Business Plan 2005/06
Building a Better BC Ferries
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, 2005 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.
Introduction and Purpose

“Our province deserves a world-class marine transportation system... and that is what we are building at BC Ferries.”

BRITISH COLUMBIA is a world-class destination in which to live, to work and to visit. Our province deserves a world-class marine transportation system... and that is what we are building at BC Ferries.

We are focused on “Building a Better BC Ferries” in pursuit of our vision of managing and operating a world-class marine transportation system.

Last year, we continued the process of transforming and rebuilding our company, a process that achieved a number of significant accomplishments at BC Ferries. Specifically, we secured a seven-year collective agreement, launched our vessel replacement program with the signing of a contract for the construction of three Super C-class vessels, started upgrading our two largest terminals and successfully raised a half-billion dollars of financing on capital markets. As well, we introduced a number of customer service improvements that have resulted in an overall increase in our customer satisfaction ratings.

As we look forward in this plan, it is apparent that some challenges lie ahead. Our regulatory environment is becoming more stringent and complex. There is heightened focus on implementing increased security measures. Fuel and construction costs are high and expected to remain so for the foreseeable future. Our aging infrastructure will put pressure on maintenance expenditures until our vessel replacement program is complete.

At the same time, there are many positive signs. A strong provincial economy, together with growing tourism, are expected to support a steady growth in customers. In addition, a number of our terminals and vessels will be upgraded to better meet the needs of our customers.

This Business Plan, which supports our Strategic Plan, outlines what we intend to accomplish at BC Ferries over the next year.
Our Vision

Our Strategic Plan’s vision describes our desired future.

* A world-class marine transportation system that is customer-focused and financially viable.

Our Mission

Our mission statement sets out our organizational purpose and identity.

* To provide a safe, reliable and efficient ferry service which consistently exceeds the expectations of our customers and communities, and creates value for the shareholder.

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.
In addition, our Strategic Plan articulates six 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 governments
- Respond to and develop market demand to increase revenue
- Maximize shareholder value
Organizational Review

“With our 4,500 employees, we manage and operate one of the largest and most complex marine transportation systems in the world.”

At BC Ferries, we operate and manage one of the largest and most complex marine transportation systems in the world. With our 4,500 employees, we provide frequent year-round ferry transportation services on 25 routes, supported by 35 vessels and 47 terminals, connecting ports of call throughout coastal British Columbia. We also manage eight other remote routes through contracts with seven independent operators.

During each of the last two years, our revenues have exceeded $500 million. The majority of our revenues come from fares paid by our valued customers, which include commuters, tourists and commercial truck operators delivering products throughout British Columbia.

In comparison to other major ferry operators around the world, we have the largest fleet and most terminals. In addition, our traffic volumes are second only to Washington State Ferries, who generally operate shorter commuter routes.

Comparison of World Ferry Operators (March 2005)

<table>
<thead>
<tr>
<th></th>
<th>Passengers (millions)</th>
<th>Vehicles (millions)</th>
<th>Vessels</th>
<th>Terminals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington State Ferries</td>
<td>25.1</td>
<td>10.8</td>
<td>29</td>
<td>20</td>
</tr>
<tr>
<td>BC Ferries</td>
<td>22.0</td>
<td>8.6</td>
<td>35</td>
<td>47</td>
</tr>
<tr>
<td>Scandlines</td>
<td>19.9</td>
<td>4.7</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>Caledonian MacBrayne</td>
<td>4.9</td>
<td>1.9</td>
<td>29</td>
<td>40</td>
</tr>
<tr>
<td>Colour Line</td>
<td>4.1</td>
<td>0.7</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Moby</td>
<td>2.9</td>
<td>0.9</td>
<td>16</td>
<td>n/a</td>
</tr>
<tr>
<td>Sea France</td>
<td>2.7</td>
<td>1.0</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Blue Star Ferries</td>
<td>2.5</td>
<td>0.5</td>
<td>13</td>
<td>n/a</td>
</tr>
<tr>
<td>Hoverspeed</td>
<td>2.5</td>
<td>0.5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Minoan Liens</td>
<td>1.8</td>
<td>0.4</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Alaska State Ferries</td>
<td>0.3</td>
<td>0.2</td>
<td>9</td>
<td>20</td>
</tr>
</tbody>
</table>

Legend 1st 2nd
Organization

While we are one company, we manage and operate various lines of business. Our primary business is the management and operation of our ferry transportation and terminal services. We also manage/operate significant ancillary businesses in connection with our transportation services, including food and beverage services, reservation services and retail gift shops.

We have two active wholly-owned subsidiaries: Deas Pacific Marine Inc., which conducts a portion of our maintenance and refit operations; and BCF Captive Insurance Company Ltd., formed in 2005 to assist us in protecting our operating unit results from the impact of large losses, to facilitate access to insurance wholesalers and to promote effective allocation of claim costs to vessels and routes.
Accomplishments 2004/05

“Last year, we continued the process of transforming and rebuilding our company, a process that achieved a number of significant accomplishments . . .”

Key Accomplishments (2004/05)

Employee Certainty
- We achieved a long-term, seven-year collective agreement which will provide stability and certainty for our employees and customers.

Vessel and Terminal Revitalization
- We signed a contract with Flensburger Schiffbau-Gesellschaft, for the delivery of three new Super C-class vessels starting in 2007.
- We completed a number of capital projects, including the mid-life upgrade on the Queen of Cowichan, passenger area upgrades on the Spirit of British Columbia, renovations to the Queen of Prince Rupert, life extension of the North Island Princess, and retail gift shop expansion on the Spirit of Vancouver Island.

Customer Service Improvements
- We upgraded our online and telephone reservation systems. Vital and timely information, including current conditions on sailings and terminal status, is now accessible online to our customers.
- We redesigned and enhanced our website, www.bcferries.com to assist in travel planning.

Financing Platform
- We expanded our innovative travel programs, such as “SailPass”, to provide customers with convenient and affordable ways to enjoy British Columbia’s spectacular coastal destinations.
- We secured our capital markets financing platform and raised $500 million through the issuance of two series of bonds.
Tsawwassen Quay
Opened Summer, 2005
2005/06 Business Plan Goals

Our 2005/06 Business Plan is structured around four key areas, each with a specific goal:

01 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 functioning and explore new opportunities to improve our productivity.

**Our productivity goal is to achieve a competitive advantage by operating efficiently and effectively.**

02 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 they are capable 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 provide world-class vessels, terminals and systems.**

03 Customer Service and Market Development

Our customer is of primary importance to us and we are committed to customer service. We strive to provide services that exceed our customers’ expectations and to provide all communities we serve with the highest level of service.

**Our customer service and market development goal is to achieve high customer satisfaction and loyalty and to grow our customer base to increase revenues.**

04 Financial Management

We will focus on improving the financial strength of our company while keeping fares affordable for our customers. Considering the major investments required to upgrade and replace our aging infrastructure, achieving these dual objectives will continue to be challenging.

A key component of our financial plan is to continue to secure favourable financing. The more successful we are in achieving our financial targets, the better the rate we will receive from our lenders.

**Our financial performance goal is to achieve our financial targets. (as outlined on page 18)**
Our goals will help us focus our efforts over the next year to align and support our long-term Strategic Plan. The following sections define the specific performance measures for each goal as well as the supporting strategies and tactics.
**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 have developed a new business model for Operations based on establishing clear accountabilities and responsibilities. This model enables front line management to make key business decisions, capitalize on their energy and creativity and benefit from achieving performance targets. Over the next year, we will:

- Implement three pilot projects to assess and refine this model

**Build a Strong Relationship with the Commissioner**

Working closely with the Commissioner 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:

- Report regularly on our performance as required by the *Coastal Ferry Act*
- Implement the Alternative Service Providers Plan that we filed with the Commissioner in accordance with section 69 of the *Coastal Ferry Act*

**Achieve Regulatory Efficiencies**

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

- Continue to meet regularly with Transport Canada to reduce regulatory uncertainty.

**Implement Enabling Information Systems**

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

- Implement the Crewing, Human Resources and Time-Collection (CHaRTS) and the Catering and Retail (CRISP) systems
- Introduce magnetic stored value cards for assured loading customers (Coast Card) to increase convenience and reduce administrative costs.

"GOAL - To achieve a competitive advantage by operating efficiently and effectively"
### Performance Measures—Productivity

<table>
<thead>
<tr>
<th>Measure</th>
<th>04/05 Actual</th>
<th>05/06 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce Efficiency</td>
<td>$178,000</td>
<td>$185,000</td>
</tr>
<tr>
<td>(company revenue per FTE*)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passengers per Operational FTE*</td>
<td>8,292</td>
<td>8,406</td>
</tr>
</tbody>
</table>

*FTE = Full Time Equivalent
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:
• Continue to improve and capitalize on our employee/union/management relations
• Develop and implement progressive human resource practices
• Leverage our development training programs to ensure our employees have the right skills
• Provide an environment that employees choose for a long term career

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

Meet or Exceed Safety and Security Regulations
Safety and security issues for both employees and customers are our top priority. Each is taken into account when designing new vessels and terminals. We will:
• Complete vessel evacuation analyses
• Implement lifesaving appliance and structural fire protection upgrades to our vessels
• Continue with our worksite safety and security training programs for employees

Improve Infrastructure Asset Management
We must implement initiatives to address our aged terminal and vessel infrastructure through upgrades and/or replacements. This will include opportunities to better manage these assets through strategic long-term asset management plans. We will:
• Develop and implement terminal and vessel Master Plans
• Continue to renew and revitalize our fleet and terminals

“GOAL - To have the right people with the right skills in the right jobs – and to provide world-class vessels, terminals and systems”
### Performance Measures— Asset Management

<table>
<thead>
<tr>
<th>Measure</th>
<th>04/05 Actual</th>
<th>05/06 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital Investment per FTE*</td>
<td>$3,619</td>
<td>$3,619</td>
</tr>
<tr>
<td>Training Hours per FTE*</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>Workforce Turnover</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Injury Frequency**</td>
<td>10.3</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age of vessels</td>
<td>32.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Average age of terminal</td>
<td>Marine: 16.6</td>
<td>16.1</td>
</tr>
<tr>
<td>infrastructure</td>
<td>Uplands: 15.9</td>
<td>14.1</td>
</tr>
<tr>
<td>Round Trips lost due to</td>
<td>Terminals: 3</td>
<td>4.5</td>
</tr>
<tr>
<td>mechanical failure</td>
<td>Vessels: 91.5</td>
<td>62.0</td>
</tr>
<tr>
<td>Vessel Emissions (millions of kg of NOx)</td>
<td>6.25</td>
<td>6.07</td>
</tr>
</tbody>
</table>

*FTE = Full Time Equivalent

** Number of time-loss injury claims per 100 person-years of employment
Strategies and Tactics

Increase Customer Service and Pursue New Market Opportunities
At BC Ferries, we must continue to pursue initiatives that improve the overall customer experience, thereby increasing our customer usage and our revenue. This includes listening to our customers and evaluating their suggestions. We will:

- Introduce new passenger area upgrades and products at Horseshoe Bay and Departure Bay terminals
- Implement passenger area upgrades on the Spirit of Vancouver Island
- Implement a new marketing program to build awareness and grow revenue (Life on the Coast)
- Expand our performance plan to improve customer service during peak travel times
- Utilize new technologies, such as magnetic stored value cards for assured loading customers (Coast Card) to improve customer service
- Increase our knowledge of our customers’ needs and expectations to improve customer service
- Install new information signage on the approaches to various terminals
- Develop new business opportunities and partnerships
- Encourage new travel through innovative pricing

Enhance First Nations and Stakeholder Relations
BC Ferries represents a vital transportation link for the people of British Columbia. As a result, all the communities we serve have a deep and strong connection to BC Ferries. To enhance our relationships with these communities, 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:

- Build our First Nations, community, media and government relationships
- Develop a service strategy for Route 17/18 (Northern Sunshine Coast)
- Expand First Nations art displays at terminals and onboard vessels

“GOAL - To achieve high customer satisfaction and loyalty and to grow our customer base to increase revenues”
### Performance Measures— Customer Service and Market Development

<table>
<thead>
<tr>
<th>Measure</th>
<th>04/05 Actual</th>
<th>05/06 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Time Performance (compared to scheduled departures)</td>
<td>84.3%</td>
<td>85.3%</td>
</tr>
<tr>
<td>Overall Customer Satisfaction</td>
<td>88%</td>
<td>89%</td>
</tr>
<tr>
<td>Annual Passenger Traffic Growth</td>
<td>3.1%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Annual Vehicle Traffic Growth</td>
<td>3.2%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Commercial Truck Market Share</td>
<td>48.0%</td>
<td>49.0%</td>
</tr>
<tr>
<td>Tariff Revenue</td>
<td>$345.9M</td>
<td>$363.2M</td>
</tr>
<tr>
<td>Ancillary Revenue</td>
<td>$86.2M</td>
<td>$89.9M</td>
</tr>
</tbody>
</table>
Strategies and Tactics

**Long-Term Financial Planning**
Long-term financial planning assists us in securing the necessary financing to replace our aging infrastructure in a cost-effective and efficient manner. We will:

- Refine our long-term capital and operating plans
- Pursue duty remission on our three Super C-class vessels

**Broaden Risk Management**
To align with best practices and to strengthen lender confidence, we will implement a corporate risk management plan. This plan will address day-to-day business activities as well as specific projects and initiatives. We will:

- Strengthen our financial reporting systems to ensure consistency with industry best practices
- Review our financing strategy
- Assess our fuel pricing and recovery strategy

“GOAL - To achieve our financial targets”
Performance Measures—Financial Management

<table>
<thead>
<tr>
<th>Measure</th>
<th>04/05 Actual</th>
<th>05/06 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>5.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>4.62x</td>
<td>4.54x</td>
</tr>
<tr>
<td>Leverage Ratio</td>
<td>82.6%</td>
<td>76.6%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$39.8M</td>
<td>$49.8M</td>
</tr>
</tbody>
</table>
Financial Plan

“Our Financial Plan ensures our strategies and tactics are affordable.”

The long-term financial viability of our company is one of the cornerstones of our vision. Our Financial Plan contains detailed information on our 2005/06 operating and capital budgets and ensures the strategies and tactics within our Business Plan are affordable.

Operating Budget

For 2005/06, we are forecasting a profit of $49.8 million, based on revenues of $585.0 million, offset by expenses of $535.2 million.

<table>
<thead>
<tr>
<th>Operating Budget (Unconsolidated)</th>
<th>04/05 Actual</th>
<th>05/06 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fares</td>
<td>$345.9</td>
<td>$363.2</td>
</tr>
<tr>
<td>Non-Fare</td>
<td>$86.2</td>
<td>$89.9</td>
</tr>
<tr>
<td>Provincial Service Fees</td>
<td>$107.0</td>
<td>$107.1</td>
</tr>
<tr>
<td>Federal Subsidy</td>
<td>$24.3</td>
<td>$24.8</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$563.4</strong></td>
<td><strong>$585.0</strong></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations, Maintenance, Administration (excluding Fuel)</td>
<td>$374.6</td>
<td>$375.9</td>
</tr>
<tr>
<td>Fuel*</td>
<td>$49.2</td>
<td>$50.8</td>
</tr>
<tr>
<td>Amortization</td>
<td>$47.5</td>
<td>$55.9</td>
</tr>
<tr>
<td>Catering Cost of Goods Sold</td>
<td>$26.5</td>
<td>$26.8</td>
</tr>
<tr>
<td>Interest</td>
<td>$22.5</td>
<td>$23.7</td>
</tr>
<tr>
<td>Loss (Gain) on Subsidiaries</td>
<td>$3.3</td>
<td>$2.1</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$523.6</strong></td>
<td><strong>$535.2</strong></td>
</tr>
<tr>
<td><strong>Net Earnings</strong></td>
<td><strong>$39.8</strong></td>
<td><strong>$49.8</strong></td>
</tr>
</tbody>
</table>

*See page 23 for further discussion around fuel
“Our revenues are expected to grow by 3.8 percent over the next year.”

Revenues

For 2005/06, our revenues will be based on the following components:

As illustrated below, revenues are expected to grow by 3.8 percent over the next year.

Our revenues will be affected by the following:

Fare Revenue
Fare revenue, which is driven by our tariff rates and traffic volume, is projected to increase by 5 percent. Over the next year, tariff rates are forecast to increase on average at 2.8 percent for the Major Routes and 4.4 percent for all other routes. These increases are in addition to any surcharges which may be implemented.

Overall, our traffic in 2005/06 is expected to increase 1.4 percent over 2004/05. This is due to expected increases in tourism, continued growth in high volume commuter routes and overall economic growth.

Non-Fare Revenue
Catering and retail revenues make up the largest component of this revenue category. For the next year our gross catering and retail revenues are expected to increase by 3.7 percent. The increased revenues are due primarily to new food
and beverage programs, expansion of the sizes of our gift shops and the introduction of new services such as the Seawest Lounge.

We also earn revenue from reservations and parking. In these areas, we are forecasting revenues to grow by 6.5 percent over the next year.

**Provincial Ferry Services Contract Fees**

Fees arising from the Coastal Ferry Services Contract between BC Ferries and the Province of British Columbia have three components. The largest component is for the provision of services on designated routes.

The second covers payment by the Province of 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 the services provided by independent operators on the eight non-regulated routes.

Over the next year, revenue under the Contract is expected to grow by 0.1 percent due to increased travel by seniors and students. No increase is anticipated in respect of the provision of services on designated routes and for overseeing the non-regulated routes.

**Federal-Provincial Subsidy Agreement**

This longstanding agreement with the federal government for ferry services is indexed to the Vancouver CPI. For the next year, revenue from this source is expected to grow by 2.1 percent.
“Our expenses are expected to grow by 2.2 percent over the next year.”

Expenses

For 2005/06, our expenses will be based on the following components:

- Operations, Maintenance, Administration (excluding fuel): 70%
- Amortization: 11%
- Fuel: 10%
- Catering Cost of Goods Sold: 5%
- Interest: 4%

Expenses are expected to grow by 2.2 percent over the next year.

Our expenses will be impacted by the following:

**Operations, Maintenance and Administration (Excluding Fuel)**

For the next year, costs in this area are expected to grow by 0.3 percent. 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 driven by three factors: total consumption, the price per barrel (which is in US dollars) and the exchange rate.

In the fall of 2004 BC Ferries received approval from the BC Ferry Commissioner to establish a fuel deferral...
account to address what appeared to be a short-term spike in fuel prices. However, with world energy prices remaining extremely high, we anticipate that we will incur approximately $25 million in incremental fuel costs by the end of fiscal year 2006.

While we have been prudent and proactive in our fuel purchasing strategy in order to keep costs down, by the end of this fiscal year, BC Ferries’ annual cost of fuel is projected to be 45 percent higher than it was two years ago. Like other major transportation companies, such as airlines and freight carriers, we can no longer ignore the additional costs of fuel.*

**Amortization**

Over the next year, amortization costs are expected to increase 17.7 percent as a result of capital asset additions coming into service, particularly vessel upgrades to the *Spirit of Vancouver Island*, *Queen of Oak Bay*, *Queen of Nanaimo* and terminal upgrades at Tsawwassen and Swartz Bay.

**Cost of Goods Sold**

Costs in this area are expected to grow by 1.1 percent. 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**

Over the next year, our net financing expense is expected to increase by 5.3 percent. This growth is due to our capital expenditure program, which will grow from $129.1 million in 2004/05 to $175.5 million in 2005/06.

* As of July 2005, crude oil prices were in excess of $61 USD per barrel. On July 24, 2005, the BC Ferry Commissioner approved extraordinary price cap increases that allow BC Ferries to implement fuel surcharges.
We utilize capital assets with a replacement value of approximately $3.8 billion. Our ferry services are supported by 35 vessels, 47 service terminals, four maintenance yards, a refit subsidiary and a head office.

Some of our assets are in an aged condition:

- The average age of our fleet is 33 years. Most of our vessels (30 of 35) are in the last half of their expected lives;
- 65 percent of our terminal shore structures are beyond the midway point of their economic lives; and,
- There has traditionally been an underinvestment in information technology in the past.

We utilize capital assets with a replacement value of approximately $3.8 billion. Our ferry services are supported by 35 vessels, 47 service terminals, four maintenance yards, a refit subsidiary and a head office.

Some of our assets are in an aged condition:

- The average age of our fleet is 33 years. Most of our vessels (30 of 35) are in the last half of their expected lives;
- 65 percent of our terminal shore structures are beyond the midway point of their economic lives; and,
- There has traditionally been an underinvestment in information technology in the past.

The major strategic issue we face continues to be the replacement of our aging infrastructure; specifically, vessels and terminals. The proposed investments over the next year address this issue.

The following table details the planned capital expenditures for the next year by asset type:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>04/05</th>
<th>05/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vessel Projects</td>
<td>$77.8</td>
<td>$89.4</td>
</tr>
<tr>
<td>Terminal Projects</td>
<td>$35.5</td>
<td>$57.5</td>
</tr>
<tr>
<td>Information Systems Projects</td>
<td>$13.2</td>
<td>$13.4</td>
</tr>
<tr>
<td>Other Projects</td>
<td>$  2.6</td>
<td>$15.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$129.1</strong></td>
<td><strong>$175.5</strong></td>
</tr>
</tbody>
</table>

Our major capital projects over the next year include:

**Vessels**
- Procurement of a new Intermediate-class ferry
- Upgrade the passenger areas on the *Spirit of Vancouver Island*
- Complete the mid-life upgrade to the *Queen of Oak Bay* and begin the mid-life upgrade to the *Queen of Surrey*
- Upgrade the *Queen of Nanaimo* and the *Queen of Burnaby*

**Terminals**
- Replacement of significant marine structures at a number of our terminals, including Buckley Bay, Departure Bay, Horseshoe Bay, Swartz Bay and Tsawwassen

**Information Systems**
- Upgrades to our ship-to-shore communication infrastructure

“To upgrade and replace our aging assets, we will be investing $175.5 million over the next year.”
Conclusion

“We have already made visible improvements at BC Ferries. This Business Plan demonstrates that there are a lot more improvements to come. We will be working hard over the next year “Building a Better BC Ferries”.

Our four goals will drive our decisions and 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 customer satisfaction and loyalty and to grow our market base to increase our revenues
- Achieve our financial targets and improve our financial position

Achieving these goals is dependent on the support of our employees, our customers, and the communities we serve. Only by working together will we be successful in “Building a Better BC Ferries” — better for our employees, better for our customers, and better for the communities we serve.”