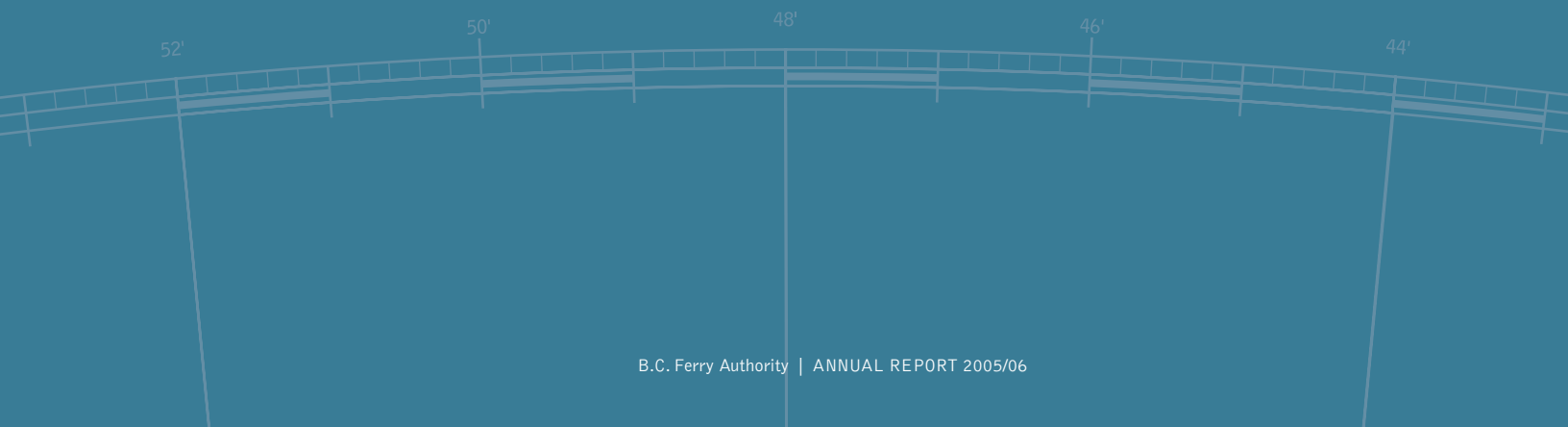


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A MESSAGE FROM THE CHAIR

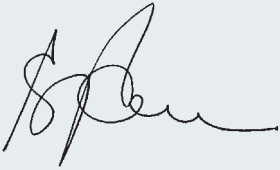
The B.C. Ferry Authority is an independent, no-share corporation that holds the single issued voting share of the new British Columbia Ferry Services Inc.

As the shareholder of British Columbia Ferry Services Inc., the Authority appoints the Board of Directors of British Columbia Ferry Services Inc. 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. The Board is composed 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 is dedicated to ensuring that the highest corporate governance standards are adhered to in its deliberations.



Elizabeth J. Harrison, QC
Chair

August 1, 2006

B.C. FERRY AUTHORITY CORPORATE PROFILE

B.C. Ferry Authority (the “Authority”) is a no-share-capital corporation created under the *Coastal Ferry Act* (British Columbia). It holds the single issued voting share of British Columbia Ferry Services Inc. (BCFS), a company incorporated in British Columbia which is subject to the *Business Corporations Act* (British Columbia) and the successor organization to what was the Crown corporation operating as British Columbia Ferry Corporation. 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.

Appointment of Directors

The appointment process and composition of the Board of Directors of the Authority is set out in the *Coastal Ferry Act*. The Board includes four appointees nominated from appointment areas comprised of coastal regional districts, one appointee nominated by the BC Ferry and Marine Workers’ Union, two appointees of the Province of British Columbia, and two appointees of members from the community-at-large. Directors are appointed to the Board of the Authority for terms of three years and 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.

The terms of three Directors expired March 31, 2006. During the year, the Board sought and received nominations of qualified individuals to serve as directors from the Central Vancouver Island & Northern Georgia Strait and the Northern Coastal & North Island appointment areas and also considered qualified candidates for appointment from the community-at-large. Two nominees from the appointment areas, both of whom were the incumbent directors, together with the incumbent Director from the community-at-large, were selected and re-appointed to the Board effective April 1, 2006.

In selecting individuals to serve as Directors of the Authority, the Board had two primary objectives. Firstly, it was to ensure that the composition of the Board would meet the requirements of the *Coastal Ferry Act*. Secondly, it was to ensure that, collectively, the Board would contain the skills and experience necessary to ensure the sound performance of the Authority and the effective interaction and operation of the Board. The Skills and Experience Profile adopted by the Authority contains the specific criteria that guided the Board in its appointment process during the year.

Bylaws of the Authority

There were no amendments made to the General Bylaws of the Authority during the year. As part of the Director appointment process, the Board identified certain amendments to the Skills and Experience Profile in the areas of “Statutory Qualifications,” “Personal Attributes” and “Key Skills” that it wishes to make. The Skills and Experience Profile is included as Schedule “A” to the General Bylaws of the Authority and, in accordance with the *Coastal Ferry Act*, the amendments have been posted for public view on the Authority’s website and will take effect on September 1, 2006.

B.C. FERRY AUTHORITY SUMMARY OF MEETINGS 2005/06

The Board meets regularly to conduct its business. During the year, the Board and its Committees met on 18 occasions. These included the Annual General Meeting of the Authority

held in accordance with Section 18 of the *Coastal Ferry Act*. Following is a summary of the meetings of the Board and its Committees.

DATE	TYPE	OUTCOMES
JUN 7, 05	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the year ended March 31, 2005 recommended for approval to the Board Independence letter and findings report on the audit process received from the External Auditor
JUN 8, 05	Governance Committee	<ul style="list-style-type: none"> Code of Business Conduct and Ethics for the Authority recommended for approval to the Board Report from the Chair of the Governance Committee on the review of conflict-of-interest forms completed by Directors and Officers of the Authority Approach to revising the Board Governance Manual recommended for approval to the Board
JUN 9, 05	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the year ended March 31, 2005 approved Code of Business Conduct and Ethics for the Authority approved Approach to revising the Board Governance Manual approved Corporate Secretary authorized to execute, on behalf of the Authority, the shareholders' unanimous consent resolutions pertaining to all of the business required to be transacted at the Annual General Meeting of British Columbia Ferry Services Inc.
AUG 29, 05	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the three months ended June 30, 2005 recommended for approval to the Board
AUG 29, 05	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the three months ended June 30, 2005 approved 2004/05 Annual Report of the Authority approved 2005 Annual General Meeting of the Authority discussed; date, time and location confirmed
SEP 19, 05	Audit & Finance Committee	<ul style="list-style-type: none"> Discussion with the External Auditor
SEP 19, 05	Governance Committee	<ul style="list-style-type: none"> Process for appointment of Directors effective April 1, 2006 discussed Skills and experience requirements of the Board reviewed
SEP 20, 05	Board of Directors	<ul style="list-style-type: none"> Process for appointment of Directors effective April 1, 2006 discussed
SEP 20, 05	Annual General Meeting	<ul style="list-style-type: none"> Annual General Meeting held pursuant to the <i>Coastal Ferry Act</i> (Section 18)
NOV 16, 05	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the six months ended September 30, 2005 recommended for approval to the Board 2005/06 terms of engagement for the External Auditor approved Committee meeting dates for 2006/07 and 2007/08 approved
NOV 16, 05	Governance Committee	<ul style="list-style-type: none"> Status and next steps in the consideration of the nominees received from the appointment areas for appointment to the Board effective April 1, 2006 discussed Status and next steps in the appointment of a Director from the community-at-large effective April 1, 2006 discussed Process for Board of Directors self-assessment evaluation discussed Extension of the appointment of the Chair of the Governance Committee through to March 31, 2006 recommended to the Board for approval Appointment of Corporate Secretary effective November 15, 2006 recommended to the Board for approval Committee meeting dates for 2006/07 and 2007/08 approved

DATE	TYPE	OUTCOMES
NOV 17, 05	Board of Directors	<ul style="list-style-type: none"> • Financial statements of the Authority for the six months ended September 30, 2005 approved • Extension of the appointment of the Chair of the Governance Committee through to March 31, 2006 approved • Appointment of Corporate Secretary effective November 15, 2006 approved • Shareholder resolutions of the Authority authorizing the filing of a transition application by British Columbia Ferry Services Inc. pursuant to the <i>British Columbia Business Corporations Act</i> ratified and approved • Date, time and location of the 2006 Annual General Meeting confirmed • Board meeting dates for 2006/07 and 2007/08 approved
NOV 25, 05	Board of Directors	<ul style="list-style-type: none"> • Recommendations of the Governance Committee with respect to the appointment of Directors nominated by the Central Vancouver Island & Northern Georgia Strait and the Northern Coastal & North Island appointment areas considered; Directors appointed for three-year terms effective April 1, 2006
FEB 21, 06	Audit & Finance Committee	<ul style="list-style-type: none"> • 2006/07 operating budget for the Authority recommended for approval to the Board • Financial statements of the Authority for the nine months ended December 31, 2005 recommended for approval to the Board
FEB 22, 06	Governance Committee	<ul style="list-style-type: none"> • Appointment of Director from the community-at-large for three-year term commencing April 1, 2006 recommended for approval to the Board • Amendments to the Articles of British Columbia Ferry Services Inc. recommended for approval to the Board • Amendments to the Board's definition of Director independence recommended for approval to the Board • Results of Board of Directors' self-assessment evaluation reviewed and discussed • Director compensation reviewed and discussed • Committee composition reviewed and discussed
FEB 28, 06	Board of Directors	<ul style="list-style-type: none"> • 2006/07 operating budget for the Authority approved • Financial statements of the Authority for the nine months ended December 31, 2005 approved • Director from the community-at-large appointed for a three year term commencing April 1, 2006 • Location of the Authority's Annual General Meetings in 2007, 2008 and 2009 confirmed • Amendments to the Board's definition of Director independence approved • Changes in Director compensation effective April 1, 2006 approved • Results of Board of Directors' self-assessment evaluation reviewed and discussed • Amendments to the Articles of British Columbia Ferry Services Inc. approved • Directors of British Columbia Ferry Services Inc. effective April 1, 2006 appointed
MAR 29, 06	Governance Committee	<ul style="list-style-type: none"> • Amendments to the Skills and Experience Profile of the Authority recommended for approval to the Board • Questionnaire to assist the Board in making a determination as to the independence of its Directors recommended for approval to the Board • Amendments to the Terms of Reference for the Governance Committee recommended for approval to the Board
MAR 30, 06	Board of Directors	<ul style="list-style-type: none"> • Amendments to the Skills and Experience Profile of the Authority approved, with such amendments to be made public for four months prior to coming into effect • Questionnaire to assist the Board in making a determination as to the independence of its Directors approved • Amendments to the Terms of Reference for the Governance Committee approved • Chair and Vice Chair effective April 1, 2006 appointed • Committee Chairs and members effective April 1, 2006 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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, black, handwritten-style font, with 'LLP' in a smaller, black, handwritten-style font to the right.

Chartered Accountants

Victoria, Canada
May 17, 2006

STATEMENT OF FINANCIAL POSITION

(expressed in thousands)

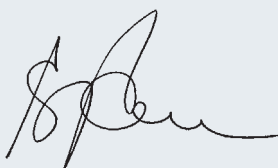
As at March 31,	2006	2005
ASSETS		
Investment in British Columbia Ferry Services Inc.	\$ 99,551	\$ 55,724
	\$ 99,551	\$ 55,724
NET ASSETS		
Invested in common share of British Columbia Ferry Services Inc.	\$ 1	\$ 1
Accumulated undistributed earnings of British Columbia Ferry Services Inc.	99,550	55,723
	\$ 99,551	\$ 55,724

See accompanying notes to financial statements.

On behalf of the Board:



Graham M. Wilson
Director



Elizabeth J. Harrison, QC
Director

STATEMENT OF OPERATIONS

(expressed in thousands)

Years ended March 31,	2006	2005
Revenue:		
Distributable earnings of British Columbia Ferry Services Inc. (note 2)	\$ 43,827	\$ 33,776
Expenses:		
Administration	100	32
Recovery from British Columbia Ferry Services Inc. (note 3)	(100)	(32)
	–	–
Excess of revenue over expenses	\$ 43,827	\$ 33,776

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, 2005	\$ 1	\$ 55,723	\$ 55,724
Excess of revenue over expenses	–	43,827	43,827
Balance, March 31, 2006	\$ 1	\$ 99,550	\$ 99,551

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 Authority's primary purpose is to hold the shares of BCFSI, a company incorporated under the *Business Corporations Act* (British Columbia), which provides 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) Revenue recognition:

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

(c) Taxes:

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

(d) Statement of Cash Flows:

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

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,	2006	2005
Net earnings of BCFSI	\$ 49,865	\$ 39,814
Dividends paid on 8% cumulative preferred shares	(6,038)	(6,038)
	\$ 43,827	\$ 33,776

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,	2006	2005
Current assets	\$ 67,017	\$ 89,519
Capital and other assets	766,660	673,863
	\$ 833,677	\$ 763,382
Current liabilities	\$ 142,170	\$ 115,587
Accrued employee future benefits	16,737	16,849
Long-term debt and capital lease obligations	499,742	499,745
	\$ 658,649	\$ 632,181
Shareholders' equity		
Common share held by the Authority	1	1
Preferred shares (a)	75,477	75,477
Retained earnings	99,550	55,723
	175,028	131,201
	\$ 833,677	\$ 763,382
Years ended March 31,	2006	2005
Revenue (including gains)	\$ 579,411	\$ 564,455
Expenses (including losses)	529,546	524,641
Net earnings	49,865	39,814
Cash flows from operating	98,349	102,051
Cash flows from financing	(6,730)	43,687
Cash flows from investing	(130,852)	(122,153)

- (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 (April 1, 2005 – March 31, 2006)

Elizabeth J. Harrison, QC
Chair
(Community-at-large appointment)

Thomas W. Harris¹
Vice Chair
(Central Vancouver Island & Northern Georgia Strait appointment area)

Douglas E. Allen^{1,2}
(Community-at-large appointment)

Sandy M. Fulton
(Province of B.C. appointment)

John R. Henderson, FCA^{1,2}
(Southern Mainland appointment area)

Doreen J. Hewitt
(Southern Vancouver Island appointment area)

Maureen V. Macarenko¹
(Northern Coastal & North Island appointment area)

G. Raymond Whitehead
(Organized labour appointment)

Graham M. Wilson^{1,2}
(Province of B.C. appointment)

Officers

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

1. Audit & Finance Committee
2. Governance Committee





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