

December 2008 Update



 **BC Ferries**

Experience the difference™

This presentation and other information provided contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding BC Ferries' 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.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, the impact of competition, asset risk, accident/casualty loss risk, tax risk, environmental risk, regulatory risk, labour disruption risk, risk of default under material contracts and aboriginal land claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this presentation and other information provided are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. BC Ferries has developed a framework to guide the capital planning process to ensure alignment with, and achievement of, the company's strategic objectives. The capital expenditure forecast takes into account six primary project drivers: regulatory/betterment, replacement/refurbishment, internal payback, expansion, corporate initiatives, and maintenance/refit. Some of the market conditions and factors that have been considered in the development of the capital plan include traffic, rising Canadian Dollar relative to US Dollar, fuel costs and fuel reduction initiatives, construction costs, duty remission, GST reduction, and the Coastal Ferry Services Contract. These forward looking statements are made as of the date of this presentation, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances.

- Corporate Update
- Financial Review
- Capital Expenditures
- Summary
- Background Information

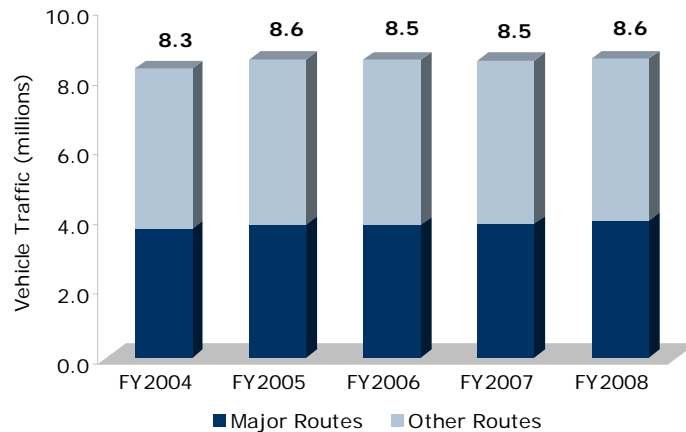
Corporate Update



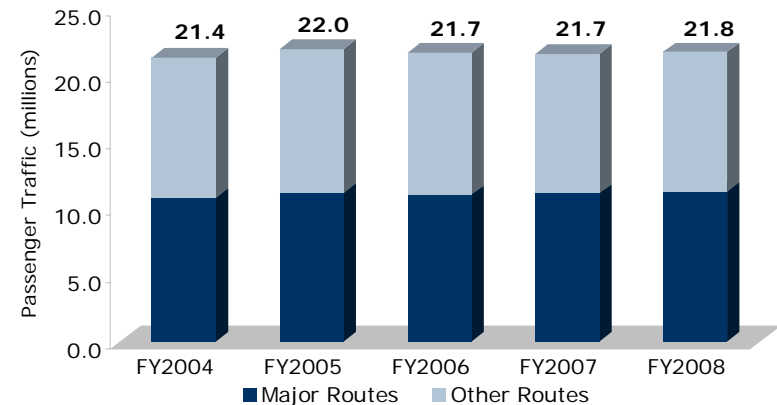
 **BC Ferries**

Experience the difference™

BC Ferries' Vehicle Traffic



BC Ferries' Passenger Traffic



- Over the past five years, traffic levels have been relatively constant notwithstanding the application of significant fuel surcharges
 - FY2008 traffic increased 0.6% for passengers and 0.7% for vehicles relative to FY2007
- In FY2008 the major routes accounted for approximately 46% of all vehicles and 52% of all passengers

Current Year

- We have experienced some traffic reductions this year
 - In Q1, traffic has decreased 1.7% for vehicles and 2.3% for passengers relative to Q1 FY2008
 - In Q2, traffic has decreased 6.1% for vehicles (down 4.2% YTD) and 5.3% for passengers (down 4.0% YTD) relative to Q2 FY2008
- We have taken cost reduction actions to mitigate the impact of this decline in traffic and currently expect to be close to target for EBITDA and ahead of target for net earnings
 - Cost reduction initiatives include:
 - Reducing the frequency of sailings
 - Adjusting capacity
 - Deferring the filling of current staff vacancies
 - Deferring or reducing travel, consulting, marketing, advertising and other discretionary expenditures

- On October 22, 2008, the Province of BC announced a 10-point plan to improve the province's economic competitiveness and reduce costs for families and businesses
 - One of the initiatives was funding a 33% reduction of ferry fares on all routes for December and January, and the restoration of ferry service levels for all routes
- In response to this announcement, effective October 25, BC Ferries reinstated sailings that had recently been cancelled and immediately redeployed the Coastal Renaissance as the primary vessel on the Departure Bay to Horseshoe Bay Route (Route 2)

What is BC Ferries exposure to fuel prices?

Direct Exposure:

- Any differences between the per litre cost of fuel purchased and consumed (including realized hedge gains or losses) and the per litre cost of fuel included in the determination of the price caps for Performance Term Two (“PT2”) are:
 - i) for Northern route group:
 - ½ of the first 5¢/litre of difference is recorded in expense with the remaining ½ of the first 5¢/litre of difference recorded in the deferral accounts for recovery or settlement through future tariffs to customers
 - Any difference beyond 5¢/litre is payable by the Province of BC
 - ii) for all other route groups:
 - ½ of the first 5¢/litre of difference is recorded in expense for the period with all remaining differences per litre recorded in deferral accounts for recovery or settlement through future tariffs to customers
- The BC Ferry Commissioner (“Commissioner”) recently revised the approved fuel surcharge/rebate mechanism, which is dependent upon the outstanding balances in the accounts, to provide the company flexibility in managing those balances
- BC Ferries runs a fuel hedging program to mitigate the impact of volatile fuel prices on the fuel deferral account balances

Indirect Exposure:

- Significant increases in fuel prices may have a negative impact on traffic levels

Recently Approved Fuel Surcharges

- On August 1, 2008 BC Ferries introduced Commissioner approved fuel surcharges on the following routes:
 - 10.3% on the three major routes
 - 17.6% on the 18 minor routes
 - 9.2% on the Horseshoe Bay-Langdale route
 - There are no surcharges for the Northern Route group at this time
- In December 2008, all fuel surcharges will have been completely removed (as approved by the Commissioner):
 - 50% surcharge reduction effective November 4, 2008
 - Removal of the remainder of the surcharges effective December 5 for all minor routes and the Horseshoe Bay-Langdale route, and December 19 for all major routes

Canada Shipping Act, 2001: Damage Stability

- Damage Stability Regulations were implemented in November 2007
 - Single compartment vessels carrying more than 400 passengers will have to be replaced within five years
 - There are two such vessels in our fleet currently licensed to carry 400 or more passengers
 - Plans are that they will either be replaced or re-licensed at less than 400 passengers

Canada Shipping Act, 2001: Safe Manning

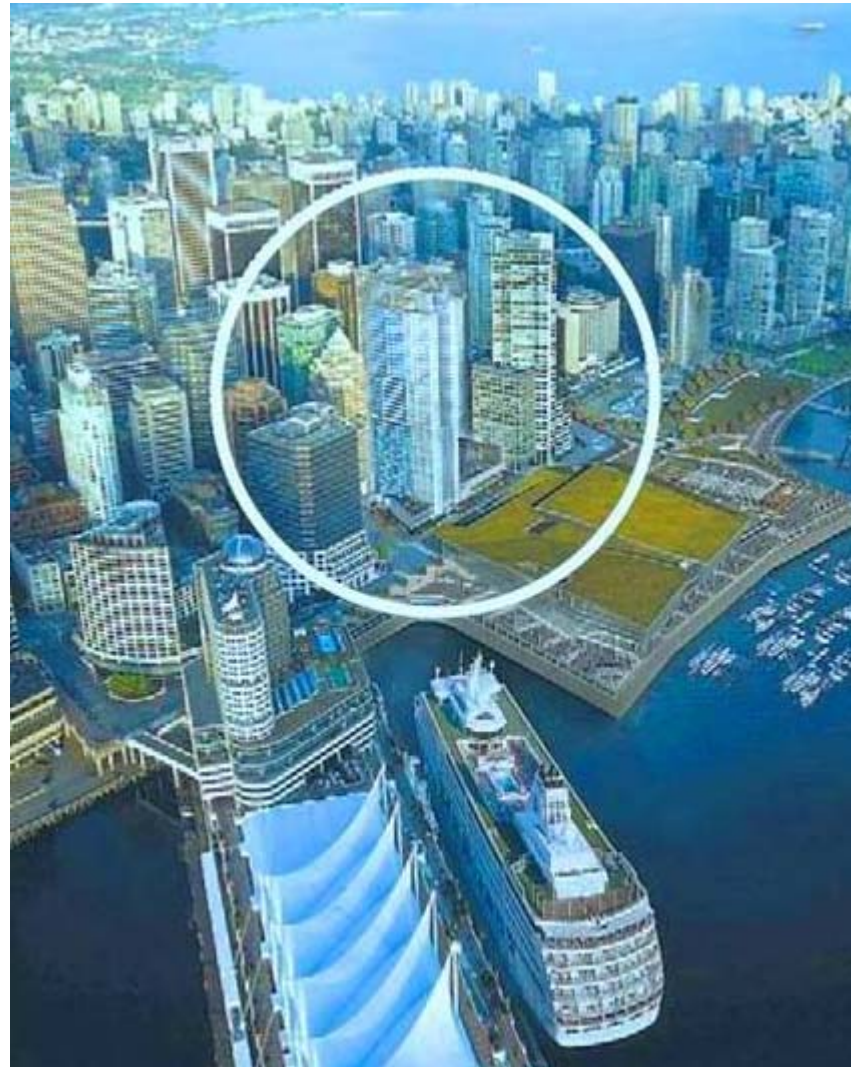
- Safe Manning regulations were implemented in July 2007
- BC Ferries submitted applications for all vessels in accordance with the new regulations
- These applications specify existing crew size, and are currently under review by Transport Canada ("TC")
- TC will either approve our applications or specify some other crew level
- We do not expect crew size to be an issue for the major route vessels where the crew complement is often higher than required but there may be some impact on minor route vessel crew levels
- Safe Manning Documents have been issued by TC for the *Queen of Nanaimo*, *Northern Adventure* and the three Coastal Class ferries
- TC has indicated that it will issue minimum safe manning documents for all vessels by December 2008

Security

- In May 2008, draft Marine Transportation Security Regulations (“MTSR”) pertaining to domestic ferries were distributed to domestic ferry operators for review
 - Regulations are proposed to be performance based and not prescriptive in nature
 - BC Ferries continues to provide input to TC regarding the proposed regulations
- In June 2008, TC announced the final round (Round 5) of the Marine Security Contribution Program (“MSCP”)
 - BC Ferries has applied for funding under Round 5 of the MSCP that offers a maximum of \$5.0 million in reimbursement available to Canadian domestic ferry operators
 - Previous Round 4 of the MSCP awarded BC Ferries \$3.8 million in funding associated with \$5.1 million security projects (75% reimbursement rate)
- BC Ferries is committed to implementing security upgrades to terminals and vessels associated with high risk routes in order to comply with the proposed MTSR

Future Growth Initiatives

- Travel and Tourism Center: Located at the new Fairmont Pacific Rim, Vancouver, BC. Opening in late 2009
- Expanded Commercial Services: Service enhancements that will focus on expanding share in the commercial market
- Management Services: New initiatives to expand the scope of management services offered on a fee basis



Travel and Tourism Center

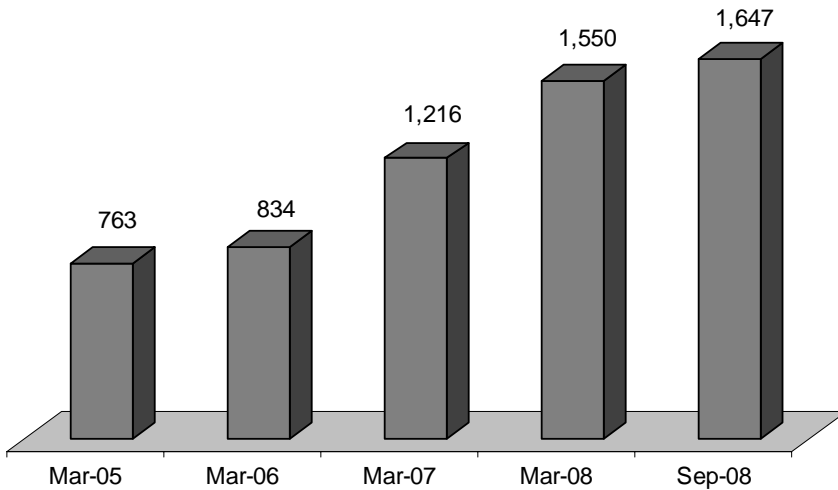
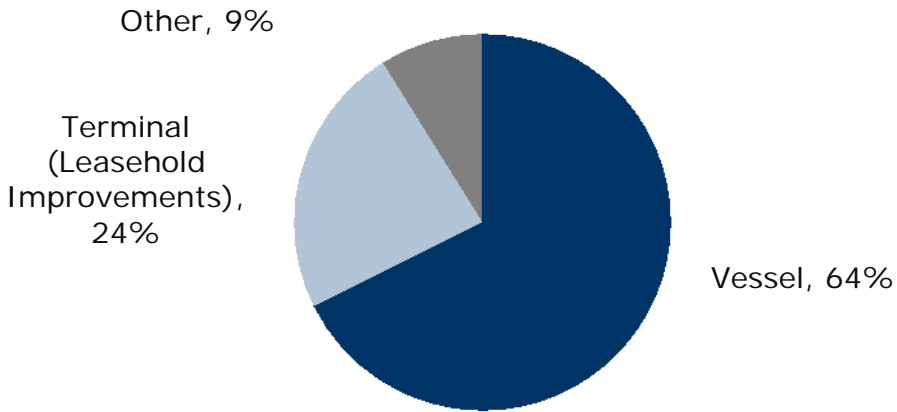
Financial Review



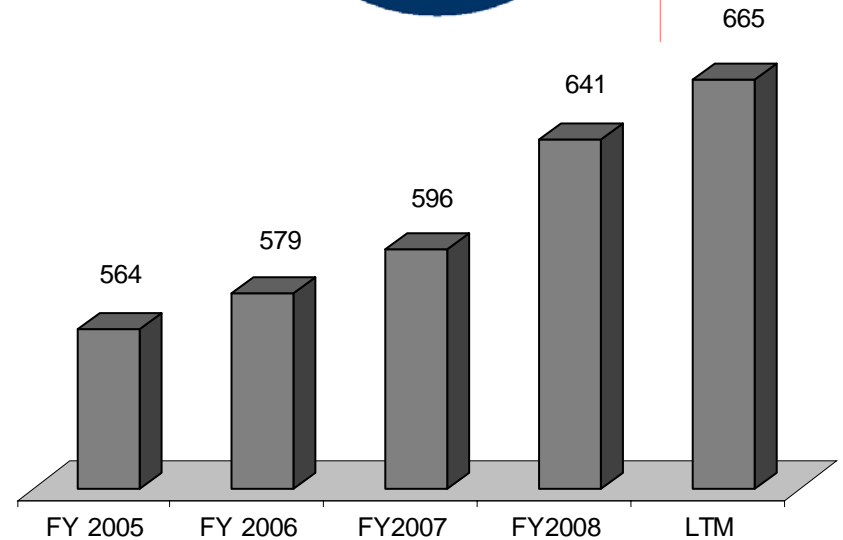
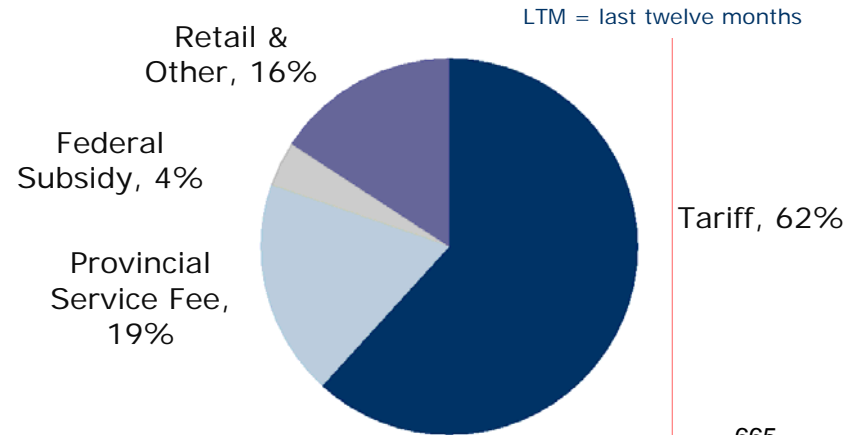
 **BCFerries**

Experience the difference™

Assets - \$1,647 million
(as of Sept 30, 2008)

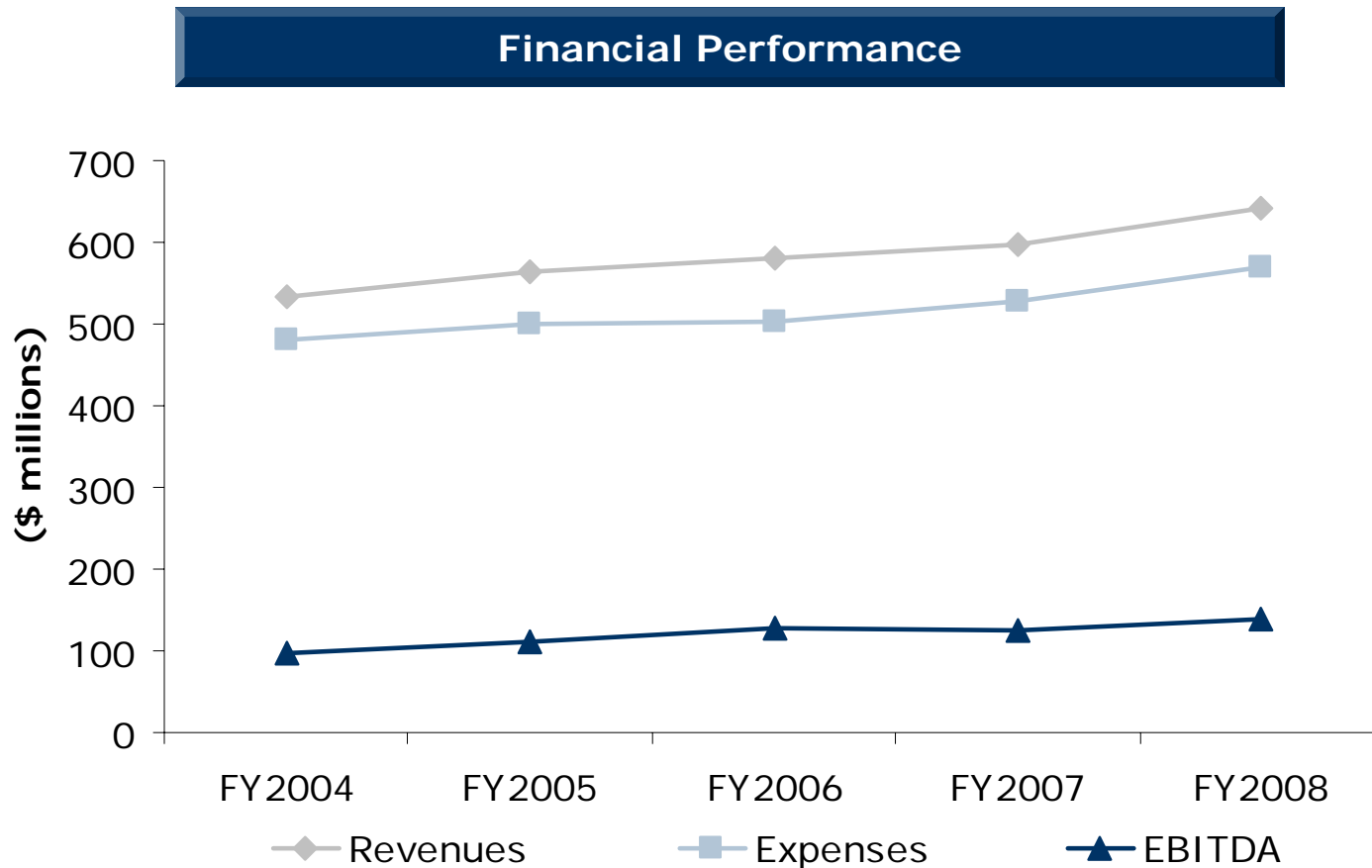


Revenue - \$665 million
(LTM as of September 30, 2008)



Operating Results

- BC Ferries has consistently generated approximately \$100 million or more of EBITDA each fiscal year since commercialization



Liquidity

- Summary of Financing Transactions
 - Bond Financing: \$950 million issued to date; most recently issued \$200 million 30-year bonds in Jan. 2008
 - Loan Agreement with KfW: Received C\$90 million in loan proceeds in each of Feb. & May 2008 (12 year amortizers with a principal payment deferral on the first 3 years of payments)
 - Credit Facility: Recently extended \$155 million 5 year credit facility for 1 year (maturing May 2013)
- BCF does not hold any ABCP
- Debt service reserve funds are fully funded
- Financial Ratios For Additional Indebtedness
 - Debt Service Coverage Ratio at least 1.5x: as of September 30, 2008 = 2.8x
 - Leverage Ratio not to exceed 85%: as of September 30, 2008 = 77.5%

Credit Ratings

<u>Agency</u>	<u>Long Term Debt Rating</u>	<u>Trend</u>
DBRS	A (low)	Positive
Standard & Poor's	A-	Positive

Bond Information

<u>Instrument</u>	<u>Amount (\$ millions)</u>	<u>Coupon (%)</u>	<u>Maturity Date</u>	<u>Currency</u>
Senior Secured Bonds	250	5.74	27-May-14	CAD
Senior Secured Bonds	250	6.25	13-Oct-34	CAD
Senior Secured Bonds	250	5.021	20-Mar-37	CAD
Senior Secured Bonds	<u>200</u>	5.581	11-Jan-38	CAD
Total	950			

Capital Expenditures



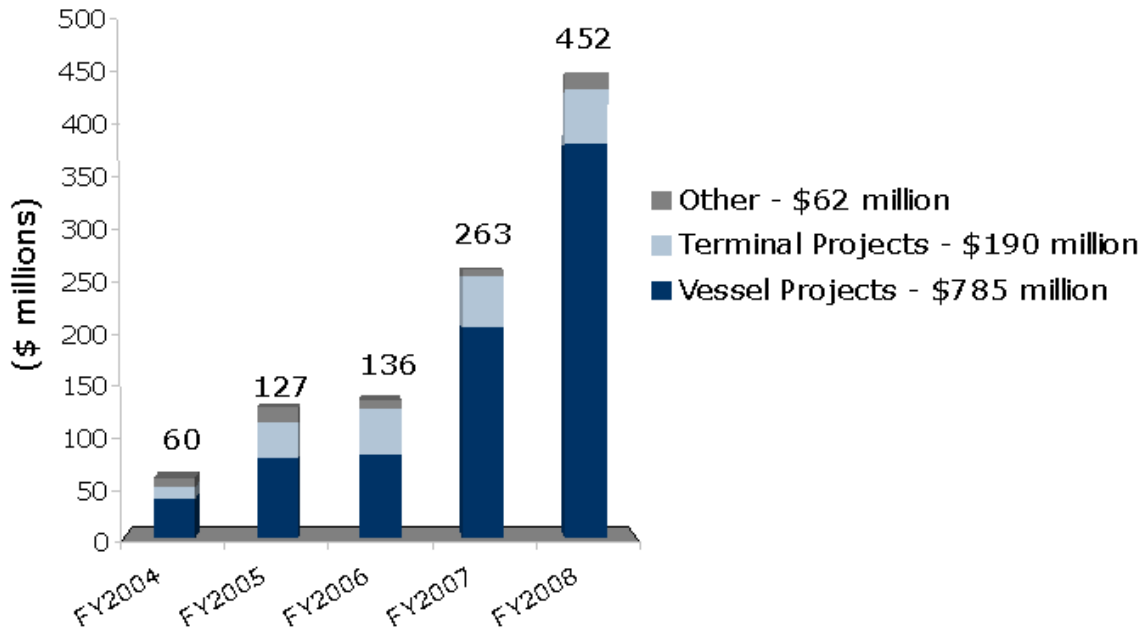
 **BC Ferries**

Experience the difference™

Capital Expenditure Plan

- Over the past five years ending March 2008, BC Ferries has incurred capital expenditures of approximately \$1.04 billion

Capital Expenditures – By Asset Type



Capital Expenditure Plan

- BC Ferries currently anticipates capital expenditures over the five year period ending March 2013 of approximately \$900 million
 - With approximately:
 - 65% for vessels
 - 25% for terminal improvements
 - 10% for other expenditures (e.g., information systems)
- Over \$500 million in capital expenditures are budgeted in FY2009

New Vessels

Vessel	Budgeted Cost (\$millions)	Scheduled Delivery/ In Service Date	Route Group
Coastal Renaissance (Super C-class)	\$542	In service March 2008	Major
Coastal Inspiration (Super C-class)		In service June 2008	Major
Coastal Celebration (Super C-class)		In service Nov 2008	Major
Island Sky	\$57	Delivery Dec 2008	Minor
Northern Expedition	\$200	Delivery early 2009	Northern

Terminals

- Master plans are being developed that take into account major developments, short-term revenue enhancement opportunities and long term maintenance plans
- Anticipated major terminal upgrades over the next five years include:
 - Departure Bay retail area and infrastructure upgrades
 - Replacement and upgrades to the Northern terminals to accommodate the *Northern Expedition*
 - Security upgrades

Summary



 **BC Ferries**

Experience the difference™

- Like many transportation companies today, BC Ferries is facing challenges due to volatile fuel prices and lower traffic resulting from unsettled economic times
- Management is executing a comprehensive cost containment plan
- We expect to be close to this year's financial targets
- While the downturn in traffic may linger for some time, underpinning our business is that BC Ferries is
 - (1) an essential transport service/link, connecting coastal communities and facilitating the movement of people, goods and services throughout British Columbia
 - (2) in a strong competitive position
 - (3) supported by a tested regulatory framework. The *Coastal Ferry Act* requires the Commissioner to place priority on financial sustainability



*BC Ferries
represents
a unique
infrastructure
investment
opportunity*

Rob Clarke

Executive Vice President & Chief Financial Officer

(250) 978-1302

rob.clarke@bcferries.com

Alana Gallagher

Treasurer

(250) 978-1233

alana.gallagher@bcferries.com

Chelsea Kittleson

Manager, Financing and Investor Relations

(250) 978-1316

chelsea.kittleson@bcferries.com

Background Information



 **BC Ferries**

Experience the difference™

PT2 Price Cap Increase

- From PT1 price caps including fuel surcharges in effect at March 31, 2008

Current Year

Route Group	01-Apr-08
3 Majors	7.3%
All other designated Routes	4.0%

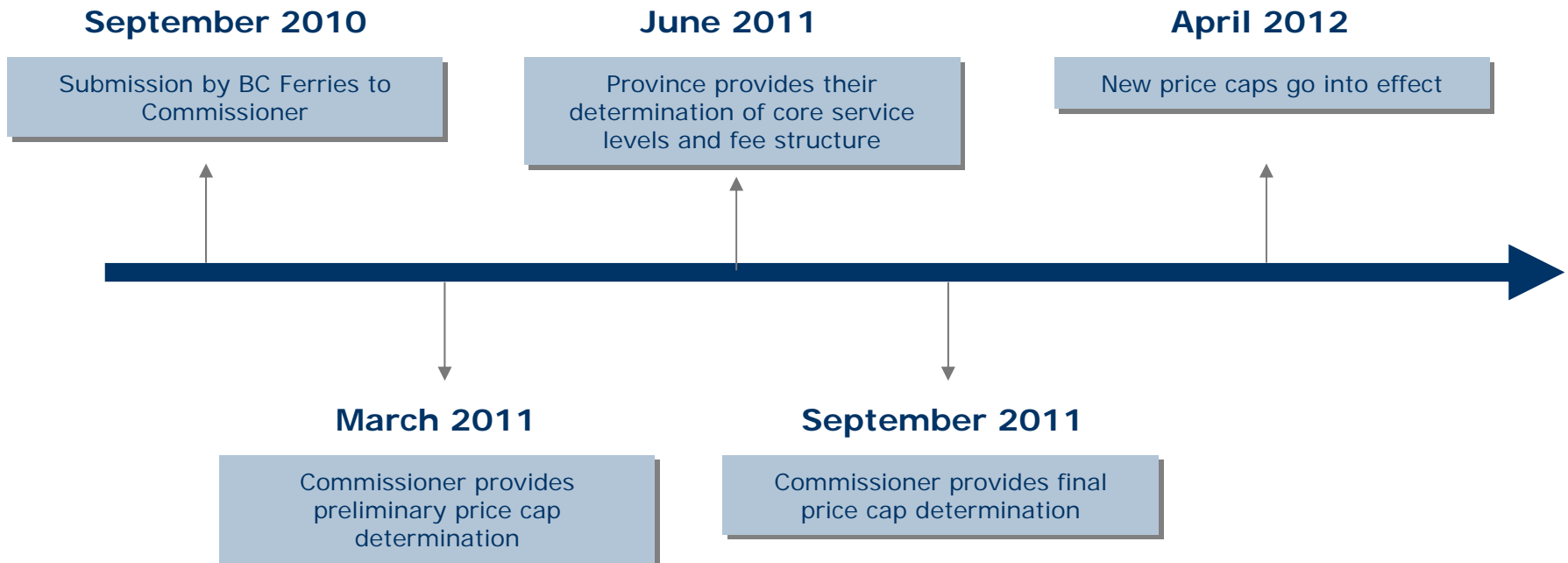
Future Years (2009, 2010, 2011)

Change in price caps = Base + (CPI* × X)

Route Group	Base	X
3 Majors	2.7%	0.49
All other designated Routes	5.7%	0.73

*CPI = Consumer Price Index for BC

Regulatory – Performance Term Three Timeline



Board of Directors

- New members on the Board of Directors: New appointments to the British Columbia Ferry Services Inc.'s board: Mark L. Cullen; Christopher C. Gardner; Donald P. Hayes; Brian G. Kenning; Wayne H. Stoilen
 - Messrs Gardner, Hayes and Kenning also appointed to the B.C. Ferry Authority board

Deputy Commissioner

- In June 2008, Mr. Sheldon Stoilen, BSc, CA, was appointed to the post of Deputy BC Ferries Commissioner for a six-year term

International Financial Reporting Standards (“IFRS”)

- During March 2008, the Canadian Accounting Standards Board confirmed the transition dates for conversion to IFRS
- BCF transition date for the conversion to IFRS is April 1, 2011
- Requires the restatement for comparative purposes of amounts reported for the year ended March 31, 2011
- IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.
- While we have begun assessing the adoption of IFRS, the financial reporting impact of the transition cannot be reasonably estimated at this time
 - BC Ferries will continue to invest in training and resources throughout the transition period to facilitate a timely conversion