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

For the three months ended June 30, 2012
Dated August 23, 2012

BCFerries

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Management's Discussion & Analysis of Financial Condition and Financial Performance For the three months ended June 30, 2012 Dated August 23, 2012

The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. as of August 23, 2012. This should be read in conjunction with our unaudited interim consolidated financial statements and related notes for the three month periods ended June 30, 2012 and 2011, and our audited consolidated financial statements and related notes for the years ended March 31, 2012 (fiscal 2012) and March 31, 2011 (fiscal 2011), together with our fiscal 2012 Management's Discussion & Analysis. These documents are available on SEDAR at www.sedar.com and on our Investor webpage at http://www.bcferries.com/about/investors/index.html.

Except where indicated, all financial information herein is expressed in Canadian dollars and determined on the basis of International Financial Reporting Standards (IFRS). These unaudited quarterly results are our first financial results reported under IFRS, and have been subject to an interim review by our external auditors, KPMG LLP. Note 11 to the unaudited interim consolidated financial statements contains a reconciliation of key components of our financial statements previously prepared under Canadian GAAP to those under IFRS as at and for the three months ended June 30, 2011, for the year ended March 31, 2012 and as at our transition date of April 1, 2011. Although the adoption of IFRS resulted in adjustments to our financial statements, it did not materially impact the underlying cash flows or long-term profitability trends of our operating performance.

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. We provide frequent year-round transportation service with 35 vessels operating on 25 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 June 30, 2012 (the first quarter of fiscal 2013), we provided 45,800 sailings, carrying five million passengers and two million vehicles.

In the first quarter of fiscal 2013, we experienced a decline of 1.7% in vehicle traffic and 2.4% in passenger traffic as compared to the same period in the prior year. (See discussion under "Financial and Operational Review" below).

Significant events during or subsequent to our first quarter of fiscal 2013:

- Effective April 1, 2012, the Coastal Ferry Services Contract (CFSC) was amended for performance term three, being the period from April 1, 2012 to March 31, 2016. The amendment includes a reduction of up to 400 round trips in the minimum service requirement on our Major Routes, as well as principles and targets for further service level reductions system wide. These initiatives are expected to achieve efficiencies totalling $30 million over performance term three. (See "Financial and Operational Overview – Economic Regulatory Environment" for more detail).

- On May 9, 2012, the Province announced the introduction of the *Coastal Ferry Amendment Act 2012* (Bill 47), as well as a payment of $25.0 million relating to fiscal 2012 and a further $54.5 million over the following four fiscal years. Bill 47 received Royal Assent on May 31, 2012 and came into force on June 25, 2012. (See "Financial and Operational Overview – Economic Regulatory Environment" for more detail).

- On June 20, 2012, we released the results of our 2011 Customer Satisfaction Tracking surveys which indicated that 88% of customers surveyed reported being satisfied with their overall trip experience. A copy of the full report is available on our website.

- On July 20, 2012, as a result of declining fuel prices, fuel surcharges were reduced from 2.5% to 2.0% on our route connecting Horseshoe Bay and Langdale and from 5.0% to 2.0% on our other regulated routes with the exception of the Northern Routes. No surcharges or rebates were in place on our Northern Routes.

FINANCIAL AND OPERATIONAL OVERVIEW

As of April 1, 2012, we are reporting our financial position and financial performance under IFRS. The prior year has been restated under IFRS for comparative purposes.

This section provides an overview of our financial and operational performance for the three months ended June 30, 2012 and 2011.

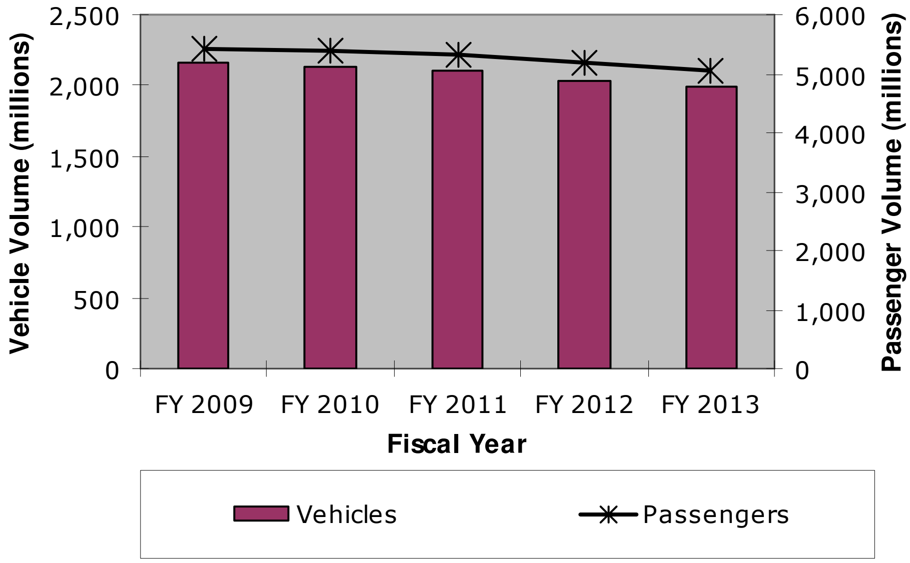
	Three months ended June 30			
($millions)	**2012**	**2011**	**Variance**	
Total revenue	197.6	187.0	10.6	5.7%
Operating expenses	(176.9)	(173.3)	(3.6)	(2.1%)
Operating profit	20.7	13.7	7.0	51.1%
Net finance and other	(17.4)	(17.2)	(0.2)	(1.2%)
Net earnings (loss) and comprehensive income (loss)	3.3	(3.5)	6.8	194.3%

Our operating profit in the three months ended June 30, 2012, was $7.0 million higher than the same period in the prior year. We reported earnings of $3.3 million in the first quarter of fiscal 2013 compared to a net loss of $3.5 million in the first quarter of fiscal 2012.

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.

Our commercial and discretionary travel markets continue to be negatively impacted by worldwide economic conditions including high vehicle fuel prices, a high Canadian dollar and generally reduced consumer confidence. The traffic in the first quarter of fiscal 2013 was also negatively impacted by inclement weather. We do not anticipate that economic conditions or our traffic levels will improve in the near term. We expect vehicle and passenger traffic this fiscal year to be lower than that of the prior year.

The following graph illustrates our vehicle and passenger traffic levels for the first quarter from fiscal 2009 through fiscal 2013:



In response to the lower traffic levels and resulting revenue reduction, we continued our cost containment measures which include a hiring freeze of all non-essential positions, a wage and salary freeze for exempt employees, cancellation of discretionary expenses, reduced use of outside contractors and consultants, and elimination of many charitable and community donations. We manage our costs as prudently as possible without compromising safe operations. We are working with the Province to gain efficiencies through service level adjustments where capacity utilization is less than optimal.

Safety and training

We continue to foster a culture of safety through training, education and communication.

In May 2012 our Safety and Training Department received an award from the Corporate University Exchange, recognizing excellence in training and development. The award was presented for our SEA (Standardized Education and Assessment) program in the category of Learning Technologies. Other companies receiving awards in this category were Microsoft™ and PayPal™. Our SEA program includes our Bridge Team Simulator (BTS) program which enables the development and delivery of affordable, integrated and targeted bridge team training at three of our major terminals.

Since the BTS program commenced in October 2011 one hundred and sixty bridge officers have attended the Bridge Operations, Skills and Systems (BOSS) 1 course. This represents approximately 45% of the officers in the fleet. In addition more than forty deck personnel have attended BOSS 1. The BTS instructors are currently formulating another course that builds on BOSS 1 principles and is targeted for pre-pilot in late September of this year. Also BTS instructors have commenced post-training support vessel visits where there is an opportunity to assess whether the BOSS 1 learning objectives are being applied effectively in the workplace. This initiative supports our goal of standardizing and improving operations.

Economic Regulatory Environment

Effective April 1, 2012, for the first year of performance term three, the *Coastal Ferry Amendment Act*, *2011* (Bill 14) established a price cap increase for each route group of 4.15% from the weighted average of the tariffs in place at March 31, 2012 as established by the British Columbia Ferries Commissioner (the Commissioner). In response to the changes, we implemented tariff increases up to the new levels authorized. Bill 14 also provides that the Commissioner establish price caps for the balance of the third performance term.

Bill 14 also prevents us from obtaining extraordinary price cap increases, and requires ministerial approval (as opposed to Commissioner approval) for the discontinuance of ferry services, until October 1, 2012.

In May 2012 and in response to the Commissioner's report, the Province enacted legislative changes to the Act (Bill 47), designed to move toward striking a balance among the interests of ferry users, taxpayers and the sustainability of the ferry operator. The changes cover a wide range of ferry related issues including:

- Allowing cross subsidization from the Major Routes to other routes;
- Changing the primary responsibility of the Commissioner from priority placed on the financial sustainability of the ferry operations, to responsibility to protect the interests of ferry users, the taxpayers, and the financial sustainability of the ferry operator;
- Expanding the Commissioner's authority and responsibilities, to include:
    - Approval of permanent changes to service levels;
    - Authority to order a temporary or permanent service reduction and or deferral of a planned capital expenditure in response to an extraordinary situation, in addition to or instead of an approval of extraordinary price cap increases;
    - The ability to require us to seek his approval in advance of making certain capital expenditures;
    - The responsibility to set price caps sufficient to enable us to meet our debt obligations and maintain access to borrowing rates that in the opinion of the Commissioner are reasonable;
    - Specific legislative authority to establish the deferred fuel cost accounts and the terms and conditions for their use, including fuel surcharges or rebates; and
    - The authority to conduct routine performance reviews and to require us to review our policies and undertake public consultation.

In response to Section 41.1 of the amended Act, we filed an application with the Commissioner in June 2012 seeking approval to establish a new fuel cost deferral mechanism.

Together with the introduction of amendments to the Act, the Province announced additional payments totalling $79.5 million in order to reduce the pressure for future fare and price cap increases. The first payment of $25.0 million, approved on March 30, 2012, was received April 20, 2012, as a contribution to our equity. A further $54.5 million will be received in annual payments of $21.5 million in fiscal 2013; $10.5 million in fiscal 2014; $11.0 million in fiscal 2015; and $11.5 million in fiscal 2016.

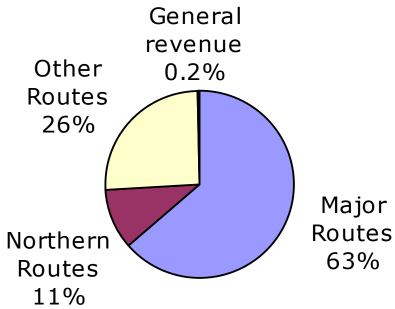
In addition, the Province announced that it will conduct public consultation with ferry dependent communities about adjustments to service levels and trade-offs between service adjustments, fare increases and potential community contributions. The Province also announced that it will seek public input to develop strategies to support a long-term vision for connecting coastal communities. We have offered to provide technical assistance to support this process.

During the first quarter, amendments to the CFSC were agreed to with the Province. These amendments, effective April 1, 2012, include:

- Grouping our route connecting Horseshoe Bay and Langdale with the three Major Routes connecting Greater Vancouver with mid and southern Vancouver Island;
- A reduction of up to 400 round trips in the minimum service requirement on our Major Routes as well as principles and targets for further service level reductions system wide. (These initiatives are expected to achieve efficiencies totalling $30 million over performance term three); and
- Ferry transportation fee enhancements of $54.5 million through performance term three as previously announced by the Province and detailed above.

Revenue

Our total revenue in the three months ended June 30, 2012 increased from the same period in the previous year as shown in the table below.



In the three months ended June 30, 2012, the greatest portion of our revenues, 63%, was earned on our Major Routes. The revenue from the Northern Routes contributed 11%, and Other Routes contributed 26%.

(As per the amended CFSC the route connecting Horseshoe Bay and Langdale, previously included in Other Routes, is now a Major Route).

Revenue ($millions)	**Three months ended June 30**			
	2012	**2011**	**Increase (Decrease)**	
Direct Route Revenue				
Vehicle traffic (volume)	*1,994,843*	*2,029,329*	*(34,486)*	*(1.7%)*
Vehicle tariff	71.9	71.6	0.3	0.4%
Passenger traffic (volume)	*5,049,095*	*5,172,459*	*(123,364)*	*(2.4%)*
Passenger tariff	42.6	42.8	(0.2)	(0.5%)
Fuel surcharges (rebates)	6.0	1.1	4.9	445.5%
Catering & on-board	18.7	19.0	(0.3)	(1.6%)
Social program fees	7.6	7.2	0.4	5.6%
Reservation fees	3.1	3.4	(0.3)	(8.8%)
Other revenue	1.7	1.6	0.1	6.3%
Total Direct Route Revenue	151.6	146.7	4.9	3.3%
Indirect Route Revenue				
Ferry transportation fees	38.6	33.1	5.5	16.6%
Federal-Provincial subsidy	7.0	6.9	0.1	1.4%
Total Route Revenue	197.2	186.7	10.5	5.6%
Other general revenue	0.4	0.3	0.1	33.3%
Total Revenue	197.6	187.0	10.6	5.7%

Our largest revenue source is vehicle and passenger tariffs. Effective April 1, 2012, for the first year of performance term three, Bill 14 established a price cap increase for each route group of 4.15% from the weighted average of the tariffs in place at March 31, 2012. In response to the changes, we implemented tariff increases up to the new levels 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 as well as reservation fees 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.

Year to year changes for the three months ended June 30 for our Major, Northern, and Other Routes are discussed separately below. The CFSC was amended, effective April 1, 2012, to include our route connecting Horseshoe Bay and Langdale with the Major Routes and as a consequence, it has been removed from Other Routes in our discussion below. For comparative purposes, we also made this change in our first quarter of the prior year.

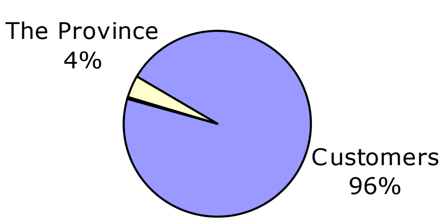
Major Routes

Direct Route Revenue ($ thousands)	Three months ended June 30			
	2012	**2011***	**Increase (Decrease)**	
Vehicle traffic (volume)	*1,184,907*	*1,201,258*	*(16,351)*	*(1.4%)*
Vehicle tariff	59,436	58,944	492	0.8%
Passenger traffic (volume)	*3,236,912*	*3,311,781*	*(74,869)*	*(2.3%)*
Passenger tariff	33,939	34,141	(202)	(0.6%)
Fuel surcharges (rebates)	4,971	816	4,155	509.2%
Catering & on-board	16,992	17,202	(210)	(1.2%)
Social program fees	4,544	4,318	226	5.2%
Reservation fees	3,053	3,342	(289)	(8.6%)
Parking	930	959	(29)	(3.0%)
Other revenue	727	571	156	27.3%
Total Direct Route Revenue	124,592	120,293	4,299	3.6%
Indirect Route Revenue				
Ferry transportation fees	657	1,014	(357)	(35.2%)
Federal-Provincial subsidy	-	246	(246)	(100.0%)
Total Route Revenue	125,249	121,553	3,696	3.0%

* Fiscal 2011 has been restated to include our route connecting Horseshoe Bay and Langdale

Our Major Routes consist of three regulated routes connecting Greater Vancouver with mid and southern Vancouver Island and, effective April 1, 2012, our regulated route connecting Horseshoe Bay and Langdale. These are four of our busiest routes, carrying approximately 60% of our total traffic during the first three months of both fiscal 2012 and 2011.

Both vehicle and passenger traffic decreased in the three months ended June 30, 2012, compared to the same period in the previous year. Annual traffic levels on these routes are anticipated to be lower than the prior fiscal year.



In the three months ended June 30, 2012, revenue from our Major Routes consisted of 96% from customers and 4% from the Province (3.6% social program fees and 0.4% ferry transportation fees in support of our route connecting Horseshoe Bay and Langdale).

On May 25 through June 25, 2012, our “CoastSaver” program was in place on the three routes connecting Greater Vancouver with mid and southern Vancouver Island, providing price discounts of approximately 40% from regular passenger and passenger vehicle fares for four days (from Friday through Monday) each week through the duration of the program. While this discount program assists us in managing our regulatory requirements on price caps and can impact traffic patterns, we believe it does not significantly impact our overall traffic levels.

Average tariff revenue per vehicle increased $1.09 or 2.2% and average tariff revenue per passenger increased $0.17 or 1.6% in the quarter compared to the first quarter in the prior year, mainly as a result of higher tariffs. Higher average fares more than offset the reduction in traffic, resulting in an increase of $0.3 million in tariff revenue.

Fuel surcharges collected were $4.2 million higher during the quarter. On July 20, 2012, surcharges on all of our Major Routes were reduced to 2% of tariffs on average to reflect declining fuel prices. Surcharges of 5.0% were in place on the three Major Routes connecting Greater Vancouver with mid and southern Vancouver Island and a surcharge of 2.5% was in place on our Horseshoe Bay – Langdale route from December 12, 2011 through to July 20, 2012. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" below for more detail).

All vessels that provide service on our Major Routes have a gift shop and options for food service. Food sales decreased primarily as a result of lower passenger traffic, partially offset by an increase in gift shop sales. Sales of quality apparel and giftware continue to grow, increasing 18.6% and 19.4% respectively from the first quarter of the prior 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 (MTAP). The number of students travelling was down 37%, however this reduction was more than offset with a greater number of individuals travelling with vehicles under the MTAP, resulting in an increase in social program fees as a result of changes in program usage and higher fares.

Reservation fees and parking decreased as a result of the lower traffic levels and lower usage.

Other revenue increased mainly as a result of an increase in hostling[1] fees from our drop-trailer service for commercial customers. This service has been well received in the commercial market place. Although we had an increase in drop-trailer traffic, it was offset by a decrease in other commercial traffic.

Ferry transportation fees are received in support of services provided on our Horseshoe Bay – Langdale route. While total ferry transportation fees from the Province increased, a lower portion of the total fees has been allocated by the Province to support the Horseshoe Bay – Langdale route this fiscal year. Annual ferry transportation fees for this route are expected to be $1.4 million lower than the prior fiscal year.

Also included in ferry transportation fees allocated to the Horseshoe Bay – Langdale route are funds received from the Province related to the import duty remission on one of our foreign-built vessels. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" below for more detail).

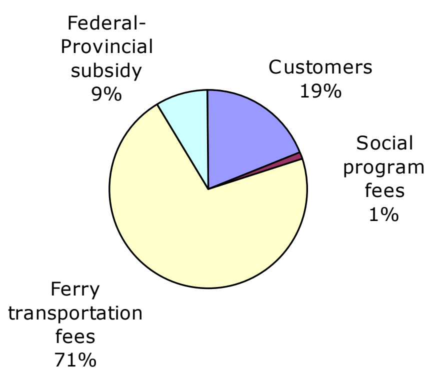
The allocation of the Federal-Provincial subsidy to the Horseshoe Bay – Langdale route was eliminated effective April 1, 2012, the beginning of the third performance term. These funds were reallocated to the Northern and Other Routes.

[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 June 30**			
	2012	**2011**	**Increase (Decrease)**	
Vehicle traffic (volume)	*6,334*	*6,548*	*(214)*	*(3.3%)*
Vehicle tariff	1,826	1,928	(102)	(5.3%)
Passenger traffic (volume)	*17,343*	*17,843*	*(500)*	*(2.8%)*
Passenger tariff	1,484	1,595	(111)	(7.0%)
Social program fees	264	287	(23)	(8.0%)
Catering & on-board	437	470	(33)	(7.0%)
Stateroom rental	248	253	(5)	(2.0%)
Hostling & other	34	36	(2)	(5.6%)
Total Direct Route Revenue	4,293	4,569	(276)	(6.0%)
Indirect Route Revenue				
Ferry transportation fees	14,981	12,946	2,035	15.7%
Federal-Provincial subsidy	1,801	1,700	101	5.9%
Total Route Revenue	21,075	19,215	1,860	9.7%

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



In the three months ended June 30, 2012, revenue from our Northern Routes consisted of 19% from customers and 81% from the Province (1% social program fees, 71% ferry transportation fees and 9% from payments under the Federal-Provincial subsidy agreement).

Northern Routes, cont'd

Both vehicle traffic and passenger traffic decreased in the three months ended June 30, 2012, compared to the same period in the previous year. Annual traffic levels on these routes are also anticipated to be lower than the prior fiscal year.

The average tariff revenue per vehicle decreased $6.15 or 2.1% and average tariff revenue per passenger decreased $3.82 or 4.3% mainly as a result of a greater proportionate number of vehicles and passengers on the shorter routes with lower fares. The reduction in traffic and in average rates resulted in a total tariff revenue decrease of $0.2 million.

No fuel surcharges or rebates were in place on our Northern Routes.

Reimbursements from the Province for social program fees decreased primarily as a result of lower student and senior travel, partially offset by higher usage of MTAP and higher fares.

Revenue from catering, on-board services, stateroom rental, hostling and other decreased as a result of lower traffic levels and lower average sales per passenger.

We receive ferry transportation fees for these routes under the CFSC. These fees increased as a result of additional funding from the Province as well as a larger portion of the total fees allocated by the Province to these routes. Annual ferry transportation fees for these routes are expected to be $10.6 million higher than the prior fiscal year.

Also included in ferry transportation fees are funds received from the Province related to the price of fuel. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" below for more detail). As a result of changes in fuel prices, at the end of the first quarter these amounts are $0.2 million lower than the prior year.

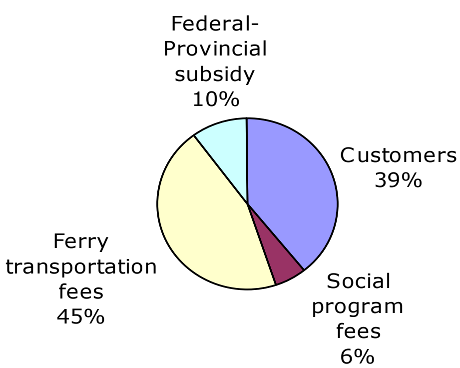
The Federal-Provincial subsidy has increased by the change in the annual Consumer Price Index (CPI) (Vancouver) and an increase in the allocation of the total subsidy.

Other Routes

Direct Route Revenue ($ thousands)	**Three months ended June 30**			
	2012	**2011***	**Increase (Decrease)**	
Vehicle traffic (volume)	*803,602*	*821,523*	*(17,921)*	*(2.2%)*
Vehicle tariff	10,600	10,733	(133)	(1.2%)
Passenger traffic (volume)	*1,794,840*	*1,842,835*	*(47,995)*	*(2.6%)*
Passenger tariff	7,137	7,061	76	1.1%
Fuel surcharges (rebates)	1,059	339	720	212.4%
Social program fees	2,808	2,586	222	8.6%
Catering & on-board	1,028	1,055	(27)	(2.6%)
Reservation fees	48	47	1	2.1%
Parking & other	20	19	1	5.3%
Total Direct Route Revenue	22,700	21,840	860	3.9%
Indirect Route Revenue				
Ferry transportation fees	22,974	19,099	3,875	20.3%
Federal-Provincial subsidy	5,218	4,926	292	5.9%
Total Route Revenue	50,892	45,865	5,027	11.0%

* Fiscal 2011 has been restated to exclude our route connecting Horseshoe Bay and Langdale

Our Other Routes consist of 18 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 contracted services on these routes, which are included in the ferry transportation fees in the above table.



In the three months ended June 30, 2012, revenue from our Other Routes consisted of 39% from customers and 61% from the Province (6% social program fees, 45% ferry transportation fees and 10% from payments under the Federal-Provincial subsidy agreement).

Other Routes, cont'd

Both vehicle traffic and passenger traffic decreased in the three months ended June 30, 2012, compared to the same period in the previous year. Annual traffic levels on these routes are also anticipated to be lower than the prior fiscal year.

The average tariff revenue per vehicle increased $0.13 or 1.0% mainly as a result of a greater proportionate number of vehicles on the shorter routes with lower fares. The average tariff revenue per passenger increased $0.15 or 3.9%. The reduction in traffic was mainly offset by the increase in average fares, resulting in lower total tariff revenue for the quarter of $0.1 million.

Fuel surcharges collected were $0.7 million higher during the quarter. On July 20, 2012, surcharges on the majority of our Other Routes were reduced to 2% from 5% of tariffs on average to reflect declining fuel prices. Fuel surcharges of 5% had been in place on these routes since June 1, 2011. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" below for more detail).

Reimbursements from the Province for social program fees increased as a result of higher fares and higher usage in all programs with the exception of student travel which declined.

As a result of lower passenger traffic, food sales decreased. This decrease was partially offset by an increase in average sales per passenger in our gift shops.

Fees for reservations, parking and other revenues increased marginally.

Ferry transportation fees increased $3.9 million over the prior year. They include:

- Ferry transportation fees for the 18 regulated routes. These fees increased $3.7 million as a result of additional funding from the Province as well as a larger portion of the total fees allocated by the Province to these routes. Annual ferry transportation fees for these routes are expected to be $14.5 million higher than the prior fiscal year.
- Fees from the Province for the provision of contracted service increased $0.2 million during the quarter and are expected to be $0.8 million higher than the prior year.
- Funds from the Province related to the import duty remission on one of our foreign-built vessels. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" below for more detail).

The Federal-Provincial subsidy has increased by the change in the annual CPI (Vancouver) and an increase in the allocation of the total subsidy.

Expenses
Expenses for the three months ended June 30, 2012 and 2011 are summarized in the tables below:

Operating expenses ($ millions)	**Three months ended June 30** 2012	2011	**Increase (Decrease)**	
Operations	111.0	108.8	2.2	2.0%
Maintenance	17.2	17.7	(0.5)	(2.8%)
Administration	7.2	7.4	(0.2)	(2.7%)
Total operations, maintenance & administration	135.4	133.9	1.5	1.1%
Cost of retail goods sold	7.5	7.5	-	-
Depreciation and amortization	34.0	31.9	2.1	6.6%
Total operating expenses	176.9	173.3	3.6	2.1%

The $2.2 million increase in operations expenses consists mainly of:
- $3.3 million in fuel expense reflecting an increase of $3.8 million due to higher fuel prices, partially offset by a $0.5 million or 1.9% reduction in fuel consumption. For purposes of rate regulation, $3.9 million of our fuel expense for the first quarter of fiscal 2013 is recorded in deferred fuel cost accounts for future recovery ($3.6 million recorded for the same quarter in fiscal 2012); (See "The Effect of Rate Regulation" below for detail).

Partially offset by:
- $0.7 million decrease in benefit costs mainly as a result of the $0.9 million increase recorded in the first quarter of the prior year to reflect a revised actuarial valuation of our residual liability for unfinalized claims for compensation benefits arising from claims prior to March 31, 2003. These claims are administered by the Workers Compensation Board;
- $0.2 million reduction in salaries and wages; and
- $0.2 million decrease in several other operational areas.

The $0.5 million decrease in maintenance costs reflects a decrease in vessel maintenance as a result of variations in vessel refit scheduling, partially offset by higher terminal maintenance.

The $0.2 million decrease in administration expenses is mainly as a result of lower wages and benefits.

Depreciation and amortization increased a total of $2.1 million, reflecting the assets that are now available for use. (See "Investing in our Capital Assets" below for detail of significant purchases).

Net finance and other expenses ($ millions)	**Three months ended June 30**		
	2012	**2011**	**Increase (Decrease)**
Finance expense			
Bond interest	15.8	15.8	-
KfW loans	2.1	2.5	(0.4)
Interest on finance lease	0.6	0.6	-
Structured Financing Facility Program	(0.2)	(0.5)	0.3
Capitalized interest	(0.4)	(0.5)	0.1
Less: finance income	(0.5)	(0.7)	0.2
Total net finance and other expenses	17.4	17.2	0.2

Net finance expenses increased $0.2 million primarily due to:

- $0.3 million less interest rate support received through the Structured Financing Facility Program offered by the Government of Canada, reflecting the completion of the funding related to the life extension of the *Quinsam*; and
- $0.3 million lower capitalized interest and interest income;

Partially offset by:

- $0.4 million less interest due to lower interest rates on the Tranche B than on the Tranche A components of the 12-year KfW loans and a $9 million principal repayment on the 2.95% KfW loan.

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.

In May 2012, the Province announced additional payments totalling $79.5 million in order to reduce the pressure for future fare and price cap increases. Of this, $25 million is a contribution to our equity and was received in April 2012. The remaining $54.5 million will be received over fiscal years 2013 through 2016.

Fiscal 2013 capital expenditures are expected to be at a similar level as the last three years. Over the next several years, we expect our cash requirements will be met through operating cash flows and by accessing our credit facility from time to time. At June 30, 2012, our unrestricted cash and cash equivalents and short-term investments totalled $7 million and $27 million, respectively.

Over the next couple of years, we have two bond issues totalling $390 million that will mature ($140 million in December 2013 and $250 million in May 2014). As we approach these dates, we will be assessing our cash position and monitoring the capital market place with the view to taking appropriate steps to ensure that our debt structure continues to be efficient.

Our $155 million credit facility was amended on April 20, 2012 to extend the maturity date of the facility from May 2013 to April 2017, as well as to modify certain other terms of the facility. The facility is available to fund capital expenditures and other general corporate purposes. At June 30, 2012, draws on this credit facility totalled $8.0 million, bearing an average interest rate of 1.9%.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at June 30, 2012, were A (DBRS) with a stable trend and A+ (Standard & Poor's) with a negative outlook.

Maintaining these credit ratings may be challenging, given declining traffic. Bill 47 requires the Commissioner to set price caps sufficient to allow us to meet our debt obligations and maintain access to borrowing rates that in the opinion of the Commissioner are reasonable.

On May 11, 2012, DBRS issued a press release concluding:

> *"Additional readings and royal assent are still required for Bill 47 to become law, and as yet no changes have been made to the Act. However, if adopted as presented, on balance the proposed changes are seen by DBRS as a slight erosion of the operating framework that would introduce an element of uncertainty to the credit profile of BC Ferries."*

Sources and 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 months ended June 30, 2012 and 2011 are summarized in the table below:

	Three months ended June 30	
($ millions)	**2012**	**2011**
Cash and cash equivalents, beginning of period	7.7	33.3
Cash provided by:		
Net earnings (loss)	3.3	(3.5)
Non-cash operating activities	51.4	51.3
Changes in non-cash operating working capital	(16.7)	(19.9)
Net interest paid	(21.5)	(21.1)
Cash provided by operating activities	16.5	6.8
Cash provided by (used in) financing activities	15.0	(6.1)
Cash used in investing activities	(31.8)	(24.1)
Cash and cash equivalents, end of period	7.4	9.9

For the three months ended June 30, 2012, cash generated by operating activities increased $9.7 million from the same period in the prior year. This increase was mainly due to improved net earnings and an increase in non-cash working capital. This increase in non-cash operating working capital was due to:

- $9.6 million increase in prepaid expenses primarily due to $2.6 million in property taxes, $2.5 million in fuel, $2.3 million in service contracts, $1.8 million in insurance and $0.4 million in other miscellaneous items;
- $5.4 million increase in accounts receivable, mainly due to $4.3 million in ferry transportation fees and other net receivables from the Province, $1.6 million in commercial travel cards receivable reflecting the seasonality of our business, partially offset by $0.5 million decrease in other receivables;
- $3.9 million decrease in payables and accrued liabilities relating to refit and maintenance and other operating activities; and
- $0.2 million increase in seasonal inventories.

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

- $2.4 million increase in deferred revenue mainly due to $2.0 million increase in reservations, $0.5 million increase in stored value cards, and $0.3 million increase in vacation packages; partially offset by reductions of $0.3 million in assured loading tickets and $0.1 million in advertising.

Cash provided by financing activities was $21.1 million higher reflecting receipt of $25.0 million in contributed surplus from the Province and $1.9 million repaid on the KfW loan maturing March 2020 in the first quarter of the prior year, partially offset by $5.8 million additional repayments of short-term loans in the three months ended June 30, 2012.

Cash used in investing activities was $7.7 million higher mainly because the first quarter of the prior year included $5.0 million of proceeds from short-term investments. Purchases of property, plant, equipment and intangibles in the current quarter totalled $31.7 million compared to $28.5 million in the same quarter of the prior year. (See "Investing in Our Capital Assets" below for detail of significant purchases).

INVESTING IN OUR CAPITAL ASSETS

Capital Expenditures

Capital expenditures in the three months ended June 30, 2012, totalled $21.2 million, as follows:

	($ millions)
Vessel upgrades and modifications	11.0
Information technology	4.6
Terminal marine structures	4.1
Terminal and building upgrades and equipment	1.5
Total capital expenditures	21.2

Vessel Upgrades and Modifications

Capital expenditures for vessel upgrades and vessel modifications in the quarter included the following:

	($ millions)
Major overhauls and inspections	3.1
Queen of Chilliwack life extension	2.6
Kahloke right angle drive replacement	2.0
Sewage treatment upgrade program	1.9
Other projects	1.4
	11.0

The capitalization of major overhauls and inspections of our vessels is a significant IFRS change affecting us. (See "Accounting Practices – Adoption of New Accounting Standards" below). The $2.1 million major overhaul and inspection of the *Coastal Inspiration* was completed in the first quarter ended June 30, 2012; the *Kahloke* is being done in conjunction with a $3 million project to replace two right angle drives and purchase a spare one for expected future replacement; and inspections began on an additional two vessels during this quarter.

The project to extend the life of the 33-year-old *Queen of Chilliwack* began in December 2010, with the first phase of a two-phase project that will allow the vessel to continue in service until it is retired in 2017 or later. The first phase of this $15 million project, completed during the first quarter of fiscal 2012, included new car deck watertight doors, new propeller seals, new instrumentation and control systems, new sewage treatment holding tank and pump out system, and new lifesaving systems. The second phase began in early January 2012 and included the installation of three new generators, electrical and HVAC system upgrades, and renewal of the propulsion control system. The vessel returned to service in May 2012, in time for the summer season. Fiscal 2013 ferry transportation fees for the Northern Routes will increase $4.2 million as a result of this life extension.

Implementation of a $43 million multi-year sewage and waste water treatment program to upgrade 27 vessels for treatment of sewage generated onboard the vessels is nearing completion. The *Howe Sound Queen* was completed in the first quarter and the final two vessels are expected to be complete by the end of the second quarter. The program involves major modifications and upgrades to ensure that all vessels comply with *Canada Shipping Act, 2001* sewage regulations, which were effective May 3, 2012. Wherever possible, the vessels convey sewage to a terminal through pump-ashore infrastructure. In all other cases, the vessels have been fitted with compliant marine sanitation devices. All vessels in service are in compliance with the new regulations.

On May 3, 2012, we executed a contract for development and analysis of initial design criteria for a cable ferry service on one of our shortest routes between Buckley Bay and Denman Island and in early June 2012, we issued a Request for Proposals (RFP) for detailed design engineering. Also, on May 17, 2012, we issued an RFP for third parties interested in providing passenger and vehicle cable ferry service, under contract to us, at a lower cost than we can provide the service, while maintaining high levels of safety, quality and reliability. The cable ferry is an innovative initiative and is part of our ongoing efforts to identify and pursue opportunities that have the potential to enhance our cost effectiveness in delivering safe, reliable and quality ferry service.

Information Technology

Capital expenditures on information technology in the quarter included the following:

	($ millions)
Customer service program	2.9
Payroll system replacement	0.7
Computer hardware upgrades	0.4
Other projects	0.6
	4.6

The $39 million 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 pricing initiatives. This program will also include terminal ticketing automation and customer relationship management systems. This five year program will be completed and implemented in stages starting in fiscal 2014, and is expected to be fully completed by fiscal 2016. It will significantly improve our ability to efficiently respond to the changing needs of our customers.

Our payroll system replacement initiative will replace both our payroll and labour distribution systems to provide added reliability and significant processing efficiencies and flexibility.

Computer hardware upgrades continue as we proceed through our programs for replacement of aged computers, servers, cash registers and printers.

Other projects currently underway include enhancements for improved supply chain management, upgrades to simplify the process for customers making a reservation on our website, and upgrades to our computer operating systems and office software.

Terminal Marine Structures
Capital expenditures for terminal marine structures in the quarter included the following:

Terminal	Description	
		($ millions)
Swartz Bay	Berth 4 and 5 replacement and refurbishment	1.6
Tsawwassen	Berth 3 mid-life upgrade	0.5
Tsawwassen	Apron modifications on berth 4	0.4
Horseshoe Bay	Upgrades at three berths	0.4
Tsawwassen	Refurbishment of decks and berth 5 upgrades	0.3
Various	Other projects	0.9
		4.1

The $19 million project at Swartz Bay for the upgrade of berths 4 and 5 includes replacement of ramps, ramp abutments, aprons, towers, wingwalls, dolphins and floating leads as well as electrical upgrades and a new waiting shelter. This project is expected to be complete by the end of the second quarter of fiscal 2013.

At Horseshoe Bay terminal, a $3 million project to upgrade the ramps at berths 1, 2 and 3 is in progress and is expected to be complete by the end of this fiscal year.

At Tsawwassen terminal:

- Work began on a $3 million project to upgrade the hydraulics, electrical and control systems and replace some structural and mechanical components on berth 3;
- Apron modifications on berth 4 were completed in first quarter; and
- The $9 million project to replace the dolphins, catwalk and sheet pile wall as well as refurbishment of the hydraulic systems at berth 5 is expected to be complete by the end of the second quarter.

Terminal and Building Upgrades and Equipment
Capital expenditures for terminal and building upgrades and equipment in the quarter included the following:

	($ millions)
Terminal waste water program	0.5
Terminal seismic upgrades	0.3
Horseshoe Bay electronic sign replacement	0.3
Other terminal projects	0.4
	1.5

As part of the $20 million multi-year sewage and waste water treatment program for treatment of sewage generated onboard our vessels, installation of pump ashore infrastructure is in service at six terminals where sewage is collected and transferred to the municipal infrastructure. A treatment plant has been installed at one terminal where there is no municipal infrastructure to connect with and installation of pump ashore infrastructure at the final terminal is underway. As part of the federal government's Infrastructure Stimulus Fund program, we received $3.2 million in fiscal 2011 and a further $5.5 million in fiscal 2012, relating to sewage pump-ashore projects and other major terminal projects.

Other projects include seismic upgrades at certain of our maintenance facilities and replacement of our electronic signs at Horseshoe Bay terminal.

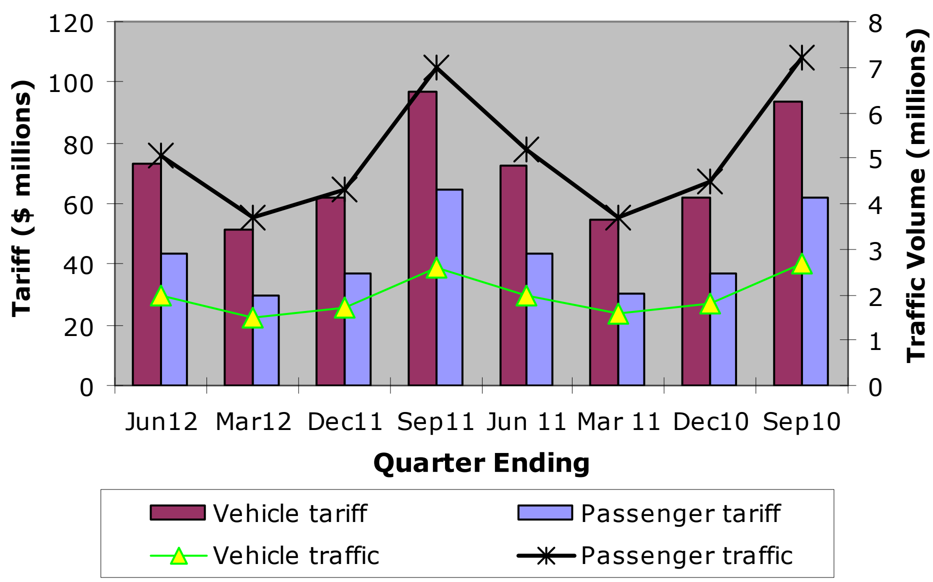
SUMMARY OF QUARTERLY RESULTS

The table below compares earnings by quarter for the most recent eight quarters. The most recent five quarters are reported under IFRS while the prior three quarters are reported under pre-IFRS standards (then existing Canadian generally accepted accounting principles (CGAAP)):

($ millions)	Quarter Ended (unaudited)							
	Jun 12	**Mar 12**	**Dec 11**	**Sep 11**	**Jun 11**	**Mar 11**	**Dec 10**	**Sep 10**
	IFRS	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*CGAAP*	*CGAAP*	*CGAAP*
Total revenue	197.6	144.6	164.9	257.3	187.0	140.7	162.3	246.0
Operating profit (loss)	20.7	(25.0)	(1.8)	73.9	13.7	(20.9)	(3.3)	72.5
Net earnings (loss)	3.3	(42.5)	(19.2)	56.2	(3.5)	(39.0)	(12.4)	54.3
Land revaluation	-	2.2	-	-	-	-	-	-
Comprehensive income (loss)	3.3	(40.3)	(19.2)	56.2	(3.5)	(39.0)	(12.4)	54.3

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

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



THE EFFECT OF RATE REGULATION

We are regulated by the Commissioner to ensure that our tariffs are fair and reasonable and to monitor service levels. 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 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 continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes and we believe the regulatory assets at June 30, 2012 are probable of future recovery and that the obligations as represented by the regulatory liabilities will be settled through future tariff reductions.

IFRS differs significantly from previous accounting standards. IFRS does not have a standard for rate-regulated activities and therefore, does not permit us to report in our financial statements, the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Rather than being charged to regulatory asset accounts on our Statement of Financial Position, fuel surcharges collected or rebates granted are now included in revenue, and increases or decreases in fuel prices from those approved in price caps are now included in operating expenses. While this is a significant accounting change for us, it does not change the treatment of these types of assets and liabilities for regulatory purposes.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our Statement of Comprehensive Income (Loss) for the three months ended June 30, 2012 and 2011 would be as follows:

($ millions)		**Three months ended June 30**	
Regulatory Asset or Liability	**Statement line item**	**2012**	**2011**
Deferred fuel costs (a)			
Fuel costs incurred	Operations expense	3.9	3.6
Fuel surcharges collected	Fuel surcharge revenue	(6.0)	(1.2)
Payments from the Province	Ferry transportation fees	(0.6)	(0.8)
Amortization of first performance term accounts	Amortization expense	-	(1.2)
		(2.7)	0.4
Tariffs in excess of price cap (b)			
Obligation settled during the period	Tariff revenue	2.5	1.1
(Decrease) increase in total comprehensive income		(0.2)	1.5
Adjusted total comprehensive income (loss)		3.1	(2.0)

(a) *Deferred fuel costs:* As prescribed by regulatory order, we defer differences between actual fuel costs and approved fuel costs which were used to develop the regulated price caps. The difference between the approved fuel costs and the actual fuel costs (including fuel hedge gains and losses) is deferred for settlement in future tariffs. Also 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 and has included interest in the amount to be recovered from or returned to our customers.

(b) *Tariffs in excess of price cap:* The Act contains provisions which ensure that if tariffs that we charge exceed established price caps, the excess amounts collected will be returned to customers through future tariffs.

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 40 through 42 of our fiscal 2012 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the three months ended June 30, 2012.

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 43 through 49 of our fiscal 2012 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the three months ended June 30, 2012.

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

ACCOUNTING PRACTICES

Critical Accounting Policies and Estimates

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

Our significant accounting policies are contained in note 1 to our June 30, 2012 interim 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 50 through 52 of our fiscal 2012 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 three months ended June 30, 2012, or expect to use in the future.

Adoption of New Accounting Standards

We have adopted IFRS with a changeover date of April 1, 2012. Prior year comparatives have been restated under IFRS from our transition date of April 1, 2011. The significant accounting policy changes are as follows:

- Rate-regulated operations: IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. In September 2010, the IASB staff released Agenda Paper 12 on rate-regulated activities. In their 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.

  It is our expectation that issues regarding rate-regulated activities will remain unresolved for some time and that we will not be reporting our regulatory assets or liabilities on the IFRS Statement of Financial Position. Accordingly, balances at March 31, 2011 of $3.7 million of current regulatory assets and $1.6 million of long-term regulatory liabilities were derecognized on our transition date of April 1, 2011 with a net reduction in retained earnings of $2.1 million.

  As future balances of our regulatory accounts are uncertain, we cannot reasonably estimate and conclude the impact on our future financial position and financial performance with respect to accounting for rate-regulated activities.

- Property, plant and equipment:
    - *Major overhauls and inspections:* The capitalization of major overhauls and inspections of our vessels is a significant change affecting us. We have defined, identified, quantified and reclassified major overhaul and inspection items for each class of vessel at transition date.

      This change has the potential to cause significant fluctuations in earnings over the reporting periods due to the level of major overhauls and inspections in any one period and the number of periods over which each will be amortized. Over the five years ending March 31, 2016, we estimate the net impact of this change to range from a decrease in annual net earnings of $1 million to an increase in annual net earnings of $14 million.

- *Valuation subsequent to transition:* We had a choice under IFRS to value our property, plant and equipment using either a historical cost model or a revaluation model. We decided to use a historical cost model for all property, plant and equipment with the exception of land. We are using a revaluation model for our land assets. At March 31, 2012, we recorded a revaluation reserve of $2.2 million to recognize a further increase in land values subsequent to transition.

- *Other rate-regulated impacts:* As a rate-regulated entity and prior to transitioning to IFRS, we capitalized some costs such as feasibility, research and training that directly related to a specific asset. Under IFRS these costs are no longer capitalized. Over the five years ending March 31, 2016, we estimate the net impact to be a decrease in earnings of up to $2 million annually.

- IFRS 1 *First-Time Adoption of IFRS*: All elections and exemptions under IFRS 1 have resulted in a net increase of $8.6 million in retained earnings on transition. The elections and exemptions that applied to us upon adoption are summarized as follows:
  - *Employee Benefits:* There was 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 elected to recognize all cumulative actuarial gains and losses through opening retained earnings at April 1, 2011. The actuarial loss recognized in opening retained earnings was $3.6 million.
  - *Property, plant and equipment and Intangible assets:* There was 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 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 elected to revalue land at fair value at April 1, 2011. This revaluation resulted in an increase in land value of $12.2 million.

Future Accounting Changes

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

IAS 19 *Employee Benefits* has been amended and becomes effective for us on April 1, 2013. As a result of the amendments, actuarial gains and losses will be immediately recognized in other comprehensive income rather than net earnings and the option to use the corridor approach to recognize these costs over time will no longer be available. The amendments also introduce the net interest approach where the discount rate used to measure the obligation is applied to the net defined benefit liability (asset). We do not believe these amendments will have a significant impact on our consolidated financial statements.

IFRS 9 *Financial Instruments (2010)* replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. We intend to adopt IFRS 9 *(2010)* in our financial statements for the annual period beginning on April 1, 2015. We have not yet determined the extent of the impact of adoption of IFRS 9 *(2010)*.

IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We intend to adopt IFRS 13 prospectively in our financial statements for the annual period beginning on April 1, 2013. We do not expect IFRS 13 to have a material impact 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: economic conditions, and traffic levels; our expectations of the impact of our cost containment program; our short-term and long-range business plans, capital expenditure levels, and asset renewal programs for vessels and terminals; our cable ferry initiative; our expectations of ferry transportation fee amounts; our expectations regarding how our cash requirements will be met; the additional payments to be received from the Province over the following four fiscal years, the Province's role regarding service levels and a long term vision for connecting coastal communities, and our expectations regarding the amount of efficiencies to be achieved from service level reduction initiatives; and our expectations regarding the impacts of Bill 47 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.