

PUBLIC PRIVATE PARTNERSHIP AND INFRASTRUCTURE UPDATE



CALGARY COURTS CENTRE PPP



The GCK Consortium and the Government of Alberta are in final negotiations to construct a consolidated court facility in downtown Calgary. The agreement would see GCK enter into a public-private partnership with the Province to build, finance, and operate a court facility for 30 years. Government chose to seek a partnership with GCK after a thorough selection process, which began in April 2002.

"We had the enviable position of receiving three outstanding proposals in the final stage of our selection process," said Infrastructure Minister Ty Lund. "I believe that the GCK partnership represents the best opportunity to construct and operate this facility in a timely, quality manner, and provides excellent value to the taxpayer."

"We expect the final agreement to cost less than the traditional government-build approach, transfer risk to the private sector and give Calgarians and residents of much of southern Alberta better and faster access to the courts."

Currently, Calgary's Court of Appeal, the Court of Queen's Bench and the four divisions of the Provincial Court are located in six facilities, which are facing ever-

increasing challenges to provide space for courtroom services.

The P3 concept permits the government to share the rewards and the risks of development with the private sector. Instead of paying the full capital cost of infrastructure upfront, a P3 agreement allows the Province to spread the cost over a longer time period. When you account for both the cost of construction and the cost to operate and maintain the facility over its expected life, a P3 can provide equal or better value than a traditional government built project.

The GCK Consortium is comprised of GWL Realty Advisors Inc., CANA Construction and Kasian Kennedy Architecture, Interior Design and Planning, along with its investment partner Borealis Capital Corporation. Macquarie North America Ltd. is financial advisor to the consortium.

PPP ANNOUNCED FOR OKANAGAN LAKE BRIDGE



Partnerships BC, on behalf of the Ministry of Transportation, is initiating a competitive process for a design, build, finance and operate project to replace the existing Okanagan Lake Bridge, near Kelowna.

The Okanagan Lake Bridge is one of the few floating bridges in North America. It is an essential part of the Okanagan regional transportation system as it is the only bridge to cross Lake Okanagan.

Transportation Minister Judith Reid remarked "Residents of Kelowna and the Okanagan have been waiting over a decade for a new bridge."

The Okanagan Lake Bridge, located on Highway 97 in Kelowna, is the most congested stretch of highway outside the Lower Mainland. After 45 years of use, Kelowna has outgrown the bridge, and repairs are no longer an option. It is estimated that within eight years, 52,000 cars will use the bridge daily. The project is expected to cost approximately \$100 million. In addition, two interchanges valued at approximately \$20 million will be built on the west side of the bridge. Government is now seeking a partner to design, build, finance and operate the bridge, with no user tolls. The deadline for submitting a response to this RFEOI is November 25, 2003.

Formal request for proposals are expected to be issued in the Spring of 2004, Construction is expected to begin in Fall 2004 and the new bridge is expected to open in Spring 2008. Macquarie North America Ltd. is the advisor to Partnerships BC.

COQUIHALLA PPP CANCELLED

On July 23rd, Gordon Campell announced that while there was a strong business case for the proposal to lease the Coquihalla to the private sector, evident in the 28 expressions of interest received from the private sector, the public response to the impending sale of the Coquihalla highway was overwhelmingly negative.

"We had a good business plan that made a poor public case," Campbell said. "It's time to put that plan behind us and move on – and that's what we're going to do."



The public request to maintain the status quo on the Coquihalla means that taxpayers will not receive the resources for new infrastructure that the partnership would have provided. The Province will still proceed with the \$300 million worth of infrastructure improvements already planned for the Southern Interior.

EDMONTON RING ROAD PPP ANNOUNCED

The Government of Alberta has issued a Request for Qualifications to design, build, operate and finance the southeast leg of the Edmonton Ring Road. This initiative will be Alberta's first highway public-private partnership (P3) project.

"This project is an excellent candidate for our P3 model, and the RFQ will test the interest of the private sector in such a project," said Transportation Minister Ed Stelmach. "Once again, Alberta is going to be a national leader in transportation policy and practices. We'll be using a built-in and built-for Alberta model," Stelmach said. "We have investigated P3 best practices across North America and around the world, and what we are doing here takes P3s to the next level. Our model encourages innovative design, construction and operation."

The SE leg of the Edmonton Ring Road will be built to full freeway specifications immediately. That means all required interchanges, flyovers and overpasses will be in place when it opens.

Alberta Transportation has been researching P3s and consulting with stakeholders for a year. Industry stakeholders have been actively participating in discussions and meetings throughout the consultation stage. The project followed the full process established by the Government of Alberta for P3s. It was reviewed by Treasury Board and the Advisory Committee on Alternative Capital Financing and has approval to proceed with a competitive process to select a contractor.

The first step in the P3 model is to identify potential contractors through the RFQ process. If the RFQ is successful and results in sufficient interest and ability from industry, the next step of the project is to issue a Request for Proposals to a short-list of qualified contractors. This is planned for February 2004.

The federal government will be contributing \$75 million to the project through the Canada Strategic Infrastructure Fund. The Government of Alberta will cover the balance of the costs. If done following traditional methods, this project would cost approximately \$300 million.

Toll roads are not being considered as part of this project. Construction is expected to begin in the fall of 2004 and provided there are no significant delays due to weather, will be completed by the summer of 2007.

If the process for this P3 highway project works well, the same model could be used to advance completion of the ring roads in both Edmonton and Calgary.

ABBOTSFORD HOSPITAL PPP RFP ISSUED

The hospital and cancer centre will be built as a public-private partnership. Private sector proponents are being asked to submit proposals to finance, design, build, maintain and operate facility services for the new hospital. As with all BC hospitals, clinical services will be provided within the universal publicly funded health care system.

The Abbotsford Hospital and Cancer Centre is planned as a state-of-the-art 300-bed replacement for the aging MSA acute care hospital in Abbotsford, and will provide enhanced and specialized health services to more than 150,000 people in the greater Abbotsford area, and up to 330,000 in the Fraser Valley region. The 55,000 square metre facility will be three times the size of the current MSA hospital.

The hospital will offer several enhanced programs, including integrating a new cancer treatment centre that will be part of the provincial network operated by the BC Cancer Agency. The cancer centre will provide specialized diagnosis and treatment services to residents in the Fraser Valley who previously had to drive to Surrey, BC to access this care. The new hospital will also provide MRI services; general surgery and all inpatient and outpatient surgical services, including vascular; nuclear medicine; a full renal dialysis program; specialized obstetrics and nursery care; pediatric services; and special adult medical services.

THREE GROUPS SHORTLISTED FOR SIERRA YOYO DESAN ROAD

Partnerships British Columbia and the Ministry of Energy and Mines have shortlisted three qualified proponents to move to the next stage in the procurement process for the design, construction, financing, operation and maintenance of the Sierra Yoyo Desan Road ("SYD").

The 188-kilometre public road, which is located northeast of Fort Nelson, is primarily used by resource companies for industrial activities. It is currently operating under a partnership established in 1988 between industry and government, with companies paying to use it. A major upgrade is required to promote all-season oil and gas activities as part of the Province's oil and gas development strategy. The new partnership will build on the existing arrangement.

Five proponent teams responded to a request for qualifications, with representation from 31 individual companies. The submissions were evaluated on the basis of road and bridge design and construction capabilities, road operations and maintenance

experience, financing capabilities and experience with similar projects. The three shortlisted proponent teams are:

Walter/SNC-Lavalin Joint Venture. This team consists of Walter Construction, SNC-Lavalin, Allnorth Consultants, Kleido Construction, Ruskin Construction, GTM Consulting and Hatfield Consultants.

Ledcor Projects Inc. This team is made up of Ledcor Projects, McElhanney Consulting Services, Buckland & Taylor, Trow Associates and Triton Environmental Consultants.

Emcon-Tercon. This team consists of Tercon Construction, Emcon Services, Surespan Construction, Stantec Consulting, AMEC Earth & Environmental, Delcan Corporation, QR Engineering and Macquarie North America Ltd.

The partner for the SYD Road will design, construct, finance, operate and maintain the road under a proposed 15 year contract period. The new partnership will build on the existing user-pay arrangement and partnership between government and industry.

VANCOUVER GENERAL HOSPITAL PPP PROCEEDING



The Vancouver Coastal Health Authority (VCHA) is moving forward with the proposed public-private partnership to develop a new 365,000 square foot facility.

After receiving nine responses, the VCHA has distilled the respondent list down to two qualified parties who have been invited to submit proposals in November of this year. Macquarie is the financial advisor to one of the short-listed consortiums. Selection of the preferred proponent is expected to take place by early 2004.

It is anticipated that the successful private sector partner will assume responsibility for the financing, design, construction and operation of the building, while the VCHA and the UBC Faculty of Medicine will ensure that services within the centre provide appropriate teaching and clinical services.

FRASER RIVER CROSSING RFQ



The Greater Vancouver Transportation Authority (TransLink) Board of Directors approved the start of the procurement phase of the New Fraser River Crossing. The Board's decision permits the issuing of a Request for Qualifications (RFQ), the first stage in a competitive process to select the most qualified candidate to design, build, operate and maintain the New Fraser River Crossing and associated road network.

"The New Fraser River Crossing represents a major step forward for transportation in the region," said Greater Vancouver Transportation Authority Chair Doug McCallum. "It will reduce travel times from Maple Ridge and Pitt Meadows to Surrey and Langley by 20-30 minutes, making a significant difference to the quality of life in the region. We are extremely pleased to move the project into the next phase."

TransLink will develop a new subsidiary that will contract with the successful proponent to design, build, operate and maintain the new bridge. A bridge toll will be used to recover capital and operating costs. The TransLink Board will establish the regulatory framework including tolling policy.

The New Fraser River Crossing will improve the movement of goods and people through Greater Vancouver. Expected to open in 2007 at a cost of approximately \$600 million, the New Fraser River Crossing will provide a six-lane fixed link across the Fraser River, linking Pitt Meadows and Maple Ridge on the north side of the river with Surrey and Langley on the south side.

RFP SIGNALS NEXT STEP FOR THE RICHMOND AIRPORT VANCOUVER (RAV) LINE

The Greater Vancouver Transportation Authority ("GVTA"), along with the Provincial Government and the Vancouver International Airport Authority, issued a Request For Proposals (RFP) seeking proposals from four private sector proponents to partner in building, operating and maintaining the proposed RAV line.

The RFP announcement follows from negotiations on a funding agreement between the Federal Government, the Provincial Government, the Greater Vancouver Transportation Authority, and the Vancouver

International Airport Authority. The finalization of these negotiations allows the project to move forward in the RFP process.

The Federal Government, the Provincial Government, the GVTA and the Vancouver International Airport Authority have all committed to contributing \$300 million or more each. This brings public funding to over \$1.2 billion and enables the parties to pursue a private sector partner to provide additional funding and design, build, operate, and maintain the line.

"Everyone has agreed that this is a key transportation priority and it is in our interest to make every reasonable effort to build this project in time for the 2010 Olympics," said Premier Gordon Campbell. "We are very pleased to have been able to facilitate an



agreement which permits the Greater Vancouver Transportation Authority and the Airport to undertake the project. The Province greatly appreciates the Federal Government's initial infrastructure contributions, which have provided funding for the RAV Line as well as our other high priority projects such as the Trans Canada Highway upgrades in Kicking Horse Pass."

"This project has had the highest level of study and analysis of any public transportation initiative undertaken in the GVRD and we have taken an approach that allows us to make responsible decisions on this important project as the process continues forward," said GVTA (TransLink) Chair Doug McCallum. "We can now assess whether a private sector partner can bring to the table the necessary dollars, oversight and efficiencies to make this project a responsible one for our taxpayers."

Larry Berg, CEO of the Vancouver International Airport Authority, notes that the RAV project is unique in the development of the region's rapid transit system, with major transportation facilities at either end with YVR to the south and the Port of Vancouver to the north. "I am confident that if a strong private partner steps forward, we will have an incredible addition to our transportation system; one that will pay economic and environmental dividends for the next century," concluded Berg.

Four private sector consortia will now prepare bids, which will include their own funding commitment, to build the line and operate and maintain it for 30 years. The submissions from the RFP process are expected by the end of 2003, with selection of the preferred proponents to submit a "best and final offer" by late spring 2004. If a proposal is selected from the best and

final offer process, construction would begin as early as 2005. The line is scheduled to be in operation by late 2009, in time for the 2010 Winter Olympics. Macquarie is an advisor to the Project.

PARKADE PPP FOR FOOTHILLS HOSPITAL

The Calgary Health Region is moving forward in the process of selecting a private partner to finance and build a multi-million dollar, 1600-stall parkade at the Foothills Medical Centre. This partnership means the Region would avoid paying \$25 million to build the parkade itself.

"We are looking for a group to finance, design, build and maintain a much-needed parkade at the Foothills," said Bob Holmes, Senior Vice President, Strategic Services for the Calgary Health Region. "This partnership means the Region will not have to come up with the \$25 million to build the parkade - money that can be used for front-line health care to improve access and help reduce wait times."

Three groups were selected as finalists, and a decision is expected shortly from the Calgary Health Region. Macquarie North America Ltd. is the financial advisor to one of the finalists.

NO BC RAIL DECISION YET

Transportation Minister Judith Reid committed to issue a bi-weekly bulletin to keep British Columbians up to date on the BC Rail revitalization process.

Under the BC Rail revitalization initiative, BC Rail's railway right-of-way, railbed and tracks will remain publicly owned, while a partner will assume the operations and management of the freight railway service and provide much-needed capital investment.

The RFP Evaluation Committee continues its detailed analysis of the BC Rail revitalization proposals by CP, CN and OmniTRAX, submitted on Sept. 15, 2003. Macquarie is the financial advisor for OmniTRAX. As the analysis process continues, the evaluation committee will be in touch with each of the three proponents to clarify issues arising from their respective proposals.



No decision on a recommended proponent for negotiations will be announced until the Evaluation Committee is satisfied all issues have been adequately addressed. When that process is complete, the Provincial Government will make the official announcement of the successful proponent for negotiation of a rail revitalization agreement.

Key Priorities Include:

- A vision for the railway as a key component of BC's transportation infrastructure;
- A commitment to customer-oriented and competitive service offerings as well as commitments to protect and/or enhance rate structures for existing customers and provide continued access to North American markets and carriers for interline rail shipments;
- A plan to provide access on reasonable economic terms to make the most of new opportunities for key passenger service markets; and
- A plan to address the concerns of communities, employees and First Nations.

ONTARIO HOSPITALS UPDATE

Two new Ontario hospitals proposed to be delivered via public-private partnerships are being followed by observers closely. In August, the provincial government approved the terms for the Healthcare Infrastructure Company of Canada to develop the new William Osler Health Centre hospital facility in Brampton. In September, the board of trustees at the Royal Ottawa Hospital approved the proposed P3 for a new \$100 million facility to be built and operated by the Healthcare Infrastructure Company of Canada. The terms of the deal for the Royal Ottawa Hospital are still yet to receive Provincial approval.

NEW SOUTH CALGARY HOSPITAL COULD GO AS PPP

The first phase of a new health campus in south Calgary, which will feature a 350-400 bed hospital, is now expected to be completed by 2008 – about two years ahead of the original schedule.

"Over the past 24 months, we've made a great deal of progress and gained significant momentum in the development of this very important project," said Bob Holmes, Senior Vice President, Strategic Services for the Calgary Health Region. "The South Health Campus will play a key role in our leadership strategy for health and represents the future of health care for residents living in the fastest growing area of Calgary."

Phase One of the South Health Campus development will involve the construction of a 350 to 400 bed acute

care hospital. The Calgary Health Region has proposed to the Provincial Government that the South Hospital be developed through a public private partnership (P3). The private partner would be selected through a competitive process and would be responsible for the design, construction, financing, operation and maintenance of the hospital building. The delivery of health care would remain the responsibility of the Calgary Health Region, as currently provided at the four existing acute care facilities in compliance with the Canada Health Act. The Region is awaiting approval from the Provincial Government to proceed with this strategy.

If construction on Phase One commences in 2005, the hospital can be completed by 2008, two years ahead of the original schedule. Future development phases could include the expansion of acute care facilities and other specialized services, as well as facilities for research, teaching, medical offices and long term care.

MACQUARIE INFRASTRUCTURE GROUP ACQUIRES THE SR125 TOLL ROAD



In May, Macquarie Infrastructure Group (MIG) reached financial close on State Route 125 South in San Diego. Under the concession MIG will design, finance, construct and then operate, for 35 years, a four lane 18 km road in San Diego known as SR125 South. The concession is worth US\$635 million. In addition, MIG will manage the construction of two sections of untolled, government funded road, worth US\$138 million.

SR125 South is a project that had been stalled in planning for more than a decade. When MIG first looked at the project there was no financing - no senior debt and no government debt, no construction contract, limited agreements with land owners and outstanding litigation. In just 18 months the team has resolved outstanding litigation, moved the project successfully to financial close and groundbreaking. Construction is set to begin within the next couple of months.

Macquarie's largest infrastructure fund, the Macquarie Infrastructure Group which invests globally in toll-roads, has provided investors with compound returns of 25.6% per annum from inception in December 1996 to March 31, 2003.

MACQUARIE ESSENTIAL ASSETS PARTNERSHIP

The Macquarie Essential Assets Partnership (MEAP) has been launched to give both pension and institutional investors the opportunity to invest in unique assets that provide an essential service to the community such as electricity transmission and distribution systems and gas pipelines. Government authorities regulate the rate of return on these assets and as a result, they have the potential to provide investors with:

- stable returns;
- predictable cash flows; and
- attractive returns and cash yields.

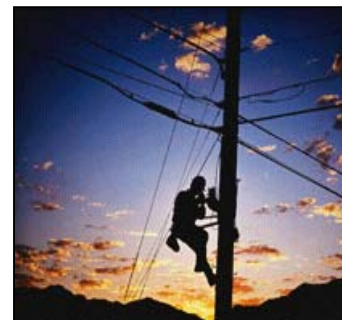
Macquarie will adopt an active management approach to MEAP's investments including seeking representation on boards of directors or management committees, assisting in submissions to regulatory authorities and setting financing strategies.

The seed asset for MEAP is a 15% ownership interest in AltaLink, L.P., owner of a major Alberta electricity transmission network comprised of 11,600 km of high voltage lines and 260 substations.

Attractive investment opportunities for MEAP are expected to develop rapidly as a result of the continuing restructuring of the Canadian electricity and gas industries and the trend toward the separation of the regulated businesses of existing utilities from other business activities.

Macquarie has secured initial capital commitments of \$250 million for MEAP and expects the fund to grow to between \$400 and \$500 million.

Macquarie Bank Limited has made an initial commitment of \$50 million to MEAP. Among the other investors are British Columbia Investment Management Corporation (on behalf of the public sector pension funds within British Columbia) and New Brunswick Investment Management Corporation (on behalf of certain public sector pension funds within the Province of New Brunswick).



MACQUARIE FUND ACQUIRES OFF-AIRPORT PARKING BUSINESS

Parking Company of America Airports, LLC ("PCAA"), controlled by Macquarie Global Infrastructure Fund ("GIF"), purchased Airport Satellite Parking LLC ("Avistar"). Avistar is one of the largest off-airport parking companies in the United States. The transaction involved the purchase of parking lots and related facilities around the United States, primarily in the Northeast.



This transaction represents Macquarie's second off-airport parking acquisition in the United States. It represents a consolidation of the fragmented off-airport parking industry as the combined business is now the largest off-airport parking company in the United States.

MACQUARIE BANK ACQUIRED A LEADING UK WATER UTILITY SOUTH EAST WATER PLC (SEW) FOR £386 MILLION

SEW is the second largest of the twelve Water Only Companies in the UK and supplies 400 million litres of water per day to approximately 1.5 million people in the South East of England. SEW and its affiliated businesses have approximately 630 employees. SEW provides essential services to a growing community. It offers a stable investment with high quality, regulated cashflows. Its essential nature means that it has limited exposure to demand and pricing risk and limited dependence on the economic cycle.



The Chief Financial Officer for Macquarie Bank, Greg Ward, said the Bank's intention is to sell the asset into a new fund, the Macquarie European Infrastructure Fund (MEIF) within 6-9 months, or to institutional investors.

MEIF will be a wholesale private equity fund formed to invest in infrastructure assets in European OECD countries. It will target investments that provide essential services to the community, have a strategic competitive advantage and provide sustainable and predictable

cashflows. The fund is expected to appeal to pension funds and other institutional investors seeking long-term stable returns matching their long-dated liability profiles.

When established MEIF will be the fourth Macquarie unlisted infrastructure fund established outside Australia using funds sourced primarily from offshore investors. This continues the global rollout of Macquarie's successful infrastructure funds strategy.



P3 CONFERENCE IN TORONTO

The Canadian Council for Public-Private Partnerships will host its 11th Annual Conference on November 24th and 25th at the Toronto Hilton Hotel. Speakers will include Hon. Gordon Campbell (Premier, Province of BC), Hon. Patricia Nelson (Minister of Finance, Province of Alberta), Henri-Paul Rousseau (Chairman and CEO, Caisse de dépôt et placement du Québec), and Hon. Monique Jérôme-Forget (Minister Responsible for Government Administration, National Assembly of Québec) among others.

Registration deadline is November 20, 2003. Additional information is available by calling the CCPPP at (416) 861-0500 or at their website: www.pppcouncil.ca.

ABOUT MACQUARIE

Macquarie North America Ltd. is a member of the Macquarie Group, a specialist provider of investment, advisory and financial services in select markets around the world. Macquarie's approach is driven by a deliberate focus on areas where we have specialist expertise, such as in the infrastructure sector. The Macquarie Group has 4,700 people in 18 countries. The Group is headquartered in Australia, where our parent company, Macquarie Bank Ltd., is recognized as the leading Australian investment bank and is one of Australia's top 25 companies by market capitalization.

The Macquarie Group has been actively involved in the Canadian market since the early 1990's. Over the last four years we have established what is now the largest financial advisory team dedicated to the Canadian infrastructure sector with over 45 staff and offices in Toronto and Vancouver. Macquarie provides advisory services to both government and corporate clients across Canada. These advisory services include project evaluation and financing, PPP structuring and evaluation, structured financing, cross-border leasing, capital restructuring, mergers and acquisitions, strategic options evaluation and other corporate, strategic and financial advice in the transportation, utility, government and resources sectors.

The Macquarie Group has leveraged its infrastructure expertise through the establishment of specialized infrastructure funds. Macquarie currently manages over \$9 billion in publicly listed and private infrastructure funds investing internationally in assets such as toll roads, airports, pipelines, transmission assets and infrastructure. In Canada, Macquarie infrastructure funds have major investments in Canadian assets, including Highway 407, the world's largest privatized tollroad (43%), AltaLink LP (15%) and the Detroit-Windsor Tunnel (100%).

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