



*For the year
ending
March 31, 2019*

BUSINESS PLAN





Skeena Queen

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INTRODUCTION



QUEEN OF CUMBERLAND

Built: 1992, Vancouver
Maximum Speed: 12.5 knots
Passenger & Crew Capacity: 462



For close to 60 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 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 22 million passengers and 8 million vehicles each year.

Our Major Routes, which are our four busiest routes, consist of three regulated routes connecting Metro Vancouver with mid and southern Vancouver Island and one regulated route connecting Horseshoe Bay and Langdale. Our other routes consist of 18 regulated routes and 8 unregulated routes primarily serving the Northern and Southern Gulf Islands and the Northern Sunshine Coast. In fiscal 2018, our Northern routes consisted of two regulated routes operating on the British Columbia coast north of Port Hardy on Vancouver Island. In fiscal 2019, we will add a third Northern route with direct seasonal service between Port Hardy and Bella Coola.

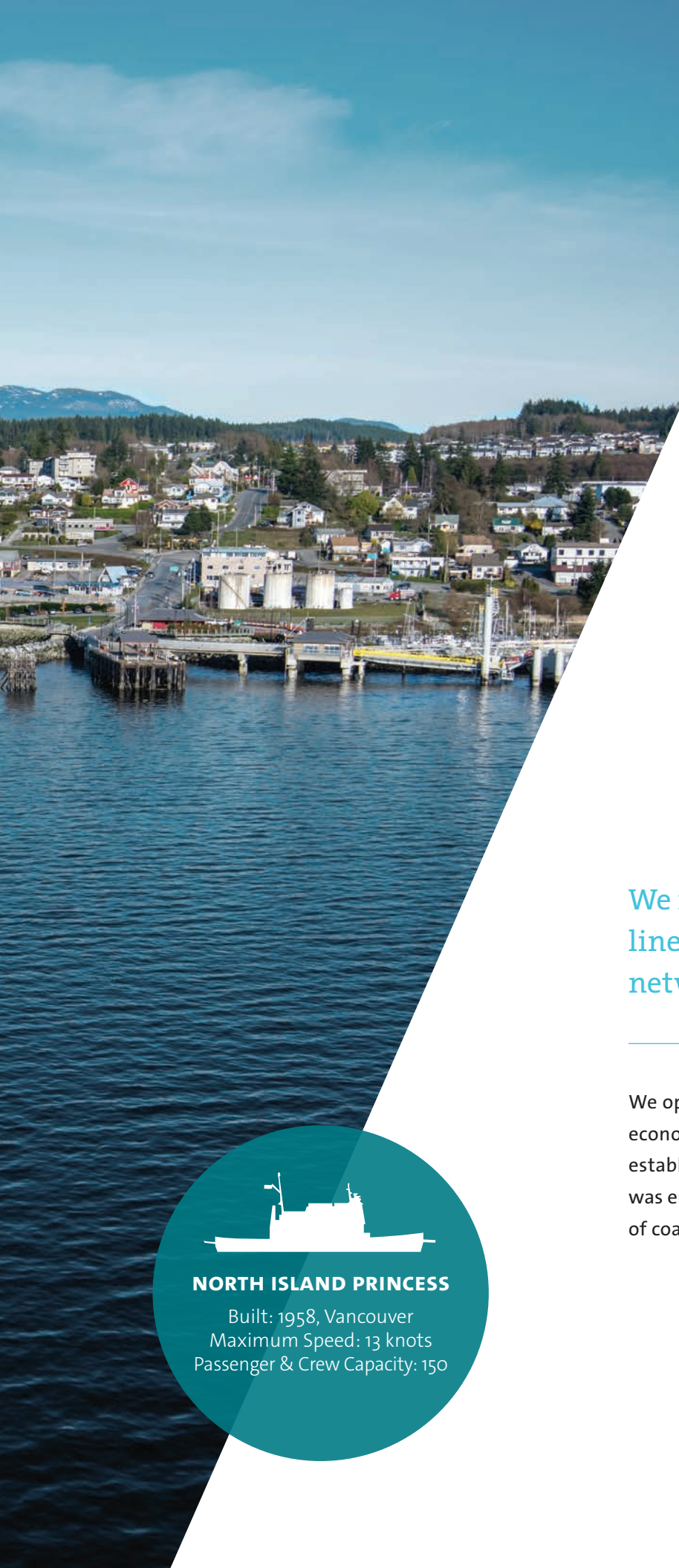
Our Mission is to connect communities and customers to people and places important in their lives.

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





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.



NORTH ISLAND PRINCESS

Built: 1958, Vancouver
Maximum Speed: 13 knots
Passenger & Crew Capacity: 150

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.

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.

BRITISH COLUMBIA FERRIES COMMISSIONER

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.



VISION, MISSION AND VALUES





SALISH RAVEN

Built: 2016, Poland
Maximum Speed: 15.5 knots
Passenger & Crew Capacity: 600

Our vision and mission summarize our future desired state and describe why we exist and what we do. All of the work we do is in pursuit of our vision and mission and is guided by our six core values.

OUR VISION

Trusted, valued.

OUR MISSION

We connect communities and customers to people and places important in their lives.

OUR VALUES

SAFE

Safety is our highest value.

CARING

We operate from a position of kindness and empathy for those who travel and work with us.

HONEST

We conduct business with integrity, honesty and accountability.

COLLABORATIVE

We collaborate with others to enhance the customer experience.

RESPECTFUL

Respect is paramount in our interactions with others.

SUSTAINABLE

Our environmental, social and economic impact are central to business decisions.



STRATEGIC DRIVERS



QUEEN OF NEW WESTMINSTER

Built: 1964, Victoria
Maximum Speed: 20 knots
Passenger & Crew Capacity: 1,332



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, which enables 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





SALISH EAGLE

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

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

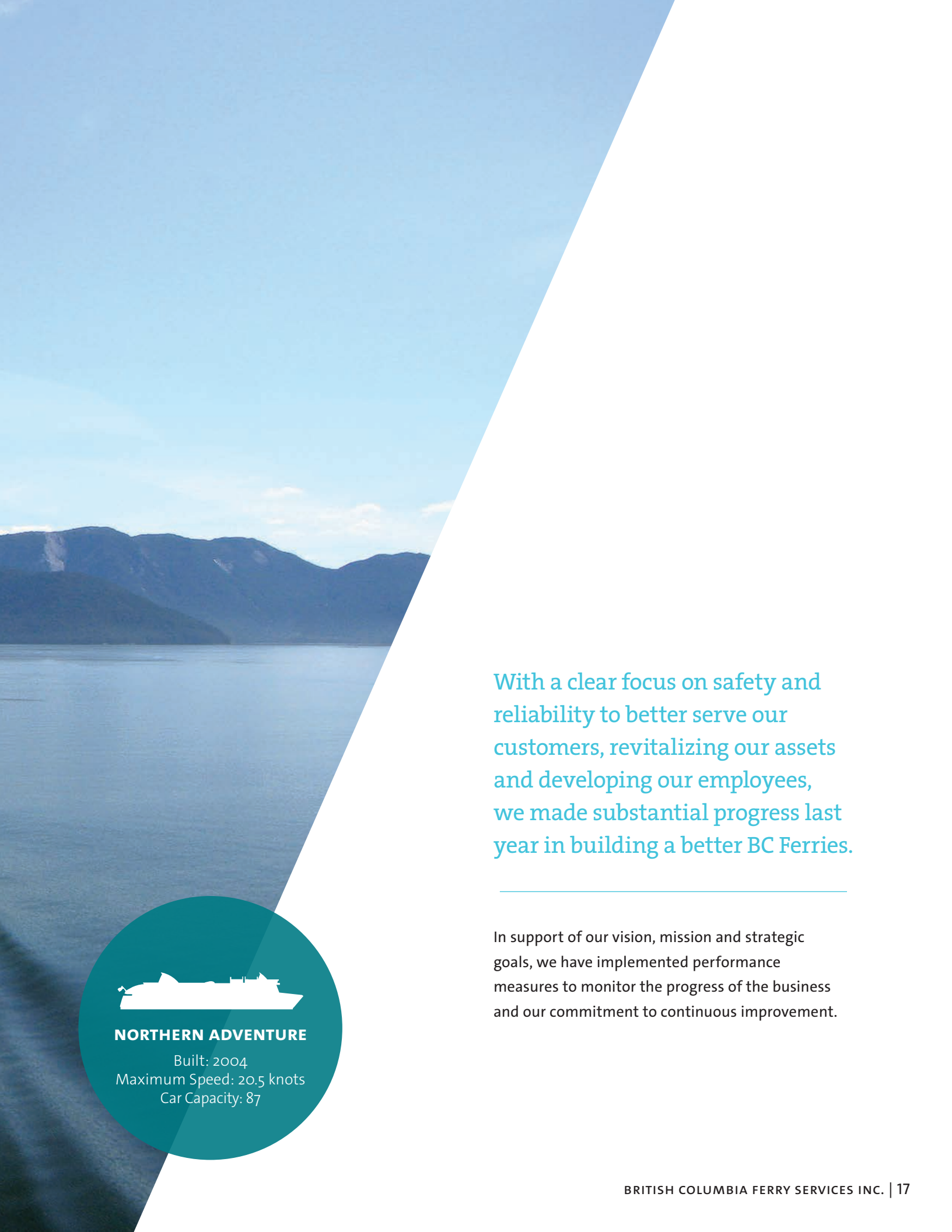
This business plan focuses on the initiatives that we will undertake as we move forward to accomplish our strategic goals to:

- 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 48 through 53.

MEASURING SUCCESS





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.



NORTHERN ADVENTURE

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



The following are the actual results for fiscals 2015 through 2017, the target and actual results for fiscal 2018, as well as the target for fiscal 2019:

	2015	2016	2017	2018		2019
		ACTUAL		TARGET	ACTUAL	TARGET
EMPLOYEE SAFETY INDEX Employee injury frequency rate x severity rate divided by 1,000	0.65	0.48	0.43	0.39	0.46	0.39
PASSENGER SAFETY INDEX Number of passenger injuries per one million passengers	11.90	11.24	9.62	10.68	10.01	9.59
RELIABILITY INDEX Actual round trips less weather, medical or rescue related cancellations divided by scheduled round trips	99.75%	99.72%	99.69%	99.55% - 99.74%	99.83%	99.55% - 99.74%
CUSTOMER SATISFACTION Rating scale of 1 to 5 based on surveys performed during the year	4.11	4.14	4.18	4.20	4.16	4.20
EBITDA (\$MILLIONS) Net earnings adjusted for the impact of regulatory assets and liabilities and before interest, taxes, depreciation and amortization	255.6	268.5	294.6	290.5	273.8	295.8
REGULATORY NET EARNINGS (\$MILLIONS) Net earnings adjusted for the impact of regulatory assets and liabilities	41.4	64.8	87.9	70.6	55.3	63.6

Results for fiscal 2018 varied with some better than the targets set and others not meeting their targets. We are committed, together with our dedicated employees, to service excellence. The targets for fiscal 2019 for our employee safety index, customer satisfaction rating and reliability index range are held steady at a practical level, while we strive for an improvement in our passenger safety index. The financial results reflect BC Ferries' one-time contribution of \$15.7 million to remove the balance in the non-northern routes' deferred fuel cost account and thereby eliminate the need to recoup these costs from customers in the future.

SAFETY AND RELIABLE OPERATIONS

Safety is our highest priority. Maintaining a safe environment for our customers and employees requires our continued focus and diligence. Our SailSafe program, launched in 2007, is designed to achieve world-class safety performance and reflects the Company's and BC Ferry & Marine Workers' Union's ("Union") commitment to safety as an essential part of our business. SailSafe embodies safety as a normal part of all business activities and ensures that safety is kept as the primary concern in the minds of our employees.

In fiscal 2018, we received the DuPont Global Safety Award which recognized our achievements and commitment to safety excellence through our SailSafe program. The DuPont Safety and

Sustainability Awards recognize outstanding initiatives across all industries worldwide aimed at enhancing workplace safety, sustainability and operational effectiveness. This award provides international acknowledgement of our outstanding safety performance – a 90% improvement in the employee safety index and close to a 60% reduction in passenger injuries over the past decade.

As part of the SailSafe program, we upgraded our safety management system ("SMS") including an operational risk assessment and management process. The SMS focuses on occupational and operational safety and in fiscal 2018 we've added environmental processes. The SMS ensures an avenue for auditing, reporting, investigating and tracking of policies, procedures and incidents to evaluate trends which enables our ability to identify changes to risk in specific areas and prevent future incidents.

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, together with our Simulator Training Centre program, enables hands-on practice in our unique work environment and is an innovative approach that we believe is transforming training in the marine industry through the use of technology.

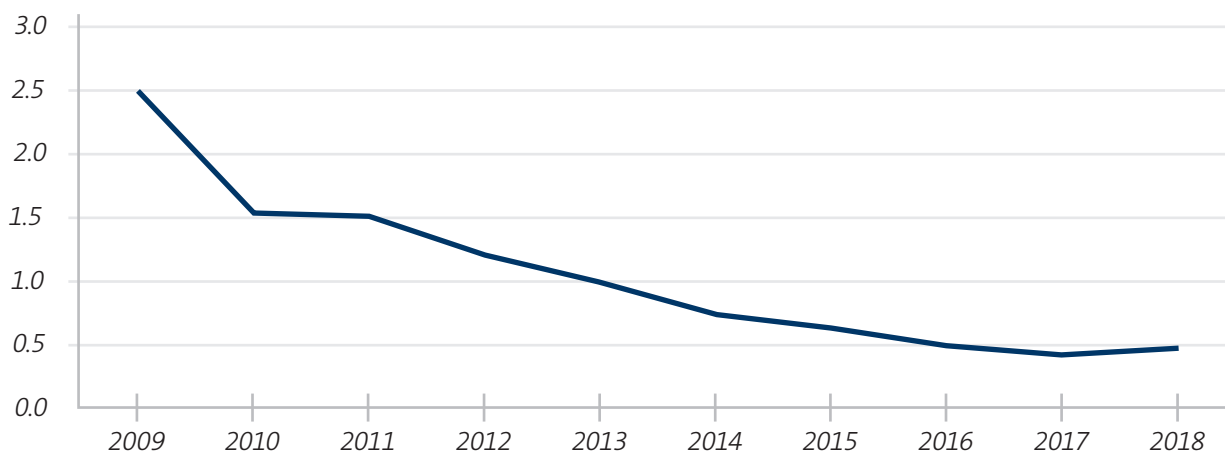
We first received the Certificate of Recognition (“COR”) from WorkSafeBC in fiscal 2014. A COR recognizes companies that go beyond the legal requirements of the *Workers’ Compensation Act* and the Occupational Health & Safety Regulations by taking a best practices approach to implementing health, safety and return to work programs. A COR also provides financial benefits in the form of rebates. During fiscal 2017, we completed the process of renewing the COR, which is required every three years, 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. We expect to

receive confirmation of renewal of the COR during the first quarter of fiscal 2019.

Since 2009, the annual number of employee time loss injuries has dropped by 50% and the number of days lost due to injury has declined by over 5,500 per year. Employee time loss injuries increased from 137 in fiscal 2017 to 147 in fiscal 2018. In fiscal 2018, our employee safety index (employee injury frequency rate times severity rate divided by 1,000) remained at approximately the same level as the prior two years. We are encouraged by the overall results and in fiscal 2019 we will continue to strive to meet a target index of 0.39. The results for the most recent ten fiscal years are below:

EMPLOYEE SAFETY INDEX

frequency rate x severity rate divided by 1,000

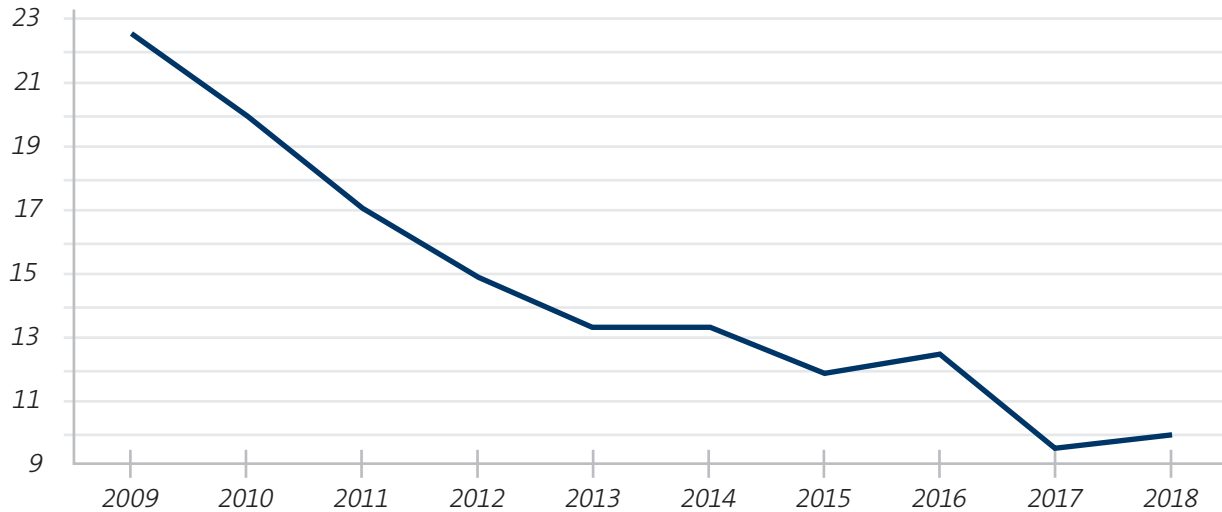


Our investments in safety have yielded significant and positive results. Since 2009, the number of injuries to passengers has been reduced by 53%. In fiscal 2018, we carried over 22 million passengers. Passenger injuries increased by 18 to 220 compared to the prior year. This is an injury rate of .00001% or

ten injuries for every one million passengers. We are pleased that the injury rate is remaining low and will strive to reduce the number of injuries in fiscal 2019. Our passenger safety index (the number of injuries per one million passengers) for the most recent ten fiscal years are shown below. Our fiscal 2019

PASSENGER SAFETY INDEX

number of injuries per one million passengers



target of 9.59, set prior to knowing fiscal 2018 actual results, is a 10.2% improvement over the fiscal 2018 target.

In fiscal 2019, 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 consistently work towards ensuring safety becomes completely ingrained in every activity undertaken, every day, throughout our business.

PRODUCTIVE, MOTIVATED AND ENGAGED WORKFORCE

We were named one of B.C.'s Top Employers (2017) and (2018), 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.

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.

In fiscal 2018, we also received the Safety at Sea Employer of the Year Award which recognizes career development, staff investment and support programs for seafarer family and friends. We are continuing to develop career navigator software which will provide employees with easy access to resources and materials and will assist in planning and tracking employee career progression and succession.

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. 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 fiscal 2016, 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 shipowners, 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. We will continue to strive for improvement as a shipyard, ship owner and terminal operator.

In fiscal 2019, 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, Indigenous communities, 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.

Our cable ferry, the *Baynes Sound Connector*, has significantly reduced both fuel consumption and emissions. For new vessels and vessels undergoing major retrofits, we are also adopting alternate fuel options, including liquefied natural gas (“LNG”) and stored energy (battery) capability.

We believe our Salish Class vessels are among the most environmentally advanced ferries in the world today. The three new vessels have a dual-fuel propulsion system which runs primarily on LNG. LNG has lower sulphur, particulate levels, nitrogen dioxide and greenhouse gas emissions than ultra-low sulphur diesel. These vessels have a low wash and low wake hull design. Also, each hull has been painted with a non-toxic, low-resistant paint which provides efficient movement through the water. The Salish Class vessels have reduced under-water noise and are quieter than our older vessels.

The *Spirit of British Columbia* has undergone its mid-life upgrade, including conversion to dual fuel and returned to service June 6, 2018. The *Spirit of Vancouver Island* is expected to depart for its mid-life upgrade after the 2018 summer season. We expect the conversion of these vessels to result in significant environmental benefits and substantial savings, as LNG has reduced emissions and costs considerably less than ultra-low sulphur diesel.

We have introduced several other initiatives to further mitigate our environmental impact and plan to take advantage of any future environmental protection improvement opportunities.

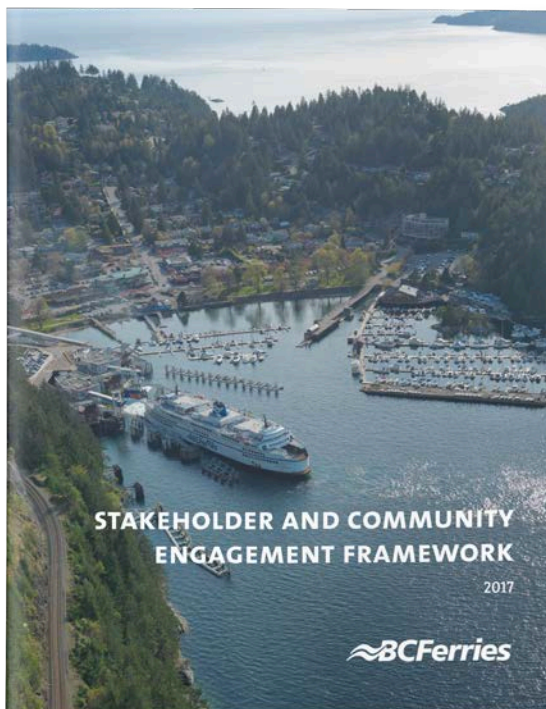




CUSTOMER ENGAGEMENT

We have an active public engagement program which is a critical component of our infrastructure planning, service planning, project management and ongoing operations. We engage with our employees, Indigenous communities, customers, service communities, partners and stakeholders as well as Ferry Advisory Committees. Ferry Advisory Committees represent the ferry-dependent communities we serve. These committees are appointed in cooperation with local governments, the Islands Trust and Indigenous communities and discuss day-to-day operations, planned improvements, broader policy issues and strategic planning.

In fiscal 2018, we adopted a Stakeholder and Community Engagement Framework. This Framework details principles and procedures for stakeholder engagement and provides a toolkit for our employees to use to identify when and how to engage with our stakeholders. This Framework is to be used in conjunction with engagement training workshops which are held three to four times a year.



In fiscal 2018, we received input from stakeholders regarding amenities, lounge configuration and accessibility of two new minor class vessels. These vessels will be the first two of this class. Feedback from stakeholders and operational experience was incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability.

In fiscal 2019, we plan to engage stakeholders regarding the future vision of the Swartz Bay terminal which is our second busiest terminal after Tsawwassen. The goal of the terminal development is to enhance the travel experience for our customers, replace aged infrastructure and help support growth in the region. The engagement process will occur in three stages with stakeholder consultation throughout via workshops, pop-up events, open houses and online surveys. We will also continue with the engagement process for the future vision of the major terminal at Horseshoe Bay. We look forward to creating a vision that meets the needs of the community, ferry users and our employees.

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.

THE EFFECT OF RATE REGULATION



NORTHERN EXPEDITION

Built: 2009, Germany
Maximum Speed: 20.5 knots
Passenger & Crew Capacity: 638



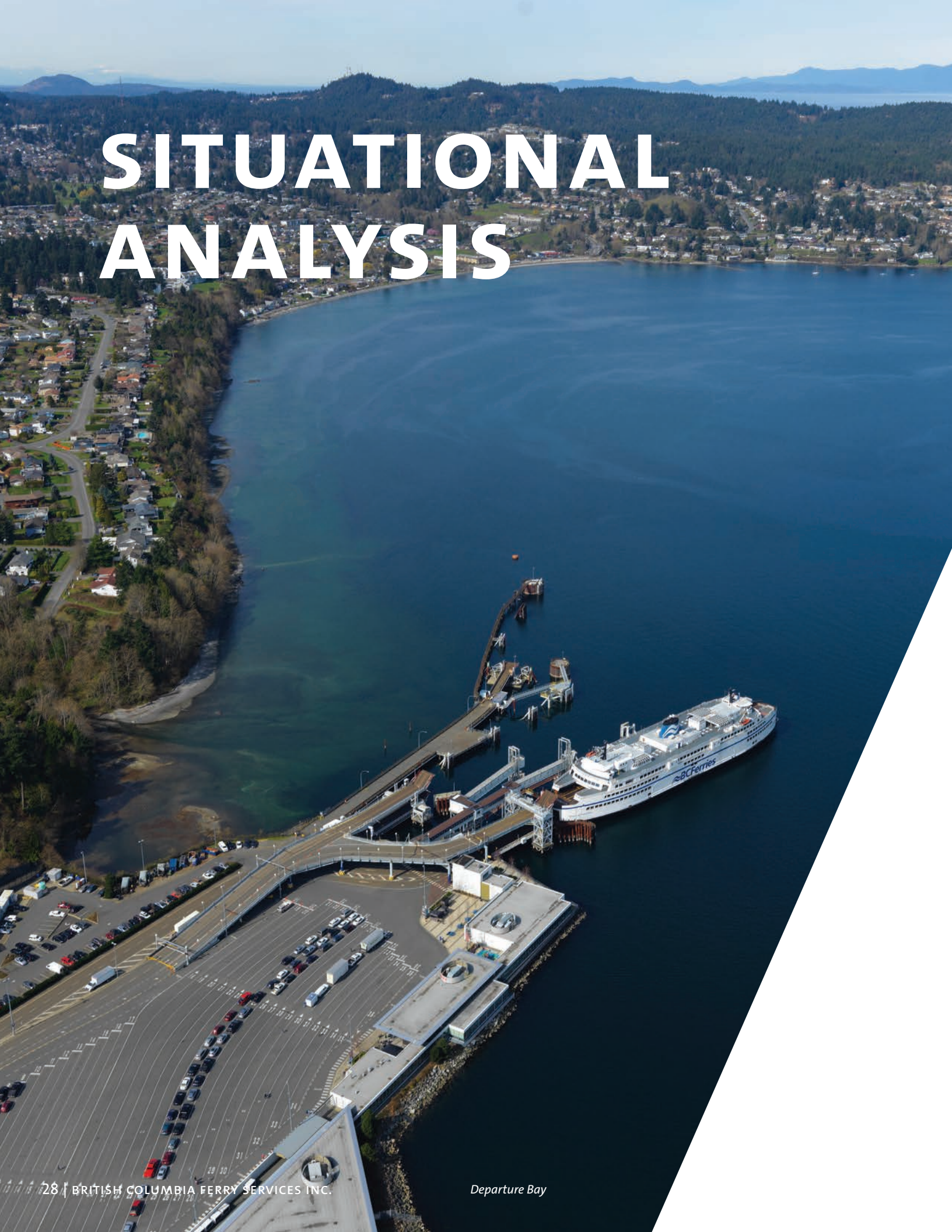
We are regulated by the Commissioner to ensure, among other things, that our tariffs are fair and reasonable.

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. 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 recorded in 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.

At March 31, 2018, our deferred fuel cost accounts ended with a regulatory asset balance of \$15.5 million. The regulatory mechanism requires us to eliminate this balance, which would normally be accomplished by removing the rebate and introducing a surcharge. Rather than recoup this balance from our customers, we contributed \$15.7 million to eliminate the balance in the non-northern routes' deferred fuel cost account. However, if high fuel costs continue, we expect that the fuel rebates in place at April 1, 2018 will need to be removed.

SITUATIONAL ANALYSIS





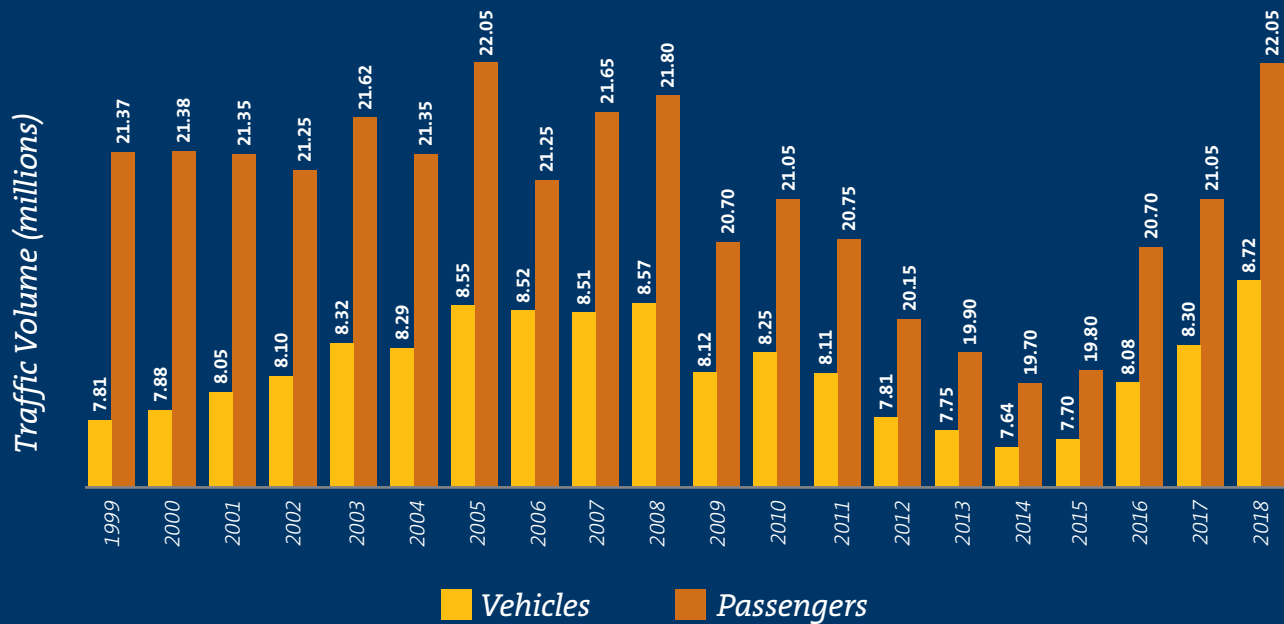
We continuously monitor our business, using both internal and external resources. We are forecasting that traffic demand will increase and that there are opportunities for growth in other markets.

As part of our planning process, we regularly undertake a strategic review 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 initiatives 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, 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.

The following graph illustrates our annual vehicle and passenger traffic levels for the most recent 20 years:



Vehicle and passenger traffic in fiscal 2018 increased 5.0% and 4.7%, respectively, compared to the previous fiscal year. These vehicle traffic levels were the highest we have ever experienced and the passenger traffic levels are the highest we have experienced in 20 years. In fiscal 2018, 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.

We remain confident that as long as the Canadian dollar stays low relative to the U.S. dollar and oil prices do not grow significantly, 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 2019 are for vehicle and passenger traffic to be higher than fiscal 2018 levels.

ECONOMIC FORECAST

In February 2018, the British Columbia Ministry of Finance published its Budget and Fiscal Plan for 2018/19 – 2020/21 based on forecast gross domestic product (GDP) growth of 2.3% in 2018 and 2.0% in 2019 through 2022.

Although economic indicators are starting to shift, 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 tourism 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.

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. If the exchange rate continues at the current levels, we expect the traffic from Canadians to remain strong and the traffic from the U.S. to increase.

EXTERNAL FACTORS

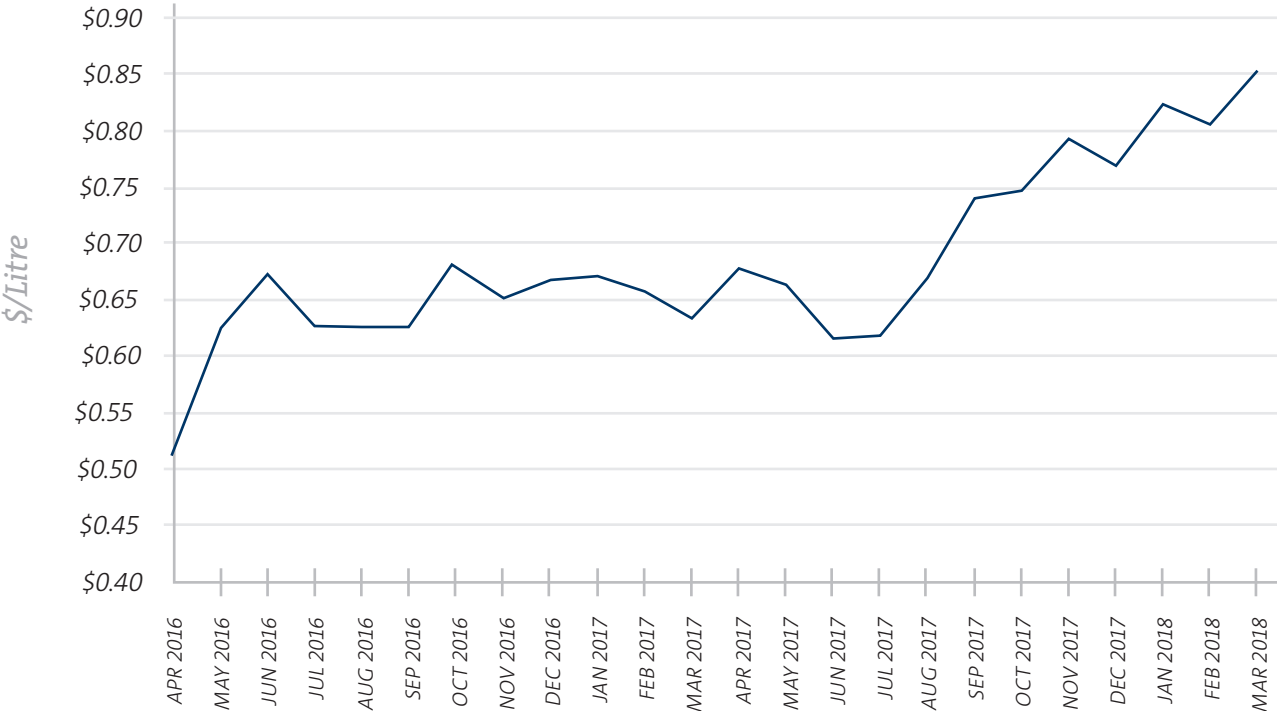
VOLATILE FUEL COSTS

Fuel is our second largest operating expense, next to labour costs.

Our exposure to fuel price risk is associated with the changes in the Canadian market price of ultra-low sulphur diesel. Fuel costs have fluctuated significantly over the past few years and there is uncertainty of

the cost of fuel in the future. Our price of diesel is predicated on the Vancouver wholesale price of diesel (Vancouver Rack). In March 2018, the average price of Vancouver Rack diesel fuel was \$0.84 per litre, an increase of 65% from April 2016. The monthly average per litre price of diesel fuel at Vancouver Rack prices for April 2016 through March 2018 is shown in the graph below:

VANCOUVER RACK DIESEL PRICE



USE OF DEFERRAL AND 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 future settlement. 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, 2018, we had locked in pricing for approximately two-thirds of our fiscal 2019 forecast diesel fuel consumption as well as a portion of the fiscal 2020 forecast volume. We intend to continue to monitor the market and enter into fuel forward contracts when economically prudent to do so.

FUEL MANAGEMENT

In fiscal 2019, 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 stored energy (battery) capability for our new minor vessels and LNG 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 shipbuilding facilities has increased with the federal ship procurement strategy. Over the past 10 years, we spent approximately \$1 billion on ship repair and maintenance in British Columbia. There are only two facilities with dry-docks in BC that can accommodate large vessels. There is one shipyard that dominates the vessel construction and repair market, especially for large vessels.

In fiscal 2016, we conducted an extensive and competitive procurement process for the mid-life upgrades of our two largest vessels. The dominant shipyard in British Columbia was invited to participate, but withdrew from the bidding process. In fiscal 2018, we went out again with an open and competitive procurement process for the construction of two new minor class vessels. None of the shortlisted Canadian shipyards submitted a bid.

We 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. In fiscal 2018, we entered into a 5-year service and supply agreement with Point Hope Maritime Ltd. for scheduled dry-docking and ship repair of 8 of our smaller vessels. In addition, we are in the design stage of a multi-year project to upgrade our Richmond maintenance facility. This is of particular strategic importance as it allows us to perform vessel maintenance when there are emergent needs or when planned maintenance is the least disruptive to the service schedule.

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.

EXTERNAL COMPETITIVE PRESSURES

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

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.

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. The successful proponent to provide this service was Victoria-based Island Ferry Services Ltd. Island Ferry Services Ltd. expects delivery of the first of two high-speed catamarans, currently under construction in Asia, to arrive in the spring of 2019. The vessels would be able to carry 376 passengers and operate at a speed of approximately 40 knots.

Air travel, through businesses such as Helijet Airways, 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 market is dominated by Seaspan Ferries Corporation. Seaspan has two new hybrid ferries (propelled by LNG, diesel and battery power) built in Turkey, each capable of carrying up to 60 trailers. Also, in June 2017, they officially opened a new 18-acre, multi-berth facility that can accommodate 360 trailers as well as an overflow lot at Duke Point. 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 the *Northern Sea Wolf* to serve the Central Coast. In total, up to \$60 million in funding under the New Building

Canada Fund has been approved. In fiscal 2018, we recorded \$3 million as a reduction of the cost of the two new minor class vessels and \$12 million as a reduction of the cost of the *Northern Sea Wolf* and related terminal modifications.

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 LNG. The contribution is dependent upon the purchase of at least 3 million gigajoules of LNG 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 provided us with \$2 million in incentive funding and has committed to provide us with up to a total of \$10 million to help offset incremental capital costs associated with the conversion of the Spirit Class vessels to utilize LNG.

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 lifespan of vessels is approximately 45 years. We are currently operating 35 vessels with an average age of 31 years and, of these, 11 are 45-years old or older.

In fiscal 2018, we brought three new vessels, the *Salish Orca*, *Salish Eagle* and *Salish Raven* into service. These vessels set a new standard of efficiency with standardized bridges, engine rooms and life-saving equipment, moving us to a higher safety standard and improving interoperability. These new vessels allowed us to retire the 52-year old *Queen of Burnaby* and the 53-year old *Queen of Nanaimo*.

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 12-year capital plan, we expect to replace or extend the life of 14 of these vessels, including replacement of the 45-year old *Nimpkish* in fiscal 2019, and the 54-year old *Howe Sound Queen* and the 60-year old *North Island Princess* in fiscal 2020.

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. Input from stakeholders and our operational experience will be incorporated into the design of the vessels to ensure high levels of safety, customer service, environmental leadership and reliability.

We are also adopting alternative fuel options for new vessels and vessels undergoing major retrofits as we believe alternate fuels would reduce emissions as well as costs. Our three Salish Class vessels, which entered service in fiscal 2018, are dual-fuel capable and are operated as much as possible on LNG. The mid-life upgrade, including conversion to dual-fuel, of the *Spirit of British Columbia* and the *Spirit of Vancouver Island* is expected to result in significant environmental and cost benefits. Our new minor class vessels will initially operate on low-sulphur marine diesel with stored energy (battery) capability installed to provide the ship's service power. The stored energy capability will be expandable for a possible zero-emission operation (the battery would supply the ship's full power requirement) in the future.



TERMINAL INFRASTRUCTURE

In fiscal 2018, we replaced the existing marine structures at Prince Rupert terminal with a new trestle and three new dolphins and at Departure Bay terminal, a project to reinstate the structural integrity of the terminal holding compound and the underground utilities is nearing completion.

At our Richmond maintenance facility, planning is underway to upgrade and redevelop the facilities to replace aging infrastructure and increase operating efficiency. The multi-year project to seismically upgrade the site, modernize infrastructure and build a centralized shop and life raft servicing centre is in its design stage.

We are working on preparing the Langdale terminal development plan which will include upgrades designed for the safety and convenience of our customers.

Within the next 10 years, an estimated capital investment of \$500 million in terminal infrastructure will be required at the terminals serving the Major Routes, including Horseshoe Bay, Swartz Bay and Tsawwassen terminals. We have particular on-time challenges on the routes using Horseshoe Bay terminal. Significant reconfiguration of Horseshoe Bay terminal layout will be necessary to optimize functionality to improve loading and unloading times and improve on-time performance to an acceptable level. Careful consideration, extensive detailed design, consultation with stakeholders, and regulatory approval 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 have been using limit our ability to design attractive and relevant pricing at a sailing level. In fiscal 2018, as part of our customer experience program, we replaced our reservation system and in fiscal 2019, we expect to replace our website, e-commerce platform 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.

COLLECTIVE AGREEMENT

The majority of our employees are members of the 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, which ends October 31, 2020, 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, 2018, we had five series of obligation bonds totalling \$1.1 billion and \$227 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 (“MTI”) and allowed for three loans of up to \$45 million each. These amortizing loans will be repaid over a 12-year term and bear an annual

BONDS OUTSTANDING

<i>Amount</i> (C\$MM)	<i>Maturity</i>	<i>Coupon</i> (%)
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

<i>Type</i>	<i>Amount</i> (C\$MM)
<i>Credit Facility Limit</i>	155
<i>KfW Loans Outstanding</i>	227

interest rate of 2.09%. In April and May, 2017, we drew down the third and final loan of \$45 million, to coincide with the contract payment schedule for the purchase of *Salish Raven*. The net proceeds of these loans were used to partially finance the purchase of the Salish Class vessels.

In our proposed fiscal 2019 capital plan, we expect capital expenditures to average approximately \$380 million annually over the next five years (excluding external funding) as we proceed with the replacement and upgrade of our aged vessels and make significant improvements at our terminals serving our Major Routes, as well as make investments in information technology.

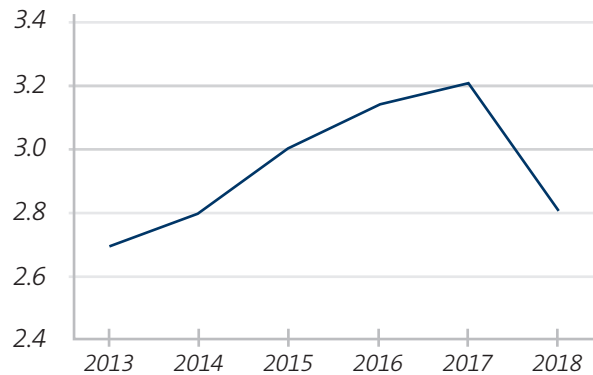
In the near term, we expect our cash requirements will be met through operating cash flows, accessing funding under government programs and by accessing our credit facility from time to time.

We target maintaining a strong investment-grade credit rating to allow capital market access at reasonable interest rates. Our credit ratings at March 31, 2018, were “A” (high) (DBRS) with a stable trend and “AA-” Standard & Poor’s with a positive outlook.

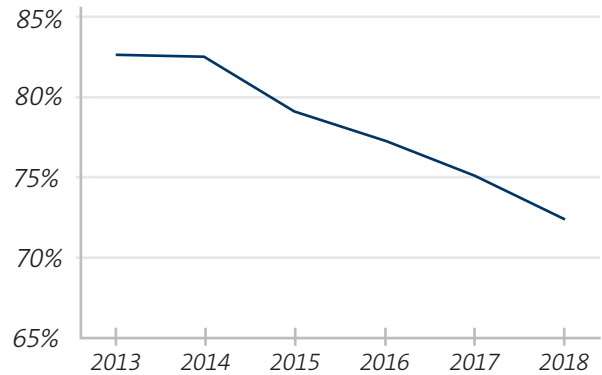
We are party to a credit agreement with a syndicate of Canadian banks that is secured under the MTI. The MTI contains several covenants related to ratios. These ratios are indicators of our financial health and ability to handle downturns in the market. They are reviewed on an annual basis by credit rating agencies. On March 9, 2018, Standard & Poor’s stated that our credit rating was “AA-” with a positive outlook. On January 16, 2018, DBRS upgraded our credit rating from “A” with a positive trend to “A (high)” with a stable trend. DBRS stated that the upgrades “acknowledge the proven operating resilience and reliable management demonstrated by the Company, having weathered challenging macroeconomic

conditions while maintaining satisfactory financial metrics and successfully returning to growth”. They also noted that a future negative rating action may be possible if we become unable to maintain the current level of financial metrics. At March 31, 2018, we achieved a Leverage ratio (debt to total capitalization) of 72.5% and a DSCR (debt service coverage ratio) of 2.8. Our historical ratios are as follows:

DSCR



LEVERAGE RATIO



The MTI also contains 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.

MARKET OPPORTUNITIES



BAYNES SOUND CONNECTOR

Built: 2015, Vancouver
Maximum Speed: 8.5 knots
Passenger & Crew Capacity: 150



We 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, reducing our environmental impact and continuing to look for ways to diversify our revenue sources.

NEW SEASONAL DIRECT ROUTE BETWEEN PORT HARDY AND 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 Indigenous tourism and the Central Coast community.

In March 2017, we executed an amendment to the CFSC with the Province that included a new seasonal direct ferry service between Port Hardy and Bella Coola beginning in the summer of 2018.

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 Central Coast service, including a new seasonal direct ferry service between Port Hardy and Bella Coola, as well as the necessary terminal modifications was reasonably required. Also in April 2017, the Province contributed an initial \$15 million towards the provision of this service to March 31, 2020, the end of PT4.

There was an extensive search to locate a used vessel and in December 2017, the *Northern Sea Wolf* arrived in British Columbia after a 10,097 nautical mile journey from Athens, Greece. The *Northern Sea Wolf* is undergoing extensive upgrades and mechanical modifications at a local shipyard in preparation for regular service commencing in the summer of 2018 (fiscal 2019). This vessel already fits in our major northern berths while several smaller terminals required modification to accommodate the new vessel. The vessel will carry at least 150 passengers and crew and have room for approximately 35 vehicles and will allow for the retirement of the 45 year-old *Nimpkish*.

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 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 showing strong growth. In fiscal 2018, vacation packages sold generated \$6.7 million in revenue, an increase of 8% over the prior year. In fiscal 2019, 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.

COMMERCIAL SERVICES

Revenue from our commercial customers increased approximately 3% over the prior year.

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 service also improves our overall productivity, strengthening our financial position and reducing pressure for future tariffs increases.

Although we expect modest growth in commercial traffic as general economic conditions continue to improve, we also foresee challenges regarding NAFTA and the general protectionist sentiment particularly around steel, aluminum and lumber products. There also may be an impact on commercial activity with the recent increases in the price of fuel at the pump.

CATERING AND RETAIL SERVICES

We also have opportunities for continued growth with our food service and retail 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. Approximately 90% of our catering and retail revenue is earned on these routes.

In fiscal 2018, total catering and retail sales were \$98 million, an increase of 8% 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 73% and 11% of total catering and retail revenue, respectively.

Catering and retail sales are impacted by traffic, price, service quality and product offerings. In fiscal 2018, our average spend per passenger increased 3.3%, compared to the prior year. In fiscal 2019, 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.

NEW OPPORTUNITIES

As part of our Strategic Plan, we seek innovative ways to grow and diversify our revenue to strengthen our financial sustainability and reduce the pressure on fares. This is a key focus to address fare affordability, reduce business risk, and support the overall customer experience. Our drop-trailer service and BC Ferries Vacations are examples of our success in this area.



\$98
MILLION
Total catering and on-board sales in fiscal 2018.

FISCAL 2019 STRATEGIES AND INITIATIVES





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.



SALISH ORCA
Built: 2016, Poland
Maximum Speed: 15.5 knots
Passenger & Crew Capacity: 600



01

**ENSURE SAFE,
RELIABLE & EFFICIENT
OPERATIONS**

02

**DELIVER A
CUSTOMER-FOCUSED
TRAVEL EXPERIENCE**

03

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

04

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

05

**GROW & PROFITABLY
DIVERSIFY OUR
REVENUE BASE**

06

**DRIVE PRUDENT
INVESTMENT IN OUR
CAPITAL ASSETS**



01

ENSURE SAFE, RELIABLE & EFFICIENT OPERATIONS



OBJECTIVE

To achieve operational excellence and be industry leaders in safety, route networking and customer service.

STRATEGIES AND INITIATIVES:

- Evolve our SailSafe safety culture to the next stage using innovative communication, identification and procedural techniques;
- Further entrench the culture of safety at BC Ferries;
- Balance our service profile with associated costs for continuously improving operational efficiency;
- Identify deployment innovations that assist operational excellence;
- Pursue new efficiency-enhancing technologies for vessel replacements and major upgrades;
- Pursue business process optimization opportunities;
- Implement a robust ship repair tactical plan that addresses concentration risk on our regional repair market;
- Optimize our route network where practical and feasible;
- Ensure a consistent and high level of standardized training for our crews as part of our SEA Training program;
- Develop operating practices to empower employees to deliver a positive customer experience; and
- Implement appropriate information technology service options to maximize the reliability and efficiency of IT platforms.

02

DELIVER A CUSTOMER-FOCUSED TRAVEL EXPERIENCE

OBJECTIVE

Customer service excellence, defined as a seamless and enjoyable experience from booking to disembarking with BC Ferries.

STRATEGIES AND INITIATIVES:

- Create a unified and seamless customer experience by optimizing technology and customer service at all touch points throughout a customer's journey;
- Strengthen the customer-centric service culture through employee empowerment and customer service training initiatives;
- Meet changing and evolving customer travel needs through the development of innovative solutions;
- Provide a highly differentiated and personalized digital customer experience by investing in new customer-interfacing technologies;
- Provide customers with an enhanced fare structure that offers more choice including discounts to travel at less popular times. This will also help to reduce waits for busy sailings;
- Evolve customer experience strategies and drive business decisions by leveraging customer research and analytics from all current and future sources;
- Improve the end-to-end customer experience by exploring intermodal transportation opportunities; and
- Engage with like transportation providers and other business enterprises to leverage their experience and create new opportunities for BC Ferries.

03

FOSTER A PRODUCTIVE, MOTIVATED & ENGAGED WORKFORCE

OBJECTIVE

Continuously improve employee attraction, retention, engagement and productivity.

STRATEGIES AND INITIATIVES:

- Champion our employees, and develop progressive and innovative employee-centric practices;
- Advance the ‘talent management process’ to optimize the Company’s human capital;
- Facilitate, strengthen and leverage progressive employer-union partnerships;
- Align and adapt the organization, structure and resources with strategic and business priorities;
- Refine and incorporate the use of metrics and analytics to facilitate and optimize operational flexibility and productivity; and
- Advance the plan to ensure the sufficient and timely availability of ‘licensed operational’ employees.

04

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 INITIATIVES:

- Work collaboratively to expand our community and stakeholder engagement;
- Invest in conservation initiatives, including growing our SeaForward and Green Marine programs;
- Reduce our environmental footprint and continue to strive for sustainable operations;
- Improve the visibility and community engagement in environmental and social governance initiatives;
- Further develop our environmental management system to define, monitor and report against our environmental and social performance goals;
- Initiate leading-edge practices related to environmental stewardship;
- Participate in forward-thinking/future-oriented regional and national developments that are relevant to our industry;
- Renew vessel and terminal assets in innovative ways that respect the environment in which we operate and the communities we serve;
- Build and enhance the Company brand, equity and reputation through a robust government relations and community investment program; and
- Enhance the customer's end-to-end experience by going beyond transportation services and provide customer-centred products and services throughout their journey.

05



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 INITIATIVES:

- Provide customers with augmented fare choices and an enhanced online and mobile booking experience;
- Expand the products and ancillary services to provide customers with products and services they value;
- Optimize the use of our assets to grow our revenue base;
- Leverage our engineering and customer service expertise;
- Grow our commercial transport opportunities, tapping new or niche markets;
- Leverage our world-class status and reputation to sell our expertise locally, nationally and internationally;
- Promote our products and services in new and innovative ways;
- Grow our ridership by offering service on new routes;
- Diversify revenue streams by exploring profitable complementary business opportunities;
- Explore strategic partnerships and acquisitions in relation to key initiatives; and
- Explore the provision of passenger-only services.

06

DRIVE PRUDENT INVESTMENT IN OUR CAPITAL ASSETS

OBJECTIVE

Deliver on our 12-year capital plan portfolio.

STRATEGIES AND INITIATIVES:

- Provide the appropriate level of oversight and analysis to effectively manage our capital project portfolio;
- Replace assets in line with policies contained in the Fleet, Terminal Network, Customer Experience, and Information Technology Master Plans;
- Adopt a long-range resource requirements plan to deliver on the Capital Plan;
- Support alternative approaches for our software requirements;
- Optimize route efficiency opportunities through asset replacement and innovation; and
- Address the critical regional shortage of ship repair facilities to provide options for support of our fleet.

FINANCIAL PLAN





Positive net earnings for fiscal 2019 are important so we can continue to invest in our vessels, terminals and information technology infrastructure.

OPERATING BUDGET

For fiscal 2019, we budgeted regulatory net earnings of \$63.6 million. The \$8.3 million increase from the fiscal 2018 regulatory net earnings is mainly attributed to higher traffic levels, higher ferry transportation fees, and higher net catering and retail revenue, partially offset by higher depreciation and amortization expense. Fiscal 2019 net earnings would have been higher, had we not foregone revenue related to our contribution towards the deferred fuel cost account and the fare freeze and 15% reduction as described below.



COASTAL RENAISSANCE

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

**\$63.6
MILLION**

Budgeted regulatory net earnings for fiscal 2019.

<i>(expressed in \$ millions)</i>	2018 Actual	2019 Budget
Revenue		
Customer Fares	640.2	644.8
Ferry Transportation Fees	178.8	190.7
Net Catering and Retail Revenue	60.1	62.8
Federal – Provincial Subsidy Agreement	29.8	30.5
Other Revenue	9.8	10.9
Total Revenue	918.7	939.7
Operating Expenses		
Operations, Maintenance and Administration	646.8	646.7
Depreciation and Amortization	159.9	173.5
Total Operating Expenses	806.7	820.2
Operating Profit	112.0	119.5
Net Financing and Other Expense	58.5	58.7
Subsidiary Net Earnings	1.8	2.8
Regulatory Net Earnings	55.3	63.6

Both fare affordability and positive net earnings are important to the sustainability of the Company. All net earnings are reinvested in the Company through capital expenditures, improved service, customer discounts or the repayment of debt.

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 the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island 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 and resulting revenues we experienced.

On April 1, 2018, the beginning of fiscal 2019, we applied a fare reduction of 15% on the Northern Routes, the regulated Other Routes and on the Major route connecting Horseshoe Bay and Langdale. Fares were held constant on the three Major Routes connecting Metro Vancouver with mid and southern Vancouver Island. Also on April 1, 2018, the BC seniors' passenger discount increased from 50% to 100% for travel Monday to Thursday on the Major and Other Routes. The discount for BC seniors on the Northern Routes has remained unchanged over the years at 33% every day. We reached an agreement with the Province to fund these reductions at a total cost of \$98 million. We are contributing \$39 million by foregoing fare increases and the Province is contributing \$59 million for fare reductions and increased BC seniors' discounts.

We expect operating expenses in fiscal 2019 to be at a similar level to fiscal 2018, reflecting savings from the implementation of the Salish Class vessels and by the *Spirit of British Columbia's* use of LNG, higher wage and benefit costs resulting from the collective agreement, the introduction of the new Northern route and a full year of the incremental service connecting Departure Bay, Horseshoe Bay, Langdale and Bowen Island.

Depreciation and amortization costs are expected to increase by \$13.6 million or 8.5% as we replace and upgrade our vessels, terminals and information technology infrastructure.

CAPITAL BUDGET





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

In fiscal 2018, 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.



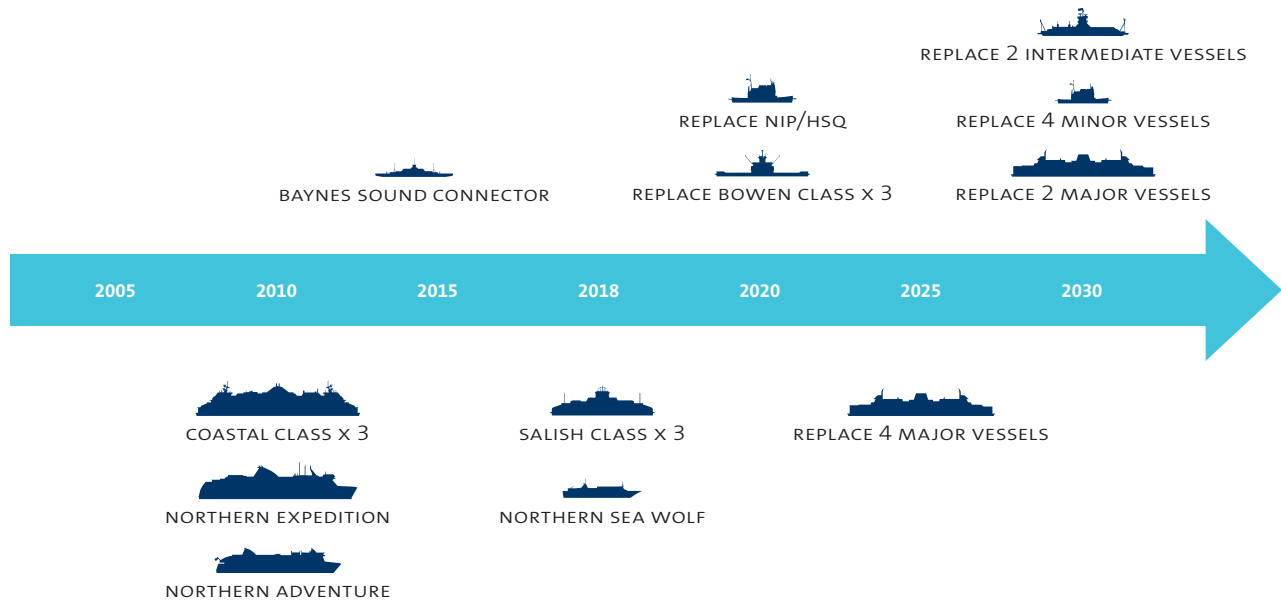
HOWE SOUND QUEEN

Built: 1964, Quebec
Maximum Speed: 9.75 knots
Passenger & Crew Capacity: 300

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 now targeting to invest over \$3 billion over the 12 years ending March 31, 2026.

The following graph details our plans as we replace aged vessels with new vessels:

VESSEL REPLACEMENT PROGRAM



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 Governance 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. The average age of the 14 vessels we expect to replace in our 12-year capital plan will be over 50 years old when they are replaced.

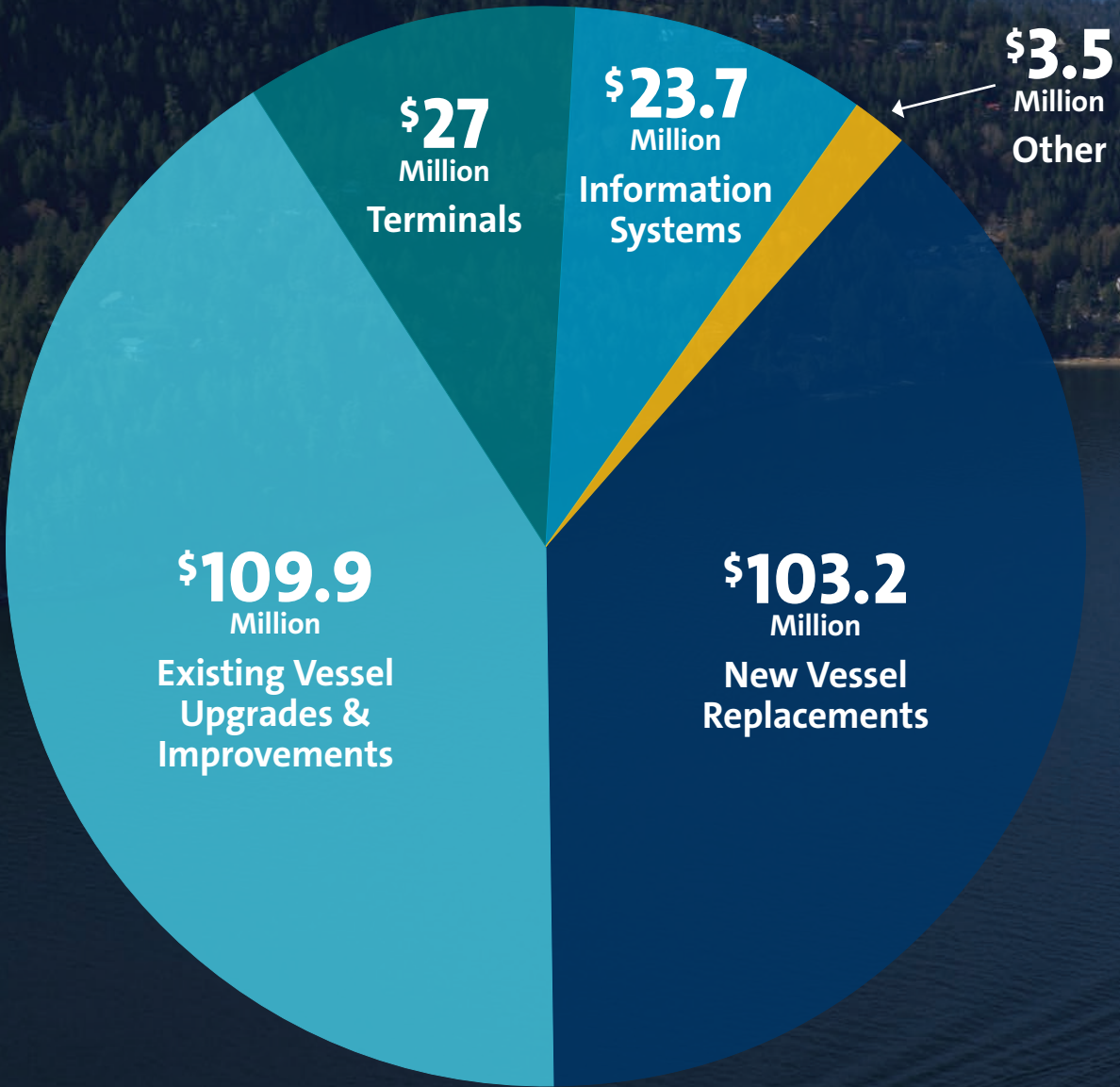
- Restoration:** to maintain existing assets by upgrading and/or replacing major and minor components required to enable the asset to operate up to the end of its service life.

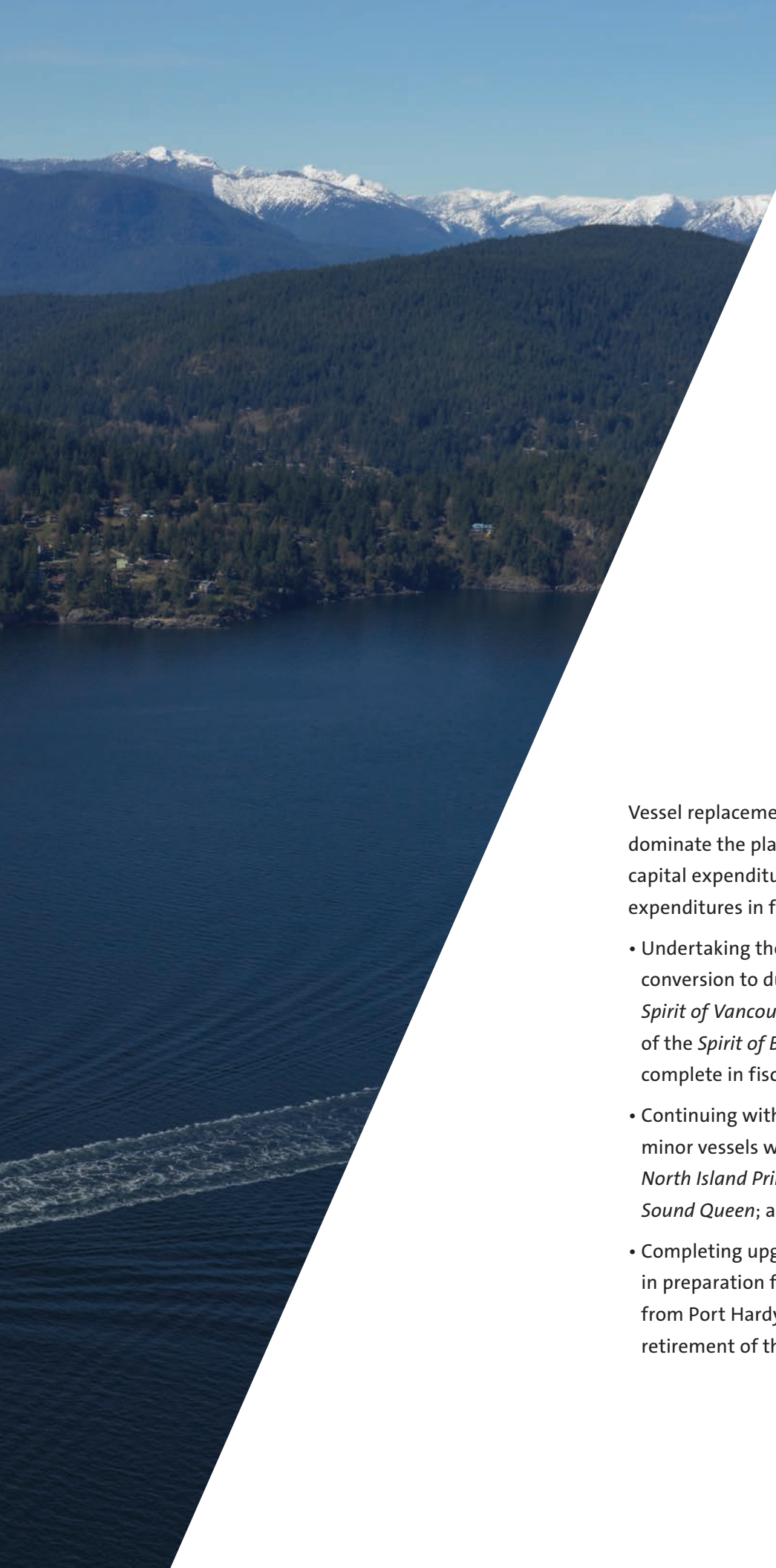
- Regulatory:** to comply with regulatory requirements (e.g. WorkSafeBC, Transport Canada, etc).



PORTFOLIO BY ASSET TYPE

The following graph summarizes the capital portfolio expenditures by asset type for fiscal 2019.





Vessel replacement, upgrades and improvements dominate the plan, comprising 80% of the total capital expenditures for fiscal 2019. Significant expenditures in fiscal 2019 include:

- Undertaking the mid-life upgrade, including conversion to dual-fuel of the major vessel, the *Spirit of Vancouver Island*; the mid-life upgrade of the *Spirit of British Columbia* was substantially complete in fiscal 2018;
- Continuing with the construction of two new minor vessels which will replace the 60 year-old *North Island Princess* and the 54 year-old *Howe Sound Queen*; and
- Completing upgrades to the *Northern Sea Wolf* in preparation for the new direct seasonal route from Port Hardy to Bella Coola, allowing for the retirement of the 45 year-old *Nimpkish*.

CONCLUSION



Our Business Plan reflects our mission to connect communities and customers to people and places important in their lives.

“We have made significant progress over the past 15 years to improve the travel experience for our customers. Since 2004, we have invested \$3 billion in the ferry system to upgrade our vessels, build new ships and improve and enhance our terminals. We know the customer experience is not just the ships and terminals. It’s about connecting communities and customers to the people and places that are important in their lives. In fiscal 2018, we achieved a vessel reliability rate of 99.83 per cent; reached a customer satisfaction rating of 87 per cent; and offered several pricing promotions to give our customers discount options. We are committed to being trusted and valued by our customers and the communities we serve,” 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 2019 by optimizing our service routes, standardizing our vessels, optimizing our fuel consumption, and reducing our environmental impact. To ensure that


we reach our goals, we will focus on our five strategic drivers:

- Provide a superior customer experience through safe, efficient, reliable and effective service delivery;
- Make prudent choices for the long-term growth and sustainability of our organization, which enables fare affordability, value for customers and effective asset stewardship;
- Foster growth, development and commitment in our employees;
- Leverage our resources, services and relationships in recognition of our responsibility to our environment, customers, employees, stakeholders and communities; and
- Nurture continuous improvement and innovation across our organization.

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 our 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, exchange rates, fuel rebates, and fiscal 2019 net earnings; renewal of the COR from WorkSafeBC; our short-term and long-range business plans, capital expenditure levels, asset renewal programs for vessels and terminals, our customer experience 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, minor class vessel replacements, and safety, environmental customer engagement, 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.



