

For Immediate Release
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BC FERRIES RELEASES FIRST QUARTER RESULTS

VICTORIA – British Columbia Ferry Services Inc. (BC Ferries) announced its first quarter results today. Net losses were \$5.5 million for the first three months ended June 30, 2011 compared to net earnings of \$0.9 million in the first quarter of the previous year.

In the first quarter, revenues decreased by 1.8 per cent to \$186.7 million, with total expenses increasing 1.5 per cent to \$192.2 million, compared to the first quarter of last fiscal year. The increase in expenses is largely attributed to fuel, an actuarial valuation of employee benefits, as well as amortization expense.

Capital expenditures in the three months ended June 30, 2011 totalled \$25.7 million as follows:

- \$10.7 million in vessel upgrades and modifications;
- \$6.9 million in terminal marine structures;
- \$4.1 million in terminal and building upgrades and equipment;
- \$4.0 million in information technology.

In the first quarter of fiscal 2012, BC Ferries experienced a decline of 3.3 per cent in vehicle traffic and 2.9 per cent in passenger traffic compared to the same quarter last year. This is the largest first quarter year-over-year decline in passenger traffic BC Ferries has experienced in recent years and represents a twenty year low. Vehicle traffic is also at an eleven year low.

“We had originally planned for a net loss estimated to be in the range of \$20 million for this fiscal year, largely driven by lower traffic levels and our commitment to fund on-going refit and maintenance programs, training and safety programs and capital projects,” said David L. Hahn, BC Ferries’ President and CEO. “Recently we have seen a further erosion of traffic and we do not anticipate a turnaround in the foreseeable future. Therefore the year end loss could be significantly higher. In view of this challenging situation, we have initiated a comprehensive review of all of BC Ferries’ expenditures which will result in cutbacks, particularly in the areas of capital expenditures and discretionary spending.”

Significant events during the first quarter include the April 19, 2011 sale of the Queen of Prince Rupert, which was decommissioned in 2010. On May 1, 2011 the 55-year old Mill Bay completed operations and was sold the following day. There was no significant gain or loss arising from the disposition of these two vessels.

On May 19, 2011, the Province and the British Columbia Ferries Commissioner announced a review of the Coastal Ferry Act to identify improvements that may allow the Commissioner to balance the interests of ferry users with the financial viability of the Company.

On June 1, 2011, fuel surcharges were implemented due to the rising cost of fuel. These surcharges are 2.5 per cent of tariffs on average on our major routes and 5 per cent of tariffs on average on many of our other routes. There are no surcharges in place on our northern routes.

On June 2 through June 26, 2011, the CoastSaver program was in place on the three major routes. This promotional fare incentive program provided price discounts of more than 30 per cent on passenger and passenger vehicle fares from Thursday through Sunday each week through the duration of the program. Despite this effort, traffic continued to decline during the sale period.

On June 14, 2011, the 33-year-old Queen of Chilliwack returned to service after completion of the first phase of a two-phase project that will allow the vessel to continue in service until it is retired in 2017 or later.

In addition, on July 26, 2011, BC Ferries announced a 90-day, one-time only refund to customers who purchased assured loading tickets between 1984 and July 25, 2011 and no longer want the tickets.

Full financial statements, including notes and Management's Discussion & Analysis, are filed on SEDAR and will be available at www.sedar.com.

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BC Ferries is one of the largest ferry operators in the world based on passengers transported annually and transportation infrastructure, and carried 20.7 million passengers and 8.1 million vehicles during the fiscal year ended March 31, 2011. BC Ferries provides frequent year-round ferry transportation services to the West Coast of Canada on 25 routes, currently supported by 35 vessels and 47 terminals, and also manages other remote routes through contracts with independent operators.

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

Forward looking statements included in this release include statements with respect to: traffic levels; a net loss in fiscal 2012 larger than \$20 million; and our short-term and long-range business plans. In some cases, forward looking statements can be identified

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

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this 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.

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Balance Sheets
(expressed in thousands)

	June 30, 2011 (unaudited)	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,897	\$ 33,335
Restricted short-term investments	37,040	37,040
Other short-term investments	59,074	64,074
Accounts receivable	23,253	20,619
Prepaid expenses	15,893	5,648
Inventories	20,853	19,957
Regulatory assets	3,581	3,703
	<u>169,591</u>	<u>184,376</u>
Property, plant and equipment	1,577,309	1,581,007
Intangible assets	35,796	34,929
Long-term loan receivable	24,515	24,247
Long-term land lease	32,865	32,979
	<u>\$ 1,840,076</u>	<u>\$ 1,857,538</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 43,493	\$ 51,249
Short-term debt	-	3,949
Interest payable on long-term debt	15,115	18,261
Accrued employee costs	49,164	48,194
Deferred revenue	19,095	15,596
Derivative liabilities	11	23
Current portion of long-term debt	24,000	22,125
Current portion of accrued employee future benefits	1,200	1,200
Current portion of obligations under capital lease	1,014	1,040
	<u>153,092</u>	<u>161,637</u>
Accrued employee future benefits	11,534	10,907
Regulatory liabilities	1,017	1,558
Long-term debt	1,323,504	1,327,014
Obligations under capital lease	47,739	47,723
	<u>1,536,886</u>	<u>1,548,839</u>
Shareholders' equity:		
Share capital	75,478	75,478
Retained earnings	227,712	233,221
	<u>303,190</u>	<u>308,699</u>
Commitments		
	<u>\$ 1,840,076</u>	<u>\$ 1,857,538</u>

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of (Loss) Earnings, Comprehensive (Loss) Income and Retained Earnings
(unaudited)
(expressed in thousands)

	For the three months ended	
	June 30, 2011	June 30, 2010
Revenue:		
Tariffs	\$ 115,473	\$ 118,212
Ferry service fees	39,411	38,531
Federal-Provincial Subsidy Agreement	6,872	6,731
Retail	19,399	20,090
Other income	5,530	6,675
	<u>186,685</u>	<u>190,239</u>
Expenses:		
Operations	105,038	103,617
Maintenance	25,026	23,851
Administration	7,357	7,517
Cost of retail goods sold	7,463	7,680
Amortization	29,394	28,688
	<u>174,278</u>	<u>171,353</u>
Earnings from operations	12,407	18,886
Gain on foreign exchange	21	75
Interest expense	(17,966)	(18,028)
Gain (loss) on disposal of capital assets	29	(14)
Net (loss) earnings	<u>(5,509)</u>	<u>919</u>
Other comprehensive income	-	-
Net (loss) earnings and comprehensive income	<u>(5,509)</u>	<u>919</u>
Retained earnings, beginning of period	233,221	235,478
Retained earnings, end of period	<u>\$ 227,712</u>	<u>\$ 236,397</u>

BRITISH COLUMBIA FERRY SERVICES INC.

Consolidated Statements of Cash Flows (unaudited)
(expressed in thousands)

	For the three months ended	
	June 30, 2011	June 30, 2010
Cash provided by (used in):		
Operations:		
Net (loss) earnings	\$ (5,509)	\$ 919
Items not involving cash:		
Amortization	29,394	28,688
Other non-cash charges	984	389
Long-term regulatory costs deferred	(541)	(2,349)
Change in non-cash operating working capital	(18,584)	(11,302)
	5,744	16,345
Financing:		
Repayment of long-term debt	(1,875)	-
Repayment of short-term loans	(3,949)	-
Repayment of capital lease obligations	(276)	(111)
	(6,100)	(111)
Investing:		
Proceeds from disposal of property, plant and equipment	29	26
Purchase of property, plant and equipment and intangible assets	(27,843)	(20,639)
Advancement of long-term loan	(268)	-
Proceeds from (purchase of) short-term investments	5,000	(162)
	(23,082)	(20,775)
Decrease in cash and cash equivalents	(23,438)	(4,541)
Cash and cash equivalents, beginning of period	33,335	10,608
Cash and cash equivalents, end of period	\$ 9,897	\$ 6,067