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

For the three and six months ended September 30, 2016

Dated November 25, 2016

Table of Contents

BUSINESS OVERVIEW 3
Economic Regulatory Environment – PT4 5
The Effect of Rate Regulation 7
FINANCIAL AND OPERATIONAL OVERVIEW 9
Safety and Environment 10
Training 11
Revenue 12
Expenses 24
LIQUIDITY AND CAPITAL RESOURCES 26
SUMMARY OF QUARTERLY RESULTS 28
INVESTING IN OUR CAPITAL ASSETS 29
OUTLOOK 33
FINANCIAL RISKS 35
BUSINESS RISK MANAGEMENT 35
ACCOUNTING PRACTICES 36
FORWARD LOOKING STATEMENTS 38

Management's Discussion & Analysis
of Financial Condition and Financial Performance
For the three and six months ended September 30, 2016
Dated November 25, 2016

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. ("BC Ferries") for the three and six months ended September 30, 2016 and has been prepared with information available as of November 25, 2016. This discussion and analysis should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the six months ended September 30, 2016 and 2015, and our audited consolidated financial statements and related notes for the years ended March 31, 2016 ("fiscal 2016") and March 31, 2015 ("fiscal 2015"), together with our Management's Discussion & Analysis for 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 1,000 miles of coastline. We also manage ferry transportation service on other remote routes through contracts with independent operators.

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

We provide a wide range of ferry services for our customers. During the three months ended September 30, 2016 (the second quarter of fiscal 2017), we provided over 46,000 sailings (629 more than the same period in the prior year), carrying 7.4 million passengers and 2.7 million vehicles. During the three months ended September 30, 2016, passenger traffic increased 4.8% and vehicle traffic increased 5.1% compared to the same quarter in the prior year, contributing to strong financial performance in the second quarter of fiscal 2017. Year-to-date, we have carried 12.8 million passengers and 4.9 million vehicles. The vehicle and passenger traffic levels we experienced in the three and six months ended September 30, 2016, are the highest since the same periods in fiscal 2008. For a more detailed discussion of our traffic levels, see "Financial and Operational Overview" below.

Significant events during or subsequent to the three months ended September 30, 2016 (the second quarter of fiscal 2017) include the following:

- On August 19, 2016, our Board announced that our President and CEO Mike Corrigan would be stepping down from his role effective March 31, 2017, at the completion of his current contract. The Board has commenced an executive search to identify Mr. Corrigan's replacement, considering both internal and external candidates.

- On August 24, 2016, we submitted a supplemental application to the British Columbia Ferries Commissioner (the "Commissioner") for our Fare Flexibility and Digital Experience Initiative, reflecting updated capital cost estimates for the initiative. On September 21, 2016, the Commissioner issued Order 16-02 and confidential Order 16-02A, approving the revised amount of the major capital expenditure for the initiative. On September 23, 2016, we signed a contract with the system integrator, whose role on the project is to ensure alignment between existing enterprise applications and the new Fare Flexibility and Digital Experience application, and is best practice for maintaining a cohesive enterprise IT infrastructure.

- On September 6, 2016, the Province announced its intent to start seasonal direct ferry service between Port Hardy and Bella Coola beginning in the summer of 2018. This new service will require acquiring a suitable vessel, having it approved by Transport Canada and modifying docks as necessary. An amendment to the Coastal Ferry Services Contract ("CFSC") will need to be agreed to in respect of the specific service to be delivered and the service fees payable for the service.

- 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, with each report to include information on the revenues and the direct and indirect costs associated with the drop trailer service. (See "Economic Regulatory Environment – PT4" below for more detail.)

- 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 November 21, 2016, we conditionally accepted our new intermediate ferry, the *Salish Orca* from Remontowa Shipbuilding S.A. and on November 22, 2016, the vessel departed Gdansk, Poland for its 45 to 55 day voyage to Canada. The *Salish Orca* will replace the 51-year old *Queen of Burnaby* on the Comox – Powell River route. (See "Outlook – Asset Renewal Program" below for more detail.)

- On November 22, 2016 and November 25, 2016 we drew down $39 million and $6 million respectively for a total of $45 million, under the export loan agreement with KfW IPEX-Bank GmbH, to coincide with the contractual milestones for the *Salish Orca*. This amortizing loan will be repaid over a 12-year term and bear an annual interest rate of 2.09%. The net proceeds from the loan will be used to partially finance the purchase of the *Salish Orca*. (See "Liquidity and Capital Resources" below for more detail.)

Economic Regulatory Environment – PT4

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 performance term four ("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;
- 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);
- Establishment of the set price per litre at 46.4 cents for liquefied natural gas ("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 compliance calculation for performance term three ("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 approved by Order 15-01 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 for BC seniors travelling Mondays through Thursdays from 100% to 50% 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, or at the discretion of the Commissioner, when we reached a certain volume of drop-trailer traffic, 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 the Commissioner undertook a review. In February 2016, the Commissioner issued a notice of procedures regarding drop-trailer regulation under section 45.1 of the *Coastal Ferry Act* (the "Act"). The notice set out five questions the Commissioner would consider in making a determination in regard to resetting the MAAT for drop-trailer services.

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 costs and do not have any unfair competitive advantages in providing this service, the Commissioner is not authorized by the Act to set a MAAT. The order discontinued the MAAT effective September 6, 2016, and established new reporting requirements for us that are intended to enable the Commissioner to confirm that we are not pricing our drop trailer service below cost in the future.

The Effect of Rate Regulation

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

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

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

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

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the receivable represented by the regulatory assets at September 30, 2016 will be recovered in the future. These regulatory assets and liabilities are considered supplemental disclosures and are detailed in note 15 to our September 30, 2016 unaudited interim condensed 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 three and six month periods ended September 30, 2016 and 2015 would be as follows:

($ millions)		**Three months ended September 30**		**Six months ended September 30**	
		2016	**2015**	**2016**	**2015**
Net earnings		95.2	84.5	122.2	103.3
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs (a)					
Fuel costs under set price	Operations expense	(0.8)	(2.0)	(3.9)	(3.9)
Fuel rebates	Fuel rebates	6.2	2.1	11.0	3.7
Payments from the Province	Ferry service fees	-	(0.3)	-	(0.6)
		5.4	(0.2)	7.1	(0.8)
Tariffs in excess of price cap (b)					
Obligation settled during the period	Vehicle and passenger fares	-	1.9	-	1.0
Increase in total net earnings		5.4	1.7	7.1	0.2
Adjusted net earnings		100.6	86.2	129.3	103.5

(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 September 30, 2016.

FINANCIAL AND OPERATIONAL OVERVIEW

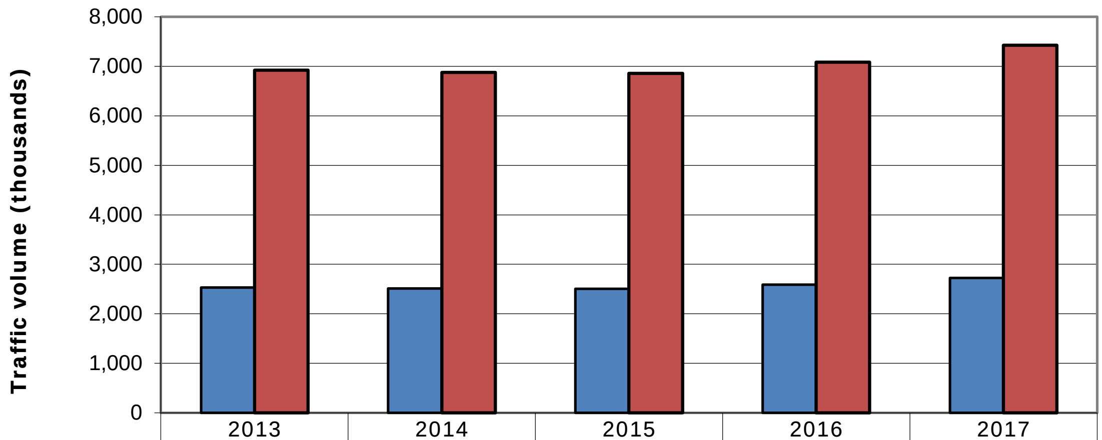
This section provides an overview of our financial and operational performance for the three and six month periods ended September 30, 2016 and 2015.

($millions)	**Three months ended September 30**			**Six months ended September 30**		
	2016	**2015**	**Variance**	**2016**	**2015**	**Variance**
Total revenue	298.9	280.6	18.3	518.1	489.6	28.5
Operating expenses	190.4	182.1	(8.3)	369.0	358.0	(11.0)
Operating profit	108.5	98.5	10.0	149.1	131.6	17.5
Net finance and other	13.3	14.0	0.7	26.9	28.3	1.4
Net earnings	95.2	84.5	10.7	122.2	103.3	18.9
Other comprehensive (loss) income	(1.0)	(3.6)	2.6	9.3	(0.1)	9.4
Total comprehensive income	94.2	80.9	13.3	131.5	103.2	28.3

Our net earnings in the three months ended September 30, 2016 were $10.7 million ($18.9 million year-to-date) higher and total comprehensive income was $13.3 million ($28.3 million year-to-date) higher than in the three months ended September 30, 2015. The increase in net earnings during the first and second quarters of fiscal 2017 reflect the effects of higher traffic levels, higher retail sales, higher ferry transportation fees and lower financing costs, partially offset by lower social program fees and operating cost increases. The April 1, 2016 tariff increases have a net zero impact to our customers as they were offset by an equal increase in fuel rebates. Other comprehensive loss for the three months ended September 30, 2016 reflects a $1.5 million loss on the actuarial valuation of our retirement and death benefit plans, an increase in the fair value of our fuel swap contracts of $0.2 million and a $0.3 million gain on the actuarial valuation of our workers' compensation benefit plan. Other comprehensive income for the six months ended September 30, 2016 reflects a $10.5 million increase in the fair value of our fuel swap contracts, a $0.3 million gain on the actuarial valuation of our workers' compensation benefit plan and a $1.5 million loss on the actuarial valuation of our retirement and death benefit plans. Other comprehensive loss in the three months ended September 30, 2015 of $3.6 million ($0.1 million year-to-date) reflected the change in the fair value of our fuel swap contracts.

In the three months ended September 30, 2016, vehicle traffic increased 5.1% (5.1% year-to-date) and passenger traffic increased 4.8% (3.8% year-to-date) compared to the same period in the prior year. Growth in vehicle and passenger traffic was experienced system-wide. Overall, commercial traffic, a component of vehicle traffic, increased by 2.5% in the quarter (4.1% year-to-date), while drop-trailer traffic, a component of commercial traffic, increased by 4.7% in the quarter (5.4% year-to-date). The vehicle and passenger traffic levels we experienced in the three and six months ended September 30, 2016, are the highest since the same periods in fiscal 2008.

The following graph illustrates our vehicle and passenger traffic levels for the second quarter of fiscal 2013 through fiscal 2017:



	2013	2014	2015	2016	2017
Vehicles	2,529	2,510	2,504	2,590	2,724
Passengers	6,920	6,874	6,854	7,083	7,422

Safety and Environment

We are dedicated to the safety and well-being of customers and employees at our terminals and on board our vessels, which includes dealing with 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. In addition, we 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.

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. In fiscal 2015, the COR audit resulted in a combined score of 94.1%. In fiscal 2016, the COR audit resulted in a 96% score in Health and Safety and 92% score in Injury Management, for a combined score of 95.7%. In the three months ended June 30, 2016, WorkSafeBC provided us with a $566,000 rebate on our 2015 assessed premiums as a result of the audit. In fiscal 2014 and 2015, WorkSafeBC provided us with a rebate on each of our 2013 and 2014 assessed premiums of approximately $600,000. During the second quarter of fiscal 2017, we began the process of renewing the COR by engaging an independent external consultant to do a recertification audit.

In addition to the COR rebate, effective for January 1, 2017, WorkSafeBC reduced our premium rate from $1.96 to $1.16 per $100 of assessable payroll. This is 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 the three months ended September 30, 2016, we experienced four (seven year-to-date) minor environmental incidents. Our aging vessels can experience mechanical issues from time-to-time that may result in small oil leaks. Two of our aged vessels, the 51-year old *Queen of Burnaby* and the 52-year old *Queen of Nanaimo*, will be replaced in 2017 by the *Salish Orca* and the *Salish Eagle* respectively.

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 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, 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 performance indicators. For 2017, Green Marine has established underwater noise as a key performance indicator. We participate in the Enhancing Cetacean Habitat Observation Program, 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 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 BC. The award was bestowed by the Lieutenant Governor on November 18, 2016.

Training

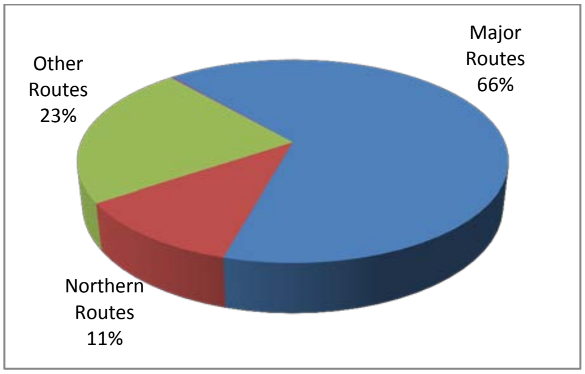
Each year we invest heavily in operational and safety training.

In the second quarter of fiscal 2017, over 4,000 days (16,000 days year-to-date) of operational and Standardized Education and Assessment training were provided to employees. The primary focus of training in the second quarter was related to the future use of liquefied natural gas as vessel fuel and was mainly directed to employees who will be working on the Salish Class vessels. We also completed various training programs for new seasonal employees.

Also during the second quarter of fiscal 2017, our simulator training centre began delivering, supplementary navigational and radar equipment training in preparation for upcoming Transport Canada regulation changes that specify training must be specific to the equipment on each vessel.

Revenue

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



In the six months ended September 30, 2016, the greatest portion of our revenues (66%) was earned on our Major Routes. Revenue from the Northern Routes contributed 11% and revenue from Other Routes contributed 23%.

Select operational statistics and total revenues for the three and six months ended September 30, 2016 compared to the same periods in the prior year are shown in the tables below.

	Three months ended September 30		Six months ended September 30	
Operational Statistics	**2016**	**2015**	**2016**	**2015**
Vehicle traffic	2,723,667	2,590,367	4,871,783	4,634,713
Passenger traffic	7,421,640	7,083,452	12,804,764	12,332,930
On-time performance	84.5%	88.0%	86.2%	88.7%
Number of round trips	20,927	20,635	40,151	39,253
Capacity provided (AEQs)	4,195,062	4,130,486	7,973,808	7,779,011
AEQs carried	3,063,974	2,914,700	5,519,301	5,245,418
Capacity utilization	73.0%	70.6%	69.2%	67.4%

In the three months ended September 30, 2016, vehicle traffic increased 5.1% (5.1% year-to-date) and passenger traffic increased 4.8% (3.8% year-to-date) compared to the same quarter in the prior year. Overall, traffic was favourably impacted by an increase in tourism, lower fuel prices and general economic activity in British Columbia.

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 the three months ended September 30, 2016, on-time performance decreased by 3.5% (2.5% year-to-date) compared to the same period in the prior year. (See route specific sections below for more detail.) 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.

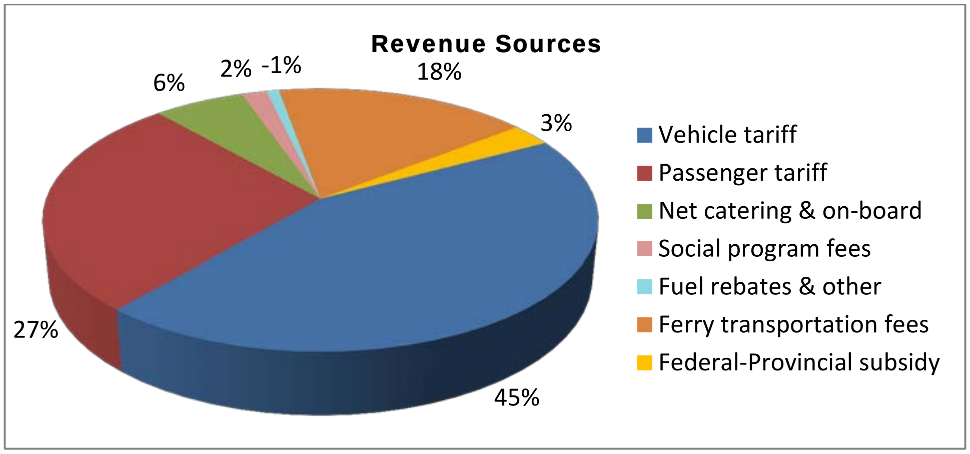
Minimum crewing levels are set by Transport Canada and these levels determine our maximum allowable passenger capacity for each sailing. Passengers are counted as they arrive for a sailing, both as a walk-on and by vehicle, to ensure we do not exceed the maximum allowable passenger capacity.

Vehicle capacity provided, measured in automobile equivalents ("AEQs"), is the available vehicle deck space on a vessel multiplied by the number of round trips. Vehicle capacity provided has been restated for last year for comparison purposes to reflect the change in the standard unit of measure discussed below. 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 the six months ended September 30, 2016, we provided 898 additional round trips, compared to the same period in the prior year and 12.6% more trips than the minimum required under the CFSC, mainly due to the increase in traffic demand. Overall, this has resulted in a 2.5% increase in capacity provided.

An AEQ is our standard unit of measure for an approximation of one car length. Effective for fiscal 2017, the standard unit of measurement was revised to more accurately reflect our vessel vehicle capacity. 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 vehicles types (the relative number of buses, commercial vehicles and passenger vehicles), and actual size of vehicles carried.

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. Capacity utilization increased from 70.6% to 73.0% for the three months ended September 30, 2016 (from 67.4% to 69.2% year-to-date), compared to the same quarter in 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	**Three months ended September 30**			**Six months ended September 30**		
($ millions)	**2016**	**2015**	**Increase (Decrease)**	**2016**	**2015**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	131.9	122.0	9.9	232.2	213.6	18.6
Passenger tariff	85.1	77.8	7.3	143.2	133.6	9.6
Fuel rebates	(6.3)	(2.1)	(4.2)	(11.0)	(3.7)	(7.3)
Net retail	19.4	17.8	1.6	32.5	30.0	2.5
Social program fees	4.0	6.5	(2.5)	9.0	13.5	(4.5)
Other revenue	2.7	2.5	0.2	5.0	4.6	0.4
Total Direct Route Revenue	236.8	224.5	12.3	410.9	391.6	19.3
Indirect Route Revenue						
Ferry transportation fees	53.8	48.0	5.8	91.0	82.3	8.7
Federal-Provincial subsidy	7.3	7.2	0.1	14.6	14.4	0.2
Total Route Revenue	297.9	279.7	18.2	516.5	488.3	28.2
Other general revenue	1.0	0.9	0.1	1.6	1.3	0.3
Total Revenue	298.9	280.6	18.3	518.1	489.6	28.5



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. 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, 2016, we implemented tariff increases in accordance with the Commissioner's Order 15-03 dated September 16, 2015. Tariff increases were 1.9% on average. These increases are directly associated with increased operating costs, capital replacement and labour.

Surcharges and/or rebates are implemented as a direct result of rising and declining fuel prices. 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 increase of 1.9% across the system. This completely offset the 1.9% average tariff increase, effectively resulting in no net increase to our customers at the beginning of PT4. 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. Prior to April 1, 2016, no rebates or surcharges were in place on our Northern Routes. For the purpose of rate regulation, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" for more detail.)

In the three months ended September 30, 2015, social program fees included $2.7 million ($5.1 million year-to-date) in senior discounts. In the three months ended September 30, 2016, social program fees decreased $2.5 million ($4.5 million year-to-date) and ferry transportation fees increased $5.8 million ($8.7 million year-to-date), partially to compensate for the discontinuance of direct funding for seniors' discounts, as discussed above.

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 price cap for more than four consecutive quarters.

Year-to-year changes in operational statistics and revenue for the three and six months ended September 30, 2016 and 2015 for the Major, Northern and Other Routes are discussed separately below.

Major Routes

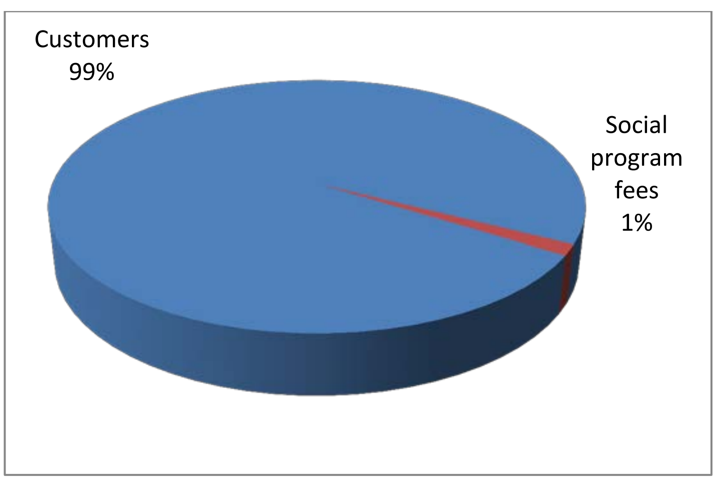
Our Major Routes consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and our regulated route connecting Horseshoe Bay and Langdale. These are our four busiest routes, carrying approximately 60% of our vehicle traffic and 65% of our passenger traffic during the three and six month periods ended September 30, 2016 and 2015.

Operational Statistics	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Vehicle traffic	1,675,050	1,593,910	2,957,414	2,820,175
Passenger traffic	4,947,841	4,714,191	8,418,899	8,113,171
On-time performance	77.6%	83.0%	75.7%	78.5%
Number of round trips	3,829.5	3,739.0	7,013.5	6,873.0
Capacity provided (AEQs)	2,404,246	2,347,639	4,429,190	4,334,145
AEQs carried	1,944,316	1,849,111	3,472,159	3,300,992
Capacity utilization	80.9%	78.8%	78.4%	76.2%

In the three months ended September 30, 2016, vehicle traffic increased 5.1% (4.9% year-to-date) and passenger traffic increased 5.0% (3.8% year-to-date) compared to the same period in the prior year. Overall, commercial traffic, a component of vehicle traffic, increased 4.6% in the quarter (6.7% year-to-date), while drop-trailer traffic, a component of total commercial traffic, increased 4.7% in the quarter (5.4% year-to-date). Traffic was favourably impacted by an increase in tourism, lower fuel prices and general economic activity in British Columbia.

In the three months ended September 30, 2016, on-time performance decreased by 5.4% (2.8% year-to-date) compared to the same period in the prior year. The most significant change was on the routes utilizing Horseshoe Bay terminal. The configuration of the terminal limits our operational flexibility particularly during periods of high traffic. 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.

Utilization on these routes during the three and six months ended September 30, 2016 was higher compared to the same periods in the prior year mainly as a result of a higher number of AEQs carried due to higher traffic levels, partially offset by an increase in capacity provided from additional round trips.



In the six months ended September 30, 2016, revenue from our Major Routes consisted of 99% from customers and 1% from the Province.

Major Routes cont'd

Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2016	**2015**	**Increase (Decrease)**	**2016**	**2015**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	110,087	101,601	8,486	195,220	179,144	16,076
Passenger tariff	67,587	61,811	5,776	114,914	107,379	7,535
Fuel rebates	(5,094)	(1,774)	(3,320)	(8,948)	(3,128)	(5,820)
Net retail	16,760	15,449	1,311	28,548	26,512	2,036
Social program fees	2,043	3,740	(1,697)	4,594	7,632	(3,038)
Parking	1,534	1,459	75	2,801	2,684	117
Other revenue	1,007	853	154	1,991	1,643	348
Total Direct Route Revenue	193,924	183,139	10,785	339,120	321,866	17,254
Indirect Route Revenue						
Ferry transportation fees	-	236	(236)	-	472	(472)
Total Route Revenue	193,924	183,375	10,549	339,120	322,338	16,782

Average tariff ($)	**Three months ended September 30**			**Six months ended September 30**		
	2016	**2015**	**Increase**	**2016**	**2015**	**Increase**
Vehicle tariff ($000's)	110,087	101,601		195,220	179,144	
Vehicle traffic	1,675,050	1,593,910		2,957,414	2,820,175	
Average tariff per vehicle	65.72	63.74	1.98	66.01	63.52	2.49
Passenger tariff ($000's)	67,587	61,811		114,914	107,379	
Passenger traffic	4,947,841	4,714,191		8,418,899	8,113,171	
Average tariff per passenger	13.66	13.11	0.55	13.65	13.24	0.41

In the three months ended September 30, 2016, average tariff revenue per vehicle increased $1.98 or 3.1% ($2.49 or 3.9% year-to-date) and average tariff revenue per passenger increased $0.55 or 4.2% ($0.41 or 3.1% year-to-date) compared to the same period in the prior year. The increase in average tariff revenues reflects the price cap increase authorized by the Commissioner. The average tariff per vehicle also reflects an increase in revenue from reservation fees due to higher traffic and higher usage. The increase in both traffic levels and in average fares during the three and six months ended September 30, 2016, resulted in a tariff revenue increase of $14.3 million ($23.6 million year-to-date) compared to the same period in the prior year.

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 increase from 1% to 2.9% on our Major Routes. Fuel rebates of 1.0% were in place on our Major Routes in the first two quarters of fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

All vessels that provide service on our Major Routes have a gift shop and options for food service. In the three months ended September 30, 2016, net retail sales increased 8.5% (7.7% year-to-date) compared to the same period in the prior year as a result of both higher passenger traffic and higher average sales per passenger. Food sales remain strong, providing approximately 72% of the total retail revenue. Sales of quality apparel continue to grow and now 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 the three months ended September 30, 2015, social program fees included $1.8 million ($3.3 million year-to-date) in seniors' discounts. In the three months ended September 30, 2016, social program fees decreased $1.7 million ($3.0 million year-to-date), 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, had been increased to compensate for the change), partially offset by more students travelling and an increase in the number of people using the MTAP program.

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

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, 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 – PT4" above for more detail.)

Northern Routes

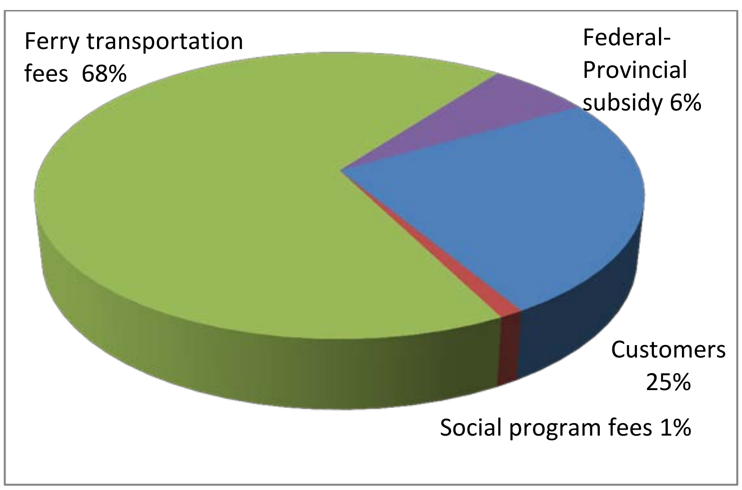
Our Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island.

Operational Statistics	Three months ended September 30 2016	Three months ended September 30 2015	Six months ended September 30 2016	Six months ended September 30 2015
Vehicle traffic	14,484	13,467	21,586	19,825
Passenger traffic	43,257	40,147	62,252	57,736
On-time performance	86.5%	89.2%	87.8%	89.4%
Number of round trips	99.5	98.0	153.5	147.0
Capacity provided (AEQs)	23,014	22,868	34,078	33,326
AEQs carried	17,223	15,952	26,022	23,912
Capacity utilization	74.8%	69.8%	76.4%	71.8%

In the three months ended September 30, 2016, vehicle traffic increased 7.6% (8.9% year-to-date) and passenger traffic increased 7.7% (7.8% year-to-date) compared to the same period in the prior year. Traffic was favourably impacted by an increase in tourism, lower fuel prices and general economic activity in British Columbia.

In the three months ended September 30, 2016, on-time performance decreased by 2.7% (1.6% year-to-date) compared to the same period in the prior year, primarily due to the impact from increased traffic demand.

Capacity utilization on these routes during the three and six months ended September 30, 2016 was higher than the same periods in 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.



In the six months ended September 30, 2016, revenue from our Northern Routes consisted of 25% from customers and 75% from the Province (1% social program fees, 68% ferry transportation fees, and 6% from payments under the Federal-Provincial subsidy agreement).

Northern Routes cont'd

Revenue ($ thousands)	Three months ended September 30			Six months ended September 30		
	2016	**2015**	**Increase (Decrease)**	**2016**	**2015**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	4,473	4,048	425	6,474	5,911	563
Passenger tariff	4,507	4,190	317	6,057	5,604	453
Fuel rebates	(186)	-	(186)	(261)	-	(261)
Net retail	887	812	75	1,104	968	136
Social program fees	319	418	(99)	636	746	(110)
Stateroom rental	607	548	59	981	882	99
Hostling & other	21	54	(33)	84	119	(35)
Total Direct Route Revenue	10,628	10,070	558	15,075	14,230	845
Indirect Route Revenue						
Ferry transportation fees	27,028	23,701	3,327	39,563	35,073	4,490
Federal-Provincial subsidy	1,871	1,843	28	3,741	3,686	55
Total Route Revenue	39,527	35,614	3,913	58,379	52,989	5,390

Average tariff ($)	Three months ended September 30			Six months ended September 30		
	2016	**2015**	**Increase (Decrease)**	**2016**	**2015**	**Increase**
Vehicle tariff ($000's)	4,473	4,048		6,474	5,911	
Vehicle traffic	14,484	13,467		21,586	19,825	
Average tariff per vehicle	308.82	300.59	8.23	299.92	298.16	1.76
Passenger tariff ($000's)	4,507	4,190		6,057	5,604	
Passenger traffic	43,257	40,147		62,252	57,736	
Average tariff per passenger	104.19	104.37	(0.18)	97.30	97.06	0.24

In the three months ended September 30, 2016, average tariff revenue per vehicle increased $8.23 or 2.7% ($1.76 or 0.6% year-to-date) compared to the same period in the prior year. In the three months ended September 30, 2016, average tariff revenue per passenger decreased $0.18 or 0.2% (increased $0.24 or 0.2% year-to-date). The change in average tariff revenues reflect a change in the proportion of traffic on routes with lower versus higher tariffs and the price cap increase authorized by the Commissioner. The increase in traffic levels and changes in average fares during the three months ended September 30, 2016 resulted in a total tariff revenue increase of $0.7 million ($1.0 million year-to-date) compared to the same period in the prior year.

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 our Northern Routes. There were no fuel surcharges or rebates in place on our Northern Routes in the first or second quarters of fiscal 2016.

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 had been increased to compensate for the change), and partially offset by an increase in the fees received from the MTAP program.

Revenue from net retail services increased $75,000 or 9.2% in the quarter ($136,000 or 14.0% year-to-date) compared to the same period in the prior year mainly as a result of higher passenger levels.

Stateroom rental revenue increased $59,000 or 10.8% in the quarter ($99,000 or 11.2% year-to-date) due to higher passenger levels and increased utilization.

Ferry transportation fees received from the Province increased $3.3 million in the quarter ($4.5 million year-to-date) compared to the same period in the prior year as a result of the following:

- $3.3 million ($4.6 million year-to-date) increase as a result of additional funding from the Province which include BC seniors discounts and the differences in the monthly schedule of round trips (fiscal 2017 ferry transportation fees are expected to be $4.6 million higher than the prior fiscal year); and
- $0.1 million decrease year-to-date in fees related to a lower fuel price. For regulatory purposes, the amounts received from or paid to the Province relating to the price of fuel are applied to our deferred fuel cost accounts (see "The Effect of Rate Regulation" above for more detail).

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

Other Routes

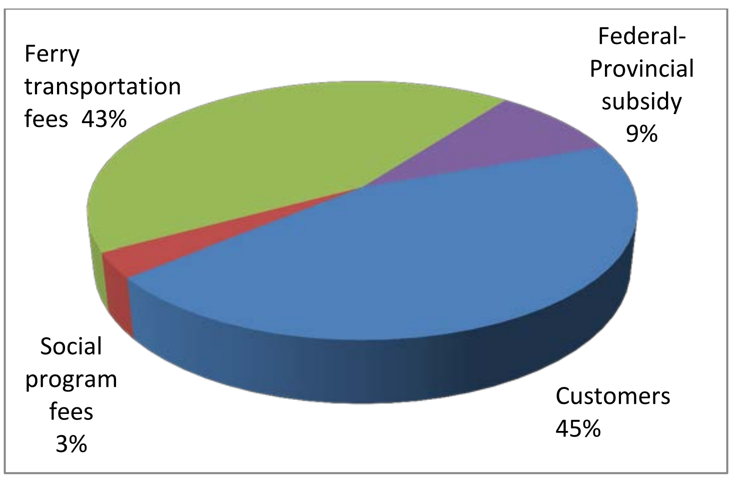
Our Other Routes consist of 18 regulated routes and eight small unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast. One of the regulated routes and all of the unregulated routes are operated under contract by alternative service providers. We receive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

Operational Statistics	Three months ended September 30		Six months ended September 30	
	2016	**2015**	**2016**	**2015**
Vehicle traffic	1,034,133	982,990	1,892,783	1,794,713
Passenger traffic	2,430,542	2,329,114	4,323,613	4,162,023
On-time performance	85.9%	88.9%	88.1%	90.6%
Number of round trips	16,998.0	16,798.5	32,984.0	32,234.0
Capacity provided (AEQs)	1,767,802	1,759,979	3,510,540	3,411,540
AEQs carried	1,102,435	1,049,637	2,021,120	1,920,514
Capacity utilization	62.4%	59.6%	57.6%	56.3%

In the three months ended September 30, 2016, vehicle traffic increased 5.2% (5.5% year-to-date) and passenger traffic increased 4.4% (3.9% year-to-date) compared to the same period in the prior year. Traffic was favourably impacted by an increase in tourism, lower fuel prices and general economic activity in British Columbia.

In the three months ended September 30, 2016, on-time performance decreased by 3.0% (2.5% year-to-date) compared to the same period in the prior year, primarily due to the impact from increased traffic demand.

Capacity utilization on these routes during the three and six months ended September 30, 2016 was higher compared to the same periods in the prior year, with a higher number of AEQs carried offset by increased capacity provided due to additional round trips.



In the six months ended September 30, 2016, revenue from our Other Routes consisted of 45% from customers and 55% from the Province (3% social program fees, 43% ferry transportation fees, and 9% from payments under the Federal-Provincial subsidy agreement).

Other Routes cont'd

Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2016	**2015**	**Increase (Decrease)**	**2016**	**2015**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	17,382	16,339	1,043	30,481	28,578	1,903
Passenger tariff	12,977	11,829	1,148	22,231	20,615	1,616
Fuel rebates	(998)	(351)	(647)	(1,768)	(624)	(1,144)
Social program fees	1,655	2,374	(719)	3,777	5,104	(1,327)
Net retail	1,128	1,022	106	1,870	1,722	148
Parking & other	76	100	(24)	144	168	(24)
Total Direct Route Revenue	32,220	31,313	907	56,735	55,563	1,172
Indirect Route Revenue						
Ferry transportation fees	26,841	24,056	2,785	51,472	46,756	4,716
Federal-Provincial subsidy	5,419	5,339	80	10,838	10,679	159
Total Route Revenue	64,480	60,708	3,772	119,045	112,998	6,047

Average tariff ($)	**Three months ended September 30**			**Six months ended September 30**		
	2016	**2015**	**Increase**	**2016**	**2015**	**Increase**
Vehicle tariff ($000's)	17,382	16,339		30,481	28,578	
Vehicle traffic	1,034,133	982,990		1,892,783	1,794,713	
Average tariff per vehicle	16.81	16.62	0.19	16.10	15.92	0.18
Passenger tariff ($000's)	12,977	11,829		22,231	20,615	
Passenger traffic	2,430,542	2,329,114		4,323,613	4,162,023	
Average tariff per passenger	5.34	5.08	0.26	5.14	4.95	0.19

In the three months ended September 30, 2016, average tariff revenue per vehicle increased $0.19 or 1.1% ($0.18 or 1.1% year-to-date) and average tariff revenue per passenger increased $0.26 or 5.1% ($0.19 or 3.8% year-to-date) during the same period. The increase in average tariff revenues reflects the price cap increase authorized by the Commissioner and an increase in the proportion of traffic on routes with higher versus lower tariffs. The increase in both traffic levels and average fares during the three months ended September 30, 2016 resulted in a total tariff revenue increase of $2.2 million ($3.5 million year-to-date) compared to the same period in the prior year.

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 increase from 1% to 2.9%. Fuel rebates of 1.0% were in place in the first and second quarters of fiscal 2016. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

In the three months ended September 30, 2015, social program fees included $0.8 million ($1.6 million year-to-date) in seniors' discounts. In the three months ended September 30, 2016, social program fees decreased $0.7 million ($1.3 million year-to-date), mainly as a result of funding for seniors' discounts being discontinued (as of April 1, 2016, ferry transportation fees had been increased to compensate for the change), and partially offset by more students travelling and an increase in the number of people using the MTAP program.

Revenue from net retail services increased by $106,000 or 10.4% ($148,000 or 8.6% year-to-date) compared to the same period in 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.

Ferry transportation fees received from the Province increased $2.8 million in the quarter ($4.7 million year-to-date) compared to the same period in the prior year, primarily as a result of additional funding in PT4 from the Province (fiscal 2017 ferry transportation fees, which include funding for seniors' discounts and contracted routes, are expected to be $4.7 million higher than the prior fiscal year).

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

Expenses

Expenses for the three and six months ended September 30, 2016 and 2015 are summarized in the table below:

Operating expenses ($ millions)	Three months ended September 30			Six months ended September 30		
	2016	2015	Increase	2016	2015	Increase
Operations	131.1	124.5	6.6	243.8	236.7	7.1
Maintenance	14.1	13.6	0.5	35.2	34.2	1.0
Administration	8.8	8.2	0.6	16.8	16.2	0.6
Total operations, maintenance & administration	154.0	146.3	7.7	295.8	287.1	8.7
Depreciation and amortization	36.4	35.8	0.6	73.2	70.9	2.3
Total operating expenses	190.4	182.1	8.3	369.0	358.0	11.0

We continue to take proactive measures to contain, reduce and optimize expenses while operating a sustainable, safe and reliable service.

Operations expenses increased $6.6 million ($7.1 million year-to-date) compared to the same period in the prior year mainly due to:

- $5.1 million ($7.5 million year-to-date) increase in wages and benefits costs, mainly due to a bargaining unit wage rate increase of 1.5% effective April 1, 2016 in accordance with the Collective Agreement, an increase in overtime and an increase in hours spent in training activities; and
- $2.0 million ($2.7 million year-to-date) increase in insurance claims, contracted services, credit card fees and travel expenses;

partially offset by:

- $0.5 million ($3.1 million year-to-date) decrease in fuel expense reflecting a $1.4 million or 4.4% ($4.8 million or 8.0% year-to-date) decrease in fuel prices, partially offset by a $0.9 million or 2.9% ($1.7 million or 2.9% year-to-date) increase in fuel consumption primarily from additional round trips provided. While we are not permitted to report regulatory assets and liabilities in our financial statements, we are in fact rate-regulated. For purposes of rate regulation, $3.9 million over our actual fuel expense in the six months ended September 30, 2016 is recorded in deferred fuel cost accounts which is expected to be settled through fuel rebates. (See “The Effect of Rate Regulation” above for more detail.)

In the three months ended September 30, 2016, maintenance costs were $0.5 million ($1.0 million year-to-date) higher compared to the same period in the prior year as a result of variations in vessel refit scheduling and increased terminal maintenance.

In the three months ended September 30, 2016, administration costs increased $0.6 million ($0.6 million year-to-date) compared to the same period in the prior year mainly due to increased computer software licencing costs.

In the three months ended September 30, 2016, depreciation and amortization increased $0.6 million ($2.3 million year-to-date) compared to the same period in the prior year reflecting higher depreciation resulting from the new capital assets that have entered service. (See “Investing in our Capital Assets” below for details of significant capital asset expenditures.)

Net finance and other expenses ($ millions)	Three months ended September 30			Six months ended September 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Finance expense						
Bond interest	14.6	14.7	(0.1)	29.0	29.0	-
KfW bank group (KfW) loans	1.2	1.4	(0.2)	2.5	2.9	(0.4)
Interest on finance lease	0.4	0.5	(0.1)	0.9	1.0	(0.1)
Short-term debt	0.1	0.1	-	0.2	0.2	-
Capitalized interest	(1.8)	(1.4)	(0.4)	(3.7)	(2.6)	(1.1)
Total finance expense	14.5	15.3	(0.8)	28.9	30.5	(1.6)
Less: finance income	(1.2)	(1.5)	0.3	(2.2)	(2.4)	0.2
Net finance expense	13.3	13.8	(0.5)	26.7	28.1	(1.4)
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	-	0.2	(0.2)	0.2	0.2	-
Total net finance and other expenses	13.3	14.0	(0.7)	26.9	28.3	(1.4)

In the three months ended September 30, 2016, net finance and other expenses decreased $0.7 million compared to the same period in the prior year mainly due to:

- $0.4 million increase in capitalized interest in the quarter;
- $0.2 million decrease in interest on KfW loans, reflecting $8.2 million in principal repayments; and
- $0.2 million loss on disposal incurred in the three months ended September 30, 2015

partially offset by:

- $0.3 million decrease in finance income.

Year-to-date, net finance and other expenses decreased $1.4 million compared to the same period in the prior year mainly due to:

- $1.1 million increase in capitalized interest in the quarter; and
- $0.4 million decrease in interest on KfW loans, reflecting $12.0 million in principal repayments;

partially offset by:

- $0.2 million decrease in finance income.

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.

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 a Master Trust Indenture (May 2004) 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. The net proceeds will be used to partially finance the purchase of our three new Salish Class vessels and will coincide with the conditional acceptance of each of the vessels from the shipyard. On November 22, 2016 and November 25, 2016 we drew down $39 million and $6 million respectively for a total of $45 million, under the export loan agreement with KfW IPEX-Bank GmbH, to coincide with the contractual milestones for the *Salish Orca.*

In the near term, we expect that our cash requirements will be met through operating cash flows, the three new KfW loans, and by accessing our credit facility from time to time. At September 30, 2016, our unrestricted cash and cash equivalents and other short-term investments totalled $241 million.

Our $155 million credit facility was renewed on March 15, 2016 to extend the maturity date of the facility from April 2020 to April 2021. The facility is available to fund capital expenditures and for other general corporate purposes. At September 30, 2016, 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 September 30, 2016 were “A” (DBRS) with a stable trend and “AA-” (Standard & Poor’s) with a stable outlook.

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 September 30, 2016 we achieved a debt service ratio of 3.35 and a leverage ratio of 73.2%.

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 the six months ended September 30, 2016 and 2015 are summarized in the table below:

	Six months ended September 30		
($ millions)	**2016**	**2015**	**Increase (Decrease)**
Cash and cash equivalents, beginning of period	79.1	65.6	13.5
Cash from operating activities:			
Net earnings	122.2	103.3	18.9
Items not affecting cash	101.6	101.2	0.4
Changes in non-cash operating working capital	(12.8)	(14.0)	1.2
Net interest paid	(30.5)	(31.0)	0.5
Cash generated by operating activities	180.5	159.5	21.0
Cash used in financing activities	(12.8)	(12.6)	(0.2)
Cash used in investing activities	(114.9)	(105.2)	(9.7)
Net increase in cash and cash equivalents	52.8	41.7	11.1
Cash and cash equivalents, end of period	131.9	107.3	24.6

For the six months ended September 30, 2016, cash generated by operating activities increased by $21.0 million compared to the same period in the prior year, primarily due to an increase in net earnings reflecting the impact of increased traffic levels, higher revenues and lower financing costs, partially offset by higher operating expenses.

Cash used in financing activities in the six months ended September 30, 2016 was $12.8 million. This amount consisted of $12.0 million in repayment of KfW loans and $0.8 million repayment of finance lease obligations.

Cash used in financing activities in the six months ended September 30, 2015 was $12.6 million. This amount consisted of $12.0 million in repayment of KfW loans and $0.6 million repayment of finance lease obligations.

Cash used in investing activities in the six months ended September 30, 2016 increased by $9.7 million compared to the same period in the prior year, due to a $24.1 million increase in cash used to purchase short-term investments and a $14.4 million decrease in cash used for capital expenditures. (See “Investing in Our Capital Assets” below for detail of significant capital expenditures.)

SUMMARY OF QUARTERLY RESULTS

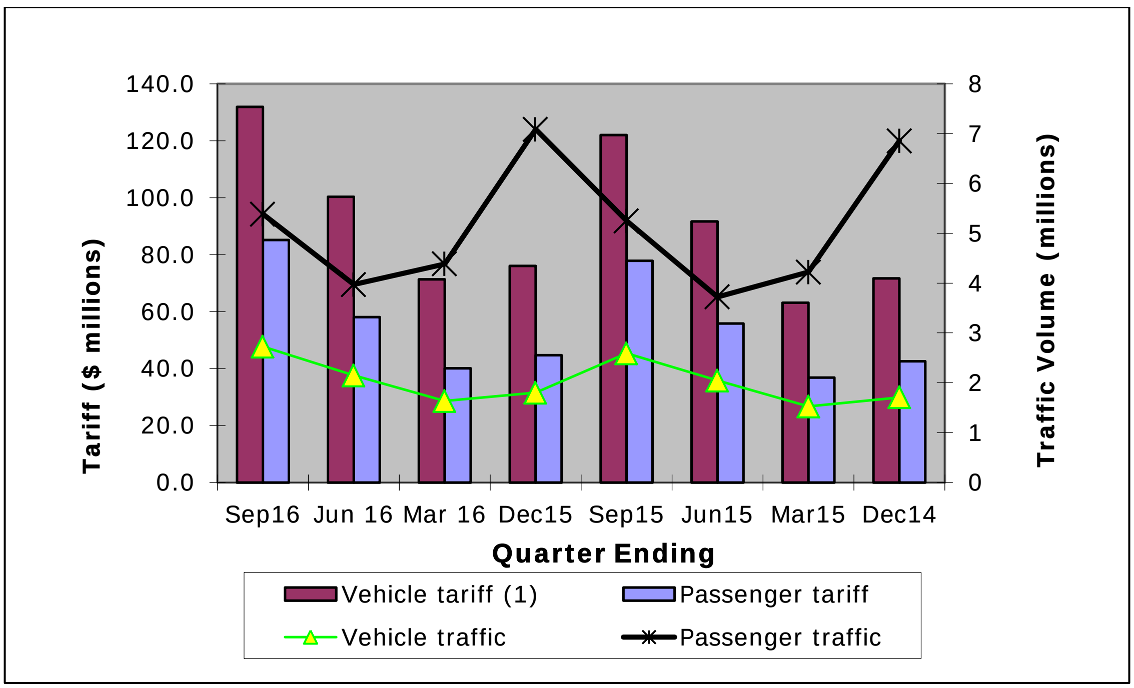
The table below compares earnings and comprehensive income by quarter for the most recent eight quarters:

	Quarter Ended (unaudited)							
($ millions)	**Sep 16**	**Jun 16**	**Mar 16**	**Dec 15**	**Sep 15**	**Jun 15**	**Mar 15**	**Dec 14**
Total revenue (1)	298.9	219.2	166.3	178.7	280.6	209.0	55.3	175.2
Operating profit (loss)	108.5	40.6	(16.2)	10.2	98.5	33.1	(11.8)	8.2
Net earnings (loss)	95.2	27.0	(30.0)	(3.7)	84.5	18.8	(35.1)	(6.1)
Other comprehensive (loss) income	(1.0)	10.3	(12.0)	(11.7)	(3.6)	3.5	2.7	(7.4)
Total comprehensive income (loss)	94.2	37.3	(42.0)	(15.4)	80.9	22.3	(32.4)	(13.5)

(1) Total revenue is net of cost of retail goods sold.

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

Capital Expenditures
Capital expenditures in the three months ended September 30, 2016 totalled $24.3 million ($70.2 million year-to-date), as set out in the following table:

($ millions)	September 30, 2016	
	3 months	6 months
Vessel upgrades and modifications	9.0	39.8
Information technology	10.1	18.0
Terminal marine structures	3.2	8.6
Terminal and building upgrades and equipment	2.0	3.8
Total capital expenditures	24.3	70.2

Vessels
Capital expenditures for new vessels, as well as vessel upgrades and vessel modifications in the three and six months ended September 30, 2016, included the following:

($ millions)	September 30, 2016	
	3 months	6 months
Spirit Class mid-life upgrades	0.9	14.0
Major overhauls and inspections	4.0	11.4
New Salish Class vessels	2.2	7.0
Queen of Surrey ¾-life upgrade	-	2.1
Queen of Cumberland mid-life upgrade	-	1.4
Navigational equipment upgrades	0.3	0.9
Other projects	1.6	3.0
	9.0	39.8

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 the first quarter of fiscal 2017, expenditures of $13.1 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 CO2 emissions by approximately 12,000 tonnes annually, which is the equivalent of taking approximately 2,500 vehicles off the road per year.

The $11.4 million in major overhauls and inspections of components of hull, propulsion and generators completed in the six months ended September 30, 2016 or currently underway include:

- $1.9 million for the *Bowen Queen*;
- $1.7 million for the *Northern Expedition*;
- $1.6 million for the *Kahloke*;
- $1.5 million for the *Queen of Surrey*;
- $1.1 million for the *Coastal Celebration;*
- $1.0 million for the *Qunitsa;*

- $0.8 million for the *Northern Adventure*; and
- $1.8 million for the *Spirit of Vancouver Island, Spirit of British Columbia, Tachek, Queen of Cumberland* and the *Queen of Cowichan.*

In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. of Gdansk, Poland to build three new Salish (intermediate) Class vessels. The contracts, with a total value of $165 million, form the majority of the total project budget of $206 million. The original project budget of $252 million has been reduced by $46 million, reflecting the elimination of tariffs to import the vessels into Canada. On June 2, 2016, the *Salish Eagle,* and the *Salish Raven,* and on November 24, 2015, the *Salish Orca,* were launched and christened at Remontowa Shipbuilding S.A. The new vessels will be dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. During the second quarter of fiscal 2017, the *Salish Orca* was wrapped in a massive decal, depicting the artwork of a Coast Salish artist, which provides maintenance properties of protecting the coating of the vessel. On November 21, 2016, we conditionally accepted our new intermediate ferry, the *Salish Orca* from Remontowa Shipbuilding S.A. and on November 22, 2016, the vessel departed Gdansk, Poland for its 45 to 55 day voyage to Canada. The *Salish Eagle* is scheduled for delivery in the last quarter of fiscal 2017 and the *Salish Raven* is scheduled for delivery in the first quarter of fiscal 2018. The *Salish Orca* and the *Salish Eagle* will replace the 51-year old *Queen of Burnaby* on the Comox – Powell River route and the 52-year old *Queen of Nanaimo* on the Tsawwassen – Southern Gulf Islands route, respectively. The *Salish Raven* is expected to service the Southern Gulf Islands.

A $6 million project for a three-quarter life upgrade of the *Queen of Surrey* includes 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. This project is now complete.

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.

Fiscal 2017 is the first year of a three-year program to upgrade vessels with new navigational equipment. This year we expect to spend $4 million on upgrading the radar equipment, voyage data recorders and gyro compasses on several vessels to take us towards bridge standardization and further improve navigational safety.

Other projects include life-saving equipment for the *Northern Adventure,* upgrades to the elevator, lighting and the electrical equipment and standardization of the bridge for the *Queen of Alberni,* and upgrades to the mechanical and electrical equipment and standardization of the bridge for the *Queen of Cowichan*.

Information Technology

Capital expenditures for information technology in the three and six months ended September 30, 2016 included the following:

($ millions)	September 30, 2016	
	3 months	6 months
Customer service program	5.0	9.2
Payroll system replacement	1.0	2.4
Fare flexibility and digital experience initiative	1.7	2.0
Hardware upgrades	0.9	1.9
Payment card process enhancement	0.5	0.9
Other projects	1.0	1.6
	10.1	18.0

Our customer service program will replace our aged point–of-sale, website, e-commerce platform and reservations systems and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and pricing initiatives. The main elements of this multi-year program will be implemented in stages, which began with the installation of the customer relationship management application in 2015. Other elements including software to allow online bookings, the second phase of the customer relationship management system and the architecture to facilitate integration between the systems were installed by the end of the second quarter of fiscal 2017, with further enhancements expected to be completed by the end of fiscal 2017. We believe this program will significantly improve our transaction processing and enhance our ability to efficiently respond to the changing needs of our customers.

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

Our Fare Flexibility and Digital Experience Initiative will introduce a new system to manage fares and provide customers with a modernized e-commerce platform with greater online functionality and booking options.

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

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 in the fall of 2017.

Other projects include software tools to provide application performance monitoring, upgrading our safety management system and upgrading our operation and security centre applications.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the three and six months ended September 30, 2016 included the following:

($ millions)		September 30, 2016	
Terminal	**Description**	3 months	6 months
Tsawwassen	Berth rebuild	0.3	4.3
Langdale	Replace dolphin and gangways	1.8	2.6
Long Harbour	Life extend trestle and dolphin	0.6	0.9
Various	Other projects	0.5	0.8
		3.2	8.6

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

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

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 complete by the end of fiscal 2017.

Other projects currently in progress include upgrades at Nanaimo Harbour, Village Bay, Blubber Bay, Chemanius, Thetis Island, and Prince Rupert terminals.

Terminal and Building Upgrades and Equipment

Capital expenditures for terminal and building upgrades and equipment in the three and six months ended September 30, 2016 included the following:

($ millions)	September 30, 2016	
	3 months	6 months
Vehicles and other equipment	0.7	1.2
Waiting shelter and upgrade water supply at Whaletown terminal	0.1	0.5
Escalator and elevator upgrades at various terminals	0.5	0.5
Signage standardization	0.1	0.3
Other terminal projects	0.6	1.3
	2.0	3.8

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

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

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

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

Other projects include upgrades at Langdale, Buckley Bay and Hornby terminals and at our Richmond maintenance facility.

OUTLOOK

We anticipate that moderate growth in the Canadian economy, together with a low Canadian dollar and low fuel prices, will support strong vehicle and passenger levels. We are continuing our cost containment program, while maintaining safe, reliable service. We will continue to invest in our vessel, marine, terminal and information system infrastructure, as well as our training, safety and maintenance programs.

We continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2017 by optimizing our service 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.

As a result of the Province's announcement of its intent to start providing direct ferry service between Port Hardy and Bella Coola beginning in the summer of 2018, we have begun searching for a suitable vessel. This new service will require acquiring a suitable vessel, having it approved by Transport Canada and modifying docks as necessary. An amendment to the CFSC will need to be agreed to in respect of the specific service to be delivered and the service fees payable for the service.

Traffic

Overall, vehicle traffic increased 5.1% and passenger traffic increased 4.8% in the six months ended September 30, 2016 compared to the same period in the prior year. Traffic levels are discussed above in "Financial and Operational Overview".

With the lower value of the Canadian dollar relative to the US dollar, we believe that passenger and vehicle traffic will remain strong in the near term, sustaining the improved discretionary traffic levels we have experienced in the current fiscal year.

Financial performance

We expect positive net earnings in fiscal 2017, reflecting continued increases in discretionary traffic due to the low Canadian dollar and cost of fuel, offset somewhat by a slight decrease in traffic primarily due to the timing of Easter and an increase in total expenses.

We expect an increase in total revenue in fiscal 2017, reflecting higher traffic levels, higher net retail revenues, and higher ferry transportation fees, partially offset by the net cost of pricing promotions. The April 1, 2016 tariff increases had a net zero impact as they were offset by an equal increase in fuel rebates.

We expect an increase in total expenses in fiscal 2017, reflecting higher wage and benefit costs resulting from the implementation of the new Collective Agreement and introduction of new assets, higher fuel costs primarily resulting from additional round trips provided, partially offset by lower vessel maintenance costs and cost savings from the introduction of our new cable ferry and other operational related efficiencies. We continue to manage our costs prudently without compromising safe operations.

From mid-November to mid-December, we are offering a 50% discount on standard vehicle fares on under-utilized sailings across our fleet and are considering future pricing promotions. We expect they will help shift traffic to sailings that typically run with lower capacity utilization and may also generate incremental traffic.

Asset renewal program
From time to time, our aging fleet can experience mechanical issues that may have environmental and customer service impacts. We have a 12-year capital plan, covering fiscal 2015 through fiscal 2026, to invest $3 billion to replace 14 aged vessels, execute vessel upgrades and modifications, make significant improvements at our terminals, and renew our information technology infrastructure.

Salish Class

In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. in Gdansk, Poland to build three new intermediate class vessels. Each vessel will have the capacity to carry 144 vehicles and be designed to operate as dual-fuel capable, so they can run predominantly on LNG with marine diesel fuel as a backup. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and life-saving equipment moving us to a higher safety standard and improving interoperability. The Remontowa contracts, with a total value of $165 million, form the majority of the total project budget of $206 million. The original project budget of $252 million has been reduced by $46 million reflecting the elimination of tariffs to import the vessels into Canada. These contracts are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction.

On November 21, 2016, we conditionally accepted our new intermediate ferry, the *Salish Orca* from Remontowa Shipbuilding S.A. and on November 22, 2016, the vessel departed Gdansk, Poland for its 45 to 55 day voyage to Canada. The *Salish Eagle* is scheduled for delivery in the last quarter of fiscal 2017 and the *Salish Raven* is scheduled for delivery in the first quarter of fiscal 2018. FortisBC has committed to provide us with $6 million in incentive funding for the new vessels to help offset incremental capital costs associated with the use of LNG. The use of LNG will result in the reduction of an estimated 9,000 tonnes of carbon dioxide equivalent per year.

Spirit Class Mid-life Upgrades

On March 24, 2016, we announced the award of a contract totalling $140 million to Remontowa Ship Repair Yard S.A. of Gdansk, Poland 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*. The upgrade of the *Spirit of British Columbia* is expected to be completed during the spring of 2018 and the upgrade of the *Spirit of Vancouver Island* is expected to be completed the following year. The conversion of these vessels is expected 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 CO2 emissions by approximately 12,000 tonnes annually, which is the equivalent of taking approximately 2,500 vehicles off the road per year. FortisBC has committed to provide us with up to $10 million in incentive funding to help offset incremental capital costs associated with the use of LNG.

Minor Vessel Replacements

On July 29, 2016, we issued a request for proposal for the construction of two, and possibly a third, minor class roll-on/roll-off passenger ferries, each with a capacity of up to 300 passengers and approximately 44 vehicles. We are currently evaluating the responses we received and expect to award a contract in the last quarter of fiscal 2017. When these new vessels are placed into service, it will allow us to retire the 55-year old *Howe Sound Queen* and the 61-year old *North Island Princess*, subject to satisfying regulatory requirements.

Automated Customer Experience Program

Our customer service program will replace our aged point-of-sale and reservations systems and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and flexible pricing initiatives. Elements including software to allow online bookings, the second phase of the customer relationship management system and the architecture to facilitate integration between the systems completed in the second quarter of fiscal 2017 with further enhancements expected to complete by the end of fiscal 2017.

FINANCIAL RISKS

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.

A discussion of financial risks can be found on pages 61 through 64 of our fiscal 2016 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2016. Our 2016 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

BUSINESS RISK MANAGEMENT

Understanding and managing operational risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 65 through 71 of our fiscal 2016 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2016. Our 2016 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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.

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 March 31, 2016 and September 30, 2016 consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the general operating environment changes.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 72 and 73 of our fiscal 2016 Management's Discussion & Analysis. The following describes the changes to critical accounting policies we have used in the preparation of our consolidated financial statements for the six months ended September 30, 2016, or expect to use in the future. Our 2016 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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 interim consolidated financial statements. Any immaterial disclosures are expected to be removed from our annual 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 interim consolidated financial statements, other than additional disclosure as presented in note 4 to our September 30, 2016 unaudited 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 assessing the financial reporting impact of the adoption of this standard.

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 are in the process of assessing the financial reporting impact of the adoption of this standard.

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. We are in the process of assessing the financial reporting impact of the adoption of this standard.

FORWARD LOOKING STATEMENTS

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

Forward looking statements included in this document include statements with respect to: economic conditions, tourism, traffic levels, fuel prices, fiscal 2017 net earnings, and the seasonal direct ferry service between Port Hardy and Bella Coola; our short-term and long-range business plans, and asset renewal programs for vessels and terminals; our customer service program, pricing promotions, and Fare Flexibility and Digital Experience Initiative; our Salish Class vessels, the loan agreement with KfW IPEX-Bank GmbH, LNG plans, Spirit Class mid-life upgrades, minor vessel replacements, and safety, environmental, and training projects; our expectations regarding food sales, and sales of quality apparel; and total revenue and expense projections, and how our cash requirements will be met in the near term. 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.