

For Immediate Release
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February 23, 2018

BC FERRIES RELEASES THIRD QUARTER RESULTS

VICTORIA – British Columbia Ferry Services Inc. (BC Ferries) released its third quarter results today for the fiscal year ending March 31, 2018. The company reported a net loss of \$14.8 million for the three months ended December 31, 2017, as compared to a net loss of \$4.0 million in the same quarter last year.

Due to the seasonality of ferry travel, BC Ferries typically generates higher net earnings in the first and second quarters, which are substantially reduced by net losses in the last two quarters of the fiscal year. Consequently, the company expects year-end net earnings to be lower than experienced to date. Net earnings for the nine-month period ended December 31, 2017 were \$100.9 million, down from \$118.2 million for the same period in the previous year. These lower results reflect a commitment to improve the customer experience. BC Ferries implemented service enhancements and provided additional round trips to accommodate the higher traffic volumes (439.5 additional round trips in the quarter; 1,210.5 year-to-date). The additional trips and the sea trials associated with the introduction of three new vessels in the nine months ended December 31, 2017 resulted in an increase in fuel consumption, labour and training related costs. Also maintenance costs were significantly higher, as anticipated, mainly attributed to the timing of refit activity undertaken in B.C. during this quarter to ensure vessel coverage while the Spirit of British Columbia is undergoing its mid-life upgrade.

“The sustainability of the ferry service to coastal communities is important to BC Ferries, which is why we strive to maximize the value for fare payers,” said Mark Collins, BC Ferries’ President and CEO. “Positive earnings are essential to support safe and reliable service to coastal communities. At the same time, we are reinvesting in the ferry service on behalf of ferry users.”

All net earnings are used to the benefit of ferry users in the following ways:

- Investment in infrastructure such as new vessels and terminals
- Improve the service, including increasing the number of sailings provided on a number of routes
- More affordable travel by offering discounts and freezing or reducing fares
- Minimize borrowing to lower the interest paid on debt
- Strengthen the ability to weather challenging economic conditions including weak traffic years

“BC Ferries is a capital intensive business, in a constant state of renewal,” said Collins. Capital expenditures in the three and nine-months ended December 31, 2017 totalled \$47.8 million

and \$191.3 million respectively. Projects included vessel replacements, vessel upgrades and modifications such as the Northern Sea Wolf, terminal marine structures, information technology, and terminal building upgrades and equipment.

“Fare affordability is important to BC Ferries and we share the government’s commitment to making travel more affordable for coastal communities,” said Collins. “With increased traffic, BC Ferries has had two strong years financially and the company is pleased to contribute to government’s fare initiatives. This will see a fare freeze on the major routes, a reduction in fares by 15 per cent on the minor and northern routes and the reinstatement of the full seniors’ passenger discount Monday through Thursday starting April 1, 2018.”

In the three months ended December 31, 2017, BC Ferries carried 1.9 million vehicles and 4.6 million passengers on over 42,000 sailings. Vehicle traffic increased 5.2 per cent and passenger traffic increased 5.1 per cent compared to the same quarter in the prior year. Vehicle and passenger traffic levels were the highest the company has experienced in the third quarter since the third quarter ended December 31, 2004.

BC Ferries’ financial statements, including notes and Management’s Discussion and Analysis are filed on SEDAR and will be available at www.sedar.com.

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FORWARD LOOKING STATEMENTS

This release 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 U.S. Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this release include statements with respect to: the Spirit of British Columbia mid-life upgrade, the Northern Sea Wolf upgrades, and the Provincial government initiatives. 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 Nations claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this release 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 release, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

NON-IFRS MEASURES

In addition to providing measures prepared in accordance with International Financial Reporting Standards (IFRS), we present certain financial measures that do not have any standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These include, but are not limited to, average tariff revenue per vehicle and per passenger. These supplemental financial measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.

February 23, 2018

Significant events during or subsequent to the third quarter of fiscal 2018 include the following:

Vessels

- On October 21, 2017, one of BC Ferries' two largest vessels, the Spirit of British Columbia, arrived at Remontowa Ship Repair Yard S.A., in Gdansk, Poland, for its mid-life upgrade. The mid-life upgrade, enabling the vessel to be in service for another 25 years, includes the conversion to dual-fuel so it can operate on liquefied natural gas or ultra-low sulphur marine diesel. The vessel is expected to return to service by the summer of 2018.
- On December 15, 2017, the Northern Sea Wolf arrived in British Columbia after a 10,097 nautical mile journey from Athens, Greece. The 75-metre used vessel is undergoing extensive upgrades at Esquimalt Drydock Company, a local shipyard, in preparation for regular service commencing in the summer of 2018.

General

- On October 16, 2017, Corrine Storey assumed the role of Vice President and Chief Operating Officer. Ms. Storey was previously Vice President of Customer Services and has been with BC Ferries for 13 years.
 - In November 2017, the British Columbia Ferries Commissioner (the "Commissioner") released a Comparative Fare Analysis prepared by PricewaterhouseCoopers LLP, updating an earlier review conducted in 2012. The report indicates that fares at BC Ferries are generally comparable with similar ferry operators worldwide, and that BC Ferries' cost per nautical mile rankings with other ferry operators have not changed significantly since 2012. The Commissioner's reports are available on the Commissioner's website at www.bcferrycommission.ca.
 - In December 2017, the provincial government announced a review of the Coastal Ferry Services Contract and the provision of coastal ferry service in British Columbia to ensure that the model is operating in the public interest. The terms of reference for the review are available at the Province's website at www2.gov.bc.ca. The reviewer is to prepare and submit a report to the Minister of Transportation and Infrastructure for government's consideration by June 30, 2018 that will:
 - examine BC Ferries' operations, including operating and capital expenditures, business processes, practices and policies to assess whether the services are being provided for in a manner that supports the public interest in affordable fares;
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- consider what changes to the price cap and regulatory model would ensure the ferry system is working as efficiently and effectively as possible for all British Columbians, and in particular, ferry users and communities who depend on this essential service; and,
 - identify opportunities and recommend actions to enhance ferry service delivery and/or reduce costs without impacting existing service.
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- On January 16, 2018, DBRS Limited (“DBRS”) upgraded BC Ferries’ Issuer Rating and Senior Secured Bonds Rating from “A” with a positive trend to “A (high)” with a stable trend. DBRS states that the upgrades “acknowledge the proven operating resilience and reliable management demonstrated by the company, having weathered challenging macroeconomic conditions while maintaining satisfactory financial metrics and successfully returning to growth.”
 - On February 7, 2018, the Commissioner issued Order 18-01 in response to the findings of the review of BC Ferries’ annual customer satisfaction tracking survey conducted for the Commissioner by MNP LLP. The order directs BC Ferries to augment its survey to include additional routes and to re-procure the contract with an external service provider to conduct the survey. BC Ferries plans to address the recommendations in MNP’s report dated October 17, 2017, together with how the company will communicate the actions it has taken in response, must be submitted to the Commissioner no later than June 1, 2018. The Commissioner’s orders and reports are available on the Commissioner’s website at www.bcferrycommission.ca.
 - On February 23, 2018, BC Ferries reconfirmed its commitment to fare affordability with its contribution to the Province’s fare initiatives which include freezing fares on the major routes, reducing fares by 15 per cent on the minor and northern routes and reinstating the full seniors’ passenger discount Monday through Thursday starting April 1, 2018. BC Ferries is working with the Province to amend the Coastal Ferry Services Contract to reflect these initiatives.

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BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in thousands of Canadian dollars)

	December 31, 2017	March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	105,282	72,032
Restricted short-term investments	32,466	32,426
Other short-term investments	143,195	115,582
Trade and other receivables	26,075	15,319
Prepaid expenses	8,042	7,454
Inventories	29,163	28,257
Derivative assets	11,617	1,604
	355,840	272,674
Non-current assets		
Loan receivable	24,515	24,515
Land lease	29,886	30,230
Property, plant and equipment	1,691,973	1,621,802
Intangible assets	98,889	97,673
	1,845,263	1,774,220
Total assets	2,201,103	2,046,894
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	62,610	55,173
Interest payable on long-term debt	16,522	18,458
Deferred revenue	33,355	20,705
Derivative liabilities	-	1,048
Current portion of long-term debt	34,573	30,939
Current portion of accrued employee future benefits	1,400	1,400
Current portion of obligations under finance lease	1,617	1,582
Provisions	59,537	55,711
	209,614	185,016
Non-current liabilities		
Accrued employee future benefits	22,282	20,913
Long-term debt	1,290,621	1,273,860
Obligations under finance lease	39,208	40,423
Other liabilities	7,750	5,250
	1,359,861	1,340,446
Total liabilities	1,569,475	1,525,462
Equity		
Share capital	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	524,931	424,020
Total equity before reserves	625,409	524,498
Reserves	6,219	(3,066)
Total equity including reserves	631,628	521,432
Total liabilities and equity	2,201,103	2,046,894

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Comprehensive Income (Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Revenue				
Vehicle and passenger fares	136,201	127,066	524,626	502,443
Ferry service fees	40,380	38,866	141,874	138,909
Net retail	13,147	12,090	49,950	45,807
Federal-Provincial Subsidy Agreement	7,446	7,289	22,337	21,868
Fuel rebates	(4,169)	(3,787)	(15,783)	(14,764)
Other income	2,243	2,139	7,741	7,512
Total revenue	195,248	183,663	730,745	701,775
Expenses				
Operations	117,637	110,191	376,538	353,964
Maintenance	28,185	18,009	62,751	53,252
Administration	9,020	8,577	28,243	25,361
Depreciation and amortization	40,453	37,065	119,101	110,278
Total operating expenses	195,295	173,842	586,633	542,855
Operating (loss) profit	(47)	9,821	144,112	158,920
Net finance and other expenses				
Finance income	1,501	1,262	3,929	3,446
Finance expenses	(15,284)	(15,073)	(45,872)	(44,018)
Net finance expense	(13,783)	(13,811)	(41,943)	(40,572)
(Loss) gain on disposal and revaluation of property, plant and equipment, intangible assets and inventory	(1,009)	25	(1,258)	(128)
Net finance and other expenses	(14,792)	(13,786)	(43,201)	(40,700)
NET (LOSS) EARNINGS	(14,839)	(3,965)	100,911	118,220
Other comprehensive income				
Items not to be reclassified to net earnings	-	-	(1,943)	(1,240)
Items to be reclassified to net earnings	9,731	6,325	10,541	16,861
Total other comprehensive income	9,731	6,325	8,598	15,621
Total comprehensive (loss) income	(5,108)	2,360	109,509	133,841

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2017	2016
Cash flows from operating activities		
Net earnings	100,911	118,220
Items not affecting cash		
Net finance expense	41,943	40,572
Depreciation and amortization	119,101	110,278
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	1,258	128
Other non-cash changes to property, plant and equipment	481	(1,604)
Changes in:		
Accrued employee future benefits	(574)	361
Derivative assets and liabilities recognized in net earnings	(20)	(10)
Provisions	3,826	4,347
Long-term land lease	344	344
Accrued financing costs	136	271
Total non-cash items	166,495	154,687
Movements in operating working capital		
Trade and other receivables	(10,756)	3,529
Prepaid expenses	(588)	(400)
Inventories	(906)	(2,244)
Accounts payable and accrued liabilities	7,437	(9,379)
Deferred revenue	12,650	(1,991)
Change in non-cash working capital	7,837	(10,485)
Change attributable to capital asset acquisitions	(1)	3,040
Change in non-cash operating working capital	7,836	(7,445)
Cash generated from operating activities	275,242	265,462
Interest received	3,624	3,149
Interest paid	(51,434)	(50,469)
Net cash generated by operating activities	227,432	218,142

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2017	2016
Cash flows from financing activities		
Proceeds from long-term debt	45,264	44,858
Repayment of long-term debt	(24,241)	(15,750)
Repayment of finance lease obligations	(1,180)	(1,129)
Deferred financing costs incurred	(1,417)	(1,495)
Net cash generated by financing activities	18,426	26,484
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	471	137
Purchase of property, plant and equipment and intangible assets	(185,426)	(149,705)
Changes in debt service reserve	(40)	(130)
Net purchase of short-term investments	(27,613)	(56,395)
Net cash used in investing activities	(212,608)	(206,093)
Net increase in cash and cash equivalents	33,250	38,533
Cash and cash equivalents, beginning of period	72,032	79,113
Cash and cash equivalents, end of period	105,282	117,646

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)
(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves	Total equity including reserves
Balance as at March 31, 2016	75,478	25,000	352,692	453,170	(24,223)	428,947
Net earnings	-	-	118,220	118,220	-	118,220
Other comprehensive income	-	-	-	-	15,621	15,621
Realized hedge losses recognized in fuel swaps	-	-	-	-	6,015	6,015
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2016	75,478	25,000	470,912	571,390	(2,401)	568,989
Balance as at March 31, 2017	75,478	25,000	424,020	524,498	(3,066)	521,432
Net earnings	-	-	100,911	100,911	-	100,911
Other comprehensive income	-	-	-	-	8,598	8,598
Realized hedge losses recognized in fuel swaps	-	-	-	-	501	501
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2017	75,478	25,000	524,931	625,409	6,219	631,628