BRITISH COLUMBIA FERRY CORPORATION

2001/02 ANNUAL REPORT

BC FERRIES

Mission

At BC Ferries we are committed to satisfying customer and community needs for a safe, reliable and sustainable ferry service.

We strive to build on our tradition of excellence in ferry service, one in which employees and citizens take great pride.

A NOTE ABOUT FORMAT This annual report has been produced in both electronic and printed versions. BC Ferries has tried to ensure that the electronic version will display well on any computer screen and will also produce a consistent printed document with any computer equipment. However, if this does not occur with your equipment, we regret that we are unable to produce customized electronic documents. If you would like a printed copy of the annual report, or if you would like to comment on the report, please contact us. (Contact information is included on the last page of the report.)

Extensive information about the British Columbia Ferry Corporation and the transportation system it operates is available at www.bcferries.com. The 2000/01 annual report and the most recent three-year performance plan (issued in April 2002) are also presented in their entirety on the Web site. For this reason, certain information that has been included in previous annual reports is not repeated in this edition.

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Corporate Profile

The British Columbia Ferry Corporation, a Crown corporation of the government of British Columbia, was formed on January 1, 1977 to operate the ferry service that was initiated by the provincial government in 1960 to provide marine vehicle and passenger transportation services on the British Columbia coast. The BC Ferries fleet now consists of 40 vessels operating on 25 routes. High operational and maintenance standards make this one of the world's finest ferry systems.

BC Ferries is an integral part of British Columbia's coastal transportation system, linking Vancouver Island to the mainland of British Columbia and many isolated coastal communities to either Vancouver Island or the mainland. The corporation also provides service from Prince Rupert, on the province's north coast, to the Queen Charlotte Islands, and to Port Hardy on the northern end of Vancouver Island. In addition, the Discovery Coast Passage offers summer service between Port Hardy and Bella Coola on the central coast, with additional ports of call en route.

Catamaran Ferries International (CFI) is a wholly owned subsidiary of the British Columbia Ferry Corporation. Formed for the purposes of constructing fast ferries for the corporation and developing the related technology for application in the domestic and international markets, CFI operated between April 1996 and October 2000. It remains the legal owner of PacifiCat Voyager. The financial statements of both entities are consolidated in this annual report. The three fast ferries owned by BC Ferries and its subsidiary, CFI, have been made available for sale.

BC Ferries' workforce consists of unionized and management employees. All unionized employees are members of the British Columbia Ferry and Marine Workers' Union. The workforce includes approximately 2,920 full-time workers, augmented by approximately 1,620 casual (on-call) employees.

During the 2001/02 fiscal year, BC Ferries carried 21.3 million passengers and 8.1 million vehicles, generating $472 million in revenue (compared to $456 million in the previous year). All costs and revenues, including the statutory contribution of a portion of provincial motor fuel tax revenue and the federal contract revenue, are detailed in the financial statements and associated notes in this annual report.

CHAIR'S MESSAGE

THE 2001/02 FISCAL YEAR WAS ONE OF TRANSITION FOR THE BRITISH COLUMBIA FERRY CORPORATION. In September, a new Board of Directors began focusing on the many challenges facing the corporation in meeting its primary goal—serving its customers.

Many of those challenges were highlighted in the Wright Report, prepared by independent financial consultant Fred Wright. The report, commissioned by the provincial government and released in December 2001, reviewed the fast-ferry project and made several key recommendations for the future direction of the corporation. The recommendations, along with submissions received from the public, have contributed significantly to the Core Review process that is now underway. This review, like those being conducted in virtually every part of government, is aimed at reinforcing the core services that government provides. While the results of the review are not yet known, it is clear that BC Ferries is essential to the economic health of many British Columbia communities.

In 2001/02, the British Columbia Ferry Corporation continued to deliver its services within the framework of transportation revenue, other customer revenue and government support that has been in place since 2000. Customer revenue, including both transportation tolls and other sales activities, totalled $378 million. Direct provincial funding, based on an allocation from the motor fuel tax, amounted to $72 million, while direct federal contract revenue contributed $23 million. These revenues covered all of the costs of operation, including interest and amortization, and generated an operating surplus of $17.4 million. The corporation determined that a revaluation of its three fast ferry assets was appropriate, and recorded a write-down of $40 million. As a result BC Ferries recorded a net loss of $22.6 million. Additions to capital assets of $54.8 million were financed from existing cash flow.

This is a time of important change for BC Ferries. It will require a balancing of the needs of both customers and taxpayers. Safety must continue to be a top priority, which will not be compromised as we realize opportunities for enhanced service at an affordable price for ferry users. I look forward to working with our employees and I thank them for their commendable efforts to deliver high-quality ferry services to the people of British Columbia.

On behalf of the current Board of Directors, I also want to extend our appreciation to the past Chair, Mr. Michael Francis, and to the previous board for their dedication and commitment to improving BC Ferries and serving the Province of British Columbia.

David L. Emerson
Chair

Board of Directors[1]

David Emerson, CHAIR

Peter Armstrong

Mark Cullen[2]

Jim Cutt

Tom Harris

Elizabeth Harrison, QC[3]

Maureen Macarenko

Ray Whitehead

[1] *All of the directors were appointed September 17, 2001 except David Emerson (July 31, 2001) and Ray Whitehead (June 24, 1998)*
[2] *Chair, Audit and Finance Committee*
[3] *Chair, Governance Committee*

Executive Management

Bob Lingwood
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Captain **Mike Carter**
EXECUTIVE VICE PRESIDENT,
OPERATIONS AND CUSTOMER SERVICES

Rob Clarke
VICE PRESIDENT,
FINANCE AND CORPORATE SERVICES

Derek Johnston
VICE PRESIDENT,
HUMAN RESOURCES

David Marshall
VICE PRESIDENT,
ENGINEERING AND CONSTRUCTION

Mark Stefanson
VICE PRESIDENT,
CORPORATE COMMUNICATIONS

Pat Morris
CORPORATE SECRETARY

Len Roueche
DIRECTOR,
STRATEGIC AND CORPORATE PLANNING

PRESIDENT'S MESSAGE

THE BRITISH COLUMBIA FERRY CORPORATION ENJOYED A SUCCESSFUL YEAR IN 2001/02, DELIVERING MARINE vehicle and passenger transportation services to the people of British Columbia with the highest standards of safety and dependability.

Revenue continued to grow in 2001/02, with a net increase of $15.9 million, or 3.5 per cent. Expenditures including financing costs increased by $9.2 million or 2.1 per cent. Total earnings (before provision for write-down of high-speed ferries) increased by $6.7 million or 62 per cent. However, BC Ferries continues to hold its three PacifiCat high-speed catamaran vessels for resale. The current market for these vessels is not readily determinable, and no comparable vessels have been sold in the secondary market. Canadian generally accepted accounting principles require that a write-down be recorded in the year in which the need is identified. Accordingly, a provision of $40 million is recorded in 2001/02 to reflect revised estimates of the likely net proceeds of a sale of these assets. The consequence of the write-down is that the corporation generated negative net earnings (i.e., a loss) of $22.6 million in 2001/02, compared to positive net earnings of $10.7 million in 2000/01.

BC Ferries made significant progress in its ongoing programs to replace its infrastructure and to sustain and improve services to the travelling public. For example, improvements at the Horseshoe Bay, Departure Bay, Powell River and Mill Bay terminals have resulted in safer, more efficient movement of passengers and vehicles. Final plans were completed in 2001/02 for a new 118-car ferry that will address growing traffic demands and allow the retirement of one of the oldest vessels in the fleet. A strategy to adjust Mid and North Coast ferry service continues to be refined and reviewed with stakeholders.

BC Ferries' business infrastructure has also been upgraded with new financial and maintenance management systems. These investments improve the quality of analytical tools needed for the ongoing development of the corporation's business. Administrative and overhead costs were already reduced in 2001/02 as a result of these systems.

The corporation has continued to improve the provision of information to its customers through its Web site, www.bcferries.com. With 150 million visits annually, the site is one of British Columbia's busiest. It is a vital source of information for customers, and now has enhanced reservation-making capabilities.

Changes to the stakeholder consultation process adopted in 2000/01 were implemented in 2001/02, rejuvenating the dialogue on local issues with ferry-dependent communities.

The provincial election in May 2001 gave rise to a government-wide assessment of the role and activities of government and its agencies—the core review process. At year-end, BC Ferries' discussions with government had not yet been completed. Consequently, any policy changes that arise from the core review will be made in 2002/03 and subsequent years.

The ferry system is a necessary part of the economy of Vancouver Island and the small islands and communities of the coast and of the province itself. The management and employees of BC Ferries are committed to the continuing delivery of dependable and cost-effective service. I commend each and every employee, whether aboard ship or on land, for their continuing commitment to delivering a safe and dependable service to the people of British Columbia.

Bob Lingwood
President and Chief Executive Officer

Five-Year Trends

	2002	2001	2000	1999	1998
KEY INDICATORS					
Tolls, catering and other income per passenger	$17.74	$16.91	$16.66	$16.52	$16.02
Operating and net financing expenses per passenger	$19.18	$18.45	$20.62	$19.38	$17.85
Percentage of operating and net financing expenses recovered from tolls, catering and other income	92.5%	91.7%	80.8%	85.2%	89.8%
Cash flow/debt service ratio	18.96	29.29	0.50	0.59	0.45
Return on assets	-3.3%	1.5%	-43.1%	-13.0%	-7.3%
Full-time equivalent employees (Note 2)	3,380	3,339	3,390	3,389	3,374
OPERATIONS (figures in thousands)					
Passengers carried	21,251	21,369	21,381	21,379	21,799
Passenger miles travelled	402,641	408,215	408,465	406,482	416,639
Utilization—passengers	30%	31%	31%	30%	30%
Vehicles carried	8,108	7,933	7,884	7,815	7,985
AEQs carried (Note 3)	8,890	8,709	8,668	8,579	8,779
AEQ miles travelled	163,925	156,188	155,957	154,587	159,322
Utilization—AEQs	55%	54%	54%	52%	53%
FINANCIAL (figures in $ thousands)					
Tolls, catering and other income (Note 4)	$376,889	$361,425	$356,169	$353,222	$349,206
Government contracts, grants and motor fuel tax	94,659	94,957	87,063	46,040	26,631
Operating and net financing expenses (Note 4)	407,627	394,297	440,955	414,417	389,046
Cash flow from operating activities	66,793	65,221	(22,925)	(7,169)	(12,383)
Net additions to capital assets	54,805	55,148	114,590	166,602	128,187
Total assets	676,234	699,648	693,954	875,797	806,449
Proceeds from borrowing	–	–	145,151	191,731	126,232
Long-term debt and capital leases, net of sinking funds	15,704	18,616	21,609	957,114	784,624
Shareholder's equity (deficiency)	549,113	571,735	561,021	(206,277)	(92,010)

Notes:

1. Certain comparative figures have been restated to conform with the presentation adopted for the current year.
2. Full-time equivalent employees is calculated by dividing actual labour hours worked by the standard hours in a work year (1,827).
3. AEQs – Automobile Equivalents are a standard-length traffic unit. Underheight and overheight vehicles are each one AEQ; buses and trucks are each three AEQs.
4. Financial information is presented on a consolidated basis (includes BC Ferries' wholly-owned subsidiary, Catamaran Ferries International Inc. [CFI]) except for operating revenues and expenses (BC Ferries only).

REPORT ON THE PERFORMANCE PLAN

Introduction

The structure of this part of the annual report closely parallels the structure of BC Ferries' 2001/02 performance plan. Published in April 2001, the performance plan identifies the expected delivery of services for 2001/02 and through to 2003/04. The performance plan includes a series of performance measures that display graphically how the organization is performing. These measures are also shown in this annual report.

The corporation's financial activities are discussed in the Management Discussion and Analysis section of the annual report.

Service delivery

Service on most BC Ferries routes continued in 2001/02 with no significant change from previous years. The corporation's efforts focused on improving the customer experience, addressing future demand and replacing obsolete infrastructure.

System-wide traffic was 8.1 million vehicles (up 2.2 per cent from 2000/01) and 21.3 million passengers (down 0.6 per cent from 2000/01).

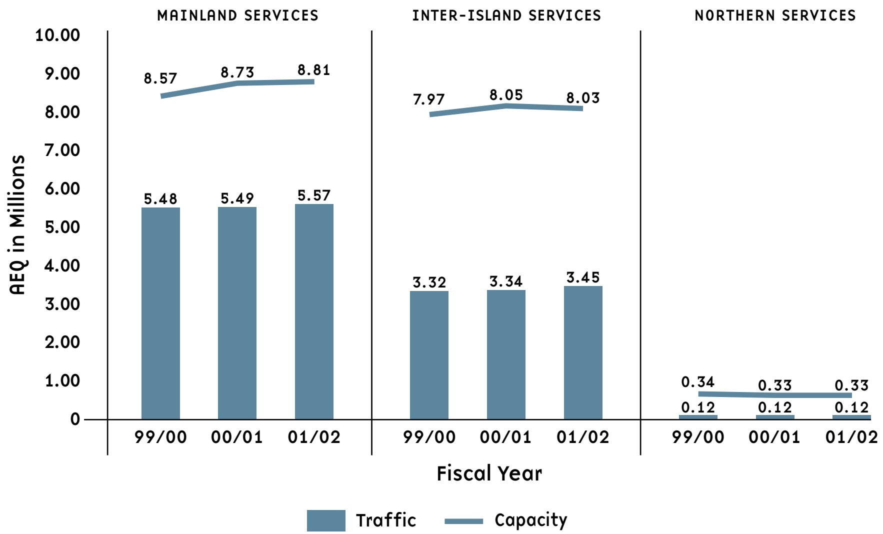
Improving customer satisfaction

In 2001/02, BC Ferries developed a customer relationship management strategy to improve customer satisfaction and provide customers with desired products and services. Achieving the full alignment of infrastructure, organization and business processes necessary to transform the corporation to a customer-centred organization will take 24 to 36 months.

A formalized market research program was established to provide management with objective, projectable data sources to guide development of terminals, vessels and services.

Productivity Measures

VEHICULAR TRAFFIC CARRIED/CAPACITY UTILIZATION



RATIONALE/METHODOLOGY: To measure vehicular traffic carried (defined as automobile equivalents "AEQs") and measure against vehicular carrying capacity of the operational fleet. This will provide a measure of total vehicle capacity used. Total AEQs carried is divided by AEQ carrying capacity of the operating fleet in each of the three operating segments.

VARIANCE ANALYSIS:
On Mainland Service routes capacity utilization remains unchanged over the last two years. Traffic growth has been matched by increased capacity (conventional vessel replacing PacifiCat) and management of discretionary sailings to maximize loads.

Vehicle traffic on IIS routes increased against unchanged capacity which led to a one-point increase in utilization.

Enhancements to customer service include the redevelopment of Departure Bay and Horseshoe Bay Terminals, expansion of reserved boarding on major routes to facilitate trip planning, a redesign of the Web site to improve information access and cost-effectively broaden distribution channels, technology upgrades to speed transaction times at terminals, new wayfinding signage to more effectively guide customers to and through terminals, and improved food services on major-route vessels.

Major routes

BC Ferries' major routes connect Vancouver Island to the Lower Mainland of British Columbia with three routes—Swartz Bay–Tsawwassen, Tsawwassen–Duke Point (Nanaimo), and Departure Bay (Nanaimo)–Horseshoe Bay—and connect Horseshoe Bay to the Sunshine Coast at Langdale. Together, the four routes carried 13.5 million passengers and 4.7 million vehicles in 2001/02 (down 1.4 per cent and up 1.5 per cent, respectively, from 2000/01) and generated revenues of $291 million (up 5.4 per cent from 2000/01).

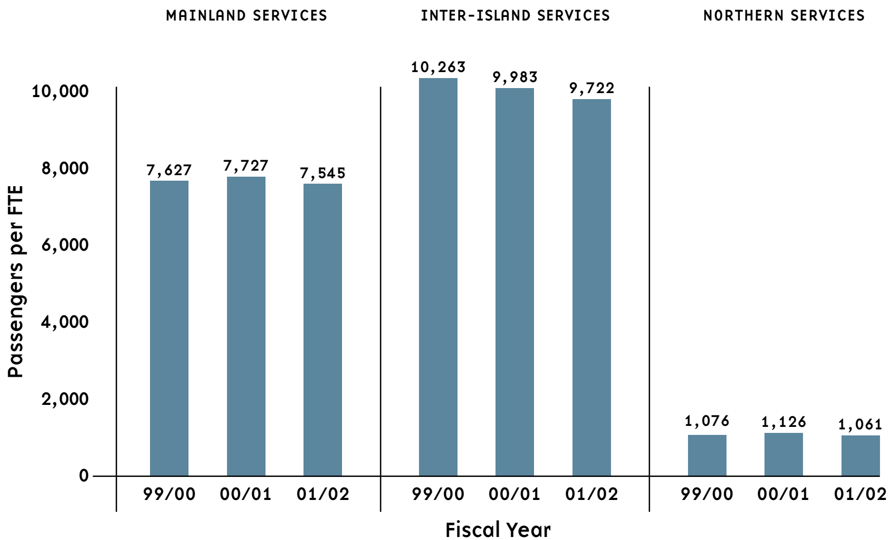
The service between **Horseshoe Bay and Nanaimo** (Departure Bay) was the focus of significant effort in 2001/02. Improvements at Horseshoe Bay and Departure Bay terminals have been directed toward accommodating future demand, improving customer safety, reducing congestion on nearby streets and highways, and improving schedule reliability.

Improvements at **Horseshoe Bay Terminal** from 2000/01 include an increase in the holding compound (from 650 to 1,265 car spaces), construction of a new terminal building, and installation of a 450-car underground parkade. Foot passenger access will be enhanced with improved overhead walkways and pick-up/drop-off area. All users will benefit from new and more effective wayfinding signage. And when completed, the expanded compound will eliminate traffic queuing on the Upper Levels Highway. Improved operations at Horseshoe Bay also benefit services to Langdale on the Sunshine Coast and to Bowen Island.

The total budget for this project is $38.6 million over three years. Budgeted and actual expenditures for 2001/02 were $18.8 million. At fiscal year-end, the project was 60 per cent complete and virtually all elements of the project were underway. All construction, with the exception of the terminal maintenance building, will be completed by December 2002.

Productivity Measures

PASSENGERS CARRIED PER OPERATIONS EMPLOYEE (FTE)



RATIONALE/METHODOLOGY: To measure the productive utilization of labour resources. It is not intended to measure the employees' productivity since they have no direct control over staffing or traffic demand.

This measure is calculated by dividing the passengers carried by operating FTEs for each of the three operating segments.

VARIANCE ANALYSIS:

Mainland Services experienced a slight decline in passengers carried per FTE. Sailings (and FTEs) were maintained at a level sufficient to carry increasing vehicle traffic (1.5%) while passenger numbers declined 1.4%. The decrease in passengers is mainly attributed to an 8.6% decline in bus traffic.

IIS routes experienced a decline in passengers carried per FTE. Passengers carried increased by 1.7%. FTEs increased 5.0%, largely because of the vessel refit cycle, increased crew required to operate Queen of Burnaby on Route 17 (in place of a smaller ship) and increased overtime occasioned by staff shortages.

Northern Services had a slight decline in passengers per FTE. Passenger numbers dropped by 5%, driven primarily by declines in tour buses on the Inside Passage.

Departure Bay Terminal improvements include an increase in the size of the holding compound capacity by approximately 150 car spaces, reconfiguration of the pick-up/drop-off area, short-term and long-term parking lots, and construction of a new terminal building. The total budget for this project is $4.6 million, and $3.3 million was spent in 2001/02. Construction began after Labour Day, at the end of the peak season. All construction will be completed by June 30, 2002.

BC Ferries is also considering vessel refurbishment options to support the improvements at these two terminals. These activities are part of the ongoing plan to update the services and facilities offered to the travelling public.

Inter-Island (Minor) routes

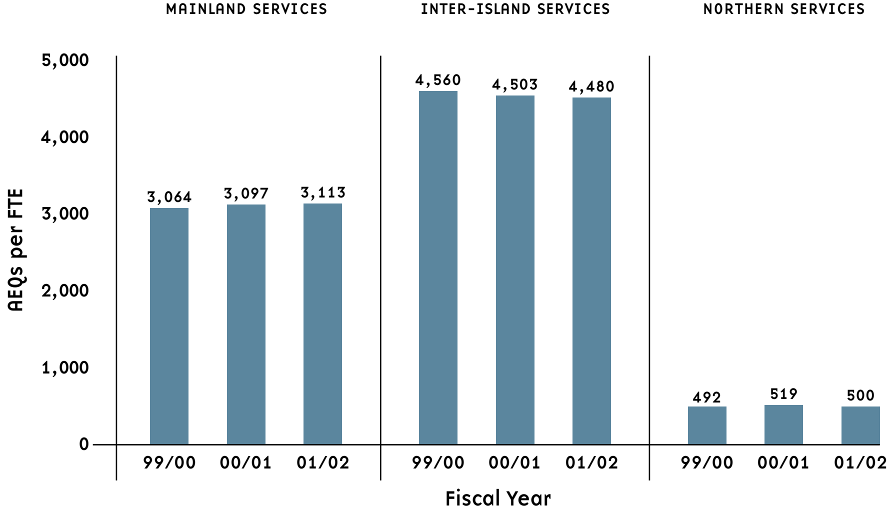
BC Ferries' Inter-Island routes connect several island or rural communities to either Vancouver Island or the Lower Mainland. These communities lie in the Strait of Georgia or in the adjacent inlets. Together, the Inter-Island routes carried 7.5 million passengers and 3.3 million vehicles in 2001/02 (up 1.7 per cent and 4.0 per cent, respectively, from 2000/01) and generated revenues of $43.7 million (up 4.9 per cent from 2000/01). Almost all of these routes are essential to a specific island community. The array of routes and the age of their vessels and terminals pose particular challenges in the maintenance and operation of the vessels and docks.

In February 2001, after an extensive public consultation process, government decided to continue the **Brentwood Bay–Mill Bay** ferry service. As a result of this decision, BC Ferries made improvements in the vessel and in the docks at both Brentwood and Mill Bay to enable the service to continue, with a total capital expenditure of $3.9 million. BC Ferries and local stakeholders implemented a marketing strategy focusing on "Vancouver Island's Most Beautiful Shortcut," which assisted in increasing traffic by nine per cent over the year.

The **Westview (Powell River) Terminal** expansion, which began in 2000/01, has included replacement of four deteriorated dolphin structures (fixed marine structures positioned to guide the ferry in and out of the dock) and expansion of the holding compound. Replacement of the vehicle trestle is scheduled for 2003/04. These improvements are budgeted at $6.5 million over a five-year period. Total expenditures to date are $5.2 million, $2.5 million of which was spent in 2001/02.

Productivity Measures

VEHICLES (AEQs) CARRIED PER OPERATIONS EMPLOYEE (FTE)



RATIONALE/METHODOLOGY: To measure the productive utilization of labour resources. It is not intended to measure the employees' productivity since they have no direct control over staffing or traffic demand.

This measure is calculated by dividing the AEQs carried by operating FTEs for each of the three operating segments.

VARIANCE ANALYSIS:

On Mainland Service routes AEQs per FTE improved slightly. A 1.5% rise in traffic was carried with a 1.0% increase in FTEs.

On IIS routes the performance declined slightly. A 4% increase in traffic was offset by a 5% increase in FTEs, largely because of the vessel refit cycle, increased crew required to operate Queen of Burnaby on Route 17 (in place of a smaller ship) and increased overtime occasioned by staff shortages.

Northern Services productivity was slightly down. Vehicle traffic declined by 3.5%.

In 2001/02, BC Ferries finalized the specifications and drawings for a new **intermediate-sized vessel** for the Bowen Island service. Designs were reviewed at the beginning of 2000/01, after stakeholder input had been finalized, and a value analysis was then completed, in accordance with government guidelines. The forecast expenditure for the 2002 calendar year is approximately $8.7 million. Construction is scheduled to begin by the end of 2002/03. The intermediate class of vessel, with a capacity of approximately 118 car spaces, will lead to the retirement of Queen of Tsawwassen (one of the fleet's oldest vessels) and begin the process of creating a higher level of standardization among ships and components.

These major projects, and a variety of smaller capital projects, ensure that the infrastructure of vessels and dock structures, and the supporting business systems, continue to function safely and dependably.

Mid and North Coast routes

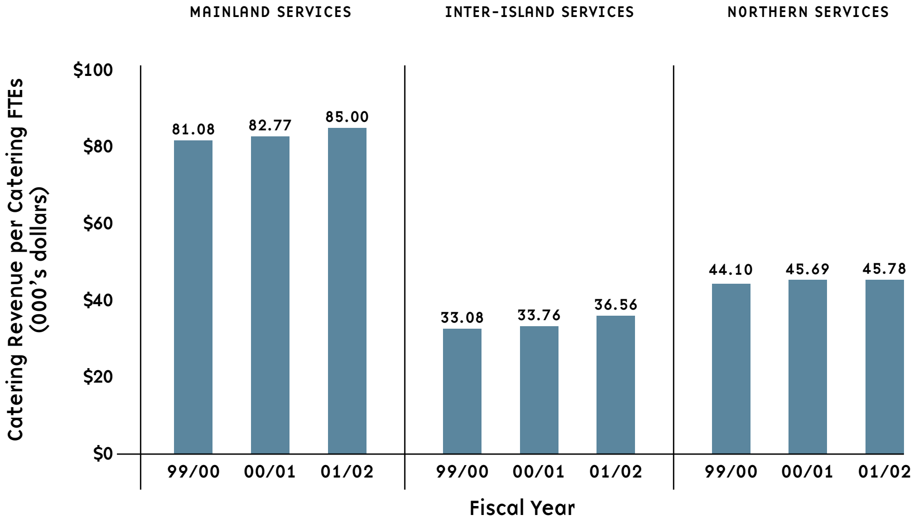
The Mid and North Coast routes include services from the province's north coast to the Queen Charlotte Islands (Prince Rupert–Skidegate) and the northern end of Vancouver Island (Prince Rupert–Port Hardy), and between Graham and Moresby Islands in the Queen Charlottes. In addition, the Discovery Coast Passage offers summer-only service from Port Hardy to Bella Bella, Klemtu, Ocean Falls and Shearwater on the outer mid-coast and to Bella Coola on the central coast. Together these routes carried 249,000 passengers and 102,000 vehicles in 2001/02 (down 5.0 per cent and 3.5 per cent, respectively, from 2000/01) and generated revenues of $16.2 million (down 4.3 per cent from 2000/01).

An upgrade of **Queen of the North** was completed early in 2001/02. The project included a complete refurbishment of the passenger accommodations, with improvements to the cafeteria and buffet areas and seating and lounge areas, as well as the introduction of a reserved seating lounge. On-board spending per passenger increased by 29 per cent in the first year of operation.

BC Ferries has been planning the replacement of **Queen of Prince Rupert** for several years, in keeping with the objective of the corporation's long-term capital plan and management of its asset base, which is to ensure the continuation of a safe, reliable ferry service. After the very successful renovation of Queen of the North, BC Ferries began to assess Queen of Prince Rupert in order to determine if a similar investment should be made. The assessment will be completed in 2002/03.

Productivity Measures

CATERING REVENUE PER CATERING EMPLOYEE (FTE)



RATIONALE/METHODOLOGY: To measure the effectiveness of management in utilizing labour resources. Total catering revenue does not include tolls, parking and other miscellaneous revenue or subsidies, and excludes cost of goods sold.

VARIANCE ANALYSIS:

Catering revenue per FTE continued to improve in all areas. This was driven by continued emphasis on branding, product refinement, and gift shop merchandising.

In Mainland Services, catering revenues increased by 4.2%, despite a 1.4% decline in passengers carried, reflecting a continued improvement in average passenger spend rates. Catering FTEs increased slightly by 1.5%.

Inter-Island, catering revenues increased by 12.6%. Catering FTEs increased by 2.6%.

Despite a 9.8% decrease in passengers on Route 10 (Inside Passage), catering revenue decreased only 1.9%, attributable to vessel modifications. Catering FTEs decreased 4.0%.

Services to small communities

BC Ferries supports services to several small communities by means of subsidy contracts with private operators. Late in 2000/01, BC Ferries began providing a subsidy of $321,000 for a new service connecting the communities of Hartley Bay, Metlakatla, Kitkatla and Oona River to Prince Rupert. This route provides a much-needed transportation link for these remote north coast communities, the largest isolated settlements in coastal British Columbia without ferry service.

Other components of the service plan

Food services

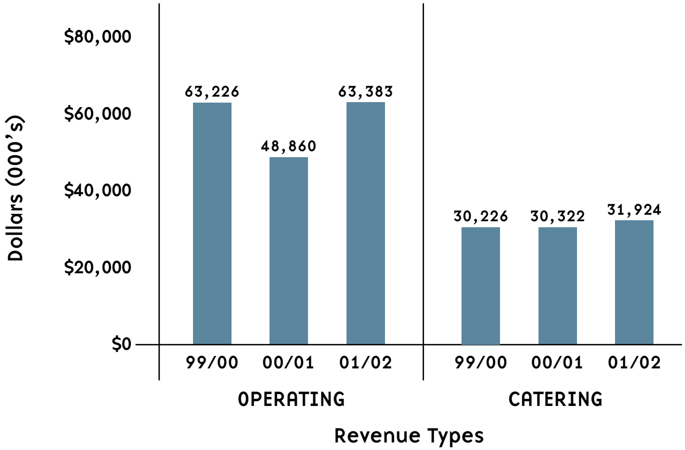
BC Ferries continues to develop its food services to meet customer expectations. In 2001/02, the successful White Spot program (first introduced on the Spirit-class vessels) was expanded to four additional vessels: Queen of Oak Bay and Queen of Cowichan (operating between Horseshoe Bay and Departure Bay), and Queen of Saanich and Queen of Vancouver (operating between Swartz Bay and Tsawwassen). The results of this expansion were similar to those experienced with the Spirit-class vessels, as burger sales increased by more than 60 per cent. The White Spot program will eventually include nine vessels on the major routes. Building on the success of the White Spot program, BC Ferries reviewed other opportunities for branded partners and will be exploring concepts for branded sandwich and pizza programs. The Pacific Buffet menu on the Spirit-class vessels was redesigned to improve the overall quality of the service. Revenues improved by 11 per cent.

Reservations

The reservations program for passenger vehicles on the major routes has proven to be one of the fastest growing segments of BC Ferries' business. In 2001/02, reservations revenue grew by $1 million to over $5 million, with up to 40 per cent of vessel capacity available for reservation for those customers seeking more certainty in their travel. Technology improvements enabled faster processing of reserved customers at the terminals and allowed Internet bookings to become the leading distribution channel for reservations. Marketing communications programs continued to raise awareness of the reservations program and to assist customers in making informed decisions when travelling at busy times.

FINANCIAL MEASURES

MARGINS – MAINLAND SERVICES



RATIONALE/METHODOLOGY: To measure margins based on revenue types:

- operating margins (toll revenues minus operating expenses)
- gross catering margins (onboard/terminal food, retail, video and vending, minus cost of goods sold)

VARIANCE ANALYSIS:

OPERATING MARGINS – Operating margins recovered and grew significantly from the decline experienced in 2000/01, increasing 0.2% over the 1999/00 level. The 2000/01 decline was mainly the result of high fuel costs. Revenue growth of 5.1% is due to tariff and vehicle traffic increases, which reverses a declining trend over the last three fiscal years. Operating costs were 1.2% lower than last year due largely to lower fuel costs.

GROSS CATERING MARGINS – Catering margins increased dramatically (5.3%) over the 2000/01 level. Demand remained strong, driven by branding, improvements in buffet menus, and gift shop merchandising. Margins also benefited from price increases and improved inventory management.

Public consultation

BC Ferries' public consultation efforts ensure that ferry-dependent communities are fully informed about and able to effectively express their views on any plans that might affect their service.

BC Ferries has engaged in public consultation with 12 ferry-dependent communities since 1997. In these communities, ferry advisory committees, which involve local residents and BC Ferries staff, share information on the day-to-day operations of specific routes. In 2001/02, BC Ferries undertook an extensive renewal of ferry advisory committee membership, to ensure that the committees represent local interests. In addition, a process was developed to facilitate both the ongoing renewal of the committees and links to elected government at the municipal or regional district level.

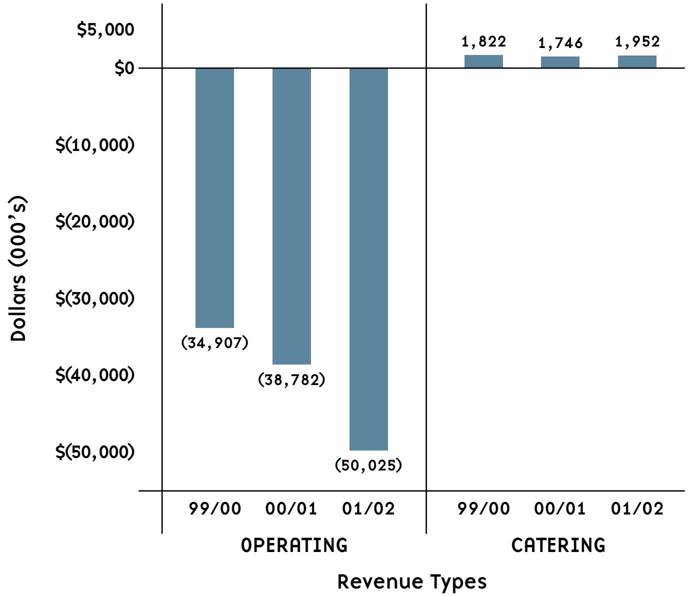
In 2001/02, BC Ferries made a significant effort to improve internal procedures to ensure that public consultation is integrated with the corporation's capital planning and budgeting procedures. The changes will help ensure that the public's views are addressed in the planning of terminal improvements, new ship construction, and major service plan changes. BC Ferries has also developed formal training in public consultation processes, principles and tools for BC Ferries staff who are actively engaged in consultation and communication with the public.

Regulatory, safety and environmental initiatives

The **International Safety Management (ISM) Code** of the International Maritime Organization provides for the safe operation of ships and for pollution prevention. The code includes procedures and standards (representing "best practices" in marine operations) for all safety-related activities. ISM auditors inspect all vessels and shore establishments at least once a year, and external auditors from Lloyd's Register periodically verify both the internal audit function and document compliance.

BC Ferries is committed to providing a safe, accident-free environment for its employees and passengers. In an effort to address the financial cost and human impact of workplace injury, a joint union-management retreat was held in early 2001 to develop an **occupational health and safety** action plan, which led to a complete overhaul and reorganization of the safety committee structure. Safety committee members fleet-wide have now received training in order to facilitate an effective safety program. In addition, BC Ferries now develops a yearly Worksafe

MARGINS – INTER-ISLAND SERVICES



RATIONALE/METHODOLOGY: To measure margins based on revenue types:

- operating margins (toll revenues minus operating expenses)
- gross catering margins (onboard/terminal food, retail, video and vending, minus cost of goods sold)

VARIANCE ANALYSIS:

OPERATING MARGINS – Despite increased traffic and continued revenue growth (5.0%), operating margins continued to decline. Expenditures were 17.0% higher than last year, largely because of the vessel refit cycle, increased crew required to operate Queen of Burnaby on Route 17 (in place of a smaller ship) and increased overtime occasioned by staff shortages.

GROSS CATERING MARGINS – Catering margins improved 11.8% over last year. The improvement was attributable to a 10.7% increase in passenger spend and a 1.1% increase in passenger traffic. Contributing to passenger spend increases were improvements to the Queen of Burnaby facilities and a 3.3% food and beverage menu price increase.

plan jointly with the Workers' Compensation Board to specify testing, training and engineering improvements, and other actions.

BC Ferries' major **environmental** objectives for the three years beginning in 2002/03 are to make significant reductions in its impact on the aquatic environment, air and land.

In 2001/02, BC Ferries continued implementation of the fleet-wide sewage-handling program that began in 1999/2000. Five additional state-of-the-art Hydroxyl® sewage-treatment plants were purchased for installation in smaller inter-island ferries. Two installations were completed in 2001/02; the remaining systems will be installed in 2002/03 as part of scheduled refits. BC Ferries spent $2 million on this work during the year. In 2002/03, the focus will be on vessels requiring upgrades of existing sewage systems to ensure that they remain compliant with current and emerging regulations and to reduce their impact on sensitive marine environments.

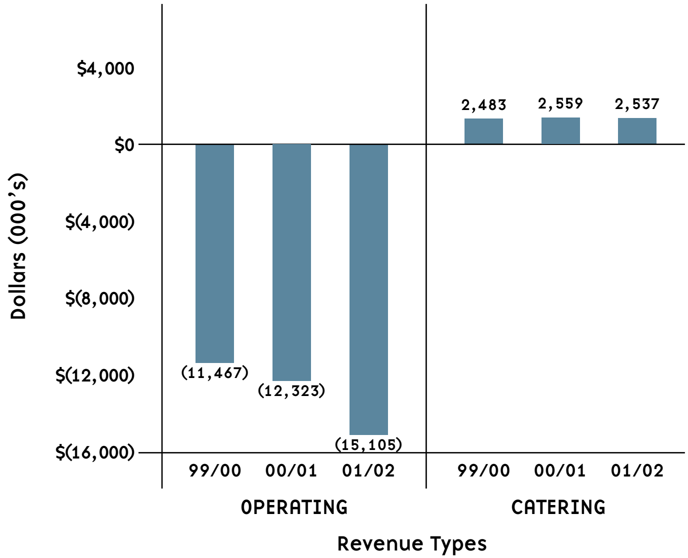
Improving financial performance

Capital plan and asset management

BC Ferries' asset management and capital plans focus on replacing or upgrading aging infrastructure, with an emphasis on alternatives that improve efficiency and customer service, reduce life-cycle costs and minimize environmental impacts. In 2001/02, building on the planning work initiated in previous years, BC Ferries established an ongoing Vessel Condition Assessment Program to assess each vessel's condition and remaining service life. Development of a parallel program for all terminal and marine structures also began, with the scope and cost of detailed surveys to be established in 2002/03 and a formal program established early in 2003/04.

FINANCIAL MEASURES

MARGINS – NORTHERN SERVICES



RATIONALE/METHODOLOGY: To measure margins based on revenue types:

- operating margins (toll revenues minus operating expenses)
- gross catering margins (onboard/terminal food, retail, video and vending, minus cost of goods sold)

VARIANCE ANALYSIS:

OPERATING MARGINS – Operating margins declined on northern services by 22.6%. Revenues decreased by 5.8% and expenses increased by 7.4% due to increases in refit activity and overtime required to regain the schedule after lengthy weather delays.

GROSS CATERING MARGINS – Catering margins declined 0.9% from the 2000/01 fiscal year. Passenger traffic declines, particularly on Route 10, offset passenger spend improvements from Queen of the North onboard facilities improvements and menu price increases.

Business processes and system upgrades

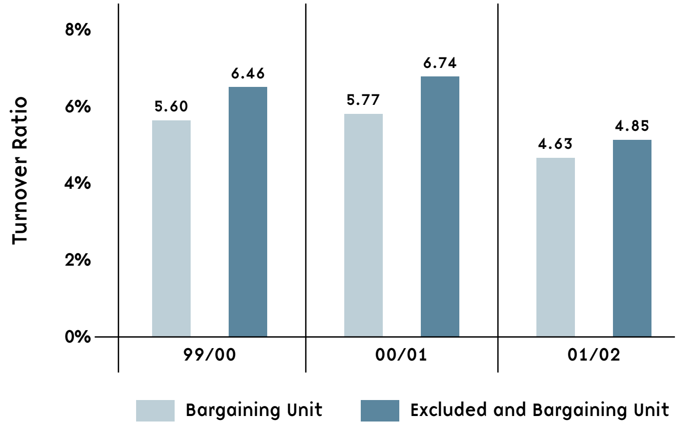
The **Oracle financial system** developed in 2000/01 was fully implemented by the beginning of 2001/02, replacing the previous (Walker Financial) system. Over the course of the year, Oracle was fully stabilized and augmented with accounts receivable, fixed asset and project accounting modules. The system provides managers throughout the organization with information that enables them to be accountable for their results.

BC Ferries achieved notable success in its efforts to introduce rigorous, consistent and disciplined **project management practices**. The introduction of the strengthened financial control mechanisms as part of the financial system implementation ensured accurate reporting of project financial status. Work was largely completed on integrating these systems with project management software. The integrated product will be implemented on a limited basis early in 2002/03 to ensure accurate requirements definition; organization-wide application will be proposed for introduction in 2003/04. In addition, the corporation thoroughly reviewed, substantially revised and reissued (at the end of 2001/02) its project management guidelines in order to ensure that they were consistent with best practices.

The corporation also introduced an **asset maintenance management system** (Maximo) that is fully integrated with the financial system. This initiative establishes the basis for common maintenance practices and for financial control over maintenance processes. It also introduces best practices to the maintenance function, and provides employees with the tools, training and information that will enable them to plan, execute, report and be held accountable for all maintenance activities. By the end of April 2002, the system was fully functional in 34 vessels and at all shore facilities, with a total of 350 employees trained in its operation. In 2002/03, BC Ferries will re-examine and strengthen the associated business processes to further improve effectiveness and to reduce maintenance costs, and thus achieve the full benefits of the investment.

Human Resource Measures

RATE OF TURNOVER (ANNUAL MEASURE)



RATIONALE/METHODOLOGY: This measure is intended to track and monitor the stability of the corporation's workforce.

This measure is calculated as the percentage of total terminations of regular employees in the year per average number of regular positions. There are three categories of terminations:

- retirements
- voluntary (leave to return to school, resign for other employment etc.)
- involuntary (terminated by BC Ferries, illness, death).

VARIANCE ANALYSIS:

During the past year there was a marked decrease in turnover rate in both bargaining unit and excluded employees. Retirements since 1986 account for half of all regular terminations; however, for the third consecutive year the proportion has dropped due to the passing of a demographic "bubble" in the Corporation's workforce that coincided with expansion of the fleet in the 1960s. Retirements were down 4% but the most significant changes were in the involuntary terminations, down 51%, and voluntary terminations, down 28%. For the 4th quarter year to date the figures are broken out as follows:

- 50% of terminations were due to retirement
- 27% were voluntary and of those 86% were bargaining unit employees
- 23% were involuntary and of those, 44% were terminations by the corporation, the remainder being health-related where the employees went to longer-term disability.

Internal environment

Human resource strategy

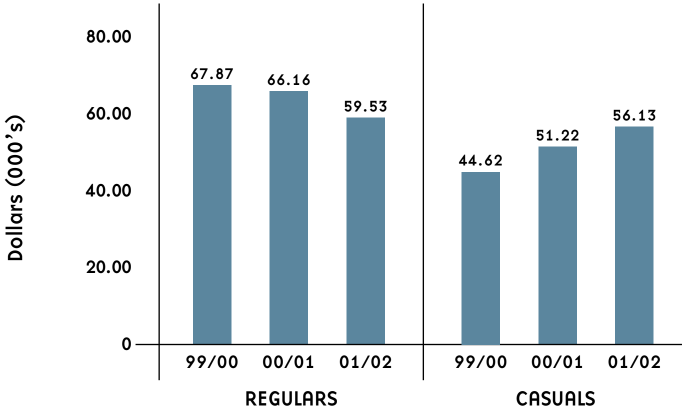
BC Ferries moved forward with its human resource strategy in a number of ways in 2001/02. The **Return to Work Program** began in April 2001 and was fully implemented by July 2001. The objectives of the program are to manage health-related absences more efficiently and effectively, and to accommodate employees with a disability in returning them to productive work. In the period from July 15, 2001 to March 31, 2002, the program handled 164 cases. This activity promoted a smooth transition back into the workforce for these employees, at an estimated savings of over $800,000 in benefits that would have otherwise been paid.

BC Ferries continued its **workforce development** to meet identified future succession needs. The Marine Certificate Upgrade Program, introduced in 2000 to assist in developing certified marine officers, resulted in 23 officers achieving higher-level certificates in the first year. The Workforce Development Strategy Committee, a joint union-management initiative, began discussions on issues of mutual interest, such as succession needs and workforce structure. Early results include enhancement of opportunities for trades apprenticeship and accrual of sea-time for licensed officer development.

Improvement of **union/management relations** has been a focus for BC Ferries over the last few years. Grievances have dropped from a high of 338 in 1998 to a low of 198 in 2001. However, grievance activity alone is not an absolute measure of the nature of labour relations within an organization; what is more compelling is the reduced number of arbitrations—from 30 in 1998 to five in 2001.

Human Resource Measures

RATE OF ABSENTEEISM – SICK LEAVE



RATIONALE/METHODOLOGY: To identify absenteeism trends. This measure is intended to track and understand absenteeism trends for regular and casual employees. Currently, short-term illness hours are calculated in this measure.

This measure is calculated as the number of sick hours per 1000 labour productive hours of bargaining unit employees.

VARIANCE ANALYSIS:
The reduction in absenteeism for regular employees reflects the increased intervention of attendance management in the field as well as the implementation of a corporate return to work program. The increase in absenteeism for casuals continues to reflect a number of systemic factors including:

- the increased use of an enhanced benefit arising out of 1998 negotiations, previously not available to casuals
- increases in size of pool of casuals entitled to benefits
- nature of casual work and attachment to the employer
- casual seniorities based on date of hire rather than hours worked
- consistency of supervision of casuals.

Discussions and plans are underway to address the structure of the workforce.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

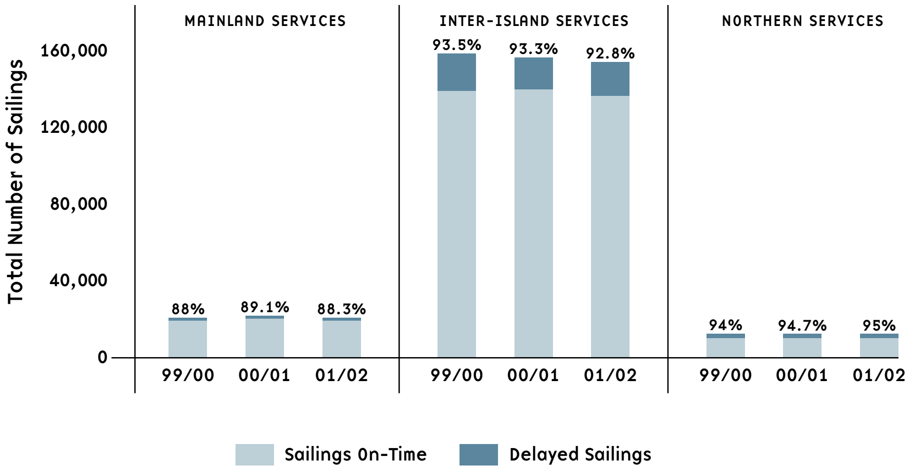
THE BRITISH COLUMBIA FERRY CORPORATION IS ESTABLISHED UNDER THE FERRY CORPORATION ACT OF THE Province of British Columbia. A Board of Directors established under the act governs the corporation, and the act sets out the authority and responsibility of the directors to "manage the affairs of the corporation or supervise the management of those affairs." The board delegates to the President and Chief Executive Officer responsibility for the leadership and management of the corporation.

In addition to the obligations and authorities defined by the legislation, basic legal duties are imposed on directors by common law. Directors are under a fiduciary duty to the corporation to carry out the duties of their office honestly and in good faith in the best interests of the corporation and with the care, diligence and skill of a reasonably prudent person. Directors have specific statutory duties and obligations under other provincial and federal legislation related to employment, environmental protection, financial reporting and taxation.

In supervising the conduct of the business, the board, through the President and Chief Executive Officer, sets the standards of conduct for the corporation and ensures the safety of its operations. The board operates by delegating to management certain of its authorities, including spending authorities, and by reserving certain powers for itself. The board retains the responsibility for managing its own affairs, including reviewing the skills and experience represented on the board and implementing a process for assessing the effectiveness of board governance practices.

Customer Services Measures

ON-TIME SAILING PERFORMANCE



RATIONALE/METHODOLOGY: To measure the number of sailings departing within 20 minutes of schedule.

This measures the number of times during the reporting period that a departure was made within 20 minutes of scheduled departure. This is expressed as a percentage of the total number of sailings.

VARIANCE ANALYSIS:

In Mainland Services and Northern Services, the on-time performance improved slightly in the 4th quarter and stayed the same for Inter-Island Services. IIS had more weather delays in this 4th quarter compared to last year's 4th quarter.

Year to year averages show MS and IIS on-time performance decreasing marginally while NS on-time performance improved. Seasonally, while the fleet average for the remainder of the year remains in the mid-90 percentage points, the 2nd quarter on-time percentage figures traditionally drop to a fleet average of about 87% due to increased traffic flow.

Also of note is that normally about 71% of all delays are due to accumulation over the course of the day after the initial cause, because the vessel is unable to make up the time.

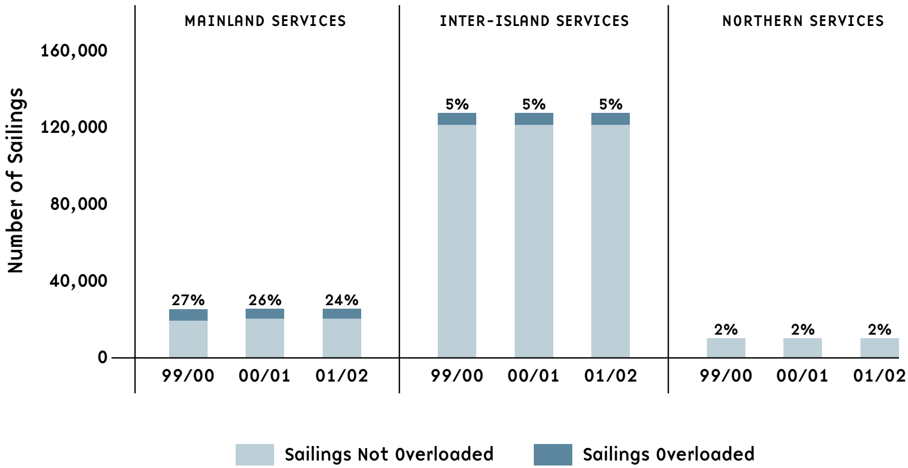
The board exercises the responsibility for:

- appointment and evaluation of the President and Chief Executive Officer
- reviewing human resource strategies
- annual approval of the corporation's strategic plans, annual operating and capital budgets, and major new financial or capital project proposals
- monitoring the corporation's progress on the objectives set in the corporate strategic plan and in the operating and capital plans, including revising the direction of those plans through management in light of changing circumstances
- identifying the principal risks of the corporation's business and taking all reasonable steps to ensure the implementation of appropriate systems to manage those risks
- monitoring through management compliance with all significant policies and procedures
- ensuring that the corporation has in place a policy to enable management and the board to communicate effectively with the government, stakeholders and the public generally.

Catamaran Ferries International (CFI) is a wholly owned subsidiary of the British Columbia Ferry Corporation. CFI ceased operations in October 2000 following completion of its third vessel, PacifiCat Voyager. CFI remains a legal entity and remains the owner of PacifiCat Voyager and the fast-ferry assembly facility, both of which have been put up for sale. BC Ferries has not identified any other functions that it would carry on through CFI. The financial results of CFI for the 2001/02 fiscal year are consolidated with those of the parent company in this annual report.

Customer Services Measures

OVERLOAD SAILINGS



RATIONALE/METHODOLOGY: To measure the corporation's success in matching customer demands with scheduled service (i.e., anticipating load requirements and making maximum use of load space).

This measures the number of times during the period that a departure was made where there were vehicles or passengers that remained unloaded at departure; full capacity had already been achieved. This is expressed as a percentage of the total number of departures.

VARIANCE ANALYSIS:

The number of overloaded sailings remains virtually unchanged from the previous year. Although overall traffic increased on Mainland Services routes, the ratio decreased by two points on overloaded sailings. This is a result of a PacifiCat being replaced by a conventional vessel on the Horseshoe Bay–Departure Bay service.

Overall, BC Ferries' operating results for 2001/02 continued to show positive growth, with earnings of $17.4 million, up 62 per cent from the 2000/01 earnings of $10.7 million. This result is prior to an adjustment to the value of the PacifiCat fast ferries, which are held for sale.

In March 2000, the corporation and its shareholder, the Province of British Columbia, decided to sell the three aluminum catamaran ferries (PacifiCats) on the open market. The current market for these vessels is not readily determinable, as the technology in vessels of this size and capacity is relatively new, and no comparable vessels have been sold in the secondary market. During the year, a provision of $40 million was recorded to reflect revised estimates of the likely net proceeds of sale in regard to these assets. As a result of this provision, there was a net loss of $22.6 million in 2001/02 as compared to net earnings of $10.7 million in the previous year.

Revenues

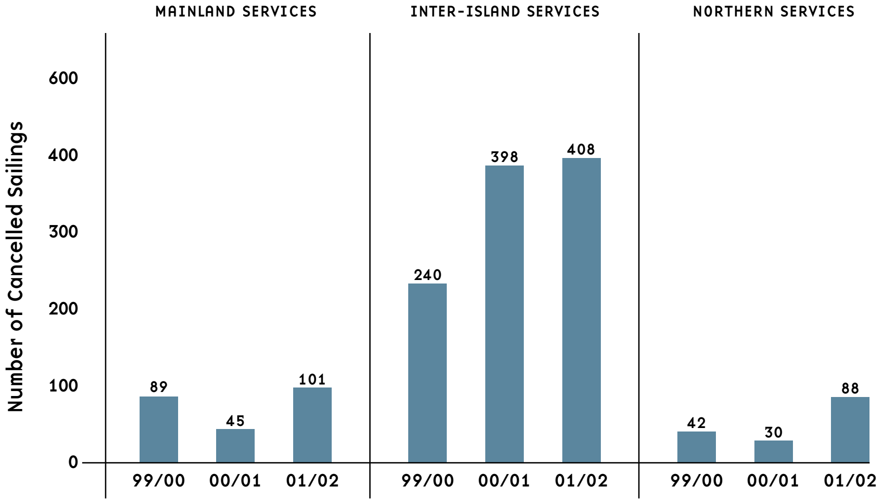
In spite of the impact of September 11, 2001 and an extended transit strike in the Lower Mainland, toll revenues increased by 4.4 per cent, from $292.8 million to $305.7 million in 2001/02. Growth was primarily the result of a fare increase and a 2.2 per cent vehicle traffic increase (offset to some extent by a 0.6 per cent decline in passenger traffic).

Revenues from catering, gift shop and vending activities increased by 4.4 per cent to $60.4 million, despite the decline in passenger traffic, reflecting a general increase in per passenger spending as well as some minor price adjustments. Other revenues from parking and miscellaneous sources total $11.6 million for 2001/02, compared with $10.8 million for 2000/01.

The federal contract provided revenues of $23.0 million for 2001/02, up 2.3 per cent from the previous year. (The annual payment increases with the Vancouver Consumer Price Index.) These funds flow to BC Ferries under a service contract for the provision of ferry services on the British Columbia coast. The provincial government subsidy is based on an allocation of 1.25 cents per litre of the provincial motor fuel tax. This provided $71.7 million, down $0.8 million, or 1.1 per cent, from the previous year, because of a decline in motor fuel consumption over the year.

Customer Services Measures

CANCELLED SAILINGS



RATIONALE/METHODOLOGY: To measure the number of cancelled sailings.

This measures the number of times during the reporting period that a scheduled sailing was cancelled. This is expressed as a percentage of the total number of sailings.

VARIANCE ANALYSIS:

The number of cancelled sailings increased on Mainland and Northern routes due to unusually severe storms in October and December and some mechanical problems on the vessel Kwuna of Northern Services.

More sheltered IIS routes were less affected by weather during the year, although high winds during the final quarter, particularly in January and March, did affect sailings on several routes in this region. Cancellations resulting from mechanical breakdowns affected IIS services provided by the vessels Kahloke, Queen of Chilliwack, Queen of Cumberland, and Quinsam.

Operating expenses

Costs for salaries, wages and benefits increased by $14.5 million, or 6.4 per cent. This reflects increases attributable to the collective agreement settlement of $3.6 million, increased training and familiarization costs of $0.8 million, a temporary increase of $1 million to reflect transition costs associated with major initiatives, and a $1.5 million overtime increase resulting from staff shortages, additional refit work and unforeseen emergencies. Other increases reflect changes to benefits. An increase of $3.1 million in superannuation costs reflects the loss of superannuation refunds given in 2001 and 2002. Time-bank and employee future benefit increases were $3.5 million and Workers' Compensation Board costs increased by $1 million.

Fuel costs for 2001/02 decreased by $5.4 million, or 10.1 per cent, to $48.0 million. This is due to lower world fuel prices, combined with some consumption savings. BC Ferries has adopted a commodity risk management program and fuel hedging strategy with a goal of reducing the financial risk associated with fuel price volatility.

Refit activity increased by $4.8 million, which caused increases in costs for both materials and supplies, and contracted services.

Amortization declined from $50.0 million to $46.1 million. This 7.9 per cent reduction reflects revised estimates in the remaining life of assets and lower-than-anticipated capital assets moving into service in the year.

Net financing expenses and loss on disposal of capital assets

Net financing expenses increased by $1.2 million, while loss on disposal of capital assets decreased by $0.6 million. The net financing increase is primarily a result of lower interest earned.

Financial risks

The operations of BC Ferries are subject to several risks that could adversely affect future financial results:

- Fuel, the second largest single cost item for BC Ferries (after labour), is completely driven by world oil prices. The volatility of fuel prices represents a significant financial risk to the corporation. In 2001/02, BC Ferries implemented a commodity risk management program and fuel hedging strategy. This program, which is tightly controlled, is designed to reduce the volatility of fuel prices and therefore reduce the financial exposure of the corporation.
- Provincial subsidy support is based on a 1.25 cent-per-litre share of the provincial motor fuel tax. Actual revenue is affected by provincial fuel consumption.
- The ability to provide transportation services is affected by the availability of federally certified shipboard navigating and engineering officers and crew. The aging labour force and the supply of new personnel with appropriate qualifications may necessitate different policies to increase the availability of qualified employees.
- The average age of the corporation's operating vessels is beyond the halfway point of average vessel lifespan, and many major vessels have been in service for more than 30 years. This has the potential to increase refit and maintenance costs as assets become older, while dependability is less certain. The current capital plan addresses the replacement of older assets, but will take several years to displace the oldest vessels.

MANAGEMENT REPORT

THE FINANCIAL STATEMENTS OF THE BRITISH COLUMBIA FERRY CORPORATION HAVE BEEN PREPARED BY management in accordance with accounting principles that are appropriate for the corporation and generally accepted in Canada. A precise determination of many assets and liabilities is dependent upon future events and consequently the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The accompanying consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information used in preparing financial statements is reliable. Internal auditors monitor the system of internal control and the corporation's external auditors also independently perform such tests of the system as they consider necessary for the purpose of expressing their opinion on the financial statements.

Management is responsible for all of the information in this annual report. Financial information presented elsewhere in this annual report is consistent with that contained in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board exercises this responsibility through the Audit Committee of the board. This committee, which is comprised entirely of outside directors, meets with management, the internal auditors and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Bob Lingwood
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Robert P. Clarke, CGA
VICE PRESIDENT FINANCE AND CORPORATE SERVICES

AUDITORS' REPORT

AUDITORS' REPORT TO THE LIEUTENANT-GOVERNOR IN COUNCIL, PROVINCE OF BRITISH COLUMBIA

We have audited the consolidated balance sheets of British Columbia Ferry Corporation as at March 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
Victoria, Canada

April 26, 2002

CONSOLIDATED BALANCE SHEETS MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,520	$ 8,220
Accounts receivable and prepaid expenses	16,242	18,641
Inventories	18,248	16,849
	52,010	43,710
Capital assets (Note 2)	624,224	655,938
	$ 676,234	$ 699,648
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 42,147	$ 43,366
Accrued employee costs	38,409	35,765
Advance ticket sales	10,029	10,774
Current portion of long-term obligations	2,926	2,688
	93,511	92,593
Deferred employee obligations (Note 3)	17,906	16,704
Obligations under capital leases (Note 4)	15,704	18,616
	127,121	127,913
Shareholder's equity:		
Share capital (Note 5)	6,851	6,851
Contributed surplus (Note 6)	554,170	554,170
Retained earnings (deficit)	(11,908)	10,714
	549,113	571,735
Contingent liabilities (Note 13)		
	$ 676,234	$ 699,648

See accompanying notes to consolidated financial statements.

On behalf of the board:

David Emerson
Chair

Mark Cullen
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

	2002	2001
Revenue:		
Tolls	$ 305,710	$ 292,806
Catering and other revenues	72,004	68,689
Federal operating contract (Note 7)	22,953	22,438
Motor fuel tax subsidy	71,706	72,519
	472,373	456,452
Expenses:		
Salaries, wages and benefits	241,617	227,081
Fuel	48,047	53,453
Contracted services	40,995	39,598
Materials and supplies	24,849	23,375
Cost of catering goods sold	22,479	21,915
Other operating expenses (Note 8)	21,437	20,463
Insurance, taxes and utilities	7,901	8,786
Amortization	46,056	50,029
	453,381	444,700
Earnings from operations	18,992	11,752
Interest income	875	1,895
Interest expense	(1,757)	(1,583)
Loss on disposal of capital assets	(732)	(1,350)
Earnings before write-down of high-speed ferries	17,378	10,714
Provision for write-down of high-speed ferries (Note 10)	(40,000)	–
Net earnings (loss)	(22,622)	10,714
Retained earnings (deficit), beginning of year	10,714	(9,071)
Transfer from contributed surplus (Note 6)	–	9,071
Retained earnings (deficit), end of year	$ (11,908)	$ 10,714

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

	2002	2001
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (22,622)	$ 10,714
Items not involving cash:		
Amortization	46,056	50,029
Other non-cash charges	41,911	3,348
Change in non-cash operating working capital	1,448	1,130
	66,793	65,221
Financing:		
Payments on long-term debt	–	(318)
Payments under capital lease obligations	(2,688)	(2,528)
	(2,688)	(2,846)
Investing:		
Expenditures on ships	(7,231)	(25,018)
Proceeds from sale of ships	–	629
Expenditures on other capital assets	(47,619)	(31,586)
Proceeds on sale of other capital assets	45	827
	(54,805)	(55,148)
Increase in cash	9,300	7,227
Cash and cash equivalents, beginning of year	8,220	993
Cash and cash equivalents, end of year	$ 17,520	$ 8,220

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

British Columbia Ferry Corporation (the "corporation") was incorporated under the Ferry Corporation Act on June 30, 1976, and its primary business activity is the provision of ferry services in British Columbia. The Minister of Finance holds the shares of the corporation as representative of Her Majesty the Queen in Right of the Province of British Columbia.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

As required in Section 8(7) of the Ferry Corporation Act, the consolidated financial statements of the corporation are prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiary, Catamaran Ferries International Inc. ("CFI"). All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents comprise cash and all investments that are highly liquid in nature and generally have a maturity date of one year or less.

(c) Inventories:

Inventories, which consist of materials and supplies, catering stores and fuel are valued at the lower of weighted-average cost and current replacement cost.

(d) Capital assets:

The costs of major replacements, additions, extensions and improvements, including direct overhead and financing costs are capitalized in the accounts. The costs of maintenance, repairs, refit and minor renewals or replacements are expensed as incurred.

Capital assets, including assets under capital leases, are amortized using the straight-line method based upon the useful lives of the assets as determined by the corporation:

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

ASSET CLASS	ESTIMATED USEFUL LIFE
Ship hulls	20 to 40 years
Ship propulsion and utility systems	20 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 year

(e) **Revenue recognition:**

Toll revenue is recognized when transportation is provided. The value of pre-sold vouchers is included in the balance sheets as advance ticket sales.

The proceeds from the ongoing dedication of taxes collected under the Motor Fuel Tax Act are recorded in income as an operating subsidy.

(f) **Contributed surplus:**

Contributed surplus represents the difference between the recorded value of certain assets received from the Province of British Columbia in prior years and their cost to the corporation, plus the amount of debt transferred to the Province in 1999/00. The carrying amount was reduced as at March 31, 2000 by the elimination of the accumulated deficit of the corporation and, subsequently, in 2001 upon the retroactive implementation of accounting for employee future benefits.

(g) **Employee future benefits:**

The corporation and its employees contribute to the Public Service Pension Plan. The Pension Corporation of the Province of British Columbia administers the Plan, including the payment of retirement and post-employment benefits on behalf of employers. The Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The most recent actuarial evaluation has determined that the Plan is in a surplus position. All employee future benefits funded through the Plan are accounted for prospectively.

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

In addition, eligible employees are entitled to specific retirement benefits as provided for under the collective agreement and terms of employment. The corporation accrues the future obligation for these benefits over the employees' expected term of service. During the year, an expense of $2.2 million (2001 - $1.4 million) was recorded in relation to these retirement benefits. Actuarial valuations were obtained for certain of the future benefit liabilities.

(H) **USE OF ESTIMATES:**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates are the valuation of assets held for resale, the economic life of assets and the corresponding period of amortization, and the valuation of employee future benefits. Actual results could differ from these estimates.

2. CAPITAL ASSETS:

2002	Cost	Accumulated Amortization	Net Book Value
Ships owned	$ 684,888	$ 399,234	$ 285,654
Ships under capital lease	49,759	29,937	19,822
Berths, buildings and equipment	411,416	222,931	188,485
Land	25,406	–	25,406
Assets held for resale and construction-in-progress	104,857	–	104,857
	$ 1,276,326	$ 652,102	$ 624,224

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

2. CAPITAL ASSETS: (CONTINUED)

2001	Cost	Accumulated Amortization	Net Book Value
Ships owned	$ 685,972	$ 376,783	$ 309,189
Ships under capital lease	49,455	27,906	21,549
Berths, buildings and equipment	386,341	222,391	163,950
Land	25,406	-	25,406
Assets held for resale and construction-in-progress	135,844	-	135,844
	$ 1,283,018	$ 627,080	$ 655,938

The three aluminum catamaran ferries are held for resale and included in assets held for resale and construction-in-progress. In addition to the construction in progress referenced above, contractual commitments for capital assets under construction at March 31, 2002 totalled $21.0 million (2001 - $31.4 million).

3. DEFERRED EMPLOYEE OBLIGATIONS:

	2002	2001
Accrued sick leave liability	$ 1,579	$ 1,903
Workers' compensation claims liability	5,094	5,087
Employee future benefits	11,233	9,714
	$ 17,906	$ 16,704

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

4. OBLIGATIONS UNDER CAPITAL LEASES:

The corporation has obligations under capital leases for the M.V. Queen of Surrey. Total future minimum lease payments are as follows for fiscal years ending in:

	2002	2001
2002	$ –	$ 4,486
2003	4,486	4,486
2004	4,486	4,486
2005	4,486	4,486
2006	5,627	5,627
2007 and later years	4,512	4,512
	23,597	28,083
Less interest at average implicit rates of 8.7%	4,916	6,715
Net present value of lease obligations	18,681	21,368
Less:		
Current portion	2,926	2,688
Deferred charges	51	64
	$ 15,704	$ 18,616

The Province of British Columbia guarantees the obligation under capital lease for the M.V. Queen of Surrey.

The corporation also has an obligation under capital lease for the M.V. Queen of Oak Bay. The $28.1 million (2001 - $31.1 million) obligation is fully offset by a debenture from the Province of British Columbia. The debenture and the capital lease mature in December 2006.

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

5. SHARE CAPITAL:

	2002	2001
Authorized:		
1,000,000 Shares without par value with a maximum consideration of $100,000,000		
Issued:		
68,512 Shares	$ 6,851	$ 6,851

6. CONTRIBUTED SURPLUS:

In 2001 a transfer to retained earnings of $9.1 million was recorded for the effect of a change in accounting policy for the retroactive recording of employee future benefits.

7. FEDERAL OPERATING CONTRACT:

The corporation received revenue from the Government of Canada of $23.0 million (2001 - $22.4 million) pursuant to a contract for the provision of ferry and coastal freight and passenger services in the waters of British Columbia.

8. OTHER OPERATING EXPENSES:

	2002	2001
Travel, selling and other	$ 10,639	$ 10,168
Advertising and professional	3,453	2,753
Communications and computer	7,345	7,542
	$ 21,437	$ 20,463

9. RISK MANAGEMENT:

(a) Fuel management:

The corporation manages its exposure to vessel fuel price volatility by entering into forward contracts with certain financial intermediaries executed by the Ministry of Finance and Corporate Relations on behalf of the corporation. Fuel hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Gains and losses resulting from the contracts are recognized as a component of fuel expense. Contracts for the forecasted fuel requirements are entered for terms of up to 3 years forward. As at March 31, 2002 the corporation has effectively hedged approximately 22% of its projected fuel requirements for fiscal 2002/03 and had hedged approximately 44% of the fuel consumed during the past year.

(b) Credit and interest rate risk:

The corporation does not believe it is subject to any significant concentration of credit risk. Most of the corporation's receivables result from tickets sold to passengers through the use of major credit cards. These receivables are short-term, generally being settled shortly after sale. The corporation manages the credit exposure related to financial instruments by utilizing the Ministry of Finance and Corporate Relations to execute contracts, by selecting credit-worthy counter-parties and by limiting its exposure to a single counter-party.

In concert with the Ministry of Finance and Corporate Relations, the corporation may enter into interest rate agreements to manage its exposure on debt instruments.

(c) Fair value of financial instruments:

The carrying amounts of accounts receivable, accounts payable and accrued liabilities at March 31, 2002 approximate their fair value due to their short-term nature to maturity.

The fair value of obligations under capital lease at March 31, 2002 was $20.6 million (2001 - $23.9 million).

YEARS ENDED MARCH 31, 2002 AND 2001 (EXPRESSED IN THOUSANDS)

10. PROVISION FOR WRITE-DOWN OF HIGH-SPEED FERRIES:

In March 2000, the corporation and its shareholder, the Province of British Columbia, decided to sell the three aluminum catamaran ferries on the open market. The current market for these vessels is not readily determinable as the technology in vessels of this size and capacity is relatively new, and no comparable vessels have been sold in the secondary market. Canadian generally accepted accounting principles require that a write-down should be recorded in the financial period in which the need for the write-down is identified. During the year, a provision of $40 million was recorded to reflect revised estimates of the likely net proceeds of sale in regard to these assets. The eventual recovery cannot be accurately determined and may differ materially from the amount estimated.

11. RELATED PARTY TRANSACTIONS:

The corporation utilizes Crown land for terminals and highway access without the payment of rent or property taxes. The corporation makes payments to municipalities in lieu of property taxes for terminals located within municipal boundaries.

The corporation engages in transactions with other provincial government agencies, departments and Crown corporations, notably British Columbia Hydro and Power Authority, British Columbia Buildings Corporation and Information Technology Services Division of the Ministry of Finance and Corporate Relations, on normal commercial terms.

In addition, the corporation receives, by way of provincial legislation, a motor fuel tax subsidy whereby the corporation receives 1.25 cents per litre of the Provincial Motor Fuel Tax.

12. SUPPLEMENTAL CASH FLOW INFORMATION:

	2002	2001
Cash paid during the year for interest	$ 2,413	$ 2,356

13. CONTINGENT LIABILITIES:

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

14. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

British Columbia Ferry Corporation
Fleet House
1112 Fort Street
Victoria, British Columbia V8V 4V2

Telephone: (250) 381-1401

Facsimile: (250) 381-5452
(Individual sites and offices may have their own facsimile lines.)

Web site: http://www.bcferries.com

Reservations: (250) 386-3431 (in Victoria)

Or toll-free from anywhere in British Columbia
1-888-BCFERRY (1-888-223-3779)

Auditors

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone: (250) 480-3500

Facsimile: (250) 480-3539

Web site: www.kpmg.ca

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