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

For the three and six months ended
September 30, 2015

Dated November 20, 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 six months ended, September 30, 2015. This discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes for the six months ended September 30, 2015 and 2014, and our audited consolidated financial statements and related notes for the years ended March 31, 2015 ("fiscal 2015") and March 31, 2014, together with our Management's Discussion & Analysis for fiscal 2015. 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 September 30, 2015 (the second quarter of fiscal 2016), we carried 2.6 million vehicles and 7.1 million passengers, an increase of 3.5% and 3.4%, respectively, compared to the same quarter in the prior year. During the three months ended September 30, 2015, we provided 45,587 sailings compared to 45,435 sailings in the same period in the prior year. The additional sailings were provided primarily on our Major Routes to accommodate increased traffic levels. Year-to-date, we provided 1,914 fewer sailings than in the same period in the prior year, primarily due to reduced sailings in the first quarter on our regulated Other Routes reflecting service level adjustments announced by the Province in February 2014 and implemented in fiscal 2015. These adjustments have resulted in increased capacity utilization and savings in fuel and labour, and contributed to strong financial performance in fiscal 2015 and the first two quarters of the year ending March 31, 2016 ("fiscal 2016"). For a discussion of our traffic levels, see "Financial and Operational Overview" below.

Significant events during or subsequent to the second quarter of fiscal 2016 include the following:

- On July 1, 2015, the first steel cut for the third new Salish (intermediate) Class vessel took place at Remontowa Shipbuilding S.A. in Gdansk, Poland. The construction of the other two vessels started earlier in the year and is progressing on schedule. These vessels will be dual-fuel capable, designed to run primarily on liquefied natural gas ("LNG") with marine diesel as a backup. On July 28, 2015, we announced the names of our three new Salish Class vessels, the *Salish Orca*, the *Salish Eagle* and the *Salish Raven*. These new vessels are scheduled for delivery in August 2016, November 2016 and February 2017.

- On July 9, 2015, we announced the three shipyards, including one British Columbian yard, shortlisted for the mid-life upgrades, including the potential conversion to dual-fuel, of our two largest (Spirit Class) vessels, the *Spirit of British Columbia* and the *Spirit of Vancouver Island*. These two vessels have been in service for over twenty years and have an expected service life of 45 years. The mid-life upgrade of the *Spirit of British Columbia* is expected to be completed by the spring of 2018 and the mid-life upgrade of the *Spirit of Vancouver Island* is expected to be completed the following year.

- On September 16, 2015, the British Columbia Ferries Commissioner (the "Commissioner") issued Order 15-03 which established final price cap increases of 1.9% for each of the four years of performance term four ("PT4"), being the four year period commencing on April 1, 2016 and ending on March 31, 2020. The order also requires a fuel management plan to be submitted prior to the start of PT4 setting out our strategies for fuel procurement, minimizing fuel consumption and the transition to alternate fuels during PT4.

- On September 28, 2015, the Commissioner issued Order 15-03A which maintains the existing fuel deferral accounts and sets the price per litre for the operation of the fuel deferral accounts at 91.5 cents per litre for marine diesel and 46.4 cents per litre for LNG in the first year of PT4, inflated in each case by 2% per year for the balance of PT4. The set price per litre is a required input into the calculation of fuel surcharges or rebates.

- On November 12, 2015, we executed a loan agreement with KfW IPEX-Bank GmbH, a German export credit bank. This loan agreement is secured under the Master Trust Indenture and allows for three loans of up to $45 million each. These amortizing loans will be repaid over a 12-year term and bear an annual interest rate of 2.09%. The net proceeds from the loans will be used to partially finance the purchase of the three new Salish Class vessels.

- On November 19, 2015, we accepted title of our new cable ferry, the *Baynes Sound Connector* from Seaspan's Vancouver Shipyards in North Vancouver. It is currently undergoing operational trials, crew training and licensing. The vessel is planned to begin providing service between Buckley Bay on Vancouver Island and Denman Island early in 2016.

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 regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

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

In January 2014, the International Accounting Standards Board (“IASB”) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts,* which addresses accounting for rate-regulated activities. However, it does not apply to entities, like ours, that transitioned to IFRS prior to that date. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Under IFRS, rather than being charged to regulatory asset 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 September 30, 2015 are probable of future recovery and that the obligations as represented by the regulatory liabilities will be settled in the future. These regulatory assets and regulatory liabilities are detailed in note 11 to our September 30, 2015 unaudited consolidated financial statements.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our Statements of Comprehensive Income for the three and six month periods ended September 30, 2015 and 2014 would be as follows:

($ millions)		**Three months ended September 30**		**Six months ended September 30**	
		2015	**2014**	**2015**	**2014**
Total comprehensive income		80.9	73.5	103.2	85.0
Changes in net earnings:					
Regulatory asset or liability	**Statement line item**				
Deferred fuel costs (a)					
Fuel costs (under) over set price	Operations expense	(2.0)	4.7	(3.9)	8.7
Fuel rebates (surcharges)	Fuel rebates (surcharges)	2.1	(5.8)	3.7	(10.2)
Payments from the Province	Ferry service fees	(0.3)	(1.0)	(0.6)	(1.7)
		(0.2)	(2.1)	(0.8)	(3.2)
Tariffs in excess of price cap (b)					
Obligation settled during the period	Tariff revenue	1.9	-	1.0	-
Increase (decrease) in total net earnings		1.7	(2.1)	0.2	(3.2)
Adjusted total comprehensive income		82.6	71.4	103.4	81.8

(a) Deferred fuel costs: As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs which were used to develop the regulated price caps. The difference between actual fuel costs (including fuel hedge gains and losses) and the regulated fuel costs (set price) is deferred for settlement in future tariffs. Also, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time which are applied against deferred fuel cost account balances. We may also receive payments from the Province to be applied against deferred fuel cost account balances.

(b) Tariffs in excess of price cap: The Act contains provisions which ensure that, if tariffs charged exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. Tariffs charged did not exceed price caps at September 30, 2015.

FINANCIAL AND OPERATIONAL OVERVIEW

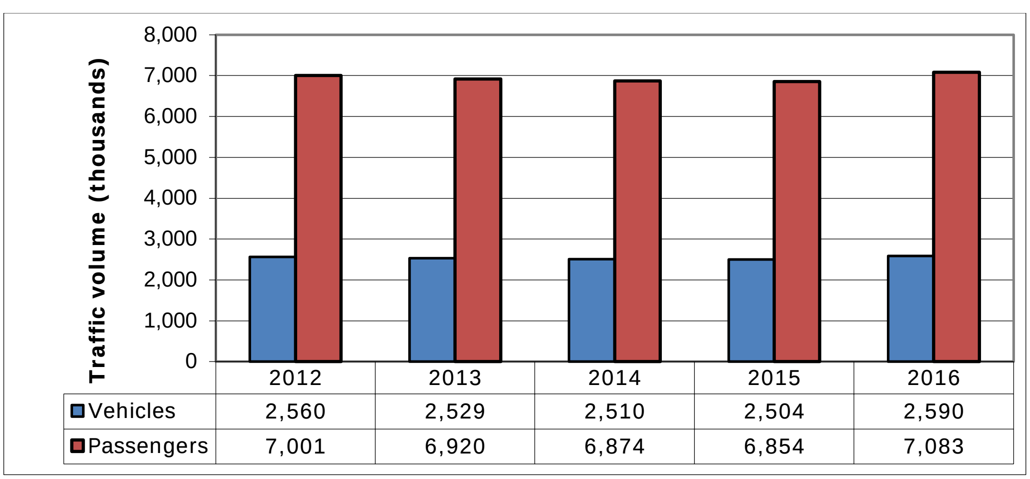
This section provides an overview of our financial and operational performance for the three and six month periods ended September 30, 2015 and 2014.

($ millions)	Three months ended September 30			Six months ended September 30		
	2015	**2014**	**Variance**	**2015**	**2014**	**Variance**
Total revenue	292.5	284.2	8.3	510.2	497.3	12.9
Operating expenses	194.0	192.6	(1.4)	378.6	375.1	(3.5)
Operating profit	98.5	91.6	6.9	131.6	122.2	9.4
Net finance and other	14.0	15.2	1.2	28.3	31.9	3.6
Net earnings	84.5	76.4	8.1	103.3	90.3	13.0
Other comprehensive loss	3.6	2.9	(0.7)	0.1	5.3	5.2
Total comprehensive income	80.9	73.5	7.4	103.2	85.0	18.2

Our net earnings in the three months ended September 30, 2015 were $8.1 million ($13.0 million year-to-date) higher and total comprehensive income in the three months ended September 30, 2015 was $7.4 million ($18.2 million year-to-date) higher compared to the same period in the prior year. Net earnings for the first and second quarters of fiscal 2016 mainly reflect the effects of higher traffic levels, as well as increases in retail sales, social program fees, fares and lower financing costs, partially offset by lower ferry transportation fees, fuel rebates and operating cost increases. Other comprehensive loss in the three months ended September 30, 2015 of $3.6 million ($0.1 million year-to-date) reflects the change in the fair value of our fuel swap contracts. Other comprehensive loss for the three and six months ended September 30, 2014 reflected a $2.9 million loss in the second quarter related to the actuarial valuation of our retirement and death plans and a $2.4 million loss on interest rate forward contracts in the first quarter related to our April 28, 2014 issuance of $200 million of senior secured bonds.

In the three months ended September 30, 2015, vehicle traffic increased 3.5% (4.0% year-to-date) and passenger traffic increased 3.4% (4.1% year-to-date) compared to the same period in the prior year. Commercial traffic, a component of vehicle traffic, increased by 2.3% in the quarter (3.0% year-to-date), while drop-trailer traffic, a component of commercial traffic, increased by 5.0% in the quarter (4.9% year-to-date).

The following graph illustrates our vehicle and passenger traffic levels for the second quarter of fiscal 2012 through the second quarter of fiscal 2016:



Safety and Environment
In the second quarter of fiscal 2016, we emphasized the three precepts of injury prevention (think, plan and act), to increase awareness among our employees of musculoskeletal injuries, fatigue management and situational awareness. In the three months ended September 30, 2015, our busiest season, the number of time loss injuries decreased by 37.9% (18.8% year-to-date) compared to the same period in the prior year.

Also in the second quarter of fiscal 2016, we continued our health and wellness program, which offers support to employees to encourage adoption of healthier lifestyles.

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

Early in the second quarter of fiscal 2016, we completed the training programs for seasonal employees focused on safety, including passenger safety and emergency evacuation systems.

By the end of September 30, 2015, through our Bridge Team Simulation ("BTS") training program, we had delivered Bridge Operations Skills and Systems ("BOSS") Level 2 to 46% of deck officers in the fleet. We expect that all deck officers will have completed BOSS 2 training by the end of 2018. During the second quarter of fiscal 2015, we launched BOSS level 3 training which focuses on decision making and delivered three cable ferry training sessions.

We continue to develop training for six additional job categories, for our Standardized Education and Assessment ("SEA") training program, which are expected to be implemented in April 2016.

A comprehensive training plan for familiarization with the new equipment on the Salish Class vessels is nearing completion. This plan includes LNG training, manufacturer's equipment training, SEA and operational training for all employees working on a Salish Class vessel. A web-based LNG safety awareness program will be available in late fall.

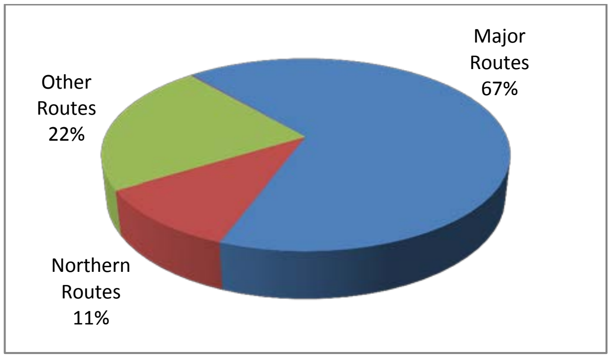
Labour Relations - Collective Agreement
The majority of our employees are members of the BC Ferry & Marine Workers' Union (the "Union"). The current collective agreement with the Union expired October 31, 2015. We are currently engaged in collective bargaining contract negotiations with the Union.

The current agreement has a unique and innovative dispute resolution process, which minimizes the risk of job action by allowing for the orderly transition to a new collective agreement.

We strive to reach a mutually agreeable settlement that provides continued stability for our employees and enhances our ability to deliver the highest level of service to our customers.

Revenue

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



In the six months ended September 30, 2015, the greatest portion of our revenues (67%) was earned on our Major Routes. Revenue from our Northern Routes contributed 11% and revenue from Other Routes contributed 22%.

Selected operational statistics and total revenues for the three and six months ended September 30, 2015 compared to the same periods in the prior year are shown in the tables below.

	Three months ended September 30		Six months ended September 30	
Operational Statistics	**2015**	**2014**	**2015**	**2014**
Vehicle traffic	2,590,367	2,503,691	4,634,713	4,455,903
Passenger traffic	7,083,452	6,853,595	12,332,930	11,850,830
On-time performance	88.0%	86.4%	88.7%	88.6%
Number of round trips	20,635	20,544	39,253	40,234
Capacity provided (AEQs)	4,769,359	4,687,652	8,966,776	8,938,182
AEQs carried	2,914,700	2,817,724	5,245,418	5,045,174
Capacity utilization	61.1%	60.1%	58.5%	56.4%

In the three months ended September 30, 2015, vehicle traffic increased 3.5% (4.0% year-to-date) and passenger traffic increased 3.4% (4.1% year-to-date) compared to the same period in the prior year. Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar, the return of student travel resulting from the resolution of the previous year's teachers' labour dispute and the impact of our 50% passenger fare discount on under-utilized sailings throughout most of the month of September.

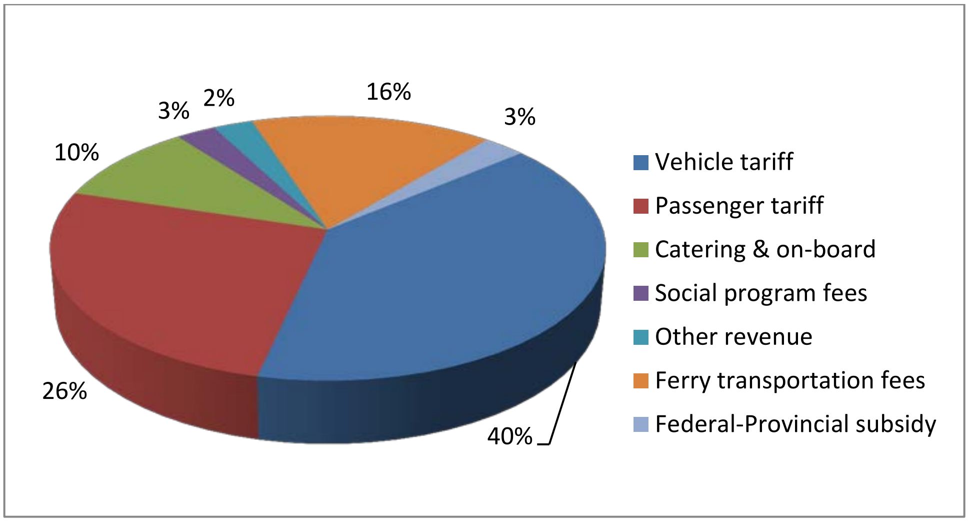
On-time performance on the Major and regulated Other Routes is defined as the percentage of our sailings departing within 10 minutes of the scheduled time. On-time performance on the Northern Routes is defined as the percentage of our sailings arriving no later than 10 minutes after the scheduled time. 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 and maintaining safety is an important factor in our focus on on-time performance. In the three months ended September 30, 2015, on-time performance increased by 1.6% (0.1% year-to-date) compared to the same period in the prior year, primarily due to an improvement in on-time performance on the Major Routes.

Capacity provided, measured in automobile equivalents ("AEQs"), is the available space on a vessel multiplied by the number of round trips. Round trips normally stay fairly stable as the 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 in response to high demand, or by changes to the number of trips stipulated by the CFSC. In the three months ended September 30, 2015, we provided 91 more round trips than the same period in the prior year, primarily due to the overall increase in traffic. Year-to-date, the reduction in round trips and the resulting decrease in capacity provided compared to the same period in the prior year are mainly due to new schedules resulting from the Province's service level adjustments 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 for the three months ended September 30, 2015 increased 1.0% compared to the same period in the prior year due to a 3.4% increase in AEQs carried, partially offset by an increase in capacity due to a higher number of round trips provided. Year-to-date capacity utilization increased 2.1% as a result of reduced total capacity provided due to fewer round trips and a higher number of AEQs carried.

Revenue	**Three months ended September 30**			**Six months ended September 30**		
($ millions)	**2015**	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	114.8	105.7	9.1	202.3	186.0	16.3
Passenger tariff	77.8	73.9	3.9	133.6	125.0	8.6
Fuel (rebates) surcharges	(2.1)	5.8	(7.9)	(3.7)	10.2	(13.9)
Catering & on-board	29.7	28.0	1.7	50.6	47.4	3.2
Social program fees	6.5	6.3	0.2	13.5	12.6	0.9
Reservation fees	7.2	6.1	1.1	11.3	9.5	1.8
Other revenue	2.5	2.6	(0.1)	4.6	4.6	-
Total Direct Route Revenue	236.4	228.4	8.0	412.2	395.3	16.9
Indirect Route Revenue						
Ferry transportation fees	48.0	47.9	0.1	82.3	86.6	(4.3)
Federal-Provincial subsidy	7.2	7.1	0.1	14.4	14.2	0.2
Total Route Revenue	291.6	283.4	8.2	508.9	496.1	12.8
Other general revenue	0.9	0.8	0.1	1.3	1.2	0.1
Total Revenue	292.5	284.2	8.3	510.2	497.3	12.9



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. Catering and on-board services is our second highest source of direct revenue. Catering and on-board services provide a gross margin of approximately 60%.

On April 1, 2015, we implemented tariff increases in accordance with the Commissioner's Order 12-02 dated September 30, 2012. Tariff increases were 3.9% on average on our Major and regulated Other Routes. On the Northern Routes, we increased fares by 2% on average. These increases are directly associated with increased operating costs, notably fuel, capital replacement and labour.

Surcharges and/or rebates are implemented as a direct result of rising and declining fuel prices. On April 1, 2015 (the beginning of fiscal 2016), due to lower fuel prices, a fuel rebate of 1% was implemented on our Major and regulated Other Routes which partially mitigated the impact of the tariff increase. Surcharges of 3.4% on average were in place in the first two quarters of fiscal 2015 on our Major Routes and our regulated Other Routes. During these periods, no surcharges or rebates were in place on our Northern Routes. For the purpose of rate regulation, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

From time to time, we utilize promotional fares designed to stimulate growth in traffic or to 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 generally causes the average vehicle and passenger tariff rate to be under the allowed increase in any one period.

Year to year changes in operational statistics and revenue for the three and six month periods ended September 30, 2015 and 2014 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 over 60% of our vehicle traffic and over 65% of our passenger traffic during the three and six month periods ended September 30, 2015 and 2014.

	Three months ended September 30		Six months ended September 30	
Operational Statistics	**2015**	**2014**	**2015**	**2014**
Vehicle traffic	1,593,910	1,533,269	2,820,175	2,698,704
Passenger traffic	4,714,191	4,543,676	8,113,171	7,774,449
On-time performance	83.0%	77.3%	78.5%	79.5%
Number of round trips	3,739	3,665	6,873	6,788
Capacity provided (AEQs)	2,671,004	2,623,596	4,925,374	4,877,482
AEQs carried	1,849,111	1,780,744	3,300,992	3,165,651
Capacity utilization	69.2%	67.9%	67.0%	64.9%

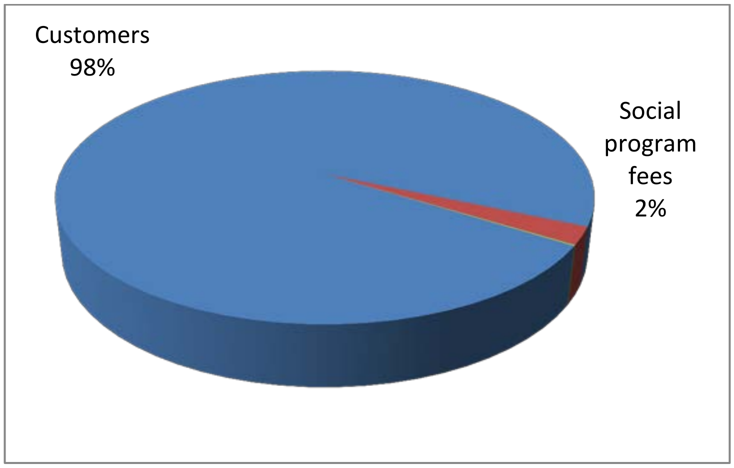
In the three months ended September 30, 2015, vehicle traffic increased 4.0% (4.5% year-to-date) and passenger traffic increased 3.8% (4.4% year-to-date) compared to the same period in the prior year. Commercial traffic, a component of vehicle traffic, increased 2.3% in the quarter (3.0% year-to-date), while drop-trailer traffic, a component of total commercial traffic, increased 5.0% in the quarter (4.9% year-to-date). Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar, the return of student travel resulting from the resolution of the previous year's teachers' labour dispute and the impact of our 50% passenger fare discount.

Through most of the month of September 2015, we offered a 50% discount on passenger fares on under-utilized sailings. We believe that this pricing promotion played a part in shifting some discretionary traffic to off-peak sailings, and may even have contributed to an increase in traffic compared to the same period in the prior year.

In the second quarter of fiscal 2016, on-time performance increased by 5.7% compared to the same period in the prior year, mainly due to the impact of changes in vessel and terminal procedures implemented at Horseshoe Bay terminal. Year-to-date, the negative impact of additional time required for loading procedures due to the significant traffic increase in the first quarter was mainly offset by the improvements made in the second quarter.

Capacity utilization on these routes during the three and six months ended September 30, 2015 was higher compared to the same period in the prior year as a result of a higher number of AEQs carried, partially offset by an increase in capacity provided.

Major Routes cont'd



In the six months ended September 30, 2015, revenue from our Major Routes consisted of 98% from customers and 2% from the Province.

Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	94,514	87,103	7,411	168,058	154,493	13,565
Passenger tariff	61,811	58,724	3,087	107,379	100,417	6,962
Fuel (rebates) surcharges	(1,774)	4,846	(6,620)	(3,128)	8,499	(11,627)
Catering & on-board	26,257	24,708	1,549	45,278	42,403	2,875
Social program fees	3,740	3,516	224	7,632	7,179	453
Reservation fees	7,087	5,994	1,093	11,086	9,328	1,758
Parking	1,459	1,456	3	2,684	2,526	158
Other revenue	853	915	(62)	1,643	1,772	(129)
Total Direct Route Revenue	193,947	187,262	6,685	340,632	326,617	14,015
Indirect Route Revenue						
Ferry transportation fees	236	249	(13)	472	499	(27)
Total Route Revenue	194,183	187,511	6,672	341,104	327,116	13,988

Major Routes cont'd

Average tariff ($)	Three months ended September 30			Six months ended September 30		
	2015	2014	Increase	2015	2014	Increase
Vehicle tariff ($000's)	94,514	87,103		168,058	154,493	
Vehicle traffic	1,593,910	1,533,269		2,820,175	2,698,704	
Average tariff per vehicle	59.30	56.81	2.49	59.59	57.25	2.34
Passenger tariff ($000'S)	61,811	58,724		107,379	100,417	
Passenger traffic	4,714,191	4,543,676		8,113,171	7,774,449	
Average tariff per passenger	13.11	12.92	0.19	13.24	12.92	0.32

In the three months ended September 30, 2015, average tariff revenue per vehicle increased $2.49 or 4.4% ($2.34 or 4.1% year-to-date) and average tariff revenue per passenger increased $0.19 or 1.5% ($0.32 or 2.5% year-to-date) compared to the same period in the prior year. The increase in average tariff revenues reflects the price cap increase authorized by the Commissioner, partially offset by the impact of our 50% passenger fare discount on under-utilized sailings throughout most of the month of September. The increase in both traffic levels and in average fares during the second quarter of fiscal 2015 resulted in a tariff revenue increase of $10.5 million ($20.5 million year-to-date).

On April 1, 2015, due to lower fuel prices, a fuel rebate of 1% was implemented on our Major Routes which partially mitigated the impact of the tariff increase. Fuel surcharges of 3.4% were in place on our Major Routes in the first two quarters of fiscal 2015. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

All vessels that provide service on our Major Routes have a gift shop and options for food service. In the three months ended September 30, 2015, catering and on-board sales increased 6.3% (6.8% year-to-date) compared to the same period in the prior year as a result of both higher passenger traffic and higher average sales per passenger. Food sales remain strong, providing approximately 75% of the total catering and on-board revenue. Sales of quality apparel continue to grow and now comprise approximately 10% of total catering and on-board revenue.
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). On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. In fiscal 2015, we experienced a decrease of 15% in the number of seniors using the program. In the three and six months ended September 30, 2015, there was a marginal increase in the number of seniors using the program, compared to the same period in fiscal 2015. Social program fees increased $0.2 million in the three months ended September 30, 2015 ($0.5 million year-to-date) compared to the same period in the prior year mainly as a result of more seniors and students travelling and an increase in the number of people using the MTAP program.

Reservation fees increased primarily as a result of a greater percentage of customers reserving space during our busy summer season.

Revenue from parking increased as a result of higher usage of our parking facilities.

Ferry transportation fees on the Major Routes 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

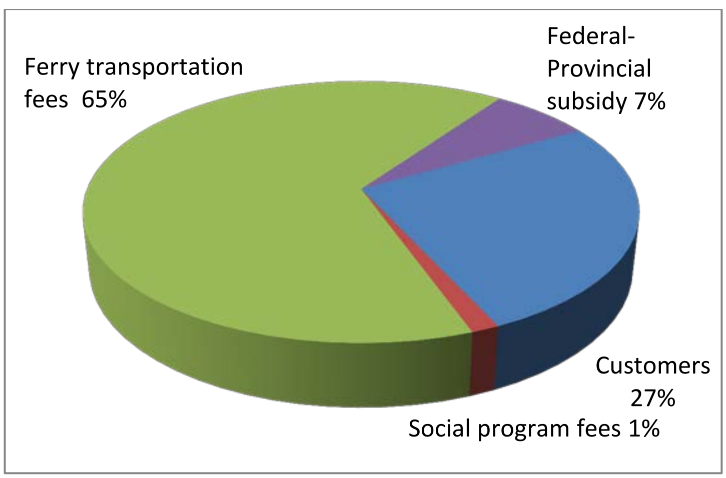
Our Northern Routes consist of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island.

Operational Statistics	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
Vehicle traffic	13,467	12,216	19,825	18,311
Passenger traffic	40,147	37,725	57,736	54,125
On-time performance	89.2%	90.4%	89.4%	89.9%
Number of round trips	98.0	92.5	147.0	147.5
Capacity provided (AEQs)	26,809	25,256	38,916	38,898
AEQs carried	15,952	14,437	23,912	22,158
Capacity utilization	59.5%	57.2%	61.4%	57.0%

In the three months ended September 30, 2015, vehicle traffic increased 10.2% (8.3% year-to-date) and passenger traffic increased 6.4% (6.7% year-to-date) compared to the same period in the prior year. Traffic was favourably impacted by lower fuel prices and the lower Canadian dollar.

On-time performance in the three months ended September 30, 2015 declined by 1.2% (0.5% year-to-date) over the same period in the prior year.

Capacity utilization on these routes during the three and six months ended September 30, 2015 was significantly higher than the same periods in the prior year as a result of a higher number of AEQs carried, partially offset by an increase in capacity provided in the second quarter.



In the six months ended September 30, 2015, revenue from our Northern Routes consisted of 27% from customers and 73% from the Province (1% social program fees, 65% ferry transportation fees, and 7% from payments under the Federal-Provincial subsidy agreement).

Northern Routes cont'd

Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	4,031	3,640	391	5,888	5,470	418
Passenger tariff	4,190	3,824	366	5,604	5,162	442
Catering & on-board	1,283	1,172	111	1,686	1,578	108
Social program fees	418	393	25	746	672	74
Stateroom rental	548	501	47	882	823	59
Hostling & other	72	97	(25)	143	136	7
Total Direct Route Revenue	10,542	9,627	915	14,949	13,841	1,108
Indirect Route Revenue						
Ferry transportation fees	23,701	23,526	175	35,073	38,227	(3,154)
Federal-Provincial subsidy	1,843	1,819	24	3,686	3,638	48
Total Route Revenue	36,086	34,972	1,114	53,708	55,706	(1,998)

Average tariff ($)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Vehicle tariff ($000's)	4,031	3,640		5,888	5,470	
Vehicle traffic	13,467	12,216		19,825	18,311	
Average tariff per vehicle	299.32	297.97	1.35	297.00	298.73	(1.73)
Passenger tariff ($000'S)	4,190	3,824		5,604	5,162	
Passenger traffic	40,147	37,725		57,736	54,125	
Average tariff per passenger	104.37	101.36	3.01	97.06	95.37	1.69

In the three months ended September 30, 2015, average tariff revenue per vehicle increased $1.35 or 0.5% and average tariff revenue per passenger increased $3.01 or 3.0% compared to the same period in the prior year. Year-to-date, average tariff revenue per vehicle decreased $1.73 or 0.6% and average tariff per passenger increased $1.69 or 1.8% compared to the same period in the prior year. Average tariff revenues reflect a change in the proportion of traffic on routes with lower versus higher tariffs and the price cap increase authorized by the Commissioner. The increase in traffic levels and changes in average fares in the second quarter resulted in a total tariff revenue increase of $0.8 million ($0.9 million year-to-date).

There were no fuel surcharges or rebates in place on our Northern Routes in the first and second quarter of fiscal 2016 or 2015.

Reimbursements from the Province for social program fees increased primarily as a result of an increase in the use of the MTAP program.

Revenue from catering and on-board services increased 9.5% in the quarter (6.8% year-to-date) compared to the same period in the prior year as a result of higher passenger levels and higher average sales per passenger.

Stateroom rental revenue increased due to higher sales mainly attributable to higher passenger levels.

Northern Routes cont'd

Hostling and other revenues decreased in the three months ended September 30, 2015 mainly as a result of lower miscellaneous and parking revenues.

Ferry transportation fees received from the Province increased $0.2 million in the quarter compared to the same period in the prior year as a result of the following:

- $0.7 million increase primarily as a result of differences in the monthly schedule of round trips; and
- $0.2 million increase in respect of BC senior discounts; partially offset by
- $0.7 million decrease in fees related to a lower fuel price.

Ferry transportation fees received from the Province decreased $3.2 million year-to-date compared to the same period in the prior year as a result of the following:

- $2.3 million reduction primarily as a result of differences in the monthly schedule of round trips (fiscal 2016 ferry transportation fees are expected to be approximately $1.8 million lower than last year); and
- $1.1 million decrease in fees related to a lower fuel price. For regulatory purposes, the amounts received relating to the price of fuel, are applied to our deferred fuel cost accounts (see "The Effect of Rate Regulation" above for more detail); partially offset by:
- $0.2 million increase in respect of BC senior discounts.

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

Other Routes

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

	Three months ended September 30		Six months ended September 30	
Operational Statistics[1]	**2015**	**2014**	**2015**	**2014**
Vehicle traffic	982,990	958,206	1,794,713	1,738,888
Passenger traffic	2,329,114	2,272,194	4,162,023	4,022,256
On-time performance	88.9%	88.2%	90.6%	90.3%
Number of round trips	16,798.5	16,786.5	32,234	33,298
Capacity provided (AEQs)	2,071,546	2,038,800	4,002,486	4,021,802
AEQs carried	1,049,637	1,022,543	1,920,514	1,857,367
Capacity utilization	50.7%	50.2%	48.0%	46.2%

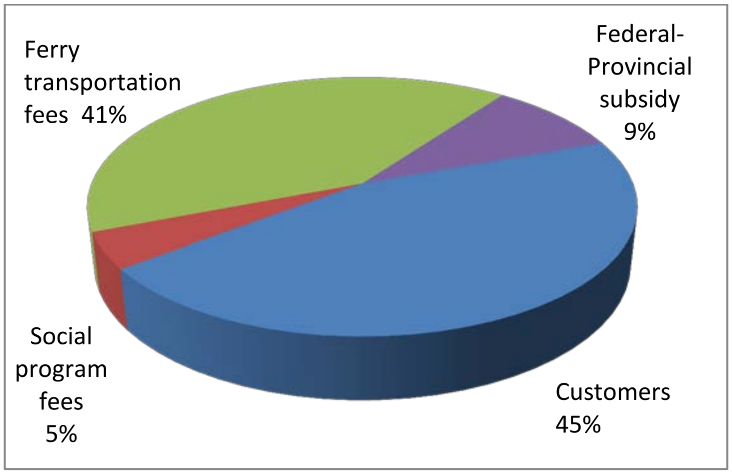
In the three months ended September 30, 2015, vehicle traffic increased 2.6% (3.2% year-to-date) and passenger traffic increased 2.5% (3.5% year-to-date) compared to the same period in the prior year. Traffic was favourably impacted by lower fuel prices, the lower Canadian dollar, the return of student travel resulting from the resolution of the previous year's teachers' labour dispute and the impact of our 50% passenger fare discount.

Through most of the month of September 2015, we offered a 50% discount on passenger fares on under-utilized sailings. We believe that this pricing promotion played a part in shifting some discretionary traffic to off-peak sailings, and may even have contributed to an increase in traffic compared to the same period in the prior year.

Capacity utilization on these routes during the three months ended September 30, 2015 increased compared to the same period in the prior year as a result of a higher number of AEQs carried partially offset by an increase in capacity. Capacity utilization on these routes during the six months ended September 30, 2015 increased compared to the same period in the prior year as a result of decreased capacity provided due to a reduction in the number of round trips in the first quarter of fiscal 2016 as a result of Provincial service level adjustments, vessel substitutions and a higher number of AEQs carried.

[1] The statistics provided exclude the unregulated routes

Other Routes cont'd



In the six months ended September 30, 2015, revenue from our Other Routes consisted of 45% from customers and 55% from the Province (5% social program fees, 41% ferry transportation fees, and 9% from payments under the Federal-Provincial subsidy agreement).

Revenue ($ thousands)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Direct Route Revenue						
Vehicle tariff	16,206	14,979	1,227	28,380	26,042	2,338
Passenger tariff	11,829	11,371	458	20,615	19,429	1,186
Fuel (rebates) surcharges	(351)	940	(1,291)	(624)	1,649	(2,273)
Social program fees	2,374	2,364	10	5,104	4,768	336
Catering & on-board	1,650	1,585	65	2,793	2,605	188
Reservation fees	133	112	21	198	170	28
Parking & other	100	158	(58)	168	201	(33)
Total Direct Route Revenue	31,941	31,509	432	56,634	54,864	1,770
Indirect Route Revenue						
Ferry transportation fees	24,056	24,146	(90)	46,756	47,896	(1,140)
Federal-Provincial subsidy	5,339	5,270	69	10,679	10,540	139
Total Route Revenue	61,336	60,925	411	114,069	113,300	769

Other Routes cont'd

Average tariff ($)	Three months ended September 30			Six months ended September 30		
	2015	2014	Increase	2015	2014	Increase
Vehicle tariff ($000's)	16,206	14,979		28,380	26,042	
Vehicle traffic	982,990	958,206		1,794,713	1,738,888	
Average tariff per vehicle	16.49	15.63	0.86	15.81	14.98	0.83
Passenger tariff ($000'S)	11,829	11,371		20,615	19,429	
Passenger traffic	2,329,114	2,272,194		4,162,023	4,022,256	
Average tariff per passenger	5.08	5.00	0.08	4.95	4.83	0.12

In the three months ended September 30, 2015, average tariff revenue per vehicle increased $0.86 or 5.5% ($0.83 or 5.5% year-to-date) and average tariff revenue per passenger increased $0.08 or 1.6% ($0.12 or 2.5% year-to-date) compared to the same period in the prior year. The increase in average tariff revenues reflects the price cap increase authorized by the Commissioner and a change in the proportion of traffic on routes with higher versus lower tariffs, partially offset by the impact of our 50% passenger fare discount on under-utilized sailings throughout most of the month of September. The increase in both traffic levels and the changes in average fares during the second quarter resulted in a total tariff revenue increase of $1.7 million ($3.5 million year-to-date).

On April 1, 2015, due to lower fuel prices, a fuel rebate of 1% was implemented on our regulated Other Routes which partially mitigated the impact of the tariff increase. Fuel surcharges of 3.4% were in place on our regulated Other Routes in the first two quarters of fiscal 2015. For regulatory purposes, these amounts are applied to our deferred fuel cost accounts. (See "The Effect of Rate Regulation" above for more detail.)

On April 1, 2014, we implemented the Province's decision to reduce the passenger fare discount for BC seniors travelling Mondays to Thursdays from 100% to 50%. In fiscal 2015, we experienced a decrease of 8% in the number of seniors using the program. In the three and six months ended September 30, 2015, there was a marginal increase in the number of seniors using the program. Social program fees increased as a result of more seniors and students travelling and an increase in the number of people using the MTAP program.
Revenue from catering and on-board services increased by $0.1 million ($0.2 million year-to-date) compared to the same period in the prior year as a result of both higher passenger traffic and higher average sales per passenger.

Reservation revenue increased as a result of a greater percentage of customers reserving space during our busy summer season.

Parking and other revenues decreased mainly due to lower commission from vendors and lower charter revenues.

Ferry transportation fees received from the Province decreased $0.1 million in the quarter ($1.1 million year-to-date) compared to the same period in the prior year as a result of the following

- $0.3 million ($1.4 million year-to-date) decrease as a result of differences in the monthly schedule of round trips (fiscal 2016 ferry transportation fees are expected to be approximately $2.9 million lower than last year); partially offset by:
- $0.2 million ($0.3 million year-to-date) increase in ferry transportation fees in respect of senior discounts.

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

Expenses
Expenses for the three and six months ended September 30, 2015 and 2014 are summarized in the tables below:

Operating expenses ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Operations	124.5	125.4	(0.9)	236.7	240.4	(3.7)
Maintenance	13.6	12.4	1.2	34.2	29.1	5.1
Administration	8.2	8.0	0.2	16.2	15.6	0.6
Total operations, maintenance & administration	146.3	145.8	0.5	287.1	285.1	2.0
Cost of retail goods sold	11.9	11.1	0.8	20.6	19.1	1.5
Depreciation and amortization	35.8	35.7	0.1	70.9	70.9	-
Total operating expenses	194.0	192.6	1.4	378.6	375.1	3.5

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

The $0.9 million ($3.7 million year-to-date) decrease in operations expenses compared to the same period in the prior year was mainly due to:

- $5.1 million ($10.5 million year-to-date) decrease in fuel expense reflecting a $6.2 million or 15.9% ($11.6 million or 16.5% year-to-date) decrease in fuel prices, partially offset by a $1.1 million or 3.0% ($1.1 million or 1.6% year-to-date) increase in fuel consumption resulting primarily from additional round trips provided year-to-date to accommodate higher traffic levels on the Major Routes. While IFRS permits accounting for rate-regulated entities, it does not apply to us. For purposes of rate regulation, in the six months ended September 30, 2015, $3.8 million of fuel expenses recorded in deferred fuel cost accounts was settled through fuel rebates. (See “The Effect of Rate Regulation” above for more detail.);

partially offset by:

- $3.1 million ($4.9 million year-to-date) increase in wages and benefits costs, mainly due to a bargaining unit wage rate increase of 2% effective April 1, 2015 in accordance with the Collective Agreement, an increase in overtime and in hours spent in training activities;
- $0.3 million ($1.1 million year-to-date) increase in contracted services;
- $0.3 million (no change year-to-date) increase in insurance claims;
- $0.2 million ($0.2 million year-to-date) increase in travel expenses;
- $0.2 million ($0.5 million year-to-date) increase in parts and supplies; and
- $0.1 million ($0.1 million year-to-date) increase in various operating areas.

Maintenance costs were $1.2 million ($5.1 million year-to-date) higher compared to the same period in the prior year as a result of variations in vessel refit scheduling and increased terminal maintenance.

The $0.2 million ($0.6 million year-to-date) increase in administration costs is mainly due to higher wages and benefits due to the filling of previously vacant positions and computer software licencing costs.

The $0.8 million ($1.5 million year-to-date) increase in cost of retail goods sold reflects the increase in overall sales and rising food costs.

Depreciation and amortization increased $0.1 million (no change year-to-date) for the three months ended September 30, 2015 compared to the same period in the prior year, reflecting higher depreciation resulting from the new capital assets that have entered service offset by lower depreciation resulting from extending our vessel lives from 40 years to 45 years. (See “Investing in our Capital Assets” below for details of significant capital asset expenditures.)

Net finance and other expenses ($ millions)	**Three months ended September 30**			**Six months ended September 30**		
	2015	**2014**	**Increase (Decrease)**	**2015**	**2014**	**Increase (Decrease)**
Finance expense						
Bond interest	14.7	14.6	0.1	29.0	30.7	(1.7)
KfW bank group (KfW) loans	1.4	1.7	(0.3)	2.9	3.5	(0.6)
Interest on finance lease	0.5	0.5	-	1.0	1.0	-
Short-term debt	0.1	0.1	-	0.2	0.2	-
Capitalized interest	(1.4)	(0.8)	(0.6)	(2.6)	(1.5)	(1.1)
Total finance expense	15.3	16.1	(0.8)	30.5	33.9	(3.4)
Less: finance income	(1.5)	(0.9)	(0.6)	(2.4)	(2.0)	(0.4)
Net finance expense	13.8	15.2	(1.4)	28.1	31.9	(3.8)
Loss on disposal of plant and equipment	0.2	-	0.2	0.2	-	0.2
Total net finance and other expenses	14.0	15.2	(1.2)	28.3	31.9	(3.6)

In the three months ended September 30, 2015, net finance and other expenses decreased $1.2 million ($3.6 million year-to-date) compared to the same periods in the prior year due to:

- $1.7 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 and the higher effective interest rate on the $250 million of senior secured bonds which matured in the first quarter of fiscal 2015;
- $0.6 million ($1.1 million year-to-date) increase in capitalized interest in the quarter;
- $0.3 million ($0.6 million year-to-date) decrease in interest on KfW loans, reflecting $3.8 million in principal repayments; and
- $0.6 million ($0.4 million year-to-date) increase in finance income;

partially offset by:

- $0.2 million ($0.2 million year-to-date) increase in loss on disposal of property, plant and equipment; and
- $0.1 million increase in the three months ended September 30, 2015 in bond interest.

Liquidity and Capital Resources

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

Over the next few years, 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 September 30, 2015, our unrestricted cash and cash equivalents and other short-term investments totalled $193 million.

Our $155 million credit facility matures April 2020. The facility is available to fund capital expenditures and other general corporate purposes. At September 30, 2015, there were no draws on this credit facility.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. On September 15, 2015, DBRS affirmed our rating of "A" with a stable trend. At September 30, 2015, our credit rating with Standard & Poor's was "AA-" with a stable outlook.

On September 30, 2012, the Commissioner issued Order 12-02, which established price cap increases for the balance of performance term three ("PT3") which ends March 31, 2016. These price cap increases are sufficient to enable us to meet our debt obligations and maintain access to borrowing rates that, in the opinion of the Commissioner, are reasonable. The order indicated that the Commissioner had established the price caps with the intention of allowing us to achieve, by the end of PT3, equity not less than 17.5% of total capitalization and a debt service ratio ("DSCR") of 2.5 or greater.

At September 30, 2015 we achieved equity to total capitalization of 25.2% and a DSCR of 3.09.

On November 13, 2015, we executed a loan agreement with KfW IPEX-Bank GmbH, a German export credit bank. This loan agreement is secured under the Master Trust Indenture and allows for three loans of up to $45 million each. These amortizing loans will be repaid over a 12-year term and bear an annual interest rate of 2.09%. The net proceeds from the loans will be used to partially finance the purchase of the three new Salish Class vessels.

Sources & Uses of Cash

Our liquidity needs are met through a variety of sources, including cash generated from operations, issuance of bonds, and borrowings under our credit facility. Our primary uses of funds are operational expenses, capital asset acquisitions and upgrades, and payments on our long-term debt.

Sources and uses of cash and cash equivalents for the three and six months ended September 30, 2015 and 2014 are summarized in the table below:

($ millions)	Six months ended September 30 2015	2014	Increase (Decrease)
Cash and cash equivalents, beginning of period	65.6	71.4	(5.8)
Cash from operating activities:			
Net earnings	103.3	90.3	13.0
Items not affecting cash	101.2	96.4	4.8
Changes in non-cash operating working capital	(14.0)	(11.4)	(2.6)
Net interest paid	(31.0)	(34.3)	3.3
Cash generated by operating activities	159.5	141.0	18.5
Cash used in financing activities	(12.6)	(67.8)	55.2
Cash used in investing activities	(105.2)	(28.4)	(76.8)
Net increase in cash and cash equivalents	41.7	44.8	(3.1)
Cash and cash equivalents, end of period	107.3	116.2	(8.9)

For the six months ended September 30, 2015, cash generated by operating activities increased by $18.5 million compared to the same period in the prior year, due to an increase in net earnings, items not affecting cash and a decrease in net interest paid, partially offset by changes in non-cash operating working capital.

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

Cash used in financing activities in the six months ended September 30, 2014 was $67.8 million. This amount consisted of the redemption of our $250 million bond Series 04-1; repayment of $8.3 million of KfW loans; $8.9 million in bond financing costs; and $0.6 million in repayment of finance lease obligations; partially offset by proceeds of $200 million from our April 2014 bond Series 14-1 issuance.

Cash used in investing activities in the six months ended September 30, 2015 increased by $76.8 million compared to the same period in the prior year, due to a $48.9 million increase in cash used to purchase short-term investments, a $2.8 million change in debt service reserve requirements and a $25.1 million net increase in cash used for capital expenditures. (See “Investing in Our Capital Assets” below for detail of significant capital expenditures.)

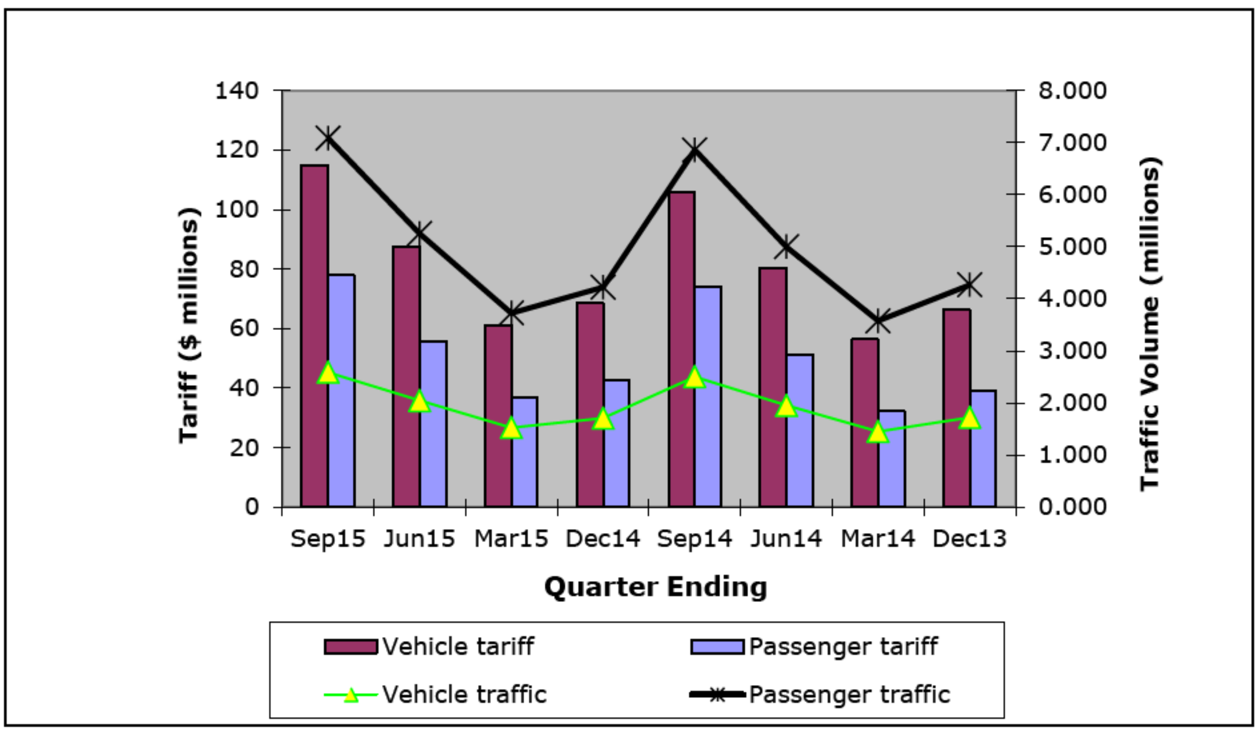
SUMMARY OF QUARTERLY RESULTS

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

($ millions)	Quarter Ended (unaudited)							
	Sep 15	**Jun 15**	**Mar 15**	**Dec 14**	**Sep 14**	**Jun 14**	**Mar 14**	**Dec 13**
Total revenue	292.5	217.7	161.4	182.4	284.2	213.1	153.9	174.8
Operating profit (loss)	98.5	33.1	(11.8)	8.2	91.6	30.6	(21.3)	3.7
Net earnings (loss)	84.5	18.8	(35.1)	(6.1)	76.4	13.9	(38.3)	(12.3)
Other comprehensive (loss) income	(3.6)	3.5	2.7	(7.4)	(2.9)	(2.4)	(5.0)	-
Total comprehensive income (loss)	80.9	22.3	(32.4)	(13.5)	73.5	11.5	(43.3)	(12.3)

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:



Capital Expenditures
Capital expenditures in the three months ended September 30, 2015 totalled $28.7 million ($65.3 million year-to-date).

($ millions)	September 30, 2015	
	3 months	6 months
Vessel upgrades and modifications	14.9	31.6
Information technology	7.1	14.1
Terminal marine structures	3.6	12.6
Terminal and building upgrades and equipment	3.1	7.0
Total capital expenditures	28.7	65.3

Vessel Upgrades and Modifications
Capital expenditures for vessel upgrades and vessel modifications in the three and six months ended September 30, 2015 included the following:

($ millions)	September 30, 2015	
	3 months	6 months
New Salish Class vessels	6.6	13.3
Major overhauls and inspections	2.0	8.7
Baynes Sound Connector	2.1	2.5
Navigational equipment upgrades	1.0	1.4
Queen of Capilano mid-life upgrade	0.1	1.3
Queen of Cumberland mid-life upgrade	0.4	0.9
Queen of Oak Bay ¾-life upgrade	0.3	0.5
Other projects	2.4	3.0
	14.9	31.6

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. On March 5, June 1, and September 1, 2015, the keel-laying for the three new intermediate vessels took place at Remontowa Shipbuilding S.A. in Gdansk, Poland. The new vessels will be dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. On July 28, 2015, we announced the names of these three new Salish Class vessels: the *Salish Orca*, the *Salish Eagle* and the *Salish Raven*. The *Salish Orca* is scheduled for delivery in August 2016, the *Salish Eagle* in November 2016 and the *Salish Raven* in February 2017.

The $8.7 million in major overhauls and inspections completed in the six months ended September 30, 2015 or currently underway include:
- $2.0 million for the *Coastal Inspiration*;
- $1.8 million for the *Howe Sound Queen*;
- $1.7 million for the *Queen of Coquitlam*;
- $1.4 million for the *Klitsa*;
- $1.1 million for the *Nimpkish;*
- $0.5 million for the *Queen of Capilano;* and
- $0.2 million for the *Queen of Oak Bay*.

In November 2015, we accepted title of our new cable ferry, the *Baynes Sound Connector* from Seaspan's Vancouver Shipyards in North Vancouver. It is currently undergoing operational trials, crew training and licensing. The *Baynes Sound Connector*, which will accommodate 50 vehicles and 150 passengers and crew, is planned to begin service between Buckley Bay on Vancouver Island and Denman Island early in 2016. (See "Outlook – Asset Renewal Program" below for more detail.)

Fiscal 2016 is our fourth year of a four-year program to upgrade vessels with new navigational equipment. This year we expect to spend $3 million on upgrading the radar equipment and gyro compasses on several vessels to improve navigational safety. This will take us further towards bridge standardization.

A $13 million project for a mid-life upgrade of the *Queen of Capilano* included installation of gallery decks which 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 vessel returned to service in early May 2015.

An $18 million major upgrade and refit to the *Queen of Cumberland* is under way which includes $14 million for a mid-life upgrade to the propulsion system, passenger accommodation improvements, bridge standardization and safety improvements. The project is expected to complete in the spring of 2016.

An $18 million project for a 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, standardization of the bridge and replacement of the emergency generator. Phase 1, completed in February 2015, upgraded the fire protection system, the electrical system and propulsion and installed a new generator, with a cost of $6 million. Phase 2 will replace the steering gear system, upgrade the bridge and passenger accommodations and is expected to complete by the end of February 2016.

Other projects include a power management system for the *Northern Adventure,* a gearbox for the *Bowen Queen,* mid-life upgrades for the *Spirit of British Columbia* and the *Spirit of Vancouver Island,* engine blocks for the *Queen of Coquitlam* and the purchase of cylinder heads.

Information Technology

Capital expenditures for information technology in the three and six months ended September 30, 2015 included the following:

($ millions)	September 30, 2015	
	3 months	6 months
Customer service program	3.3	5.9
Payroll system replacement	1.6	3.1
Hardware upgrades	1.4	2.3
Oracle eBusiness upgrade	-	1.0
Fare flexibility and digital experience initiative	0.1	0.2
Other projects	0.7	1.6
	7.1	14.1

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 which began in 2015 with the installation of a customer relationship management application. 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 our legacy payroll and labour distribution systems and provide processing efficiencies and flexibility. It is expected to be complete in 2016.

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

Our Oracle financial system upgrade, which included configuration changes to obtain process efficiencies, is now complete.

Our fare flexibility and digital experience initiative will introduce a new system to manage fares and provide customers with a modernized e-commerce platform with greater online functionality and booking options.

Other projects include software to automate the management of our server environments, software to secure our telecommunication systems, upgrading our operations and incident management system and upgrading our catering and retail inventory management system.

Terminal Marine Structures

Capital expenditures for terminal marine structures in the three and six months ended September 30, 2015 included the following:

($ millions)		September 30, 2015	
Terminal	Description	3 months	6 months
Sointula	Berth rebuild	0.6	5.0
Departure Bay	Replace dolphin and gangways	0.7	3.6
Denman Island and Buckley Bay	Modifications to accommodate the new cable ferry	0.4	1.2
Tsawwassen	Berth rebuild	0.1	0.3
Quathiaski Cove	Trestle and floating lead upgrade	0.3	0.3
Various	Other projects	1.5	2.2
		3.6	12.6

At Sointula terminal, a $10 million project to replace the ramp, tower, wingwalls, floating lead and three dolphins to extend the life of the trestle is now complete.

At Departure Bay terminal, a $4 million project to replace the dolphin with a multi-pile turning dolphin and a $3 million project to install active lift gangways are underway. These projects are expected to be complete by the end of the third quarter of fiscal 2016.

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 complete and the cable system is installed. (See "Outlook – Asset Renewal Program" below for more detail.)

At Tsawwassen terminal, a $14 million project to replace the tower, abutment, ramp, dolphins, and wingwalls is underway. This project is expected to complete by the end of the second quarter of fiscal 2017.

At Quathiaski Cove terminal, a project is underway to extend the life of the trestle and floating leads by replacing and bracing timber piles. The project is expected to total $0.7 million and complete by the end of the current fiscal year.

Other projects currently in progress include upgrades at Otter Bay, Whaletown, and Langdale terminals.

Terminal and Building Upgrades and Equipment
Capital expenditures for terminal and building upgrades and equipment in the three and six months ended September 30, 2015 included the following:

($ millions)	September 30, 2015	
	3 months	6 months
Drainage system and holding compound upgrade at Prince Rupert terminal	1.7	3.2
Asphalt resurfacing, signage and security at Tsawwassen terminal	-	1.0
Vehicles and other equipment	0.5	1.0
Signage standardization	0.2	0.5
Other terminal projects	0.7	1.3
	3.1	7.0

A $4 million dollar project at Prince Rupert is underway to install an engineered drainage system and a concrete head wall to reduce overflow, and to repave the holding compound. This project is expected to be complete in the fall of 2015.

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, upgrade of lighting for security purposes and replacing flooring and windows in the administration building.

Vehicles and other equipment include welding trucks, tow tractors and forklifts at our maintenance facility.

Several signage standardization projects are in progress including way-finding signage at Horseshoe Bay, Duke Point, Departure Bay, Prince Rupert and Village Bay terminals.

Other projects currently in progress include upgrades at Langdale, Hornby and Little River terminals.

OUTLOOK

We do not anticipate a material change in general economic conditions. Despite the general slowing of the Canadian economy, vehicle and passenger traffic has been, and we believe will remain, strong in the near term. We are continuing our cost containment program, while maintaining safe, reliable service. We will continue to invest in our vessel, marine, terminal and information system infrastructure, as well as our training, safety and maintenance programs.

We continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2016, by optimizing our service routes, standardizing our vessels, optimizing and diversifying our fuel consumption, and reducing our environmental impact through the installation of alternative technologies and LNG propulsion. We have also started testing variable pricing concepts as we prepare for a new revenue management system and a new reservation and point-of-sale system. We continue to look at ways to diversify our revenue sources, increase operational efficiencies, and leverage opportunities for federal infrastructure funding and provincial incentive funding to renew our fleet and terminals.

Traffic

Overall, vehicle traffic increased 4.0% while passenger traffic increased 4.1% in the six months ended September 30, 2015 compared to the same period in the prior year. Traffic levels in the period are discussed above in “Financial and Operational Overview”.

We believe the US economy and the outlook for the travel industry will continue to improve. With the decline in the value of the Canadian dollar and the lower cost of fuel, we believe that passenger and vehicle traffic will remain strong in the near term. We expect this will result in a modest improvement in discretionary traffic levels, although a slowing Canadian economy may dampen growth in domestic traffic.

Financial performance

We expect positive net earnings in fiscal 2016, reflecting a modest increase in traffic, increases to average fares in accordance with the Commissioner’s Order 12-02 and continued cost management, and continued benefits from adjustments to service levels; coupled with a gradual improvement in the overall global economy in the long term.

We expect an increase in total revenue in fiscal 2016, reflecting increases in traffic, higher catering and on-board revenues, and the impact of the April 1, 2015 tariff increases, partially offset by the net cost of pricing promotions and marginally lower ferry transportation fees.

During September and October, we offered a 50% discount on passenger fares on under-utilized sailings across our fleet. We believe that this pricing promotion played a part in shifting some discretionary traffic to off-peak sailings, and may even have contributed to an increase in traffic compared to the same period in the prior year.

From mid-November through mid-December, we are offering a 50% discount on standard vehicle fares on under-utilized sailings across our fleet and are considering future pricing promotions.

These promotions give us the opportunity to test variable pricing and will provide information on traffic trends, customer responses and impacts to operations for the fare flexibility and digital experience initiative. This initiative is expected to commence in fiscal 2018 and will change the way we price fares. It will give customers an opportunity to purchase travel in advance at discounted rates, on select off-peak sailings on reservable routes. We expect it will also help shift traffic to sailings that typically run with low capacity utilization.

We expect a modest increase in total expenses in fiscal 2016, reflecting higher wage and benefit costs due to the April 1, 2015 bargaining unit wage increase, increased traffic levels and other operational related costs, partially offset by lower fuel costs. We continue to manage our costs prudently without compromising safe operations.

Effective April 1, 2016, the CFSC was amended for PT4, being the period from April 1, 2016 to March 31, 2020. The amendments to the contract for PT4 were completed by June 30, 2015 as required by the CFSC. Amendments include the establishment of ferry transportation fees for PT4 and changes in the structure for the funding of BC seniors discounts. On September 16, 2015, the Commissioner issued Order 15-03 which established the final price cap increases of 1.9%, for each of the four years of PT4 commencing April 1, 2016.

Asset renewal program

Our capital expenditures are expected to increase over the next twelve years as we begin to replace 18 aged minor and intermediate-sized vessels, execute mid-life upgrades for Spirit Class vessels, make significant improvements at our terminals, and renew our information technology infrastructure.

LNG - New vessels and mid-life upgrades

On March 5, June 1, and September 1, 2015, the keel-laying for the three new Salish Class vessels, took place at Remontowa Shipbuilding S.A. in Gdansk, Poland. The contracts with Remontowa total $165 million and 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 will be dual-fuel capable, designed to run primarily on LNG with marine diesel fuel as a backup. These vessels will set a new level of efficiency with standardized bridges, engine rooms and lifesaving equipment moving us to a higher standard and improving interoperability. The new vessels are scheduled for delivery in August 2016, November 2016 and February 2017. The *Salish Orca* and the *Salish Eagle* will replace the 50-year old *Queen of Burnaby* on the Comox – Powell River route and the 51-year old *Queen of Nanaimo on the Tsawwassen – Southern Gulf Islands route*, respectively. The *Salish Raven* is expected to service the Southern Gulf Islands.

Both LNG and the marine diesel we currently use meet all domestic and international emissions regulations. We believe that a move to LNG would reduce costs and emissions. At this time, even with the current drop in diesel oil prices, LNG is less expensive than the ultra-low sulphur diesel we currently use and has significantly less emissions. We believe that LNG is a viable option for future new vessels and, as noted above, our three new Salish Class vessels will have the capability to run on it.

We also analyzed LNG as an option for existing vessels undergoing major retrofits and intend to pursue the option where it is economically and technically feasible. The *Spirit of Vancouver Island* and the *Spirit of British Columbia,* our two largest vessels, will be undergoing mid-life upgrades and we are currently considering converting them to be able to run on LNG as well as diesel. On July 9, 2015, we announced the three shipyards, including one British Columbian yard, that we shortlisted for the mid-life upgrades, including potential conversion to dual-fuel. The mid-life upgrade of the *Spirit of British Columbia* is expected to be completed during the spring of 2018 and the *Spirit of Vancouver Island* is expected to be completed during the spring of 2019.

Cable Ferry

The *Baynes Sound Connector*, which will accommodate 50 vehicles and 150 passengers and crew, is undergoing operational trials, crew training and licensing, and is planned to begin to provide service on the route connecting Vancouver Island and Denman Island early in 2016.

This 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.

Compared to the current service, it is projected that, over 40 years, the cable ferry will provide significant cost savings and environmental benefits, including: reduced fuel consumption; lower air emissions; reduced wake; no propeller turbulence; low anti-fouling discharge; low propeller scour; and zero discharge to the marine environment.

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 64 through 67 of our fiscal 2015 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2015. Our 2015 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

BUSINESS RISK MANAGEMENT

Understanding and managing operational risk is an important part of our business. We have processes in place throughout our company to manage risks that inevitably arise in the normal course of business. A discussion of enterprise wide risk management can be found on pages 67 through 73 of our fiscal 2015 Management's Discussion & Analysis. Our risk profile is substantially unchanged during the six months ended September 30, 2015. Our 2015 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

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

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

Our significant accounting policies are contained in note 1 to our March 31, 2015 and September 30, 2015 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 74 and 75 of our fiscal 2015 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 six months ended September 30, 2015, or expect to use in the future. Our 2015 Management's Discussion & Analysis is available on our investor webpage at http://www.bcferries.com/investors/financial_reports.html.

Adoption of New Accounting Standards
There are no relevant changes in accounting standards applicable to our fiscal year beginning April 1, 2015. However, we changed the estimate of useful lives of vessel hulls from 40 to 45 years. The change has been applied prospectively effective April 1, 2015, and will result in a decrease in depreciation expense of approximately $1.9 million for the year ending March 31, 2016.

Future Accounting Changes
The following is a discussion of accounting changes that will be effective for us in future accounting 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. The application of these amendments will not 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. IFRS 15 was issued in May 2014 with an effective date of January 1, 2017. Earlier application is permitted. On July 22, 2015, the IASB confirmed a one-year deferral of this standard and will be effective for us April 1, 2018. We do not expect the application of this standard to have any significant 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) 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.

The IASB has published a *Disclosure Initiative (Amendments to IAS1)* with narrow-scope amendments with an effective date for us of April 1, 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in preparing their financial reports. Earlier application is permitted. We do not expect the application of this standard to have any significant 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, fuel prices, collective bargaining contract negotiations, and fiscal 2016 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, pricing promotions, payroll system replacement initiative, Salish Class vessels, the *Baynes Sound Connector*, LNG plans, Spirit Class mid-life upgrades, and safety and training projects; our expectations regarding food sales, and sales of quality apparel; total revenue and expense projections, and how our cash requirements will be met in the near term; and our expectations regarding the impacts of IFRS 9 and IFRS 15 and amendments to IAS 1, 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: vendor non-performance; capital market access; interest rate, foreign currency, fuel price, and traffic volume fluctuations; the implementation of major capital projects; security, safety, and environmental incidents; confidential or sensitive information breaches; changes in laws; vessel repair facility limitations; economic regulatory environment changes; tax changes; and First Nation claims.

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

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.