

B.C. FERRY AUTHORITY 2007/08 ANNUAL REPORT

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A Message From The Chair

The B.C. Ferry Authority is an independent, no-share corporation that holds the single issued voting share of British Columbia Ferry Services Inc. The Authority appoints the Board of Directors of British Columbia Ferry Services Inc. Currently, the members of the B.C. Ferry Authority Board are also directors of British Columbia Ferry Services Inc.

The B.C. Ferry Authority is governed by the *Coastal Ferry Act*, which establishes a process for the appointment of directors to ensure broad regional representation. In accordance with the Act, the Authority has a nine-member Board of Directors comprised of individuals with a wide range of experience.

Four directors are appointed from nominations received from four appointment areas, comprised of 13 coastal regional districts. In addition, one director is appointed from nominations from the union representing the employees of British Columbia Ferry Services Inc., two directors are appointed from the community-at-large and two additional directors are appointed by the provincial government.

The Board adheres to the highest corporate governance standards in its deliberations.



Elizabeth J. Harrison, QC
Chair

B.C. Ferry Authority 2007/08 Annual Report

The B.C. Ferry Authority (the "Authority") is a corporation without share capital that owns the single issued voting share of the operating company, British Columbia Ferry Services Inc. ("BCFS"). The Province of British Columbia is the holder of all of the preferred shares of BCFS. The Authority appoints the Board of Directors of BCFS.

The Authority is established and governed by the *Coastal Ferry Act* (the "Act"). In accordance with the Act, the Authority has adopted high standards of public and stakeholder accountability that require the Authority's financial and operating performance, as well as its process for appointing qualified individuals to serve as directors, to be open to public view.

Appointment of Directors

The Authority has a nine-member Board of Directors, the required composition of which is set out in the Act and includes regional and stakeholder representation. Four directors are appointed by the Board from nominees of four Appointment Areas, comprised of coastal regional districts, and one director is appointed from the nominees of the BC Ferry & Marine Workers' Union (BCFMWU), the trade union representing the employees of BCFS.

The Board also includes two directors appointed by the Province of British Columbia and two additional directors appointed by the Board from members of the community-at-large.

The Act requires that the terms of three directors of the Authority expire each year. The first appointments to the Board were staggered such that three appointments were made for each of one, two and three years. Directors may serve for up to two consecutive terms (or three consecutive terms in the case of current directors who served on the first Board of the Authority). At present, as a matter of Board policy, the directors of the Authority are also directors of the operating company, BCFS.

Directors appointed from the Southern Mainland and Southern Vancouver Island appointment areas, as well as one director appointed by the Province of British Columbia, had terms expiring March 31, 2008. During the year, the Board sought and received nominations of qualified individuals to serve as directors from the two appointment areas. One nominee from each of the two appointment areas was selected and appointed to serve on the Board for a three-year term commencing April 1, 2008. As well, the Province of British Columbia appointed a director to serve for a three-year term.

Also during the year, Director Ray Whitehead, a long-time member of the Board who served as a nominee of the BCFMWU, passed away after a courageous battle with lung cancer. Following this loss on June 11, 2007, the Board sought and received nominations from the BCFMWU of qualified individuals to serve as a replacement director. A nominee was selected and appointed to serve on the Board effective October 1, 2007. Under the Act, a replacement director is to hold office until the end of the term of the departing director (and may be appointed as a director for one further term only). In accordance with the Act, this appointment was made for a term ending March 31, 2010.

In selecting individuals to serve as directors of the Authority, two primary objectives continued to guide the deliberations of the Board. The first objective was to ensure that the composition of the Board meets the requirements of the Act and the second was to ensure that collectively, the Board includes individuals with the skills and experience necessary to ensure the sound performance of the Authority and the effective interaction and operation of the Board. The specific criteria that guided the Board in its appointment process during the year are reflected in the Skills and Experience Profile adopted by the Authority and included as Schedule A to the General Bylaws of the Authority. The General Bylaws of the Authority are available for public view at: www.bcferryauthority.com. There were no amendments made to the bylaws during the year.

Meetings

The Board meets regularly to conduct its business. During the year, the Board and its Committees met on 27 occasions, including the Annual General Meeting of the Authority held in accordance with section 18 of the Act. A summary of the meetings of the Board and its Committees follows.

Summary of Meetings 2007/08

DATE	TYPE	OUTCOMES
April 27, 2007	Nominating Committee	<ul style="list-style-type: none"> • Terms of reference for the Nominating Committee recommended for approval to the Governance Committee • Terms of reference for the engagement of external consultants to provide assistance to the Nominating Committee approved • Process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
June 5, 2007	Audit & Finance Committee	<ul style="list-style-type: none"> • Financial statements of the Authority for the year ended March 31, 2007 recommended for approval to the Board • Independence letter and findings report on the audit process received from the External Auditor
June 5, 2007	Nominating Committee	<ul style="list-style-type: none"> • Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
June 6, 2007	Governance Committee	<ul style="list-style-type: none"> • Report from the Chair of the Governance Committee on the review of conflict of interest forms submitted by Directors and Officers of the Authority • Report from the Chair of the Governance Committee on written declarations of the Directors of BCFA attesting to their independence • Terms of reference for the Nominating Committee recommended for approval to the Board • Amendments to the terms of reference for the Governance Committee recommended for approval to the Board • Amendments to various sections of the Board Governance Manual recommended for approval to the Board
June 7, 2007	Board of Directors	<ul style="list-style-type: none"> • Financial statements of the Authority for the year ended March 31, 2007 approved • Terms of reference for the Nominating Committee approved • Amendments to the terms of reference for the Governance Committee approved • Amendments to various sections of the Board Governance Manual approved • Process for seeking candidates for appointment to the Board effective April 1, 2008 discussed • General Counsel authorized to execute, on behalf of the Authority, the shareholder's unanimous consent resolutions pertaining to all of the business required to be transacted at the Annual General Meeting of British Columbia Ferry Services Inc. • 2007 Annual General Meeting of the Authority discussed • 2006/07 Annual Report of the Authority approved
June 21, 2007	Nominating Committee	<ul style="list-style-type: none"> • Skills and experience of the Board reviewed • Process and timeline for seeking a replacement director from nominations of the trade union representing the employees of British Columbia Ferry Services Inc. discussed • Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
June 29, 2007	Nominating Committee	<ul style="list-style-type: none"> • Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
July 23, 2007	Nominating Committee	<ul style="list-style-type: none"> • Status of process for seeking a replacement director from nominations of the trade union representing the employees of British Columbia Ferry Services Inc. discussed • Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
August 23, 2007	Audit & Finance Committee	<ul style="list-style-type: none"> • Financial statements of the Authority for the three months ended June 30, 2007 recommended for approval to the Board

Summary of Meetings 2007/08

DATE	TYPE	OUTCOMES
August 23, 2007	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the three months ended June 30, 2007 approved 2007 Annual General Meeting of the Authority discussed
September 4, 2007	Nominating Committee	<ul style="list-style-type: none"> Status of process for seeking a replacement director from nominations of the trade union representing the employees of British Columbia Ferry Services Inc. discussed Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
September 11, 2007	Audit & Finance Committee	<ul style="list-style-type: none"> Appointment of lead external audit partners recommended for approval to the Board
September 11, 2007	Governance Committee	<ul style="list-style-type: none"> Compensation for Chair of the Nominating Committee recommended for approval to the Board
September 11, 2007	Nominating Committee	<ul style="list-style-type: none"> Appointment of a Director nominated by the trade union representing the employees of British Columbia Ferry Services Inc. for the term October 1, 2007–March 31, 2010, recommended for approval to the Board Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
September 13, 2007	Board of Directors	<ul style="list-style-type: none"> Lead external audit partners appointed Compensation for Chair of the Nominating Committee approved Nominee of the trade union representing the employees of British Columbia Ferry Services Inc. appointed a Director of the Authority for the term October 1, 2007–March 31, 2010 Nominee of the trade union representing the employees of British Columbia Ferry Services Inc. appointed a Director of British Columbia Ferry Services Inc. effective October 1, 2007 Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
September 13, 2007	Annual General Meeting	<ul style="list-style-type: none"> Annual General Meeting held pursuant to the <i>Coastal Ferry Act</i> (section 18)
November 20, 2007	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the six months ended September 30, 2007 recommended for approval to the Board 2007/08 terms of engagement for the external auditor approved Audit & Finance Committee terms of reference reviewed Audit & Finance Committee meeting dates for 2008/09, 2009/10 and 2010/11 approved
November 20, 2007	Nominating Committee	<ul style="list-style-type: none"> Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed
November 20, 2007	Governance Committee	<ul style="list-style-type: none"> Terms of reference for the Board of Directors, Board Chair and Governance Committee reviewed Board Governance Manual reviewed and amendments recommended for approval to the Board Governance Committee meeting dates for 2008/09, 2009/10 and 2010/11 approved Changes in Director compensation effective April 1, 2008 recommended for approval to the Board Report from the Chair of the Governance Committee on the review of conflict of interest and independence forms submitted by Directors

Summary of Meetings 2007/08

DATE	TYPE	OUTCOMES
November 28, 2007	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the six months ended September 30, 2007 approved Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed Amendments to the Board Governance Manual approved Board meeting dates for 2008/09, 2009/10 and 2010/11 approved Changes in Director compensation effective April 1, 2008 approved
January 31, 2008	Nominating Committee	<ul style="list-style-type: none"> Nominees of the Southern Vancouver Island & Southern Mainland Appointment Areas recommended for appointment to the Board for three-year terms effective April 1, 2008
February 7, 2008	Board of Directors	<ul style="list-style-type: none"> Status of process for seeking candidates for appointment to the Board effective April 1, 2008 discussed Number of Directors of British Columbia Ferry Services Inc. increased from twelve to sixteen effective February 7, 2008 Four Directors appointed to the Board of British Columbia Ferry Services Inc. effective February 7, 2008
February 20, 2008	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the nine months ended December 31, 2007 recommended for approval to the Board 2008/09 operating budget of the Authority recommended for approval to the Board
February 21, 2008	Governance Committee	<ul style="list-style-type: none"> Audit & Finance Committee terms of reference reviewed Composition of Board Committees discussed
February 27, 2008	Board of Directors	<ul style="list-style-type: none"> 2008/09 operating budget of the Authority approved Financial statements of the Authority for the nine months ended December 31, 2007 approved Changes in lead external audit partners approved Results of the Board of Directors' 2007/08 self assessment evaluation reviewed and discussed
March 27, 2008	Governance Committee	<ul style="list-style-type: none"> Appointments of Chair and Vice Chair effective April 1, 2008 recommended for approval to the Board Committee structure, Chairs and membership effective April 1, 2008 recommended for approval to the Board Committee Chairs' remuneration effective April 1, 2008 recommended for approval to the Board
March 27, 2008	Board of Directors	<ul style="list-style-type: none"> Nominees of the Southern Vancouver Island & Southern Mainland Appointment Areas appointed to the Board for three-year terms effective April 1, 2008 Chair and Vice Chair effective April 1, 2008 appointed Committee structure, Chairs and membership effective April 1, 2008 approved Committee Chairs' remuneration effective April 1, 2008 approved Number of Directors of British Columbia Ferry Services Inc. decreased from sixteen to thirteen effective April 1, 2008 Directors of British Columbia Ferry Services Inc. effective April 1, 2008 appointed

Auditors' Report

To the Board of Directors, B.C. Ferry Authority

We have audited the statement of financial position of B.C. Ferry Authority as at March 31, 2008 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Handwritten signature of KPMG LLP in black ink.

Chartered Accountants

Victoria, Canada

May 16, 2008

Financial Statements

STATEMENT OF FINANCIAL POSITION (EXPRESSED IN THOUSANDS)

AS AT MARCH 31	2008		2007	
Assets				
Investment in British Columbia Ferry Services Inc.	\$	235,104	\$	203,570
	\$	235,104	\$	203,570
Net Assets				
Invested in common share of British Columbia Ferry Services Inc.	\$	1	\$	1
Accumulated undistributed earnings of British Columbia Ferry Services Inc.		235,103		203,569
	\$	235,104	\$	203,570

See accompanying notes to financial statements.

On behalf of the Board:



Director, Graham M. Wilson



Director, Elizabeth J. Harrison, QC

STATEMENT OF OPERATIONS (EXPRESSED IN THOUSANDS)

YEARS ENDED MARCH 31	2008		2007	
Revenue:				
Distributable earnings of British Columbia Ferry Services Inc. (note 2)	\$	31,534	\$	104,019
Expenses:				
Administration		51		14
Recovery from British Columbia Ferry Services Inc. (note 3)		(51)		(14)
		-		-
Excess of revenue over expenses	\$	31,534	\$	104,019

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS (EXPRESSED IN THOUSANDS)

	INVESTED IN BCFSI	UNDISTRIBUTED EARNINGS OF BCFSI	TOTAL
Balance, March 31, 2007	\$ 1	\$ 203,569	\$ 203,570
Excess of revenue over expenses	-	31,534	31,534
Balance, March 31, 2008	\$ 1	\$ 235,103	\$ 235,104

See accompanying notes to financial statements.

Notes to Financial Statements

(EXPRESSED IN THOUSANDS)

B.C. Ferry Authority (the "Authority") was established by the *Coastal Ferry Act* (British Columbia) (the "Act") on April 1, 2003 as a corporation without share capital. The Authority is governed by a board of nine directors. The board of directors appoints replacements for outgoing directors for seven of the positions as follows:

- four appointed from nominees provided to the board by each of the four appointment areas consisting of those coastal regional districts that the Lieutenant Governor in Council for British Columbia may prescribe, with one director appointed from each area;
- one appointed from nominees provided by the trade union representing the employees of the British Columbia Ferry Services Inc. ("BCFSI");
- two appointed from qualified individuals as defined in the Act.

The Lieutenant Governor in Council for British Columbia appoints the other two director positions from qualified individuals as terms expire. The terms of three director positions expire each fiscal year.

The Authority's primary purpose is to hold the share of BCFSI, a company incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, and which now validly exists under the *Business Corporations Act* (British Columbia). BCFSI's primary business is the provision of coastal ferry services in British Columbia. The Province of British Columbia (the "Province") contributed the initial capital to the Authority to fund the purchase of the BCFSI common share. The Act provides that upon a sale of the common share of BCFSI held by the Authority, the Province is to be repaid its initial contribution and the Authority is dissolved. The Act also provides that upon dissolution of the Authority, all remaining assets of the Authority, if any, vest in the Province.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit entities. The Authority's investment in its wholly owned subsidiary, BCFSI is accounted for by the equity method. Under the equity method the original cost of the investment is adjusted for the Authority's share of post-acquisition earnings or losses less dividends.

(b) Adoption of new accounting standards:

Effective April 1, 2007, the Authority adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3251 "*Equity*," 3855 "*Financial Instruments – Recognition and Measurement*," 3861 "*Financial Instruments – Disclosure and Presentation*," and 3865 "*Hedges*." These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Under these new standards, all financial instruments are classified as one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities.

The Authority did not hold any financial instruments at either April 1, 2007 or March 31, 2008. Accordingly, the adoption of these standards had no effect on the financial statements for the twelve months ended March 31, 2008.

(c) Revenue recognition:

The Authority follows the deferral method of accounting for contributions. The Authority does not expect to receive endowment contributions.

(d) Taxes:

The Authority and BCFSI are exempt from federal and provincial income taxes.

(e) Statement of Cash Flows:

A statement of cash flows has not been included with these statements as it does not provide additional information.

(f) Future accounting changes:

CICA has issued two new accounting standards that become effective for the Authority beginning April 1, 2008; Handbook Section 3862 "*Financial Instruments – Disclosure*" and Handbook Section 3863 "*Financial Instruments – Presentation*."

Sections 3862 and 3863 replace the current Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*." The new sections revise and enhance the current disclosure requirements and require disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Authority does not expect application of this section to have any impact on the financial statements.

Notes to Financial Statements

2. Distributable earnings of British Columbia Ferry Services Inc.:

The distributable earnings of BCFSI consist of the current period net earnings, less any dividends paid in the current period and less a reserve for undeclared preferred share dividend, if any.

YEARS ENDED MARCH 31	2008		2007	
Net earnings of BCFSI	\$	37,094	\$	110,057
Dividends paid on 8% cumulative preferred shares		(6,038)		(6,038)
Adjustment to the accumulated undistributed earnings of BCFSI (a)		478		-
	\$	31,534	\$	104,019

- (a) Effective April 1, 2007, BCFSI adopted the Canadian Institute of Chartered Accountants (CICA) Handbook section 3855 "Financial Instruments – Recognition and Measurement." This resulted in a restatement of opening retained earnings at April 1, 2007 to recognize the prior years' earnings effect of accounting for long-term debt using the effective interest method.

3. Recovery from British Columbia Ferry Services Inc.:

The Act provides that BCFSI is responsible for paying any expenses that are incurred by the Authority.

4. Subsidiary supplemental information:

The consolidated financial position and operating results for BCFSI and its wholly-owned subsidiaries are summarized below:

AS AT MARCH 31	2008		2007	
Current assets	\$	209,171	\$	237,590
Capital and other assets		1,341,280		978,185
	\$	1,550,451	\$	1,215,775
Current liabilities	\$	180,350	\$	170,402
Accrued employee future benefits		13,020		13,755
Unrealized losses on derivative instruments		-		2,831
Regulatory liabilities		16,833		-
Other long-term liabilities		76		-
Long-term debt and capital lease obligations		1,029,591		749,740
		1,239,870		936,728
Shareholders' equity				
Common share held by the Authority		1		1
Preferred shares (a)		75,477		75,477
Retained earnings		235,103		203,569
		310,581		279,047
	\$	1,550,451	\$	1,215,775

YEARS ENDED MARCH 31	2008		2007	
Revenue (including gains)	\$	640,859	\$	657,895
Expenses (including losses)		603,765		547,838
Net earnings	\$	37,094	\$	110,057
Cash flows from operating	\$	123,661	\$	160,460
Cash flows from financing		256,632		266,775
Cash flows from investing		(430,007)		(249,403)

- (a) The outstanding non-voting, 8% cumulative preferred shares are held by the Province and are convertible to common shares upon a sale of the outstanding common share. Special rights attached to the preferred shares restrict BCFSI's ability to issue share capital and to declare dividends.

Corporate Directory

B.C. FERRY AUTHORITY BOARD OF DIRECTORS (effective April 1, 2008)

Elizabeth J. Harrison, QC
Chair

(Community-at-large appointment)

Thomas W. Harris²
Vice Chair

(Central Vancouver Island & Northern Georgia Strait
appointment area)

Douglas E. Allen¹
(Community-at-large appointment)

Christopher C. Gardner^{1,2}
(Province of British Columbia appointment)

Donald P. Hayes¹
(Southern Vancouver Island appointment area)

Brian G. Kenning¹
(Southern Mainland appointment area)

Gordon R. Larkin
(Organized labour appointment)

Maureen V. Macarenko²
(Northern Coastal & North Island appointment area)

Graham M. Wilson^{1,2}
(Province of British Columbia appointment)

COMMITTEES (MEMBERSHIP EFFECTIVE JUNE 13, 2008)

1 Audit & Finance Committee

2 Governance & Nominating Committee

BOARD OF DIRECTORS (effective April 1, 2007 – March 31, 2008)

Elizabeth J. Harrison, QC
Chair

Thomas W. Harris
Vice Chair

Douglas E. Allen

Sandy M. Fulton

John R. Henderson

Doreen J. Hewitt

Gordon R. Larkin (effective October 1, 2007)

Maureen V. Macarenko

G. Raymond Whitehead (deceased June 11, 2007)

Graham M. Wilson

OFFICERS (effective April 1, 2008)

Elizabeth J. Harrison, QC
Chair

Thomas W. Harris
Vice Chair

William R. Cottick
Executive Vice President, Corporate Affairs & General Counsel

Cynthia M. Lukaitis
Vice President & Corporate Secretary