

For Immediate Release
13-005

February 25, 2013

BC FERRIES RELEASES THIRD QUARTER RESULTS

VICTORIA – British Columbia Ferry Services Inc. (BC Ferries) released its third quarter results today for fiscal 2012/13. The company reported a net loss of \$17.2 million for the three months ended December 31, 2012, compared to a net loss of \$19.2 million in the same quarter last year. Net earnings for the nine-month period ended December 31, 2012 were \$52.6 million, up from \$33.1 million for the same period in the previous year.

“Each year, we utilize this seasonal downturn in traffic volumes to initiate upgrades, major maintenance and refit programs, as well as undertake mandatory safety inspections on the majority of our vessels,” said Mike Corrigan, BC Ferries’ President and CEO. “We continue to invest significant resources in our vessels, terminals and employees, in order to enhance the safety, reliability and value of our service to our customers.”

Total revenue for the three-month period ended December 31, 2012 increased by \$4.7 million to \$169.6 million compared to the same quarter last year. Total revenue for the nine months ended December 31, 2012 increased \$27.0 million to \$635.8 million. Operating expenses increased from \$166.7 million to \$169.4 million compared to the same quarter last year as a result of increases in vessel and terminal maintenance, partially offset by a reduction in fuel costs. For the nine months ended December 31, 2012, operating expenses increased from \$523.4 million to \$530.8 million compared to the same period of the prior year, mainly due to an increase in vessel and terminal maintenance and increases in depreciation and amortization expenses reflecting investments in new assets. BC Ferries’ financial statements (without notes) are attached as Appendix 1.

Capital expenditures in the three and nine-months ended December 31, 2012 totalled \$18.0 million and \$57.5 million respectively. Projects included vessel overhauls and other improvements, terminal upgrades and information technology projects.

As of April 1, 2012, BC Ferries began reporting its financial position and results of operations in accordance with International Financial Reporting Standards (IFRS). For comparative purposes, the prior year figures have been restated to comply with IFRS.

IFRS differs significantly from previous accounting standards. IFRS does not have a standard for rate-regulated activities, and therefore does not permit BC Ferries to report in the company’s financial statements, the assets and liabilities, such as the deferred fuel cost accounts, that result from the regulated price cap setting process. Rather than being charged to regulatory asset accounts on the Statement of Financial Position, fuel surcharges collected or rebates granted are now included in revenue, and increases or decreases in fuel prices from those approved in price caps are now included

in operating expenses. While this is a significant accounting change for BC Ferries, it does not change the treatment of these types of assets and liabilities for regulatory purposes. A pro forma income statement reflecting the results of rate-regulated activities is included as Appendix 2.

In the third quarter of fiscal 2012/13, vehicle traffic declined 2.2 per cent (1.6 per cent year-to-date) and passenger traffic declined 2.4 per cent (1.9 per cent year-to-date), due primarily to the month of December, when total traffic decreased 5.6 per cent on the major routes over the prior year. In December, there was an extraordinary period of stormy weather with high winds that resulted in numerous sailing cancellations in and around the peak holiday season. The company expects annual traffic levels will be slightly lower than the previous year at year end.

While carrying out its mandate to ensure safety at all times, BC Ferries is actively managing its costs and anticipates reporting a modest profit for fiscal 2012/13, despite slightly lower than expected ridership.

On February 14, 2013, BC Ferries was advised by the credit rating agency Standard & Poor's that it revised BC Ferries' outlook from negative to stable. The outlook revision reflects what Standard & Poor's views as an improvement in regulatory certainty as a result from the recent, favourable amendments to the Coastal Ferry Act. At the same time, Standard & Poor's affirmed its "A+" long-term and senior unsecured debt ratings of the company.

From October 29 through December 21, 2012, the provincial government conducted a public consultation and engagement process for input on service level adjustments and on a long-term vision for coastal ferry service. The Province has announced it will issue a report regarding this process. In the fall of 2012, BC Ferries implemented service reductions on the three major routes connecting Vancouver Island and the Lower Mainland where the traffic levels no longer warranted extra service or where service was significantly underutilized. These service reductions are expected to reduce costs by \$4 million over the four years of performance term three, which ends on March 31, 2016. These service reductions form part of the objective set by the Province of \$30 million in service adjustments over performance term three. This service objective was taken into account by the British Columbia Ferries Commissioner in the setting of the performance term three price caps.

On November 23, 2012, BC Ferries announced that the company was proceeding with its plans to design and build a cable ferry which will operate between Buckley Bay on Vancouver Island and Denman Island. The cable ferry is expected to enter service in the fall of 2014. Other notable events in the period include the November 30, 2012 removal of all fuel surcharges due to the decline in fuel prices.

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

Media Contact:
BC Ferries, Media Relations
Victoria: (250) 978-1267

BC Ferries is one of the largest ferry operators in the world based on passengers transported annually and transportation infrastructure, and carried 20.2 million passengers and 7.8 million vehicles during the fiscal year ended March 31, 2012. 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; our short-term and long-range business plans, and our cable ferry initiative; a modest profit for fiscal 2012/13, and our expectations of the impact of our cost containment program; the amount of savings to be achieved through service level adjustments, and the Province's role regarding service levels and a long-term vision for connecting coastal communities; and our expectations regarding the impacts of IFRS. 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.

Interim Consolidated Statement of Financial Position (unaudited)
(Expressed in thousands of Canadian dollars)

	As at,		
	December 31, 2012	March 31, 2012	April 1, 2011
Assets			
Current assets			
Cash and cash equivalents	32,417	7,700	33,335
Restricted short-term investments	35,640	35,705	37,040
Other short-term investments	78,298	26,880	64,074
Trade and other receivables	19,999	42,341	20,619
Prepaid expenses	8,956	6,725	5,648
Inventories	23,316	22,016	19,957
	198,626	141,367	180,673
Non-current assets			
Long-term loan receivable	24,515	24,515	24,247
Long-term land lease	32,177	32,521	32,979
Property, plant and equipment	1,548,041	1,596,507	1,593,194
Intangible assets	45,781	41,758	34,929
	1,650,514	1,695,301	1,685,349
Total assets	1,849,140	1,836,668	1,866,022
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	34,376	50,708	49,872
Short-term debt	-	17,737	3,949
Interest payable on long-term debt	15,174	18,249	18,261
Deferred revenue	12,229	13,784	15,596
Derivative liabilities	-	12	23
Current portion of long-term debt	149,000	9,000	22,125
Current portion of accrued employee future benefits	2,204	2,204	1,351
Current portion of obligations under finance lease	998	974	1,040
Provisions	50,594	47,022	46,788
	264,575	159,690	159,005
Non-current liabilities			
Accrued employee future benefits	16,858	17,361	17,091
Long-term debt	1,141,469	1,285,232	1,327,014
Obligations under finance lease	46,260	47,013	47,723
	1,204,587	1,349,606	1,391,828
Total liabilities	1,469,162	1,509,296	1,550,833
Equity			
Share capital	75,478	75,478	75,478
Contributed surplus	25,000	25,000	-
Retained earnings	277,323	224,717	239,711
Total equity before reserves	377,801	325,195	315,189
Land revaluation reserve	2,177	2,177	-
Total equity including reserves	379,978	327,372	315,189
Total liabilities and equity	1,849,140	1,836,668	1,866,022

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Comprehensive (Loss) Income (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Revenue				
Vehicle and passenger fares	100,273	98,601	380,519	374,987
Ferry service fees	40,218	35,237	143,847	124,857
Retail	16,472	16,590	62,663	63,024
Federal-Provincial Subsidy Agreement	7,019	6,872	21,058	20,615
Fuel surcharges	1,337	3,369	11,467	8,884
Regulated other income	2,723	2,828	11,009	11,599
Other income	1,593	1,433	5,283	4,864
Total revenue	169,635	164,930	635,846	608,830
Expenses				
Operations	101,434	103,532	333,755	332,054
Maintenance	20,818	16,346	49,627	46,654
Administration	7,160	6,827	21,484	22,723
Cost of retail goods sold	6,492	6,472	24,068	23,902
Depreciation and amortization	33,518	33,539	101,931	98,060
Total operating expenses	169,422	166,716	530,865	523,393
Operating profit (loss)	213	(1,786)	104,981	85,437
Net finance and other expenses				
Net finance expenses				
Finance income	804	580	1,993	1,782
Finance expenses	(18,207)	(17,951)	(54,307)	(54,118)
Total net finance expenses	(17,403)	(17,371)	(52,314)	(52,336)
(Loss) gain on disposal of capital assets	-	(25)	(61)	12
Total net finance and other expenses	(17,403)	(17,396)	(52,375)	(52,324)
Net (loss) earnings	(17,190)	(19,182)	52,606	33,113
Other comprehensive income	-	-	-	-
Total comprehensive (loss) income	(17,190)	(19,182)	52,606	33,113

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Nine months ended December 31,	
	2012	2011
Cash flows from operating activities		
Net earnings	52,606	33,113
Items not affecting cash		
Net finance costs recognized in net earnings	52,314	52,336
Depreciation and amortization of non-current assets	101,931	98,060
Loss (gain) on disposal of property, plant and equipment	61	(12)
(Decrease) increase in long-term accrued employee future benefits	(503)	804
Decrease in derivative liabilities	(12)	(23)
Increase in provisions	3,572	2,223
Other non-cash adjustments to property, plant & equipment	124	97
Decrease in long-term land lease	344	344
Increase in accrued net financing	301	1,139
Total non-cash items	158,132	154,968
Movements in operating working capital		
Decrease in accounts receivable	22,342	3,105
Increase in prepaid expenses	(2,231)	(1,955)
Increase in inventories	(1,300)	(521)
Decrease in accounts payable and accrued liabilities	(16,332)	(11,789)
Decrease in deferred revenue	(1,555)	(1,872)
Increase in current portion of accrued employee future benefits	-	302
Change in non-cash working capital	924	(12,730)
Change attributable to capital asset acquisitions	16,122	(4,552)
Change attributable to contributed surplus	(25,000)	-
Change in non-cash operating working capital	(7,954)	(17,282)
Cash generated from operating activities	202,784	170,799
Interest rate support received	742	638
Interest received	1,249	1,242
Interest paid	(58,276)	(59,143)
Net cash generated by operating activities	146,499	113,536

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Cash Flows (unaudited)
 (Expressed in thousands of Canadian dollars)

	Nine months ended December 31,	
	2012	2011
Cash flows from financing activities		
Repayment of long-term debt	(4,500)	(51,375)
Repayment of short-term loans	(17,737)	(3,949)
Repayment of finance lease obligations	(729)	(798)
Contributed surplus payment from Province	25,000	-
Net cash generated by (used in) financing activities	2,034	(56,122)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	75	107
Purchase of property, plant and equipment and intangibles	(72,538)	(101,406)
Advancement of long-term loan	-	(268)
Reduction of debt service reserve	65	1,266
(Purchase of) proceeds from short-term investments	(51,418)	37,194
Net cash used in investing activities	(123,816)	(63,107)
Net increase (decrease) in cash and cash equivalents	24,717	(5,693)
Cash and cash equivalents, beginning of period	7,700	33,335
Cash and cash equivalents, end of period	32,417	27,642

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Consolidated Statement of Changes in Equity (unaudited)
 (Expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity Before Reserves	Land Revaluation Reserve	Total Equity Including Reserves
Balance as at April 1, 2011	75,478	-	239,711	315,189	-	315,189
Net earnings for the nine months ended December 31, 2011	-	-	33,113	33,113	-	33,113
Other comprehensive income for the nine months ended December 31, 2011	-	-	-	-	-	-
Balance as at December 31, 2011	75,478	-	272,824	348,302	-	348,302
Balance as at April 1, 2012	75,478	25,000	224,717	325,195	2,177	327,372
Net earnings for the nine months ended December 31, 2012	-	-	52,606	52,606	-	52,606
Other comprehensive income for the nine months ended December 31, 2012	-	-	-	-	-	-
Balance as at December 31, 2012	75,478	25,000	277,323	377,801	2,177	379,978

BRITISH COLUMBIA FERRY SERVICES INC.

Pro forma Interim Consolidated Statement of Comprehensive (Loss) Income (unaudited)
 Reflecting the Effect of Regulatory Assets and Regulatory Liabilities
 (Expressed in thousands of Canadian dollars)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Revenue				
Vehicle and passenger fares	100,273	98,602	382,980	376,060
Ferry service fees	39,753	34,417	142,245	122,287
Retail	16,472	16,590	62,663	63,024
Federal-Provincial Subsidy Agreement	7,019	6,872	21,058	20,615
Fuel surcharges	-	-	-	-
Regulated other income	2,723	2,828	11,009	11,599
Other income	1,593	1,432	5,283	4,863
Total revenue	167,833	160,741	625,238	598,448
Expenses				
Operations	100,060	97,863	325,467	317,705
Maintenance	20,818	16,346	49,627	46,654
Administration	7,160	6,827	21,484	22,629
Cost of retail goods sold	6,492	6,472	24,068	23,902
Depreciation and amortization	33,538	34,732	101,992	101,641
Total operating expenses	168,068	162,240	522,638	512,531
Operating (loss) profit	(235)	(1,499)	102,600	85,917
Net finance and other expenses				
Net finance expenses				
Finance income	804	580	1,993	1,782
Finance expenses	(18,207)	(17,953)	(54,303)	(54,176)
Total net finance expenses	(17,403)	(17,373)	(52,310)	(52,394)
(Loss) gain on disposal of capital assets	-	(25)	(61)	12
Total net finance and other expenses	(17,403)	(17,398)	(52,371)	(52,382)
Net (loss) earnings	(17,638)	(18,897)	50,229	33,535
Other comprehensive income	-	-	-	-
Total comprehensive (loss) income	(17,638)	(18,897)	50,229	33,535