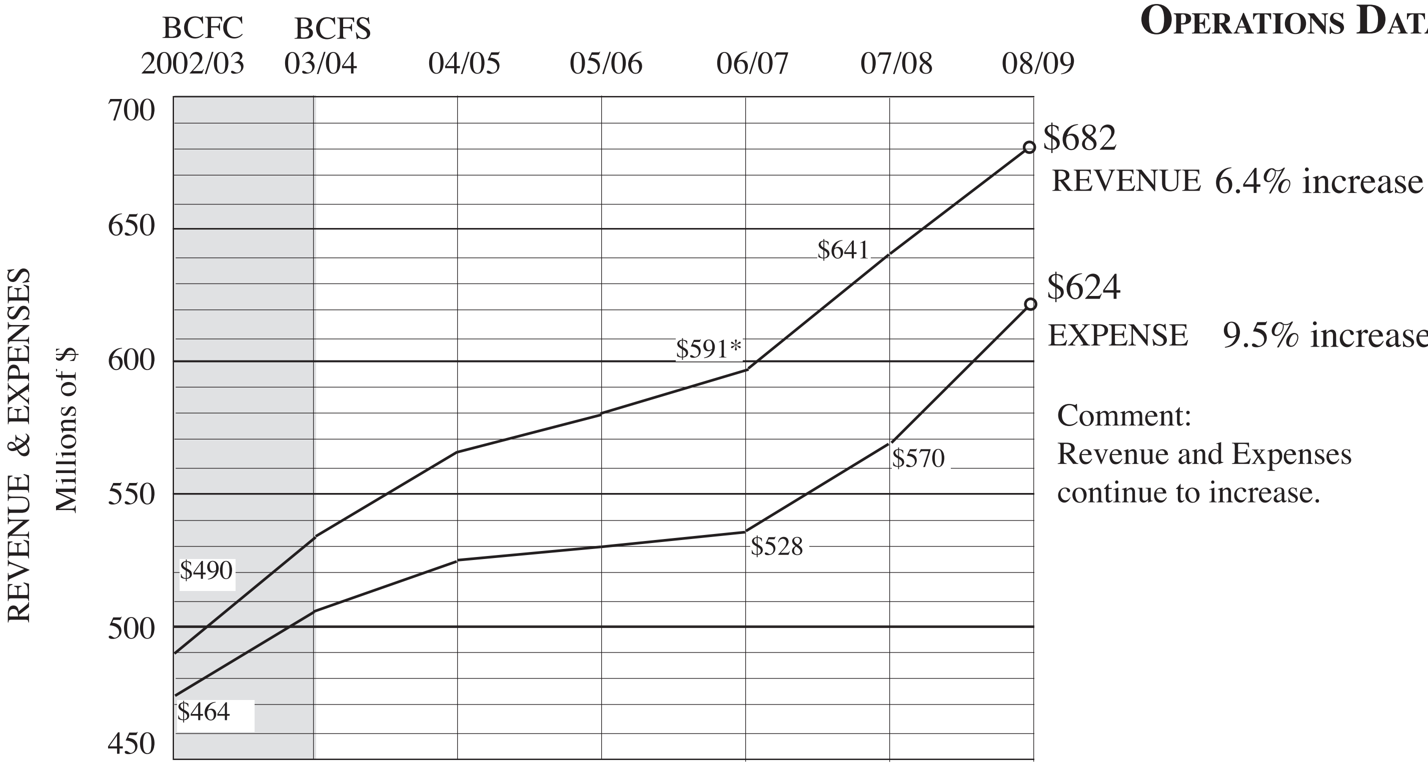
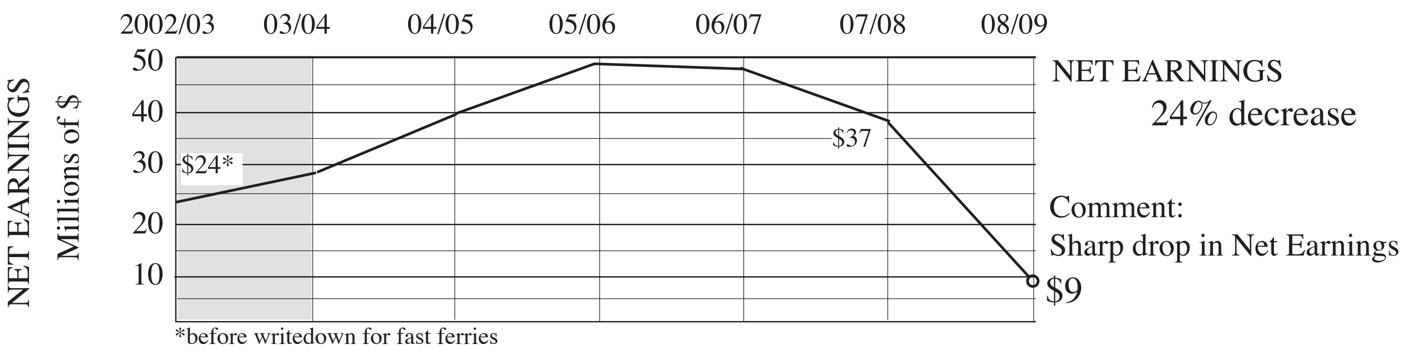
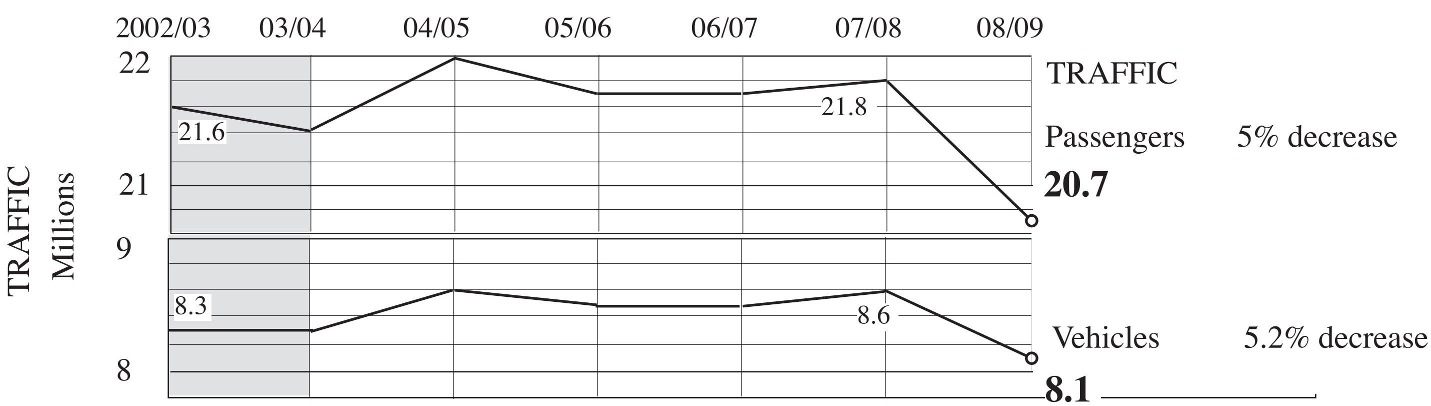
OPERATIONS DATA







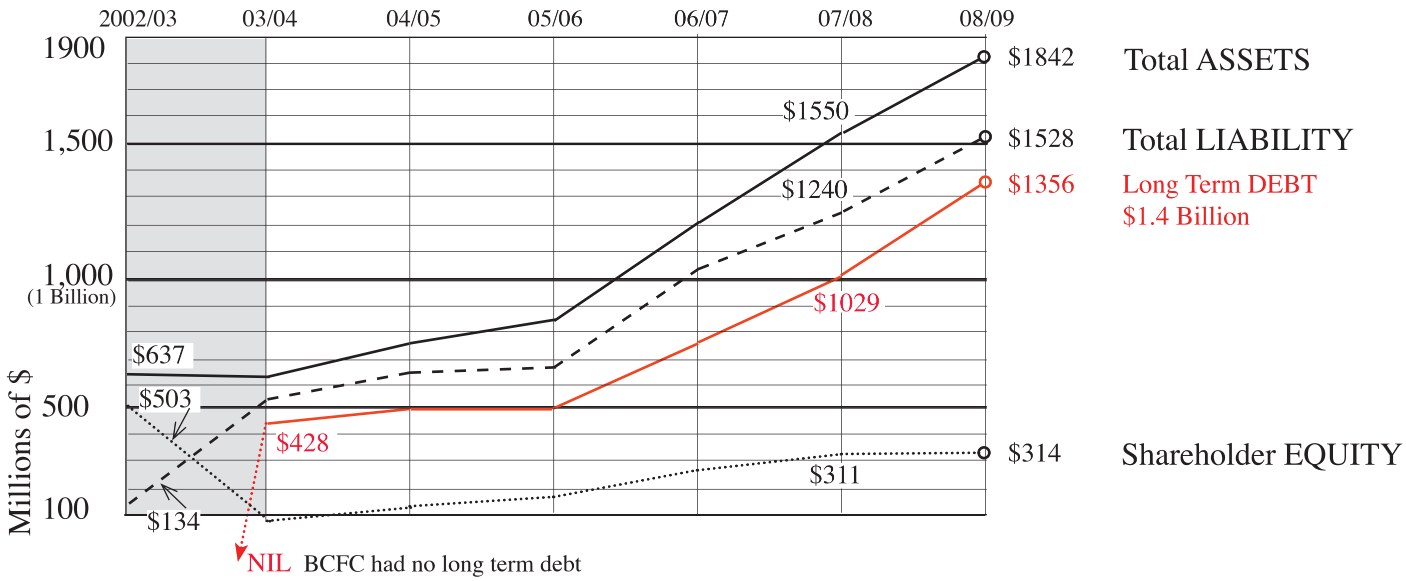
Comment: Traffic levels have now declined sharply at +10%. Vehicle traffic is at 2002 levels and passenger traffic is below 10 year levels. Traffic data below is from pg 10, 2003 Annual Report of BC Ferry Corp (BCFC).

FIVE-YEAR TRENDS

OPERATIONS (figures in thousands)	2003	2002	2001	2000	1999
Passengers carried	21,624	21,251	21,369	21,381	21,379
Utilization-passengers	30%	30%	31%	31%	30%
Vehicles carried	8,323	8,108	7,932	7,884	7,815
AEQs carried	9,126	8,890	8,709	8,668	8,579
Utilization-AEQs	55.4%	55%	54%	54%	52%

Balance Sheet: Assets = Total Liabilities + Shareholder Equity

CAPITALIZATION DATA



Comments:

- BC taxpayers are the shareholders.
  Our equity in the company has gone from $503 million when it was a crown corporation to only $314 million today. We may never see a return to the original equity value.

- Though Assets have gone from $637 Million to $1.8 Billion, total liability has increased proportionately, from $134 million to $1.5 billion, reducing equity growth.

- Also of interest is the fact that covenants restrict incurrence of additional debt and distributions to shareholders ($6M/yr dividends currently received by province) when aggregate borrowings exceed 85% of the company's total capital. Note 5 on page 19 of the Consolidated Financial Statements shows BCFS is currently at 83% of total capital in borrowings. With reduced traffic and restricted borrowing (approximately another $40K only) and now increasing interest rates, the province may have to kick in even more money to keep fare levels down and protect their dividends. This is a losing game however.

- In 2009, Federal and Provincial government revenues poured in to the "private company" totaled $176M as follows:

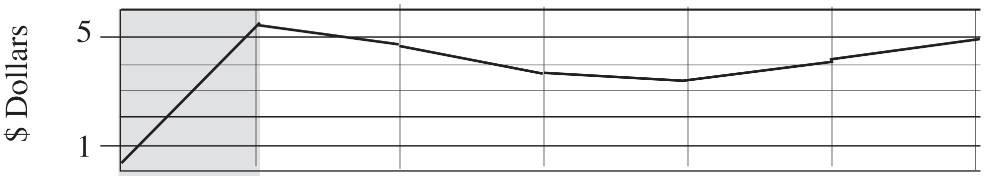
1) $150.8M of route revenue	Federal subsidy	$26.3M
	Provincial subsidy (service fee)	$105.2M
	Provincial Social Program fee	$19.3M
2) $19.1M in special Provincial subsidies		
	33% reduction in Dec 08/Jan 09 fares	$15M pg10 MD&A
	Northern routes fuel subsidy	$2.4M pg 21 MD&A
	Other routesFuel deferral Accounts subsidy	$1.7M pg 21 MD&A
3) $6M in Federal interest rate support, pg 22 MD&A		

- CASH FLOW
  In the past many of the borrowings have been used for "general corporate purposes" and to make interest payments— that is, for cash flow purposes to pay bills and interest on debt. Cash and cash equivalents at year end 2009 was a mere $12.4 million compared to 2008 at $116.4 million. The company secured a one-year extension on its line of credit and had borrowed $18 million against it by year end. All of this represents continuing decline in the company's financial well being.

A Deeper Look at BCFS

Debt to Equity Ratio:

BCFC	BCFS					
02/03	03/04	04/05	05/06	06/07	07/08	08/09
.26	5.46	4.81	3.76	3.35	3.99	4.87



Comment:
A high debt-to-equity ratio translates into higher risk for shareholders.

BCFS is currently operating at a **very high debt-leverage** of almost $5 of debt for every $1 of equity.
Last year it was $4 of debt on every dollar of equity.
In it's final year, BCFC was operating at 25¢ on a dollar of equity.

It seemed important at this juncture to re-print this discussion on debt from *Investopedia* to keep prospective on the problem the company is facing in the economic downturn.
http://www.investopedia.com/articles/fundamental/03/042303.asp

Importance of Looking at Debt
While debt ratios tell investors little about a company's growth prospects or earning performance, these ratios are vital tools for gauging balance sheet durability. If, for instance, a recession or downward cyclical phase is on the way, balance sheet strength becomes more important for investors. It can determine whether a company has a strong enough financial position to survive through a tough period.

Financial markets tend to punish overextended firms at the start of a recession. The reason is simple: debt-leveraged companies have the hard task of paying their interest obligations out of a flat or declining level of income. Those firms that are unable to pay for their debt go bankrupt. Those that struggle to pay lose credit worthiness and face further financing troubles down the road. Shrinking profits make debts that are otherwise manageable look horribly burdensome.

…The debt/equity ratio also depends on the industry in which the company operates. For example, capital-intensive industries such as auto manufacturing tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5.

Profitability: ROE

Return on Equity or ROE is a measure of a company's profitability calculated as a ratio of net income to shareholder equity. BCFS is required by the Commissioner to maintain an ROE of 13.6%.

- 2006/07 ROE was 17.5%.
- 2007/08 ROE was 12.5%. This falls below the required level.
- **2008/09 ROE is only 3%.**

  In order to show an ROE of the minimum 13.6 % required, the company would need to have net earnings of $42.7 million. Net earnings in 2009 were only $9 million.

It is also important to keep in mind that the because the company is regulated, the company's bottom line is affected by certain accounting features. See note 6a & 6d on page 21 of the Consolidated Financial Statements which show 2009 earnings would be lower by $4.1 million for fuel deferral and $0.7 million for tariffs in excess of price cap, if the company weren't allowed to record these as "regulatory assets". This means the company had REAL net earnings, not of $9 million, but rather of $4.2 million. (The accounting allows the payment of these expenses to pushed into the future.)

Interest versus Earnings

2008 Interest Expense accounted for 44% of Earnings from Operations.

Interest Expense: $31 Million
Operational Earnings: $71 Million

2009 Interest Expense accounted for 87% of Earnings from Operations.

Interest Expense: $50.1 Million
Operational Earnings: $57.7 Million

Comments:

Interest Payments are unlikely to decrease:

- Interest payments have increased by almost $20 million on new borrowings in 2009.
- There are not enough earnings to pay down principal to decrease interest payments (as was done in 2006/07).
- The German borrowings are INTEREST-ONLY for the first 3 years and all the principal is at FLOATING interest rates so these payments are very likely to increase as we see interest rates rising in the global markets.
- Interest rates are increasing in global markets.

Earnings are unlikely to increase.

- Traffic volume is now declining sharply due to higher fares and economic conditions.
  This means erosion of earnings.
- Fuel prices are increasing again (+$70 barrel today).
  BCFS will need to re-impose fuel surcharges soon, increasing fares leading to more decline in traffic and more erosion of earnings.
- Inflation is taking a toll on the economy.
  Real Inflation is probably around 8% or higher. Dollars are losing value as costs for everything are increasing.
  This means BCFS pays more for everything and at the same time their customers have less money to spend.
  This also means erosion of earnings.

Compiled by N. Maxey, June 14, 2009