any dividends paid in the current period and less a reserve for undeclared preferred share dividends, if any.

Years ended March 31	2019	2018
Net earnings of BCFS	52,189	59,973
Other comprehensive gain (loss):		
Items to be reclassified to net earnings	7,450	13,580
Items not to be reclassified to net earnings	7,945	(118)
Total comprehensive income	67,584	73,435
Realized hedge gains recognized on fuel swaps	(11,783)	(1,670)
Amortization of hedge loss on interest rate forward contract	248	248
Dividends paid on 8% cumulative preferred shares	(6,038)	(6,038)
Distributable earnings	50,011	65,975

4. RECOVERY FROM BRITISH COLUMBIA FERRY SERVICES INC.:

In accordance with the Act, BCFS is responsible for paying any expenses that are incurred by the Authority.

5. SUBSIDIARY SUPPLEMENTAL INFORMATION:

The consolidated financial position and operating results for BCFS and its wholly-owned subsidiaries are summarized below:

As at March 31	2019	2018
Assets:		
Current assets	236,754	295,254
Non-current assets	1,945,776	1,867,168
Total assets	2,182,530	2,162,422
Liabilities:		
Current liabilities	251,456	227,422
Long-term debt and other long-term liabilities	1,292,756	1,347,593
Total liabilities	1,544,212	1,575,015
Equity:		
Common share held by the Authority	1	1
Preferred shares (a)	75,477	75,477
Contributed surplus	25,000	25,000
Retained earnings	525,006	477,955
Equity before reserves	625,484	578,433
Reserves (b.i)	12,834	8,974
Total equity including reserves	638,318	587,407
Total liabilities and equity	2,182,530	2,162,422

Years ended March 31	2019	2018
Revenue	925,653	900,608
Expenses	873,464	840,635
Net earnings	52,189	59,973
Other comprehensive income (b.ii)	15,395	13,462
Total comprehensive income	67,584	73,435

(a) The outstanding non-voting, 8% cumulative preferred shares are held by the Province and are convertible to common shares upon a sale of the outstanding common share. Special rights attached to the preferred shares restrict BCFS' ability to issue share capital and to declare dividends.

(b) Other comprehensive income (loss):

(i) Continuity of reserves:

	LAND REVALUATION RESERVES	EMPLOYEE FUTURE BENEFIT REVALUATION RESERVES	FUEL SWAP RESERVES	INTEREST RATE FORWARD CONTRACTS RESERVES	TOTAL
Balance as at April 1, 2017	7,109	(4,026)	561	(6,710)	(3,066)
Land revaluation	1,825	–	–	–	1,825
Actuarial loss on defined benefit plans	–	(1,943)	–	–	(1,943)
Derivatives designated as cash flow hedges:					
Net change in fair value	–	–	13,580	–	13,580
Realized gains	–	–	(1,670)	–	(1,670)
Amortization of losses	–	–	–	248	248
Balance as at March 31, 2018	8,934	(5,969)	12,471	(6,462)	8,974
Land revaluation	7,945	–	–	–	7,945
Derivatives designated as cash flow hedges:					
Net change in fair value	–	–	7,450	–	7,450
Realized gains	–	–	(11,783)	–	(11,783)
Amortization of losses	–	–	–	248	248
Balance as at March 31, 2019	16,879	(5,969)	8,138	(6,214)	12,834

(ii) Other comprehensive income:

Years ended March 31	2019	2018
Items to be reclassified to net earnings:		
Hedge gains on fuel swaps	7,450	13,580
Items not to be reclassified to net earnings:		
Land revaluations	7,945	1,825
Actuarial losses on defined benefit plans	–	(1,943)
Total other comprehensive income	15,395	13,462

Other comprehensive income of BCFS includes:

a. In cash flow hedging relationships, the effective portion of the change in the fair values of the derivatives.

b. Fair value increases of owned land and head office land, 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 the decrease exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation.

c. Actuarial gains and losses on employee future benefits which are not reclassified to net earnings or loss in subsequent periods.

6. RELATED PARTY TRANSACTIONS:

Management compensation:

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

Years ended March 31	2019	2018
Short-term benefits	2,257	2,258
Post-employment benefits	302	260
Termination benefits	593	593
Total	3,152	3,111

7. SHARE CAPITAL:

The share capital of BCFS is described below:

(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:

	2019		2018	
As at March 31	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.

8. SUBSEQUENT EVENT:

On May 16, 2019, the Province enacted Bill 25 – Coastal Ferry Amendment Act, 2019 to amend the Act. Bill 25, among other things, increases the number of directors appointed by the Lieutenant Governor in Council of British Columbia from two to four and eliminates the two director positions appointed by the board of directors from members of the community-at-large. These provisions of Bill 25 were brought into force by regulation of the Lieutenant Governor in Council effective May 22, 2019.

CORPORATE DIRECTORY

Board of Directors

(fiscal year ended March 31, 2019)

YURI L. FULMER
O.B.C.,CHAIR

SHELLEY L. CHREST

FIONA L. MACDONALD

SHIRLEY J. MATHIESON

SUSAN G. MEHINAGIC

G. WYNNE POWELL

MICHAEL W. PUCCI

SANDRA A. STODDART-HANSEN

PAUL L. WILLIAMS

Officers

(fiscal year ended March 31, 2019)

CYNTHIA M. LUKAITIS
VICE PRESIDENT & CORPORATE SECRETARY

British Columbia Ferry Services Inc.

500–1321 Blanshard Street
Victoria, British Columbia V8W 0B7

www.bcferries.com

www.bcferryauthority.com