This business plan 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 for the fiscal year ended March 31, 2007 and certain of the other documents filed by BC Ferries on 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 Business Plan.
Contents

4 INTRODUCTION AND PURPOSE
6 ORGANIZATIONAL AND GOVERNANCE OVERVIEW
8 ACCOMPLISHMENTS
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36 CONCLUSION
NOTHING IS MORE IMPORTANT OR HAS GREATER PRIORITY THAN SAFETY.

OUR FOCUS ON SAFETY IN ALL ASPECTS OF OUR BUSINESS CREATES A PLATFORM FOR SUCCESS AS WE ENTER AN EXCITING NEW ERA OF NEW VESSELS, NEW SERVICES AND NEW RELATIONSHIPS WITH OUR CUSTOMERS.
Our board of directors and management define success as:

- Providing to our customers integrated marine transportation services that are safe, reliable and continuously improving while delivering best value for money.

- Operating in a manner that preserves our financial integrity.
I INTRODUCTION AND PURPOSE

This plan focuses on achieving 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, while minimizing fare escalation.

This Business Plan moves the company into the next phase of its journey as we will have introduced seven new vessels to our fleet within the next three years, of which two vessels are scheduled to enter service in the Fiscal Year 2007/08. We also plan to complete significant terminal upgrades to improve efficiency, and offer new services and choices to our customers.

The five goals described in this plan provide a framework for our efforts and are essential to achieving success. Of these, none is more important, or receives greater attention, than safety.
2 ORGANIZATIONAL AND GOVERNANCE OVERVIEW

BC FERRIES AND ITS
EMPLOYEES MANAGE
AND OPERATE VARIOUS
LINES OF BUSINESS IN
A COMPLEX NETWORK
OF RELATIONSHIPS.

We operate one of the largest ferry systems in the world. We do so within a complex legislative and regulatory framework. Our organization is designed to facilitate effective operations with a primary focus on safety to better serve our customers and position our company for the long term.

As illustrated in the table below, we have one of the largest fleets in comparison to other major ferry operators around the world.

<table>
<thead>
<tr>
<th>Comparison of Select World Class Ferry Operators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>Transtejo-Transportes (Portugal)</td>
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<tr>
<td>Washington State Ferries (USA)</td>
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<tr>
<td><strong>BC Ferries</strong></td>
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<tr>
<td>Scandlines (Denmark)</td>
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<tr>
<td>Istanbul Fast Ferries (Turkey)</td>
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<tr>
<td>P&amp;O Ferries (Great Britain)</td>
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<tr>
<td>Hellenic Seaways (Greece)</td>
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<tr>
<td>Stena Line (Denmark)</td>
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<tr>
<td>Jadrolinija (Croatia)</td>
</tr>
<tr>
<td>Navigazione Laghi (ITA)</td>
</tr>
<tr>
<td>Transmediterranea (Spain)</td>
</tr>
<tr>
<td>Wightlink (Great Britain)</td>
</tr>
<tr>
<td>Caledonian MacBrayne (Great Britain)</td>
</tr>
<tr>
<td>Viking Line (Finland)</td>
</tr>
<tr>
<td>Color Line (Norway)</td>
</tr>
<tr>
<td>Blue Star Ferries (Greece)</td>
</tr>
<tr>
<td>Sea France (France)</td>
</tr>
<tr>
<td>WG&amp;A Superferry (Philippines)</td>
</tr>
<tr>
<td>Moby (Italy)</td>
</tr>
<tr>
<td>Minoan Lines (Greece)</td>
</tr>
<tr>
<td>Alaska State Ferries (USA)</td>
</tr>
</tbody>
</table>
BRITISH COLUMBIA FERRIES COMMISSIONER
The British Columbia Ferries Commissioner (the Commissioner) is required to establish price caps and monitor service levels for designated ferry route groups. The Commissioner undertakes this regulation in accordance with several principles, including placing priority on the financial sustainability of the ferry system, encouraging a commercial approach to ferry service delivery and moving to a greater reliance on a user-pay system over time.

RELATIONSHIP TO THE PROVINCIAL GOVERNMENT
The Province of B.C. holds cumulative preferred non-voting shares of British Columbia Ferry Services Inc. in the amount of $75.5 million and receives an annual dividend of $6.0 million. In addition, we have material contracts with the Province of B.C., including the Coastal Ferry Services Contract.

COASTAL FERRY SERVICES CONTRACT
This 60-year service contract came into effect on April 1, 2003. It sets out the type and amount of core ferry transportation services to be provided by BC Ferries and the service fees payable by the Province of B.C. for such services. As part of this contract, the services and fees are to be reviewed at the end of specific performance terms. The first performance term ends on March 31, 2008. The process for determining the services and fees for Performance Term Two (April 2008 through March 2012) is currently underway and will be completed in fall 2007.
3 ACHIEVEMENTS

WITH A CLEAR FOCUS ON SAFETY

AND SERVING OUR CUSTOMERS

BETTER, REVITALIZING OUR

ASSETS AND DEVELOPING OUR

EMPLOYEES, WE MADE SUBSTANTIAL

PROGRESS LAST YEAR IN BUILDING

A BETTER BC FERRIES.

At BC Ferries, we must above all ensure the safety of our customers and provide a safe workplace for our employees. In 2006/07 we continued to invest in vessels, terminals and employees, with a priority focus on safety.

SAFETY

• We continued to develop new and improved safety programs for all employees.

• We commissioned former Auditor General George L. Morfitt to conduct a comprehensive, independent review of all BC Ferries’ safety practices. The review resulted in 41 recommendations, all of which are being implemented.

• We established a new vessel construction division to ensure the safe and efficient integration of new ships.

• We held regular meetings with Transport Canada to improve our relationship and reduce regulatory uncertainty.

• We participated with other Canadian ferry operators and Transport Canada in establishing new security regulations.

• We implemented a new photo security identification card for all employees.
OPERATIONAL RELIABILITY

Vessel Maintenance and Revitalization

- We successfully purchased a replacement vessel, the *Northern Adventure*, for use on our Northern Routes. The vessel began operation in March 2007.
- We completed 21 vessel refits in 2006/07.
- We completed a mid-life upgrade on the *Queen of Surrey* that included new life-saving equipment.
- We began construction of the three new Super C-class vessels and expect to take delivery of the first vessel, the *Coastal Renaissance*, in the fall of 2007.
- We launched the *Kuper*, a vessel that was re-constructed at Allied Shipbuilders in North Vancouver.
- We started construction of a new 125-car Intermediate class ferry at Vancouver Shipyards to replace the *Queen of Tsawwassen*.
- We commissioned the building of a new vessel, the *Northern Expedition*, to replace the 40 year-old *Queen of Prince Rupert* operating in northern B.C..
- We began a mid-life upgrade on the *Queen of Alberni*.

Terminal Revitalization

- We completed the replacement of Berth 2 at Tsawwassen.
- At Swartz Bay, we completed construction of a new berth using an innovative floating concrete design, and constructed a new west exit road to reduce traffic congestion and improve safety for our customers exiting the foot passenger area.
- We completed Terminal Master Plans for Departure Bay, Denman West, Buckley Bay and Kuper Island.
- We completed archaeological assessments and consulted with First Nations prior to development at our terminals.
CONTINUOUS IMPROVEMENT

• We met regularly with local governments and consulted with our Ferry Advisory and Terminal Liaison Committees on areas of mutual interest, including reviewing the Ferry Advisory Committees’ perspectives on Core Service Levels in preparation for Performance Term Two.

• We installed a new electronic message board on the Island Highway north of Nanaimo to provide real time sailing information for southbound travellers giving them the option to decide between ferries sailing from Duke Point or Departure Bay.

• We launched an automated ticketing system at major terminals.

• We established and implemented a succession plan and an extensive program of management development throughout the organization.

• We implemented the new Crew Scheduling System.

• We continued to upgrade our vessels and terminals to allow for significant enhancements to food, beverage and retail offerings.

• We added special late-night sailings to enable customers to return to Vancouver Island after BC Lions’ football games and the Steve Nash Foundation Charity Classic.

• We implemented a fleet-wide fuel reduction plan to decrease our consumption of fuel.

• We met with the North American Indigenous Games Organizing Society to identify transportation needs in preparation for the 2008 North American Indigenous Games.
VALUE FOR MONEY

• We introduced several new price promotions for families and commercial traffic.

• We launched a new fare program, the COASTSAVER Sailing Program, which enabled customers to take advantage of significant savings (e.g. $20 for vehicles and $5 for passengers) when travelling on specified sailings.

• We partnered with Parks Canada and BC Experience to introduce the Coastal Naturalists program to inform, educate and give customers a west coast experience while travelling onboard our major route vessels.

FINANCIAL INTEGRITY

• We completed a detailed review of our financial processes to meet Canadian securities regulations.

• We submitted our Performance Term Two submission to the BC Ferries Commissioner in accordance with Section 40 of the Coastal Ferry Act. The submission will be used in the Commissioner’s review and setting of fare caps for the period 2008–2012.

• We completed a successful issue of 30-year bonds totalling $250 million at the very favourable rate of 5.021 per cent.
As part of our planning process, we regularly undertake external and internal reviews of our business. This past year, management continued its focus on safety throughout the entire company.

The Morfitt Safety Review contained 41 recommendations for BC Ferries, including:

• having a strategic goal that pertains directly to safety, with identified tactics, measures and targets related to achieving that goal;

• reinforcing the commitment to operational safety as the company’s number one priority, and that at no time should any other company objective take a higher level of priority; and

• working cooperatively with the BC Ferry & Marine Workers’ Union to continuously improve the SMS and operational safety practices.

We have committed to addressing Morfitt’s recommendations in a timely manner.

In addition, management focused on immediate service recovery for the north, including supplemental barge and air transportation, as well as a long-term asset acquisition strategy to restore service levels. We did this and accelerated the process of constructing a replacement vessel for a new Northern Vessel, the Northern Expedition, to replace the Queen of Prince Rupert.

Looking forward, we also identified the following trends, risk factors and opportunities that may influence our future performance. These have been considered in the development of the strategies and tactics described in this Business Plan.
Travel Demand

VEHICLE AND PASSENGER TRAFFIC

Vehicle and passenger traffic for 2006/07 was 0.3 and
0.3 per cent lower respectively than the previous year.
This is attributed to several factors—including the loss of
the Queen of the North, a competitive commercial market
segment, continued high fuel costs, a strong Canadian dollar,
the pending new US passport regulations for travel to and
from Canada, and inclement weather conditions in the fall
and winter.

Our traffic projections for 2007/08 are for vehicle traffic to
grow 1.4 per cent and passenger traffic to grow 1.6 per cent
from 2006/07 levels. This pattern of moderate growth is
consistent with traffic levels for the latter part of the 1990s
and through 2006.
ECONOMIC FORECAST
In 2006, Real GDP in the Province increased by 3.9 per cent. In December 2006, B.C.’s Economic Forecast Council forecast real gross domestic product in the Province to increase by 3.4 per cent in 2007 and by 3.3 per cent for the years 2009 to 2011.

Improvements in B.C.’s economy, higher personal disposable income and population growth are all expected to contribute positively to ferry traffic in the near term. However, the volatile Canadian dollar, labour shortages, the slowing US housing market and its effect on B.C.’s lumber industry pose further risk to the economic outlook for both B.C. and Canada as a whole.

TOURISM TRENDS
Historically, there has always been a strong correlation between the volume of ferry traffic and tourism in coastal B.C.

Looking forward, there are many major planned events for the B.C. tourism industry, all of which offer opportunities for BC Ferries:

- the North American Indigenous Games in 2008 in Cowichan;
- 2009 World Police and Fire Games in the Lower Mainland; and
- the Olympic and Paralympic Games in 2010.

Tourism BC has identified the following 2010 Goals:

- to double provincial tourism revenues by 2015 through increased visitation, increased spend per trip and increased length of stay;
- to maximize the long-term benefits of the 2010 Olympic and Paralympic Games; and
- to work with partners in the tourism industry, VANOC and Government to leverage resources and ensure a successful 2010 Olympic and Paralympic Games.

In the longer term, the recent announcement by China that Canada now qualifies for preferred status for Chinese travellers has very positive implications for tourism growth.
UPCOMING CHANGES IN CROSS-BORDER TRAVEL FOR AMERICAN CITIZENS

Under the Western Hemisphere Travel Initiative (WHTI), it is anticipated that by June 1, 2009, US citizens travelling between the US and Canada by land or sea (including ferries) will be required to present a valid US passport.

As an alternative to the passport, the Passport Card (also referred to as the PASS Card) is a limited-use US passport in wallet-sized card format currently under development. It will be available for use for travel only via land or sea (including ferries) between the US and Canada, Mexico, the Caribbean and Bermuda.

CONTAINER AND COMMERCIAL TRAFFIC

Projected growth in container traffic and the commercial semi-trailer market, combined with underutilized BC Ferries’ assets, present an opportunity for BC Ferries.

Container traffic to Vancouver Island (typically travelling via drop trailer), is expected to continue its expansion as overseas container movements to the Pacific Gateway increase, and as the larger “big box” retailers continue to locate on Vancouver Island.
External Cost Factors

VOLATILE FUEL COSTS

Fuel is our second largest operating expense. At an average price above $67 US/barrel, the price of oil in 2006 increased 114 per cent from $31 US/barrel in 2003.

In September 2004, the Commissioner issued an order authorizing our use of deferred fuel cost accounts to mitigate the effect on earnings of volatility in fuel oil prices.

As a result of continued high fuel prices in Fiscal Year 2005/06, we submitted applications to the BC Ferries Commissioner for fuel surcharges to be placed on vehicle and passenger fares. The Commissioner approved three separate fuel surcharges, totalling 8.7 per cent for the major routes and 18.6 per cent for minor routes.

As part of his ruling in January 2006 approving the fuel surcharge, the Commissioner required BC Ferries to reduce fuel consumption by 1 per cent in each of the next two years. To date, we have reduced our annual fuel consumption by more than six million litres compared to the level of fuel consumed three years ago.
PRESSURE ON CONSTRUCTION COSTS

In recent years, low interest rates, strong economic growth and a series of major construction projects related to B.C.’s preparations for the 2010 Olympics have increased demand for construction services. There has also been considerable inflation experienced in construction material prices.

With demand outstripping supply in the local construction industry last year, construction costs for additions and improvements to our terminals—both uplands and marine structures—have increased substantially. We expect costs in these areas will remain high over the next three years.

Vessel construction and repair costs are also affected by the booming construction sector. Shipyards locally and around the world are operating at close to capacity and there is limited competition on the West Coast, especially to meet drydocking demands. As a result of these factors and the continuing high price of steel, we expect to experience ongoing high repair costs for work done on BC Ferries’ vessels, as well as high costs for new vessel construction.

We mitigate these cost pressures as much as practicable through fixed price contracts.
EXTERNAL COMPETITIVE PRESSURES
In the past three years, new competitors have emerged and departed in the passenger only market as well as the commercial (drop trailer) traffic market. We expect competition to increase in these markets. By comparison, barriers to entry for private sector vehicle and passenger ferry services remain relatively high.

Competition in the commercial traffic drop trailer market, dominated by Seaspan Coastal Intermodal Company (Seaspan), has increased with the emergence of Van Isle Barge Services Inc. (Van Isle Barge) in April 2004.

The potential exists for drop trailer operators (Seaspan and Van Isle Barge) to expand their services to include truck and driver, a service that is currently provided only by BC Ferries between the Mainland and Vancouver Island.

A passenger-only service offered by HarbourLynx (Nanaimo to Vancouver) ceased operations when it filed for bankruptcy in February 2006; however, the new owner of the ferry has purchased two new engines and has committed to begin service between the same two locations. In addition, a new entrant to the market, Nautisol, is proposing to launch a passenger-only service between Victoria and Vancouver harbours using a 500 passenger ferry.

Between Vancouver Island and the Mainland, air travel (HeliJet/Harbour Air/West Coast Air) remains a premium alternative to ferry travel for time-sensitive travellers.

FIRST NATIONS
We are committed to building relationships with the many aboriginal communities in B.C. and to taking a proactive approach as issues regarding changes in First Nations aboriginal law and government policies arise.
Internal Factors

VESSSEL INFRASTRUCTURE

While we have one of the largest fleets in the world, our assets are also among the oldest, as shown in the figure below. Reducing the average age of our fleet through planned vessel replacement is underway, with seven new ships being introduced into the fleet over the three next years.

In 2006/07, we invested more than $110 million in maintenance and capital upgrades to improve the reliability of our vessels. We will also begin to see the completion and integration of three new ships in the next year which will reduce the average age of our operating fleet.

WORKFORCE ISSUES

We have a diverse and skilled workforce that operates out of 47 ports of call 365 days a year. Ensuring the highest level of safety, technical and regulatory compliance is achieved through an extensive system of manpower planning, succession and development.

In Fiscal 2006/07, the company scheduled in excess of 8,000 training hours and invested approximately $6 million in training and development initiatives. Among them is an extensive program of sponsored development and education assistance for our licensed officers.

With the introduction of numerous vessels and state-of-the-art technology, we are planning further enhancements to our already robust suite of training initiatives.

COLLECTIVE AGREEMENT

The new agreement provides operational stability through 2012. The Award is final and binding on both parties.

PURSUEING STRATEGIC BUSINESS OPPORTUNITIES

The strategic locations of our terminals provide us with one of our most important competitive advantages. In addition, our experience and expertise in planning, developing and managing ferry operations provides an opportunity for us to expand our business where viable. In the face of mounting competition, we will continue to assess, on an ongoing basis, strategic business opportunities that maintain this advantage and/or grow our business.
Regulatory Issues

TRANSPORT CANADA REGULATIONS

Transport Canada regulates safety on our vessels by authority of the Canada Shipping Act. Transport Canada’s revised regulations may significantly affect the investment decisions and useful life of some of our vessels.

FOCUS ON SECURITY

Security for domestic ferry operations remains relatively unregulated in Canada. Since 9/11, Transport Canada has focused primarily on aviation and, more recently, international ports. However, in November 2005, the Federal Minister of Transport announced that the security regulations would be expanded to included domestic ferry operations. BC Ferries, along with other members of the Canadian Ferry Operators Association, has been working with Transport Canada on the design and implementation process. Transport Canada has dedicated funds to help Canadian ferry operators offset some capital investments to improve security. It is expected the regulations will be in place sometime in 2007.

In preparation for the impending regulations, BC Ferries has developed a company-wide security plan that lays out the key principles and objectives. To support this document, a tactical security plan will be developed for each terminal and vessel.

BRITISH COLUMBIA FERRIES COMMISSIONER

The British Columbia Ferries Commissioner (the Commissioner) is required to establish price caps and monitor service levels for designated ferry route groups. The Commissioner undertakes this regulation in accordance with several principles, including placing priority on the financial sustainability of the ferry system, encouraging a commercial approach to ferry service delivery and moving to a greater reliance on a user-pay system over time.

A key focus of the activity of the Commissioner in Fiscal Years 2006/07 and 2007/08 is the establishment of price caps for Performance Term Two which limit the total average fare in any designated route group.
ENVIRONMENTAL REGULATIONS
In the spring of 2007, the Canada Shipping Act’s Regulation for the Prevention of Pollution from Ships and from Dangerous Chemicals came into effect. The regulation sets out new requirements for air emissions and sewage discharges. It specifies that:

— all marine engines, either new or substantially rebuilt and installed in BC Ferries’ vessels after the Regulations come into force must meet specific limits with respect to the emission of nitrogen oxides (NOx).

— by 2011 all BC Ferries’ vessels must be compliant with sewage effluent standards.

EXPLORING ALTERNATIVE SERVICE PROVIDERS
The Coastal Ferry Act requires that we seek additional or alternative service providers on designated routes through fair and open competitive processes. The company has filed an Alternative Service Providers Plan (ASP Plan) with the BC Ferries Commissioner which sets out the specific routes where we will consider alternative service delivery options during the first performance term of the Coastal Ferry Services Contract.

We issued a Request for Proposals in February 2007 to two proponents on the Brentwood Bay–Mill Bay route. We also expect to issue a Request for Proposals regarding the operation of our four routes north of Port Hardy; however, the timing of this request is uncertain.
6 2007–08 BUSINESS PLAN GOALS

OUR BUSINESS PLAN STRATEGIES ARE STRUCTURED AROUND FIVE KEY GOALS 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 BUSINESS PLAN GOALS.

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

OPERATIONAL RELIABILITY
To continuously improve the operational reliability of vessels, terminals and facilities.

CONTINUOUS IMPROVEMENT
To be better at everything we do.

VALUE FOR MONEY
To continuously improve value to our customers at every point along the customer experience chain.

FINANCIAL INTEGRITY
To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure, while minimizing fare escalation.
Safety

GOAL

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, safety for both employees and customers is priority number one. We will:

• Continue to improve our world-class safety programs.
• Incorporate the 41 recommendations of the Morfit safety review.
• Develop an enhanced Operations Centre to improve ship to shore communications and provide timely customer information.
• Review vessel and terminal evacuation plans and update where necessary.
• Implement lifesaving appliance and structural fire protection upgrades to our vessels.
• Deploy Voyage Data Recorders (VDRs) on our existing vessels.
• Develop a comprehensive fleet-wide security plan, including Closed Circuit Video Equipment and Security Access controls.
• Engage industry leaders to assist in the review of the Safety Management System.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Target</th>
<th>06/07 Actual</th>
<th>07/08 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Safety Index (frequency X severity*) / 1,000</td>
<td>3.34</td>
<td>2.71</td>
<td>2.02</td>
<td>1.88</td>
<td>3.08</td>
<td>1.82</td>
</tr>
<tr>
<td>Passenger Safety Index (# passenger injury incidents / 1,000,000 passengers)</td>
<td>13.85</td>
<td>13.67</td>
<td>13.58</td>
<td>13.62</td>
<td>11.31</td>
<td>13.50</td>
</tr>
</tbody>
</table>

*Frequency = (Time loss injuries x 100) / (Total paid employee hours/1,827); Severity = (Person days lost x 182,700) / (Total paid employee hrs).
ACHIEVE REGULATORY EFFICIENCIES

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

• Better coordinate safety practices with regulatory changes.
• Maintain regular meetings with Transport Canada to improve our relationship and reduce regulatory uncertainty.
• Participate with other Canadian ferry operators and Transport Canada to establish new security regulations.
• Share best practices with other marine organizations.

STRENGTHEN THE MANAGEMENT OF OPERATIONS

We will continue to ensure our employees clearly understand their roles and how they can contribute individually—and as a team—to our overall success. Accordingly, we continue to establish clear accountabilities and responsibilities for all employees.

• Implement a terminal organizational structure based on a regional approach that will better align with vessel operations and engineering.
• Expand the “reach” of vessel integration teams deeper into the company to ensure the safe and efficient integration of new ships into operational service.
STRATEGIES AND TACTICS
INVEST IN OUR ASSETS

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

- Renew and revitalize our fleet by integrating the following vessels:
  - the three Super C-class vessels, the Coastal Renaissance, Coastal Inspiration and Coastal Celebration;
  - the Northern Adventure;
  - the Kuper; and
  - a new 125-car Intermediate-class ferry.

- Continue to develop and finalize terminal and vessel master plans.
- Develop standardized maintenance plans for each vessel.

MEET OR EXCEED ENVIRONMENTAL STANDARDS

We will reduce our environmental footprint by increasing the energy efficiency of our company. We will also implement sewage treatment upgrades, and burn high quality diesel fuel to reduce emissions of air pollutants.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Target</th>
<th>06/07 Actual</th>
<th>07/08 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability Index (scheduled number of round trips less cancelled sailings / scheduled number of round trips)</td>
<td>99.01</td>
<td>99.69</td>
<td>99.48</td>
<td>99.4 to 99.59</td>
<td>99.66</td>
<td>99.4 to 99.59</td>
</tr>
<tr>
<td>Asset Re-investment (weighted average age of vessels by gross registered tonnage)</td>
<td>27.9</td>
<td>28.9</td>
<td>29.5</td>
<td>25.4</td>
<td>25.4</td>
<td>21.5</td>
</tr>
</tbody>
</table>
Continuous Improvement

GOAL TO BE BETTER AT EVERYTHING WE DO.

STRATEGIES AND TACTICS
FACILITATE A CULTURE OF CONTINUOUS IMPROVEMENT
We will work cooperatively with the BC Ferry & Marine Workers’ Union to continuously improve all facets of our business with a particular emphasis on the Safety Management System and operational safety.

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.
• Identify and encourage off-shore training opportunities.
• Continue planning for a Ferry Academy.
• Develop and implement progressive human resource practices.
• Commence the process of positioning and marketing 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 must strive to better understand our customers: the public and the communities we serve. We will:

• Implement an even more proactive approach to community and customer relations, with an integrated pricing, sales and marketing function focused on deriving incremental revenue.
• Enhance First Nations relationships by incorporating the Aboriginal Relations program into our Community Relations portfolio.
• Work closely with the Organizing Committee of the 2008 North American Indigenous Games.
• Connect the BC Ferries’ brand to the actual business by positioning the brand closer to the customer both onboard and at terminals (e.g. ticket booth handouts).
• Align the community investment program with the public relations strategy.
• Work collaboratively with Ferry Advisory Committees through the Performance Term Two process.
• Implement a Northern business recovery program.

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

GOAL
TO CONTINUOUSLY IMPROVE
VALUE TO OUR CUSTOMERS
AT EVERY POINT ALONG THE
CUSTOMER EXPERIENCE CHAIN.

STRATEGIES AND TACTICS
INCREASE CUSTOMER SERVICE AND PURSUE
NEW MARKET OPPORTUNITIES
We continually strive to improve our customers’ experience in order to increase our customer usage and revenue. This includes listening to our customers and evaluating their suggestions. We will:

- Increase our knowledge of customers’ needs and expectations to improve customer service.
- Implement new signage and improved public announcement systems at our terminals.
- Implement new food and retail offerings in line with customer needs.
- Renew passenger areas on vessels and at terminals.
- Implement new marketing programs to build awareness and grow revenue.
- Explore new business opportunities and partnerships.

- Explore market potential in travel and commercial sectors:
  —implement a new sales centre in Vancouver to broaden market reach, raise our profile and stimulate the travel and tourism segments;
  —implement integrated sales solutions for the commercial traffic market;
  —encourage new travel through innovative pricing;
  —improve online customer service tools and increase customer care productivity.

IMPLEMENT ENABLING INFORMATION SYSTEMS
Building on our investments in our information systems will ensure that we have the capacity to quickly adopt new business processes and practices. We will:

- Expand “smart media” including automated ticketing.
- Upgrade our website and supporting infrastructure.

<table>
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<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Target</th>
<th>06/07 Actual</th>
<th>07/08 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>4.1</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Cost per Passenger</td>
<td>$17.49</td>
<td>$17.56</td>
<td>$16.45</td>
<td>$16.81</td>
<td>$17.07</td>
<td>$17.96*</td>
</tr>
<tr>
<td>(total operation cost – ancillary revenue) / total passengers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per FTE (EBITDA / Total FTEs)</td>
<td>$29.23K</td>
<td>$32.53K</td>
<td>$36.94K</td>
<td>$39.30K</td>
<td>$37.54K</td>
<td>$39.26K*</td>
</tr>
</tbody>
</table>

Overall Customer Rating = score on ‘overall rating’ from annual independently conducted survey which specifically measures overall customer satisfaction with BC Ferries.

*Includes Deas Pacific Marine.
GOAL

TO ACHIEVE KEY FINANCIAL TARGETS, ENSURING THAT SUFFICIENT CAPITAL AND RETAINED EARNINGS ARE AVAILABLE TO REVITALIZE OUR FLEET, FACILITIES AND INFRASTRUCTURE, WHILE MINIMIZING FARE ESCALATION.

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.
- Pursue duty remission on vessels built outside Canada.
- Implement new fuel consumption initiatives to exceed 1 per cent per year on average reduction targets.

MAINTAIN A STRONG RELATIONSHIP WITH THE COMMISSIONER

- Develop and implement revised route service schedules where appropriate.
- Work with the Commissioner regarding price caps for Performance Term Two.
- Explore ways to reduce costs and review schedules where efficient.

<table>
<thead>
<tr>
<th>Measure</th>
<th>03/04 Actual</th>
<th>04/05 Actual</th>
<th>05/06 Actual</th>
<th>06/07 Target</th>
<th>06/07 Actual</th>
<th>07/08 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA ($millions)</td>
<td>$98</td>
<td>$112</td>
<td>$128</td>
<td>$134</td>
<td>$124*</td>
<td>$135**</td>
</tr>
</tbody>
</table>

EBITDA = earning, 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.

*2006/07 Actual EBITDA reflects the impact of increased wages and benefits for lump sum payments to employees totalling $3.6 million as a result of a mediation-arbitration award and a $5.0 million reduction from anticipated performance due to the loss of the Queen of the North and the modified service delivery on our Northern Routes.

**Includes Deas Pacific Marine.
OUR FINANCIAL PLAN SUPPORTS
THE STRATEGIES AND TACTICS
WITHIN THIS BUSINESS PLAN.
IT CONTAINS DETAILED INFORMATION
ON OUR 2007/08 OPERATING
AND CAPITAL BUDGETS.

Operating Budget
For 2007/08, we are forecasting net income of $35 million. This is based on revenues of $631 million, offset by total expenditures of $596 million.

The net earnings reductions in 2007/08 are a result of enhanced safety and security initiatives, and increased interest and amortization costs associated with our capital expenditure program—particularly the delivery of one large Super C-class vessel.

Operating Budget (millions)

<table>
<thead>
<tr>
<th></th>
<th>2006/07 Actual</th>
<th>2007/08 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tariff</td>
<td>$363.3</td>
<td>$382</td>
</tr>
<tr>
<td>Catering &amp; Other Reven</td>
<td>$97.7</td>
<td>$100</td>
</tr>
<tr>
<td>Federal-Provincial Contr</td>
<td>$25.3</td>
<td>$26</td>
</tr>
<tr>
<td>Coastal Ferry Services Contract</td>
<td>$108.4</td>
<td>$123</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$594.7</td>
<td>$631</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations, Maintenance and Administration</td>
<td>$472.0</td>
<td>$496</td>
</tr>
<tr>
<td>Net Financing Expense</td>
<td>$16.7</td>
<td>$30</td>
</tr>
<tr>
<td>Loss (Gain) on Disposal of Capital Assets</td>
<td>$0.2</td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td>$55.4</td>
<td>$71</td>
</tr>
<tr>
<td>Loss (Gain) on Subsidiaries</td>
<td>$1.6</td>
<td>(1.2)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$545.9</td>
<td>$596</td>
</tr>
<tr>
<td><strong>Net Earnings</strong></td>
<td>$110.1</td>
<td>$35</td>
</tr>
</tbody>
</table>
Our revenues are projected to grow by 6.1 per cent in 2007–08.
OUR 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 5.1 per cent over 2006/07. In 2007/08, passenger traffic is expected to grow 1.6 per cent and vehicle traffic is expected to grow 1.4 per cent from 2006/07 levels.

NON-FARE REVENUE
Gross catering and retail revenues make up the largest component of this revenue category. For 2007/08, non-fare revenues are expected to increase by 2.5 per cent. This growth will be driven through a combination of onboard vessel design improvements, new product introduction, sponsorships and advertising exposure revenue.

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 Province and BC Ferries provides that the Province will make available to BC Ferries the full proceeds of the subsidy from the Federal Government. For 2007/08, revenue from this source is expected to grow by 2.0 per cent.

PROVINCIAL FERRY SERVICES CONTRACT 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 seniors travelling Monday to Thursday). The final component is funding provided by the Province to BC Ferries to oversee service provided by independent operators on eight non-regulated routes. For 2007/08, revenue in this area is expected to grow by 13.5 per cent. This growth is primarily attributed to an increase in service fees for the Northern Routes.
Expenses

OUR EXPENSES ARE EXPECTED TO GROW BY 9.1 PER CENT IN 2007/08, DUE PRIMARILY TO INCREASES IN AMORTIZATION AND FINANCING COSTS AS NEW SHIPS ARE PLACED IN SERVICE, AND IMPLEMENTATION OF ENHANCED SAFETY AND SECURITY INITIATIVES.

OPERATIONS, MAINTENANCE AND ADMINISTRATION
For 2007/08, costs in this area are expected to grow by 5.1 per cent. This growth is attributable to two factors: higher wages reflecting the implementation of our collective agreement and increased pressures to maintain our fleet.

FUEL
Fuel is our second largest operating expense. Expenditures in this area are affected by four factors: total consumption, the price per barrel (US dollars), refining premiums and the exchange rate.

While we have reduced our annual fuel consumption by more than six million litres compared to the level of fuel consumed three years ago, the balance in our deferral account was still $18.8 million by the end of the fiscal year.

AMORTIZATION
For 2007/08, amortization costs are expected to increase 27.4 per cent as a result of a number of factors: capital asset additions coming into service and capital expenditures to upgrade our existing assets, particularly vessel upgrades to the Queen of Alberni and the Queen of New Westminster; delivery of the Kuper, a Super C-class vessel and the Northern Adventure; and terminal upgrades at Swartz Bay and Departure Bay.

NET FINANCING
For 2007/08, our net financing expense is expected to increase by 81.4 per cent. This growth is due to our capital expenditure program, which will grow to $524.5 million in 2007/08. A large component of these expenditures will be used to fund the new Super C-class vessels.
TO UPGRADE AND REPLACE OUR ASSETS, WE ARE PLANNING TO INVEST $524.5 MILLION IN 2007–08.

We utilize capital assets with a replacement value of approximately $4.7 billion. Our ferry services are supported by 36 vessels, 47 service terminals, four maintenance yards, one refit complex and a head office.

The major strategic issue we face continues to be the replacement of our infrastructure—specifically, vessels and terminals. Our major capital projects for 2007–08 include:

**VESSELS**
- Construction of our Super C-class vessels, the *Coastal Renaissance, Coastal Inspiration and Coastal Celebration*.
- Construction of a new 125-car Intermediate-class ferry.
- Completion of the mid-life upgrade to the *Queen of Alberni*.
- Upgrade of the *Queen of New Westminster.*
TERMINALS

- Upgrades to our terminal facilities at Departure Bay.
- Expansion of the holding compound and a new east exit road at our terminal at Swartz Bay.
- Replacement or upgrades of significant marine structures at a number of our terminals, including Departure Bay, Horseshoe Bay, Tsawwassen, Village Bay and Otter Bay; and our northern terminals to accommodate the arrival of replacement vessels for the northern routes.

INFORMATION SYSTEMS

- Investments in projects such as the expansion of automated ticketing and upgrades to the web site.
- Improvements to company support systems and hardware upgrades to increase the productivity and security of our enterprise systems.

The following table details the capital expenditures for 2006/07 and the planned expenditures for 2007/08 by asset type, including interest during construction and net of proceeds from the Federal Marine Security Contribution Program.

<table>
<thead>
<tr>
<th>Asset Type (millions)</th>
<th>06/07 Actual</th>
<th>07/08 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel Projects</td>
<td>205.6</td>
<td>435.4</td>
</tr>
<tr>
<td>Terminal Projects</td>
<td>48.4</td>
<td>71.4</td>
</tr>
<tr>
<td>Information Systems and other Projects</td>
<td>8.6</td>
<td>17.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$262.6</strong></td>
<td><strong>$524.5</strong></td>
</tr>
</tbody>
</table>
The strategies and tactics outlined within this Business Plan will ensure that we are responsive to our changing business environment. Our focus on our five goals will help ensure that we:

- continue to focus on our main priority—safety;
- manage our asset refurbishment and replacement programs to deliver exceedingly reliable service;
- continuously improve our approach to delivering services by focusing on meaningful and measurable outcomes while ensuring safety of passengers;
- exceed our customers’ expectations by providing value for money spent; and,
- achieve our financial targets while minimizing fare escalation.

Providing a safe and continuously improving west coast travel experience can only be achieved with the support of our employees and our customers. With safe and efficient integration of two new ships into the fleet in the next year, we will successfully move the company into a new era.