Business Plan 2006/07

Building a Better BC Ferries

June 2006
# Building a Better BC Ferries

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This Business Plan contains historical information and also contains 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, 2006 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 Business Plan.
1 Introduction and Purpose

This Business Plan describes how we intend to achieve our vision of providing a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

Our Business Plan continues the theme of “Building a Better BC Ferries” - better for our customers, better for our communities and better for our employees.

This past year, we revised our vision statement, mission statement and core values within our strategic plan. Our new vision and mission statements emphasize BC Ferries’ unique role in providing a truly west coast experience. As well, our vision statement and core values pay tribute to the fact that the innovation and pride of our employees is critical to our success.

In the past year, we made substantial progress throughout the organization in “Building a Better BC Ferries.” We worked hard to improve services onboard our vessels and at our terminals for our customers and launched our new “Life on the Coast” brand. We held an ongoing dialogue with the communities we serve to ensure our services are meeting their needs, and we carried out more intensive training and development programs for our employees than ever before.

As always, the safety and security of our customers and employees remain priority one.

On Wednesday, March 22, 2006, shortly after midnight, the Queen of the North, operating on its regular route from Prince Rupert to Port Hardy, ran aground on Gil Island in Wright Sound and subsequently sank. BC Ferries’ crew, the crew of the Coast Guard vessel Sir Wilfred Laurier, and the community of Hartley Bay did an excellent job in responding to the sinking. Unfortunately, two passengers remain unaccounted for and are presumed to have perished.

The Transportation Safety Board, as the lead investigation agency, along with Transport Canada and the RCMP, are conducting investigations into the cause of the sinking. We are also conducting our own internal investigation.

Looking ahead, we face a number of challenges. These include restoring service to northern communities, ongoing maintenance and reliability issues associated with the age of our fleet, high fuel costs which affect traffic and more stringent regulations. However, at the same time, we see clear opportunities to expand our business and develop new revenue sources. A strong Canadian economy, together with the strategic location advantages of BC to world trade, will be beneficial to the future of our business.

Our four goals described in this plan - productivity, asset management, customer service, and financial management - provide a framework for our efforts. Our Business Plan aligns with our 2003-2025 Strategic Plan and supports our vision while taking into account our changing business environment.
2 Organizational and Governance Overview

Although BC Ferries is one company, our 4,500 employees manage and operate various lines of business.

Together with our 4,500 employees, at BC Ferries we operate and manage one of the largest, most complex marine transportation systems in the world. Our frequent, year-round ferry services comprise 25 routes and carry 21.7 million passengers and 8.5 million vehicles annually. Our fleet of 34 vessels and our 47 terminals connect communities throughout coastal British Columbia.

As illustrated in the table below, we have one of the largest ferry fleets in the world.

<table>
<thead>
<tr>
<th>Comparison of Select World Class Ferry Operators</th>
<th>Passengers (millions)</th>
<th>Vehicles (millions)</th>
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<td>Alaska State Ferries (USA)</td>
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Lines of Business
While our primary business is the management and operation of our ferry transportation and terminal services, we also manage or operate significant ancillary businesses in connection with our transportation services. These include food and beverage services, reservation services and retail gift shops.

Subsidiaries
We have two active wholly-owned subsidiaries. Deas Pacific Marine Inc. conducts a significant portion of our maintenance, vessel refit and upgrade work. BCF Captive Insurance Company Ltd. was formed in 2005 to assist us in reducing insurance costs by increasing retentions (deductibles) and purchasing insurance more economically.

Governance
BC Ferries is an independent company, and we operate under a regulatory environment as defined by the Coastal Ferry Act. The primary objective of the Coastal Ferry Act is to ensure that BC Ferries operates in an independent manner that is safe, competitive, commercial and financially viable.

The B.C. Ferry Authority (BCFA), a non-share capital corporation established under the Coastal Ferry Act, holds the single voting common share of BC Ferries and appoints our Board of Directors. The Board of the BCFA is comprised of experienced individuals appointed from nominees put forth by various stakeholders from coastal British Columbia and the BC Ferry & Marine Workers’ Union (BCFMWU), as well as two appointees of the Province of British Columbia and two members appointed by the Board to represent the community-at-large.

British Columbia Ferries Commissioner
The British Columbia Ferries Commissioner is required to regulate fare and service levels for designated ferry route groups. The Commissioner is required to undertake regulation in accordance with several principles, including placing priority on the financial sustainability of ferry operators, encouraging ferry operators to adopt a commercial approach to ferry service delivery, and moving over time to a greater reliance on a user-pay system.

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. BC Ferries and the Province are also parties to the Coastal Ferry Services Contract as described below.

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 is five years and ends on March 31, 2008. Subsequent performance terms are every four years.

Master Agreement for Terminals
BC Ferries has leased the majority of its ferry terminal properties from the Province for a 60-year term that began on April 1, 2003.
3 Strategic Plan 2003-2025

Last year, we revised our vision, mission and value statements to emphasize employee innovation and pride as well as customer service. The new statements also reflect the role BC Ferries plays in making our west coast lifestyle enjoyable.

The Strategic Plan for BC Ferries is designed to guide our evolution into an independent, commercially-focused entity. Our 2003-2025 Strategic Plan set out our vision, mission, core values and planning framework for the development of all our major plans.

In the past year, the Board of Directors and senior executives of the company reviewed the key elements of our Strategic Plan. As a result, we have reaffirmed the direction of the strategic plan and revised our vision and mission statements to give further importance to customer service, employee innovation and employee pride in our organization.

In addition, the vision statement reflects the contribution we provide to our unique west coast lifestyle. Each of our 47 terminals is unique, and they serve as a gateway to the west coast lifestyle enjoyed in the communities we serve.

As well, we have added a core value centred around our employees. This addition attests to the fact that our employees are at the forefront of every segment of our customers’ experience, and are the ambassadors for BC Ferries.
3.1 Vision, Mission, Values and Objectives

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.

Our Values
Our core values represent the key corporate principles which guide us in how we conduct our business.

Safety
Ensure that the safety and security of our customers and staff is a primary concern in all aspects of doing business.

Quality
Be motivated by customer expectations in providing quality facilities and services.

Integrity
Be accountable for all our actions and ensure we demonstrate integrity in our business relations, utilization of resources, treatment of our customers and staff, and in the general conduct of our business.

Partnerships
Work openly and constructively with our various business and community stakeholders to exceed the expectations of our customers and advance each other’s interests.

Environment
Ensure that environmental standards are maintained.

Employees
Always deal from a position of honesty, integrity and mutual respect, and ensure that our employees develop to their full potential.

Our Long Term Objectives
Our Strategic Plan articulates long-term objectives for BC Ferries.

- Ensure a safe, secure and environmentally responsible marine transportation system.
- Establish a company-wide commitment to customer service.
- Foster a highly motivated, committed and flexible workforce.
- Establish pro-active and constructive relationships with communities and government.
- Respond to and develop market demand to increase revenue.
- Maximize enterprise value.
4 Accomplishments

*With a clear focus on developing our employees, revitalizing our assets and serving our customers better, we made substantial progress last year in building a better BC Ferries.*

4.1 Key Accomplishments

In the past year, we achieved our net income targets, which allowed for substantial progress in building a better BC Ferries.

**People**
- We developed new and improved programs for all employees focusing on safety, security and career development.
- We established an extensive program of management development and succession planning throughout the organization.
- We significantly improved productivity and employee relations while reducing time not worked by approximately 20 per cent.

**Customer Service Improvements**
- We launched a brand advertising campaign for BC Ferries featuring "Life on the Coast". Our market research told us that British Columbians see BC Ferries as an important symbol of BC and the west coast.
- On the highway approaches to Swartz Bay and Tsawwassen, we installed changeable, electronic message signs giving our customers real-time information on ferry sailings.
- We introduced several new price promotions targeting seniors, families and commercial traffic. We developed new travel promotions with the BC Lions and BCAA, and we launched our new stored value “Coast Card” for assured loading tickets.
- Upgrades to our vessels and terminals allowed for significant enhancements to food, beverage and retail offerings.

**Community, Stakeholder and Aboriginal Relations**
- We developed a BC Ferries Community Investment Program and posted the funding guidelines on www.bcferries.com.
- We continue to help children and adults in coastal communities participate in organized sport through the BC Ferries-Sport BC Sporting Life on the Coast travel assistance program and through fundraising proceeds from KidSport meals on-board our vessels fleet-wide.
Community, Stakeholder and Aboriginal Relations (continued)

- BC Ferries presented the Sport BC Community Sport Heroes Awards, on March 21, 2006 in Parksville and March 23, 2006 in Courtenay, to recognize local heroes who spend hundreds of hours volunteering to create a healthy sport environment for their community.
- We meet regularly with local government and First Nations, and consult with our Ferry Advisory and Terminal Liaison Committees on areas of mutual interest.
- We incorporated First Nations consultation into our service and terminal master planning.
- BC Ferries was the presenting sponsor of the 47th Annual All Native Basketball Tournament, February 6-12, 2006 in Prince Rupert, where more than 700 participants converged from the Central and North Coast of the province.
- We successfully coordinated the refurbishment and repatriation of a totem from the Tsawwassen terminal to Campbell River, which was dedicated on June 16 2005, and commissioned a new Tsawwassen First Nation totem for Tsawwassen Quay, culminating in a dedication ceremony on June 23, 2005.

Vessel Maintenance and Revitalization

- We completed long range maintenance plans for all vessels in the fleet and developed new fleet maintenance standards that will be implemented this fiscal year. A total of 28 vessels were refit in 2005/06 at a cost of over $43 million (not including capital upgrades).
- We carried out a mid-life upgrade on the Queen of Oak Bay, a life extension of the Queen of Nanaimo and upgraded the passenger areas on the Spirit of Vancouver Island. The M.V. Kwuna was fitted with new Right Angle Drives which provide improvements to reliability and fuel economy. We also finalized engineering designs for the three new Super C-Class vessels and expect to take delivery of the first vessel in the fall of 2007.
- We purchased the MV John Atlantic Burr which was disassembled, transported from Utah to Vancouver, and is being used to construct a larger vessel.
- We signed a letter of intent for the construction of a new intermediate class ferry to replace the aging Queen of Tsawwassen.
- We completed an extensive Failure Mode Effect and Criticality Analysis (FMECA) on the Queen of Oak Bay which will guide any potential redesign of C-class propulsion systems.

Terminal Revitalization

- We completed several improvements at our terminals, including a passenger area upgrade at Horseshoe Bay and the replacement of Berth 2 at Tsawwassen. At Swartz Bay, the addition of a new approach on Highway 17 was completed, and we began construction of a new berth using an innovative floating concrete design.
- We opened the Tsawwassen Quay in the summer of 2005. This 16,000 square foot retail facility at Tsawwassen terminal reflects the new vision for BC Ferries, in both its design and its food and retail offerings.
- We completed Terminal Master Plans for Alert Bay, Denman West, Buckley Bay and Departure Bay.
- We completed archaeological assessments and consulted with First Nations prior to development at our terminals.

Fuel Efficiency

- We completed the framework for achieving a minimum 2 per cent reduction in fuel consumption and greenhouse gas (GHG) emissions through the development of best operating practices for our fleet. We also installed electronic speed pilots on two vessels, and plan to install the system on more vessels in the next year.

Financial Management

- In response to an unprecedented increase in fuel costs, we filed two separate fuel surcharge applications with the BC Ferries Commissioner.
- We were successful in securing up to $16 million in grants from Industry Canada through the Structured Finance Facility (SFF) Program. The fund will cover financing costs up to 15 per cent of the value of a project. We are using these grants to reduce the interest payments on capital debt expenses for a number of vessel projects, including upgrades to the Queen of Oak Bay, the Queen of Surrey and the Queen of Nanaimo.
- We successfully negotiated a new property assessment regime with the B.C. Assessment Authority, to better reflect the value of our terminals. This will result in savings of at least $4 million annually.
- We entered into loan agreements for up to $180 million with the German Export Bank, KfW, to finance the purchase of two Super C-class vessels. The funds will be released upon the conditional acceptance of the vessels.

Safety and Security

- We are launching a comprehensive, multiphase strategy for improved security on our vessels and at our terminals. As part of this strategy we will continue to work closely with other Canadian ferry operators and Transport Canada in the development of security regulations for domestic ferries.
5 Situational Analysis

We continually monitor our business environment to identify trends, risk factors and opportunities. We are forecasting modest traffic volume increases and we see opportunities for growth in other markets.

As part of our planning process, we regularly undertake external and internal reviews of our business. The past year has been marked by changes in the economic environment including significant increases in the price of fuel, the rising value of the Canadian dollar and higher construction costs.

The Queen of the North sinking in late March of 2006 has focused management attention on immediate term service recovery, including supplemental barge and air transportation, as well as longer term asset acquisition to restore service levels. We are conducting an international search to lease or acquire a replacement vessel. However, it is important to note that even if we do find a replacement vessel for the Queen of the North, it will take several months to certify the vessel, implement a safety management system and familiarize our crews. We also plan to accelerate the process for the construction of up to three new northern vessels for which the Provincial government has announced funding.

The following trends, risk factors and opportunities may influence our future performance. These have been considered in the development of the strategies and tactics described in this Business Plan.

5.1 External Travel Demand

Vehicle and Passenger Traffic

Vehicle and passenger traffic for 2005/06 was 0.2 per cent and 1.3 per cent respectively lower than the previous year. This reduction in volume was attributed to several factors – including high fuel costs, a strong Canadian dollar, and concerns with the proposed new United States passport regulations. Our traffic projections for 2006/07 are for vehicles to grow 1.5 per cent and passengers to grow 1.6 per cent from 2005/06 levels. The forecast growth is consistent with traffic levels for the latter part of the 1990’s through 2005, as shown in the figure below.

Strong Economic Forecast

The provincial economy showed continued strength in 2005. BC’s Economic Forecast Council continues to revise their growth forecasts upward. In December 2005, the Council forecast B.C.’s real gross domestic product to increase by 3.7 per cent in 2006; by 3.3 per cent in 2007; and by 3.2 per cent for the years 2008 to 2010.

Domestic demand for goods and services is considered to be the main stimulus in the short to medium term. Key economic drivers include strong employment gains, healthy consumer spending, steady housing activity, increased non-residential construction, and ongoing international demand for natural resource commodities, prompted in part by continued growth in China.

Improvements in B.C.’s economy, increasing personal disposable income and population growth are all expected to contribute positively to ferry traffic in the near term.
Tourism Trends

Historically, there has always been a strong correlation between the volume of ferry traffic and tourism in coastal B.C. For example, in 2004 the Egyptian Exhibit at the Royal B.C. Museum in Victoria was successful in attracting a large number of visitors from outside of Victoria.

Looking forward, there are many positive factors for the BC tourism industry, all of which offer opportunities for BC Ferries:

- The North American Indigenous Games in 2008
- The Olympic games in 2010
- The Province of British Columbia’s investment in tourism marketing

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.

There are also several influences which may negatively affect BC tourism and ferry traffic in the coming years:

- high fuel costs
- a strong Canadian dollar
- the public’s concerns regarding security and terrorism
- public misconceptions surrounding the proposed new U.S. passport policy

Upcoming Changes in Cross-Border Travel for American Citizens

The U.S. government may begin to implement new regulations requiring all travellers - entering or re-entering the U.S from the Americas, the Caribbean and Bermuda - to hold a passport, or other accepted documents. The policy, which is also applicable to U.S. citizens, is to be applied to air, land and sea travel between these countries in the near future.

According to a January 2006 announcement by the head of U.S. Homeland Security, the initially proposed rules have changed. Rather than the passport requirement, it now appears that U.S. citizens will be able to get a “PASS” card – a small, smart card with passport-like features which they can use at border crossings when they return to the U.S. from Canada.

Increased Travel Booking via the Internet

Annually, BC Ferries’ website receives over 30 million page views from more than two million unique visitors. The increasing use of the internet by travellers planning and booking trips is expected to continue. Globally, by the end of 2008, online travel reservations are forecast to grow to 22 per cent of all bookings. This presents an ongoing opportunity for BC Ferries to maximize the role of our website as not only an information source, but also a sales point and distribution channel.

Growth in Commercial and Container Traffic

Growth in the volumes of commercial semi-trailer and container traffic represents a market opportunity for BC Ferries.

Container traffic to Vancouver Island (typically travelling via drop trailer), is expected to expand as overseas container movements to the Vancouver Gateway increase, and as the larger, “big box” retailers continue to locate on Vancouver Island. This trend has been enhanced by the federal Pacific Gateway Strategy, which includes up to $590 million in specific measures and commitments to enhance the effectiveness of the Pacific Gateway. By 2020, container cargo coming through British Columbia’s ports is expected to increase by up to 300 per cent, from 1.8 million containers to 5 to 7 million containers.
5.2 Regulatory Issues

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. Those routes include: Mill Bay to Brentwood Bay (Route 12); Powell River to Comox (Route 17) and Powell River to Texada Island (Route 18); and the Northern Routes. The Company is proceeding with activities to implement the ASP Plan.

More Stringent Transport Canada Regulations

Transport Canada regulates safety on our vessels by authority of the Canada Shipping Act. It is expected that a revised Act will be implemented in the near future and will include more stringent regulations. Given the age of our fleet, these revised regulations may significantly affect the useful life of some of our vessels.

Focus on Security

Security on ferry vessels and related marine terminal facilities remains relatively unregulated in Canada. Up to this point, Transport Canada has focused primarily on aviation and, more recently, international ports.

A November 2005 announcement by Transport Canada identified the need for increased security for domestic ferry operators. The marine transportation contribution funding program is expected to be made available to domestic operators. BC Ferries, with other members of the Canadian Ferry Operators Association and Transport Canada, have established a committee to develop security regulations for domestic ferry operations. It is expected these regulations will be in place in the near future.

Environmental Regulations

Given the age of our fleet and the fact that older vessels consume more fuel, future environmental regulations are expected to have an impact on our operations. Recent meetings with Industry Canada, Environment Canada and the Greater Vancouver Regional District have confirmed the trend towards stricter regulations.

The International Maritime Organization has set out new requirements specifying that all marine engines, either new or substantially rebuilt and installed after 2000, must meet specific limits with respect to the emission of nitrogen and sulphur oxides.

With respect to sewage, new federal provisions regarding marine waste water disposal sewage take effect in 2006. All BC Ferries’ vessels must be compliant by 2011; however, all new vessels must be compliant upon delivery. We have developed a strategy to ensure the 2011 target is met.

First Nations

There are many aboriginal communities in coastal British Columbia. We are committed to building relationships with these key communities and to taking a proactive approach as issues regarding changes in First Nations aboriginal law and government policies arise.
5.3 External Cost Factors

Volatile Fuel Costs

Fuel is our second largest operating expense. At a forecast average price above $66 US/barrel, the price of oil in 2006 is expected to be more than double the historical cost from 2000 to 2003.

As a result of high increases in fuel prices last year, we submitted two separate applications to the BC Ferries Commissioner for fuel surcharges to be placed on vehicle and passenger fares. The approved surcharges, which will be reviewed by the Commissioner when and if fuel prices drop, are summarized below.

The most recent ruling by the Commissioner requires BC Ferries to take steps to reduce fuel consumption by 1 per cent in each of the next two years. The Commissioner has also committed to review fuel prices in May/June 2006. These fuel surcharges are expected to reduce and potentially eliminate the balance in BC Ferries’ fuel deferral account by the beginning of the next performance term.
Pressure on Construction Costs
In recent years, low interest rates, strong economic growth and a series of large-scale major construction projects related to B.C.’s preparations for the 2010 Olympics have increased demand for construction. 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 this area will remain high over the next three years.

Vessel construction and repair costs are also affected by the booming construction sector. Shipyards around the world are operating at close to capacity, and there is limited competition to choose from on the West Coast. 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.

Fluctuating Exchange Rates
At BC Ferries, we are exposed to currency fluctuations through our exposure to US dollars. We accept United States currency as payment for goods and services, and the price of our fuel is heavily influenced by the US dollar.

In early May of 2006, the Canadian dollar rose above 90 cents US for the first time since the late 1970s. Continued volatility is expected in the coming year.
5.4 External Competitive Pressures

In the past three years, new competitors have emerged in both the passenger only market as well as the commercial (drop trailer) traffic market. In the coming year, we expect competition may increase in these markets with the potential emergence of private sector vehicle and passenger ferry services operating from the Mainland to Vancouver Island. Barriers to entry for private sector vehicle and passenger ferry services remain high and include the high cost of vessel and terminal infrastructure.

Competition in the commercial traffic drop trailer market, dominated by Seaspan Coastal Intermodal Company, has increased with the emergence of Van Isle Barge Services Inc. in April 2004. While BC Ferries provides drop trailer service on some Northern Routes, only truck and driver commercial service (live trailer) is currently provided on the key Mainland / Vancouver Island routes. In addition, in the last 10 years, the drop trailer market has grown at a faster rate than the live trailer market which has resulted in a loss of market share for BC Ferries.

The potential exists for drop trailer operators 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. Seaspan Coastal Intermodal Company, a subsidiary of the Washington Marine Group, announced in December 2005 it is examining the feasibility of operating a new ferry service between downtown Vancouver and Duke Point utilizing one or more of its three PacifiCat fast ferries. The company has stated it will make a decision in 2006.

Between Vancouver Island and the Mainland, air travel remains a premium alternative to ferry travel for time-sensitive travellers.
5.5 Internal Factors

Aged Vessel Infrastructure

While we have one of the largest fleets compared to other major ferry operators around the world, our assets are among the oldest, as shown in the figure below:

![Comparison of Select World Class Ferry Operators](image)

Last year we invested more than $140 million in maintenance and capital upgrades to improve the reliability of our vessels. Nevertheless, we expect that reliability issues will continue to challenge our operations in the years ahead until we are able to upgrade and replace a large share of our fleet.

Workforce Issues

Our employees are our most important asset; however, we have an aging workforce and a number of our employees possess skill sets that are increasingly in demand.

Collective Agreement

Our collective agreement, which remains in effect until October 2010, provides us with labour stability and flexibility. The agreement allows us to offer the services our customers expect, to increase our operational efficiency and enables all employees to contribute to, and share in, our success.

Pursuing 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 which maintain this advantage and/or grow our business.
6 Business Plan Goals

*Our Business Plan strategies are structured around four key areas critical to our success: productivity, asset management, customer service, and financial management.*

Our Business Plan is structured around four key areas, each with a specific goal:

1. **Productivity**
   To build a better BC Ferries, each area of our company must operate efficiently and effectively. Therefore, we need to assess how well we are performing and explore new opportunities to improve our business productivity.
   - **Our business productivity goal is to achieve a competitive advantage by operating efficiently and effectively.**

2. **Asset Management**
   Our employees are our most important asset. Providing them with the right tools and training is critical to our success. At the same time, we need to upgrade and replace our vessels, terminals and other infrastructure to ensure these assets are up to the task of delivering world-class service.
   - **Our asset management goal is to have the right people with the right skills in the right jobs — and to operate world-class vessels and terminals.**

3. **Customer Service**
   Our customer is of primary importance to us and we are committed to customer service. We strive to operate services that exceed our customers’ expectations and provide all of the communities we serve with the highest level of service.
   - **Our customer service goal is to achieve high customer satisfaction and loyalty.**

4. **Financial Management**
   We will focus on improving the financial strength of our company while keeping our fares affordable for our customers. Considering the major investments required to upgrade and replace our aging infrastructure and the ongoing increase in fuel costs, achieving these dual objectives will be a challenge.
   - **Our financial performance goal is to achieve our financial targets, ensuring we have the resources available to revitalize our fleet and facilities.**
6.1 Productivity

**GOAL — To achieve a competitive advantage by operating efficiently and effectively.**

**Strategies and Tactics**

**Strengthen the Management of Operations**

It is important for us to establish the right organizational structure to best serve our customers. We also need to ensure our employees clearly understand their accountabilities 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. We are enabling front line management to make key business decisions, and this helps the company capitalize on their energy and creativity. We will:

- Realign our operations to focus on fleet operations, terminal operations and engineering
- Implement a new vessel construction team to ensure the safe and efficient integration of new ships

**Maintain a Strong Relationship with the Commissioner**

Working closely with the Commissioner and the Province to ensure that we continue to meet all of the regulatory obligations under the *Coastal Ferry Act* and the Coastal Ferry Services Contract, we will:

- Develop and implement revised route service schedules where appropriate
- Work with the Province to refine Core Service Levels in preparation of Performance Term 2
- Work with the Commissioner regarding price caps for Performance Term 2

**Achieve Regulatory Efficiencies**

Working closely with Transport Canada and other agencies, our goal is to minimize the uncertainty around proposed regulatory changes to allow our company to better coordinate regulatory improvements with other scheduled work. We will:

- Maintain regular meetings with Transport Canada to improve our relationship and reduce regulatory uncertainty
- Participate with other Canadian ferry operators and Transport Canada in establishing new security regulations

**Implement Enabling Information Systems**

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

- Complete the implementation of new crewing, scheduling and time-collection systems
- Work with Ferry Advisory Committees to expand the application of the Coast Card and implement electronic fare collection, including automated ticketing
- Introduce communication infrastructure that improves wireless access to our vessels
- Redesign customer facing systems including the website and the online reservations system

<table>
<thead>
<tr>
<th>Productivity Measures</th>
<th>2005/06 Actual</th>
<th>2006/07 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity Index (EBITDA / FTEs)*</td>
<td>$37,621</td>
<td>$39,000</td>
</tr>
<tr>
<td>Efficiency Index (Customers per Consolidated FTEs)</td>
<td>6,382</td>
<td>6,489</td>
</tr>
</tbody>
</table>

* EBITDA stands for “Earnings before Interest, Taxes, Depreciation and Amortization”. FTEs are “Full Time Equivalent Employees”. For the Productivity Index, EBITDA and FTE calculations include the Deas Pacific Marine Inc. (DPMI) subsidiary. Targets for 2006/07 are based on the 2006/07 Budget which was approved by the BCF Board of Directors on February 28, 2006 and do not include any impacts resulting from the Queen of the North incident.


6.2 Asset Management (Employees/Infrastructure)

GOAL — To have the right people with the right skills in the right jobs — and to operate world-class vessels, terminals and systems.

Strategies and Tactics

Engage, Leverage and Develop Our Human Capital
To create a competitive people advantage requires us to build a skilled workforce that is performance-based and service-oriented. We will:
• Leverage our employee development training programs
• Identify and encourage off-shore training opportunities
• Launch a Ferry Academy
• Leverage the seven-year collective agreement
• Enhance employee/union/management relations
• Develop and implement progressive human resource practices

Improve Infrastructure Asset Management
We are implementing initiatives to address our aged terminal and vessel infrastructure through upgrades and replacements. This includes managing these assets better through strategic long-term asset management plans. We will:
• Develop terminal and vessel master plans
• Develop standardized maintenance plans for each vessel

Meet or Exceed Safety and Security Regulations
At BC Ferries, safety and security for both employees and customers are priority number one. We will:
• Review vessel and terminal evacuation plans and update where necessary
• Implement lifesaving appliance and structural fire protection upgrades to our vessels
• Continue to enhance our world-class safety programs
• Implement a comprehensive fleet-wide security plan

Meet or Exceed Environmental Standards
We will reduce our environmental footprint by reducing fuel consumption of our vessels and increasing the energy efficiency of our company. We will:
• Implement fuel consumption reduction programs
• Implement sewage treatment upgrades

### Asset Management Measures

<table>
<thead>
<tr>
<th></th>
<th>2005/06 Actual</th>
<th>2006/07 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EMPLOYEES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Wellness (100% - days lost due to illness)</td>
<td>94%</td>
<td>94.5%</td>
</tr>
<tr>
<td>Employee Retention (100% - employee turnover)</td>
<td>90%</td>
<td>91%</td>
</tr>
<tr>
<td>Employee Safety Index ((Frequency X Severity)/1000)*</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessel Reliability Index (100% - Lost or cancelled sailings**)</td>
<td>99.6%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Average Age of Vessels (Sum of Vessel Age / Total Vessels)</td>
<td>32.4</td>
<td>33.4</td>
</tr>
<tr>
<td>Average Age of Terminal Infrastructure—Marine</td>
<td>16.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Average Age of Terminal Infrastructure—Uplands</td>
<td>15.7</td>
<td>15.3</td>
</tr>
<tr>
<td>Fuel Consumption (millions of Litres)***</td>
<td>118.0</td>
<td>118.4</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.

** Lost or cancelled sailings excludes cancellations due to weather, medical emergencies and marine rescues.

*** The fuel consumption target of 118.4M Litres for 2006/07 represents a 1% reduction from 2005/06 after the 2005/06 consumption is “normalized” to account for exceptional circumstances which included, among other things, extended refits for both the *Spirit of Vancouver Island* and the *Queen of Nanaimo*. The 2006/07 target does not include any fuel consumption impacts resulting from the *Queen of the North* sinking.
6.3 Customer Service

**GOAL — To achieve high customer satisfaction and loyalty.**

**Strategies and Tactics**

**Increase Customer Service and Pursue New Market Opportunities**

At BC Ferries, we continually strive to improve our customers’ experience thereby increasing our customer usage and our 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
- Utilize new technologies to improve customer service
- Implement new marketing programs to build awareness and grow revenue
- Explore new business opportunities and partnerships
- Implement integrated sales solutions for the commercial traffic market
- Encourage new travel through innovative pricing
- Leverage opportunities associated with the 2010 Olympic Games

**Enhance Community, Stakeholder and First Nations Strategies**

At BC Ferries, our terminals represent a gateway to each community along the coast of British Columbia. We recognize that we provide a vital transportation link for the people of B.C. As a result, all the communities we serve have a deep and strong connection to BC Ferries. To build on these relationships, which includes First Nations, stakeholders and neighbours, we must continue to implement initiatives that improve our communications and foster the exchange of information. We will:

- Enhance First Nations relationships
- Work closely with the Cowichan Tribes and the Organizing Committee of the 2008 North American Indigenous Games
- Implement a community investment strategy
- Enhance public consultations
- Expand government and media relations

<table>
<thead>
<tr>
<th>Customer Service Measures</th>
<th>2005/06 Actual</th>
<th>2006/07 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Time Performance – Major Routes (1, 2, 3 and 30)</td>
<td>86.0%</td>
<td>86.0%</td>
</tr>
<tr>
<td>On-Time Performance – Southern &amp; Northern Islands</td>
<td>93.0%</td>
<td>93.0%</td>
</tr>
<tr>
<td>On-Time Performance – North Coast 10, 11, 26 &amp; 40</td>
<td>84.6%</td>
<td>84.6%</td>
</tr>
<tr>
<td>Overall Customer Satisfaction (out of 5)</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Customer Safety Index (# customer injuries / 1,000,000 customers)</td>
<td>0.61</td>
<td>0.60</td>
</tr>
</tbody>
</table>
6.4 Financial Management

**GOAL** — To achieve our financial targets, ensuring we have the resources available to revitalize our fleet and facilities.

After payment of our dividend obligations to the preferred shareholder (Province of British Columbia), all of our net earnings are retained and reinvested in the company.

**Strategies and Tactics**

**Long-Term Financial Planning**

To ensure we can replace our aged infrastructure in a cost effective and efficient manner, we must remain on track with our long term financing plans. We will:

- Manage long-term capital and operating plans
- Pursue duty remission on our three Super C-class vessels
- Review our financing strategy
- Implement new fuel consumption initiatives to achieve 1 per cent reduction targets

<table>
<thead>
<tr>
<th>Financial Management Measures*</th>
<th>2005/06 Actual</th>
<th>2006/07 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets (Net Earnings / Average Assets)</td>
<td>6.24%</td>
<td>5.95%</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>4.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Leverage Ratio (at Year end)</td>
<td>82.0%</td>
<td>78.8%</td>
</tr>
<tr>
<td>EBITDA (millions)</td>
<td>$128.1</td>
<td>$134.0</td>
</tr>
<tr>
<td>Net Earnings (millions)</td>
<td>$49.9</td>
<td>$53.2</td>
</tr>
</tbody>
</table>

* Financial Management targets for 2006/07 are based on the 2006/07 Budget which was approved by the BCF Board of Directors on February 28, 2006. They do not include any impacts resulting from the Queen of the North incident.
7 Financial Plan

Our Financial Plan ensures our strategies and tactics are affordable.

Our financial plan supports the strategies and tactics within this business plan. It contains information on our 2006/07 operating and capital budgets.

7.1 Operating Budget

For 2006/07, we are budgeting for a net income of $53.2 million. This is based on budgeted revenues of $600.2 million, offset by budgeted total expenditures of $547.0 million.

Operating Budget

<table>
<thead>
<tr>
<th>Millions</th>
<th>2005/06 Actual**</th>
<th>2006/07 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tariff</td>
<td>$353.6</td>
<td>$371.5</td>
</tr>
<tr>
<td>Catering &amp; Other Revenues</td>
<td>$91.5</td>
<td>$94.6</td>
</tr>
<tr>
<td>Federal Contract</td>
<td>$24.9</td>
<td>$25.4</td>
</tr>
<tr>
<td>Coastal Ferry Services Contract</td>
<td>$108.2</td>
<td>$108.7</td>
</tr>
<tr>
<td>**</td>
<td>$578.2</td>
<td>$600.2</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations, Maintenance and Administration</td>
<td>$425.4</td>
<td>$439.0</td>
</tr>
<tr>
<td>Catering Cost of Goods Sold</td>
<td>$27.0</td>
<td>$27.2</td>
</tr>
<tr>
<td>Net Financing Expense</td>
<td>$23.0</td>
<td>$21.7</td>
</tr>
<tr>
<td>Amortization</td>
<td>$52.9</td>
<td>$59.1</td>
</tr>
<tr>
<td>**</td>
<td>$528.3</td>
<td>$547.0</td>
</tr>
</tbody>
</table>

Net Earnings

$49.9  $53.2

* All 2006/07 Operating and Capital Budget figures are as approved by BC Ferries Board of Directors on February 28th, 2006. Accordingly, the budget figures do not reflect any potential changes in budgeted revenues, expenditures or capital expenditures associated with the Queen of the North sinking.

** Certain of the actual 2005/06 figures have been reclassified from those contained in the consolidated financial statements to conform to the presentation adopted for the 2006/07 budget.
7.2 Revenues

Our revenues are budgeted to grow by 3.8 per cent in the next year.

Federal-Provincial Subsidy Agreement
This longstanding agreement between the federal government and the provincial government for ferry services is indexed to the Vancouver CPI. The proceeds of this agreement are forwarded to BC Ferries under the terms of the Coastal Ferry Services Contract. In the next year, revenue from this source is expected to grow by 2 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 for overseeing service provided on the eight non-regulated routes by independent operators. Over the next year, revenue in this area is expected to grow by 0.5 per cent. This growth is attributed to increased tariff rates and increased travel by seniors and students.

Fare Revenue
Fare revenue is driven by our tariff rates and traffic volume and is expected to increase by 5.1 per cent in 2006/07 as tariff rates are forecast to increase at 2.8 per cent for the Major Routes and 4.4 per cent for all other routes. In 2006/07, passengers are expected to grow 1.6 per cent and vehicles 1.5 per cent.

Non-Fare Revenue
Gross catering and retail revenues make up the largest component of this revenue category. For the next year non-fare revenues are expected to increase by 3.4 per cent. This growth will be driven through a combination of onboard vessel design improvements, new product introduction, sponsorships and advertising exposure revenue.
7.3 Expenses

Our expenses are budgeted to grow by 3.5 per cent over the next year.

Operations, Maintenance and Administration
For 2006/07, costs in this area are expected to grow by 3.2 per cent. This growth can be attributed to two factors: higher wages reflecting the implementation of our collective agreement and increased pressures to maintain our aging fleet. These increases are partially offset by savings in administration costs.

Fuel
Fuel is our second largest operating expense. Expenditures in this area are affected by four factors: total consumption, the price per barrel (which is in US dollars), refining premiums, and the exchange rate. To address volatility in world prices, the Commissioner has authorized the use of a fuel deferral account.

Catering Cost of Goods Sold
For 2006/07, costs in this area are expected to grow by 0.7 per cent. This growth is due to an increase in sales and increases in the price of goods we purchase from other manufacturers and suppliers, such as food and retail products.

Net Financing
In 2006/07, our net financing expense is expected to decrease by 5.7 per cent. The decrease is primarily due to interest rate support recorded under the Structured Financing Facility (SFF) Program offered by the Government of Canada. Several vessel upgrade projects have qualified for the SFF including the Queen of Surrey Mid Life Upgrade (MLU), the Queen of Nanaimo Life Extension and the Queen of Oak Bay MLU.

Amortization
In 2006/07, amortization costs are expected to increase 11.7 per cent. This increase reflects new capital assets coming into service during 2005/06 as well as 2006/07. Two of the larger capital projects to be completed in 2006/07 include the Queen of Surrey MLU and the Spirit of Vancouver Island Upgrade.
7.4 Capital Budget

To upgrade and replace our aged assets, we are budgeting capital expenditures of $180.3 million in 2006/07*.

We utilize capital assets with a replacement value of approximately $3.8 billion. Our ferry services are supported by 34 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 aged infrastructure — specifically, vessels and terminals. The planned capital investments over the next year address this issue and include:

<table>
<thead>
<tr>
<th>Vessels</th>
<th>Terminals</th>
<th>Information Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mid-life upgrade of the Queen of Alberni</td>
<td>• Upgrades to our terminal facilities at Departure Bay, including a new retail building.</td>
<td>• Investments in customer-facing projects such as automated ticketing and upgrades to the web site.</td>
</tr>
<tr>
<td>• Upgrade of the Queen of New Westminster</td>
<td>• Replacement of significant marine structures at a number of our terminals, including Buckley Bay, Departure Bay, Horseshoe Bay, Swartz Bay, Tsawwassen, Hornby Island and Village Bay.</td>
<td>• Improvements to company support systems and hardware upgrades to increase the productivity and security of our enterprise systems.</td>
</tr>
<tr>
<td>• Rebuilding hull 259, originally the MV John Atlantic Burr</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Budget by Asset Type (millions)</th>
<th>2006/07 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel Projects</td>
<td>$92.1</td>
</tr>
<tr>
<td>Terminal Projects</td>
<td>$72.6</td>
</tr>
<tr>
<td>Information Systems and Other Projects</td>
<td>$15.6</td>
</tr>
<tr>
<td>Total</td>
<td>$180.3</td>
</tr>
</tbody>
</table>

* The Capital Budget figures are as approved by BC Ferries’ Board of Directors on February 28th, 2006. Accordingly, the figures do not reflect any potential changes in capital expenditures associated with the Queen of the North sinking.
8 Conclusion

Our Business Plan reflects our renewed focus on offering an ever-improving and truly west coast experience to the residents, tourists and commercial customers who travel with BC Ferries. With a refined statement of our vision, mission and core values and a clearer emphasis on the pride and innovation of our employees, our Business Plan and our 20 year Strategic Plan are now more fully aligned.

The strategies and tactics outlined within this Business Plan will ensure that we are responsive to our changing business environment. Our focus on our four goals will help ensure that we:

- Achieve a competitive advantage by operating efficiently and effectively
- Have the right people with the right skills in the right jobs and provide world-class vessels, terminals and systems
- Continue to achieve high levels of customer satisfaction and grow our customer base to increase our revenues
- Achieve our financial targets and improve our financial position

Providing a continuously improving west coast experience can only be achieved with the support of our employees, our customers, and the communities we serve throughout coastal British Columbia. Only by working together will we be successful in “Building a Better BC Ferries”.