

SCHEDULE TWO

COMMERCIAL EVALUATION CRITERIA

1. OVERVIEW OF THE COMMERCIAL EVALUATION CRITERIA

An overview of the Evaluation Criteria is provided in Section 7 of this RFP.

This schedule details the Commercial Evaluation Criteria which will be applied to the Commercial Proposal. These evaluation criteria correspond to the Commercial Proposal Submission Requirements detailed in Schedule One.

Commercial Proposals will be evaluated on the basis of the information requested under Schedule One, the Commercial Proposal Submission Requirements, and any subsequent clarifications.

2. LEGAL AND COMMERCIAL

Each Commercial Proposal must demonstrate:

- (a) an appropriate legal structure and contractual relationship between the various parties to the transaction, including satisfactory sub-contracting arrangements where relevant,
- (b) an appropriate and co-ordinated organizational structure for both the design and construction phase and the long term operations and maintenance phase of the Project,
- (c) appropriately qualified and experienced personnel to undertake planning and delivery of all aspects of the Project,
- (d) an understanding and commitment to developing and maintaining a cooperative partnership relationship with the key interested parties in the Project,
- (e) an understanding of the requirements specified in the Revised Concession Agreement, minimizing changes to the Revised Concession Agreement which transfer increased risk to the Province or which would make it unlikely that an agreement could be reached in a reasonable timeframe between the Province and the RFP Proponent. Changes to the Revised Concession Agreement which increase risk transfer from the Province to the Concessionaire or which increase confidence in the ability to execute the Concession Agreement in a timely manner will be favourably evaluated,
- (f) a strong understanding of the public consultation and community relations requirements of the Project,
- (g) an understanding of the labour market and a plan to ensure the uninterrupted availability of a suitably qualified workforce and materials to deliver the Project.

3. PRICE PROPOSAL

3.1 Price Proposal Evaluation Criteria

Commercial Proposals will be evaluated on the basis of the information requested under Schedule One, Commercial Volume Submission Requirements, and to the extent that the Commercial Proposal offers:

- (a) a Payment Mechanism and profile which meet the minimum requirements specified in the Commercial Submission Requirements and is consistent with the RFP Proponent's approach to satisfying the objectives of the Project. Factors which will be considered include;
 - (i) traffic volume payments,
 - (ii) availability payments,
 - (iii) safety payments,
 - (iv) customer satisfaction payments, and
 - (v) End of Term Payment.

The rationale underlying the assumptions with regards to the derivation of each Payment Mechanism component will be reviewed to assess whether they are reasonable;

- (b) a bonding program during both the design and construction and operation and maintenance phases of the Project which meets or exceeds the minimum requirements and supports the overall risk profile;
- (c) an insurance program during both the design and construction and operations phases of the Project which meets or exceeds the minimum requirements and supports the overall risk profile;
- (d) capital costs which are reasonable and justifiable; and
- (e) forecast operating and maintenance and asset management costs which are reasonable and justifiable.

Price Proposals will be evaluated on the basis of the lowest risk-adjusted aggregate net present value of the Performance Payments required by the Concessionaire. The discount rate used to calculate the net present value of the Performance Payments will be based on the Province's estimate of the typical weighted average cost of capital of a private sector project of a similar type to the Project.

4. FINANCIAL PLAN

4.1 Financial Commitment

The level of financial commitment demonstrated by RFP Proponents will be evaluated. The minimum level of financial commitment expected of RFP Proponents is as follows:

4.1.1 At the RFP Stage

All risk capital (sponsor equity and quasi equity, bonding and guarantees) should be provisionally committed subject to appropriate due diligence and detailed documentation. This commitment should be evidenced by board resolutions related to the terms set out. If equity or quasi equity is to be provided by third parties, similar commitment is required from an underwriter for the full amount.

The Province recognises that the availability and terms of senior debt will depend on the detailed negotiated terms of the Revised Concession Agreement. Therefore, it is not expected that senior debt facilities be unconditionally committed and documented as part of a Commercial Proposal. However, the Province expects that RFP Proponents will have held discussions with the providers of financing based on their Commercial Proposals and the main terms of the Revised Concession Agreement and that the financial terms provided as part of Commercial Proposals will be supported by preliminary credit approval from financial institutions and/or preliminary agreements, including termsheets, from underwriters. If RFP Proponents intend to secure credit ratings, credit enhancement or other insurance over their funding packages, similar evidence of support or indicative ratings should be provided.

The evaluation criteria at the RFP stage will be weighted heavily towards RFP Proponents who offer certainty of commercial and financial terms and Financial Close. The Province may decide not to progress into a BAFO stage, to vary the timing or requirements of the BAFO stage or to progress with a single RFP Proponent following the RFP. RFP Proponents are therefore encouraged to provide the highest level of commitment and the greatest amount of detail possible in respect of their Financing Plan.

4.1.2 At the BAFO Stage

It is expected that the level of commitment at BAFO relating to all aspects of the financing structure and Financing Plan will be sufficiently advanced to provide the Province with a very high degree of confidence and certainty that the Financing Plan can be implemented. This would include confidence that all risk capital has been approved, that detailed term sheets for the debt instruments have received formal credit approvals, that at least indicative credit ratings have been provided if required along with a timetable to achieve final ratings and that the appropriate documentation has been drafted, with only identified provisions of the Revised Concession Agreement under negotiation and only specific due diligence to be completed and only a limited number of reasonable conditions precedent to drawdown of funding.

4.2 Financial Evaluation Criteria

Commercial Proposals will be evaluated on the basis of the information requested under Schedule One Commercial Proposal Submission Requirements, and to the extent that the Commercial Proposal demonstrates,

- (a) a robust capital structure and Financing Plan. The Province needs to be confident that sufficient risk capital is in place to accommodate a reasonable range of downside risk in the context of the RFP Proponent's proposed Payment Schedule without triggering default or step-in. Factors which will be considered include: the headroom offered by forecast project cashflows above the debt covenants; the annual debt service coverage ratios; and the resilience of the financial model to downside sensitivities;
- (b) the long term commitment of equity investment in the Project. Factors which will be considered include: the identity and financial strength of the equity investor; the independence of equity returns from other returns from the Project such as construction profit margins; certainty and level of commitment, including board resolutions or equivalent; the quantum of equity and quasi equity investment, including any contingent equity support; the reasonableness of the rate of return on equity investment; the profile of the return on investment, including annual yield projections and the nominal equity payback period;
- (c) the availability of long term debt financing for the Project. Factors which will be considered include: identity, financial strength and experience of debt providers or arrangers; certainty and level of commitment, including credit committee approvals or equivalent; whether interest rates are fixed and whether the Province is exposed to any interest rate risk prior to close; qualifications to any commitment and conditions precedent to drawdown; status of the development of financing documentation; maturities of the debt facilities and amortization profiles, including any refinancing risk;
- (d) a plan to achieve Financial Close within a reasonable timeframe which meets the Province's objectives; and
- (e) appropriate security for the performance of the RFP Proponent's obligations. Factors which will be considered include: the strength of any corporate covenants, guarantees, letters of credit, bonding or other performance securities.

4.3 Value for Money

The Province is not obligated to accept the Commercial Proposal which offers the lowest risk adjusted net present value of Performance Payments, but is looking for the Commercial Proposal which offers the best overall value for money in achieving the Province's objectives.

All Commercial Proposals will be evaluated based on the same commencement date and the same forecast of traffic volumes, availability and safety performance. A Commercial Proposal based on out-performance of these objectives will anticipate receiving a higher payment however this will not count against the Commercial Proposal in the price evaluation. In this way, the

Payment Mechanism will accommodate much of the value for money considerations. The Province may consider value for money beyond the provisions of the Payment Mechanism.

4.4 Comparison to Risk Adjusted Cost of Public Sector Delivery

The risk adjusted net present value of the Performance Payments plus the expected value of any additional Performance Payments (as a result of higher traffic forecasts or improved safety outcomes) will be compared to the theoretical risk adjusted cost of public sector delivery. The Province may choose, (a) not to accept any Commercial Proposal, (b) to amend the transaction structure or the proposed risk allocation during BAFO or in negotiations with a Preferred Proponent, or (c) to undertake the project on a different basis.

4.5 Common Assumptions

For the purposes of consistent evaluation of all Commercial Proposals, the following common assumptions will be applied to the evaluation. These common assumptions will only affect calculation of the net present value of the Performance Payments to the Concessionaire for the purpose of the evaluation of the risk adjusted net present value. Each RFP Proponent must make its own assumptions as to the Performance Payments it will receive in its Financial Model and Financing Plan. However, the Province will use a set of predetermined assumptions and sensitivity tests to assess the net present value and robustness of the Financing Plan. RFP Proponents should demonstrate that their Financing Plan is robust on the basis of these assumptions:

(a) Treatment of inflation

The general rate of inflation applied will be an average of 2% per annum over the Term.

(b) Traffic forecasts

The traffic volume payments will be calculated on the basis of the Base Case Traffic Forecasts contained in the IGTR.

(c) Availability payments

Each RFP Proponent will be assumed to receive the full value of the requested availability payments without any deductions.

(d) Safety payments

Each RFP Proponent will be assumed to achieve the safety Performance estimated by the Province, which results in receiving the midpoint safety payments.

(e) End of Term Payment

Each RFP Proponent is assumed to receive the 100% of the gross End of Term Payment.