BCFerries

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

For the fiscal year ended
March 31, 2015

Dated June 19, 2015

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The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries") as of June 19, 2015. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2015 ("fiscal 2015") and March 31, 2014 ("fiscal 2014"). 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").

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 34 vessels operating on 24 routes out of 47 terminals spread over 1,000 miles 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.

We provide a wide range of ferry services for our customers. During the year ended March 31, 2015, we provided over 171,000 sailings, compared to 183,000 sailings in the prior year. The reduction in the number of sailings represents service level adjustments announced by the Province in February 2014 and implemented in April 2014. In fiscal 2015, we carried 19.8 million passengers and 7.7 million vehicles, a 0.5% increase in passenger traffic and a 0.6% increase in vehicle traffic compared to the prior year. As a result of the higher traffic levels and fewer sailings, annual capacity utilization has increased by 2.0% system-wide and 5.7% on routes with service level adjustments. For a discussion of our traffic levels, see "Financial and Operational Overview" and "Outlook – Traffic Levels" below. The increase in fiscal 2015 net earnings, compared to the prior year, reflects higher revenues and lower financing costs, partially offset by higher asset depreciation. Our total operations, maintenance and administration expenses have largely remained flat compared to the prior year.

Significant events during or subsequent to fiscal 2015 include the following:

- On April 1, 2014, we implemented average tariff increases in accordance with the British Columbia Ferries Commissioner's (the "Commissioner") Order 12-02 dated September 30, 2012. Tariff increases were 4.0% on average system-wide. Tariff increases were 4.2% on average on our Major and regulated Other Routes. On the Northern Routes, we increased tariffs by less than 2% on average and eliminated the incremental tariff for over-height vehicles. These increases are directly associated with increased operating costs, notably fuel, capital replacement and labour.

- On April 1, 2014, we also implemented the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50% on the Major and regulated Other Routes. On these routes, there continues to be no discount for BC seniors travelling Friday through Sunday. The discount for BC seniors on the Northern Routes remained unchanged at 33% every day.

- On April 28, 2014, we completed a private placement of $200 million of 30-year senior secured bonds with accredited investors. These bonds bear interest at a rate of 4.289% per annum, payable semi-annually. The net proceeds of this new issue, together with additional cash on hand, were used to repay our $250 million bond Series 04-1, which matured on May 27, 2014, and to fund the debt service reserve related to these new bonds. These bonds were rated "A" (DBRS) and "AA-" Standard & Poor's ("S&P"). We secured a favourable interest rate by entering into interest rate hedges. The effective rate of this issue, net of hedging, is 4.45%, the lowest effective bond interest rate in the 12-year history of our company.

- On April 28, 2014, after six weeks of community consultation, feedback and further analysis of schedule refinement options, we implemented new schedules for the Northern and regulated Other Routes intended to achieve a net savings of $14 million over the remainder of performance term three ("PT3"), which ends March 31, 2016. These new schedules reflect the service reductions determined by the Province in order to better align service levels with demand, and to ensure the coastal ferry system is affordable, efficient and sustainable. This includes the discontinuation of the Discovery Coast Passage Route with direct service to the mid-coast from Port Hardy for three months during the summer peak season. This route was replaced with an extension of one of our other Northern Routes to the mid-coast, which now provides a supplemental service with a much smaller vessel.

- On July 3, 2014, we entered into contracts with Remontowa Shipbuilding S.A. of Gdansk, Poland to build three new intermediate class vessels. These contracts, with a total value of $165 million, form the majority of the total project budget of $252 million. This budget also includes $51 million for Canadian taxes and federal import duties. These are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction. The keel-laying for the first of the three new intermediate class vessels took place on March 5, 2015 and the first steel cut for the second vessel took place on April 10, 2015. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017.

- On September 29, 2014, the Commissioner issued Order 14-02 approving the inclusion of our 12-year capital plan with the other information for submission for publication under section 40 of the *Coastal Ferry Act*. On September 30, 2014, we filed with the Commissioner the remaining documents including our efficiency plan and our submission for the fourth performance term ("PT4"). This began the process of price cap setting by the Commissioner and negotiations with the Province regarding amendments to the Coastal Ferry Services Contract ("CFSC") for PT4 which covers the period April 1, 2016 through March 31, 2020.

- On October 14, 2014, the Tax Court of Canada issued a judgement in our favour which held that our method for calculating input tax credits ("ITCs") for our vessel operating costs was fair and reasonable. The judgement covered the period from April 2003 through June 2005; the impact of this judgement resulted in an additional $3.9 million of net earnings in ITC refunds recoverable for the period of April 2003 through October 2014, recorded in fiscal 2015.

- On November 24, 2014, the Commissioner issued Order 14-03, conditionally approving our application to proceed with mid-life upgrades, including conversion to dual fuel, of our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia.* We expect a conversion would result in significant savings in fuel costs. (See “Economic Regulatory Environment” below for more detail.)

- On December 17, 2014, fuel surcharges of 3.4% on average were removed from our Major and regulated Other Routes as a result of declining fuel prices and our having locked in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. This pricing is favourable to the set price established by the Commissioner at the start of PT3. No surcharges are or were in place on our Northern Routes.

- On February 2, 2015, the Commissioner conditionally approved our application in support of our Fare Flexibility and Digital Experience Initiative (the “Fare Flexibility Initiative”). The initiative will introduce a new system to manage fares, improve operational efficiency through better capacity management, provide customers with a modernized e-commerce platform with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels.

- On February 13, 2015, we announced the appointment of Dennis Dodo to the position of Chief Financial Officer effective April 8, 2015. Mr. Dodo has extensive experience as a financial executive in various positions in the rate-regulated energy industry, most recently as Vice President of Shared Financial Services for Ontario Power Generation. Mr. Dodo is a Certified Public Accountant and holds a Master of Business Administration (Accounting) from Revier College in New Hampshire. The outgoing Chief Financial Officer, Robert P. Clarke, deferred his planned retirement and transitioned into a new role on April 1, 2015, leading our new business transformation programs. These programs include the Fare Flexibility Initiative and the Automated Customer Experience Program.

- On March 18, 2015, the Commissioner released the Preliminary Decision on Price Caps for PT4, setting increases in price caps of 1.9% per year from April 1, 2016 through March 31, 2020. The Commissioner will issue his decision on final price caps by no later than September 30, 2015. (See “Economic Regulatory Environment” below for more detail.)

- On March 18, 2015, the Commissioner also issued his report on the Performance Review of the Efficiency of BC Ferries. The review concludes that: “*BC Ferries is demonstrating good cost control*, and went on to say that “*cost control has been achieved while obtaining good outcomes with customer satisfaction and passenger and employee safety*” and that “*BC Ferries appear to have a strong culture of efficiency*”. The Commissioner also released favourable reports resulting from his performance reviews of BC Ferries’ vessel homeporting arrangements (homeporting refers to the location where vessels are docked overnight), fuel management and BC Ferries Vacations. (See “Economic Regulatory Environment” below for more detail.)

- On April 1, 2015, we implemented average tariff increases in accordance with the Commissioner’s Order 12-02 dated September 30, 2012. Tariff increases were 3.9% on average on our Major and regulated Other Routes. On the Northern Routes, we increased fares by 2% on average. Also on April 1, 2015, due to lower fuel prices, a fuel rebate of 1% was implemented on our Major and regulated Other Routes which helped to lessen the impact of the tariff increase. No fuel surcharges or rebates were implemented on the Northern Routes.

- On May 8, 2015, we unveiled the name of our cable ferry, the *Baynes Sound Connector.* Following marine tradition for the majority of cable ferries around the world, the name reflects the channel the ferry will be crossing. On April 30, 2015, we completed the installation of the drive and guide cables necessary to move the cable ferry that will provide service between Buckley Bay and Denman Island. The cable ferry, which will accommodate 50 vehicles and 150 passengers and crew, is nearing completion. It is expected to be placed in service in the summer of 2015. (See "Outlook - Asset Renewal Program" below for more detail.)

Coastal Ferry Services Contract
We operate ferry services under a regulatory regime established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the CFSC between BC Ferries and the Province. This 60-year services contract with the Province, 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. (See discussion below).

Under the terms of the CFSC, we also 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).

Economic Regulatory Environment
The office of the Commissioner was created under the Act, enacted by the Province on April 1, 2003. The Commissioner establishes price caps for designated ferry route groups for the purpose of regulating our tariffs. The Commissioner is also responsible for regulating the reduction of service, discontinuance of routes and certain other matters.

Bill 20

On June 24, 2010, the Province enacted *Miscellaneous Statutes Amendment Act (No. 3), 2010 (*"Bill 20"), amending several statutes including the Act. The amendments responded to the Comptroller General's Report on Review of Transportation Governance Models released November 6, 2009 and included changes to the governance and regulatory framework within which we operate.

Among other things, Bill 20 amendments to the Act changed the mandate of the B.C. Ferry Authority (the "Authority") to include: responsibility for the compensation plans of our directors and certain executive officers, such compensation plans to be comparable to public sector organizations; a requirement that a director of the Authority cannot also be a director of BC Ferries; and the subjection of the records of the Authority and BC Ferries to the *Freedom of Information and Protection of Privacy Act*.

The amendments also expanded the regulatory responsibilities of the Commissioner to include: consideration of the interests of ferry users; regulation of our reservation fees; approval and public disclosure of our process for handling customer complaints; and review and public disclosure of our ten year capital plan, our plan for improving efficiency in the next performance term, and our methodology for allocating costs among the regulated routes. These amendments also broadened the Commissioner's role in regulating ferry transportation services where the Commissioner determines that we have an unfair competitive advantage. The amendments also modified the process by which the Commissioner regulates our activities in seeking additional or alternative service providers on our regulated routes and require the Commissioner to issue an opinion on our performance and that of the Authority in carrying out our respective legislated responsibilities, as well as our performance in relation to the CFSC.

PT3 preliminary price cap increases

In March 2011, the Commissioner set preliminary price cap increases for each of the four years of PT3 of 4.15% on the three Major Routes and 8.23% on all other regulated routes, effective April 1, 2012. In making these determinations, the Commissioner excluded certain forecast costs and incorporated a productivity challenge effectively further reducing our allowed costs.

Bill 14

On June 2, 2011, the *Coastal Ferry Amendment Act*, *2011* ("Bill 14") was enacted. Effective April 1, 2012, for the first year of PT3, Bill 14 established a price cap increase for each route group of 4.15% from the weighted average of the tariffs in place at March 31, 2012 as established by the Commissioner. The Province agreed to compensate us for the reduction in the price cap set forth in the Commissioner's preliminary price cap order. The value of this price cap change was $11.5 million, which the Province agreed to provide as part of the $21.5 million increase in ferry transportation fees for fiscal 2013 detailed below. In response to the price cap increases, we implemented tariff increases up to the new levels authorized. Bill 14 also provided that the Commissioner establish price caps for the balance of PT3.

Bill 14 also provided the Commissioner with the mandate to conduct a review of the Act before issuance of his final decision on price caps for the balance of PT3.

Commissioner's review of the Act

On January 24, 2012, the Commissioner issued a report to the Province as to how the Act could be amended to balance the interests of ferry users with the financial sustainability of our company.

The report stated:

> *"Amongst the publicly-owned [ferry] systems, BC Ferries appears to be relatively efficient based on the analysis. Indeed, many ferry operators appear to want to emulate some of BC Ferries' practices. The company compares well with farebox recovery and ancillary revenue. Costs appear to be reasonable based on a number of independent reviews and on substantial improvement in several areas since 2003."*

The Commissioner's report made 24 substantive recommendations covering a wide range of ferry related issues and is available on the Commissioner's website at www.bcferrycommission.com.

Bill 47

In May 2012 and in response to the Commissioner's report, the Province enacted Bill 47 – 2012 Coastal Ferry Amendment Act, 2012 ("Bill 47"). The amendments to the Act set forth in Bill 47 were designed to move toward striking a balance among the interests of ferry users, the interests of taxpayers and the sustainability of the ferry operator. The changes covered a wide range of ferry related issues including:

- Allowing cross subsidization from the Major Routes to other routes;
- Changing the primary responsibility of the Commissioner from priority placed on the financial sustainability of the ferry operators to responsibility to protect the interests of ferry users, the interests of taxpayers, and the financial sustainability of the ferry operator;
- Expanding the Commissioner's authority and responsibilities, to include:
  - The authority to permanently reduce service in a manner and to a level consistent with the CFSC;
  - The authority to order a temporary or permanent service reduction and/or deferral of a planned capital expenditure in response to an extraordinary situation, in addition to or instead of an approval of extraordinary price cap increases;
  - The ability to require us to seek the Commissioner's approval in advance of making certain capital expenditures;
  - The responsibility to set price caps sufficient to enable us to meet our debt obligations and maintain access to borrowing rates that in the opinion of the Commissioner are reasonable;
  - Specific legislative authority to establish the deferred fuel cost accounts and the terms and conditions for their use, including fuel surcharges or rebates; and
  - The authority to conduct routine performance reviews and to require us to review our policies and undertake public consultation.

Ferry transportation fees

Together with the introduction of amendments to the Act contained in Bill 47, in May 2012, the Province announced additional payments totalling $79.5 million in order to reduce the pressure for future fare and price cap increases. The first payment of $25.0 million, approved on March 30, 2012, was received on April 20, 2012 as a contribution to our equity, leaving a balance of $54.5 million to be received throughout PT3. In fiscal 2013, we received $21.5 million (which included $11.5 million as compensation for price cap adjustments as detailed above), in fiscal 2014 we received $10.5 million and in fiscal 2015 we received $11.0 million. A further $11.5 million will be received in fiscal 2016.

On March 31, 2014, the Province confirmed its decision to amend its program to reduce the passenger fare discount for BC seniors from 100% to 50% for BC seniors travelling Monday through Thursday on the Major and Other Routes effective April 1, 2014. There continues to be no discount for BC seniors travelling Friday through Sunday. In respect of the corresponding reduction in social program funding and to reduce the magnitude of future tariff increases, the amendment also confirmed a maximum increase in ferry transportation fees of $18.0 million in fiscal 2015 and $19.3 million in fiscal 2016. These amounts reflect an estimate of what the Province would have paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided BC seniors under the amended policy, the excess will be directed to the ferry transportation fees. In fiscal 2015, we received $9.7 million in ferry transportation fees and $8.3 million in social program funding for seniors travel, totalling $18.0 million.

CFSC amendments

Amendments to the CFSC, agreed to with the Province and effective April 1, 2012, included:

- Grouping our route connecting Horseshoe Bay and Langdale with the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island;
- A reduction of up to 400 round trips in the minimum service requirement on our Major Routes as well as principles and targets for further service level reductions system wide.
- Implementation of principle-based service adjustments to achieve $30 million in net savings over PT3. These are detailed below and included:
    - Reductions in round trips already identified on three of our Major Routes reflecting a net savings of $4 million; and
    - Service adjustments to be determined on regulated routes to achieve an additional $26 million in net savings over PT3; and
- Ferry transportation fee enhancements of $54.5 million through PT3 as detailed above.

In response to the agreed reduction in the minimum service requirement on our Major Routes identified above, round trips on three of our Major Routes where the traffic levels no longer warranted extra service or where service was significantly under-utilized were removed. Over PT3, these reductions are expected to result in $4 million in operating cost decreases from fuel savings and lower requirements for casual employees during the off-season. They did not result in any reductions in our regular workforce. These identified reductions equate to 1% of our annual round trips on these routes. Further adjustments to service levels, as identified above, were required in order to attain the total objective of $30 million in net savings and these adjustments have resulted from the Province's public consultation process discussed below.

Public consultation

In May 2012, the Province announced that it would conduct public consultation with ferry dependent communities about adjustments to service levels and trade-offs between service adjustments, fare increases and potential community contributions. The Province also announced that it would seek public input to develop strategies to support a long-term vision for connecting coastal communities. This process concluded on December 21, 2012 and on March 5, 2013, the Province released its report summarizing the input it received during this consultation and engagement process. The report can be found at www.coastalferriesengagement.ca. We provided technical assistance and subject matter support throughout this process.

On November 18, 2013, the Province announced its service level reduction plan to better align service levels with demand and on February 5, 2014, after further public consultation, the Province confirmed implementation of this plan, designed to achieve the remaining $18.9 million (see CFSC amendments below) in net savings over the remainder of PT3. The plan included the elimination of approximately 6,900 round trips over 15 routes, including a significant adjustment in how summer service is provided to mid-coast destinations.

On November 18, 2013, the Province confirmed its intention to reduce the passenger fare discount for BC seniors travelling Monday through Thursday from 100% to 50% on the Major and Other Routes as of April 1, 2014. There was no change to the BC seniors' undiscounted fare when travelling Friday through Sunday. The Province also proposed proceeding with a gaming pilot project on one of our Major Routes.

Further CFSC amendments

On March 31, 2013, we reached an agreement with the Province to amend the CFSC to consolidate all regulated routes into a single group effective April 1, 2013. This revised grouping will be in effect until March 31, 2016. In the absence of any further amendments, on April 1, 2016, the route group structure in the CFSC will revert back to the structure at March 31, 2013.

On April 3, 2013, an amendment to the CFSC extended the deadline for identifying service level adjustments for the remainder of PT3 in order to provide sufficient time for the Province to complete its consultation process discussed above. To mitigate the impact of the delay in identifying service level adjustments, the Province also agreed to pay us $7.1 million in ferry transportation fees in 9 equal monthly instalments commencing July 2013. The balance of the $26 million in service reductions required over the remainder of the performance term ($18.9 million) was to be determined by March 31, 2014.

On March 31, 2014, an amendment to the CFSC removed the Northern Route that provided supplementary service to mid-coast destinations, resulting in a significant adjustment in how summer service is provided. The amendment also adjusted the service levels, targeting net savings of $30 million over PT3 of which:

- $4.0 million were reductions in annual round trips on three of the Major Routes;
- $7.1 million received from the Province as a result of the extended deadline;
- $14.0 million in reductions in annual round trips on Northern and Other Routes; and
- $4.9 million in further reductions in annual round trips on three of the Major Routes.

The CFSC amendment confirmed the Province's decision to amend its program to reduce the discount for BC seniors travelling Monday through Thursday from 100% to 50% on the Major and Other Routes effective April 1, 2014. There was no change to the BC seniors' undiscounted fare when travelling Friday through Sunday. In respect of the corresponding reduction in social program funding and to reduce the magnitude of future tariff increases, the amendment also confirmed a maximum increase in ferry transportation fees of $18.0 million in fiscal 2015 and $19.3 million in fiscal 2016, as described above. The discount for BC seniors on the Northern Routes remains unchanged at 33% every day.

On August 18, 2014, an amendment to the CFSC adjusted the service levels for Route 9 (Tsawwassen to Southern Gulf Islands) to better align service levels with demand. The change to Route 9 created an opportunity for changes on Route 5 (Swartz Bay to Southern Gulf Islands) and, on September 19, 2014, a further amendment adjusted the service levels for Route 5 to reflect a change requested by the community it serves.

On December 17, 2014, an amendment to the CFSC confirmed the Province's decision to expand its discount program for people with disabilities travelling on the Northern Routes. The discount results in the same rate for wheelchair accessible outboard and inboard cabins. The amendment also established how social program reimbursements would be invoiced to the Province.

Amendments to the CFSC for PT4 are required to be complete by June 30, 2015.

Commissioner's orders

On September 30, 2012, the Commissioner issued Order 12-02 which established the final price caps for the remaining three years of PT3. Increases for each route group were: 4.1% at April 1, 2013; 4.0% at April 1, 2014; and 3.9% at April 1, 2015, averaging 4.0% per annum.

The order states:

> "… *the commissioner has established price caps with the intention of allowing the ferry operator to achieve by the end of the third performance term equity not lower than 17.5 per cent of total capitalization and a Debt Service Coverage Ratio ("DSCR") of 2.5 or higher*."

In addition, the Commissioner reset the price caps for each route group to an index level of 100 as of April 1, 2012 based on the weighted average tariffs that existed as of March 31, 2012. The established price caps incorporate efficiency targets of $54.2 million, over and above the benefits associated with any service level adjustments, to be achieved by us over the four years of PT3.

In his order, the Commissioner stated:

> "*The price caps have been determined based on the expectation that the CFSC will be amended by June 30, 2013 to implement service level adjustments to achieve net savings of $30 million during PT3. If the CFSC is not amended by June 30, 2013, or the amendments will not enable BC Ferries to achieve the target of $30 million in net savings, BC Ferries may apply for relief under section 42 of the Act*."

On April 15, 2013, the Commissioner issued Order 12-02A, reducing the service level adjustments to achieve a total of $22.9 million in net savings during the remainder of PT3, to reflect the $7.1 million received from the Province. He also acknowledged the reduction of $4 million in service reductions already implemented with $18.9 million yet to be identified.

On September 30, 2012, the Commissioner issued Order 12-03 establishing the terms and conditions for the continued use of fuel price deferral accounts including the per litre cost of fuel included in the determination of price caps (the "set price") for PT3. This was in response to our application filed in June 2012 seeking approval to establish a new fuel cost deferral mechanism under section 41.1 of the amended Act. On February 28, 2013, Order 12-03A was issued to extend the submission date for annual fuel reports to no later than 90 days after the end of the fiscal year.

On September 30, 2012, the Commissioner also issued Order 12-04 establishing the criteria for determining major capital expenditures which require advance approval from the Commissioner.

On July 19, 2013, the Commissioner conditionally approved our application to construct three new intermediate class vessels to replace the 49-year old *Queen of Burnaby* and the 50-year old *Queen of Nanaimo*. Both of these vessels are scheduled for retirement in 2016. The third vessel will augment service during the peak and shoulder seasons and provide relief when other vessels are in refit. (See “Outlook – Asset Renewal Program” below for more detail.)

On February 20, 2014, in response to our December 20, 2013 application, the Commissioner confirmed that the proposed expenditures to implement a cable ferry system on the route connecting Buckley Bay and Denman Island were reasonable and prudent. The Commissioner included precedent conditions that must be met before cable ferry service can begin. We are confident we will be able to meet these conditions. (See “Outlook – Asset Renewal Program” below for more detail.)

On March 20, 2014, the Commissioner approved a one-time transfer of the March 31, 2014 balance of tariffs in excess of price cap to reduce the deferred fuel cost account balance. (See “The Effect of Rate Regulation” below for more detail.)

On September 24, 2014, the Commissioner issued Order 14-02 approving the inclusion of our 12-year capital plan with the other information for submission for publishing under section 40 of the Act. On September 30, 2014, we filed with the Commissioner the remaining documents including our efficiency plan and our submission for PT4. This began the process of price cap setting by the Commissioner and negotiations with the Province regarding amendments to the CFSC for PT4. The efficiency plan focused on four strategies, comprised of the use of liquefied natural gas (“LNG”), business transformation strategies enabled by technology, a strategy for the Southern Gulf Islands and a strategy for the Major Routes. The major catalyst for the Major Routes Strategy was the estimated capital investment of $1.1 billion on the Major Routes, including over $200 million in terminal infrastructure at the Horseshoe Bay terminal that will be required over the next 10 years.

On November 24, 2014, the Commissioner issued Order 14-03, conditionally approving our application to proceed with mid-life upgrades, including conversion to dual fuel, of our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia.* Dual fuel propulsion would allow the vessels to run predominantly on LNG, with diesel as a backup. We expect a conversion would result in significant savings in fuel costs.

On February 2, 2015, the Commissioner issued Order 15-01, conditionally approving our application in support of our Fare Flexibility Initiative. This initiative will introduce a new system to manage fares, improve operational efficiency through better capacity management, provide customers with a modernized e-commerce platform with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels.

On March 18, 2015, in response to our PT4 submission, the Commissioner issued Order 15-02 setting preliminary price cap increases of 1.9%, for each of the four years of PT4, commencing April 1, 2016. Order 15-02 also maintains the existing fuel deferral accounts and sets the price per litre for the operation of the fuel deferral accounts at 91.5 cents per litre reduced from 99.0 cents per litre in fiscal 2016 for marine diesel and 46.4 cents per litre for LNG in the first year of PT4 and inflated by 2% per year for the balance of PT4. The set price per litre is a required input into the calculation of fuel surcharges or rebates.

The Commissioner’s final decision on price caps for PT4 is expected by September 30, 2015.

Commissioner's performance review findings

On March 18, 2015, the Commissioner issued his report on the Performance Review of the Efficiency of BC Ferries. The review concluded that:

- *"BC Ferries is demonstrating good cost control";*
- *"cost control has been achieved while obtaining good outcomes with customer satisfaction and passenger and employee safety";* and
- *"BC Ferries appear to have a strong culture of efficiency".*

The efficiency assessment also found that:

- on an inflation-adjusted basis, administrative expenses have declined by 15.1% since 2009;
- a reduction in headcount and lower overtime hours have assisted in moderating labour costs;
- absenteeism rates are below the average for comparable businesses;
- executive compensation is comparable with provincial crown corporations and appears to be appropriate for an organization of BC Ferries' size and complexity; and
- the number of managers does not appear excessive.

Also on March 18, 2015, the Commissioner released his reports on the performance reviews of BC Ferries' homeporting arrangements, fuel management, and BC Ferries Vacations. These reviews concluded that:

- significant measures to manage fuel consumption have been implemented;
- fuel procurement policies and procedures appear to be appropriate;
- some homeporting arrangements may not be ideal but changing them would be cost-prohibitive; and
- BC Ferries Vacations is making a positive contribution to net income and as such, is helping keep fares lower than they would otherwise need to be.

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. 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 adopted IFRS with a transition date of April 1, 2011. At that time, IFRS did not provide any guidance with respect to accounting for rate-regulated activities.

In January 2014, the International Accounting Standards Board ("IASB") issued an interim standard, IFRS 14 *Regulatory Deferral Accounts,* that addresses accounting for rate-regulated activities. However, it does not apply to entities that have already transitioned to IFRS prior to that date, as we had. 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 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.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the regulatory assets at March 31, 2015 are probable of future recovery and that the obligations as represented by the regulatory liabilities will be settled through future tariff reductions or fuel rebates. These regulatory assets and regulatory liabilities are detailed in note 22 to our audited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our Consolidated Statements of Comprehensive (Loss) Income for the quarter and years ended March 31, 2015 and 2014 would be as follows:

($ millions)		**Three months ended March 31**		**Years ended March 31**	
		2015	**2014**	**2015**	**2014**
Total comprehensive (loss) income		(32.4)	(43.3)	39.1	13.1
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs (a)					
Fuel costs incurred	Operations expense	(1.4)	4.7	9.1	14.5
Fuel surcharges collected	Fuel surcharges revenue	-	(2.7)	(13.2)	(2.7)
Payments from the Province	Ferry service fees	(0.3)	(0.8)	(2.5)	(3.0)
		(1.7)	1.2	(6.6)	8.8
Tariffs in excess of price cap (b)					
Obligation settled (incurred) during the period	Vehicle and passenger fares	(1.0)	0.5	(1.0)	(1.2)
Performance term submission costs (c)					
Amortization	Depreciation and amortization expense	-	-	(0.1)	(0.1)
(Decrease) increase in net earnings		(2.7)	1.7	(7.7)	7.5
Adjusted total comprehensive (loss) income		(35.1)	(41.6)	31.4	20.6

(a) Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and approved fuel costs which were used to develop the regulated price caps. The difference between the actual fuel costs (including fuel hedge gains and losses) and the approved fuel costs is deferred for settlement in future tariffs. Also, 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 fuel cost account balances.

(b) Tariffs in excess of price cap: The Act contains provisions which ensure that, if tariffs we charge exceed established price caps, the excess amounts collected will be returned to customers through future tariffs.

(c) Performance term submission costs: Costs for incremental contracted services relating to PT3. Our regulator has approved recovery of these costs over PT3.

In fiscal 2014, the Commissioner approved a one-time transfer of $1.2 million (the March 31, 2014 balance of tariffs in excess of price cap) to reduce the deferred fuel cost account balance.

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

($ millions)	2015	2014	2013
	Years ended March 31		
Total revenue	841.1	800.2	786.4
% increase	*5.1%*	*1.8%*	*4.3%*
Operating expenses	722.5	714.3	701.6
Operating profit	118.6	85.9	84.8
Net finance and other	69.5	67.9	69.3
Net earnings	49.1	18.0	15.5
Other comprehensive (loss) income	(10.0)	(4.9)	1.1
Total comprehensive income	39.1	13.1	16.6
	As at March 31		
Total assets	1,856.6	1,885.2	1,824.3
Total long-term financial liabilities	1,305.5	1,127.3	1,199.8
Dividends on preferred shares	6.0	6.0	6.0

Our total comprehensive income in fiscal 2015 was $26.0 million higher and net earnings in fiscal 2015 were $31.1 million higher than in fiscal 2014. The increase in fiscal 2015 net earnings reflects higher revenues and lower financing costs, partially offset by higher asset depreciation and impairment costs. The increase in fiscal 2015 net earnings also includes $4.1 million in taxes and interest recoverable from Canada Revenue Agency ("CRA") covering the period from April 2003 through October 2014. The other comprehensive loss of $10.0 million in fiscal 2015 reflects a $4.5 million loss for the change in the fair value of our fuel swap contracts, a $2.9 million loss on the actuarial valuation of our retirement and death benefit plans, a $2.4 million loss on interest forward contracts related to our April 28, 2014 issuance of $200 million of senior secured bonds, and a $0.2 million loss on the revaluation of our land.

Our total comprehensive income in fiscal 2014 was $3.5 million lower and net earnings in fiscal 2014 were $2.5 million higher than in fiscal 2013. The increase in fiscal 2014 net earnings reflects higher tariff revenues and lower financing costs, partially offset by lower traffic levels and lower transportation fees, while maintaining our cost containing initiatives. The other comprehensive loss in fiscal 2014 reflects a $5.0 million unrealized hedge loss as at March 31, 2014 on interest rate forward contracts related to our April 28, 2014 issuance of $200 million of senior secured bonds.

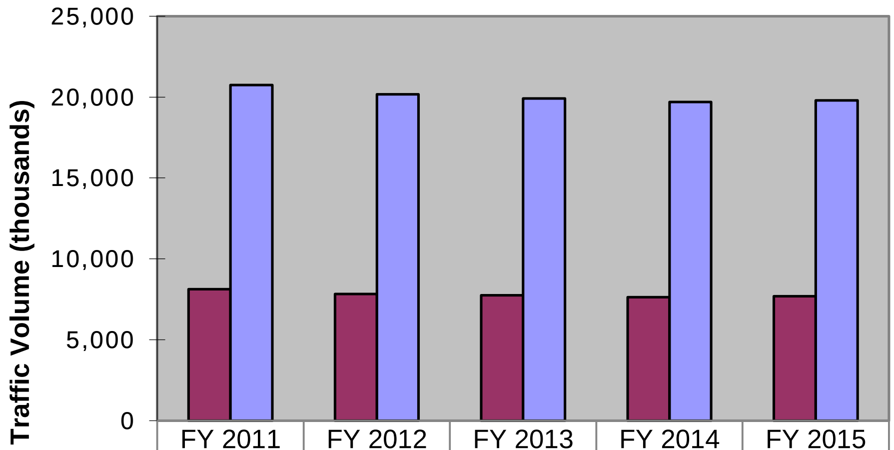
Traffic

Prior to fiscal 2009, our traffic levels were relatively stable. However, the long-term traffic trend-line shifted significantly during fiscal 2009, when vehicle and passenger traffic were lower than the prior year by 5.2% and 4.9%, respectively. In fiscal 2009, the Canadian and world economies experienced turbulence in the financial markets, followed by a lengthy recessionary period. These economic conditions negatively impacted our commercial and discretionary travel markets. In fiscal years 2010 through 2014, we experienced an overall general decline in traffic due in part to these continuing economic conditions.

In fiscal 2015, we experienced a 0.6% increase in vehicle traffic and a 0.5% increase in passenger traffic compared to fiscal 2014. Traffic levels have been negatively impacted in fiscal 2015 by a reduction in seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays on our Major and regulated Other Routes effective April 1, 2014 and the reduction in student travel resulting from the teachers' labour dispute in the first and second quarters of fiscal 2015. Traffic levels were also impacted by service level adjustments mainly on the Northern and Other Routes.

Traffic was significantly higher in the last two months of fiscal 2015 year. Vehicle traffic was 7.8% higher and passenger traffic was 6.7% higher. We believe the traffic was positively impacted by favourable weather and by lower gas prices while the same period in fiscal 2014 was negatively affected by unfavourable weather. The lower Canadian dollar may also have had a positive impact towards the latter part of the year.

The following graph illustrates our annual vehicle and passenger traffic levels from fiscal 2011 through fiscal 2015:



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Vehicles	8,120	7,838	7,749	7,644	7,691
Passengers	20,746	20,170	19,919	19,697	19,796

Cost containment

In response to the decline in traffic levels and resulting revenues that began in fiscal 2009, we determined the need to restructure our business to align expenses with reduced revenues while continuing to ensure that safety remains our top priority. We carried out this restructuring in addition to deferral of filling staff vacancies and a hiring freeze for all non-essential positions, a two-year wage and salary freeze for exempt employees, reduced use of outside contractors and consultants, and reduction of discretionary expenditures. We have continued many of these cost containment measures, managing our costs as prudently as possible without compromising safe operations.

Service level adjustments completed in fiscal 2015 have generated savings in fuel and labour and we expect to continue to benefit from these changes. We reviewed opportunities for further service level reductions of $4.9 million on three of the Major Routes and determined that the economics of further reductions were no longer favorable; however we remain committed to saving the $4.9 million through other efficiencies, including cost containment.

On March 18, 2015, the Commissioner issued his report on the Performance Review of the Efficiency of BC Ferries. The review included an assessment of the efficiency of operating, maintenance, administration costs, labour costs and the organizational design. The significant report findings conclude that we are demonstrating good cost control while obtaining good outcomes with customer satisfaction and passenger and employee safety and that we appear to have a strong culture of efficiency. The report concludes that the financial and management controls and processes addressing planning, budgeting, reporting and internal controls appear to be appropriate.

On an inflation-adjusted basis, administrative expenses have declined by 15.1% since 2009. Overall administrative expenses have been reduced as a result of lower executive compensation, reduced head count and lower scheduled and unscheduled overtime hours.

The CRA audited the period April 2003 through June 2005 and denied certain ITCs that we had claimed. A judgement from the Tax Court of Canada was issued October 14, 2014, in which we were successful in our claim that our method for calculating ITCs for our vessel operating costs was fair and reasonable. As a result, in our fiscal 2015 net earnings, we recorded $3.9 million of ITC refunds recoverable for the period of April 2003 through October 2014.

Our operating expenses, excluding the $3.9 million of ITCs recoverable, were $15.3 million below previously planned levels as published in our annual Business Plan for fiscal 2015.

Labour relations -
Collective agreement

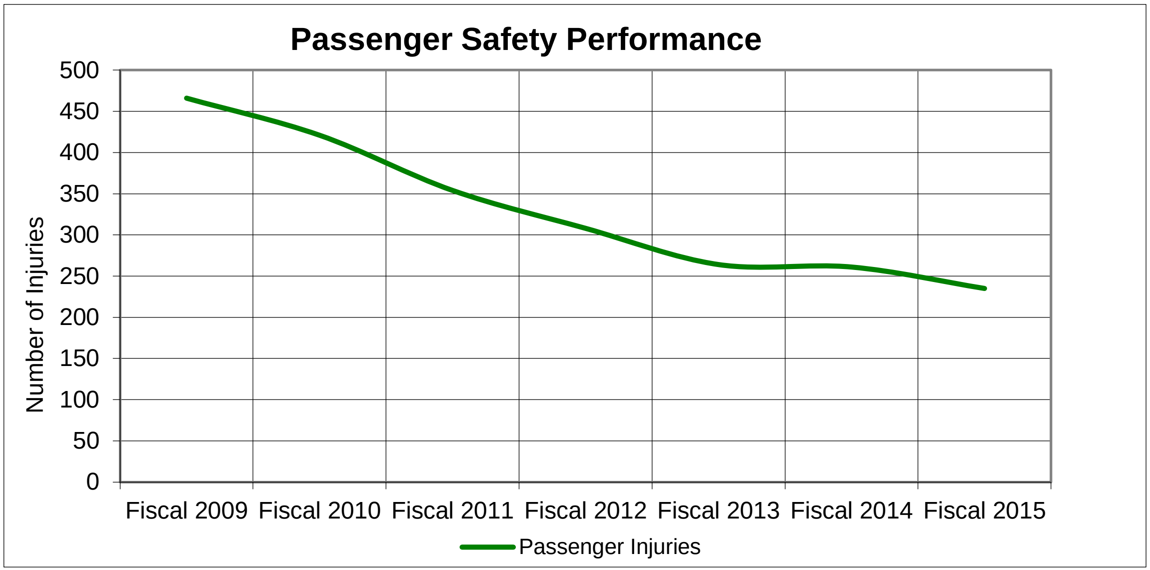
The majority of our employees are members of the BC Ferry & Marine Workers' Union (the "Union"). The current collective agreement with the Union expires October 31, 2015 and we anticipate that the collective bargaining process will begin in August 2015.

The current agreement has a mechanism in place that allows for the orderly transition to the next collective agreement without the ability to strike and provides a unique and innovative dispute resolution process to facilitate future collective bargaining.

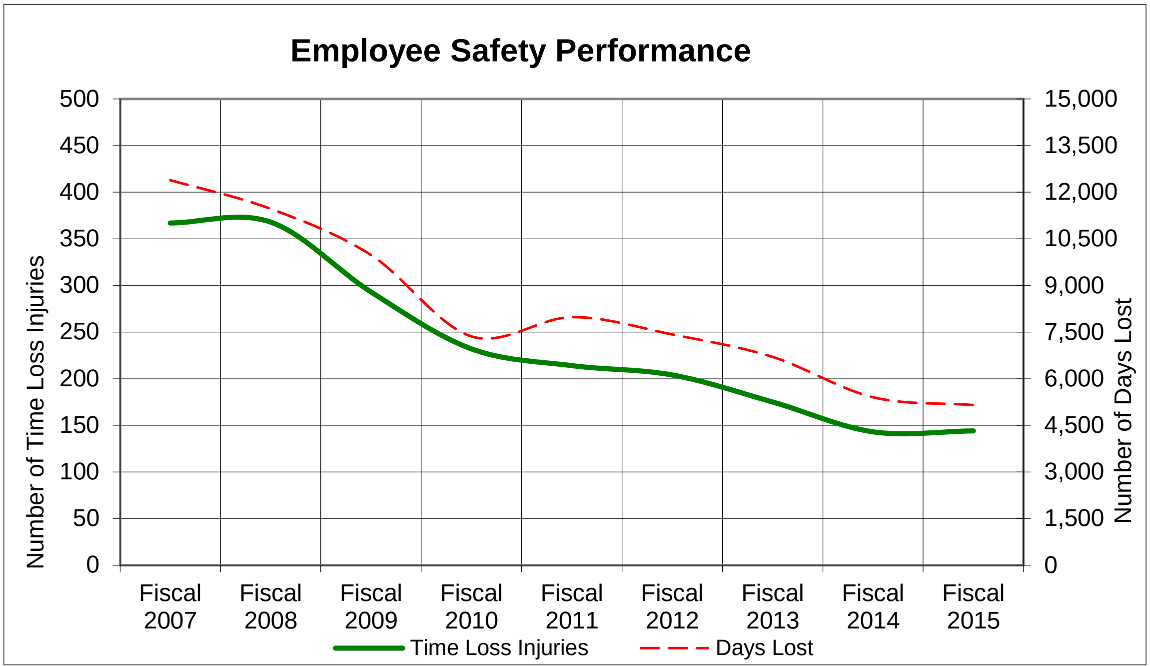
We will strive to reach a mutually agreeable settlement that provides continued stability for our employees and enhances our ability to deliver the highest level of service to our customers.

Safety

Overall, we are experiencing the benefits of our investments in safety and security. Injuries to passengers continue to decline, down 10.0% in fiscal 2015 compared to fiscal 2014. The results for fiscal years 2009 through 2015 are below:



Time loss injuries to employees were less than 150 in both fiscal 2015 and fiscal 2014. Since 2007, the number of time loss injuries we experience each year has dropped from over 360 to fewer than 150 and the number of days lost due to injury has declined from over 12,000 per year to under 5,500 per year. The results for fiscal years 2007 through 2015 are below:



Our SailSafe program, which is designed to achieve world class safety performance, is in the sustainment phase. It transitioned at the beginning of fiscal 2013, from the implementation of a safety program to embodying safety as a normal part of all business activities and an integral part of our culture. We continue to ensure safety becomes completely ingrained in every activity undertaken, every day, throughout our business.

Specific areas of focus remain:

- Building and maintaining awareness of safety through communication;
- Developing strong safety teams; and
- Working cohesively as a team.

In fiscal 2015, under the SailSafe initiative, we launched an employee-led Health & Wellness program. This program offers support to employees in both self-directed wellness efforts and team initiatives and is a key strategy to create healthier and more resilient employees in order to reduce employee injuries and absenteeism.

In fiscal 2014, we received the Certificate of Recognition ("COR") from WorkSafeBC. 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. In fiscal 2015, nine specific areas were audited, resulting in a 92% score in Health and Safety and 94% in Injury Management. In fiscal 2014, WorkSafeBC provided us with a $600,000 rebate on our 2013 assessed premiums and we expect to receive a similar rebate on our 2014 assessed premiums as a result of the fiscal 2015 audit. Besides confirming our workforce is safer and healthier, we expect this COR will result in on-going premium savings in the order of $500,000 annually.

Training

Each year we invest heavily in operational and safety training. In fiscal 2015, we conducted 7,246 personal training days ("PTDs") of operational training in 47 different programs. We created several new and expanded safety programs including a vehicle firefighting training course, hazardous materials training program and asbestos awareness program.

In addition in fiscal 2015, our Standardized Education and Assessment ("SEA") training delivered 6,185 PTDs. Our SEA program replaces the traditional job-shadowing approach to vessel and terminal familiarization training with a blended learning approach being delivered by dedicated SEA trainers. The program leverages technology and e-learning to enhance hands-on training in a phased, auditable and sustainable manner. This program is an innovative, award-winning approach that is transforming training in the marine industry through the use of technology. Progress continued on the development of resource materials for new job categories and development of online self-study programs and exams. Since inception of the SEA project, programs have been developed and rolled out for 27 of the 35 operational positions identified for SEA training. Programs for the remaining eight positions will be implemented over the next two fiscal years. We also delivered 10 trainer workshops in fiscal 2015 to assist trainers preparing to deliver SEA training and held a trainer conference which focussed on building knowledge and excellence through teamwork.

Our Simulation Training Centre ("STC") program is delivering enhanced bridge team skills training and continues to receive praise from participants. STC has received facility and program accreditation with DNV GL, one of the leading classification societies and a global leader in maritime education and training accreditation. Achievement of this accreditation will allow us to provide training to external parties.

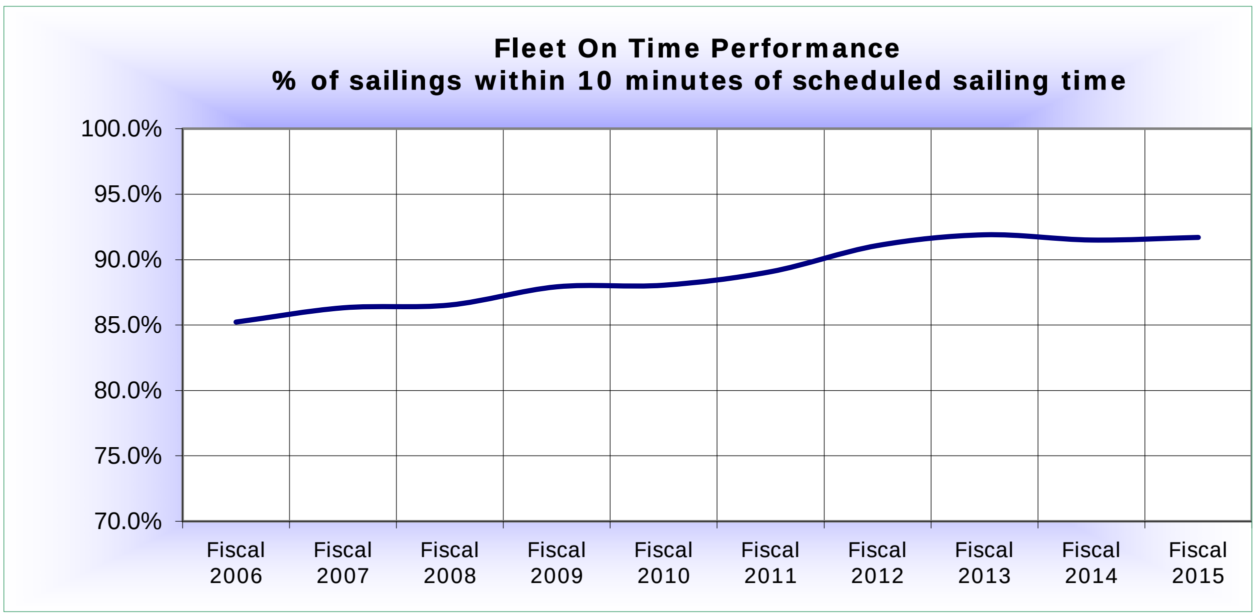
In fiscal 2014, we received international recognition of our STC signature course, Bridge Operations Skills and Systems ("BOSS") 2, which received a Lloyd's List Safety Training award for outstanding commitment in training our employees ashore and at sea. Building on BOSS 1 principles, BOSS 2 focuses on gaining, maintaining and enhancing shared bridge team situational awareness. BOSS 2 includes a blended approach of simulation and classroom learning over three days and culminates in a team assessment to assist with students' learning transfer back to the fleet. A curriculum is being developed for BOSS 3 and will focus on decision making.

As of March 31, 2015 we have delivered BOSS 1 training to all deck officers and BOSS 2 training to 45% of deck officers in the fleet. We expect all deck officers will have completed BOSS 2 training by the end of fiscal 2017. A new course for Masters and Chief Engineers has been built and piloted. This training is aimed at improving verbal and written communications.

We also delivered a STC pilot program to augment SEA training by providing situational awareness training to better equip our deck officers to handle unique navigational challenges on the Northern Routes.

Customer service

In fiscal 2015, our on-time performance rate was 91.7% with a fleet reliability score of 99.75%. This reliability score means that only 0.2% of sailings in fiscal 2015 were cancelled due to mechanical issues related to the vessels or terminals, or crew availability. Our 2014 Customer Service Satisfaction Tracking Surveys indicated that 85% of customers surveyed reported being satisfied with their overall trip experience. Ratings remain high in all areas except for those relating to customer satisfaction with value received relative to the associated cost. A copy of the full report for each year is available at http://www.bcferries.com/about/cst_archive.html.



We have been consulting with ferry dependent communities since 1993 and continue to work closely with thirteen ferry advisory committees that represent the 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, and broader policy issues such as fares and strategic planning.

We consulted extensively with all stakeholders before a decision was made to construct the cable ferry. Stakeholder feedback was carefully considered and was incorporated into the operational delivery model to ensure the same level of safety and reliability while achieving favourable cost and emissions efficiencies. Careful consideration was also given to the design of the cable ferry system for, safety, reliability and redundancy, including a robust maintenance program to minimize service outages.

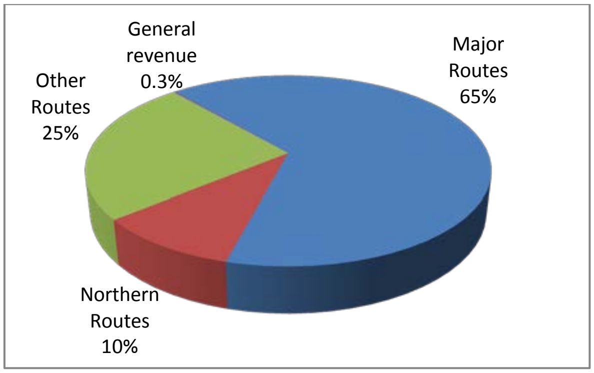
We will be introducing two new intermediate class ferries into service in 2017 on Southern Gulf Island routes. The opportunity exists to improve service and better align customer needs with sailing schedules as well as balance seasonal service, capacity and demand with operating efficiencies. To this end, we have launched a survey to better understand the service needs of Southern Gulf Island customers.

We will continue to strive for further efficiencies while containing our costs and without compromising safety, reliability and an enjoyable experience for our customers.

Revenue

The following discussions of revenue are based on IFRS results with reference to the impacts of rate regulation.

Total revenues and selected operational statistics over the past three fiscal years are shown in the tables below.



In fiscal 2015, the greatest portion of our revenues, 65%, was earned on our Major Routes. The revenue from the Northern Routes contributed 10% and Other Routes contributed 25%.

Operational Statistics	2015	2014	2013
Vehicle traffic	7,690,914	7,644,344	7,748,743
% increase(decrease)	0.6%	(1.3%)	(1.1%)
Passenger traffic	19,796,022	19,696,710	19,919,098
% increase(decrease)	0.5%	(1.1%)	(1.2%)
On-time performance	91.7%	91.5%	92.3%
Number of round trips	77,433	83,972	84,114
Capacity provided (AEQ's)	16,819,072	17,394,237	17,607,012
AEQ's carried	8,735,828	8,675,549	8,769,217
Capacity utilization	51.9%	49.9%	49.8%

In fiscal 2015, vehicle and passenger traffic increased 0.6% and 0.5%, respectively, compared to fiscal 2014. While the Major Routes experienced a modest increase in traffic, the Northern Routes experienced a decline, and the Other Routes were at the same level as the prior year.

Traffic levels have been negatively impacted in fiscal 2015 by a reduction in seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays on the Major and regulated Other Routes effective April 1, 2014 and the reduction in student travel resulting from the teachers' labour dispute in the first and second quarters of fiscal 2015. Traffic levels were also impacted by service level adjustments mainly on the Northern and Other Routes.

In the last two months of the year, our total traffic was significantly higher than the same period in the prior year. Vehicle traffic was 7.8% higher and passenger traffic was 6.7% higher. We believe the traffic in these two months was impacted by favourable weather and by lower gas prices while the same period in fiscal 2014 was negatively affected by unfavourable weather. The lower Canadian dollar may also have had a positive impact towards the latter part of the year.

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 time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes of the scheduled time. On-time performance can be impacted by delays due to weather, vessel substitution, terminal dock maintenance or closures and periods of unusually high traffic demand. Meeting customer service expectations and maintaining safety is an important factor in our focus on on-time performance.

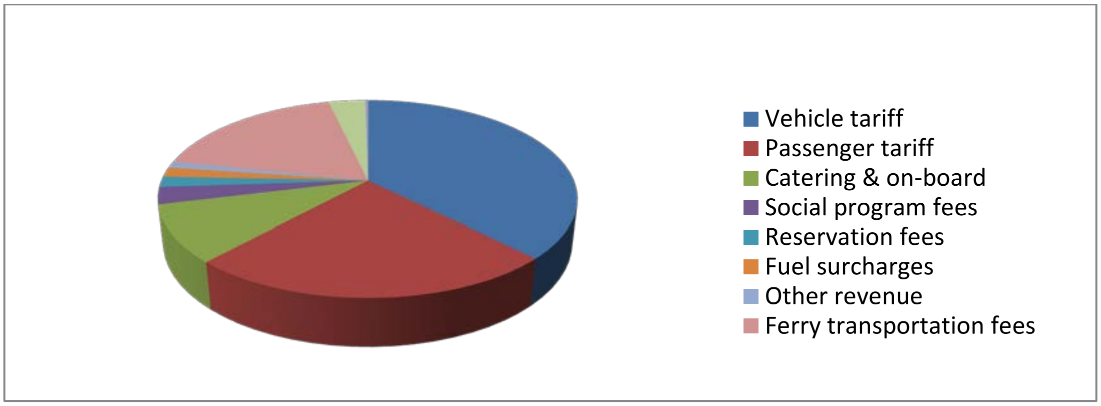
Capacity provided, measured in automobile equivalents ("AEQs"), is the available space on the vessel multiplied by the number of round trips. Round trips normally stay fairly stable as the CFSC stipulates, among other things, the number of round trips to be provided for each regulated ferry service route. However, the number of round trips provided can be 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.

The reduction in round trips and the resulting decrease in capacity provided in the three and twelve months ended March 31, 2015 compared to the same periods in the prior year was due to the discontinuation of the Discovery Coast Passage Route servicing the mid-coast and replacement with supplementary service, as well as new schedules related to service reductions on our Northern and regulated Other Routes.

An AEQ is a 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 types of vehicles carried.

Capacity utilization is calculated by dividing the AEQs carried during the period divided by the AEQ capacity provided on the vessels. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types (the relative number of buses, commercial vehicles, and passenger vehicles), the size of the vessels utilized and the number of round trips in each period. Capacity utilization increased 2.1% compared to the prior year as a result of reduced capacity provided and increased AEQs carried in the current year.

Revenue ($ millions)	**Years ended March 31**		
	2015	**2014**	**2013**
Direct Route Revenue			
Vehicle tariff	315.7	303.7	291.1
Passenger tariff	204.3	185.6	177.7
Fuel surcharges	13.2	2.7	11.5
Catering & on-board	78.3	76.8	74.5
Social program fees	23.5	30.7	28.6
Reservation fees	14.5	13.4	12.8
Other revenue	8.7	7.9	7.1
Total Direct Route Revenue	658.2	620.8	603.3
Indirect Route Revenue			
Ferry transportation fees	152.4	149.4	153.5
Federal-Provincial subsidy	28.4	28.4	28.1
Total Route Revenue	839.0	798.6	784.9
Other general revenue	2.1	1.6	1.5
Total Revenue	841.1	800.2	786.4



Our largest revenue source is vehicle and passenger tariffs. Our year over year tariff revenues may be impacted by such things as changes in overall traffic levels, approved price caps, the proportion of total traffic on routes with higher versus lower tariffs, and the implementation of promotional fare programs. Catering and on-board services are our second highest source of direct revenue. These services provide a gross margin of approximately 60%.

On April 1, 2014, we implemented average tariff increases in accordance with the Commissioner's Order 12-02 dated September 30, 2012. Tariff increases were 4.0% on average system-wide. Tariff increases were 4.2% on average on our Major and regulated Other Routes. On the Northern Routes, we increased tariffs by less than 2% on average and eliminated the incremental tariff for over-height vehicles. These increases were directly associated with increased operating costs, notably fuel, capital replacement and labour.

Effective April 1, 2014, we implemented the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50% on the Major and regulated Other Routes. There continues to be no discount for BC seniors travelling Friday through Sunday. Also, on April 1, 2014, the CFSC was amended to establish the maximum annual amount payable by the Province in respect of senior discounts for fiscal 2015 and fiscal 2016 at $18.0 million and $19.3 million, respectively. These amounts reflect an estimate of what the Province would have paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided BC seniors under the amended policy, the excess will be directed to the ferry transportation fees. These amounts are to be allocated to the regulated Northern and Other Routes. Since the implementation of this policy change, travel by BC seniors Mondays through Thursdays is down 12% from the same period in the prior year.

Surcharges and/or rebates are implemented as a direct result of rising and declining fuel prices. On December 17, 2014, fuel surcharges were removed from our routes due to declining fuel prices and locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place since January 17, 2014 on our Major Routes and our regulated Other Routes due to the high cost of diesel fuel. At the time of the general tariff increase on April 1, 2014, no changes were made to the nominal values of the fuel surcharges. Accordingly, these fuel surcharges averaged 3.4% following the general tariff increase on April 1, 2014. No surcharges were put in place on our Northern Routes. A history of fuel surcharges in effect for fiscal 2013 through to the current date is below:

Date range	% surcharge (rebate)	Applicable routes
April 1, 2012 – July 19, 2012	2.5%	Horseshoe Bay-Langdale Route
	5.0%	All other regulated routes*
July 20, 2012 – November 29, 2012	2.0%	All regulated routes*
November 30, 2012 – January 16, 2014	0.0%	All regulated routes
January 17, 2014 – December 17, 2014	3.5%	All regulated routes*
December 18, 2014 – March 31, 2015	0.0%	All regulated routes
April 1, 2015 –	(1.0%)	All regulated routes*

**with the exception of the Northern 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” above for more detail.)

From time to time, we utilize promotional fares designed to stimulate growth in traffic or direct traffic towards our less busy sailings while ensuring compliance with approved price cap orders. In calculating the price cap, vehicle and passenger tariffs, as well as reservation fees, are combined. The utilization of promotional fare incentives may cause the average vehicle and passenger tariff rate to be under or over the allowed increase in any one period.

Year to year changes for the past two fiscal years for the Major, Northern and Other Routes are discussed separately below.

Year to Year Comparison of Revenues and Operational Statistics 2015 – 2014

Major Routes

Our Major Routes consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and our regulated route connecting Horseshoe Bay and Langdale. These are our four busiest routes, carrying approximately 60% of our vehicle traffic and 64% of our passenger traffic during each of fiscal 2013 through 2015.

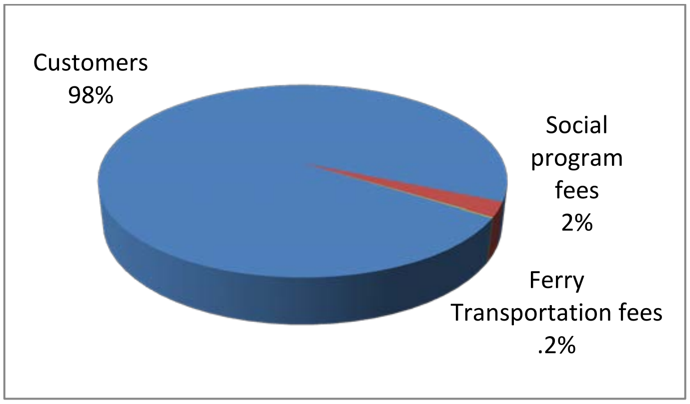
Operational Statistics	2015	2014	2013
Vehicle traffic	4,603,748	4,556,839	4,600,647
% increase(decrease)	1.0%	(1.0%)	(0.8%)
Passenger traffic	12,818,963	12,708,731	12,777,222
% increase(decrease)	0.9%	(0.5%)	(1.1%)
On-time performance	83.1%	82.7%	84.5%
Number of round trips	12,542	12,543	12,621
Capacity provided (AEQ's)	8,997,380	8,999,280	9,053,830
AEQ's carried	5,433,864	5,380,708	5,411,460
Capacity utilization	60.4%	59.8%	59.8%

In fiscal 2015, vehicle traffic increased 1.0% and passenger traffic increased 0.9% compared to the prior year. In the last two months of the year, vehicle traffic was 7.0% higher and passenger traffic was 5.3% higher than the same period in the prior year. Traffic was positively impacted by favourable weather and lower gas prices. The lower Canadian dollar may also have had a positive impact towards the latter part of the year. Traffic was also positively impacted by the Easter holiday with two additional days of the holiday weekend in fiscal 2015 compared to fiscal 2014. Overall, commercial traffic increased by 0.2% in the year, while drop-trailer, a component of total commercial traffic, increased 10.0% in the year. Our drop-trailer service is available on two of our Major Routes, where commercial customers can drop their trailers off at one terminal and pick them up at the other with our drivers loading and unloading the commercial trailers on and off the ferry with a hostling unit.

On-time performance improved in fiscal 2015 as compared to the prior year. The prior fiscal year was adversely affected by significant maintenance activities in the first two quarters at our Horseshoe Bay and Langdale terminals, resulting in berth closures and other conditions negatively impacting arrivals and departures.

Capacity utilization increased 0.6% over the prior year as a result of reduced total capacity and higher AEQ's carried.

Major Routes cont'd



Fiscal 2015 revenue from our Major Routes consisted of 98% from customers and 2% in social program fees from the Province.

Direct Route Revenue ($ thousands)	**Years ended March 31**			
	2015	**2014**	**Increase (Decrease)**	
Vehicle tariff	264,411	253,707	10,704	4.2%
Passenger tariff	165,861	150,351	15,510	10.3%
Fuel surcharges	11,034	2,268	8,766	386.5%
Catering & on-board	70,874	69,500	1,374	2.0%
Social program fees	13,160	18,954	(5,794)	(30.6%)
Reservation fees	14,226	13,196	1,030	7.8%
Parking	4,569	4,217	352	8.3%
Other revenue	3,667	3,403	264	7.8%
Total Direct Route Revenue	547,802	515,596	32,206	6.2%
Indirect Route Revenue				
Ferry transportation fees	999	1,045	(46)	(4.4%)
Total Route Revenue	548,801	516,641	32,160	6.2%

Average tariff ($)	**Years ended March 31**		
	2015	**2014**	**Increase**
Vehicle tariff ($000's)	264,411	253,707	
Vehicle traffic	4,603,748	4,556,839	
Average tariff per vehicle	57.43	55.68	1.75
Passenger tariff ($000'S)	165,861	150,351	
Passenger traffic	12,818,963	12,708,731	
Average tariff per passenger	12.94	11.83	1.11

Average tariff revenue per vehicle increased $1.75 or 3.1% in fiscal 2015 compared to the prior year. Average tariff revenue per passenger increased $1.11 or 9.4%. The increase in average tariff revenues in fiscal 2015 reflects the price cap increases authorized by the Commissioner. It also reflects the Province's reduction in passenger fare discounts for BC seniors travelling Mondays through Thursdays from 100% to 50%, effectively resulting in BC seniors paying a portion of their fares on these days. There continues to be no discount for BC seniors travelling Friday through Sunday. Higher average fares and higher traffic resulted in an increase in tariff revenue of $26.2 million.

Major Routes cont'd

Fuel surcharges collected were $8.8 million higher than in the prior year. Fuel surcharges of 3.5% on average were in place for approximately nine months of fiscal 2015, while in fiscal 2014, surcharges of 3.5% on average were in place for less than three months. Surcharges were removed December 17, 2014 due to declining fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

All vessels that provide service on our Major Routes have a gift shop and options for food service. Catering and on-board sales increased 2.0% in fiscal 2015 compared to the prior fiscal year reflecting higher average sales per passenger and higher passenger traffic levels. Areas of growth include sales of travel accessories which increased 25.9%, giftware which increased 3.6% and quality apparel which increased 1.8%. Sales of books, magazines and newspapers declined 6.8% compared to the prior year, following industry trends.

Social program fees are reimbursements from the Province for discounts provided on fares for BC seniors, students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Travel Assistance Program ("MTAP"). The $5.8 million reduction in social program fees consists of a $6.3 million reduction as a result of 15% fewer BC seniors travelling under the program, offset partially by an increase in the number of people using the MTAP program and higher fares in fiscal 2015 compared to the prior year. The reduction in BC seniors travelling under the program began in April 2014, when we implemented the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50%. There continues to be no discount for BC seniors travelling Friday through Sunday.

To mitigate the loss of BC seniors travelling under the social program, the Province provided a maximum increase in ferry transportation fees to the level of what would have been paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided to BC seniors, they are directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes. These actions together have increased our total revenues, which will reduce some pressure on future fares.

Reservation fee revenue increased $1.0 million or 7.8% in fiscal 2015 compared to the prior year mainly due to higher usage.

Revenue from parking increased $0.4 million or 8.3% in fiscal 2015 compared to the prior year as a result of higher traffic levels and higher usage of our parking facilities.

Other revenue increased mainly as a result of an increase in hostling fees from our drop trailer service and additional retail space rentals.

Ferry transportation fees which are funds received from the Province related to the import duty remission on one of our foreign-built vessels remained at a similar level. For the purpose of rate regulation, the funds related to the import duty remission are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

Northern Routes

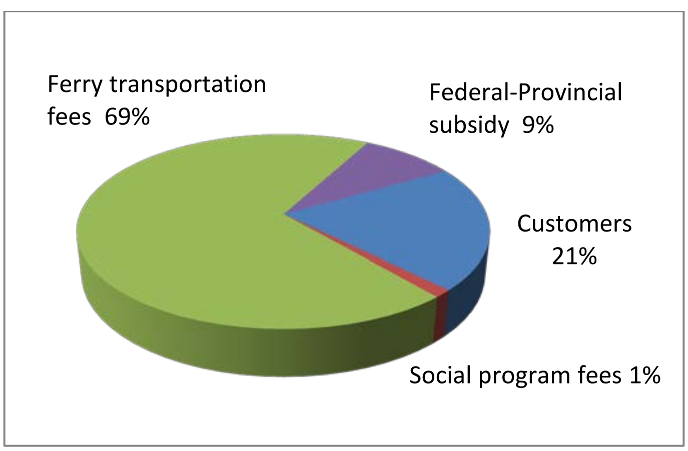
Our Northern Routes consist of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. Effective April 1, 2014, the shortest of these routes, which only operated during the summer months, was eliminated and service to the mid-coast destinations was significantly adjusted.

Operational Statistics	2015	2014	2013
Vehicle traffic	26,642	28,366	27,811
% increase(decrease)	(6.1%)	2.0%	0.9%
Passenger traffic	75,108	81,100	80,848
% increase(decrease)	(7.4%)	0.3%	0.3%
On-time performance	90.0%	91.6%	91.9%
Number of round trips	227	348	347
Capacity provided (AEQ's)	61,870	83,450	84,677
AEQ's carried	32,741	34,238	33,623
Capacity utilization	52.9%	41.0%	39.7%

In fiscal 2015, vehicle traffic decreased 6.1% and passenger traffic decreased 7.4% compared to the prior year, primarily due to changes in route schedules and the discontinuation of the Discovery Coast Passage route and replacement with supplementary service. These service adjustments introduced by the Province have generated savings in fuel and labour that more than offset the decline in revenue as a result of lower traffic levels and will help to reduce the magnitude of future tariff increases.

In fiscal 2015, there were a lower number of round trips compared to fiscal 2014, mainly as a result of service reductions. On-time performance was negatively affected by high traffic demand on fewer sailings as we changed route schedules and service delivery.

Capacity utilization on these routes for fiscal 2015 increased from 41.0% to 52.9% compared to the prior year as a result of decreased capacity provided due to a reduction in the number of round trips and the replacement of the Discovery Coast Passage Route with service to the mid-coast using a smaller vessel, partially offset by the lower number of AEQs carried.



Fiscal 2015 revenue from our Northern Routes consisted of 21% from customers and 79% from the Province (1% social program fees, 69% ferry transportation fees, and 9% from payments under the Federal-Provincial subsidy agreement).

Northern Routes cont'd

Direct Route Revenue ($ thousands)	**Years ended March 31**			
	2015	**2014**	**Increase (Decrease)**	
Vehicle tariff	7,505	8,126	(621)	(7.6%)
Passenger tariff	6,265	6,859	(594)	(8.7%)
Social program fees	1,052	1,181	(129)	(10.9%)
Catering & on-board	1,927	2,064	(137)	(6.6%)
Stateroom rental	1,289	1,259	30	2.4%
Hostling & other	235	227	8	3.5%
Total Direct Route Revenue	18,273	19,716	(1,443)	(7.3%)
Indirect Route Revenue				
Ferry transportation fees	57,426	58,039	(613)	(1.1%)
Federal-Provincial subsidy	7,275	7,280	(5)	(0.1%)
Total Route Revenue	82,974	85,035	(2,061)	(2.4%)

Average tariff ($)	**Years ended March 31**		
	2015	**2014**	**Decrease**
Vehicle tariff ($000's)	7,505	8,126	
Vehicle traffic	26,642	28,366	
Average tariff per vehicle	281.70	286.47	4.77
Passenger tariff ($000'S)	6,265	6,859	
Passenger traffic	75,108	81,100	
Average tariff per passenger	83.41	84.57	1.16

Average tariff revenue per vehicle decreased $4.77 or 1.7% in fiscal 2015 compared to the prior year and average tariff revenue per passenger decreased $1.16 or 1.4% in fiscal 2015 compared to the prior fiscal year. Average tariff revenues reflect the price cap increases implemented April 1, 2014. We believe the reduction in average tariff is partially due to a higher proportionate share of traffic on the route with lower fares, primarily in the second quarter. The reduction in traffic levels and changes in average fares resulted in a total tariff revenue decrease of $1.2 million during the year ended March 31, 2015 compared to the prior year.

There were no fuel surcharges or rebates in place on our Northern Routes during fiscal 2015 or fiscal 2014.

Reimbursements from the Province for social program fees decreased primarily as a result of lower usage of the MTAP program, fewer students and fewer BC seniors travelling, partially offset by higher fares. No changes were made to the social program discounts for BC seniors on the Northern Routes.

Revenue from catering and on-board services decreased by 6.6%, mainly as a result of lower traffic levels.

Stateroom rental increased by 2.4% primarily due to higher usage.

Hostling and other revenues increased as a result of increased use of hostling services.

Northern Routes cont'd

Ferry transportation fees received from the Province were $0.6 million lower than the prior year as a result of the following:

- $3.8 million reduction as a result of a lower percentage of total ferry transportation fees being allocated to the Northern Routes due to the elimination of one of the routes, partially offset by an overall increase in fees received under the CFSC;
- $0.5 million decrease in fees related to the price of fuel. For regulatory purposes, the amounts received relating to the price of fuel are applied to our deferred fuel cost accounts (see "The Effect of Rate Regulation" above for more detail);

partially offset by:

- $3.7 million increase in ferry transportation fees to mitigate the impact of fewer BC seniors on the Major and Other Routes utilizing the Province's discount program for seniors. The Province provided a maximum increase in ferry transportation fees to what would have been paid if there had been no change in the level of senior discounts on the Major and Other Routes. To the extent these funds are not required for the reimbursement of discounts provided BC seniors, they are directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes.

The Federal-Provincial subsidy has decreased marginally as a result of a decrease in the annual CPI (Vancouver).

Other Routes

Our Other Routes consist of 18 regulated routes and eight small unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast. One of the regulated routes and all 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 below. Operational statistics for the unregulated routes are not incorporated in the following table.

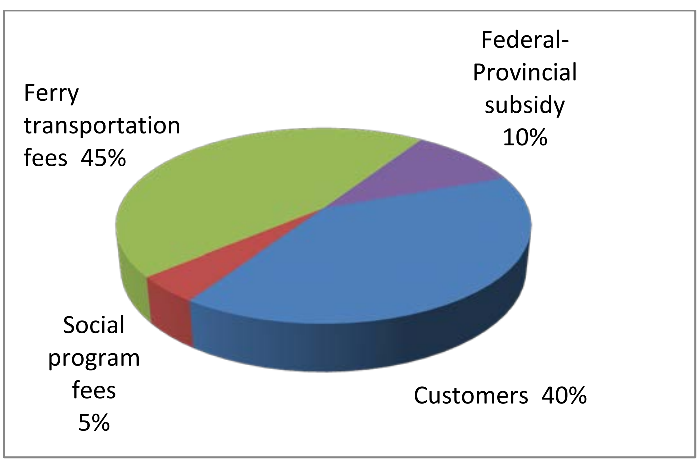
Operational Statistics	2015	2014	2013
Vehicle traffic	3,060,524	3,059,139	3,120,285
% increase(decrease)	0.0%	(2.0%)	(1.6%)
Passenger traffic	6,901,951	6,906,879	7,061,028
% increase(decrease)	(0.1%)	(2.2%)	(1.5%)
On-time performance	93.2%	92.9%	93.6%
Number of round trips	64,664	71,081	71,146
Capacity provided (AEQ's)	7,759,822	8,311,507	8,468,505
AEQ's carried	3,269,223	3,260,603	3,324,134
Capacity utilization	42.1%	39.2%	39.3%

Vehicle traffic was at the same level and passenger traffic decreased 0.1% in fiscal 2015 compared to the prior year. In fiscal 2015, traffic levels were negatively impacted by a reduction in BC seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays and decreases in student travel as a result of the teachers' labour dispute during the first two quarters of fiscal 2015.

In the last two months of the year, vehicle traffic was 9.0% higher and passenger traffic was 9.3% higher than the same period in the prior year. We believe this increase was partially due to favourable weather in February and March, 2015, lower gas prices and unfavourable weather in the same period in the prior year. The lower Canadian dollar may also have had a positive impact towards the latter part of the year.

On-time performance was 0.3% higher in fiscal 2015 than the prior year.

Capacity utilization in fiscal 2015 increased from 39.2% to 42.1% compared to the same period in the prior year as a result of decreased capacity provided due to a reduction in the number of round trips.



Fiscal 2015 revenue from our Other Routes consisted of 40% from customers and 60% from the Province (5% social program fees, 45% ferry transportation fees, and 10% from payments under the Federal-Provincial subsidy agreement).

Other Routes cont'd

Direct Route Revenue ($ thousands)	Years ended March 31			
	2015	**2014**	**Increase (Decrease)**	
Vehicle tariff	43,817	41,879	1,938	4.6%
Passenger tariff	32,132	28,382	3,750	13.2%
Fuel surcharges	2,161	422	1,739	412.1%
Social program fees	9,246	10,559	(1,313)	(12.4%)
Catering & on-board	4,212	3,941	271	6.9%
Reservation fees	249	228	21	9.2%
Parking & other	302	100	202	202.0%
Total Direct Route Revenue	92,119	85,511	6,608	7.7%
Indirect Route Revenue				
Ferry transportation fees	94,053	90,298	3,755	4.2%
Federal-Provincial subsidy	21,080	21,093	(13)	(0.1%)
Total Route Revenue	207,252	196,902	10,350	5.3%

Average tariff ($)	Years ended March 31		
	2015	**2014**	**Increase**
Vehicle tariff ($000's)	43,817	41,879	
Vehicle traffic	3,060,524	3,059,139	
Average tariff per vehicle	14.32	13.69	0.63
Passenger tariff ($000'S)	32,132	28,382	
Passenger traffic	6,901,951	6,906,879	
Average tariff per passenger	4.66	4.11	0.55

The average tariff revenue per vehicle increased $0.63 or 4.6% in fiscal 2015 compared to the prior year and the average tariff revenue per passenger increased $0.55 or 13.4%. On the majority of these routes, the average tariff per vehicle and passenger is calculated on a round trip basis. The increase in average tariff revenues reflects the price cap increases authorized by the Commissioner and the Province's reduction of the passenger fare discount for BC seniors travelling Monday through Thursday from 100% to 50%, resulting in BC seniors now paying a portion of their fares. There continues to be no discount for BC seniors travelling Friday through Sunday. The increase in average fares and the changes in traffic resulted in a total tariff revenue increase of $5.7 million.

Fuel surcharges collected were $1.7 million higher than in the prior year. Fuel surcharges of 3.5% on average were in place for approximately nine months of fiscal 2015 while in fiscal 2014, surcharges of 3.5% on average were in place for less than three months. Surcharges were removed December 17, 2014 due to declining fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

Other Routes cont'd

On April 1, 2014, we implemented the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50%. As a result, in fiscal 2015, 8% fewer BC seniors used the program compared to the prior year. The $1.3 million reduction in social program fees in fiscal 2015 consists of a $1.7 million reduction as a result of fewer BC seniors travelling under the program, partially offset by an increase in the number of people using the MTAP program and higher fares. To mitigate the impact of the loss of BC seniors travelling under the program, the Province provided a maximum increase in ferry transportation fees to what would have been paid if there had been no change in the level of senior discounts to the Major and Other Routes. To the extent these funds are not required for the reimbursement of discounts provided BC seniors, they are directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes. These actions together have increased our total revenues, which will reduce some pressure on future fares.

Increases in revenue from catering and on-board services reflect the higher average spending per passenger. Areas of growth include sales of food which increased by 6.4%, specialty confectionery which increased by 8.6% and quality apparel which increased by 15.7%.

Reservation fee revenue increased as a result of higher usage.

Parking and other revenues were higher in fiscal 2015 than in the prior year, mainly due to charter fees, commissions from new vendors at two of our terminal locations, parking and dock rental fees.

Ferry transportation fees received from the Province increased $3.8 million in fiscal 2015 compared to the prior year as a result of the following:

- $6.0 million increase in ferry transportation fees in respect of senior discounts; partially offset by:
- $2.2 million decrease as a result of timing differences over the months from the number of round trips and a higher percentage of total ferry transportation fees allocated to the regulated Other Routes with the elimination of one Northern Route, an overall increase in fees received under the CFSC.

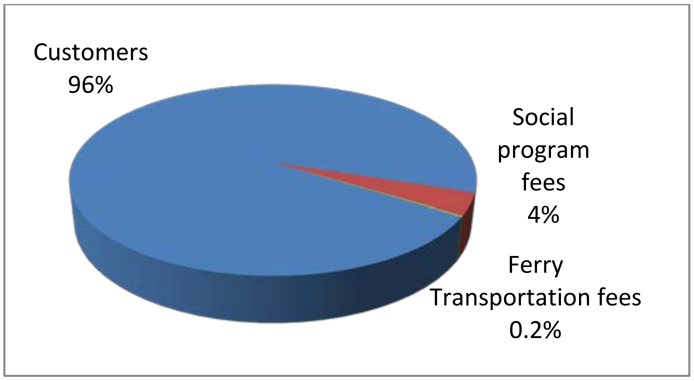
The Federal-Provincial subsidy has decreased marginally as a result in a decrease the annual CPI (Vancouver).

Year to Year Comparison of Revenues and Operational Statistics 2014 – 2013

Major Routes

Vehicle traffic decreased 1.0% and passenger traffic decreased 0.5% in fiscal 2014 compared to fiscal 2013. Traffic in both fiscal 2014 and fiscal 2013 were negatively affected by periods of unfavourable weather. When compared to the prior year, fiscal 2014 traffic was also negatively impacted by the timing of the Easter holiday. Fiscal 2014 included one day of the Easter holiday weekends (April 1, 2013), while fiscal 2013 included seven days of the Easter holiday weekends (April 6 through 9, 2012 and March 29 through 31, 2013). We believe that, after adjusting for this timing of Easter holiday weekend days, fiscal 2014 traffic levels were generally flat compared to fiscal 2013. A decline in non-commercial vehicle traffic was partially offset by a 1.7% increase in total commercial traffic, including a 14.8% increase in drop trailer traffic.

In fiscal 2014, there were a lower number of round trips compared to fiscal 2013, mainly as a result of service reductions on the Major Routes aimed at reducing operating costs by $4 million in PT3. On-time performance was adversely affected by planned maintenance activities in the first two quarters at our Horseshoe Bay and Langdale terminals, resulting in berth closures and other conditions negatively impacting arrivals and departures.



Fiscal 2014 revenue from our Major Routes consisted of 96% from customers and 4% in social program fees from the Province.

Direct Route Revenue ($ thousands)	**Years ended March 31** 2014	2013	Increase (Decrease)	
Vehicle tariff	253,707	241,893	11,814	4.9%
Passenger tariff	150,351	142,363	7,988	5.6%
Fuel surcharges	2,268	9,481	(7,213)	(76.1%)
Catering & on-board	69,500	67,240	2,260	3.4%
Social program fees	18,954	17,381	1,573	9.1%
Reservation fees	13,196	12,600	596	4.7%
Parking	4,217	3,714	503	13.5%
Other revenue	3,403	3,086	317	10.3%
Total Direct Route Revenue	515,596	497,758	17,838	3.6%
Indirect Route Revenue				
Ferry transportation fees	1,045	3,391	(2,346)	(69.2%)
Total Route Revenue	516,641	501,149	15,492	3.1%

Major Routes cont'd

Average tariff revenue per vehicle increased $3.10 or 5.9% in fiscal 2014 compared to the prior year. Average tariff revenue per passenger increased $0.69 or 6.2%. The increase in average tariff revenues in fiscal 2014 reflects the increases authorized by the Commissioner and the "CoastSaver" promotion in the first quarter of the prior year. "CoastSaver" price discounts of approximately 40% from regular passenger and passenger vehicle fares for Friday through Monday of each week were in effect from May 25 through June 25, 2012. Higher average fares more than offset the traffic decline, resulting in an increase in tariff revenue of $19.8 million.

Fuel surcharges collected in fiscal 2014 were $7.2 million lower than in the prior year. Fuel surcharges of 3.5% of tariffs on average were in place for less than three months of fiscal 2014 while in fiscal 2013, surcharges of 2.0% to 5.0% of tariffs on average were in place for approximately eight months of the year. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts.

Catering and on-board sales increased 3.4% in fiscal 2014 compared to the prior fiscal year reflecting higher average sales per passenger partially offset by lower passenger traffic levels. Areas of growth include sales of quality apparel which increased 14.7%; and sales of children's products which increased 9.3%. Sales of books, magazines and newspapers have declined 5.4%, following industry trends.

Social program fees increased in fiscal 2014 as a result of higher fares and higher usage of all programs. The most significant increases are a $0.9 million or 8.3% increase in the number of BC seniors travelling and a $0.5 million or 1.3% increase in the number of individuals travelling with vehicles under the MTAP program.

Reservation fees increased as a result of higher usage, partially offset by lower traffic levels.

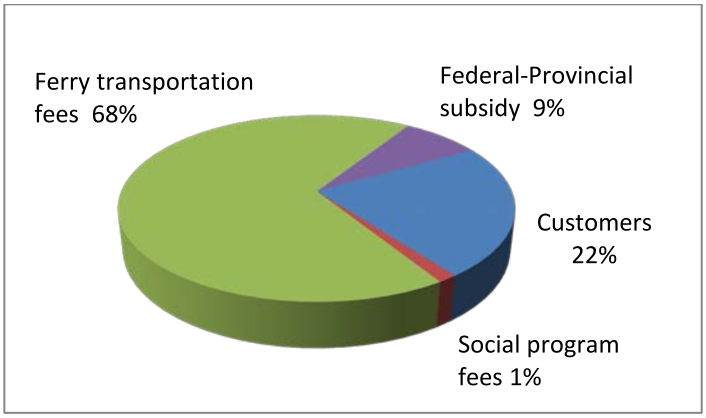
Revenue from parking increased as a result of higher usage of our parking facilities.

Other revenue increased mainly as a result of an increase in hostling fees from our drop trailer service and additional retail space rentals.

Ferry transportation fees decreased $2.3 million in fiscal 2014 due to the elimination of fees in support of services provided on our Horseshoe Bay – Langdale route, effective April 1, 2013. Funds received from the Province related to the import duty remission on one of our foreign-built vessels remained at a similar level. For the purpose of rate regulation, the funds related to the import duty remission are applied to our deferred fuel cost accounts.

Northern Routes

In fiscal 2014, the Northern Routes experienced a modest increase in traffic. Vehicle traffic increased 2.0% and passenger traffic increased 0.3% compared to the previous year.



Fiscal 2014 revenue from our Northern Routes consisted of 22% from customers and 78% from the Province (1% social program fees, 68% ferry transportation fees, and 9% from payments under the Federal-Provincial subsidy agreement).

Direct Route Revenue ($ thousands)	Years ended March 31			
	2014	**2013**	**Increase (Decrease)**	
Vehicle tariff	8,126	7,785	341	4.4%
Passenger tariff	6,859	6,917	(58)	(0.8%)
Social program fees	1,181	1,042	139	13.3%
Catering & on-board	2,064	2,007	57	2.8%
Stateroom rental	1,259	1,092	167	15.3%
Hostling & other	227	201	26	12.9%
Total Direct Route Revenue	19,716	19,044	672	3.5%
Indirect Route Revenue				
Ferry transportation fees	58,039	58,439	(400)	(0.7%)
Federal-Provincial subsidy	7,280	7,204	76	1.1%
Total Route Revenue	85,035	84,687	348	0.4%

Average tariff revenue per vehicle increased $6.55 or 2.3% in fiscal 2014 compared to the prior fiscal year. Average tariff revenue per passenger decreased $0.98 or 1.2%. The increase in average tariff revenues reflects the increases authorized by the Commissioner and changes year over year in the proportionate amount of traffic on the shorter routes with lower fares versus the amount of traffic on the longer routes with higher fares. The changes in traffic levels and in average fares resulted in a total tariff revenue increase of $0.3 million.

There were no fuel surcharges or rebates in place on our Northern Routes.

Reimbursements from the Province for social program fees increased primarily as a result of higher usage of MTAP and other programs, as well as higher fares.

Revenue from catering and on-board services increased mainly as a result of higher average sales per passenger.

Northern Routes cont'd

Stateroom rental increased due to higher usage, partly a result of the marginal increase in passenger traffic.

Hostling and other revenues increased as a result of increased use of parking facilities and hostling services, partially offset by lower use of reservations.

Ferry transportation fees in fiscal 2014 were $0.4 million lower than the prior year, reflecting:

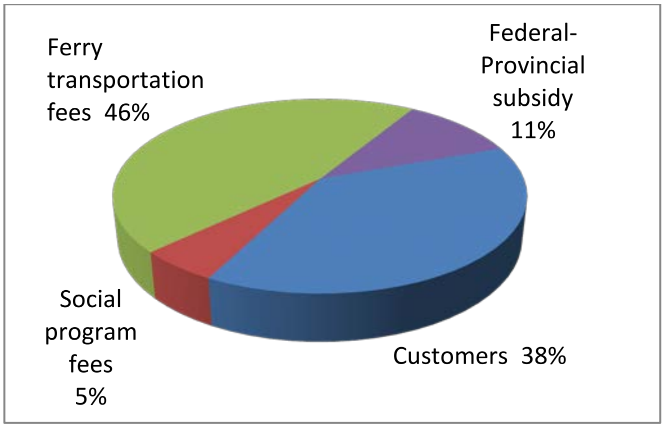
- $1.0 million reduction as a result of lower total ferry transportation fees received under the CFSC, partially offset by an increase in the percentage of these fees allocated by the Province to the Northern Routes; partially offset by:
- $0.6 million increase for fees received from the Province related to the price of fuel.

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

Other Routes

Our Other Routes consist of 18 regulated routes and eight small unregulated routes. One of the regulated routes and all 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 below. Operational statistics for the unregulated routes are not incorporated in the following table.

Vehicle traffic decreased 2.0% and passenger traffic decreased 2.2% compared to the prior year. We believe this decrease was partially due to the timing of the Easter holiday weekends and service alterations to accommodate upgrades at some of our terminals.



Fiscal 2014 revenue from our Other Routes consisted of 38% from customers and 62% from the Province (5% social program fees, 46% ferry transportation fees, and 11% from payments under the Federal-Provincial subsidy agreement).

Direct Route Revenue ($ thousands)	**Years ended March 31** 2014	2013	Increase (Decrease)	
Vehicle tariff	41,879	41,418	461	1.1%
Passenger tariff	28,382	28,404	(22)	(0.1%)
Fuel surcharges	422	1,988	(1,566)	(78.8%)
Social program fees	10,559	10,180	379	3.7%
Catering & on-board	3,941	4,153	(212)	(5.1%)
Reservation fees	228	208	20	9.6%
Parking & other	100	114	(14)	(12.3%)
Total Direct Route Revenue	85,511	86,465	(954)	(1.1%)
Indirect Route Revenue				
Ferry transportation fees	90,298	91,667	(1,369)	(1.5%)
Federal-Provincial subsidy	21,093	20,873	220	1.1%
Total Route Revenue	196,902	199,005	(2,103)	(1.1%)

The average tariff revenue per vehicle increased $0.42 or 3.1% in fiscal 2014 compared to the prior year, while the average tariff revenue per passenger increased $0.09 or 2.2%. The increase in average fares, partially offset by the reduction in traffic, resulted in a total tariff revenue increase of $0.4 million.

Fuel surcharges collected in fiscal 2014 were $1.6 million lower than in the prior year. Fuel surcharges of 3.5% of tariffs on average were in place for less than three months of fiscal 2014, while in fiscal 2013 surcharges of 2.0% to 5.0% of tariffs on average were in place for approximately eight months of the year.

Other Routes cont'd

Reimbursements from the Province for social program fees increased in fiscal 2014 as a result of higher program usage and higher fares. The most significant increase was a $0.3 million or 7.7% increase in the number of BC seniors travelling.

Decreases in revenue from catering and on-board services reflect the lower traffic levels on the routes where those services are offered and lower average spending per passenger.

Fees for reservations increased as a result of higher usage, partially offset by lower traffic levels.

Parking and other revenues were lower in fiscal 2014 than in the prior year, mainly due to a reduction in usage of our parking facilities.

Ferry transportation fees decreased $1.4 million reflecting the reduction in fees received under the CFSC for the 18 regulated routes. Funds received from the Province related to the import duty remission on one of our foreign-built vessels remained at a similar level, as did fees from the Province for the provision of contracted services.

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

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

Operating expenses ($ millions)	Years ended March 31		
	2015	2014	2013
Operations	447.2	451.7	436.8
Maintenance	68.1	63.2	70.0
Administration	32.0	31.6	29.6
Total operations, maintenance & administration	547.3	546.5	536.4
% Increase	*0.1%*	*1.9%*	*1.2%*
Cost of retail goods sold	32.4	30.9	29.5
Depreciation and amortization	142.8	136.9	135.7
Total operating expenses	722.5	714.3	701.6

We continue to take proactive measures to contain and reduce expenses while continuing to ensure that safety remains our top priority. In fiscal 2015, our total operations, maintenance and administration expenses remained mainly flat compared to the prior year.

Net finance and other ($ millions)	Years ended March 31		
	2015	2014	2013
Interest expense			
Bond interest	59.6	64.0	63.3
KfW bank group (“KfW”) loans	6.7	7.5	8.3
Interest on finance lease	2.0	2.0	2.3
Short-term debt	0.3	0.7	0.4
Structured Financing Facility (“SFF”) program	(0.4)	-	(0.4)
Capitalized interest	(3.5)	(3.2)	(1.8)
Total interest expense	64.7	71.0	72.1
Less: finance income	(4.3)	(3.7)	(2.9)
Net finance expense	60.4	67.3	69.2
Loss on disposal and revaluation of property, plant and equipment and intangible assets	9.1	0.6	0.1
Total net finance and other expenses	69.5	67.9	69.3

Year to Year Comparison of Expenses 2015 – 2014

The $4.5 million decrease in operations expenses from fiscal 2014 to fiscal 2015 consists of:

- $6.7 million decrease in fuel expense, reflecting a decrease of $2.7 million or 5.4% due to lower fuel prices and a $4.0 million or 3.2% decrease in fuel consumption mainly due to service level adjustments. While IFRS does not permit us to account for our regulatory assets and liabilities, we are in fact rate-regulated. For purposes of rate regulation, $9.1 million of our fuel expense for fiscal 2015 ($14.5 million for fiscal 2014) is recorded in deferred fuel cost accounts for future recovery. (See “The Effect of Rate Regulation” above for more detail.);
- $1.4 million decrease in insurance claim costs;
- $0.7 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement;

partially offset by:

- $1.3 million increase in wage and benefits costs, mainly due to collective agreement wage rate increases and higher benefit costs offset by reductions partially due to service level adjustments;
- $0.8 million increase in promotional advertising costs primarily due to fare reductions for extra-length vehicles. This promotion generated additional revenue and shifted traffic from peak demand sailings, particularly at Horseshoe Bay terminal, to under-utilized sailings at other terminals;
- $0.4 million increase in telecommunications costs;
- $0.5 million increase in employee development program costs;
- $0.5 million increase in credit card processing fees;
- $0.3 million increase in insurance premiums;
- $0.3 million increase in contracted services; and
- $0.2 million increase in materials and supplies.

The $4.9 million increase in maintenance costs resulting from an increase in vessel maintenance costs, reflecting the variations in vessel refit scheduling, and an increase in terminal maintenance costs offset by $2.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement.

The $0.4 million increase in administration costs is mainly due to a $1.4 million increase in computer software fees, licenses, training supplies and contracted services offset by a $0.4 million decrease in wages and benefits and $0.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement.

The $1.5 million increase in cost of retail goods sold reflects the increase in overall sales and the higher cost of food and select retail items.

Depreciation and amortization increased $5.9 million, reflecting new capital assets placed in service during fiscal 2015. (See "Investing in our Capital Assets" below for details of capital asset expenditures in fiscal 2015.)

Net finance and other expenses increased by $1.6 million from fiscal 2014 to fiscal 2015 due to:

- $8.5 million increase in loss on disposal and revaluation of property, plant and equipment and intangible assets primarily due to asset impairment;

partially offset by:

- $4.4 million decrease in bond interest, reflecting a $50 million decrease in outstanding bonds ($200 million issued in April 2014 and $250 million redeemed in May 2015);
- $0.8 million decrease in interest on KfW loans, reflecting $9.0 million in principal repayments on the 2.95% KfW loan and $5.6 million in principal repayments on each of the KfW 12 Year loans. (See "Liquidity and Capital Resources – Long-Term Debt" below for more detail.);
- $0.6 million increase in finance income;
- $0.4 million increase in interest rate support received through the SFF Program offered by the Government of Canada, reflecting the completion of the funding related to the purchase of the *Island Sky*;
- $0.4 million decrease in short-term interest; and
- $0.3 million increase in interest capitalized.

Year to Year Comparison of Expenses 2014 – 2013

The $14.9 million increase in operations expenses from fiscal 2013 to fiscal 2014 consists of:

- $6.4 million increase in wage and benefits costs, mainly due to wage rate increases, higher benefit costs, increased training costs and a 7% increase in overtime partially due to service alterations to accommodate upgrades at some of our terminals;
- $4.5 million increase in fuel expense, reflecting an increase of $4.8 million or 1.1% due to higher fuel prices, partially offset by a $0.3 million or 1.7% decrease in fuel consumption. For purposes of rate regulation, $14.5 million of our fuel expense for fiscal 2014 ($11.3 million for fiscal 2013) is recorded in deferred fuel cost accounts for future recovery.
- $0.9 million increase in travel expenses, mainly related to the service alterations to accommodate upgrades at some of our terminals;
- $0.8 million increase in telecommunications costs, software license fees and computer leases;
- $0.6 million increase in insurance claims costs, mainly due to a $0.7 million claim recovery in fiscal 2013;
- $0.5 million increase in credit card processing fees;
- $0.5 million increase in materials and supplies; and
- $1.4 million increase in various other operating costs;

partially offset by:

- $0.7 million decrease in contracted services.

The $6.8 million decrease in maintenance costs results from a decrease in vessel maintenance costs, reflecting the variations in vessel refit scheduling, while terminal maintenance costs remained at a similar level to the prior year.

The $2.0 million increase in administration costs is mainly due to a $1.3 million increase in computer software fees, licenses and leases and a $0.6 million increase in wages and benefits.

The $1.4 million increase in cost of retail goods sold reflects the increase in overall sales and the higher cost of food and select retail items.

Depreciation and amortization increased $1.2 million, reflecting higher amortization resulting from the new capital assets entering service during fiscal 2014.

Net finance and other expenses decreased by $1.4 million from fiscal 2013 to fiscal 2014 due to:

- $1.4 million increase in interest capitalized;
- $0.8 million increase in finance income;
- $0.8 million decrease in interest on KfW loans, reflecting $9.0 million in principal repayments on the 2.95% KfW loan and lower interest rates on the Tranche B than on the Tranche A components of the 12-year KfW loans; and
- $0.3 million decrease in interest on finance leases;

partially offset by:

- $0.4 million decrease in interest rate support received through the SFF Program offered by the Government of Canada, reflecting the completion of the funding related to the life extension of the *Quinsam*;
- $0.7 million increase in bond interest, reflecting $60 million increase in outstanding bonds ($200 million issued and $140 million redeemed in October 2013);
- $0.5 million loss on disposal and revaluation of property, plant and equipment and intangible assets; and
- $0.3 million increase in short-term interest.

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.

Over the last five years, our capital expenditures averaged $125 million annually. Over the next five years, we expect the average to increase to approximately $292 million annually as we proceed with the replacement of our aged minor and intermediate-sized vessels and make significant improvements at our terminals serving our Major Routes. Over the next few years, we expect our cash requirements will be met through operating cash flows and by accessing our credit facility from time to time. At March 31, 2015, our unrestricted cash and cash equivalents and other short-term investments totalled $66 million and $62 million, respectively.

On April 28, 2014, we completed a private placement of $200 million of 30-year senior secured bonds with accredited investors. These bonds bear interest at a rate of 4.289% per annum, payable semi-annually. The net proceeds of this new issue, together with additional cash on hand, was used to repay our $250 million bond Series 04-1, which matured on May 27, 2014, and to fund the debt service reserve related to these bonds. These bonds were rated “A” (DBRS) and “AA-” (S&P). We managed our interest rate risk and secured a favourable interest rate on these bonds by entering into interest rate hedges. The effective rate of this issue, net of hedging, is 4.45%, the lowest effective bond interest rate in the 12-year history of the Company.

Our $155 million credit facility was amended on March 13, 2015 to extend the maturity date of the facility from April 2019 to April 2020. The facility is available to fund capital expenditures and other general corporate purposes. At March 31, 2015, there were no draws on this credit facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at March 31, 2015, were “A” (DBRS) with a stable trend and “AA-” (S&P) with a stable outlook.

On September 30, 2012, the Commissioner issued Order 12-02, which established price cap increases for the balance of PT3. These price cap increases are sufficient to enable us to meet our debt obligations and maintain access to borrowing rates that, in the opinion of the Commissioner, are reasonable. The order indicated that the Commissioner had established the price caps with the intention of allowing us to achieve, by the end of PT3, equity not less than 17.5% of total capitalization and a DSCR of 2.5 or greater.

At March 31, 2015 we achieved equity to total capitalization of 20.9% and a DSCR of 3.02.

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

($millions)	Effective interest rate	Amount outstanding as at March 31 2015	2014	2013
Senior Secured Bonds				
5.74%, Due May 2014	5.92%	-	250	250
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
6.21%, Due December 2013	6.33%	-	-	140
4.70%, Due October 2043	4.75%	200	200	-
4.29%, Due April 2044	4.45%	200	-	-
12 Year Loans				
Tranche A, Due March 2020	5.17%	38	45	53
Tranche B, Due March 2020	1.30%*	22	21	13
Tranche A, Due June 2020	5.18%	39	47	54
Tranche B, Due June 2020	1.29%*	23	20	13
2.95% Loan, Due January 2021	3.08%	54	63	72
		1,276	1,346	1,295

* Floating rate as at March 31, 2015

In 2004, we entered into the Master Trust Indenture (May 2004) (the “MTI”), a copy of which is available at www.SEDAR.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.

We are also party to a credit agreement with a syndicate of Canadian banks that is secured under the MTI. Under this agreement, we have available a revolving facility in the amount of $155 million, maturing April 2020. The facility is available to fund capital expenditures and other general corporate purposes. At March 31, 2015, March 31, 2014, and March 31, 2013 there were no draws on this credit facility.

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

We have entered into three 12-year amortizing loan agreements with KfW, each of which is secured under the MTI. Two of these loans are 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.

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.

Finance Lease

In September 2010, agreements which constitute a finance lease for space in our corporate office building in downtown Victoria took effect following the completion of construction of the new building.

The initial term of the lease was 15 years, with four renewal options of five years each. In November, 2010, we advanced $24.2 million to the developer of the property for a term of 15 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, we were granted an option to purchase up to 50% of the owner's equity interest in the new building at a price of $24.2 million. Final adjustments were made on April 15, 2011, bringing the total amount of the loan and the purchase option to $24.5 million. The purchase option expires at the end of the loan term.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of accrued post-retirement and post-employment benefits.

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 2015 and 2014 are summarized in the table below:

	Years ended March 31		
($ millions)	**2015**	**2014**	**Increase (Decrease)**
Cash and cash equivalents, beginning of year	71.4	36.6	34.8
Cash from operating activities:			
Net earnings	49.1	18.0	31.1
Items not affecting cash	208.0	205.2	2.8
Changes in non-cash operating working capital	13.8	(1.1)	14.9
Net interest paid	(64.2)	(66.8)	2.6
Cash generated by operating activities	206.7	155.3	51.4
Cash (used in) generated by financing activities	(86.4)	42.5	(128.9)
Cash used in investing activities	(126.1)	(163.0)	36.9
Net (decrease) increase in cash and cash equivalents	(5.8)	34.8	(40.6)
Cash and cash equivalents, end of year	65.6	71.4	(5.8)

For the year ended March 31, 2015, cash generated by operating activities increased by $51.4 million compared to the prior year, due to an increase in net earnings and a decrease in interest paid as well as changes in items not affecting cash and non-cash operating working capital.

Cash used in financing activities in fiscal 2015 was $86.4 million. This amount consisted of $250 million repayment of our Series 04-1 bonds, $20.3 million in other long-term debt repayments; $7.7 million in hedge losses incurred on the settlement of interest rate forward contracts; $6.0 million in dividends paid on preferred shares; $1.3 million in bond financing costs; and $1.1 million repayment of finance lease obligations offset by proceeds of $200 million from our April 2014 bond issuance.

Cash generated by financing activities in fiscal 2014 was $42.5 million. This amount consisted of proceeds of $200 million from our October 2013 bond issuance, partially offset by: the redemption of our $140 million bond series; $9.0 million in other long-term debt repayments; $6.0 million in dividends paid on preferred shares; $1.4 million in bond financing costs; and $1.1 million repayment of finance lease obligations.

Cash used in investing activities in fiscal 2015 decreased by $36.9 million compared to the prior year, mainly due to a $56.5 million decrease in cash used for short-term investing; a $3.5 million change in debt service reserves, offset by a $23.1 million increase in cash used for capital expenditures. Cash used to purchase property, plant, equipment and intangible assets in fiscal 2015 totalled $148.4 million, compared to $125.3 million in the prior year. (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 for the three months ended March 31 for each of the past three fiscal years.

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

Operational Statistics	**2015**	**2014**	**2013**
Vehicle traffic	1,525,694	1,452,199	1,516,919
% increase(decrease)	5.1%	(4.3%)	1.0%
Passenger traffic	3,724,701	3,576,055	3,723,899
% increase(decrease)	4.2%	(4.0%)	1.6%
On-time performance	96.0%	95.5%	95.4%
Number of round trips	18,396	20,269	20,215
Capacity provided (AEQ's)	3,845,266	3,959,608	4,124,740
AEQ's carried	1,747,901	1,664,418	1,731,162
Capacity utilization	45.5%	42.0%	42.0%

Vehicle traffic increased 5.1% and passenger traffic increased 4.2% in the fourth quarter compared to the same quarter in fiscal 2014. Vehicle and passenger traffic increased in both the Major and Other Routes. In the last two months of the year, we believe traffic was positively impacted by favourable weather while the same period in fiscal 2014 was negatively affected by unfavourable weather. The Northern Routes experienced a 0.2% decrease in vehicle traffic and a 6.5% decrease in passenger traffic in the fourth quarter compared to the same period in fiscal 2014.

Capacity utilization in the three months ended March 31, 2015 increased by 3.5% over the same period in the prior year, mainly as a result of reduced capacity resulting from a decrease in the number of round trips on the Northern and Other Routes and an increase in total AEQs carried.

	Three months ended March 31			
			Variance	
($ millions)	**2015**	**2014**	**$**	**%**
Total revenue	161.4	153.9	7.5	4.9%
Operating expenses	173.2	175.2	2.0	1.1%
Operating loss	(11.8)	(21.3)	9.5	44.6%
Net finance and other	23.3	17.0	(6.3)	(37.1%)
Net loss	(35.1)	(38.3)	3.2	8.4%
Other comprehensive income (loss)	2.7	(5.0)	7.7	154.0%
Total comprehensive loss	(32.4)	(43.3)	10.9	25.2%

Our total comprehensive loss in the three months ended March 31, 2015 was $10.9 million lower and our net loss was $3.2 million lower than in the same quarter of fiscal 2014. The other comprehensive income of $2.7 million in the fourth quarter of fiscal 2015 reflects the change in unrealized hedge losses of $2.9 million on fuel forward contracts offset by the loss of $0.2 million on the revaluation of land at March 31, 2015. The other comprehensive loss in fiscal 2014 reflects the $5.0 million unrealized hedge loss at March 31, 2014 on interest rate forward contracts related to our April 28, 2014 issuance of $200 million of senior secured bonds. Fiscal 2015 net loss reflects increased fares, increased traffic levels and lower finance expenses, partially offset by an increase in net operating expenses and lower fuel surcharges.

Revenue

Our total revenues for the fourth quarter of fiscal 2015 increased compared to the same quarter in the prior year, as shown in the following table:

($ millions)	Three months ended March 31			
			Increase (Decrease)	
	2015	**2014**	**$**	**%**
Direct Route Revenue				
Vehicle tariff	61.1	56.3	4.8	8.5%
Passenger tariff	36.8	32.2	4.6	14.3%
Fuel surcharges	-	2.7	(2.7)	(100.0%)
Catering & on-board	13.9	13.3	0.6	4.5%
Social program fees	5.3	6.2	(0.9)	(14.5%)
Reservation fees	2.0	1.8	0.2	11.1%
Other revenue	2.2	2.0	0.2	10.0%
Total Direct Route Revenue	121.3	114.5	6.8	5.9%
Indirect Route Revenue				
Ferry transportation fees	32.5	32.0	0.5	1.6%
Federal-Provincial subsidy	7.1	7.1	-	-
Total Route Revenue	160.9	153.6	7.3	4.8%
Other general revenue	0.5	0.3	0.2	66.7%
Total Revenue	161.4	153.9	7.5	4.9%

Average tariff revenue per vehicle increased $1.28 or 3.3% in the quarter compared to the same period in the prior year and average tariff revenue per passenger increased $0.88 or 9.7%, due in part to the Province's decision to amend its program and reduce passenger fare discounts for BC seniors travelling Mondays through Thursdays from 100% to 50%, effectively resulting in BC seniors paying a portion of their fares on these days. The higher average fares, along with the increase in traffic levels, resulted in a $9.4 million increase in tariff revenue.

Fuel surcharges collected were $2.7 million lower than in the prior year. On December 17, 2014, fuel surcharges were removed due to declining fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place on our Major Routes and our regulated Other Routes, since January 17, 2014. No surcharges were implemented on our unregulated or Northern Routes.

Catering and on-board sales increased 4.5% in the quarter compared to the same period in the prior year, reflecting higher average sales per passenger and higher passenger traffic levels.

On April 1, 2014, we implemented the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50% on the Major and Other Routes. There continues to be no discount for BC seniors travelling Friday through Sunday on the Major and Other Routes and the every-day 33% discount on the Northern Routes remained unchanged. Social program fees decreased by 14.5% in the quarter compared to the same period in the prior year as 8% fewer BC seniors used the program partially offset by an increase in the number of people using the MTAP program.

Reservation fee revenue increased mainly as a result of higher usage.

The increase in other revenue is mainly due to increases in parking and hostling revenue.

Ferry transportation fees were higher in the quarter compared to the same period in the prior year as a result of an increase to mitigate the loss of BC seniors travelling under the social program offset by changes in funding received from the Province under the CFSC.

Expenses

Our operating and net finance and other expenses for the fourth quarter of fiscal 2015 and fiscal 2014 are shown in the following tables:

Operating expenses	**Three months ended March 31**			
($ millions)			**(Increase) Decrease**	
	2015	**2014**	**$**	**%**
Operations	101.7	106.6	4.9	4.6%
Maintenance	19.8	18.0	(1.8)	(10.0%)
Administration	9.0	9.7	0.7	7.2%
Total operations, maintenance & administration	130.5	134.3	3.8	2.8%
Cost of retail goods sold	6.1	5.6	(0.5)	(8.9%)
Depreciation and amortization	36.6	35.3	(1.3)	(3.7%)
Total operating expenses	173.2	175.2	2.0	1.1%

The decrease in operations costs for the three months ended March 31, 2015 compared to the same period in the prior year is due to a $6.5 million decrease in fuel costs ($5.3 million in lower fuel prices and $1.2 million in lower fuel usage), $0.7 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement, and $0.8 million reduction in insurance claims, partially offset by increases of $1.8 million in wages and benefits, $0.4 million in employee services, $0.3 million in credit card fees, $0.3 million in promotional advertising and $0.3 million in communication costs. For purposes of rate regulation, $1.4 million of our fuel expense in the quarter, resulting from lower prices, is recorded in deferred fuel cost accounts for future return to customers.

The increase in maintenance costs reflects both increases in terminal maintenance costs and variations in vessel refit scheduling offset by $2.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement.

The decrease in administration costs of $0.7 million includes $0.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement, a $0.1 million increase in contracted services and a $0.3 million increase in relocation costs offset by a $0.3 million decrease in wages and benefits.

Depreciation and amortization was $1.3 million higher in the quarter compared to the same period in the prior year as a result of the new capital assets placed in service.

Net finance and other ($ millions)	**Three months ended March 31**			
			(Increase) Decrease	
	2015	**2014**	**$**	**%**
Interest expense				
Bond interest	14.3	16.0	1.7	10.6%
KfW loans	1.6	1.7	0.1	5.9%
Interest on finance lease	0.5	0.5	-	-
Short-term debt	0.1	0.2	0.1	50.0%
Capitalized interest	(1.1)	(0.8)	0.3	37.5%
Total interest expense	15.4	17.6	2.2	12.5%
Less: finance income	(1.2)	(1.1)	0.1	9.1%
Net finance expense	14.2	16.5	2.3	13.9%
Loss on disposal and revaluation of property, plant and equipment and intangible assets	9.1	0.5	(8.6)	(1,720.0%)
Total net finance and other expenses	23.3	17.0	(6.3)	(37.1%)

Net finance and other expenses in the quarter were $2.3 million lower compared to the same period in the prior year, primarily due to $1.7 million decrease in bond interest, $0.3 million higher interest being capitalized and a $0.2 million increase in finance income.

Loss on disposal and revaluation of property, plant and equipment and intangible assets increased by $8.6 million, primarily due to asset impairment.

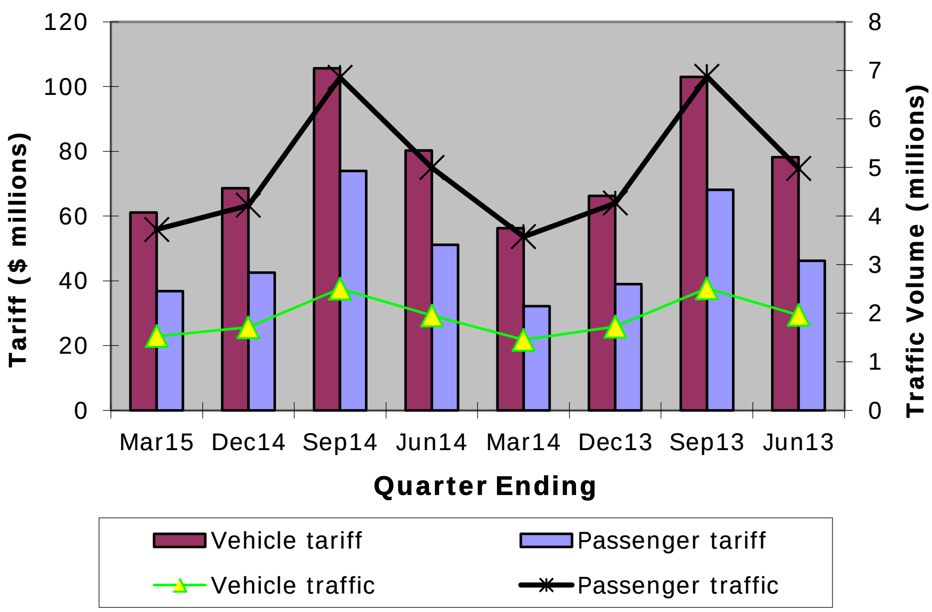
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)							
($ millions)	**Mar 15**	**Dec 14**	**Sep 14**	**Jun 14**	**Mar 14**	**Dec 13**	**Sep 13**	**Jun 13**
Total Revenue	161.4	182.4	284.2	213.1	153.9	174.8	271.5	200.0
Operating (loss) profit	(11.8)	8.2	91.6	30.6	(21.3)	3.7	82.3	21.2
Net (loss) earnings	(35.1)	(6.1)	76.4	13.9	(38.3)	(12.3)	64.3	4.3
Other comprehensive income (loss)	2.7	(7.4)	(2.9)	(2.4)	(5.0)	-	0.1	-
Total comprehensive (loss) income	(32.4)	(13.5)	73.5	11.5	(43.3)	(12.3)	64.4	4.3

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 management framework and guidelines to ensure that capital investments meet our functional and business needs. It 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 by outlining the key principles, techniques and tools for managing and monitoring capital projects through the various stages of the project lifecycle.

Our capital asset planning is supported with formal business cases for all capital projects, use of best practice 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 for the Board of Directors on a quarterly basis.

Capital Expenditures

Capital expenditures in the three and twelve months ended March 31, 2015 totalled $48.8 million and $149.8 million, respectively.

($ millions)	**March 31, 2015**	
	3 Months	**12 Months**
Vessel upgrades and modifications	28.3	69.0
Terminal marine structures	8.5	47.6
Information technology	8.0	23.5
Terminal and building upgrades and equipment	4.0	9.7
Total capital expenditures	48.8	149.8

Vessel Upgrades and Modifications

Capital expenditures for vessel upgrades and vessel modifications in the three and twelve months ended March 31, 2015 comprised the following:

($ millions)	**March 31, 2015**	
	3 Months	**12 Months**
Major overhauls and inspections	6.2	18.8
New intermediate vessels	6.3	15.8
Queen of Capilano mid-life upgrade	8.3	11.4
Cable ferry	3.3	9.4
Queen of Oak Bay three-quarter life upgrade	3.0	6.9
Other projects	1.2	6.7
	28.3	69.0

The $18.8 million in major overhauls and inspections completed in the twelve months ended March 31, 2015 or currently underway comprised:

- $7.9 million for the *Queen of Oak Bay*;
- $3.0 million for the *Queen of Capilano*;
- $1.8 million for the *North Island Princess*;
- $1.7 million for the *Queen of Alberni*;
- $1.3 million for the *Quadra Queen II*;
- $1.1 million for the *Northern Expedition*;
- $1.0 million for the *MV Kuper*; and
- $1.0 million for the *Queen of Nanaimo.*

In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. to build three new intermediate class vessels. The contracts, with a total value of $165 million, form the majority of the total project budget of $252 million. These contracts are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017. Two of the vessels will replace the 50-year old *Queen of Burnaby* and the 51-year old *Queen of Nanaimo,* while the third vessel will augment service during the peak and shoulder season and provide relief when other vessels are in refit. On March 5, 2015, the keel-laying for the first of the three new intermediate vessels took place and on April 10, 2015, the first steel cut for the second vessel took place at Remontowa Shipbuilding S.A. shipyard in Gdansk, Poland. The new vessels will be dual-fuel capable, so they can run predominantly on LNG with marine diesel fuel as a backup.

A $13 million project for a mid-life upgrade of the *Queen of Capilano* included installation of gallery decks which increase capacity, upgrades to the electrical system, replacement of generators, upgrades to the fire protection system, standardization of the bridge and upgrades to the emergency evacuation systems. The upgrade commenced in October 2012 and the vessel returned to service in early May 2015.

In April 2015, the drive and guide cables necessary to move the cable ferry that will provide service between Buckley Bay and Denman Island were installed. The cable ferry, which will accommodate 50 vehicles and 150 passengers and crew, is nearing completion and expected to be placed in service in the summer of 2015. (See “Outlook – Asset Renewal Program” below for more detail.)

The three-quarter life upgrade of the *Queen of Oak Bay* includes significant pipe and steel renewal, upgrades to the electrical system, replacement of the steering gear system, upgrades to the fire protection system, upgrades to the elevator, standardization of the bridge and replacement of the emergency generator. The upgrade commenced in August 2013. The first phase is now complete and the second phase is expected to be complete by the end of fiscal 2016.

Other projects include the replacement of rescue boats and davits on the *Spirit of British Columbia*, new searchlights for the *Northern Expedition,* the *Coastal Celebration,* the *Coastal Renaissance* and *Coastal Inspiration,* major life upgrade for the *Queen of Cumberland*, radar equipment and gyro compasses on several vessels and the rebuilding of two spare tail shafts for potential use in upcoming overhauls.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the three and twelve months ended March 31, 2015 comprised the following:

($ millions) Terminal	Description	March 31, 2015 3 Months	12 Months
Denman Island and Buckley Bay	Modifications to accommodate the new cable ferry	0.8	19.5
Port McNeill	Replacement of trestle, ramp, apron and towers	0.2	11.8
Sointula	Berth rebuild	3.4	4.4
Langdale	Upgrade dolphin, wingwall and shore power	1.2	2.5
Departure Bay	Replace dolphin and gangways	1.7	1.9
McLoughlin Bay	Berth modifications	-	1.3
Various	Other projects	1.2	6.2
		8.5	47.6

Modifications at Denman Island and Buckley Bay terminals, as part of the project for our new cable ferry service, included two contracts totalling $15 million awarded for the supply of two concrete floating pontoons, construction of two berths, expansion of the Denman West holding compound and all associated upland development. These modifications are now complete. (See “Outlook – Asset Renewal Program” below for more detail on the new cable ferry service.)

At Port McNeill terminal, a $13 million project to replace the trestle, wingwalls, ramp, apron, towers and dolphin and reposition the new ramp to accommodate all minor and intermediate vessels completed in the third quarter.

At Sointula terminal, a $10 million project to replace the ramp, tower, wingwalls, floating lead and three dolphins to extend the life of the trestle is underway. This project is expected to complete by the end of the first quarter of fiscal 2016.

At Langdale terminal, a $2 million project to install shore side power equipment including switch gear, receptacle panels, transformers and cabling and a $1 million project to replace the dolphin, to extend the life of the wingwall and to replace a portion of the catwalk are complete.

At Departure Bay terminal, a $4 million project to replace the dolphin and a $3 million project to install active lift gangways are underway. These projects are expected to be complete by the end of the first quarter and the end of the third quarter of fiscal 2016, respectively.

At McLoughlin Bay, the $9 million project for berth modifications, including installation of three pontoon sections and modification of the berth to improve ship-to-shore tie-up, is complete.

Other projects currently in progress include upgrades at Quathiaski Cove, Otter Bay and Tsawwassen terminals. Also in progress at our Richmond facility is a project to install two power distribution centres and new power receptacles at the berths and to upgrade existing power receptacles necessary to meet the requirements of our larger vessels.

Information Technology

Capital expenditures for information technology in the three and twelve months ended March 31, 2015 comprised the following:

($ millions)	March 31, 2015	
	3 Months	12 Months
Customer service program	2.1	10.5
Payroll system replacement	2.0	5.5
Hardware upgrades	2.5	3.8
Oracle eBusiness upgrade	0.8	2.2
Other projects	0.6	1.5
	8.0	23.5

Our customer service program will replace our aged point of sale and reservations systems and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and pricing initiatives. The main elements of this multi-year program will be implemented in stages starting in 2015. We believe this program will significantly improve our ability to efficiently respond to the changing needs of our customers.

Our payroll system replacement initiative will replace both our aged payroll and labour distribution systems and provide processing efficiencies and flexibility. It is expected to be complete in 2016.

Hardware upgrades include the replacement of aged computers, printers, servers, routers, closed-circuit cameras and electronic signage.

Our Oracle financial system upgrade includes configuration changes to obtain efficiencies. It is expected to complete by the end of June 2015.

Terminal and Building Upgrades and Equipment

Capital expenditures for terminal and building upgrades and equipment in the three and twelve months ended March 31, 2015 comprised the following:

($ millions)	March 31, 2015	
	3 Months	12 Months
Asphalt resurfacing, signage and security at Tsawwassen terminal	2.1	3.6
Vehicles and other equipment	1.1	2.3
Electrical building upgrade at Saltery Bay	0.3	0.5
Crew accommodation upgrade at Alliford Bay	0.1	0.5
Energy efficiency upgrades at Horseshoe Bay and Swartz Bay terminals	-	0.3
Upgrades at our maintenance facility	-	0.3
Other terminal projects	0.4	2.2
	4.0	9.7

Several improvement projects are substantially complete or underway at Tsawwassen terminal including a seismic upgrade to an electrical building, replacing flooring and windows in the administration building, asphalt resurfacing, upgrade of way-finding signage, installation of digital destination signs at the toll booths and upgrade of lighting for security purposes.

Vehicles and other equipment include garbage compactors and several items of machinery and equipment at our maintenance facility in Richmond.

Upgrades at Saltery Bay include a new electrical building and an upgrade to the electrical service with new conduit and higher amps.

The upgrade at Alliford Bay which included a new crew accommodation building with a meeting room and two bachelor units is substantially complete.

Upgrades at Horseshoe Bay and Swartz Bay include installation of digital control systems to optimize the efficiency of HVACs, installation of programmable thermostats and motion sensors, and changes to LED fixtures and other lighting throughout the buildings and grounds.

Upgrades at our maintenance facility include asphalt resurfacing, roof replacement on one building as well as security upgrades.

Other projects currently in progress include upgrades at Prince Rupert and Buckley Bay.

Financial

Traffic Levels

Ferry traffic levels are affected by a number of factors, such as the economy, weather, transportation costs (including vehicle gasoline prices and ferry fares), the value of the Canadian dollar, global economic change, tourism levels, disposable personal income, demographics, and population growth. We are uncertain as to the individual or cumulative impact these items may have on our traffic levels. We are also uncertain as to the cumulative impact that tariff rate increases and the implementation and removal of fuel surcharges or rebates may have.

A summary of vehicle and passenger traffic over the last six years is shown below and a discussion of the changes over the years is discussed above in the “Financial and Operational Overview”.

Vehicle Traffic by fiscal year

(thousands)	2015	2014	2013	2012	2011	2010
Major routes	4,603.7	4,556.8	4,600.6	4,637.9	4,811.0	4,859.0
Other routes	3,060.5	3,059.1	3,120.3	3,172.4	3,279.2	3,365.3
Northern routes	26.7	28.4	27.8	27.6	29.3	31.1
Total	7,690.9	7,644.3	7,748.7	7,837.9	8,119.5	8,255.4
Increase (decrease)	*0.6%*	*(1.3%)*	*(1.1%)*	*(3.5%)*	*(1.6%)*	*1.5%*

Passenger Traffic by fiscal year

(thousands)	2015	2014	2013	2012	2011	2010
Major routes	12,818.9	12,708.7	12,777.2	12,920.8	13,309.7	13,388.3
Other routes	6,902.0	6,906.9	7,061.0	7,168.5	7,350.5	7,559.1
Northern routes	75.1	81.1	80.9	80.7	86.0	88.2
Total	19,796.0	19,696.7	19,919.1	20,170.0	20,746.2	21,035.6
Increase (decrease)	*0.5%*	*(1.1%)*	*(1.2%)*	*(2.8%)*	*(1.4%)*	*1.5%*

In the last quarter of the year ending March 31, 2015, our total traffic was higher than the same quarter in the prior year, with increases of 5.1% in vehicle traffic and 4.2% in passenger traffic. Every category of traffic was higher with the exception of seniors and buses. We believe this increase was partially as a result of favourable weather and by lower gas prices.

Traffic levels have been negatively impacted in fiscal 2015 by a reduction in seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays on the Major and regulated Other Routes effective April 1, 2014 and the reduction in student travel resulting from the teachers’ labour dispute in the first and second quarters of fiscal 2015. Traffic levels were also impacted by service level adjustments mainly on the Northern and Other Routes.

We believe the US economy and the outlook for the travel industry will continue to improve. With the decline in the value of the Canadian dollar and the lower cost of fuel, we believe that passenger and vehicle traffic will remain strong in the near term, for the tourist season. We expect this will result in a modest improvement in discretionary traffic levels.

Market Opportunities

We are constantly looking for innovative ways to serve our customers and actively pursue opportunities for growth.

Our drop trailer service, launched in March 2009, operates on two of our Major Routes. Our commercial customers on these routes can drop their trailers off at one terminal and pick them up at another with our drivers loading and unloading the commercial trailers on and off the ferry with a hostling unit. This drop trailer service is the fastest growing segment of our market with increases in revenue over the past three years of 14%, 15%, and 34%, respectively. The service also improves our overall productivity by utilizing otherwise unused capacity. We expect to see modest growth in drop-trailer traffic over the next few years as general economic conditions improve and our overall commercial market share remains relatively stable.

In May 2010, we opened our vacations centre, which is conveniently located in the tourist sector of downtown Vancouver. Through the use of our travel centre and an integrated marketing approach, we are able to leverage our core business to drive incremental ferry traffic as well as generate commissions from the related services. Using a 37-foot long interactive media wall display, customers are able to view route maps, vessel schematics, and destination images to help them choose from a variety of travel package options. In fiscal 2015, the number of vacation packages sold generated over $4.3 million in revenue, an increase of 29.1% over the prior year. As the economy strengthens, we expect to see continuing growth, leading to increased traffic volumes as well as incremental non-tariff revenue.

We also have opportunities for continued growth with our retail services which include food service and giftshops. Our retail revenue is approximately 10% of our total annual revenues and has increased over the past two years by 2% and 3%, respectively.

Service Delivery Model

We provide frequent year-round transportation service on 24 routes which are regulated. We also manage ferry transportation services on other remote routes through contracts with independent operators. In an effort to reduce costs on our regulated routes, and consistent with section 69 of the Act, from time to time we test the market to determine if another operator, under contract to us, could provide safe, reliable and high quality service that is more cost-effective.

Financial Summary

We do not anticipate a material change in general economic conditions, although we believe that passenger and vehicle traffic will remain strong in the near term, for the tourist season.

The Commissioner established price caps for PT3 which incorporate efficiency targets of $54.2 million, over and above the benefits associated with any service level adjustments, to be achieved by us over the four years of PT3. We expect to exceed this target.

The amendment to the CFSC in March 2014 adjusted the service levels and targeted net savings of $30 million over PT3 of which:

- $4.0 million were reductions in annual round trips on three of the Major Routes;
- $7.1 million received from the Province as a result of the extended deadline;
- $14.0 million in reductions in annual round trips on Northern and Other Routes; and
- $4.9 million in further reductions in annual round trips on three of the Major Routes.

We reviewed opportunities for further service level reductions of $4.9 million on three of the Major Routes and determined that the loss of revenue from further reductions would outweigh the savings. We are committed to saving the $4.9 million through other efficiencies, rather than further adjustments to service levels.

We are continuing our program of cost containment, while maintaining safe, reliable service. However, we have no plans to reduce our planned refit and maintenance programs, training and safety programs or capital programs.

We expect to reach a mutually agreeable settlement with the Union in fiscal 2016 that provides stability for our employees and uninterrupted ferry service for our customers.

We expect positive net earnings in fiscal 2016, a modest increase in fares, continued cost containment, and continued benefits from adjustments to service levels coupled with a gradual improvement in the overall economy.

On March 18, 2015, the Commissioner released the Preliminary Decision on Price Caps for PT4, setting increases in price caps of 1.9% per year from April 1, 2016 through March 31, 2020. The Commissioner will issue his decision on final price caps for PT4 by no later than September 30, 2015. In addition to the savings of $4.9 million per year (discussed above), the preliminary price caps incorporate an additional productivity improvement of $2.0 million per year. The total efficiency target for PT4 is $27.6 million.

Asset Renewal Program

Over the next twelve years, we plan to invest over $3 billion to replace 18 aging vessels as well as upgrades to terminals and other infrastructure. A portion of this investment will have to come from funds from operations, in order to maintain our regulated financial covenants.

Vessels

We have one of the largest ferry fleets in the world. The average age of our assets was among the oldest of major ferry operators worldwide. To address this, we instituted a multi-year major fleet and asset renewal program which involved upgrading and replacing a large share of our major vessels and terminal assets.

Over a number of years, this program saw seven new vessels being added to our fleet, many other vessels significantly upgraded and numerous improvements to our terminal assets. The entry of the new vessels into service and asset revitalization reduced the average age of our major vessels from 33 years to 19 years and has assisted in maintaining operational safety and reliability. The most significant portion of this asset renewal program was completed during fiscal 2008 and 2009.

Capital expenditures by fiscal year

($ millions)	2015	2014	2013	2012	2011	2010	2009	2008
Vessel upgrades & modifications	43.8	64.9	39.9	47.6	43.8	21.5	75.7	53.7
Terminal marine structures	47.6	43.6	27.5	44.0	41.6	22.5	31.0	26.6
Information technology	23.5	16.9	20.6	18.6	17.2	15.5	14.2	15.2
Terminal & building upgrades & equipment	9.7	3.9	7.2	11.1	24.5	15.1	24.3	27.9
Total (without new vessels)	124.6	129.3	95.2	121.3	127.1	74.6	145.0	123.4
New vessels	25.2	0.6	1.4	0.9	1.6	6.8	348.7	329.1
Total (including new vessels)	149.8	129.9	96.6	122.2	128.7	81.4	493.9	452.5

The next phase of vessel renewals began in fiscal 2010, after the last of the new major vessels was placed in service and design began for the new minor and intermediate sized vessels. The typical life span of vessels is 40 to 45 years and our minor and intermediate sized vessels currently have an average age of 38 years. As the identified replacement dates approach, we are reviewing these vessels to determine potential candidates for life extension rather than replacement. Our expectation is that we will need to replace or extend the life of 12 of these vessels over the next 10 years.

Of these 12 vessels, the first will be a cable ferry as detailed below. When the cable ferry is placed into service, it will allow us the option to retire the 51 year-old *Tenaka.*

Our strategy for new vessels includes design optimization, interoperability, and standardization of vessels across the fleet, to the extent possible, to provide more flexibility to respond to changes in the market demand and traffic forecasts. We also plan to adopt LNG as a fuel source where economic.

In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. in Gdansk, Poland to build three new intermediate class vessels. Each vessel will have the capacity to carry 145 AEQs and be designed to operate as dual-fuel capable, so they can run predominantly on LNG with marine diesel fuel as a backup. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and lifesaving equipment moving us to a higher safety standard and improving interoperability. The Remontowa contracts, with a total value of $165 million, form the majority of the total project budget of $252 million. These contracts are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction.

On March 5, 2015, the keel-laying for the first of the three new intermediate vessels and on April 10, 2015, the first steel cut for the second vessel took place at Remontowa Shipbuilding S.A. shipyard. Two of the vessels will replace the 50-year old *Queen of Burnaby* and the 51-year old *Queen of Nanaimo* which are scheduled for retirement in 2016. The third vessel will augment service during the peak and shoulder season and provide relief when other vessels are in refit. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017. FortisBC has provided us with $6 million in incentive funding for the new vessels to help offset incremental capital costs associated with the use of LNG.

Cable Ferry

After many years of studying the feasibility of a cable ferry, performing extensive design and analysis and obtaining regulatory approvals, we awarded a $15 million contract to Seaspan's Vancouver Shipyards of North Vancouver for the construction of a new cable ferry. On April 30, 2015, we completed the installation of the drive and guide cables necessary to move the cable ferry that will provide service on one of our shortest routes between Buckley Bay on Vancouver Island and Denman Island, along with significant improvements to two terminals. The ferry is expected to be placed in service later in the summer. This is an innovative initiative and is part of our ongoing efforts to identify and pursue opportunities that have the potential to enhance our cost effectiveness in delivering safe, reliable and quality ferry service.

Compared to the current service, it is projected that, over 40 years, the cable ferry will provide over $80 million in cost savings as well as significant environmental benefits, including: reduced fuel consumption; lower air emissions; reduced wake; no propeller turbulence; low anti-fouling discharge; low propeller scour; and zero discharge to the marine environment.

Terminals

In fiscal 2014, we awarded two contracts totalling $15.2 million for construction of Buckley Bay and Denman Island West cable ferry berths. The berth contracts included an award to Vancouver Pile Driving Ltd for supply of two concrete floating pontoons and another award to Ruskin Construction Ltd. of Victoria for construction of two berths, expansion of Denman West holding compound and all associated upland development. Terminal and berth construction was completed in fiscal 2015.

Over the next 10 years, an estimated capital investment of $0.5 billion will be required at the Major Route terminals, including over $200 million in terminal infrastructure at the Horseshoe Bay terminal.

Fuel Conversion

On October 29, 2012, we submitted a fuel strategies report to the Commissioner which included our plan for transition to alternate fuels and, subsequently, we have provided annual updates. Both LNG and the marine diesel we currently use meet all domestic and international emissions regulations. We have studied the feasibility of converting to LNG and believe that a move to this fuel source would reduce costs and emissions. At this time, even with the current drop in diesel oil prices, LNG is less expensive than the ultra-low sulphur diesel we currently use and has significantly less emissions. We believe that LNG is a viable option for future new vessels and, as noted above, our three new intermediate vessels will have the capability to run on it. We also analyzed LNG as an option for existing vessels undergoing major retrofits and intend to pursue the option where it is economically and technically feasible. The *Spirit of Vancouver Island* and the *Spirit of British Columbia* will be undergoing midlife upgrades over the next few years and we are currently considering converting them to be able to run on LNG as well as diesel.

Information Technology

Automated Customer Experience Program

Our customer service program will replace our aged point of sale and reservations systems and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and flexible pricing initiatives.

Fare Flexibility and Digital Experience Initiative

On February 2, 2015, the Commissioner conditionally approved our application in support of our Fare Flexibility Initiative. The rigid technology systems we currently use limit our ability to design attractive and relevant pricing at a sailing level.

We believe our information technology systems must be significantly improved to evolve our business model. The Fare Flexibility Initiative will introduce a new system to manage fares at a sailing level, improve operational efficiency through better capacity management, provide customers with a modernized e-commerce platform with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels.

Vehicle Classification System

We are currently running a pilot project at our Horseshoe Bay terminal testing a system that automatically measures vehicle length, height and ground clearance as vehicles approach the ticket booth. We believe the system will improve customer service with faster throughput and less waiting in line-ups, provide more reliability in measured vehicle lengths and greater safety and comfort for employees. Results of the pilot will be analysed to determine potential future implementation at our other major terminals.

Regulation

On January 1, 2013, the requirement to maintain a Shipboard Energy Efficiency Management Plan ("SEEMP") came into force for all vessels governed by International Maritime Organization ("IMO") standards. The *Canada Shipping Act, 2001* has adopted this IMO standard for vessels of over 400 gross tonnage. The purpose of a SEEMP is to establish a management tool to assist a company in managing and improving the ongoing environmental performance of its vessels. We have developed a SEEMP for each of our 32 vessels for which it is a requirement. We do not expect any significant impact as a result of the new requirement and view this as an opportunity to implement, evaluate and share local initiatives for improving vessel operating efficiency.

New regulations are now in force to address air emissions from vessels over 400 gross tonnage. The *Regulations Amending the Vessel Pollution and Dangerous Chemicals Regulations*, promulgated under the *Canada Shipping Act, 2001* were published on May 8, 2013. Among other things, the amendments implement standards for the North American Emission Control Area ("ECA"). Vessels operating inside the ECA are required to meet certain sulphur dioxide, nitrogen dioxide and particulate levels. We are currently well below the 2015 requirements regarding sulphur dioxide, and requirements for nitrogen dioxide levels for new vessels can be met through the use of LNG or the installation of exhaust scrubber technology.

Composting bylaws banning landfill disposal of organics were implemented in Metro Vancouver in fiscal 2015. We were well positioned for these new bylaws as we have a composting program which we have expanded in fiscal 2015 to a third Major Route.

The designation of marine protected areas and use of integrated marine management is gaining momentum within the coastal waters of British Columbia. There are currently a number of marine area planning processes underway that will decide who has access to marine resources and how these resources are managed. We are paying close attention to these processes to ensure there is no impact on our operations.

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

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 the market prices are not available, fair values are estimated using discounted cash flow analysis based on our current borrowing rate for similar borrowing arrangements.

Credit Risk

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.

Risk mitigation: We limit our exposure to credit risk on cash and investments by investing in liquid securities with high credit quality counterparties, and placing limits on the tenor of investment instruments and maximum investments per counterparty. 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. Counterparty credit rating and exposures are subject to approved credit limits and are monitored by us on an ongoing basis. Counterparties with which we have significant derivative transactions must be rated “A” or higher. We do not expect any counterparties to default on their obligations.

Our credit risk from trade customers is limited by having a large and diversified customer base and is managed through the review of third-party credit reports, utilizing pre-authorized payment plans, monitoring of aging of receivables, and collecting deposits and adjusting credit terms for higher risk customers. Amounts due from the Province and the Government of Canada are considered low credit risk. At March 31, 2015, 54% of our trade and other receivables were comprised of amounts due from the Province and the Government of Canada and 100% of our trade and other receivables are current.

Vendor Risk

Non-performance by strategic suppliers could adversely impact our financial results. We are in part dependant on small suppliers or suppliers with specific knowledge.

Risk mitigation: We mitigate this risk to the extent possible through effective contract negotiations, vendor monitoring and diversification of our vendor base.

Liquidity Risk

We target a strong investment grade credit rating to maintain capital market access at reasonable interest rates. Our financial position could be adversely affected if we fail to arrange sufficient and cost effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. This is subject to numerous factors, including the results of our operations, our financial position, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

We deem liquidity risk to be low at this time and we do not foresee the need to access the capital markets in the near term.

Risk mitigation: 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. Our credit ratings at March 31, 2015, were "A" (DBRS) with a stable trend and "AA-" (S&P) with a stable outlook.

Market Risk

Interest Rate

Our exposure to interest rate risk is limited to interest expenses associated with our short-term borrowings, floating rate debt and any new long-term issues and to earnings associated with interest rate movement beyond the term of the maturity of fixed rate short-term investments.

Risk mitigation: To manage this risk, we maintain between 70% and 100% of our debt portfolio in fixed rate debt, in aggregate. In addition, we may enter into interest rate agreements to manage our exposure on debt instruments. A 50 basis point change in interest rates would not have had a significant effect on our fiscal 2015 earnings.

Foreign Currency

We are also exposed to risk from foreign currency prices on financial instruments, such as accounts payable denominated in currencies other than the Canadian dollar.

Risk mitigation: To manage exposure on future purchase commitments, we review our foreign currency denominated commitments and hedge through derivative instruments as necessary. With the possible exception of fuel prices (see discussion below), a 10% change in the US dollar or Euro foreign exchange rates would not have had a significant effect on our fiscal 2015 earnings.

Fuel Price

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel. 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. There is uncertainty of the impact on future ferry traffic levels if fuel surcharges and therefore total tariff levels rise significantly. 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 oil prices on our earnings, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See "The Effect of Rate Regulation" above for more detail.)

We may enter into hedging instruments 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. Pursuant to our Financial Risk Management Policy, the term of the contracts is not to extend beyond the greater of three years or the end of PT4. This 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 remaining 12 month period and if the end of PT4 is beyond 36 months, a maximum of 70% of anticipated monthly fuel consumption for the period between 36 months and the end of PT4. 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, 2015, we had $51.2 million in fuel forward contracts. 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, 2015 we held five foreign exchange forward contracts with a carrying and fair value receivable of $21 thousand while at March 31, 2014 we held four such contracts with a carrying and fair value liability of $7 thousand.

At March 31, 2015 there were no interest rate forward contracts while at March 31, 2014 we held four interest rate forward contracts with a carrying and fair value liability of $5.3 million. At March 31, 2014, with the application of hedge accounting, the $5.1 million effective portion of the unrealized loss of $5.3 million was recognized in other comprehensive income and the $0.2 million ineffective portion was recognized in net earnings. The realized hedge gains/losses related to these forward contracts are included in the initial carrying amount of the bonds and will be reclassified from accumulated other comprehensive income and recognized in net earnings over the 30-year life of the debt instruments hedged.

At March 31, 2015 we held fuel forward contracts with a carrying and fair value liability of $4.5 million while at March 31, 2014, there were no commodity derivatives in place. At March 31, 2015, with the application of hedge accounting, the unrealized loss of $4.5 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 that 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” above for more detail.)

Non-Derivative Financial Instruments
The carrying and fair values of non-derivative financial instruments at March 31, 2015, and 2014 are as follows:

($ millions)	**2015** Carrying Value	**2015** Fair Value	**2014** Carrying Value	**2014** Fair Value
Financial Assets				
Cash and cash equivalents	65.6	65.6	71.4	71.4
Restricted short-term investments	32.5	32.5	35.8	35.8
Other short-term investments	62.1	62.1	81.0	81.0
Trade and other receivables	19.5	19.5	16.6	16.6
Long-term loan receivable	24.5	24.5	24.5	24.5
	204.2	204.2	229.3	229.3
Financial Liabilities				
Accounts payable and accrued liabilities	57.4	57.4	48.1	48.1
Interest payable on long-term debt	18.3	18.3	19.6	19.6
Long-term liability	1.5	1.5	-	-
Long-term debt, including current portion	1,265.7	1,622.6	1,336.8	1,515.1
	1,342.9	1,699.8	1,404.5	1,582.8

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. Fair value 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 throughout our company 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 through to our employees.

Our Board of Directors is responsible for ensuring that 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 also 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. This helps ensure that safety and risk are always front and center for all employees.

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 ALERT tool 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 also introduced an on-line operational risk register.

As part of our risk management strategies, we have considered many items such as profitability levels, cash generating potential, cash utilization requirements including debt repayment schedules and future capital expenditures, and working capital requirements. We have taken measures to allow us to adapt to changes in the economic environment and ensure a viable, profitable future. We do not believe that material uncertainties exist in regards to our future as we believe our risk mitigation strategies are sufficient.

The following is a list of our business risks.

Customer Demand

Our vehicle and passenger traffic levels in fiscal 2015, as compared to the prior year, increased 0.6% and 0.5%, respectively. A modest increase was experienced in both the Major and Other Routes while the Northern Routes experienced a decrease. In fiscal 2015, traffic was negatively impacted by the Province's reduction of the passenger fare discount for BC seniors travelling Monday through Thursday from 100% to 50% on the Major and Other Routes. Traffic was also negatively impacted as a result of the teachers' labour dispute. In the last two months of fiscal 2015 vehicle traffic increased 7.8% and passenger traffic increased 6.7% compared to the same period in the prior year. We believe this increase was partially due to favourable weather in fiscal 2015 and unfavourable weather in fiscal 2014.

Many factors affect customer demand, including current economic conditions, the value of the Canadian dollar, levels of tourism, 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, heightened global security and weather conditions may have a negative effect on discretionary travel and levels of tourism.

We are uncertain as to the individual or cumulative impact these items may have on our revenue. No assurance can be given as to the level of traffic on our system and the resulting tariff revenues.

Risk mitigation: We are constrained by the CFSC, which stipulates, among other things, the number of round trips that must be provided for each regulated ferry route. Within these constraints, we actively manage our capacity in an efficient and effective manner to ensure we can react quickly to changing levels of demand within the restrictions of the CFSC.

In fiscal 2013, the CFSC was amended to allow a reduction in the service requirement on three of our Major Routes. We implemented reductions in round trips on those Major Routes, where the traffic levels no longer warranted extra service or where service was significantly under-utilized. In fiscal 2014, the CFSC was again amended to allow for further reductions in service requirements and effective April 28, 2014 we implemented reductions in round trips on our Northern and Other Routes.

Vessel planning strategies are in place with the goal of standardization so we can better respond to changes in customer demand. We also regularly review and update our short and long-term financial and operating plans to ensure appropriate alignment of expenses with revenue.

Major Capital Projects

We have several major capital projects underway, including the new cable ferry, the new intermediate class ferries, the mid-life upgrades of the *Spirit of British Columbia* and the *Spirit of Vancouver Island*, the Fare Flexibility Initiative and the Automated Customer Experience Program. Risks associated with the cost, schedule and the technical scope of major projects could cause critical systems or assets to be unavailable for use if the projects are not managed effectively.

Risk mitigation: A project management framework is in place to govern all corporate projects. Also in place to monitor projects is a quality assurance framework which includes policies, standards and metrics.

We ensure each project has executive sponsorship, a project owner and a project analyst. 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 Strategic Projects Committee of the Board of Directors on a quarterly basis.

We require major projects to maintain a risk register. The risk register identifies the risks, rates the risks in terms of likelihood and consequences, reviews the effectiveness and appropriateness of the control, and determines any actions needed to mitigate the risk.

Security
Deliberate, malicious acts could cause death, injury or property damage. The occurrence of a major incident or mishap could negatively affect the propensity for the public to travel, reducing our ferry traffic levels. It could also lead to a substantial increase in insurance and security costs. Any resulting reduction in tariff revenues and/or increases in costs could have a material adverse effect on our business prospects, financial condition and results of operations.

Risk mitigation: Security initiatives are in place to counter intentional attacks and we are in regular contact with government security agencies to ensure we have the latest information. Our 24-hour operations and security centre provides enhanced situational awareness and assessments, increased security monitoring, and a coordinated response during any incidents.

We continue to make improvements in the security on our vessels and at our terminals and maintenance facilities.

We have almost completed the relocation of our prime data centre facility to the interior of British Columbia to mitigate risk in the event of a major incident such as an earthquake. Our current infrastructure site has been expanded to house our pre-production infrastructure and serve as our production environment for disaster recovery in the unlikely event that the interior data centre production services are interrupted.

We have an internal control framework with defined control objectives for information and related technology to ensure we follow best practises for governance and control processes. This assists us in ensuring the security, confidentiality and integrity of our information.

We also 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.

Safety
The safety of the public and our employees is our highest priority. However, there is a risk to passenger and employee safety and/or property damage as a result of the ineffectiveness of policy and procedures, equipment, maintenance, training, supervision, facility design and security measures.

We also 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.

A significant damage, injury or illness event could have an adverse effect on the lives of our employees and customers, our ability to meet operational service requirements, the environment, staff morale, our reputation and our financial position and results of operations.

There will always be inherent risk resulting from our business operations and we minimize the risk to the extent possible with our mitigation plans.

Risk mitigation: Our safety program, SailSafe, launched in fiscal 2008, is a joint initiative with the Union and involves all employees. It has been successful in changing our culture of safety awareness. The objective of the SailSafe program is to ensure that safety is kept as the primary concern in the minds of our employees each and every day. As part of the SailSafe program, we upgraded our safety management system including an operational risk assessment and management process.

Our food storage, handling, preparation and cooking procedures are aligned with the hazard analysis critical control point ("HACCP") methodology which is a preventive approach to food safety. HACCP is an industry-wide effort approved by the scientific community, as well as by regulatory and industry practitioners.

We adhere to a program of internal and external safety audits designed to verify our compliance with our safety management system. In fiscal 2014, we participated in the BC Maritime Employers Association's Certificate of Recognition Program which takes participating companies beyond basic safety compliance and sets an industry standard for developing a safety management system. As a result, in fiscal 2015, we received our first ever Certificate of Recognition resulting from an audit of our Health & Safety Management and our Injury Management which sampled fifteen worksites and interviewed of approximately 250 employees. The audit provided us with 31 recommendations that we are reviewing, with a view toward continual improvement.

We also 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.

Security of Information

Deliberate or inadvertent release of confidential or sensitive information, whether in paper or electronic format, could have an adverse effect on the lives of our employees and customers as well as negatively impact our reputation. A significant loss of confidential management information could also negatively impact our financial position and results of operations.

Risk mitigation: Governance is in place for ensuring information privacy. Our information security policy has been developed and implemented. Standard procedures for access and use of private data have been implemented. Multiple levels of technology controls are in place and networks, websites and databases are monitored by dedicated information technology security staff to detect potential issues. Information technology projects are delivered using the 'security by design' principle. Regular security scans by trusted and qualified vendors are conducted on a quarterly basis.

Communication to employees of their responsibility to protect private information is ongoing and a formal awareness and training program is in place.

Regulations – Other

Our operations are subject to a wide variety of national and local laws and regulations, all of which may change at any time.

There is the potential that the introduction of new safety or other regulations, including new taxes, or the interpretation of existing regulations, may impose a new, unexpected and significant cost burden and/or result in major disruptions to our operations.

Risk mitigation: We foster positive relationships with local officials and treat recommendations and advisories with respect and due consideration. Appeals are made to higher authorities as required.

We continue to seek reasonable and cost effective solutions for compliance with new regulations through our planning processes and asset renewal initiatives.

We also 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.

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 is expected to increase with the federal ship procurement strategy. 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 may cause operational disruption and may 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. Also, alternatives to using local facilities are being explored.

Economic Regulatory Environment
We cannot predict what changes the Province may make to the Act or to other legislation, nor can we predict how the Commissioner's interpretation and administration of the Act may change over time. Such changes may impact our profitability. (See "Corporate Structure – Economic Regulatory Environment" above for more detail.)

The Commissioner also released the Preliminary Decision on Price Caps for the PT4, setting increases in price caps of 1.9% per year from April 1, 2016 through March 31, 2020. CFSC amendments for PT4 are required to be complete by June 30, 2015, and the Commissioner's final decision on price caps for PT4, is expected by September 30, 2015. There remains uncertainty in the Commissioner's future price cap rulings.

Risk mitigation: We strive to maintain regular and open communications and positive relationships with the Province, the Commissioner, the Deputy Commissioner and local Ferry Advisory Committees that represent the interests of the communities we serve.

Access to Capital Markets
Our ability to arrange sufficient, cost-effective and timely debt financing could be materially adversely affected by numerous factors: our economic regulatory environment, our results of operations and financial position, market conditions, our credit ratings and general economic conditions.

Any failure or inability to borrow on satisfactory terms when required could impair our ability to repay maturing debt, fund necessary capital expenditures and meet other obligations and requirements and, as a result, could have a material adverse effect on our ongoing operations.

Risk mitigation: We target a strong investment grade credit rating to maintain capital market access at reasonable interest rates. We monitor the capital markets although we do not foresee a need to access the capital markets in the near term. We continue to strive to communicate to our stakeholders the importance of our financial viability within our economic regulatory framework and our commitment to maintaining financial strength, in order to access these important markets.

Regulations – Environmental

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.

The provincial government has made a commitment to reduce greenhouse gas emissions ("GHG") by 33% by the year 2020, based on emissions in 2007. While the reduction targets have not yet been set, the transportation industry has been identified as a sector that will have emission limits.

If we were to be involved in an environmental accident or 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.

Risk mitigation: We will continue to 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. We have renewed our environmental policy to provide a framework for setting environmental targets and to encourage best practices.
We have training programs in place that include training our staff in first response to an oil spill and we conduct regularly scheduled oil spill drills on our vessels and at our terminals.

We constantly look for ways to reduce fuel consumption and emissions on our vessels. We continue to use ultra-low sulphur diesel with a 5% biodiesel component on all of our vessels across the fleet and we currently meet the North American Emission Control Area standards for sulphur content that were set for 2015. 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.

We are also actively pursuing LNG options for new vessels and vessels undergoing major retrofits because we believe that a move to this fuel source would reduce emissions as well as costs. Our three new intermediate ferries expected to be in service by August 2016, October 2016 and February 2017, will be dual-fuel capable and will be operated as much as possible on LNG. Both LNG and the marine diesel we currently use meet all current domestic and international emissions regulations.

We have programs in place to protect the environment and reduce GHG. Besides using biodegradable hydraulic oils, we recycle beverage containers, cardboard, newsprint, plastics, wood, metal, spent fluorescent tubes, batteries, aerosol spray cans, old upholstery foam and used cooking oil. We continue to expand our composting program and to replace chemical products with more environmentally friendly solutions. We have replaced gasoline powered terminal vehicles with electric vehicles and gasoline powered baggage vans with propane powered tugger units. We also reduce GHG levels by transferring vessels to shore-power while berthed overnight at several of our terminals, promoting anti-idling and increasing waste diversion. We are currently expanding our shore-power program to additional terminals by upgrading the current shore power installations and adding new shore power installations where necessary to provide sufficient capacity to provide power to the vessels.

We have also introduced other initiatives to further mitigate our environmental impact. We have a sewage and waste water treatment system that, wherever possible, the vessels convey sewage to a terminal through pump-ashore infrastructure. Where terminal facilities are 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 a treatment plant at one of our terminals while at the remaining seven; sewage is collected and transferred to treatment plants operated by local governments.

We believe that we maintain adequate environmental insurance; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such losses.

Performance Risk
Our failure to mitigate or manage the risks detailed above could result in default under the CFSC.

The occurrence of a default under the CFSC could have consequences, including an adjustment to ferry transportation fees from the Province or the forced sale of our vessels to the Province for net book value and termination of the Terminal Leases.

Risk mitigation: We mitigate performance risk by monitoring and managing all other risks and ensuring we have mitigation plans for them.

We have an asset renewal program for our vessels and terminals. This program is revitalizing our fleet and upgrading our terminals to support our ongoing operations and maintain service reliability.

We regularly update our vessel maintenance schedules to ensure that we provide the core service levels required under the CFSC.

We continuously monitor our operations from our 24-hour operations and security centre. This provides enhanced situational awareness and assessments to identify and prevent potential incidents and provides a coordinated response to any incident that may occur.

Taxes
We received an advance income tax ruling from the CRA that, provided the facts and other statements set out therein are accurate, we are a “Tax Exempt Corporation” described in paragraph 149(1)(d.1) of the *Income Tax Act*. There can be no additional assurance that we are and will continue to be a Tax Exempt Corporation.

Risk mitigation: 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 an extraordinary situation exists, which imposes a new, unexpected and significant cost burden.

First Nation Issues
First Nation issues normally arise in British Columbia when a company seeks governmental approvals for its activities. Canadian courts have said that governments must consult with First Nations before making any decision that could potentially affect Aboriginal interests even when the extent and nature of those interests has not been formally proved in court or recognized in a treaty. Potential 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, 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 should that right or interest interfere with our quiet enjoyment of the ferry terminal properties as set out in the Terminal Leases.

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 judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These 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:

Workers' Compensation Claims Liability

Our financial statements include an estimate of residual liability for workers' compensation claims arising from the Workers' Compensation Board deposit class coverage system, in which our predecessor entity participated on or prior to March 31, 2003.

An actuarial valuation of the unfinalized claims remaining to be paid at March 31, 2013 that relate to incidents on or prior to March 31, 2003 was received in fiscal 2014 and the accrued benefit obligation estimated at $1.8 million. The residual liability balance ($1.9 million at March 31, 2013) was decreased during fiscal 2014 by $0.1 million and this actuarial gain recorded in other comprehensive income. This residual liability is drawn down as claims are paid. The balance at March 31, 2015 of $1.7 million ($1.4 million at March 31, 2014) is included in accrued employee future benefits in our financial statements.

Public Service Pension Plan

Our employees are members of the Public Service Pension Plan ("the Plan"), a defined benefit and multi-employer pension plan. The Plan is exempt from the requirements under the provincial *Pension Benefits Standards Act* to use the "solvency" method in conjunction with the "going concern" method for valuation purposes. As such, the Plan is currently valued solely by the going concern method. The most recent valuation, as at March 31, 2014, indicated a surplus of $392 million across the total Plan.

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, projected salary increases, retirement age and termination rates. An actuarial valuation of the plan at March 31, 2014, was obtained and the accrued benefit obligation estimated at $17.0 million. The retirement liability was increased and the actuarial loss of $2.9 million was recognized in other comprehensive income during fiscal 2015. The main driver of the increase in the liability was a lower employee turnover rate than previously estimated. The liability included in accrued employee future benefits in our financial statements at March 31, 2015, was $17.4 million ($14.2 million at March 31, 2014).

Depreciation and Amortization Expense

Our capital assets, including assets under finance leases, 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. There are a number of uncertainties inherent in estimating our asset lives 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 related amounts may not be recoverable.

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 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 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. Under certain circumstances, 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, as our operations are regulated, there is a reasonable expectation that any significant asset retirement costs would be recoverable through future tariffs.

Adoption of New Accounting Standards
The following is a discussion of mandatory accounting changes that were effective for us April 1, 2014:

International Financial Reporting Interpretations Committee ("IFRIC") 21 *Levies*:

- provides guidance on when to recognize a liability for a levy imposed by a government. The retrospective application of this IFRIC did not have an impact on our consolidated financial statements.

The following standard was early adopted at October 1, 2014:

IFRS 9 *Financial Instruments* (2013):

- provides guidance on the classification, measurement and disclosure of financial instruments and introduces a new hedge accounting model. The application of this IFRS did not have any impact on our consolidated financial statements other than changes in the classification of our financial assets and liabilities and certain additional disclosures.

Future Accounting Changes
The following is a discussion of accounting changes that will be effective for us in accounting periods after March 31, 2015:

Amendments to IAS16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments will be effective for us April 1, 2016. The application of these amendments will not have any impact on our consolidated financial statements.

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. IFRS 15 was issued in May 2014 with an effective date of January 1, 2017. Earlier application is permitted. On April 28, 2015, the IASB tentatively decided to defer the effective date by one year. We do not expect the application of this standard to have any 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). Mandatory adoption of IFRS 9 (2014) for us will be April 1, 2018. We do not expect the application of this standard to have any material 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, and fuel prices; tariff revenue, fuel surcharges, and fiscal 2015 net earnings; our expectations of the impact of our cost containment program and the annual premium savings we expect as a result of receiving the Certificate of Recognition from WorkSafeBC; whether our regulatory assets are probable of future recovery; our short-term and long-range business plans, capital expenditure levels, and asset renewal programs for vessels and terminals; our customer service program, payroll system replacement initiative, infrastructure relocation program, vessel replacement program for the *Queen of Burnaby* and the *Queen of Nanaimo*, cable ferry initiative, LNG plans, and safety and training projects; our expectations regarding vacation package sales, and growth in drop trailer traffic and onboard retail gift shop sales; our expectations regarding our lack of need to access capital markets in the near term; how our operational cash requirements will be met over the next few years; the additional payments to be received from the Province over the following two fiscal years, and the amount of savings to be achieved through service level adjustments; our expectations regarding the impact of new legislation; and our expectations regarding the impact of IFRIC 21 and IFRS 9 on our 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 traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, risk of default under material contracts and aboriginal land 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.

In addition to providing measures prepared in accordance with IFRS, we present certain supplemental non-IFRS measures. These include, but are not limited to, total comprehensive income adjusted for the effect of rate regulation, customer satisfaction ratings, vehicle and passenger traffic, on-time performance, fleet reliability score, capacity provided and utilized, AEQs carried, number of round trips, and average tariff revenue per vehicle and per passenger. These measures do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These supplemental non-IFRS 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 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”).

During the fiscal year ended March 31, 2015, the board was composed of the following directors:

Chair: Donald P. Hayes
Members: Jane M. Bird, Bruce A. Chan, John A. Horning, Brian G. Kenning, Gordon M. Kukec, Gordon R. Larkin, Maureen V. Macarenko, P. Geoffrey Plant (vice chair), and Graham M. Wilson

Maureen V. Macarenko and Graham M. Wilson retired from the board on June 26, 2014, and Bruce A. Chan and Gordon M. Kukec were elected as directors effective that date.

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 a 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 Governance & Nominating Committee has an ongoing responsibility to ensure that the governance structures and processes continue to enable the board to function independently.

The board and management recognize that there is a regular need for the board to meet without management in attendance. It is 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 any outside advisor, at the Company’s expense, 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 a majority of strong, qualified, independent directors. The board supports the concept that the board chair should be an independent director.

The board has adopted a definition of an independent director for members of the Audit & Finance Committee consistent with the definition of independence in Multilateral Instrument 52-110. This definition, with some modification that is consistent with Multilateral Instrument 52-110, also applies to determining the independence of other members 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 reviewed by the corporate secretary, the chair of the Governance & Nominating Committee, and the chair of the board. Any director who is deemed independent, and whose circumstances change such that he or she might be considered to no longer be an independent director, is required to promptly advise the board of the change in circumstances. Directors are required annually to attest to their independence in writing.

All of the directors of the Company in the fiscal year 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:

Jane M. Bird:	Director, IBI Group Inc.
Brian G. Kenning:	Director, MacDonald Dettwiler & Associates Inc.

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 written 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 approved and adopted a Code of Business Conduct and Ethics (the "Code") in November 2004; the Code was subsequently reviewed and amended by the board in November 2009. Notice of adoption, and subsequent amendment of the Code as Company policy, was communicated to the Company's personnel by intra-Company information bulletin and BC Ferries' newsletter for personnel. In addition, the Code has been posted on the Company's intranet website for Company personnel, and on the Company's internet site. The Code was filed on SEDAR on March 1, 2006; the amended Code was filed on SEDAR November 24, 2009. 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 make representations regarding 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 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 of the board, 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 review of compliance reports received quarterly from management, the external auditors, and the internal auditor.

Directors and officers review the Code, and acknowledge their support and understanding of the policy 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 situation of a conflict of interest or potential conflict of interest arising. Such disclosures are communicated to and reviewed by the corporate secretary, the chair of the Governance & Nominating Committee, and the chair of the board.

Nomination of Directors
The CFA requires, that when electing directors to the board of BC Ferries, the Authority must select individuals in such a way as to ensure that, as a group, the directors of BC Ferries are qualified candidates who hold all of the skills and all of the experience needed to oversee the operation of the Company in an efficient and cost effective manner. On the recommendation of the BC Ferries board, the board of the Authority approves a profile setting out the skills, experience and expertise that should be represented on the BC Ferries board (skills profile). The board of BC Ferries nominates qualified candidates for election as directors and recommends to the Authority the size of the BC Ferries board.

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

The skills, experience, and expertise of the incumbents and any retiring directors of BC Ferries are reviewed by the Governance & Nominating Committee in the context of the skills profile approved by the board of the Authority, and the ongoing governance needs of BC Ferries. Any gaps are identified. Potential conflicts of interest and other extenuating circumstances are also identified.

The Governance & Nominating Committee makes recommendations to the BC Ferries board on suitable candidates for appointment to the board. These recommendations take into consideration the talents of the existing members of the BC Ferries board and those of the nominees, taking the skills profile established for the board, including knowledge of or presence in the communities served by BC Ferries, into account.

The BC Ferries board makes its decision on prospective directors and forwards its recommendations to the board of the Authority. The Authority board then determines the directors of BC Ferries and causes the Authority, as the sole holder of the single issued voting share of BC Ferries, to elect such individuals to the board of BC Ferries.

Executive Compensation

The Human Resources & Compensation Committee is responsible for reviewing and making recommendations to the BC Ferries 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 an executive compensation plan and any amendments to such plan.

In the fiscal year ended March 31, 2012, upon the recommendation of the BC Ferries board, the Authority approved an executive compensation plan with an effective date of October 1, 2011. The plan describes the philosophy for executive compensation and the maximum remuneration that individuals whose compensation is governed by such plan can receive in any fiscal year. The remuneration limits set out in the executive compensation plan were 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 to that member of executive of BC Ferries, 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 to that member of executive of BC Ferries. The plan is available for public view on the Authority's website (www.bcferryauthority.com).

With the assistance of the independent, third-party compensation expert, the Human Resources & Compensation Committee periodically reviews the remuneration limits set by the executive compensation plan in conjunction with market data from appropriate comparator organizations and, when warranted, provides advice to the board on possible changes to the plan for recommendation to the Authority.

The executive compensation plan applies to the executives of the Company, as that term is defined in the CFA, and includes the individuals holding the positions or acting in a similar capacity or performing similar functions to the President & Chief Executive Officer (CEO) or an Executive Vice President. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* (Bill 20), the individuals holding such positions on the date Bill 20 received first reading are excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries.

Through March 31, 2015, in accordance with the CFA and Bill 20, the executive compensation plan has governed the remuneration the Company may provide to its President & CEO, but not the remuneration of any other executive officer. Effective April 8, 2015, a new Chief Financial Officer (CFO) of the Company was appointed to succeed the incumbent, who stepped down from the position on March 31, 2015 to take on a new role with the Company. The remuneration of the new CFO is governed by the executive compensation plan, and has been set in accordance with it.

Executive Compensation Process
The executive officers 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 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 the 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 the executive compensation plan, as applicable.

On an annual basis, the President & CEO formally assesses the development of each of the other executive officers, as well as other executive members. 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 to such plan. 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 not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors.

In the fiscal year ended March 31, 2011, upon the recommendation of the BC Ferries board, the Authority approved a directors' compensation plan with an effective date of October 1, 2010. The plan was developed with the assistance of an independent third-party compensation expert and describes the philosophy for the compensation of BC Ferries' directors and the remuneration that can be provided to them. Remuneration for directors of BC Ferries was amended and set by the Authority effective October 1, 2010, in accordance with the approved directors' compensation plan. The plan 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. Each committee operates according to a specific mandate approved by the board. The committee structure is set out below. The board chair is an ex-officio (non-voting) member of each of the committees.

Audit & Finance Committee:
Members during the fiscal year ended March 31, 2015:
Chair: Brian G. Kenning
Members: Bruce A. Chan, John A. Horning, P. Geoffrey Plant, Graham M. Wilson and Donald P. Hayes (ex-officio)

Graham M. Wilson ceased to be a member of the committee effective June 21, 2014, and Bruce A. Chan was appointed a member of the committee effective June 26, 2014.

The Audit & Finance Committee is appointed by the board to assist the board in fulfilling its oversight responsibilities. The committee has the mandate to:
- review the financial reports and other financial information provided by the Company to its security holders;
- review the annual operating and capital budgets, modifications thereto, and details of any proposed financing;
- monitor the integrity of the financial reporting process and the system of internal controls that the board and management have established;
- monitor the management of the principal risks that could impact the financial reporting of the Company, and the Company's compliance with legal and regulatory requirements as they relate to the Company's financial statements;
- review and approve the audit plan, process, results, and performance of the Company's external auditors and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditors, and the internal auditor; and
- assess the qualifications and independence of the external auditors, and recommend to the board the nominations of the external auditors and the compensation to be paid to the external auditors.

The committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the external auditors as well as anyone in the organization. The committee has the authority to retain special 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, that is, without any direct or indirect relationship with the Company that could reasonably interfere with the exercise of the member's independent judgment.

All members of the committee are financially literate within the meaning of Multilateral Instrument 52-110, 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.

Since April 2, 2003, 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	
External Auditor billings ($ thousands)	**2015**	**2014**
Audit and audit related	183.5	176.5
Tax services	2.2	2.8
Accounting advisory	4.7	-
	190.4	179.3

Pursuant to its terms of reference, the committee must pre-approve retaining the external auditors 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 Canadian Institute of Chartered Accountants.

Before retaining the external auditors for any non-audit service, the committee must consider the compatibility of the service with the external auditors' independence. The committee may pre-approve retaining the external auditors for the engagement of any non-audit services by establishing policies and procedures to be followed prior to the appointment of the external auditors 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 auditors for any non-audit services to the extent permitted by applicable law.

***Safety, Health, Environment & Security Committee*:**
Members during the fiscal year ended March 31, 2015:
Chair: Jane M. Bird
Members: Bruce A. Chan, Gordon R. Larkin, Maureen V. Macarenko and Donald P. Hayes (ex-officio)

Maureen V. Macarenko ceased to be a member of the committee effective June 21, 2014, and Bruce A. Chan was appointed a member of the committee effective June 26, 2014.

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 on these issues.

Governance & Nominating Committee:

Members during the fiscal year ended March 31, 2015:

Chair: P. Geoffrey Plant

Members: Jane M. Bird, Gordon R. Larkin, Gordon M. Kukec and Donald P. Hayes (ex-officio)

Gordon R. Larkin ceased to be a member of the committee effective June 21, 2014, and Gordon M. Kukec was appointed a member of the committee effective June 26, 2014.

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 appointment as directors of BC Ferries; and
- make recommendations on the remuneration of directors of BC Ferries.

Human Resources & Compensation Committee:

Members during the fiscal year ended March 31, 2015:

Chair: John A. Horning (current); Graham M. Wilson (former)

Members: Brian G. Kenning, Gordon M. Kukec, Gordon R. Larkin, Maureen V. Macarenko and Donald P. Hayes (ex-officio)

Effective June 21, 2014, Graham M. Wilson ceased to a member and chair of the committee, John A. Horning was appointed chair of the committee, Gordon R. Larkin was appointed a member of the committee, and Maureen V. Macarenko ceased to be a member of the committee. Gordon M. Kukec was appointed a member of the committee effective June 26, 2014.

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.

Strategic Projects Committee:
Members during the fiscal year ended March 31, 2015:
Chair: Gordon M. Kukec
Members: Bruce A. Chan, John A. Horning and Donald P. Hayes (ex-officio)

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 to 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 the projects;
- in respect of projects which have been approved 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;
    - 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.

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 Governance & Nominating Committee annually reviews and makes recommendations to the board on the method and content for these assessments.

In the fiscal year ended March 31, 2015, the board engaged an independent consultant to coordinate the board evaluation. The consultant obtained 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 and the chairs of the board and the Governance & Nominating Committee, and discussions on the results were held between the individual directors and the board chair. The results of the board evaluation were provided to the board, together with the consultant's recommendations for action. The results and the recommendations arising from the board evaluation have and will continue to inform the 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.