

SCHEDULE 10

INDEX FACTOR

1. GENERAL

1.1 Capitalized Terms

Capitalized terms used in this Schedule have the definitions as set out in the Agreement to Design, Build, Finance and Maintain Three New Schools in Edmonton and Seven New Schools in the Calgary Region of Alberta, Canada (the “**DBFM Agreement**”) between Her Majesty the Queen in right of Alberta and the Contractor, as defined therein, unless expressed otherwise.

1.2 DBFM Agreement Reference

This Schedule is referenced in sections 1.3, 10.1 and 10.2 of the DBFM Agreement.

2. ADDITIONAL DEFINITIONS

These additional capitalized terms used in this Schedule have the following definitions:

“**Fiscal Year**” means the twelve-month period beginning on April 1 of a year and ending on March 31 of the following year; and

“**Maintenance Payment**” means the component of the M&R Payment that is described as the Maintenance Payment in Appendix 1, as attached and forming part of Schedule 14 (Payment Schedule).

3. SPECIFIC PAYMENTS AND ADJUSTMENTS SUBJECT TO INFLATION

In order to account for the impacts of inflation or deflation during the Construction Period and the M&R Period, a number of payments and payment adjustments, as specified in sections 10.1 and 10.2 of the DBFM Agreement, will be subject to an inflation adjustment. Payments and payment adjustments that will be increased or decreased by this inflation adjustment include:

- (a) Maintenance Payments;
- (b) Renewal Payments; and

SCHEDULE 10 – DBFM AGREEMENT EXECUTION VERSION

- (c) All applicable Payment Adjustments, and the threshold amount referenced in section 16.8(m) of the DBFM Agreement.

4. THE INDEX FACTOR

The inflation adjustment for the DBFM Agreement will be determined based on the Index Factor, which is calculated using the maintenance and renewal price index (the “**M&R Index**”) set out in Appendix 1 to this Schedule 10. The M&R Index will be prepared annually during the Construction Period and the M&R Period on a calendar year basis by the Province for the purposes of the DBFM Agreement.

5. M&R INDEX CALCULATION

5.1 M&R Index Indices

The M&R Index will be calculated by the Province based on a weighted combination of a number of inflation indices. The indices and the method for calculation of the M&R Index are described in Appendix 1 to this Schedule 10.

5.2 Replacing Indices

In the event that any of the indices or data used in the calculation of the M&R Index becomes unavailable or inapplicable during the Construction Period or the M&R Period, the Province shall, in consultation with the building maintenance industry and the Contractor, substitute reasonable alternative indices or data.

5.3 Altering the Weighting of Inflation Areas within the M&R Index

At any time during the M&R Period but no more frequently than once every five years, at the request of either the Province or the Contractor, the Province and the Contractor shall retain an independent advisor to determine the impact of inflation or deflation on the building maintenance industry in Alberta since the Execution of the DBFM Agreement or since the last time that this Schedule was amended by operation of this Section 5.3 (whichever is most recent) and to advise the Contractor and the Province whether an alteration to the weighting of the constituent inflation areas within the M&R Index (manpower, consumer goods and construction) is required to ensure that the M&R Index better reflects the impact of inflation or deflation on the building maintenance industry in Alberta (a “**Weighting Alteration**”). Should the independent advisor determine that a Weighting Alteration is appropriate the Province and the Contractor shall implement the Weighting Alteration and this Schedule shall be amended accordingly and as amended shall apply to inflation adjustments determined subsequent to such amendment.

SCHEDULE 10 – DBFM AGREEMENT EXECUTION VERSION

The independent advisor shall be retained in accordance with the following:

- (a) the Province and the Contractor will appoint a person acceptable to both, acting reasonably, as an independent advisor for the purposes of this Section 5.3 and will enter into a written agreement with that person with terms satisfactory to both the Province and the Contractor, acting reasonably;
- (b) the independent advisor must be an experienced construction or building cost consultant practicing in Alberta;
- (c) the independent advisor must agree to carry out and discharge the responsibilities contemplated by this Section 5.3;
- (d) the independent advisor must carry professional liability insurance with errors and omissions coverage of not less than \$500,000 per occurrence;
- (e) all fees and expenses of the independent advisor are to be shared equally by the Contractor and the Province; and
- (f) the independent advisor shall be impartial to the parties when required to make any determination under Section 5.3.

5.4 Timing of M&R Index Calculation

The Province shall calculate the M&R Index, and subsequently the Index Factor, each year after the published data required for the calculations are available for the upcoming Fiscal Year. Once the Province calculates the M&R Index, it will be used in the calculation of the Index Factor as specified in Section 6, to be applied to Maintenance Payments and Renewal Payments to be made to the Contractor in the upcoming Fiscal Year, to the Payment Adjustments that may be applied to the Contractor in the upcoming Fiscal Year, and to the threshold amount referenced in section 16.8(m) of the DBFM.

6. INDEX FACTOR AND INFLATION ADJUSTMENT

Payment amounts in Schedule 14 (Payment Schedule) that are indicated as being subject to an inflation adjustment in accordance with this Schedule and any adjustments as specified in sections 10.1 and 10.2 of the DBFM Agreement, will be multiplied by the Index Factor to arrive at the inflation adjusted values.

For amounts payable in each month of the Fiscal Year “T” starting April 1 of “Year T”, the applicable Index Factor will be determined as follows:

$$\text{Index Factor (Fiscal Year T)} = \frac{\text{M\&R Index (T - 1)}}{\text{M\&R Index (2010)}}$$

**SCHEDULE 10 – DBFM AGREEMENT
EXECUTION VERSION**

For example, for amounts payable in the 12 months from April 2012 to March 2013, the applicable Index Factor will be calculated by dividing the M&R Index value for 2011 by the M&R Index value for 2010.

Appendix 2 to this Schedule 10 illustrates how the Index Factor will be calculated and applied. The illustration is based on an assumption of Total Availability on June 30, 2012.

**SCHEDULE 10 – DBFM AGREEMENT
EXECUTION VERSION**

**APPENDIX 1
M&R INDEX CALCULATION**

The M&R Index is calculated by the Province based on a weighted combination of the following inflation areas:

Inflation Area (Weight)	Indices Used in Each Inflation Area
Manpower (50%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> ▪ The Alberta Union of Provincial Employees (“AUPE”) Local 104 Published Hourly Salary, for Maintenance Service Worker II at the Top Level (Not Including Benefits). ▪ Statistics Canada Catalogue No. 70-002-X Employment, Earnings, and Hours, (Table 6), North American Industry Classification System (NAICS) – Repair and Maintenance [811] Hourly Rate (Canada).
Consumer Goods (20%)	<p>Statistics Canada Catalogue No. 62-001-X, The Consumer Price Index (Alberta), All Items (excluding food and energy).</p>
Construction (30%)	<p>An average of the following two indices:</p> <ul style="list-style-type: none"> ▪ Statistics Canada Catalogue No. 62-007-X (Table 327-0043), (2002=100), Non-Residential Building Construction Price Index, Edmonton. ▪ Statistics Canada Catalogue No. 62-007-X (Table 327-0043), (2002=100), Non-Residential Building Construction Price Index, Calgary.

The following table illustrates the historical results of the M&R index and the calculation methodology for the inflation adjusted payments and payment adjustments. The base year for the M&R Index is 2003 and the value is set to be 1.000.

**SCHEDULE 10 – DBFM AGREEMENT
EXECUTION VERSION**

CALCULATION OF M&R INDEX

(a) MANPOWER

	2003	2004	2005	2006	2007	2008
(i) AUPE Local 04 hourly salary (top of a Maintenance Service 2 Worker)	\$18.65	\$20.26	\$20.87	\$21.50	\$22.55	\$23.64
(ii) <u>North American Industry Classification System (NAICS)=Repair and maintenance [811] Hourly Rate</u>	\$14.32	\$15.36	\$15.60	\$16.25	\$16.92	\$17.52
Calculated Indexes						
(i) Alberta Union of Provincial Employees, Local 04	1.000	1.086	1.119	1.152	1.209	1.267
(ii) North American Industry Classification System Repair and maintenance [811]	1.000	1.073	1.089	1.135	1.182	1.223
MANPOWER INDEX (Base Year 2003)	1.000	1.079	1.104	1.144	1.195	1.245

(b) CONSUMER GOODS

<i>Statistics Canada All Items (excluding Food and Energy)</i>	2003	2004	2005	2006	2007	2008
Alberta	103.5	104.6	106.1	112.0	117.3	118.6
CONSUMER GOODS INDEX (Base Year 2003)	1.000	1.011	1.025	1.082	1.133	1.146

(c) CONSTRUCTION COSTS (Table 327-0043) Replaces Table 327-0039 (2002 = 100)

<i>Statistics Canada Non-Residential</i>	2003	2004	2005	2006	2007	2008
Calgary	103.1	110	117.6	132.7	156.1	177.5
Edmonton	102.7	109.7	117.2	130.8	153.1	172.4
Calculated Indexes						
Calgary	1.000	1.067	1.141	1.287	1.514	1.722
Edmonton	1.000	1.068	1.141	1.274	1.491	1.679
CONSTRUCTION COSTS INDEX (Base Year 2003)	1.000	1.068	1.141	1.280	1.502	1.700

(d) M&R INDEX

<i>Weighting Factors</i>	2003	2004	2005	2006	2007	2008
MANPOWER (50%)	0.50	0.540	0.552	0.572	0.598	0.623
CONSUMER GOODS (20%)	0.20	0.202	0.205	0.216	0.227	0.229
CONSTRUCTION COSTS (30%)	0.30	0.320	0.342	0.384	0.451	0.510
M&R INDEX (Base Year 2003)	1.00	1.062	1.099	1.172	1.275	1.362

ESCALATION ADJUSTMENT FACTOR:	1.062	1.035	1.066	1.088	1.068
EFFECTIVE ON:	April 05	April 06	April 07	April 08	April 09

**SCHEDULE 10 – DBFM AGREEMENT
EXECUTION VERSION**

**APPENDIX 2
ILLUSTRATION OF CALCULATION
AND APPLICATION OF INDEX FACTOR**

Illustrative M&R Index and Index Factor values

M&R Index		Index Factor		
Year	Value		Fiscal Year	Value
2008	1.362			
2009	1.457			
2010*	1.559		2011/12	1.000
2011	1.668		2012/13	1.070
2012	1.785		2013/14	1.145
2013	1.910		2014/15	1.225

* Maintenance Payments in Form G1 to be stated in constant 2010 dollars.

Illustrative Application of Index Factor to Maintenance Payment based on fictitious data for Price Indices

Maintenance Payment for each month in Constant 2010 \$		Index Factor Applicable	Amount Payable after Inflation Adjustment
Apr. 2012	\$ -	1.070	\$ -
May 2012	\$ -	1.070	\$ -
Jun. 2012	\$ -	1.070	\$ -
Jul. 2012	\$1,000.00	1.070	\$1,070.00
Aug. 2012	\$1,000.00	1.070	\$1,070.00
Sep. 2012	\$1,000.00	1.070	\$1,070.00
Oct. 2012	\$1,000.00	1.070	\$1,070.00
Nov. 2012	\$1,000.00	1.070	\$1,070.00
Dec. 2012	\$1,000.00	1.070	\$1,070.00
Jan. 2013	\$1,000.00	1.070	\$1,070.00
Feb. 2013	\$1,000.00	1.070	\$1,070.00
Mar. 2013	\$1,000.00	1.070	\$1,070.00