Management's Discussion & Analysis of Financial Condition and Results of Operations

For the three and six months ended September 30, 2010
Dated November 1, 2010

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The following is our discussion and analysis of the financial condition and results of operations for British Columbia Ferry Services Inc. as of November 1, 2010. This should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three and six month periods ended September 30, 2010 and 2009, and our fiscal 2010 audited consolidated financial statements and related notes together with our fiscal 2010 Management's Discussion & Analysis. These documents are available on our Investor webpage at http://www.bcferries.com/about/investors/index.html and on SEDAR at www.sedar.com.

Except where indicated, all financial information herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles.

BUSINESS OVERVIEW

British Columbia Ferry Services Inc. is an independent company providing ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world, providing frequent year-round transportation service on 25 routes, supported by 36 vessels and 47 terminals.

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 are a versatile company, providing a wide range of ferry services for our customers. During the three months ended September 30, 2010 (the second quarter of fiscal 2011), we provided over 45,000 sailings, carrying 7.2 million passengers and over 2.6 million vehicles.

Significant events during or subsequent to our second quarter of fiscal 2011:

- On June 24 and on October 1, 2010, certain sections of *Bill 20 – Miscellaneous Statutes Amendment Act (No.3), 2010* (Bill 20) were brought into force. Significant changes include the requirement that the B.C. Ferry Authority and British Columbia Ferry Services Inc. boards no longer have directors in common and we are now subject to the *Freedom of Information and Protection of Privacy Act*.

- On July 1, 2010, the harmonized sales tax (HST) became effective, combining the existing 7% provincial sales tax with the 5% federal goods and services tax (GST) into a single tax of 12%. We expect this tax to add approximately $5 to $6 million annually to the cost of our operations. The HST has also increased the price to our customers for our food and certain retail offerings. Our vehicle and passenger tariffs are exempt from HST.

- On July 29, 2010, our "CoastSaver" program that began on May 25, 2010 ended. This promotional fare incentive program provided mid-week price discounts of 33% on passenger and passenger vehicle fares on our three Major Routes.

- On August 17, 2010, the fuel rebate on many of our Other Routes was reduced from 5% to 2% of tariffs on average. No rebates were in place on our Northern Routes and rebates of 2% of tariffs on average were in place on the Major Routes. It is expected that all remaining fuel rebates will be eliminated December 1, 2010.

- On August 31, 2010, we filed a submission pursuant to Section 45.1(1) of the *Coastal Ferry Act* and the British Columbia Ferries Commissioner's (the Commissioner) Memorandum #37, dated July 19, 2010. With this submission we are seeking the following determinations from the Commissioner:
    - Our drop trailer service is priced in a manner that reflects our direct costs and an appropriate proportion of indirect costs associated with providing drop trailer service; and
    - We are competing on a fair basis with the incumbent providers of drop trailer service.

  The Commissioner is currently reviewing this submission.

- On September 9, 2010, Mr. Vince Ready published his arbitration award regarding our application to exclude some senior positions from the bargaining unit. We plan to implement this award over the next two to three years.

- On September 30, 2010, we filed our submission with the Commissioner for the third performance term. This begins the process of price cap setting by the Commissioner and negotiations with the Province regarding changes in core service levels and related ferry transportation fees for the period April 1, 2012 through March 31, 2016.

- On October 1, 2010, it was announced that our request for duty remission on four vessels built in Germany had been granted. The $119.4 million in remission of import taxes and related GST from the Government of Canada has been utilized in an across the board ferry fare reduction of approximately 2% effective October 18, 2010, and will reduce future price caps otherwise determined by the Commissioner commencing with performance term three. We will also allocate $20 million of this amount to upgrade key assets in the ship repair and maintenance business in British Columbia.

- Throughout September and October 2010, we relocated to our new head office building in downtown Victoria. These premises are being leased under agreements which constitute a capital lease. The initial term of the lease is 15 years, with renewal options for up to an additional 20 years. We agreed to advance up to $25 million to the developer of the new head office property for a term of 15 years, secured by a second mortgage on the property. On November 1, 2010, we advanced the developer $24.2 million. Incidental to the loan, the developer has granted us a purchase option for up to 50% of their equity interest in the new building at a maximum price of $25 million. The purchase option expires at the end of the loan term. This relocation will consolidate our head office functions, which were previously in several locations.

- On November 1, 2010, our previous head office building was sold for approximately $11 million, resulting in a gain on sale of $9.3 million.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three and six months ended September 30, 2010 and 2009.

($ millions)	Three months ended September 30			Six months ended September 30		
	2010	**2009**	**Variance**	**2010**	**2009**	**Variance**
Total revenue	246.0	251.8	(5.8)	436.2	430.1	6.1
Expenses	(173.6)	(170.3)	(3.3)	(344.9)	(336.4)	(8.5)
Earnings from operations	72.4	81.5	(9.1)	91.3	93.7	(2.4)
Interest and other	(18.1)	(17.3)	(0.8)	(36.1)	(33.1)	(3.0)
Net earnings and comprehensive income	54.3	64.2	(9.9)	55.2	60.6	(5.4)

Our 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 earnings of the year. The third and fourth quarters reflect a seasonal downturn in traffic and we utilize these off-peak periods to perform upgrades and major maintenance and refit programs, as well as to undertake mandatory inspections on the majority of our vessels.

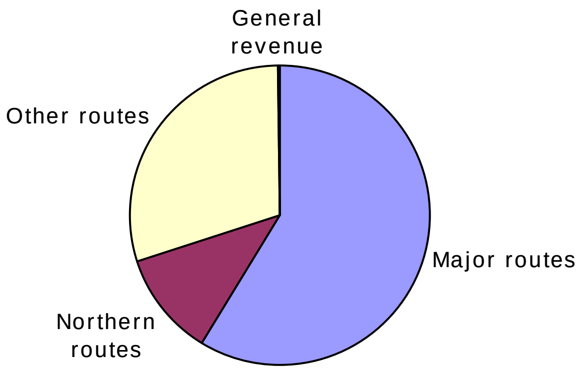
In the second quarter of fiscal 2011, we experienced a decline of 2.0% in vehicle traffic and 0.5% in passenger traffic as compared to the same period in the prior year. Drop-trailer traffic increased, while bus and other commercial vehicle traffic decreased. Passenger traffic was down with the exception of our major routes which experienced a small increase. On a year-to-date basis, vehicle traffic was 1.8% lower and passenger traffic was 0.8% lower than the prior year.

With lower tourism and reduced discretionary travel resulting from the current economic conditions, we expect vehicle and passenger traffic this fiscal year to be slightly lower than that of the prior year.

We do not anticipate that economic conditions will improve in the near term and are continuing our aggressive program of cost containment and deferrals, while maintaining safe, reliable service.

Revenue

Total revenues for the three months ended September 30, 2010 decreased 2.3% while total revenues for the six months ended September 30, 2010 increased 1.4% over the same periods in the previous year as shown in the table below.



In the six months ended September 30, 2010, the greatest portion of our revenues, 59%, was earned on our three Major Routes connecting Vancouver Island to Vancouver and the Lower Mainland. The revenue from the Northern Routes contributed 11% and Other Routes contributed 30%.

Revenue ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2010	**2009**	**Increase (Decrease)**	**2010**	**2009**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle traffic (volume)	2,652,605	2,705,611	(53,006)	4,751,640	4,838,459	(86,819)
Vehicle tariff	93.9	98.6	(4.7)	167.8	166.3	1.5
Passenger traffic (volume)	7,210,210	7,244,306	(34,096)	12,537,804	12,636,109	(98,305)
Passenger tariff	61.8	62.8	(1.0)	106.1	103.1	3.0
Social program fees	6.6	5.6	1.0	13.2	11.7	1.5
Catering & on-board	27.5	28.2	(0.7)	47.3	47.7	(0.4)
Other revenue	9.0	8.8	0.2	15.3	13.5	1.8
Total Direct Route Revenue	198.8	204.0	(5.2)	349.7	342.3	7.4
Indirect Route Revenue						
Ferry transportation fees	39.7	39.9	(0.2)	71.6	72.1	(0.5)
Federal-Provincial subsidy	6.8	6.8		13.5	13.5	-
Total Route Revenue	245.3	250.7	(5.4)	434.8	427.9	6.9
Other general revenue	0.7	1.1	(0.4)	1.4	2.2	(0.8)
Total Revenue	246.0	251.8	(5.8)	436.2	430.1	6.1

Our largest revenue source is vehicle and passenger tariffs. The Commissioner authorized a price cap increase on the Major Routes of 2.7% plus 0.49 times the Consumer Price Index (CPI) (British Columbia) and 5.7% plus 0.73 times the CPI (British Columbia) on all other routes effective on each of April 1, 2010 and April 1, 2011. On April 1, 2010, the price caps increased by 2.68% on the Major Routes and 5.68% on all other routes, which incorporated a change in the CPI (British Columbia) of -0.03%. In response, we implemented tariff increases up to the new level authorized.

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

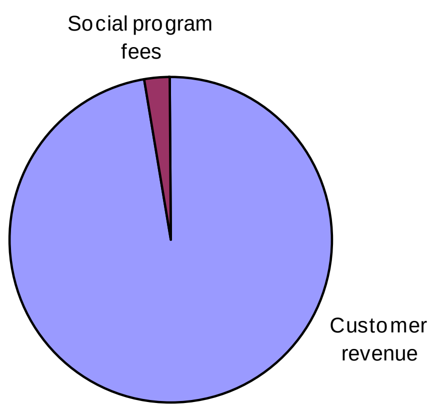
Throughout the six months ended September 30, 2010, fuel rebates of 2% of tariffs on average were in place on our Major Routes. On August 17, 2010, the fuel rebate on many of our other routes was reduced from 5% to 2% on average. No fuel surcharges or rebates were in place on our Northern Routes.

Year to year changes for the three and six months ended September 30, 2010 for our Major, Northern and Other Routes are discussed separately below:

Major Routes

Direct Route Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2010	**2009**	**Increase (Decrease)**	**2010**	**2009**	**Increase (Decrease)**
Vehicle traffic (volume)	1,260,014	1,291,686	(31,672)	2,213,396	2,253,837	(40,441)
Vehicle tariff	67,396	73,106	(5,710)	122,251	122,482	(231)
Passenger traffic (volume)	3,856,470	3,854,621	1,850	6,603,809	6,598,779	5,030
Passenger tariff	42,791	44,298	(1,507)	74,930	72,853	2,077
Social program fees	3,409	2,776	633	6,576	5,750	826
Catering & on-board	21,813	22,165	(352)	38,042	38,052	(10)
Reservation fees	4,945	4,870	75	7,793	7,570	223
Parking	1,411	1,259	152	2,133	1,897	236
Assured loading	962	934	28	2,773	1,406	1,367
Other revenue	633	757	(124)	1,072	1,197	(125)
Total Direct Route Revenue	143,360	150,165	(6,805)	255,570	251,207	4,363
Indirect Route Revenue						
Ferry transportation fees	-	-	-	-	-	-
Federal-Provincial subsidy	-	-	-	-	-	-
Total Route Revenue	143,360	150,165	(6,805)	255,570	251,207	4,363

Our Major Routes consist of three regulated routes connecting Greater Vancouver with mid and southern Vancouver Island. Vehicle traffic decreased while passenger traffic increased in both the three and six months ended September 30, 2010, compared to the same period in the previous year. Annual traffic levels on these routes are expected to be marginally higher than the prior fiscal year.



In the six months ended September 30, 2010, revenue from our Major Routes consisted of 98% from customers and 2% from social program fees.

In the second quarter, average tariff revenue per vehicle decreased $3.11 or 5.5% ($0.89 or 1.6% increase year-to-date) while average tariff revenue per passenger decreased $0.40 or 3.4% ($0.31 or 2.8% increase year-to-date).

Major Routes, cont'd

The utilization of fare incentives on the Major Routes in the second quarter of the prior fiscal year has caused the price cap and tariff revenues during the same quarter this fiscal year to be lower than those that would otherwise be allowed. Fares collected during this quarter were in excess of this lower allowed price cap and are reflected on the balance sheet as a regulatory liability at September 30, 2010. This is a timing issue that will resolve itself by the end of this fiscal year.

Social program fees are reimbursements from the Province of discounts provided on fares for BC seniors, students travelling to and from school, persons with disabilities and persons travelling under the Ministry of Health Travel Assistance Program. Social program fees increased as a result of higher fares and higher usage in most programs.

All vessels that provide service on our Major Routes have a gift shop and options for food service. In the second quarter, food and gift shop sales decreased as a result of a lower average spending per passenger, partially offset by a higher number of passengers.
The increase in parking revenue reflects greater use of parking facilities at our Swartz Bay terminal largely due to higher passenger traffic originating at that terminal. The year-to-date increase in assured loading revenue reflects a gain relating to expired tickets.

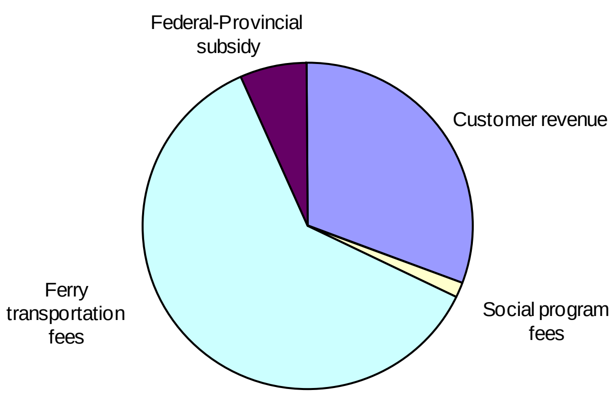
Other revenue decreased mainly as a result of lower retail commissions, partially offset by an increase in hostling[1] fees from our drop-trailer service for commercial customers.

[1] Loading and unloading of commercial trailers that are dropped off for transportation on a ferry route

Northern Routes

Direct Route Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2010	**2009**	**Increase (Decrease)**	**2010**	**2009**	**Increase (Decrease)**
Vehicle traffic (volume)	14,736	15,923	(1,187)	21,895	23,352	(1,457)
Vehicle tariff	4,416	4,499	(83)	6,365	6,394	(29)
Passenger traffic (volume)	46,674	48,868	(2,194)	66,370	68,971	(2,601)
Passenger tariff	4,673	4,535	138	6,402	6,147	255
Social program fees	345	316	29	649	542	107
Catering & on-board	1,366	1,525	(159)	1,895	2,068	(173)
Stateroom rental	423	491	(68)	700	732	(32)
Hostling & other	77	87	(10)	130	149	(19)
Total Direct Route Revenue	11,300	11,453	(153)	16,141	16,032	109
Indirect Route Revenue						
Ferry transportation fees	18,448	18,557	(109)	30,684	31,082	(398)
Federal-Provincial subsidy	1,665	1,665	-	3,330	3,330	-
Total Route Revenue	31,413	31,675	(262)	50,155	50,444	(289)

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



In the six months ended September 30, 2010, revenue from our Northern Routes consisted of 31% from customers and 69% from the Province (1% social program fees, 61% ferry transportation fees, and 7% from payments under the Federal-Provincial subsidy agreement).

Both vehicle traffic and passenger traffic decreased in the three and six months ended September 30, 2010, compared to the same periods in the previous year. We anticipate annual traffic levels to be approximately 3% lower than the prior fiscal year.

Northern Routes, cont'd

In the second quarter, the average tariff revenue per vehicle increased $17.13 or 6.1% ($16.90 or 6.2% year-to-date), mainly as a result of higher fares for commercial vehicles.

The average tariff revenue per passenger in the second quarter increased $7.32 or 7.9% ($7.34 or 8.2% year-to-date). The reduction in traffic was more than offset by the increase in average fares, resulting in a total tariff revenue increase for the second quarter of $0.1 million ($0.2 million year-to-date).

Reimbursements from the Province for social program fees increased as a result of higher average fares, partially offset by lower usage. Revenue from catering, on-board services, and hostling has decreased mainly as a result of lower traffic levels.

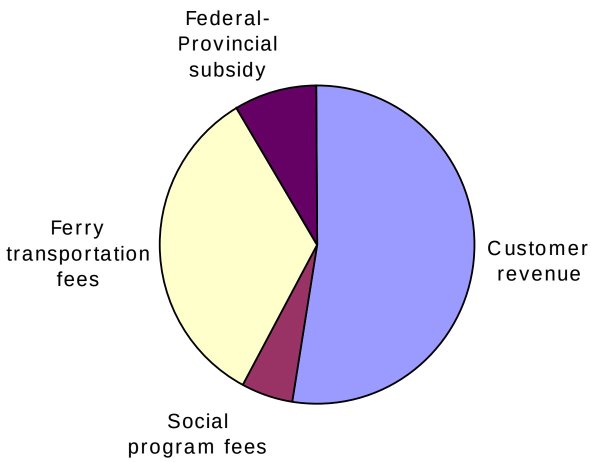
We receive ferry transportation fees for these routes under the Coastal Ferry Services Contract. These fees are lower in the second quarter and year-to-date, reflecting the lower net book value of the vessels used on these routes, partially offset by a higher number of round trips during the same periods in the prior year. The total annual transportation fees are expected to be $0.5 million lower than the prior fiscal year.

The Federal-Provincial subsidy this fiscal year will be equal to the prior year reflecting no change in the annual CPI (Vancouver).

Other Routes

Direct Route Revenue ($ thousands)	Three months ended September 30			Six months ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Vehicle traffic (volume)	1,377,855	1,398,002	(20,147)	2,516,349	2,561,270	(44,921)
Vehicle tariff	22,022	21,038	984	39,162	37,461	1,701
Passenger traffic (volume)	3,307,066	3,340,817	(33,751)	5,867,625	5,968,359	(100,734)
Passenger tariff	14,411	13,862	549	24,811	24,044	767
Social program fees	2,900	2,593	307	6,011	5,449	562
Catering & on-board	3,907	4,026	(119)	6,620	6,837	(217)
Reservation fees	760	703	57	1,088	1,035	53
Parking & other	164	161	3	276	251	25
Total Direct Route Revenue	44,164	42,383	1,781	77,968	75,077	2,891
Indirect Route Revenue						
Ferry transportation fees	21,305	21,372	(67)	41,018	41,025	(7)
Federal-Provincial subsidy	5,066	5,066	-	10,132	10,132	-
Total Route Revenue	70,535	68,821	1,714	129,118	126,234	2,884

Our Other Routes consist of 19 regulated routes and eight small unregulated routes primarily serving the northern and southern Gulf Islands and the 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 service on the unregulated routes, which are included in the ferry transportation fees in the above table.



In the six months ended September 30, 2010, revenue from our Other Routes consisted of 56% from customers and 44% from the Province (4% social program fees, 32% ferry transportation fees, and 8% from payments under the Federal-Provincial subsidy agreement).

Other Routes, cont'd

Both vehicle traffic and passenger traffic decreased in the three and six months ended September 30, 2010, compared to the same periods in the previous year. We anticipate annual passenger traffic levels to be similar to the prior year and vehicle traffic levels to be slightly lower than the prior fiscal year.

In the second quarter, the average tariff revenue per vehicle increased $0.93 or 6.2% ($0.94 or 6.4% year-to-date) while the average tariff revenue per passenger increased $0.21 or 5.0% ($0.20 or 4.9% year-to-date). The reduction in traffic was more than offset by the increase in average fares, resulting in higher total tariff revenue for the quarter of $1.5 million ($2.5 million year-to-date).

On August 17, 2010 fuel rebates on the majority of these routes decreased from 5% to 2% of tariffs on average.

Reimbursements from the Province for social program fees were higher in the three months ended September 30, 2010 as a result of higher usage and higher fares, however year-to-date usage remains lower than the previous year.

Revenue from catering and on-board services decreased from the same periods in the previous year as a result of lower average spending per passenger and a reduction in traffic on the routes where those services are offered. Year-to-date revenue was also affected by the closure of the cafeteria and retail areas on the *Queen of Burnaby* for approximately one month in the first quarter as some asbestos abatement work was being done in these areas.

Fees for reservations increased primarily as a result of a new offering to customers on our route connecting Comox and Powell River.

Ferry transportation fees are slightly lower in the quarter and year-to-date. However, total annual transportation fees are expected to equal that of the prior fiscal year.

The Federal-Provincial subsidy this fiscal year will be equal to the prior year reflecting no change in the annual CPI (Vancouver).

Expenses
Expenses for the three and six months ended September 30, 2010 and 2009 are summarized in the tables below:

Operating expenses ($ millions)	Three months ended September 30			Six months ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Operations	114.9	110.1	4.8	218.5	210.5	8.0
Maintenance	12.6	14.1	(1.5)	36.5	37.8	(1.3)
Administration	7.3	7.0	0.3	14.8	14.5	0.3
Total operations, maintenance & administration	134.8	131.2	3.6	269.8	262.8	7.0
Cost of retail goods sold	10.3	10.4	(0.1)	18.0	17.9	0.1
Amortization	28.5	28.7	(0.2)	57.1	55.7	1.4
Total expenses	173.6	170.3	3.3	344.9	336.4	8.5

The $4.8 million ($8.0 million year-to-date) increase in operations expenses consists of:

- $1.9 million ($3.1 million year-to-date) increase in wages and benefits, mainly as a result of wage rate increases averaging about 3% in accordance with the existing Collective Agreement;
- $0.7 million or 2.4% ($1.1 million or 2.1% year-to-date) increase in fuel expense as a result of higher approved prices and a 0.8% (0.4% year-to-date) increase in fuel consumption;
- $0.3 million ($0.7 million year-to-date) relating to the new Vacations Centre;
- $1.9 million ($2.7 million year-to-date) increase consisting of a number of miscellaneous items; and
- $0.4 million year-to-date for water taxi and barge service on a northern route while the Nimpkish was undergoing a refit.

The $1.5 million ($1.3 million year-to-date) decrease in maintenance costs reflects lower vessel maintenance as a result of variations in vessel refit scheduling.

The $0.3 million increase in administration expenses in the quarter and year-to-date is mainly a result of higher annual information technology licence fees and support costs.

Amortization decreased $0.2 million ($1.4 million increase year-to-date) mainly as a result of additional assets coming into service, including the *Northern Expedition* which commenced service in May 2009; partially offset by a $1.5 million decrease in the second quarter as a result of a reduction in capital costs of the Coastal class vessels and the *Northern Expedition* as a result of a $119.4 million refund of import taxes and related GST on these foreign-built vessels.

Interest and other ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2010	**2009**	**Increase (Decrease)**	**2010**	**2009**	**Increase (Decrease)**
Interest expense						
Bond interest	16.0	16.0	-	31.7	31.7	-
KfW bank group (KfW) loans	2.6	2.9	(0.3)	5.3	5.8	(0.5)
Short-term loans	-	0.1	(0.1)	0.2	0.2	-
Interest on deferred accounts	0.1	-	0.1	0.2	0.1	0.1
Structured Financing Facility Program	(0.2)	(1.3)	1.1	(0.2)	(2.6)	2.4
Capitalized interest	(0.6)	(0.4)	(0.2)	(1.2)	(2.1)	0.9
Total interest expense	17.9	17.3	0.6	36.0	33.1	2.9
Gain on foreign exchange	-	-	-	(0.1)	-	(0.1)
Loss on disposal of capital assets	0.2	-	0.2	0.2	-	0.2
Total interest and other	18.1	17.3	0.8	36.1	33.1	3.0

Interest expenses in the second quarter increased $0.6 million primarily due to higher interest rate support received in the prior year through the Government of Canada's Structured Financing Facility (SFF) program, partially offset by $0.3 million less interest on KfW loans as a result of a principal repayment of $4.5 million in July 2010 and $0.2 million higher interest capitalized.

Interest expenses year-to-date increased $2.9 million primarily due to:

- $2.4 million less interest rate support received from the Government of Canada; and
- $0.9 million less interest capitalized reflecting a reduced capital program.

These increases were partially offset by $0.5 million less interest on KfW loans as a result of principal repayments of $4.5 million in July 2009 and 2010.

Structured Financing Facility

On April 13, 2010, we received approval for up to $1.8 million of additional interest rate support payments through the SFF program relating to the life extension of the *Quadra Queen II* which is expected to be completed by the end of this fiscal year.

In September 2010, the Government of Canada agreed to provide $1.0 million of interest rate support payments relating to the life extension of the *Quinsam.* In September, $0.1 million of this amount was recorded as a reduction of capitalized interest and $0.1 million as a reduction of interest expense. The balance will reduce future interest costs.

LIQUIDITY AND CAPITAL RESOURCES

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 October 1, 2010, it was announced that our request for duty remission on four vessels built in Germany had been granted. The $119.4 million in remission of import taxes and related GST from the Government of Canada will go towards an across the board ferry fare reduction of approximately 2% effective October 18, 2010, and will reduce future price caps otherwise determined by the Commissioner commencing with performance term three. We will also allocate $20 million of this amount to upgrade key assets in the ship repair and maintenance business in British Columbia.

Over the next five years, we expect our cash requirements will be met through operational cash flows and by accessing our credit facility from time to time. At September 30, 2010, our unrestricted cash and cash equivalents totalled $62 million and our credit facility was undrawn.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at September 30, 2010, were A (DBRS) and A+ (Standard & Poor's), both with a stable trend.

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 three and six months ended September 30, 2010 and 2009 are summarized in the table below:

Sources and uses of cash ($ millions)	**Three months ended September 30**		**Six months ended September 30**	
	2010	**2009**	**2010**	**2009**
Net earnings	54.3	64.2	55.2	60.6
Items not involving cash:				
Amortization	28.5	28.7	57.1	55.7
Other non-cash charges	1.4	0.5	1.8	(0.3)
Long-term regulatory costs deferred	(2.9)	3.5	(5.3)	6.3
Change in operating working capital	2.9	(19.2)	(8.3)	(21.0)
Cash provided by operating activities	84.2	77.7	100.5	101.3
Cash used by financing activities	(4.8)	(24.6)	(4.9)	(22.8)
Cash used in investing activities	(23.0)	(13.5)	(43.7)	(35.9)
Total increase in cash and cash equivalents	56.4	39.6	51.9	42.6

Three Months Ended September 30, 2010

In the three months ended September 30, 2010, cash provided by operating activities included $2.9 million of cash used to reduce long-term regulatory liabilities as follows:

- $3.9 million in fuel rebates granted; partly offset by
  - $0.6 million in fuel and interest costs deferred; and
  - $0.4 million in other payments from the Province credited to deferred fuel accounts.

For the same period, cash provided by operating activities also included a decrease in non-cash operating working capital of $2.9 million.

This decrease in non-cash operating working capital was due to:

- $6.7 million increase in current regulatory liabilities reflecting tariff revenues collected in excess of price caps at September 30, 2010;
- $4.9 million decrease in prepaid expenses primarily due to $1.4 million in property taxes, $1.7 million in fuel, $0.8 million in technology licence fees, $0.5 million in prepaid contracts and $0.5 million in other prepaid expenses; and
- $3.1 million increase in interest payable on long-term debt reflecting the timing of interest payments.

The above items, which decreased non-cash operating working capital, were partially offset by:

- $5.1 million reduction in deferred revenue reflecting the end of our peak summer season;
- $3.7 million increase in accounts receivable primarily due to:
  - $2.2 million in social program fees;
  - $0.6 million in commercial accounts due to increased sales volume; and
  - $1.2 million in ferry transportation fees;
- $1.9 million reduction in accrued employee costs;
- $0.6 million increase in total inventories; and
- $0.5 million decrease in accounts payable relating to various operating costs.

Cash used by financing activities consists primarily of $4.5 million in loan principal repayments.

Cash used in investing activities consists mainly of $23.1 million used to purchase capital assets. The significant capital transactions are described below in “Investing in Our Capital Assets”.

Six Months Ended September 30, 2010

In the six months ended September 30, 2010, cash provided by operating activities included $5.3 million of cash used to reduce long-term regulatory liabilities as follows:

- $7.1 million in fuel rebates granted; partly offset by
  - $1.1 million in fuel and interest costs deferred; and
  - $0.7 million in other payments from the Province credited to deferred fuel accounts.

For the same period, cash provided by operating activities also included an increase in non-cash operating working capital of $8.3 million. This increase in non-cash operating working capital was due to:

- $6.9 million increase in accounts receivable primarily due to:
  - $4.6 million in social program fees receivable; and
  - $2.4 million in commercial accounts receivable due to increased sales volume;
- $3.0 million reduction in accrued employee costs;
- $2.9 million reduction in deferred revenue reflecting the end of our peak summer season;
- $1.1 million increase in prepaid expenses primarily due to $1.4 million in property taxes, $0.3 million in prepaid service contracts, partially offset by decreases of $0.4 million in insurance and $0.2 million in other miscellaneous prepaids;
- $0.7 million increase in total inventories; and
- $0.4 million decrease in accounts payable.

The above items, which increased non-cash working capital, were partially offset by:

- $6.7 million increase in current regulatory liabilities reflecting tariff revenues collected in excess of price caps at September 30, 2010.

Cash used by financing activities consists primarily of $4.5 million in loan principal repayments.

Cash used in investing activities consists mainly of $43.8 million used to purchase capital assets. The significant capital transactions are described below in “Investing in Our Capital Assets”.

INVESTING IN OUR CAPITAL ASSETS

Capital expenditures in the three and six months ended September 30, 2010, totalled $25.6 million and $51.6 million, respectively.

Capital expenditures
($ millions)

	September 30, 2010	
	3 Months	**6 Months**
Terminal marine structures	9.8	20.2
Terminal and building upgrades and equipment	7.0	12.2
Information technology	2.8	10.1
Vessel upgrades and modifications	6.0	9.1
Total capital expenditures	25.6	51.6

In August 2010, the Government of Canada announced stimulus funding for three projects: an overhead walkway at Horseshoe Bay; a foot passenger walkway at Campbell River; and a waste water facility at Langdale. We expect to receive approximately $2.1 million of the total project costs budgeted at $5.2 million.

On October 1, 2010, the Government of Canada announced that it had granted our request for duty remission on our four vessels built in Germany. Funds totalling $119.4 million (including related GST) are expected to be received over the next several weeks. This has been applied to the capital costs of these four vessels, reducing their net book value.

Our ongoing capital expenditures are expected to be significantly lower than in the previous few years. The next significant vessel renewal program will commence for the other Routes within the next five years.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the three and six months ending September 30, 2010 included the following:

Terminal marine structures
($ millions)

		September 30, 2010	
Terminal	**Description**	**3 Months**	**6 Months**
Tsawwassen	Major berth replacement and refurbishment	6.6	14.2
Campbell River	Replacement of wingwalls and dolphins	0.9	2.0
Richmond Maintenance Facility	Building four new dolphins, reinforcing three others and modifying ramp	1.2	1.3
Quathiaski Cove	Replacement of ramp, wingwalls, towers and shelter	-	0.7
Swartz Bay	Replacement and reconfiguration of two berths	0.5	0.6
Various	Other projects	0.6	1.4
		9.8	20.2

The replacement and refurbishment of one of the berths (berth 4) at Tsawwassen terminal is a $39 million multi-year project to replace all 13 dolphins, the port wingwall and the lower ramp. The lower ramp will be replaced with a new multi-apron ramp with two-lane commercial vehicle capacity and the foundations and ramp supports will be upgraded and a new hydraulic lift system installed. The expenditures at Tsawwassen terminal also include $1.3 million of a $5.0 million project for concrete restoration and full seismic upgrade of the transfer deck between berths 3 and 4.

Terminal and Building Upgrades and Equipment

Capital expenditures for terminal and building upgrades and equipment in the three and six months ending September 30, 2010 included the following:

Terminal and building upgrades and equipment

($ millions)	September 30, 2010	
	3 Months	**6 Months**
Corporate office	4.2	4.2
Terminal waste water program	0.9	2.6
Vehicles, machinery & equipment	0.1	1.2
Departure Bay terminal improvements	0.2	1.1
Seismic upgrades	0.3	1.0
Maintenance facility improvements	0.4	0.4
Security upgrades	0.1	0.4
Vacations Centre	-	0.4
Other terminal projects	0.8	0.9
	7.0	12.2

We have incurred $4.2 million this fiscal year for costs related to our new head office building in downtown Victoria. This relocation will allow for operating efficiencies by combining all departments under one roof.

As part of the multi-year sewage and waste water treatment program for treatment of sewage generated onboard our vessels, connection of Swartz Bay terminal to the existing municipal infrastructure has been completed, allowing us to transfer sewage from our smaller vessels operating out of this terminal. Construction of a holding tank at the terminal to accommodate sewage from our larger vessels is also complete and is expected to be in service by the end of December 2010. This will allow transfer to the municipal infrastructure to occur during off-peak periods. As part of the Federal government's Infrastructure Stimulus Fund program, we estimate we will receive $7.5 million to assist with sewage pump-ashore projects and other major terminal projects.

The costs incurred for vehicles, machinery, and equipment include the purchase of a crane truck in the third year of our five-year heavy vehicle replacement program. This new vehicle replaced an 18-year-old crane truck which we donated to Camosun College of Victoria for use in their heavy duty mechanics program. We also continued with the second year of our two-year program supporting our new drop trailer service with the purchase of three additional hostling units. These units will be used to move commercial trailers to and from our holding compounds.

We are nearing completion of our multi-year program in accordance with our master plan for improvements at Departure Bay terminal. These improvements have included new retail and ticket buildings, a new waiting room, consolidation of waste management facilities and expansion of customer and employee parking. The last stage which includes reconfiguration of the holding compound and employee and customer parking lots as well as construction of a canopy is expected to be completed this fiscal year.

At nine terminals, mainly serving our Major and Northern Routes, we continued our multi-year project to upgrade security. This project primarily involves fencing, gating, lighting, access controls, and closed circuit television, as well as upgrades to foot passenger ticketing areas and baggage screening. We received $9.1 million of federal funding through the Transport Canada Marine Security Contribution Program to help offset our costs of perimeter security, access control measures, and training.

On May 11, 2010, we officially opened our new Vacations Centre in downtown Vancouver. The centre is conveniently located in the new Fairmont Pacific Rim property in the heart of the tourist sector in downtown Vancouver. Using an 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. To date, results from this initiative are meeting our expectations.

Information Technology

Capital expenditures for information technology in the three and six months ending September 30, 2010, included the following:

Information technology ($ millions)	**September 30, 2010** 3 Months	6 Months
Oracle enterprise licence software	-	4.1
Payroll system replacement	0.7	1.5
Customer service system replacement	0.2	0.7
Website enhancements	0.1	0.5
Communications software	0.5	0.5
ERP foundation upgrades	0.1	0.5
Other projects	1.2	2.3
	2.8	10.1

As part of our ongoing processes, we have reviewed and updated our enterprise wide Oracle licences.

The payroll system replacement initiative is a $3 million project that will replace both our payroll and labour distribution systems to provide added reliability and significant processing efficiencies and flexibility.

The customer service system initiative is in the preliminary stages to replace our point of sale and reservations systems to provide enhanced functionality and more efficient customer service.

The website initiative is a $4 million project to improve customer service and communications tools, both internally and externally, and to establish a technical platform to enable future web enhancements.

Other projects include automated wireless ticketing. In September 2010, we introduced wireless hand-held point-of-sale units on Denman Island, Quadra Island and Saturna Island where transactions were previously processed manually. This will allow us to eliminate prepaid paper tickets on these routes and enable customers to use credit cards or their BC Ferries Experience Cards to purchase fares.

Vessel Upgrades and Modifications

Capital expenditures for vessel upgrades and vessel modifications in the three and six months ending September 30, 2010, included the following:

Vessel upgrades and modifications ($ millions)	**September 30, 2010**	
	3 Months	**6 Months**
Quadra Queen II life extension	2.7	3.4
Sewage treatment upgrade program	1.8	2.0
Quinsam upgrade and betterment	-	0.8
Electrical & navigational upgrades	0.4	0.6
Completion of *Queen of Oak Bay* shore power synchronization	-	0.4
Other projects	1.1	1.9
	6.0	9.1

The project to extend the life of the 41-year-old *Quadra Queen II* began in May 2010 and will prepare the vessel for a further 15 years of service. This $15 million project includes hull steel renewal, new propellers and bow thruster, new generators, new instrumentation and control systems, new lifesaving systems and various interior improvements. The *Quadra Queen II* is expected to return to service by the end of this fiscal year. On April 13, 2010, we received approval for up to $1.8 million of additional interest rate support payments through the SFF program relating to this life extension which is expected to be completed by the end of this fiscal year.

Implementation of a multi-year sewage and waste water treatment program to upgrade 20 vessels and eight terminals for treatment of sewage generated onboard the vessels continues. The program involves major modifications and upgrades to ensure that all vessels comply with *Canada Shipping Act, 2001* sewage regulations, which will apply effective July 1, 2012. Wherever possible, the vessels will convey sewage to a terminal through pump-ashore infrastructure. In all other cases, the vessels will be fitted with compliant marine sanitation devices. Modification of the first two vessels, the *Skeena Queen* and the *Kwuna,* is complete.

The 28-year-old *Quinsam* returned to service on May 18, 2010, after completion of an extensive $19 million asset betterment project to prepare the vessel for another 17 years of service. The betterment included hull steel renewal, new lifesaving systems, new electrical switchboard and generators, new right-angle drives, upgrades to the engines, new sewage tank and macerator and various interior improvements. In September 2010, the Government of Canada agreed to provide $1.0 million of interest rate support payments relating to the life extension of the *Quinsam* through the SFF program. In September, $0.1 million was recorded as a reduction of capitalized interest and $0.1 million as a reduction of interest expense. The remaining balance will reduce future interest expense.

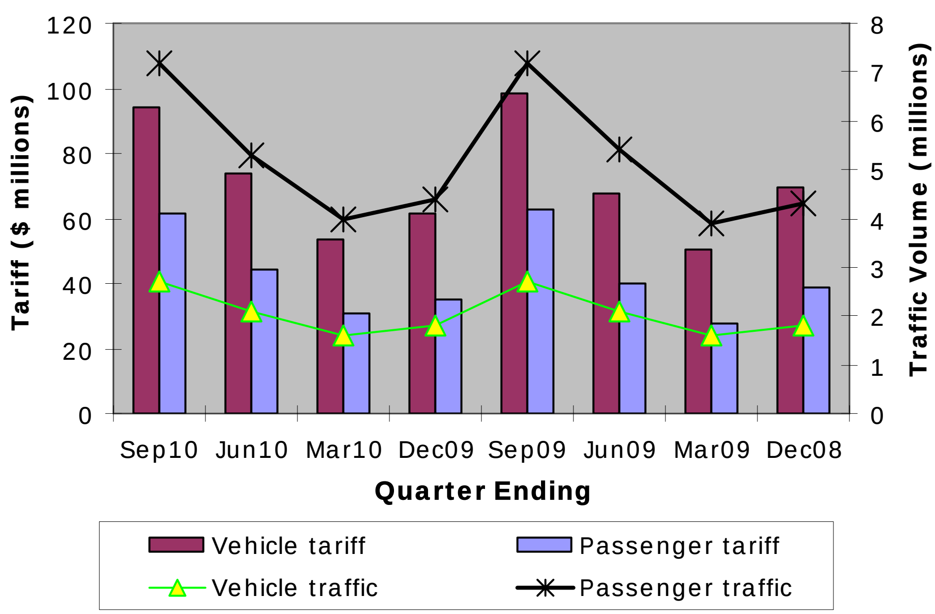
SUMMARY OF QUARTERLY RESULTS

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

($ millions)	Quarter Ended (unaudited)							
	Sep 10	**Jun 10**	**Mar 10**	**Dec 09**	**Sep 09**	**Jun 09**	**Mar 09**	**Dec 08**
Total revenue	246.0	190.2	142.3	159.9	251.8	178.3	128.5	149.4
Earnings (loss) from operations	72.4	18.9	(19.5)	(1.9)	81.5	12.2	(25.1)	(1.7)
Net earnings (loss) and comprehensive income	54.3	0.9	(36.8)	(20.4)	64.2	(3.6)	(38.4)	(14.6)

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.



FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

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 35 through 37 of our fiscal 2010 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2010.

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 38 through 45 of our fiscal 2010 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2010.

We do not believe that material uncertainties exist in regards to our future. 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 weather the economic downturn and continue to have a viable, profitable future.

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles.

Our significant accounting policies are contained in note 1 to our March 31, 2010 and September 30, 2010 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 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 46 through 48 of our fiscal 2010 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, 2010, or expect to use in the future.

Adoption of New Accounting Standards

No new accounting standards have been adopted for fiscal 2011.

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

- In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period.

  Our changeover date for the conversion to IFRS was originally April 1, 2011. However, the AcSB has amended Part 1 of the CICA Handbook – Accounting to require:
  - Qualifying entities with rate-regulated activities to adopt IFRSs for the first time no later than annual periods beginning on or after January 2012; and
  - Entities electing to defer the first-time adoption of IFRSs to disclose that fact.

  The Canadian Securities Administrators' regulations have also been amended to incorporate the AcSB's one-year deferral.

  We have elected this option which defers our changeover date for conversion to IFRS to April 1, 2012.

  Transition to IFRS will require the restatement for comparative purposes of amounts reported by us for the year prior to changeover date. We are continuing to assess the financial reporting impacts of the adoption of IFRS and are monitoring ongoing standards development as issued by the International Accounting Standards Board and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure relating to our adoption of IFRS.

  The transition to IFRS may materially affect our reported financial position and results of operations. As our analysis is still underway and significant uncertainty exists regarding the accounting for rate-regulated activities under IFRS, we are unable to quantify the impact of IFRS on the future financial position and results of operations.

  We commenced our IFRS transition project in 2007 and have established a formal project governance structure with regular reporting. We have also engaged a quality assurance advisor to assist in the project.

  Our IFRS transition project consists of three phases:
  1. Scoping and diagnostic phase, which has been completed, involved project planning and resourcing, high level impact assessment of differences between current Canadian GAAP and IFRS, and priority setting;
  2. Analysis and development phase which involves detailed analysis and evaluation of options and alternative methodologies available under IFRS, and the financial impact of these options; and
  3. Implementation and review phase which involves implementing and approving changes to accounting policies, information systems, business processes and training, and developing IFRS-compliant financial statements.

  We are currently in either the analysis and development stage or the implementation and review stage, depending on the specific area.

  The following table includes elements of our IFRS transition plan and an assessment of progress towards achieving the key milestones which have been amended to reflect our election to defer our changeover to IFRS by one year, to April 1, 2012. We are working through a detailed IFRS transition plan and certain project activities and milestones could change. Further, changes in regulation or timing of standard development throughout the project could result in changes to the transition plan.

Financial statement preparation

Key activities

- Identify differences in Canadian GAAP/IFRS accounting policies
- Select ongoing IFRS policies
- Develop financial statement format
- Select IFRS 1 exemptions for transition
- Quantify effects of change at April 1, 2011 (for fiscal 2012 comparative financial statements)

Milestones

- Senior management review of policy decisions and illustrative IFRS financial statements and disclosures by June 30, 2011
- Audit & Finance Committee approval of policy decisions and IFRS financial statement format, in principle, by September 30, 2011
- IFRS 1 exemptions finalized and quantified by September 30, 2011
- Policies and procedures in place by March 31, 2012

Status

- Scoping and diagnostic phase completed in fiscal 2009, with high-level review of the major differences between Canadian GAAP and IFRS
- Highest areas of impact identified; review prioritized; and in-depth analysis complete in most areas
- Accounting policy alternatives have been analyzed, recommendations made for the majority of key accounting policy decisions
- IFRS 1 exemptions reviewed and analyzed
- Preparation of illustrative financial statements and note disclosures complete
- Drafting of policies and procedures in progress

Information technology infrastructure

Key activities

- Confirm system upgrades required for IFRS reporting
- Review/revise data gathering processes
- Review/revise budgeting and forecasting processes

Milestones

- System configuration changes complete by March 31, 2010
- System reporting changes required to accommodate both current Canadian GAAP and IFRS complete by August 31, 2010
- Changes to budgeting and forecasting processes complete by June 30, 2011

Status

- Detailed reporting requirements to accommodate the transition to IFRS identified and documented
- Overall system approach selected
- System configuration to accommodate both current Canadian GAAP and IFRS complete
- System changes to accommodate reporting requirements complete
- Review to determine effects of one-year deferral of changeover and absence of standard on rate-regulation underway
- Changes to budgeting and forecasting processes in progress

Training, Education & Communication
Key activities • Determine required level of IFRS expertise within all areas of the company • Ensure appropriate training of key members within Finance • Provide appropriate education and communication to affected departments • Provide department specific training on revised policies and procedures • Provide timely communication to both internal and external stakeholders on impacts of the transition to IFRS
Milestones • Topic-specific training for IFRS working committee complete prior to March 31, 2010 • Department-specific training completed by March 31, 2012 • Impacts of transition to IFRS communicated to external stakeholders by March 31, 2012
Status • Core IFRS project team members completed topic-specific training, and successfully completed the "IFRS Award Program, Certificate Level" through the Institute of Chartered Accountants in England and Wales • Interdepartmental workshops provided on specific topics, including property, plant and equipment; IFRS 1; and the IFRS Framework • Training requirements identified and training plan developed as implementation plans progress • Ongoing communications with key stakeholders, including direct communication with the Commissioner, our Agent Bank, rating agencies, our Board of Directors, and with investors indirectly through our website

Control environment
Key activities • Accounting policy determination, documentation and implementation • MD&A ongoing communications
Milestones • All internal control process descriptions updated by March 31, 2012 • Publish quantitative effects of conversion on April 1, 2011 opening balance sheet in December 31, 2011 MD&A
Status • Analysis of control issues in progress as part of the detailed implementation plan • Documentation of policies and procedures in progress

Business policy assessment
Key activities • Financial covenants assessment • Compensation arrangements assessment • Customer and supplier contract evaluation
Milestones • Potential impact on compensation arrangements determined by December 31, 2011 • Impact on customer/supplier contracts determined by December 31, 2011 • Impact on financial covenants quantified by March 31, 2012
Status • All relevant GAAP-dependent covenants and contracts have been identified • Analysis to determine effects of IFRS on existing covenants and contracts in progress

A summary of progress in the review of areas identified to have the highest potential to impact us is as follows:

- Rate-regulated operations: IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. In December 2008, the International Accounting Standards Board (IASB) initiated a project on accounting for rate-regulated activities that has an objective to develop a standard on rate-regulated activities that would clarify whether regulated entities could or should recognize assets or liabilities as a result of rate-regulation imposed by a regulatory body.

  In September 2010, the IASB staff released Agenda Paper 12 on rate-regulated activities. In the staff's opinion, while the impact of regulators may have an economic impact on entities subject to rate-regulation:
  - Regulatory assets do not meet the definition of a financial asset nor the definition of an intangible asset as specified in IAS 38; and
  - Regulatory liabilities do not meet the definition of a financial liability nor the definition of a provision as specified in IAS 37.

  The staff also recommended closing the current project on rate-regulated activities.

  The IASB is currently re-assessing the continuation of the current project and as of October 12, 2010, it is no longer listed on the IASB's work plan. They have stated that potential future steps include, but are not limited to:
  - A disclosure only standard;
  - An interim standard to grandfather previous GAAP accounting practices with some limited improvements;
  - A medium term project focused on the effects of rate-regulation; and
  - A comprehensive project on intangible assets.

  The continued uncertainty regarding IFRS treatment of regulatory assets and liabilities has resulted in an inability to reasonably estimate and conclude the impact of IFRS on our future financial position and results of operations with respect to differences, if any, in accounting for rate-regulated activities.

- Property, plant and equipment:
  - *Inspections and major overhauls:* The capitalization of inspections and major overhauls of our vessels is the largest change affecting us. A process to track these items has been finalized and necessary system configuration changes have been completed. We are currently in the process of:
    - defining and identifying inspection and major overhaul items for each class of vessel;
    - quantifying those inspections and major overhauls for reclassification of property, plant and equipment at transition date; and
    - determining the best solution for reporting of these costs.

    As the analysis is in progress, the effect on our consolidated financial statements of the adoption of this guidance cannot be quantified at this time.
  - *Valuation subsequent to transition:* We have a choice under IFRS to value our property, plant and equipment using either a historical cost model or a revaluation model. We have decided to use a historical cost model for all property, plant and equipment with the exception of land. We will use a revaluation model for our land.

- IFRS 1 *First-Time Adoption of IFRS*: All elections and exemptions under IFRS 1 have been reviewed. The exemptions that apply to us upon adoption are summarized as follows:
  - *Employee Benefits:* There is a choice to either recognize all cumulative actuarial gains and losses of defined benefit plans through opening retained earnings or recalculate the actuarial gains and losses under IFRS from the inception of the defined benefit plans. We have elected to recognize all cumulative actuarial gains and losses through opening retained earnings at April 1, 2011.

- *Property, plant and equipment and Intangible assets:* There is a choice of valuation of property, plant and equipment and intangible assets at April 1, 2011, either to:
  - retrospectively apply IFRS to the valuation of the assets; or
  - to revalue items, on an asset by asset basis, at fair value and use that fair value as deemed cost; or
  - use previous GAAP carrying amounts at transition as the deemed cost for assets used in rate-regulated operations as detailed in the amendment to IFRS 1 published May 6, 2010.

  We have elected to use previous GAAP carrying amounts at transition as the deemed cost for all intangible assets and the majority of our property, plant and equipment with the exception of land. We have elected to revalue land at fair value at April 1, 2011.

As actuarial valuations of our defined benefit plans at April 1, 2011 are yet to be completed and land has not been fair valued, the effect on our consolidated financial statements of the adoption of IFRS 1 cannot be quantified at this time.

- Intangible assets: There is substantially no change in IFRS from Section 3064, *Goodwill and Intangible Assets,* which we adopted April 1, 2009. The adoption of this guidance is not expected to have any significant effect on our consolidated financial statements.

- Asset impairment: We are currently defining indications of impairment. Processes to track any asset impairment and potential subsequent reversals have been determined. The adoption of this guidance is not expected to have any significant effect on our consolidated financial statements.

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 Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to our short and long-range business plans, estimates of future customer demand, asset renewal programs for vessels and terminals, expectations of the ferry transportation fee amounts and import duty remission amounts, expectations of funding under the Infrastructure Stimulus Fund program, expectations regarding how our cash requirements will be met, and expectations regarding the impacts of Bill 20 and IFRS. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, limitations of vessel repair facilities, risk of default under material contracts and aboriginal land claims.

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