

BUSINESS PLAN

*For the year ending
March 31, 2018*

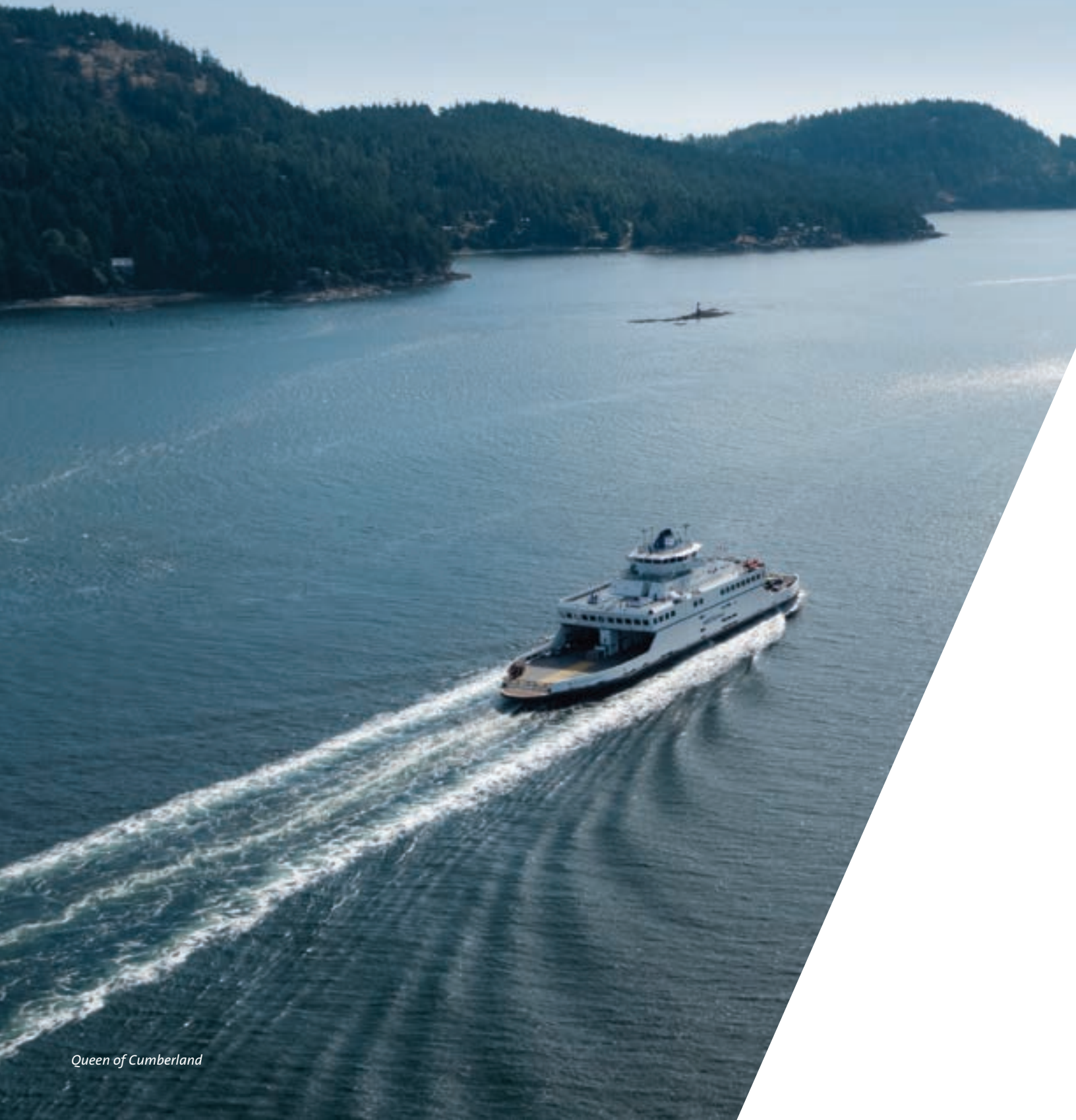



 **BC Ferries**

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INTRODUCTION





For more than 55 years, British Columbia Ferry Services Inc. (“BC Ferries”) has been dedicated to providing safe and efficient travel throughout the west coast of British Columbia. BC Ferries began operations in mid-1960 with two vessels on one route. Today, BC Ferries is an independent company that operates one of the largest and most complex ferry systems in the world. With 35 vessels serving 47 terminals and 24 routes that stretch over 1,600 kilometres of coastline, we carry more than 20 million passengers and 8 million vehicles each year.


Our definition of success is 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 long-term vision incorporates customer service, environmental and operational excellence, financial sustainability and a motivated and engaged workforce. Our strategic planning process captures internal and external factors through direct input from our employees, our customers and other stakeholders as well as through our community engagement processes.

Looking to the future, our strategic goals provide the framework for the development of our short-term business plans and the overall success of BC Ferries. Of these goals, none is more important or has greater priority than ensuring safe, reliable and efficient operations. Our focus on safety, reliability and efficiency in all aspects of our business creates a platform for success as we continue through an exciting era of new vessels, new services and new relationships with our customers.

ORGANIZATIONAL AND GOVERNANCE OVERVIEW



An aerial photograph of Swartz Bay, showing a large ferry with a deck and a cabin, and several white pontoons in the water. The bay is surrounded by green hills and mountains in the distance. The sky is clear and blue.

We manage and operate various lines of business in a complex network of relationships.

We operate within a complex legislative and economic regulatory framework that was established in 2003 when provincial legislation was enacted to create a new model for the delivery of coastal ferry services.

COASTAL FERRY ACT

The *Coastal Ferry Act*, enacted by the Province of British Columbia (the “Province”) on April 1, 2003, among other things, provided for the conversion of British Columbia Ferry Services Inc. from a crown corporation to an independent company and created the B.C. Ferry Authority, a corporation without share capital, as BC Ferries’ sole voting shareholder. It also established the office of the British Columbia Ferries Commissioner (the “Commissioner”) and authorized the Province to enter into contracts for the operation of ferries on specified ferry routes.

RELATIONSHIP TO THE PROVINCIAL GOVERNMENT

We have a contract (the Coastal Ferry Services Contract) with the Province to provide passenger and vehicle ferry services on the west coast of BC. To date, we are the only ferry operator that has such a contract with the Province. The Province holds cumulative preferred non-voting shares of BC Ferries in the amount of \$75.5 million and is entitled to receive an annual dividend of \$6.0 million as and when declared by the BC Ferries Board of Directors.

BRITISH COLUMBIA FERRIES COMMISSIONER

The office of the Commissioner, independent of both the provincial government and BC Ferries, is responsible for regulating tariffs by establishing price caps for designated ferry route groups. The Commissioner is also responsible for monitoring service levels and certain other matters.

The Commissioner undertakes this regulation in accordance with several principles, including;

- to balance the interests of ferry users, taxpayers and the financial sustainability of ferry operators;

- to encourage a commercial approach to ferry service delivery; and
- to encourage innovation and the minimization of expenses without adversely affecting safety.

COASTAL FERRY SERVICES CONTRACT (“CFSC”)

The 60-year service contract with the Province, which commenced April 1, 2003, stipulates, among other things, the minimum number of round trips that must be provided for each regulated ferry service route in exchange for specified fees (ferry transportation fees). After the first five-year term, as part of this contract, the services and fees are to be reviewed every four years. The most recent renewal of the contract was completed for the fourth performance term (“PT4”) which began on April 1, 2016 and will end March 31, 2020. Under the terms of the contract, we also receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal BC.



VISION, MISSION AND VALUES





SALISH EAGLE

Built: 2016, Poland

Maximum Speed: 15.5 knots

Car Capacity: 138

Our vision and mission encapsulates why we exist, what we do, and where we want to be in the future. All of the work we do is in pursuit of our vision and mission, and is guided by our six core 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

Deliver on our mandate to provide safe, reliable and efficient marine transportation services that consistently exceed the expectations of our customers, employees and communities, through the creation of 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.

Employees

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

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.

Environment

Conduct our operations in a manner that is environmentally responsible and incorporate environmental factors into our decision making.

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.



STRATEGIC DRIVERS



**NORTHERN
EXPEDITION**

Built: 2009, Germany
Maximum Speed: 20.5 knots
Car Capacity: 115



Our strategic drivers inform decision-making during the planning process.

Strategic drivers are critical success factors that must be in place in order to achieve our strategic goals. They are:

1. OPERATIONAL EXCELLENCE

We strive for a superior customer experience through safe, efficient, reliable and effective service delivery.

2. FINANCIAL SUSTAINABILITY

We make prudent choices for the long-term growth and sustainability of our organization, enabling fare affordability, value for customers and effective asset stewardship.

3. EMPLOYEE ENGAGEMENT

We foster growth, development and commitment in our people.

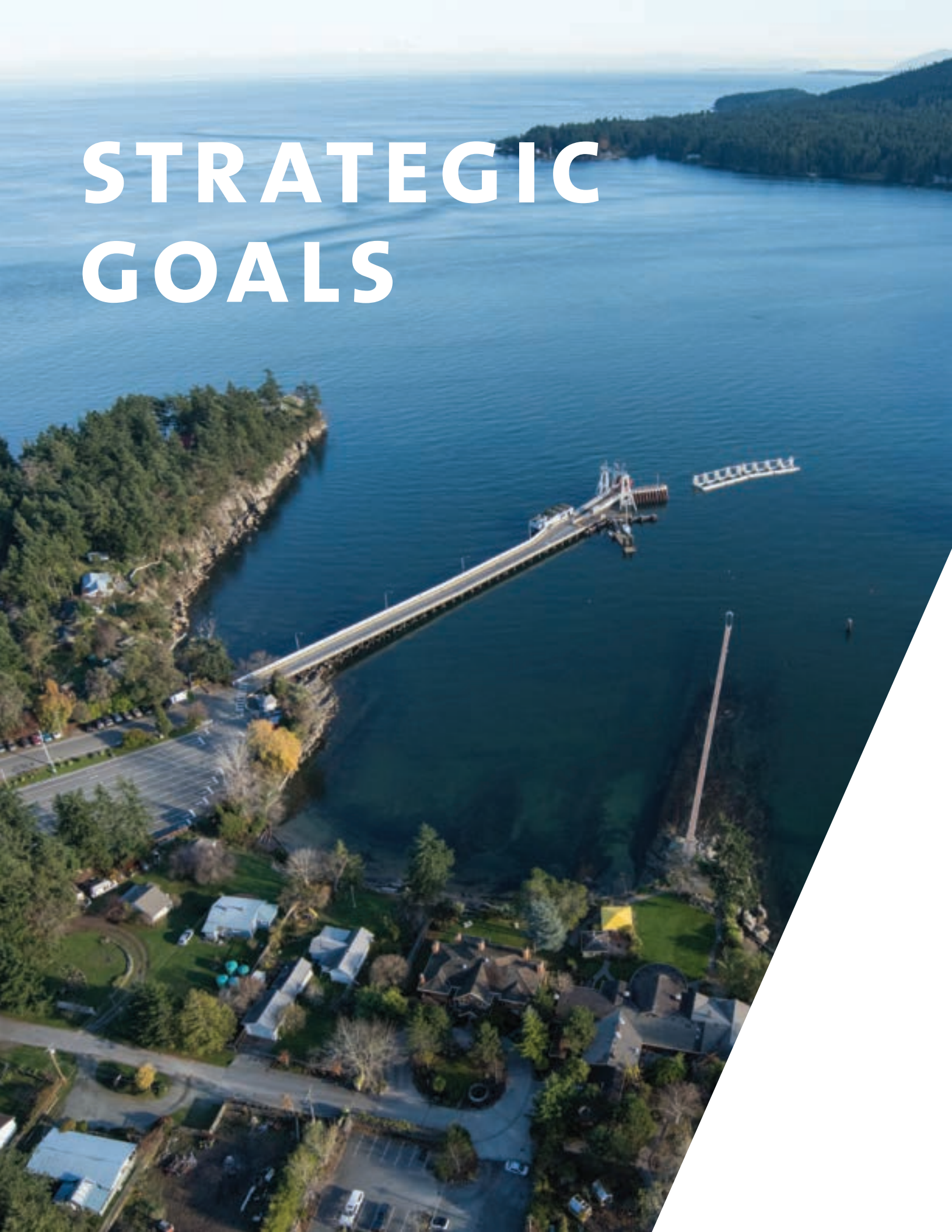
4. ENVIRONMENT AND SOCIAL GOVERNANCE

We leverage our resources, services and relationships in recognition of our responsibility to our environment, customers, employees, stakeholders and communities.

5. INNOVATION AND CONTINUOUS IMPROVEMENT

We nurture continuous improvement and innovation across the organization.

STRATEGIC GOALS



Our strategic goals focus on the outcomes we will pursue to achieve our vision and mission.

This business plan focuses on the tactics that we will undertake this year as we move forward to accomplish our strategic goals to:

- 1. ENSURE SAFE, RELIABLE & EFFICIENT OPERATIONS**
 - 2. DELIVER A CUSTOMER-FOCUSED TRAVEL EXPERIENCE**
 - 3. FOSTER A PRODUCTIVE, MOTIVATED & ENGAGED WORKFORCE**
 - 4. BE A LEADER IN ENVIRONMENTAL & SOCIAL GOVERNANCE**
 - 5. GROW & PROFITABLY DIVERSIFY OUR REVENUE BASE**
 - 6. DRIVE PRUDENT INVESTMENT IN OUR CAPITAL ASSETS**
-

For each of the six goals, the supporting strategies and initiatives we will undertake over the next year are detailed on pages 44 through 55.

MEASURING SUCCESS





SKEENA QUEEN

Built: 1997, Vancouver

Maximum Speed: 17.3 knots

Passenger & Crew Capacity: 450

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

In support of our vision, mission and strategic goals, we have implemented performance measures to monitor the progress of the business and our commitment to continuous improvement.

The following are the actual results for fiscals 2014 through 2016, the target and actual results for fiscal 2017, as well as the target for fiscal 2018:

	2014	2015 ACTUAL	2016	2017 TARGET	2017 ACTUAL	2018 TARGET
Employee Safety Index Employee injury frequency rate x severity rate divided by 1,000	0.67	0.65	0.48	0.44	0.43	0.39
Passenger Safety Index Number of passenger injuries per one million passengers	13.28	11.90	11.24	11.26	9.62	10.68
Reliability Index Actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations	99.71%	99.75%	99.72%	99.55% - 99.74%	99.69%	99.55% - 99.74%
Customer Satisfaction Rating scale of 1 to 5 based on three surveys performed during the year	4.17	4.11	4.14	4.14	4.18	4.20
EBITDA (\$Millions) Net earnings adjusted for the impact of regulatory assets and liabilities and before interest, taxes, depreciation and amortization	232.3	255.6	268.5	272.5	294.6	290.5
Net Earnings (\$Millions) Net earnings adjusted for the impact of regulatory assets and liabilities	25.5	41.4	64.8	59.5	87.9	70.6

Results for fiscal 2017 were better than or within the targets set reflecting the dedication of our employees and our commitment to service excellence. With our reliability index range held steady at a practical level, the balance of our fiscal 2018 targets reflect an improvement over the targets set for fiscal 2017. The higher targets demonstrate our determination to provide a continuously improving, safe, reliable and sustainable service.

SAFETY AND RELIABLE OPERATIONS

Our SailSafe program, launched 10 years ago, reflects the Company's and Union's commitment to safety as an essential part of our business. We have invested heavily in workplace and operational safety programs for employees, including our Simulator Training Centre program ("STC") for hands-on practice that meets the needs of our unique work environment.

In fiscal 2017, operational training focused on several programs including new hire orientation, confined space entry, hazardous materials, and oil spill response. Training is provided online and in the classroom as well as through practising exercises and drills. Also in fiscal 2017, our STC program delivered enhanced bridge team skills, including a course on a specific radar and electronic chart display system.

Our Standardized Education and Assessment ("SEA") program has received international recognition for its customized programs specific to the job, vessel, route or terminal. It leverages technology and e-learning to enhance hands-on training in a phased, auditable and sustainable manner. This program is an innovative approach that we believe is transforming training in the marine industry through the use of technology. The job positions specific to the cable ferry and the Salish Class vessels have been created within this program.

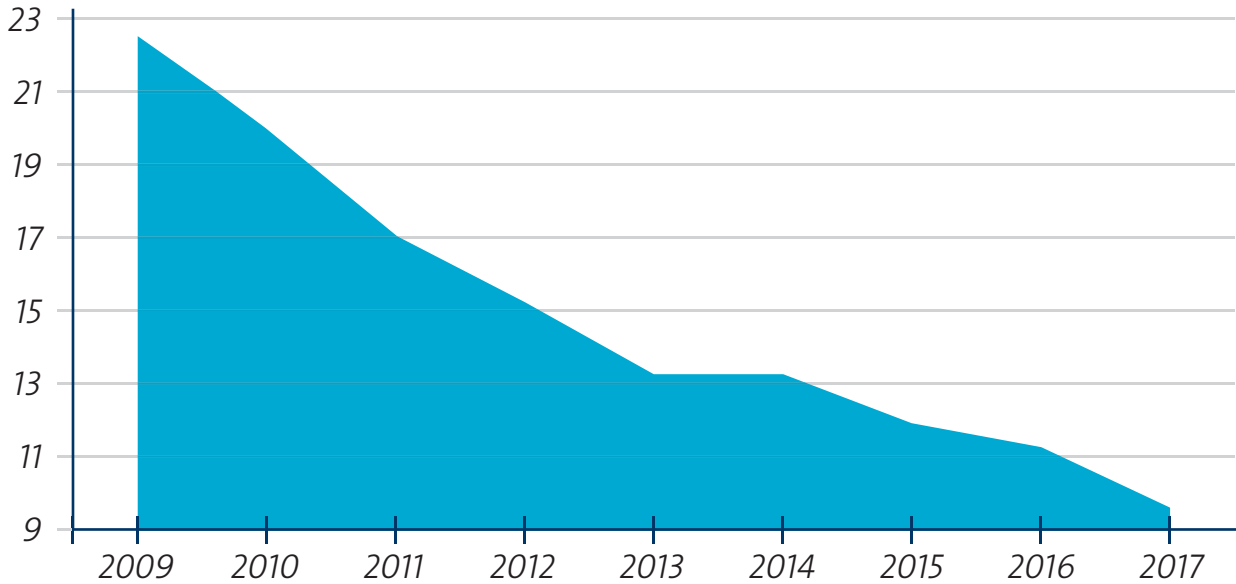
During fiscal 2017, we developed a comprehensive training plan for familiarization with the new equipment on the Salish Class vessels. This plan includes liquefied natural gas training, manufacturer's equipment training and SEA and operational training for all employees working on a Salish Class vessel. A web-based natural gas safety awareness program provided training to all employees involved with the vessels and included additional advanced natural gas training for deck and engineering crews. By the time all three Salish Class vessels have commenced regular service, we estimate more than 5,400 days of training will have been completed.

Our investments in safety have yielded significant and positive results. Injuries to passengers continue to decline. In fiscal 2017, we carried 21 million passengers. There were 202 injuries, a .0001% injury rate, and a 12.9% decrease compared to fiscal 2016. Since 2009, the number of injuries to passengers has been reduced by 57%. We are pleased with the fiscal 2017 results and will strive to further reduce the number of injuries.

Our passenger safety index (the number of injuries per one million passengers) for fiscal years 2009 through 2017 are shown on the following page. Our fiscal 2018 target of 10.68, set prior to knowing fiscal 2017 actual results, is a 5.2% improvement over the fiscal 2017 target.

PASSENGER SAFETY INDEX

number of injuries per one million passengers

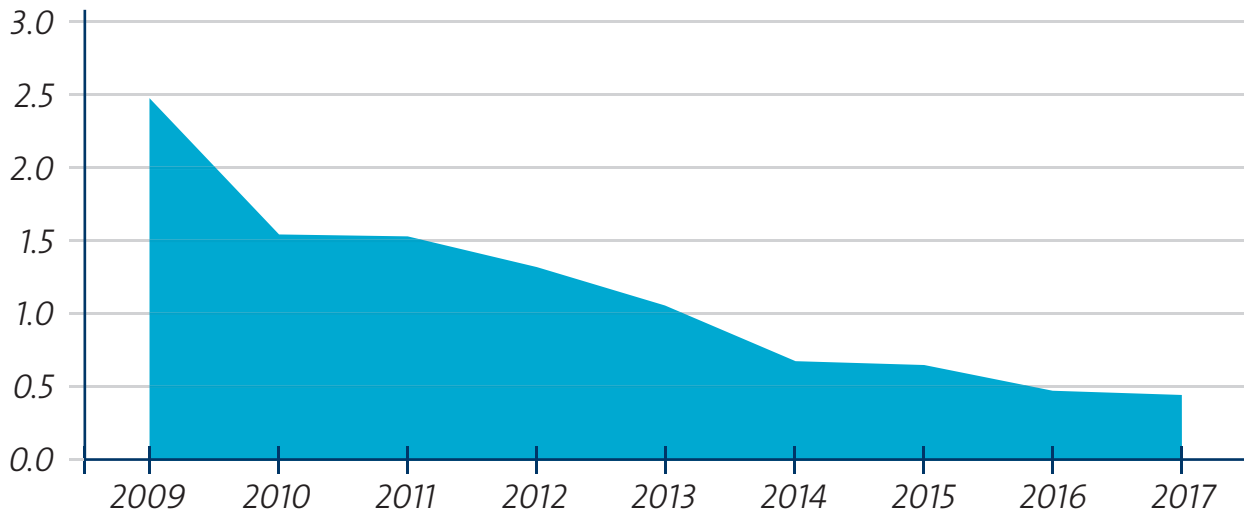


Employee time loss injuries decreased from 150 in fiscal 2016 to 137 in fiscal 2017. Since 2009, the annual number of time loss injuries has dropped over 50% and the number of days lost due to injury has declined by almost 6,000 per year. In fiscal 2017, our employee safety index (employee injury frequency rate times

severity rate divided by 1,000) continued to improve. We are encouraged by the overall results and in fiscal 2018 we will strive to further improve this index by 9.3% to 0.39. The results for fiscal years 2009 through 2017 are below:

EMPLOYEE SAFETY INDEX

injury frequency rate x severity rate divided by 1000



In fiscal 2018, we will continue to focus on safety in all areas of our business, including renewing awareness of our processes for reporting safety learning events and maintaining a health and wellness focus for our employees.

We first received the Certificate of Recognition (“COR”) from WorkSafeBC in fiscal 2014. A COR recognizes companies that go beyond the legal requirements of the *Workers’ Compensation Act* and the Occupational Health & Safety Regulations by taking a best practices approach to implementing health, safety and return to work programs. A COR requires recertification every three years. As a result of receiving the COR, WorkSafeBC provided us with rebates of approximately \$0.6 million on each of our 2013, 2014 and 2015 assessed premiums. During fiscal 2017, we completed the process of renewing the COR by engaging an independent external consultant to do a recertification audit. The audit resulted in a 90% score in Health and Safety and 95% score in Injury Management.

PRODUCTIVE, MOTIVATED AND ENGAGED WORKFORCE

We were named one of B.C.’s Top Employers (2017), an award that recognizes workplaces offering forward-thinking programs for employees. The annual competition evaluates employers on several criteria including physical workplace, employee communications, performance management, training and skills development and community involvement.

Our ability to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry is key to our success. Being named one of B.C.’s Top Employers (2017) reflects the pride and enthusiasm of our employees and aids in attracting employees to our company.

As a top employer in the province, we have a progressive workplace, focusing on career opportunities across the organization as well as extensive training and development initiatives. Our in-depth operational training program as well as management and leadership courses round out our organization’s dedication to learning and commitment to our workforce. We are continuing to develop career navigator software which will provide all employees with easy access to resources and materials and will assist in planning and tracking employee career progression and succession.

Over several years, with significant participation from our employees and the BC Ferry and Marine Workers’ Union (“Union”), we have worked hard to develop a comprehensive safety program which includes a health and wellness component.

ENVIRONMENTAL STEWARDSHIP

As an asset-intensive business, 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.

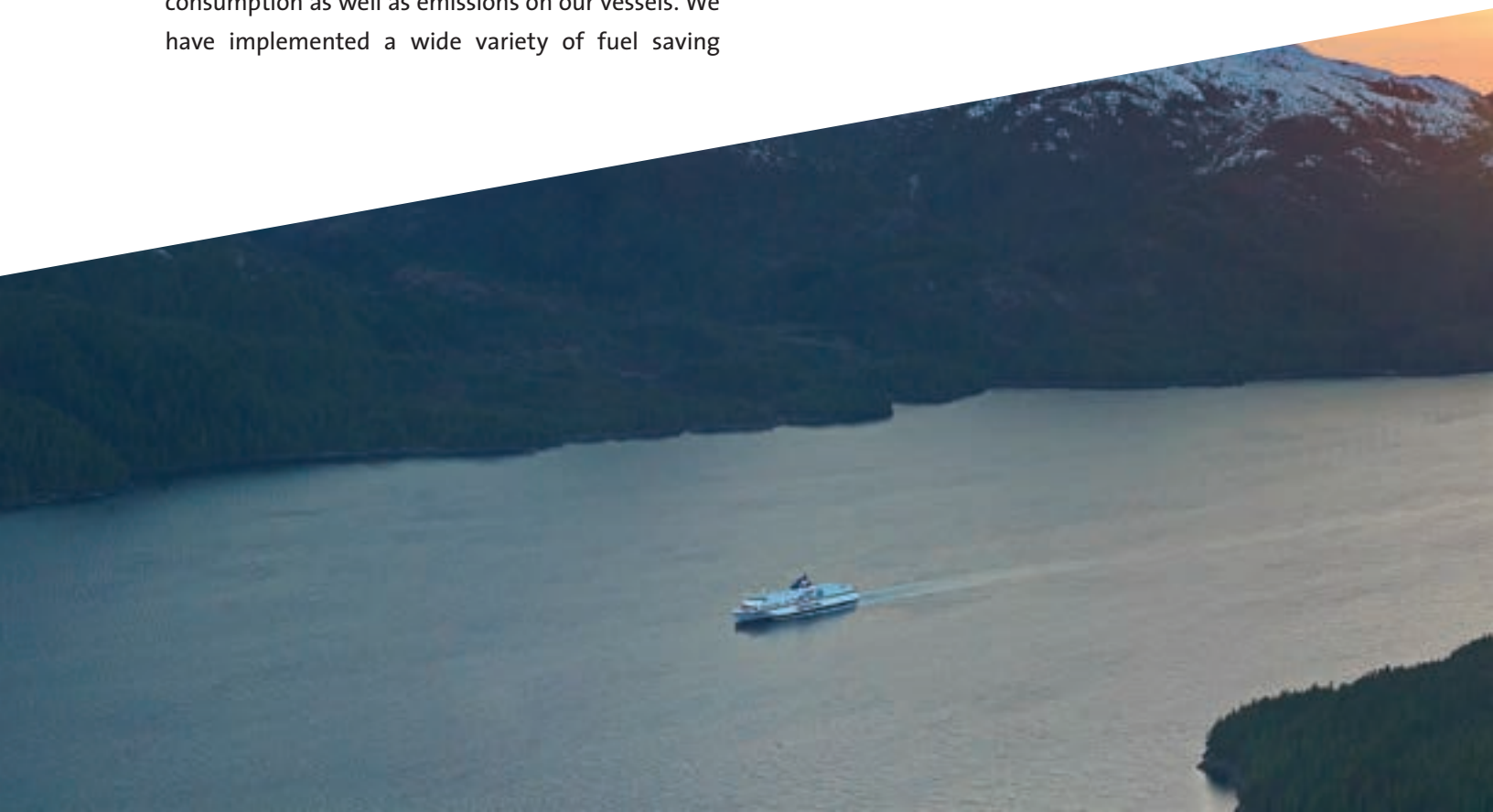
In November 2016, we launched our SeaForward initiative with a goal to reduce our environmental footprint, improve the sustainability of our operations and support coastal communities. The initiative brings together our existing environmental activities, conservation efforts, community investments and new sustainability endeavours under a single program. In fiscal 2018, our three key initiatives include increasing composting and recycling, the tracking of whale sightings in association with the BC Cetacean Sightings Network, and our employees actively participating in the Great Canadian Shoreline Cleanup.

In May 2015, we received certification from Green Marine which is an environmental program with the intent for participants to reduce their environmental footprint by undertaking concrete and measurable actions. 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. In fiscal 2017, we were recognized by Green Marine as having achieved significant year-over-year improvement when evaluated against their management performance indicators. Green Marine has established underwater noise as their current key performance indicator. In fiscal 2018, we will continue to participate in the Enhancing Cetacean Habitat Observation Program (“ECHO”). ECHO was established by Port of Vancouver, in collaboration with government agencies, First Nations, marine industry users, non-government organizations and scientific experts, to better understand and manage the potential impacts to cetaceans (whales, porpoises and dolphins) from commercial vessel activities.

We continuously seek ways to reduce our overall fuel consumption as well as emissions on our vessels. We have implemented a wide variety of fuel saving

measures ranging from operating our vessels more efficiently, to installing new, more fuel-efficient engines on some of our vessels and fuel monitoring systems on others. We are designing and building our new vessels to meet or exceed current environmental standards. In fiscal 2017, we partnered with 3GA Marine, Clearlead Consulting and Panevo Services in the development and demonstration of an energy optimization software tool on the *Queen of Oak Bay*. The tool collects electricity data from more than twenty areas on the vessel and provides generator metrics that allow us to manage energy usage. The benefits of this energy initiative are a reduction in fuel consumption, cost and associated carbon emissions, as well as improved asset life and reduced maintenance costs. Our future plans include the installation of this tool on more vessels.

We are also actively pursuing alternate fuel options, including natural gas and stored energy (battery) capability, for new vessels and vessels undergoing major retrofits. Our cable ferry, the *Baynes Sound*



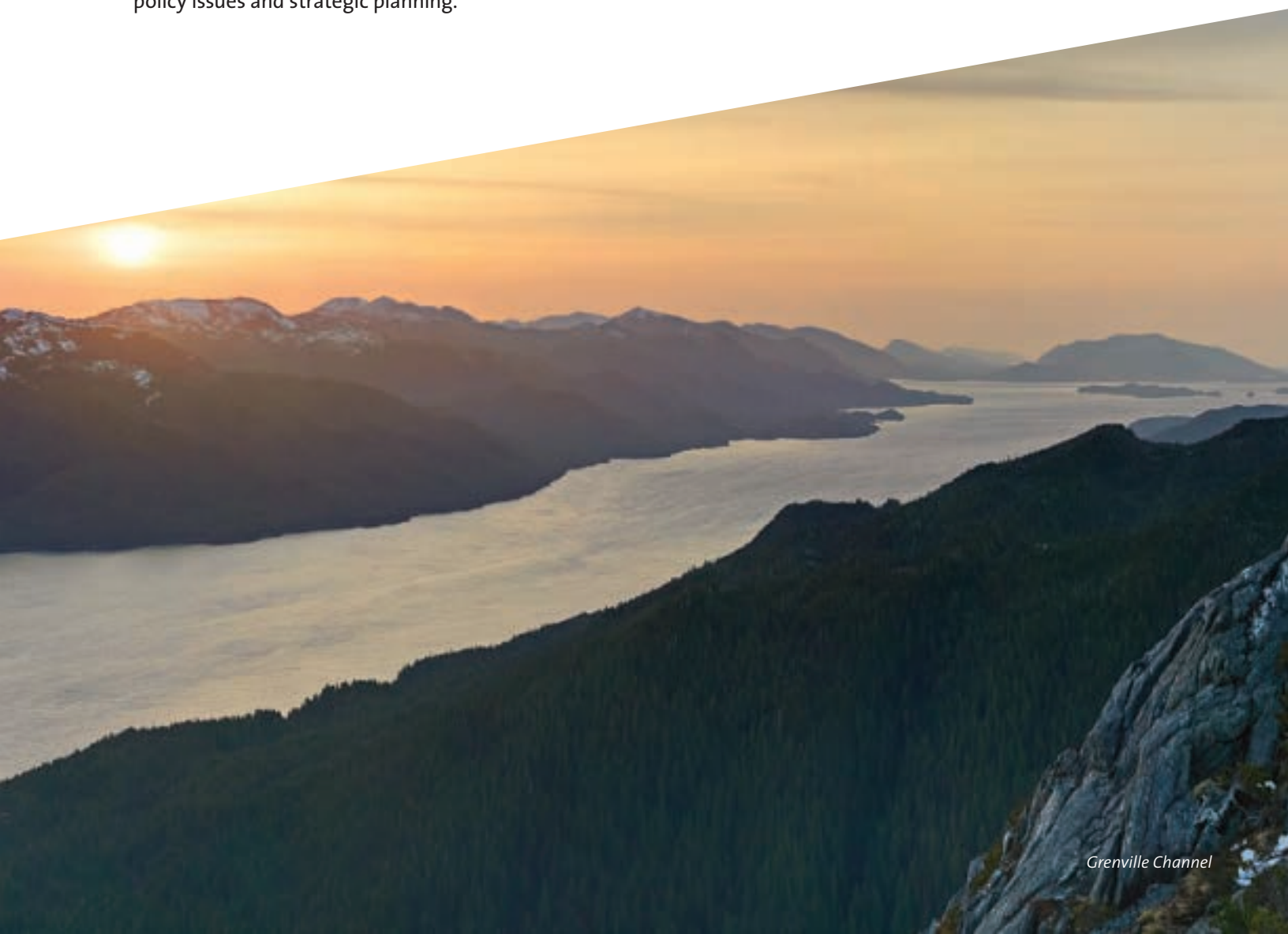
Connector, has significantly reduced both fuel consumption and emissions. Our three new Salish Class vessels have a dual-fuel propulsion system which will run primarily on natural gas, with marine diesel fuel as a backup. Our Spirit Class vessels will also be converted to dual-fuel when they undergo their mid-life upgrades. We believe that a move to this fuel source will reduce emissions as well as costs.

CUSTOMER ENGAGEMENT

We have an active public consultation program and continue to work closely with 13 Ferry Advisory Committees that represent the ferry dependent communities we serve. These committees are appointed in cooperation with local governments, the Islands Trust and First Nations, and discuss day-to-day operations, planned improvements, broader policy issues and strategic planning.

We will continue to engage with stakeholders to improve service and better align customer needs with sailing schedules as well as balance seasonal service, capacity and demand with operating efficiencies through the use of surveys, open houses, public meetings, community working groups, Ferry Advisory Committees and meetings with community leaders.

We are consulting with stakeholders and asking for their input on such areas as amenities, lounge configuration, accessibility and car deck arrangement of two new minor class vessels. These vessels will be the first two of six vessels of this type to be built in the coming ten years. Feedback and operational experience will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability.



THE EFFECT OF 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, in extraordinary situations, allow increases in price caps over the set levels. Certain decisions and orders of the Commissioner may give rise to regulatory assets or liabilities. Regulatory assets generally represent incurred costs that are probable of future recovery in tariffs or fuel surcharges (rebates). Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates.

Since our transition to International Financial Reporting Standards (“IFRS”) in fiscal 2012, 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 or liability 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.

During fiscal 2017, due to actual fuel costs being lower than the approved fuel costs used to develop the regulated price caps and the rebates in place throughout the year, our deferred fuel cost accounts shifted from a \$6.1 million regulatory liability at March 31, 2016 to a \$4.5 million regulatory asset at March 31, 2017. We expect that fuel rebates in place at April 1, 2017 may need to be reduced somewhat during fiscal 2018 to prevent this regulatory asset from growing.

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, our net earnings for the year ended March 31, 2017 would have been \$10.6 million higher and for the year ended March 31, 2016, would have been \$4.8 million lower.

SITUATIONAL ANALYSIS



SALISH ORCA

Built: 2016, Poland
Maximum Speed: 15.5 knots
Car Capacity: 138

We continuously monitor our business, using both internal and external resources. We are forecasting that traffic demand will increase and that there are opportunities for growth in other markets.

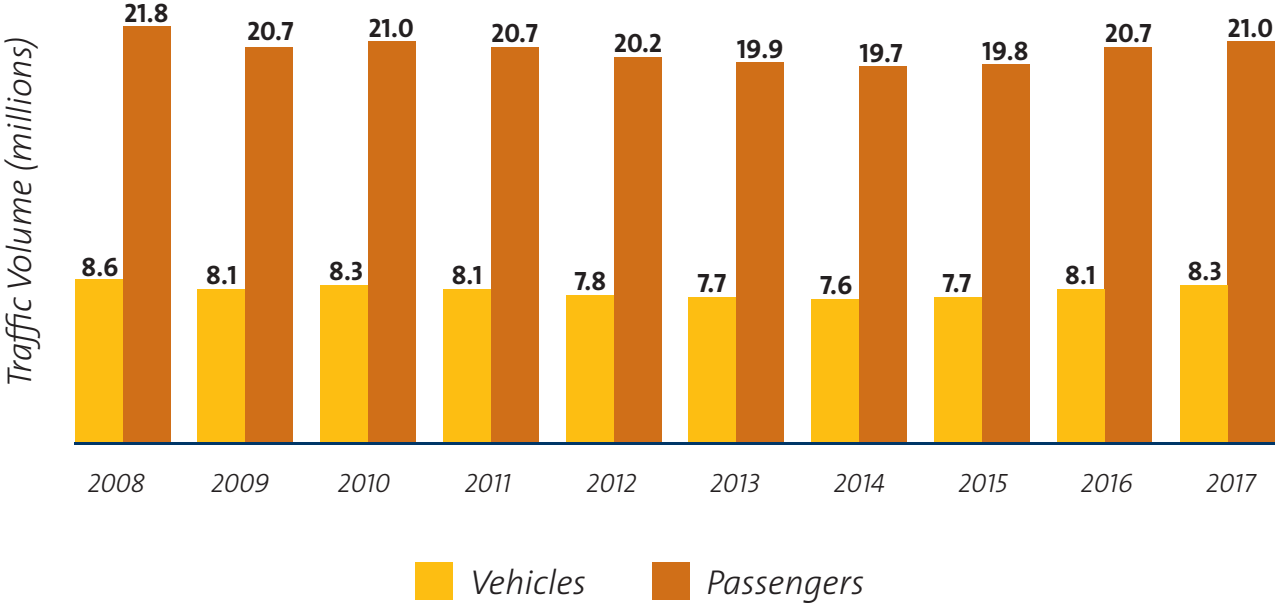
As part of our planning process, we regularly undertake external and internal reviews of our business. Looking forward, we identified the following trends, risk factors and opportunities that may influence our future performance. These have been considered in the development of the strategies and tactics described in this business plan.

TRAFFIC DEMAND

Many factors affect customer demand, including current economic conditions, the value of the Canadian dollar, levels of tourism, emerging transportation choices, customer sentiment, threats to health and safety from outbreak of disease or security risk, disposable personal income, demographics and population growth. The cost of transportation, including the price of fuel at the pump and ferry fares (including the implementation and removal of fuel surcharges or rebates), disposable personal income and weather conditions may have an effect on discretionary travel and levels of tourism.

Vehicle and passenger traffic in fiscal 2017 increased 2.9% and 1.7%, respectively, compared to the previous fiscal year. These traffic levels are the highest we have experienced since fiscal 2008. In fiscal 2017, we believe that traffic continued to be favourably impacted by higher tourism, the lower Canadian dollar and a general increase in economic activity in BC. In addition, we offered a variety of pricing promotions. Traffic was negatively impacted by more days of unfavorable weather in the last half of fiscal 2017 compared to the same period in the prior year. There were no Easter holiday weekends falling in fiscal 2017 while traffic levels were positively impacted in fiscal 2016 by two Easter holiday weekends.

The following graph illustrates our annual vehicle and passenger traffic levels from fiscal 2008 through fiscal 2017:



We remain confident that as long as the Canadian dollar stays low relative to the U.S. dollar and oil prices continue at current levels, the fundamentals impacting our traffic will remain favourable, and we should continue to see traffic growth in the near-term. We will continue to monitor traffic levels and adjust our

forecast as we move through the summer months when we carry the most significant portion of our traffic. Our current projections for fiscal 2018 are for vehicle and passenger traffic to be higher than fiscal 2017 levels.

ECONOMIC FORECAST

In 2015, real gross domestic product (“GDP”) in the Province increased by 3.3%. In February 2017, the British Columbia Ministry of Finance published its Fiscal Plan for 2017/18 – 2019/20 based on forecast GDP growth of 2.7% in 2016 and 2.1% in 2017 and 2018.

Improvements in BC’s economy, increased employment and consumer spending, the low Canadian dollar and population growth are all expected to contribute favourably 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 BC.

Provincial tourism revenue growth is a key measure for tracking the health and growth of the tourism industry. The Province has committed to continuing to drive growth through attracting visitors from key markets, both nationally and internationally, and encouraging British Columbians to travel within their own province. The Province has set an ambitious target of 5% annual revenue growth for years 2017 through 2020.

We believe the outlook for the travel industry will continue to improve with the lower value of the Canadian dollar versus the U.S. dollar and the continued lower cost of fuel at the pump.

CROSS-BORDER TRAVEL

The Canadian dollar has remained low relative to the U.S. dollar. This has resulted in more Canadians choosing to travel within Canada rather than travelling to the U.S. It has also increased the number of Americans making the trip over the border into BC.

There is a fair amount of uncertainty in the market and mixed opinions regarding the impact the new U.S. administration will have on the Canadian economy. If the relationship of the Canadian dollar to the U.S. dollar continues, we expect the traffic from Canadians to remain strong and the traffic from the U.S. to increase.



Howe Sound Queen at Vesuvius Bay

EXTERNAL FACTORS

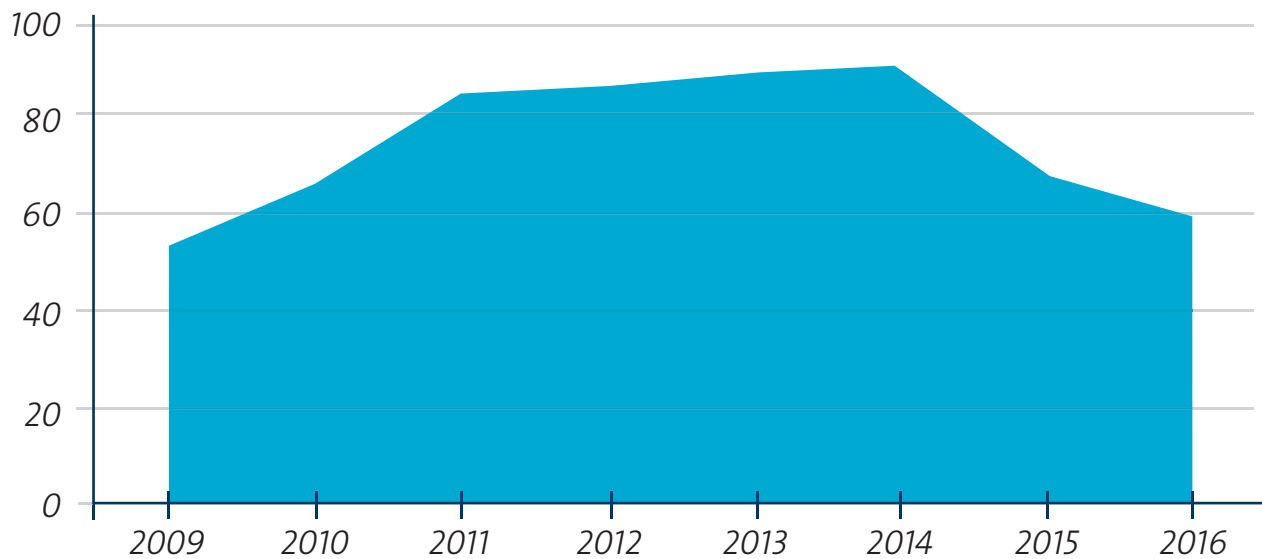
VOLATILE FUEL COSTS

Fuel is our second largest operating expense, next to labour costs. In 2016, the average price of Vancouver Rack diesel fuel was \$0.59 per litre, a decrease of 12% from 2015.

Our exposure to fuel price risk is associated with the changes in the Canadian market price of marine diesel fuel. Fuel costs have fluctuated significantly over the past few years and there is uncertainty of the cost of fuel in the future. The per litre price of diesel fuel at Vancouver Rack prices for 2009 through 2016 is shown in the graph below:

VANCOUVER RACK DIESEL PRICES

cents per litre





SURCHARGES/REBATES

To mitigate the effect of volatility in fuel oil prices on our earnings, we use deferred fuel cost accounts together with fuel surcharges or rebates, as required. As prescribed by regulatory order, we defer differences between actual fuel costs and regulated fuel costs that were used to develop the regulated price caps. The difference between the actual fuel costs (including fuel hedge gains and losses) and the regulated fuel costs (set price) is deferred for settlement in future tariffs. Also, as prescribed by regulatory order, we collect fuel surcharges or provide fuel rebates from time to time which are applied against deferred fuel cost account balances.

FUEL HEDGING PROGRAM

We may enter into hedging instruments to add a fixed component to the inherent floating nature of fuel prices, and thereby reduce fuel price volatility and its knock on effect on fare stability. Fuel price hedging instruments are used solely for the purpose of reducing fuel price risk, not for generating trading profits. Fuel forward contracts are only entered into when there is a reasonable likelihood that the hedge will result in a net procurement cost per litre less than or equal to the set price per litre established by the Commissioner. At March 31, 2017, we locked in pricing for a significant portion of our forecast fuel consumption to the end of 2017. We intend to continue to monitor the market and enter into fuel forward contracts when economically prudent to do so.

FUEL MANAGEMENT

In fiscal 2018, we will continue to seek ways to reduce fuel consumption as well as emissions on our vessels. We have implemented a wide variety of fuel saving measures ranging from operating our vessels more efficiently to installing new, more fuel-efficient engines on some of our vessels and fuel monitoring systems on others, and designing and building our new vessels to meet or exceed current environmental standards. We are also actively pursuing alternative fuel options, including batteries for our new minor vessels and natural gas for new vessels and vessels undergoing major retrofits where we believe a change in fuel source would reduce emissions as well as costs.

VESSEL CONSTRUCTION AND REPAIR FACILITIES

The overall demand for ship repair and ship building facilities has increased with the federal ship procurement strategy. There are only two facilities with dry-docks in BC that can accommodate large vessels. There is also one shipyard that dominates the vessel construction and repair market, especially for large vessels. In fiscal 2016, the dominant shipyard withdrew from the bidding process for mid-life upgrades on our two largest vessels as a result of not having availability in their schedule to accommodate the project. With demand outstripping supply in the local ship construction and repair industry, we have had to go off shore.

We continue to plan our vessel maintenance to minimize the number of out-of-service periods and to maximize the maintenance performed by our own staff. We have established long-range maintenance plans for all vessels which enable us to plan and reserve space with ship repair facilities well in advance. Further, when regulations permit, in-water surveys are performed on vessels, potentially eliminating the requirement for dry-docking. Also, alternatives to using local facilities are explored. In fiscal 2018, we will continue to work to ensure we have robust vessel repair tactical plans in place to address the supply and demand risk of limited ship repair facilities.

EXTERNAL COMPETITIVE PRESSURES

New competitors are emerging in the passenger-only market and we expect the competition in the commercial (drop-trailer) traffic market to increase. By comparison, barriers to entry for private sector vehicle ferry services remain relatively high.

New entrants are emerging in the passenger-only market. Riverside Marine from Australia (operating as “V2V”) began a passenger-only ferry service between Victoria’s Inner Harbour and Vancouver harbour in May 2017. Riverside Marine’s focus is on a luxury tourism experience rather than a point-to-point transportation link. The 254-seat, 126-foot catamaran travels at speeds up to 32 knots. They offer a three and a half hour, one-way trip from Vancouver to Victoria in the morning and a second trip from Victoria to Vancouver in the afternoon.

Clipper Navigation Inc. (“Victoria Clipper”) from Seattle, Washington also plans to launch a ferry service between Victoria’s Inner Harbour and Vancouver harbour. Victoria Clipper has found a vessel amid the fleet owned by its parent company, Forde Reederei Seetouristik. The vessel can carry 579 passengers and travel at speeds up to 36 knots. They plan to start the service in the spring of 2018 after some minor refits and upgrades.

The City of Nanaimo and the Nanaimo Port Authority believe that a high speed, passenger ferry service between downtown Nanaimo and downtown Vancouver would provide a catalyst to diversify and grow the local economy. Victoria-based Island Ferry Services Ltd. has been selected to provide the service and two catamarans are currently under construction in Asia that would be able to carry 376 passengers and operate at a speed of approximately 38 knots.



Air travel, through businesses such as Helijet, Harbour Air and Island Express Air, remains a premium alternative to ferry travel between Vancouver Island and the Mainland for time-sensitive travellers.

The commercial traffic drop-trailer market is dominated by Seaspan Ferries Corporation. Seaspan has two new hybrid ferries (propelled by natural gas, diesel and battery power) built in Turkey, each able to carry up to 60 trailers. This provides Seaspan with the potential to reduce per trip costs, provide additional capacity, and increase the number of daily, scheduled truck and trailer ferry service between the Mainland and Vancouver Island.

ACCESS TO FUNDING

In March 2017, the Government of Canada approved funding under the New Building Canada Fund toward the purchase of two new minor class vessels, a major upgrade of our Langdale terminal, improvements at several other terminals and the purchase and refurbishment of a used vessel to serve the mid-coast, including new seasonal direct ferry service between Port Hardy and Bella Coola. In total, up to \$60 million in funding under the New Building Canada Fund has been approved.

FortisBC has provided us with \$6 million in incentive funding for the new Salish Class vessels to help offset incremental capital costs associated with the use of natural gas. The contribution is dependent upon the purchase of at least 3 million gigajoules of natural gas over a ten-year period. The Natural Gas for Transportation incentive funding will be applied towards the purchase of the three new Salish Class vessels. FortisBC has also committed to provide us with up to \$10 million in incentive funding to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to utilize natural gas.

We intend to make application for any future funding opportunities that may arise to assist in renewing our fleet and terminals.





INTERNAL FACTORS

VESSEL INFRASTRUCTURE

We have one of the largest ferry fleets in the world. The typical life span of vessels is approximately 45 years. Prior to the new Salish Class vessels, the average age of our vessels was 34 years and, of these, 18 were 40-years old or older. From time to time, our aging fleet can experience mechanical issues that may have customer service and environmental impacts.

The first phase of our vessel renewal program involved upgrading and replacing a large share of our major vessels and terminal assets, with the most significant portion of this program completing during fiscals 2008 and 2009. The next phase of vessel renewals began in fiscal 2010 with the commencement of design for new minor and intermediate sized vessels. Our 19 minor and intermediate sized vessels, prior to the Salish Class vessels, had an average age of 39 years. As vessels approach their planned retirement dates, we are assessing the condition of these vessels to determine potential candidates for life extension rather than retirement. In our twelve-year capital plan, we plan to replace or extend the life of 14 of these vessels.

Our strategy for new vessels includes design optimization, interoperability, and standardization of vessels across the fleet, to the extent possible, to provide more flexibility to respond to changes in the market demand and traffic forecasts. Operational experience will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability. We also plan to adopt alternative fuel sources, including natural gas, where economically and technically feasible.

All three Salish (intermediate) Class vessels have entered service which has allowed us to retire the 52-year old *Queen of Burnaby* and the 53-year old *Queen of Nanaimo*.

TERMINAL INFRASTRUCTURE

In fiscal 2017, at Langdale terminal, we began a project to replace components of the marine infrastructure with a floating pontoon and at Long Harbour, a project to life extend the marine infrastructure and stabilize the shoreline completed in fiscal 2018. At Tsawwassen terminal, we completed the replacement of key marine structures at one of the five berths.



Within the next 10 years, an estimated capital investment of \$500 million in terminal infrastructure will be required at the terminals, including over \$200 million at the Horseshoe Bay terminal and approximately \$50 million at each of the Swartz Bay and the Tsawwassen terminals. Careful consideration, extensive detailed design and consultation with stakeholders will be done before these projects proceed.

INFORMATION TECHNOLOGY

We believe our information technology systems must be significantly improved to evolve our business. The rigid technology systems we currently use limit our ability to design attractive and relevant pricing at a sailing level. Our customer service program, which includes our Fare Flexibility and Digital Experience Initiative, will replace our website, e-commerce platform and reservation system, and upgrade our point of sale system. The program will allow us to respond in a more timely fashion to changing business needs and to support marketing, travel services and flexible pricing initiatives. It will also enable us to manage fares at a sailing level, improve operational efficiency through better capacity management, provide customers with greater online functionality and booking options, and provide better access for mobile, tablet and desktop channels. The main elements of this multi-year program will be implemented in stages over the next few years.

COLLECTIVE AGREEMENT

The majority of our employees are members of the BC Ferry & Marine Workers' Union ("Union"). In fiscal 2016, we announced the ratification of a Memorandum of Agreement that was reached in October 2015 with the Union. The settlement took several months of extensive negotiations and was achieved before the October 31, 2015 expiration of the previous collective agreement. The current agreement provides certainty for our employees and helps ensure uninterrupted ferry service for our customers and marks 17 years of labour stability.

FINANCING

We fund our operations and capital acquisitions with cash flow generated from operations, as well as bank financing and debt issues.

Cash flows from operations includes payments from customers, primarily for fares, retail purchases and fuel surcharges (rebates); ferry transportation fees from the Province; and funds received related to the Federal-Provincial Subsidy Agreement.

At March 31, 2017, we had five series of obligation bonds totalling \$1.1 billion and \$217 million in export loans outstanding. We also have a \$155 million credit facility available.

In November 2015, we executed an export loan agreement with KfW IPEX-Bank GmbH (“KfW”). This loan agreement is secured under the Master Trust Indenture and allowed for three loans of up to

BONDS OUTSTANDING

Amount (\$MILLIONS)	Maturity	Coupon (%)
250	OCTOBER 13, 2034	6.250
250	MARCH 20, 2037	5.021
200	JANUARY 11, 2038	5.581
200	OCTOBER 23, 2043	4.702
200	APRIL 28, 2044	4.289

BANK DEBT

Type	Amount (\$MILLIONS)
CREDIT FACILITY LIMIT	155
KfW LOANS OUTSTANDING	217
KfW LOAN COMMITMENT	45

\$45 million each. These amortizing loans will be repaid over a 12-year term and bear an annual interest rate of 2.09%. In November 2016, we drew down the first loan of \$45 million, to coincide with the contract payment schedule for the purchase of *Salish Orca* and in February 2017, we drew down the second loan of \$45 million, to coincide with the contract payment schedule for *Salish Eagle*. The third loan of \$45 million was drawn down in April and May, 2017, to coincide with the contract payment schedule for *Salish Raven*. The net proceeds of these loans were used to partially finance the purchase of the respective vessels.

Over the next five years, we expect capital expenditures to average approximately \$240 million annually as we proceed with the replacement and upgrade of our aged vessels and make significant improvements at our terminals serving our Major Routes¹, as well as make investments in information technology.

In the near term, we expect our cash requirements will be met through operating cash flows, accessing funding under government programs and by accessing our credit facility from time to time.

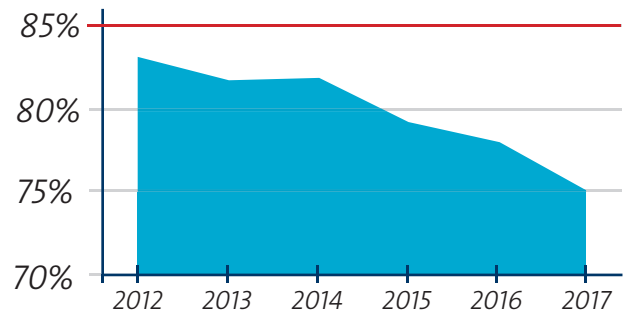
We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at March 31, 2017, were “A” (DBRS) with a positive trend and “AA-” (Standard & Poor’s) with a stable outlook.

In the determination of PT4 price cap increases, the Commissioner set target ratios for equity to be not less than 17.5% of total capitalization which is effectively a debt to total capitalization of 82.5% (“Leverage ratio”) or lower and a debt service

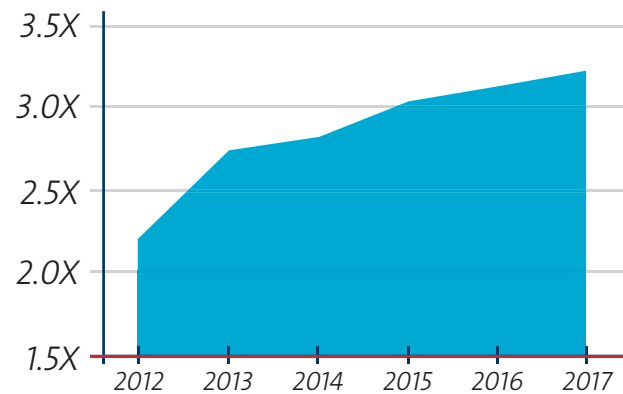
coverage ratio (“DSCR”) of 2.5 times or greater. At March 31, 2017, we achieved a Leverage ratio of 74.8% and a DSCR of 3.2.

Our historical ratios are as follows:

LEVERAGE RATIO



DSCR



We must meet several tests prior to incurring additional indebtedness; including ensuring that the Leverage Ratio does not exceed 85% and the DSCR is at least 1.5:1.

We will continue to prepare long-term financial forecasts in order to optimize cash flow, understand our financing requirements and ensure we meet our debt covenants and financial targets.


¹ Our Major Routes consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and our regulated route connecting Horseshoe Bay and Langdale. These are our four busiest routes, carrying approximately 60% of our total vehicle traffic and 65% of our total passenger traffic.

MARKET OPPORTUNITIES



**NORTHERN
ADVENTURE**

Built: 2004
Maximum Speed: 20.5 knots
Car Capacity: 87



We continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2017 by optimizing our service routes, standardizing our vessels, optimizing our fuel consumption, and reducing our environmental impact and continuing to look for ways to diversify our revenue sources.

NEW SEASONAL MID-COAST ROUTE FROM PORT HARDY TO BELLA COOLA

In September 2016, the Province announced its intent to start a new seasonal direct ferry service between Port Hardy and Bella Coola to support Aboriginal tourism and the mid-coast community.

In March 2017, we executed an amendment to the CFSC with the Province to include the new route operating five times each week from mid-June through mid-September, starting in 2018. Also in March 2017, the Government of Canada approved funding under the New Building Canada Fund toward the purchase and refurbishment of a used vessel to serve the new route as well as the existing mid-coast route which would allow for the retirement of the 44 year-old *Nimpkish*.





In April 2017, in response to our application, the Commissioner confirmed his determination that the capital expenditure for the acquisition and modification of a used vessel to provide mid-coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications is reasonably required. After our application was approved, the Province announced that it would contribute an initial \$15 million towards the purchase and operation of the vessel.

After an international search, we secured an appropriate used vessel. In fiscal 2018, it will undergo major upgrades and mechanical modifications to be ready for summer service in 2018 (fiscal 2019). This vessel already fits in our major northern berths while several smaller terminals will require modification to accommodate the new vessel.

The vessel will carry at least 150 passengers and crew and have room for approximately 35 vehicles. The trip will take approximately 10 hours. We will be consulting with the mid-coast community regarding the exact sailing schedule, the naming of the vessel and the onboard amenities.

BC FERRIES VACATIONS

Our Vacations Centre is conveniently located in the tourist sector of downtown Vancouver. Through the use of our travel centre and an integrated marketing approach, we are able to leverage our core business to drive incremental ferry traffic as well as generate commissions from the related services. Using a 37-foot long interactive media wall display, customers are able to view route maps, vessel schematics and destination images to help them choose from a variety of travel package options. Packaged vacations is the fastest growing segment of our market. In fiscal 2017, the number of vacation packages sold generated \$6.2 million in revenue, an increase of 8.8% over the prior year. In fiscal 2016, the revenue from the sale of packaged vacations increased 31.9% over fiscal 2015. In fiscal 2018, we expect tourism to continue to be strong and as a result, we expect to see continuing growth, leading to increased traffic volumes as well as incremental non-tariff revenue.

DROP-TRAILER SERVICE

Our drop-trailer service operates on two of our Major Routes (Tsawwassen – Swartz Bay and Tsawwassen – Duke Point). Our commercial customers on these routes can drop their trailers off at one terminal and pick them up at another with our drivers loading and unloading the commercial trailers on and off the ferry with a hostling unit.

The revenue from this drop-trailer service has increased over the past two years by 5% and 6%, respectively. The service also improves our overall productivity by utilizing otherwise unused capacity, strengthening our financial position and reducing pressure for future tariffs increases. In fiscal 2018, we will continue to monitor demand and provide dependable service.

Although we expect modest growth in drop-trailer traffic as general economic conditions improve, we also foresee a decline in traffic related to the fishing industry.

CATERING AND RETAIL SERVICES

We also have opportunities for continued growth with our food service and gift stores. All vessels that provide service on our Major Routes have a retail store and food service offerings. Our Major Routes are our four busiest routes carrying approximately 65% of our total passenger traffic and a higher percentage of discretionary and tourist traffic. Over 90% of our catering and retail revenue is earned on these routes.

In fiscal 2017, total catering and retail sales were \$91 million, an increase of 4.6% from the prior year as a result of both higher passenger traffic and higher average sales per passenger. Food sales and sales of apparel remained strong, providing approximately 72% and 10% of total catering and retail revenue, respectively.

Catering and retail sales are impacted by traffic, price, service quality and product offerings and provide a gross margin of approximately 60%. In fiscal 2017, our average spend per passenger increased 3.0% and our gross margin increased 6.3%, compared to the prior year. In fiscal 2018, we will continue to refresh our product offerings, work with our vendors to manage costs and empower our employees to deliver a positive customer experience.



\$91
MILLION

Total catering and retail sales in fiscal 2017.



FISCAL 2018 STRATEGIES AND INITIATIVES





BAYNES SOUND CONNECTOR

Built: 2015, Vancouver

Maximum Speed: 8.5 knots

Passenger & Crew Capacity: 150

The six strategic goals provide a framework for our efforts to achieve our vision and mission.

The following sections define the supporting strategies and initiatives we will undertake over the next year for each of the six goals.



1

**ENSURE SAFE,
RELIABLE & EFFICIENT
OPERATIONS**

3

**FOSTER A PRODUCTIVE,
MOTIVATED &
ENGAGED WORKFORCE**

2

**DELIVER A
CUSTOMER-FOCUSED
TRAVEL EXPERIENCE**

5

**GROW & PROFITABLY
DIVERSIFY OUR
REVENUE BASE**

4

**BE A LEADER IN
ENVIRONMENTAL &
SOCIAL GOVERNANCE**

6

**DRIVE PRUDENT
INVESTMENT IN OUR
CAPITAL ASSETS**





1

ENSURE SAFE, RELIABLE & EFFICIENT OPERATIONS

OBJECTIVE:

Lead our industry in:

- *Safety culture and performance;*
- *Positive contributions to our environment and communities;*
- *Route network, support services and customer-facing operational excellence; and*
- *Procurement, project and cost efficiency.*

STRATEGIES AND TACTICAL STEPS:

- Optimize our route network where practical and feasible, and balance our service profile with associated costs for continuously improving operational efficiency while continuing to collaborate with our employees to identify deployment innovations;
- Maximize the design of new vessels and major upgrades, taking into account labour efficiency, environmental improvements, and efficiency-enhancing technologies, while ensuring a positive customer experience. Refine and implement robust vessel repair tactical plans to address the risk of the increased demand in our regional repair market;



Queen of Cumberland

- Continue to evolve our SailSafe program using innovative communication, identification and procedural techniques while ensuring that safety and risk awareness remains top of mind with all meetings starting with safety as the first agenda item; provide refresher training on reporting incidents and continue root cause and human factor follow-up on all reported injuries; and continue with our program of internal and external safety audits designed to verify our compliance with our safety management system;
- Maintain regular communications with Transport Canada to improve our relationship and reduce regulatory uncertainty and share best practices with other marine organizations; and
- Pursue business process optimization opportunities where applicable and feasible; increase the use of patrols at major terminals, on the vessels and at our maintenance facility during refit season; consider re-engineering baggage handling with a focus on efficiency and security; and complete the standardization and expansion of the CCTV systems at our terminals.



2

DELIVER A CUSTOMER-FOCUSSED TRAVEL EXPERIENCE

OBJECTIVE:

Provide a compelling travel, shopping and dining experience through personalized service, selection, quality and value.

STRATEGIES AND TACTICAL STEPS:

- Implement a more proactive approach to community and customer relations, working collaboratively with Ferry Advisory Committees;
- Optimize technology at all touch points throughout a customer's journey to create a unified and seamless customer experience; explore and develop customer self-serve opportunities throughout;
- Develop and implement revised route service schedules where appropriate; and explore opportunities with other transportation providers to improve the customer end-to-end experience;
- Strengthen the customer-centric service culture through employee training initiatives, including the Customer Service Enhancement Program and improve accessibility of onboard customer communication by using captions and symbols;
- Leverage customer research and analytics to evolve customer service strategies; develop innovative solutions to meet changing and evolving customer travel needs; and continue to offer variable pricing options;
- Continue to survey our customers to understand and to identify ways to enhance their experience and strive for an average customer satisfaction rating of 4.20; and
- Strive to maintain the vessel reliability index target of between 99.55% and 99.74%, improve on-time performance and maximize ticketing throughput to accommodate increasing reservation usage.

3

FOSTER A PRODUCTIVE, MOTIVATED & ENGAGED WORKFORCE

Howe Sound

OBJECTIVE:

Continuously improve employee attraction, retention, engagement and productivity.

STRATEGIES AND TACTICAL STEPS:

- Continue to develop and refine progressive and innovative programs for our employees, including continuing to support a health and wellness program through our SailSafe program;
- Continue to strive to attract, train and retain employees with the requisite skill and capabilities to operate in the marine industry with recruitment initiatives for licensed positions; developing and implementing training plans for engineering and deck cadets and striving to achieve the B.C.'s Top Employers (2018) award;
- Refine and incorporate the use of metrics and analytics to facilitate and optimize operational flexibility and productivity; continue to drive the ergonomic evolution of ticket booths and ticket agent workstations;
- Optimize technology for training delivery; continue to develop and expand the career navigator system to assist in planning and tracking employee career progression and succession;
- Continue to support our employees in their development toward their career aspirations; encourage our employees to develop their career plans and to leverage our many training programs and formal and informal learning opportunities;
- Ensure employees receive appropriate operational training, such as natural gas and related systems and equipment, and continue to provide management training programs such as our Coaching for Business Success and Coaching for Business Excellence; and
- Foster progressive and positive relationships with our employees, the Union and management and support our employees in community investment activities.



4

BE A LEADER IN ENVIRONMENTAL & SOCIAL GOVERNANCE

OBJECTIVE:

Be a trusted, reliable partner in the pursuit of conservation, sustainable operations and community well-being.

STRATEGIES AND TACTICAL STEPS:

- Reduce the environmental footprint of our terminal and fleet operations, and continue to strive for sustainable operations;
- Implement cost-efficient, energy conservation technologies on our vessels; continue to look for ways to reduce fuel consumption and emissions on our vessels, including pursuing natural gas and other alternative fuel options for new vessels and vessels undergoing major retrofits; expand the application of the energy optimization software tool; develop a depth of expertise in zero-emission and hybrid technologies;



*Coastal Celebration
Queen of New Westminster*

- Continue to develop and expand our environmental programs by combining existing environmental conservation projects and community investment activities with new and innovative endeavors;
- Expand community and stakeholder engagement on project-specific initiatives; improve the visibility and community understanding of our environmental and social governance initiatives; continue to develop and implement a customer-facing waste management, composting and recycling initiative on our vessels;
- Further the development and refinement of the waste stream segregation, recycling and hazardous waste management at our maintenance facility; and
- Continue to support programs such as Oceans Network Canada and ECHO; continue delivery of and explore expansion of our onboard Coastal Naturalist Program in partnership with Parks Canada.



5

GROW & PROFITABLY DIVERSIFY OUR REVENUE BASE

OBJECTIVE:

Grow net revenue from our ancillary businesses and add new revenue sources that contribute to our financial sustainability.

STRATEGIES AND TACTICAL STEPS:

- Explore new business opportunities and partnerships;
- Optimize the use of our physical, intellectual and human assets;
- Stay current with changing customer needs and behaviour to drive development of innovative products and services;
- Broaden market reach, raise our profile and stimulate travel and tourism segments through new BC Ferries Vacations package offerings;
- Continue to test variable pricing to increase our knowledge of traffic trends, customer responses and impacts to operations through pricing promotions;
- Expand the products and ancillary services offered at our terminals and onboard our vessels; strategically develop new products and execute retail and catering marketing campaigns to maximize gross margin and inventory turnover; and
- Protect our commercial market share in the drop-trailer market and grow our commercial transport opportunities.

6

DRIVE PRUDENT INVESTMENT IN OUR CAPITAL ASSETS

Queen of Capilano

OBJECTIVE:

Deliver on our 12-year capital plan portfolio that includes placing priority on safe, reliable, and efficient service, while continuously improving our customer experience.

STRATEGIES AND TACTICAL STEPS:


- Replace vessel and terminal assets in line with policies contained in our master plans; consider design optimization, interoperability, and standardization of all new vessels, to the extent possible, to provide more flexibility to respond to changes in the market demand and traffic forecasts; as vessel retirement dates approach, perform assessments of the vessels to determine potential candidates for life extension rather than retirement;
- Continue to manage the portfolio of capital projects by ensuring investments are reasonable and prudent prior to making a decision of whether or not to proceed with the project;
- Allocate funding among the portfolio of projects taking into consideration priority, affordability and resource availability; adopt a long-range resource requirements plan to deliver the capital plan and explore alternative approaches for our software requirements; and
- Expand our internal ship repair and maintenance capabilities through investments in our human and capital assets with the goal to diversify internal technical skills and tools.

FINANCIAL PLAN



**COASTAL
CELEBRATION**

Built: 2007 Germany
Maximum Speed: 23 knots
Passenger & Crew Capacity: 1,604



Positive net earnings for fiscal 2018 are important so we can continue to invest in our vessels, terminals and information technology infrastructure.

OPERATING BUDGET

For fiscal 2018, we budgeted net income of \$69.3 million. The \$8.1 decrease from the fiscal 2017 net earnings reflects higher operating expenses, higher depreciation and amortization expense, and an increase in financing costs, partially offset by higher vehicle fares, lower fuel rebates, higher ferry transportation fees and higher net catering and retail revenue. We intend to leverage these strong financial results to help fund our \$3 billion capital program to replace aging vessels, terminals and information technology infrastructure.

**\$69.3
MILLION**

Budgeted net income
for fiscal 2018



Spirit of Vancouver Island

(EXPRESSED IN \$ MILLIONS)	2017 ACTUAL	2018 BUDGET
Revenue		
Customer Fares	608.7	629.4
Ferry Transportation Fees	174.9	179.8
Net Catering and Retail Revenue	55.1	57.9
Federal – Provincial Subsidy Agreement	29.2	29.7
Other Revenue	9.5	9.1
Fuel Rebates	(18.1)	(9.2)
Total Revenue	859.3	896.7
Operating Expenses		
Operations, Maintenance and Administration	577.3	609.5
Depreciation and Amortization	148.9	160.2
Total Operating Expenses	726.2	769.7
Operating Profit	133.1	127.0
Net Financing Expense	55.7	57.7
Net Earnings	77.4	69.3

The Commissioner approved average price cap increases of 1.9% for each year of PT4 (fiscal 2017 through fiscal 2020). On April 1, 2017, the beginning of fiscal 2018, we implemented tariff increases below those allowed by the Commissioner. Vehicle fares on three of our Major Routes: Tsawwassen to Swartz Bay, Tsawwassen to Duke Point and Horseshoe Bay to Departure Bay were increased 1.9% on average. No increase in passenger fares was implemented on these routes and no increases on vehicle or passenger fares were implemented on any of the other routes. We also reduced reservation fees. The decision to limit fare increases reflected the higher traffic levels experienced and the desire to encourage customers to reserve travel in advance.

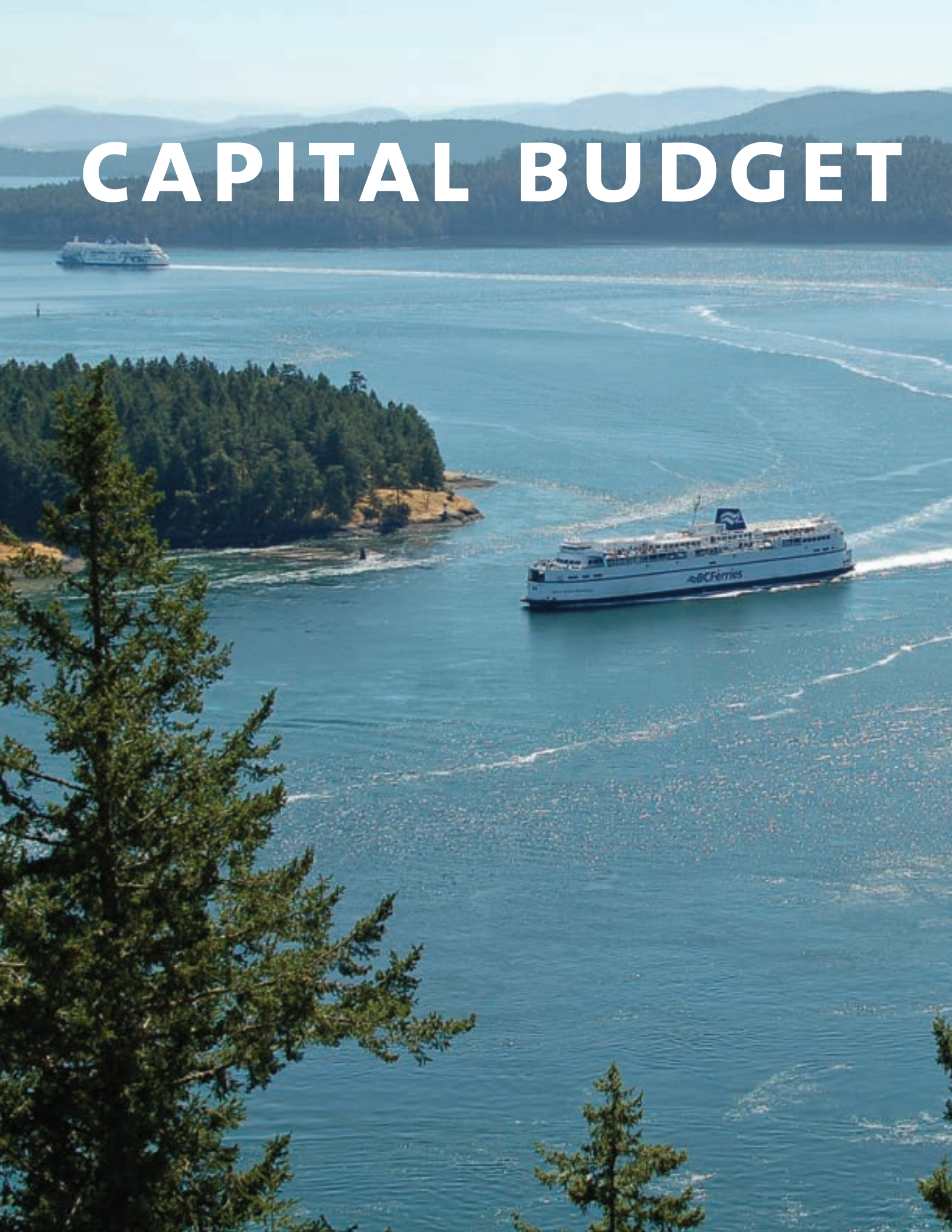
We expect an increase in operations, maintenance and administration expenses in fiscal 2018, reflecting higher wage and benefit costs resulting from the collective agreement, higher scheduled vessel maintenance costs, as well as a general contingency to mitigate revenue and traffic risk, partially offset by savings from the implementation of the Salish Class vessels.

Depreciation and amortization costs are expected to increase by \$11.2 million or 7.5% as we replace and upgrade our vessels, terminals and information technology infrastructure.

REGULATORY ADJUSTMENTS

If IFRS permitted us to report regulatory assets and liabilities in our financial statements, the effect on our fiscal 2017 actual and fiscal 2018 budgeted net earnings would have been an increase of \$10.6 million and \$1.3 million, respectively.

CAPITAL BUDGET





**QUEEN OF
NEW WESTMINSTER**

Built: 1964, Victoria

Maximum Speed: 20 knots

Passenger & Crew Capacity: 1,332

**To upgrade and replace
our assets, we are targeting
to invest \$3 billion over
the 12 years ending
March 31, 2026.**

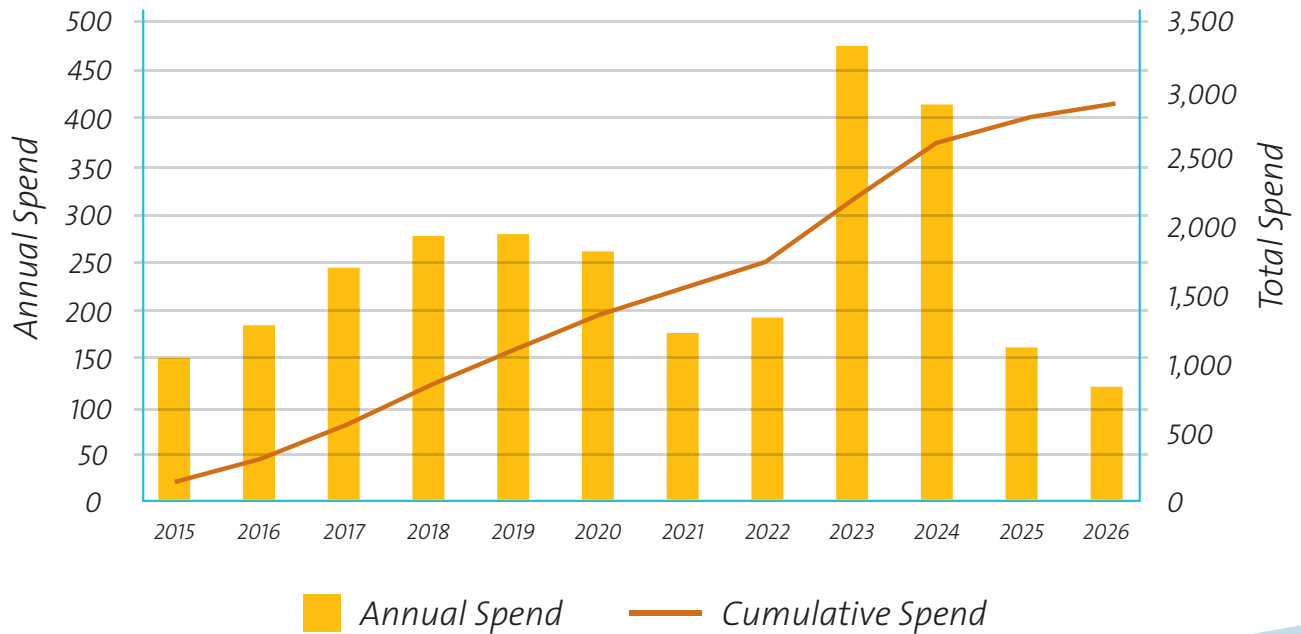
In fiscal 2017, our ferry services were supported by 35 vessels, 47 terminals, four general maintenance yards, one vessel maintenance facility and a head office. Our capital plan addresses the key strategic issue of replacing aged capital assets while meeting our needs in terms of maintaining and improving safety, reliability, productivity, profitability, service levels and security.

In preparation for PT4, we prepared a 12-year capital plan for fiscal years 2015 through 2026. In order to upgrade and replace our assets, we are targeting to invest \$3 billion over the 12 years ending March 31, 2026. This capital plan is being managed from a

portfolio prospective and stays within the spending parameters upon which the price caps for PT4 were established.

The following graph details the capital portfolio expenditures by year:

PORTFOLIO SPEND (\$ MILLIONS)



To ensure investments are reasonable and prudent, each capital project continues to require a detailed business case, including options analysis, prior to implementation. Business cases are reviewed by the Capital Programs and Budget Committee, with project funding being allocated among the portfolio of projects through to fiscal 2026, taking into consideration priority, affordability and resource availability. Final approval continues to rest with the President & CEO, in consultation with the executive management committee or the Board of Directors, in accordance with our capital project management framework and guidelines.

The significant capital project drivers include:

Replacement: To replace assets or major components of assets that are functionally obsolete or have outlived their useful or economic life.

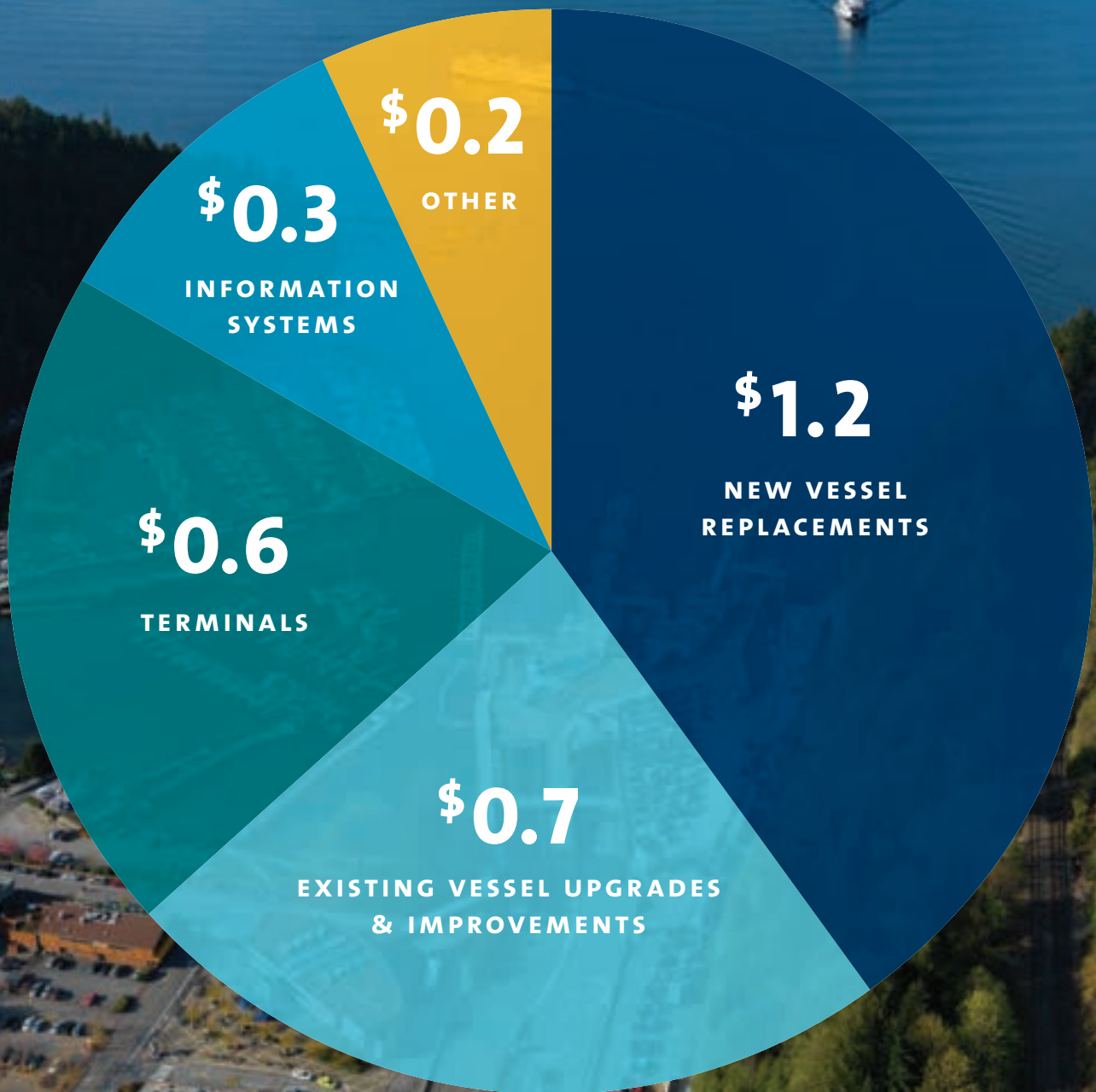
Restoration: To maintain existing assets by upgrading and/or replacing major and minor components required to enable the asset to operate up to the end of its service life.

Regulatory: To comply with regulatory requirements (e.g. WorkSafeBC, Transport Canada, etc).



PORTFOLIO BY ASSET TYPE (\$BILLIONS)

The following graph summarizes the capital portfolio expenditures by asset type. Vessel replacement dominates the plan with an expected 14 new vessels:



The fiscal 2018 capital portfolio identifies the specific capital projects planned to be undertaken over the remaining nine year period covering fiscal years 2018 through 2026. Significant projects in fiscal 2018 include:

VESSELS

Our vessels are categorized by size, from the smallest minor vessels to the intermediate vessels and major vessels.

- Undertake the first of two mid-life upgrades of the major vessels, the *Spirit of British Columbia* and the *Spirit of Vancouver Island*, including conversion to dual-fuel;
- Begin construction of two new minor vessels to replace the 59 year-old *North Island Princess* and the 53 year-old *Howe Sound Queen*;
- Seek approval for and begin work toward the replacement of the 52 year-old intermediate vessels, the *Bowen Queen*, the *Powell River Queen*, and the *Mayne Queen*;
- Vessel acquisition and upgrades in preparation for the new seasonal route from Port Hardy to Bella Coola as well as for replacement of the *Nimpkish* on the existing mid-coast route;
- Major overhaul of the major vessels, the *Coastal Inspiration*, the *Queen of Coquitlam* and the *Queen of Oak Bay* to refurbish the hull, propulsion and generators.

TERMINALS


- Terminal modifications at Port Hardy, Bella Coola and Ocean Falls related to the mid-coast service;
- Replacement of the trestle and dolphins at Prince Rupert terminal;
- Seek approval for and begin work on the terminal development plan upgrades at Langdale terminal;
- Seek approval for and continue design work on upgrades at our vessel maintenance facility;
- Upgrades to the holding compound at Departure Bay terminal; and
- Upgrade and replacement of elevators and escalators at various terminals.

INFORMATION SYSTEM

- Continue development on our multi-year customer service program, replacing our reservations systems and upgrading our point of sale system which will allow us to respond in a more timely fashion to changing business needs;
- Website software replacement that will allow us to manage fares at a sailing level, improving capacity management and provide our customers with booking options and greater online functionality; and
- Network refresh and modernization as well as upgrades to hardware components.

CONCLUSION





Our business plan reflects our primary focus on safety and our commitment to offering an ever-improving West Coast experience to the residents, tourists and commercial customers who travel with BC Ferries.

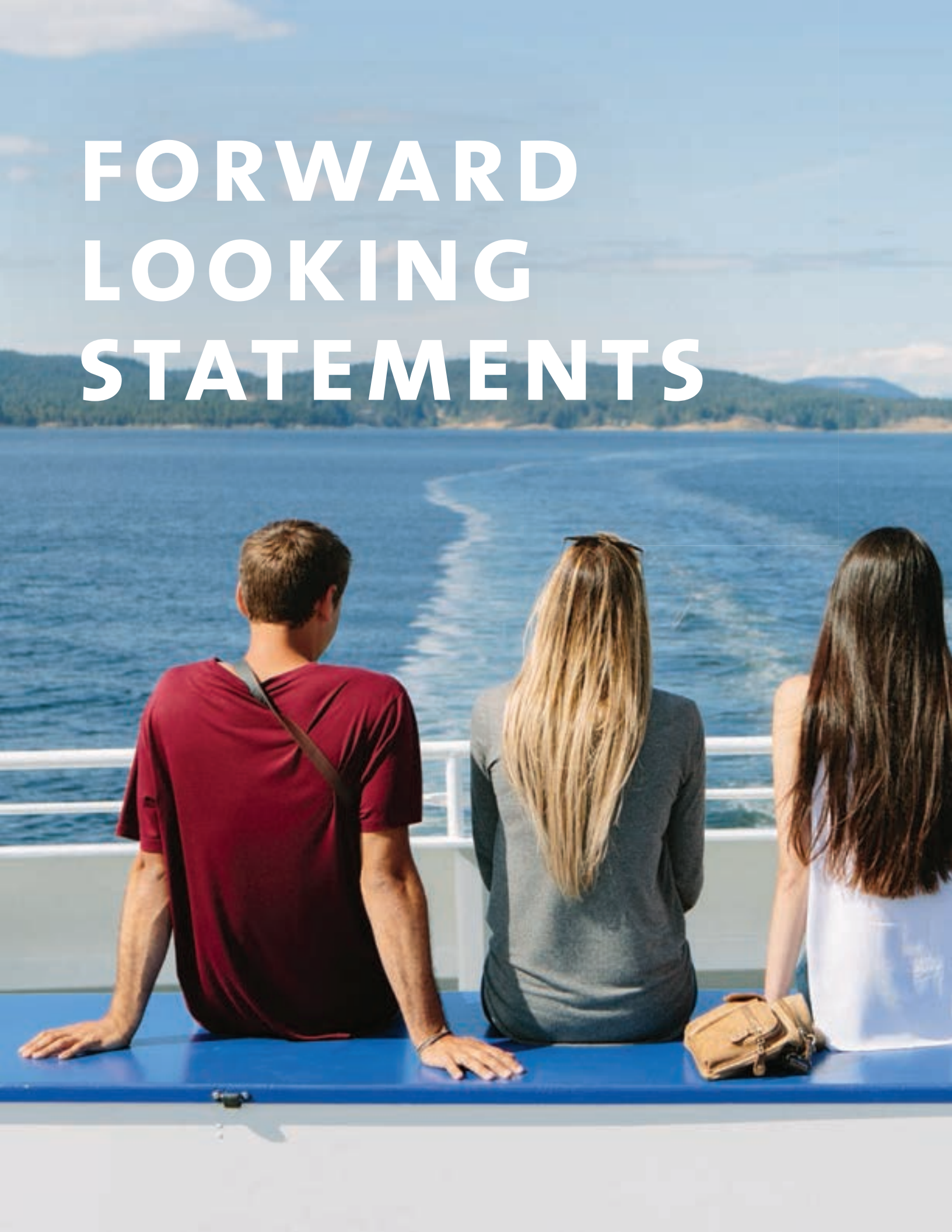
“We’re very proud about what we have accomplished over the past 14 years to improve the travel experience for our customers. Some of the enhancements include: bringing eight new vessels into service; investing in our terminal and IT infrastructure; achieving a vessel reliability rate of 99.69%; reaching a customer satisfaction rating of 88%; implementing cost containment measures to help address fare affordability; offering pricing promotions to give our customers discount options; and improving our on-time performance. We will continue to make improvements in all areas of our business for our customers in our efforts to exceed their expectations when they travel with BC Ferries.” said Mark Collins, BC Ferries’ President and CEO.

The strategies and tactics outlined within this business plan will ensure that we are responsive to our changing business environment. We will continue to explore strategies to create an affordable and sustainable ferry system beyond fiscal 2018 by optimizing our service routes, standardizing our vessels, optimizing our fuel consumption, and reducing our environmental impact. Focus on our six goals will help ensure that we:

- Continue to focus on our primary concern of ensuring the safety and security of our employees and our customers;
- Demonstrate integrity in our business relations, utilization of resources, treatment of our customers and employees and in the general conduct of our business;
- Maintain high environmental standards;
- Work openly and constructively with our community partners;
- Exceed our customers’ expectations by providing quality facilities and services; and
- Continue to deal from a position of honesty, integrity and mutual respect, and ensure that our employees develop to their full potential.

The continuous improvement of the West Coast travel experience, along with providing safe and efficient passage, can only be achieved with the support of our employees and our customers. With effective management of our large capital portfolio and due consideration of changing external and internal factors, we will successfully move the company forward.

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 U.S. 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: economic conditions, traffic levels, tourism levels, fuel rebates and fiscal 2018 net earnings; Recertification of the COR from WorkSafeBC and our expectations of future rebates on our assessed premiums; our short-term and

long-range business plans, capital expenditure levels, asset renewal programs for vessels and terminals, our customer service program, pricing promotions, the seasonal direct ferry service from Port Hardy to Bella Coola, Salish Class vessels, the agreement with FortisBC Energy Inc. regarding incentive funding, the New Building Canada Fund, alternative fuel options, Spirit Class mid-life upgrades, and safety, environmental, and training projects; our expectations regarding vacation package sales, drop trailer, and catering and retail services growth; and revenue, expense, and budget projections, and how our cash requirements will be met in the near term.

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 the 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.

NON-IFRS MEASURES

In addition to providing measures prepared in accordance with IFRS, we present certain financial measures that do not have any standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. These include, but are not limited to, net earnings adjusted for the effect of rate regulation. These supplemental financial 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.



