

A photograph of two women dancing joyfully on the deck of a ferry. The woman on the left is wearing a grey long-sleeved shirt and blue jeans, while the woman on the right is wearing a white ribbed long-sleeved shirt and blue high-waisted pants. They are holding hands and smiling. In the background, the blue and white structure of the ferry is visible against a clear blue sky.

2022 – 2023

B.C. Ferry Authority Annual Report



*Customers watch
incoming vessels at
Horseshoe Bay Terminal.*



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B.C. Ferry Authority Fiscal 2022/23 Year End Review Report



A Message from the Chair

This past year, the BC Ferry Authority has been focused on renewal. In June 2022, the Authority appointed six new members to the BC Ferry Services Inc. Board of Directors one of whom, Joy MacPhail, was elected as the Chair. The addition of new Directors in June 2022 has helped to improve the working relationship of the two boards and brought new insights to the challenges we face. The Authority also completed its work on the BCFS Executive Compensation Plan which established new upper limits on total remuneration for the and brings compensation more in line with the greater BC Public Service senior officials.

As part of its public oversight mandate, the Board initiated an in-depth review and analysis of the BCFS's Performance Term 6 submission which contained the highest proposed capital investment plan in the company's history. After completing this review, the Authority initiated a joint-board strategic planning process to look at the potential impact of future trends, help refine some of our goals and guide the prioritization of investments and strategies.

On behalf of the B.C. Ferry Authority Board, we would like to extend our thanks to the Government of BC for its \$500 million contribution to help keep fares affordable for people who rely on B.C.'s coastal ferry service.

None of this would be possible without the commitment and resiliency of employees in providing coastal ferry services as passenger and vehicle volumes return to pre-pandemic levels.

Three quarters of all British Columbians live at or near the coast and as such, our ferry system is essential to the economic health of the Province. The Authority looks forward to charting a future course where ferries are part of an integrated transportation system that supports the seamless mobility of people and goods across our Province.

Lecia Stewart
Chair of the Board of Directors
B.C. Ferry Authority



Island Class vessels offering two-ship service between Nanaimo Harbour and Gabriola Island.

Context

This report is divided in two parts to provide information on activities in the fiscal year that ended on March 31, 2023, and to meet the requirements in the *Coastal Ferry Act* (the “Act”):

1. Section 1 - Annual Report pursuant to Section 21.01(3) that describes findings made and actions that the Authority Board has taken in carrying out its oversight role.
2. Section 2 - Annual Report pursuant to Section 18(5) that includes other information such as audited financial statements, appointment of directors, any amendments to bylaws, remuneration of directors as well as information regarding meetings held during this fiscal year.

Overview

The B.C. Ferry Authority (“BCFA” or the “Authority”) is established and governed by the *Coastal Ferry Act*. The Authority is a corporation without share capital that owns the single issued voting share of BC Ferry Services Inc. (“BCFS” or the “Company”), the service provider under contract to the Province of British Columbia (the “Province”) responsible for the delivery of coastal ferry services. The Province is the holder of all of the preferred shares of BCFS and has no voting interest in either the Authority or the Company.

The Authority’s responsibilities are set out in the Act. These responsibilities are to appoint the directors of the BCFS Board, to establish compensation plans for the executives and directors of the Company, and to oversee the strategic direction of the Company in support of the public interest, including the public’s interest in safe, reliable and affordable coastal ferry services.

To carry out its responsibilities, the Authority has developed a more robust infrastructure to reflect its independence from and oversight of the Company. These efforts have included hiring staff and continuing to establish governance measures to support the Board’s statutory accountabilities.

The Authority has adopted high standards of transparency and published on its website, the reports it commissioned to examine the composition of the BCFS Board of Directors and establish new upper limits on BCFS executive compensation. The findings and recommendations contained in these reports were significant in guiding the work of the Board over the past year.

Section 1

Annual Report on the B.C. Ferry Authority — Oversight of the Strategic Direction of British Columbia Ferry Services Inc. in Support of the Public Interest

Introduction

Coastal ferry services remain an essential service, providing an economic and transportation lifeline for people and the movement of goods, supplies and services in coastal British Columbia. As pre-pandemic traffic and passenger volumes return to normal, operational issues such as staffing shortages, particularly certified mariners and engineers, have contributed to sailing delays and cancellations. Because of these significant challenges, the Authority's public interest role has even greater relevance and continues to be at the forefront of the Authority's oversight activities.

The Authority developed the following definition of the public interest:

Public interest:

Matters of public interest are all those policies, plans and actions of BCFS that materially affect BCFS users, ferry-dependent communities and other British Columbians and more specifically all those matters that affect customer service, the environment, the well-being of First Nations and other coastal communities, the economy, the workforce, and the long-term sustainability of the corporation.

In 2021 the Authority identified six guiding principles to ensure that the public interest is appropriately considered in BCFS strategic planning processes and the delivery of core services:

- Enhancing Public Accountability
- Providing Access to Information on Service Standards
- Ensuring Public Safety for Passengers and the General Public
- Improving Affordability for Passengers and Protecting Financial Outcomes
- Working with Labour as a Partner to Promote and Support Innovation
- Supporting the Economy and Community Sustainability

These principles continue to guide the work of the Authority.

Purpose

The purpose of this section of the annual report is to set out the actions taken by the directors of the Authority as per section 21.01(3) of the Act.

Timelines

This report covers the period April 1, 2022 to March 31, 2023.

¹ For more information concerning the Guiding Principles, please refer to the 2020/2021 BC Ferry Authority Annual Report.

Reporting of Action Under Section 21.01 (3)

A. Appointment of BCFS Directors

Amendments to the Act in 2010 gave the Authority the mandate to appoint directors to the BCFS Board of Directors. Historically, a joint committee comprised of Authority and BCFS Directors would identify potential candidates for appointment. In November 2020, the Authority established new guidelines whereby it would take the lead in seeking and selecting potential Directors, an approach that was consistent with the Act and its responsibility as the shareholder of the Company.

In 2021, the Authority commissioned a review that would inform the decision-making process for future appointments and ensure good governance practices were in place¹. Among the recommendations accepted by the Authority were reducing the size of the BCFS Board and enhancing diversity. The Authority undertook an extensive recruitment process and in June 2022, made substantial changes to the BCFS Board of Directors by replacing six existing directors with six new directors and modifying the terms of other directors. These governance changes have resulted in a renewed and collaborative relationship between the two governance bodies, particularly in the areas of strategic planning and establishing a vision for ferry operations.

B. Visioning and Strategic Planning

In the late spring and early summer of 2022, the BCFA Board, together with the BCFS Board, identified the need for and the architecture of a new high-level strategic planning framework to guide the longer-term direction for the coastal ferries network in the public interest. The two boards co-developed terms of reference for how they would collaborate and carry out the work including establishing a Joint Planning Committee to oversee the staff work and make policy recommendations to the full Boards.

The Joint Planning Committee conducted a policy gap analysis and advanced a new framework and workplan that will guide the planning and public policy work over the course of 2023 and early 2024. The committee will collaborate with provincial agencies and both Boards to review, update and develop strategic goals, objectives and targets for how the coastal ferry network supports regional mobility, an integrated transportation system, and a seamless user experience.

As of March 31, 2023, the work of the committee was well underway with a solid oversight structure and preliminary planning work completed. This foundation will support full engagement with the public, stakeholders and partners in 2023.

C. BCFS Executive Compensation Plan

As reported last year, the Authority approved revised upper limits on total compensation for BCFS executives in February 2022 and directed the Executive Compensation Committee to oversee

the development and implementation of an updated Executive Compensation Plan. In December 2022, the updated Plan was approved and is posted on the Authority's website as prescribed by the Act².

The Plan not only outlines new upper limits on executive base salaries but lists what factors are to be included in determining total compensation. The Plan also includes principles guiding executive compensation and the methodology employed to ensure compliance with the relevant provisions of the Act. The limits prescribed in the Plan will apply to all employees recruited into executive positions at BCFS and were most recently applied in the recruitment process for the new BCFS Chief Executive Officer ("CEO").

D. BCFS Performance Term Submission

Performance terms ("PT"s) are part of BC Ferries' governance structure and are the foundation for the company's capital and service planning process. Every four years, BCFS submits a capital plan to the BC Ferries Commissioner (the "Commissioner") that examines traffic demand projections, capacity utilization across the system, service enhancement strategies, and capital investments into vessels and terminals among other factors. Based on anticipated system requirements, the submission identifies the projected fare increase required to fund the investments identified in the plan taking into account projected revenue from sales and provincial and federal government funding. The Commissioner reviews the submission and sets the price cap (the maximum allowable increase in average fares) for the following four years.

The Authority's Strategic Planning Committee participated in several working sessions with BCFS Directors and management staff concerning the development of the PT6 submission which covers the time period April 2024 – March 2028. Following a review of the final submission, the Committee noted areas for additional information including:

- the pandemic's impacts on travel demand, capital acquisitions and finances (for BCFS, the public and the Province);
- changing demand from population growth, employment shifts, new modes of mobility and digitalization;
- a fleet renewal program that will need to accommodate changing travel needs and climate targets for many decades;
- reconciliation efforts with Indigenous Peoples;
- changes in BCFS leadership; and
- staffing and strategic HR planning.

On September 26, 2022, the Authority issued a response to the Commissioner regarding the BCFS PT6 submission. The Commissioner's preliminary price cap report will be issued on March 31, 2023, and the Authority will determine if a follow up response is required before the final price cap report is issued on September 30, 2023.

¹ A copy of the Report entitled "Review of BC Ferry Services Board (2021) is posted on the Authority's website <https://www.bcferryauthority.com/wp-content/uploads/2022/10/Review-BC-Ferry-Services-Board-2021-06-30.pdf>

² https://www.bcferryauthority.com/wp-content/uploads/2023/01/BCFA_ExecCompPlan_2022-12-31.pdf

Section 2

Annual Report of B.C. Ferry Authority Activities

Introduction

Section 18(5) of the Act requires the Authority to report on the following activities each year:

- the appointment of BCFS directors;
- the approval of compensation plans for BCFS directors and executives;
- the appointment of Authority directors;
- amendments to the Authority's bylaws;
- Authority Board meetings;
- remuneration of BCFS and BCFA directors; and
- the independent auditor's report and audited financial statements of BCFS.

Purpose

The purpose of this report is to meet the statutory reporting requirements of Section 18(5) of the Act.

Timelines

The timeline for this report is April 1, 2022 to March 31, 2023.

Reporting of Activities

A. Appointment of BCFS Directors

In accordance with the Act, the Authority makes and renews appointments to the BCFS Board of Directors that ensure as a group, candidates are qualified and hold the skills and experience necessary to oversee the operation of ferry services in an efficient and cost-effective manner.

The Authority holds the view that a diverse board makes for good corporate governance and will continue to refine its director recruitment, appointment and assessment processes to ensure that engaged and experienced individuals are chosen to oversee BCFS operations.

The directors of BCFS in fiscal year 2022/2023 (as at March 31, 2023) are listed in Table 1.

Table 1
British Columbia Ferry Services Inc. Board of Directors

| Director | Term Ending |
|-----------------------------------|-------------|
| Joy MacPhail (Chair) | 2024 |
| Eric Denhoff (Vice Chair) | 2024 |
| Dennis Blatchford | 2024 |
| Harold Calla | 2024 |
| Charlene Hiller | 2024 |
| Catherine McLay | 2024 |
| Shona Moore | 2023 |
| Sarah A. Morgan-Silvester, O.B.C. | 2024 |
| Tamim Raad | 2024 |

As noted earlier in this report, the Authority appointed six new members to the Board for two-year terms:

- Joy MacPhail
- Tamim Raad
- Harold Calla
- Charlene Hiller
- Catherine McLay
- Dennis Blatchford

Former Directors Brenda Eaton, Jan K. Grude, Judith F. Sayers, Bruce A. Chan, Gordon M. Kukec and Janine North were not reappointed.

Directors Shona Moore and Michael Pucci were reappointed for one-year terms and the terms for Directors David Podmore, Eric Denhoff and Sarah Morgan-Silvester remained unchanged.

The terms of all new and reappointed members of the BCFS Board of Directors were effective June 24, 2022.

Joy MacPhail was elected as the Chair of the BCFS Board of Directors on June 29, 2022, and Eric Denhoff was elected as Vice Chair effective August 1, 2022.

Both Michael Pucci and David Podmore subsequently left their positions and the vacancies were not filled reducing the size of the BCFS Board to 9 members as listed in Table 1.

B. Compensation Plans

As required by the Act, the Authority has approved compensation plans for BCFS directors and executives. The current plans are available for public view on the Authority's website: www.bcferryauthority.com

Directors' Compensation Plan

The compensation plan for BCFS Directors had remained unchanged since 2011. The current rates were established with the assistance of an independent third-party compensation expert and with reference to the Act, which requires that the remuneration under a directors' compensation plan be consistent with the remuneration Canadian organizations, that are of a similar size and scope to BCFS, provide to their directors and not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors.

In accordance with the directors' compensation plan approved by the Authority, BCFS provides the following remuneration to its directors:

| | |
|--|--------------------------|
| Annual Retainers | |
| Board Chair Retainer | \$100,000 |
| Board Member Retainers: | |
| Base Retainer (all directors excluding Board Chair) | \$25,000 |
| Vice Chair Retainer | \$8,000 |
| A&F Committee Chair Retainer | \$8,000 |
| Other Committee Chair Retainer | \$5,000 |
| Committee Member Retainer (excluding Committee Chair) | \$3,000 |
| Per Diem Fees | |
| Board Member Fees (all directors excluding Board Chair) | Up to \$1,200 per day |

Ferry Travel Pass

Ferry Pass for directors and eligible members of their respective immediate families, for complimentary vehicle and personal travel on BC Ferry Services' vessels

Executive Compensation Plan

An executive compensation plan applies to the executives of the Company, as that term is defined in the Act who, in fiscal year 2022/2023, were the individuals holding the positions of or acting in a similar capacity or performing similar functions to the CEO, Executive Vice President ("EVP"), or Vice President. The positions of Chief Financial Officer and Chief Operations Officer are deemed to be EVPs.

As noted in Section 1 of this Report, an updated BCFS Executive Compensation Plan was approved by the Authority Board in December 2022 and is posted on its website.

C. Appointment of BCFA Directors

The composition of the Authority's board is set out in the Act and, in fiscal year 2022/2023, the Board was comprised of four directors appointed by the Province, four directors nominated from coastal regional districts (as prescribed in the Designated Appointment Areas Regulation), and one director nominated by the BC Ferry & Marine Workers' Union, the trade union representing the BCFS employees.

The directors of the Authority in fiscal year 2022/2023 are listed in Table 2. In selecting individuals to serve as directors, two primary objectives guide the Board. The first objective is to ensure that the composition continues to meet the requirements of the Act, and the second is to ensure that, collectively, qualified individuals with the skills and experience necessary to ensure the sound performance of the Authority in meeting its statutory mandate are selected. The skills and experience profile is included as Schedule "A" to the general bylaws of the Authority which are posted on the Authority's website.

The Authority believes that a diverse board strengthens decision-making and enhances overall board governance. In addition to ensuring an optimal mix of skills and experience, the Authority also seeks to maintain and/or enhance the diversity of background among its members.

There were no changes to the composition of the Authority Board in fiscal year 2022/2023 however it was noted that the terms of Directors Wynne Powell, Marlene Kowalski and Wayne Rowe would be expiring on March 31, 2023, and recruitment efforts were undertaken to fill these upcoming vacancies.

Table 2
B.C. Ferry Authority Board of Directors
(as of March 31, 2023)

| Director | | Term Ending March 31 |
|--------------------------|---|----------------------|
| Lecia Stewart, Chair | Province of British Columbia | 2025 |
| Wynne Powell, Vice-Chair | Province of British Columbia | 2023 |
| Jessica Bowering | Province of British Columbia | 2025 |
| Gary Coons | Northern Coastal and North Vancouver Island Appointment Area | 2024 |
| Marlene Kowalski | Southern Vancouver Island Appointment Area | 2023 |
| David Levi | Province of British Columbia | 2025 |
| Andrew Ross | BC Ferry and Marine Workers Union | 2025 |
| Marc Tremblay | Central Vancouver Island and Northern Georgia Strait Appointment Area | 2024 |
| Wayne Rowe | Southern Mainland Appointment Area | 2023 |

D. BCFA General Bylaws

The general bylaws of the Authority are available for public view on the Authority's website³. No changes or updates were made to the by-laws in fiscal year 2022/2023.

E. BCFA Board Meetings

In the fiscal year 2022/2023, the Board met on 7 occasions, including the annual general meeting of the Authority held in accordance with the Act on August 17, 2022. A summary of the outcomes of the meetings of the Board is provided in Table 3.

Table 3
Summary of Meeting Outcomes
Year ended March 31, 2023

| Date | Type | Outcome |
|-----------------|--------------------|---|
| June 15, 2022 | Board of Directors | <ul style="list-style-type: none"> Resolution approved to facilitate changes to the BCFS Board of Directors. |
| June 24, 2022 | Board of Directors | <ul style="list-style-type: none"> Fiscal 2021/2022 audited BCFS financial statements approved. Corporate Secretary authorized to execute the shareholder's unanimous consent resolutions pertaining to matters respecting the business required to be transacted at the 2022 annual general meeting of the BCFA. The BCFS CEO provided an overview of staffing and communications issues. Update approved to the BCFA Conflict of Interest Policy. |
| August 17, 2022 | Board of Directors | <ul style="list-style-type: none"> Annual disclosure forms were completed by Directors and submitted to the Corporate Secretary. The Chair accepted the resignation of David Podmore from the BCFS Board of Directors. Reports from the Strategic Planning Committee and the Executive Compensation Committee were received for information. |

³ <https://www.bcferryauthority.com/wp-content/uploads/2021/04/BCFA-General-By-Laws-January-2020.pdf>

| | | |
|--------------------------|-------------------------------|---|
| August 18, 2022 | Annual General Meeting | <i>Annual General Meeting open to the public held in Victoria, British Columbia.</i> |
| October 18, 2022 | Board of Directors | <ul style="list-style-type: none"> • A report from the Interim BCFS CEO was received for information. • Reports from the Strategic Planning Committee and the Executive Compensation Committee were received for information. • The BC Ferries Commissioner's report concerning the public engagement process was discussed. |
| December 13, 2022 | Board of Directors | <ul style="list-style-type: none"> • A report from the BCFS Interim CEO was received for information. • The BCFS Executive Compensation Plan was approved. • The fiscal year 2023/24 operating budget for the Authority was approved. • Terms of Reference for a Joint Strategic Planning Committee were approved, and Directors Andy Ross and David Levi were selected by the Chair to serve on the Committee. • The next BCFA AGM will take place on Thursday August 24, 2023 in Victoria. |
| February 17, 2023 | Board of Directors | <ul style="list-style-type: none"> • The Board met in Nanaimo and hosted a reception for local stakeholders on February 16, 2023. • A report from the BCFS Interim CEO was received for information. • Reports concerning strategic planning, BCFS staff recruitment and training and the BCFA Board and Self-Assessment survey were received for information. |
| March 28, 2023 | Board of Directors | <ul style="list-style-type: none"> • Lecia Stewart was reappointed as Chair of the BCFA Board of Directors for a one-year term. • The KPMG BCFA Audit Engagement letter, Audit Plan and the BCFS Audit Planning report were received and approved. • Marlene Kowalski was reappointed to the Board for a term commencing April 1, 2023 and ending March 31, 2026. • The Board was introduced to the new BCFS CEO, Nicolas Jimenez. |

Meeting attendance for Board members is an important issue and one that the Authority monitors on a regular basis. In fiscal year 2022/2023, meeting attendance by Board members was 96 percent.

F. Remuneration of BCFA Directors

An outline of the current remuneration framework for directors of the Authority is provided in Table 4. The framework, which was set by the board effective October 1, 2010, is regularly reviewed and has remained unchanged since that date. The amount each director received for remuneration and expenses in the fiscal year 2022/2023 is set out in Table 5.

Table 4

B.C. Ferry Authority Director Remuneration Framework as at March 31, 2023

| | |
|--|-----------------------|
| Annual Retainers | |
| Board Chair Retainer | \$25,000 |
| Board Member Retainers: | |
| Base Retainer (all directors excluding board Chair) | \$6,250 |
| Committee Chair Retainer ¹ | \$2,000 |
| Committee Member Retainer ¹ | \$750 |
| Per Diem Fees² | |
| Board Member Fees (all directors excluding Board Chair) | Up to \$1,200 per day |
| Ferry Travel Pass | |
| Ferry Pass for directors and eligible members of their respective immediate families, for complimentary vehicle and personal travel on BC Ferry Services' vessels. | |

Notes:

1. There currently are no standing committees of the board.
2. Directors are also eligible for reimbursement of reasonable expenses incurred on board-related business.

Table 5

B.C. Ferry Authority Director Remuneration and Expenses April 1, 2022 - March 31, 2023

| Director | Remuneration ¹ (\$) | Expenses Reimbursed (\$) |
|----------------------|--------------------------------|--------------------------|
| Lecia Stewart, Chair | \$25,000 | \$1840 |
| G. Wynne Powell | \$17,650 | Nil |
| Jessica Bowering | \$17,116 | \$610 |
| Marlene Kowalski | \$14,816 | \$146 |
| David Levi | \$19,636 | \$198 |
| Andrew Ross | \$16,621 | \$1,012 |
| J. Wayne Rowe | \$15,177 | Nil |
| Marc Tremblay | \$18,190 | \$854 |
| Gary Coons | \$14,050 | \$2,570 |

Notes:

1. Remuneration includes retainers, per diem fees and taxable income from the ferry travel pass program.

G. Remuneration of BCFA Board Directors

The amount each BCFS director received for remuneration and expenses in the fiscal year 2022/2023 is set out in Table 6.

Table 6

B.C. Ferry Services Board Director Remuneration and Expenses June 24, 2022 - March 31, 2023

| Director | Remuneration ¹ (\$) | Expenses Reimbursed (\$) |
|-------------------------------|--------------------------------|--------------------------|
| Joy MacPhail | \$75,903 | \$2,786 |
| Eric Denhoff | \$58,597 | \$1,719 |
| Shona Moore | \$56,503 | \$109 |
| Sarah Morgan-Silvester | \$61,480 | \$1,089 |
| Harold Calla | \$37,636 | \$776 |
| Cathy McLay | \$38,236 | \$579 |
| Dennis Blatchford | \$36,569 | \$1,331 |
| Tamim Raad | \$38,651 | \$4,099 |
| Charlene Hiller | \$40,036 | \$2,605 |
| David Podmore ² | \$21,210 | \$391 |
| Michael W. Pucci ³ | \$33,298 | \$5,068 |

Table 6

B.C. Ferry Services Board Director Remuneration and Expenses April 1, 2022 - June 24 31, 2022

| Director | Remuneration ¹ (\$) | Expenses Reimbursed (\$) |
|------------------|--------------------------------|--------------------------|
| Brenda J. Eaton | \$25,000 | \$789 |
| Jan K. Grude | \$13,950 | \$67 |
| Judith F. Sayers | \$13,050 | Nil |
| Bruce A. Chan | \$10,150 | Nil |
| Gordon M. Kukec | \$9,550 | Nil |
| Janine M. North | \$16,795 | \$3,896 |

Notes:

1. Remuneration includes retainers, per diem/meeting fees and taxable income from the ferry travel pass program.
2. David Podmore resigned from the Board on August 8, 2022.
3. Michael Pucci became ineligible to serve as a BCFS director on September 22, 2022 following his election as a Prince Rupert School Board Trustee.

Auditors' Report

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

Opinion

We have audited the financial statements of B.C. Ferry Authority ("the Entity"), which comprise:

- the statement of financial position as at March 31, 2023
- the statement of comprehensive loss or income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in the B.C. Ferry Authority Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in B.C. Ferry Authority Annual Report as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right. A horizontal line is drawn underneath the text.

Chartered Professional Accountants

Victoria, Canada

June 27, 2023

Financial Statements

Statement of Financial Position

(Expressed in thousands of Canadian dollars)

| | As at | |
|--|----------------|----------------|
| | March 31, 2023 | March 31, 2022 |
| Assets | | |
| Investment in British Columbia Ferry Services Inc. | 684,379 | 696,837 |
| Total assets | 684,379 | 696,837 |
| Equity | | |
| Invested in common share of British Columbia Ferry Services Inc. | 1 | 1 |
| Contributed surplus of British Columbia Ferry Services Inc. | 25,000 | 25,000 |
| Accumulated undistributed earnings of British Columbia Ferry Services Inc. | 659,378 | 671,836 |
| Total equity | 684,379 | 696,837 |

Statement of Comprehensive Loss or Income

(Expressed in thousands of Canadian dollars)

| | Note | Years ended March 31 | |
|--|------|----------------------|---------------|
| | | 2023 | 2022 |
| (Loss) earnings | | | |
| Share in (loss) earnings of British Columbia Ferry Services Inc. | 3 | (12,458) | 89,989 |
| Total (loss) earnings | | (12,458) | 89,989 |
| Expenses | | | |
| Administration | 4 | 581 | 491 |
| Recovery from British Columbia Ferry Services Inc. | | (581) | (491) |
| Total expenses | | - | - |
| Total comprehensive (loss) income | | (12,458) | 89,989 |

The accompanying notes are an integral part of these Financial Statements.

Statement of Cash Flows

(Expressed in thousands of Canadian dollars)

| | Note | Years ended March 31 | |
|--|------|----------------------|----------|
| | | 2023 | 2022 |
| Cash flows from operating activities | | | |
| Net (loss) earnings | | (12,458) | 89,989 |
| Items not affecting cash: | | | |
| Share in loss (earnings) of British Columbia Ferry Services Inc. | 3 | 12,458 | (89,989) |
| Net change in cash | | - | - |

Statement of Changes in Equity

(Expressed in thousands of Canadian dollars)

| | Invested in BCFS | Contributed surplus of BCFS | Accumulated undistributed earnings (loss) of BCFS | Total equity |
|-------------------------------------|---------------------|--------------------------------|--|----------------|
| Balance as at April 1, 2021 | 1 | 25,000 | 581,847 | 606,848 |
| Total comprehensive income | - | - | 89,989 | 89,989 |
| Balance as at March 31, 2022 | 1 | 25,000 | 671,836 | 696,837 |
| Total comprehensive loss | - | - | (12,458) | (12,458) |
| Balance as at March 31, 2023 | 1 | 25,000 | 659,378 | 684,379 |

The accompanying notes are an integral part of these Financial Statements.

Notes to the Financial Statements

Year ended March 31, 2023

(Tabular amounts expressed in thousands of Canadian dollars)

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 Act specifies that the Authority is governed by a board of nine directors. The directors of the Authority appoint replacements for outgoing directors for five of the positions as follows:

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

The Lieutenant Governor in Council of British Columbia appoints the other four directors from qualified Authority candidates.

The Authority’s primary purposes are set out in the Act and includes holding the single-issued common voting share of BCFS, 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), to appoint the directors of BCFS, to establish a compensation plan for the directors of BCFS, to approve an executive compensation plan for the executives of

BCFS and to oversee the strategic direction of BCFS in support of the public interest. BCFS’ 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 BCFS common share. The Act provides that upon a sale of the common share of BCFS held by the Authority, the Authority shall repay the Province its initial contribution and be dissolved. The Act also provides that upon dissolution of the Authority, all remaining assets of the Authority, if any, vest with the Province. As part of their annual report to the Lieutenant Governor in Council, the British Columbia Ferries Commissioner is required by the Act to issue an opinion on the performance of the Authority in carrying out its legislated responsibilities.

Historically, BCFS’ business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months.

BCFS faced significant declines in revenue, earnings and cash from operations as a result of the COVID-19 pandemic and the government imposed travel restrictions. As travel restrictions were lifted late in the first quarter of the year ended March 31, 2022, BCFS experienced a significant return of traffic which continued during the year ended March 31, 2023.

1. Accounting Policies

A. Basis of Preparation:

The Authority is a corporation domiciled in Canada. The address of the Authority’s registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada.

These financial statements represent the annual statements of the Authority as at and for the year ended March 31, 2023, prepared in accordance with International Financial Reporting Standards (“IFRS”), and its interpretations, as issued by the International Accounting Standards Board (“IASB”). In accordance with IFRS, the Authority has provided comparative financial information and applied the same accounting policies throughout all periods presented unless otherwise indicated.

These financial statements are prepared in accordance with IAS 27, *Separate Financial Statements* and therefore do not consolidate the results of the Authority’s wholly-owned subsidiary, BCFS. The Authority has elected to account for its investment in BCFS using

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, dividends and any other post-acquisition changes in the equity of BCFS.

These financial statements have been prepared using the historical cost method except that changes in the investment in BCFS may include fair value movements in owned land, head office land under lease and certain financial assets and liabilities, including derivatives.

These financial statements are presented in Canadian dollars (“CAD”) which is the Authority’s functional currency. All tabular financial data is presented in CAD and rounded to the nearest thousand, unless otherwise stated.

These financial statements were approved by the Board of Directors on June 27, 2023.

B. Estimates and Judgements:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting methods and the amounts recognized in the financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. They therefore serve as the basis for making

judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

C. Taxes:

The Authority is a “Tax Exempt Corporation” as described in the *Income Tax Act* (Canada) and as such is exempt from federal and provincial income taxes.

2. Adoption of New and Amended Standards

Future changes in accounting policies, which may impact BCFS:

Exposure Draft, Regulatory Assets and Regulatory Liabilities:

In January 2021, the IASB issued the exposure draft, *Regulatory Assets and Regulatory Liabilities*, which, if finalized as a new IFRS Standard, will replace IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities, such as the Authority, that had already transitioned to IFRS. As a result, the Authority’s share of earnings from BCFS includes income or loss from fuel surcharges or rebates, and increases or decreases in fuel prices from those approved price caps of BCFS.

The exposure draft proposes a new accounting model under which an entity, subject to rate regulation that meets the scope criteria, would

recognize regulatory assets and regulatory liabilities. This accounting model would align the total income recognized in a period under IFRS Standards with the total allowed compensation the entity is permitted to earn by the rate regulator. The key proposal in the exposure draft is that an entity that is subject to rate regulation would report in its financial statements the total allowed compensation it is permitted to earn by the rate regulator for goods and services supplied in the period.

The IASB expects that the application of the proposals would improve the information provided to users about the financial performance and financial position of entities subject to rate regulation.

The IASB closed the period to receive comments on the exposure draft at July 30, 2021, discussed the feedback in October and November 2021, and continues to deliberate on the proposals.

3. Share in (Loss) Earnings of BCFS

The distributable earnings of BCFS consist of the current period total comprehensive income, less amounts reclassified from equity and any dividends paid in the current period and less a reserve for undeclared preferred share dividends, if any.

| | Years ended March 31 | |
|---|----------------------|----------------|
| | 2023 | 2022 |
| Net earnings of BCFS | (1,842) | 34,135 |
| Other comprehensive income of BCFS: | | |
| Items that are or may be reclassified subsequently to net (loss) earnings: | | |
| Hedge gains on fuel swaps | 18,155 | 63,024 |
| Items not be reclassified to net (loss) earnings: | | |
| Net gains on revaluation of land | 20,780 | 10,069 |
| Actuarial gains on post-employment benefit obligations | 1,091 | - |
| Total other comprehensive income of BCFS | 40,026 | 73,093 |
| Total comprehensive income of BCFS | 38,184 | 107,228 |
| Items reclassified from equity and dividends of BCFS: | | |
| Net realized hedge gains recognized on fuel swaps | (44,852) | (11,449) |
| Hedge losses on interest rate forward contracts reclassified to net (loss) earnings | 248 | 248 |
| Dividends paid on 8% cumulative preferred shares | (6,038) | (6,038) |
| Share in (loss) earnings of BCFS | (12,458) | 89,989 |

4. Recovery from BCFS

In accordance with the Act, BCFS is responsible for paying any expenses that are incurred by the Authority.

5. Subsidiary Supplemental Information

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

| | Note | As at | |
|---|---------|------------------|------------------|
| | | March 31, 2023 | March 31, 2022 |
| Assets: | | | |
| Current | | | |
| Cash and cash equivalents | | 87,122 | 204,446 |
| Other current assets | | 479,359 | 298,430 |
| Current assets | | | |
| | | 566,481 | 502,876 |
| Non-current assets | | | |
| | | 1,925,345 | 1,973,999 |
| Total assets | | 2,491,826 | 2,476,875 |
| Liabilities: | | | |
| Current liabilities | | | |
| Current liabilities | | 261,639 | 228,495 |
| Long-term debt and other non-current liabilities | | | |
| | | 1,470,331 | 1,476,066 |
| Total liabilities | | 1,731,970 | 1,704,561 |
| Equity: | | | |
| Share capital | 5(a) | 75,478 | 75,478 |
| Contributed surplus | | 25,000 | 25,000 |
| Retained earnings | | 582,896 | 590,776 |
| Equity before reserves | | | |
| | | 683,374 | 691,254 |
| Reserves | 5(b)(i) | 76,482 | 81,060 |
| Total equity including reserves | | 759,856 | 772,314 |
| Total equity | | 2,491,826 | 2,476,875 |

5. Subsidiary Supplemental Information (continued):

| | Note | Years ended March 31 | |
|---------------------------------------|----------|----------------------|----------------|
| | | 2023 | 2022 |
| Total revenue | | 1,042,840 | 965,353 |
| Expenses | | | |
| Other operating expenses | | 810,158 | 694,654 |
| Depreciation and amortization | | 181,375 | 173,300 |
| Total operating expenses | | 991,533 | 867,954 |
| Operating profit | | 51,307 | 97,399 |
| Net finance and other expenses | | | |
| Finance expenses | | 67,836 | 60,948 |
| Finance income | | (16,498) | (4,957) |
| Other expenses | | 1,811 | 7,273 |
| Net finance and other expenses | | 53,149 | 63,264 |
| NET (LOSS) EARNINGS | | (1,842) | 34,135 |
| Total other comprehensive income | 5(b)(ii) | 40,026 | 73,093 |
| Total comprehensive income | | 38,184 | 107,228 |

A. The Share Capital of BCFs Consists of:

(i) – Authorized:

- 1,000,000 Class A voting common shares, without par value
- 1 Class B voting common share, without par value
- 80,000 Class C non-voting, 8% cumulative preferred shares, with a par value of \$1,000 per share, convertible to Class A shares upon the sale of the outstanding Class B share by the initial shareholder. Special rights attached to the Class C shares restrict the Group's ability to issue shares and to declare dividends.

(ii) – Issued and outstanding:

| | As at March 31 | | | |
|--------------------|------------------|---------------|------------------|---------------|
| | 2023 | | 2022 | |
| | Number of shares | Amount \$ | Number of shares | Amount \$ |
| Class B, common | 1 | 1 | 1 | 1 |
| Class C, preferred | 75,477 | 75,477 | 75,477 | 75,477 |
| | | 75,478 | | 75,478 |

The outstanding Class B common share is held by the Authority, and the Class C preferred shares are held by the Province.

(iii) – Dividends:

Dividends on the Class C cumulative preferred shares, if declared, are payable annually on March 31 of each year. All dividend entitlements to date have been paid.

B. Other Comprehensive Income:

(i) — Continuity of reserves:

| | Land revaluation reserves | Employee future benefit revaluation reserves | Fuel swap reserves | Interest rate forward contract reserves | Total |
|---|---------------------------|--|--------------------|---|-----------------|
| Balance as at April 1, 2021 | 38,507 | (7,902) | (5,719) | (5,718) | (19,168) |
| Land revaluation | 10,069 | - | - | - | 10,069 |
| Derivatives designated as cash flow hedges: | | | | | |
| Net change in fair value | - | - | 63,024 | - | 63,024 |
| Realized gains | - | - | (11,449) | - | (11,449) |
| Amortization of hedge loss | - | - | - | 248 | 248 |
| Balance as at March 31, 2022 | 48,576 | (7,902) | 45,856 | (5,470) | 81,060 |
| Land revaluation | 20,780 | - | - | - | 20,780 |
| Actuarial losses on post-employment benefit obligations | | 1,091 | | | 1,091 |
| Derivatives designated as cash flow hedges: | | | | | |
| Net change in fair value | - | - | 18,155 | - | 18,155 |
| Realized gains | - | - | (44,852) | - | (44,852) |
| Amortization of losses | - | - | - | 248 | 248 |
| Balance as at March 31, 2023 | 69,356 | (6,811) | 19,159 | (5,222) | 76,482 |

(ii) — Other comprehensive income:

| | Years ended March 31 | |
|--|----------------------|---------------|
| | 2023 | 2022 |
| Items that are or may be reclassified subsequently to net (loss) earnings: | | |
| Hedge gains on fuel swaps | 18,155 | 63,024 |
| Items not to be reclassified to net (loss) earnings: | | |
| Gains on revaluation of land | 20,078 | 10,069 |
| Actuarial gains on post-employment benefit obligations | 1,091 | - |
| Total other comprehensive income | 40,026 | 73,093 |

6. Related Party Transactions

The compensation of the Authority's directors and executive officers during the year is as follows:

| | Years ended March 31 | |
|--------------------------|----------------------|--------------|
| | 2023 | 2022 |
| Short-term benefits | 1,908 | 2,234 |
| Post-employment benefits | 97 | 127 |
| Termination benefits | 1,200 | - |
| Total | 1,742 | 2,361 |

7. Safe Restart Funding

In December 2020, BCFS received a contribution of \$308.0 million from the Province as part of the Provincial and Federal Governments' Safe Restart Funding Program.

The revenue recognition of the contribution is consistent with the BCFS' submission to the Province from August 2020, which is based on the estimated loss of earnings in relation to the main three components of the contribution for fiscal years 2021 to 2024, and reflects the normal seasonal pattern of earnings.

BCFS recognized \$9.3 million of the contribution in the statement of profit or loss and other comprehensive income for the year ended March 31, 2023 (March 31, 2022: \$102.3 million).

If BCFS did not recognize \$9.3 million of the Safe Restart Funding, the Authority's share in the net loss of BCFS for the year ended March 31, 2023 would have been \$21.8 million (March 31, 2022: a share in the net loss of \$12.3 million):

| Effect of Safe Restart Funding on the Authority's Share in the (loss) earnings of BCFS | Years ended March 31 | | |
|--|----------------------|-----------------|---------------------|
| | 2023 | 2022 | Increase (Decrease) |
| The Authority's Share in the (loss) earnings of BCFS | (12,458) | 89,989 | (102,447) |
| Safe Restart Funding | (9,333) | (102,333) | 93,000 |
| The Authority's Share in the loss of BCFS excluding Safe Restart Funding | (21,791) | (12,344) | (9,447) |

B.C. Ferry Authority

Board of Directors

(as of March 31, 2023)

Lecia Stewart, Chair

G. Wynne Powell, Vice Chair

Jessica Bowering

Gary Coons

Marlene Kowalski

David Levi

Andrew Ross

J. Wayne Rowe

Marc Tremblay

Officers

(as of March 31, 2023)

William Beale

Executive Director

Sheryl Kozyniak

Corporate Secretary

