LEASE dated as of the 1st day of April 2003

With respect to

SATURNA ISLAND
(LYALL HARBOUR)

BETWEEN:

BC TRANSPORTATION FINANCING AUTHORITY
(hereinafter referred to as the "**Landlord**")

of the first part

AND:

BRITISH COLUMBIA FERRY CORPORATION
(hereinafter referred to as the "**Tenant**")

of the second part

TERMS OF INSTRUMENT - Part 2

LEASE dated as of the 1st day of April 2003

BETWEEN:

BC TRANSPORTATION FINANCING AUTHORITY
(the "**Landlord**")

of the first part

AND:

BRITISH COLUMBIA FERRY CORPORATION
(the "**Tenant**")

of the second part

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WHEREAS:

A. The Landlord is a Crown corporation and, pursuant to the *Build BC Act*, is an agent of the government and has agreed to hold all right, title and interest to the Ferry Terminal Properties as Landlord pursuant to this Lease;

B. The Tenant and the Province have entered into the Coastal Ferry Services Contract under which the Tenant has agreed to operate the BC Ferry System;

C. The parties wish to enter into this Lease on the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the rents, premises, terms, conditions, covenants and agreements herein set out, the sufficiency and receipt of same being hereby acknowledged, the parties agree as follows:

1. DEFINITIONS

1.1 In this Lease:

"**Additional Rent**" means all sums of money to be paid by the Tenant to the Landlord under this Lease, except Basic Rent and Renewal Rent;

"**Authority**" means the municipality, region or district in which the Ferry Terminal Properties are located;

"**Basic Rent**" means the sum of money described in Paragraph 13.1 of this Lease to be paid by the Tenant to the Landlord;

"**BC Ferry System**" has the meaning given to that term in the Coastal Ferry Services Contract;

"**Coastal Ferry Services Contract**" means the agreement between the Province and the Tenant made as of April 1, 2003 under which the Tenant has agreed to operate the BC Ferry System;

"Commencement Date" means the 1st day of April, 2003;

"**Competent Authority**" means any statutory, regulatory, governmental, administrative or public authority which has jurisdiction with respect to any matter referred to in this Lease;

"Development Agreements" means those written agreements made by the Tenant with third parties to have an interest in or access to the Ferry Terminal Properties, or any part thereof, that run with the Ferry Terminal Properties and that may continue to be binding upon the owner of the Ferry Terminal Properties after the termination of this Lease;

"**Dispute**" means any disagreement, dispute, controversy, difference of opinion or claim between the Landlord and the Tenant arising out of, relating to or in connection with the lease of the Ferry Terminal Properties or the interpretation of, or compliance or non-compliance with the provisions in this Lease;

"End Date" means the day before the sixtieth (60th) anniversary of the Commencement Date;

"**Event of Force Majeure**" means an event that is beyond the reasonable control and without the fault of a party and includes acts of God, changes in the laws of Canada, governmental restrictions or control on imports, exports or foreign exchange, wars (declared or undeclared), fires, floods, storms, strikes (including illegal work stoppages or slowdowns), lockouts (other than lockouts initiated by the Tenant in compliance with the Labour Relations Code of British Columbia), labour shortages, freight embargoes and power failures; provided always that a lack of money, financing or credit will not be and will not be deemed to be an "Event of Force Majeure";

"Existing Facility" means any building, facility, utility, improvement, pavement, landscaping, filled foreshore, infrastructure or structure, including Leasehold Improvements and Marine Structures that are on the Ferry Terminal Properties as of the Commencement Date;

"**Existing Landlord Agreements**" means those agreements which exist as of the Commencement Date and are made between the Landlord or the Province or their respective predecessors and one or more third parties (including the Tenant) granting such third party an interest in or access to such parts of the Ferry Terminal Properties which were highway on March 31, 2003 and more particularly described in Schedule "2" as the same may be altered from time to time as contemplated by Paragraph 9.2 ;

"Existing Tenant Agreements" means all liens, charges, encumbrances and tenancies registered against title to any of the Ferry Terminal Properties as of the Commencement Date and any agreements which exist as of the Commencement Date between the Tenant, Land and Water British Columbia Inc. or their respective predecessors and one or more third parties (including either the Landlord, the Province or either of their predecessors) to have an interest in or access to parts of the Ferry Terminal Properties more particularly described in Schedule "3" as the same may be altered from time to time as contemplated by Paragraph 9.3 ;

"**Ferry Terminal Properties**" means more or less all and singular those certain parcels or tracts of lands and water lots more particularly described in Schedule "1" as the same may be altered from time to time as contemplated by Paragraph 42.2 ;

"**Hazardous Substances**" means:

(a) any oil, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, or pollutants which

pose a hazard to all or any part of the Ferry Terminal Properties, or any person, business, occupant or user of the Ferry Terminal Properties; or cause all or any part of the Ferry Terminal Properties or any user or occupant of the Ferry Terminal Properties to be in violation of any Hazardous Substances Laws;

(b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation or transformers; and

(c) any chemical, material or substance defined as or included in the definition of "dangerous goods", "deleterious substance", "extremely hazardous wastes", "restricted hazardous waste", "toxic substances", "waste" or words of similar import under any Law or under the publications promulgated pursuant thereto;

"**Hazardous Substances Laws**" means any local, provincial or federal laws, statutes, ordinances, rules, regulations, bylaws and enforceable orders, decisions or directives relating to the environment, any Hazardous Substances or the environmental conditions on, under or about the Ferry Terminal Properties including soil, groundwater, and indoor and ambient air conditions;

"**Laws**" means all federal, provincial, regional, municipal or local laws, statutes, ordinances, rules, regulations, bylaws and enforceable orders, decisions or directives including Hazardous Substances Laws, the *Coastal Ferry Act* and any permit authorizations required under any of the foregoing and including all applicable federal and provincial environmental assessment legislation and requirements and all applicable labour and human rights legislation;

"Leasehold Improvements" means all fixtures (excluding Tenant's or Occupant's trade fixtures), fixed equipment, improvements, infrastructure, filled foreshore and alterations existing on the Ferry Terminal Properties or any part thereof and those which from time to time are made, constructed, erected or installed by, for or on behalf of the Tenant or any Occupant of the Ferry Terminal Properties or any part thereof;

"Marine Structures" means dolphins, floating leads, wingwalls, transfer decks, trestles, docks, ramps and associated structures and equipment on the Ferry Terminal Properties or any part thereof;

"**Master Agreement**" means the agreement dated March 31, 2003 and made between the Landlord, the Tenant, the Province and Land and Water British Columbia Inc. with respect to the entering into of this Lease amongst other matters;

"New Facility" means any building, facility, utility, structure, improvement, pavement, landscaping, filled foreshore, infrastructure or structure, including Marine Structures created, installed or constructed on the Ferry Terminal Properties after the Commencement Date and includes any addition to, improvement to, alteration of or replacement of any Leasehold Improvement, Existing Facility or New Facility after the Commencement Date;

"Occupant" means a subtenant, licensee, concessionaire, franchisee, user or other third party, excluding a transferee or assignee of the Tenant's interest in this Lease, who has entered into an Occupant Agreement, and who regularly occupies any part of the Ferry Terminal Properties, but does not include anyone who occupies the Ferry Terminal Properties solely as a result of having purchased a ticket allowing them to travel on a ferry or who is using the pick up and drop off facilities located on the Ferry Terminal Properties;

"Occupant Agreement" means a sublease, licence, concession, franchise, user or any other agreement, between the Tenant and an Occupant whereby the Tenant grants a right to such Occupant to occupy or use all or part of the Ferry Terminal Properties, but does not include a Security Interest, a Transfer or Assignment Agreement or any other agreement whereby there is a transfer or assignment of the Tenant's interest in this Lease,

"**Permits**" means any and all zoning, rezoning, development, building, environmental, community plan, community charter, access or other permits which may be required by any Laws relating to the Tenant, any Occupant or any employee, agent, customer, contractor, subcontractor, invitee or licensee of the Tenant or any other person the Tenant is responsible for at law and any of their respective operations at, use and occupancy of the Ferry Terminal Properties or any part thereof;

"Province" means Her Majesty the Queen in Right of the Province of British Columbia as represented by the Minister of Transportation;

"Renewal Rent" means the sum of money described in Paragraph 13.3 to be paid by the Tenant for the Renewal Term;

"Renewal Term" means twenty (20) years immediately following the expiration of the initial Term;

"Rent" means all Basic Rent, Additional Rent and any Renewal Rent;

"Security Interest" means a mortgage, trust deed, security interest, financial charge or other debt instrument of the Tenant's or of an Occupant's interest in the Ferry Terminal Properties or any part thereof;

"**Taxes**" means the aggregate of all, if any, applicable to the Landlord or the Tenant, taxes, local improvement or similar rates, duties, assessments and charges, municipal realty taxes, water taxes, school taxes or any other taxes, rates, duties, assessments both general or special or any rate, duty, assessment, charge or tax levied, charged or assessed in their place by any taxing authority levied or imposed on or in respect of the Ferry Terminal Properties, or any part thereof, by any taxing authority;

"**Tenant's Obligations**" means the covenants, agreements, responsibilities, conditions and obligations required to be kept, performed or observed by the Tenant under this Lease;

"Term" means sixty (60) years commencing on April 1, 2003;

"**Transfer or Assignment Agreement**" means any agreement, arrangement or understanding, including a partnership or joint venture, which results in the assignment or transfer of the whole or any part of this Lease by the Tenant or any interest of the Tenant herein but does not include any Security Interest or Occupant Agreement made in accordance with the provisions in Paragraphs 34.1, 34.3 and 34.4 or any agreement where the effective control or beneficial ownership of the Tenant may change; and

"**Work**" means any proposed or actual New Facility which adversely impacts the integrity of, efficient functioning of, capacity of, or safe public passage on, any highway adjacent to all or any part of the Ferry Terminal Properties, any third party rights, any Provincial need which is greater than the lease of the Ferry Terminal Properties under this Lease (as determined by the Province in its sole and absolute discretion) or the Tenant's covenants, agreements and obligations under the Coastal Ferry Services Contract.

2. ENTIRE AGREEMENT

2.1 This Lease, the Master Agreement and the Coastal Ferry Services Contract constitute the entire agreement between the parties with respect to the subject matter of this Lease and supersede and revoke all prior negotiations and representations. No understanding, agreement, representation or warranty, oral or otherwise, exists between the parties with respect to the subject matter of this Lease except as expressly set out in this Lease, the Master Agreement and the Coastal Ferry Services Contract.

2.2 In the event of any inconsistency amongst the provisions in this Lease, the Master Agreement or the Coastal Ferry Services Contract, the provisions in the Coastal Ferry Services Contract will take precedence over this Lease and the Master Agreement.

3. INTERPRETATION

3.1 This Lease will be interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable in the Province of British Columbia.

3.2 Where there is a reference to an enactment of the Province of British Columbia or of Canada in this Lease, that reference will include a reference to every amendment to it, every regulation made under it and any subsequent enactment of like effect. Unless otherwise indicated, all enactments referred to in this Lease are enactments of the Province of British Columbia.

3.3 The headings in this Lease are for reference purposes only and are not to be relied upon for purposes of interpretation.

3.4 Wherever the masculine, feminine, body corporate, singular or plural is used in this Lease, the parties agree to substitute feminine, masculine, individual, plural or singular where the

context so requires. This principle applies to all words in this Lease, including defined terms.

3.5 Each obligation or agreement contained in this Lease is to be construed as and considered for all purposes as a covenant.

3.6 If any part of this Lease is found to be illegal or unenforceable, that part will be considered separate and severable and the remainder of this Lease will remain binding and enforceable insofar as is required to give effect to the intent of the parties as evidenced by this Lease.

3.7 The words "including," "include" or other variations thereof, when following any general statement, term or matter is not to be construed to limit such general statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters whether or not nonlimiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto, but rather such general statement, term or matter is to be construed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter.

3.8 Any reference in this Lease to a designated "Paragraph," "Schedule" or any other subdivision is a reference to the designated Paragraph, Schedule or other subdivision of this Lease unless the context requires otherwise.

3.9 The parties acknowledge that the Tenant is, as at the date of this Lease, applying to be converted to a company under the *Company Act*, R.S.B.C. 1996, c. 62 and the parties each covenant and agree that all rights and obligations of the parties as set out in this Lease will continue on such conversion.

4. TIME OF THE ESSENCE

4.1 Time is of the essence in this Lease.

5. NET LEASE

5.1 Subject to the limits on the financial obligations of the Tenant as expressly set out in this Lease or in the Master Agreement, the Tenant acknowledges and agrees that this Lease is intended to be a completely carefree absolutely net lease to the Landlord and that the Landlord will not be responsible for any costs, charges, expenses or outlays of any nature or kind whatsoever arising from or relating to this Lease or any matters contemplated in this Lease, the Tenant, any Occupant, the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities or New Facilities, including the use, repair, maintenance, development, management, lease or operation of same, or any part thereof, and the Tenant covenants with the Landlord to pay promptly all of such costs, charges, expenses or outlays.

6. DEMISE AND TERM

6.1 Subject to the terms of this Lease and the rights of the parties as set out herein, the Landlord demises and leases to the Tenant the Ferry Terminal Properties from 12:01 a.m. on the Commencement Date, for and during the Term, which will end at midnight on the 31st day of March, 2063, subject only to any earlier termination hereunder and the renewal of this Lease in accordance with the terms and conditions set forth in Paragraph 7.

7. RENEWAL

7.1 In the event that the Tenant becomes entitled to renew the Coastal Ferry Services Contract in accordance with the provisions of that contract, then, provided that the Tenant is not in default of any of the Tenant's Obligations, the Tenant may, by written notice delivered to the Landlord at least 12 months prior to the End Date, renew this Lease and extend the Term for one additional period of twenty (20) years commencing on the date immediately following the End Date and this Lease will be renewed on the same terms and conditions as set out in this Lease except that there will be no further right of renewal.

8. RIGHT TO TERMINATE

8.1 In the event that the Tenant wishes to discontinue all such Designated Ferry Routes (as defined in the Coastal Ferry Services Contract) operating to or from the Ferry Terminal Properties, the Tenant must first:

(a) provide the Landlord with written notice, at least two (2) years in advance of the date upon which the Tenant will discontinue all such Designated Ferry Routes; and

(b) have duly complied with all of the Tenant's Obligations and its obligations as set out in the Coastal Ferry Services Contract;

and in such event the Lease will terminate on the date specified by the Tenant in its notice given under Paragraph 8.1(a) and the Tenant will not be entitled to a rebate or refund of any prepaid Rent.

8.2 (a) If the British Columbia Ferries Commissioner appointed under the *Coastal Ferry Act* or any other person of Competent Authority issues an Order authorizing the Tenant to discontinue all Designated Ferry Routes to or from the Ferry Terminal Properties, then the Tenant will deliver to the Landlord a true copy of such Order within five (5) days of the Tenant's receipt thereof and this Lease will terminate on the effective date of the discontinuance under the Order, and

(b) only if such Order was not due to any default of the Tenant's Obligations, any negligence or misconduct of the Tenant, any Occupant or any employee, agent, customer, contractor, subcontractor, invitee or licensee of the Tenant or any other person the Tenant is responsible for at law, then the Tenant will be entitled to receive, from the Landlord, a refund of the remaining net book value of the Existing Facilities, Leasehold Improvements or New Facilities then remaining on the Ferry Terminal Properties, with such value being determined by amortizing their original costs on a straight line basis over their respective useful lives, as determined in accordance with Canadian generally accepted accounting principles.

8.3 If, as a result of any Event of Force Majeure, the whole or any part of the Ferry Terminal Properties, the Leasehold Improvements, the Existing Facilities or the New Facilities are destroyed or so damaged that they are unfit for occupancy, then the Tenant will only be obligated to repair or restore the Ferry Terminal Properties to a condition that reasonably allows the Tenant to use the Ferry Terminal Properties in accordance with the provisions of this Lease if the restoration or repairs

(a) will be, or, as provided in this Lease, should have been, paid by an insurer of the Tenant's, or

(b) will be paid by the Landlord, the Province or any other third party.

In the event that the Tenant is unable to confirm that such restoration or repairs will be so paid or in the event that the Tenant was not insured or was not required to insure against the Event of Force Majeure that occurred, then the Tenant may terminate this Lease by giving the Landlord written notice of the Tenant's intention to terminate within six (6) months of the destruction or damage having occurred and this Lease shall terminate on the date set out in the notice.

8.4 In the event that the Tenant does not notify the Landlord of the Tenant's intention to terminate this Lease in accordance with the provisions in Paragraph 8.3, the Tenant will forthwith restore or repair so much of the Ferry Terminal Properties, the Leasehold Improvements, the Existing Facilities and the New Facilities in order for the Tenant to use the Ferry Terminal Properties in accordance with the provisions of this Lease but without hindrance to the Tenant's ability to remove, demolish or redesign as many of the improvements or other structures located on the Ferry Terminal Properties as it determines appropriate for its operations provided it does so in compliance with the provisions in Paragraphs 20.1 to 20.4 .

9. AGREEMENTS WITH THIRD PARTIES

9.1 The Landlord agrees not to grant any licenses, rights of way, easements or any other privileges granting an interest in or access to the Ferry Terminal Properties or any part thereof to any other person or entity without the prior written consent of the Tenant, which consent may not be unreasonably withheld. The parties agree that it is reasonable for the Tenant to withhold such consent where the granting of such consent would have a material impact on the Tenant's provision of ferry and related services in accordance with the provisions of the Coastal Ferry Services Contract and *Coastal Ferry Act*, whether existing or part of the Tenant's future plans.

9.2 Notwithstanding the provisions of Paragraph 9.1 and subject to the Tenant's obligations as set out in Paragraph 9.4, the Landlord and the Tenant agree to respect and abide by the Existing Landlord Agreements described in Schedule "2". The Landlord may, at any time during the first ten (10) years of the Term, advise the Tenant of additional or of terminated Existing Landlord Agreements, in which case the parties agree that the Landlord will amend Schedule "2" accordingly to include or remove, as the case may be, such additional Existing Landlord Agreements. The Landlord acknowledges and agrees that its right to amend Schedule "2" does not include the right to revise any Existing Landlord Agreements on or after the Commencement Date.

9.3 The Landlord and the Tenant agree to respect and abide by the Existing Tenant Agreements described in Schedule "3" and the Landlord further agrees that, in the event that this Lease is terminated or expires, the Landlord will, subject only to the consent of the third party if required, assume responsibility for all of the Tenant's rights and obligations under such Existing Tenant Agreements. The Tenant may, within the first ten (10) years of the Term, advise the Landlord of all additional or of terminated Existing Tenant Agreements, in which case the parties agree that the Landlord will amend Schedule "3" accordingly to include or remove, as the case may be, such additional Existing Tenant Agreements. The Tenant acknowledges and agrees that its right to amend Schedule "3" does not include the right to revise any Existing Tenant Agreements on or after the Commencement Date unless such revisions comply with the requirements for Development Agreements set out in Paragraph 9.4.

9.4 The Landlord agrees that the Tenant may, without the prior consent of the Landlord unless otherwise provided herein and as a result of its development of the Ferry Terminal Properties, enter into Development Agreements solely for any use or purpose permitted under Paragraph 20.1; however, the Tenant agrees to provide the Landlord with a true copy of each Development Agreement and all amendments thereto within ten (10) days of the Landlord's request for the same from time to time. Notwithstanding the foregoing, if any such Development Agreement is expected to:

(a) extend beyond the expiry of the Term,

(b) reduce the number of vehicles capable of being held within any existing holding compound on the Ferry Terminal Properties by more than ten percent (10%);

(c) be contrary to any provision in this Lease, any Existing Landlord Agreement, any Existing Tenant Agreement or the Coastal Ferry Services Contract; or

(d) affect the integrity of, efficient functioning of, capacity of or safe public passage on, any highway adjacent to the Ferry Terminal Properties or any part thereof;

then the Tenant will not enter into, or agree to enter into, such Development Agreement unless the Tenant has obtained the Landlord's prior written consent to the same and the Tenant will comply with all terms and conditions which the Landlord may advise the Tenant of in connection with any consent to any such Development Agreement. In the event that a Development Agreement is expected to extend beyond the expiry of the Term, the Landlord may, in its sole discretion, require that the terms of the Development Agreement be satisfactory to the Landlord, who shall then also be made a party to it.

9.5 The parties acknowledge that the Tenant or any of its predecessors may have entered into agreements with third parties granting rights of access, an interest in or other rights over lands adjacent to or near the Ferry Terminal Properties which are required for the Tenant's use of the Ferry Terminal Properties as described in Paragraph 20.1. The Tenant covenants and agrees with the Landlord to use the Tenant's reasonable efforts to provide the Landlord with true copies of all of such agreements, if any, as soon as possible after the Commencement Date.

9.6 The parties acknowledge that the Landlord may have entered into agreements with third parties granting rights of access, an interest in or other rights over lands adjacent to or near the Ferry Terminal Properties which are required for the Tenant's use of the Ferry Terminal Properties as described in Paragraph 20.1. The Landlord covenants and agrees with the Tenant to use the Landlord's reasonable efforts to provide the Tenant with true copies of all of such agreements, if any, as soon as possible after the Commencement Date.

9.7 On the expiry of the Term or of any Renewal Term, or on any termination of this Lease, the Tenant agrees to deliver to the Landlord a copy of any agreements relating to lands, water or improvements outside of the Ferry Terminal Properties and made between the Tenant and a third party that are essential or necessarily incidental to the operation of the BC Ferry System from the Ferry Terminal Properties in accordance with the provisions of the Coastal Ferry Services Contract. In the event that this Lease is terminated or expires, the Landlord agrees that it will, subject only to the consent of the third party if required, assume responsibility for all of the Tenant's rights and obligations under such agreements.

10. OWNERSHIP OF FACILITIES

10.1 Except as otherwise provided for herein, the parties agree that, during the Term, or any Renewal Term, or from the Commencement Date to such earlier termination date if this Lease is terminated for any reason, the Existing Facilities, New Facilities and Leasehold Improvements are and will be the separate property of the Tenant and not of the Landlord. Notwithstanding that Existing Facilities and some of the Leasehold Improvements are, as at the Commencement Date, attached to the Ferry Terminal Properties, the Landlord acknowledges that, by executing this Lease, the Tenant is the owner of the Existing Facilities and such Leasehold Improvements together with all rights, interests, obligations and liabilities in connection with, arising from or related to the Existing Facilities.

11. SURRENDER ON TERMINATION

11.1 Except as otherwise provided herein, the Tenant agrees that it will, on the expiry of the Term, or any Renewal Term, or any earlier termination of this Lease, surrender to the Landlord vacant possession of the Ferry Terminal Properties, and all Leasehold Improvements, Existing Facilities and New Facilities then in existence in a state of good order, condition and repair, free and clear of any encumbrance of any kind including any Occupant Agreement, Development Agreement or Security Interest, other than the Existing Landlord Agreements, the Existing Tenant Agreements and the Development Agreements consented to by the Landlord in writing in accordance with Paragraph 9.4 .

11.2 Subject to the provisions of Paragraph 8.2(b), on the expiry of the Term, any Renewal Term or any earlier termination of this Lease, all Leasehold Improvements, Existing Facilities and New Facilities then in existence will become the absolute property of the Landlord without any payment being made therefor and free and clear of all mortgages, charges and encumbrances of any kind, other than the Existing Landlord Agreements, the Existing Tenant Agreements and the Development Agreements consented to by the Landlord in writing in accordance with Paragraph 9.4 .

11.3 Within ten (10) days of the expiry of the Term, any Renewal Term or any earlier termination of this Lease, the Tenant will deliver to the Landlord as-built drawings of all Leasehold Improvements, Existing Facilities and New Facilities which may exist at that time and may remove from the Ferry Terminal Properties:

(a) any trade fixtures normally removable by tenants;

(b) all goods, chattels, supplies, articles, equipment, materials, effects or other moveable items;

and will repair and restore, on or before the expiry of the Term, any Renewal Term or any earlier termination of this Lease, any damage occasioned to the Ferry Terminal Properties

and remaining Leasehold Improvements, Existing Facilities or New Facilities resulting from such removal.

11.4 If the Tenant fails to remove any of the items that it is entitled or required to remove under Paragraph 11.3 on the expiry of the Term, any Renewal Term, or any earlier termination of this Lease, then the Landlord may, at its sole discretion, either take title to same, free and clear from all claims of any kind whatsoever, or remove same and repair any damage resulting from such removal in which case the Tenant will pay to the Landlord, on demand, all costs incurred by the Landlord as a result of such removal, repair and storage.

12. OVERHOLDING

12.1 If the Tenant remains in possession of all or part of the Ferry Terminal Properties after the expiry of the Term, or Renewal Term, if any, whether with or without the consent of the Landlord, and without executing and delivering a new lease, there will be no renewal or extension of this Lease or the Term. In this event, the Tenant will be deemed to be occupying the Ferry Terminal Properties as a monthly tenant, on the same terms as set forth in this Lease insofar as they are applicable to a monthly tenancy, except that monthly basic rent will be the then fair market value rent as determined by the Landlord acting reasonably, and the monthly tenancy can be terminated by either party upon thirty (30) days prior written notice to the other party.

13. BASIC RENT AND RENEWAL RENT

13.1 Basic Rent for the Ferry Terminal Properties will be the sum of One Million, Three Hundred and Fifteen Thousand, Nine Hundred Dollars ($1,315,900.00) for the Term.

13.2 The Tenant agrees that it will prepay the Basic Rent at the Commencement Date, without abatement. The Landlord agrees that the Tenant may pay the Basic Rent by providing the Landlord with a signed, interest-free, demand promissory note in favour of the Landlord for the total amount of the prepaid Basic Rent, or by set-off only against any monies owing by the Landlord to the Tenant under section 3.3 of the Master Agreement.

13.3 Renewal Rent for the Ferry Terminal Properties will be the sum of Twenty Dollars ($20.00) for the Renewal Term, being a yearly rent of One Dollar ($1.00) for each year of the Renewal Term.

13.4 The Tenant agrees that it will prepay the Renewal Rent at the commencement of the Renewal Term, without abatement.

14. ADDITIONAL RENT

14.1 The Tenant agrees to pay the Landlord, as Additional Rent, during the Term and any Renewal Term, any sums of money as set out in this Lease that may be or become owing to the Landlord from time to time, other than Basic Rent and Additional Rent.

14.2 If and so often as any Additional Rent is not paid when due, the Landlord has the same rights and remedies and may take the same steps for its recovery as for the recovery of Rent in arrears.

14.3 Subject to Paragraph 13.2, the Tenant covenants and agrees to pay all monies payable under this Lease to the Landlord, or as the Landlord may direct in writing, in lawful money of Canada, without any set off, compensation or deduction whatsoever on the days and at the times specified in this Lease.

14.4 If the Tenant fails to pay any Basic Rent or Additional Rent payable by the Tenant to the Landlord under this Lease promptly when due, then the Tenant will pay to the Landlord interest on any unpaid Basic Rent and Additional Rent at a rate equal to equal to 6% per annum above the then applicable prime rate established from time to time by the Landlord's bank from the date on which such Basic Rent and Additional Rent was due until actual receipt of payment of the unpaid Basic Rent, Additional Rent and the interest due hereunder.

15. TAXES PAYABLE BY TENANT

15.1 The Tenant agrees that it will promptly pay or cause to be paid when due:

(a) any Taxes;

(b) any tax, rate, duty, assessment and fees with respect to any Leasehold Improvements, Existing Facilities, New Facilities, personal property and facilities on the Ferry Terminal Properties or any part thereof;

(c) any taxes and licence fees including any penalty, interest or cost imposed against the Tenant or its business or operations with respect to any business or undertaking carried on the Ferry Terminal Properties or any part thereof;

(d) any business transfer tax, value added tax, multi-stage sales tax, goods and services tax or any other tax relating to the Rent or lease of the Ferry Terminal Properties or any part thereof; and

(e) any and all other taxes, fees or charges that in any way relate to the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities or New Facilities or any and all uses on the Ferry Terminal Properties.

16. UTILITY CHARGES PAYABLE BY TENANT

16.1 The Tenant agrees to pay or cause to be paid the amount of any water, garbage collection, electrical, gas, power, other fuel and any other similar service or utility charges, costs or expense rendered to the Ferry Terminal Properties, or assessed against the Leasehold Improvements, Existing Facilities or New Facilities or any business or undertaking carried on therein and further agrees that the Landlord will not be responsible or liable in any way for payment of any such charges, costs or expenses or for any losses suffered by the Tenant or any person as a result of the Tenant's failure to pay such charges, costs or expenses in a prompt manner.

17. LANDLORD'S RIGHT TO PAY

17.1 If the Tenant fails to pay or cause to be paid any Taxes, fees, fines, charges or other monies required to be paid pursuant to this Lease, then the Landlord may, but will not be obliged to, pay the same and the amount paid will be payable by the Tenant on demand and will be recoverable as Additional Rent.

18. TENANT TO PROVE PAYMENT

18.1 The Tenant will, upon the request of the Landlord, forthwith provide the Landlord with proof of payment of any matters described in Paragraphs 15 or 16.

19. RIGHT TO APPEAL

19.1 Each of the Landlord and the Tenant (provided the Tenant is legally entitled to do so) will have the right to contest in good faith the validity or amount of any Taxes or to appeal any assessment therefor. Notwithstanding anything to the contrary in this Lease, the Tenant may, if it is not then in default under the Tenant's Obligations and on giving the Landlord at least 15 days prior written notice, defer payment of any Taxes to the extent permitted by applicable Laws, provided that no contest by the Tenant will involve the possibility of forfeiture, sale or disturbance of the Landlord's interest in the Ferry Terminal Properties (or any part thereof) or the imposition of any penalty or interest, charge or lien and that, upon the final determination of any contest or appeal by the Tenant, the Tenant will immediately pay and satisfy the amount found to be due, together with any costs, penalties and interest. If as a result of any contest or appeal by the Tenant, any Taxes are increased, the Tenant will be responsible for the full amount of such increase in respect of the period to which the contest releases and to any subsequent tax periods which commence during the Term (or

any Renewal Term). If the Tenant contests any amount payable by it under this Paragraph 19.1 or appeals any assessment therefor, the Tenant will:

(a) deliver to the Landlord any notices of appeal or other similar instrument immediately on the Tenant giving or receiving the same;

(b) promptly and diligently prosecute the contest or appeal at its sole cost and expense; and

(c) keep the Landlord fully informed thereof and forthwith provide the Landlord with such information as the Landlord may reasonably request in connection therewith.

20. USE, DEVELOPMENT AND REPAIRS

20.1 Provided that the Tenant first complies with all Laws and the provisions in the Coastal Ferry Services Contract, is a ferry operator (as defined in the *Coastal Ferry Act*) and obtains any and all applicable Permits, the Ferry Terminal Properties may only be used by the Tenant or by any Occupant, agent, permitted transferee or assign pursuant to any Transfer or Assignment Agreement consented to by the Landlord in accordance with Paragraph 34.6, or any customer of the Tenant, for any use or purpose consistent with provision of the ferry transportation services and ancillary services, as those terms are defined in the *Coastal Ferry Act* and in accordance with the provisions of the Coastal Ferry Services Contract.

20.2 Notwithstanding anything contained in this Lease, the Landlord agrees that the Tenant may, in the normal course of business and in compliance with the Coastal Ferry Services Contract, remove, demolish, construct or redesign any Existing Facilities, New Facilities or Leasehold Improvements at any time during the Term or the Renewal Term. The Tenant agrees that it will notify the Landlord in writing of details of any removal, demolition, construction or redesign that it intends to undertake which may require the Landlord to redesign any adjacent highway, may interfere with any established third party rights or may create a Work, in which case the Tenant must obtain the Landlord's prior written consent before proceeding with any such removal, demolition, construction or redesign. The Landlord, acting reasonably, will notify the Tenant whether it consents or not within ninety (90) days from the Landlord's receipt of the Tenant's notice given under this Paragraph. If the Landlord so consents, it may impose such terms and conditions as it sees fit and the Tenant will take all necessary steps to eliminate such impact of the removal, demolition, construction or redesign and will comply with any terms and conditions the Landlord may notify the Tenant of in writing. If the Tenant fails to comply with the foregoing in this Paragraph, it must not proceed with such removal, demolition, construction or redesign. In the event that the Landlord fails to so notify the Tenant of the Landlord's decision to consent or not within such ninety (90) day period, the Tenant may proceed with such substantial removal, demolition, construction or redesign without further notice to the Landlord.

20.3 In doing any maintenance, repairs, replacements, decorations, removal, demolition, construction or redesign, the Tenant will only use contractors or other workers qualified and licensed, where applicable.

20.4 The Tenant agrees that all removal, demolition, construction or redesign of Existing Facilities, New Facilities or Leasehold Improvements will be at its sole risk, cost and expense.

20.5 The Tenant covenants and agrees with the Landlord that the Tenant will, at the Tenant's sole cost and expense:

(a) keep the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities and New Facilities in a clean and sanitary condition and will not place or leave, or permit to be placed or left in, on or under any part of the Ferry Terminal Properties outside of any building thereon any debris, garbage, trash or refuse, but will deposit the same in areas and at times and in a sanitary manner and in compliance with all applicable Laws and if there are any costs for removal of debris, garbage, trash or refuse additional to the removal service provided by the Authority or if the Authority charges for such service, then the Tenant will pay such costs;

(b) repair, maintain and keep the Ferry Terminal Properties in good order and repair, as a careful owner would do;

(c) repair, maintain and keep all buildings, improvements, equipment and fixtures in the Ferry Terminal Properties, including any Leasehold Improvements, Existing Facilities and New Facilities in good order and repair and replace them when necessary, as a careful owner would do, and keep any improvements now or hereafter made to the Ferry Terminal Properties, equipment and fixtures in good order and repair, as a careful owner would do, and the Tenant covenants to perform such maintenance, to effect such repairs and replacements at its own cost and expense as and when necessary;

(d) repair any damage caused to the Ferry Terminal Properties by reason of any structural or any other type of defect in any Leasehold Improvements, Existing Facilities or New Facilities;

(e) make whole all damaged glass, including plate glass, in or on the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities and New Facilities;

(f) cultivate, plant, keep free from weeds and keep in a neat, tidy and trimmed condition all landscaping on the Ferry Terminal Properties as a careful owner would do;

(g) keep the roadways and parking areas in the Ferry Terminal Properties free and clear of all ice and snow; and

(h) conduct, at least once every seven (7) years, a survey, carried out by an accredited professional engineer, of the condition of the Marine Structures located on the Ferry Terminal Properties, provide the Landlord with a copy of the written report and promptly ensure that all steps are taken to correct any deficiencies in the Marine Structures.

21. OPERATION OF FERRY TERMINAL

21.1 The Tenant agrees that it will, throughout the Term and any Renewal Term, continuously, actively, diligently and carefully, manage, operate and maintain the services of the BC Ferry System on the Ferry Terminal Properties in accordance with the terms and conditions of the Coastal Ferry Services Contract.

22. OBSERVANCE OF LAW

22.1 The Tenant agrees to promptly comply with and observe, and will ensure that all Occupants comply with and observe, any applicable Laws now or hereafter in force including any regulation, order or requirement of any fire underwriters association or any similar body having similar functions or of any liability or fire insurance company by which the Landlord or the Tenant may be insured at any time during the Term, or any Renewal Term, and in so doing, the Tenant will be required to make any necessary alterations, repairs, improvements or replacements in, on or to the whole or any part of the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities or New Facilities.

23. RIGHT OF ACCESS

23.1 In the event of an emergency or in the event that the Landlord believes, acting reasonably or as a result of having been provided with information from a Competent Authority or insurer, that the Tenant is in breach of the provisions of this Lease or of the Coastal Ferry Services Contract, then the Landlord, its servants and agents, will have full and free access to the Ferry Terminal Properties or any part thereof, including Existing Facilities and New Facilities for examination purposes and to exercise any rights and remedies available to the Landlord under this Lease, at law, in equity or otherwise.

23.2 In addition to all rights of the Landlord under Paragraph 23.1, the Tenant agrees that the Landlord, its servants or agents, will, for a period of no more than ten (10) days per calendar year, have full and free access to the Ferry Terminal Properties, including Existing Facilities and New Facilities, for examination purposes. The Landlord agrees that such examination will take place in the presence of a representative of the Tenant and the Tenant agrees to make such representative available as required by the Landlord. The Landlord agrees to provide the Tenant with at least one (1) month's prior written notice of examination times and dates. The Landlord agrees that this right to examine under this Paragraph 23.2 is not

cumulative and that its failure to exercise its right in any calendar year does not entitle it to additional examination time in any following year.

23.3 Any entry onto the Ferry Terminal Properties, or any part thereof, by the Landlord under this Paragraph 23 will not be deemed to be a re-entry.

24. NOTICES OF NON-COMPLIANCE

24.1 The Tenant agrees that it will forthwith deliver to the Landlord a copy of any claim, writ, legal proceeding or written notice of non-compliance from any Competent Authority in relation to the Tenant, Occupant, Ferry Terminal Properties, Leasehold Improvements, Existing Facilities or New Facilities received by either the Tenant or by any Occupant and will ensure that such non-compliance is forthwith remedied.

24.2 The Tenant will provide to the Landlord, promptly upon any request by the Landlord, evidence of compliance with any provisions in this Lease.

25. TENANT TO INSURE

25.1 The Tenant will, at its own expense, throughout the Term and any Renewal Term, ensure the following insurance in forms and amounts as a prudent owner would obtain are in fact obtained:

(a) comprehensive general liability insurance, including Sudden and Accidental Pollution, to cover the obligations contemplated under this Lease, as amended from time to time, which will include a cross-liability clause, in an amount of not less than Twenty Five Million Dollars ($25,000,000), exclusive of interest and costs, per occurrence, the Landlord will be added as an additional insured as interests may appear;

(b) the Tenant will also place at its expense and for its benefit insurance upon property of every kind owned by the Tenant or for which the Tenant is legally responsible that is located on the Ferry Terminal Properties, including all Leasehold Improvements, Existing Facilities, New Facilities and stock in trade;

(c) this insurance shall be subject to regular review and agreement as to any increase in limits required given the nature and use of the Ferry Terminal Properties;

and the Tenant agrees to provide the Landlord with written evidence of insurance, upon the request of the Landlord.

25.2 The Landlord agrees that the Tenant may self-insure, subject to the consent of the Landlord, such consent not to be unreasonably withheld, with respect to the liabilities and hazards against which insurance is required under this Lease and in such case the Tenant agrees to fully indemnify and save the Landlord harmless against any claims, demands, suits or otherwise made against the Landlord with respect to such liabilities and hazards and for all

legal expenses incurred by the Landlord in the defence of same, on a solicitor and own client basis. The indemnity in this paragraph will survive the expiry of the Term, or any renewal thereof, or any earlier termination of this Lease.

25.3 In the event of any construction being carried out on the Ferry Terminal Properties, including the construction of any Work, the Tenant will ensure that the construction is diligently carried through to completion and that prior to the commencement of such construction, ensure appropriate insurance coverage to protect its assets, without right of subrogation against the Landlord:

(a) against claims for personal injury, death or property damage or other third-party or public liability claims arising from any accident or occurrence upon, in or about the Ferry Terminal Properties and from any cause, including the risks occasioned by such construction, for any personal injury, death, property or other claims in respect of any one accident or occurrence;

(b) to the Work and all fixtures, equipment, improvements and building materials on the Ferry Terminal Properties from time to time, both during and after construction, against fire, earthquake and all other perils from time to time customarily included in the usual all-risks builders' risk form of policy applicable to similar properties during construction and effected in the Province of British Columbia by prudent owners in an amount sufficient for rebuilding of the assets; and

(c) the Tenant will consider any other form or amended form of insurance in such amounts, and against such risks as the Landlord may, from time to time, reasonably require;

and the Tenant further agrees to provide the Landlord with written evidence of insurance, upon the request of the Landlord.

25.4 Each policy of insurance required to be carried by the Tenant hereunder will provide that the insurer will not have any right of subrogation against the Landlord on account of any loss or damage covered by such insurance or on account of payments made to discharge claims against or liabilities of the Landlord or Tenant covered by such insurance and an undertaking from such insurer to notify the Landlord in writing at least 30 days prior to any material change to, or cancellation of, the policy.

25.5 The Tenant will not do, permit to be done or omit to do anything in, on or about the Ferry Terminal Properties which causes or has the effect of causing the insurance on the whole or any part of the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities or New Facilities to be cancelled. If the Tenant receives notice that its insurance is going to be cancelled, then the Tenant will immediately advise the Landlord and the Tenant will work diligently to remedy the situation or to obtain replacement insurance.

26. LANDLORD'S RIGHT TO INSURE

26.1 In the event that the Tenant fails to comply with any of the provisions in paragraph 25.1 or there is a cancellation or threat of cancellation of any insurance required thereunder, then, if the Tenant fails to either remedy the situation or obtain replacement insurance within a reasonable period of time, the Landlord may place such coverage as the Landlord acting reasonably sees fit and the Tenant will pay the cost thereof as Additional Rent to the Landlord on demand.

27. LANDLORD NOT LIABLE

27.1 The Tenant agrees that the Landlord will not be liable for the following:

(a) any injury or death occurring to any person while on the Ferry Terminal Properties;

(b) any loss of or damage to any property of the Tenant or any other person located on the Ferry Terminal Properties;

(c) any damage, loss of profits or consequential loss caused or contributed to by the condition of the Ferry Terminal Properties, of any Existing Facility or of any New Facility, Leasehold Improvements, or any utility, service or road, or any interruption or failure in any business located on the Ferry Terminal Properties;

(d) any injury, loss or damage required to be insured against by the Tenant under this Lease;

(e) anything for which the Tenant is in any way responsible under this Lease;

(f) anything for which the Tenant has indemnified the Landlord under this Lease; and

(g) any claim, action, loss, writ or legal proceeding by any person in any way related to the uses permitted or not by the Tenant or any Occupant under this Lease.

28. INDEMNITY

28.1 The Tenant hereby agrees to indemnify and save the Landlord, its servants, employees, heirs and assigns harmless, against any claims, losses, suits, proceedings, actions, causes of action, demands, judgments, executions, liabilities and responsibilities arising as a result of any loss advanced by any person or entity for an injury or damage of any nature caused, resulting or arising from or contributed to by reason of any one or more of the following:

(a) the ownership of Existing Facilities, Leasehold Improvements or New Facilities, the occupancy or use of the Ferry Terminal Properties or any part thereof by the Tenant, any Occupant, or any person occupying or using the Ferry Terminal Properties or

any part thereof with the consent, express or implied, of the Tenant or of an Occupant;

(b) the Ferry Terminal Properties, the Leasehold Improvements, Existing Facilities or New Facilities, or any part of any of them;

(c) any claims or costs related to any dispute including the filing of any construction or builders liens, certificates of pending litigation or any other encumbrance against the Landlord or the Ferry Terminal Properties or any part thereof;

(d) the presence of any Hazardous Substance or the existence of any Hazardous Substance on, in or about the Ferry Terminal Properties or any part thereof, including any Hazardous Substance for which the Tenant is responsible at law before the Commencement Date;

(e) any act or omission of the Tenant, any Occupant, or any employee, agent, customer, contractor, sub-contractor, invitee or licensee of the Tenant;

(f) any Development Agreements, Occupant Agreements, Leasehold Mortgages, or Existing Tenant Agreements;

(g) any losses described in paragraph 17; and

(h) any matter described in paragraph 27;

provided however, that such indemnity does not apply to any negligent acts or omissions, or to any acts or omissions done in bad faith, by the Landlord or by anyone acting on behalf of the Landlord.

28.2 Except for matters arising directly as a result of the Tenant's breach of its obligation to abide by and respect any Existing Landlord Agreement, the Landlord agrees to indemnify and save the Tenant, its directors, officers, agents and employees harmless from any claims, losses, suits, proceedings, actions, causes of action, demands, judgments, executions, liabilities and responsibilities, including negligence, arising as a result of any loss advanced by any person or entity for any injury or damage of any nature caused, resulting or arising from or contributed to by reason of any Existing Landlord Agreement.

29. INDEMNITIES SURVIVE TERMINATION

29.1 The indemnities set out in this Lease shall survive the expiry of the Term, the Renewal Term, if any, or any earlier termination of this lease.

30. TENANT TO DEFEND ACTION

30.1 The Tenant will, in any event in which the Landlord is made a party to any action, suit or proceeding in respect of a claim to which the Tenant's obligation to indemnify and hold the Landlord harmless arises, defend such action, suit or proceeding in the name of the Landlord and will pay all costs of the Landlord, excluding legal costs incurred by the Landlord, in connection with any litigation and the Tenant may, in its sole discretion, elect to compromise, pay or satisfy any such action, suit or proceeding.

31. LANDLORD NOT OBLIGED TO REPAIR, MAINTAIN OR PROTECT

31.1 The Tenant agrees that the Landlord is not obliged to furnish any utilities, services, equipment or facilities, to make repairs or alterations, or to perform any maintenance to the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities and New Facilities, and the Tenant agrees that it assumes the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the Ferry Terminal Properties and anything contained therein.

32. "AS IS" CONDITION

32.1 The Tenant agrees that it has fully inspected and is familiar with the physical attributes and condition (including environmental condition) of the Ferry Terminal Properties, Leasehold Improvements, Existing Facilities and anything contained therein and accepts them on an "as is" condition, without any representations or warranties being given by the Landlord with respect thereto or to the utilities or any other services. Any additional work required to make the Ferry Terminal Properties, Leasehold Improvements or Existing Facilities suitable for the operations of the Tenant will be at the sole risk and expense of the Tenant.

33. LIENS AND CLAIM

33.1 The Tenant covenants that it will not permit, do or cause anything to be done, at any time which would allow any valid lien, certificate of pending litigation, judgment or certificate of any court, financial charge or encumbrance of any nature whatsoever to be imposed or to remain on the Ferry Terminal Properties, or any part thereof, excluding Security Interests which comply with the provisions in Paragraphs 34.1, 34.3 and 34.4.

33.2 At all times during the Term or any Renewal Term, the Tenant will, at its own expense, ensure that there is full workers' compensation coverage in respect of all workmen, employees, servants and others engaged in or on any work, non-payment of which may create a lien on the Ferry Terminal Properties or any part thereof. The Tenant will immediately notify the Landlord in writing of any dispute involving third parties which may arise in connection with obtaining and maintaining the workers' compensation coverage required under this Paragraph if such dispute results in the requisite coverage not being in place, and the Tenant will take all reasonable steps to ensure the resolution of such dispute forthwith. If the coverage required by this Paragraph is not in place within five (5) days of the date of the notice to the Landlord mentioned above, the Landlord will be entitled to have recourse to the remedies of the Landlord in this Lease, at law or in equity.

33.3 The Tenant agrees that the Landlord may, in its sole discretion and at its sole expense, without prior notice to the Tenant and at any time on or after the Commencement Date, file a Form 1 Notice of Interest under section 3(2) of the *Builders Lien Act*, S.B.C. 1997, c. 45, against title to all or any part of the Ferry Terminal Properties.

34. MORTGAGES, TRANSFERS, ASSIGNMENTS AND SUBLETTING

34.1 Provided that any rights granted to a third party do not exceed those granted to the Tenant by this Lease, and subject to the provisions of Paragraph 34.4 and 34.5, the Tenant may enter into an Occupant Agreement or Security Interest without the prior consent of the Landlord. In the event that the Tenant wishes to grant rights to a third party that do exceed those granted to the Tenant by this Lease, the Tenant must obtain the prior written consent of the Landlord, which consent may, in the Landlord's sole and absolute discretion, be withheld without having to give any reason.

34.2 The Tenant will provide the Landlord with either the names and addresses of any third parties to, or true copies of, any Occupant Agreement or Security Interest within ten (10) days of the Landlord's request for the same from time to time.

34.3 The Landlord acknowledges that the Tenant will be entering into one or more Security Interests to secure borrowings, which Security Interest will:

(a) contain a mortgage of the Tenant's property interests and a fixed charge on all of the other assets of the Tenant, and

(b) grant to Her Majesty the Queen in Right of the Province of British Columbia the right in its absolute discretion to purchase all of the issued and outstanding bonds under the Security Interests at any time at a price established under the Coastal Ferry Services Contract.

34.4 The Landlord agrees to enter into an acknowledgement agreement directly with the mortgagees or trustees under any Security Interest acknowledging that:

(a) the mortgagees or trustees will have the right on default, under the Security Interest, to take possession of all the assets of the Tenant and to appoint a receiver to operate the BC Ferry System in accordance with the terms of the Coastal Ferry Services Contract only for so long as they comply with the provisions of this Lease, the Coastal Ferry Services Contract and the *Coastal Ferry Act*; and

(b) without limiting the rights of the Province described in section 2.04(b) of the Coastal Ferry Services Contract, the Landlord will not exercise the rights and remedies that it may have under Paragraph 35.2 of this Lease, at law or in equity for so long as the mortgagee or trustee and its receiver comply with the provisions of this Lease, the Coastal Ferry Services Contract and the *Coastal Ferry Act*, however, in the event of their failure to do so, the Landlord may proceed with the exercise of its rights and remedies.

34.5 Notwithstanding any Occupant Agreement, Security Interest, Development Agreement, or Transfer or Assignment Agreement, or any consent of the Landlord thereto, but subject only to the rights of mortgagees or trustees under any acknowledgement agreement made pursuant to Paragraph 34.4, the Tenant will remain bound to the Landlord for the fulfillment of all of the terms, covenants, agreements or conditions contained in this Lease for the entire Term and any Renewal Term.

34.6 The Tenant agrees that it will not enter into a Transfer or Assignment Agreement without the prior consent of the Landlord, which consent may not be unreasonably withheld. The Landlord acknowledges and agrees that the conversion of the Tenant to a company, as more specifically described in Paragraph 3.9, neither constitutes a Transfer or Assignment nor requires the prior consent of the Landlord.

34.7 The rights of the Landlord under this Lease may be transferred or assigned to the Crown, any agent of the Crown or any Crown corporation and in the event of such transfer or assignment, the Tenant agrees to become the Tenant of such transferee or assignee under the terms of this Lease and to the extent that the transferee or assignee has assumed the covenants and obligations of the Landlord under this Lease, then the Landlord will, without further written agreement, be freed and relieved of all liability on such covenants and obligations. The Tenant will, from time to time at the request of the Landlord, certify or acknowledge to any actual or proposed transferee or assignee, the status and validity of this Lease, the state of the Landlord's and the Tenant's account under this Lease and any other information reasonably requested by the Landlord.

35. EVENTS OF DEFAULT

35.1 If the Tenant fails to keep, perform or observe any of the Tenant's Obligations or its obligations under the Coastal Ferry Services Contract and:

(a) such failure continues for a period of thirty (30) business days after written notice thereof has been given by the Landlord to the Tenant; or

(b) if any such failure because of its nature would reasonably require more than thirty (30) business days to rectify, the Tenant has not commenced rectification within the thirty (30) day notice period and, thereafter, promptly, effectively and continuously proceeds with the rectification of the failure;

then and in every such case, it will be lawful for the Landlord at any time thereafter to enter into and on the Ferry Terminal Properties or any part thereof in the name of the whole and the Landlord to have again, repossess and enjoy as of its former estate, notwithstanding anything to the contrary in this Lease. Whenever the Landlord is entitled to re-enter the Ferry Terminal Properties, it may, at its option and without limiting its other rights and remedies, terminate this Lease in which case all prepaid Rent will remain the property of the Landlord and the provisions in Paragraph 11 will apply.

35.2 Subject to the provisions of the Coastal Ferry Services Contract and to any acknowledgement agreement made in accordance with the provisions of Paragraph 34.4, upon the occurrence of an "Event of Default" as that term is defined under the provisions of the Coastal Ferry Services Contract, by the Tenant, this Lease will, at the sole option of the Landlord, cease and determine at which time the Term will immediately become forfeited and void and the Landlord may

(a) immediately claim Rent together with any arrears then unpaid and any other amounts owing to the Landlord by the Tenant under this Lease; and

(b) without notice or any form of legal process, forthwith re-enter on and take possession of the Ferry Terminal Properties and remove the Tenant's effects therefrom;

without prejudice to, and under reserve of, all other rights, remedies and recourses of the Landlord.

35.3 If at any time an action is brought for recovery of possession of the Ferry Terminal Properties, for the recovery of Rent or any other amount due under this Lease, or because of a breach by act or omission of any Tenant's Obligations, the Tenant will pay to the Landlord all costs and expenses incurred by the Landlord in obtaining professional advice regarding the same and in the exercise or enforcement of its rights and remedies under this Lease, including legal costs on a solicitor and own client basis.

35.4 If, at any time and so often as it happens, the Tenant fails to keep, perform or observe any of the Tenant's Obligations, then the Landlord may, but is not obligated so to do, without waiving or releasing the Tenant from the Tenant's obligations, itself observe and perform the Tenant's Obligations in respect of which the Tenant has made default or make payment of the moneys the Tenant has failed to pay; and the Tenant will promptly pay all costs and expenses reasonably incurred by the Landlord, excluding the costs of any salary, wages and benefits payable by the Landlord to any of its employees but including legal costs as between solicitor and own client, in the observance or performance of such Tenant's Obligations.

35.5 Any money paid by the Landlord as provided in Paragraph 35.4 will, be payable by the Tenant to the Landlord and the Tenant covenants to pay the Landlord forthwith on demand, with interest accruing on that money from the date of demand at a rate equal to 6% per annum above the prime rate established from time to time by the Landlord's bank, and all money payable under this Paragraph will be treated as Rent due and payable to the Landlord under this Lease and the Landlord will have the same rights and remedies and may take the same steps for their recovery as for the recovery of Rent in arrears.

35.6 Except as otherwise provided in this Lease, all rights and remedies of the Landlord in this Lease contained will be cumulative and not alternative and will be in addition to all rights and remedies available to the Landlord at law, in equity or otherwise.

36. BINDING UPON PERMITTED SUCCESSORS AND ASSIGNS

36.1 This Lease will enure to the benefit of and be binding on the Landlord, its successors and assigns, the Tenant, and the Tenant's permitted successors and assigns.

37. WAIVER

37.1 The failure of either party to insist on the strict performance of any provisions in this Lease or the failure of either party to exercise any right, option or remedy will not be construed as a waiver of any continuing or subsequent default or breach; and no waiver will be inferred from or implied by anything done or omitted by either party except if there is an express waiver in writing by that party.

38. FORCE MAJEURE

38.1 No party will be liable to another for any delay, interruption or failure in the performance of their respective obligations under this Lease if caused by an Event of Force Majeure, in which case the time period for the performance or completion of any such obligation will be automatically extended for the duration of such Event of Force Majeure.

39. NOTICES

39.1 Any notices to be given pursuant to this Lease will be sufficiently given if delivered or sent by fax as follows:

To the Landlord: BC Transportation Financing Authority
300 – 940 Blanshard Street
Victoria, British Columbia V8W 3E6
Attention: Director, Land Management Branch

FAX NO: 250.356.6970

And to the Tenant: British Columbia Ferry Corporation
1112 Fort Street
Victoria, British Columbia
V8V 4V2
Attention: Manager of Properties and Planning

FAX NO: 250.388.7481

and any notice will be deemed to have been given and received on the business day immediately following delivery or successful facsimile transmission.

39.2 Either party may change its address or fax number for notices by giving the other notice of such change in one of the manners set out herein.

40. AMENDMENTS

40.1 Except as otherwise provided herein, this Lease may only be modified or amended by a subsequent agreement in writing signed by both parties.

41. NO PARTNERSHIP, JOINT VENTURE OR AGENCY

41.1 The parties agree that nothing in this Lease creates any relationship between the parties of partnership, joint venture or of principal and agent and that the relationship is only one of landlord and tenant. The Tenant covenants and agrees that it will cause all third parties under any and all Occupant Agreements, Security Interests and Development Agreement to acknowledge and agree that there is no partnership, joint venture or principal and agent relationship between the Landlord and the Tenant under this Lease.

42. SURVEYS AND REGISTERED TITLE

42.1 The Landlord agrees that legal surveys of the exterior boundaries of the Ferry Terminal Properties where the Landlord and Tenant have agreed to do so, will be completed by the Tenant as soon as possible and, in any event, by March 31, 2004 and the parties agree that the description of Ferry Terminal Properties in Schedule "1" will be amended accordingly. The Tenant agrees to pay for all costs and expenses of such surveys incurred by the Landlord or the Province forthwith upon its receipt of any invoice therefor. If any of the Ferry Terminal Properties are not registered at the appropriate land title office as at March 31, 2004, the Landlord may cause them to be so registered and the Tenant will promptly pay all costs and expenses incurred by the Landlord in so doing.

42.2 Nothing in this Lease will be construed so as to prevent or restrict the parties from agreeing to alter the boundaries of the Ferry Terminal Properties in accordance with the *Coastal Ferry Act* by deleting portions of the Ferry Terminal Properties or adding other adjacent lands in order to correct any lands or water lot areas which were incorrect descriptions of any of the Ferry Terminal Properties in Schedule "1". When and so often as such addition or deletion is made pursuant to this Paragraph, the reference in this Lease to "Ferry Terminal Properties" will mean and refer to the lands after such deletion or addition.

43. REGISTRATION OF LEASE

43.1 The Tenant may, at its own expense, take any steps required to register this Lease although, upon the expiry of the Term (or any Renewal Term) or any earlier termination of this Lease, the Tenant will forthwith, at its own expense, remove and discharge any such registration, and provide the Landlord with a copy of such discharge with registration particulars thereon, and an updated title search, if available, of the Ferry Terminal Properties evidencing registration of such discharge.

44. QUIET ENJOYMENT

44.1 For so long as the Tenant pays all monies owing under this Lease and complies with all the Tenant's Obligations, the Landlord agrees that the Tenant will be entitled to quiet enjoyment of the Ferry Terminal Properties, without interruption or hindrance by the Landlord or by anyone acting on behalf of the Landlord.

45. SCHEDULES

45.1 Each Schedule to this Lease is an integral part of this Lease.

46. PERFORMANCE

46.1 Each party will, upon the request of the other, do or cause to be done all lawful acts and execute and deliver such documents and assurances necessary for the performance of the provisions of this Lease.

47. CONFIDENTIALITY AND FREEDOM OF INFORMATION

47.1 Each of the Landlord and the Tenant will treat as confidential and will not, without the prior written consent of the other of them, disclose or permit to be disclosed, any information supplied to, obtained by or which comes to the knowledge of the party as a result of this Lease, except insofar as the disclosure is necessary for registration under Paragraph 43.1, to enable the party to fulfill its obligations under this Lease or the Coastal Ferry Services Contract, to their respective legal counsel or as required by Law.

47.2 Any documentation relating to this Lease or the Coastal Ferry Services Contract that is in the custody or under the control of the Landlord is subject to the *Freedom of Information and Protection of Privacy Act*, R.S.B.C. 1996, c. 165.

48. DISPUTE RESOLUTION

48.1 If at any time and so often as a Dispute occurs, then the Landlord and the Tenant will use their commercially reasonable efforts to resolve such Dispute by amicable negotiations and, in this regard, will provide frank, candid and timely disclosure of all relevant facts, information and documents pertaining to any Dispute.

48.2 Either the Landlord or the Tenant may refer any Dispute for resolution to the Landlord's Director, Land Management Branch, Ministry of Transportation, Partnerships, and to the Tenant's Manager of Properties and Planning. Either party may designate a replacement or equivalent representative by giving the other party prior written notice of such designation.

48.3 If any Dispute is not resolved by the persons in Paragraph 48.2 within one month of such Dispute being referred to them, or such longer time as the Landlord and the Tenant may agree, then either the Landlord or the Tenant may elect in writing to refer the Dispute for resolution to the Landlord's Vice-President (or if not available, then to an Assistant Deputy Minister, Ministry of Transportation) and to a Vice-President of the Tenant. Either party may designate a replacement or equivalent representative by giving the other party prior written notice of such designation.

48.4 If any Dispute is not resolved by the persons in Paragraph 48.3 within one month of such Dispute being referred to them, or such longer time as the Landlord and the Tenant may agree, then either the Landlord or the Tenant may elect in writing to refer the Dispute for resolution to the Landlord's President, or if not available, then the Deputy Minister, Ministry

of Transportation (or any replacement or equivalent representative) and to the Tenant's President.

48.5 In any Dispute is not resolved by the persons in Paragraph 48.4 within one month of such Dispute being referred to them, or such longer time as the Landlord and the Tenant may agree, then either the Landlord or the Tenant may elect in writing to refer the Dispute to arbitration in accordance with the provisions of the *Commercial Arbitration Act*, R.S.B.C. 1996, c. 55.

WHEREFOR the parties have hereunto, by their duly authorized signatories, executed this Lease as set out below.

BC TRANSPORTATION FINANCING AUTHORITY
by its duly authorized signatory:

per: Dan Doyle
Chief Executive Officer

BRITISH COLUMBIA FERRY CORPORATION
by its duly authorized signatory:

per: Doug Allen
President and Chief Executive Officer

per: Rob Clarke
Executive Vice-President, Finance
and Chief Financial Officer

SCHEDULE "1" (Ferry Terminal Properties)
SCHEDULE "2" (Existing Landlord Agreements)
SCHEDULE "3" (Existing Tenant Agreements)

SCHEDULE "1"

DESCRIPTION OF FERRY TERMINAL PROPERTIES

Terminal Name: Lyall Harbour, Saturna Island			
Property Type	**Number**	**P.I.D.**	**Legal Description**
Lands Covered by Water: includes foreshore plus fill	1	025-709-879	District Lot 2042 Cowichan District Plan VIP75212
Uplands –Titled	1	025-710-168	Lot A Section 18 Saturna Island Cowichan District Plan VIP75213
Highway Lands	0		
Air Space Parcel	0		
Unsurveyed Crown Land	0		

B.C. FERRY SERVICES INC.

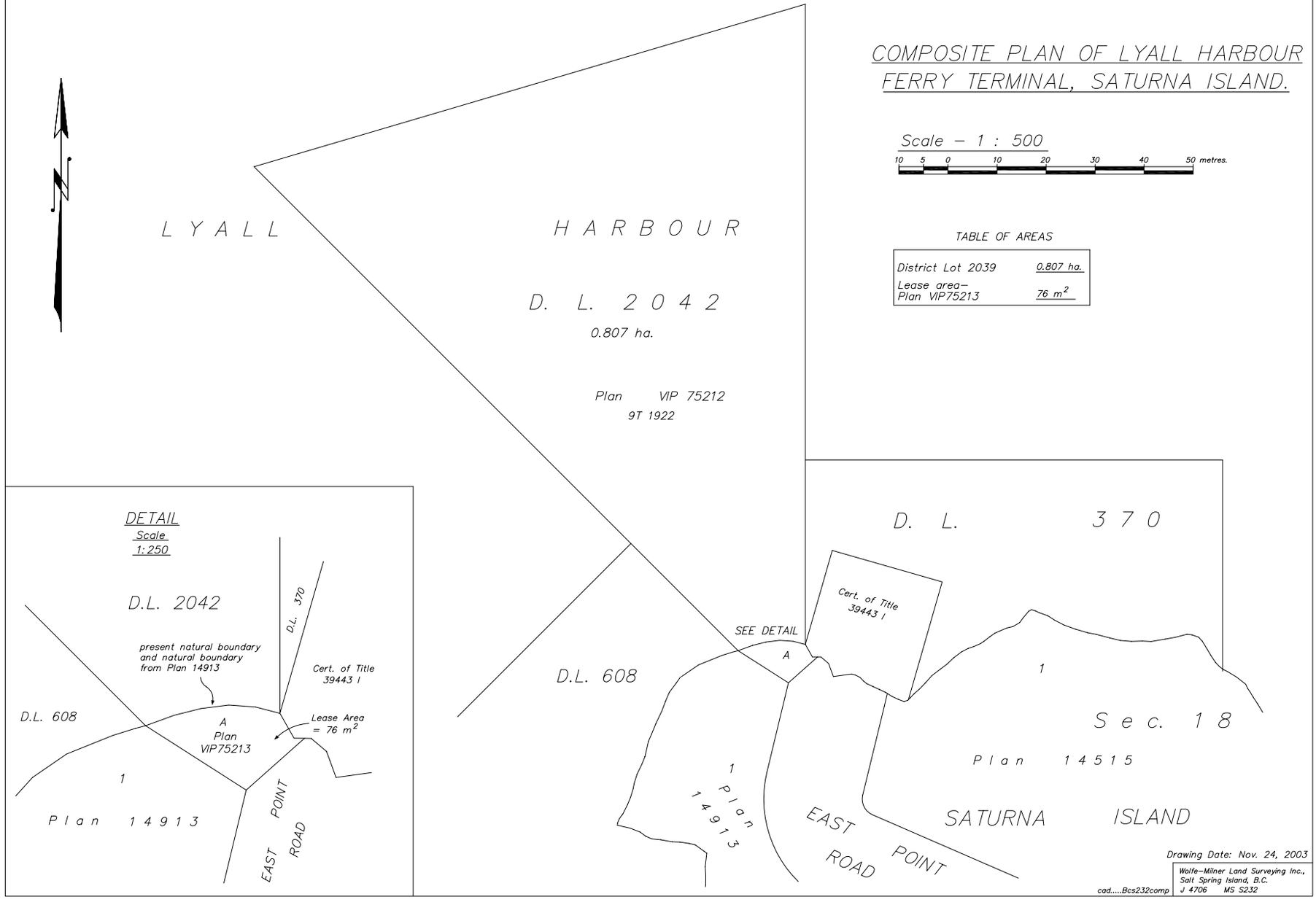
COMPOSITE PLAN OF LYALL HARBOUR FERRY TERMINAL, SATURNA ISLAND.

Scale – 1 : 500

10 5 0 10 20 30 40 50 metres.

TABLE OF AREAS

District Lot 2039	0.807 ha.
Lease area– Plan VIP75213	76 m^2



Drawing Date: Nov. 24, 2003

Wolfe–Milner Land Surveying Inc., Salt Spring Island, B.C.
J 4706 MS S232

cad.....Bcs232comp

SCHEDULE "2" - EXISTING LANDLORD AGREEMENTS

All portions of the Ferry Terminal Properties which were highway or road immediately before they were at any time transferred to BCTFA under the Coastal Ferry Act are subject to all agreements or privileges, verbal or written, which exist on the Commencement Date which permit any person rights to use, an interest or access onto such portions of the Ferry Terminal Properties for any of the following purposes:

(a) public and private utilities, improvements for the transmission of communications or optical energy or electrical energy, natural gas lines, artificial gas lines, lines for oil and other gaseous or liquid hydrocarbons, sanitary sewers, water lines, water conduit pipes, water mains, water distribution systems, storm sewers, pump stations, drainage ways, ditches, culverts, cat basins, signal distribution and processing equipment, and any other similar systems;

(b) to gain access to lands, docks, boat launch ramps or water adjacent to any of the Ferry Terminal Properties, and

(c) all systems, equipment, facilities and improvements related or ancillary to any of the foregoing.

SCHEDULE "3"

Terminal Name: Saturna Island

None

END OF DOCUMENT