This Business Plan contains historical information and may contain certain forward-looking statements that 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 for the fiscal year ended March 31, 2008 and certain of the other BC Ferries’ documents available at www.sedar.com. These forward-looking statements are made as of today’s date and are based upon information currently available to management. 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 Business Plan.
A Message from the President & CEO

This year promises to be an exciting one for BC Ferries and the millions of customers who travel with us.

Last year, we saw the arrival of two of our new Super C-class vessels, the Coastal Renaissance and the Coastal Inspiration. This year, we will celebrate the arrival of the third Super C vessel, the Coastal Celebration, as well as the Island Sky. We will also complete major upgrades to the Queen of New Westminster, the Quinsam and the Quinitsa. The integration of these new and upgraded vessels will increase the operational reliability of the fleet and enhance our customers’ overall travel experience.

We are continuing to invest in improvements to our terminals, including upgrades at Departure Bay, Duke Point, Port Hardy, Prince Rupert, Skidegate and McLoughlin Bay. We are also continuing to implement other terminal improvements that will enable us to meet federal regulations for marine security.

April 1, 2008 marks the beginning of Performance Term Two of the Coastal Ferry Services Contract. The British Columbia Ferries Commissioner has set the price caps for the next four years based on our contractual commitment to deliver core services as defined in the contract.

Looking ahead, we will continue to be challenged by unprecedented fuel prices. In 2007/08, our annual fuel costs reached $86.8 million, up from $45.9 million in 2003. If record high fuel prices continue, our 2008/09 fuel costs could reach $140 million. Although our traffic levels have not shown any significant effect from the increased cost of motor vehicle fuel, the combination of record fuel prices, new passport requirements and the strong Canadian dollar may have an impact on personal travel choices and cross-border traffic in the future.

We are continuing to expand our business and develop new revenue sources by increasing our profile in local communities, expanding our reach to the travel and tourism sector and exploring terminal management opportunities, such as our agreement with the Town of Sidney to manage its international terminal.

As part of our ongoing commitment to ensure the safety of our passengers and crew, we are working with the BC Ferry & Marine Workers’ Union to implement the recommendations of the Morfitt Report. Last year, we introduced SailSafe — a joint initiative of the BC Ferry & Marine Workers’ Union and BC Ferries. SailSafe is a multi-year program that builds on current safety practices and reflects our common commitment to safety as an essential part of our business and our daily work. Through SailSafe, we will take our existing safety system to the highest level in the industry.

Above all, this year marks the beginning of a new era at BC Ferries, with the integration of new ships, upgraded terminals and exciting new products and services for our customers. With these improvements, customers will truly experience the difference at BC Ferries.

David L. Hahn
President & Chief Executive Officer
Our Vision, Mission and Definition of Success

Our Vision
To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

Our Mission
To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

Definition of Success
Our definition of success is to provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity.

Measuring Success
In support of our Vision, Mission, and Definition of Success, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to gauge the progress of the business and its ongoing commitment to continuous improvement.

1. Customer Satisfaction Rating (out of 5)
2. Cost per passenger (total operation cost–ancillary revenue) / total passengers
3. Earnings per FTE ($ thousands)
4. Earnings before interest, taxes and amortization ($ millions)
5. Employee Safety (employee injury frequency rate × severity rate divided by 1000)
6. Passenger Safety (number of passenger injuries per one million passengers)
7. Reliability (actual round trips divided by scheduled round trips)
8. Asset reinvestment (average age of vessels weighted by gross registered tonnes)
Business Plan Goals

Our strategies are structured around five key goals that are critical to our success. Of these, no goal is more important than safety.

The following sections define the supporting strategies and tactics for each of the five goals.

1. Safety
   To continuously improve the safety of our operations inclusive of vessels, terminals and facilities.

2. Operational Reliability
   To continuously improve the operational reliability of vessels, terminals and facilities.

3. Continuous Improvement
   To be better at everything we do.

4. Value For Money
   To continuously improve value to our customers at every point along the customer experience chain.

5. Financial Integrity
   To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.
Safety

To continuously improve the safety of our operations inclusive of vessels, terminals and facilities.
Strategies and Tactics
Meet or Exceed Safety Regulations

At BC Ferries, the safety of our customers and employees is our top priority. We will:

• Implement the SailSafe Program with the assistance of internationally-recognized marine safety experts;

• Continue to improve our safety programs with the goal of being the safest marine transportation company in the world;

• Develop an enhanced Operations and Security Centre to improve ship to shore communications, and to provide timely customer information;

• Implement lifesaving appliance and structural fire protection upgrades on our vessels; and

• Install Voyage Data Recorders on all new and existing vessels.

Meet Our Regulatory Obligations Efficiently

Working closely with Transport Canada and other agencies to enhance safety, we will:

• Maintain regular meetings with Transport Canada to improve our relationship and reduce regulatory uncertainty; and

• Participate with other Canadian ferry operators and Transport Canada regarding the successful implementation of the Canada Shipping Act, 2001, and the Transport Canada Domestic Ferry Marine Transportation Security Regulations.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Actual</th>
<th>07/08 Actual</th>
<th>08/09 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Safety (employee injury frequency rate times the severity rate divided by 1000)</td>
<td>3.34</td>
<td>2.71</td>
<td>2.02</td>
<td>3.08</td>
<td>2.84</td>
<td>3.42</td>
</tr>
</tbody>
</table>
Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.
Strategies and Tactics
Invest In Our Assets

We are investing in our terminal and vessel infrastructure through planned upgrades and replacements and are managing these assets more effectively through long-term asset management plans. We will:

• Renew and revitalize our fleet by integrating the following vessels:
  • the two Super C-class vessels, the *Coastal Inspiration* and *Coastal Celebration*; and
  • the *Island Sky*, a new 125-vehicle Intermediate-class ferry.

• Complete a major upgrade to extend the life of the *Queen of New Westminster*, and significant upgrades to the *Quinsam* and *Quinitsa*;

• Develop standardized maintenance plans for each vessel; and

• Renew and revitalize our terminals through the following projects:
  • Departure Bay terminal upgrades;
  • Horseshoe Bay berth upgrades; and
  • Northern terminal modifications.

Meet or Exceed Environmental Expectations

We will continue to comply with the *Canada Shipping Act’s Regulations for the Prevention of Pollution from Ships* and for Dangerous Chemicals by progressively reducing our environmental footprint, primarily by improving the fuel efficiency of our vessels. In addition, we will continue to:

• Design all new or substantially rebuilt marine engines for our vessels to comply with the new regulations;

• Invest in a vessel sewage treatment program;

• Enhance the terminal and vessel waste reduction program through improved signage/pictograms on garbage and recycling containers, expanding the composting program and acquiring energy efficient terminal vehicles; and

• Implement a variety of fuel saving measures, including resurfacing vessel hulls and installing fuel savings devices.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Actual</th>
<th>07/08 Actual</th>
<th>08/09 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability Index (scheduled # of round trips less cancelled sailings/scheduled # of round trips)</td>
<td>99.01</td>
<td>99.69</td>
<td>99.48</td>
<td>99.66</td>
<td>99.63</td>
<td>99.4 to 99.59</td>
</tr>
<tr>
<td>Asset Reinvestment (average age of vessels weighted by gross registered tonnes)</td>
<td>27.9</td>
<td>28.9</td>
<td>29.5</td>
<td>25.4</td>
<td>23.8</td>
<td>22.1</td>
</tr>
</tbody>
</table>
Continuous Improvement
To be better at everything we do.
Strategies and Tactics
Facilitate a Culture of Continuous Improvement

We will continuously improve all facets of our business, with a particular emphasis on the Safety Management System and working cooperatively with the BC Ferry & Marine Workers’ Union to improve operational safety through the SailSafe Program.

Engage, Leverage and Develop Our Human Capital

To create a competitive people advantage, we will build a skilled workforce that is performance-based, service oriented and focused on continuous improvement. We will:

- Enhance employee/union/management relations;
- Leverage our employee development training programs;
- Implement the BC Ferries Academy;
- Implement progressive human resource practices:
  - Identify and initiate changes in work practices to enhance flexibility, reduce costs and improve performance.
  - Position and market BC Ferries as the developer of people, within an exciting workplace of endless career opportunity.

Enhance Community, Stakeholder and First Nations Strategies

To ensure that we can continuously improve as a company, we strive to build better relations with the public and the communities we serve. We will:

- Increase our profile and build our reputation in coastal communities;
- Enhance First Nations relationships by fully incorporating Aboriginal Relations into the Community Relations portfolio;
- Work collaboratively with Ferry Advisory Committees to facilitate adjustments to local service plans; and
- Continue to build BC Ferries’ presence in the Lower Mainland.

Performance Measures for Continuous Improvement are addressed through the specific performance targets for each of the metrics identified under Safety, Operational Reliability, Value for Money and Financial Integrity.
Value For Money

To continuously improve value to our customers at every point along the customer experience chain.
**Strategies and Tactics**

**Increase Customer Service and Expand Our Business**

We continue to improve our customers’ total travel experience and are implementing ways to expand our business. Accordingly, we will:

- Increase our knowledge of customers’ needs and expectations to improve customer service;
- Implement improved customer communications (e.g. signage and public announcement systems) at our terminals;
- Implement new food and retail offerings in line with customer needs and preferences;
- Implement marketing and customer development programs in key communities and business segments to build awareness and grow revenue;
- Explore opportunities to add new routes, products and terminal management services, through partnerships where appropriate;
- Expand our services in the tourism and commercial sectors:
  - implement a new sales centre in Vancouver to broaden market reach and stimulate the travel and tourism segments;
  - implement integrated sales solutions and an enhanced service for the commercial traffic market;
  - encourage new travel through innovative customer programs and promotions;
- Expand the “smart media” Experience Card to additional products and services; and
- Upgrade the functionality of our website and supporting infrastructure.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Actual</th>
<th>07/08 Actual</th>
<th>08/09 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Customer Rating (out of 5)</td>
<td>4.0</td>
<td>4.1</td>
<td>4.1</td>
<td>4.2</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Cost per passenger (total operation cost – ancillary revenue) / total passengers</td>
<td>$ 17.49</td>
<td>$ 17.56</td>
<td>$ 16.45</td>
<td>$ 17.07</td>
<td>$ 18.35</td>
<td>$ 20.34</td>
</tr>
<tr>
<td>Earnings per FTE (EBITDA / Total FTEs)</td>
<td>$ 29.23K</td>
<td>$ 32.53K</td>
<td>$ 36.94K</td>
<td>$ 37.54K</td>
<td>$ 37.84K</td>
<td>$ 44.54K</td>
</tr>
</tbody>
</table>
Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.
Strategies and Tactics

Long-Term Financial Planning

To ensure we can replace our infrastructure in a cost effective and efficient manner, we will:

• Manage long-term capital and operating plans; and
• Pursue a cost-effective financing strategy.

Maintain a Strong Relationship with the British Columbia Ferries Commissioner and the British Columbia Provincial Ministry of Transportation

• Develop and implement revised route service schedules where appropriate;
• Finalize the Discovery Coast portion of the Northern Service Strategy; and
• Assess potential Alternative Service Providers for designated ferry routes.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Actual</th>
<th>07/08 Actual</th>
<th>08/09 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA ($ millions)</td>
<td>$98</td>
<td>$112</td>
<td>$128</td>
<td>$124</td>
<td>$137</td>
<td>$162</td>
</tr>
</tbody>
</table>

EBITDA = earnings, before interest, taxes, depreciation, and amortization in accordance with the Company’s financial standards and approved requirements of the Audit & Finance Committee and External Auditor.
Financial Plan

Our financial plan supports the strategies and tactics within this business plan. It contains detailed information on our 2008/09 operating and capital budgets.
Operating Budget

For 2008/09, we are forecasting net income of $10 million. This is based on revenues of $725 million, offset by total expenditures of $715 million. The net earnings reduction in 2008/09 is primarily a result of increased interest and amortization costs associated with our capital expenditure program — particularly the integration into service of the Super C-class vessels and the implementation of our enhanced safety and security initiatives. We have been forecasting for many years that our Net Earnings will decline before improving in future years. This is consistent with the company’s long-term financial plan.

<table>
<thead>
<tr>
<th>Operating Budget ($ millions)</th>
<th>2007/08 Actual</th>
<th>2008/09 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff</td>
<td>$ 382</td>
<td>$ 460</td>
</tr>
<tr>
<td>Social Program Fees</td>
<td>$ 17</td>
<td>$ 22</td>
</tr>
<tr>
<td>Catering &amp; Other Revenues</td>
<td>$ 105</td>
<td>$ 112</td>
</tr>
<tr>
<td>Federal–Provincial Subsidy Agreement</td>
<td>$ 26</td>
<td>$ 26</td>
</tr>
<tr>
<td>Ferry Service Fees</td>
<td>$ 105</td>
<td>$ 105</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$ 635</td>
<td>$ 725</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenditures</td>
<td>$ 504</td>
<td>$ 565</td>
</tr>
<tr>
<td>Net Financing Expense</td>
<td>$ 28</td>
<td>$ 52</td>
</tr>
<tr>
<td>Amortization</td>
<td>$ 67</td>
<td>$ 100</td>
</tr>
<tr>
<td>Loss (Gain) on Subsidiaries</td>
<td>$ -1</td>
<td>$ -2</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>$ 598</td>
<td>$ 715</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>$ 37</td>
<td>$ 10</td>
</tr>
</tbody>
</table>

The 2008/09 Budget does not include impact of Canada Shipping Act, 2001.
Total Revenues will be affected by the following:

**Fare Revenue**

Fare revenue is driven by our tariff rates and traffic volume and is expected to increase by 20.4 percent over 2007/08. In 2008/09, passenger traffic is expected to grow 2.3 percent and vehicle traffic is expected to grow 2.0 percent from 2007/08 levels. For fiscal year 2008/09, the British Columbia Ferries Commissioner has included a higher forecast cost of fuel in price caps. The Commissioner has also established price cap increases of 7.3 percent on the major routes and 4.0 percent on all other routes. These increases are from a level of price caps which include fuel surcharges in place at March 31, 2008.

**Federal-Provincial Subsidy Agreement**

This longstanding agreement between the federal government and the provincial government to provide adequate ferry service is indexed to the Vancouver CPI. The Coastal Ferry Services Contract between the provincial government and BC Ferries provides that the provincial government will make available to BC Ferries the full proceeds of the subsidy from the federal government. For 2008/09, revenue from this source is anticipated to grow by 1.9 percent.
Provincial Fees

The Coastal Ferry Services Contract between BC Ferries and the Province of British Columbia has three components. The primary component is for the provision of services on designated routes. The second includes reimbursement from the Province for fares associated with social program areas (e.g. medical travel assistance program, children travelling for school and B.C. seniors travelling Monday to Thursday). The final component is funding provided by the provincial government to BC Ferries to oversee service provided by independent operators on eight non-regulated routes.

Other Revenue

For 2008/09, other revenues are expected to increase by 6.4 percent. Catering and retail revenues make up the largest component of this revenue category. This growth reflects the introduction of new vessels and a combination of onboard vessel design improvements, new products, sponsorships and advertising exposure revenue.
Expenses

Our expenses are expected to grow by 19.6 percent in 2008/09, due primarily to increases in amortization and financing costs, fuel prices and the implementation of enhanced safety and security initiatives.

Operating Expenditures

For 2008/09, operating expenditures are expected to increase by 12.2 percent. This increase is primarily attributable to higher wages, reflecting the implementation of our collective agreement, and higher fuel costs.

In particular, fuel costs have increased dramatically over the past few years and have now reached unprecedented levels. In response to the continued high price of crude oil, a fuel surcharge of 10.3 percent for major routes connecting Vancouver Island to the Lower Mainland, 17.6 percent on the minor routes servicing the Southern and Northern Gulf Islands and 9.2 percent on the Horseshoe Bay–Langdale route was applied to all BC Ferries fares, effective August 1, 2008.
Amortization

For 2008/09, amortization costs are expected to increase 49.6 percent as a result of several factors: three new Super C-class vessels and the Island Sky entering service; capital expenditures to upgrade existing assets, including major upgrades to the Queen of Alberni and Queen of New Westminster and significant upgrades to the Quinsam and the Quinitsa; and terminal upgrades to Departure Bay and Duke Point.

Net Financing

For 2008/09, our net financing expense is expected to increase by 87.9 percent, the result of increased borrowing to fund our capital expenditure program, which will reach $509.8 million in 2008/09.
Our ferry services are supported by 37 vessels, 47 terminals, four maintenance yards, one refit complex and a head office. Investments in infrastructure are required to replace or upgrade aging assets, improve service to our customers and meet regulatory requirements. Our major capital projects for 2008/09 include:

**Vessels**
- Expenditures for the construction of three new vessels:
  - the third Super C-class vessel, the *Coastal Celebration*;
  - the *Island Sky*, a new 125-vehicle Intermediate-class ferry; and
  - the *Northern Expedition*.
- Completion of upgrades to the *Queen of New Westminster*, *Quinsam* and *Quinitsa*.

**Terminals**
- Security upgrades at various terminals;
- Upgrades to our terminal facilities at Departure Bay; and
- Replacement or upgrades of significant marine structures at a number of our terminals, including Duke Point and our northern terminals to accommodate the arrival of replacement vessels for the northern routes.

**Capital Budget**

To upgrade and replace our assets, we are planning to invest $509.8 million in 2008/09.
Information Systems

- Investments in critical projects, such as the replacement of our reservations system; and
- Upgrades to our Corporate Information Technology applications and hardware.

The following table details the capital expenditures for 2007/08 and the planned expenditures for 2008/09 by asset type, including interest during construction and net of proceeds from the Federal Marine Security Contribution Program.

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>2007/08 Actual</th>
<th>2008/09 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel Projects</td>
<td>$ 382.8</td>
<td>$ 432.1</td>
</tr>
<tr>
<td>Terminal Projects</td>
<td>$ 54.5</td>
<td>$ 55.6</td>
</tr>
<tr>
<td>Information Systems and other projects</td>
<td>$ 15.2</td>
<td>$ 22.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 452.5</strong></td>
<td><strong>$ 509.8</strong></td>
</tr>
</tbody>
</table>