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

For the fiscal year ended
March 31, 2019

Dated June 21, 2019

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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" or the "Company") for the year ended March 31, 2019 that has been prepared with information available as of June 21, 2019. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2019 ("fiscal 2019") and March 31, 2018 ("fiscal 2018"). These documents are available on SEDAR at www.sedar.com and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

British Columbia Ferry Services Inc. is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 35 vessels operating on 25 routes out of 47 terminals spread over 1,600 kilometres of coastline. We also manage ferry transportation services on other remote routes through contracts with independent operators.

Our service is an integral part of British Columbia's coastal transportation system and has been designated by the Province of British Columbia (the "Province") as an essential service for purposes of the provincial Labour Relations Code. This designation means our services are considered necessary for the protection of the health, safety and welfare of the residents of British Columbia.

Our principal business of ferry transportation requires positive net earnings and ongoing access to capital in order to fund operations, satisfy outstanding long-term debt obligations and fulfill future capital asset obligations.

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

Our Major Routes, which are our four busiest routes, consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. During fiscal 2018, our Northern Routes consisted of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. In fiscal 2019, we added a new route directly connecting Port Hardy and Bella Coola. Our Other Routes consist of 18 regulated routes and 8 unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.

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

Tariffs

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

- On April 1, 2019, as agreed with the Province, fares on all routes were held at the same level. The total estimated value of these initiatives over fiscal 2019 and fiscal 2020 is approximately $98 million, of which BC Ferries will contribute $39 million in foregone revenue and the Province will contribute $59 million towards the fare reduction and increase to the BC Seniors' discount.

- On June 1, 2019, due to current fuel market conditions, we implemented a fuel surcharge of 1.5% on average on all routes with the exception of the Northern Routes.

Vessels

- On June 6, 2018, the *Spirit of British Columbia* and on April 18, 2019, the *Spirit of Vancouver Island* returned to service on our Tsawwassen – Swartz Bay route following their mid-life upgrades. These mid-life upgrades, which will enable the vessels to be in service for another 25 years, included major upgrades to the customer amenities, and the conversion to dual-fuel so the vessels can operate on liquefied natural gas ("LNG") or ultra-low sulphur marine diesel ("Marine Diesel"). (See "Investing in Our Capital Assets" for more detail.)

- On September 16, 2018, we commenced direct seasonal service between Port Hardy and Bella Coola using the *Northern Adventure,* running through to October 11, 2018. On May 18, 2019, the *Northern Sea Wolf* entered service in the mid-coast and on June 3 started the direct seasonal service between Port Hardy and Bella Coola. The *Northern Sea Wolf*, a 75-metre vessel built in 2000, underwent extensive upgrades necessary to bring it up to our and Transport Canada's standards of safety and reliability. The vessel accommodates approximately 35 vehicles and 150 passengers and crew. (See "Investing in Our Capital Assets" for more detail.)

- On October 5, 2018, we issued a request for expression of interest ("RFEOI") for the procurement of up to five new major vessels to replace aged fleet assets with the procurement process open to local, national and international shipyards. These new major vessels will reflect capacity and levels of service similar to the current Coastal and Spirit Class vessels in size, capabilities and passenger amenities. These vessels will provide service on our Major Routes between Metro Vancouver and Vancouver Island, which will allow for the retirement of the *Queen of Alberni*, *Queen of New Westminster, Queen of Cowichan* and *Queen of Coquitlam.* We also expect to introduce an additional vessel to the fleet to accommodate future traffic and build resiliency in the fleet. We expect to issue requests for proposals and to submit our application to the British Columbia Ferries Commissioner (the "Commissioner") for approval of this major capital expenditure later this fiscal year.

- On January 7, 2019, the Commissioner approved our application for a major capital expenditure for one Salish Class vessel and four Island Class vessels. The procurement process includes two request for proposals ("RFP") open to local, national and international shipyards. The first RFP issued in November 2018 is for the construction of one vessel, identical to our existing Salish Class vessels, with a capacity of 600 passengers and approximately 138 vehicles. The Salish Class vessel will be dual-fuel capable, running primarily on LNG using marine diesel marine diesel as backup. The second RFP issued in December 2018 is for the construction of four additional 81-metre Island Class ferries, each with a capacity of up to 450 passengers and approximately 47 vehicles. The Island Class vessels will have hybrid diesel-electric propulsion and will be built to be capable of conversion to all-electric propulsion as the technology permits and the necessary infrastructure is in place. The five new vessels will allow for the retirement of the *Bowen Queen*, *Mayne Queen* and *Powell River Queen* and for the redeployment of certain other vessels around the fleet. We expect to complete the procurement process and award contracts in the year ended March 31, 2020 ("fiscal 2020").

- On February 7, 2019 and on March 14, 2019, two new Island Class vessels were launched with provisional acceptance in Romania expected in the summer. These new vessels allow us to retire the 60-year old *North Island Princess* and the 54-year old *Howe Sound Queen*. We intend to deploy the first new vessel to provide service between Powell River and Texada Island and the second new vessel to provide service between Port McNeill, Alert Bay and Sointula. (See "Investing in Our Capital Assets" for more detail.)

General

- On January 25, 2019, the Commissioner issued Order 19-03, superceding Order 17-02. It re-established the criteria for determining a major capital expenditure requiring advance approval. The Commissioner's orders are available on the Commissioner's website at www.bcferrycommission.com.

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

- On April 1, 2019, the Commissioner released a Preliminary Decision on Price Caps for Performance Term Five ("PT5"), April 1, 2020 through March 31, 2024, setting increases in the price cap at 2.3% per year. We will be reviewing the preliminary decision and providing additional information to the Commissioner as input for the final price cap decision which is expected on or before September 30, 2019. (See "Coastal Ferry Services Contract" for more detail.)

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

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

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

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

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

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

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

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

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

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

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

The orders also established that, for price cap calculations, the consolidated route group effective April 1, 2013 will be in effect until March 31, 2020. In the absence of any further amendments, on April 1, 2020, the route group structure in the CFSC will revert to the structure that was in place at March 31, 2013. The structure at that time was comprised of three individual route groups, being the Major Routes, Northern Routes and Minor (regulated Other) Routes.

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

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

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

Commissioner's Orders

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

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

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

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

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

The Effect of Rate Regulation

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

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

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

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

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in note 26 to our March 31, 2019 audited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our net earnings for the quarters and years ended March 31, 2019 and 2018 would be as follows:

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

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

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

FINANCIAL AND OPERATIONAL OVERVIEW

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

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

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

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

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

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

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

Traffic

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

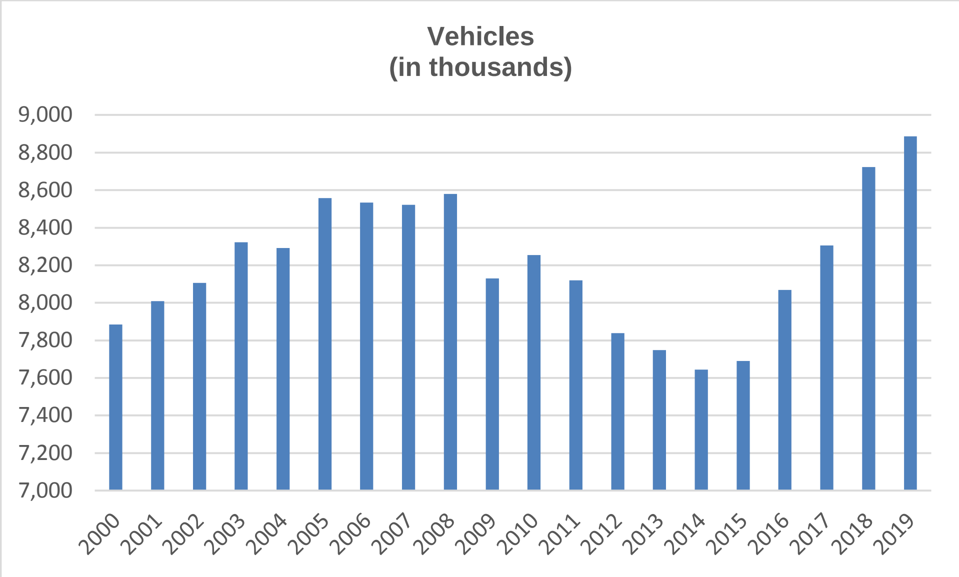
Beginning late in fiscal 2015, after experiencing a decline in traffic for fiscal years 2009 through 2014, we began to experience an increase in traffic, which has continued through fiscal 2019. In fiscals 2016 through 2018, we believe traffic was favourably impacted by a lower Canadian dollar, increases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

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

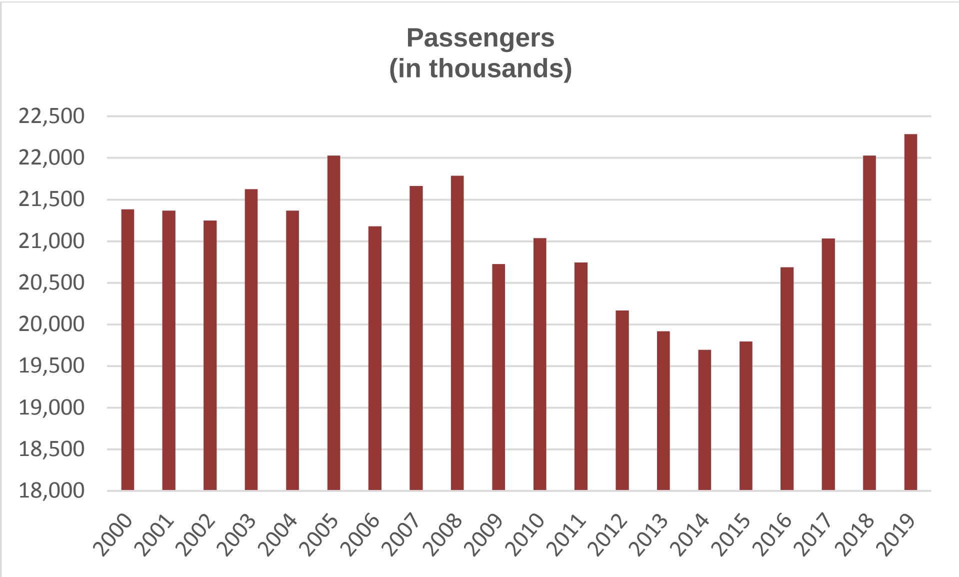
Traffic by fiscal year (thousands)	**2015**	**2016**	**2017**	**2018**	**2019**
Vehicle	7,690.9	8,069.5	8,305.8	8,723.4	8,886.5
Increase	*0.6%*	*4.9%*	*2.9%*	*5.0%*	*1.9%*
Passenger	19,796.0	20,689.1	21,034.8	22,030.2	22,286.7
Increase	*0.5%*	*4.5%*	*1.7%*	*4.7%*	*1.2%*

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

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



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



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

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

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

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

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

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

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

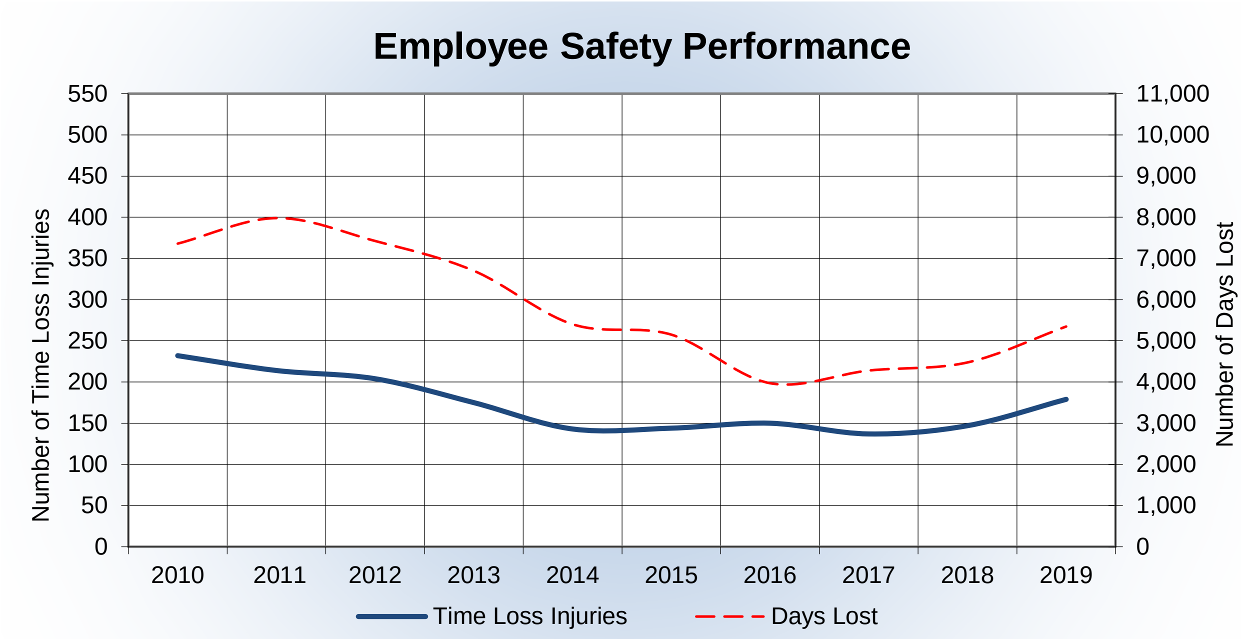
We have a sound conventional insurance program designed to mitigate the financial impact of a major incident; however, there can be no guarantee that the insurance coverage will be sufficient to cover all such incidents.

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

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

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

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



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

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

Environment

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

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

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

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

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

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

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

We are also actively pursuing alternative fuel options for new vessels and vessels undergoing major retrofits because we believe alternate fuels would reduce emissions as well as costs. In the spring of 2019, we were recognized by our international peers with the Shippax Retrofit Award for completing the conversion of the *Spirit of British Columbia* to dual-fuel capability, operating as much as possible on LNG. We expect the mid-life upgrades of the Spirit Class vessels to reduce CO_2 emissions by 12,500 tonnes annually, the equivalent of taking approximately 2,500 vehicles off the road per year, by using natural gas with marine diesel as backup. We now have five vessels that operate on LNG; two Spirit Class and three Salish Class ferries. Our new Island Class vessels will initially operate on marine diesel fuel with stored energy (battery) capability installed to provide the ship's service power. The stored energy capability will be expandable for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future.

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

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

Training

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

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

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

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

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

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

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

Customer Service

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

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

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

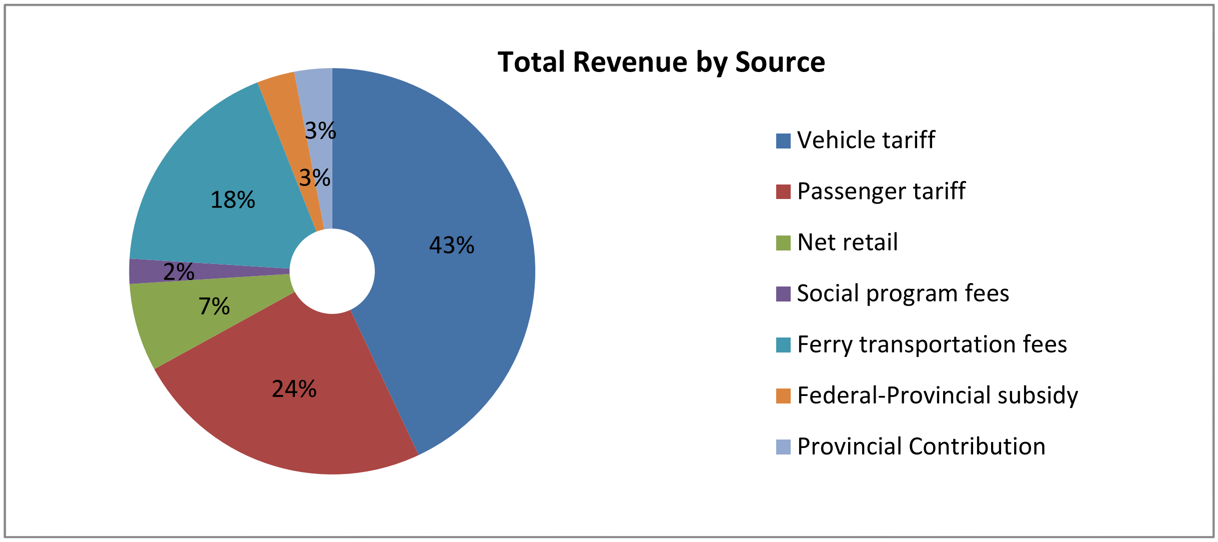
We have an active public consultation and community engagement program and continue to work closely with 13 ferry advisory committees that represent the ferry-dependent communities we serve. These committees are appointed in cooperation with local governments, the Islands Trust and First Nations and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

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

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

Revenue and Operational Statistics

The following discussions of revenue are based on IFRS results, with reference to the impacts of rate regulation. (See “The Effect of Rate Regulation”.) Our Major Routes, which are our four busiest routes, consist of three regulated routes connecting Metro Vancouver with Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. Our Northern Routes consist of three regulated routes, including the new route connecting Port Hardy and Bella Coola, operating on the British Columbia coast north of Port Hardy on Vancouver Island. Our Other Routes consist of 18 regulated routes and 8 unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast.



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

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

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

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

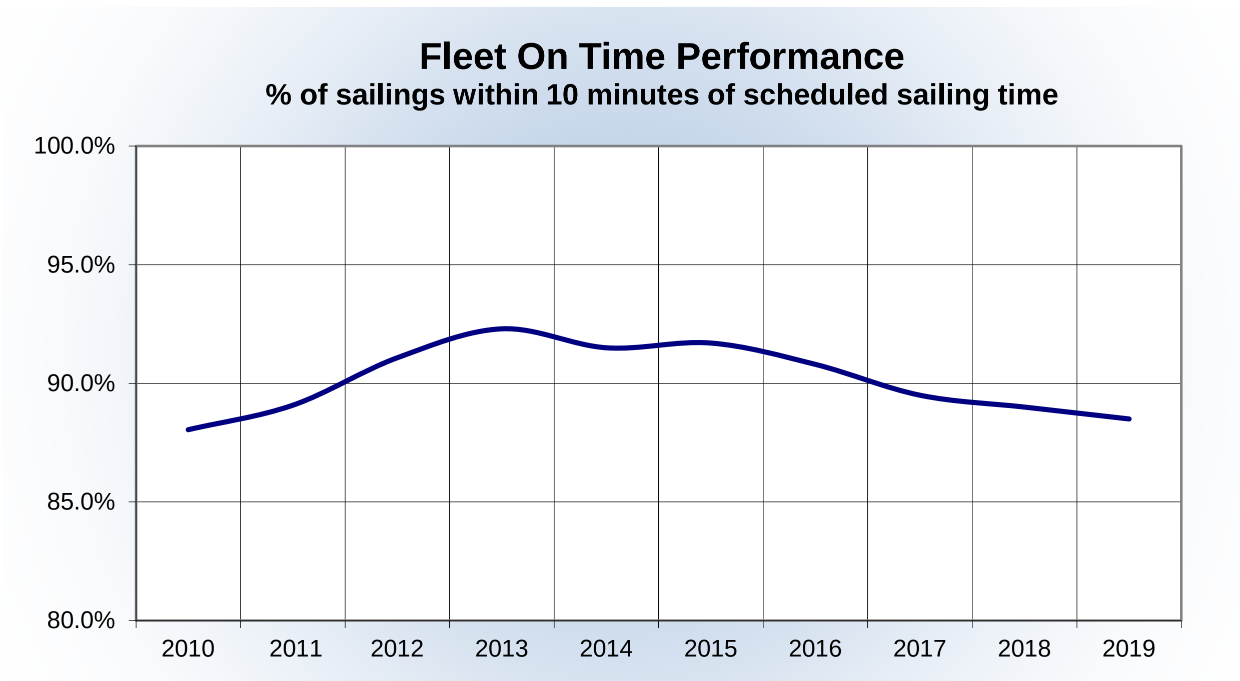
In fiscal 2018, vehicle and passenger traffic increased 5.0% and 4.7%, respectively, compared to fiscal 2017. Overall, we believe traffic was positively impacted by favourable economic activity in British Columbia and the lower Canadian dollar. We also believe our pricing promotions also had a positive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

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

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

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

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



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

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

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

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

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

In fiscal 2017, only a single ramp berth was available for use during the 2.5 months of berth construction at Langdale Terminal. To accommodate demand during this time, an alternative service was provided with two vessels using only their main car decks. The upper car decks, although unavailable, are included in the metric for AEQ capacity provided. If we adjusted for this event, AEQ capacity provided would have been 14,939,429 in fiscal 2017. In fiscal 2018, we provided 1,190.0 additional round trips compared to fiscal 2017. Overall, capacity provided in fiscal 2018 was 1.5% higher than in fiscal 2017, after adjusting for the unavailable capacity during construction at Langdale. In fiscal 2019, we provided 877.0 additional round trips compared to fiscal 2018 and 3,281.5 more trips than the annual minimum required under the CFSC, resulting in an increase in capacity provided.

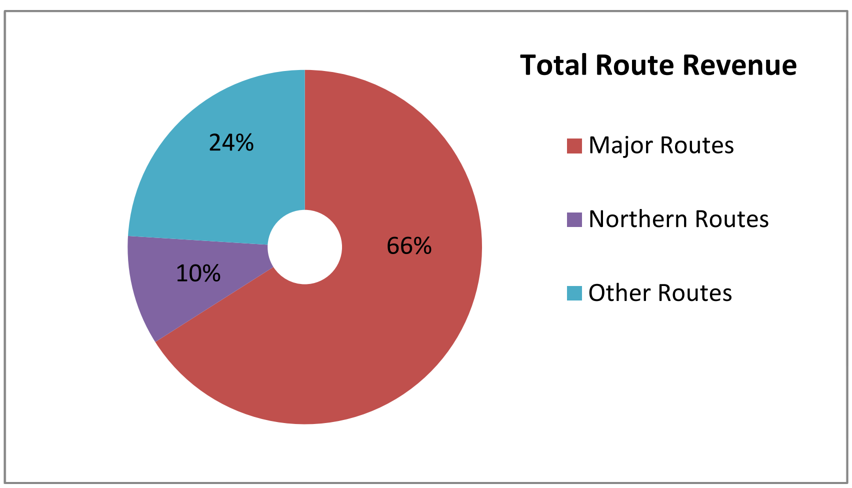
The statistics for fiscal 2019, shown in the table above, include the impact of schedule modifications required to accommodate the temporary removal of the *Queen of Cumberland* from service because of a mechanical failure. We applied for authorization to temporarily reduce service below the core services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

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

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

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

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



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

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

Net retail is our second largest source of direct revenue and provides a gross margin of approximately 60%, which contributes favourably to our net earnings and helps to keep fares affordable. Catering, retail and other on-board services are impacted by traffic levels, price, service quality and product offerings.

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

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

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

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

Date range	% surcharge (rebate)	Applicable routes
April 1, 2016 – June 27, 2018	(2.9%)	Major and regulated Other Routes
April 1, 2016 – June 27, 2018	(1.9%)	Northern Routes
June 28, 2018 - Present	0.0%	All Routes

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

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

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

Year to Year Comparison of Revenues and Operational Statistics 2019 – 2018

Major Routes

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

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

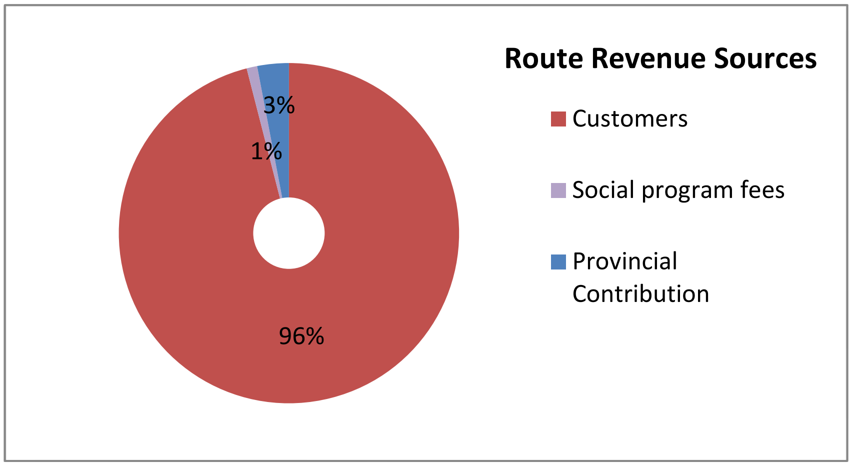
In fiscal 2019, vehicle and passenger traffic increased 0.6% and 0.2%, respectively, compared to fiscal 2018. We believe our pricing promotions, a strong local economy (driven by employment and tourism growth) had a positive impact on both passenger and vehicle traffic, partially offset by the impact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

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

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

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

Major Routes cont'd



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

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

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

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

Major Routes cont'd

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

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

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

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

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

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

Northern Routes

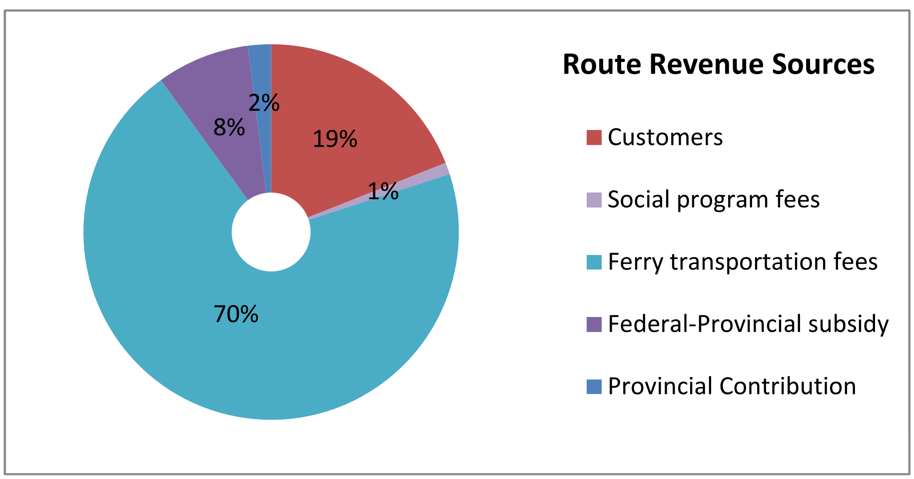
Until mid-September in fiscal 2019, our Northern Routes consisted of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. In September, we commenced a new seasonal direct ferry service connecting Port Hardy and Bella Coola.

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

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

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

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



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

Northern Routes cont'd

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

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

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

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

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

Stateroom rental revenue increased due to higher utilization.

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

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

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

Other Routes

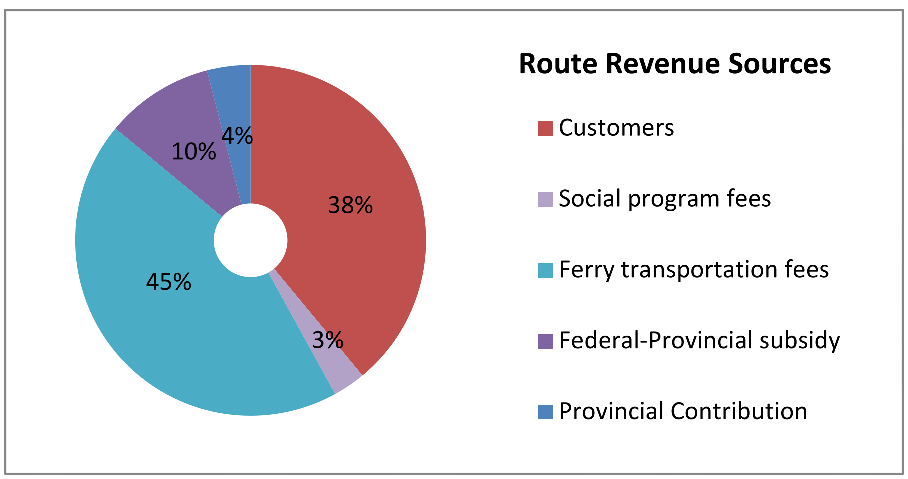
Our Other Routes primarily serve the northern and southern Gulf Islands and the northern Sunshine Coast. One of the 18 regulated routes and all eight of the unregulated routes are operated under contract by alternative service providers. We receive fees from the Province for the provision of contracted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

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

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

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

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



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

Other Routes cont'd

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

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

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

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

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

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

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

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

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

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

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

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

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

Year over year changes are described below:

Year to Year Comparison of Expenses 2019 – 2018

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

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

partially offset by:

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

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

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

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

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

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

partially offset by:

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

Year to Year Comparison of Expenses 2018 – 2017

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

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

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

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

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

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

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

partially offset by:

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

Credit Facility

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

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

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

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

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

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

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

As part of the Natural Gas for Transportation "(NGT") incentive funding (included in other-long term liabilities) for the Salish Class vessels, we received $6.0 million from FortisBC Energy Inc. by March 31, 2019. The contribution is dependent upon the purchase of at least 3 million gigajoules of LNG over a 10-year period and will be applied towards the purchase of these vessels. We have also received $4.4 million of a total contribution of up to $10.0 million from FortisBC Energy Inc. as part of the NGT incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to utilize LNG. The contribution is dependent upon the purchase of at least 10 million gigajoules of LNG over a 10-year period and will be applied towards the cost of converting the vessels. Based on our projected LNG consumption, we expect to meet the consumption requirements of these contribution agreements. During fiscal 2019, we applied $0.5 million against the capital cost of the Salish Class vessels and $0.3 million against the capital costs associated with the Spirit Class vessels.

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

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

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

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

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

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

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

Sources & Uses of Cash

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

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

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

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

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

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

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

FOURTH QUARTER RESULTS

The following provides an overview of our financial performance and selected operational statistics comparing the three months ended March 31, 2019 to the same period in the prior year.

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

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

Expenses

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

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

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

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

partially offset by:

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

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

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

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

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

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

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

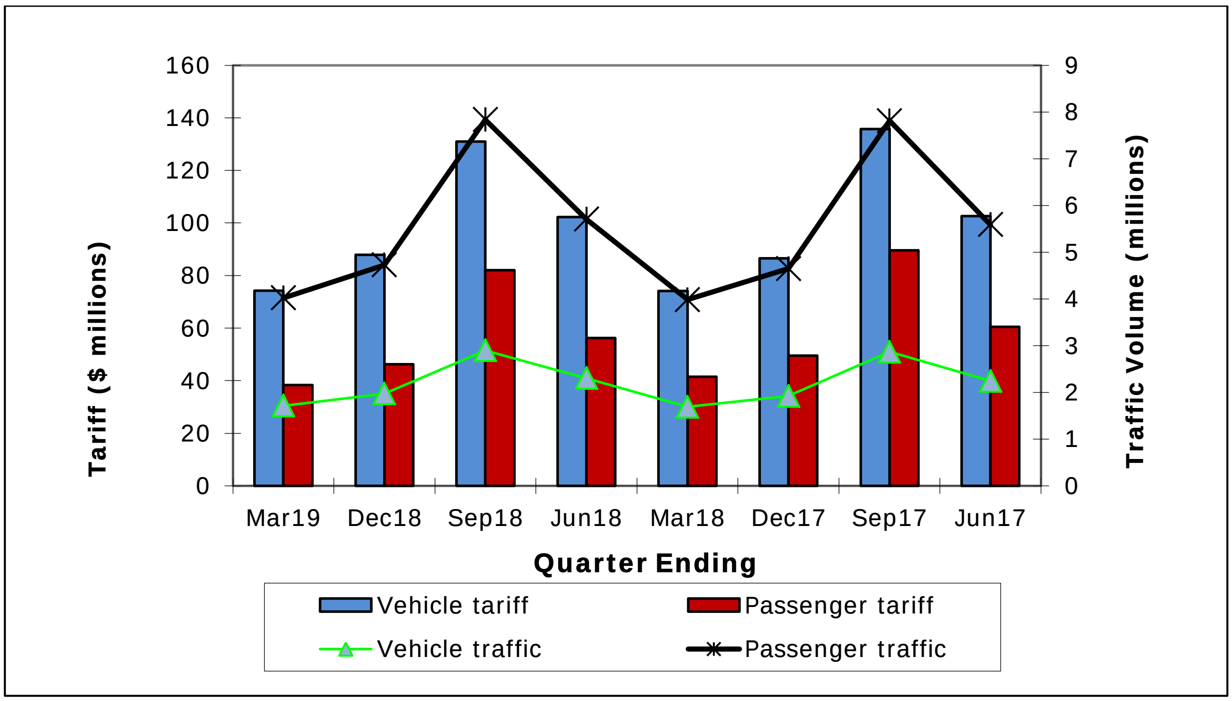
SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (unaudited)							
($ millions)	**Mar 19**	**Dec 18**	**Sep 18**	**Jun 18**	**Mar 18**	**Dec 17**	**Sep 17**	**Jun 17**
Total revenue	172.5	207.7	315.8	229.7	168.8	195.7	309.9	226.2
Operating (loss) profit	(28.8)	9.4	104.6	19.8	(27.8)	-	112.6	31.5
Net (loss) earnings	(41.0)	(3.7)	90.9	6.0	(41.0)	(14.8)	98.4	17.3

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

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



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

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

Capital Expenditures

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

We have one of the largest ferry fleets in the world. The typical life span of vessels is approximately 45 years. We are currently operating 35 vessels with an average age of 32 years and, of these, 11 are 45 years old or older.

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

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

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

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

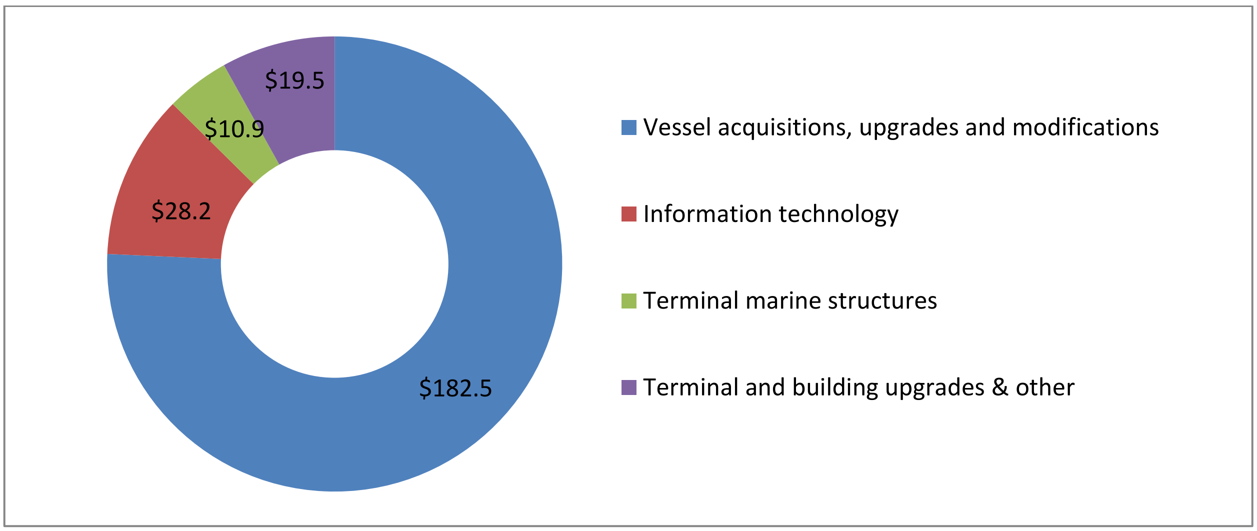
Total capital expenditures, net of funding recorded from the New Building Canada fund and FortisBC, during fiscal 2017 through fiscal 2019 are shown in the table below:

Capital expenditures by fiscal year

($ millions)

	2019	**2018**	**2017**
Vessel upgrades & modifications	133.5	110.1	71.2
New vessels	49.0	81.6	105.9
Terminal marine structures	10.9	20.5	22.9
Information technology	28.2	24.4	30.9
Terminal building upgrades & other	19.5	15.7	12.8
Total	241.1	252.3	243.7

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



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

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

Spirit Class mid-life upgrades

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

Major overhauls and inspections

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

Mid-coast ferry service

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

Island Class vessels

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

Customer experience program

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

Hardware upgrades

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

Queen of Surrey three quarter-life upgrade

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

Fleet maintenance facility

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

Tsawwassen terminal

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

Kuper quarter-life upgrade

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

OUTLOOK

Financial

We continue to pursue strategies to create an affordable, sustainable and safe ferry system that meets the needs of our customers and the communities we serve for generations to come. We are committed to being a company worthy of the public's trust and valued for the services we provide.

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

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

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

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

Major Investments

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

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

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

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

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

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

Service Enhancements

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

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

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

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

Summary

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

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

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

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

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

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

Fuel Price

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel and natural gas. Fuel costs have fluctuated significantly over the past few years, and there is uncertainty of the cost of fuel in the future.

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

Risk mitigation: To mitigate the effect of volatility in fuel prices on our earnings, we use deferred fuel cost accounts together with fuel surcharges or rebates as required. (See "The Effect of Rate Regulation" for more detail.) We may enter into hedging instruments, in accordance with our Financial Risk Management Policy, in order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2019, we had $50.6 million (notional value) in fuel forward contracts for marine diesel related to 2019 and 2020. At March 31, 2019, we had no fuel forward contracts for LNG. Realized gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs.

Derivatives

We hedge our exposure to fluctuations in fuel prices, foreign currency exchange rates and interest rates from time to time through the use of derivative instruments. At March 31, 2019, we held three foreign exchange forward contracts with a carrying and fair value receivable of $7 thousand and with a notional value of $0.5 million, while at March 31, 2018 we held six such contracts with a carrying and fair value liability of $58 thousand and with a notional value of $1.7 million. There were no interest rate forward contracts in place at March 31, 2019 or at March 31, 2018.

At March 31, 2019, we held fuel forward contracts for marine diesel with a carrying and fair value asset of $8.1 million and a notional value of $50.6 million. At March 31, 2018, we held fuel forward contracts for marine diesel with a carrying and fair value asset of $12.5 million and with a notional value of $54.6 million. At March 31, 2019, with the application of hedge accounting, the unrealized gain of $7.4 million was recognized in other comprehensive income.

At March 31, 2018, with the application of hedge accounting, the unrealized gain of $13.6 million was recognized in other comprehensive income. The fair value of commodity derivatives would reflect only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel.

The fair values would reflect the estimated amounts we would receive or pay should the derivative contracts be terminated at the stated dates. For regulatory purposes, any realized gains or losses related to fuel commodity swaps would be charged to our deferred fuel cost accounts. (See “The Effect of Rate Regulation” for more detail.)

Non-Derivative Financial Instruments
The carrying and fair values of non-derivative financial instruments at March 31, 2019, and 2018 are as follows:

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

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

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

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

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

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

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

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

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

Customer Demand

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

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

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

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

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

Major Capital Projects

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

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

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

Economic Regulatory Environment

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

On February 22, 2019, the Province released its report on the review of coastal ferry services in British Columbia. Based on the recommendations in the report, on May16, 2019, the Province enacted legislation to amend the Act. (See "Coastal Ferry Services Contract" for more detail.)

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

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

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

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

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

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

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

Cybersecurity Threats

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

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

Indigenous Peoples

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

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies are contained in note 1 to our consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgements about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the general operating environment changes.

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

Retirement Liability

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

Depreciation and Amortization Expense

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

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

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

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

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

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

Hedging Relationships

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

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

Asset Retirement Obligations

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

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

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

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

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

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

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

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

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

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

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

CORPORATE STRUCTURE AND GOVERNANCE

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

FORWARD LOOKING STATEMENTS

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

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

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

Non-IFRS Measures

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

Corporate Structure and Governance
Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

All of the directors of the Company in fiscal 2019 were determined by the board to be independent pursuant to the definition of independence adopted by the board.

Directorships

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

Sarah A. Morgan-Silvester: Director, Canadian Western Bank

Orientation and Continuing Education

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

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

The board recognizes the importance of ongoing director education and the need for each director to take personal responsibility for this process. To facilitate ongoing education, presentations are made to directors from time to time on matters of particular importance or emerging significance to the Company. As well, attendance by directors at seminars, courses or conferences of relevance to their position as directors of the Company may be arranged.

Directors are expected to maintain ongoing familiarization with the operations of BC Ferries through regular system-wide ferry travel. This, together with visits to other facilities and operations of BC Ferries, serves to enhance the directors' ongoing knowledge and understanding of the Company.

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

Ethical Business Conduct

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

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

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

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

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

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

Nomination of Directors

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

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

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

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

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

Board Diversity Policy

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

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

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

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

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

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

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

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

An executive compensation plan applies to the executives of the Company, as that term is defined in the CFA, which in fiscal 2019 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO") or an Executive Vice President of BC Ferries[2]. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* ("Bill 20"), an individual who held such a position on the date Bill 20 received first reading in 2010 is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries. In fiscal 2019, the remuneration of the Company's President & CEO, Chief Financial Officer and Chief Operating Officer was governed by an executive compensation plan.

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

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

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

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

comparator organizations. All changes in compensation are made in accordance with an executive compensation plan, as applicable.

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

Director Compensation

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

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

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

Protocol Agreement

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

Board Committees

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

Mandates

In fiscal 2019, the board had six committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

Audit & Finance Committee

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

- review the financial reports and other financial information provided by the Company to its security holders;
- review the annual operating and capital budgets, modifications thereto, and details of any proposed financing;
- monitor the integrity of the financial reporting process and the system of internal controls that the board and management have established;

- monitor the management of the principal risks that could impact the financial reporting of the Company, and the Company's compliance with legal and regulatory requirements as they relate to the Company's financial statements;
- review and approve the audit plan, process, results, and performance of the Company's external auditor and the internal audit department (the internal auditor) while providing an open avenue of communication between the board, management, external auditor, and the internal auditor; and
- assess the qualifications and independence of the external auditor, and recommend to the board the nominations of the external auditor and the compensation to be paid to the external auditor.

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

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

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

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

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

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

*operational audit procedures as directed by internal audit

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

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

Safety, Health, Environment & Security Committee

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

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

Governance & Nominating Committee

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

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

Human Resources & Compensation Committee

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

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

Information Technology Governance Committee

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

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

Strategic Projects Committee

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

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

Composition

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

Director	Board Committees Year-ended March 31, 2019					
	Audit & Finance	Safety, Health, Environment & Security	Governance & Nominating	Human Resources & Compensation	Information Technology Governance	Strategic Projects
Donald P. Hayes	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)		• (ex-officio)
Bruce A. Chan[1]	•	• (chair)			•	•
Brenda J. Eaton[2]	•		•	•		•
Jan K. Grude	•		•			•
John A. Horning[3]	•		•	• (chair)		•
Brian G. Kenning[4]	•			•		
Gordon M. Kukec[5]		•	•	•	• (chair)	• (chair)
Sarah A. Morgan-Silvester[6]	• (chair)	•		•	•	
P. Geoffrey Plant	•	•	• (chair)			
David R. Podmore[7]						•
Judith F. Sayers[8]		•	•	•		•

Notes:

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

Assessments

As part of its dedication to best governance practices, the board is committed to regular assessments of the effectiveness of the board, the board chair, committees, committee chairs, and individual directors. The board, on the recommendation of the Governance & Nominating

Committee, has implemented a process for such assessments consisting of a review facilitated by an independent consultant every second year. The process aims to ensure that the individual directors continue to contribute effectively to the board's performance, and that the board and its committees continue to function effectively.

In fiscal 2019, the board engaged an independent consultant to conduct the review. The process involved obtaining the directors' views on matters related to the effectiveness of the board through the use of questionnaires and individual discussions with each director. The evaluation included an assessment of the performance of the board as a whole with respect to best practices in board governance, as well as a director self-assessment and peer review related to best practices for board directors. The peer review results for each director were shared with the respective director, the chair of the board, the vice chair designate and the chair of the Governance & Nominating Committee, and discussions on the results were held between the individual directors and the consultant. Each director will prepare a plan for discussion with the board chair setting out their goals and development activities in their role as a director for the upcoming fiscal year.

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

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