BLUE RIBBON PANEL

REPORT TO THE MINISTER OF FINANCE

L.F. Wade International Airport

REDEVELOPMENT PROPOSAL

FEBRUARY 2017

Blue Ribbon Panel Report

Dated: 7 February 2017

INTRODUCTION:

The Government of Bermuda has proposed the redevelopment of L.F. Wade International Airport by way of a Government to Government ("G2G") proposal. The Minister of Finance constituted the Blue Ribbon Panel (the "Panel") to review the proposed project and to render an opinion, subject to the published terms of reference, on whether the proposal is commercially sound and/or commercially reasonable, and supportive of the Government's long-term strategic objectives.

The Panel is asked to consider:

(1) The Government's strategic objectives of long-term sustainability:
   a. Increasing traffic volume and revenue
   b. Addressing structural needs of the airport terminal, and
   c. Improving customer experience

(2) If the transaction incentivizes the Concessionaire to support the Government's long-term objectives

(3) If on balance, the deal is within the parameters for similar P3 airport concession transactions in the market.

(4) If the transaction provides for the Government to share in upside benefits and mitigates downside risks.

Source: Blue Ribbon Panel Terms of Reference

This report contains the analysis of the Panel and its conclusions.

Blue Ribbon Panel:
Malcolm Butterfield, Chairman
Anthony Joaquin:
Barclay Simmons:
Caroline Foulger:
Craig Simmons:
Gil Tucker:

OVERARCHING CONCLUSION:

The Blue Ribbon Panel has been tasked with examining the proposed L.F. Wade International Airport Project. Our review has considered several aspects of the transaction: valuation, cost and returns; transparency and communications; risk and risk transfer; acceptable returns to debt and equity providers; competitive advantages, fair and unfair; national debt, fiscal deficits and sovereign credit ratings; and suitability of commercial counterparties. We have benefitted from the contribution of many professionals who have been a part of this transaction, and equally from parties who are opposed to the transaction in its current form, or in some cases at all. At all times we have sought to remain within the remit of the terms of reference and to provide our views on commercial reasonableness. At times this has meant that we have sought to distinguish between what is a good deal and a bad deal, without seeking to determine if the transaction was a 'perfect' deal.

In summary, we have found that this transaction is commercially sound and reasonable, likely to meet the Government's stated objectives of long term sustainability, increased traffic volume and revenue, while effectively providing for the structural needs of the airport. We have also found that its terms are within the parameters for similar P3 Airport projects and in some cases this project exceeds those norms positively.

Our analysis has also revealed the challenges associated with this project. Legitimate concerns have been expressed as to the process, the representations made to the Parliament and the People of Bermuda, and the significant opportunity transferred to a private company for an extended period of time that this project represents.

Bermuda has been placed in the unenviable position of choosing a commercially reasonable deal, when absent our national financial position, this is an opportunity that could have best been placed in the hands of the people through Government ownership. It is difficult to pass by the significance of this reality without commenting that Bermuda, under successive PLP and OBA Governments, has allowed its debt to reach a level to where taking full ownership of a project of this nature is not feasible. Our debt is a national threat no matter which political party is in Government.

Our review, however, had to be grounded in the politics of reality. We have tried to convey our views on questions relating the categories presented above and to present a wide range of questions and answers to the project as a service to the public. So much has been written and commented on that we felt it important to address some of the factual inaccuracies. In other cases, we have found the facts commentators were concerned about to be valid. In those cases we have either agreed or disagreed with their conclusions. We believe our views in those cases are not the final word, but an addition to the conversation. Our collective experience in the worlds of economics, law, finance and business undoubtedly shapes our perspectives. We respectfully submit our view on the project for the public's consideration.

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SELECTION OF KEY ISSUES AND QUESTIONS:

Having reviewed a great deal of material and met with many professionals involved in the project and other individuals who have reservations (listed in the Appendix), the Panel sets out below a selection of some of the key questions raised during our review process. While not exhaustive, we submit both the Executive Summary and the "Question, Analysis, Conclusion" pages around these 17 selected issues as a means of indicating the wider basis of our key finding.

SELECTED ISSUES:

1. Are there $810mm or $1,359mm of hidden costs being incurred on the Airport?

2. Are the proposed comparators to the selected proposal fair?

3. Is there a total risk transfer under the Government to Government (G2G) proposal of the cost of construction?

4. Are the gaps identified in the Deloitte Report filled?

5. Is a Negotiated Process better than a Competitive Tender Process?

6. Is there an Explanation of the Minimum Revenue Guarantee and Upside Revenue Sharing?

7. Would the Credit Rating of Bermuda be negatively affected by additional debt added to our existing debt by a Government financed Design Build (DB) process?

8. On balance is the deal within the parameters for similar P3 Airport Concession transactions?

9. Does this project give a competitive advantage to the Project Company by allowing them to use the base lands for capital development for "commercial operations" as they receive customs duty and payroll tax exemptions?

10. What would be the cost to taxpayers if the project were to be terminated in May 2018?

11. How does this plan address the concerns raised by the Ecuadorian Supreme court ruling stating that the payment schedule, airport fee structure was unconstitutional, given that this is the same 'exact' plan and model proposed?

12. It has been suggested that after the construction phase of the airport is completed Aecon and CCC intend to sell off their interest in the Airport (as they did with their most recent airport project in Quito, Ecuador). What would be the impact of that?

13. Has there been any consideration given to the risk that ICAO may not allow the increases in regulated Revenue as was suggested by Project Co? If this is the case will the Government of Bermuda will be on the hook to make up the difference in the 'Regulated Revenue Guarantee'?

14. How can this plan be considered commercially viable if the United Kingdom has already gone on record and decided that the Cayman Island proposal failed to deliver value for money?

15. How does the cost of the proposed G2G project compare to other Airport Projects?

16. Is a 30 Year term for the contract an appropriate term?

17. Has this proposal been shrouded in a process that lacks transparency?

EXECUTIVE SUMMARY OF THE PANEL'S VIEWS ON THE KEY QUESTIONS CONSIDERED

The list of selected issues considered above and the summary views of the Panel are presented below. Pages12 to 30 of this report provides much more detail on each point.

Issue 1 – *Are there $810mm or $1,359mm of hidden costs being incurred on the Airport?*

Response to Issue 1 – This is a technically complex area, however **the conclusion of the Panel is that the cost presented by the Government of $302mm is the correct number to use.** The numbers of both $810mm and $1.4bn are both based upon assumptions that are (i) not generally accepted corporate finance methods; (ii) not supported by several independent experts; and (iii) do not fully consider both sides of the picture of costs and revenues. Much more detail is provided on the following pages.

Issue 2 – *Are the proposed comparators to the selected proposal fair?*

Response to Issue 2 – The Government has compared the costs of the proposed Agreement to two others: (i) Repair & Renovate or "Status Quo"; and (ii) Outsource the design and construction and retain the financing and operations or "Design & Build". While only these 3 options were presented publicly, 9 individual options were actually assessed in the early stages. The 6 others not further developed were viewed by independent experts as being less-optimal variations on the 3 that were fully considered.

The conclusion of the panel is that of the 3 options considered and compared against one another, the cheapest option is to Repair and Renovate, however the best Value-for-Money comes from the Government's proposed option. We found that while the design and build option was not a direct comparator, even when scaled down to a similar size it was a much higher cost option.

Issue 3 – *Is there a total risk transfer under this "G2G" proposal of the cost of construction?*

Response to Issue 3 – The Government has stated that Bermuda has transferred all of the construction risks on this project and that it will be "on time, on spec and on budget".

The Agreement transfers all of the design, construction, financing, operating and maintenance ("DBFOM") risk to the third parties provided that the construction cost is not more than 45% over-budget and that the estimates of air passengers are achieved. (The first point is addressed here, the second is addressed below in Issue 5).

It is important to understand that if the construction costs overrun by more than 45%, then the Bermuda Government (i.e. taxpayers) will be at risk for the overrun past that level. Independent analysis has indicated that there is a 90% probability that any overruns are likely to be less than 40%.

The conclusion of the Panel is that the risk transfer of the costs of construction in this proposal is better than would normally be achieved, albeit not 100%.

Issue 4 – *Are the gaps identified in the original business case and procurement process (by the independent advisers Deloitte) now closed?*

Response to Issue 4 –The Government produced an analysis of what needed to be done as a result of the 2015 Deloitte review and committed to the UK Government it would close those gaps. This was required before the UK would allow Bermuda to proceed to contract. The UK Government has confirmed that Bermuda may now proceed on the basis of assurances made by the Government of Bermuda and its advisers that the gaps have been remediated.

The Panel has concluded "Yes the gaps are closed".

Issue 5 – *What is the explanation of the Minimum Revenue Guarantee and Upside Revenue Sharing?*

Response to Issue 5 – The Minimum Revenue Guarantee has been granted in order to reduce the cost of the Project Company's borrowing and has been incorporated into the project costs that Bermuda is contracting for. This Guarantee is only relevant if airport passenger numbers fall below projected levels and can only be used to replay debt holders (not equity holders). There are strong safeguards in place for the access to any funds. In contrast, better than projected passenger numbers will effectively lead to a "rebate" for Bermuda as there is a 50% sharing of any regulated revenue above regulated revenue once the equity has been returned in the form of dividends. **The Panel believes that the Guarantee is an appropriate mechanism to reduce costs and that the Upside is a reasonable way to ensure that Bermuda benefits from its own success in increasing airport traffic above estimates.**

Issue 6– *Is a Negotiated Process better than a Competitive Tender Process?*

Response to Issue 6 Generally, for public sectors projects, a competitive tender is the preferred approach and therefore the use of a negotiated process has been a topic of much political and media discussion. The Panel began its review assuming that a procurement process would be likely to be preferable.

In the case of this project however, after its review process, the Panel concluded that the approach of Government to enter into a negotiated agreement instead was reasonable.

The Panel based its view on firstly the risks and costs of a procurement process for Bermuda generally and secondly considered the benefits of a negotiated process with CCC and Aecon specifically. More detail on both points is provided in the body of the report.

The Panel concurred that the risks were important considerations and that the Government response to them by entering into a negotiated process was reasonable.

The Panel also believes that the specific upsides from working with CCC/Aecon were important factors for the Government to consider in its decision to pursue a negotiated process and that the decision to pursue negotiation rather than procurement is a reasonable one in the circumstances.

Issue 7 – *Would the Credit Rating of Bermuda be negatively affected by additional debt added to our existing debt by a Government- financed project?*

Response to Issue 7 – This appears to be a high risk based on the current levels of National Debt and the current annual Budget Deficit. If Bermuda was downgraded then two things would happen. Firstly, the cost of Government debt would increase, taking revenues away from other current expenditures; secondly, companies operating in Bermuda would have their own debt costs increase (as a Company cannot usually have a credit rating any higher than the country in which it operates). This would cause those companies' costs to increase and likely cause them to need to look at other cost reduction strategies. Additionally Bermuda's attractiveness to international facing business may be negatively impacted by a rating downgrade.

The Panel has concluded that the Government is correct to mitigate this risk as far as possible, and the best way in this context is to ensure the financing for this project is taken on by third parties.

Issue 8 – *On balance, is this proposed deal within the parameters for similar P3 Airport Concession transactions globally?*

Response to Issue 8 – The Panel reviewed the key terms of this proposed Agreement and compared them with those on other global projects and **concluded that the terms were at least consistent and in some measures superior.**

Issue 9 - *Does this Project give a competitive advantage to the Project Company by allowing them to use the base lands for capital development for "commercial operations" as they receive customs duty and payroll tax exemptions*

Response to Issue 9 – **The Panel reviewed the detail of the key terms in the Agreement relating to each of the three areas of Base Lands, customs duty exemption and payroll tax relief and concluded that they were limited and not commercially unreasonable and therefore did not give an unfair competitive advantage to the Project Company.**

Issue 10 – *What would be the cost to taxpayers if the project were to be terminated in May 2018?*

Response to Issue 10 – **The Panel concluded that this decision is wholly within the control of the Bermuda Government who would therefore be able to make any decision on this topic in the best interests of Bermuda at that time.**

Issue 11 - *How does this plan address the concerns raised by the Ecuadorian Supreme court ruling stating that the payment schedule, airport fee structure was unconstitutional, given that this is the same exact plan and model proposed?*

Response to Issue 11 – **The Panel's review related solely to the proposed Agreement for Bermuda which both has a written constitution and has the permission to proceed from the UK Government through the Foreign & Commonwealth Office and the Letter of Entrustment. The position in Ecuador is not the same and the Panel cannot comment further on the Ecuadorian situation.**

Issue 12 - *It has been suggested that after the construction phase of the airport is completed Aecon and CCC intend to sell off their interest in our Airport (as they did with their most recent airport project in Quito, Ecuador). What effect does that have on the Panel's view?*

Response to Issue 12 - **The Panel believes this is not a significant risk to Bermuda as any sale of Aecon's interest to another investor must be approved by the Government of Bermuda and any future investor will be bound by the same terms.**

Issue 13 – *What is the risk that the relevant global authorities (IATA/ ICAO) may not allow the increases in regulated revenue included in the projections? If this is the case would the Government of Bermuda be "on the hook" to make up the difference through the Minimum Revenue Guarantee?*

Response to Issue 13 – **The Panel has noted that Bermuda is currently applauded by IATA for its collaboration to date on this Project which bodes well for future collaborative negotiations on fees. Additionally, all fees must be approved by the Bermuda Airport Authority (BAA). The Panel considers that this risk has been reasonably mitigated.**

Issue 14 - *How can this plan be considered commercially viable if the United Kingdom has already gone on record and decided that the (seemingly identical) Cayman Island proposal failed to deliver value for money?*

Response to Issue 14 – **The Panel has not reviewed the Cayman Islands proposal and cannot comment on it. However, the UK Government has specifically confirmed that Bermuda has permission to proceed. The Cayman comparison therefore did not assist our analysis.**

Issue 15 – *How does the cost of this proposed Government to Government (G2G) project compare to other Airport projects?*

Response to Issue 15 – The cost per square foot for this project is towards the top end of benchmarks from other projects, although not the highest. This was viewed by the independent advisers as being significantly due to the fact that Bermuda is geographically isolated, has restrictions on the specific siting of the airport due to reclaimed land, needs to import much of the construction materials and has a higher labour cost than many other parts of the world. It is likely that a lower cost model could have been designed, but this would likely not have met the other strategic objectives for the Project. **The Panel has concluded that the costs are within a range of comparison projects and are towards the upper end due to Bermuda-specific factors.**

Issue 16 – *Is a 30-year contract term appropriate?*

Response to Issue 16 – The comparison global projects had terms ranging from 20 to 40 years, so the Bermuda project is in the middle of that range and consistent with industry standards. Similar to an individual taking out a mortgage, the length of the repayment term is a function of how much the individual can repay each period. If Bermuda had wanted a shorter period than 30 years, then the airport revenues would need to be much higher. **The Panel concluded that the 30-year term was reasonable and consistent with similar projects; we also consider that it would not be in the best interests of Bermuda to endeavor to significantly increase airport usage fees.**

Issue 17 – *Has this proposal been shrouded in a process that lacks transparency?*

Response to Issue 17 – This proposed project has generated significant debate in the community and the media and been the subject of several detailed written critiques, specifically by The People's Campaign regarding a lack of transparency. **The Panel's view is that the entire project would have benefitted from much clearer disclosure of the transaction, its terms and the participants at a much earlier stage.** The Panel also agree that there are valid concerns on the process undertaken and the lack of clarity over the selection of CCC and Aecon.

However, overall the Panel has concluded that the substance of the transaction (the construction of a new airport by an experienced contractor, the provision of an impeccable credit rating by the Canadian Government and the retained ownership of a key strategic asset for the Country) has been achieved on reasonable and commercial terms.

DETAILED ANALYSIS OF THE KEY ISSUES CONSIDERED BY THE PANEL

(1) Are there $810mm or $1,359mm of hidden costs being incurred on the Airport?

As part of our review we found this question to be present in several of the reports objecting to the project. The basis for this calculation was contained in a report submitted to the Panel and this conclusion has been repeated in various other presentations and in the public arena generally as a key source of concern. The Panel does not agree with this methodology or calculation. We set out below the calculation and our areas of concern. Our independent analysis was supported in later interviews with financial services advisors on the project including KPMG, CIBC and Speer Davies Gleave, and is based on accepted corporate finance methodology. We set out the calculation and highlight our disagreements with it.

Airport Departure Taxes	$19mm	1
Revenue from Airport Operations	18	
Total Revenues	$37	
Expenses	(10)	
Net Revenue Transfer	$27mm	2

$27mm x 30 years = $810mm — 3

Government Annual Commitments

Retained Services	$8.8mm	
Energy Subsidy	2.6	
Airport Quango	3.5	
Total Government Commitments	14.9	
Foregone Airport Cash Flows	3.4	4
Net Financial Commitment to Bermuda	$18.3mm	

$18.3mm x 30 Years = $549mm — 5

$810mm + $549mm = $1,359mm (approximately $1.4 billion)

(1) This figure is based on the increased departure tax ($50) and the Airport Improvement Fee (AIF) ($16). As the AIF is only permitted to be levied in the event of a new build this overstates the annual cash flow by $6mm and the resulting total comparison by $180mm.

(2) See above, so this figure is correspondingly overstated by $6mm.
(3) This figure would also be similarly overstated by $180mm.
(4) Since the $27mm calculation seeks to calculate future cash flows from the airport, this historical cash flow would represent double counting since it is already included in the first analysis. It also fails to account for the maintenance capital expenditure required in that historical period.
(5) Accordingly, this figure is also overstated.
(6) The cash flows and totals presented with respect to the $27mm represent nominal numbers and are not discounted to the present. This does not compare to the G2G calculations which are discounted to the present. Discounting future cash flows is required normal practice based on the idea that money in hand today is worth more than the same nominal amount available in the future.
(7) The totals presented represent 30 years of cash flows, however, no value is given for the capital expenditure required today to generate those 30 years of future cash flows. Accordingly, the cost as stated is massively overvalued as compared to the presented costs of the G2G project.
(8) The major assumption in the numbers presented by the above analysis (with which we disagree) is that the Airport at present has the ability to generate 30 years of cash flows without significant capital investment in either new build or repair & maintenance, and further this assumption is not supported by the various detailed reports with specific reference to the L.F. Wade Airport, prepared by separate professional firms with extensive experience in Airport design, financing and construction.

Our conclusion:

The Panel recognizes that the observations above may appear technical or opaque to some members of the public and so we include the following analogy to assist with our perspective. The Airport is similar to a house that has gotten to an age that its plumbing, electrical wiring, cabinets, counters, roof and windows are in a condition that any one of these could cease to function, and therefore needs to be renovated and/or replaced. If that house is currently rented at a monthly rent of $2,000 per month the annual rent is $24,000. It would be unrealistic to project 30 years of rents (or $720K) without making an assessment of the cost of conducting those renovations. Any one of the items failing to function would stop the rental income. As a further example, for several years the Bermuda Housing Corporation conducted a program which allowed home owners to have their homestead properties renovated at BHC's expense in exchange for turning those homes (and their rents) over to the BHC for long periods of time until the cost of those renovations were repaid. At all times those homesteads remained the property of their respective owners and at the end of the repayment period, came back to the control of the owners. As the majority of the proposed capital expenditures and ongoing maintenance and operation expenses on the new terminal are being outsourced under the proposed G2G concept, the proposed project is similar in nature to that concept.

(2) Are the proposed comparators to the selected proposal fair?

In response to this question, we reviewed among others, the presentation on Value for Money provided by Speer Davies Gleave ("SDG"). Important to note is that the financial analysis conducted by SDG was based on calculations contained in the Entrustment Letter and supported by the Government's financial advisors due to issues of time. To address this fundamental concern, independent sensitivity analysis was conducted on the calculations by SDG and different sets of calculations were performed to provide further support for their conclusions. The Panel operated under similar constraints of time, but was able to review the sensitivity analysis for reasonableness and suitable comparison.

The Government's original analysis set out 3 renovation options and 6 options for construction of a new terminal. This list was further reduced to three primary options for analysis:

(1) Status Quo involving necessary maintenance capital expenditure and ("Status Quo")
(2) A Government owned and financed new terminal by Design Build Option, ("DB") and
(3) The G2G Design Build Finance Operate and Maintenance ("G2G").

Each option was reviewed with reference to the available cost information and subjected to a net present value ("NPV") analysis. Each option was also assessed with respect to its ability to best achieve the Government's strategic objectives.

Financial Case Comparison

(from SDG report with assumptions based on Government Entrustment report and Advisors)

		Status Quo PSC1	DB PSC2	G2G Preferred
REVENUE	Operating cash flow (2017)	$4.0m	$8.8m	-
	Incr. Hotel Tax (2017)			$0.8m
	Traffic growth assumptions (Airport and Hotel Tax Revenues)	No growth	Low	Base
	Passenger Fee Assumptions	No change $52	$91.75	$91.75
COSTS	Capex (to be financed)	$184m	$575m	$302m*
	Maintenance capital costs (p.a.)	$5m	$5m	-
	Government services (p.a.)		-	$8.8m
	BAA (p.a)		-	$3.5m
	Tax concessions (one-off)		-	$50m
	Energy subsidy (p.a.)		-	$2.6m
	Debt		100 bps	0bps
NPV ($mm)		-283	-797	-317

*The DBFOM options assume a different project. This figure represents capital expenditures of $256m and including inflation, contingency costs, builder's insurance and demolition costs.

[Table 4.9 page 25 from SDG Report 17 November 2016]

We found two points of note. The Status Quo option had a lower cost at $283mm than the G2G option at $317mm. Secondly, the DB option relied on a 2006/2008 proposal for a larger scaled project, which in the optimized negotiated G2G was significantly and meaningfully scaled down. The $575mm comparison, while based on accurate costing data for the 2006/2008 project, was therefore not a true comparator. SDG performed a similar NPV analysis for the DB option using a capital expenditure value comparable to the G2G option which demonstrated that the DB option was still the most expensive with an NPV of $497mm as in the table below.

Sensitivity	$m	Status Quo	DB	G2G
Base Case		(283)	(797)	(317)
1	All low case traffic	(221)	(797)	(357)
2	All Stress case traffic	(340)	(1,044)	(574)
3	DB-same Capex as G2G	(283)	(497)	(317)
4	Fee increase in Status Quo	(209)	(797)	(317)

[Table 4.10 page 30 SDG Report 17 November 2016]

Our conclusion:

In our view while the comparison cost for DB was significantly higher and based on a different scope of project, the sensitivity analysis provided by SDG demonstrated that when a similar value was used to the capital expenditure in the G2G project it remained a higher cost alternative. It was also apparent that in each case the Status Quo was the lowest cost alternative, but equally, did not meet the Government's stated objectives. This was a key finding as it supported the concern expressed that less expensive options could be pursued with the status quo, but those options would not deliver as much value for money. This can be likened to the choice often made when choosing to repair an old and damaged car or purchase a brand new one.

(3) Is there a total risk transfer under the G2G proposal of the cost of construction?

One of the key benefits proffered by the Government of the current proposal is that it represents a risk transfer of the cost of construction from the Government to the Project Company, backed up by the guarantee of CCC and the Canadian Government. This benefit/risk reduction is not insignificant. Previous Government projects have had significant cost overruns, and in the event the Government undertook to build the new terminal that risk would sit wholly with the taxpayers of Bermuda. Construction risk can best be summed up by reference to three characteristics: time, cost and quality. Our analysis demonstrated that the risk transfer to the Project Company was meaningful, but not absolute. Examination of contract terms showed that the contract is for a fixed price, with a 45% construction price cost overrun protection. This means that the protection on overruns was capped at that level. The Panel considered this term in light of the cost overrun protection offered in standard risk transfer contracts today and found that the normal level was 35% to 40%, which meant that the protection offered in the G2G proposal was better than the norm. We further did not find examples of contracts where the transfer of risk was absolute.

We further considered conclusions based on research conducted by the University of British Columbia that looked at cost overruns in Transportation Infrastructure Projects. CIBC submitted, "The researchers looked at 104 highway projects and 29 bridge projects. Based on these projects, they developed a probability distribution for projects which go over budget. On page 4 of the report, they noted that 9.34% of road and highway construction projects have a probability of being more than 40% over budget. It is important to note that the projects they looked at, being highways and bridges, would have a greater propensity to go over-budget than an airport project due to higher project complexity. Overall the likelihood of going over the 45% cost overrun support by CCC would be a very low probability."

Our conclusion:

In our view this contract provision as presented is commercially reasonable and sound, and while importantly not a 100% transfer of the risk, is a better transfer of risk than is normal commercially negotiated and the occurrence of the risk is statistically unlikely to occur.

(4) Are the gaps identified in the Deloitte Report filled?

On 8 May 2015 Deloitte produced a report having been jointly engaged by the Governments of the United Kingdom and Bermuda to conduct a review of the proposed Bermuda Airport Development. The report produced mapped, "the existing analysis and documentation (at that time) on the proposed Bermuda Airport Development, as provided by the Government of Bermuda to the required contents of the Five Case model in a Full Business Case. The Five Case Model is based on HM Treasury's Green Book guidance for the appraisal of public sector spending proposals. At the time it was understood that the Government would have the opportunity to close the gaps identified before entering into contracting for the concession with the selected private sector supplier." (Letter from Deloitte Ltd.)

We reviewed the Deloitte Report and the responses contained in the Entrustment Report, which were further commented on in the SDG Report. We also considered the letter from the Foreign & Commonwealth Officials dated 6 May 2016 which confirmed that, "[o]fficials in [the] directorate have been in discussion with members of the Bermuda Ministry of Finance on the Key Gaps and Remedial Measures documentation that was provided to address this requirement. We have been informed that Deloitte has also reviewed all of the proposed measures...I am therefore content for the Government of Bermuda to proceed to the next stage, 6(c), *"publish a written evidence-based assurance that the required measures have been taken before the Contract can be concluded."*

Our conclusion:

In our conclusion it is fair to assess the gaps identified as closed.

(5) Minimum Revenue Guarantee and Upside Revenue Sharing:

Several questions arose during our interview process on the extent of the minimum revenue guarantee and the level of additional obligation this placed upon the Government. Questions ranged from whether this guarantee ensured profit for Aecon/CCC/Project Company and ultimately, what the purpose of the guarantee was as compared to the risk it represented. Additional questions addressed concerns over the validity of potential upside under the G2G proposal as presented by the Government.

We found that the minimum revenue guarantee did not operate to support payments to the equity holders in the Project Company (Aecon/CCC/Investors) and only supported payments to the bond holders on the project, being triggered by levels of arrivals being below that historically experienced and which threshold is agreed to grow at the level of expected passenger growth of 0.75% per annum. The payments, if any, are to be made into a trust account and are segregated from general project cash flows so as to only be available for bondholder support. "[The] Project [Company] would only be able to access funds from the trust account to pay lenders if project cash flows are insufficient to pay lenders. In the event that [the] Project cash flows [were] sufficient to pay lenders, [the] Project [Company] will not be entitled to draw from the trust account. [Further], [i]n the event the trust account balance is equal or greater than the next year's debt service, Bermuda will not be required to contribute to the trust account, regardless if regulated revenues are below the threshold in the project agreement." (CIBC presentation)

The minimum revenue guarantee is designed to only be in effect during the lifetime of the debt and once the debt has been repaid any funds in the trust account would be returned to the Government of Bermuda.

The upside sharing mechanism of the contract provides for the Government to receive 50% of any cash flows above the target regulated revenue (driven primarily by passenger arrivals but also by the rate charged at the time) once the equity amounts have been returned to equity holders in the form of dividends. Our review confirmed that no limits have been set on the upside sharing and better than expected arrival numbers over time would see Bermuda continuing to receive upside payments during the life of the concession. It is important to note that the revenue sharing is limited in that it includes only the regulated revenues.

Our conclusion:

Our review concluded that the minimum revenue guarantee was required to "bolster the credit profile of the project and enable the project to achieve investment grade rating," thereby reducing the cost of financing and the returns which would be expected by the Project Company (CIBC presentation). The risks associated with the guarantee were mitigated by having them solely applied to the bondholders, and solely for the amounts of debt service required for the following year. When balanced against the upside potential of the 50% sharing mechanism of regulated revenues, the terms seemed both commercially reasonable and sound.

(6) Negotiated Process vs. Competitive Tender Process

One of the key concerns expressed has centered around the failure to put the Airport Redevelopment out to tender as opposed to the G2G negotiated approach. As set out in the SDG report on page 18, "[a] Public Tender is typically the preferred option for the procurement of DBFOM contracts, since competition encourages the private sector to propose innovative ideas to provide the most cost-effective solution. However, the [Government of Bermuda] has chosen a negotiated approach, which involves the Canadian Commercial Corporation ("CCC") and Aecon, being retained on a negotiated bilateral basis to build the new airport under a fixed-price turnkey contract, raising financing, and operating/maintaining the airport for a 30-year period."

The Panel considered the range of potential outcomes for tendered processes, their expected cost, and the time required to commit to them. The SDG report set out four reasons for supporting the negotiated G2G process adopted in this instance:

- Mitigation of Failed Procurement: with a passenger traffic forecast below 1.0 million the project was deemed less likely to attract competitive bids. With the assumed cost of a public process above $15mm and the need for advisors to help administer it in any event, it was seen as the less attractive option. The experience of recent failed processes (Jamaica, the Bahamas, St. Lucia) made the prospect of a failed process real.
- Reduction of Procurement Costs: Many of the studies that would normally be prepared by the Government to solicit interest or bids for a tender process were conducted by CCC/Aecon. The Government would almost certainly have needed to hire external specialists to perform these studies (at a cost) if the procurement method had not been undertaken.
- Competitive Capex Proposal: the negotiated process allowed the Government and CCC/Aecon to design a bespoke project at a significantly lower capital expense projection than the 2006/2008 plan.
- Competitive Financial Proposal: the backing of CCC and the Canadian Government (with a AAA credit rating) was said to reduce, "significantly the risk and [insulate the Government of Bermuda] from the contractor credit risk [while it] lowers the debt financing costs as well."

Our conclusion:

Our view is that the route chosen was a valid commercial choice. While public tenders should be the preferred method for government projects, and would be the process most consistent with Financial Instructions, the risks and costs associated with a public tender process in this instance were significant and supported the alternative of a negotiated process.

(7) Would the Credit Rating of Bermuda be negatively affected by additional debt being added to our existing debt by a Government financed DB process?

Bermuda has a well-documented debt in 2017 of approximately $2.3 billion with a recent history of deficit budgets. A deficit occurs where the annual amount spent by the Government is more than the amount received in taxes and other Government revenue. Bermuda's credit rating is provided by Moody's (A2) and Standard & Poor's (A+). It has been a constant part of the discussion that a reduction in our Sovereign Credit Rating would be negative for the country. We examined the Standard and Poor's process to gain a better insight into the issues that the agencies as a whole would consider.

Standard & Poor's asses sovereign credit ratings using a methodology based on six factors:

i. ***Institutional Assessment:*** How a government's institutions and policymaking affect a sovereign's credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks
ii. ***Economic Assessment:*** Country's income levels, growth prospects, and its economic diversity and volatility
iii. ***External Assessment:*** Status of a sovereign's currency in international transactions; the sovereign's external liquidity; and its external indebtedness
iv. ***Fiscal Assessment (Flexibility and Performance):*** Fiscal flexibility, long-term fiscal trends and vulnerabilities
v. ***Fiscal Assessment (Debt Burden):*** Debt to GDP ratio
vi. ***Monetary Assessment:*** Monetary authority's ability to fulfill its mandate while sustaining a balanced economy and attenuating any major economic or financial shock.

As the Fiscal Assessment (Debt Burden) would be impacted by a $300mm + addition to the national debt (2017: $2.3 billion), it was deemed this would be negatively received, as our debt/GDP ratio would grow from 40% to approximately 45%. That would create downward pressure on our credit rating, which combined with our forecast deficit spending would likely lead to a downgrade to A or A-. Since as a general rule there is a pricing premium for lower rated debt, Bermuda's cost of debt would rise. We assessed that the possible downgrade would be between 20 bps and 36 bps due to a down grade to a grade of A-. It would also increase the cost of borrowing for all companies which were domestic facing on the island. This could take place with a rising interest rate environment, which combined would materially increase the actual amount of money being spent on interest to service Bermuda's debt. More expensive interest payments would increase Bermuda's expenses and would increase the existing deficit in the event tax revenues and other Government income did not increase.

A second consequence would be to raise the cost of borrowing for all domestic facing businesses as their respective credit ratings are impacted by the downward credit rating of Bermuda as the sovereign. Our international facing businesses, while not bound by our sovereign rating, could also be impacted by a significant negative downgrade as that could have a negative impact on the attractiveness of the jurisdiction as a fiscally sound domicile.

Our conclusion:

We believe that the level of Bermuda's debt is a highly significant factor to consider in light of the many consequences of having our credit rating downgraded, and that the risks associated with such a downgrade were important to consider and mitigate against. The risk to Bermuda's future represented by the combination of deficit budgets and growing debt were important driving factors in the selection of the G2G transaction.

We found some sympathy with the views expressed by several persons interviewed that the Airport Project, if a viable and beneficial opportunity for the Project Company, would equally and perhaps more so, have been a viable opportunity for the Government of Bermuda on behalf of its people to undertake. The modelled target returns of the equity in the project of 15.9% would be attractive to capture on the behalf of the people of Bermuda. In light of the Bermuda Government's current balance sheet (high debt) and income statement (deficit funding) it is hard to see how the Bermuda Government could have led in a transaction of this type and accordingly we find this aspect of the project reasonable. We do however consider it open for discussion that if there is opportunity for the equity component of the deal to be partially accessible to the People of Bermuda as a whole, that should be considered.

(8) On balance is the deal within the parameters for similar P3 Airport Concession Transactions?

As a direct question posed by the Terms of Reference, we considered the overall terms of the transaction and reviewed an overview prepared by the Governments financial advisor CIBC. We also posed questions relating to the transaction terms to CIBC during an in person interview.

Key Deal Terms		
	Project Terms	Comparison to Other Projects Globally
Concession Structure		
Concession Term	30 Years (no extension options)	Majority of P3's are construction plus 30 years
Scope	Design, Build, Finance, Operate, Maintain (DBFOM)	Consistent with Airport P3's globally (Montego Bay, Puerto Rico)
Regulated Rate Setting	Annual indexation in rates by inflation	Many global airport models are allowed to increase fees by RPI
Construction		
Capital Costs	$303 mm (incl. inflation, contingency, demolition)	Reviewed in detail by HNTB and determined to be reasonable
Construction Price Protection	Fixed price contract with 45%+ construction price cost overrun protection	Most projects today have between 35% and 40% cost overrun protection
Financial Elements		
Financing	$285mm Debt; $65mm Equity, $81mm Cash Flow from Operations (80% leverage)	Majority of projects with traffic risk have gearing of 60% debt/40% equity
Project Co Equity Return	15.9% on invested capital based on target forecast	This is consistent with equity returns on comparable risk projects (14% to 17%)
Minimum Revenue Guarantee	Bermuda to provide minimum revenue guarantee to provide support to lenders under downside case	This is common feature on certain projects with either no traffic history or declining traffic history in order to enhance the credit profile of the debt
Upside Sharing	50% of regulated revenues above target forecast	In cases where there is upside sharing, sharing typically ranges from 30% to 50%; however it will normally commence at a higher level than the target cash forecast
Energy Costs	Bermuda responsible for energy costs for the first 26 years of the concession	It is not uncommon in P3's for the public authority to retain the risk of energy. For instance the majority of Ontario hospitals have this structure.

Source: CIBC Presentation

Our conclusion:

Our view of the overall terms of the transaction is that they meet the test of being within the parameters of similar P3 airport transactions, particularly in certain aspects where the G2G Proposal exceeds certain international norms.

(9) Does this project give a competitive advantage to the Project Company by allowing them to use the base lands for capital development for "commercial operations" as they receive customs duty and payroll tax exemptions?

Our analysis on the relative competitive advantage approached this question from three perspectives:

(1) Base Lands
(2) Customs Duty Relief, and
(3) Payroll Tax Exemptions.

Base Lands: We made enquiries with the Ministry of Finance to confirm that the real estate available to the Project Company along the northern perimeter is limited to what is currently inside the airport fence. This does not include existing BLDC property which can of course be used by any other public or private entity for commercial purposes if approved by BLDC and the Planning Department.

Customs Duty: We refer to section 3.3.1.1 of the Project Agreement. The parties named in that section are entitled to customs duty relief for capital items necessary for the building and supply of equipment to the Airport, including furniture and fixtures. The Project Company is entitled to such relief beyond that for all Airport Operations and Commercial Services that it directly engages in. However, the section makes it clear that the Project Company's Sub-Contractors will only have such relief for capital items associated with Airport Operations and Commercial Services that they perform. A Sub-Contractor who carries on a commercial service for the Project Company at the Airport (see Schedule 27) would not be exempt from paying customs duty unless such duties are related to "capital items".

Payroll Tax: We refer to section 3.3.1.2 of the Project Agreement. The Project Company is allowed such relief during the term of the Construction Contract, and otherwise only with respect to "capital" activities or undertakings (as described) concerning Commercial Services. It is not otherwise exempt (nor are its Sub Contractors) from payroll tax obligations in any other aspect or part of its Commercial Services operation. This is a concession often given.

Our conclusion:

The purpose of the permissions on commercial development are to facilitate a financial return to the Project Company such as to compensate the capital providers (both debt and equity) for investing the capital required to develop the new terminal. The commercial development contemplated in the Project Agreement is to mitigate against the risks of potential low air traffic volume in our jurisdiction by contributing to the financial viability and sustainability of the Airport's operations, providing further support for the returns to investors in exchange for their capital investment. As the permissions are limited in nature (as above) we do not see them as unreasonable from a commercial perspective. Accordingly, we do not see the concessions granted to the Project Company as giving a general competitive advantage over other businesses located in Bermuda.

(10) What would be the cost to taxpayers if the project were to be terminated in May 2018?

If Bermuda terminated the Project in 2018, Bermuda would need to pay Project Co a minimum of $354 million which represents the remaining debt principal which is $285 million as well as the fair value of equity based on market returns for airport transactions (estimated to be $69 million) as well as any other ancillary breakage costs associated with the Project (e.g. contractor breakage fees, etc.). Termination costs are partially offset by the Government retaining unspent financing/cash and the work that has been completed.

Our conclusion:

In our view this is a contingency or risk solely within the control of the Bermuda Government.

(11) How does this plan address the concerns raised by the Ecuadorian Supreme court ruling stating that the payment schedule, airport fee structure was unconstitutional, given that this is the same exact plan and model proposed?

Our conclusion:

Our review has been limited to the plan in Bermuda and has not extended to constitutional legal issues in Ecuador. Bermuda has a written constitution and the project has progressed subject to that process through direct communication with the Foreign & Commonwealth Office and the Letter of Entrustment. We do not believe we can add further to that position.

(12) It has been suggested that after the construction phase of the airport is completed Aecon and CCC intend to sell off their interest in our Airport (as they did with their most recent airport project in Quito, Ecuador), What would be the risk to Bermuda if that happened?

Our conclusion:

Any sale of Aecon's interest to another investor must be approved by the Government of Bermuda. As a result, Bermuda will be intimately involved in the process of any sale and can reject a sale if it is not to an acceptable counterparty. Also, the actual ownership interest in the terminal after construction is an immaterial factor. First, the new airport has been built. Second, there will be other credible investors in the Project Company that will be focused on improving traffic growth and the customer experience at the airport. Third, any new equity investor will be bound by the same concession terms as Aecon was previously. Overall, any potential sale by Aecon will not lead to an impact on the operations of the airport.

(13) Has there been any consideration given to the risk that the relevant global authorities (IATA/ICAO) may not allow the increases in regulated revenue included in the projections? If this is the case would the Government of Bermuda be on the hook to make up the difference through the Minimum Revenue Guarantee?

ICAO is a branch of the United Nations which represents the different aviation authorities of UN member nations, such as US FAA, UK CAA, Germany LBA. IATA Represents most major scheduled airlines and generally deals with commercial aspect of airline operations, i.e. ticketing, interline baggage transfer, liability limits, etc. and our assumption is that the question relates to IATA. ICAO, however, as an organization of the United Nations, has published charging guidelines which make clear the duty to consult with airlines. We are advised by the Ministry of Finance that consultations with airlines have been conducted and will continue.

IATA does not necessarily hold the authority to approve fees and charges; however, it strongly recommends that the setting of passenger fees and charges is done via a collaborative process between airlines and airports. Bermuda has been applauded for its level of collaboration on the Airport Redevelopment Project to date. As an example of which, the Head of Airport Development for IATA, David Stewart, will be making a presentation entitled, 'Bermuda Airport PPP – an early engagement model with the Airlines" at the Passenger Terminal Conference 2017 in March.

Some further concern was expressed in the Speer Davies Gleave Value For Money report that the contemplated increases are based on CPI and not on service reviews at 3 – 5 year intervals, and that the increases could negatively affect the quantum of passenger growth. This can be contrasted with the experience of having rates increased in 2016, a time when traffic grew, which although is not fully dispositive, provides an example suggesting the relationship between fees growth and passenger growth is more complex than suggested.

Our conclusion:

Fees are negotiated by the Project Company and the airlines by way of IATA, and must be approved by the Bermuda Airport Authority (BAA). The process for fee negotiation is heavily influenced by the ICAO guidelines and the IATA consultation process. In our view, the capital expenditure associated with this project is significant in terms of both size and scope, and the increases as contemplated have been the subject of specific consultation. Accordingly, the risk associated with fee increases inherent in any project of this nature are mitigated to an extent that we find commercially reasonable.

(14) How can this plan be considered commercially viable if the United Kingdom has already gone on record and decided that the similar Cayman Island proposal failed to deliver value for money)?

Our Panel cannot speak to the circumstances of the Cayman Island proposal.

As part of our analysis we have reviewed the documents relevant to the proposal involving the Project Company and the associated agreements. With respect to the views of the United Kingdom, in the course of discussions between the Government and the Foreign & Commonwealth Office of the United Kingdom ("FCO"), questions were raised by the FCO concerning whether or not the Government had followed general rules of public expenditure best practices. Those inquiries led to a joint retainer by the Government and Deloitte Ltd. ("Deloitte") to compare the CCC P3 partner selection process to the UK Government's (HM Treasury) non-mandatory guidance on recommended practices for the evaluation of Public Section spending proposals ("Green Book"). The purpose of this engagement was to evaluate the business case, VFM and affordability of the existing proposal and to provide a high-level cost effectiveness opinion for the proposal being put forward. The Government requested, and secured, an Entrustment Letter dated July 17, 2015 from the Director of Overseas Territories in the FCO, which delegated authority to the Government to proceed to negotiate and enter into an Airport P3 redevelopment contract with CCC. With regard to the legitimacy of the Government's process to select a P3 partner, the Entrustment requested the Government to prepare the various recommended Green Book case reports that Deloitte had identified. The Government voluntarily agreed to prepare such reports, in part, to strengthen and better explain its P3 partner selection process.

Our conclusion:

In our opinion the view of the United Kingdom on this proposal is best captured by the communication from the FCO that Bermuda is able to proceed. As such the reference to the position of the Cayman project does not assist us.

(15) How does the cost of the proposed G2G project compare to other Airport Projects?

The cost of construction of the project has been an issue raised with several commentators. The Steer Davies Gleave report gave an overview of the data points that could be utilized to apply benchmarking to the project, to see where the project ranked. Choosing comparators was difficult however, as they commented, "the circumstances surrounding Bermuda's airport redevelopment are not precisely replicated elsewhere: the passenger throughput is small (0.8 million), the capital expenditure required is high relating to the safety and resilience requirements of the island...[h]owever we do assess it is possible to compare market trends."

We set out a table from that report which provides context to our perspective.

Airport	Total Pax	Terminal	Cost	Cost per Sq Ft
Houston Hobby	11m	280k sq ft	$146m	$521
New Orleans	10m	650k sq ft	$826m	$1,270
Charleston	3.4m	270k sq ft	$200m	$740
Myrtle Beach	1.7m	274k sq ft	$117m	$430
Wichita	1.5m	273k sq ft	$160m	$586
Minot MD	280K	121k sq ft	$84m	$694
L.F. Wade	0.8m	276k sq ft	$302m	$1,090

Source: Table 5.2 Steer Davies Gleave, page 37

They comment:

"While exact comparisons are difficult as the scope is likely to be different, on the face of it this would mean that the close to $300 million cost of the L.F. Wade project is towards the top end of the benchmark. Given the need to import key labor and materials, this is not altogether surprising.

The structure of the proposed G2G deal is similar to market trends in that it is built around a concession agreement transferring capital, maintenance and operating risks to the private sector. The length of concession varies between 20 and 40 years and Governments usually retain land and assets rights and provide some services and regulatory oversight."

Our conclusion:

We agreed with the view of Steer Davies Gleave in that while the cost per square foot was higher for Bermuda, this was due to the level of complexity represented by our isolated location and unique siting requirements. While close to the top of the range, it was still significantly below the highest example, and on an absolute basis was materially below the proposal from 2006 / 2008. It is arguable on the above metrics that Bermuda could have designed a less expensive option. The fair question in response would be to ask whether such a lower cost option would represent the industries that we have (international business) and aspire to (higher end tourism). On balance the design and cost should also be weighed against the proposed transaction and expected cash flows. Our view was that while it would be fair to have a range of values one might conclude are appropriate, the current project would certainly be within that range.

(16) Is a 30 Year term for the contract an appropriate term?

Our conclusion:

Questions were raised as to the term of the contract and as to whether 30 years was an appropriate term for the facility to be turned over to the Project Company. We set out Table 5.1 from the Value For Money Report which shows a range from 20 years to 40 years and a median term of 30 years. We also considered this from the perspective of the mortgage analogy, in that a longer term facilitated lower expected repayments to the Project. In short the term was reasonable as it was in keeping with the industry standard and driven by the commercial realities of the transaction.

Name	Key Drivers	Retained for Sovereignty	Model chosen	Length of Concession	Construction Term	Fees	Guarantees
San Juan	Budget deficits, need for investment	Land and Assets	DBFOM and Lease under PPP	40 Years	Variety of capital projects not new terminal or runway, renovation in first 3 years	No material Increase	Aero revenues fixed through airline agreement
Denver	International experience and ideas to upgrade terminal	Land and assets	Concession contract to cover the design, construction, finance, operation and maintenance of the project				
La Guardia	Replace Central Terminal Building	Land and Assets	Design, build, manage and maintain LaGuardia's Terminal B under PPP	35 Years	6 Years	No material Increase	Aero revenues fixed through airline agreement
Santiago, Chile	Roll over Concession with expansion of terminal $950 million	Land and Assets	Management Contract	20 Years	N/A	In concession Agreement	N/A
Cuba	Modernization of airports in anticipation of increase in international tourists (particularly US)		Concession - details to be decided	Not decided			
St. Lucia	Operational improvements and infrastructure redevelopment	Retain ownership of all Assets	PPP Plan was developed with IFC for agreement which legally binds the private concessionaire to financing, constructing, operating and maintaining the airport	30 Years		Possibility of Airport development Fee being considered	

Source: Table 5.1 Steer Davies Gleave Report Page: 35

(17) Has this proposal been shrouded in a process that lacks transparency?

Our analysis has been greatly assisted by the presentation of detailed and well researched reports relating to the questions of fairness, transparency and conflicting statements on the project. Specifically, the People's Campaign report contained the following, which highlights, but is not limited to the concerns expressed in their report:

(1) People are not convinced that this deal will bring value for money, and as information slowly drips out from behind the veil of secrecy, it is becoming evident that despite the Minister of Finance's claim that the debt will not be carried on the Government's book, there will be significant expenses associated with this project that will become the responsibility of the people of Bermuda.
(2) From the start this proposal has been shrouded in a process that lacks transparency – who can forget Aecon's entry into Bermuda under the "cover" of misrepresenting themselves as Canadian Commercial Corporation ("CCC")?
(3) Documents have shown that Aecon, along with CCC and representatives of the Government, created a paper trail to generate the appearance of a "fair" process despite the fact that there was a no-bid process designed to ensure that Aecon would be the beneficiary.

Our conclusion:

The entire project would have benefitted from a clear articulation of the transaction, its terms and the various participants. Possibly the greatest source of concern has been over the process. Our impression of the transaction, helped in no small way by the disclosure of emails from various PATI requests and the collection of Government and Ministerial statements, has allowed us to form a view on how the transaction began.

Not dissimilar to many transactions it appears as if the origins of the deal were grounded in legitimate business development efforts, first by CIBC and their infrastructure investment banking team and the respective business development teams at CCC and Aecon. Our view, supported by interviews of the relevant parties, is that the Bermuda Government was first presented with this idea at a meeting in Toronto hosted by CIBC at which CCC and Aecon were invited. Over time the substance of the deal evolved, and the deal's evolution seems to have followed a process that diverged from a competitive one in Bermuda, to a negotiated one through a joint and combined CCC/Aecon process. As the Bermuda Government's financial and legal advisors, it was CIBC and Bennett Jones' respective roles to provide the substantive challenge to the original deal and negotiation put forward by Aecon/CCC. As there are clear benefits in the present circumstances to a negotiated agreement, which were identified by Speer Davies Gleave in their VFM report due to the size ~800,000 passenger through put, it should have been easier to demonstrate to the public the course of action being pursued and the reasons. While we didn't see any specific instances of intentionally misleading statements, what we did see was a pattern of favorable impressions being given to the public at stages where those impressions were not yet entirely clear, and further, what has been perceived as an attempt to justify the selection of Aecon as the contractor after the fact. We were equally concerned with some of the email correspondence which did not put leading players in a favorable light, which when reviewed outside of the context of the deal could fairly lead to questions on transparency and process.

In our view, it is important to note that CCC are a Crown Corporation tasked with supporting overseas business efforts in Canada and it is part of their function to support Canadian business with their credit rating, access to capital and overall balance sheet. Canadian companies who transact with CCC are also under a higher standard of personal liability, as they are subject to criminal prosecution in circumstances where they seek to promote deals by way of corruption.

The idea that CCC would host a competitive process to bid out this project has been the perception in the public arena but it does not appear that this was the process that was envisioned by them or followed. Aecon are a firm approved by CCC as a qualified contractor for projects of this size and type, and are recognized as the leading Canadian company in infrastructure development, specifically with Airports. Aecon would have been leading contender for CCC having constructed the most recent three terminals at Toronto, Pearson and the CCC and Aecon teams were well known to each other from their collaboration on the Ecuador and Cayman Airport proposals (one successful and one not). In our experience it would not be unusual for professionals at respective firms who had worked together previously, to seek to engage with those teams again. How this was presented to the Bermuda Government and how this was further presented in Parliament and in the media to the People of Bermuda could and should have been more clear and more accurate.

Our task, having come to that conclusion, was to weigh the arguably valid concerns on process against the economic issues facing Bermuda, and the other benefits (discussed above) of the transaction. The substance of this deal is that an experienced builder of airports has partnered with a Canadian Crown Corporation with an impeccable credit rating to be the counterparty to the Government of Bermuda to execute on a project of national strategic importance for Bermuda. The overarching conclusion is that Bermuda needs to execute on some course of action to ensure that we have a viable and functioning Airport able to support our local, international business and tourism passengers, and that on its terms and structures, this deal meets that goal by way of commercial reasonableness and soundness. This conclusion does not take away from the volume of work, in support or not, conducted by many contributors, and its value to the People of Bermuda.

DOCUMENTS AND MEETINGS CONTRIBUTING TO PANEL ANALYSIS:

In arriving at the above conclusions, the Panel had an opportunity to review a selection of key documents connected with the transaction, and participate in interviews with parties closely involved with their preparation and review. We also received and reviewed reports and participated in interviews with parties that had expressed questions, concerns or opposition to the proposed transaction, and our process greatly benefitted from those reports and interviews. Subject always to the restrictions of time, the Panel's review process has been able to gather a broad range of opinions, reports and facts in order to render its conclusions on commercial reasonableness and soundness and support of strategic objectives.

Documents we have reviewed include:

The "Airport Development Project" – a summary document presented by the Minister of Finance in October 2016;

A draft "Airport Development Agreement" dated August 24, 2015 between Canadian Commercial Corporation ("CCC") and the Bermuda Government as represented by the Ministry of Tourism Development and Transportation;

The "Overall Business Case – Entrustment Report" dated November 17, 2016 prepared jointly by the Ministry of Finance and the Ministry of Transport, Tourism and Municipalities;

"The Entrustment Report" dated November 2016 – a summary document presented by the Ministry of Finance;

The "Value for Money Assessment" prepared by Steer Davies Gleave and dated November 17, 2016;

The "Appraisal of Bermuda Airport Development Business Case" prepared by Deloitte Ltd and dated May 8, 2015;

"A Presentation to the Blue Ribbon Panel by the Bermuda Industrial Union"

"A Special Report on the Airport Redevelopment Project "A Bad Deal for Bermuda" by the People's Campaign"

"A Precis of a Summarized Analysis of the Proposed Deal between Aecon and the Bermuda Government" prepared by Larry Burchall / Craig Mayor and dated December 6, 2016;

A response to the above prepared by the Bermuda Government – this is undated but the panel was informed it was prepared in late 2016;

"Bermuda Airport Development Transaction Structure (Commercial Closing)" – a document prepared by Bennett Jones - this is undated but was provided to the panel by Duncan Card of Bennett Jones at the commencement of this review to aid the panel;

"LF Wade International Airport Redevelopment Project – Executive Seminar: Public Policy, Commercial & Governance" – a presentation by CIBC and Bennett Jones at a meeting jointly chaired by the Financial Secretary and the General Manager of the Department of Airport Operations dated October 12, 2016;

A draft "Project Agreement" between the Government of Bermuda and Canadian Commercial Corporation which is currently not in force and is unsigned and undated; All supporting schedules that are prepared to date were separately provided;

All Press Releases made by the Ministry of Finance relating to the proposed Airport Redevelopment Project;

A package of materials provided to the Panel by Craig Mayor on January 18, 2017, comprising

(i) Exigent Economic Risks and Inadequate Due Diligence (August 12, 2016);
(ii) Cost Comparison Report to PAC (October 19, 2016);
(iii) Letter to MOF re G2G $810m Error (October 19, 2016);
(iv) CM Bernews Statement re GOB Best Choice video (November 3, 2016);
(v) Advertisement in Royal Gazette (November 5, 2016); Memo to all MPs / Senators re Airport $810m cost understatement (December 7, 2016);

Subsequent materials provided to the Panel by Craig Mayor on January 24, 2017 comprising

(i) Outline Response – Blue Ribbon Panel; and
(ii) Comparing Bermuda 2008 with Bermuda 2016. Both appear to have been prepared on or around that date for the purposes of the meeting with the Panel;

A presentation entitled "CIBC presentation to the Blue Ribbon Panel" provided to the Panel on January 25, 2017 in advance of the meeting of the Panel with CIBC representatives;

A copy of an email exchange between the Financial Secretary, the Deputy Governor and the UK Foreign & Commonwealth Office dated November 2016 regarding the form of letter to be issued by the FCO on the closing of the transaction and the signing of the Project Agreement;

A draft of the FCO letter (unsigned and undated as it has not yet been executed)

A copy of a summary document prepared by HNTB in 2007 for the then Government regarding the assessment of the Airport at that date and the potential options for a rebuild of the facility. This includes the cost estimate at that time of $184m required maintenance and urgent capital expenditure;

A copy of a letter between the Governor of Bermuda and the UK Foreign and Commonwealth Office dated May 6, 2016 providing permission for the Government of Bermuda to proceed with a project with CCC as the Gaps identified in the Deloitte report were now closed;

A Report by the Sauder School of Business of the University of British Columbia on behalf of Infrastructure Canada dated December 7, 2006 titled "Cost Overruns Risk Analysis in Transportation Infrastructure Investments";

Interviews we Conducted:

Craig Mayor, independent financial analyst and author of several reports on the Airport Project

Chris Furbert, President, Bermuda Industrial Union

David Burt JP MP Opposition Leader and Shadow Finance Minister, the Progressive Labour Party

Walter Roban JP MP Deputy Leader of the Opposition, the Progressive Labour Party

Lawrence Scott JP MP Shadow Minister for Transport, the Progressive Labour Party

John Bisson, Director Global Infrastructure & Power, CIBC Capital Markets;

Luc Allary, Canadian Commercial Corporation (CCC);

Stephen Nackan, Aecon Corporation;

Mott MacDonald

Elisa Tejedor, Steer, Davies, Gleave;

Lori Rockhead and Paul Lan, KPMG

Bob Richards, JP MP Minister of Finance, Bermuda Government, the One Bermuda Alliance