Southeast Conference
September 17, 2008
Caution Regarding Forward Looking Statements

This presentation contains historical information and may contain certain forward-looking statements which relate to future events or future performance. These forward-looking statements are based upon management’s current expectations and assumptions as to a number of factors, including the risks, uncertainties and other factors as described in BC Ferries’ Management's Discussion and Analysis and certain of the other BC Ferries’ documents available at [www.sedar.com](http://www.sedar.com).

These forward-looking statements are made as of today’s date and are based upon information currently available to management and BC Ferries assumes no obligation to update or revise them to reflect new events or circumstances. If management’s expectations and assumptions prove to be incorrect, or factors change, then actual results could differ materially from the forward-looking information contained in this presentation.
Our Role

We are an essential transportation link and touch all facets of coastal life in British Columbia.

We move people, goods and services throughout the coast.

We are an integral part of BC’s economic infrastructure.
Overview of our Service

- **Diverse service**
  - 25 routes, 47 terminals

- **Traffic**
  - 21.8 million passengers
  - 8.6 million vehicles
  - Daily average:
    - 59,000 passengers
    - 23,000 vehicles
    - 500 sailings

- **37 vessels**
  - Vehicle capacities: 16 to 470
  - Passenger capacities: 133 to 2052
  - Crew ranges from 4 to 48
Previously a Crown Corporation accountable to cabinet

- Typically incurred financial losses
  - $1.1 billion write down in 1999
  - $450 million on fast ferries

- Underinvested in essential infrastructure
  - $2.5 billion required to modernize system

- Governance structure marked by:
  - Political interference in decision-making
  - Need for enormous contributions from B.C. taxpayers

- 6 CEOs in 10 years
New Business Structure, c. 2003

Coastal Ferry Services Contract

Province

Regulator

BC Ferry Authority
BC Ferry Services Operating Company

Consumer Protection
Establishes an independent regulatory framework for coastal ferry services.

- Establishes BC Ferry Authority
- Establishes BC Ferry Commissioner
- Defines Board composition of the Authority
- Provides for a long term contract between the Province and BCFS
Coastal Ferry Services Contract

- A contract between province and BC Ferry Services Inc. which establishes routes, service levels and service fees.

- A long term 60 year agreement, with service levels and fees negotiated every four years after an initial five year term.

- Service levels assured for five years, then every four years thereafter (first term complete in 2008).

- Detailed schedules committed for one year in advance. Adjustments to schedules can be permitted under special circumstances.

- Province of British Columbia retains ownership of ferry terminals and has a long term lease with BC Ferry Services Inc.
Master Terminal Agreement

- As a part of the restructuring, the former BC Ferry Corporation transferred ownership of 43 terminals to the BC Transportation Financing Authority (BCTFA).
- BCTFA agreed to lease the 43 terminals to BC Ferries pursuant to Terminal Lease Agreements.
- 60 year net leases - BC Ferries must maintain, develop, and manage the terminals at its cost.
  - BC Ferries owns all leasehold improvements
BC Ferry Commissioner: established by legislation.

Appointed by the Lieutenant-Governor in Council for a term of at least 6, and not more than 8, years, not at pleasure.

Ensures consumer is protected through regulation of tariffs and monitoring service levels.

Commissioner’s Role

- Regulates ferry service (as defined in the Coastal Ferry Services Contract)

- Regulates tariffs (by price cap)
  - Price Cap is the ceiling price that BCF can charge on a weighted average basis
Independent Regulator

- Regulatory Principles (per Coastal Ferry Act):
  - Priority to be placed on financial sustainability
  - Operators adopt commercial approach
  - Seek additional/alternative service providers
  - Minimize expenses
  - Cross subsidization
    - Is to be eliminated within first performance term
    - Before eliminated, to be minimized
  - Move to user pay to reduce service fee contributions by government
Capital Structure

**Province**
- 75,477 Preferred Shares
  - Non-voting
  - Fixed Dividend
  - Have a “sleeping” convertibility feature

**BC Ferry Authority**
- 1 Class B Common Share
  - Voting, fully participating
  - Held by Authority

**BC Ferry Services**
Operating Company

**BC Business Corporations Act Company**
- Company owned by Authority

Company owned by Authority
Province

75,477 Preferred Shares
- Non-voting
- Fixed Dividend
- Have a “sleeping” convertibility feature

BC Ferry Services
Operating Company

BC Business Corporations Act
Company owned by Authority

1 Class B Common Share
- Voting, fully participating
- Held by Authority

If Share is sold

BC Ferry Authority

Dividends
Control

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Capital Structure

Province

75,477 Preferred Shares
- Non-voting
- Fixed Dividend
- Convertible to Class A shares

75,477 Class A Common Shares
- Voting, Fully participating

BC Ferry Authority

1 Class B Common Share
- Voting, fully participating
- Held by Authority

If Share is sold

BC Ferry Services
Operating Company

BC Business Corporations Act
Company owned by Authority
BC Ferries Today

- A commercially competitive, integrated transportation service provider; operates as a private business
- Financially accountable
- Independent, business-oriented Board of Directors
- New labour agreement through 2012
- Ability to invest in vessels and terminals with private-sector financing (bond financing)
- Providing enhanced services in core areas
- Developing defined market segments: e.g., tourism, commercial
- Exploring new business: terminal facilities management, retail operations, etc.
Continuing our extensive asset renewal program
  – All retained earnings are invested to rebuild our infrastructure

Invested $452.5 million last year: up from $262.6 million the previous year
  – $382.8 million for new vessels, vessel upgrades and vessel modifications
  – $54.5 million for terminal upgrades

Investing $1.2 billion between 2007 - 2012:
  – Includes bringing 7 new ships into service and investing $250 million in terminals
The largest double-ended ferries in the world
  - enables faster loading/unloading (vessels don’t need to turn around)

Inter-operable with all mainland terminals

Most advanced vessels in the BC Ferries fleet

Diesel-electric propulsion systems that are the largest and most fuel efficient of their kind in the world

Two car decks (no ramps)

State-of-the art vessels provide the highest level of comfort and performance

Built by Flensburger Schiffbau Gessellschaft (FSG)
$342.1 million invested in new vessels this year
  – $319.8 million for Super C-class vessels

All three Super Cs in service in 2008
  – Coastal Renaissance: March 8
  – Coastal Inspiration: June 16
  – Coastal Celebration: October 17

$542 million project is on schedule and under budget
  – Target $507 million
  – Potentially $427 million (duty remission)
Extra sailings added during holiday periods and late-night sailings for special events

Pricing promotions
- CoastSaver: 40% savings on select sailings
- Commercial and seasonal programs

Expansion of the Coastal Experience program
- Coastal Naturalists on 1,300 summer sailings
- Coastal Awareness interactive program

New Healthy Choices program

BC Ferries Experience Card

Enhanced website launched this spring
STRONG CST SCORES AND IMPROVING SERVICE PERCEPTIONS:

June CST 2008 - customer satisfaction holding firm at 87%

- 82% Year 2003
- 88% Year 2004
- 86% Year 2005
- 89% Year 2006
- 87% Year 2007
- 87% June 2008

Question:

“Since April 2003 is service at BC Ferries better/worse/same?”

- 20% say better for Year 2003
- 29% say better for Year 2004
- 37% say better for Year 2005
- 40% say better for Year 2006
- 37% say better for Year 2007
- 41% say better for June 2008
Challenges
Performance Term Two: April 1, 2008 – March 31, 2012

Before the price caps were set by the Commissioner, the provincial government had to decide if it wanted to amend **core service levels** and/or **service fees** under the Coastal Ferry Services Contract.

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<th>Major Routes</th>
<th>Minor Routes</th>
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<tr>
<td>2008</td>
<td>7.3%</td>
<td>4.0%</td>
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<tr>
<td>2009 - 2011</td>
<td>2.7% + (0.49 x CPI)</td>
<td>5.7% + (0.73 x CPI)</td>
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- BC Ferries’ annual fuel cost:
  - Up from $45.9 million in 2003 to $86.8 million in 2007

- Fuel reduction strategy
  - Operating vessels more efficiently
  - Installing new, more fuel-efficient engines
  - Designing and building highly efficient and environmentally friendly vessels

- Fuel surcharges approved by BC Ferry Commissioner
  - July 25, 2005; February 1, 2006; June 22, 2006
  - August 2008
Other Challenges

- Knock-on effects of high fuel prices (automobile, commercial traffic)
- Historically low US$
- Softening economy
- Reduced tourism
Growing the Business: The Next Five Years

- First 5 years focused on the obvious
  - Customers, new ships, better terminals, labour stability

- Going forward:
  - Optimize core business
  - Increase commercial sales
    - Look for new opportunities to move commercial and industrial goods
    - Implement customer-responsive programs
  - Terminal and other management services
  - Increased travel and tourism presence
    - Tourism centre
Travel & Tourism

Travel centre in downtown Vancouver

Opening late 2009 at new Fairmont Pacific Rim

Greater presence in Lower Mainland to raise our profile and expand our business

Expand tourism partnerships and profile service in domestic and international markets (2010, China)
Terminal Development: Sidney, BC International Ferry Terminal

Before

After
Our Priorities

- Provide an improved travel experience for all of our customers
- Identify opportunities to grow and expand our business
- Work with all of our partners to increase traffic and develop innovative new programs
- Leverage our assets and take advantage of the strong economy and growth in British Columbia
- Invest all earnings in our infrastructure to replace aging assets and improve service
- Leverage our 50th anniversary and other 2010 events to raise profile and reputation