B.C. Ferry Authority

B.C. Ferry Authority
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June 24, 2019

Mr. Sheldon Stoilen
British Columbia Ferries Commissioner
BC Ferry Commission
RPO Hillside
P.O. Box 35119
Victoria, BC V8T 5G2

Dear Mr. Stoilen:

I am pleased to submit a report summarizing the actions taken by B.C. Ferry Authority to meet its obligations under the *Coastal Ferry Act* in the fiscal year ended March 31, 2019.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

B.C. FERRY AUTHORITY

Cynthia M. Lukaitis
Vice President & Corporate Secretary

Attach

B.C. FERRY AUTHORITY
COASTAL FERRY ACT COMPLIANCE
YEAR ENDED MARCH 31, 2019

The obligations of B.C. Ferry Authority under the *Coastal Ferry Act* are set out in Part 2, Divisions 1 and 2.1 of the statute. These obligations fall within the following six categories:

A. Director Roles and Responsibilities
B. Director Qualifications and Appointments
C. Director Remuneration
D. Shareholder Responsibilities
E. General Bylaws
F. General Meeting, Records & Administration

This report summarizes the actions taken by B.C. Ferry Authority to meet its obligations under the *Coastal Ferry Act* in respect of these matters in the year ended March 31, 2019.

This report is respectfully submitted to the British Columbia Ferries Commissioner.

B.C. Ferry Authority
June 24, 2019

A.	DIRECTOR ROLES AND RESPONSIBILITIES	
A-1	**Management of the Affairs of B.C. Ferry Authority ("BCFA" or the "Authority")** **Directors must manage the affairs of the Authority or supervise the management of those affairs.**	***Coastal Ferry Act* section 13(3)**

The directors are stewards of BCFA. The board of directors (the "board") exercises its stewardship responsibilities by overseeing the conduct of the business and endeavouring to ensure that all major issues affecting the business and affairs of the Authority are given proper consideration.

Board Affairs

The actions taken by the board to manage its business and affairs include:

- reviewing the skills and experience represented on the board for the purpose of seeking nominations and making appointments to the board in accordance with the *Coastal Ferry Act*;
- appointing the board chair;
- ensuring that new directors receive a comprehensive orientation;
- ensuring the corporate governance principles and guidelines that are applicable to BCFA continue to meet the needs of the Authority and are appropriately documented in the board governance manual;
- monitoring compliance with the Authority's code of business conduct and ethics;
- ensuring that communications with stakeholders, the public and government remain effective and appropriate; and,
- reporting on the stewardship of the board for the preceding year through the holding of an annual general meeting open to the public and publishing an annual report prepared in accordance with the *Coastal Ferry Act*.

Audit and Financial Reporting

The board exercises its oversight responsibilities for the audit and financial reporting of BCFA by, among other things:

- ensuring that the financial results of BCFA are reported fairly and in accordance with Canadian generally accepted accounting principles (International Financial Reporting Standards);
- reviewing and approving the annual audited financial statements of BCFA;
- ensuring that the scope of the work undertaken by the external auditor, in association with its audit of the annual financial statements, and the report(s) of the external auditor arising from such work, are appropriate to assure the board of the integrity of the financial statements of BCFA;
- reviewing reports of the external auditor, as required;
- appointing the external auditor, considering independence and effectiveness, and determining the fees and other compensation to be paid to the external auditor;
- considering, in association with its oversight of BCFA's financial statements, the disclosure of any related party transactions or unusual matter of significance;
- monitoring the status of any litigation, claims or contingency that could have a material effect on BCFA; and
- reviewing and approving the annual operating budget of BCFA.

Shareholder Responsibilities

BCFA appoints the board of its subsidiary, British Columbia Ferry Services Inc. ("BC Ferries" or the "Company"), and has responsibility for approving and establishing compensation plans for the Company's directors and certain of its executive officers. The actions undertaken by the BCFA board during the fiscal year ended March 31, 2019 ("fiscal 2019") in respect of these matters are discussed in subsequent sections of this document.

BCFA and BC Ferries entered into a protocol agreement effective October 1, 2010, which clarifies and confirms their respective roles and responsibilities in relation to the authority of BCFA as shareholder of BC Ferries and the matters respecting the appointment and remuneration of the Company's directors and the remuneration of certain of its executive officers.

During fiscal 2019, the Authority appointed the external auditor of BC Ferries and received the audited financial statements of the Company approved by the board of BC Ferries for the preceding fiscal year.

B.	DIRECTOR QUALIFICATIONS AND APPOINTMENTS	
B-1	**Appointments of BCFA Directors** **The board of BCFA is to consist of nine members. BCFA is to appoint: four nominees from the 14 coastal regional districts (grouped into four appointment areas established by the Lieutenant Governor in Council); one nominee from the B.C. Ferry & Marine Workers' Union; and two members from the community-at-large. The Province is to appoint two members.[1] The term of office of a director is three years beginning April 1. Directors may serve a maximum of two consecutive terms.**	***Coastal Ferry Act* sections 5,7** **(As at March 31, 2019)**

The directors of BCFA in fiscal 2019 and their terms of appointment are listed below.

At the conclusion of fiscal 2019, Paul L. Williams, appointed by the Province, retired from the board and the Province appointed Lecia Stewart as a director effective April 1, 2019. Also effective that date, the board reappointed Fiona L. Macdonald, a qualified candidate from the community-at-large, and Shirley J. Mathieson, a qualified candidate nominated by the BC Ferries & Marine Workers' Union, each for a subsequent three-year term ending March 31, 2022.[1]

BCFA Board of Directors
Year Ended March 31, 2019

Director		Term Ending March 31
Yuri L. Fulmer, O.B.C.,Chair	Community-at-Large	2021
Shelley L. Chrest	Central Vancouver Island & Northern Georgia Strait Appointment Area	2021
Fiona L. Macdonald[1]	Community-at-Large	2019
Shirley J. Mathieson[2]	Organized Labour	2019
Susan G. Mehinagic	Southern Vancouver Island Appointment Area	2020
G. Wynne Powell	Province of British Columbia	2020
Michael W. Pucci	Northern Coastal & North Island Appointment Area	2021
Sandra A. Stoddart-Hansen	Southern Mainland Appointment Area	2020
Paul L. Williams[3]	Province of British Columbia	2019

Notes:
1. Fiona L. Macdonald was reappointed to the board from the community-at-large effective April 1, 2019 for a subsequent term ending 2022. However, amendments to the *Coastal Ferry Act* were brought into effect on May 22, 2019 that eliminated the community-at-large positions from the board, and effective that date, Ms. Macdonald retired from the board.
2. Shirley J. Mathieson, a nominee of the BC Ferry & Marine Workers' Union was reappointed to the board effective April 1, 2019 for a subsequent term ending 2022.
3. Paul L. Williams retired from the board on March 31, 2019, and Lecia Stewart was appointed to the board by the Province effective April 1, 2019 for a term ending 2022.

[1] The *Coastal Ferry Amendment Act - 2019* has altered the composition of the board, by eliminating the two positions appointed from the community-at-large and increasing the number of positions appointed by the Province from two to four. These changes were effective May 22, 2019 and, as at that date, Yuri L. Fulmer and Fiona L. Macdonald, members appointed from the community-at-large, retired from the board, and Shona Moore and Marvin Shaffer were appointed by the Province to the board.

B-2	**<u>Qualifications and Factors to be Considered in Appointing Directors</u>** **A director of BCFA must be a "qualified Authority candidate" as that term is defined in the *Coastal Ferry Act,* and must also be qualified to act as a director under the *Business Corporations Act (British Columbia).*** **When appointing directors, the board must select appointees in such a way as to ensure that as a group, the directors are qualified Authority candidates who hold all of the skills and all of the experience identified in the current vacancy skills and experience profile set out in the general bylaws of the Authority.**	***Coastal Ferry Act* sections 9(2), 12**

At the time of appointment, each director is required to sign a form consenting to act as director, in which the qualifications for being a director as specified in the *Coastal Ferry Act* and the *British Columbia Business Corporations Act* are confirmed by the individual as being satisfied.

In selecting individuals to serve as directors of the Authority, two primary objectives guide the board in its deliberations. The first objective is to ensure that the composition of the board continues to meet the requirements of the *Coastal Ferry Act*, and the second is to ensure that collectively, the board includes qualified 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 skills and experience profile for the BCFA board guided the board in its appointment process during fiscal 2019. The profile is reviewed by the board on an annual basis to ensure it encompasses the appropriate set of skills and experience. A copy of the profile is attached as Schedule "A" to the general bylaws of the Authority.

The Authority believes that a diverse board serves to strengthen decision-making and enhances overall board governance. Within the overarching objective of ensuring that the board is composed of members that collectively possess the appropriate skills and experience to enable the Authority to perform its stewardship role effectively, the board, in selecting candidates for appointment, also seeks to maintain and/or enhance the diversity of background among its members.

B-3	**<u>Conflicts</u>** **A director must disclose and/or eliminate conflicts of interest as described in the *Coastal Ferry Act*.**	***Coastal Ferry Act* section 8**

BCFA adopted a code of business conduct and ethics ("code") in the fiscal year ended March 31, 2005 and made amendments to it in fiscal 2019. Upon appointment, and annually thereafter, each director reviews the code and acknowledges his/her support, understanding and compliance with it, including the provisions of the *Coastal Ferry Act* in respect of conflicts of interest, by signing an annual disclosure statement. Supplemental forms are available for completion should a director's circumstances change after the annual statement is completed.

The board has adopted a definition of an independent director consistent with the definition of independence in National Instrument 52-110. Each director is also required annually to confirm his/her independence within that definition and report on all directorships held.

In addition, directors are required annually to report on related party transactions, and any such transactions are reported in the notes to the annual financial statements of the Authority.

C.	DIRECTOR REMUNERATION	
C-1	**Director Remuneration & Expenses** **Remuneration for directors must be set in an amount and manner consistent with provincial public sector organizations.**	***Coastal Ferry Act* section 14**

An outline of the current remuneration framework for directors of the Authority is provided below. The framework, which was set by the board effective October 1, 2010, is regularly reviewed and has remained unchanged since that date.

BCFA Board Remuneration Framework

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 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 Ferries' vessels	

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

The amount each BCFA director received for remuneration and expenses in fiscal 2019 is set out below.

BCFA Director Remuneration & Expenses
Year Ended March 31, 2019
($)

Director	Remuneration[1]	Expenses Reimbursed
Yuri L. Fulmer, O.B.C.	29,824	Nil
Shelley L. Chrest	14,992	1,096
Fiona L. Macdonald	11,406	Nil
Shirley J. Mathieson	11,788	Nil
Susan G. Mehinagic	13,063	Nil
G. Wynne Powell	13,657	Nil
Michael W. Pucci	15,607	573
Sandra A. Stoddart-Hansen	16,154	1,826
Paul L. Williams	11,650	Nil

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

D.	SHAREHOLDER RESPONSIBILITIES	
D-1	**Appointment of Directors of BC Ferries** **When electing directors of BC Ferries, BCFA must select individuals in such a way as to ensure that as a group, the directors are qualified candidates who hold all of the skills and all of the experience needed to oversee the operation of BC Ferries in an efficient and cost-effective manner.**	***Coastal Ferry Act*** **section 21.1**

The Authority has established a profile setting out the key skills and experience that directors of BC Ferries individually and collectively should possess in order to ensure that the operation of the Company is overseen in an efficient and cost-effective manner. This profile guides the Authority in its determinations respecting the size and composition of the Company's board. It is reviewed regularly by the Authority to ensure the continued alignment of the skills and experience represented on the BC Ferries board with the key operational and strategic objectives of the Company for which the directors collectively have oversight responsibility.

The Authority holds the view that a diverse board makes prudent business sense and makes for good corporate governance. Within the over-riding objective of ensuring that the board of BC Ferries possesses the appropriate skills and experience, the Authority also seeks to maintain a composition of talented and dedicated directors with a diverse mix of backgrounds that is reflective of the nature of the business environment in which the Company operates, and the people and the communities it serves. Residency in a ferry-dependent community and regular ferry usage are seen as valuable attributes for directors and in fiscal 2019, the skills and experience profile was amended by BCFA to recognize this.

In fiscal 2019, the Authority increased the size of the BC Ferries board from nine to eleven and elected three new directors, Judith F. Sayers, Brenda J. Eaton and David R. Podmore for terms ending 2021, 2022 and 2023, respectively. The Authority also re-elected incumbent director Gordon M. Kukec for a subsequent term ending 2022.

The directors of BC Ferries in fiscal 2019 are listed below.

BC Ferries Board of Directors
Year Ended March 31, 2019

Director	Term Ending
Donald P. Hayes, Chair	2019
Bruce A. Chan	2019
Brenda J. Eaton[1]	2022
Jan K. Grude	2021
John A. Horning	2020
Brian G. Kenning	2019
Gordon M. Kukec	2022
Sarah A. Morgan-Silvester, O.B.C.	2020
P. Geoffrey Plant, Q.C.	2019
David R. Podmore[2]	2023
Judith F. Sayers[3]	2021

Notes:
1. Brenda J. Eaton was elected to the board effective January 1, 2019.
2. David R. Podmore was elected to the board effective February 1, 2019.
3. Judith F. Sayers was elected to the board effective June 28, 2018.

In fiscal 2019, the Authority also determined to reduce the size of the BC Ferries board to nine upon the planned retirements of Donald P. Hayes and Brian G. Kenning in June 2019, and to re-elect incumbent directors Bruce A. Chan and P. Geoffrey Plant each for a subsequent term ending 2023 and 2020, respectively.

Effective May 22, 2019, the *Coastal Ferry Act* was amended to limit the maximum period of time that a director can serve on the BC Ferries board to eight consecutive years, and having each served in excess of that time, Donald P. Hayes, P. Geoffrey Plant and Brian G. Kenning resigned from the board. In response to the legislative amendment, the Authority also reduced the term of Bruce A. Chan's re-election by one year to 2022 such that his consecutive years of service will not exceed the maximum allowable. This change was effective June 24, 2019. Also effective that date, the Authority further reduced the size of the board to eight.

D-2	**<u>Remuneration of BC Ferries' Directors</u>** **Once a compensation plan for directors of BC Ferries has been established or amended, BCFA must, in accordance with that plan, determine the remuneration for directors of BC Ferries and the terms on which it is to be paid. As well, BCFA must publish the plan on its website and amend the Articles of BC Ferries to adopt the plan, require that remuneration be set and provided in accordance with the plan, set out the remuneration that may be paid under the plan, and require that BC Ferries publish in each fiscal year, details on the remuneration provided to the directors in the previous fiscal year.**	***Coastal Ferry Act*** **section 21.2**

A compensation plan for the directors of BC Ferries was established by BCFA in the year ended March 31, 2011. The remuneration limits set out in the plan were established with the assistance of an independent third-party compensation expert and with reference to the *Coastal Ferry Act*, which requires that the remuneration under a directors' compensation plan be consistent with the remuneration that organizations in Canada that are of a similar size and scope to BC Ferries provide to their directors, and not be greater than the remuneration that provincial public sector organizations in British Columbia provide to their directors. The remuneration for the directors of the Company was set by BCFA in accordance with the plan effective October 1, 2010. The Articles of BC Ferries were subsequently altered by the Authority to reflect the establishment of the plan.

The compensation plan and the remuneration framework for the Company's directors have remained unchanged since October 1, 2010. The directors' compensation plan is available for public view on the Authority's website.

BC Ferries publishes information on the remuneration provided to its directors in the preceding fiscal year in the Company's annual statement of executive compensation, which is filed and available for public view on SEDAR. The Company's statement of executive compensation for the year-ended March 31, 2018 ("fiscal 2018") was filed on June 19, 2018, with a subsequent amendment and restatement on July 26, 2018.

D-3	**<u>Remuneration of BC Ferries' Executives</u>** **Once a compensation plan for executives of BC Ferries has been established or amended, BCFA must publish the plan on its website and amend the Articles of BC Ferries to adopt the plan, require that remuneration for the applicable executives be set and provided in accordance with the plan, set out the remuneration that may be paid under the plan, and require that BC Ferries publish in each fiscal year, details on the remuneration provided to the applicable executives in the previous fiscal year.**	***Coastal Ferry Act*** **section 21.4**

An executive compensation plan applies to the executives of the Company, as that term is defined in the *Coastal Ferry Act*, which in fiscal 2019 were the individuals holding the positions of, or acting in a similar capacity or performing similar functions to, the Chief Executive Officer ("CEO") or an Executive Vice President[2]. Pursuant to *Miscellaneous Statutes Amendment Act No. 3 - 2010* ("Bill 20"), an individual

[2] The *Coastal Ferry Amendment Act - 2019* has broadened the definition of "executive" in the *Coastal Ferry Act* to include Vice Presidents, effective May 16, 2019.

who held such a position on the date Bill 20 received first reading in 2010 is excluded from the provisions of an executive compensation plan for so long as that individual remains in that executive position with BC Ferries.

An executive compensation plan describes the philosophy for executive compensation and the maximum remuneration that the individuals whose compensation is governed by such a plan can receive in any fiscal year. The remuneration limits set out in an executive compensation plan are established with the assistance of an independent third-party compensation expert and with reference to *the Coastal Ferry Act*, which requires that the remuneration under an executive compensation plan be consistent with the remuneration provided to individuals who, in organizations in Canada that are of a similar size and scope to BC Ferries, perform similar services or hold similar positions, and not be greater than the remuneration that provincial public sector employers in British Columbia provide to individuals who, in those organizations, perform similar services or hold similar positions.

In the year-ended March 31, 2017, the Authority approved an executive compensation plan with an effective date of September 1, 2016 (the “2017 plan”). In fiscal 2019, this plan governed the remuneration of the Company’s President and CEO, Chief Financial Officer and Chief Operating Officer.

In fiscal 2019, as a consequence of the Company’s need to recruit a new Chief Financial Officer to replace the incumbent who had indicated that she will be stepping down from the position in fiscal 2020, the Authority, with input from the BC Ferries board and an independent compensation advisor, undertook a review of the remuneration limits set out in the 2017 plan in conjunction with market data from appropriate Canadian and provincial public sector employer organizations. Based on this review, the Authority determined that adjustments to the maximum levels of remuneration set out in the 2017 plan were warranted, and a new executive compensation plan incorporating those adjustments (the “2019 plan”) was established effective March 31, 2019. The 2019 plan adjusts the remuneration limits for the three positions covered by the plan which will serve to reduce compression in executive compensation levels in the future. The 2019 plan provides that an individual whose remuneration was set under the 2017 plan will continue to be governed by that plan for so long as that individual’s remuneration remains unchanged. As such, the new remuneration limits will apply only to those individuals who are appointed to the positions in the future and/or to the incumbents should the Company change their remuneration.

As required by the *Coastal Ferry Act*, alterations to the Articles of BC Ferries to reflect the establishment of the 2019 plan were approved by the Authority in fiscal 2019, subject to their approval by the Province, as holder of the preferred shares of the Company. A response from the Province on the alterations to the Articles is outstanding.

Consistent with the requirements of the *Coastal Ferry Act*, the Company publishes, in each fiscal year, details on the remuneration provided in the preceding fiscal year to the individuals whose compensation is governed by an executive compensation plan. The report for fiscal 2018 was posted for public view on the Company’s website on June 19, 2018.

Separate from the requirements of the *Coastal Ferry Act*, BC Ferries also publishes information on the remuneration provided to its executive officers in its annual statement of executive compensation, which is filed and available for public view on SEDAR. The Company’s statement of executive compensation for fiscal 2018 was filed on June 19, 2018, with a subsequent amendment and restatement on July 26, 2018.

E.	**GENERAL BYLAWS**	
E-1	**Bylaw Amendments** **Proposed amendments to the bylaws must be made public at least 4 months before the amendments take effect.**	***Coastal Ferry Act* section 16**

There were no amendments made to the general bylaws of BCFA in fiscal 2019.

F.	GENERAL MEETING, RECORDS & ADMINISTRATION	
F-1	**Annual General Meeting** **BCFA must hold an annual general meeting open to the public in one of the appointment areas within six months of the end of the fiscal year. The date and location of the meeting must be made public not more than two months before the meeting. BCFA must make public its annual report for the most recently completed fiscal year at least 10 days before the meeting and must make a copy of the report available, without charge, to any person requesting a copy.**	***Coastal Ferry Act*** **section 18**
	BCFA's annual general meeting was held in Vancouver, British Columbia on August 24, 2018 in conjunction with the annual public meeting of BC Ferries. The date and location of the combined meetings were made public through newspaper advertisements and were also posted on BC Ferries' website within the timeframes set out in the *Coastal Ferry Act.* The annual report of BCFA for fiscal 2018 was prepared in accordance with the requirements of the *Coastal Ferry Act*. It was posted on BCFA's website prior to the meeting and public notice of its availability for viewing was provided through the advertisements of the annual general meeting.	
F-2	**Records & Administration** **BCFA must keep records in accordance with generally accepted accounting principles; keep specified records at its head office and allow inspection of those records by the public; maintain a website on which its bylaws, including all proposed and actual amendments, are posted and available for public view; maintain a register of directors; and make public the location of the Authority's head office.**	***Coastal Ferry Act*** **sections 17, 9(1), 13(6)**
	BCFA complied with all requirements of the *Coastal Ferry Act* with respect to the records and administration of the Authority in fiscal 2019.	