

EXECUTIVE COMPENSATION PLAN
BRITISH COLUMBIA FERRY SERVICES INC.
(OCTOBER 2011)

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1.0 PURPOSE

The *Coastal Ferry Act (British Columbia)* contemplates that the B.C. Ferry Authority (“BCFA”) will establish and publish an Executive Compensation Plan (the “Plan”), including the methodology by which remuneration for the Executive Officers is determined and the terms on which it is to be paid. This document outlines the Plan for future Executive Officers of British Columbia Ferry Services Inc. (“BCFS” or the “Company”)¹.

1.1 Definitions

This Part defines terms used for the purposes of the Plan.

- “Chief Executive Officer” or “CEO” is the highest ranking executive position in charge of management of BCFS.
- “Executive Officer” means an individual who is the CEO or an Executive Vice President of BCFS or who is, despite his or her title, acting in a similar capacity or performing similar functions to a CEO or an Executive Vice President of BCFS.
- “Incentive Plan” means any plan providing compensation that depends on achieving certain performance goals within a specified period.
- “Registered Pension” means the retirement arrangement provided by the Company under the Public Service Pension Plan of British Columbia.
- “Supplementary Retirement Plan” or “SERP” means a pension plan arrangement that is designed to supplement the Registered Pension benefit levels.
- “remuneration” means all money and benefits including, without limitation, salary, incentives, and pension contributions, provided or available to the person in return for the person performing or agreeing to perform services for, or acting or agreeing to act in a capacity for, the person by whom or on whose behalf the money and benefits are being provided or made available. Within this plan, remuneration means total compensation.

¹ Applicable to individuals who are newly hired or newly appointed to BCFS Executive Officer positions on or after October 1, 2011.

2.0 COMPENSATION DISCUSSION

BCFS designs and administers executive compensation within the Plan approved on a periodic basis by the BCFA Board as required under the *Coastal Ferry Act*.

2.1 Governance

The Plan is approved by the BCFA Board for application and administration by the BCFS Board.

The terms of reference for the BCFS Board of Directors in respect of the Plan are outlined below:

- review and approve the remuneration provided to the Chief Executive Officer,
- review the performance of the Chief Executive Officer, including the approval of incentive targets and evaluation of results each year,
- review and approve the remuneration provided to Executive Vice Presidents, acting upon the advice of the Chief Executive Officer, and
- review the Chief Executive Officer's recommendations relative to the performance of the Executive Vice Presidents, including the approval and evaluation of incentive targets, and evaluation of results each year.

2.2 Business Drivers for Executive Compensation

The Plan aligns with BCFS' vision, mission, and strategic mandate under the *Coastal Ferry Act*, and supports its business and human resource requirements, including:

- the imperative to operate safely,
- ensuring financial sustainability while minimizing tariffs,
- satisfying regulatory and stakeholder expectations, and
- ensuring a highly reliable and efficient coastal ferry system.

Total compensation for Executive Officers within BCFS has been developed to facilitate the achievement of these critical performance factors, and the attraction and retention of high calibre, career focused executives.

2.3 Executive Compensation Philosophy

The Plan for BCFS Executive Officers is intended to:

- align with BCFS' business and strategic objectives,
- drive achievement and high levels of performance,
- provide for internal equity,
- ensure regulatory compliance, and
- support the attraction and retention of high calibre executives.

2.4 **Total Remuneration and Compensation**

The executive compensation provisions described in the Plan have been reviewed, compared, and established on the basis of total remuneration. This allows for a reasonable comparison on the components of total compensation.

2.5 **Benchmarking and Comparability**

The Plan has been established with reference to the following comparator groups:

2.5.1 Canadian Comparators - The *Coastal Ferry Act* requires that, subject to the limitations as described in Part 2.5.2 below, remuneration provided to Executive Officers of BCFS be consistent with that provided to individuals who, in organizations in Canada that are of a similar size and scope to BCFS, perform similar services or hold similar positions to the executive positions of BCFS. To ensure consistency with this requirement, the Company engaged an independent compensation consultant to conduct a review which identifies median (50th percentile) total compensation of Canadian comparator companies. A list of the organizations used in and the results from this review can be found at Schedule A.

2.5.2 Public Sector Comparators (British Columbia) - The *Coastal Ferry Act* requires that remuneration provided to Executive Officers of BCFS not be greater than that provided by provincial public sector employers in British Columbia to individuals who are performing similar services or hold similar positions. The Company further benchmarks its Executive Officer positions against this requirement.

The list of the provincial public sector employers used as benchmarks can be found at Schedule B. The list includes large commercial crown corporations and a large academic institution. While these organizations are considered the best provincial public sector employer comparators in terms of size and complexity of operations, remuneration for the Company's Executive Officers has been set in consideration of the maximum paid to individuals who are performing similar services or hold similar positions in the commercial crown corporations only, as these organizations are viewed as being the most directly comparable in terms of the nature of services provided.

It should be noted that the list of crown corporation comparators is limited. While the positions of Chief Executive Officer and Executive Vice President & Chief Financial Officer in these organizations have been used as benchmarks, an appropriate match was not found for the BCFS position of Executive Vice President & Chief Operating Officer. In that case, remuneration has been set in consideration of factors such as the relative ranking of the remuneration of the Executive Officer position observed in the review of the Canadian comparators discussed in Part 2.5.1.

The BCFA Board may, from time to time, upon the request of or following discussion with BCFS: change the organizations referred to in Part 2.5.1 so that the organizations used as comparators will be comprised of organizations in Canada that are of a similar size and scope to BCFS; and/or change the employers referred to in Part 2.5.2 so that the employers used as comparators will be comprised of provincial public sector employers in British Columbia.

2.6 Components of Executive Compensation

Compensation for each Executive Officer position has been designed to include such components as the following:

- **Base Salary** - Base salary is provided in equal bi-weekly payments.
- **Incentive Plan** - Incentive plan payments are determined by the Board of BCFS and paid once per year, based on a review of incentive targets and the evaluation of results for the preceding fiscal year.
- **Leaves** - Annual vacation leaves are provided in accordance with BCFS' vacation policy. Sabbaticals, administrative leaves, and other special leaves, over and above those which are statutorily required, may also be provided. Unused vacation in excess of four weeks each year may be carried forward and shall be taken in time off at a future date.
- **Executive Benefits** - Executive Officers receive health and welfare benefits (medical, dental, extended health, life insurance, long term disability, and health spending) that are available to other management and exempt employees. The amounts for life insurance, long term disability, and health spending are determined by base salary.
- **Vehicle Expense Allowances** - A taxable monthly cash payment for vehicle expenses and reimbursement of fuel and insurance expenses is provided.
- **Registered Pension** - BCFS, through the Public Sector Pension Plan of British Columbia, provides a defined benefit pension plan to all regular employees. The formula for calculating the pension is 2% multiplied by an employee's best five average consecutive years of plan earnings multiplied by years of contributory service.
- **Supplemental Executive Retirement Plan (SERP)** - In addition to the registered pension plan, Executive Officers may also be eligible for SERP benefits. The terms of the SERP are based on the demographics of each individual executive and are comparable to the terms of other SERPs.

3.0 SUMMARY OF TOTAL COMPENSATION FOR FUTURE EXECUTIVES

Table 1 sets out the current estimates (based on information available October 2011) of the total compensation that is expected to be paid to future Executive Officers of BCFS.² Amounts may vary with the individuals selected and with performance against objectives each year, subject always to the requirement that the value of the total compensation to be provided to a future Executive Officer not exceed that provided for in the Plan.

² The Plan envisages a future senior executive structure comprising the positions of Chief Executive Officer, Executive Vice President & Chief Operating Officer and Executive Vice President & Chief Financial Officer. The Plan will require amendment should additional or other Executive Officers be added.

The BCFA Board may, from time to time, upon the request of or following discussion with BCFS, change the total compensation values set out in Table 1 and the components thereof in accordance with the Plan, as the total compensation that is provided to individuals who, in organizations in Canada that are of a similar size and scope to BCFS, perform similar services, or hold similar positions to that Executive Officer of BCFS changes, subject always to the requirement that the total compensation provided to each future Executive Officer will be set at levels not greater than that provided by provincial public sector employers in British Columbia, at the time of determination, to individuals who, in those organizations, perform similar services or hold similar positions to that Executive Officer of BCFS.

Table 1: Summary of Total Compensation

		Total Compensation (000's)
Chief Executive Officer	Estimate	\$563
Executive Vice President & Chief Operating Officer	Estimate	\$482
Executive Vice President & Chief Financial Officer	Estimate	\$458

SCHEDULE A

LIST OF CANADIAN COMPARATORS

(OCTOBER 2011)

AGF Management Limited Agriculture Financial Services Corporation Alberta Electric System Operator Alberta Teachers' Retirement Fund Board Astral Media Inc. ATCO Group – ATCO Gas ATCO Group – ATCO Structures & Logistics Baytex Energy Corp Brick Ltd., The Brookfield LePage Johnson Controls Brookfield Renewable Power Calfrac Well Service Ltd. Calgary Board of Education Canadian Blood Services Canadian Medical Protective Association Canam Group Inc. Cara Operations Limited CBC/Radio – Canada CE Franklin Ltd. Centerra Gold Inc. Churchill Corporation, The ConAgra Foods Canada Inc. Daylight Energy Ltd. E.I. du Pont Canada Company Empire Life Insurance Company, The Enerflex Ltd. – Canada and Northern USA Ensign Energy Services Fairmont Raffles Hotels International Foresters Fortis Alberta Inc. FT Services GENIVAR Inc. Golder Associates Ltd. Great Canadian Gaming Corporation Harvest Operations Corp.	Henkel of America Inc. Hospital for Sick Children (SickKids), The IAMGOLD Corporation Indigo Books & Music Inc. Ivanhoe Cambridge Inc. Kellogg Canada Inc. Longo Brothers Fruit Markets Inc. Mabe Canada Inc. Manitoba Telecom Services Inc. – Allstream MEG Energy Moneris Solutions Corporation Nabors Canada Newalta Corporation Newfoundland and Labrador Hydro Nexen Inc. Oilsands Norbord Inc. Nova Scotia Liquor Corporation OpenText Corporation Ryerson University Sanjel Corporation Saskatchewan Government Insurance SaskEnergy Incorporated SMART Technologies Statoil Canada Ltd. Technion Corporation Toronto Transit Commission University of Calgary UPS Canada Vancity Vincor Canada Weatherford Canada Partnership Workers' Compensation Board – Alberta Xerox Canada Ltd. York University
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Results

Median (50th percentile) compensation data from Canadian comparators:

	Total Direct Compensation ³	Total Compensation ⁴
	(000's)	
Chief Executive Officer	\$2,069	\$2,275
Executive Vice President & Chief Operating Officer	\$888	\$977
Executive Vice President & Chief Financial Officer	\$691	\$759

³ Survey data is at April 2011, and reflects 'total direct compensation' and excludes benefits, pension, SERP and perquisites.

⁴ Survey data is at April 2011, and includes an estimate for benefits, pension, SERP, and perquisites of 10% of cash compensation.

SCHEDULE B

LIST OF PUBLIC SECTOR COMPARATORS – BRITISH COLUMBIA

(OCTOBER 2011)

- British Columbia Hydro and Power Authority
- Insurance Corporation of British Columbia
- B.C. Pavilion Corporation
- British Columbia Securities Commission
- University of British Columbia

Results:

Maximum compensation data from public sector (British Columbia) comparators:

	Total Compensation (full comparator group: 5 entities)	Total Compensation (partial comparator group: 4 commercial crown corporations only)
	(000's)	
Chief Executive Officer	\$581	\$563
Executive Vice President & Chief Operating Officer ⁵	\$482	\$482
Executive Vice President & Chief Financial Officer	\$522	\$522

⁵ An appropriate match was not found for the Executive Vice President & Chief Operation Officer and, accordingly, the maximum of the second highest paid positions in the commercial crown corporations (excluding the Chief Financial Officer position where that position was the second highest paid) was used as the comparator.