

# B.C. Ferry Authority

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B.C. Ferry Authority  
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July 4, 2017

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

Dear Mr. Macatee:

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, 2017.

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

cc: Mr. Sheldon Stoilen

## B.C. FERRY AUTHORITY *COASTAL FERRY ACT* COMPLIANCE YEAR ENDED MARCH 31, 2017

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, 2017.

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

B.C. Ferry Authority  
June 30, 2017

A.	<b>DIRECTOR ROLES AND RESPONSIBILITIES</b>	
A-1	<u>Management of the Affairs of B.C. Ferry Authority (“BCFA” or the “Authority”)</u> <b>Directors must manage the affairs of the Authority or supervise the management of those affairs.</b>	CFA 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* (“CFA”);
- 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 an annual general meeting open to the public and publishing an annual report prepared in accordance with the CFA.

**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 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 the year ended March 31, 2017 (“fiscal 2017”) the Authority undertook a review of the protocol agreement and determined that the agreement and the processes set out in it continue to work effectively.

In fiscal 2017, 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>B-1</b>	<b><u>Appointments of BCFA Directors</u></b> 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. The term of office of a director is three years beginning April 1. Directors may serve a maximum of two consecutive terms.	<b>CFA sections 5,7</b>
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The directors of BCFA in fiscal 2017 and their terms of appointment are listed below.

During fiscal 2017, the Province appointed Paul L. Williams as a director effective June 30, 2016 to fill a vacant position on the board. Roderick D. Dewar, appointed from nominees of the Southern Vancouver Island appointment area, and Robin W. Kenyon, appointed by the Province retired from the board on March 31, 2017. Effective April 1, 2017, the board appointed Susan G. Mehinagic, a qualified candidate nominated by the Southern Vancouver Island appointment area as a director, and re-appointed Sandra Stoddart-Hansen, a qualified candidate nominated by the Southern Mainland appointment area, for a subsequent term as a director. Also effective April 1, 2017, the Province appointed G. Wynne Powell to the board. All three appointments are for three-year terms ending March 31, 2020.

**BCFA Board of Directors  
Year ended March 31, 2017**

Director		Term Ending March 31
Roderick D. Dewar, Chair <sup>1</sup>	Southern Vancouver Island Appointment Area	2017
Yuri L. Fulmer <sup>2</sup>	Community-at-Large	2018
Robin W. Kenyon <sup>3</sup>	Province of British Columbia	2017
Fiona L. Macdonald	Community-at-Large	2019
Shirley J. Mathieson	Organized Labour	2019
Randolph K. Morriss	Central Vancouver Island & Northern Georgia Strait Appointment Area	2018
Michael W. Pucci	Northern Coastal & North Island Appointment Area	2018
Sandra A. Stoddart-Hansen <sup>4</sup>	Southern Mainland Appointment Area	2017
Paul L. Williams <sup>5</sup>	Province of British Columbia	2019

Notes:

1. Roderick D. Dewar retired from the board on March 31, 2017, and Susan G. Mehinagic, a nominee of the Southern Vancouver Island appointment area, was appointed to the board effective April 1, 2017 for a term ending 2020.
2. Yuri L. Fulmer was appointed chair of the board effective April 1, 2017.
3. Robin W. Kenyon retired from the board on March 31, 2017, and G. Wynne Powell was appointed to the board by the Province effective April 1, 2017 for a term ending 2020.
4. Sandra A. Stoddart-Hansen, a nominee of the Southern Mainland appointment area, was re-appointed to the board effective April 1, 2017 for a subsequent term ending 2020.
5. Paul L. Williams was appointed to the board by the Province effective June 30, 2016 for a term ending 2019.

<b>B-2</b>	<p><b><u>Qualifications and Factors to be Considered in Appointing Directors</u></b>  <b>A director of BCFA must be a “qualified Authority candidate” as that term is defined in the CFA and must also be qualified to act as a director under the <i>Business Corporations Act (British Columbia)</i>.</b></p> <p><b>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.</b></p>	CFA sections 9(2), 12
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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 CFA and the *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 CFA, 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 2017. 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.

<b>B-3</b>	<p><b><u>Conflicts</u></b>  <b>A director must disclose and/or eliminate conflicts of interest as described in the CFA.</b></p>	CFA section 8
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BCFA has adopted a code of business conduct and ethics (“code”). 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 CFA 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.

<b>C.</b>	<b>DIRECTOR REMUNERATION</b>
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<b>C-1</b>	<p><b><u>Director Remuneration &amp; Expenses</u></b>  <b><i>Miscellaneous Statutes Amendment Act No. 3 - 2010 (“Bill 20”)</i> required that remuneration for directors appointed to BCFA after the date of First Reading of Bill 20 be set in an amount and manner consistent with provincial public sector organizations.</b></p>	CFA section 14
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An outline of the current remuneration framework for directors of the Authority is provided below. The framework was set by the board effective October 1, 2010 and has remained unchanged since that date.

**BCFA Board  
Remuneration Framework**

<b>ANNUAL RETAINERS</b>	
Board Chair Retainer	\$25,000
Board Member Retainers:	
Base Retainer (all directors excluding board Chair)	\$ 6,250
Committee Chair Retainer <sup>1</sup>	\$ 2,000
Committee Member Retainer <sup>1</sup>	\$ 750
<b>PER DIEM FEES</b>	
Board Member Fees (all directors excluding board Chair)	Up to \$1,200 per day
<b>FERRY TRAVEL PASS</b>	
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 2017 is set out below.

**BCFA Director Remuneration & Expenses  
Year ended March 31, 2017  
(\$)**

Director	Remuneration <sup>1</sup>	Expenses Reimbursed
Roderick D. Dewar, Chair	32,597	697
Yuri L. Fulmer	15,399	305
Robin W. Kenyon	13,306	427
Fiona L. Macdonald	13,940	1,249
Shirley J. Mathieson	12,250	-
Randolph K. Morriss	12,250	155
Michael W. Pucci	17,747	2,324
Sandra A. Stoddart-Hansen	14,736	1,239
Paul L. Williams	9,408	75

Notes:

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

**D. SHAREHOLDER RESPONSIBILITIES**

<b>D-1</b>	<b><u>Appointment of Directors of BC Ferries</u></b> <b>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.</b>	<b>CFA section 21.1</b>
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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.

In fiscal 2017, the board of BC Ferries was composed of eight directors. Gordon R. Larkin retired from the board on June 23, 2016 and, effective that date, the Authority appointed one new director, Sarah Morgan-Silvester, and reappointed two incumbent directors, Brian G. Kenning and Jane M. Bird, for subsequent terms. The directors of BC Ferries in fiscal 2017 are listed below.

**BC Ferries Board of Directors  
Year ended March 31, 2017**

Director	Term Ending
Donald P. Hayes, Chair	2018
Jane M. Bird	2021
Bruce A. Chan	2019
John A. Horning	2020
Brian G. Kenning	2017
Gordon M. Kukec	2018
Gordon R. Larkin <sup>1</sup>	2016
Sarah Morgan-Silvester <sup>2</sup>	2020
P. Geoffrey Plant	2019

Notes:

1. Gordon R. Larkin retired from the board effective June 23, 2016.
2. Sarah Morgan-Silvester was appointed to the board effective June 23, 2016.

In fiscal 2017, the Authority also confirmed its intent to increase the size of the BC Ferries board from eight to nine, and to appoint one new director, Jan K. Grude, and to re-appoint one incumbent director, Brian G. Kenning, for terms ending 2021 and 2019, respectively. These changes were effective June 29, 2017.

<p>D-2</p>	<p><b><u>Remuneration of BC Ferries' Directors</u></b>  <b>Bill 20 required that the Authority establish a BC Ferries' directors' compensation plan by September 30, 2010. Once a directors' compensation plan 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.</b></p>	<p>CFA section 21.2</p>
<p>A compensation plan for the directors of BC Ferries was established by BCFA in the fiscal year ended March 31, 2011, and remuneration for the directors of the Company was set by BCFA in accordance with that plan effective October 1, 2010. The Articles of BC Ferries were subsequently altered by the Authority to reflect the establishment of the plan.</p> <p>The compensation plan for the directors of BC Ferries 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.</p> <p>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 fiscal years 2016 and 2017 were filed on June 17, 2016 and June 30, 2017, respectively.</p>		
<p>D-3</p>	<p><b><u>Remuneration of BC Ferries' Executives</u></b>  <b>The CFA, as amended by Bill 20, contemplates that BCFA may establish an executive compensation plan for BC Ferries. Once an executive compensation plan 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.</b></p>	<p>CFA section 21.4</p>
<p>An executive compensation plan applies to the executives of the Company, as that term is defined in the CFA, and includes 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. Pursuant to Bill 20, an individual 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.</p> <p>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. In the year ended March 31, 2012, BCFA approved an executive compensation plan with an effective date of October 1, 2011 (the "original plan"). The Articles of BC Ferries were subsequently altered by the Authority to reflect the establishment of the plan. In fiscal 2017, in accordance with the CFA and Bill 20, the original plan governed the remuneration of the Company's President &amp; CEO and Chief Financial Officer, but not the remuneration of any other executive.</p> <p>In fiscal 2017, as a consequence of the Company's need to recruit a new President &amp; CEO to replace the incumbent who had indicated that he would be stepping down from the position at the end of the fiscal year, 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 original plan in conjunction with market data from appropriate Canadian and provincial public sector employer organizations. Based on this</p>		

review, the Authority determined that adjustments to the maximum levels of remuneration set out in the original plan were warranted, and a new executive compensation plan incorporating those adjustments was established (the “new plan”) effective September 1, 2016. The remuneration of the Company’s new President & CEO, appointed effective April 1, 2017, was set in accordance with and is governed by the new plan. The new plan provides that an individual whose remuneration was set under the original plan will continue to be governed by the original plan for so long as that individual’s remuneration remains unchanged. The remuneration of the incumbent President & CEO and the Chief Financial Officer, which was set under the original plan, remained unchanged following the effective date of the new plan and, accordingly, their remuneration continued to be governed by the remuneration limits in the original plan throughout fiscal 2017.

The new plan is available for public view on the Authority’s website. As required by the CFA, alterations to the Articles of BC Ferries to reflect the establishment of the new plan were approved by the Authority, 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 CFA and Bill 20, 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 reports for fiscal years 2016 and 2017 were posted for public view on the Company’s website on June 17, 2016 and June 30, 2017, respectively.

Separate from the requirements of the CFA and Bill 20, 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 years 2016 and 2017 were filed on June 17, 2016 and June 30, 2017, respectively.

<b>E.</b>	<b>GENERAL BYLAWS</b>	
<b>E-1</b>	<p><b><u>Bylaw Amendments</u></b>  <b>Proposed amendments to the bylaws must be made public at least 4 months before the amendments take effect.</b></p>	<b>CFA section 16</b>
<p>There were no amendments made to the general bylaws of BCFA in fiscal 2017.</p>		
<b>F.</b>	<b>GENERAL MEETING, RECORDS &amp; ADMINISTRATION</b>	
<b>F-1</b>	<p><b><u>Annual General Meeting</u></b>  <b>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.</b></p>	<b>CFA section 18</b>
<p>BCFA’s annual general meeting was held in Vancouver, British Columbia on August 19, 2016 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 CFA. The annual report of BCFA for fiscal 2016 was prepared in accordance with the requirements of the CFA. 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.</p>		

<p>F-2</p>	<p><b><u>Records &amp; Administration</u></b>  <b>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.</b></p>	<p>CFA sections 17, 9(1), 13(6)</p>
<p>BCFA complied with all requirements of the CFA with respect to the records and administration of the Authority in fiscal 2017.</p>		