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

For the three and nine months ended December 31, 2014

Dated February 13, 2015

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The following is our discussion and analysis of the financial condition and financial performance for British Columbia Ferry Services Inc. as of, and for the three and nine months ended, December 31, 2014. This discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes for the nine months ended December 31, 2014 and 2013, and our audited consolidated financial statements and related notes for the years ended March 31, 2014 (fiscal 2014) and March 31, 2013, together with our Management's Discussion & Analysis for fiscal 2014. These documents are available on SEDAR at www.sedar.com and on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

BUSINESS OVERVIEW

British Columbia Ferry Services Inc. is an independent company providing passenger and vehicle ferry services on the west coast of British Columbia. We operate one of the largest and most complex ferry systems in the world. We provide frequent year-round transportation service with 35 vessels operating on 24 routes out of 47 terminals spread over 1,000 miles of coastline. We also manage ferry transportation service on other remote routes through contracts with independent operators.

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

We provide a wide range of ferry services for our customers. During the three months ended December 31, 2014 (the third quarter of fiscal 2015), we provided over 41,000 sailings, compared to 45,000 sailings during the same period in the prior year, carrying 4.2 million passengers and 1.7 million vehicles. The reduction in the number of sailings represents service level adjustments announced by the Province in February 2014. As a result, year-to-date capacity utilization has increased by 1.7% system-wide and 4.5% on the impacted routes. In the third quarter of the fiscal year ending March 31, 2015, (fiscal 2015), vehicle traffic decreased 0.7% and passenger traffic decreased 1.1% compared to the same quarter in the prior year, mainly due to higher traffic in the prior year related to airline cancellations because of foggy conditions. Year-to-date on our Major Routes, we experienced a 0.3% increase in vehicle traffic and a 0.5% increase in passenger traffic compared to the prior year. For a discussion of our traffic levels, see "Financial and Operational Overview" below.

Significant events during or subsequent to the third quarter of the year ended March 31, 2015 (fiscal 2015) include the following:

- On November 25, 2014, the British Columbia Ferries Commissioner (the "Commissioner") approved our application to proceed with mid-life upgrades, including conversion to dual fuel, of our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia.* We expect the conversion and hull modifications will result in significant savings. The *Spirit of Vancouver Island*'s mid-life upgrade is planned to be complete in the spring of 2017 and the *Spirit of British Columbia's* mid-life upgrade is planned to be complete in the spring of 2018. (See "Outlook - Asset Renewal Program" below for more detail.)

- On November 28, 2014, the keel-laying of the cable ferry that will provide service between Buckley Bay and Denman Island took place at Seaspan's Vancouver Shipyards of North Vancouver. The vessel will accommodate 50 vehicles and 150 passengers and crew. The cable ferry is expected to be in service in the summer of 2015. (See "Outlook - Asset Renewal Program" below for more detail.)

- On December 17, 2014, all fuel surcharges were removed from our routes as a result of declining fuel prices and locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. This pricing is favourable to the set price established by the Commissioner at the start of performance term three. Surcharges of 3.5% on average had been in place on our Major Routes and our regulated Other Routes.

- On January 16, 2015, the first steel cut for the first of the three new intermediate class vessels took place at Remontowa Shipbuilding S.A. shipyard in Gdansk, Poland. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017. Two of the vessels will replace the 50-year old *Queen of Burnaby* and the 51-year old *Queen of Nanaimo*, while the third vessel will augment service during the peak and shoulder season and provide relief when other vessels are in refit. The new vessels will be dual-fuel capable, so they can operate on liquefied natural gas (LNG) or marine diesel fuel. (See Outlook – Asset Renewal Program" below for more detail.)

- On February 2, 2015, the Commissioner conditionally approved our application in support of our Fare Flexibility and Digital Experience Initiative (the "Initiative"). This Initiative will introduce a new system to manage fares, improve operational efficiency through better capacity management, provide customers with a modernized e-commerce platform with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels.

The Effect of Rate Regulation

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the *Coastal Ferry Act* (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 through tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

IFRS has an interim standard that addresses accounting for rate-regulated activities; however it does not apply to entities that have already transitioned to IFRS, as we have. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Rather than being charged to regulatory asset accounts on our Consolidated Statements of Financial Position, fuel surcharges collected or rebates granted are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the regulatory assets at December 31, 2014 are probable of future recovery. These regulatory assets are detailed in note 11 to our December 31, 2014 unaudited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2014 and 2013 would be as follows:

($ millions)		**Three months ended December 31**		**Nine months ended December 31**	
		2014	**2013**	**2014**	**2013**
Total comprehensive (loss) income		(13.5)	(12.3)	71.5	56.4
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs (a)					
Fuel costs incurred	Operations expense	1.8	3.1	10.5	9.8
Fuel surcharges collected	Fuel surcharges revenue	(3.0)	-	(13.2)	-
Payments from the Province	Ferry service fees	(0.5)	(0.9)	(2.2)	(2.2)
		(1.7)	2.2	(4.9)	7.6
Tariffs in excess of price cap (b)					
Obligation settled (incurred)during the period	Vehicle and passenger fares	-	0.6	-	(1.7)
Performance term submission costs (c)					
Amortization	Depreciation and amortization expense	-	-	(0.1)	(0.1)
(Decrease) increase in net earnings		(1.7)	2.8	(5.0)	5.8
Adjusted total comprehensive (loss) income		(15.2)	(9.5)	66.5	62.2

(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 actual fuel costs and approved fuel costs (including fuel hedge gains and losses) is deferred for settlement in future tariffs. Also, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time which are applied against deferred fuel cost account balances. We may also receive payments from the Province to be applied against deferred fuel cost account balances.

(b) Tariffs in excess of price cap: The Act contains provisions which ensure that, if tariffs we charge exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. Tariffs charged did not exceed price caps at December 31, 2014.

(c) Performance term submission costs: Costs for incremental contracted services relating to our third performance term submission. Our regulator has approved recovery of these costs over the third performance term ending March 31, 2016.

FINANCIAL AND OPERATIONAL OVERVIEW

This section provides an overview of our financial and operational performance for the three and nine months ended December 31, 2014 and 2013.

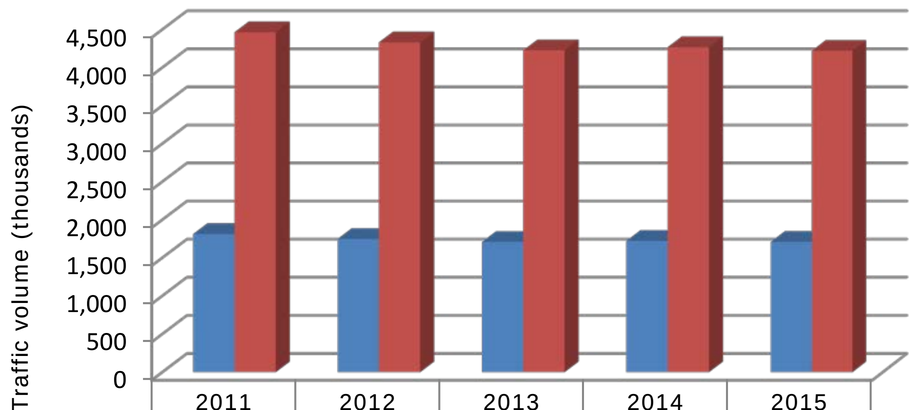
($ millions)	Three months ended December 31			Nine months ended December 31		
	2014	**2013**	**Variance**	**2014**	**2013**	**Variance**
Total revenue	182.4	174.8	7.6	679.7	646.3	33.4
Operating expenses	174.2	171.1	(3.1)	549.3	539.1	(10.2)
Operating profit	8.2	3.7	4.5	130.4	107.2	23.2
Net finance and other	14.3	16.0	1.7	46.2	50.9	4.7
Net (loss) earnings	(6.1)	(12.3)	6.2	84.2	56.3	27.9
Other comprehensive (loss) income	(7.4)	-	(7.4)	(12.7)	0.1	(12.8)
Total comprehensive (loss) income	(13.5)	(12.3)	(1.2)	71.5	56.4	15.1

In the three months ended December 31, 2014, we generated an operating profit of $8.2 million ($130.4 million year-to-date), representing an improvement of $4.5 million ($23.2 million year-to-date) compared to the same period in the prior year. Net loss during the three month period ended December 31, 2014 was $6.1 million, an improvement of $6.2 million compared to the same period in the prior year. Year-to-date, net earnings were $84.2 million, representing an increase of $27.9 million compared to the same period in the prior year. The increase in net earnings for the first three quarters of fiscal 2015 reflects the effects of increased fares, higher ferry transportation fees, fuel surcharges and lower financing costs, partially offset by lower social program fees and operating cost increases. Other comprehensive loss of $7.4 million in the third quarter of fiscal 2015 reflects the change in the fair value of our fuel swap contracts. Year-to-date, other comprehensive loss of $12.7 million also includes a $2.4 million loss on interest rate forward contracts related to our April 28, 2014 issuance of $200 million of senior secured bonds in the first quarter of fiscal 2015 (see “Liquidity and Capital Resources” below for more detail) and a $2.9 million loss in the second quarter reflecting the actuarial valuation of our retirement and death benefit plans. The main driver of the increase in the liability under our retirement and death benefit plans was a lower employee turnover rate than previously estimated.

In three months ended December 31, 2014, vehicle traffic decreased 0.7% (0.4% year-to-date) and passenger traffic decreased 1.1% (0.3% year-to-date) compared to the same period in the prior year. On our Major Routes, vehicle and passenger traffic in the third quarter decreased by 0.3% and 0.7% respectively, compared to the same period in the prior year, resulting in year-to-date increases in vehicle and passenger traffic of 0.3% and 0.5% respectively. On our Northern and regulated Other Routes, vehicle and passenger traffic declined in both the quarter and year-to-date. Overall, commercial traffic decreased 0.8% in the quarter (0.1% year-to-date) compared to the same period in the prior year, while drop-trailer traffic, a component of commercial traffic, increased 14.6% in the quarter (8.4% year-to-date) compared to the same period in the prior year.

Traffic levels have been negatively impacted in fiscal 2015 by a reduction in seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays on the Major and regulated Other Routes effective April 1, 2014 and the reduction in student travel resulting from the teacher's labour dispute in the first and second quarters of fiscal 2015. Traffic levels were also impacted by service level adjustments mainly on the Northern and Other Routes.

The following graph illustrates our vehicle and passenger traffic levels for the third quarter of fiscal 2011 through fiscal 2015:



	2011	2012	2013	2014	2015
Vehicles	1,812	1,747	1,708	1,722	1,709
Passengers	4,463	4,330	4,226	4,267	4,220

Safety and Security

Safety continues to be a primary focus. The aim of our SailSafe program is to continue the safety improvement momentum that has occurred since the launch of the program, eight years ago. At our SailSafe Town Hall meetings, our new Health & Wellness initiative and a new Safety Management System brochure explaining key improvements to our risk management processes were rolled out. The Health & Wellness program is a key strategy to create healthier and more resilient employees in order to reduce employee injuries and absenteeism.

Along with the ongoing vessel based exercises to test emergency preparedness, we continue to deploy subject matter experts into the field to conduct audits to verify compliance with applicable international and domestic requirements and legislation.

Security continues to be a priority in light of the changing national and international security environment. We continue to exercise vigilance for the potential of security threats through improved employee security training and increased communication with all employees. Our security personnel have regular contact with government security agencies in order to ensure that we have the most up to date information so we can ensure the safety of the travelling public and our employees.

Training
Each year we invest heavily in operational and safety training.

In the nine months ended December 31, 2014, we conducted 5,188 days of operational training in 46 different programs. We also created several new and expanded safety programs. Our vehicle firefighting training course was successfully piloted and more courses will be held in the fourth quarter.

In the nine months ended December 31, 2014, our Standardized Education and Assessment (SEA) training delivered 6,185 personal training days. Progress continued on the development of resource materials for new job categories and development of online self-study programs and exams. We also held a trainer conference which was focussed on building knowledge and excellence through teamwork.

By the end of December 31, 2014, through the Simulation Training Centre (STC) [formally Bridge Team Simulation], we had delivered Bridge Operations Skills and Systems (BOSS) Level 1 training to 93% and BOSS Level 2 training to 39% of deck officers in the fleet. We expect all deck officers will have completed BOSS Level 1 training by the end of fiscal 2015 and BOSS Level 2 training by the end of fiscal 2017. Curriculum development, focusing on decision making, is currently underway for BOSS Level 3 training.

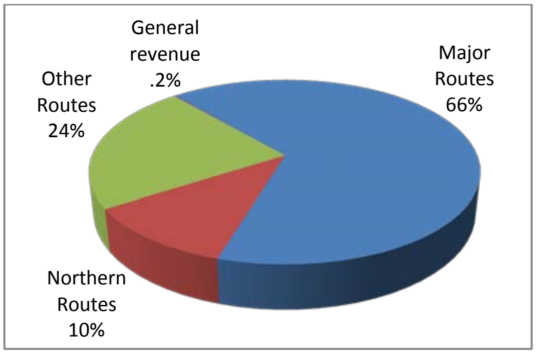
We also developed a STC pilot program to support SEA training by providing situational training on the bridge simulator to better equip our deck officers to handle navigational challenges on routes they are unfamiliar with. Further integration of STC within the SEA program is being explored, beginning with familiarization of Northern Routes.

We are preparing for facility and program accreditation with DNV GL, one of the leading classification societies and a global leader in maritime education and training accreditation. Achievement of this accreditation will allow us to provide training to external parties.

Collective Agreement
On December 31, 2014, an arbitrator dismissed a grievance brought by the BC Ferry & Marine Workers’ Union with respect to the application of the Company’s collective agreement with the BC Ferry & Marine Workers’ Union (the Collective Agreement) to Family Day. The BC Ferry & Marine Workers’ Union filed the grievance on the basis that the Company was not correctly applying the Collective Agreement with respect to compensation of employees for this new statutory holiday. The arbitrator agreed with our position that the Collective Agreement language was being correctly applied to Family Day and that no amendments to employees’ pay are required.

Revenue

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



In the nine months ended December 31, 2014, the greatest portion of our revenues (66%) was earned on our Major Routes. Revenue from the Northern Routes contributed 10% and Other Routes contributed 24%.

Selected operational statistics and total revenues for the three and nine months ended December 31, 2014 compared to the same periods in the prior year are shown in the tables below.

	Three months ended December 31		Nine months ended December 31	
Operational Statistics	**2014**	**2013**	**2014**	**2013**
Vehicle traffic	1,709,317	1,722,130	6,165,220	6,192,145
Passenger traffic	4,220,491	4,266,520	16,071,321	16,120,655
On-time performance	93.9%	93.1%	90.3%	90.2%
Number of round trips	18,803	20,746	59,037	63,703
Capacity provided (AEQs)	4,035,624	4,217,384	12,973,806	13,434,629
AEQs carried	1,942,750	1,953,270	6,987,924	7,011,145
Capacity utilization	48.1%	46.3%	53.9%	52.2%

In the three months ended December 31, 2014, vehicle traffic decreased by 0.7% (0.4% year-to-date) and passenger traffic decreased by 1.1% (0.3% year-to-date) compared to the same period in the prior year.

On-time performance on the Major and regulated Other Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving within 10 minutes of the scheduled time. On-time performance can be impacted by delays due to weather, vessel substitution, terminal dock maintenance or closures and periods of unusually high traffic demand. Meeting customer service expectations is an important factor in our focus on on-time performance.

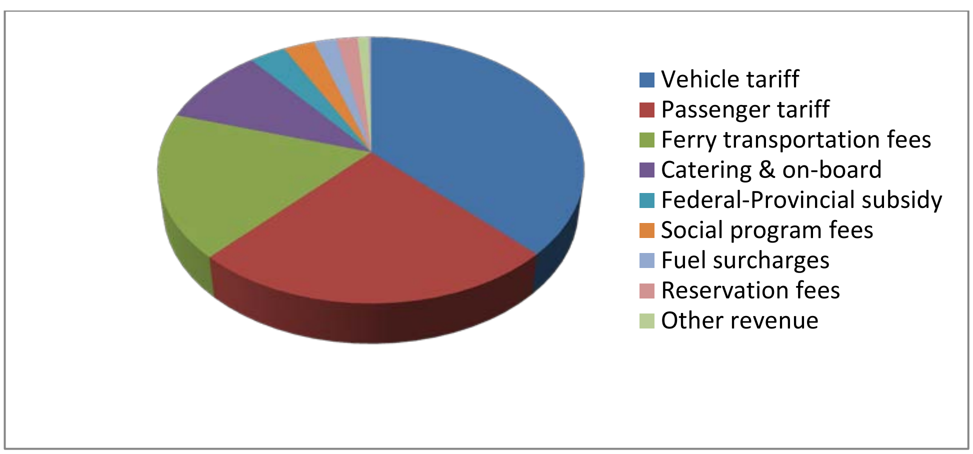
Capacity provided, measured in automobile equivalents (AEQs), is the available space on the vessel multiplied by the number of round trips. Round trips normally stay fairly stable as the Coastal Ferry Services Contract (CFSC) stipulates, among other things, the number of round trips to be provided for each regulated ferry service route. However, the number of round trips provided can be impacted by cancellations due to weather, vessel substitution, terminal dock closures and extra round trips made, or by changes to the number of trips stipulated by the CFSC.

The reduction in round trips and the resulting decrease in capacity provided in the three and nine months ended December 31, 2014 compared to the same periods in the prior year was due to the discontinuation of the Discovery Coast Passage Route servicing the mid-coast and replacement with supplementary service, as well as new schedules related to service reductions on our Northern and regulated Other Routes.

An AEQ is a standard unit of measure for an approximation of one car length. AEQs are calculated by using a conversion factor for each vehicle type. For example, a passenger vehicle would be one AEQ while a bus would be three AEQs. The change in AEQs from one period to the next may not be proportionate to the change in vehicle traffic due to variations in the types of vehicles carried.

Capacity utilization is calculated by dividing the AEQs carried during the period by the AEQ capacity provided on the vessels. Capacity utilization is impacted by the number of vehicles carried, the mix of vehicle types (the relative number of buses, commercial vehicles, and passenger vehicles), the size of the vessels utilized and the number of round trips in each period. Capacity utilization in the three months ended December 31, 2014 increased from 46.3% to 48.1% and in the nine months ended December 31, 2014 from 52.2% to 53.9% compared to the same periods of the prior year as a result of reduced total capacity provided due to fewer round trips, partly offset by a lower number of AEQs carried.

Revenue ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2014	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	68.6	66.2	2.4	254.6	247.4	7.2
Passenger tariff	42.5	39.0	3.5	167.5	153.3	14.2
Fuel surcharges	3.0	-	3.0	13.2	-	13.2
Catering & on-board	17.0	16.8	0.2	64.4	63.5	0.9
Social program fees	5.6	7.3	(1.7)	18.2	24.5	(6.3)
Reservation fees	3.0	3.0	-	12.5	11.7	0.8
Other revenue	1.9	1.7	0.2	6.5	6.0	0.5
Total Direct Route Revenue	141.6	134.0	7.6	536.9	506.4	30.5
Indirect Route Revenue						
Ferry transportation fees	33.3	33.3	-	119.9	117.3	2.6
Federal-Provincial subsidy	7.1	7.1	-	21.3	21.3	-
Total Route Revenue	182.0	174.4	7.6	678.1	645.0	33.1
Other general revenue	0.4	0.4	-	1.6	1.3	0.3
Total Revenue	182.4	174.8	7.6	679.7	646.3	33.4



Our largest revenue source is vehicle and passenger tariffs. Our year over year tariff revenues may be impacted by such things as changes in overall traffic levels, approved price caps, the proportion of total traffic on routes with higher versus lower tariffs, and the implementation of promotional fare programs.

On April 1, 2014, we implemented average tariff increases in accordance with the Commissioner's Order 12-02 dated September 30, 2012. Tariff increases were 4.0% on average system-wide. Tariff increases were 4.2% on average on our Major and regulated Other Routes. On the Northern Routes, we increased tariffs by less than 2% on average and eliminated the incremental tariff for over-height vehicles. These increases were directly associated with increased operating costs, notably fuel, capital replacement and labour.

Effective April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50% on the Major and regulated Other Routes. Also, on April 1, 2014, the CFSC was amended to establish the maximum annual amount payable by the Province in respect of senior discounts for fiscal 2015 and fiscal 2016 at $18.0 million and $19.3 million, respectively. These amounts reflect an estimate of what the Province would have paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided seniors under the amended policy, the excess will be directed to the ferry transportation fees. These amounts are to be allocated to the regulated Northern and Other Routes. Since the implementation of this policy change, travel by BC seniors Mondays through Thursdays is down 13% from the same period in the prior year.

On December 17, 2014, all fuel surcharges were removed from our routes due to declining fuel prices and locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place since January 17, 2014 on our Major Routes and our regulated Other Routes due to the high cost of diesel fuel. At the time of the general tariff increase on April 1, 2014, no changes were made to the nominal values of the fuel surcharges. Accordingly, these fuel surcharges averaged 3.4% following the general tariff increase on April 1, 2014. For the purpose of rate regulation, these amounts are applied to our deferred fuel cost accounts. No surcharges were put in place on our Northern Routes and no surcharges were in place in the first three quarters of fiscal 2014 on any of our regulated routes. (See "The Effect of Rate Regulation" above for more detail.)

From time to time, we utilize promotional fares designed to stimulate growth in traffic or direct traffic towards our less busy sailings while ensuring compliance with approved price cap orders. In calculating the price cap, vehicle and passenger tariffs, as well as reservation fees, are combined. The utilization of promotional fare incentives 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 in operational statistics and revenue for the three and nine months ended December 31, 2014 and 2013 for the Major, Northern and Other Routes are discussed separately below.

Major Routes

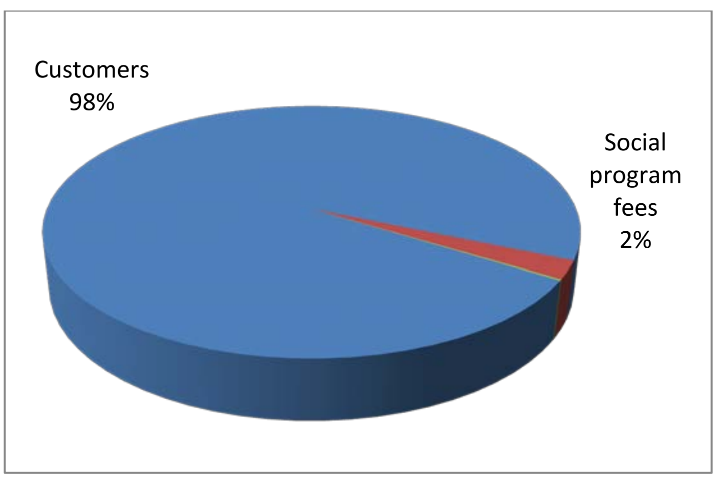
Our Major Routes consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and our regulated route connecting Horseshoe Bay and Langdale. These are our four busiest routes, carrying more than 59% of our vehicle traffic and more than 64% of our passenger traffic during the three and nine months ended December 31, 2014 and 2013.

	Three months ended December 31		Nine months ended December 31	
Operational Statistics	**2014**	**2013**	**2014**	**2013**
Vehicle traffic	1,015,404	1,018,788	3,714,108	3,703,203
Passenger traffic	2,711,578	2,730,630	10,486,027	10,438,814
On-time performance	86.0%	85.9%	81.5%	81.0%
Number of round trips	2,952	2,963	9,740	9,746
Capacity provided (AEQs)	2,117,222	2,129,280	6,994,704	7,000,704
AEQs carried	1,201,638	1,203,248	4,367,289	4,355,214
Capacity utilization	56.8%	56.5%	62.4%	62.2%

In the three months ended December 31, 2014, vehicle traffic decreased 0.3% and passenger traffic decreased 0.7% compared to the same period in the prior year. Year-to-date, vehicle traffic increased 0.3% and passenger traffic increased 0.5% compared to the same period in the prior year. Overall, commercial traffic decreased 0.7% in the quarter (1.4% increase year-to-date), while drop-trailer traffic, a component of total commercial traffic, increased 14.6% in the quarter (8.4% year-to-date).

In the three months ended December 31, 2014, on-time performance increased by 0.1% (0.5% year-to-date) compared to the same period in the prior year. The year-to-date improvement was mainly a result of significant maintenance activities in the first six months of the prior year at our Horseshoe Bay and Langdale terminals, resulting in berth closures and other conditions negatively impacting arrivals and departures.

Capacity utilization in the three month period ended December 31, 2014 increased from 56.5% to 56.8% compared to the same period in the prior year as a result of reduced total capacity provided due to fewer round trips, partly offset by a lower number of AEQs carried. Year-to-date, capacity utilization increased from 62.2% to 62.4% as a result of reduced capacity and a higher number of AEQs carried.



In the nine months ended December 31, 2014, revenue from our Major Routes consisted of 98% from customers and 2% from the Province.

Major Routes cont'd

Revenue ($ thousands)	**Three months ended December 31** 2014	2013	Increase (Decrease)	**Nine months ended December 31** 2014	2013	Increase (Decrease)
Direct Route Revenue						
Vehicle tariff	58,207	56,145	2,062	212,700	205,795	6,905
Passenger tariff	35,230	32,411	2,819	135,647	123,527	12,120
Fuel surcharges	2,534	-	2,534	11,033	-	11,033
Catering & on-board	15,654	15,574	80	58,057	57,196	861
Social program fees	3,138	4,460	(1,322)	10,317	15,113	(4,796)
Reservation fees	2,927	2,930	(3)	12,255	11,442	813
Parking	1,015	961	54	3,541	3,318	223
Other revenue	742	691	51	2,514	2,396	118
Total Direct Route Revenue	119,447	113,172	6,275	446,064	418,787	27,277
Indirect Route Revenue						
Ferry transportation fees	250	261	(11)	749	784	(35)
Total Route Revenue	119,697	113,433	6,264	446,813	419,571	27,242

Average tariff ($)	**Three months ended December 31** 2014	2013	Increase	**Nine months ended December 31** 2014	2013	Increase
Vehicle tariff ($000's)	58,207	56,145		212,700	205,795	
Vehicle traffic	1,015,404	1,018,788		3,714,108	3,703,203	
Average tariff per vehicle	57.32	55.11	2.21	57.27	55.57	1.70
Passenger tariff ($000'S)	35,230	32,411		135,647	123,527	
Passenger traffic	2,711,578	2,730,630		10,486,027	10,438,814	
Average tariff per passenger	12.99	11.87	1.12	12.94	11.83	1.11

In the three months ended December 31, 2014, average tariff revenue per vehicle increased \$2.21 or 4.0% (\$1.70 or 3.1% year-to-date) compared to the same period in the prior year. In the three months ended December 31, 2014, average tariff revenue per passenger increased \$1.12 or 9.4% (\$1.11 or 9.4% year-to-date) compared to the same period in the prior year. The increase in average tariff revenues per vehicle and passenger reflects the price cap increases authorized by the Commissioner. The average tariff revenue per passenger also reflects the Province's reduction in passenger fare discounts for BC seniors travelling Mondays to Thursdays from 100% to 50%, resulting in BC seniors now paying a portion of their fares. The increase in both traffic and average fares during the third quarter of fiscal 2015 resulted in a tariff revenue increase of \$4.9 million (\$19.0 million year-to-date).

On December 17, 2014, fuel surcharges were removed due to declining fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place, since January 17, 2014. No surcharges were in place in the first three quarters of fiscal 2014. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

Major Routes cont'd

All vessels that provide service on our Major Routes have a gift shop and options for food service. In the three months ended December 31, 2014, catering and on-board sales increased 0.5% (1.5% year-to-date) compared to the same period in the prior year as a result of higher average sales per passenger and higher passenger traffic year-to-date. Food sales remain strong, providing approximately 72% of the total catering and on-board revenue. Sales of quality apparel continue to grow and now comprise over 10% of total catering and on-board revenue.

Social program fees are reimbursements from the Province for 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). On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. Since this reduction, 14% fewer seniors used the program in the three months ended December 31, 2014 (15% year-to-date) compared to the same periods in the prior year. The $1.3 million reduction in social program fees during the three month period ended December 31, 2014 ($4.8 million year-to-date) consists of a $1.4 million ($5.1 million year-to-date) reduction in social program fees as a result of fewer seniors travelling, offset somewhat by an increase in the number of people using the MTAP program and higher fares. The Province provided a maximum increase in ferry transportation fees to what would have been paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided seniors, the excess is directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes. These actions together have increased our total revenues, which will reduce some pressure on future fares.

In the three months ended December 31, 2014, reservation fees decreased 10.3% compared to the same period in the prior year, primarily as a result of lower usage and lower traffic. Year-to-date, reservation fees increased 7.1% compared to the same period in the prior year, primarily as a result of higher usage and higher traffic in the first two quarters.

Revenue from parking increased during the three and nine month periods ended December 31, 2014 as a result of higher usage of our parking facilities.

Ferry transportation fees represent funds received from the Province related to the import duty remission on one of our foreign-built vessels. These funds reduce over time as the vessel depreciates. For the purpose of rate regulation, this amount is applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

Northern Routes

Prior to April 1, 2014, our Northern Routes consisted of three regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. An amendment to the CFSC, effective April 1, 2014, discontinued the Discovery Coast Passage Route with direct service to the mid-coast from Port Hardy that provided service for three months during the summer peak season. This route was replaced with an extension of one of our other Northern Routes to the mid-coast, which now provides a supplemental indirect service with a much smaller vessel.

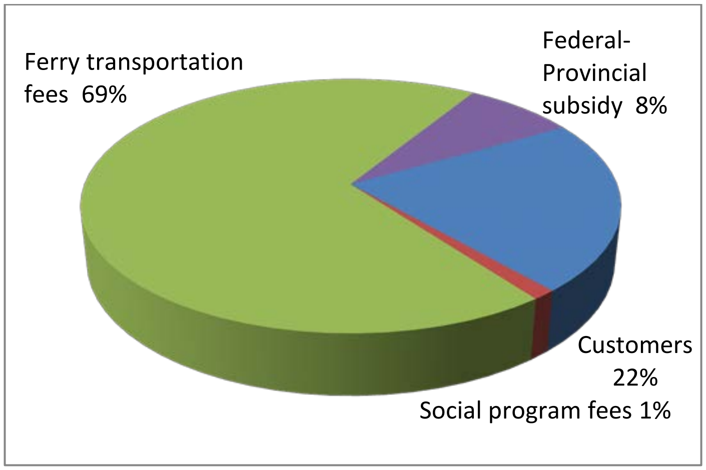
	Three months ended December 31		Nine months ended December 31	
Operational Statistics	**2014**	**2013**	**2014**	**2013**
Vehicle traffic	4,340	4,676	22,651	24,367
Passenger traffic	10,725	12,268	64,850	70,129
On-time performance	85.8%	88.8%	89.0%	92.2%
Number of round trips	39	59	186.5	292
Capacity provided (AEQs)	11,324	16,556	50,222	69,948
AEQs carried	5,446	5,744	27,604	29,216
Capacity utilization	48.1%	34.7%	55.0%	41.8%

In the three months ended December 31, 2014, vehicle traffic decreased 7.2% and passenger traffic decreased 12.6% compared to the same period in the prior year. We believe this is primarily due to changes in route schedules. Year-to-date, vehicle traffic decreased 7.0% and passenger traffic decreased 7.5% compared to the same period in the prior year primarily due to changes in route schedules and the discontinuation of the Discovery Coast Passage route and replacement with supplementary service. Year-to-date, these service adjustments introduced by the Province have generated savings in fuel and labour that more than offset the decline in revenue as a result of lower traffic levels and will help to reduce the magnitude of future tariff increases.

On-time performance in the three and nine month periods ended December 31, 2014 was lower than on-time performance during the same periods in the prior year, mainly as a result of the discontinuation of the Discovery Coast Passage route to the mid-coast that had very high on-time performance.

Capacity utilization on these routes in the three months ended December 31, 2014 increased from 34.7% to 48.1% (from 41.8% to 55.0% year-to-date) compared to the same periods in the prior year as a result of decreased capacity provided due to a reduction in the number of round trips and the replacement of the Discovery Coast Passage Route with a smaller vessel for service to the mid-coast partially offset by the lower number of AEQs carried.

Northern Routes cont'd



In the nine months ended December 31, 2014, revenue from our Northern Routes consisted of 22% from customers and 78% from the Province (1% social program fees, 69% ferry transportation fees, and 8% from payments under the Federal-Provincial subsidy agreement).

Revenue ($ thousands)	**Three months ended December 31**			**Nine months ended December 31**		
	2014	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	1,053	1,048	5	6,523	7,165	(642)
Passenger tariff	579	651	(72)	5,741	6,305	(564)
Catering & on-board	240	207	33	1,758	1,893	(135)
Social program fees	187	237	(50)	859	982	(123)
Stateroom rental	178	258	(80)	1,061	1,025	36
Hostling & other	35	51	(16)	171	193	(22)
Total Direct Route Revenue	2,272	2,452	(180)	16,113	17,563	(1,450)
Indirect Route Revenue						
Ferry transportation fees	9,927	10,051	(124)	48,154	48,895	(741)
Federal-Provincial subsidy	1,819	1,820	(1)	5,457	5,460	(3)
Total Route Revenue	14,018	14,323	(305)	69,724	71,918	(2,194)

Average tariff ($)	**Three months ended December 31**			**Nine months ended December 31**		
	2014	**2013**	**Increase**	**2014**	**2013**	**Decrease**
Vehicle tariff ($000's)	1,053	1,048		6,523	7,165	
Vehicle traffic	4,340	4,676		22,651	24,367	
Average tariff per vehicle	242.63	224.12	18.51	287.98	294.05	6.07
Passenger tariff ($000'S)	579	651		5,741	6,305	
Passenger traffic	10,725	12,268		64,850	70,129	
Average tariff per passenger	53.99	53.06	0.93	88.53	89.91	1.38

In the three months ended December 31, 2014, average tariff revenue per vehicle increased $18.51 or 8.3% compared to the same period in the prior year and average tariff per passenger increased $0.93 or 1.8% compared to the same period in the prior year. Year-to-date, average tariff revenue per vehicle decreased $6.07 or 2.1% compared to the same period in the prior year and average tariff per passenger decreased $1.38 or 1.5% compared to the same period in the prior year. Average tariff revenues reflect the price cap increases implemented April 1, 2014. We believe the year-to-date reduction in average tariff is partially due to a higher proportionate share of traffic paying a reduced rate, primarily in the second quarter. The reduction in traffic levels and changes in average fares resulted in a total tariff revenue decrease of $0.1 million during the three months ended December 31, 2014 ($1.2 million year-to-date) compared to the same period in the prior year.

There were no fuel surcharges or rebates in place on our Northern Routes during fiscal 2014 or the first three quarters of fiscal 2015.

Reimbursements from the Province for social program fees decreased primarily as a result of lower usage of the MTAP program and fewer seniors travelling, partially offset by higher fares. No changes were made to the social program discounts for BC seniors on the Northern Routes.

In the three months ended December 31, 2014, revenue from catering and on-board services increased compared to the same period in the prior year, primarily due to higher average sales per passenger partially offset by lower passenger levels. Year-to-date, revenue from catering and on-board decreased 7.1% compared to the same period in the prior year as a result of lower passenger levels, partially offset by higher average sales per passenger.

Revenue from stateroom rental decreased in the three months ended December 31, 2014 compared to the same period in the prior year as a result of decreased passenger levels. Year-to-date, revenue from stateroom rental increased compared to the same period in the prior year mainly due to higher usage.

Hostling and other revenues decreased in the quarter and year-to-date, mainly due to lower usage of hostling and lower passenger levels.

Ferry transportation fees received from the Province decreased $0.1 million in the quarter ($0.7 million year-to-date) compared to the same period in the prior year as a result of the following:

- $0.6 million ($3.3 million year-to-date) reduction as a result of a lower percentage of total ferry transportation fees being allocated to the Northern Routes due to the elimination of one of the routes, partially offset by an overall increase in fees received under the CFSC;
- $0.5 million decrease in the third quarter in fees related to the price of fuel bringing the year-to-date fees to the same level as the prior year. For regulatory purposes, the amounts received relating to the price of fuel are applied to our deferred fuel cost accounts (see "The Effect of Rate Regulation" above for more detail);

partially offset by:

- $1.0 million ($2.6 million year-to-date) increase in ferry transportation fees in respect of BC senior discounts. The Province provided a maximum increase in ferry transportation fees to what would have been paid if there had been no change in the level of senior discounts on the Major and Other Routes. To the extent these funds are not required for the reimbursement of discounts provided seniors, the excess is directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes. These actions together have increased our total revenues, which will reduce some pressure on future fares.

The Federal-Provincial subsidy has decreased marginally for the three and nine months periods ended December 31, 2014 as a result of a decrease in the annual Consumer Price Index (CPI) (Vancouver).

Other Routes

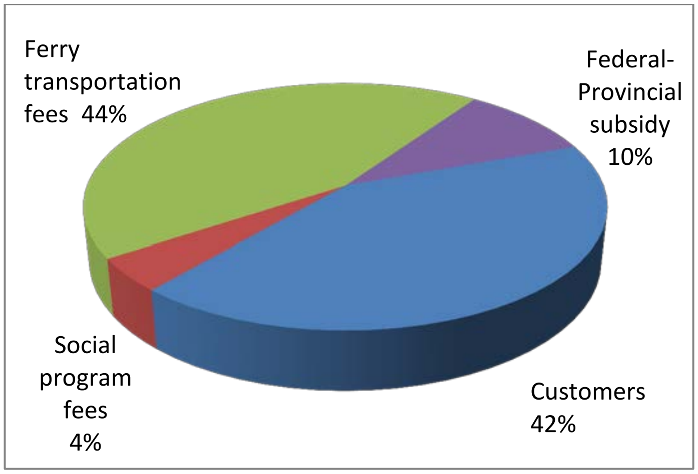
Our Other Routes consist of 18 regulated routes and eight small unregulated routes primarily serving the northern and southern Gulf Islands and the northern Sunshine Coast. One of the regulated routes and all of the unregulated routes are operated under contract by alternative service providers. We receive fees from the Province for the provision of contracted services on these routes, which are included in the ferry transportation fees in the table below.

	Three months ended December 31		Nine months ended December 31	
Operational Statistics[1]	**2014**	**2013**	**2014**	**2013**
Vehicle traffic	689,573	698,666	2,428,461	2,464,575
Passenger traffic	1,498,188	1,523,622	5,520,444	5,611,712
On-time performance	95.3%	94.3%	91.9%	91.7%
Number of round trips	15,812	17,724	49,110	53,665
Capacity provided (AEQs)	1,907,078	2,071,548	5,928,880	6,363,977
AEQs carried	735,666	744,278	2,593,033	2,626,715
Capacity utilization	38.6%	35.9%	43.7%	41.3%

In the three months ended December 31, 2014, vehicle traffic decreased 1.3% (1.5% year-to-date) and passenger traffic decreased 1.7% (1.6% year-to-date) compared to the same periods in the prior year. We believe the decrease in traffic levels during the quarter and year-to-date was mainly due to lower senior travel Mondays through Thursdays as a result of the reductions in the passenger fare discounts for BC seniors travelling Mondays to Thursdays. Decreases in student travel as a result of the teachers' labour dispute during the first two quarters of fiscal 2015 have also contributed to the year-to-date decrease in traffic levels.

In the three months ended December 31, 2014, on-time performance was 1.0% higher (0.2% year-to-date) than during the same period in the prior year.

Capacity utilization in the three months ended December 31, 2014 increased from 35.9% to 38.6 % (from 41.3% to 43.7% year-to-date) compared to the same periods in the prior year as a result of decreased capacity provided due to a reduction in the number of round trips, partially offset by the lower number of AEQs carried.



In the nine months ended December 31, 2014, revenue from our Other Routes consisted of 42% from customers and 58% from the Province (4% social program fees, 44% ferry transportation fees, and 10% from payments under the Federal-Provincial subsidy agreement).

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[1] The statistics provided exclude the unregulated routes

Other Routes cont'd

Revenue ($ thousands)	Three months ended December 31			Nine months ended December 31		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Direct Route Revenue						
Vehicle tariff	9,327	8,989	338	35,369	34,443	926
Passenger tariff	6,679	5,963	716	26,108	23,516	2,592
Fuel surcharges	511	-	511	2,160	-	2,160
Social program fees	2,293	2,587	(294)	7,061	8,361	(1,300)
Catering & on-board	890	764	126	3,495	3,352	143
Reservation fees	44	42	2	214	186	28
Parking & other	108	19	89	309	82	227
Total Direct Route Revenue	19,852	18,364	1,488	74,716	69,940	4,776
Indirect Route Revenue						
Ferry transportation fees	23,119	23,047	72	71,015	67,688	3,327
Federal-Provincial subsidy	5,270	5,273	(3)	15,810	15,820	(10)
Total Route Revenue	48,241	46,684	1,557	161,541	153,448	8,093

Average tariff ($)	Three months ended December 31			Nine months ended December 31		
	2014	2013	Increase	2014	2013	Increase
Vehicle tariff ($000's)	9,327	8,989		35,369	34,443	
Vehicle traffic	689,573	698,666		2,428,461	2,464,575	
Average tariff per vehicle	13.53	12.87	0.66	14.56	13.98	0.58
Passenger tariff ($000'S)	6,679	5,963		26,108	23,516	
Passenger traffic	1,498,188	1,523,622		5,520,444	5,611,712	
Average tariff per passenger	4.46	3.91	0.55	4.73	4.19	0.54

In the three months ended December 31, 2014, average tariff revenue per vehicle increased $0.66 or 5.1% ($0.58 or 4.1% year-to-date) compared to the same period in the prior year and average tariff revenue per passenger increased $0.55 or 14.1% ($0.54 or 12.9% year-to-date) compared to the same period in the prior year. The increase in average tariff revenues reflects the price cap increases authorized by the Commissioner and the Province's reduction of the passenger fare discount for BC seniors travelling Monday to Thursday from 100% to 50%, resulting in seniors now paying a portion of their fares. The increase in average fares, partially offset by the reduction in traffic, resulted in a total tariff revenue increase in the third quarter of $1.0 million ($3.5 million year-to-date).

On December 17, 2014, fuel surcharges were removed from our routes due to declining fuel prices and successfully locking in pricing for a significant portion of our forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place on our regulated Other Routes since January 17, 2014. No surcharges were in place in the first three quarters of fiscal 2014. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

Other Routes cont'd

On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. As a result, in the three months ended December 31, 2014, 8% fewer seniors (9% year-to-date) used the program compared to the same period in the prior year. In the three months ended December 31, 2014, the decrease in reimbursements from the Province for social program fees decreased primarily as a result of this policy change and fewer seniors travelling, along with decreases in student travel as a result of the teachers' labour dispute during the first two quarters of fiscal 2015. These decreases were partially offset by an increase in the number of persons travelling under the MTAP program and higher fares. The Province provided a maximum increase in ferry transportation fees to what would have been paid if there had been no change in the level of senior discounts to the Major and Other Routes. To the extent these funds are not required for the reimbursement of discounts provided seniors, the excess is directed to the ferry transportation fees and allocated to the Northern and regulated Other Routes. These actions together have increased our total revenues, which will reduce some pressure on future fares.

Revenue from catering and on-board services increased in the quarter and year-to-date compared to the same periods in the prior year primarily due to higher average food sales per passenger.

Fees for reservations increased due to higher usage, partially offset by lower traffic levels.

Parking and other revenues increased mainly due to charter fees, commissions from new vendors at two of our terminal locations and dock rental fees.

Ferry transportation fees received from the Province increased $0.1 million in the quarter ($3.3 million year-to-date) compared to the same periods in the prior year as a result of the following:

- $1.6 million ($4.1 million year-to-date) increase in ferry transportation fees in respect of senior discounts; partially offset by:
- $1.5 million decrease ($0.8 million decrease year-to-date) as a result of timing differences over the months from the number of round trips and a higher percentage of total ferry transportation fees allocated to the regulated Other Routes with the elimination of one Northern Route, and an overall increase in fees received under the CFSC.

The Federal-Provincial subsidy has decreased marginally for the three and nine months periods ended December 31, 2014 as a result of a decrease in the annual Consumer Price Index (CPI) (Vancouver).

Expenses
Expenses for the three and nine month periods ended December 31, 2014 and 2013 are summarized in the tables below:

Operating expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2014	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
Operations	105.0	106.2	(1.2)	345.5	345.1	0.4
Maintenance	19.2	17.4	1.8	48.3	45.2	3.1
Administration	7.4	7.4	-	23.0	21.9	1.1
Total operations, maintenance & administration	131.6	131.0	0.6	416.8	412.2	4.6
Cost of retail goods sold	7.2	6.9	0.3	26.3	25.3	1.0
Depreciation and amortization	35.4	33.2	2.2	106.2	101.6	4.6
Total operating expenses	174.2	171.1	3.1	549.3	539.1	10.2

We continue to take proactive measures to contain expenses while continuing to ensure that safety remains our top priority.

In the three months ended December 31, 2014, operations expenses decreased $1.2 million compared to the same period in the prior year mainly due to:

- $1.6 million decrease in fuel expense, reflecting a decrease of $1.0 million or 5.5% due to lower fuel prices and a decrease of $0.6 million or 2.1% in fuel consumption, primarily due to service level adjustments While IFRS does not permit us to account for rate-regulated activities, we are in fact rate-regulated. For purposes of rate regulation, $1.8 million of our fuel expense in the quarter was recorded in deferred fuel cost accounts for future recovery. (See “The Effect of Rate Regulation” above for more detail.);

partially offset by:

- $0.1 million increase in credit card service fees;
- $0.1 million increase in marine insurance costs; and
- $0.2 million increase in several operational areas.

Year-to-date, operations expenses increased $0.4 million compared to the same period in the prior year mainly due to:

- $0.3 million increase in credit card service fees;
- $0.3 million increase in promotional advertising costs regarding fare reductions for extra-length vehicles. This promotion generated additional revenue and shifted traffic from peak demand sailings, particularly at Horseshoe Bay terminal, to under-utilized sailings at other terminals.;
- $0.2 million increase in marine insurance costs;
- $0.2 million increase in data communications costs;

partially offset by:

- $0.2 million decrease in fuel expense, reflecting a $2.8 million or 2.9% decrease in fuel consumption, primarily due to service level adjustments, partially offset by a $2.6 million or 0.2% higher fuel price. While IFRS does not permit us to account for rate-regulated activities, we are in fact rate-regulated. For purposes of rate regulation, $10.5 million of our fuel expense year-to-date was recorded in deferred fuel cost accounts for future recovery. (See “The Effect of Rate Regulation” above for more detail.); and
- $0.4 million decrease in several operational areas.

Maintenance costs during the third quarter increased by $1.8 million ($3.1 million year-to-date) compared to the same period in the prior year as a result of variations in vessel maintenance and refit scheduling.

Administration costs during the three months ending December 31, 2014 were flat compared to the same period in the prior year. The $1.1 million year-to-date increase in administration costs was mainly due to annual licencing costs incurred in the first half of the year related to new hardware and software that has come into service, and legal fees.

The $0.3 million ($1.0 million year-to-date) increase in cost of retail goods sold reflects the increase in catering and on-board sales and rising food costs.

Depreciation and amortization increased $2.2 million ($4.6 million year-to-date) reflecting higher depreciation and amortization resulting from the new capital assets that have entered service. (See "Investing in our Capital Assets" below for details of significant capital asset expenditures.)

Net finance and other expenses ($ millions)	**Three months ended December 31**			**Nine months ended December 31**		
	2014	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
Finance expense						
Bond interest	14.6	15.5	(0.9)	45.3	48.0	(2.7)
KfW bank group (KfW) loans	1.6	1.9	(0.3)	5.1	5.8	(0.7)
Interest on finance lease	0.5	0.5	-	1.5	1.5	-
Short-term debt	-	0.1	(0.1)	0.2	0.5	(0.3)
Structured Financing Facility Program	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Capitalized interest	(0.9)	(1.0)	0.1	(2.4)	(2.4)	-
Total finance expense	15.4	17.0	(1.6)	49.3	53.4	(4.1)
Less: finance income	(1.1)	(1.1)	-	(3.1)	(2.6)	(0.5)
Net finance expenses	14.3	15.9	(1.6)	46.2	50.8	(4.6)
Loss on disposal of capital assets	-	0.1	(0.1)	-	0.1	(0.1)
Total net finance and other expenses	14.3	16.0	(1.7)	46.2	50.9	(4.7)

In the three months ended December 31, 2014, net finance expenses decreased $1.6 million ($4.6 million year-to-date) compared to the same periods in the prior year due to:

- $0.9 million ($2.7 million year-to-date) decrease in bond interest reflecting the lower effective interest rates on the $200 million of senior secured bonds issued in the first quarter of fiscal 2015;
- $0.3 million ($0.7 million year-to-date) decrease in interest on KfW loans, reflecting $12.0 million in principal repayments on the KfW loans and lower interest rates on the Tranche B component of the 12 Year KfW loans;
- $0.1 million ($0.3 million year-to-date) decrease in short-term interest;
- $0.4 million ($0.4 million year-to-date) in 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 purchase of the *Island Sky*;
- $0.5 million year-to-date increase in finance income;

partially offset by:

- $0.1 million decrease in capitalized interest in the quarter.

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.

We expect that our cash requirements, in the near term, will be met through operating cash flows and by accessing our credit facility from time to time. At December 31, 2014, our unrestricted cash and cash equivalents and other short-term investments totalled $159 million.

On April 28, 2014, we completed a private placement of $200 million of 30-year senior secured bonds with accredited investors. These bonds bear interest at a rate of 4.289% per annum, payable semi-annually. The net proceeds of this new issue, together with additional cash on hand, was used to repay our $250 million bond Series 04-1, which matured on May 27, 2014, and to fund the debt service reserve related to these bonds. These bonds were rated “A” (DBRS) and “AA-” (S&P). We managed our interest rate risk and secured a favourable interest rate on these bonds by entering into interest rate hedges. The effective rate of this issue, net of hedging, is 4.45%, the lowest effective bond interest rate in the 11-year history of the Company.

Our $155 million credit facility matures April 2019. The facility is available to fund capital expenditures and other general corporate purposes. At December 31, 2014, there were no draws on this credit facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at December 31, 2014 were “A” (DBRS) with a stable trend and “AA-” (S&P) with a stable outlook.

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, issuances 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 nine months ended December 31, 2014 and 2013 are summarized in the table below:

	Nine months ended December 31		
($ millions)	2014	2013	Increase (Decrease)
Cash and cash equivalents, beginning of period	71.4	36.6	34.8
Cash from operating activities:			
Net earnings	84.2	56.3	27.9
Items not affecting cash	148.3	151.6	(3.3)
Changes in non-cash operating working capital	(5.6)	(5.2)	(0.4)
Net interest paid	(51.2)	(53.0)	1.8
Cash generated by operating activities	175.7	149.7	26.0
Cash (used in) provided by financing activities	(71.8)	53.3	(125.1)
Cash used in investing activities	(78.7)	(139.8)	61.1
Net increase in cash and cash equivalents	25.2	63.2	(38.0)
Cash and cash equivalents, end of period	96.6	99.8	(3.2)

For the nine months ended December 31, 2014, cash generated by operating activities increased by $26.0 million compared to the same period in the prior year, due to an increase in net earnings and a decrease in interest paid, partially offset by items not affecting cash.

Cash used in financing activities in the nine months ended December 31, 2014 was $71.8 million. This amount consisted of the redemption of our $250 million bond Series 04-1; repayment of $12.0 million of KfW loans; $9.0 million in bond financing costs; and $0.8 million repayment of finance lease obligations; partially offset by proceeds of $200 million from our April 2014 bond Series 14-1 issuance.

Cash provided by financing activities in the nine months ended December 31, 2013 was $53.3 million. This amount consisted of $200 million from our October 2013 bond issuance, partially offset by the redemption of our $140 million bond series; $4.5 million in other long-term debt repayments; $1.4 million in bond financing costs; and $0.8 million in repayments of finance lease obligations.

Cash used in investing activities in the nine months ended December 31, 2014 decreased by $61.1 million compared to the same period in the prior year due to a $71.4 million increase in cash provided by short-term investments and a $3.4 million decrease in debt service reserve requirements partially offset by a $13.7 million increase in cash used for capital expenditures. (See “Investing in Our Capital Assets” below for detail of significant capital expenditures.)

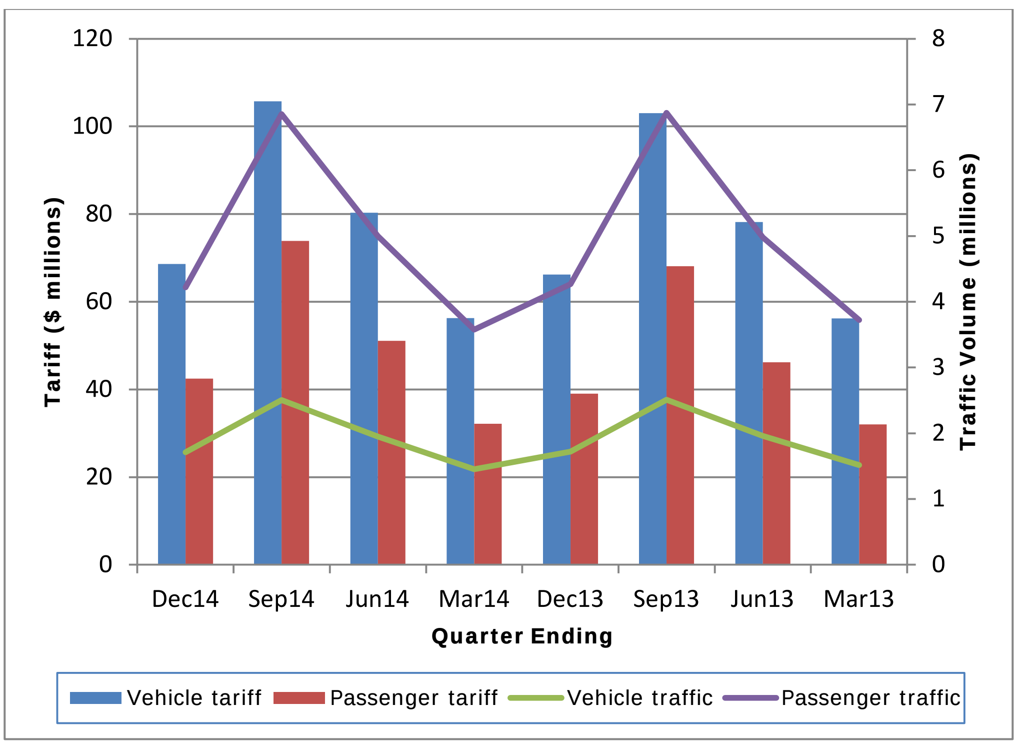
SUMMARY OF QUARTERLY RESULTS

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

($ millions)	Quarter Ended (unaudited)							
	Dec 14	**Sep 14**	**Jun 14**	**Mar 14**	**Dec 13**	**Sep 13**	**Jun 13**	**Mar 13**
Total revenue	182.4	284.2	213.1	153.9	174.8	271.5	200.0	150.5
Operating profit (loss)	8.2	91.6	30.6	(21.3)	3.7	82.3	21.2	(20.2)
Net (loss) earnings	(6.1)	76.4	13.9	(38.3)	(12.3)	64.3	4.3	(37.1)
Other comprehensive (loss) income	(7.4)	(2.9)	(2.4)	(5.0)	-	0.1	-	1.1
Total comprehensive (loss) income	(13.5)	73.5	11.5	(43.3)	(12.3)	64.4	4.3	(36.0)

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:



INVESTING IN OUR CAPITAL ASSETS

Capital Expenditures
Capital expenditures in the three months ended December 31, 2014 totalled $48.3 million ($101.0 million year-to-date).

($ millions)	December 31, 2014	
	3 Months	**9 Months**
Vessel upgrades and modifications	28.6	40.7
Terminal marine structures	12.3	39.1
Information technology	5.3	15.5
Terminal and building upgrades and equipment	2.1	5.7
Total capital expenditures	48.3	101.0

Vessel Upgrades and Modifications
Capital expenditures for vessel upgrades and vessel modifications in the three and nine months ended December 31, 2014 included the following:

($ millions)	December 31, 2014	
	3 Months	**9 Months**
Major overhauls and inspections	7.4	12.6
New intermediate vessels	8.9	9.5
Cable ferry	5.8	6.1
Queen of Oak Bay three-quarter life upgrade	3.3	3.9
Queen of Capilano mid-life upgrade	2.2	3.1
Navigational equipment upgrades	0.4	1.0
Other projects	0.6	4.5
	28.6	40.7

The $12.6 million in major overhauls and inspections completed in the nine months ended December 31, 2014 or currently underway include:

- $4.6 million for the *Queen of Oak Bay*;
- $1.8 million for the *North Island Princess*;
- $1.8 million for the *Queen of Alberni*;
- $1.3 million for the *Quadra Queen II*;
- $1.1 million for the *Northern Expedition*;
- $1.0 million for the *MV Kuper*; and
- $1.0 million for the *Queen of Nanaimo.*

On January 16, 2015, the first steel cut for the first of the three new intermediate class vessels took place at Remontowa Shipbuilding S.A. shipyard in Gdansk, Poland. In July 2014, we entered into contracts with Remontowa Shipbuilding S.A. to build three new intermediate class vessels. The contracts, with a total value of $165 million, form the majority of the total project budget of $252 million. These contracts are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017. Two of the vessels will replace the 50-year old *Queen of Burnaby* and the 51-year old *Queen of Nanaimo,* while the third vessel will augment service during the peak and shoulder season and provide relief when other vessels are in refit. The new vessels will be dual-fuel capable, so they can run on LNG or marine diesel fuel.

In November 2014, the keel for the cable ferry that will provide service between Buckley Bay and Denman Island was laid at Seaspan's Vancouver Shipyards of North Vancouver. The vessel will accommodate 50 vehicles and 150 passengers and crew. The cable ferry is expected to be in service in the summer of 2015. (See "Outlook – Asset Renewal Program" below for more detail.)

The three-quarter life upgrade of the *Queen of Oak Bay* includes significant pipe and steel renewal, upgrades to the electrical system, replacement of the steering gear system, upgrades to the fire protection system, upgrades to the elevator, standardization of the bridge and replacement of the emergency generator. The upgrade commenced in August 2013 and is expected to be completed in two phases by the end of fiscal 2016.

A $13 million project for a mid-life upgrade of the *Queen of Capilano* includes installation of gallery decks which will increase capacity, upgrades to the electrical system, replacement of generators, upgrades to the fire protection system, standardization of the bridge and upgrades to the emergency evacuation systems. The upgrade commenced in October 2012 and is expected to be complete for the summer of 2015.

Fiscal 2015 is the third year of a four-year program to upgrade vessels with new navigational equipment. This year the emphasis will be on upgrading the radar equipment and gyro compasses on several vessels to improve navigational safety. This will take us further towards bridge standardization. We expect to spend $1 million of the total four-year program budget of $4.7 million in fiscal 2015.

Other projects include the replacement of rescue boats and davits on the *Spirit of British Columbia*, new searchlights for the *Northern Expedition,* the *Coastal Celebration,* the *Coastal Renaissance* and *Coastal Inspiration,* major life upgrade for the *Queen of Cumberland*, and the rebuilding of two spare tail shafts for potential use in upcoming overhauls.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the three and nine months ended December 31, 2014 included the following:

($ millions)		**December 31, 2014**	
Terminal	**Description**	**3 Months**	**9 Months**
Denman Island and Buckley Bay	Modifications to accommodate the new cable ferry	5.6	18.7
Port McNeill	Replacement of trestle, ramp, apron and towers	3.2	11.6
McLoughlin Bay	Berth modifications	0.1	1.3
Sointula	Berth rebuild	0.3	1.0
Various	Other projects	3.1	6.5
		12.3	39.1

Modifications at Denman Island and Buckley Bay terminals, as part of the project for our new cable ferry service, include two contracts totalling $15 million awarded for the supply of two concrete floating pontoons, construction of two berths, expansion of the Denman West holding compound and all associated upland development. These modifications are expected to be complete by the end of fiscal 2015. (See "Outlook – Asset Renewal Program" below for more detail on the new cable ferry service.)

At Port McNeill terminal, a $13 million project to replace the trestle, wingwalls, ramp, apron, towers and dolphin and reposition the new ramp to accommodate all minor and intermediate vessels completed in the third quarter.

At McLoughlin Bay, the $9 million project for berth modifications includes installation of three pontoon sections and modification of the berth to improve ship-to-shore tie-up. This project is complete.

At Sointula terminal, a $10 million dollar project to replace the ramp, tower, wingwalls, floating lead and three dolphins to extend the life of the trestle is underway. This project is expected to complete by the end of the first quarter of fiscal 2016.

Other projects currently in progress include upgrades at Langdale, Heriot Bay, Village Bay and Swartz Bay terminals.

Information Technology

Capital expenditures for information technology in the three and nine months ended December 31, 2014 included the following:

($ millions)	December 31, 2014	
	3 Months	**9 Months**
Customer service program	2.2	8.4
Payroll system replacement	1.5	3.5
Oracle eBusiness upgrade	0.8	1.4
Hardware upgrades	0.2	1.3
Other projects	0.6	0.9
	5.3	15.5

Our customer service program will replace our aged point of sale and reservations systems and allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and pricing initiatives. The main elements of this multi-year program will be implemented in stages starting in 2015. We believe this program will significantly improve our ability to efficiently respond to the changing needs of our customers.

Our payroll system replacement initiative will replace both our aged payroll and labour distribution systems and provide processing efficiencies and flexibility. It is expected to be complete in 2016.

Our Oracle financial system upgrade includes configuration changes to obtain efficiencies. It is expected to complete in 2016.

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

Terminal and Building Upgrades and Equipment
Capital expenditures for terminal and building upgrades and equipment in the three and nine months ended December 31, 2014 included the following:

($ millions)	December 31, 2014	
	3 Months	9 Months
Asphalt resurfacing, signage and security at Tsawwassen terminal	0.3	1.5
Vehicles and other equipment	0.4	1.2
Energy efficiency upgrades at Horseshoe Bay and Swartz Bay terminals	0.1	0.3
Upgrades at our maintenance facility	-	0.3
Other terminal projects	1.3	2.4
	2.1	5.7

Several improvement projects are substantially complete or underway at Tsawwassen terminal including asphalt resurfacing, upgrade of way-finding signage, installation of digital destination signs at the toll booths and upgrade of lighting for security purposes.

Vehicles and other equipment include garbage compactors and several items of machinery and equipment at our maintenance facility in Richmond.

Upgrades at Horseshoe Bay and Swartz Bay include installation of digital control systems to optimize the efficiency of HVACs, installation of programmable thermostats and motion sensors, and changes to LED fixtures and other lighting throughout the buildings and grounds.

Upgrades at our maintenance facility include asphalt resurfacing, roof replacement on one building as well as security upgrades.

Other projects currently in progress include upgrades at Aliford Bay, Prince Rupert and Saltery Bay terminals.

OUTLOOK

We do not anticipate that economic conditions will materially change in the near term, although we expect that service reductions and changes in the BC seniors discount will continue to result in a small reduction in our traffic levels. We are continuing our program of cost containment and deferrals, while maintaining safe, reliable service. However, we have no plans to reduce our planned refit and maintenance programs, training and safety programs or capital programs.

We continue to explore strategies to create an affordable and sustainable ferry system beyond 2016, including standardized vessels, LNG propulsion, other alternative technologies, passenger only vessels, a new reservation and point-of-sale system, increased operational efficiencies and opportunities for federal infrastructure funding to renew our fleet and terminals.

Traffic

In the nine months ended December 31, 2014, vehicle traffic decreased 0.4% and passenger traffic decreased 0.3% compared to the same period in the prior year. Traffic levels are discussed above in "Financial and Operational Overview".

We believe the outlook for the travel industry and the US economy have each improved, though not significantly. We also see signs of modest improvement in local leisure travel spending, reflecting lower vehicle fuel prices and a lower Canadian dollar. We expect these improvements will result in a limited recovery in discretionary traffic levels. We believe these improvements will be mainly offset by reductions in traffic due to reductions in service levels and in BC seniors travel. In the near term, we anticipate no significant increase or decrease in overall traffic volume.

Financial performance

We expect positive net earnings in fiscal 2015, reflecting adjustments to service levels, increases to average fares in accordance with the Commissioner's Order 12-02 and continued cost management, coupled with a gradual improvement in the overall economy.

We expect a modest increase in total revenue in fiscal 2015, reflecting the April 1, 2014 tariff increases, lower social program fees, higher catering and on-board revenues and higher ferry transportation fees.

We expect a modest increase in total expenses in fiscal 2015, reflecting higher depreciation and amortization, benefit and contractual wage increases and other operational related costs. We expect a small decrease in fuel expenses in fiscal 2015, reflecting our hedging program, where we have locked in favorable pricing for a significant portion of our forecast fuel consumption from January 1, 2015 through to March 31, 2016 in order to reduce fuel price volatility risk.

We continue to manage our costs prudently without compromising safe operations.

Asset renewal program

Our capital expenditures are expected to increase over the next several years as we begin to replace aged minor and intermediate-sized vessels, make significant improvements at our terminals serving our Major Routes, and renew our information technology infrastructure.

The project for the new cable ferry, for service on our Buckley Bay to Denman Island route, is well underway with the keel being laid on November 28, 2014. It is expected to provide cost savings in the order of $80 million, before inflation, over its expected life compared to the current service and will also provide environmental benefits. It 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.

In November 2014, we received the Commissioner's approval to convert our two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia*, to dualfuel capable, so they can run on LNG or marine diesel fuel as well as make modifications to their hulls to reduce fuel consumption. We expect the conversion and modifications will result in an average savings of approximately $9 million per year over the remaining 27 year life cycle of the two vessels, before inflation. The *Spirit of Vancouver Island*'s mid-life upgrade and LNG conversion is planned to be complete in the spring of 2017 and the *Spirit of British Columbia's* mid-life upgrade and LNG conversion to be complete in the spring of 2018.

In January 2015, the first steel cut for the first of the three new intermediate class ferries took place at Remontowa Shipbuilding S.A. shipyard in Gdansk, Poland. We entered into contracts in July 2014, with Remontowa Shipbuilding S.A. to build three new intermediate class vessels. These contracts, with a total value of $165 million, form the majority of the total project budget of $252 million. This budget also includes $51 million for Canadian taxes and federal import duties. These contracts are design-build, fixed price contracts that provide us with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality of construction. These new vessels, scheduled for delivery in August 2016, October 2016 and February 2017, will operate as dual-fuel capable. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and lifesaving equipment moving us to a higher safety standard and improving interoperability.

FINANCIAL RISKS

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

A discussion of financial risks can be found on pages 54 through 56 of our Management's Discussion & Analysis for fiscal 2014. Our risk profile is substantially unchanged during the nine months ended December 31, 2014. Our Management's Discussion & Analysis for fiscal 2014 is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

BUSINESS RISK MANAGEMENT

Understanding and managing operational risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 57 through 63 of our Management's Discussion & Analysis for fiscal 2014. Our risk profile is substantially unchanged during the nine months ended December 31, 2014. Our Management's Discussion & Analysis for fiscal 2014 is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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.

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

Our significant accounting policies are contained in note 1 to our March 31, 2014 and December 31, 2014 consolidated financial statements. Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These judgements, estimates and assumptions are subject to change as new events occur, as more experience is acquired, as additional information is obtained and as the general operating environment changes.

Discussion of the most critical accounting policies and estimates that we have used in the preparation of our consolidated financial statements can be found on pages 64 and 65 of our fiscal 2014 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 and nine months ended December 31, 2014, or expect to use in the future. Our 2014 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

Adoption of New Accounting Standards
The following is a discussion of mandatory accounting changes that were effective for us April 1, 2014:

International Financial Reporting Interpretations Committee (IFRIC) 21 *Levies*:
- provides guidance on when to recognize a liability for a levy imposed by a government. The retrospective application of this IFRIC did not have an impact on our consolidated financial statements.

The following standard was early adopted at October 1, 2014:

IFRS 9 *Financial Instruments* (2013):
- provides guidance on the classification, measurement and disclosure of financial instruments and introduces a new hedge accounting model. The application of this IFRS did not have any impact on our consolidated financial statements other than changes in the classification of our financial assets and liabilities and certain additional disclosures.

Future Accounting Changes
There are no relevant changes in accounting standards applicable to our fiscal year beginning April 1, 2015. The following is a discussion of accounting changes that will be effective for us in future periods:

Amendments to IAS16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments will be effective for us April 1, 2016. We do not expect the application of these amendments to have any impact on our consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, providing guidance on the amount and/or timing of recognition of revenue. Mandatory adoption of IFRS 15 for us will be April 1, 2017. We do not expect the application of this standard to have any impact on our consolidated financial statements.

IFRS 9 *Financial Instruments* (2014) introduces a new expected credit loss model for calculating impairment, and incorporates guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). Mandatory adoption of IFRS 9 (2014) is effective for us will be April 1, 2018. We do not expect the application of this standard to have any 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 CFSC.

Forward looking statements included in this document include statements with respect to: economic conditions, traffic levels, tariff revenue, and fiscal 2015 net earnings; whether our regulatory assets are probable of future recovery; our short-term and long-range business plans, capital expenditure levels, and asset renewal programs for vessels and terminals; our customer service program, Fare Flexibility and Digital Experience Initiative, payroll system replacement initiative, vessel replacement program for the *Queen of Burnaby* and the *Queen of Nanaimo*, cable ferry initiative, Spirit Class mid-life upgrades, and safety, security, and training projects; our expectations regarding ferry transportation fee amounts, food sales, and sales of quality apparel; total revenue and expense projections, how our cash requirements will be met in the near term, and the amount of savings to be achieved through service level adjustments; and our expectations regarding the impacts of IFRS 9 and IFRS 15 and amendments to IAS 16 and IAS 38 on our consolidated financial statements. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, 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.

In addition to providing measures prepared in accordance with IFRS, we present certain supplemental non-IFRS measures. These include, but are not limited to, total comprehensive income adjusted for the effect of rate regulation, vehicle and passenger traffic, on-time performance, capacity provided and utilized, AEQs carried, number of round trips, number of sailings, and average tariff revenue per vehicle and per passenger. These measures do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These supplemental non-IFRS measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.
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