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

For the fiscal year ended
March 31, 2017

Dated June 28, 2017

Table of Contents

BCFerries

Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the year ended March 31, 2017
Dated June 28, 2017

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries") for the year ended March 31, 2017. This discussion and analysis has been prepared with information available as of June 28, 2017, and should be read in conjunction with our audited consolidated financial statements and related notes for the years ended March 31, 2017 ("fiscal 2017") and March 31, 2016 ("fiscal 2016"). These documents are available on SEDAR at www.sedar.com and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

British Columbia Ferry Services Inc. is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service, with 34 vessels operating on 24 routes out of 47 terminals spread over 1,600 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.

We provide a wide range of ferry services for our customers. During fiscal 2017, we provided over 172,000 sailings, an average of 470 each day. We carried 8.3 million vehicles and 21.0 million passengers, an increase of 2.9% and 1.7%, respectively, compared to the prior year, contributing to BC Ferries' strong financial performance. The vehicle and passenger traffic levels experienced in fiscal 2017 are the highest since fiscal 2008. For a discussion of our traffic levels, see "Financial and Operational Overview" below.

Significant events during or subsequent to fiscal 2017 include the following:

Tariff

- On April 1, 2016, we implemented average tariff increases of 1.9% as allowed by the British Columbia Ferries Commissioner(the "Commissioner") . Also on April 1, 2016, due to lower fuel prices, coupled with the fact that we had, through our fuel hedging program, locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017, we implemented a fuel rebate of 1.9% on the Northern Routes and increased fuel rebates from 1.0% to 2.9% on our Major and regulated Other Routes.

- On April 1, 2017, we implemented average tariff increases below those allowed by the Commissioner. Average vehicle fares were increased by 1.9% on three of the Major Routes: Tsawwassen to Swartz Bay, Tsawwassen to Duke Point and Horseshoe Bay to Departure Bay. No increase in passenger fares was implemented on these routes. No increases on vehicle or passenger fares were implemented on the regulated Other Routes, the Northern Routes or the Horseshoe Bay to Langdale route. Also on April 1, 2017, we announced reductions in reservation fees.

Vessels

- On May 17, 2016, we finalized the sale of the 52-year old *Tenaka* to Lady Rose Marine Services of Port Alberni, BC.

- On March 14, 2017, the Government of Canada approved funding under the New Building Canada Fund toward the purchase of two new minor class vessels. On March 21, 2017, the Government of Canada approved funding towards a major upgrade of our Langdale terminal, improvements at several other terminals and the purchase and refurbishment of a used vessel to be used to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola. In total, up to $60 million in funding under the New Building Canada Fund has been approved.

- On April 7, 2017, we finalized an agreement to acquire a 75-metre vessel with ownership to transfer in August 2017. The vessel, built in 2000, will accommodate approximately 35 vehicles and 150 passenger and crew and will be deployed on the mid-coast. On April 5, 2017, in response to our application, the Commissioner issued Order 17-03, in which he confirmed his determination that the capital expenditure for the acquisition and modification of a used vessel to be used to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications, is reasonably required. Also on April 5, 2017, after the Order was issued, the Province announced it will contribute an initial $15 million towards the purchase and operation of the vessel. On March 8, 2017, we executed an amendment to the CFSC with the Province to include the new route as a designated route.

- On April 13, 2017, we executed a design and build $60 million contract with Damen Shipyard Group of Netherlands for the construction of two minor class vessels. This contract became effective on May 17, 2017. These vessels will each have a capacity of up to 300 passengers and approximately 44 vehicles. When these new vessels are placed into service, it will allow us to retire the 59-year old *North Island Princess* and the 53-year old *Howe Sound Queen*. We intend to deploy the first new vessel to provide service from Powell River to Texada Island and the second new vessel to provide service from Port McNeill to Alert Bay and to Sointula. On February 27, 2017, the Commissioner issued Order 17-01 and confidential Order 17-01A, conditionally approving our application for a major capital expenditure to acquire these two new minor class vessels.

- On April 26, 2017, we received $1.5 million from FortisBC Energy Inc., the third payment towards a total contribution of $6 million as part of the Natural Gas for Transportation ("NGT") incentive funding. We previously received $2.3 million on March 7, 2017 and $1.5 million in fiscal 2015. The last payment of $0.7 million is expected to be received during fiscal 2018. The contribution is dependent upon the purchase of at least 3 million gigajoules of liquefied natural gas ("LNG") over a 10-year period. The NGT incentive funding will be applied towards the purchase of the three new Salish Class vessels. These vessels are dual-fuel capable and will run predominantly on LNG with marine diesel as a backup. We believe this will result in the reduction of carbon dioxide emissions and operating cost savings.

- On May 16, 2017, our first Salish Class vessel, the *Salish Orca,* commenced regularly scheduled service between Comox and Powell River. The *Salish Orca* replaced the 52-year old *Queen of Burnaby*.

- On June 1, 2017, we entered into a five-year supply agreement for the maintenance of eight of our minor vessels. We have approximately 20 scheduled dry-dockings for the minor vessels over the next five years and this strategic partnership ensures a local and secure supply of services.

- On June 7, 2017, our third Salish Class vessel, the *Salish Raven,* arrived in British Columbia after its 38 day, 10,440 nautical mile journey from Gdansk, Poland. On June 13, 2017, we signed the Protocol of Delivery and Acceptance with Remontowa Shipbuilding S.A. and ownership of the vessel transferred to us. The *Salish Raven* is expected to provide service to the Southern Gulf Islands.

- On June 21, 2017, our second Salish Class vessel, the *Salish Eagle*, commenced regularly scheduled service on the Tsawwassen – Southern Gulf Island route. The *Salish Eagle* will replace the 53-year old *Queen of Nanaimo*.

Financing

- On November 22, 2016 and November 25, 2016, we drew a total of $45 million under our export loan agreement with KfW IPEX-Bank GmbH, to coincide with the contract payment schedule for the *Salish Orca*. This export loan agreement allows 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. The net proceeds from the loan were used to partially finance the purchase of the *Salish Orca*. (See "Liquidity and Capital Resources" below for more detail.)

- On February 9, 2017 and on February 17, 2017, we drew a total of $45 million under our export loan agreement with KfW IPEX-Bank GmbH, to coincide with the contract payment schedule for the *Salish Eagle*. The net proceeds from the loan were used to partially finance the purchase of the *Salish Eagle*. (See "Liquidity and Capital Resources" below for more detail.)

- On April 28, 2017 and on May 4, 2017, we drew the final $45 million under our export loan agreement with KfW IPEX-Bank GmbH, to coincide with the contract payment schedule for the *Salish Raven*. The net proceeds from the loan were used to partially finance the purchase of the *Salish Raven*. (See "Liquidity and Capital Resources" below for more detail.)

General

- On April 1, 2016, certain amendments to the Coastal Ferry Services Contract ("CFSC") became effective. These amendments included the establishment of ferry transportation fees for performance term four ("PT4"), being the four-year period ending on March 31, 2020, and changes in the structure for the funding of BC seniors' discounts.

- On September 6, 2016, the Commissioner issued Order 16-01. Order 16-01, which supersedes Order 11-01, Confidential Order 11-01A and Memorandum 42, discontinued the Minimum Allowed Average Tariff ("MAAT") for our drop-trailer services effective that date. The order requires submission of quarterly reports to the Commissioner, which are to include information on the revenues and the direct and indirect costs associated with the drop-trailer service. (See "Economic Regulatory Environment" below for more detail.)

- On September 21, 2016, the Commissioner approved updated capital cost estimates for our Fare Flexibility and Digital Experience Initiative, a new system to manage fares and provide customers with a modernized website and e-commerce platform with greater online functionality and booking options.

- On November 1, 2016, we announced the launch of an initiative that brings together our existing environmental activities, conservation efforts, community investments and new sustainability endeavours under a single program called SeaForward. (See "Safety and Environment" below for more detail.)

- On February 10, 2017, our Board announced the appointment of Mark F. Collins as President and CEO effective April 1, 2017. A senior marine executive for the past 20 years, Mr. Collins' experience includes roles as the President of Rolls Royce Marine Brazil and Italy and Vice President of Global Technical Services, CSL Group. Mr. Collins was previously Vice President of Strategic Planning & Community Engagement at BC Ferries, and was the Vice President, Engineering between 2004 and 2012. Our former President and CEO, Mike Corrigan, stepped down on March 31, 2017.

Coastal Ferry Services Contract

We operate ferry services under a regulatory regime established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the CFSC between BC Ferries and the Province. This 60-year services contract, 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 also receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Consumer Price Index ("CPI") (Vancouver).

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 three ("PT3") commenced April 1, 2012 and ended on March 31, 2016. PT4 commenced April 1, 2016 and ends on March 31, 2020.

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 primary responsibility of the Commissioner is to regulate ferry operators in such a way as to balance the interests of ferry users, taxpayers and the financial sustainability of the ferry operators. 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 to be submitted prior to the start of PT4 setting out our strategies for fuel procurement, minimizing fuel consumption and the transition to alternate fuels during PT4;
    - On March 30, 2016, we submitted our fuel management plan to the Commissioner. The plan 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 (reduced from 99.0 cents per litre in fiscal 2015) in the first year of PT4;
- Establishment of the set price per litre at 46.4 cents for LNG in the first year of PT4; 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 set price per litre is a required input into the calculation of fuel surcharges or rebates.)

In addition, the Commissioner reset the price caps to an index level of 100 as of April 1, 2016 based on the weighted average tariffs that existed as at March 31, 2016. The price cap compliance calculation for PT4 was adjusted from the price cap compliance calculation for PT3 by:

- Combining reservation fee revenue with vehicle revenue at the beginning of PT4. The new advance purchase model outlined in the Fare Flexibility and Digital Experience Initiative will effectively eliminate separate reservation fees and, instead, reservations will be included in variable priced fare products;
- Addressing the impact of the elimination of the funding for BC seniors' discounts in PT4 by recalibrating the seniors' base price level; and
- Setting the opening PT4 price compliance index equal to the price cap underage at the end of PT3.

Effective April 1, 2014, we implemented the Province's decision to amend its program to reduce the passenger fare discount from 100% to 50% for BC seniors travelling Mondays through Thursdays on the Major and regulated Other Routes. The CFSC was amended to establish the maximum annual amount payable by the Province in respect of senior discounts. The amounts reflected an estimate of what the Province would have paid if there had been no change in the level of senior discounts. To the extent these funds were not required for the reimbursement of discounts provided to BC seniors under the amended policy, the excess was directed to the ferry transportation fees and allocated to the regulated Northern and Other Routes. Effective April 1, 2016, the CFSC was amended to discontinue direct funding of the seniors' discount and direct the maximum annual amount payable by the Province entirely to ferry transportation fees.

It was 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 back to the structure that was in place at March 31, 2013. The structure at that time was comprised of three individual route groups, being the Major Routes, Northern Routes and Minor Routes.

Our drop-trailer services have been regulated by Commissioner's Order 11-01 and Memorandum 42, by way of a MAAT, since April 1, 2011. Under this order, when we reached a certain volume of drop-trailer traffic, or at the discretion of the Commissioner, the MAAT would be reset in light of experience with actual costs and drop-trailer traffic volumes. We reached this volume during fiscal 2016 and, on September 6, 2016, the Commissioner issued Order 16-01 which supersedes Order 11-01, Confidential Order 11-01A and Memorandum 42. The Commissioner determined that, as we are not pricing our drop-trailer service below cost and do not have any unfair competitive advantages in providing this service, the Commissioner is not authorized by the Act to set a MAAT. Order 16-01 discontinued the MAAT effective September 6, 2016, and established new reporting requirements intended to enable the Commissioner to confirm that, in the future, we are not pricing our drop-trailer service below cost.

On September 21, 2016, the Commissioner issued Order 16-02 and confidential Order 16-02A, approving our supplemental application for our Fare Flexibility and Digital Experience Initiative, reflecting updated capital cost estimates for the initiative.

On February 27, 2017, the Commissioner issued Order 17-01 and confidential Order 17-01A, conditionally approving our application for a major capital expenditure to acquire two new minor class vessels. These vessels will each have the capacity to carry approximately 44 vehicles and 300 passengers and our intent is to deploy the first new vessel to provide service from Powell River to Texada Island and the second new vessel to provide service from Port McNeill to Alert Bay to Sointula.

On March 2, 2017, the Commission issued Order 17-02, which supercedes Order 12-04, establishing the criteria for determining major capital expenditures which require advance approval from the Commissioner.

On April 5, 2017, the Commissioner issued Order 17-03, in which he confirmed his determination that the capital expenditure for the acquisition and modification of a used vessel to be used to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications, is reasonably required.

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

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. The Commissioner may, in extraordinary situations, 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 International Accounting Standards Board ("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. While these items are treated as assets and liabilities for regulatory purposes, 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 for financial reporting purposes.

Because 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. Reporting for rate-regulated activities provides additional information which we use to assess performance and to make operating decisions.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the regulatory assets at March 31, 2017 will be recovered in the future. Regulatory assets and liabilities are considered supplemental disclosures and are detailed in note 27 to our March 31, 2017 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, 2017 and 2016 would be as follows:

($ millions)		Three months ended March 31		Years ended March 31	
		2017	**2016**	**2017**	**2016**
Net (loss) earnings		(40.8)	(30.0)	77.4	69.6
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs (a)					
Fuel costs under set price	Operations expense	(2.0)	(4.7)	(7.6)	(11.0)
Fuel rebates	Fuel rebates	3.3	1.3	18.1	6.4
Payments from the Province	Ferry service fees	-	(0.2)	0.1	(1.1)
		1.3	(3.6)	10.6	(5.7)
Tariffs in excess of price cap (b)					
Obligation (incurred) settled during the period	Vehicle and passenger fares	-	-	-	1.0
Performance term submission costs (c)					
Amortization	Depreciation and amortization expense	-	-	-	(0.1)
Increase (decrease) in total net earnings		1.3	(3.6)	10.6	(4.8)
Adjusted net (loss) earnings		(39.5)	(33.6)	88.0	64.8

(a) 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. Also, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time which are applied against deferred fuel cost account balances. We may also receive payments from the Province to be applied against deferred fuel cost account balances.

(b) Tariffs in excess of price cap: The Act contains provisions which ensure that, if the average of tariffs we charge exceeds the established price cap, the excess amounts collected will be returned to customers through future tariffs. Average tariffs charged did not exceed price caps at March 31, 2017.

(c) Performance term submission costs: Costs for incremental contracted services relating to PT3. Our regulator approved recovery of these costs over PT3, which ended on March 31, 2016.

FINANCIAL AND OPERATIONAL OVERVIEW

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

($ millions)	Years ended March 31		
	2017	**2016**	**2015**
Total revenue	859.3	834.6	808.7
% increase	*3.0%*	*3.2%*	*5.1%*
Operating expenses	726.2	709.0	690.1
Operating profit	133.1	125.6	118.6
Net finance and other	55.7	56.0	69.5
Net earnings	77.4	69.6	49.1
Other comprehensive gain (loss)	14.6	(23.8)	(10.0)
Total comprehensive income	92.0	45.8	39.1
	As at March 31		
Total assets	2,046.9	1,899.3	1,856.6
Total long-term financial liabilities	1,340.4	1,281.0	1,305.7
Dividends on preferred shares	6.0	6.0	6.0

Our net earnings in fiscal 2017 were $77.4 million, $7.8 million higher than in fiscal 2016. The increase in fiscal 2017 net earnings compared to fiscal 2016 net earnings reflects the effects of higher traffic levels, higher retail sales, higher net ferry transportation fees and social program fees and lower financing costs, partially offset by operating cost increases mainly due to increases in wages and benefits (See “Expenses” below for more detail).

Our total comprehensive income in fiscal 2017 was $46.2 million higher than in fiscal 2016. The other comprehensive gain of $14.6 million in fiscal 2017 reflects a $12.1 million gain for the change in the fair value of our fuel swap contracts, a $3.7 million gain on the revaluation of our land and a $0.3 million gain on the actuarial valuation of our workers’ compensation benefit plan, partially offset by a $1.5 million loss on the actuarial valuation of our retirement and death benefit plans.

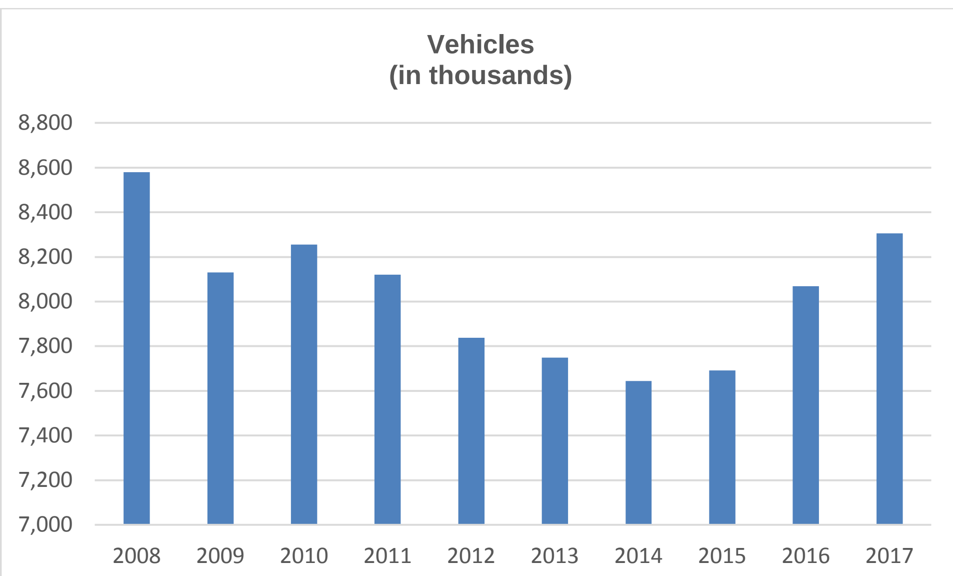
Our total comprehensive income in fiscal 2016 was $6.7 million higher, and net earnings were $20.5 million higher than in fiscal 2015. The increase in fiscal 2016 net earnings is due primarily to higher revenues, and lower financing costs, partially offset by higher asset depreciation and higher operating costs. The net earnings in fiscal 2015 included impairment costs of $9.1 million. The other comprehensive loss of $23.8 million in fiscal 2016 reflects a $24.2 million loss for the change in the fair value of our fuel swap contracts, partially offset by a $0.4 million gain on the revaluation of our land.

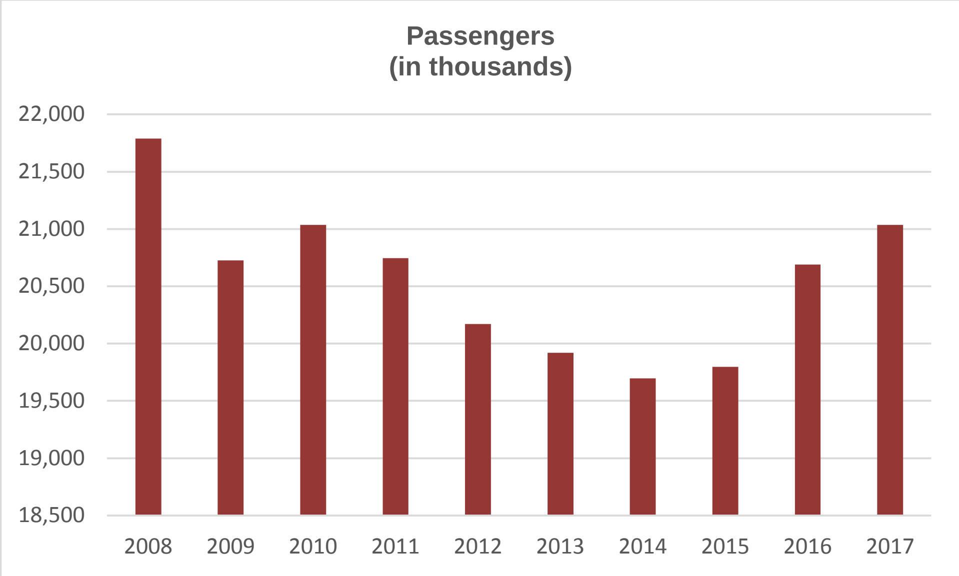
Traffic
In fiscal 2017, we experienced a 2.9% increase in vehicle traffic and a 1.7% increase in passenger traffic compared to fiscal 2016. These traffic levels are the highest we have experienced since fiscal 2008.

In fiscal years 2009 through 2014, we experienced a decline in traffic due to economic uncertainty, the Canadian dollar near parity with the US dollar, and low economic growth which negatively impacted our commercial and discretionary travel markets. Beginning late in fiscal 2015, we began to experience an increase in traffic which we believe was mainly due to the lower Canadian dollar, lower fuel prices and a general increase in tourism and other economic activity. In fiscal 2015, we experienced growth of 0.6% in vehicle traffic and 0.5% in passenger traffic compared to fiscal 2014 and in fiscal 2016, we experienced a 4.9% increase in vehicle traffic and a 4.5% increase in passenger traffic compared to fiscal 2015.

In fiscal 2017, traffic continued to be favourably impacted by a lower Canadian dollar, increases in tourism and general economic activity in British Columbia. Traffic was negatively impacted by more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year. There were no Easter holiday weekends falling in fiscal 2017 while traffic levels were positively impacted in fiscal 2016 by two Easter holiday weekends. In addition, we offered a variety of pricing promotions throughout the fiscal year. 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 compared to the prior year. The promotions are described in the following Major, Northern and Other Route sections.

The following graphs illustrate our annual vehicle and passenger traffic levels from fiscal 2008 through fiscal 2017:





Cost Containment and Labour Relations

We continue to take proactive measures to contain and manage our expenses as prudently as possible without compromising safe operations.

Wages, benefits and fuel costs are our largest expense, representing approximately 77% of total operations, maintenance and administration costs in fiscal 2017. These costs are somewhat variable, driven mainly by the level of service. The remaining costs are discretionary and, to some extent, more controllable. These costs have decreased 1.5% from fiscal 2016. We continuously review all operational costs for efficiencies (See "Expenses" below for more detail).

The majority of our employees are members of the BC Ferry and Marine Workers' Union. In fiscal 2016, we announced the ratification of a Memorandum of Agreement that was reached on October 30, 2015 with the Union. 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 new 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.

Our cable ferry, the *Baynes Sound Connector* is an innovative initiative and is part of our ongoing efforts to identify and pursue opportunities that have the potential to enhance our ability to reduce our environmental footprint and improve our cost effectiveness in delivering sustainable, safe, reliable and quality ferry service. The *Baynes Sound Connector* achieved its one-year anniversary of regularly scheduled service in the last quarter of fiscal 2017. The cable ferry consumes 50% less fuel compared to the previous vessel providing the service, resulting in reduced fuel costs of approximately $0.2 million in fiscal 2017 as compared to fiscal 2016.

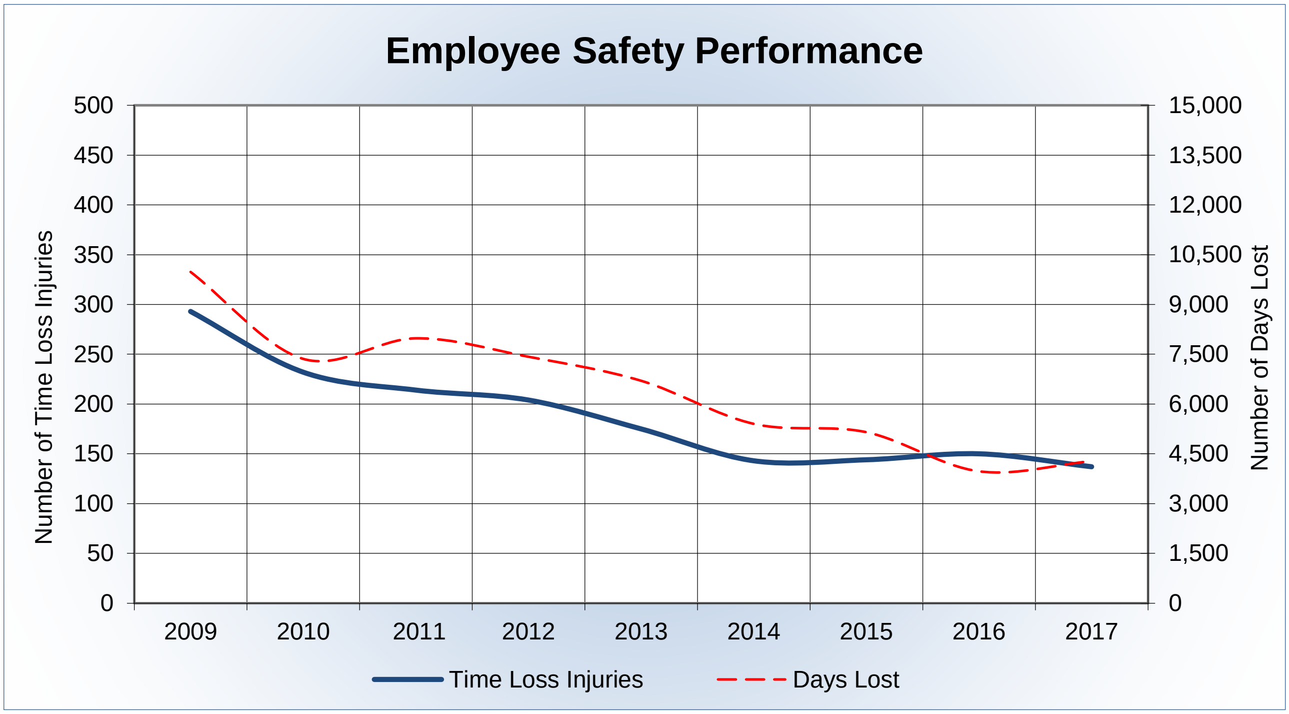
Safety and Environment

We are dedicated to the safety and well-being of customers and employees, which includes responding to medical incidents such as passenger illnesses and injuries. We have more than 800 employees who, in addition to their normal duties, are trained as Occupational First Aid Attendants. We now have 34 of our 47 terminals equipped with automated external defibrillators (AEDs) that can be used in the event of a medical emergency. The location of all the devices is registered with the BC Public Access to Defibrillation Program so that in the event of a 911 call from a site, the dispatcher will be able to direct the caller to the location of the AED. We also respond to requests from BC Ambulance Service that range from assembling a crew to make unscheduled sailings for medical patients to holding a vessel in dock or turning one around for medical emergencies.

Our SailSafe program, which is designed to achieve world class safety performance, embodies safety as a normal part of all business activities and is an integral part of our culture. SailSafe is driven by our employees, who play a vital part in identifying areas and methods for enhancing current safety practices. In addition to their normal duties, over 400 employees are also engaged 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.

Our investments in safety have yielded significant positive results. Injuries to passengers continue to decline. In fiscal 2017, we carried 21.0 million passengers and had a 12.9% decrease in passenger injuries compared to fiscal 2016. Our total passenger injuries were 202, an injury rate of .00001% or 9.6 injuries per one million passengers carried for the fiscal year. Since 2009, the number of injuries to passengers has been reduced by 57%. The number of injuries per 1 million passengers for fiscal years 2009 through 2017 are below:

Time loss injuries to employees decreased from 150 in fiscal 2016 to 137 in fiscal 2017. Since 2009, the number of time loss injuries we experience each year has dropped from over 293 to 137 and the number of days lost due to injury has declined by almost 6,000 per year. The results for fiscal 2009 through fiscal 2017 are below:



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. A COR requires recertification every three years. As a result of receiving the COR, WorkSafeBC provided us with rebates of approximately $0.6 million on each of our 2013, 2014 and 2015 assessed premiums. During fiscal 2017, we completed the process of renewing the COR by engaging an independent external consultant to do a recertification audit. The audit resulted in a 90% score in Health and Safety and 95% score in Injury Management. In the first quarter of fiscal 2018, we expect to receive confirmation of renewal of the COR for another three years. We also expect to see continuing rebates from WorkSafeBC.

In addition to the COR rebate and effective for January 1, 2017, WorkSafeBC reduced our premium rate from $1.96 to $1.15 per $100 of assessable payroll. This represents approximately $2 million in premium savings per year and is a result of our SailSafe program and its focus on safety and reducing time loss injuries.

We are also dedicated to safeguarding the environment. We have training programs in place that include training our staff in environmental awareness and first response to an oil spill and we conduct regularly scheduled oil spill drills on our vessels and at our terminals. We monitor all environment spills and, in fiscal 2017, immediately addressed 12 minor environmental incidents compared to 20 in the prior year. Our aging vessels can experience mechanical issues from time-to-time that may result in small oil leaks. The *Queen of Burnaby* has experienced persistent problems with the seal around the propeller shaft which has resulted in the vessel being removed from service several times in the last two years. The 52-year old *Queen of Burnaby* has been replaced by the *Salish Orca* and the 53-year old *Queen of Nanaimo* will be replaced in 2017 by the *Salish Eagle*. The 53-year old *Howe Sound Queen* and the 59-year old *North Island Princess* are in our capital plan to be replaced in 2020.

On November 1, 2016, we announced the launch of an initiative that brings together our existing environmental activities, conservation efforts, community investments and new sustainability endeavours under a single program called SeaForward. Our three key initiatives in the first year of the program include increasing composting and recycling, the tracking of whale sightings in association with the BC Cetacean Sightings Network, and our employees actively participating in the Great Canadian Shoreline Clean-up.

We joined Green Marine in late 2014 and were certified by an independent verifier in May 2015. Green Marine is a globally recognized and voluntary industry sustainability initiative for ship operators, ports, terminals and shipyards. Earlier this year, we were recognized by Green Marine as having achieved significant year-over-year improvement when evaluated against their management performance indicators. For 2017, Green Marine has established underwater noise as a key performance indicator. 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.

We partnered with 3GA Marine, Clearlead Consulting and Panevo Services in the development and demonstration of an energy optimization software tool on the *Queen of Oak Bay*. The tool collects electricity data from more than 20 areas on the vessel and provides generator metrics that allow us to manage energy usage. The benefits of this energy initiative are a reduction in fuel consumption, cost and associated carbon emissions, as well as improved asset life and reduced maintenance costs.

The Maritime Museum of B.C. announced BC Ferries as a recipient of the 2016 SS Beaver Award. The SS Beaver Award is presented in recognition of high operating standards and contributions to the maritime industry in British Columbia. The award was bestowed by the Lieutenant Governor on November 18, 2016.

Training

We were named one of B.C.'s Top Employers (2017). 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 have developed 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 new 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.

In fiscal 2017, we provided over 24,000 personal training days ("PTDs"), an increase of 19% over fiscal 2016. This includes operational training, simulator training and Standardized Education and Assessment ("SEA") training.

Operational training focused on several programs, including new hire orientation, confined space entry, hazardous materials, and oil spill response. Training is provided on-line and in the classroom as well as through practising exercises and drills.

Our Simulator Training Centre ("STC") program delivers enhanced bridge team skills. Our signature course is Bridge Operations Skills and Systems ("BOSS"), 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. BOSS 2 includes a blended approach of simulation and classroom learning and culminates with a team assessment to assist with students' learning transfer back to the fleet. BOSS 3 curriculum focuses on decision making. By the end of fiscal 2017, through our STC training program, we had delivered BOSS 2 to 70% and BOSS 3 to 30% of deck officers in the fleet. Also in fiscal 2017, STC launched a course on a specific radar and electronic chart display and information system and began offering training to officers.

Our SEA program leverages technology and e-learning to enhance hands-on training in a phased, auditable and sustainable manner. This program is an innovative, award-winning approach that we believe is transforming training in the marine industry through the use of technology. Our SEA program has customized programs specific to the job, vessel, route or terminal. The job positions specific to the cable ferry and Salish Class vessels have been created within this program. Our SEA program is continuing to develop a career navigator software which will provide all employees with easy access to resources and materials and will assist in planning and tracking employee career progression and succession.

During fiscal 2017, we developed a comprehensive training plan for familiarization with the new equipment on the Salish Class vessels. This plan includes LNG training, manufacturer's equipment training and SEA and operational training for all employees working on a Salish Class vessel. A web-based LNG safety awareness program provided training to all employees involved with the Salish Class vessels, with additional advanced LNG training for deck and engineering crews. By the time all three Salish Class vessels have commenced regular service, we estimate more than 5,400 days of training will have been completed.

Customer Service

In fiscal 2017, our on-time performance rate was 89.5%, with a fleet reliability score of 99.69%. This reliability score means that only 0.3% of sailings in fiscal 2017 were cancelled due to mechanical issues related to the vessels or terminals, or crew availability. Our 2016 Customer Service Satisfaction Tracking Surveys indicated that 88% of customers surveyed (compared to 87% in 2015) 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 to 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 have an active public consultation 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.

We will continue to engage with stakeholders to improve service and better align customer needs with sailing schedules, as well as balance seasonal service, capacity and demand with operating efficiencies through the use of surveys, open houses, public meetings, community working groups, ferry advisory committees and meetings with community leaders.

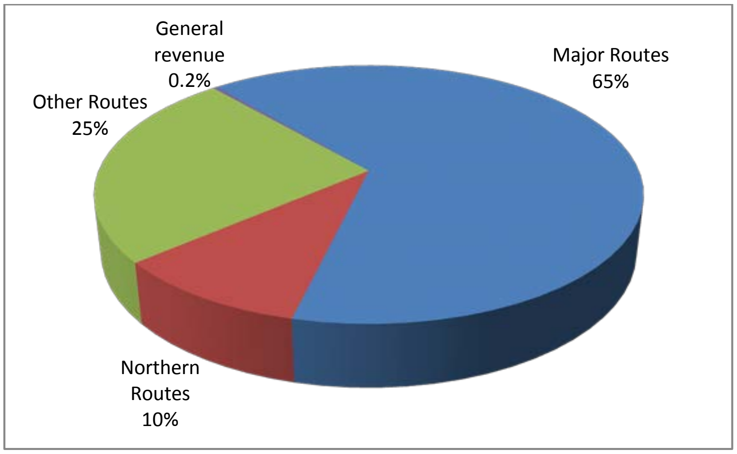
We are consulting with stakeholders and asking for their input on such areas as amenities, lounge configuration, car deck arrangement, accessibility and tourism features of two new minor class vessels. These vessels will be the first two of six vessels of this type to be built in the coming ten years. Feedback and operational experience will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability. We are proposing to deploy the first new vessel to provide service from Powell River to Texada Island and the other new vessel to provide service from Port McNeill to Alert Bay and to Sointula.

Our long-term vision incorporates customer service and environmental, operational, financial and community goals. Our strategic planning process captures internal and external factors as well as direct input from our community engagement processes.

Revenue and Operational Statistics

The following discussions of revenue are based on IFRS.

Total revenues and selected operational statistics over the past three fiscal years are shown in the tables 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. Our Northern Routes consist of two regulated routes 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.



In fiscal 2017, the greatest portion of our revenues, 65%, was earned on our Major Routes. The revenue from the Northern Routes contributed 10% and revenue from Other Routes contributed 25%.

Operational Statistics	**2017**	**2016**	**2015**
Vehicle traffic	8,305,842	8,069,489	7,690,914
% increase	2.9%	4.9%	0.6%
Passenger traffic	21,034,756	20,689,087	19,796,022
% increase	1.7%	4.5%	0.5%
On-time performance	89.5%	90.8%	91.7%
Number of round trips	77,892.0	76,871.5	77,432.5
Capacity provided (AEQs)	15,210,705	14,635,207	14,643,431
AEQs carried	9,437,585	9,152,873	8,735,814
Capacity utilization	62.0%	62.5%	59.7%

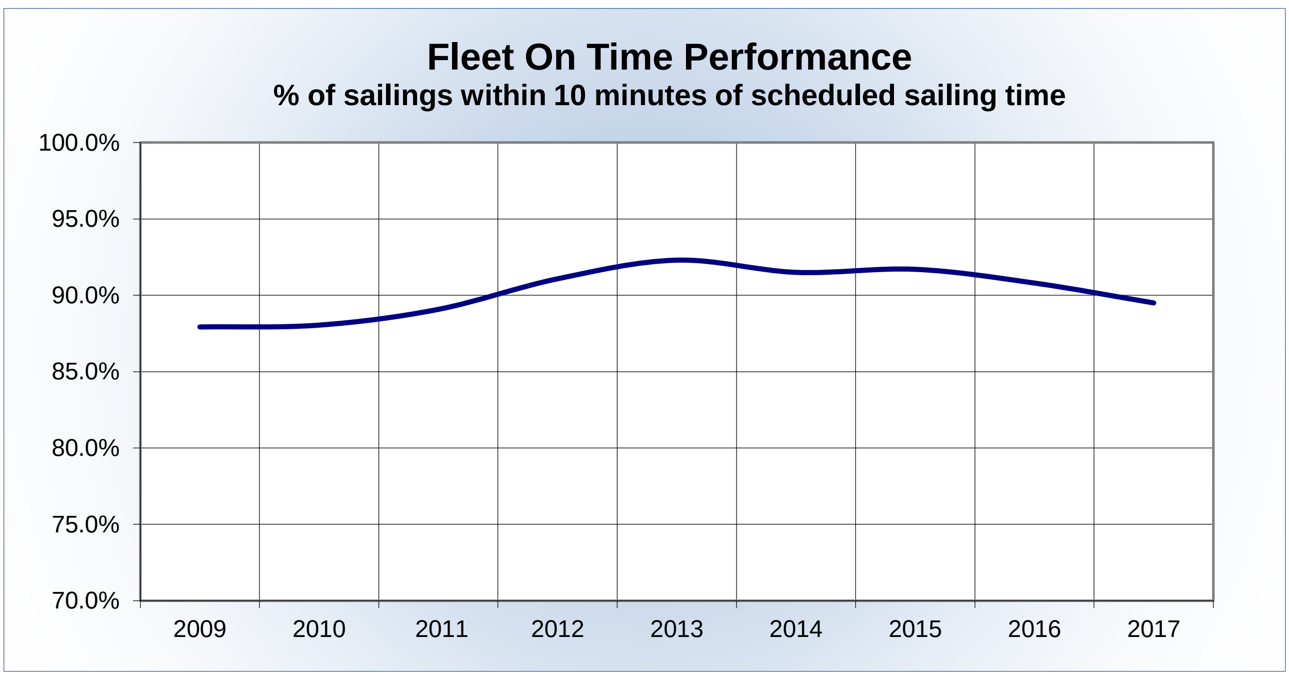
In fiscal 2016, vehicle and passenger traffic increased 4.9% and 4.5%, respectively, compared to fiscal 2015. Traffic was favourably impacted by the lower Canadian dollar, a general increase in tourism and economic activity in BC, lower fuel prices and our promotional fare incentives. Traffic was also positively impacted by the Easter holiday, with two Easter holiday weekends falling in fiscal 2016 compared to one in fiscal 2015.

In fiscal 2017, vehicle and passenger traffic increased 2.9% and 1.7%, respectively, compared to fiscal 2016. Traffic was favourably impacted by the lower Canadian dollar, continued increases in tourism and general economic activity in British Columbia, partially offset by the impact of more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year and no Easter holiday weekends falling in fiscal 2017.

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

Throughout fiscal 2017 and 2016 we offered a variety of pricing promotions. These pricing promotions, normalized for traffic growth and tariff increases, had a net cost (includes the loss of the actual discount and the cost to market the promotion, somewhat offset by incremental revenue from additional traffic generated from the promotion) of approximately $2.1 million in fiscal 2017 and $4.4 million in fiscal 2016. We believe that discounts to passenger and vehicle fares had a positive impact on both passenger and vehicle traffic. We also believe these pricing promotions played a part in shifting some discretionary traffic to off-peak sailings, resulting in higher overall capacity utilization. The promotions are described in the following Major, Northern and Other Route sections.

The on-time performance results for fiscal 2009 through fiscal 2017 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 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 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 unusually high traffic demand. Meeting customer service expectations in a safe and reliable manner is an important factor in our focus on on-time performance. In fiscal 2016 on-time performance decreased from 91.7% to 90.8% and in fiscal 2017 on-time performance decreased from 90.8% to 89.5% compared to the prior years, primarily due to the impact from increased traffic demand and delays due to weather. 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.

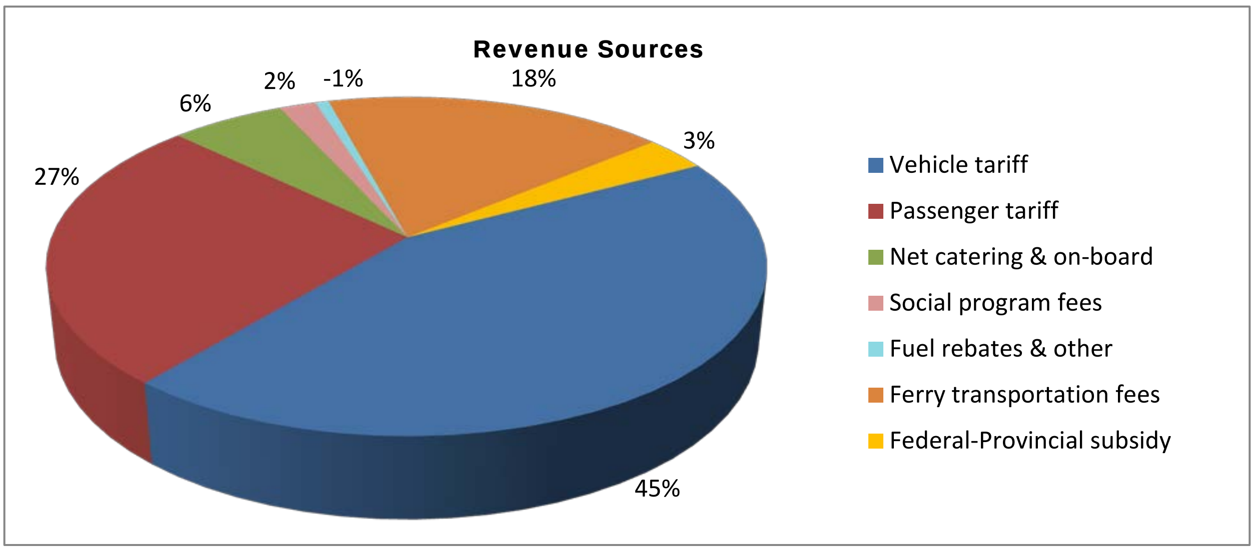
Vehicle capacity provided, measured in automobile equivalents ("AEQs"), is the available vehicle deck space on a vessel multiplied by the number of round trips. In fiscal 2017, vehicle capacity provided was revised to reflect the change in AEQ as discussed below. Prior periods have been adjusted for comparative purposes. Round trips normally stay fairly stable as the CFSC stipulates, among other things, the minimum number of round trips to be provided for each regulated ferry service route. 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 2016, we provided 76,871.5 round trips, 561 less than in fiscal 2015. The reduction in round trips was mainly due to the timing of implementation of the Province's service level adjustments on our regulated Other Routes which were implemented in the first quarter of fiscal 2015. Although the total number of round trips decreased, the number of round trips on the Major Routes increased, resulting in overall capacity consistent with fiscal 2015. In fiscal 2017, we provided 1,020.5 additional round trips compared to the prior year and 2.3% more trips than the annual minimum required under the CFSC, mainly due to the increase in traffic demand. Overall, this has resulted in a 3.9% increase in capacity provided.

An 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. Effective for fiscal 2017, the standard unit of measurement was revised from 5.34 metres to 6.1 metres to more accurately reflect actual vehicle sizes and resulted in the capacity provided AEQs decreasing and the capacity utilization increasing.

Capacity utilization 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. In fiscal 2016, capacity utilization increased 2.8% compared to fiscal 2015, mainly as a result of an increase in AEQs carried due to increased traffic levels. In fiscal 2017, capacity utilization decreased 0.5% compared to the prior year as a result of an increase in capacity provided from additional round trips, partially offset by a higher number of AEQs carried due to higher traffic levels. For approximately 2½ months in fiscal 2017, during berth construction at Langdale Terminal, alternative service was provided on the Horseshoe Bay to Langdale route, with two vessels using only their main car decks. If we adjusted for this reduction in the vessels' available vehicle capacity, capacity utilization during fiscal 2017 would have been 63.1%, up from 62.0%.

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

Revenue ($ millions)	**Years ended March 31**		
	2017	**2016**	**2015**
Direct Route Revenue			
Vehicle tariff	380.3	360.9	330.2
Passenger tariff	228.4	218.4	204.3
Fuel (rebates) surcharges	(18.1)	(6.4)	13.2
Net retail	52.9	49.7	45.9
Social program fees	16.9	25.0	23.5
Other revenue	9.3	9.0	8.7
Total Direct Route Revenue	669.7	656.6	625.8
Indirect Route Revenue			
Ferry transportation fees	157.9	147.4	152.4
Federal-Provincial subsidy	29.2	28.7	28.4
Total Route Revenue	856.8	832.7	806.6
Other general revenue	2.5	1.9	2.1
Total Revenue	859.3	834.6	808.7



Vehicle tariffs (which include reservation fee revenue) and passenger tariffs account for the majority of our revenues. Our year-over-year tariff revenues may be impacted by such things as changes in overall traffic levels, tariffs and the proportion of total traffic on routes with higher versus lower tariffs. In fiscal 2017, reservation fee revenue was reduced by $3.1 million to record GST payable on reservation fee revenue for fiscal years 2014 through 2017, based on CRA audit findings. We strongly disagree with CRA's position and will be responding appropriately.

Our Vacations Centre is conveniently located in the tourist sector of downtown Vancouver. Through the use of our travel centre and an integrated marketing approach, we are able to leverage our core business to drive incremental ferry traffic as well as generate commissions from the related services. Using a 37-foot long interactive media wall display, customers are able to view route maps, vessel schematics, and destination images to help them choose from a variety of travel package options. Packaged vacations is the fastest growing segment of our market. In fiscal 2017, the number of vacation packages sold generated $6.2 million in revenue, an increase of 8.8% over the prior year.

Retail service is our second highest source of direct revenue and provides a gross margin of approximately 60%. Catering, retail and other on-board service revenues are impacted by traffic, price, service quality and product offerings.

On April 1, 2015, we implemented tariff increases as allowed by the Commissioner's Order 12-02 dated September 30, 2012. Tariff increases were 3.9% on average on our Major and regulated Other Routes and 2.0% on average on the Northern Routes. On April 1, 2016, we implemented tariff increases of 1.9% on average, as allowed by the Commissioner's Order 15-03 dated September 16, 2015.

Surcharges and/or rebates are implemented as a direct result of rising and declining fuel prices. From April 1, 2014 to December 17, 2014, fuel surcharges of 3.4% on average were in place on our Major Routes and our regulated Other Routes. On April 1, 2015, due to lower fuel prices, we implemented a fuel rebate of 1% on our Major and regulated Other Routes which partially mitigated the impact of the tariff increase. On April 1, 2016, due to lower fuel prices, coupled with the fact that we had, through our fuel hedging program, locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017, we implemented a fuel rebate of 1.9% on the Northern Routes and increased fuel rebates from 1.0% to 2.9% on our Major and regulated Other Routes. Prior to April 1, 2016, no surcharges or rebates were in place on our Northern Routes.

A history of fuel surcharges in effect for fiscal 2015 through to the current date is below:

Date range	% surcharge (rebate)	Applicable routes
January 17, 2014 – December 17, 2014	3.5%	Major and regulated Other Routes
December 18, 2014 – March 31, 2015	0.0%	All regulated routes
April 1, 2015 – March 31, 2016	(1.0%)	Major and regulated Other Routes
April 1, 2016 - Present	(2.9%)	Major and regulated Other Routes
April 1, 2016 - Present	(1.9%)	Northern Routes

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

As discussed above, effective April 1, 2016, the CFSC was amended to discontinue direct funding of the seniors' discount and direct the maximum annual amount payable by the Province entirely to ferry transportation fees. In fiscal 2017, social program fees decreased $8.1 million and ferry transportation fees increased $10.5 million, partially to compensate for the discontinuance of direct funding for seniors' discounts.

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

Year to Year Comparison of Revenues and Operational Statistics 2017 – 2016

Major Routes

Our Major Routes consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and our regulated route connecting Horseshoe Bay and Langdale. These are our four busiest routes, carrying approximately 60% of our total vehicle traffic and 65% of our total passenger traffic.

Operational Statistics	2017	2016	Increase (Decrease)
Vehicle traffic 2.6% increase	4,973,289	4,848,721	124,568
Passenger traffic 1.6% increase	13,670,182	13,449,358	220,824
On-time performance	80.6%	80.7%	(0.1%)
Number of round trips	13,381.0	12,681.5	699.5
Capacity provided (AEQs)	8,339,982	7,978,871	361,111
AEQs carried	5,874,018	5,707,424	166,594
Capacity utilization	70.4%	71.5%	(1.1%)

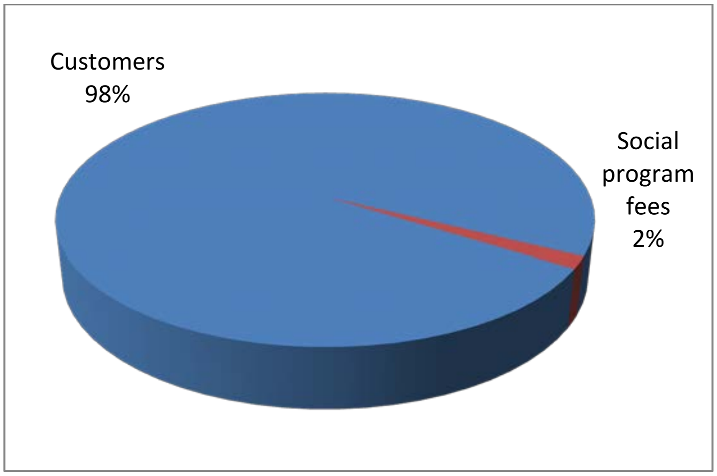
In fiscal 2017, vehicle traffic increased 2.6% and passenger traffic increased 1.6% compared to the prior year. Traffic was favourably impacted by the lower Canadian dollar, increases in tourism and general economic activity in British Columbia, partially offset by the impact of more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year. There were no Easter holiday weekends falling in fiscal 2017, while traffic levels in fiscal 2016 were positively impacted by two Easter holiday weekends. Overall, commercial traffic, a component of vehicle traffic, increased 3.4% in the year, while drop-trailer traffic, a component of total commercial traffic, increased 5.6% in the year. Our drop-trailer service is available on two of our Major Routes, where commercial customers can drop their trailers off at one terminal and pick them up at the other with our drivers loading and unloading the commercial trailers on and off the ferry with a hostling unit. This service improves our overall productivity by utilizing otherwise unused capacity.

From mid-November to mid-December 2016, we offered a 50% vehicle fare discount on under-utilized sailings; and for approximately three weeks in March 2017, which covered spring break, we offered a 50% passenger fare discount and free travel for children aged 11 and under. We believe these pricing promotions played a part in shifting some discretionary traffic to off-peak sailings, and, to a slight degree, to an increase in traffic.

In fiscal 2017, on-time performance was essentially on par with the prior year. We face particular on-time challenges on the routes using Horseshoe Bay terminal. The configuration of the terminal limits our operational flexibility particularly during periods of high traffic. Our initiatives to continue to improve on-time performance have included adjusting and/or expanding sailing schedules, adjusting crewing schedules and refining vehicle loading processes during peak periods. These initiatives helped to improve on-time performance on the routes using Horseshoe Bay terminal; however, these improvements were offset by a decrease in the on-time performance on the Duke Point to Tsawwassen route, mainly as a result of a 7.1% increase in vehicle traffic compared to the prior year.

Major Routes cont'd

Capacity utilization decreased from 71.5% to 70.4% in fiscal 2017 compared to the prior year, as a result of a 4.5% increase in capacity provided from additional round trips, partially offset by a 2.9% increase in the number of AEQs carried due to higher traffic levels. For approximately 2½ months in fiscal 2017, during berth construction at Langdale Terminal, alternative service was provided on the Horseshoe Bay to Langdale route, with two vessels using only their main car decks. If we adjusted for this reduction in the vessels' available vehicle capacity, capacity utilization during fiscal 2017 would have been 72.8%, up from 70.4%.



Fiscal 2017 revenue from our Major Routes consisted of 98% from customers and 2% in social program fees from the Province.

Revenue ($ thousands)	Years ended March 31			
	2017	**2016**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	321,354	304,908	16,446	5.4%
Passenger tariff	185,317	177,571	7,746	4.4%
Fuel rebates	(14,790)	(5,295)	(9,495)	(179.3%)
Net retail	46,983	44,441	2,542	5.7%
Social program fees	8,658	14,108	(5,450)	(38.6%)
Parking	4,929	4,816	113	2.3%
Other revenue	3,849	3,620	229	6.3%
Total Direct Route Revenue	556,300	544,169	12,131	2.2%
Indirect Route Revenue				
Ferry transportation fees	-	945	(945)	(100.0%)
Total Route Revenue	556,300	545,114	11,186	2.1%

Major Routes cont'd

Average tariff ($)	Years ended March 31 2017	2016	Increase
Vehicle tariff ($000's)	324,398	304,908	
Vehicle traffic	4,973,289	4,848,721	
Average tariff per vehicle (1)	65.23	62.88	2.35
Passenger tariff ($000's)	185,317	177,571	
Passenger traffic	13,670,182	13,449,358	
Average tariff per passenger	13.56	13.20	0.36

(1) The average tariff per vehicle calculation excludes the CRA reassessment of $3.0 million.

In fiscal 2017, average tariff revenue per vehicle increased $2.35 or 3.7% and average tariff revenue per passenger increased $0.36 or 2.7% compared to the prior year. The increase in average tariff revenues reflects tariff increases, an increase in reservation fee revenue and changes in the traffic, mix partially offset by the impact of our fare discounts on under-utilized sailings. The increase in both traffic levels and in average fares during fiscal 2017 resulted in a tariff revenue increase of $24.2 million compared to the prior year.

On April 1, 2016, due to lower fuel prices, coupled with the fact that we had locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017 through our fuel hedging program, we implemented a fuel rebate increase from 1% to 2.9% on our Major Routes. Fuel rebates of 1.0% were in place on our Major Routes in fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

All vessels that provide service on our Major Routes have a gift shop and options for food service. In fiscal 2017, net retail sales increased 5.7% compared to the prior year as a result of both higher passenger traffic and higher average sales per passenger. Food sales remain strong, providing approximately 73% of total retail revenue. Sales of quality apparel continue to grow and comprise over 10% of total retail revenue. Cost of goods sold is approximately 40% of total sales.

Social program fees are reimbursements from the Province of discounts provided on fares for BC seniors (prior to April 1, 2016), students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Travel Assistance Program ("MTAP"). In fiscal 2016, social program fees included $5.7 million in seniors' discounts. In fiscal 2017, social program fees decreased $5.4 million mainly as a result of the direct funding for seniors' discounts being discontinued (as of April 1, 2016 transportation fees, which are allocated to the Northern and regulated Other Routes, were increased to compensate for the change), partially offset by an increase in the number of people using the MTAP program.

Revenue from parking increased 2.3% as a result of higher traffic levels and proportionately higher usage.

Other revenue increased 6.3%, mainly as a result of an increase in retail commissions.
In fiscal 2016, ferry transportation fees on the Major Routes represented funds received from the Province related to the import duty remission on one of our foreign-built vessels. As discussed above, effective April 1, 2016, the CFSC was amended and all ferry transportation fees are now allocated to the Northern and regulated Other Routes. (See "Economic Regulatory Environment" above for more detail.)

Northern Routes

Our Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island.

Operational Statistics	2017	2016	Increase (Decrease)
Vehicle traffic	31,120	29,101	2,019
6.9% increase			
Passenger traffic	86,304	80,868	5,436
6.7 % increase			
On-time performance	88.4%	91.0%	(2.6%)
Number of round trips	233.5	227.0	6.5
Capacity provided (AEQs)	54,429	52,886	1,543
AEQs carried	38,009	35,449	2,560
Capacity utilization	69.8%	67.0%	2.8%

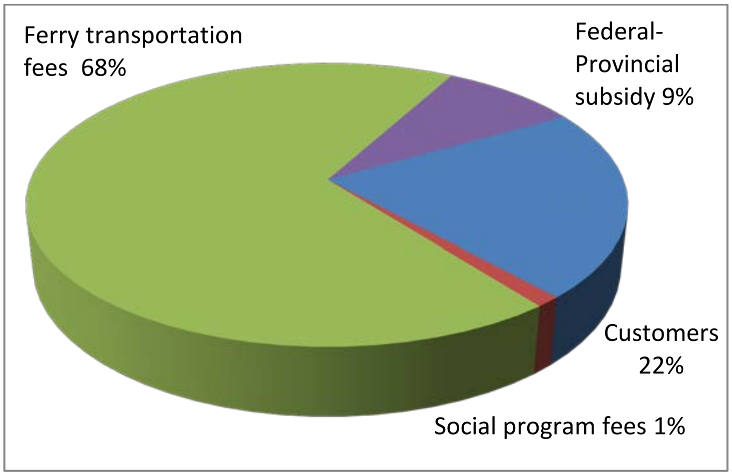
In fiscal 2017, vehicle traffic increased 6.9% and passenger traffic increased 6.7% compared to the prior year. Traffic was favourably impacted by the lower Canadian dollar, continued increases in tourism and general economic activity in British Columbia, partially offset by the impact of more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year. There were no Easter holiday weekends falling in fiscal 2017, while traffic levels in fiscal 2016 were positively impacted by two Easter holiday weekends.

From mid-November to mid-December 2016, we offered a 50% vehicle fare discount on under-utilized sailings; and for approximately three weeks in March 2017, which covered spring break, we offered a 50% passenger fare discount and free travel for children aged 11 and under. We believe these pricing promotions led to a slight increase in traffic.

In fiscal 2017, on-time performance decreased by 2.6% compared to the prior year, primarily due to the impact from increased traffic demand and unfavorable weather.

Capacity utilization during fiscal 2017 was higher than the prior year as a result of a higher number of AEQs carried, partially offset by increased capacity provided due to an increase in the number of round trips.

Northern Routes cont'd



Fiscal 2017 revenue from our Northern Routes consisted of 22% from customers and 78% from the Province (1% social program fees, 68% ferry transportation fees, and 9% from payments under the Federal-Provincial subsidy agreement).

Revenue ($ thousands)	Years ended March 31			
	2017	**2016**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	8,633	7,955	678	8.5%
Passenger tariff	7,240	6,664	576	8.6%
Fuel rebates	(333)	-	(333)	-
Net retail	1,383	1,172	211	18.0%
Social program fees	1,016	1,151	(135)	(11.7%)
Stateroom rental	1,533	1,390	143	10.3%
Hostling & other	209	196	13	6.6%
Total Direct Route Revenue	19,681	18,528	1,153	6.2%
Indirect Route Revenue				
Ferry transportation fees	59,070	54,633	4,437	8.1%
Federal-Provincial subsidy	7,481	7,372	109	1.5%
Total Route Revenue	86,232	80,533	5,699	7.1%

Average tariff ($)	Years ended March 31		
	2017	**2016**	**Increase**
Vehicle tariff ($000's)	8,633	7,955	
Vehicle traffic	31,120	29,101	
Average tariff per vehicle	277.41	273.36	4.05
Passenger tariff ($000's)	7,240	6,664	
Passenger traffic	86,304	80,868	
Average tariff per passenger	83.89	82.41	1.48

In fiscal 2017, average tariff revenue per vehicle increased $4.05 or 1.5% and average tariff revenue per passenger increased $1.48 or 1.8% compared to the prior year. The increase in average tariff revenues reflects tariff increases, the impact of our passenger fare discounts on under-utilized sailings and the impact of the change in the proportion of traffic on routes with lower versus higher tariffs. The average tariff per vehicle also reflects an increase in revenue from reservation fees due to higher traffic and higher usage.

Northern Routes cont'd

The increase in traffic levels and in average fares resulted in a total tariff revenue increase of $1.3 million compared to the prior year.

On April 1, 2016, due to lower fuel prices, coupled with the fact that we had locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017 through our fuel hedging program, we implemented a fuel rebate of 1.9% on our Northern Routes. There were no fuel surcharges or rebates in place on our Northern Routes in fiscal 2016.

In fiscal 2017, reimbursements from the Province for social program fees decreased mainly as a result of the direct funding for seniors' discounts being discontinued (as of April 1, 2016, ferry transportation fees were increased to compensate for the change), partially offset by an increase in the fees received from the MTAP program.

Revenue from net retail services increased 18.0% in fiscal 2017 compared to the prior year, mainly as a result of higher passenger levels.

Stateroom rental revenue increased 10.3% due to higher passenger levels and increased utilization.

Ferry transportation fees received from the Province increased $4.4 million compared the prior year as a result of additional funding from the Province, which includes BC seniors' discounts.

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

Other Routes

Our Other Routes consist of 18 regulated routes and 8 small unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast. One of the regulated routes and all of the unregulated routes are operated under contract by alternative service providers. We receive fees from the Province for the provision of contracted services on these routes, which are included in the ferry transportation fees discussed below. Operational statistics for the unregulated routes are not incorporated in the following analysis.

Operational Statistics	**2017**	**2016**	**Increase (Decrease)**
Vehicle traffic	3,301,433	3,191,667	109,766
3.4% increase			
Passenger traffic	7,278,270	7,158,861	119,409
1.7% increase			
On-time performance	91.2%	92.6%	(1.4%)
Number of round trips	64,277.5	63,963.0	314.5
Capacity provided (AEQs)	6,816,294	6,603,450	212,844
AEQs carried	3,525,558	3,410,000	115,558
Capacity utilization	51.7%	51.6%	0.1%

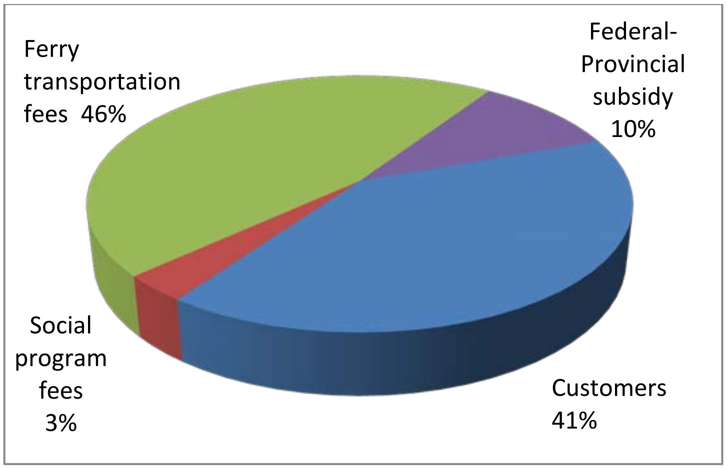
In fiscal 2017, vehicle traffic increased 3.4% and passenger traffic increased 1.7% compared to the prior year. Traffic was favourably impacted by the lower Canadian dollar, continued increases in tourism and general economic activity in British Columbia, partially offset by the impact of more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year. There were no Easter holiday weekends falling in fiscal 2017, while traffic levels in fiscal 2016, were positively impacted by two Easter holiday weekends.

From mid-November to mid-December 2016, we offered a 50% vehicle fare discount on under-utilized sailings; and for approximately three weeks in March 2017, which covered spring break, we offered a 50% passenger fare discount and free travel for children aged 11 and under. We believe these pricing promotions played a part in shifting some discretionary traffic to off-peak sailings, and, to a slight degree, to an increase in traffic.

In fiscal 2017, on-time performance decreased by 1.4% compared to the prior year, primarily due to the impact from increased traffic demand and unfavorable weather.

Capacity utilization increased marginally in fiscal 2017 compared to the prior year, with a higher number of AEQs carried mainly offset by increased capacity provided due to additional round trips and vessel substitutions.

Other Routes cont'd



Fiscal 2017 revenue from our Other Routes consisted of 41% from customers and 59% from the Province (3% social program fees, 46% ferry transportation fees, and 10% from payments under the Federal-Provincial subsidy agreement).

Revenue ($ thousands)	Years ended March 31			
	2017	**2016**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	50,318	48,025	2,293	4.8%
Passenger tariff	35,850	34,187	1,663	4.9%
Fuel rebates	(2,945)	(1,062)	(1,883)	(177.3%)
Social program fees	7,253	9,765	(2,512)	(25.7%)
Net retail	2,950	2,704	246	9.1%
Parking & other	349	315	34	10.8%
Total Direct Route Revenue	93,775	93,934	(159)	(0.2%)
Indirect Route Revenue				
Ferry transportation fees	98,874	91,770	7,104	7.7%
Federal-Provincial subsidy	21,677	21,358	319	1.5%
Total Route Revenue	214,326	207,062	7,264	3.5%

Average tariff ($)	Years ended March 31		
	2017	**2016**	**Increase**
Vehicle tariff ($000's)	50,344	48,025	
Vehicle traffic	3,301,433	3,191,667	
Average tariff per vehicle (1)	15.25	15.05	0.20
Passenger tariff ($000's)	35,850	34,187	
Passenger traffic	7,278,270	7,158,861	
Average tariff per passenger	4.93	4.78	0.15

(1) The average tariff per vehicle calculation excludes the CRA reassessment of $0.1 million.

Other Routes cont'd

In fiscal 2017, average tariff revenue per vehicle increased $0.20 or 1.3% compared to the prior year, reflecting tariff increases, changes in the proportion of traffic on routes with lower versus higher tariffs, changes in the mix of vehicle types and the impact of our promotional fare discounts on under-utilized sailings. Average tariff revenue per passenger increased $0.15 or 3.1% compared to the prior year, reflecting tariff increases, changes in the proportion of traffic on routes with higher versus lower tariffs and the impact of our passenger fare discounts on under-utilized sailings. The increase in both traffic levels and change in average fares during fiscal 2017 resulted in a total tariff revenue increase of $4.0 million compared to the prior year.

On April 1, 2016, due to lower fuel prices, coupled with the fact that we had locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017 through our fuel hedging program, we implemented a fuel rebate increase from 1% to 2.9%. Fuel rebates of 1.0% were in place in fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See “The Effect of Rate Regulation” above for more detail.)

In fiscal 2016, social program fees included $2.8 million in seniors’ discounts. In fiscal 2017, social program fees decreased $2.5 million, mainly as a result of funding for seniors’ discounts being discontinued (as of April 1, 2016, ferry transportation fees were increased to compensate for the change), partially offset by an increase in the number of students travelling and in the number of people using the MTAP program.

Revenue from net retail services increased by 9.1% compared to the prior year as a result of both higher passenger traffic and higher average sales per passenger. Cost of goods sold is approximately 40% of total retail revenues.

Parking and other revenues increased mainly due to an increase in charter revenue and retail commissions.

Ferry transportation fees received from the Province increased $7.1 million compared to the prior year, primarily as a result of additional funding from the Province (fiscal 2017 ferry transportation fees include funding for seniors’ discounts).

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

Year to Year Comparison of Revenues and Operational Statistics 2016 – 2015

Major Routes

Operational Statistics	2016	2015	Increase (Decrease)
Vehicle traffic	4,848,721	4,603,748	244,973
5.3% increase			
Passenger traffic	13,449,358	12,818,963	630,395
4.9% increase			
On-time performance	80.7%	83.1%	(2.4%)
Number of round trips	12,681.5	12,542.0	139.5
Capacity provided (AEQs)	7,978,871	7,887,467	91,404
AEQs carried	5,707,424	5,433,862	273,562
Capacity utilization	71.5%	68.9%	2.6%

In fiscal 2016, vehicle traffic increased 5.3% and passenger traffic increased 4.9% compared to the prior year. Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar and our fare discounts on under-utilized sailings. Traffic was also positively impacted by the Easter holiday, with two Easter holiday weekends falling in fiscal 2016 compared to one in fiscal 2015. Overall, commercial traffic increased by 2.7% in the year, while drop-trailer, a component of total commercial traffic, increased 2.8% in the year.

In fiscal 2016, on-time performance decreased by 2.4% compared to the prior year, primarily due to the impact of the significant traffic increase and delays due to weather.

Capacity utilization on these routes increased by 2.6% in fiscal 2016 compared to the prior year 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.

Revenue ($ thousands)	**Years ended March 31**			
	2016	**2015**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	304,908	278,637	26,271	9.4%
Passenger tariff	177,571	165,861	11,710	7.1%
Fuel (rebates) surcharges	(5,295)	11,034	(16,329)	(148.0%)
Net retail	44,441	41,032	3,409	8.3%
Social program fees	14,108	13,160	948	7.2%
Parking	4,816	4,569	247	5.4%
Other revenue	3,620	3,667	(47)	(1.3%)
Total Direct Route Revenue	544,169	517,960	26,209	5.1%
Indirect Route Revenue				
Ferry transportation fees	945	999	(54)	(5.4%)
Total Route Revenue	545,114	518,959	26,155	5.0%

Major Routes cont'd

In fiscal 2016, average tariff revenue (including reservation fees) per vehicle increased $2.36 or 3.9% and average tariff revenue per passenger increased $0.26 or 2.0% compared to the prior year. The increase in average tariff revenues in fiscal 2016 reflected the tariff increases allowed by the Commissioner and an increase in revenue from reservation fees, partially offset by the impact of our fare discounts on under-utilized sailings. The increase in both traffic levels and in average tariffs during fiscal 2016 resulted in a tariff revenue increase of $38.0 million.

On April 1, 2015, due to lower fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of 2017, we implemented a fuel rebate of 1% on our Major Routes. This rebate partially mitigated the impact of the tariff increase. In fiscal 2015, fuel surcharges of 3.4% on average were in place from April 1, 2014 to December 17, 2014 on our Major Routes. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts.

In fiscal 2016, net retail sales increased 8.3% compared to the prior year as a result of both higher passenger traffic and higher average sales per passenger. Food sales remained strong, providing approximately 75% of the total retail revenue. Sales of quality apparel continue to grow and comprised approximately 11% of total retail revenue.

On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. In fiscal 2015, we experienced a decrease of 15% in the number of seniors using the program. In fiscal 2016, the number of seniors using the program increased by 4.3%. Social program fees increased $0.9 million in fiscal 2016 compared to the prior year, mainly as a result of more seniors and students travelling and an increase in the number of people using the MTAP program.

Revenue from parking increased $0.2 million or 5.4% in fiscal 2016 compared to the prior year, mainly as a result of higher traffic levels.

Other revenue decreased mainly as a result of a decrease in retail commissions, primarily from the reduced sale of magazines, partially offset by increases in retail space rental revenues.

Ferry transportation fees on the Major Routes related to import duty remission on one of our foreign built vessels. For the purpose of rate regulation, this amount is applied to our deferred fuel cost accounts.

Northern Routes

Operational Statistics	2016	2015	Increase (Decrease)
Vehicle traffic	29,101	26,642	2,459
9.2% increase			
Passenger traffic	80,868	75,108	5,760
7.7 % increase			
On-time performance	91.0%	90.0%	1.0%
Number of round trips	227.0	226.5	0.5
Capacity provided (AEQs)	52,886	53,155	(269)
AEQs carried	35,449	32,740	2,709
Capacity utilization	67.0%	61.6%	5.4%

In fiscal 2016, vehicle traffic increased 9.2% and passenger traffic increased 7.7% compared to the prior year. Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar and our fare discounts.

On-time performance improved by 1.0% in fiscal 2016 compared to the prior year, mainly as a result of schedule changes which allowed for operational efficiencies at the terminals.

Capacity utilization for fiscal 2016 was 5.4% higher than the prior year, mainly as a result of a higher number of AEQs carried due to higher traffic levels.

Revenue ($ thousands)	Years ended March 31			
	2016	2015	Increase (Decrease)	
Direct Route Revenue				
Vehicle tariff	7,955	7,540	415	5.5%
Passenger tariff	6,664	6,265	399	6.4%
Net retail	1,172	1,106	66	6.0%
Social program fees	1,151	1,052	99	9.4%
Stateroom rental	1,390	1,289	101	7.8%
Hostling & other	196	200	(4)	(2.0%)
Total Direct Route Revenue	18,528	17,452	1,076	6.2%
Indirect Route Revenue				
Ferry transportation fees	54,633	57,426	(2,793)	(4.9%)
Federal-Provincial subsidy	7,372	7,275	97	1.3%
Total Route Revenue	80,533	82,153	(1,620)	(2.0%)

In fiscal 2016, average tariff revenue (including reservation fees) per vehicle decreased $9.65 or 3.4% and average tariff revenue per passenger decreased $1.00 or 1.2% compared to the prior year. Average tariff revenues reflected a change in the proportion of traffic on routes with lower versus higher tariffs, the tariff increase allowed by the Commissioner, an increase in revenue from reservation fees and the impact of our fare discounts in the last half of fiscal 2016. The increase in traffic levels, partially offset by the decrease in average fares, resulted in a total tariff revenue increase of $0.8 million during fiscal 2016 compared to the prior year.

Northern Routes cont'd

There were no fuel surcharges or rebates in place on our Northern Routes during fiscal 2016 or fiscal 2015.

Reimbursements from the Province for social program fees increased primarily as a result of more seniors and students travelling and an increase in the number of people using the MTAP program.

Revenue from net retail services increased 6.0% in fiscal 2016 compared to the prior year as a result of higher passenger levels and higher average sales per passenger.

Revenue from stateroom rental increased 7.8%, primarily due to higher sales attributable to higher passenger levels.

Ferry transportation fees received from the Province were $2.8 million lower than the prior year as a result of the following:

- $1.8 million decrease resulting from a reduction in the total annual ferry transportation fees; and
- $1.4 million decrease related to a lower fuel price. For regulatory purposes, the amounts received relating to the price of fuel are applied to our deferred fuel cost accounts;

partially offset by:

- $0.4 million increase in respect of BC senior discounts.

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

Other Routes

Operational Statistics	2016	2015	Increase (Decrease)
Vehicle traffic	3,191,667	3,060,524	131,143
4.3% increase			
Passenger traffic	7,158,861	6,901,951	256,910
3.7% increase			
On-time performance	92.6%	93.2%	(0.6%)
Number of round trips	63,963	64,664	(701.0)
Capacity provided (AEQs)	6,603,450	6,702,809	(99,359)
AEQs carried	3,410,000	3,269,212	140,788
Capacity utilization	51.6%	48.8%	2.9%

In fiscal 2016, vehicle traffic increased 4.3% and passenger traffic increased 3.7% compared to the prior year. Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar and the impact of our fare discounts on under-utilized sailings.

Capacity utilization in fiscal 2016 increased 2.9% compared to the prior year as a result of a higher number of AEQs carried due to higher traffic levels and a reduction in the number of round trips in the first quarter of fiscal 2016 as a result of the timing of provincial service level adjustments.

Revenue ($ thousands)	Years ended March 31			
	2016	**2015**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle tariff	48,025	44,066	3,959	9.0%
Passenger tariff	34,187	32,132	2,055	6.4%
Fuel (rebates) surcharges	(1,062)	2,161	(3,223)	(149.1%)
Social program fees	9,765	9,246	519	5.6%
Net retail	2,704	2,482	222	8.9%
Parking & other	315	302	13	4.3%
Total Direct Route Revenue	93,934	90,389	3,545	3.9%
Indirect Route Revenue				
Ferry transportation fees	91,770	94,053	(2,283)	(2.4%)
Federal-Provincial subsidy	21,358	21,080	278	1.3%
Total Route Revenue	207,062	205,522	1,540	0.7%

In fiscal 2016, the average tariff revenue (including reservation fees) per vehicle increased $0.63 or 4.5% and average tariff revenue per passenger increased $0.12 or 2.6% compared to the prior year. On the majority of these routes, the average tariff per vehicle and passenger is calculated on a round trip basis. The increase in average tariff revenues reflected the tariff increase allowed by the Commissioner and a change in the proportion of traffic on routes with higher versus lower tariffs, partially offset by the impact of our fare discounts on under-utilized sailings. The increase in both the traffic levels and the average fares resulted in a total tariff revenue increase of $6.0 million.

On April 1, 2015, due to lower fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of 2017, a fuel rebate of 1% was implemented on our regulated Other Routes. This rebate partially mitigated the impact of the tariff increase. In fiscal 2015, fuel surcharges of 3.4% on average were in place from April 1, 2014 to December 17, 2014 on these routes. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts.

On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. In fiscal 2015, we experienced a decrease of 8% in the number of seniors using the program. In fiscal 2016, the number of seniors using the program increased by 9%. Social program fees increased as a result of more seniors and students travelling and an increase in the number of people using the MTAP program.

Revenue from net retail services increased by $0.2 million compared to the prior year mainly as a result of higher passenger traffic.

Parking and other revenues increased mainly due to increased charter revenue, partially offset by lower commission from vendors.

Ferry transportation fees received from the Province decreased $2.3 million compared to the prior year as a result of the following:

- $2.9 million decrease resulting from a reduction in total annual ferry transportation fees as per the contract;

partially offset by:

- $0.6 million increase in respect of senior discounts.

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

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

Operating expenses ($ millions)	Years ended March 31		
	2017	**2016**	**2015**
Operations	467.2	449.6	447.2
Maintenance	74.2	79.4	68.1
Administration	35.8	34.5	32.0
Total operations, maintenance & administration	577.2	563.5	547.3
% increase	*2.4%*	*3.0%*	*0.1%*
Depreciation and amortization	149.0	145.5	142.8
Total operating expenses	726.2	709.0	690.1

We continue to take proactive measures to contain, reduce and optimize expenses while operating a sustainable, safe and reliable service. Our fiscal 2017 total operations, maintenance and administration expenses increased $13.7 million or 2.4% from fiscal 2016.

In fiscal 2017, wages, benefits and fuel expenses totalled $441.7 million or 76.5% of total operations, maintenance and administration costs. These costs are somewhat variable, driven by the level of service. We continuously review all operational costs for efficiencies that can be realized without compromising safety. The remaining $135.5 million of costs (a 1.5% reduction from fiscal 2016) are discretionary and, to some extent, more controllable.

Depreciation and amortization increased $3.5 million in fiscal 2017 compared to the prior year, as a result of new or upgraded capital assets entering service.

Net finance and other expenses ($ millions)	Years ended March 31		
	2017	**2016**	**2015**
Finance expense			
Bond interest	58.0	58.0	59.6
KfW bank group ("KfW") loans	5.2	5.7	6.7
Interest on finance lease	1.9	1.9	2.0
Short-term debt	0.4	0.4	0.3
Structured Financing Facility program	-	-	(0.4)
Capitalized interest	(6.7)	(5.4)	(3.5)
Total finance expense	58.8	60.6	64.7
Less: finance income	(4.7)	(4.6)	(4.3)
Net finance expense	54.1	56.0	60.4
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	1.6	-	9.1
Total net finance and other expenses	55.7	56.0	69.5

Our fiscal 2017 net finance expense decreased $1.9 million or 3.4% from fiscal 2016. This is mainly a result of principal payments on KfW loans and higher interest capitalized reflecting our investments in capital assets. Year over year changes are described below:

Year to Year Comparison of Expenses 2017 – 2016

The $17.6 million increase in operations expenses from fiscal 2016 to fiscal 2017 consists of:

- $14.0 million increase in wages and benefits costs, mainly due to the April 1, 2016 rate increase of 1.5% under the Collective Agreement and an increase in overtime and in hours spent in training activities where backfill was required;
- $2.6 million increase in contracted services, which includes vessel replacement and traffic control costs;
- $1.1 million increase in crew deployment costs as a result of training activities; and
- $2.5 million comprised of increases in parts and supplies, insurance claims, credit card fees, training supplies and computer software licences;

partially offset by:

- $2.6 million decrease in fuel expense, reflecting a decrease of $5.3 million or 5.0% due to lower fuel prices, partially offset by a $2.7 million or 2.6% increase in fuel consumption primarily a result of additional round trips provided on the Major Routes. For purposes of rate regulation, in fiscal 2017 $7.5 million of fuel expense was recorded in deferred fuel cost accounts to be settled through fuel rebates. In fiscal 2016, $11.0 million of our fuel expense was recorded in deferred fuel cost accounts for future recovery. (See "The Effect of Rate Regulation" for more detail.)

The $5.2 million decrease in maintenance costs compared to the prior year resulted from variations in vessel refit scheduling and in the timing of repairs to our terminals.

The $1.3 million increase in administration costs is mainly the result of increased computer software licencing costs, training supplies and advertising costs.

Depreciation and amortization increased $3.5 million, reflecting new capital assets that have entered service. (See "Investing in our Capital Assets" below for details of capital asset expenditures in fiscal 2017.)

Net finance and other expenses decreased by $0.3 million from fiscal 2016 to fiscal 2017 mainly due to:

- $1.3 million increase in interest capitalized; and
- $0.5 million decrease in interest on KfW loans, reflecting $24.0 million in principal repayments;

partially offset by:

- $1.6 million increase in loss on disposal and revaluation of property, plant and equipment and intangible assets, primarily due to asset impairment recorded in fiscal 2017.

Year to Year Comparison of Expenses 2016 – 2015

The $2.4 million increase in operations expenses from fiscal 2015 to fiscal 2016 consists of:

- $12.1 million increase in wages and benefits costs, mainly due to the April 1, 2015 wage rate increase of 2% under the Collective Agreement that expired October 31, 2015, payments relating to the new Collective Agreement that will end October 31, 2020 and an increase in overtime and in hours spent in training activities where backfill was required;
- $2.4 million increase in contracted services, which includes traffic control costs;
- $0.8 million increase in crew deployment costs as a result of training activities; and
- $2.5 million comprised of Input Tax Credits ("ITCs") recoverable for the period April 2003 through October 2014 recorded as a recovery of expense in 2015, increases in parts and supplies, insurance claims and promotional advertising;

partially offset by:

- $15.4 million decrease in fuel expense, reflecting a decrease of $18.1 million or 15.0% due to lower fuel prices, partially offset by $2.7 million or 2.3% increase in fuel consumption primarily a result of additional round trips provided on the Major Routes.

For purposes of rate regulation, in fiscal 2016 $11.0 million of fuel expense was recorded in deferred fuel cost accounts to be settled through fuel rebates. In fiscal 2015, $9.1 million of our fuel expense was recorded in deferred fuel cost accounts for future recovery.

The $11.3 million increase in maintenance costs compared to the prior year resulted from variations in vessel refit scheduling and timing of repairs to our terminals and $2.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement recorded as a recovery of expense in fiscal 2015.

The $2.5 million increase in administration costs compared to the prior year is mainly due to higher wages and benefits due to the filling of positions vacant in the prior year, computer software licencing costs, contracted services and $0.6 million of ITCs recoverable for the period April 2003 through October 2014, reflecting the October 2014 Tax Court of Canada judgement recorded in fiscal 2015.

Depreciation and amortization increased $2.7 million compared to the prior year, reflecting new capital assets that have entered service somewhat offset by lower depreciation resulting from extending our vessel lives from 40 years to 45 years.

Net finance and other expenses decreased by $13.5 million from fiscal 2015 to fiscal 2016, mainly due to:

- $9.1 million decrease in loss on disposal and revaluation of property, plant and equipment and intangible assets, primarily due to asset impairment recorded in fiscal 2015;
- $1.9 million increase in interest capitalized;
- $1.6 million decrease in bond interest, reflecting the net effect of the lower effective interest rates on the $200 million of senior secured bonds issued in the first quarter of fiscal 2015 and the higher effective interest rate on the $250 million of senior secured bonds which matured in the first quarter of fiscal 2015;
- $1.0 million decrease in interest on KfW loans, reflecting $24.0 million in principal repayments; and
- $0.3 million increase in finance income;

partially offset by:

- $0.4 million decrease in interest rate support received, reflecting the completion of the funding related to the purchase of the *Island Sky*. In previous years, funding had been received through the Structured Financing Facility Program offered by the Government of Canada. As of March 31, 2013 this program was no longer accepting applications.

Liquidity and Capital Resources
We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issues.

Over the last five years, our capital expenditures averaged $160 million annually. Over the next five years, we expect the average to increase to approximately $240 million annually as we proceed with the replacement and upgrade of our aged vessels and make significant improvements at our terminals serving our Major Routes, as well as make investments in information technology.

We expect our cash requirements, in the near term, will be met through operating cash flows, accessing funding under government programs and by accessing our credit facility from time to time. At March 31, 2017, our unrestricted cash and cash equivalents and other short-term investments totalled $72 million and $116 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.

On March 14, 2017, the Government of Canada approved funding under the New Building Canada Fund toward the purchase of two new minor class vessels. On March 21, 2017, the Government of Canada approved funding towards a major upgrade of our Langdale terminal, improvements at several other terminals, and the purchase and refurbishment of a used vessel to be used to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola. In total, up to $60 million in funding has been approved under the New Building Canada Fund.

On April 5, 2017, in response to our application, the Commissioner issued Order 17-03, in which he confirmed his determination that the capital expenditure for the acquisition and modification of a used vessel to be used to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications, is reasonably required. Also on April 5, 2017, after the Order was issued, the Province announced it will contribute an initial $15 million towards the purchase and operation of the vessel.

We are party to a credit agreement with a syndicate of Canadian banks that is secured under the Master Trust Indenture (May 2004) (“MTI”). Under this credit agreement, we have available a revolving facility in the amount of $155 million. Our credit facility was renewed on March 10, 2017 to extend the maturity date from April 2021 to April 2022. The facility is available to fund capital expenditures and other general corporate purposes. At March 31, 2017, March 31, 2016 and March 31, 2015 there were no draws on this credit facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at March 31, 2017 were “A” (DBRS) with a positive trend and “AA-” (Standard & Poor’s) with a stable outlook.

On April 1, 2016 and on April 1, 2017, we implemented average tariff increases as allowed by the Commissioner’s Order 15-03 which established price cap increases for PT4. We believe these price cap increases will be sufficient to enable us to meet our debt obligations and maintain access to borrowing rates and meet or exceed the Commissioner’s targeted leverage ratio and debt service coverage ratio.

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 the credit facility agreement. At March 31, 2017 we achieved a debt service ratio of 3.20 and a leverage ratio of 74.8%.

Long-Term Debt

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

($ millions)	Effective interest rate	Amount outstanding as at March 31 2017	2016	2015
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%	23	30	38
Tranche B, due March 2020	1.23%*	22	22	22
Tranche A, due June 2020	5.18%	24	32	39
Tranche B, due June 2020	1.23%*	23	23	23
2.95% Loan, due January 2021	3.08%	36	45	54
2.09% Loan, due October 2028	2.64%	44	-	-
2.09% Loan, due January 2029	2.63%	45	-	-
* Floating rate as at March 31, 2017		1,317	1,252	1,276

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

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

We have entered into three 12-year amortizing loan agreements with KfW, each of which is secured under the MTI. Two of these loans 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 allows 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. On November 22, 2016 and November 25, 2016 we drew down a total of $45 million, to coincide with the contract payment schedule for the purchase of the *Salish Orca.* On February 9, 2017 and on February 17, 2017, we drew down an additional $45 million, to coincide with the contract payment schedule for the purchase of the *Salish Eagle*. On April 28, 2017 and on May 4, 2017, we drew down the 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.

Terminal Leases

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

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

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

If we fail to meet our obligations under the terminal leases or default under the CFSC, the BCTFA may, at its option, re-enter and take possession of the ferry terminal properties and, at its option, terminate the leases. The BCTFA has entered into an acknowledgement agreement with the Trustee under the MTI, which sets out certain limitations on the use of this option.

Finance Lease

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

The initial term of the lease was 15 years, with four renewal options of five years each. In November 2010, we advanced $24.2 million to the developer of the property for a term of 15 years, secured by a second mortgage on the property. The loan agreement provides for interest equal to one-half of the net cash flow from the property, subject to minimum and maximum percentage rates of interest. Over the term of the loan, interest is expected to approximate the market rate when the loan was made. Incidental to the loan, we were granted an option to purchase up to 50% of the owner's equity interest in the new building at a price of $24.2 million. Final adjustments were made on April 15, 2011, bringing the total amount of the loan and the purchase option to $24.5 million. The purchase option expires at the end of the loan term.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of accrued post-retirement, post-employment benefits and incentive funding. We have received $5.3 million of a total contribution of $6.0 million from FortisBC Energy Inc. as part of the NGT incentive funding. 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 the Salish Class vessels.

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 2017 and 2016 are summarized in the table below:

($ millions)	2017	2016	Increase (Decrease)
	Years ended March 31		
Cash and cash equivalents, beginning of period	79.1	65.6	13.5
Cash from operating activities:			
Net earnings	77.4	69.6	7.8
Items not affecting cash	210.3	209.3	1.0
Changes in non-cash operating working capital	(1.1)	7.7	(8.8)
Net interest paid	(60.2)	(60.7)	0.5
Cash generated by operating activities	226.4	225.9	0.5
Cash generated by (used in) financing activities	54.7	(31.3)	86.0
Cash used in investing activities	(288.2)	(181.1)	(107.1)
Net (decrease) increase in cash and cash equivalents	(7.1)	13.5	(20.6)
Cash and cash equivalents, end of period	72.0	79.1	(7.1)

For fiscal 2017, cash generated by operating activities was similar to the prior year.

Cash generated by financing activities in fiscal 2017 was $54.7 million. This amount consisted of our two new loans with KfW IPEX-Bank GmbH totalling $90.1 million, partially offset by: $24.9 million in repayment of other KfW loans; $1.5 million repayment of finance lease obligations; $6.0 million in dividends paid on preferred shares; and $3.0 million in deferred financing costs.

Cash used in financing activities in fiscal 2016 was $31.3 million. This amount consisted of $24.0 million in repayment of KfW loans, $6.0 million in dividends paid on preferred shares, and $1.3 million in repayment of finance lease obligations.

Cash used in investing activities in fiscal 2017 increased by $107.1 million compared to the same period in the prior year, mainly due to a $51.4 million increase in cash used for capital expenditures; a $54.7 million increase in cash used for short-term investing; and a $1.0 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, 2017 to the same period in the prior year.

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

Operational Statistics	**2017**	**2016**	**Increase (Decrease)**
Vehicle traffic	1,606,426	1,634,985	(28,559)
1.7% decrease			
Passenger traffic	3,809,323	3,970,993	(161,670)
4.1% decrease			
On-time performance	93.7%	93.7%	-
Number of round trips	18,881.5	18,776.0	105.5
Capacity provided (AEQs)	3,681,797	3,375,244	306,553
AEQs carried	1,840,539	1,865,219	(24,680)
Capacity utilization	50.0%	55.3%	(5.3%)

Vehicle traffic decreased 1.7% and passenger traffic decreased 4.1% in the fourth quarter of fiscal 2017 compared to the same quarter in fiscal 2016. Traffic was negatively impacted by unfavourable weather in January and February of fiscal 2017. Also, traffic levels were negatively impacted by no Easter holiday weekend falling in the fourth quarter of fiscal 2017, compared to one Easter holiday weekend in the fourth quarter of fiscal 2016.

Capacity utilization in the three months ended March 31, 2017 decreased by 5.3% over the same period in the prior year, mainly as a result of an increase in capacity provided as a result of additional round trips and a decrease in total AEQs carried. For approximately 2½ months in fiscal 2017, during berth construction at Langdale Terminal, alternative service was provided on the Horseshoe Bay to Langdale route, with two vessels using only their main car decks. If we adjusted for this reduction in the vessels' available vehicle capacity, capacity utilization during the fourth quarter would have been 53.9%, up from 50.0%.

	Three months ended March 31			
			Variance	
($ millions)	**2017**	**2016**	**$**	**%**
Total revenue	157.5	166.3	(8.8)	(5.3%)
Operating expenses	183.3	182.5	(0.8)	(0.4%)
Operating loss	(25.8)	(16.2)	(9.6)	(59.3%)
Net finance and other	15.0	13.8	(1.2)	(8.7%)
Net loss	(40.8)	(30.0)	(10.8)	(36.0%)
Other comprehensive loss	(1.0)	(12.0)	11.0	91.7%
Total comprehensive loss	(41.8)	(42.0)	0.2	0.5%

Our total comprehensive loss in the three months ended March 31, 2017 was $0.2 million smaller and our net loss was $10.8 million larger than in the same quarter of fiscal 2016. The other comprehensive loss of $1.0 million in the fourth quarter of fiscal 2017 reflects the change in unrealized hedge losses of $4.7 million on fuel forward contracts, offset by the gain of $3.7 million on the revaluation of land at March 31, 2017. The other comprehensive loss of

$12.0 million in the fourth quarter of fiscal 2016 reflects the change in unrealized hedge losses of $12.4 million on fuel forward contracts, offset by the gain of $0.4 million on the revaluation of land at March 31, 2016. The net loss in the three months ended March 31, 2017 reflects lower traffic levels, higher fuel rebates, lower social program fees, an increase in net operating expenses and finance expenses and a reduction in reservation fee revenue of $3.1 million to record GST payable on reservation fee revenue for fiscal years 2014 through 2017, based on CRA audit findings.

Revenue

Our total revenues for the fourth quarter of fiscal 2017 decreased by $8.8 million or 5.3% compared to the same quarter in the prior year, as shown in the following table:

Revenue ($ millions)	**Three months ended March 31**			
			Increase (Decrease)	
	2017	**2016**	**$**	**%**
Direct Route Revenue				
Vehicle tariff	68.3	71.3	(3.0)	(4.2%)
Passenger tariff	38.0	40.1	(2.1)	(5.2%)
Fuel rebates	(3.4)	(1.3)	(2.1)	(161.5%)
Net retail	8.8	8.8	-	-
Social program fees	3.9	5.5	(1.6)	(29.1%)
Other revenue	2.1	2.3	(0.2)	(8.7%)
Total Direct Route Revenue	117.7	126.7	(9.0)	(7.1%)
Indirect Route Revenue				
Ferry transportation fees	32.0	32.0	-	-
Federal-Provincial subsidy	7.3	7.2	0.1	1.4%
Total Route Revenue	157.0	165.9	(8.9)	(5.4%)
Other general revenue	0.5	0.4	0.1	25.0%
Total Revenue	157.5	166.3	(8.8)	(5.3%)

Average tariff revenue per vehicle (excluding the $3.1 million reservation fee revenue reduction as discussed above) increased $0.84 or 1.9% in the quarter compared to the same period in the prior year mainly due to the tariff increases allowed by the Commissioner. Average tariff revenue per passenger decreased $0.13 or 1.3% in the quarter compared to the same period in the prior year reflecting the impact of our passenger fare discounts on under-utilized sailings and changes in the proportion of traffic on routes with lower versus higher tariffs, partially offset by the tariff increases allowed by the Commissioner. The decrease in traffic levels and the change in average tariffs resulted in a $2.0 million decrease in tariff revenue excluding the $3.1 million reservation fee revenue reduction.

In the three months ended March 31, 2017, fuel rebates were $3.4 million compared to $1.3 million in the same period in the prior year. On April 1, 2016, fuel rebates increased from 1.0% to 2.9% on our Major and regulated Other Routes and a fuel rebate of 1.9% was implemented on the Northern Routes.

Social program fees decreased by $1.6 million in the quarter compared to the same period in the prior year mainly as a result of funding for seniors' discounts being discontinued.

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

Expenses
Our operating and net finance and other expenses for the fourth quarter of fiscal 2017 and fiscal 2016 are shown in the following tables:

Operating expenses	**Three months ended March 31**			
($ millions)			**(Increase) Decrease**	
	2017	**2016**	**$**	**%**
Operations	113.2	107.3	(5.9)	(5.5%)
Maintenance	21.0	26.7	5.7	21.3%
Administration	10.4	9.8	(0.6)	(6.1%)
Total operations, maintenance & administration	144.6	143.8	(0.8)	(0.6%)
Depreciation and amortization	38.7	38.7	0.0	0.0%
Total operating expenses	183.3	182.5	(0.8)	(0.4%)

The increase in operations costs of $5.9 million for the three months ended March 31, 2017 compared to the same period in the prior year is due to:

- $2.4 million increase in wages and benefits mainly due to wage rate increases in accordance with the Collective Agreement and an increase in overtime and in hours spent in training activities;
- $1.1 million increase in fuel costs ($0.7 million in higher fuel prices and $0.4 million in higher fuel usage). (For purposes of rate regulation, $2.0 million of fuel expenses in the quarter were recorded in deferred fuel cost accounts to be settled through fuel rebates.);
- $1.0 million increase in contracted services which include vessel replacement and snow removal costs; and
- $1.4 million increase in parts and supplies, computer costs, and travel expenses.

The decrease in maintenance costs of $5.7 million reflects variations in vessel refit and terminal repair scheduling.

The increase in administration costs of $0.6 million is mainly due to increased software licencing costs.

Depreciation and amortization was comparable to the same period in the prior year.

Net finance and other expenses	**Three months ended March 31**			
($ millions)			**(Increase) Decrease**	
	2017	**2016**	**$**	**%**
Finance expense				
Bond interest	14.4	14.4	-	-
KfW bank group (KfW) loans	1.4	1.4	-	-
Interest on finance lease	0.5	0.4	(0.1)	(25.0%)
Short-term debt	0.2	0.2	-	-
Capitalized interest	(1.7)	(1.4)	0.3	21.4%
Total finance expense	14.8	15.0	0.2	1.3%
Less: finance income	(1.2)	(1.2)	-	-
Net finance expense	13.6	13.8	0.2	1.4%
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	1.4	-	(1.4)	-
Total net finance and other expenses	15.0	13.8	(1.2)	(8.7%)

Net finance expense in the quarter was $0.2 million lower compared to the same period in the prior year, primarily due to a $0.3 million increase in capitalized interest.

Loss on disposal and revaluation of property, plant and equipment and intangible assets increased by $1.4 million, primarily due to asset impairment in fiscal 2017.

SUMMARY OF QUARTERLY RESULTS

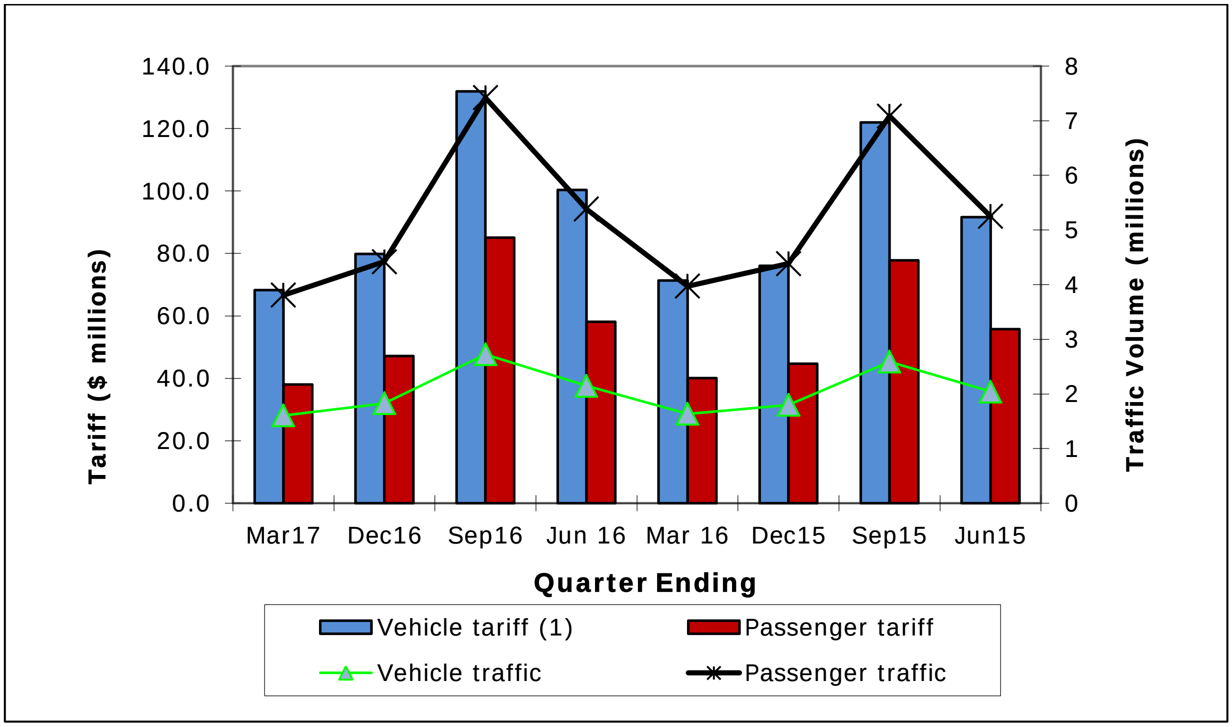
The table below compares earnings and comprehensive income by quarter for the most recent eight quarters:

	Quarter Ended (unaudited)							
($ millions)	**Mar 17**	**Dec 16**	**Sep 16**	**Jun 16**	**Mar 16**	**Dec 15**	**Sep 15**	**Jun 15**
Total revenue (1)	157.5	183.7	298.9	219.2	166.3	178.7	280.6	209.0
Operating (loss) profit	(25.8)	9.8	108.5	40.6	(16.2)	10.2	98.5	33.1
Net (loss) earnings	(40.8)	(4.0)	95.2	27.0	(30.0)	(3.7)	84.5	18.8
Other comprehensive (loss) income	(1.0)	6.3	(1.0)	10.3	(12.0)	(11.7)	(3.6)	3.5
Total comprehensive (loss) income	(41.8)	2.3	94.2	37.3	(42.0)	(15.4)	80.9	22.3

(1) Total revenue is net of cost of retail goods sold. The total revenue in the three months ended March 31, 2017 reflects lower traffic levels, higher fuel rebates and lower social program fees.

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:



(1) Effective April 1, 2016, vehicle tariff includes reservation fees. For comparative purposes, all quarters reflect this change.

INVESTING IN OUR CAPITAL ASSETS

We have established a formal project management framework and guidelines to ensure that capital investments meet our functional and business needs. 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 through 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 on a quarterly basis.

Capital Expenditures

Our 12-year capital plan, covering fiscal 2015 through 2026, consists of $3 billion to replace 14 aged vessels, execute mid-life upgrades for the Spirit class vessels along with upgrades and modifications for other vessels, make significant improvements at our terminals, and renew our information technology infrastructure. Total capital expenditures during fiscal 2015 through fiscal 2017 are shown in the table below:

Capital expenditures by fiscal year

($ millions)	**2015**	**2016**	**2017**
Vessel upgrades & modifications	43.8	85.8	71.2
Terminal marine structures	47.6	24.3	22.9
Information technology	23.5	31.9	30.9
Terminal building upgrades & equipment	9.7	10.8	12.8
Total (without new vessels)	124.6	152.8	137.8
New vessels	25.2	28.4	105.9
Total (including new vessels)	149.8	181.2	243.7

Capital expenditures in the 3 and 12 months ended March 31, 2017 totalled $90.5 million and $243.7 million, respectively, as set out in the following table:

($ millions)	**March 31, 2017**	
	3 months	**12 months**
Vessel acquistions, upgrades and modifications	66.6	177.1
Information technology	6.4	30.9
Terminal marine structures	11.6	22.9
Terminal and building upgrades and equipment	5.9	12.8
Total capital expeditures	90.5	243.7

Vessels
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 34 vessels with an average age of 32 years, and of these, 10 are 45 years old or older. From time to time, our aged fleet can experience mechanical issues that may have environmental and customer service impacts.

The first phase of our vessel renewal program involved upgrading and replacing a large share of our major vessels and terminal assets, with the most significant portion of this program completed during fiscal 2008 and 2009.

The next phase of vessel renewals began in fiscal 2010 with the commencement of design for new minor and intermediate sized vessels.

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. In our 12-year capital plan, we plan to replace or extend the life of 14 of these vessels. Our strategy for these new vessels includes design optimization, interoperability, and standardization of vessels across the fleet, to the extent possible, to provide more flexibility to respond to changes in the market demand and traffic forecasts. Operational experience will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability. We plan to adopt LNG as a fuel source where economically and technically feasible and are exploring the expansion of the use of batteries with stored energy capability.

Both LNG and the marine diesel we currently use meet all domestic and international emissions regulations. We believe a move to LNG would reduce costs and emissions. At this time, even with the current drop in diesel oil prices, LNG is forecast to remain less expensive than the ultra-low sulphur diesel we currently use and has significantly less emissions. We believe LNG is a viable option for some of our future new vessels and, as noted below, our three new Salish Class vessels have the capability to run on it. We also analyze LNG as an option for existing vessels undergoing major retrofits (such as our Spirit Class vessels as discussed below) and intend to pursue the option where it is feasible. FortisBC has provided us with up to a total of $16 million in incentive funding, $6 million for the Salish Class vessels and up to $10 million for the Spirit Class vessels, to help offset incremental capital costs associated with the use of LNG.

Capital expenditures for new vessels, vessel upgrades and vessel modifications in the 3 and 12 months ended March 31, 2017 comprised the following:

($ millions)	**March 31, 2017**	
	3 months	**12 months**
New Salish class vessels	53.1	105.9
Major overhauls and inspections	7.1	33.4
Spirit class mid-life upgrades	0.7	15.7
Queen of Cowichan betterment	0.3	4.5
Navigational equipment upgrades	0.8	4.1
Queen of Alberni betterment	1.9	3.7
Queen of Cumberland mid-life upgrade	-	1.5
Vessel for the Mid-Coast Service	1.4	1.4
Queen of Surrey 3/4-life upgrade	-	1.4
Other projects	1.3	5.5
	66.6	177.1

In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. of Gdansk, Poland to build three new Salish Class vessels. The contracts, with a total value of $165 million, form the majority of the total project budget of $206 million. The new vessels are dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and life-saving equipment moving us to a higher safety standard and improving interoperability. On May 16, 2017, the *Salish Orca* commenced regularly-scheduled service between Comox and Powell River. The *Salish Orca* replaced the 52-year old *Queen of Burnaby.* On June 21, 2017, the *Salish Eagle*, the second Salish Class vessel, commenced regularly-scheduled service on the Tsawwassen – Southern Gulf Island route. The *Salish Eagle* will replace the 53-year old *Queen of Nanaimo*. On June 7, 2017, the *Salish Raven* arrived in British Columbia after its 10,440 nautical voyage from Gdansk, Poland. The *Salish Raven* is expected to service the Southern Gulf Islands, commencing service in the second quarter of fiscal 2018. FortisBC has committed to provide us with up to $6 million in incentive funding to help offset incremental capital costs associated with the Salish Class vessels.

The $33.4 million in major overhauls and inspections of components of hull, propulsion and generators completed in the twelve months ended March 31, 2017 or currently underway include:

- $5.2 million for the *Coastal Renaissance*;
- $4.2 million for the *Queen of Alberni*;
- $4.0 million for the *Spirit of Vancouver Island*;
- $3.4 million for the *Queen of Cowichan;*
- $2.5 million for the *Bowen Queen*;
- $2.4 million for the *Northern Adventure*;
- $2.3 million for the *Skeena Queen*;
- $2.0 million for the *Queen of Surrey*;
- $1.7 million for the *Quinitsa;*
- $1.6 million for the *Kahloke*;
- $1.5 million for the *Northern Expedition*;
- $1.1 million for the *Coastal Celebration;* and
- $1.5 million for the *Spirit of British Columbia, Tachek, and the Queen of Cumberland.*

On March 24, 2016, we announced the award of a contract totalling $140 million to Remontowa Ship Repair Yard S.A. to conduct the mid-life upgrades, including conversion to dual-fuel, of our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia*. In fiscal 2017, expenditures of $15.7 million mainly consisted of the second milestone payment in accordance with the contract payment schedule for the vessels. The mid-life upgrade of the *Spirit of British Columbia* is expected to be completed during the spring of 2018 and the mid-life upgrade of the *Spirit of Vancouver Island* is expected to be completed the following year. We expect the conversion of these vessels to result in substantial savings, as LNG costs considerably less than marine diesel. We also expect the conversion to result in significant environmental benefits, such as reducing carbon 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 utilize LNG.

Fiscal 2017 is the first year of a three-year program to upgrade vessels with new navigational equipment. This year we upgraded the radar equipment, voyage data recorders and gyro compasses on several vessels to take us towards bridge standardization and further improve navigational safety.

A $5 million project upgrade for the *Queen of Cowichan* included upgrades to the mechanical and electrical equipment and standardization of the bridge. The *Queen of Cowichan* returned to service in December 2016.

A $4 million project upgrade for the *Queen of Alberni* included upgrades to the elevator, lighting and the electrical equipment and standardization of the bridge. The *Queen of Alberni* returned to service in February 2017.

An $18 million major upgrade and refit to the *Queen of Cumberland* included steelwork, upgrades to the propulsion system, passenger accommodation improvements, bridge standardization and safety improvements. The *Queen of Cumberland* returned to service in April 2016.

A $6 million project for phase one of a three-quarter life upgrade of the *Queen of Surrey* included upgrades to the electrical system, the fire protection system, the elevator and the propulsion, improvements to the pet area and replacement of the emergency generator. The *Queen of Surrey* returned to service in April 2016.

A $50 million project is underway for the acquisition and modification of a used vessel to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications and allow for the retirement of the 44 year-old *Nimpkish*.

Other projects include life-saving equipment for the *Northern Adventure* and spare right-angle drive units for the *Skeena Queen* and the *Island Sky* and the beginning of a project to build two new minor class vessels.

Information Technology

Capital expenditures for information technology in the 3 and 12 months ended March 31, 2017 comprised the following:

($ millions)	**March 31, 2017**	
	3 months	**12 months**
Customer service program	3.5	17.1
Hardware upgrades	1.5	4.5
Payroll system	-	2.8
Payment card process enhancement	0.6	2.0
Operations and security center applications	0.5	2.0
Other projects	0.3	2.5
	6.4	30.9

Our customer service program, which includes our Fare Flexibility and Digital Experience Initiative, will replace our aged website, e-commerce platform and reservations systems and upgrade our point-of-sale system and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and pricing initiatives. We believe this program will enhance our ability to efficiently respond to the changing needs of our customers. The main elements of this multi-year program will be implemented in stages and will introduce improved transaction processing and online booking with more choices in fares.

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

Our payroll system replacement is complete. This initiative replaced our legacy payroll and labour distribution systems and provides processing efficiencies and flexibility.

Our operation and security centre application upgrade includes both hardware and software to enhance our ability to respond to operational, engineering and security incidents and service interruptions.

Our payment card process enhancement project includes designing and implementing an integrated solution for data processing streams of each application that accepts payments. The first phase was completed in the fall of 2015 and the second phase of our customer payment solution is scheduled to complete by the end of fiscal 2018.

Other projects include upgrading our safety management system and dangerous goods information software.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the 3 and 12 months ended March 31, 2017 comprised the following:

($ millions)		March 31, 2017	
Terminal	**Description**	**3 months**	**12 months**
Langdale	Replace dolphin and gangways	8.6	13.2
Tsawwassen	Berth rebuild	-	4.4
Long Harbour	Life extend trestle and dolphin	0.8	1.7
Prince Rupert	Replace trestle and two dolphins	1.5	1.5
Various	Other projects	0.7	2.1
		11.6	22.9

At Langdale terminal, a $14 million project to replace four dolphins, the baffle wall and catwalk with a floating pontoon is expected to be completed by the end of the first quarter in fiscal 2018.

At Tsawwassen terminal, a $13 million project to replace a tower, abutment, ramp, dolphins, and wingwalls is complete.

At Long Harbour terminal, a $3 million project to life extend the trestle and dolphin, modify the apron (to accommodate a Salish Class vessel), upgrade the hydraulics and stabilize the shoreline is underway. This project is expected to be completed in the first quarter of fiscal 2018.

Other projects currently in progress include upgrades at Chemainus, Thetis Island, Sturdies Bay and Departure Bay terminals.

Terminal and Building Upgrades and Equipment

Capital expenditures for terminal and building upgrades and equipment in the 3 and 12 months ended March 31, 2017 comprised the following:

($ millions)	March 31, 2017	
	3 months	12 months
Vehicles and other equipment	0.9	3.0
Escalator and elevator upgrades at various terminals	1.9	2.6
Waiting room and upgrade to water treatment at Denman East and Denman West terminals	1.1	1.4
Richmond maintenance facility	0.2	0.7
Waiting shelter and upgrade water supply at Whaletown terminal	-	0.5
Signage standardization	-	0.4
Other terminal projects	1.8	4.2
	5.9	12.8

Vehicles and other equipment include a generator, welding trucks, tow tractors and a forklift at our maintenance facility.

An $8 million project is underway to upgrade escalators and elevators at our Horseshoe Bay, Tsawwassen, Departure Bay and Swartz Bay terminals.

A $1 million project at Denman East and a $1 million project at Denman West are underway to replace the waiting room, to upgrade the water treatment system and to replace the sewage treatment system at each location.

At our Richmond maintenance facility, a major project to seismically upgrade existing buildings, modernize underground infrastructure, and build a centralized shop and life raft servicing centre is in its early stages of design.

A $1 million project at Whaletown to replace the waiting shelter and to upgrade the water supply was completed in July 2016.

Several signage standardization projects, including way-finding signage at Duke Point, Departure Bay and various minor terminals, are now complete.

Other projects include a project at our Richmond maintenance facility to build a new parking lot, as well as upgrades at Langdale, Buckley Bay, Hornby and Alliford Bay terminals.

Financial
We expect positive net earnings in fiscal 2018, reflecting increases in discretionary traffic due to favourable economic conditions including the low Canadian dollar, fuel prices, tourism, the timing of Easter and limited fare increases partially offset by decreases in reservation fees.

We expect an increase in total revenue in fiscal 2018, reflecting the impact of the April 1, 2017 tariff increases, higher traffic levels and higher net retail revenues. Due to the volatility of fuel costs, we expect that fuel rebates in place at April 1, 2017 may need to be reduced somewhat during fiscal 2018.

We are considering future pricing promotions. These promotions give us the opportunity to test variable pricing and will provide information on traffic trends, customer responses and impacts to operations for the Fare Flexibility and Digital Experience Initiative. This initiative will change the way we price fares. It will give customers an opportunity to purchase travel in advance at discounted rates, on select off-peak sailings on reservable routes. We expect it will help shift traffic to sailings that typically run with low capacity utilization.

The Commissioner established price caps for PT4 which incorporate an efficiency target of $27.6 million, to be achieved by us over the four years of PT4. We expect to meet the target.

We expect a modest increase in total expenses in fiscal 2018, reflecting higher wage and benefit costs resulting from the implementation of the Collective Agreement and introduction of new assets, higher vessel and terminal maintenance costs, and higher costs from growth in traffic partially offset by savings from the implementation of the Salish Class vessels. We continue to manage our costs prudently without compromising safe operations.

Major Investments
Our 12-year capital plan, covering fiscal 2015 through 2026, consists of $3 billion to replace 14 aged vessels, execute mid-life upgrades for the Spirit class vessels as well as upgrades and modifications for other vessels, make significant improvements at our terminals, and renew our information technology infrastructure.

Minor Class Vessel Replacements
On April 13, 2017, we executed a $60 million design and build contract with Damen Shipyard Group of Netherlands, for the construction of two minor class vessels. This contract became effective on May 17, 2017. These vessels will each have a capacity of up to 300 passengers and approximately 44 vehicles. When these new vessels are placed into service, it will allow us to retire the 59-year old *North Island Princess* and the 53-year old *Howe Sound Queen*, subject to satisfying regulatory requirements. We intend to deploy the first new vessel to provide service from Powell River to Texada Island and the second new vessel to provide service from Port McNeill to Alert Bay and to Sointula.

Shuttle Class Vessels
Planning is underway to replace the *Bowen Queen*, the *Mayne Queen* and the *Powell River Queen*, all of which were built in 1965 and carry approximately 60 vehicles. The three new vessels will be the first of the new shuttle class and each will carry approximately 100 vehicles.

Terminals
At our Richmond maintenance facility, planning is underway to upgrade and redevelop the facilities to replace aging infrastructure and increase operating efficiency. The multi-year project to seismically upgrade the site, modernize infrastructure and build a centralized shop and life raft servicing centre is in its design stage.

The Langdale terminal development plan involves upgrades designed for the safety and convenience of our customers. The flow of vehicles will be restructured with a new pick-up/drop-off area and a new toll plaza, and passengers will be separated from vehicle traffic with the construction of a new terminal building and elevated walkway. On March 21, 2017, the Government of Canada approved funding under the New Building Canada Fund towards this major upgrade.

Over the next 10 years, an estimated capital investment of $0.5 billion is expected to be required at the terminals serving the Major Routes, including Horseshoe Bay, Swartz Bay, and Tsawwassen terminals. Careful consideration, extensive detailed design and consultation with stakeholders will be done before these projects proceed.

We face particular on-time challenges on the routes using Horseshoe Bay terminal. Our initiatives to improve on-time performance have included adjusting and/or expanding sailing schedules, adjusting crewing schedules and refining vehicle loading processes during peak periods. These initiatives have helped somewhat to improve on-time performance, however, significant reconfiguration of the terminal layout will be necessary to optimize functionality to improve loading and unloading times and improve on-time performance to an acceptable level.

Service Enhancements
On March 8, 2017, we executed an amendment to the CFSC with the Province that includes a new seasonal direct ferry service between Port Hardy and Bella Coola beginning in the summer of 2018. On April 7, 2017, we finalized an agreement to acquire a 75-metre vessel with ownership to transfer in August 2017. In fiscal 2018, it will undergo major upgrades and mechanical modifications to be ready for summer service in 2018 (fiscal 2019). This vessel already fits in our major northern berths while several smaller terminals will require modification to accommodate the new vessel. We will be consulting with the mid-coast community regarding the exact sailing schedule, the naming of the vessel and the onboard amenities.

Our customer service program, which includes the Fare Flexibility and Digital Experience Initiative, will replace our aged website, and e-commerce platform and upgrade our point-of-sale and reservations systems. This 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. The main elements of this multi-year program will be implemented in stages over the next few years. 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 at a sailing level. The Fare Flexibility and Digital Experience Initiative will introduce a new system to manage fares at a sailing level, improve operational efficiency through better capacity management, provide customers with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels.

Summary

We continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2017 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 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 economy, weather, transportation costs (including vehicle gasoline prices and ferry fares), the value of the Canadian dollar, global economic change, tourism levels, disposable personal income, demographics, and population growth.

There is a fair amount of uncertainty in the market and mixed opinions regarding the impact the new US administration will have on the Canadian economy. We remain confident that as long as the Canadian dollar stays low and oil prices continue at current levels, the fundamentals impacting our traffic will remain favourable, and we should continue to see traffic growth and positive earnings in the near-term.

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgement. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on our current borrowing rate for similar borrowing arrangements.

Credit Risk

Our exposure to credit risk is limited to the carrying value on our statements of financial position for cash, short-term investments, derivative assets and trade and other receivables. While there is a risk that a third party may fail to meet its obligations under the terms of a financial instrument we do not believe that it is a significant risk.

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

Our credit risk from trade customers is limited by having a large and diversified customer base and is managed through the review of third-party credit reports, utilizing pre-authorized payment plans, monitoring of aging of receivables, and collecting deposits and adjusting credit terms for higher risk customers. Amounts due from the Province and the Government of Canada are considered low credit risk. At March 31, 2017, 22% of our trade and other receivables were comprised of amounts due from the Province and the Government of Canada and 99% of our trade and other receivables were current.

Vendor Risk

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

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

Liquidity Risk

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

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

Risk mitigation: We manage liquidity risk through daily monitoring of cash balances, the use of long-term forecasting models and the maintenance of a credit facility and debt service reserves. Our credit ratings at March 31, 2017, were “A” (DBRS) with a positive trend and “AA-” (S&P) with a stable outlook.

Market Risk

Interest Rate

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

Risk mitigation: To manage this risk, we maintain between 70% and 100% of our debt portfolio in fixed rate debt, in aggregate. In addition, we may enter into interest rate agreements to manage our exposure on debt instruments. A 50 basis point change in interest rates would not have had a significant effect on our fiscal 2017 earnings.

Foreign Currency

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

Risk mitigation: To manage exposure on future purchase commitments, we review our foreign currency denominated commitments and hedge through derivative instruments as appropriate. With the possible exception of fuel prices (see discussion below), a 10% change in the US dollar or Euro foreign exchange rates would not have had a significant effect on our fiscal 2017 earnings.

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. There is uncertainty of the impact on future ferry traffic levels if fuel surcharges and therefore total tariff levels rise significantly. There is a risk of a decline in ferry traffic levels as a result of increasing customer costs resulting from the implementation of fuel surcharges.

Risk mitigation: To mitigate the effect of volatility in fuel 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 order to reduce fuel price volatility and add a fixed component to the inherent floating nature of fuel prices. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Pursuant to our Financial Risk Management Policy, the term of the contracts is not to extend beyond the greater of three years or the end of PT4. This policy limits hedging to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12-month period, 90% of anticipated monthly fuel consumption for the 12-month period thereafter, and 85% of anticipated monthly fuel consumption for the remaining 12-month period which is the end of PT4. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2017, we had $66.7 million in fuel forward contracts for marine diesel. At March 31, 2017, 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, 2017 we held one foreign exchange forward contract with a carrying and fair value liability of $5 thousand while at March 31, 2016 we held six such contracts with a carrying and fair value receivable of $11 thousand. There were no interest rate forward contracts in place at March 31, 2017 or at March 31, 2016.

At March 31, 2017 we held fuel forward contracts for marine diesel with a carrying and fair value asset of $1.6 million and liability of $1.0 million. At March 31, 2016, we held fuel forward contracts with a carrying and fair value liability of $17.9 million. At March 31, 2017, with the application of hedge accounting, the unrealized gain of $12.1 million was recognized in other comprehensive income. At March 31, 2016, the unrealized loss of $24.2 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, 2017, and 2016 are as follows:

($ millions)	2017 Carrying Value	2017 Fair Value	2016 Carrying Value	2016 Fair Value
Financial Assets				
Cash and cash equivalents	72.0	72.0	79.1	79.1
Restricted short-term investments	32.4	32.4	32.0	32.0
Other short-term investments	115.6	115.6	61.5	61.5
Trade and other receivables	15.3	15.3	16.2	16.2
Long-term loan receivable	24.5	24.5	24.5	24.5
	259.8	259.8	213.3	213.3
Financial Liabilities				
Accounts payable and accrued liabilities	55.2	55.2	58.2	58.2
Interest payable on long-term debt	18.5	18.5	18.3	18.3
Long-term liability	5.3	5.3	1.5	1.5
Long-term debt, including current portion	1,304.8	1,597.8	1,242.1	1,529.2
	1,383.8	1,676.8	1,320.1	1,607.2

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

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

BUSINESS RISK MANAGEMENT

We continue to employ a variety of commonly accepted methodologies to identify, assess and mitigate risks. We have processes in place to manage risks that inevitably arise in the normal course of business. We have an integrated approach to managing risk, involving our Board of Directors through to 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 also for considering the possible impact such risks may have on other areas. To ensure we focus on safety as our first priority, all operational meetings are expected to start with safety as the first item on the agenda. This helps ensure that safety and risk are always front and center for all employees.

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

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

The following is a list of our principal business risks:

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 federal ship procurement strategy. As a result, ship repair labour and dry-docking availability may become over-subscribed in the coming years.

The inability to acquire timely and cost-effective ship repair services 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. Also, alternatives to using local facilities are explored.

Major Capital Projects

We have several major capital projects underway, including the Salish Class vessels, the mid-life upgrades of the *Spirit of British Columbia* and the *Spirit of Vancouver Island*, the building of two new minor class vessels, acquisition and modification of a used vessel and the necessary terminal modifications, the Fare Flexibility and Digital Experience Initiative and the Automated Customer Experience Program. 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 management framework is in place to govern all corporate projects. Also in place to monitor projects is a quality assurance framework which includes policies, standards and metrics.

We ensure each project has executive sponsorship, a project owner and a project analyst. As well, each major project has a steering committee and associated governance to ensure business alignment with desired outcomes.

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

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

Security

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

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

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

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

We have an internal control framework with defined control objectives for information and related technology which guides our governance and control processes. This assists us in ensuring the security, confidentiality and integrity of our information.

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

Safety

The safety of the public and our employees is our highest priority. Ineffectiveness of policy and procedures, equipment, maintenance, training, supervision, facility design and security measures may increase the risk to passenger and employee safety and/or property damage.

We also have significant food and beverage sales, both on our vessels and at our terminals, and there is a risk of a foodborne illness contracted from contaminated products purchased from our food services.

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

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

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

We adhere to a program of internal and external safety audits designed to verify our compliance with our safety management system. In fiscal 2014, we participated in the BC Maritime Employers Association's Certificate of Recognition Program which takes participating companies beyond basic safety compliance and sets an industry standard for developing a safety management system. As a result, in fiscal 2015, we received our first ever COR resulting from an audit of our Health & Safety Management and our Injury Management which sampled 15 worksites and interviewed approximately 250 employees. During fiscal 2017, we completed the process of renewing the COR by engaging an independent external consultant to do a recertification audit. We expect to receive confirmation of renewal of the COR for another three years.

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

Customer Demand
Our vehicle and passenger traffic levels in fiscal 2017, as compared to the prior year, increased 2.9% and 1.7%, respectively. In fiscal 2017, traffic continued to be favourably impacted by the low Canadian dollar, increases in tourism and general economic activity in British Columbia. Traffic was negatively impacted by more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year and no Easter holiday weekends falling in fiscal 2017.

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.

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

Risk mitigation: We are constrained by the CFSC, which stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry route. Recognizing our ability to reduce capacity is constrained by the CFSC, we continually monitor traffic demand and leading indicators to meet requirements in an efficient and effective manner. We respond to increases in traffic demand by adding extra sailings and capacity where required.

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

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 are emerging in some areas in which we operate.

Risk mitigation: We have invested in the SailSafe Simulator at Camosun College’s new trades facilities to guarantee access to the best training tools. We provide internal training and development opportunities and support external training for advancement. We were named one of B.C.’s Top Employers (2017). This award recognizes workplaces for offering progressive and forward-thinking programs for employees and aids in attracting employees to our company.

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

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

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

Regulations – Other

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

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

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

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

We also have the opportunity to apply to the Commissioner under section 42 of the Act for an extraordinary price cap increase or other relief if the introduction of new safety or other regulations impose a new, unexpected and significant cost burden.

Economic Regulatory Environment

We cannot predict what changes the Province may make to the Act or to other legislation, nor can we predict how the Commissioner's interpretation and administration of the Act may change over time. Such changes may impact our profitability.

The appointment term of the Commissioner has been extended to November 1, 2017. Commissioner Order 15-03 established final price cap increases of 1.9% for each of the four years of PT4, being the four year period ending on March 31, 2020. There remains uncertainty in the Commissioner's future price cap rulings.

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

Access to Capital Markets

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

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

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

Regulations – Environmental

Our operations are subject to federal, provincial and local environmental laws and regulations dealing with various operations, including solid and liquid waste management, air quality and oil spill response.

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

If we were to be involved in an environmental accident or be found in material violation of applicable law and regulations, we could be responsible for material clean-up costs, repair of property damage, and fines or other penalties.

Risk mitigation: We will continue to comply with environmental laws and regulations and actively search for ways to improve our environmental performance to help us become an industry leader in environmental management. Our environmental policy provides a framework for setting environmental targets and to encourage best practices. We have training programs in place that include training our staff in environmental awareness and first response to an oil spill and we conduct regularly scheduled oil spill drills on our vessels and at our terminals.

We have launched an initiative that brings together our existing environmental activities, conservation efforts, community investments and new sustainability endeavours under a single program called SeaForward. Our three key initiatives in the first year of the program include increasing composting and recycling, the tracking of whale sightings in association with the BC Cetacean Sightings Network, and our employees actively participating in the Great Canadian Shoreline Clean-up.

We have received certification from Green Marine as a ship-owner, a terminal operator and as a shipyard. Green Marine is an environmental program where the intent is for participants to reduce their environmental footprint by undertaking concrete and measurable actions. Earlier this year, we were recognized by Green Marine as having achieved significant year-over-year improvement when evaluated against their performance indicators.

For 2017, Green Marine has established underwater noise as a key performance indicator. 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.

We constantly look for ways to reduce fuel consumption and emissions on our vessels. We continue to use ultra-low sulphur diesel with a 5% biodiesel component on the vast majority of our vessels across the fleet and we meet the North American Emission Control Area standards for sulphur content that were set for 2015. We have implemented a wide variety of fuel-saving measures ranging from operating our vessels more efficiently to installing new, more fuel-efficient engines on some of our vessels and fuel monitoring systems on others and designing and building our new vessels to meet or exceed current environmental standards.

Our cable ferry, the *Baynes Sound Connector,* is an innovative initiative and part of our ongoing efforts to identify and pursue opportunities that have the potential to enhance our ability to improve environmental impact. The *Baynes Sound Connector* achieved its one-year anniversary of regularly scheduled service in the last quarter of fiscal 2017. The cable ferry consumes 50% less fuel compared to the previous vessel providing the service.

We are also actively pursuing LNG options for new vessels and vessels undergoing major retrofits because we believe that a move to this fuel source would reduce emissions as well as costs. Our three Salish Class ferries, entering service this summer, are dual-fuel capable and will be operated as much as possible on LNG. The mid-life upgrade, including conversion to dual-fuel, of the *Spirit of British Columbia* and the *Spirit of Vancouver Island* could result in significant environmental benefits. Both LNG and the marine diesel we currently use meet all current domestic and international emissions regulations. Our new minor 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 have programs in place to protect the environment and reduce GHG. Besides using biodegradable hydraulic oils, we recycle beverage containers, cardboard, newsprint, plastics, wood, metal, spent fluorescent tubes, batteries, aerosol spray cans, old upholstery foam and used cooking oil. We continue to expand our composting program and to replace chemical products with more environmentally friendly solutions. We also reduce GHG levels by transferring vessels to shore-power while berthed overnight at several of our terminals, promoting anti-idling and increasing waste diversion. We expanded our shore-power program to additional terminals by upgrading the current shore power installations and adding new shore-power installations where necessary to provide sufficient capacity to provide power to the vessels.

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

We actively work with Oceans Network Canada and provide three of our vessels as platforms for instrumentation to monitor meteorological and sea-surface properties in the Salish Sea.

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

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

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

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

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

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

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

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

Risk mitigation: We have the opportunity to apply to the Commissioner under section 42 of the Act for an extraordinary price cap increase or other relief in the event of an extraordinary situation, which imposes a new, unexpected and significant cost burden.

First Nations Issues
First Nations issues normally arise in British Columbia when a company seeks governmental approvals for its activities. Canadian courts have said that governments must consult with First Nations before making any decision that could potentially affect Aboriginal interests, even when the extent and nature of those interests has not been formally proved in court or recognized in a treaty. Potential Aboriginal rights are especially significant in British Columbia because most of the Province is subject to far-reaching claims of Aboriginal rights and title, including in coastal areas where we operate. These claims could have importance if we seek new property rights or approvals from government.

Risk mitigation: Under the master agreement (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 should that right or interest interfere with our quiet enjoyment of the ferry terminal properties as set out in the Terminal Leases.

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

Our significant accounting policies are contained in note 1 to our consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex 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, projected salary increases, retirement age and termination rates. An actuarial valuation of the plan at March 31, 2016, was obtained and the accrued benefit obligation estimated at $19.2 million. The retirement liability was increased and the actuarial loss of $1.5 million was recognized in other comprehensive income during fiscal 2017. The main driver of the increase in the liability was a lower employee turnover rate than previously estimated. The liability included in accrued employee future benefits in our financial statements at March 31, 2017, was $18.9 million ($17.7 million at March 31, 2016).

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

We annually review asset lives in conjunction with our longer-term asset deployment, replacement and upgrade strategies. When we determine that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to the remaining period over which they are depreciated or amortized. 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. In fiscal 2016, we changed the estimate of useful lives of vessel hulls from 40 to 45 years. The change was applied prospectively effective April 1, 2015.

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 related 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. This can be at the asset, cash-generating unit or route group level. 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.

Price caps for each route group, as defined in the CFSC with the Province are set by the Commissioner based on the principle that the costs necessary to provide the service system-wide are recovered.

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, 2016:

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The application of these amendments did not have any impact on our interim consolidated financial statements.

The IASB has published a *Disclosure Initiative (Amendments to IAS 1)* with narrow-scope amendments clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in preparing their financial reports. The application of this standard did not have any impact on our audited consolidated financial statements.

The IASB published amendments to IAS 7 *Statement of Cash Flows*. These amendments require a disclosure of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The mandatory effective date is April 1, 2017. We early adopted, as permitted. The application of these amendments did not have any impact on our consolidated financial statements, other than additional disclosure as presented in note 8 to our March 31, 2017 audited financial statements.

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

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, providing guidance on the amount and/or timing of recognition of revenue. IFRS 15 will be effective for us April 1, 2018. Earlier application is permitted. We are in the process of analyzing our revenues and assessing the financial reporting impact of the adoption of this standard. Although we have made progress in our analysis using the IFRS 15 five-step model as the basis to recognize revenue, we have not yet quantified the impact of the new standard on our financial statements.

IFRS 9 *Financial Instruments* (2014) introduces a new expected credit loss model for calculating impairment, and incorporates guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). Mandatory adoption of IFRS 9 (2014) for us will be April 1, 2018. We adopted *IFRS 9 Financial Instruments* (2013) in fiscal 2015 and as such will only be impacted by the expected credit loss model when we adopt IFRS 9 (2014). This model applies to our trade receivables and long-term loan receivable. We have determined that we will need to establish an expected credit loss for our trade receivables. We do not expect the application of IFRS 9 to have a significant impact on our consolidated financial statements, other than additional disclosure, as we have 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 assets 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. This standard will be effective for us April 1, 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied. Our audited consolidated financial statements for the year ended March 31, 2017 disclosed our future lease commitments of $2.7 million, representing 16 leases. We are in the process of reviewing our leases and assessing the financial reporting impact of the adoption of this standard. We do not expect the application of IFRS 16 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 U.S. 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, fuel prices, and fiscal 2018 net earnings; recertification of the COR from WorkSafeBC; our short-term and long-range business plans, capital expenditure levels, asset renewal programs for vessels and terminals, our customer service program, Fare Flexibility and Digital Experience Initiative, pricing promotions, Salish Class vessels, the loan agreement with KFW IPEX-Bank GmbH, the agreement with FortisBC Energy Inc. regarding incentive funding, the New Building Canada Fund, the Baynes Sound Connector, LNG plans, Spirit Class mid-life upgrades, minor class vessel replacements, shuttle class vessels, the seasonal direct ferry service between Port Hardy and Bella Coola, and safety, environmental and training projects; our expectations regarding vacation package sales growth, food sales, and sales of quality apparel; total revenue and expense projections, and how our cash requirements will be met in the near term; and our expectations regarding the impacts of IFRS 9, IFRS 15, and IFRS 16 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 First Nation claims.
Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Management's Discussion and Analysis are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Management's Discussion and Analysis, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

Non-IFRS Measures

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

SCHEDULE A

Corporate Structure and Governance
Board of Directors

British Columbia Ferry Services Inc. (“BC Ferries” or the “Company”) is a company incorporated in British Columbia which 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, 2017, the board was composed of the following directors:

Chair:	Donald P. Hayes
Members:	Jane M. Bird, Bruce A. Chan, John A. Horning, Brian G. Kenning, Gordon M. Kukec, Gordon R. Larkin, Sarah Morgan-Silvester and P. Geoffrey Plant (vice chair)

Gordon R. Larkin retired from the board on June 23, 2016, and Sarah Morgan-Silvester was elected a director effective that date.

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

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

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

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

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

The recruitment of directors is undertaken with the objective of ensuring the board is composed of 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 the fiscal year were determined by the board to be independent pursuant to the definition of independence adopted by the board.

Directorships

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

Jane M. Bird:	Director, IBI Group Inc.
	Director, Western Forest Products Inc.
Brian G. Kenning:	Director, MacDonald Dettwiler & Associates Inc.
	Director, West Fraser Mills Ltd.
Sarah A. Morgan-Silvester:	Director, Canadian Western Bank
	Director, Enmax Corporation

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 approved and adopted a Code of Business Conduct and Ethics (the “Code”) in November 2004; the Code was subsequently reviewed and amended by the board in November 2009. Notice of adoption, and subsequent amendment of the Code as Company policy, was communicated to the Company's personnel by intra-Company information bulletin and BC Ferries’ newsletter for personnel. In addition, the Code has been posted on the Company's intranet website for Company personnel, and on the Company's internet site. The amended Code was filed on SEDAR on November 24, 2009. The board has also adopted a Corporate Disclosure and Securities Trading Policy and a Corporate Communications Policy, both of which are also posted on the Company’s intranet and internet sites.

As part of the Company’s disclosure controls process, in conjunction with quarter-end financial reporting, appropriate managers are required to 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.

The Governance & Nominating Committee makes recommendations to the board on suitable candidates for nomination to the board. These recommendations take into consideration the skills, experience and expertise of the incumbent and retiring members of the board and those of the nominees, including knowledge of or presence in the communities served by BC Ferries. 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. This 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.

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 applies to 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. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* ("Bill 20"), an individual who held such a position on the date Bill 20 received first reading in 2010 is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries.

An executive compensation plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such 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.

In the fiscal year ended March 31, 2012, the Authority, on the recommendation of the board, approved an executive compensation plan with an effective date of October 1, 2011 (the "original plan"). In the fiscal year ended March 31, 2017, in accordance with the CFA and Bill 20, that plan governed the remuneration of the Company's President & CEO and Chief Financial Officer, but not the remuneration of any other executive.

In the fiscal year ended March 31, 2017, as a consequence of the Company's need to recruit a new President & CEO to replace the incumbent who had indicated that he would be stepping down from the position at the end of the fiscal year, the Human Resources & Compensation Committee, with the assistance of an independent, third-party compensation expert, undertook a review of the remuneration limits set out in the original plan in conjunction with market data from appropriate Canadian and provincial public sector employer organizations. Based on this review, the board, on the advice of Human Resources & Compensation Committee, recommended adjustments to the maximum levels of remuneration set out in the plan to the Authority. The Authority concurred with the recommendations and established a new executive compensation plan incorporating the new remuneration limits (the "new plan") effective September 1, 2016. The new plan is available for public view on the Authority's website (www.bcferryauthority.com). The remuneration of the Company's new President & CEO, appointed effective April 1, 2017, was set in accordance with and is governed by the new plan. The new plan provides that an individual whose remuneration was set under the original plan will continue to be governed by the original plan for so long as that individual's remuneration remains unchanged. The remuneration of the incumbent President & CEO and the Chief Financial Officer, which was set under the original plan, remained unchanged following the effective date of the new plan and, accordingly, their remuneration continued to be governed by the remuneration limits in the original plan throughout fiscal 2017.

Executive Compensation Process

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

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

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

Director Compensation

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

In the fiscal year ended March 31, 2011, upon the recommendation of the board, the Authority approved a directors' compensation plan with an effective date of October 1, 2010. The plan was developed with the assistance of an independent third-party compensation expert and describes the philosophy for the compensation of BC Ferries' directors and the remuneration that can be provided to them. Remuneration for directors of BC Ferries was amended and set by the Authority effective October 1, 2010, in accordance with the approved directors' compensation plan. The plan is available for public view on the Authority's website.

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

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

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

Mandates
In the fiscal year ended March 31, 2017, the board had five committees, each of which operated according to a specific mandate established by the board. The committees and their mandates are described below.

<u>Audit & Finance Committee</u>
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 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.

Since April 2, 2003, all recommendations of the committee to nominate or compensate an external auditor have been adopted by the board.

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

	Year ended March 31	
External Auditor billings ($ thousands)	**2017**	**2016**
Audit and audit related	176.4	187.2
Tax services	2.3	2.3
Accounting advisory	1.4	2.0
	180.1	191.5

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 appointment 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.

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;
- in respect of projects which have been approved by the board:
  - review the governance structure for the projects;
  - regularly review and monitor progress against scope and budget, as well as material changes in the schedule and risk profile of the projects;
  - review and recommend to the Audit & Finance Committee and the board any changes in authorized scope and budget of the projects; and
  - upon project completion, ascertain whether the projects have met their objectives.

Composition
The memberships of the committees in the fiscal year ended March 31, 2017 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, 2017				
	Audit & Finance	**Safety, Health, Environment & Security**	**Governance & Nominating**	**Human Resources & Compensation**	**Strategic Projects**
Donald P. Hayes	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)	• (ex-officio)
Jane M. Bird[1]		• (chair)	•	•	
Bruce A. Chan	•	•			•
John A. Horning	•			• (chair)	•
Brian G. Kenning	• (chair)			•	
Gordon M. Kukec[2]		•	•	•	• (chair)
Gordon R. Larkin[3]		•		•	
Sarah A. Morgan-Silvester[4]	•	•		•	
P. Geoffrey Plant[5]	•	•	• (chair)		

Notes:

1. Jane M. Bird was appointed a member of the Human Resources & Compensation Committee effective June 23, 2016.
2. Gordon M. Kukec ceased to be a member of the Human Resources & Compensation Committee and was appointed a member of the Safety, Health, Environment & Security Committee effective June 23, 2016.
3. Gordon R. Larkin ceased to a director and a member of the Safety, Health, Environment & Security Committee and the Human Resources & Compensation Committee effective June 23, 2016.
4. Sarah A. Morgan-Silvester was appointed a director and a member of the Audit & Finance Committee, the Safety, Health, Environment & Security Committee, and the Human Resources & Compensation Committee effective June 23, 2016.
5. P. Geoffrey Plant was appointed a member of the Safety, Health, Environment & Security Committee effective June 23, 2016.

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 the fiscal year ended March 31, 2017, the board engaged an independent consultant to coordinate the board evaluation. The consultant obtained the directors' views on matters related to the effectiveness of the board through the use of questionnaires and individual discussions with each director. The evaluation included an assessment of the performance of the board as a whole with respect to best practices in board governance, as well as a director self-assessment and peer review related to best practices for board directors. The peer review results for each director were shared with the respective director and the chair of the board and the chair of the Governance & Nominating Committee, and discussions on the results were held between the individual directors and the board chair. The results of the board evaluation were provided to the board, together with the consultant's recommendations for action. The results and the recommendations arising from the board evaluation have and will continue to inform the deliberations and decisions of the board.

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