



BUSINESS PLAN 2015-2016
British Columbia Ferry Services Inc.



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INTRODUCTION

This plan describes the key initiatives and strategies we will undertake during fiscal 2016 as we pursue our vision, mission, and business goals.

OUR VISION, MISSION, AND VALUES

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

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.

DEFINITION OF SUCCESS

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



KEY BUSINESS GOALS

Our commitment to the safety of our passengers and employees continues to be the primary objective of the company. Including safety, the company focuses on five key business goals:

Safety

To protect our customers and employees by continuously improving 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.

Our strategies and initiatives to provide ongoing, sustainable service to our customers focus on these five key business goals as we continue to replace or upgrade aged vessels, seek efficiencies through terminal upgrades, and provide value-added services to our customers.



MEASURING SUCCESS

In support of our vision, mission, and key business goals, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to monitor the progress of the business and its ongoing commitment to continuous improvement.

The safety of our passengers and employees is our primary focus:

1. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
2. Passenger Safety (number of passenger injuries per one million passengers)

	Fiscal 2013		Fiscal 2014		Fiscal 2015		Fiscal 2016
	Actual	Target	Actual	Target	Actual	Target	Target
Employee Safety	1.04	1.22	0.67	0.90	0.65	0.55	0.55
Passenger Safety	13.28	15.45	13.28	13.49	11.90	10.73	11.90

Other important areas of focus include:

3. Reliability (actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations)
4. Customer Satisfaction Rating
5. Regulatory Earnings before interest, taxes, depreciation and amortization (EBITDA, in \$ millions).
6. Regulatory Net Earnings (in \$ millions).

	Fiscal 2013		Fiscal 2014		Fiscal 2015		Fiscal 2016
	Actual	Target	Actual	Target	Actual	Target	Target
Reliability Index	99.75%	99.5-99.69%	99.71%	99.5-99.69%	99.75%	99.55-99.74%	99.55-99.74%
Customer Satisfaction	88%	88%	87%	88%	85%	88%	85%
Regulatory EBITDA	\$221.7	\$206.4	\$232.3	\$218.0	\$255.6	\$221.5	\$239.6
Regulatory Net (Loss) Earnings¹	\$15.2	\$(2.7)	\$25.5	\$8.3	\$41.5	\$11.8	\$32.0

As we move forward, we continue to pursue opportunities to improve safety, operational reliability, and customer satisfaction in addition to ensuring an ongoing sustainable service.

¹ See Rate Regulation section for further discussion.

FISCAL 2016 STRATEGIES AND INITIATIVES

This business plan describes the strategies and initiatives we will undertake during fiscal 2016 in support of our key business goals, safety, operational reliability, continuous improvement, value for money and financial integrity.



SAFETY

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals, and facilities.

At BC Ferries, the safety of our customers and employees has been, and will continue to be, our top priority.

SAILSAFE

Our SailSafe program, introduced in 2007 as a joint initiative between the company and the BC Ferry & Marine Workers' Union, is designed to achieve world class safety performance, and ensure safety is the primary concern in the minds of our employees at all times.

Since the inception of SailSafe, this focus has resulted in:

- a 58% reduction in the number of employee days lost due to injuries; and
- a 61% reduction in the number of employee time loss injuries.

As well as:

- a 44% reduction in the number of passenger injuries in the past five years.

Our commitment to safety as our highest priority continues through fiscal 2016, with particular attention to be given to:

- Building and maintaining awareness of safety through communication;
- Developing strong safety teams; and
- Working cohesively as a team.

We will continue to strengthen our employee-led Health and Wellness program. We strongly believe that in addition to the impact personal health and wellness has on reducing employee injuries and absenteeism, it also supports operational reliability, and ultimately leads to better value for money and financial sustainability through reduced injuries and absenteeism.

Training our Employees

Our training programs are aimed at strengthening employee knowledge and skills to ensure a continued ability to provide safe, reliable and efficient service to our customers. These programs include rigorous standardized education and assessment, simulation training, regulatory certification and operational readiness exercises for our technical and operational employees.

SEA

Our Standardized Educational and Assessment ("SEA") Program, initiated in fiscal 2010, provides a standardized and consistent education and clearance process for new or advancing employees across all terminal and vessel positions. This program is designed to ensure our employees are prepared to safely and effectively conduct the activities required of their positions. During fiscal 2016, effort will focus on incorporating the eight remaining positions, bringing the total to 35. This will be concluded as we deliver 11,414 personal training days ("PTDs") in the 27 positions already implemented.

Efforts are also underway to develop a Career Progression Management System. This will result in an online tool to track, assess and report on employees' learning plans and to empower supervisors to support the company and its employees with succession management.

Simulation training centre

Our world class simulation training centre provides job specific and situational awareness training. During fiscal 2016, simulation training will be providing approximately 475 PTDs in the following programs:

- Bridge Operations Skills and Systems (BOSS 1);
- Situational Awareness through Collision Regulations, Passage Planning, and Critical Systems Failures (BOSS 2);
- Decision Making focused on fleet incidents to enhance analytical decision making (BOSS 3); and
- Seminars to improve written and verbal communication between shipboard departments, especially with respect to critical equipment status.

Regulatory certification training

Our regulatory training is aimed at ensuring compliance with safety and other industry regulations and providing safe transportation of our customers. To this end, we will be conducting over 9,500 PTDs during fiscal 2016.

Additionally, we will be developing three levels of liquefied natural gas ("LNG") training to ensure we are prepared to safely and seamlessly integrate the use of LNG as we incorporate three new LNG Salish class ferries into our system and look to convert our Spirit class vessels to dual fuel within the next few years.

Operational readiness exercises

Exercises are conducted to place our employees in a variety of scenarios to increase the overall proficiency of our vessel and terminal crews, build confidence, and enhance teamwork in the event of an emergency situation. During fiscal 2016, we plan to provide vessel crews with team-based training in a variety of emergency response scenarios, including fire, rescue, first aid, critical system failures, and confined space rescue, onboard eight vessels.

OPERATIONAL RELIABILITY

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

Our ability to provide customers with a safe, reliable and sustainable marine transportation service is predicated on strong asset programs, including the renewal of those assets which have reached the end of their technical service life and it is more economic to replace the assets than it is to refurbish them. Our asset programs include ongoing asset life cycle plans intended to support our obligations under the Coastal Ferry Services Contract ("CFSC"). Our current asset renewal plans include more standardization of both our terminal and vessel assets, which will result in a more flexible system which is better able to respond to changes in service needs.

Since the company was incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, we have invested \$2.2 billion in our vessels, terminals and information technology systems along with our ongoing maintenance programs. We will continue to invest in our assets in 2016 and beyond.

Asset renewal program

On May 8, 2015 we unveiled the name of our newest vessel, *Baynes Sound Connector*, at a special ceremony at Seaspan's Vancouver Shipyards in North Vancouver. The new cable ferry is expected to join our fleet on the Buckley Bay – Denman Island route later this summer and will be a welcome addition to the coastal ferry service. The name "Baynes Sound Connector" reflects the channel that the ferry will be crossing, following marine tradition for the majority of cable ferries around the world. The launch of this ferry will mark a special milestone in our vessel replacement program.

In preparation for the new vessel, we have developed long range maintenance plans. Consistent with our continuous improvement objectives, these maintenance plans will be further refined as we gain experience with the cable ferry technology. In addition, we will be ensuring our employees receive the necessary training and conducting rigorous operational testing and trials as we incorporate this technology into our daily operations.

Construction is expected to continue through fiscal 2016 on three new Salish class vessels pursuant to the contracts awarded to Remontowa Shipbuilding S.A. shipyard in Gdansk, Poland on July 3, 2014. The first of these vessels is planned to arrive in British Columbia in August 2016, the second in October 2016 and the third in February 2017. These vessels will replace the 50-year old *Queen of Burnaby* and 51-year old *Queen of Nanaimo* respectively. The third vessel will augment service during the peak and shoulder season and provide relief when other vessels are in their scheduled refit maintenance. These new dual fueled vessels will primarily operate on LNG. To ensure a safe and seamless integration, during fiscal 2016, we will be working with the shipyard and regulatory governing bodies on LNG fueling procedures, developing comprehensive deployment plans, and developing and conducting comprehensive training programs for our employees.

We will also be planning the replacement of our 57-year old *North Island Princess* and the first of our 50-year old Bowen class vessels. It is anticipated we will be confirming requirements and seeking approval for the capital expenditures for these replacements from the BC Ferry Commission in fiscal 2016.

Terminal and vessel upgrades, overhauls, and maintenance

Our long-term vessel and terminal maintenance plans include maintenance cycles designed to optimize utilization of our assets and minimize the impact on service delivery in order to ensure a high level of continuous operational reliability. Our planned investments for fiscal 2016 include:

- completing phase two of a $\frac{3}{4}$ life upgrade on the *Queen of Oak Bay*;
- performing a $\frac{3}{4}$ life upgrade on the *Queen of Coquitlam*;
- commencing a $\frac{3}{4}$ life upgrade on the *Queen of Surrey*;
- performing a mid-life upgrade on the *Queen of Cumberland*;
- rebuilding the berth at Sointula;
- replacing/upgrading terminal and marine structures at Departure Bay;
- commencing a rebuild of Berth 1 at Tsawwassen terminal; and
- investing \$30.2 million in vessel major overhauls and inspections.

Along with these investments, we plan to spend over \$73 million in maintaining our terminals and vessels during fiscal 2016. We expect to perform over 425,000 hours in maintenance activities throughout our 47 terminals and 34 vessels and employ over 250,000 trade hours at our ship repair facility to conduct 11 refit and major overhaul projects.

Understanding that our service quality depends on the availability of a skilled workforce, during fiscal 2016 we will be:

- ensuring our employees continue to be certified in our fire suppression systems and lifesaving equipment;
- ensuring our employees develop expertise in hydraulic systems; and
- incorporating approximately 10 apprenticeship positions as we plan for retiring employees.

Additionally, we will continue to assess and standardize our equipment and inventory to minimize costs and increase availability.

Our ship repair facility is critical to conduct the requisite level of work our vessels require to remain operational day in and day out. In its current condition, this facility will not meet future requirements. As a result, we will be proceeding with plans to significantly upgrade this facility. Based on insights gathered from our employees, we have completed an assessment of the facility and have identified our functional requirements. The next step is to develop preliminary designs which will inform our application to the BC Ferry Commission for approval of this investment.

Information Technology

Our approach to asset life cycle planning is also applied to our information technology systems, as they are integral enablers of our service, operational reliability, emergency response, and communication. Investment in our IT assets is optimized to ensure ongoing reliability of service, as well as to meet customer expectations. During fiscal 2016, we plan to invest \$48.7 million to support operational requirements and improve infrastructure reliability and service delivery. This work includes updating our reservations, point of sale, payment and card services systems and website.

We will also be continuing to focus on our IT disaster recovery and business continuity plan. This work includes system and infrastructure upgrades, documentation and the development of a comprehensive recovery plan for service outages.

CONTINUOUS IMPROVEMENT

To be better at everything we do.

Environment

As an asset-intensive company, providing one of the world's most complex ferry systems, serving the west coast of British Columbia and providing over 170,000 sailings per year spanning 1.3 million nautical miles, we are aware of the potential footprint such an operation may leave on our environment. As such, we strive to minimize any negative impact on the environment. Since 2004, we have diligently worked towards reducing both nitrogen oxide (NOx) and sulphur oxides (SOx) carbon emissions. We adopted the use of ultra-low sulphur diesel and continuously seek ways to reduce our overall fuel consumption. Efforts to manage our speed and optimize a balance between in-port fuel consumption and electricity consumption have resulted in a reduction in fuel consumption by approximately 5%.

While our focus on these initiatives continues today, we have also been working towards lowering the use of marine diesel as we reinvest in our infrastructure. During fiscal 2016, these reinvestments include:

- the deployment of a new cable ferry between Buckley Bay and Denman Island; and
- preparing to adopt the use of LNG as we complete the construction of three new dual fuel Salish class vessels and plan to convert our Spirit class vessels with a dual fuel propulsion system during their mid-life upgrades.

To further minimize our environmental footprint, we will be launching our new *SeaForward* program this summer. This program combines existing environmental conservation projects and community investment activities with new and innovative endeavors. In support of this program, we have also adopted a new Corporate Environment Policy designed to provide a cleaner, sustainable marine transportation service. During fiscal 2016, we are introducing the Green Marine Eco Program. This program is a voluntary, transparent and inclusive initiative that addresses key environmental issues as part of a wider community of ship owners, ports, terminals, seaway corporations and shipyards. Through this program, we will be implementing concrete and measurable actions to reduce our environmental footprint within three main pillars: sustainable operations, conservation and community well-being.

Customers and Communities

Service schedules

During fiscal 2015, we implemented service level reductions previously announced by the Province of British Columbia (the "Province") to increase capacity utilization and reduce operating costs. The resulting schedules took into consideration the results of consultations with the community and with the provincial government in an effort to minimizing the impact on the communities served.

Looking forward, with the retirement of the *Queen of Nanaimo* and the introduction of two new Salish class ferries into operation between Tsawwassen and the Southern Gulf Islands, we have an opportunity to improve service in this area. To this end, during fiscal 2016 we will be conducting a nine-month public consultation process to seek insights from our customers to better align our sailing schedules with their needs while reducing operating costs and reducing pressure on future fares.

Customer service and community engagement

We have a diverse set of customer segments, each with unique interests. Many of our customers rely on our service to access employment, school and amenities. Others have more discretion in their decision to use our service. For all customers, we continually work to optimize a balance between scheduled sailings and the associated cost. We also seek to provide service offerings which respond to unique customer needs and promote travel. During fiscal 2016, we will continue to:

- provide high quality, high demand travel package offerings representing west coast communities and popular short haul destination spots through BC Ferries Vacations;
- pursue pricing promotion opportunities such as the "Size up the Savings" promotion offered in fiscal 2015; and
- respond to any shifts in the commercial sector and enable the continued efficient transport of commercial goods for our customers.

Information systems are an important part of how we interact and interface with our customers. Like any other operating assets, it is important that these systems are kept up to date in order to ensure both reliability and security of information. A significant number of our systems are nearing twenty20 years of age and are no longer able to meet current operational needs. As part of the life cycle plan for our IT systems, during fiscal 2016 we plan to proceed with upgrading our reservations, point of sale, payment and card services systems, and websites. We will also be pursuing our Fare Flexibility and Digital Experience Initiative approved by the BC Ferry Commission during fiscal 2015, which will enable us to offer a range of pricing; improve access to our services, including the use of mobile communications tools; and better manage our capacity with demand.

In addition to upgrading our technology, during fiscal 2016, we will continue improving communication by expanding channels through online, print, social media and email. Technology has significantly changed the way people access information, and by expanding our use of these channels, we seek to keep current with customer expectations and improve access to services-related information.

Recognizing employees are the primary point of contact for our customers, we also continually focus our efforts on developing their skills to ensure a positive interaction. During fiscal 2016, we will continue employee development activities through our Customer Service Enhancement program.

We strive to strengthen the communities we serve by offering our support through a variety of activities, including sponsorship of the BC Bike Race, employee donations to the United Way Workplace Campaign, and support for community sports teams, events and volunteer events, as well as the BC Ferries Media Charity Golf Classic. Our participation in these activities will continue in fiscal 2016.

VALUE FOR MONEY

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

After safety, fare affordability is a key concern in our decision-making; we understand the potential impact our services have on local economies and the overall wellbeing of coastal communities. We strive to optimally balance our service with the cost to provide it, as demonstrated in our fiscal 2015 financial results (p.16). Over performance term 3 (“PT3”) we are forecasting to reduce operating costs a further \$30.0 million below our productivity target of \$54.2 million. These further cost efficiencies serve to minimize fares and strengthen our financial position to ensure continued reinvestment in our infrastructure. The returns earned from our operations are reinvested into the company to ensure ongoing, reliable service for our communities. We plan to invest \$3.1 billion over the next 12 years in our infrastructure as we replace or refurbish our aging assets.

We are currently focused on a few key initiatives to significantly decrease operational costs, generate incremental revenue and improve our customers’ experience. These include investments in LNG as a fuel alternative, cable ferry operations, and our Fare Flexibility and Digital Experience Initiative.

We have consistently worked to develop an environment of cost containment, as was recognized by the British Columbia Ferries Commissioner (“Commissioner”) in his efficiency and other performance reviews released March 18, 2015, which noted:

- the implementation of significant measures to manage fuel consumption;
- a reduction in administrative expenses of 15% on an inflation-adjusted basis since 2009;
- executive compensation at the low end of the four largest provincial corporations;
- a decline in overtime hours; and
- absenteeism rates below the average for comparable businesses.

Without compromising safety, we continually strive to ensure services are provided efficiently and effectively. During fiscal 2016, we will continue our efforts to significantly advance efficiency as we look to incorporate two notable technologies: a cable ferry system and LNG.

During fiscal 2016, we will be integrating one of the longest cable ferries in the world between Buckley Bay and Denman Island. This initiative is projected to save more than \$80 million over a 40 year period, as the cable system is significantly simpler to operate and maintain than our traditional vessels. This enables us to continue providing a safe and reliable service while reducing our fuel consumption, labour hours and maintenance costs.

We will also be moving to incorporate the use of LNG, as a more cost-effective source of fuel. The three new dual fuel Salish class vessels, currently under construction, will be replacing the retiring marine diesel *Queen of Nanaimo* and *Queen of Burnaby* vessels. The opportunity exists to improve service and better align customer needs with sailing schedules as well as balance seasonal service, capacity and demand with operating efficiencies. To this end, we will be conducting public consultation to better understand the service requirements of our Southern Gulf Island customers.

During fiscal 2016, we will also be advancing our plan to convert our two Spirit class vessels to operate on LNG as part of their planned mid-life upgrades. As our two largest fuel consuming vessels, and with 27-years of remaining life, there is expected to be a substantial reduction in fuel costs per year.

Generation of incremental traffic and ancillary revenues

By generating incremental traffic and ancillary revenues, we are able to minimize the overall fares for all ferry users. We have several initiatives underway to achieve these results. In particular, we continue to work on our Fare Flexibility and Digital Experience Initiative which is intended to provide our customers with improved travel options, fare flexibility and significant improvements in their digital experience. By incorporating customer feedback into the defined outcomes, this initiative is expected to generate incremental revenues by enabling our ability to offer variable pricing and travel options. This is a multi-year initiative, including significant improvements in our website capabilities which will leverage our reservations, point of sale, payment and card services system upgrades.

In addition, our BCF Vacations will continue private sector partnership programs to develop and execute attractive travel opportunities for discretionary travel. These programs are aimed at promoting discretionary travel by offering customers valuable destination packages at an attractive price.

Partnerships

We look forward to continue working with the BC Ferry & Marine Workers' Union as we renegotiate the bargaining unit contract expiring October 31, 2015. We are very proud of our employees, and have a great appreciation for all their efforts in both the day-to-day services delivery and in the labour peace we have enjoyed over the years. We have all worked hard to create this stable and positive relationship. We are especially proud of our collective achievements improving the safety of both our employees and customers. During fiscal 2016, we will continue with efforts in this positive direction.

We will also continue to monitor and pursue opportunities to access funding through the provincial and federal governments, as well as other programs wherever possible to minimize costs.

Service optimization

During fiscal 2016, we will also continue to engage with coastal communities in the development of the Major Route Strategy and the Southern Gulf Island Strategy. This work will continue to inform decision making as we work towards replacement of our vessels and marine structures, terminal improvements and information system investments.

FINANCIAL INTEGRITY

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

Price Caps

We operate our ferry services under a regulatory regime established by the *Coastal Ferry Act* (the "Act"), and under the terms set out in the CFSC between BC Ferries and the Province. This 60-year services contract with the Province, which commenced April 1, 2003, stipulates, among other things, the number of round trips that must be provided for each regulated ferry service route in exchange for specified fees (ferry transportation fees).

Our regulatory regime includes the office of the Commissioner which was created under the Act, enacted by the Province on April 1, 2003. One of the Commissioner's key responsibilities includes the establishment of price caps for the purpose of regulating our tariffs. Essentially, revenues are restricted by a maximum average price (price caps) we can charge passengers which, in turn, places a cap on the tariff revenue we can earn when combining our various types of traffic.

When establishing the price caps for each four year term, the Commissioner is guided by several principles as outlined within subsection 41(2) of the Act:

- (a) the price cap must allow for a return sufficient to enable the ferry operator to recover
 - (i) the portion of operating expenses, including all financing charges, that can reasonably be applied to the route group;
 - (ii) the portion of administrative expenses that can reasonably be applied to the route group; and
 - (iii) the reasonable capital costs that are to be incurred in relation to the route group, and amortized in accordance with generally accepted accounting principles on a straight line basis.
- (b) the price cap, when combined with all other price caps applicable to all route groups serviced by the ferry operator, must allow for a return sufficient to enable the ferry operator to
 - (i) meet its debt obligations; and
 - (ii) maintain access to borrowing rates that, in the opinion of the Commissioner, are reasonable in all of the circumstances.

On September 30, 2012, the Commissioner issued his order establishing final price caps for performance term 3 ("PT3") (fiscal 2012 through fiscal 2016), with a goal for us to achieve, by the end of PT3, equity not lower than 17.5% of total capitalization and a debt service coverage ratio of 2.5x or higher. In determining these price caps, the Commissioner included a productivity improvement target of \$54.2 million for us. We have been diligently working towards achieving this productivity target to ensure we achieve the financial objectives which will allow us to continue reinvesting in our infrastructure. We are currently forecasting to exceed this productivity target, an expectation the Commissioner has incorporated in his preliminary performance term 4 ("PT4") price cap decision issued March 18, 2015.

On September 30, 2014 we filed our PT4 (April 1, 2016 to March 31, 2020) submission with the Commissioner, including a plan for capital investments for the 12 years commencing April 1, 2015 and Strategies for Enhanced Efficiency.

On March 18, 2015, the Commissioner released the Preliminary Decision on Price Caps for PT4, setting increases in price caps of 1.9% per year from April 1, 2016 through March 31, 2020. Included within these price caps is our commitment to save \$4.9 million per year in incremental efficiencies rather than pursue service level reductions on the major routes, and an additional productivity improvement set by the Commissioner of \$2 million per year. These two items bring the total efficiency target for PT4 to \$27.6 million. In addition, the Commissioner has based the price cap calculations on the assumption that traffic will increase by an incremental 2% beyond our traffic forecasts by the end of PT4, which is estimated to drive \$12.5 million in additional revenue. The combined revenue and efficiency target is approximately \$40.0 million for PT4.

During fiscal 2016, we will be working with both the Province and the Commissioner to support the Commissioner in his final decision on price caps, which must be issued by no later than September 30, 2015. In addition, we will continue our focus on exceeding the PT3 efficiency target of \$54.2 and working towards achieving incremental annual efficiency savings of \$6.9 million as we plan our operating budget for fiscal 2017 to minimize required price caps for PT4.

Achieving these efficiency savings will complement other significant plans and strategies, which include our 12 year capital plan, financing strategies, and fuel management strategies. The successful delivery of these combined initiatives is instrumental to achieving key financial targets to obtain sufficient capital and retained earnings in order to revitalize our infrastructure and ensure an ongoing, sustainable ferry service.

Major capital investment

We understand the important role we have to provide safe, reliable and sustainable marine transportation. Our vessels, terminals and information technology underpin our ability to deliver these results and, as such, require continued investment. Our rolling 12 year capital plan represents our continuous efforts in assessing and reinvesting in these critical assets in a manner which is reasonable, a conclusion the Commissioner needs to arrive at in order to include their financial implications when establishing price caps.

During fiscal 2016, we will continue our annual capital planning process and work to ensure the successful outcome of our applications to the Commissioner for approval of major capital expenditures. We currently expect to submit applications for:

- the replacement of our 57-year old *North Island Princess*; and
- the first of our 50-year old Bowen class vessel replacements.

We will also be evaluating long term investment requirements, with a particular focus on our major routes which provide service between Metro Vancouver and Vancouver Island. Incorporating travel demand, customer requirements and condition assessments, our long term capital plans seek to encompass required reinvestment at Horseshoe Bay, Swartz Bay and Tsawwassen. Likewise, we will be working to conclude effective replacement strategies for the four aging C-Class vessels currently operating on our major routes. We will be exploring options to minimize capital costs and pursuing operational efficiencies.

Affordable Financing

Our ability to ensure an ongoing, sustainable system and achieve a financial performance capable of meeting both our targets and financial obligations has direct influence on our opportunity to access affordable financing. As a result, we continually target maintaining a strong investment grade credit rating, which as of March 31, 2015, was "A" (DBRS) with a stable trend and "AA-" (Standard & Poor's) with a stable outlook.

Because of these strong ratings, we were able to raise \$200 million in bond financing to re-finance the bond issue that matured May 27, 2014 (Series 14-1 Bond Offerings) which resulted in an overall lower bond interest expense.

During fiscal 2016, we will be working to maintain our current strong credit ratings and planning further financing initiatives in support of our 12 year capital plan and asset renewal program.

Fuel management

Fuel costs are a significant portion of our operating costs. Shifts within the market create volatility and impact both our financial performance and the potential for fuel surcharges or rebates for our customers. Consequently, we continually monitor the market to minimize these impacts.

In fiscal 2015, due to favourable fuel pricing and the ability to minimize fuel costs, we hedged pricing of 70% of anticipated diesel fuel purchases through to March 31, 2016 and eliminated the fuel surcharge on fares. During fiscal 2016, we will continue to monitor the market for diesel fuel prices in anticipation of potential hedging opportunities.

We also continually exert effort to guarantee the supply of fuel in support of our complex and frequent service. Anticipating the delivery of the three new Salish class ferries operating on LNG, during fiscal 2015 we signed a 10-year contract with FortisBC to supply fuel for these new vessels. FortisBC has existing LNG plants at Tilbury in Delta and Mt. Hayes near Ladysmith and will supply LNG fuel to the ships in the traditional manner that we receive diesel fuel, with trucks making deliveries to the vessels during non-operational periods. During fiscal 2016, we will continue our efforts to ensure the supply of both diesel and LNG based on our forecasted requirements.



FINANCIAL PLAN

Our financial plan supports the strategies and tactics within the business plan. It contains detailed information about our fiscal 2016 operating and capital budgets.

Operating Forecast

Our operating forecast for fiscal 2016 represents the financial implications of our strategies and tactics as described within this business plan. It represents our continued commitment to provide a safe and efficient service to our customers. This commitment includes continuing our cost containment measures and efficiency focus conducted during fiscal 2015, including the elimination of the corporate incentive program, a freeze on exempt wage increases and a hiring freeze of all non-essential positions. These initiatives, combined with an increase in traffic, resulted in net earnings for fiscal 2015 of \$49.1 million, an improvement of \$32.0 million from the target published in our fiscal 2015 Business Plan.

Operating Budget (\$ millions)	Fiscal 2015 Actual	Fiscal 2016 Forecast
Revenues		
Total Tariffs including Social Program Fees, reservations and assured loading	556.9	578.5
Catering & Other Revenues	89.1	89.6
Federal – Provincial Subsidy Agreement	28.4	28.7
Ferry Transportation Fees	150.0	148.2
Total Revenue	824.4	845.0
Operating Expenses	574.0	608.1
(Gain) on Subsidiaries	(5.2)	(2.7)
Earnings before interest, taxes, depreciation and amortization	255.6	239.6
Net Financing Expense	62.3	60.2
Amortization	142.9	147.4
Loss on disposal and impairment of fixed assets	9.0	-
Net Regulatory Earnings	41.4	32.0
Regulatory Adjustments		
Fuel	6.6	(0.7)
Amortization	0.1	0.1
Price Cap	1.0	(0.8)
Net IFRS Earnings	49.1	30.6

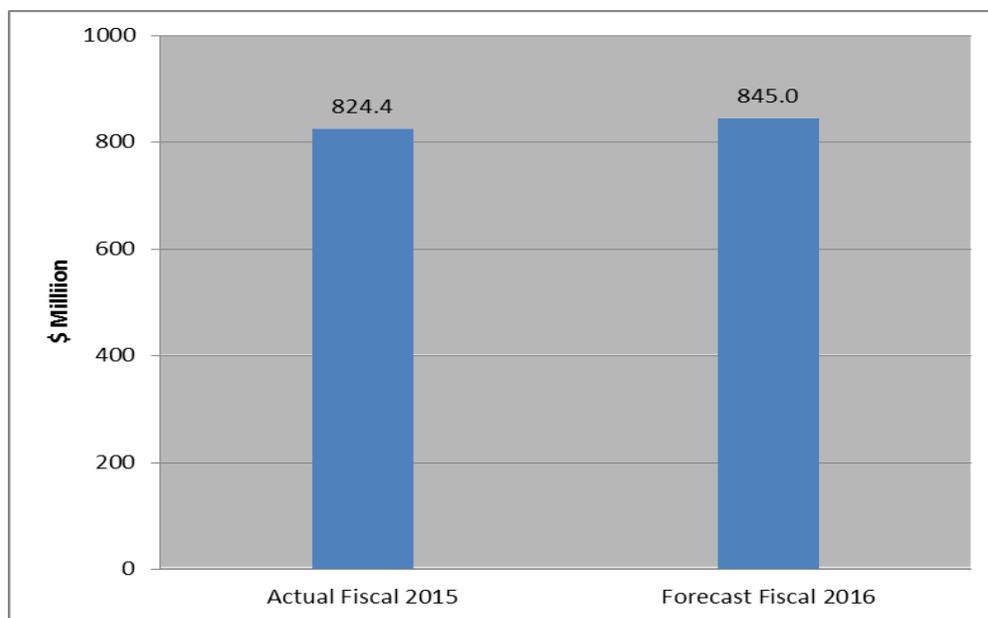
Fiscal 2016 is forecast to result in net earnings of \$30.6 million, based on revenues of \$845.0 million, offset by total expenses of \$814.4 million (including regulatory adjustments).

Our cost containment measures continue to contribute towards achieving the productivity target as established by the Commissioner for PT3, a target to reduce operating expenditures over the four years of PT3 by \$54.2 million from the level specified in our September 30, 2010 submission. Based on our accomplishments over the past three years, we expect to exceed the \$54.2 million efficiency target by approximately \$30 million.

Further information is provided below to highlight significant changes from fiscal 2015 to fiscal 2016.

REVENUES

Total revenues are projected to increase by 2.5% in fiscal 2016.



Total Tariffs including Social Program Fees

Traffic levels in fiscal 2015 increased slightly over fiscal 2014. Favourable weather, the resumption of regular service to the Little River and Westview communities and a full Easter season offset declines experienced due to service level reductions as directed by the Province on some minor and northern routes along with the elimination of 50% of the senior discount and the impact of the BC teachers strike in 2014.

Tariff revenue is expected to increase by 3.9% in fiscal 2016 reflecting the approved price cap increase and growth in traffic mainly related to two full Easter seasons, leap year, no BC teachers strike and a later Labour Day weekend which extends the summer travel season.

Federal-Provincial Subsidy Agreement

Under the terms of the CFSC , we receive an annual contribution from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Vancouver Consumer Price Index. The CFSC between the Province and BC Ferries provides that the Province will transfer to us, the full proceeds from the federal government under this agreement. For fiscal 2016, revenue from this source is anticipated to be \$28.7 million.

Provincial Fees

The CFSC between the Province and BC Ferries has three components. The primary component is for the provision of services on designated routes. The second component includes reimbursement from the Province for fares associated with social programs (e.g. Ministry of Health travel assistance, children travelling for school, and discounted travel for BC seniors from Monday through Thursday on most routes). The final component is funding provided to BC Ferries for the oversight of service provided by independent operators on eight non-regulated routes.

In fiscal 2013, the Province announced amendments to the Act under Bill 47 to include additional payments totaling \$79.5 million over PT3 to reduce pressure for future fare and price cap increases. During fiscal 2016, the Province will contribute \$11.5 million in additional ferry transportation fees as part of these amendments.

On March 31, 2014, the Province confirmed its decision to amend its program to reduce the passenger fare discount for BC seniors from 100% to 50% for BC seniors travelling Monday through Thursday on the Major and Other Routes effective April 1, 2014. There continues to be no discount for BC seniors travelling Friday through Sunday. In respect of the corresponding reduction in social program funding and to reduce the magnitude of future tariff increases, the amendment also confirmed a maximum increase in ferry transportation fees of \$18.0 million in fiscal 2015 and \$19.3 million in fiscal 2016. These amounts reflect an estimate of what the Province would have paid if there had been no change in the level of senior discounts. To the extent these funds are not required for the reimbursement of discounts provided BC seniors under the amended policy, the excess will be directed to the ferry transportation fees. In fiscal 2015, we received \$8.3 million in social program funding for BC seniors travel, and \$9.7 million in additional ferry transportation fees, totaling \$18.0 million.

Amendments to the CFSC during fiscal 2014 targeted savings of \$18.9 million in service level reductions over the remainder of PT3. The first phase of these service level adjustments was implemented April 28, 2014 on the minor and northern routes, and was intended to achieve \$14.0 million in savings over the last two years of PT3. While the amendment included an additional \$4.9 million in reductions on the major routes, we determined that the loss of revenue from further reductions would outweigh the savings and thus have committed to increasing our productivity target for PT4 and further reduce costs by the \$4.9 million per year, rather than seek these savings through further service adjustments.

The fiscal 2016 forecast also includes a \$1.0 million decrease in the fees for the northern routes due to the amortization of assets deployed in that route group. Funding for unregulated routes is expected to be \$2.5 million in fiscal 2016 based on contracts with alternative service providers.

Other Revenues

Fiscal 2016 is expected to yield a modest increase in other revenue over fiscal 2015, reflecting consistent growth in these areas. Catering and retail revenue make up the largest component of other revenues.

EXPENSES

Operating expenses are projected to increase by 5.9% in fiscal 2016, while financing and amortization costs are forecast to decrease 1.2%.

Operating Expenses

The expected increase of 5.9% or \$34.1 million in operating expenses for fiscal 2016 is mainly attributable to an increase in bargaining unit wages and benefits in accordance with the collective agreement, an increase in the price of fuel, an increase in IT licenses and initiatives and the provision for a general contingency to mitigate revenue and traffic risk. These additional costs are partially offset by a slight decrease in the vessel refit and maintenance program.

Net Financing

Net financing expense for fiscal 2016 is expected to decrease by 3.4% or \$2.1 million primarily due to lower interest costs achieved through the refinancing of maturing bond issues and the reduction in principal balances owing on our amortizing loans.

Amortization

For fiscal 2016, amortization costs are expected to increase by 3.1% or \$4.5 million as a result of a full year of amortization related to capital expenditures in fiscal 2015 and partial year amortization related to capital expenditures in fiscal 2016.



CAPITAL BUDGET

We plan to invest \$225.2 million in fiscal 2016.

Our fleet of 34 vessels and 47 terminals, four maintenance yards, one refit complex and a head office support the year-round ferry service provided on 24 regulated routes. This requires ongoing capital investments in order to replace or upgrade aged assets, meet regulatory requirements and improve service to our customers.

Our major capital projects for fiscal 2016 include:

Vessels:

- *Baynes Sound Connector* - new cable ferry between Buckley Bay and Denman Island;
- A multi-year project to replace the *Queen of Nanaimo* and *Queen of Burnaby*;
- *Queen of Coquitlam* asset betterment;
- *Queen of Oak Bay* ¾ life upgrade;
- *Queen of Surrey* ¾ life upgrade (part 2);
- *Queen of Cumberland* mid-life upgrade; and
- Major overhauls and inspections on 12 vessels.

Terminals:

- Sointula berth rebuild;
- Tsawwassen berth 1 rebuild;
- Departure Bay - replace the portside turning dolphin at Berth 2 and install active lift systems on passenger gangways; and
- Prince Rupert – install drainage and repave holding compound.

Information Systems:

- Customer service program;
- Website software upgrade;
- Payroll system replacement;
- Unified digital signage; and
- CCTV optimization & standardization program.

The following table details the actual capital expenditures for fiscal 2015 and the planned expenditures for fiscal 2016 by asset type, including interest during construction:

Asset Type (\$ millions)	Fiscal 2015 Actual	Fiscal 2016 Forecast
Vessel Projects	69.0	\$141.4
Terminal Projects	57.3	\$36.3
Information Systems and Other projects	23.5	\$47.4
Net Capital Expenditures	149.8	\$225.2



RATE REGULATION

We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable. Under the terms of the Act, the tariffs we charge our customers over a performance term are subject to price caps set by the Commissioner. The Commissioner may, under certain circumstances, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

In January 2014, the International Accounting Standards Board ("IASB") issued an interim standard, International Financial Reporting Standards ("IFRS") 14 *Regulatory Deferral Accounts*, which addresses accounting for rate-regulated activities. However, it does not apply to entities that have already transitioned to IFRS, as we have. As a result, we are not permitted to recognize in our financial statements the assets and liabilities that result from the regulated price cap setting process, such as our deferred fuel cost accounts. Under IFRS, rather than being charged to regulatory asset accounts on our Consolidated Statements of Financial Position, fuel surcharges collected or rebates granted are included in revenue, and increases or decreases in fuel prices from those approved in price caps are included in operating expenses. These items are treated as assets and liabilities for regulatory purposes.

We continually assess whether our regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. We believe the regulatory assets at March 31, 2015 are probable of future recovery and that the obligations as represented by the regulatory liabilities will be settled through future tariff reductions or fuel rebates.

Although IFRS does not permit us to report regulatory assets and liabilities in our financial statements, they are recognized for the purposes of rate regulation and performance measurement.

FORWARD LOOKING STATEMENTS

This Business Plan contains certain “forward looking statements”. These statements relate to future events or future performance and reflect management’s expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management’s current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to:

- our expectations regarding our safety, operational, employee, information technology, regulatory, customer service, marketing and environmental initiatives;
- our asset renewal programs for vessels and terminals;
- our expectations regarding traffic levels and economic conditions;
- positive net earnings for fiscal 2016;
- capital expenditure levels;
- our expectations of the impact of our cost containment measures;
- revenue, expense and budget projections; and
- whether our regulatory assets are probable of future recovery.

In some cases, forward looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other comparable terminology.

A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with: vendor non-performance; capital market access; interest rate, foreign currency, fuel price, and traffic volume fluctuations; the implementation of major capital projects; security, safety, and environmental incidents; confidential or sensitive information breaches; changes in laws; vessel repair facility limitations; economic regulatory environment changes; tax changes; and First Nation claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Business Plan are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Business Plan, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

In addition to providing measures prepared in accordance with IFRS, we present certain supplemental non-IFRS measures. These include, but are not limited to, fleet reliability score, passenger and employee safety performance, and customer satisfaction ratings. These measures do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures

presented by other companies. These supplemental non-IFRS measures are provided to assist readers in determining our ability to generate cash from operations and improve the comparability of our results from one period to another. We believe these measures are useful in assessing operating performance of our ongoing business on an overall basis.



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