MACQUARIE

UTOPIA Network PPP

Draft Milestone Two Report

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Disclaimer

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1. Executive Summary

Macquarie Infrastructure Developments LLC ("Macquarie") and First Solutions P3, Inc. ("FSP3") have, in conjunction with their contracting partners, undertaken extensive due diligence during Milestone Two to further develop their proposal to upgrade and expand the existing UTOPIA fiber to the premises network by a factor of ten to deliver gigabit capable connections to over 112,000 residential and commercial addresses across the six cities that elected to proceed with the transaction at the conclusion of Milestone One ("Opt-In Cities" or "OICs").

Figure 1: Summary of Milestone Two Work Program

✓ **Utility Fee**	• Milestone Two Utility Fee estimate of **$22.60 per month** • Macquarie and FSP3 are **highly confident that the final Utility Fee** will be **substantially lower than the proposed $25.00 per month ceiling**
✓ **Extensive Work to Minimize Impact of Opt-Out Cities**	• Five Cities withdrew from the transaction at the conclusion of Milestone One, **reducing the Milestone One address count by approximately 67,000** • Extensive diligence process, including substantial network redesign to **reduce the impact of this withdrawal, which was initially estimated at $8.57 per month**
✓ **Contractor Diligence Identified ~12,000 New Addresses**	• Black & Veatch and MPNexLevel invested significant resources to firm up the address estimates provided by the Cities • **Route tracing and other detailed investigations yielded approximately 12,000 incremental addresses** not captured during the Milestone One analysis
Reduced Cost Estimates	• The contractor's diligence process also facilitated submission of **tighter pricing that reduced project costs** substantially
✓ **Transaction Structure**	• UTOPIA and UIA's tax-exempt bonds present structuring challenges in relation to the flow of funds to the Concessionaire. **Detailed discussions with the Agencies' bond counsel have yielded a proposed solution**
✓ **Opt-Out Cities**	• Working assumption that **the PPP will continue to service the existing users in Opt-Out Cities** • Approach to the OOCs is a critical issue for the OICs to resolve in Milestone Three
✓ **Basic Service**	• Feedback received during Milestone Two that the 3 Mbps basic service did not comprise sufficient value for users • The **basic service has been improved to 5x5 Mbps with a 20GB data cap**
✓ **Revenue Share**	• Development of the Wholesaler's business model facilitated a structure in which the Cities will receive **75% of the Wholesaler's annual revenues** beyond $2 million • **100% coverage of OICs debt forecast within 5 year** of network completion
✓ **Public Vote**	• **Macquarie and FSP3 recognize the importance of a public vote** to the Cities and their constituents. We anticipate a vote will be held prior to Financial Close, the result of which will determine if the transaction will proceed.

The withdrawal of the five cities (the "Opt-Out Cities" or "OOCs") had a material impact on the network design and the number of addresses across which the lifecycle costs of the project could be allocated. The Utility Fee is simply a reflection of the total costs to design, build, finance, operate, maintain and refresh the network, and as a result of the withdrawal of larger cities such as Orem and Murray, as well as cities with relatively advanced builds such as Centerville, the total number of addresses fell to approximately 99,000 (including existing users of OOCs). Although the scope of the network was also reduced as a result of the OOCs' withdrawal, the reduction in addresses had a substantially greater impact. The preliminary impact on the Utility Fee caused by the OOCs withdrawal was estimated at $8.57 per month.

Macquarie, FSP3 and our partners have, since June 2014, been investigating and developing various options to minimize the increase in the Utility Fee relative to the range quoted in Milestone One. The work program completed during Milestone Two included:

- Commitment of extensive physical resources by the contractors at no cost to UTOPIA or UIA (collectively, the "Agencies") or the Cities to redesign the network. This required the contractors to revert to first principles, completely redesigning the network to identify potential scope changes and cost efficiencies that could reduce the Utility Fee into an acceptable range. The network redesign takes into account the specific geography of the OICs;
- Considerable work by the contractors to find incremental addresses through detailed site by site diligence;
- Detailed due diligence that permitted reduction in risk contingencies;
- Continuing competition and pricing tension between contractors to achieve substantially tighter pricing;
- Better definition of the transaction structure, including a proposed resolution of the treatment of the Agencies' outstanding bonds

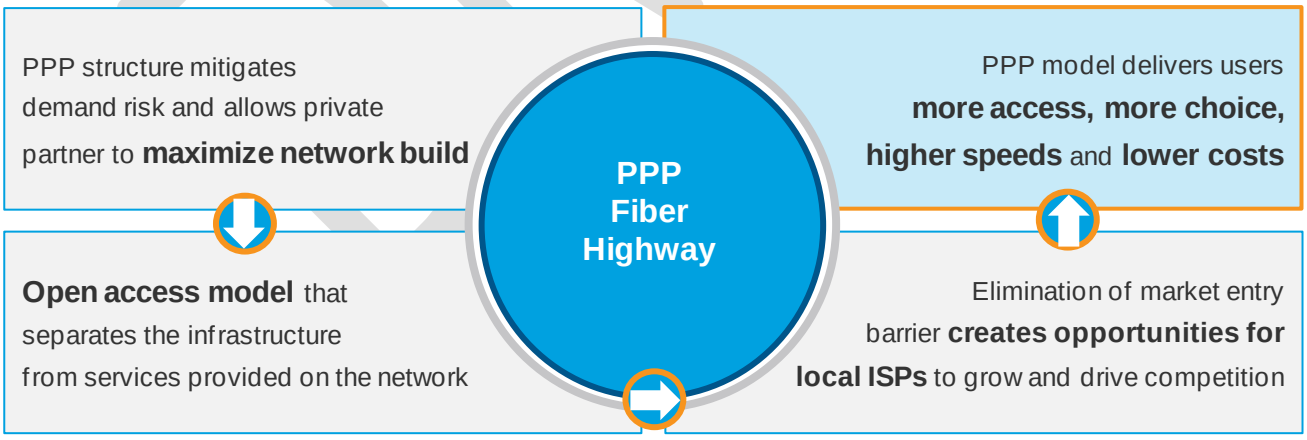
Together, this work all contributed to reduce the increase in the Utility Fee to approximately a third of the expected impact of the withdrawal of the OOCs that was anticipated immediately after Milestone One.

The efforts of the contractors are further described in the Project Update section of this report, which also includes further detail on the factors which offset the increase in the Utility Fee and allowed presentation of the $22.60 Utility Fee at Milestone Two. This report also contains a detailed business plan for the Wholesaler, including the proposed changes to UTOPIA's current transport fees, which have been made to increase the ISPs' competitiveness relative to the incumbents and other third party providers. Macquarie and FSP3 have also developed a comprehensive financing plan that identifies the potential sources of capital for the project as well as potential considerations that may impact the financing package and the Concessionaire's capital structure.

1.1 The PPP's Value to Users & the Opt-In Cities

Macquarie and FSP3 remain committed to the transaction and continue to believe that the utility fee model is the most effective manner in which to improve both access to broadband and its affordability. The benefits of this model are discussed in detail in the Milestone One Report, however the two primary value drivers are discussed below to provide some context as to why Macquarie and its partners have invested such a wealth of human and financial capital to develop the transaction.

Figure 2: The PPP's Open Access Fiber Highway



The ubiquitous, open access model generates value for users and the OICs in two primary ways. The Utility Fees paid by users will be consolidated by the OICs and paid to the PPP Concessionaire as an availability payment. The availability payments are contracted and provide the PPP with flexibility to deploy network infrastructure into disadvantaged and rural areas that would likely be deemed commercially unfeasible in a traditional build. The PPP's ability to bridge the digital divide is a critical value driver for the OICs, because it is these users that are likely to receive the greatest benefit from access to high-speed, reliable broadband.

The ubiquitous nature of the network also creates substantial economic growth opportunities for the OICs. Broadband is becoming an increasingly important factor for businesses when selecting new or expansion locations, and the ability to access affordable, reliable fiber connections in the OICs provides these businesses the bandwidth necessary to improve user interfaces and maintain competitive advantages. For example, the gigabit network was acknowledged as a factor in Volkswagen locating a manufacturing plant in Chattanooga, Tennessee. This project created over 3,000 jobs and generated $1.4 billion in tax revenue for the city. Claris Networks shifted its data center from Knoxville to Chattanooga simply because of the greater utility provided by the speed and reliability of the gigabit network. The additional jobs and tax revenues from relocations were only part of the network's economic benefit though; FCC Chairman Tom Wheeler noted in June 2014 that the network also facilitated the development of the tech economy, making Chattanooga a hub for the high-tech jobs people usually associate with Silicon Valley. High speed fiber networks unleash bandwidth relative to current DSL and cable platforms, and as a result attract entrepreneurs capable to using that bandwidth to innovate and develop value added products. Press coverage of Google Fiber's rollout in Kansas City noted a dozen start-ups were drawn to a single neighbourhood, and as many as 60 start-ups were presenting to investors on a weekly basis only 7 months after the first connection was completed.

The penetration of the PPP network across the OICs also presents an attractive opportunity for those ancillary users such as wireless carriers and healthcare / transport departments seeking to expand or increase the efficiency of their existing connections. The ability to serve multiple user groups through a single, ubiquitous infrastructure highlights the relative cost efficiency of the PPP, and ensures that the proposed transaction will have the necessary scale to deliver residents of the OICs the lowest per user deployment cost.

The value to users is generated through greater choice of providers that generates a shift in the balance of power from the ISPs to the user and the superior service that the new network will provide. Currently, the incumbents have approximately 60% market share across the Cities, and their dominance reduces their incentive to improve service quality. Users are effectively price takers, and the high capital cost required to build proprietary infrastructure acts as a material barrier to entry for potential competitors. The PPP separates the network infrastructure from the services provided over that infrastructure, and as such eliminates this entry barrier. Any ISP, including any incumbent, can provide services on the network so long as they can meet minimum quality requirements, as discussed in the Wholesaler Business Plan in Section 6. Local ISPs and new entrants can thus compete for over 280,000 residents and employees in the OICs with minimal capital investment. No longer protected by the high cost of infrastructure, all ISPs must continue to innovate and either improve their product offering or find cost efficiencies to acquire and retain customers. The PPP will thus shift the pricing power to users in the OICs; these users will have substantially greater choice of provider and will be able to shift smoothly between providers to ensure their selected service provides sufficient value.

1.2 The Process to Commercial & Financial Close

Macquarie and FSP3 recommend an aggressive timeline to proceed from Milestone Two to commercial and financial close. Long lead items such as permitting, as well as the availability of crews and regulated working conditions across the OICs, have limited the potential schedule reductions from building to a smaller number of addresses, and as such we consider an expedited timeline important for the OICs to stay ahead of competing gigabit projects, which could potentially threaten the economic and growth opportunities derived from the PPP's investment in the Agencies' network.

A second factor driving Macquarie and FSP3 towards an expedited timeline is UTOPIA's current position. The network infrastructure is ageing and the core electronics are near the end of their useful life. UTOPIA's funding constraints have limited its ability to replace these electronics and as such operational performance issues including sustained outages have persisted. The $10 million that UTOPIA is slated to receive following the settlement of the RUS litigation could potentially be allocated to this network refresh, however our estimates suggest approximately $40 million would be required to fully refresh the core and return the network to its optimal performance level. UTOPIA is also currently in a challenging position with respect to key executives. Executives responsible for outside plant and operations have left the agency in recent months, and the uncertainty of the PPP's timing limits UTOPIA's ability to secure quality personnel that could improve the network's performance over the long-term. Expediting negotiation of the Concession Agreement and the

associated project contracts is a key workstream in Milestone Three, and Macquarie's preference would be to expand the current term sheet into a negotiated, full form Concession Agreement as soon as possible.

The scope of work and budget necessary to achieve commercial close in Milestone Three, along with our proposed timeline, is shown in Section 8. At completion of this milestone, Macquarie and FSP3 will provide a final Utility Fee to the OICs, which can only be adjusted for changes in financing terms between commercial and financial close. As was announced by the Mayors of the OICs in August 2014, the public will also have the opportunity to vote for or against the transaction. We anticipate this vote will occur following Milestone Three. Our model relies on the public's acceptance of the transaction's benefits and we are coordinating with the OICs to determine the most appropriate format for and timing of the vote.

2. Project Update

The Milestone One proposal was presented by Macquarie Infrastructure Developments LLC ("Macquarie") and First Solutions P3, Inc ("FSP3" to UTOPIA and UIA (collectively, the "Agencies") in April 2014. This proposal, which confirmed the viability of expanding the Agencies' network from its existing user base of approximately 11,000 to 160,000 through a public private partnership ("PPP"), was approved by the Agencies and subsequently released to the public on April 29, 2014. The PPP would deliver a gigabit-capable fiber connection to every residence and commercial address in the cities that had pledged their sales tax to support UTOPIA's outstanding revenue bonds (the "Cities"). The transaction would retain UTOPIA's current status as an open access network, and provide all users access to a symmetrical 3Mbps Basic Service in return for payment of a monthly Utility Fee of $18-20.

Publication of Milestone One triggered a 60 day review period in which the City Councils had to vote to proceed into Milestone Two or withdraw from the transaction. Macquarie and FSP3, along with a number of network stakeholders including internet service providers ("ISPs"), attended a substantial number of public hearings and council meetings during this period to present the PPP model, discuss the Utility Fee and seek feedback from both the councils and the general public. At the conclusion of this review period, in late June 2014, six of the Cities had voted to proceed with the transaction (the "Opt-In Cities" or "OOCs"). These Opt-In Cities represented approximately 57% of the 160,000 addresses identified in Milestone One.

Table 1 summarizes which Cities voted for and against proceeding with Milestone Two. Address counts are prior to the various adjustments made through further diligence in Milestone Two, as detailed below.

Table 1: Milestone One Voting Results

Opt-in Cities	Opt-Out Cities
West Valley City	Orem
Layton	Murray
Midvale	Payson
Brigham City	Centerville
Tremonton	Lindon
Perry	
91,402 Addresses	**67,725 Addresses**

The withdrawal of the five Cities (the "Opt-Out Cities" or "OOCs") had a significant impact on the Milestone Two work program. Macquarie and FSP3's preliminary analysis indicated that the loss of ~68,000 addresses increased the Utility Fee by approximately $8.00, which was not a politically acceptable outcome. Macquarie, FSP3 and our contracting partners have thus undertaken significant due diligence to refine these cost estimates during Milestone Two. This detailed analysis, which included extensive network redesign, physical confirmation of address counts by the contractors and substantial pricing discussions to minimize risk contingencies where possible, has allowed Macquarie to submit a proposed Milestone Two Utility Fee of $22.60 to the Agencies and remaining Cities, a relatively modest increase given the significant reduction in addresses across which to spread the total project costs. The key drivers of this change in Utility Fee are discussed in the sections below.

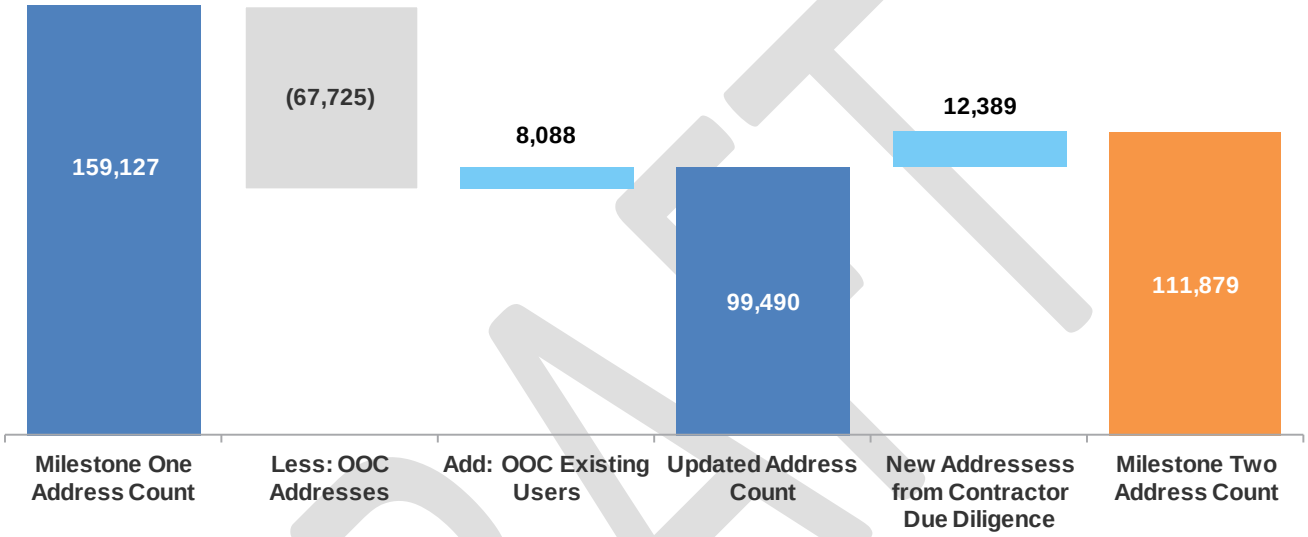
As part of this Milestone Two report, following the extensive additional due diligence undertaken, Macquarie is highly confident that there are sufficient levers within the control of itself and its partners, the Cities and the Agencies to ensure that the Utility Fee does not exceed $25.00 at Financial Close. Macquarie understands that the Cities would be highly unlikely to proceed with the project if the Utility Fee exceeds $25.00. Managing the process to ensure the final Utility Fee is minimized will require participation from the Cities, Agencies, Macquarie and its partners. The process to complete our due diligence and negotiate the detailed project contracts is described in Section 8.

Furthermore, based on feedback received over the past months, and in consultation with the ISPs, we have increased our proposed Basic Service upload and download speeds to 5Mbps. The proposed 20GB monthly data cap under the Basic Service is unchanged.

2.1 Address Update

The reduction in total addresses from the departure of the five Opt-Out Cities from the process had a significant impact on network design, and a substantial amount of work was undertaken to ensure the impact on overall costs was minimized. Figure 3 reconciles the new address count and accounts for the cities that have opted out of continuing with the PDA process.

Figure 3: Post-Milestone One Address Reconciliation



Note: Existing Users in Opt-Out Cities have remained in the address count as it is expected that they will continue to be serviced on the New Network

The shortlisted design-build contractors (Black & Veatch and Corning/MPNexLevel) have conducted additional due diligence to verify the number of addresses and found approximately 12,000 new addresses above the Milestone One estimates provided by the Cities and UTOPIA. UTOPIA, First Solutions and Black & Veatch met to reconcile West Valley City's address count in September 2014 and based on that meeting, UTOPIA advised Macquarie to use Black & Veatch's new address estimate while continuing to reconcile the address counts with the remaining Opt-In Cities to establish a baseline address count.

For the other OICs, Layton's address count has been reconciled to within a small difference but Midvale still has a significant difference and requires some work. This work is ongoing and having a firm address count that is agreed by all parties will significantly increase the confidence level of the Utility Fee estimate. Macquarie and its contractors are confident in the reconciliation process being undertaken to arrive at this firm address count.

Macquarie and its contractors will also look to provide an estimate of potential growth addresses that can be expected for the Project. Current assumptions do not take into account these addresses, which can result in Utility Fee savings as the incremental cost to build is potentially less than the fees collected.

The following table provides a summary of the address count in all 11 UTOPIA cities.

Table 2: Milestone Two Address Count

	West Valley	Layton	Midvale	Brigham	Tremonton	Perry	Orem	Murray	Centerville	Payson	Lindon	Total
Existing UTOPIA	277	229	327	89	284	-	2,000	1,349	-	538	574	5,667
Existing UIA	339	271	227	52	-	2	1,098	737	1,190	1	601	4,518
Existing SAA	-	-	-	1,123	-	-	-	-	-	-	-	1,123
Total Existing Users	**616**	**500**	**554**	**1,264**	**284**	**2**	**3,098**	**2,086**	**1,190**	**539**	**1,175**	**11,308**
Inactive Users	355	223	327	328	221	-	-	-	-	-	-	1,454
New Addresses	42,110	26,022	18,443	6,791	3,973	1,778	-	-	-	-	-	99,117
Total Proposed Addresses	**43,081**	**26,745**	**19,324**	**8,383**	**4,478**	**1,780**	**3,098**	**2,086**	**1,190**	**539**	**1,175**	**111,879**
Utility Fee Addresses												
Existing UTOPIA	277	229	327	89	284	-	2,000	1,349	-	538	574	5,667
Inactive UTOPIA	355	223	327	328	221	-	-	-	-	-	-	1,454
New Addresses	42,110	26,022	18,443	6,791	3,973	1,778	-	-	-	-	-	99,117
Total Utility Fee Addresses	**42,742**	**26,474**	**19,097**	**7,208**	**4,478**	**1,778**	**2,000**	**1,349**	**-**	**538**	**574**	**106,238**

2.2 Approaches to Opt-Out Cities

Although five cities have opted out of the PDA process, there needs to be a resolution on whether existing users in Opt-Out Cities (Orem, Murray, Centerville, Payson, and Lindon) will be serviced and if so, how much they will be charged. From the Opt-Out Cities, there are approximately 4,461 UTOPIA and 3,626 UIA users connected to the network generating over $4 million in annual revenues. Macquarie currently assumes that UTOPIA users will be paying an amount equivalent to the Utility Fee and will be serviced on the new network.

Macquarie's initial financial analysis shows that inclusion or exclusion of existing users in Opt-Out Cities do not materially affect the Utility Fee, but instead, has a significant impact on the Wholesaler's economics and the revenue share to the Cities. As well, collecting revenues from existing users of the UTOPIA network will have implications on the existing tax-exempt debt. This is another critical-path item that will need to be resolved by the Cities and Agencies during Milestone Three.

Table 3: Existing Users of UTOPIA, UIA and SAA Users

Active Users	Opt-In	Opt-Out	Total
UTOPIA	1,206	4,461	5,667
UIA	891	3,627	4,518
SAA	1,123	-	1,123
Total Active Users	**3,220**	**8,088**	**11,308**

2.3 Feedback Received During Milestone One

During the Milestone One review period, Macquarie and its partners participated in many meetings with elected officials and their staff from the Cities, in addition to attending public townhall meetings to present the report and engage with the public. The opportunity to communicate with the public and city officials provided Macquarie with an open channel to receive feedback and address concerns, which ultimately helped shape the Milestone Two workplan. The key concerns voiced during this process are presented in Table 4 below.

Table 4: Summary of Milestone One Feedback

1	**Mandatory Utility Fee**	• Residents challenged the need for a mandatory Utility Fee, noting precedent builds had primarily been on a demand basis – Demand driven models tend to concentrate infrastructure in wealthier areas, which will likely widen the digital divide – Ubiquitous access to the network delivers value for money to all residents of the Cities
2	**Terms of the Basic Service**	• 3 Mbps connection challenged as insufficient to be useful – Macquarie has discussed increasing speeds with the ISPs to resolve citizen's concerns and has increased the basic service to 5Mbps
3	**Relief & Opt-Out Programs**	• Citizens concerned about the elderly and indigent (e.g. can't afford the service or don't use the internet in any way) – Cities will have discretion to implement relief programs as they see fit – Education and awareness programs to assist non-users understand the benefits of connectivity

2.3.1 The Utility Fee, Basic Service and the Importance of Network Ubiquity

2.3.1.1 Network Ubiquity

The mandatory nature of the Utility Fee was a point of contention throughout the Milestone One review period and cited as a key factor in the Opt-Out Cities decision to withdraw from the PPP.

The team found that the public had limited exposure with the PPP model and were sensitive to the concept of the mandatory Utility Fee, but were receptive to the concept that network ubiquity is a critical factor in delivering

access to all users – particularly the disadvantaged ones. A ubiquitous network maximizes value for money through delivering an efficient and effective means of connecting all users in a city. Based on the network coverage maps of incumbent providers and most recently, Google Fiber's deployment in various cities, one can see that the coverage gaps in a demand driven models are severely skewed towards disadvantaged users. Table 5 below provides examples from Kansas City. The demand driven or opt-out model both perpetuates the digital divide and as cities transition into gigabit infrastructure, disadvantaged users may potentially be permanently left behind.

Table 5: Take Rate Survey for Google Fiber[1]

Low Income Areas	• 15% total take rate (10% premium, 5% basic service) — Average income of ~$20,000 per annum • Key constraints to user take rates include: — Pricing concerns as only speed option available is 1 Gbps at $70/month, unless neighborhood is built out, in which case the basic service of 5Mbps download and 1Mbps upload may be available — Lack of mobility for renting population as installation fee is not transferrable — Many users accessed the internet via cellular devices
Middle/ High Income Areas	• 53% total take rate (42% premium, 11% basic service) — Average income of ~$57,000 per annum • 83% take rate in Wornall Homestead — Average annual income of $112,000

2.3.1.2 Basic Service

With regards to the proposed Basic Service, there were some concerns that the proposed speed of 3 Mbps download / upload with a 20 GB monthly data cap was insufficient. Following further consultation with ISPs, we have increased the proposed Basic Service speeds to 5 Mbps download / upload. This is notably faster than Google's 5Mbps/1Mbps basic service. The proposed 20GB monthly data cap is unchanged. The Basic Service is intended to be an entry level product suitable for low-intensity users only (e.g. web browsing, emails and occasional use of video applications such as Skype and FaceTime). All users will have the option of retaining the Basic Service or upgrading to a premium service, available at speeds up to 1Gbps, through their ISP. Macquarie remains confident that the Basic Service, available to all users without mandatory bundling of voice or cable products, provides users substantial value for money.

A strong partnership with ISPs is critical in the success of the Project as the network is not set up to provide services to end users. Macquarie will continue to have discussions with ISPs, city officials, and residents during Milestone Three to finalize the terms of the Basic Service, including the cost of potential add-on services such as voice products using VoIP. Preliminary conversations with the ISPs have indicated that voice services could be added to the basic service for $8-10 per month, providing users a comparable product to that offered by the incumbents for approximately half the cost. Furthermore, third party VoIP services may be available for less, potentially with a modest upfront equipment cost. It is important to note that, to the extent the Basic Service includes higher speeds or data caps, the uptake of premium offerings may be reduced, thereby reducing the premium revenues that flow back to the Cities from the network.

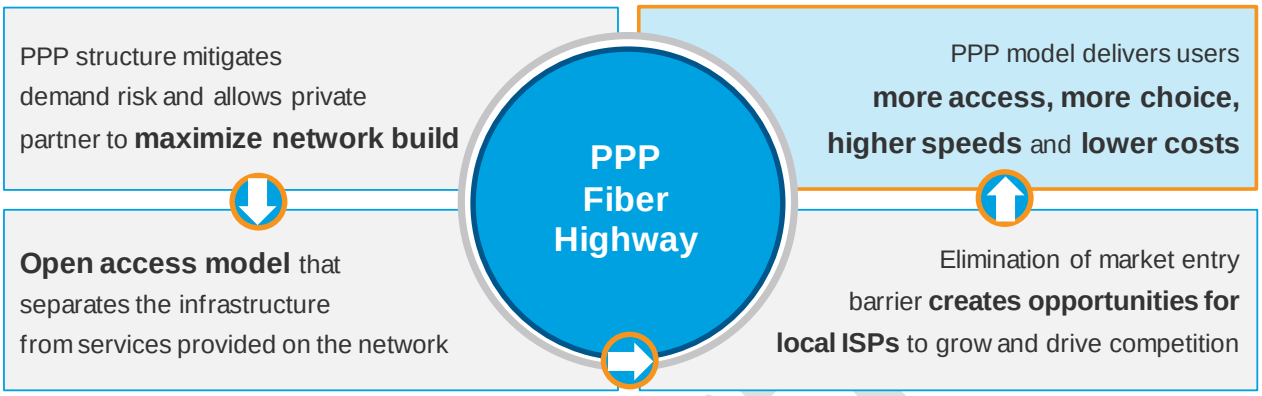
2.3.1.3 Utility Fee

Our extensive work program through Milestones One and Two has yielded favorable conclusions that validate the business model and provide compelling rationale to implement the project. The PPP proposal will provide all residents the opportunity to receive next-generation connectivity at speeds beyond what most providers can offer, and at highly competitive prices. Having a ubiquitous open access network will also likely pressure the incumbent providers to reduce their prices and improve service offerings to mitigate the risk of customer losses. Thus, the cost of the Utility Fee is expected to be at least partially offset by reduction in fees charged by incumbent providers, even if users choose to stay with the incumbent providers. Figure 4 provides an overview

[1] Barr, A. (2014, October 2). Google Fiber leaves a digital divide. The Wall Street Journal. Retrieved from http://www.wsj.com/articles/google-fails-to-close-kansas-citys-digital-divide-1412276753

of how the PPP model aims to deliver not only a fully operational open access network, but also aims to increase the competitiveness in a highly consolidated industry.

Figure 4: The PPP's Open Access Fiber Highway



Users will not be charged the Utility Fee until the earlier of when they actually connect to the network, or 6 months from the date their connection is available. During this transitional period of up to 6 months they can request their preferred ISP complete the connection from a defined demarcation point into their home or business.

Existing UTOPIA users' existing connection fees, if any, will be replaced with the Utility Fee. These users will still be subject to additional fees for premium service, paid to the ISPs, in addition to the Utility Fee.

Active UIA and SAA users will continue to pay their existing connection fees, if any, and will not be required to pay the Utility Fee. Additional fees for premium service will continue to be charged by the ISPs to UIA and SAA users.

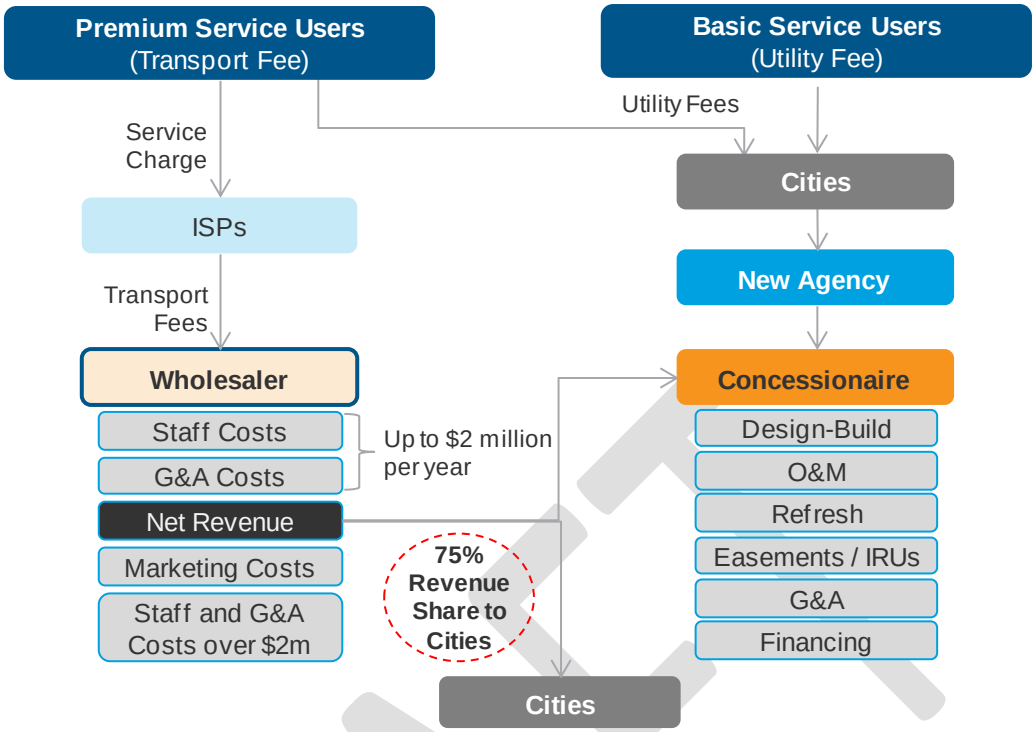
The PPP and Wholesaler will absorb any operating deficit with respect to the UTOPIA network from Financial Close onwards. The Cities will no longer be required to fund any UTOPIA network operations shortfall.

2.3.2 Revenue Share

Transport Fees that are collected by the ISPs from premium service users will be remitted to the Wholesaler. Following the deduction of certain general administrative and staffing costs limited to $2.0 million per annum, escalated at inflation, 75% of these Adjusted Net Revenues will be shared with the Cities. This will deliver a significant ongoing revenue stream to the Cities that is expected to total $7.7 million or 92% of Participating Cities' share of UTOPIA debt service in 2020, and $8.6 million or 100% in 2021, assuming ISPs operating on the network are able to upsell approximately 24% of the total market by the end of 2020. Over the life of the concession, Transport Fee revenues are expected to total $642 million, Ancillary Revenues are expected to total $40 million, and total Adjusted Net Revenues shared with the Cities are expected to total $436 million. Upon expiration of the term of the Concession, full control of the network will revert to the Cities, representing an asset of significant value for future generations. In 2047, the last year of the Concession, the asset is forecasted to generate over $84 million in revenue and $59 million in free cashflow.

Figure 5 highlights how the Transport Fee is shared with the Cities and the Wholesaler Business Plan in Section 6 details Macquarie and First Solution's operational strategy for the Wholesaler.

Figure 5: Simplified Network Revenue Diagram



2.3.3 Project Contracts

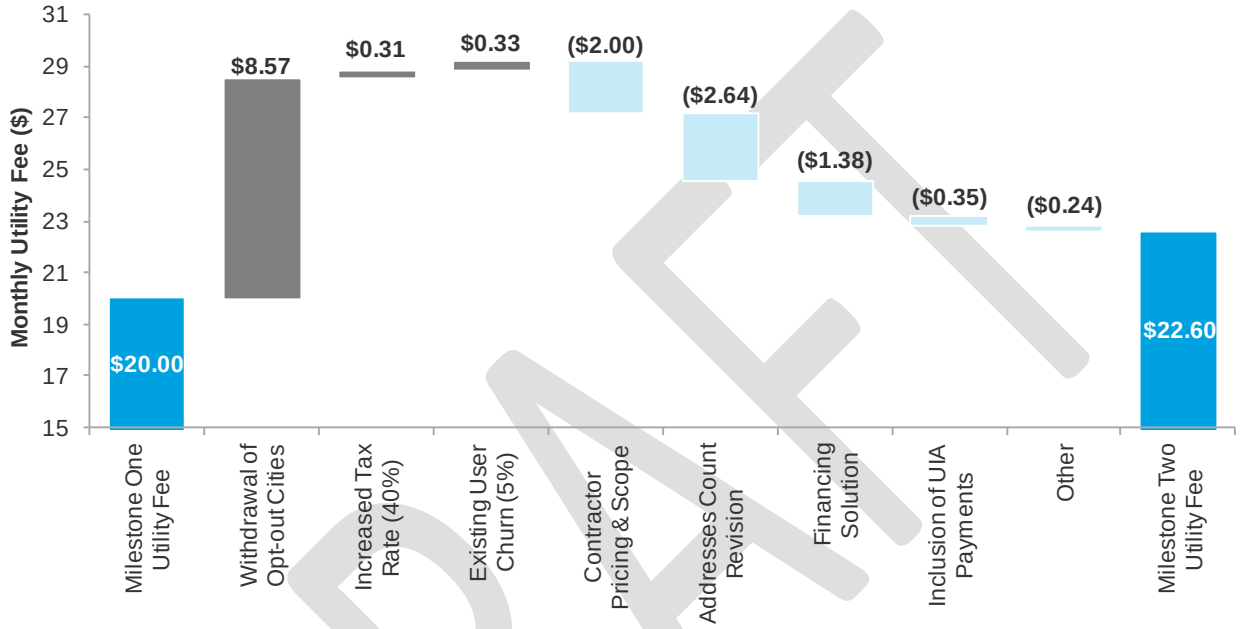
The core focus during Milestone Two for Macquarie, its partners and the Agencies has been firming up the project costs, particularly to minimize the impact that the Opt-Out Cities' withdrawal would have on the Utility Fee, as well as negotiating the Wholesaler's revenue share structure. A key component of Milestone Three will be to progress the Concession Agreement and other key project contracts from term sheets to full form agreements. A term sheet for the Concession Agreement has been delivered to the Cities and Agencies.

3. Milestone Two Utility Fee Estimate

3.1 Utility Fee Estimate and Changes from Milestone One

During the Milestone Two process, Macquarie and its partners conducted further due diligence and analysis to arrive at a revised indicative Utility Fee of $22.60. Figure 6 provides a summary of the major changes to the fee and the rationale behind the movements

Figure 6: Changes to Revised Utility Fee



Withdrawal of Opt-out Cities: Approximately 59,600 addresses have been removed from the Utility Fee payer base, which increases the burden of the project's fixed costs on the remaining users.

Increased Tax Rate: Revised tax rate assumption from 35% to 40% (incorporating State of Utah income tax).

Existing User Churn: Revised assumption that current users of the UTOPIA network in the Opt-Out Cities will be disconnecting from premium service at a rate of 5% per annum due to their connection fee increasing from $12 to the level of the Utility Fee (estimated at $22.60) and for other reasons such as moving and competition from incumbent providers.

Contractor Pricing & Scope: Tightening of contractor pricing following numerous periods of negotiations and revised scope of work, which included a network re-design due to reduction in number of participating Cities. Macquarie and First Solutions critically analysed the implementation plan and costing estimates provided by each contractor for elements such as construction, equipment, operations and maintenance. The bottom-up approach that was undertaken aims to achieve the required network build and operation specifications at the lowest cost. There was a significant level of effort and work devoted to ensuring the contractors were fully engaged and remained in strong competition with each other, including meeting with senior management in multiple locations. The result was a significant reduction in the Utility Fee due to redesign and pricing efficiencies.

Address Count Revisions: The shortlisted design-build contractors (Black & Veatch and Corning/MP NexLevel) have conducted additional due diligence to verify the number of addresses and found approximately 12,000 new addresses above the Milestone One estimates provided by the Cities and UTOPIA. The process for reconciling the address counts was outlined in Section 4.1.

Financing Solution: Further analysis on the financial solution and feedback from lenders was incorporated into the cost of financing. Additional details on Macquarie's approach at financing the project are provided by the Financing Plan in Section 7.

Inclusion of UIA Payments: Assumes that the UTOPIA IRU (existing indefeasible rights of use agreement which pays UTOPIA for access rights), Services Agreement and 50% of UIA's net income (post debt service) flows to the PPP.

Other: Minor model changes such as rolling forward of Financial Close date and inflation start year.

3.2 Key Utility Fee Parameters

The following assumptions support the Milestone Two Utility Fee estimate. To the extent that parameters outside the control of Macquarie and its partners change (such as base interest rates) the final Utility Fee will need to be adjusted accordingly.

Table 6: Summary of Key Utility Fee Parameters

1	**Project Structure**	• All new addresses pay Utility Fee — Businesses pay 2x the single family home fee (ie, $45.20 per month) — Multiple Dwelling Units pay 0.5x the single family home fee (ie, $11.30 per month) • All existing UTOPIA addresses, whether in Opt-In or Opt-Out Cities, pay Utility Fee — Utility Fee replaces any connection fees paid to UTOPIA; however, additional fees for premium service remain in place and subject to change according to market conditions • All UIA and SAA addresses do not pay the Utility Fee, as the UIA and SAA financing structures present additional complexities. Any UIA and SAA connection fees, as well as additional charges from ISPs for premium service remain in place — In other words, fees for UIA and SAA addresses are unchanged • PPP and Wholesaler receive services fees from existing agencies through 15 year management contracts
2	**Address Count**	• 111,879 total addresses, including: — 12,389 new addresses which pay Utility Fee — 4,461 existing UTOPIA addresses which pay Utility Fee, instead of existing connection fee, if any — 2,014 existing UIA and SAA addresses which continue to pay existing connection fee, if any • Opt-Out Cities reduced PPP addresses by approximately 68,000 • Contractor diligence increased address count by ~12,000 addresses in Opt-In Cities • Note that further diligence required to confirm final address counts
3	**Project Costs**	• Upfront capital costs of $223 million • Annual operating and maintenance costs of $7.9 million (2018)
4	**Exclusions**	• Undercollection buffer/revenue reserve mechanism and indigency relief programs are maintained by the Cities rather than carried by the PPP directly • No new IRU costs • No video head end at the PPP or Wholesaler (though video services available from ISPs) • Battery back-up to enable lifeline phone service available at modest additional cost
5	**Other**	• 40.0% tax rate • 5.0% annual churn of opt-out city subscribers • 5.5% cost of debt • 1.45x minimum debt service coverage ratio • 85% total leverage (debt to total capital ratio) • 13.0% equity IRR • Fixed escalation of 2.5% per annum on capital component of Utility Fee and indexed linked escalation of operations component of Utility Fee (with an annual cap of 5.0% per annum)

Macquarie is highly confident that there are sufficient levers within the control of itself and its partners, the Cities and the Agencies to ensure that the Utility Fee does not exceed $25.00 at Financial Close. Macquarie understands that the Cities would be highly unlikely to proceed with the project if the Utility Fee exceeds $25.00.

3.3 Key Issues Relating to the Utility Fee

To provide the Cities with a gauge of the Utility Fee impact of changes to certain project assumptions, Macquarie has summarized its sensitivity analysis below in Table 8. Throughout Milestone Three, Macquarie will continue to work closely with the Cities and contractors to further refine its assumptions. It is anticipated that further diligence and negotiation of commercial contractual terms during Milestone Three could result in lower contractor contingencies and translate into reductions in the Utility Fee. Macquarie also expects to have a better understanding of growth addresses that will be part of the Project. Including these growth addresses in the Project can possibly reduce the final Utility Fee as the incremental cost to build is potentially less than the Utility Fees collected over the concession period.

The sensitivities below are provided as an estimate of the impact of particular changes if they occur, and should not be interpreted as an indication that these changes are expected to occur. As well, the magnitudes presented in the table were selected to allow users to make easier estimates of sensitivity impacts.

Network Operations Center

Our current proposal envisages that the NOC is housed in Fujitsu's Richardson, Texas complex, which will leverage the economies of scale provided by their state-of-the-art facilities and technology. As part of Milestone Two, Macquarie and Fujitsu conducted an estimate for the cost of developing a Secondary or Primary NOC in Utah.

Housing a Secondary NOC in Utah will cost approximately $1.7 million more per year over the life of the concession due to substantial loss in efficiencies that leveraging the existing facilities in Texas will provide. This translates into a $1.50 increase in the Utility Fee. Developing a Secondary NOC will take approximately three years and the transitioning timeline is outlined in the table below. A Secondary NOC would function as a secondary support to Fujitsu's facilities in Texas and assist with monitoring, management and provisioning.

Developing a Primary NOC in Utah would cost an incremental $4.5 million in upfront capital costs on top of the Secondary NOC cost, which translates into a $1.79 increase in the Utility Fee ($0.29 more than Secondary NOC). Macquarie believes that the substantial incremental costs of a Primary or Secondary NOC located in Utah preclude these from being viable options.

Table 7: Secondary NOC Development Timeline

	UTOPIA Responsibilities	UTOPIA Staffing	Fujitsu Responsibilities	Timeline
Phase 1	• Training and development	1-3 NOC Engineers 1 NOC Admin 1 Provisioning Ongoing training through Phases 1-3	• 24x7x365 monitoring and fault management • Disaster recovery / business continuity	24 months
Phase 2	• Business hours (8am-5pm) monitoring, fault management and provisioning		• Oversight of UTOPIA monitoring and fault management • Disaster recovery / business continuity	6 months
Phase 3	• Secondary monitoring, fault management and provisioning		• Primary NOC function	6 months

Utility Fee Factor

Macquarie's proposal currently assumes that multi-dwelling units (MDUs) will be paying half of the Utility Fee (single family homes pay the Utility Fee) and businesses pay double the Utility Fee. MDUs pay a lower Utility Fee because these buildings may face constraints such as difficulty accessing existing wiring, difficulty and cost of installing new wiring and informal "exclusivity" with incumbent providers, which may limit the ability for ISPs to

provide connectivity to MDUs. Businesses are charged a higher Utility Fee because market pricing for business connectivity is generally far greater than residential connectivity.

As these Utility Fee factors have yet to be finalised, Macquarie has conducted analysis to understand the magnitude of impact from adjusting the factors and summarized in the sensitivity table below.

Revenue Collection

There is a risk of under-collection and payment delays in the Utility Fee due to circumstances such as refusal to pay, financial hardship and moves. As the Cities will be collecting the fee, this is a risk that is most efficiently managed by the Cities. To the extent that this risk is passed through to the PPP, lenders and investors are expected to require a revenue reserve or buffer to be put in place as a remedy. This would result in an increased Utility Fee and a preliminary estimate of this impact has been presented below. It is Macquarie's view that this risk will be most efficiently managed by the Cities retaining the risk.

Capital Expenditure

As additional contractor due diligence is being conducted that may change the network construction cost, Macquarie provided an estimate of how a $10 million increase or decrease in capital cost will impact the Utility Fee.

Operating Expenses

As additional work is being performed on the network design and how it will be operated that may change the annual cost of operating the network, Macquarie provided an estimate of how a $1 million increase or decrease in operating cost will impact the Utility Fee.

Financing

Depending on prevailing market conditions and the financial profile of the Project, the base rate and overall cost of financing can fluctuate. Although we are unable to alter the market rates, Macquarie will leverage its expertise and experience in structuring transactions to arrive at an efficient financing solution.

Miscellaneous

The current base case assumes that the Capital Component of the Utility Fee is being escalated by 2.5% per annum to reflect inflation. If we do not escalate at all, the Utility Fee will have to increase by $5.00. Macquarie recommends having an escalating Utility Fee as it more equitably spreads the real cost of the build of the network across users over time.

Table 8: Key Utility Fee Sensitivities

	Utility Fee	Utility Fee Change
Revised Base Case – Milestone Two	**22.60**	
Key Sensitivities		
Network Operations Center		
Primary Network Operations Center built and operated in Utah	24.39	1.79
Secondary Network Operations Center developed in Utah	24.10	1.50
Utility Fee Factor		
MDUs charged at 1.0x Utility Fee instead of 0.5x	19.95	(2.65)
Businesses charged on average 2.5x Utility Fee instead of 2.0x	21.69	(0.91)
Businesses charged on average 3.0x Utility Fee instead of 2.0x	20.84	(1.76)
Revenue Collection		

5% under-collection buffer for non-payment of Utility Fee	23.75	1.15
One quarter of revenue reserve to protect against delayed payment of Utility Fee	23.18	0.58
Capital Expenditure		
Capex increases by $10 million	23.24	0.64
Capex decreases by $10 million	21.98	(0.62)
Operating Expenses		
Annual operating expenses increases by $1 million	23.55	0.95
Annual operating expenses decreases by $1 million	21.66	(0.94)
Financing		
1.40x Debt Service Coverage Ratio (1.45x under Base Case)	22.28	(0.32)
1.50x Debt Service Coverage Ratio (1.45x under Base Case)	22.92	0.32
+25bps debt cost (5.5% under Base Case)	23.02	0.42
+100bps debt cost (5.5% under Base Case)	24.31	1.71
Miscellaneous		
No escalation of Capital Component of the Utility Fee	27.60	5.00
Effective Tax-Rate of 35% (5% reduction from base case)	22.31	(0.29)

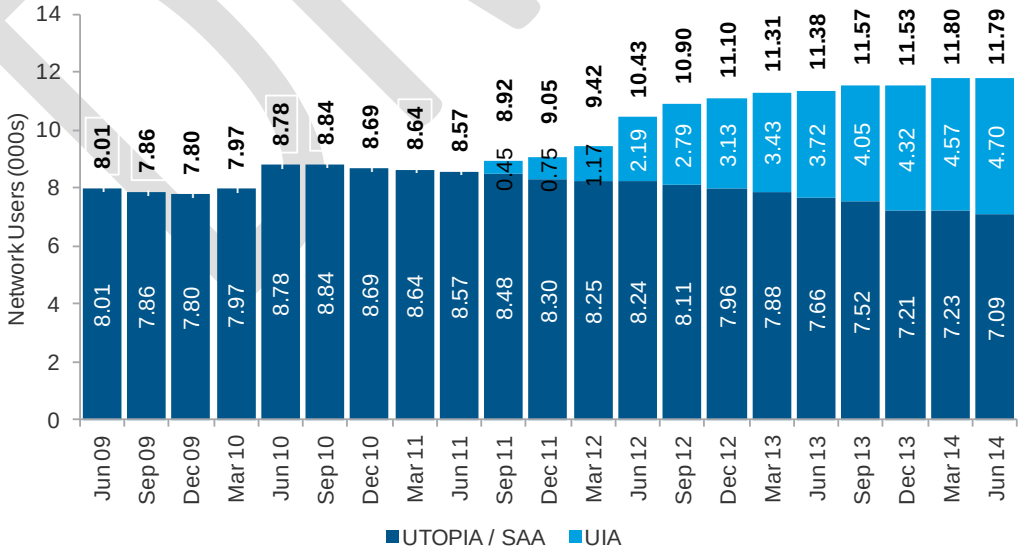
Note: The sensitivities above are each presented as a change from the Base Case, and are not cumulative.

3.4 UTOPIA Update

3.4.1 Network Subscribers

The Agencies, at the end of June 2014, had 11,860 subscribers active on the network. This represents net growth of approximately 400 users through the 2014 fiscal year, although this masks differing subscriber trends at UTOPIA and UIA.

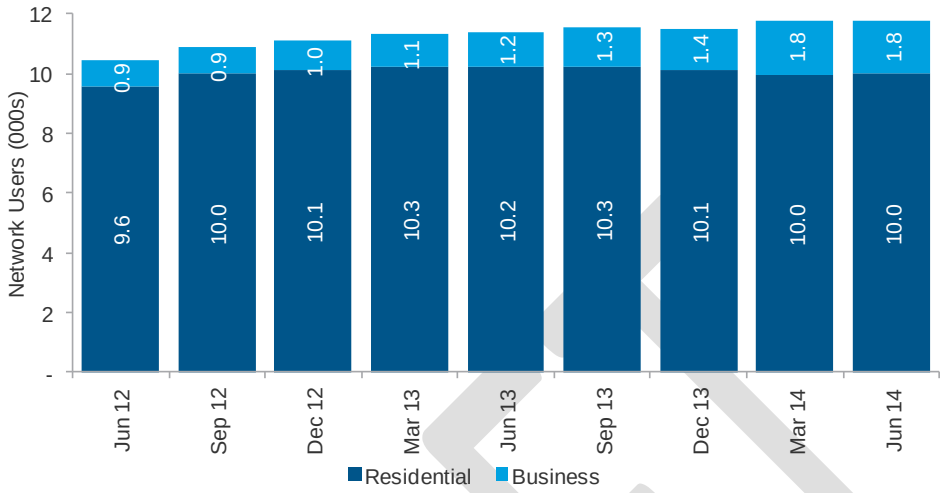
Figure 7: Total Network Subscribers



UIA, which in recent years has used the $16 million grant money received under the American Recovery and Reinvestment Act ("ARRA") to specifically target commercial customers, grew its user base by approximately

27% in fiscal 2014, to an approximately total of 4,700. This growth was almost exclusively in the commercial sector. Conversely, UTOPIA's user base continued to be impacted by user churn, dropping over 550 customers to end the year at just over 7,000. Note that UTOPIA's records include Brigham City SAA users within the UTOPIA bucket.

Figure 8: Subscriber Distribution since June 2012



Macquarie and FSP3 had a number of sessions with the Agencies' operational and finance staff to understand the various strategies used to acquire customers, both in the past and presently. While a number of improvements have been made in recent years, particularly in regards to pricing consistency and overall service quality, the Agencies' ability to attract users onto the network remains constrained by their lack of funding, which in turn limits the capital available to invest in the network and mitigating competitive disadvantages.

Figure 9: Current Network Concerns

Lack of Scale	Performance Issues	Minimal Video Offering
Fragmented network severely **restricts ISPs' ability to market successfully to users** Business model is **uneconomical** due to **high cost of acquiring customers** and **maintaining superior service** without scale	**Network electronics**, particularly in the core, are **ageing and need to be replaced** **Capital constraints prevent** the Agencies from **implementing the refresh**, and as a result the network is at **greater risk of performance issues**	Anecdotal feedback suggests **image is sharper** and **overall user experience is better** when streaming over gigabit connection relative to cable **Lack of a video product that can compete** with incumbent offering means ISPs are **at a disadvantage** and cannot fully utilize the superior infrastructure

The PPP will not face the same capital constraints as the Agencies and as such can resolve the scale and performance issues. In the new model, all users will have access to a reliable connection capable of delivering gigabit speeds. While this increases the attractiveness of the network relative to its current situation, the ISPs must be able to demonstrate to end users why fiber is such a superior platform to their existing connections. The most effective medium to demonstrate this superiority is video. Macquarie and the FSP3 are continuing to discuss the PPP transaction with a number of interested video providers, and we understand that UTOPIA is also assessing its options to improve the current white label service.

3.4.2 Executive Leadership

UTOPIA's former Chief Executive Officer, Todd Marriott, resigned his position early in 2014. In recent months, the executives responsible for managing outside plant and network operations have also left UTOPIA, creating significant leadership challenges for the Agencies.

The major challenge is that the timing of the PPP is uncertain. The market for quality senior executives, particularly those with construction and/or operating experience, is competitive, and currently UTOPIA is not able to offer such executives job certainty through long-term contracts. If UTOPIA is not able to fill these key positions for an extended period of time, it may limit the extent to which UTOPIA can expand its network or mitigate performance issues, neither of which are attractive outcomes. Macquarie, FSP3 and the Agencies have previously discussed, at a very high level, the benefits of the PPP partners taking over operations of UTOPIA's network prior to financial close to minimize any transitional issues and

3.4.3 Financial Position

UTOPIA's financial position remains challenging. UTOPIA continues to incur an operating deficit, however in FY2014 this deficit fell to $1.2 million, reflecting the overall growth in the network (primarily through new UIA connections) and greater cost control. The growth in UIA revenues, to a position where UIA is generating net income, has facilitated greater sharing of revenues between the two entities, including the recommencement of IRU payments in September 2013. UIA's profitability allowed an additional ~$674,000 to be transferred to UTOPIA, doubling the mandatory IRU payments and reducing the total City assessments to $2.6 million billed in FY2014, $1.4 million of which was paid by the Cities during the year.

UTOPIA's capital constraints have, however, been partially eased by the settlement of litigation with the Rural Utilities Service ("RUS") in the second half of 2014. UTOPIA had sued the RUS for withdrawing approximately $45 million of committed funding from the project in 2008 without cause, and press reports indicate the settlement yielded UTOPIA gross proceeds of $10 million. Macquarie and FSP3 have not yet discussed with the Agencies how that capital will be deployed, but we do not expect it to be subject to the same restrictions as bond proceeds, potentially creating significant optionality for UTOPIA to either refresh its core or recommence network expansion activities.

UIA had an extremely strong financial result for FY2014, recording revenue approximately 30% above budget estimates. The strong revenue growth, coupled with reduced operating expenses, allowed UIA to achieve its second consecutive year of net profit. The reported result was relatively modest, however UIA is comfortably covering its debt service without the assistance of the Cities' franchise tax, which was pledged as security by the Cities in the event UIA encountered similar cashflow difficulties as UTOPIA. UIA has never had to call on those franchise taxes.

4. Contractor Due Diligence

4.1 Reconciliation of Black & Veatch, UTOPIA and City Address Databases

During Milestone Two, Black & Veatch undertook a desktop inventory of all homes and buildings in the OICs, compared the building inventories with available address databases for confirmation of address counts, requested similar independent address counts from the individual cities and attempted to reconcile any differences between the resulting Black &Veatch, UTOPIA and city counts. This effort was needed in order for Black & Veatch to efficiently determine fiber routing and accurately determine the physical quantities of fiber cable, other materials and construction effort needed to build out the complete system.

Various sources and databases were used by Black & Veatch to compile the address counts, including:

UTOPIA	State / City Data	Other Tools
• GIS data files and shape files (including parcel maps)	• West Valley City zoning and general use plan	• Google Earth
• Spreadsheet address databases	• UTAH AGRC (aerials, jurisdiction boundaries, parcels, Public Land Survey System, address points, roads, railroads, telecom utilities, hydro	• Google Earth Streetview
• Data for currently active account addresses	• USGS (hydro)	• General “drive-by” of area
• Data for currently “drop-ready” addresses		
• Future Growth Projections		

The general compilation methodology used by Black & Veatch can be summarized as follows:

- Data was tabulated both as physical addresses (i.e., “doors”) and as fiber termination points (i.e.,“drops”), as one fiber “drop” location may serve multiple addresses or “doors”.
- A vacant parcel in developed areas was counted as (1) “future” address and (0) drop.
- Large vacant parcels in undeveloped areas were ignored.
- All occupied addresses were tabulated as Residential, Commercial or Multiple Dwelling Unit (MDU).

Residential

- All single family homes were counted as (1) address and (1) drop.
- All mobile homes were counted as (1) address and (1) drop.
- All duplexes, tri-plexes and quad-plexes were counted as (2, 3, or 4) addresses respectively, and (2, 3, or 4) drops, and were included in the total “residential” count.

Commercial

- All buildings that were neither residential nor MDU’s were included in the commercial counts. These included:
  - Retail and Wholesale Businesses.
  - Office Buildings.
  - Churches, Synagogues and Temples.
  - Schools.
  - Government Buildings.
  - Manufacturing or storage facilities.

  - Any occupied but unknown purpose buildings.
- Generally, each commercial address was counted as (1) address and (1) drop.
  - Each individual storefront in a typical strip center was counted as (1) address and (1) drop.
  - If an office building had only one address, it was counted as (1) drop. (For example, a high-rise office building with an unknown number of tenants was counted as one address and one drop since each tenant would be served from a single central distribution point located somewhere in the building).
  - If an office building had multiple addresses, the number of drops were made to equal the number of addresses. (For example, a strip shopping center containing 10 businesses was counted as 10 addresses and 10 drops).
  - If an office complex, shopping area or school had multiple buildings or a campus-like setting, each occupied building was counted as (1) address and (1) drop.

MDU's

- Each MDU (other than duplexes, tri-plexes and quad-plexes which are contained in the residential counts) were counted as (1) drop. The number of addresses per MDU depended upon the number of individual units in the building, with the number of addresses being equal to the number of units.

Using the data sources and methodology listed above as well as engineering judgment, Black & Veatch attempted to physically classify and count each and every occupied building within each respective City jurisdictional boundary. Buildings located physically outside city limits were ignored.

Google Earth and Google Earth Streetview were used to verify address points in GIS shape files and to literally count doors in MDU's and confirm occupancy. Spreadsheet address data, where available, was used to cross-check MDU unit counts. In some instances it was extremely difficult to get a confident physical count of units in an MDU or commercial building that was obstructed from view by trees or other buildings, or not viewable in Google Earth Streetview. If no address database was available, engineering judgment was used to arrive at a most probable address count by assuming typical unit sizes and using the building overall physical dimensions.

UTOPIA-supplied property parcel maps were compared to Utah AGRC (Clearinghouse) data, discrepancies found, and they were reconciled by assuming the Utah AGRC data as the most current parcel maps.

Black & Veatch-compiled address and drop counts were directly compared to UTOPIA counts, adjusted for date stamp and differing classification groupings with numerical differences reconciled to the point where both parties agreed that the counts as they currently stand are as accurate as possible for a desktop compilation.

During Milestone Two, the combined Black & Veatch/UTOPIA counts were published to the individual city authorities for comparison to their respective internal records and to get their opinions as to the "reasonableness" of the published counts.

It must be recognized that since none of the above counts have been verified via street-by-street physical "walk-downs" by professionals on the ground in Utah, that variances between the combined Black& Veatch/UTOPIA address counts and city assumed address counts will probably exist. It must also be recognized that city assumed address counts are also not based on physical inventories at a specific moment in time, but on such things as 2010 census data projected forward to today, number of sewer or electrical meter connections if city supplied, GIS databases with possibly differing date stamps, number of building permits issued over given time periods, calculated trends, etc.; the point being that all of these address counting methods have some degree of assumption, subjectivity and individual judgment incorporated into them, such that comparison of any two are bound to produce differences. The task then becomes making a judgment as to whether or not the amount of variance is reasonable and acceptable.

Black & Veatch has had address count discussions with four of the member cities so far—West Valley, Layton, Midvale and Perry. In reconciling the numerical differences between Black & Veatch/UTOPIA counts and city tabulations, it was found that various adjustments were needed in order to make an "apple-to-apple" comparison. Typical examples were:

- Subtracting duplexes, tri-plexes and quad-plexes from city MDU counts and adding them instead to the residential counts.

- Finding that mobile home parks were counted as (1) address in the city counts, but as multiple addresses (1 per mobile home) in the B&V/UTOPIA counts.
- Finding some mobile home parks that were not included at all, in the city count.
- Finding differences in counting and classification methodologies such as city counts not including such things as government/public buildings, schools or churches, whereas the B&V/UTOPIA counts did include such buildings.
- Finding date stamp differences between data used by B&V/UTOPIA and the cities and adjusting for interim growth.
- Finding some newer developments that were not yet added to the city databases.
- Finding differences in the number of units assumed for given MDU buildings.

After working through the various adjustments as described above with the cities of West Valley and Layton, it was mutually agreed that the B&V/UTOPIA address count numbers as currently published are reasonable and acceptable.

As a result of a quick reconciliation pass with the City of Midvale, Black & Veatch/UTOPIA aggregate total address count is currently showing 5,000 more addresses than the City counts.

In a preliminary review with Perry City, Black & Veatch counts are standing at 1,780 addresses versus city counts of 1,510 but the city counts are based upon utility billings to occupied properties only. The City is in the process of reviewing/documenting unoccupied properties as well as checking to see how many utility billings cover more than one address, as may be the case for commercial properties or MDU's. Either of these cases, if they exist, would increase the City address count. It is felt that in the end, the variance will fall within reasonable limits.

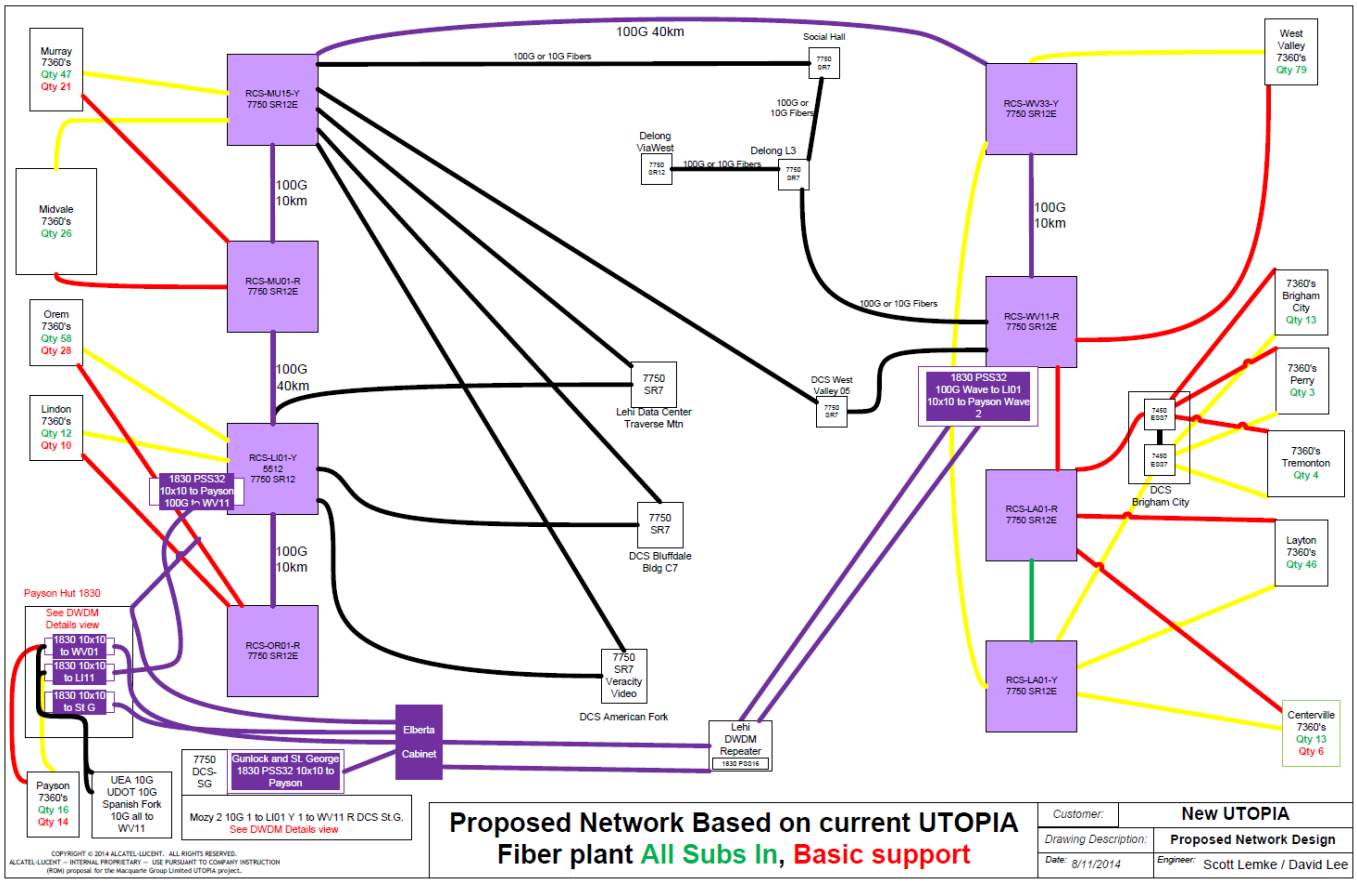
Black & Veatch is currently seeking reconciliation of address counts with the cities of Tremonton and Brigham City and results are not yet available.

4.2 Network Optimization During Milestone Two

A large amount of work was undertaken during Milestone Two to optimize the network and its design in order to reduce costs and ensure the impact of the withdrawal of the OOCs was minimized.

The core router network was optimized to take advantage of the current UTOPIA fiber layout when compared to the original UTOPIA fiber deployment nine years ago. Additional fiber infrastructure was installed over the life of the UTOPIA network which now allows consolidation of the core routers and reduced the core routers required for the initial deployment. Furthermore, the core router network was optimized for deployment using new equipment that allowed for a higher number of fiber port connections per unit thereby reducing hardware costs. It is important to note that there will be significant additional capacity requirements if any of the Opt-Out Cities want be a part of the new network again.

Figure 10: Revised Network Diagram



5. Roles and Responsibilities

This section provides an overview of the roles and responsibilities of the parties directly involved in the project including the Cities, Agencies, Macquarie and its partners. The final allocation of responsibilities will be agreed between the parties and documented in the Concession Agreement as part of Milestone Three. A term sheet for the Concession Agreement has been provided by Macquarie to the Cities and Agencies and is currently under negotiation.

5.1 Procuring Authority / Agency

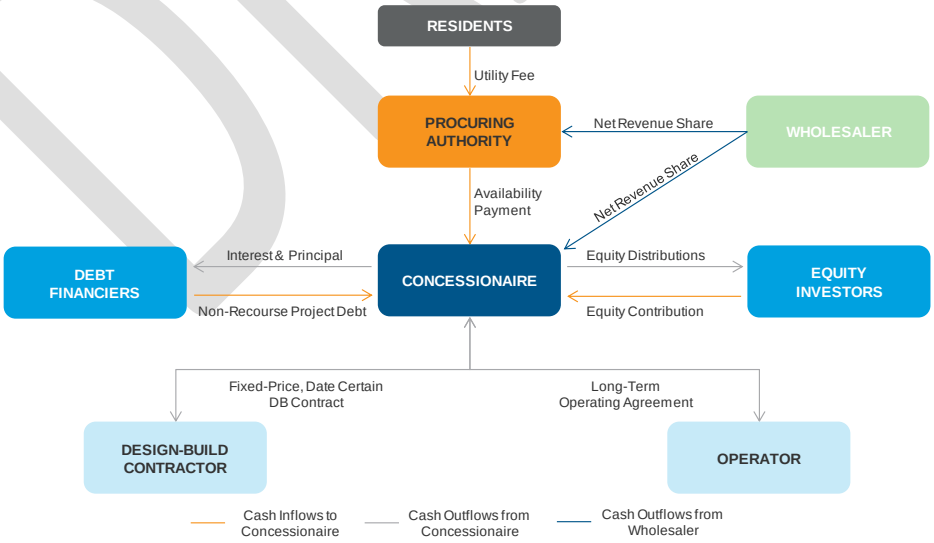
The procuring authority of the UTOPIA Network PPP will form a new Interlocal Agency ("New Agency") that will comprise designated representatives from the respective Cities participating in the Project to administer the Concession Agreement. The Concession Agreement will be entered to by Macquarie and First Solutions (together, the "Concessionaire") with the New Agency to finance, design, build, operate and maintain a high speed internet network. The New Agency's role will be to administer the Project from the perspective of the Cities, including issuing approvals and making payments to the Concessionaire.

5.2 Concessionaire

The Concessionaire will be formed by Macquarie and First Solutions and will perform roles such as executive leadership, finance and accounting back office, legal, and project management. Capitalization of the Concessionaire will be debt and equity provided and/or arranged by Macquarie and First Solutions.

Ultimate responsibility for the performance of the Project will remain with the Concessionaire. However, as shown in Figure 11, the Concessionaire will subcontract key network functions such as design, construction, network operations and refresh to sector specialists that are best able to identify cost savings and manage the risks of that function. This structure provides the Cities and Agencies with a single interface that is responsible for the Project - the Concessionaire - but also allows the Concessionaire to leverage the full capabilities of the private sector to deliver the Project and manage risk. The process of selecting subcontractors has been competitive and has so far led to material design innovations and cost reductions. Macquarie's subcontractor selection process has been discussed in detail in the Milestone One Report.

Figure 11: PPP Contractual Structure



5.3 Summary of Roles & Responsibilities

Table 9 below is a high-level summary of tasks between Financial Close and when the network is fully operational and the parties responsible for completing it. The Concession Agreement will set out the final allocation of Roles & Responsibilities between the Agencies, Cities and Concessionaire.

Table 9: Roles & Responsibilities Summary

	Agencies	Concessionaire	DB Contractor	O&M Provider	ISPs
Financing / Contracting					
Arranging financing	×	✓	×	×	×
Ongoing liaising with lenders	×	✓	×	×	×
Design-Build					
Technical review and inspection of build	✓	✓	✓	×	×
Permitting	✓	○	✓	×	×
Right-of-Way	✓	○	✓	×	×
Network Design	×	○	✓	✓	×
Cost Estimates	×	○	✓	✓	×
Deployments	×	○	✓	✓	×
Operations					
NOC Operations	×	○	×	✓	×
Outside Plant Break/Fix	×	○	×	✓	×
Pole Attachments	×	○	✓	×	×
CPE Replacement	×	✓	×	✓	✓
General & Administrative					
Facilities	×	✓	×	×	×
Insurance	×	✓&○	✓	✓	✓
Finance	×	✓	×	×	×
User Interactions					
Customer Relationship Management	×	○	×	×	✓
Quality Monitoring of ISPs	×	✓	×		×
Installations	×	○	×	×	✓
Setup and Participation in Sales Center	×	○	×	✓	✓
Network Awareness Marketing and Education	×	✓	×	×	×
Brand Marketing	×	○	×	×	✓

○ Denotes that the Concessionaire will subcontract the role but retains primary responsibility

6. Wholesaler Business Plan

6.1 Overview of the Wholesaler

6.1.1 Key Principles

The primary role of the Wholesaler is to manage the sale of bandwidth on the open access network to ISPs in return for Transport Fees. The ISPs will then be responsible for selling premium services to end users. Within this framework, the Wholesaler's primary objective will be to maximize profits on the network. This will deliver the best result for the Agencies and the Cities, and will maximize the likelihood that the Cities and Agencies are able to meet payments on existing UTOPIA debt from their share of network revenues. Establishing the Wholesaler on this basis aligns incentives with the Cities and provides the Wholesaler the freedom and flexibility necessary to effectively negotiate with the ISPs and ancillary users. It is intended that the Wholesaler will generate sufficient revenues to cover 100% of the Opt-In Cities UTOPIA debt service and earn a commercially acceptable return on the investment made by the Wholesaler's shareholders.

The table below sets out the key principles underlying the Wholesaler's business arrangements. These key principles will be fully documented during Milestone Three.

Table 10: Key Principles of the Wholesaler

✓	**Open Access**	• Open access means that each provider riding on the network will pay the same amount for using the same capacity to provide substantially the same service and performance to the same type and volume of customers over the same time period
✓	**Market-Based Pricing**	• ISPs can set their prices in a competitive market to maximize their profits and/or market share • Wholesaler will not require the ISPs to provide the most price competitive service nor maximize market share relative to competing third-party networks
✓	**Pricing Flexibility**	• ISPs will have reasonable discretion to shape their rates and market products as it sees fit within the parameters of the SLA • Capacity will be priced in reasonable step-up increments to meet the needs of ISPs and users
✓	**Minimum Service Quality**	• All ISPs must abide by a minimum standard of service to users (i.e. call centers, technical support, billing systems) to ride on the network) • The standards, outlined in the SLAs, will be the only barrier of entry for the network
✓	**Basic Service**	• All ISPs marketing services to residential users will be required to provide the basic service • Enterprise-focused ISPs will pay a higher transport fee to compensate for not offering customers the basic service

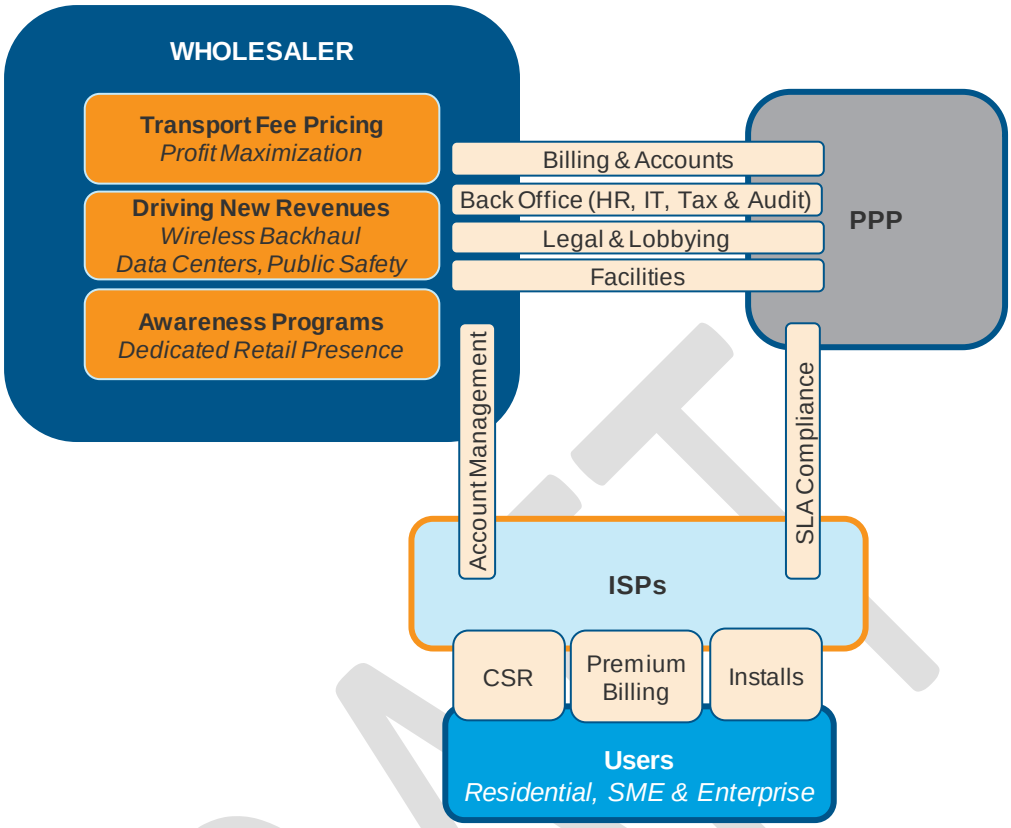
The success of the ISPs is a critical factor in the overall success of the open access PPP model, and the above principles are designed to provide sufficient flexibility for the ISPs to compete effectively for residential and commercial end users, both with the other ISPs providing services on the network and additional competitors leveraging third party networks.

6.1.2 Relationship with End Users, the ISPs and the PPP

The Wholesaler's key principles also highlight the stricter performance requirements to be placed on the ISPs once the Concessionaire assumes operational control of the network compared with current arrangements. The demarcation point and division of responsibilities between the ISPs and UTOPIA is currently a key point of contention with the ISPs, and Macquarie's model has been designed to address this concern and deliver full control of the end user relationship to the ISPs while ensuring that high standards are maintained by all parties.

The ISPs will be the first and only point of contact for residential and commercial users, and will be responsible for connecting service from the PPP demarcation point into the residence or business. Once connected, the ISP must service all users equally, irrespective of whether the users have upgraded to a premium, paid service or remain on the basic service only. Service in this context includes the ability to receive and resolve technical queries, as well as billing capabilities for premium service users.

Figure 12: Wholesaler Relationship Diagram



The Wholesaler, in addition to setting the transport fees in a manner consistent with the key principles noted above, will support the ISPs through broad based education and awareness programs specifically crafted to demonstrate the raft of benefits that gigabit connectivity can provide to the general public. The third facet of the Wholesaler's operation will be business development, establishing relationships with potential ancillary users for whom the network could offer a value added service (wireless carriers, specialized users such as hospitals, public safety users).

The Wholesaler will have a close relationship with the Concessionaire. The two entities will be legally separate, but may share a number of operational functions to maximize cost efficiency and simplify the process by which ISP performance is monitored and audited.

6.1.3 Revenue Share Structure & Opt-In Cities' Debt Coverage

The Opt-In Cities are targeting 100% coverage of their proportionate share of UTOPIA debt service within five years of completion of the network. Macquarie and First Solutions, as shareholders of the Wholesaler, are highly confident of achieving this target.

Macquarie and First Solutions intend to invest over $2.5 million in marketing programs and campaigns during the first three years after financial close, providing significant support to the ISPs' own marketing efforts while the network is under construction. Given that the marketing budget is in addition to the Wholesaler's annual staffing costs of $1.9 million, the total direct and indirect investment in marketing and business development activities far during the critical stages of network ramp-up is expected to exceed $7.5 million.

Table 11: Annual Wholesaler Budget

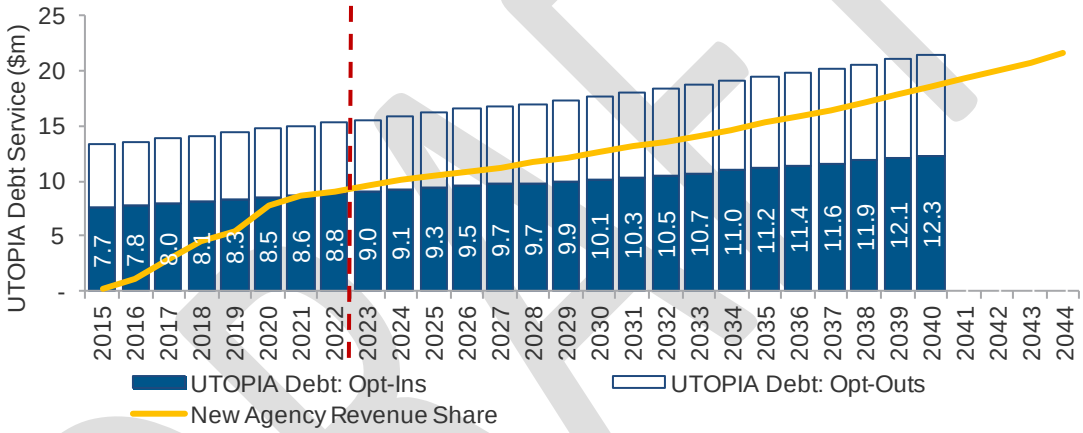
Cost Category	(2015$)
Staff Cost	1,886,850

Cost Category	(2015$)
Marketing	1,140,000
Professional Services	270,000
General	19,445
Insurance	50,000
Utilities	42,353
Facilities	131,294
Total Costs	**3,539,942**

Note: Marketing budget of $1.1 million in year one will trend down to a steady-state annual spend of $600,000 in year 3

Macquarie and First Solutions are also committed to delivering value to the Cities. In addition to placing substantial costs at risk through the marketing initiatives, the Opt-In Cities will receive 75% of all Wholesaler revenues above $2.0 million each year throughout the term of the concession. Figure 13 below shows that by substantial completion of the network, currently estimated to be the end of 2018, the revenue share will offset over half of the Opt-In Cities' debt service. By 2020, approximately 93% of the Cities' debt service will be covered, increasing to full coverage within the Cities target timeframe at the end of 2022.

Figure 13: Forecasted Revenue Share Debt Coverage



6.1.4 Management Team and Shareholders

The Wholesaler will be led by Mike Lee, Chief Operating Officer of First Solutions. Mike is a veteran of the cable and satellite industries, with over 15 years experience managing regional and national accounts for major industry players including DISH Networks and Time Warner Cable.

Macquarie and First Solutions anticipate being the only shareholders of the Wholesaler. Macquarie expects to be the majority shareholder, however the exact shareholdings will be confirmed during Milestone Three once the capital requirements of the Wholesaler have been reviewed and confirmed. Our current estimate is that the Wholesaler will require up to $5 million of upfront equity investment, contributed by the shareholders outside of the PPP financing package.

A shareholder agreement confirming the shareholdings and the corporate governance of the Wholesaler will be developed during Milestone Three, to ensure consistency with the terms of the Concession Agreement, Wholesaler Agreement and other key project contracts.

6.2 Wholesaler's Responsibilities if an ISP Fails

The Wholesaler is not intended to be a provider of last resort to cover ISP failures. Macquarie and First Solutions believe that the Wholesaler, while still a private entity, has an agent relationship with the New Agency that

ensures the Wholesaler is captured within the definitions of the Utah legislation preventing public entities or their agents from retailing services direct to mass market end users.

There are significant costs associated with changing the Wholesaler's operational and staff plans to be able to cover for a failed ISP, such as a call center, a fleet of trucks that will be used to resolve faults and outages, and the staff costs associated with both. Incurring these costs to protect against a contingent event is inefficient.

The Wholesaler will, however, use strict performance and reporting requirements to identify an ISP that is potentially at risk of a failure. Greater reliance on financial reporting, the increasing regularity of such reporting and upgraded systems that allow more granular tracking of data will all assist the Wholesaler analyze the health and performance of ISPs operating on the network. The ISPs are critical to the overall success of the business model and this ongoing interaction will lead to earlier identification of problems. Should a problem be discovered, the ISP account managers will work with the ISP to develop mitigation strategies, such as outsourcing back office functions to reduce costs, however the Wholesaler does not intend to step in to operations or provide services in the same manner that UTOPIA does today.

In the event an ISP fails, it is extremely likely the Wholesaler will have identified such risks well in advance. The SLA will outline the disciplinary process for failures to meet the minimum service quality requirements, and this process will ensure that there is minimal disruption to existing users in the event that their ISP is removed from the network due to consistent performance failures or financial difficulties. There are a number of mechanisms that can be used to reassign users to different ISPs, for example advance notification that their current ISP will cease providing services within the next 2-4 weeks, and directing such users to the ISP selection portal. The automated provisioning process that will be available through the NOC will reassign user circuits within hours and prevent outages once the failed ISP is removed.

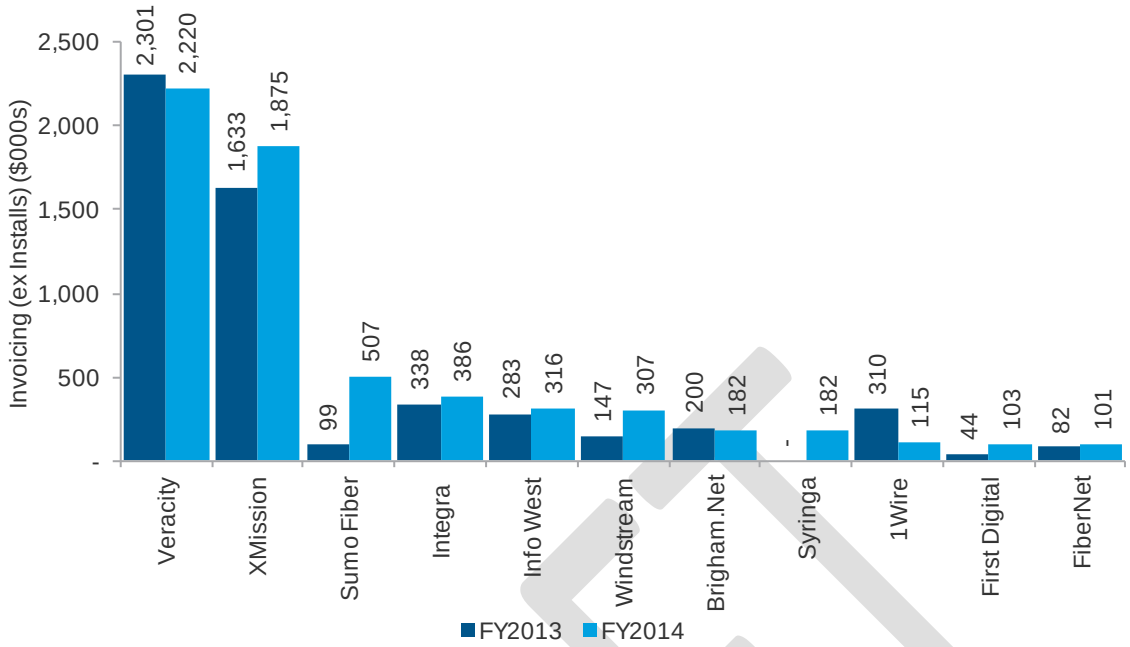
6.2.1 Network ISPs

6.2.1.1 ISP Ecosystem

The UTOPIA network currently has 20[2] active ISPs, although the majority of subscribers are concentrated among the three largest providers, being XMission, Veracity and Sumo Fiber. XMission and Veracity are clearly the largest ISPs on the network by both subscriber and revenue, although Sumo Fiber's significant growth in FY2014 (4x increase in invoicing) highlights the market share that it is capturing through aggressive pricing.

[2] UTOPIA 2014 Annual Report

Figure 14: Annual UTOPIA Transport Fee Revenue by ISP



The ISPs operating on the network typically fall into three categories:

- Relatively strong ISPs that draw the bulk of their revenues from the UTOPIA network;
- Financially strong ISPs that have the majority of their subscribers and operations on separate networks; and
- Small, financially weaker ISPs that rely on UTOPIA to provide basic support services (e.g. truck rolls).

Many of the ISPs focusing on commercial users, such as Windstream and Integra, fall into the second category. Windstream, for example, has a market capitalization of over $4.9 billion[3] but generated only ~$307,000 on the UTOPIA network in FY2014. A key constraint in these ISPs marketing their services more aggressively on the network has been its lack of scale and reliability. The infrastructure is distributed unequally throughout the Cities, even to the extent that two households only a few streets apart may not be able to access the network on the same terms, or one may not be able to access it at all while the other can. The lack of investment in the network, driven by a lack of available capital, has also prevented replacement of electronics and equipment at optimal periods, and the ageing electronics are becoming increasingly volatile, resulting in extended network outages.

These two issues currently reduce the universe of users that the ISPs can bring onto their products and provide a less reliable product than competing networks, reducing the effectiveness of any marketing initiatives that the ISPs would consider.

These ISPs, along with the network's mainstay ISPs (Veracity, XMission and Sumo Fiber) should have the financial and technical wherewithal to accommodate the minimum qualification requirements that the PPP will impose through its tripartite Service Level Agreements.

6.2.1.2 Risks & Mitigants

Table 12: Risks and Mitigants of Wholesaling to ISPs

Risk	Description	Mitigants
ISP Size	• PPP SLAs will increase the minimum qualifications for ISPs to operate on the network ISPs operating in the PPP model will need to have their own support resources or have	• Current users concentrated among a minority of major ISPs • ISP feedback has indicated frustration at UTOPIA's involvement in operations • Potential collaboration of ISPs to cover

[3] As at January 6, 2015

Risk	Description	Mitigants
	contracted for such services (e.g. billing, truck rolls, etc)	gaps in capabilities
Basic Service	• Basic service generates no revenue for ISPs • Basic service users must be serviced on the same basis as a fee-paying user (e.g. response times, tech support, etc)	• Basic service and rules of delivery have been developed with ISP feedback • ISPs willing to service Basic Service customers for free as they believe they will be able to upgrade a significant proportion of them to premium services • Providing the Basic Service represents a marketing opportunity
Premium Service Upgrades	• Basic service could reduce the universe of users buying premium rate products • Potential for revenue and liquidity crunch if ISP cannot upgrade sufficient users	• ISPs proactively considering strategies to upgrade users (e.g. 1 month free gigabit service) • ISPs are confident that they can upgrade sufficient number of users • Significant reduction in transport fee structure allows ISPs to be more competitive with incumbents • Transport fees to be reviewed regularly and updated to suit the market
Install Costs	• ISP will be responsible for completing the connection from the demarcation point into the premise	• PPP will subsidize first $50 installation cost • ISPs can charge fees for non-standard installations • Many installations in large MDUs to be considered non-standard

Table 13: Overview of Local ISPs

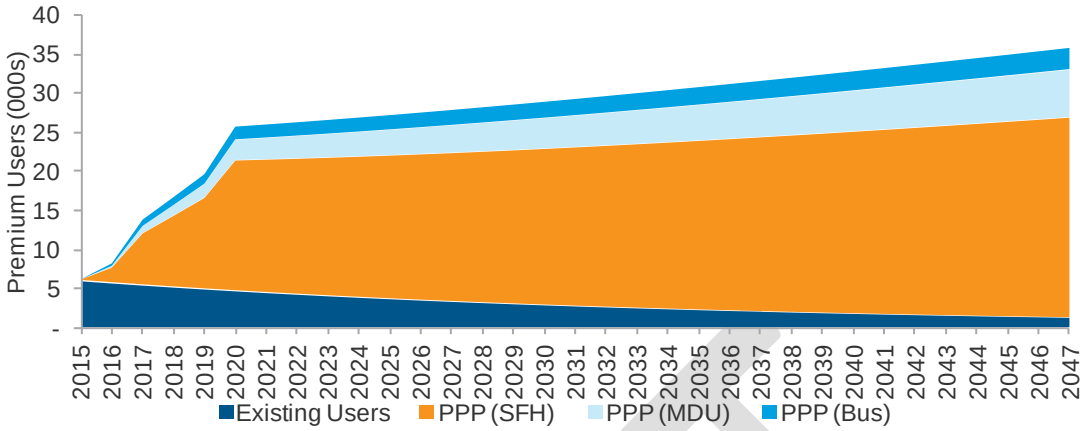
ISP	Strengths
XMISSION	• Local company with good reputation • Large existing customer base • Sufficient scale to accommodate the additional costs of the PPP business model • Operating since 1993 with solid history on the UTOPIA network • Strong supporter of the PPP
VERACITY NETWORKS	• Local company with good reputation and large existing customer base • Sufficient scale to accommodate the additional costs of the PPP business model • Operating as Veracity since 2008 with solid history on the UTOPIA network • Strong supporter of the PPP model • Operates field support staff • Owns and maintains proprietary fiber infrastructure • Operates a video product
SUMO FIBER INTERNET AND PHONE	• Very responsive ISP with high customer satisfaction • Strong subscriber growth in past 12-24 months • Substantial traction with elderly customers (55+) • Strong supporter of the PPP model
windstream	• Strong business presence • Strong support for UTOPIA
BEEHIVE BROADBAND	• Owners and maintains proprietary fiber infrastructure • Operates field support staff • Operates a video product
FIRSTDIGITAL	• Financial backing through Gardner / Boyer Group • UTOPIA users only account for a small proportion of total subscribers) • Operates field support staff
integra TELECOM	• Strong support from owner Searchlight Capital

6.3 Financial Profile

6.3.1 Ramp-up in Users

Macquarie and First Solutions forecast that the total number of premium service subscribers on the UTOPIA network will increase from approximately 11,000 to over 25,000 during the five year ramp up period. We are confident that the combination of the network's superior infrastructure, the ISPs' product marketing and the ongoing education and awareness campaigns of the Wholesaler will continue to attract users over the medium to long-term, resulting in a net gain of approximately 10,000 users by the end of the concession.

Figure 15: Premium Users over Concession Period



The Wholesaler's core market will be residential, with a major focus on single family premises. We expect a slower ramp-up in MDU users for a number of reasons, including more complex installations and the roll off of exclusive marketing contracts that the incumbents have with building owners.

The forecast distribution of these users across the various speed tiers, capped and uncapped products is shown below. Note that these forecasts represent the expected distribution over the ramp up period – the Wholesaler's expectation is that users will gradually converge towards 1Gbps products over time as newer, bandwidth hungry applications and functions are developed and demanded by customers.

Table 14: Distribution of Premium Service Users

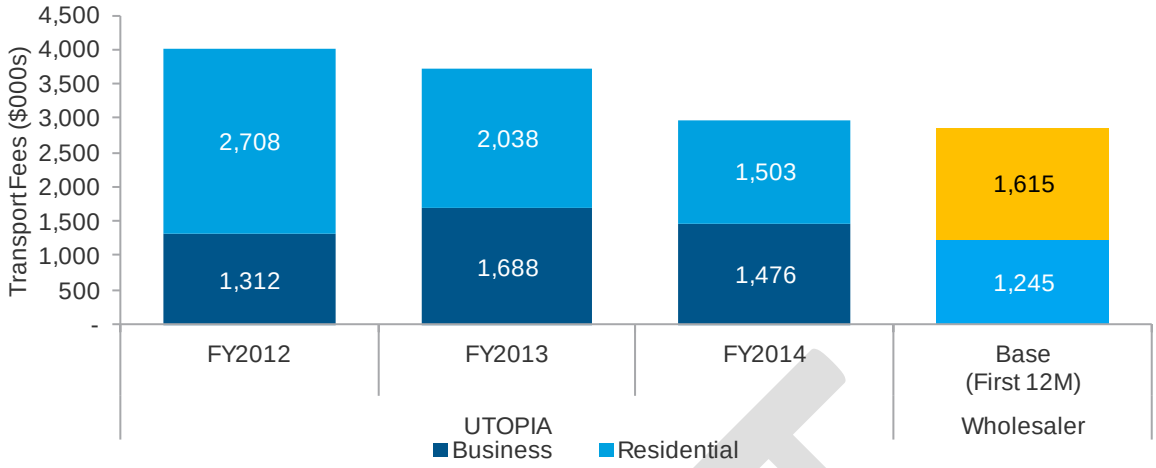
Mbps	100	200	300	400	500	600	700	800	900	1,000
Residential										
Distribution	50%	3%	3%	3%	25%	3%	3%	3%	3%	3%
Capped	80%									
Uncapped	20%									
Commercial										
Distribution	50%	5%	5%	5%	5%	5%	5%	5%	5%	10%
Capped	95%									
Uncapped	5%									

6.3.2 Run Rate Impact

The majority of UTOPIA's existing users are concentrated in Opt-Out Cities. The increase in the connection fees, from their current level to match the Utility Fee and ensure all users are treated equally, is likely to result in customer losses after financial close.[4] This churn, assumed to be 5% of the existing users at the start of each year, will have a greater revenue impact in the first 12 months, primarily because of the six month period that users will have to complete the connection from the access portal installed by the PPP into the home or business. The revenue losses are offset by the slightly higher average transport fees paid by residential users (as a result of the ISPs having greater flexibility to switch users to capped and uncapped products across multiple speed tiers) and the constant pricing retained for commercial customers under contract.

[4] Due to complexities with the existing financing structure, UIA customers will remain on their existing connection fees and will not migrate to the Utility Fee

Figure 16: Transport Fee Revenue (Historical and Forecasted)

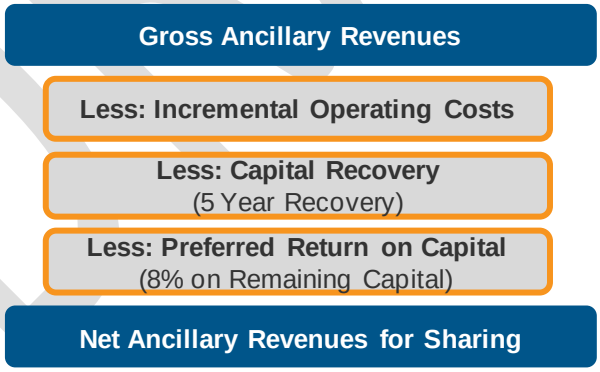


Macquarie and First Solutions expect volume growth from new users to offset the impacts of the churn and reductions in the commercial transport fees in the first 18-24 months after financial close. Note that the run rate impact compares the Wholesaler's first year against UTOPIA's historical transport fee revenue rather than the combined revenue of UTOPIA and UIA. The PPP will not impose any additional charges on UIA users, which means that the connection fees and transport fees paid by UIA users and their ISPs will continue to be used to service the UIA debt.

6.3.3 Ancillary Revenues

The Wholesaler will likely have to incur additional capital costs to generate ancillary revenues. These are revenues over and above the transport fees, such as backhaul for wireless carriers, and as such the network will need to be expanded from its primary purpose of servicing residential and commercial users to connect to cell towers and turn up additional wavelengths to ensure that there is sufficient bandwidth for all users and functions of the network. These investments do, however, require the Wholesaler to take on risks over and above user demand, and as such the ancillary revenues will be shared with the New Agency on a "net revenue" basis.

Figure 17: Ancillary Revenue Sharing Mechanism



Macquarie and First Solutions expect that contracts for ancillary revenues would be negotiated on a short- to medium- term basis, typically no longer than 5-7 years. The capital recovery concept assumes that capital and a modest return will be recouped over an assumed 5 year contract term, although should the contract be renewed, no such deductions would be applied to revenues prior to sharing.

7. Financing Plan

7.1 Summary

Macquarie and First Solutions, as equity sponsors, have created an indicative financing plan that leverages our extensive infrastructure financing expertise and is guided by the following principles:

- Procure the lowest weighted average cost of financing available in the market, thereby providing the best value for money to the Cities and keeping the Utility Fee as low as possible
- Deliver a financing package that has the greatest certainty of execution and ability to achieve financial close expeditiously following Commercial Close.

The equity sponsors intend to form a project company as special purpose vehicle ("Concessionaire") to own and manage the Project. Concessionaire will be capitalized with a combination of long-term debt financing and equity. The equity investment in Concessionaire is proposed to be committed by Macquarie Infrastructure Developments, LLC and First Solutions P3 Alliance, Inc., or any other eligible Macquarie entities identified by Macquarie prior to Financial Close.

Macquarie has investigated a number of long-term debt financing options including long-term bank debt, broadly-marketed bonds, and private placement bonds for the Project. Long-term debt for the Project will be fully committed by the debt provider selected upon Financial Close with indicative terms provided in advance. Based on initial feedback from potential lenders, bank debt financing is likely to be less competitive due to limited appetite in the market to match the tenor of the Project. It is therefore likely that a long-term bond issuance will be utilized for the debt financing. Macquarie will however, continue to monitor conditions in the financial markets, and adjust the financing plan if appropriate should market conditions change such that an alternative solution is more efficient.

Summary of Financing

The table below summarizes the current estimate of required external sources of financing for the Project.

Table 15: External Financing Summary

Source	Amount
Equity	$39.8 million
Long-Term Debt Financing	$225.0 million
Total External Sources of Funding	**$264.8 million**

Equity Members

- Macquarie Infrastructure Developments, LLC or other eligible Macquarie entity
- First Solutions P3 Alliance, Inc.

7.2 Financing Solution Overview

7.2.1 Long-Term Debt Financing

Our objective in raising long-term debt financing for the Project is to ensure lowest possible cost, flexibility, and certainty.

In order to develop our structure, we have initiated a thorough competitive process to compare various financing and structuring options including long-term bank debt with a soft mini-perm structure, rated broadly-marketed bonds, and rated private placement bonds.

7.2.1.1 Bank Debt Solution

Following initial discussions with potential lenders, and incorporating recent experience on other similar projects, a long-term bank facility is not currently considered suitable due to the lack of lender appetite to match the full tenor of the Project, which would result in significant refinancing risk. In current project finance bank debt markets, tenors beyond 5 or 7 years entail significant reductions in availability of sources of finance and competition between lenders. Only a limited number of international lenders (from Europe and Japan) are able to lend for longer tenors, and pricing is generally prohibitive.

Most lenders currently provide long-term financing under soft mini-perm structures whereby Concessionaire is encouraged to refinance its bank debt within a short to medium-term timeframe by staging increasingly punitive margin step ups and cash sweeps as the maturity deadline approaches. While potentially viable, this structure would require Concessionaire to take significant refinancing risk with regards to base rates and credit spreads, which would have to be priced into the equity returns. The additional cost of refinancing risk outweighs the savings in interest during construction period compared to a broadly-marketed or private placement bond, where the majority of the debt is issued within a short time period and starts accruing interest.

7.2.1.2 Bond Debt Solution

Our early market sounding with bond underwriters suggests that there is significant appetite for a competitively-priced long-term bond solution with a tenor of ~30 years, which would remove the refinancing risk. This alternative allows for the most efficient pricing of equity returns and financing costs, and thus Utility Fee, as it will lock in the current, historically low, interest rates and removes refinancing risks on credit spreads and base rates. It is anticipated that a financing approach will be utilized employing senior long-term bonds issued at Financial Close, or potentially partially within up to 9-12 months post Financial Close in the case of a delay-draw private placement bond.

Based on market feedback and our own experience, we believe that private placement bonds would provide the deepest market for the Project. These types of private placements typically require credit ratings with standard bond covenants and are often underwritten by a placement agent and syndicated to a large base of institutional investors focused on taxable municipal bonds. This market is deep and supports tenors up to 30 years as long issuances sizes are above approximately $200 million.

Bond underwriters have also indicated that there may be some capacity to provide delay-draw features in connection with private placement issuances, whereby the full amount of the bond issuance does not need to be drawn until 9-12 months from Financial Close and can be drawn on an as-needed basis within that period. While this feature reduces the negative carry from interest accrued during construction, it only covers a limited period and typically attracts significant premiums that are tacked onto the credit spread. Delayed draw bond structures have a relatively limited history in the United States, however have been used extensively in Canada. Macquarie will conduct further diligence on this option during Milestone Three however it is not currently considered in the base case.

7.2.1.3 Terms and Conditions of Long-term Debt Financing

As we move forward into the next stage, we will run a competitive process amongst underwriters to ensure we achieve the best pricing and terms available in the market. Macquarie has extensive relationships and experience in running competitive processes for raising fully committed debt financing for PPP investments.

The long-term debt financing will be subject to terms and covenants customary to PPP non-recourse project-finance debt laid out in financing documents at Financial Close and at least one credit rating in the case of a bond issuance. These terms and covenants will clearly define the responsibilities of Concessionaire during construction and operations as well as the rights and protections of the debt providers to ensure Concessionaire performs its obligations and the debt is paid back. The debt documents will also clearly define covenants related to permissible leverage and credit metrics as well as cure periods and step-in rights in the case of default. Since this type of debt financing is raised with the project interest as the only collateral and no recourse to the equity sponsors, debt providers are expected to perform a rigorous due diligence process on Concessionaire and its subcontractors to ensure a robust contractual framework. A preliminary debt term sheet has already been prepared to facilitate further discussions with underwriters during Milestone Three.

7.2.1.4 Leverage Restrictions and Debt Repayment Profile

Definitive leverage requirements and debt repayment profile are subject to credit rating outcomes and negotiations with debt providers, but are expected to follow a mechanism whereby the debt repayment is sculpted to a target Debt Service Coverage Ratio, which is calculated as the Cash Flows Available for Debt Service divided by scheduled Debt Service Payments. Typically debt providers will also focus on the maximum percentage operating cost overrun the Project is able to withstand and will additionally require a minimum percentage of funding sources to come from equity. Furthermore, it is customary for debt providers to require subcontractors to provide sufficient liquidity in the form of a letter of credit to support the performance of the Project even under extraordinary circumstances.

7.2.2 Equity Capital

It is anticipated that equity capital will be injected into Concessionaire after proceeds from the long-term bond issuance are fully utilized to maintain a priority sequence of expending the lower cost capital first. A letter of credit will be outstanding from Financial Close until the actual equity injection to secure the investment obligations of the equity sponsors in Concessionaire.

7.2.2.1 Terms and Conditions of Equity Funding

Before Financial Close, the equity sponsors will have agreed on their intended capital contribution to Concessionaire and would have received internal approvals. The equity sponsors will have also entered into a partnership agreement, which will govern the broad terms of the investment. As summarized below, this will include details on the equity commitments, dividend rights on equity and long-term governance of the Project to ensure the long-term operation of the Project.

Table 16: Sample Provisions of a Partnership Agreement

Subject	Provision
Funding and Withdrawals	Initial Capital Contribution Additional Capital Contribution Capital Account Withdrawal of Capital Contribution Use of Contribution
Transfers and Management of Partnership	General Restriction on Transfer Admission of Additional Partners Management of the Partnership Management Committee Authority Expenses of Management Committee Liability of Partners Conduct of Partners Management Committee Meetings Conflicts of Interest
Transfer Provisions	General Restrictions Drag Along Rights Tag Along Rights Sale Processes Continuing Obligations
Accounting and Fiscal Year	Books and Records Fiscal Year Income Tax Information and Returns Determination and Allocation of Income and Loss Distribution of Income

7.2.2.2 Equity IRR

The anticipated profile of the equity distributions will give the equity sponsors a strong incentive to cause Concessionaire to perform all of its obligations under the Concessionaire throughout the term. Project debt is scheduled to be repaid over the course of the Project term and tends to be front-ended, with a significant equity interest remaining until the final year of the Project. The final equity distribution will not be received until all Project handback requirements have been met, thereby providing a strong incentive for the equity sponsors to perform throughout the Project term. The equity sponsors are expected to target an equity internal rate of return ("IRR") of 13% per annum, commensurate with the risk profile of the Project.

7.2.2.3 Net Profit Distribution Policies

Equity distributions will only be paid to the extent allowable under the debt documentation for the Project negotiated with the debt providers. To the extent allowable, equity distributions will be made pro-rata based on equity ownership, and will be made in accordance with all relevant accounting and tax requirements, and in such a manner as to allow for appropriate levels of working capital and funds for contingency to remain in Concessionaire. Typical tests specified in the debt documentation before equity distributions can be made will include:

- All payments required under the cashflow waterfall have been made;
- No default or event of default has occurred and is continuing or would occur as a direct result of the proposed dividend or distribution;
- Required debt service or operating reserves have all been funded (or a letter of credit has been provided on agreed terms) in an amount equal to their respective required balances;
- The Debt Service Coverage Ratio for the immediately preceding period of twelve consecutive months and the immediately succeeding period of twelve consecutive months is greater than a predetermined lockup target below which no distributions may be made
- The New Agency has not exercised its right to terminate the Project in respect of a default of Concessionaire's obligations;
- Construction has been substantially completed.

7.3 Project Structuring Information

7.3.1 Sources & Uses of Funds

As highlighted in the description of the debt and equity financing, all funds required to complete the construction of the Project based on the specifications contained in the project agreement will be committed at Financial Close. Lenders will rely exclusively on the Project to be completed and generate revenue sufficient to repay their investment and have no recourse on an outside pool of financial resources.

Once all financing sources have been used to fund construction costs and the Project becomes revenue generating, the ongoing operating and financing costs of Concessionaire will be met from the Utility Fee received by Concessionaire which will be payable subject to the Project being available and meeting technical performance specifications.

7.3.2 Wholesaler Revenues

The equity sponsors will also form the Wholesaler, as described above in Section 6, to act as dedicated marketing entity to drive take rates and collect network transport fees. These transports fees will be generated by users who upgrade beyond the basic service to a paid service with the network's ISPs also described in Section 6. The Wholesaler will be a separate entity from the PPP and repayment of PPP financing will not be dependent upon Wholesaler performance; however, it is critical for the credit profile of the PPP that Wholesaler revenues be allocated first to cover any shortfalls in Utility Fee collections.

7.3.3 Subcontractor Strategy and Fixed Payment Structure

Concessionaire will subcontract substantially all of its construction, operations and maintenance obligations under the project agreement, on a back-to-back basis to its technical implementation partners. However, Concessionaire is planning to recontract for operating, maintenance and refresh ("OMR") services upon after the first 15 years, upon the end of the initial OMR contract term, as the cost of entering into a 30-year OMR contract at financial close is restrictive. This risk will be managed by Concessionaire.

Pricing and terms of contractual agreements with subcontractors will be agreed on at Financial Close on a fixed-price long-term basis with a predetermined escalation factor that matches the escalation factor applied to the Utility Fee, to ensure that Concessionaire has sufficient financial resources through the Utility Fee to pay its subcontractors throughout the project term.

Most cost risks and payment reduction due to a performance penalty from a failure to meet technical specifications will be borne by the subcontractors who will absorb any cost overrun or loss in revenue relating to their contracted performance.

Concessionaire will be staffed with a capable management team including an experienced project manager that can liaise with the implementation team and technical consultants to oversee an effective quality assurance and control program.

7.3.4 Subcontractor Security Package Requirements

During the construction phase, the design build prime contractor or integrated joint venture, will be required to provide a parent company guarantee equal to a significant portion of the construction price to cover costs associated with various worst case scenarios. The design build contractor will also be required to commit to paying liquidated damages representing a pre-estimate of lost revenues and additional costs incurred resulting from a delay to achieving revenue generation. Lastly, there will be a requirement for significant liquidity to be available to cover liquidated damages on demand, likely in the form of a letter of credit, possibly in combination with a retention arrangement.

During the operations phase, the O&M provider will likewise be required to provide a parent company guarantee that is sized to provide a significant buffer in the event that the O&M provider needs to be replaced at a higher cost. Additionally, the O&M provider will be asked to provide significant liquid security in the form of a letter of credit or cash reserve to bridge any short-term cash needs.

The default covenants under the subcontractor agreements will be structured such that there is sufficient buffer relative to corresponding defaults under the project agreement with the Cities, allowing for sufficient time and scope to replace a non-performing subcontractor under the project agreement.

7.3.5 Lender's Technical Advisor

The equity sponsors have engaged Arup as the Lenders' Technical Advisor ("LTA") for the Project. Arup is one of the largest and most successful international engineering consultancies with over 11,000 staff working in more than 38 countries through 90 offices.

In the past three years, Arup has successfully delivered advisory services on over $60 billion of closed transactions and in the past nine years has participated in over two-thirds of all P3 transactions in the US and Canada. Further solidifying its track record of continuous success, Arup has been voted the Global Technical Advisor of the Year in 2012 by Infrastructure Journal and the Best Technical Advisor of 2013 at the Partnerships Awards.

During the development phase of the Project, Arup will review the Project to provide comfort to the lenders that an appropriate level of planning and diligence work has been carried out in advance of the Project, to minimize the potential for unforseen risks during the construction phase. Arup has established telecommunications engineering and transaction advice teams in California that understand the Project. Arup will provide assurance to the Lenders, as appropriate, that the technical proposals are sound and that they are based on robust technology assumptions and working practices.

During the construction period, the role of the LTA (either Arup or another third party determined at the time) will consist of construction monitoring services until construction completion or alternatively, the end of the design-build contractor's warranty period, if required. The main responsibilities will entail providing an opinion on the completion of work and other matters relevant to certification for payment on behalf of the lenders. The LTA will ensure that appropriate draws on the financing are only approved if the design-build contractor completes the work corresponding to the spend curve determined at Financial Close in order to guarantee that the funds committed at Financial Close are sufficient to complete the Project.

The LTA will also perform a more limited oversight role during the operating term in particular around meeting certain refresh or handback reserving requirements.

Overview of Arup's Scope of Work during the Development Phase

- Evaluation and review of technical proposal by design build and O&M provider against project agreement and requirements including:
  - Design build contractor's preliminary engineering and network design, technical plans and work approach
  - O&M provider's operations and maintenance program, technical plans and work approach
  - Review of conformance to required codes, certifications and standards
- Review experience, capabilities of design build and O&M provider to undertake the project
- Review and comment on:
  - Reasonableness of pricing
  - Appropriateness of construction and maintenance schedules
- Evaluate critical path including potential for delays and key risks that may impact ability to meet schedule
- Comment upon adequacy of performance security and conduct contractor replacement analysis
- Review of design build contractor and O&M provider for compatibility with project agreement technical requirements and appropriateness of any interface arrangements

Overview of Arup's Scope of Work during the Construction Phase

- Monitoring the progress of the design-build contractor in conjunction with the construction schedule
- Participating in the certificate and payment approval process under the design-build agreement
- Verifying the determination of substantial completion, final completion, and any other substantial milestone dates under the project agreements
- Preparing regular memos/reports on design and construction progress, including the definition of and progress toward milestones, credit agreement compliance, and advice on possible and observed delays, opinions on reasons for delays, corrective measures and any material issues of which the Lenders should be aware, qualitative advice and recommendations on how to overcome delays and mitigate potential risks

7.3.6 Insurance

The equity sponsors will be engaging an insurance broker to the Project and work closely with the broker to develop an insurance program that is fully compliant with the insurance requirements set forth by the debt providers and Cities in relation to Project risks.

Full details regarding all insurances to be procured will be included in an insurance report prepared by the broker, which will include full summaries of the key terms, payment terms, expected coverage limits, deductible amounts, premiums and anticipated tax payments for each policy, and anticipated timing of renewals.

Table 17: Customary Construction and Operations Period Insurance Policies

Construction Period	Wrap-up Liability (all-encompassing insurance covering multiple liabilities) Professional Liability Property Builder's Risk Contractors' Automobile

	Delay in Start Up (covers net profit missed or charges due to insurable event) Contractors' Pollution Liability Crime Insurance Directors' & Officers' Liability
Operation Period	Liability Automobile Property Directors' & Officers' Liability Crime Insurance

It is anticipated that most premiums will be due 30 days from inception. Payment terms for the builders risk during the construction period insurance will be negotiated where possible with insurers as part of the placement exercise.

The brokerage compensation will consist of two elements, the owner-controlled insurance program administration fee and commission on various placements.

7.3.7 Tax Treatment

In the interest of minimizing costs for the Project, the equity sponsors will work with their counsel (Holland & Hart) as well as a tax accounting firm (E&Y) to develop an efficient structure for the Project. As the Project develops further during Milestone Three, the equity sponsor will engage further with the Cities to finalize the structure.

Concessionaire will likely be structured as an LLC taxed as a partnership for U.S. federal income tax purposes. Accordingly, it is expected that Concessionaire's owners will pay state (Utah), and U.S. federal corporate income taxes on the activities of the Project. The following table depicts the tax rates:

Table 18: Tax Rate Assumed

Corporate Tax	Rate
Utah State	5.0%
Federal	35.0%

Revenue and Expenses Recognition

We will be working with our tax and accounting advisor to understand the proper treatment of revenues and expenses to the Project. We do not expect Concessionaire to be the owner of a material amount of assets for tax purposes. We also expect that the Concessionaire may be treated as a contractor for U.S. tax purposes required to recognize construction income under Section 460.

7.3.8 Macroeconomic Assumptions

This financing plan contains three explicit macroeconomic assumptions. They are inflation, interest rates on cash and base rates on project debt.

Inflation

The inflation rates applied are based on the equity sponsors' view on inflation rates. The rates assumed are 2.50% per annum from 2015 onward.

Interest Rates on Cash

The interest rate applied to cash held by Concessionaire is based on the equity sponsors' view on deposit rates and quotes from banks. The rate assumed is 0.50% per annum

Base Rates on Project Debt

The equity sponsors have assumed an all-in rate of 5.5% on the long-term project debt. This is based upon current base rates in the 220 – 270 bps range (for average lives between 20 and 30 years), and indicative spreads in the 275 – 350 bps range depending on market conditions and final rating of the bonds. This gives a range of 5.0% - 6.0% with a mid-point of 5.5% as assumed in the Base Case.

7.3.9 Refinancing Risk Assessment

The equity sponsors' proposed financial structure comprises long-term debt and long-term equity capital committed before or at Financial Close, which effectively removes any issues of refinancing risk. As discussed previously, we believe that a rated long-term private placement bond issuance provides the optimal mixture of market depth, price competiveness and long-term certainty.

7.3.10 Interest Rate Hedging and Inflation Risk Mitigation Strategy

Our base case financial model assumes that 100% of the long-term debt will be fixed rate bonds issued at Financial Close.

In relation to inflation risk management, the portion of the Utility Fee that repays the capital investment is subject to fixed escalation of 2.5% independent of the inflation rate. The debt repayment profile will be sized to match that escalating profile. The component of the Utility Fee that covers O&M expenses will be linked to an appropriate index, with a maximum annual escalation of 5%. The risk related to movements in escalation will be managed by ensuring that payments to the O&M provider are linked to the same index.

7.3.11 Financing Plan Assumptions Overview

The table below sets out the key assumptions underlying the Financing Plan and will be further refined during Milestone Three.

Table 19: Key Assumptions and Possible Outcomes

Category	Indicative Project Assumptions
Financing	
Commitment Size	$250 million
Tenor	30 years
Average Life	20.0 years
Availability	Upfront drawdown of entire commitment at Financial Close
Grace Periods	Grace period on principal repayment during construction
Amortization	Sculpted amortization profile
Minimum DSCR	1.45x
Leverage	85%
Payment Frequency	Semi-annual
Security	Senior secured
Base Rate	2.50% for 30-year US Treasury
Margin	300bps for BBB- rating
Premiums and Fees	No additional fees
Debt Service Reserve	6 months of debt service
Operating Reserves	3-year major maintenance reserve
Equity IRR	13.0%
Other Assumptions	

Category	Indicative Project Assumptions
Utah State Tax	5.0%
Federal Tax	35.0%
Utility Fee Escalation	2.5%
OM Inflation	2.5%
Cash Reinvestment Rate	0.50%

8. Next Steps

It is crucial that the momentum established for this Project during Milestones One and Two is maintained as we progress into Milestone Three. The primary goal of Milestone Three will be to progress the project to full commercial documentation and finalize project scope, specifications and requirements. This is expected to ultimately culminate in the achievement of Commercial Close (when the commercial terms of the Project are formally agreed). This will be a significant achievement for the Agencies and the Cities and the progress of the Project.

In order for Milestone Three to be successful, it is important that all parties including the Cities, Agencies, Macquarie and its partners understand that full engagement and commitment to provide appropriate personnel and resources will be required to progress the Project. The scope of Milestone Three is broad and challenging but is achievable in within the budget and timeframe proposed below.

8.1 Scope of Work and Budget

8.1.1 Milestone Three Scope

- Cities, Agencies and Macquarie to work collaboratively to finalize the commercial, legal and technical terms of the Project. These arrangements will be definitely documented during Milestone Three.
  - A Concession Agreement Term Sheet has been provided to the Cities and Agencies. The Cities and Agencies will be required to provide detailed comments on the Concession Agreement Term Sheet at the beginning of Milestone Three.
  - The Cities, Agencies and Macquarie will enter into negotiations regarding the Concession Agreement Term Sheet and aim to reach an agreement on the Term Sheet in the early stages of Milestone Three
  - The Concession Agreement Term Sheet (and related ancillary documents including a Wholesaler Agreement and appendices) will cover, amongst other things:
    - Conditions Precedent to Financial Close;
    - Concessionaire Obligations with respect to Finance, Design, Build, Operations, Maintenance and Handback;
    - Agency Representations, Warranties and Obligations;
    - Payment and Collection Terms;
    - Wholesaler Arrangements and Revenue Sharing;
    - Provisions for Change Orders;
    - Required Insurances and Risk Allocation for Damage and Destruction;
    - Relief Events and Force Majeure;
    - Defaults and Remedies;
    - Termination Provisions; and
    - Dispute Resolution
  - The Concession Agreement Term Sheet will be converted during Milestone Three into a definitive Concession Agreement and separate Wholesaler Agreement.
  - The Cities, Agencies, Macquarie and their respective advisors will meet regularly during Milestone Three to progress these negotiations and documents.
- Macquarie will work collaboratively with the preferred design-build Contractor(s) to develop the commercial, legal and technical terms of the design-build contract, including, but not limited to:
  - Final network design;
  - Final capital cost estimate;

- Detailed construction schedule including any required interim milestones, and dates for Substantial and Final Completion;
- Security package requirements including guarantees, liquid security and liquidated damages;
- Agree on pass-down of construction related obligations from the Concession Agreement to the design-build contractor on a back-to-back basis. The design-build contractor will be engaged in the process of the Concession Agreement negotiations to ensure that terms agreed are commercial and acceptable from the perspective of the design-builder;
- Finalization of the design-build contract, subject to the Project reaching Financial Close; and
- The Cities and Agencies will be engaged in the discussions with the design-build contractor as required, in particular in relation to final network design

- Macquarie will work collaboratively with the preferred operations and maintenance contractor to develop the commercial, legal and technical terms of the operations and maintenance contract, including, but not limited to:
  - Final operations and maintenance cost estimates for the term of the Project;
  - Detailed operational standards including service level requirements, response times and standards for equipment replacement;
  - Security package requirements including guarantees and liquid security;
  - Agree on pass-down of operations and maintenance related obligations from the Concession Agreement to the operations and maintenance contractor on a back-to-back basis. The operations and maintenance contractor will be engaged in the process of the Concession Agreement negotiations to ensure that terms agreed are commercial and acceptable from the perspective of the operations and maintenance contractor
  - Finalization of the operations and maintenance contract, subject to the Project reaching Financial Close
  - The Cities and Agencies will be engaged in the discussions with the operations and maintenance contractor as required, in particular in relation to final network design
- Macquarie will engage all necessary consultants to assist in reasonably progressing the commercial, technical and legal workstreams for the Project.
  - Legal, technical and insurance advisers will be required by potential capital providers for the Project to ensure that agreements including the Concession Agreement, Wholesaler Agreement and design-build and operations and maintenance contracts comply with typical market standards.
  - Legal advisers in particular will be heavily utilized to undertake the documentation of the commercial deal agreed and the creation of the documents referred to earlier in this section
  - Accounting and tax adviser(s) will be engaged to review and, confirm appropriate accounting and tax structure for the Project, and ensure the project is structured as efficiently as possible.
- Macquarie and FSP3 will further develop the Wholesaler Business Plan while collaborating with the Cities and ISPs for feedback. Key tasks for the Wholesaler Business Plan include, but are not limited to:
  - Finalize transport fee structure;
  - Identify potential location of office and store-front
  - Work with marketing agency to devise more detailed roll-out plan
  - Draft and finalize a comprehensive Wholesaler Agreement detailing the tripartite arrangement between the Wholesaler, PPP and New Agency, including revenue sharing, operating cost support, capital cost recovery, etc.
- Macquarie will update the financing plan for the Project and assist lenders with the due diligence process. Other tasks to be completed in the financing stream include, but are not limited to:
  - Negotiation of the debt term sheet with prospective lenders or underwriters. Legal advisors representing Macquarie and separately lenders will assist with this process.
  - Macquarie will work with the Lenders Technical Adviser to ensure they have adequate access to information with respect to the Project, and that the report that is produced is adequate for the Lenders' requirements.

  - Receive financing commitments and/or best efforts support letters (depending on final form of Commercial Close and anticipated period until Financial Close) at the end of Milestone Three (coinciding with Commercial Close).
  - If required, Macquarie will secure initial rating assessments from one or more rating agencies. This will involve engagement of the rating agencies, presentation of deal documentation (such as the Concession Agreement and the Debt Term Sheet) and other due diligence materials.
  - Macquarie will update its financial model to incorporate revised assumptions and inputs based on the conclusion from the Milestone Three Workplan.
- Quantification of the maximum Utility Fee required
  - Macquarie (utilizing appropriate input and feedback from the Cities, Agencies and Macquarie's partners) will aggregate together the terms of the Project and final pricing to determine a Utility Fee.
  - It is currently anticipated that this Utility Fee would remain subject to change for certain movements in financing markets.
- Net financial impact to the Agencies
  - Macquarie (utilizing appropriate input and feedback from the Cities, Agencies and Macquarie's partners) will provide an estimate of the net financial impact to the Agencies of undertaking the project including any revenue sharing with respect to the Wholesaler
  - Macquarie will work with the Cities and Agencies to resolve any issues relating to the existing tax-exempt UTOPIA debt due to the Project

8.1.2 Milestone 3 Deliverables

- Final Proposal to the Agencies including:
  - Executable Concession Agreement including agreed maximum Utility Fee (subject to adjustment for changes in base rates, credit spreads and potentially certain other pre-agreed adjustment factors)
  - Executable Wholesaler Agreement
  - Other ancillary contracts to the extent these are determined to be required
- Finalized fixed price DB Contract
- Finalized fixed price O&M Contract
- Initial audit of the financial model
- Debt financing term sheets
- Final Wholesaler Business Plan
- Updated timetable and budget for the subsequent Milestone (which will be Financial Close)

8.1.3 Milestone Three Budget

The table below sets out the proposed budget for Milestone 3 and a prospective budget for Milestone 4 (that would be agreed at the end of Milestone 3). It is important to note that, as agreed with UTOPIA on December 3, 2015, and as distinct from Milestones One and Two, the cost of advisors to the Cities and the Agencies in Milestones Three and Four will be paid directly by the Cities and/or Agencies, as appropriate.

Table 20: Milestone Three and Four Budget

Categories	Proposed Milestone 3 Budget ($)	PDA Milestone 3 Budget ($)	Proposed Milestone 4 Budget	PDA Milestone 4 Budget ($)
Feasibility / Market Consultant	-	-	-	-
Public Opinion Polling Firm	-	-	-	-
Government Relations Consultant	90,000	90,000	56,000	56,000
Accounting & Tax Consultant	100,000	100,000	-	-
Project Legal Adviser	400,000	300,000	400,000	500,000

Categories	Proposed Milestone 3 Budget ($)	PDA Milestone 3 Budget ($)	Proposed Milestone 4 Budget	PDA Milestone 4 Budget ($)
Project Insurance Adviser	25,000	25,000	-	-
Agencies Legal Adviser	-	75,000	-	75,000
Agencies Financial Adviser	-	15,000	-	15,000
Bond Counsel	-	125,000	250,000	125,000
Lenders Legal Adviser	250,000	250,000	450,000	450,000
Lenders Insurance Adviser	10,000	10,000	-	-
Lenders Technical Adviser	100,000	42,000	60,000	60,000
Financial Model Audit	15,000	-	45,000	60,000
Rating Agency Assessment Fee	150,000	150,000	-	-
Contingency	100,000	108,000	126,100	124,000
External Costs	**1,240,000**	**1,290,000**	**1,387,000**	**1,465,000**
Internal Costs Fixed Sum	450,000	450,000	630,000	630,000
Internal Costs – Out-of-Pockets	50,000	50,000	70,000	70,000
Total	**1,740,000**	**1,790,000**	**2,087,100**	**2,165,000**

8.2 Timeline

Below is an indicative timeline for completing Milestone Three and proceeding to Commercial Close. A further, more detailed Milestone Three timetable will be developed internally among the working groups upon approval of Milestone Two. It is important to note that certain items, such as the detailed negotiation and agreement of the Concession Agreement, are on the critical path. For example, detailed negotiation of subcontracts such as the design-build agreement cannot proceed until the Concession Agreement is largely finalized. This makes the full engagement of the Agencies, Cities, Macquarie and its partners essential to the achievability of the timetable below.

Item	Date
Milestone Two Report is released publically	End January 2015
Public consultations regarding Milestone Two Report	February 2015
Cities and Agencies approve progress to Milestone Two	Mid-March 2015
Cities and Agencies provide written comments on Concession Agreement Term Sheet and negotiate Wholesaler Agreement Term Sheet	End March 2015
Cities, Agencies and Macquarie engage in negotiations regarding Concession Agreement and Wholesaler Agreement Term Sheets	April 2015
Agreed Concession Agreement and Wholesaler Agreement Term Sheets	End April 2015
Drafting of full form Concession Agreement, Wholesaler Agreement and other ancillary documents	May 2015
Negotiation of Design-Build and O&M Contracts with subcontractors	May – June 2015
Distribution of detailed diligence materials to Lenders	End May 2015
Negotiation of Debt Term Sheet(s)	June 2015
Finalization of Concession Agreement, Wholesaler Agreement and other ancillary agreements	End June 2015
Finalization of Design-Build and O&M Contracts with subcontractors	July 2015
Lenders finalize diligence and provide commitments	July 2015
Presentation of final suite of Project Documentation to Cities	July 2015

Item	Date
City Approvals and Commercial Close	End July 2015
Potential vote by public to affirm Project and Commercial Close	To follow Commercial Close

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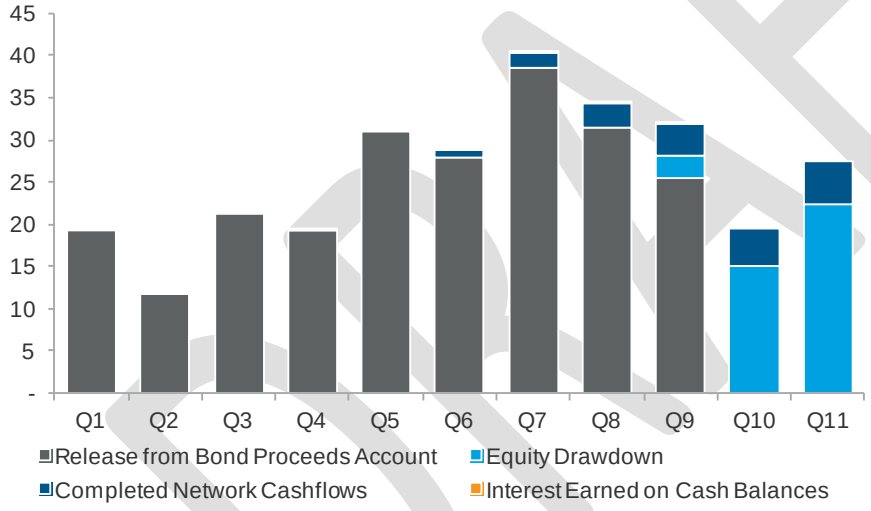
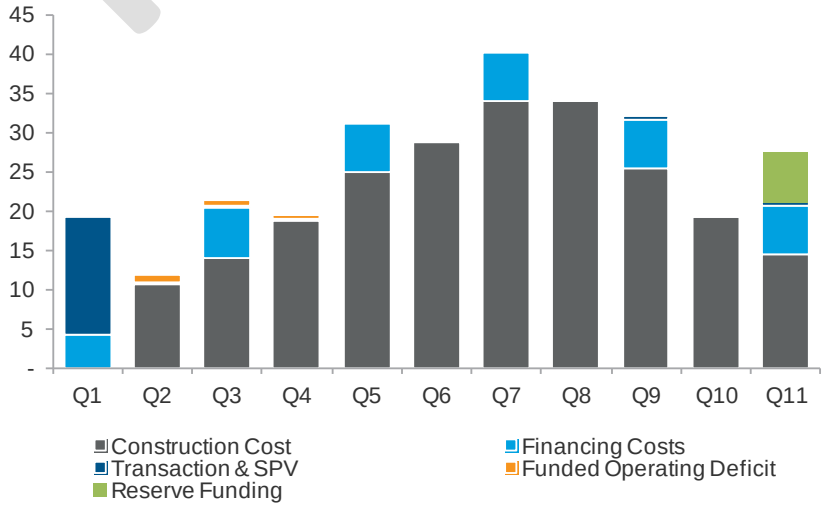
Appendix

A.1 Model Outputs

A.1.1 Sources & Uses through Construction

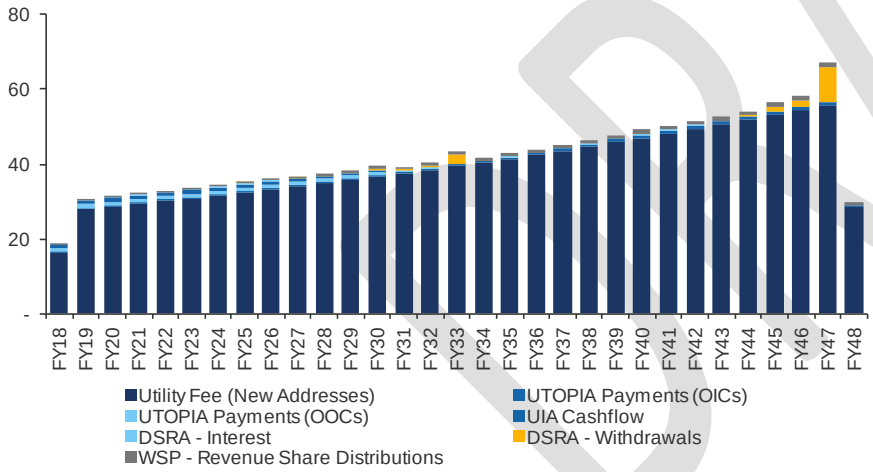
Sources Through Construction	($m)		Uses Through Construction	($m)	
Debt Drawdown	225.0	78.9%	Construction Costs	223.2	78.2%
Equity Drawdown	39.8	14.0%	Financing Costs	35.2	12.3%
Operating Cashflows during Construction	19.2	6.7%	Transaction & SPV Costs	18.7	6.6%
Interest Earned on Cash	1.3	0.5%	Reserve Funding	6.3	2.2%
			Funded Operating Deficit	1.9	0.7%
Total Sources	**285.4**	**100.0%**	**Total Uses**	**285.4**	**100.0%**

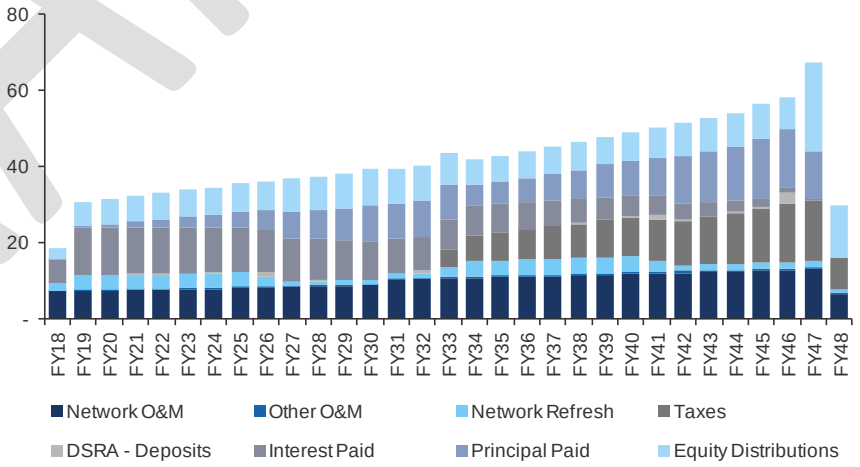




A.1.2 Sources & Uses through Operations

Sources Through Operations	($m)		Uses Through Operations	($m)	
Utility Fee (New Addresses)	1,212.1	93.6%	Network O&M	303.2	23.4%
UTOPIA Payments (OICs)	5.8	0.4%	Other O&M	11.7	0.9%
UTOPIA Payments (OOCs)	10.2	0.8%	Network Refresh	80.4	6.2%
UIA Cashflow	21.6	1.7%	Taxes	167.5	12.9%
DSRA - Interest	6.0	0.5%	DSRA - Deposits	10.0	0.8%
DSRA - Withdrawals	16.3	1.3%	Interest Paid	237.1	18.3%
WSP - Revenue Share Distributions	23.3	1.8%	Principal Paid	225.1	17.4%
			Equity Distributions	260.4	20.1%
Total Sources	**1,295.3**	**100.0%**	**Total Uses**	**1,295.3**	**100.0%**





A.2 Macquarie and First Solutions

A.2.1 Joint Sponsors

Macquarie and First Solutions are negotiating a strategic partnership to develop this transaction as joint sponsors. Both organizations have committed senior executives and extensive internal resources and capital to develop our approach to this project, and we are fully committed to working collaboratively with the Cities as one developer group to make completion of the network a reality.

Resources have been allocated to leverage each firm's specialized skill set. First Solutions has led the design-build and operations and maintenance working groups, reflecting the executives' extensive industry experience and technical knowledge. Macquarie, conversely, has led the legal, commercial and financial workstreams, reflecting its greater experience developing, structuring and funding PPP transactions. We continue to operate as an integrated sponsor team that ensures both accountability and flexibility across each of these groups through a dedicated lead supported by representatives from First Solutions, Macquarie and the Agencies.

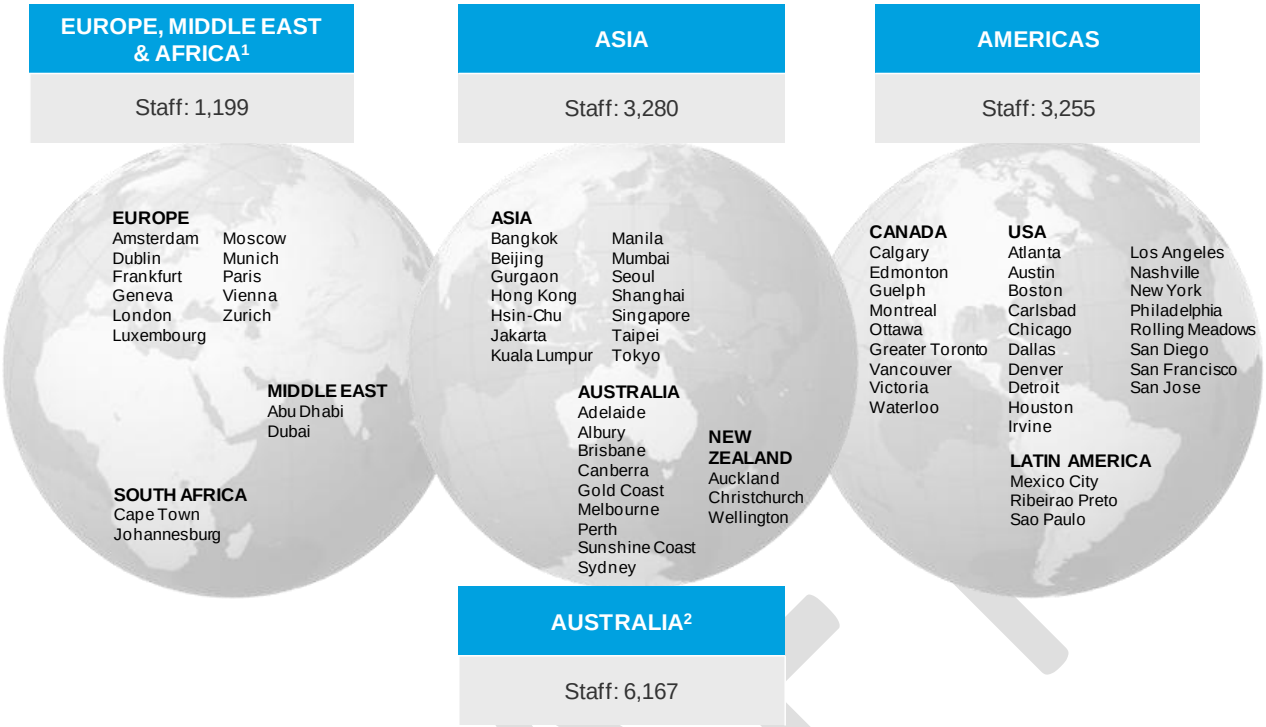
A.2.2 Macquarie

A.2.2.1 Macquarie Group

Headquartered in Australia, Macquarie Group Limited is a global provider of banking, financial, advisory, and investment and funds management services (ASX: MQG). Founded in 1969, Macquarie Group Limited operates offices in 28 countries and employs more than 3,255 people in the Americas as part of a global staff of over 13,900. As an owner and manager of important community assets, Macquarie works closely with governments around the world to deliver vital services including, utilities, transport, roads, airports, schools, hospitals and secure facilities. Macquarie Capital Group Limited is a wholly-owned subsidiary of Macquarie Group Limited and together with its direct and indirect subsidiaries and funds owned or managed by the foregoing, manages assets of approximately $359 billion as of September 30, 2013. In January 2014, Macquarie raised over $1.8 billion for its Macquarie Infrastructure Partners III Fund, which focuses on deploying capital in North American infrastructure assets.

Macquarie has been actively involved in the North American market since 1994. Over the last decade, it has established one of the largest financial advisory and funds management teams dedicated to the North American infrastructure sector, with professional staff in offices in Vancouver, New York, Toronto and Los Angeles. Macquarie can also draw on the worldwide resources and expertise of the larger Macquarie Group, and can bring in specialist resources as required to assist on the Project.

Figure 18: Macquarie Group's Global Locations and Staffing



[1]Excludes staff in Macquarie First South joint venture and staff seconded to Macquarie Renaissance joint venture (Moscow).
[2]Includes New Zealand.

A.2.2.2 Macquarie Capital

Macquarie Capital is one of Macquarie Group's six operating groups, with around 37 offices in 22 countries. The team is responsible for the Group's corporate advisory, equity and debt capital markets activities. Macquarie Capital's advisory activities are aligned with six industry groups, reflecting deep expertise across a broad range of sectors.

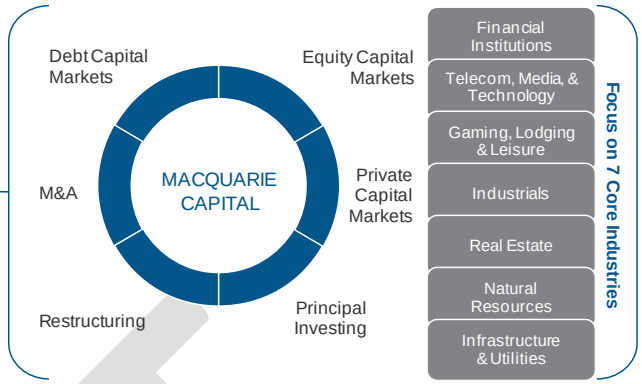
Figure 19: Macquarie Capital Overview

Macquarie Group at a Glance

- Global provider of banking, financial advisory, investment and funds management services in major international financial centers
- Founded in 1969 as the Australian subsidiary of UK merchant bank Hill Samuel
- Established and growing presence in the US since 1994
- Listed on Australian Securities Exchange (ASX:MQG) since 1996
- A2/A credit rating (Standard & Poor's)

- FICC — Fixed Income, Currency & Commodities
- MSG — Macquarie Securities
- **MACCAP — Macquarie Capital**
- CAF — Corporate & Asset Finance
- MFG — Macquarie Funds Group

Macquarie Capital Overview



Macquarie Group by the numbers

$17.0bn+ Market Capitalization	**$362bn+** in total AUM	**13,900+** staff across 70+ offices in 28+ countries

Macquarie Capital by the numbers

$315bn+ advising on 600+M&A deals since 2009	**$215bn+** in debt financing raised since 2009	**$407bn+** of equity raised as bookrunner since 2009

Macquarie offers a full-service platform to clients

Infrastructure Specialist	Senior team has over 200 years of infrastructure advisory experience
Independent Advisory Team	Funds and Advisors aligned with separate balance sheets and reporting lines
Full Product Platform	Deep debt and equity capital markets expertise, raising over $216bn of debt since 2007
Balance Sheet	Capacity to underwrite across the capital structure to support clients and infrastructure opportunities across all continents

Macquarie has created

2x more capital than its closest global peer for infrastructure investment in the last 5 years

No. 1 in Infrastructure Investment

No.	Investor	5-year capital creation (US$m)
1	**Macquarie**	**$27,345**
2	Brookfield Asset Management	$12,874
3	Global Infrastructure Partners	$10,830
4	Energy Capital Partners	$9,940
5	IFM Investors	$8,217

We are a full-service, capital provider with a diverse client base and market leading presence

- The Banker — **Most Innovative Bank Project Finance / Infrastructure** 2014
- emeafinance (Europe • Middle East • Africa) — **Best Project Finance Advisor** 2013
- Infrastructure Journal Awards 2013 WINNER — **Global Social Infrastructure Deal of the Year** 2013

Notes: Infrastructure investment figure up to June 30, 2014; Source: Infrastructure Investor, June 2014

A.2.2.3 Fiber, Broadband, and Cable TV Experience

Macquarie's experience in the fiber and broadband sector covers all of the major global markets in North America, United Kingdom, Australia, Asia and Europe. Figure 20 provides an overview of a number of transactions that Macquarie has advised on in the sector.

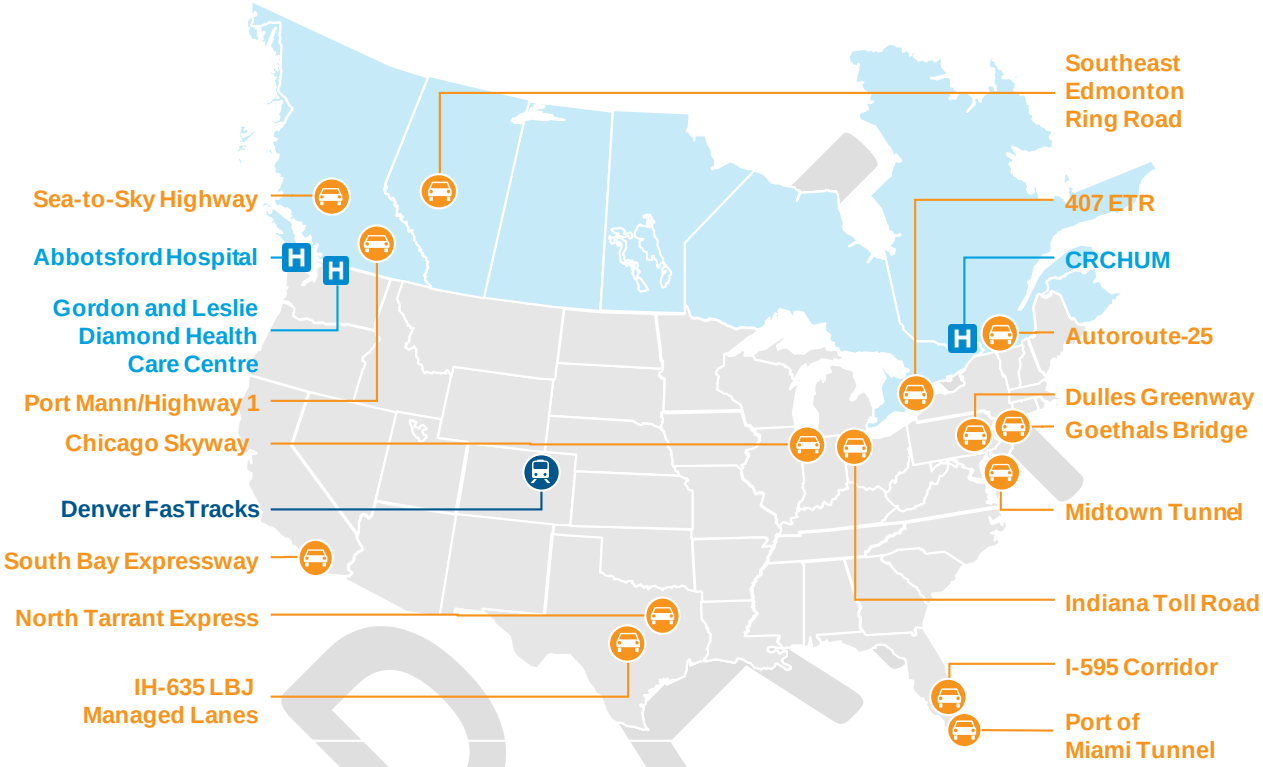
Figure 20: Selection of Macquarie Capital's Fiber and Cable Experience

CityFibre **City Fibre** Corporate adviser for FTTH client in the UK **Confidential** **Ongoing** Financial Advisor MACQUARIE	LEIGHTON **NextGen Divestment** Sale of 70% of Leighton's fibre and telco assets to OTPP **A$465 million** **2013** Financial Advisor MACQUARIE	arqiva **Arqiva Refinancing** Equity injection and debt refinancing **£4.5 billion** **2013** Principal Investor, Financial Advisor MACQUARIE	Telstra **National Broadband Network** Structural separation of Telstra to allow for Australia's NBN **A$11 billion** **2012** Financial Advisor MACQUARIE	pipenetworks **PIPE Acquisition** Third largest metro fibre network in Australia **A$434 million** **2010** Financial Advisor MACQUARIE	nextgen networks **NextGen Financing** 8,500km fibre backhaul network in Australia **A$853 million** **2010** Debt & Equity Arranger Financial Advisor MACQUARIE
BellAliant **Bell Aliant** First company in Canada to cover a city with FTTH technology **US$222 million** **2013** Equity Arranger MACQUARIE	ČESKÉ RADIOKOMUNIKACE **CRa Acquisition** Czech broadcaster serving 98% of local TV and radio **€574 million** **2011** Principal Investor, Financial Advisor MACQUARIE	CUMULUS **Cumulus Media Inc.** Acquisition of Citadel Broadcasting **US$2.4bn** **2011** Financial Advisor, Debt/Equity Arranger MACQUARIE	TBC **Taiwan Broadband** Advised on raising senior and subordinated debt **US$900 million** **2010** Debt Arranger, Financial Advisor MACQUARIE	cable & more C&M **C&M Co.** Acquisition of Korea's second largest cable television operator **US$1.9 billion** **2008** Financial Advisor MACQUARIE	arqiva **NGW Acquisition** Acquisition of National Grid Wireless **£2.5 billion** **2007** Principal Investor, Financial Advisor MACQUARIE

A.2.2.4 Industry Leader in Public-Private Partnerships

Macquarie is widely recognized as a global leader in P3s. Macquarie's status as one of the first entrants into the global P3 market and as a pioneering investor and advisor in P3's has been a key element of the international success of its business. Macquarie can draw from a team of more than 70 dedicated infrastructure advisory executives in North America, supported by a large worldwide team of infrastructure professionals.

Figure 21: Macquarie Capital's PPP and Infrastructure Projects in North America



A.2.2.5 Trusted Advisor to both the Public and Private Sector

Macquarie is a pioneer in private sector development and the operation of vital infrastructure assets. Partnership with governments and communities is Macquarie's core business, currently holding a portfolio of over 110 infrastructure assets around the world. Macquarie's financial security and wealth of international experience in a range of asset classes is unquestioned, and positioning Macquarie as a proven long-term partner and a market leader.

Macquarie has also frequently been appointed by government entities to act as their financial and process consultant on PPPs. Macquarie's strong insight into the needs of public sector agencies and the requirements of a successful partnership, have led to intimate knowledge of and good working relationships with contracting partners and government procurement authorities in Canada. Familiarity with numerous variations of procurement documentation and having a competitive spectrum of design firms, civil contractors and operators allows Macquarie to ensure the success of its projects. For example, Macquarie has advised the Province of British Columbia on the W.R. Bennett Bridge and the Kicking Horse Canyon Project Phase II projects. They also advised Metro Vancouver's regional transportation authority on the Canada Line Rapid Transit Scoping Study and also the Province of British Columbia throughout the procurement process.

As a global leader in infrastructure financing (including social infrastructure and buildings), Macquarie has the financial strength and commitment to create significant value and financial security for government projects. Macquarie's approach is structured and resourced to provide comprehensive management and support for all its projects through project specific teams that provide detailed oversight and collaboration with stakeholders.

Macquarie recognizes the essential nature of the assets it manages and owns on behalf of the communities they serve. We take our responsibilities very seriously and have a long track record of making appropriate investments to ensure long term life cycle performance of our assets. Nowhere is this more true than the case of Thames Water, the United Kingdom's largest water utility serving much of London. Prior to Macquarie ownership, Thames Water consistently failed to meet its performance targets; to remedy this by ensuring the proper infrastructure is in place, Macquarie committed to a large capital expenditure program to replace aging pipes with spending peaking at over $200 million a month.

A.2.2.6 Leading Infrastructure Investor

Macquarie, through Macquarie Infrastructure and Real Assets (MIRA), is a global leader in the creation and management of specialist funds which focus on infrastructure, real estate and adjacent sectors. We are a committed investor in infrastructure and aim to manage the businesses in which we invest profitably and responsibly. We take a partnership approach, working with local management teams and bringing specialist strategic, commercial, operational and financial expertise. Within MIRA we have a global team, many with deep operational expertise, supporting the businesses in which we invest. Specific industry-based teams, such as airports and utilities, enhance the performance of these businesses over the long term. Figure 22 provides an overview of MIRA's global portfolio.

Figure 22: Trusted by Communities – Macquarie is an Experience Operator of Essential Assets

Every day ~100 million people use essential services provided by Macquarie-managed businesses

AIRPORTS
+93 million passengers per annum

COMMUNICATIONS
+130 million people through television, telephone and radio infrastructure

ROADS
+1.3 million vehicles per day

GAS
+22 million households

RAIL
+88 million passengers per annum

WATER
+5 million households

FERRIES
+6 million passengers per annum

ELECTRICITY
+2.2 million households

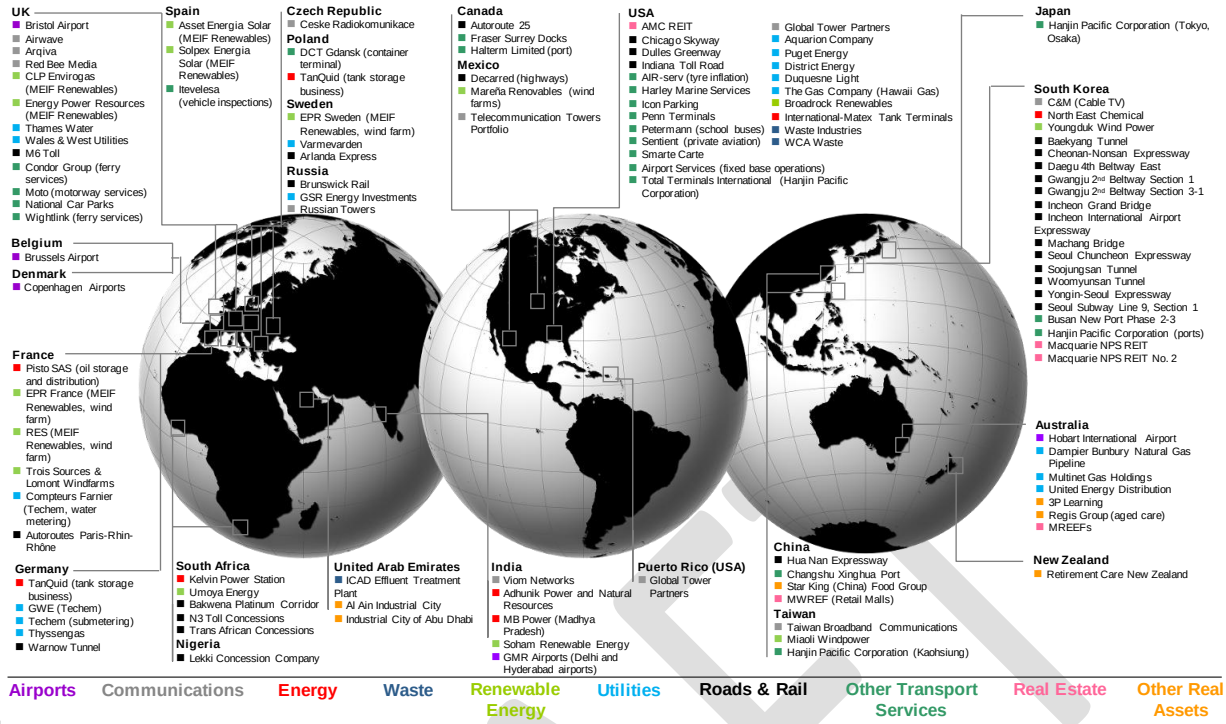
SEA PORTS
+3.6 million standard container units handled per annum

AGED CARE / RETIREMENT VILLAGES
+7,500 beds and +1,000 units

CAR PARKS
+216,000 car spaces

EMPLOYEES
+70,000 across the portfolio businesses

Figure 23: Macquarie's Global Portfolio of Infrastructure Investments[1]



[1]As at 31 March 2013. Represents portfolio businesses which Macquarie Infrastructure and Real Assets manages on behalf of investors with various direct percentage stakes held in each. Portfolio businesses shown on the map are representative and not exhaustive. In some instances they represent the operations of a single business where it has operations across different countries.

A.2.3 First Solutions P3

Headquartered in Twin Falls, Idaho, First Solutions is a managed services group dedicated to helping clients select and execute the right Public Private Partnership (P3) model for their projects.

First Solutions' primary objective is to support government agencies with resources, expertise & funding solutions to deliver greater value, accountability & reduced risk at a lower cost to the public. The company was founded on the principle of maintaining a quality of character throughout the management team while providing experience, integrity, innovation and a commitment to build local alliance partners. First Solutions P^3 Alliance leverages on its public partner's existing resources to ensure that the right people are involved and serving in the right role, while enabling government agencies to serve the public better with greater efficiencies at a lower overall cost.

A.2.3.1 Ownership Overview

Table 21: First Solutions - Owners and Management Team

Owners	Tenure	Experience
Joe Shelton	35 years	Wireless operations and management
Kit Eldredge	35 years	Wireless operations and management
Mark Wright, MD	20 years	Healthcare operations and management
Mike Aardema	20 years	Agricultural operations and management
Management Team	**Tenure**	**Experience**
Kit Eldredge	35 years	Wireless operations and management
Ed Crowston	35 years	Fiber optics infrastructure
Mike Lee	19 years	Technology and service provider executive
Mike Aardema	20 years	Agricultural operations and management

A.2.3.2 Specialization

First Solutions currently serves the following categories within the communication infrastructure and networks market:

Table 22: First Solutions' Sector Expertise

Municipal Fiber Infrastructure	• Open access model or Private ISP • Competition tension environment • Revenue sharing option
Towers	• Reach-out, Fill-in, WiFi
Public Safety Communications	• Support transition to 4G LTE PS broadband digital network
Government Communications Networks	• SCADA (Supervisory Control and Data Acquisition) • First Solutions has established a unique blend of business managers with wireless, telecom, engineering, software and finance management experience
Managed Service Contracts	• Public safety digital network for Idaho National Labs (Department of Energy) • Nationwide wireless fixed point monitoring for the vending industry
Tri-state Regional Tower Company	• Over 50 towers to support telecom carrier services • Multiple support facilities
Wireless Internet Service Provider	• Residential, commercial, government and educational markets
National Design / Build / Engineering Firm	• Managed three 18,000 mile cross-country builds • Design/build multi-major city cores: Utah to Nevada, Seattle to Portland • Multi-duct fiber build for, AT&T, Touch America and Sierra Power • Managed the construction build and tier 0/1 application migrations of a major US wireless carrier 100,000 sq. ft. data center • Design/build/operate team for the initial public deployment of fiber broadband in the world
Wireless Service Facilities	• Serving Federal, State and Municipal Governments • Commercial Enterprises