

News Release

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July 3, 2014

BC FERRIES AWARDS \$165 MILLION IN CONTRACTS FOR THREE NEW LIQUEFIED NATURAL GAS FUELLED INTERMEDIATE CLASS FERRIES

VICTORIA – Following the completion of an extensive competitive bidding process, BC Ferries has awarded Remontowa Shipbuilding S.A. of Gdansk, Poland contracts totaling \$165 million to build three new intermediate class vessels.

The contracts have been approved by BC Ferries' Board of Directors, as well as a total project budget of \$252 million that includes financing and project management costs that would have been incurred regardless of where the vessels were built. The budget also includes \$51 million for Canadian taxes and federal import duties. The total project budget is within the capital envelope set by the BC Ferries Commissioner.

"These are design-build, fixed-price contracts that provide BC Ferries with substantial guarantees related to delivery dates, performance criteria, cost certainty and quality construction," said Mark Wilson, BC Ferries' Vice President of Engineering.

Other highlights of the contracts include:

- Remontowa assumes all design, construction and delivery risk
- Guarantees are in place for vessel completion dates
- Favourable payment terms with 80 per cent payment upon vessel completion
- Vessel performance guarantees related to speed, carrying capacity, manoeuvrability and fuel consumption
- Warranties above industry standard
- Penalties for late delivery
- Refund guarantee

"As we begin the next phase of our newbuild program, a key objective is to achieve capital and operating cost savings and efficiencies through an overall class and standardization strategy," said Wilson. "Standardization offers greater interoperability and lower crew training and maintenance costs, and also enhances safety. This is a significant step forward in taking BC Ferries from 17 classes of ships to five classes."

The new intermediate class vessels will be the first vessels in BC Ferries' fleet to operate as dual-fuel capable using Liquefied Natural Gas (LNG) or diesel fuel for propulsion and power generation. "This is an exciting initiative for BC Ferries that can reduce upward pressure on fares

due to lower fuel costs for LNG, and reduce the environmental emissions substantially since LNG is a cleaner and greener fuel compared to current alternatives," said Wilson.

Two of the new ships will replace the 49-year old Queen of Burnaby, which sails between Comox and Powell River and the 50-year old Queen of Nanaimo, which services the Tsawwassen – Southern Gulf Islands route. The third vessel will augment peak and shoulder season service on the Southern Gulf Islands route, plus provide refit relief around the fleet. These new 105 metre vessels will accommodate 145 vehicles and 600 passengers.

The first new intermediate class vessel is scheduled to arrive in British Columbia in August 2016, the second in October 2016 and the third in February 2017. Remontowa is responsible for delivering the vessels to Victoria. The first vessel is expected to be in service in the fall of 2016, following extensive crew training and familiarization.

The Gdansk ship repair and shipbuilding yard Remontowa Shipbuilding S.A, which is one of the world's leading shipyards with state-of-the-art design and production facilities, is a member of the Remontowa Holding capital group specializing in ship design and construction of new ships, conversions and repairs, offshore units and steel structures. The shipyard was established in 1952 and privatized in 2001.

BC Ferries conducted an extensive competitive bidding process to ensure that the company secured the best bid for its customers and the taxpayers of British Columbia. One shipyard from BC, Seaspan's Vancouver Shipyard, was among the five shipyards shortlisted and invited to participate in the RFP process, however they decided to withdraw as they indicated they have maximized their available capacity due to commitments with the federal government building vessels under the National Shipbuilding and Procurement Strategy as well as constructing BC Ferries' new cable ferry.

Criteria for shipyard selection included the design and construction plan, recent experience building intermediate ferries, capability of introducing new technology such as LNG, customer satisfaction (references from other customers), delivery schedule, price and payment terms, financial stability and ability to provide guarantees.

Under contract to the Province of British Columbia, BC Ferries is the service provider responsible for the delivery of safe, efficient and dependable ferry service along coastal British Columbia.

Attachments

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CONTRACT TERMS

Delivery of the Vessel

Remontowa Shipbuilding S.A. is responsible for delivering the vessels to Victoria. Title transfer will occur in BC. Guaranteed production milestones and delivery dates are specified in the contracts.

Design and Construction

Remontowa assumes full design and construction risk associated with each vessel.

Regulatory Requirements

Remontowa is responsible for building vessels that comply with all Transport Canada regulations, as well as classification (international shipbuilding standards) and environmental regulations. The vessels are classed and delegated to Lloyd's Register of Shipping.

Payment Terms

The total cost of the three vessels is \$165 million Canadian. Four payments of five per cent per vessel are payable during the construction period, with the remaining 80 per cent payable upon completion of each vessel.

Delivery Dates to Victoria

Vessel #1 – August 2016

Vessel #2 – October 2016

Vessel #3 – February 2017

Refund Guarantee

A refund guarantee from Remontowa's bank will be in place to provide security for BC Ferries' pre-delivery instalment payments.

Liquidated Damages

Remontowa guarantees the delivery and the performance of the vessels; specifically speed, fuel consumption, weight and freight capacity, acceleration time and rate of turn. Increasing financial penalties, up to the point of contract cancellation with a full refund, will be levied if the performance of the vessel does not meet the contract specifications.

For example, if the vessels are late for delivery, a penalty of approximately \$20,000 Canadian per day will be levied after the first 15 days to a maximum of approximately \$6 million Canadian. After 180 days, BC Ferries can rescind the contract for a full refund.

Another example is speed. If the vessels are more than 2/10 of a knot below specification, a penalty of approximately \$125,000 Canadian will be levied for each 2/10 of a knot up to one

knot. If the vessels are more than one knot less than the guaranteed speed, BC Ferries can rescind the contract for a full refund.

Corporate Guarantee

Remontowa will also provide a corporate guarantee from its parent company, Remontowa Holding, as security for the performance of all of Remontowa's obligations under the contracts.

Builder's Warranty

An extended builder's warranty of 24 months from delivery will apply to materials, construction, design and workmanship. This is 12 months longer than the standard terms of warranty of a typical shipbuilding contract.

Noise and Vibration

Remontowa guarantees that the vessels will be built to the highest shipbuilding standards for noise and vibration. If they are not, BC Ferries has the right to reject the vessels for a full refund or BC Ferries may accept a substantial penalty from the builder for excessive noise and vibration at its option.

Title to Design, Plans and Drawings

BC Ferries will acquire the title to the vessels' design, plans and drawings upon delivery at no additional cost to BC Ferries. This will be an important benefit for BC Ferries as the company embarks on future fleet renewal projects and advances on an overall class strategy.

Drawing and Backgrounders Attached



Backgrounder

July 3, 2014

BENEFITS OF LIQUEFIED NATURAL GAS (LNG)

- The price advantage of adopting LNG is highly favourable. In today's market it is approximately 50 per cent of the price of diesel fuel.
- In fiscal 2014, BC Ferries spent \$126 million on fuel. Using LNG will considerably reduce this expenditure.
- LNG's market price is expected to remain stable over the medium term, with suppliers developing expanded supply outlets across Canada and North America.
- LNG is a "greener" and much cleaner fuel source with very favourable environmental gains compared to diesel fuel. LNG adoption cuts carbon emissions by about 25 per cent, SOx (Sulphur Oxides) by almost 100 per cent and NOx (Nitrogen Oxides) by 85 per cent, which translates into much cleaner exhaust emissions than diesel fuel.
- LNG can be delivered to our ferries by truck in the same manner that we have done with diesel fuel for the last 50 years.
- LNG will reduce costs over the life of the vessel and therefore help mitigate financial pressure for BC Ferries' customers.
- LNG as a marine industry fuel has been used safely in worldwide shipping, including use in passenger ferries.
- Currently ferries worldwide have been safely operating on LNG for over 10 years with more than over a million operational hours.
- Substantial monetary incentives are being offered by LNG suppliers to transport businesses as "early adopters"
- BC Ferries will be one of the first ferry operators in Canada to adopt LNG as a fuel, following the Quebec provincial ferry operator STQ.



Backgrounder

July 3, 2014

BC FERRIES SPENDS MILLIONS AT LOCAL SHIPYARDS

- Over the past 10 years, BC Ferries spent approximately \$1 billion at local shipyards on refits, repairs, mid-life upgrades and life-extension projects.
- BC Ferries provides work for local shipyards including: Seaspan's Vancouver Shipyards;
 Vancouver Dry Dock; Esquimalt Drydock Company; the Esquimalt Graving Dock; Allied Shipbuilders; and Point Hope Shipyards.
- In addition BC Ferries employs many (non-shipyard) BC ship repair firms such as Meridian Marine (steel), Northwest Environmental (asbestos containing material abatement), Clark and Patterson (painting), Quantum Murray (environmental services), Pacific Star Marine (machinery rebuild), Rolls Royce Canada (machinery supply and rebuild), CCS Coatings (painting) and McRae Electric.
- BC Ferries operates its own internal vessel refit facility known as the Fleet Maintenance Unit (FMU), directly employing 140 skilled trades persons. The facility contains a complex of workshops engaged in highly skilled ship repair activities such as machinery rebuilding, structural repairs, lifesaving system re-certification and coatings. In some cases BC Ferries' FMU is the only facility in BC capable of providing the specialized services, such as ship fire damper repair and LSA slide certification.
- The \$45.5 million MV Island Sky was built by Vancouver Shipyards in North Vancouver in 2008.
- Allied Shipbuilders constructed the MV Kuper from the hull of another ferry in North Vancouver in 2006. The complete rebuild was valued at \$7.5 million.

VESSEL MAINTENANCE AND REPAIR IS BIG BUSINESS

- BC Ferries spends an average of approximately \$45 million per year on refit and in-service maintenance for a total of approximately \$450 million over 10 years.
- Between 2004 2014, BC Ferries carried out many large refurbishment projects: five C-class mid-life upgrades; Queen of New Westminster life extension; two Q-class mid-life upgrades; other capital projects (S-class and Capilano class interiors, Queen of Capilano Right Angle

Drive replacements, Klitsa upgrade, Howe Sound Queen interior) totaling approximately \$498 million.

- Over the past five years, the Queens of Burnaby and Chilliwack, Quadra Queen II and Tachek have undergone life extension projects at a cost of approximately \$52 million.
- BC Ferries has a fleet of 35 vessels. In a given year, 20 25 vessels undergo refit at a cost of between \$1 million - \$6 million per vessel for annual re-certification or Classification Special Survey.
- BC Ferries spends approximately \$1million per year on upgrades to electronics on ships to ensure safety and reliability.
- BC Ferries must drydock and refit 15 major vessels every five years for Classification surveys at a cost in the order of \$4 million \$6 million per vessel.
- Nine intermediate vessels undergo drydock and refit every five years at a cost of between \$2 million \$4 million per vessel.
- Ten minor vessels undergo Transport Canada surveys every four years, which costs between \$1.5 million and \$4 million per vessel.
- Diesel engines are overhauled by local vendors and BC Ferries personnel every five years. BC Ferries has 102 of these units and they cost between \$40,000 and \$600,000 per unit, depending on the size and the work required.
- Overhauls of propulsion drive units are conducted by local vendors and BC Ferries personnel every five years. The fleet has 44 such units and each overhaul costs between \$150,000 \$320,000.
- Large propulsion units (Right Angle Drives) overhauls are done every five years consuming about 500 hours in labour and approximately \$270,000 in materials and services.
- BC Ferries has 69 elevators and escalators in the entire system, with 43 units on the vessels. Annual costs to maintain the units and ensure they are reliable for customers who need them cost the company approximately \$750,000 annually.

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Rendering of BC Ferries' new Intermediate Class Ferries