Ernst & Young Orenda Corporate Finance Inc.
EY Tower
100 Adelaide Street West, PO Box 1
Toronto, ON M5H 0B3

Tel: +1 416 864 1234
Fax: +1 416 943 3365
ey.com/ca

01 February 2022

Infrastructure Ontario
Suite 2000, 1 Dundas Street West
Toronto, Ontario M5B 2H1

Dear Sir / Madam:

PRIVATE FINANCING IN INFRASTRUCTURE TRANSACTIONS

Ernst & Young Orenda Corporate Finance ("EYOCF") is pleased to provide this letter to describe the implications of including private, third-party financing ("Private Financing") in public-private partnership ("P3") transactions using Infrastructure Ontario's ("IO's") templated P3 project agreement documentation.

In a P3, the private sector consortium or Project Company ("Project Co") is responsible for raising Private Financing to fund a portion or all the capital costs of the project during construction. Private Financing is competitively sourced from debt providers (lenders) and developers / investors (equity). Private Financing is only repaid by public sector owners (the "Sponsors") at specified milestones during or at the end of construction (e.g., via a substantial completion payment) or through monthly payments over the course of the operating term of the project agreement.

Private Financing can help to drive value for the Sponsors when appropriately applied to P3 transactions with other factors such as fixed prices, a fixed construction schedule and use of a substantial completion payment. This is in part due to the features Private Financing typically brings to P3 transactions which include:

- ***Third-party due diligence*** – Sponsors can rely on the additional project due diligence of lenders (and their technical advisor), credit rating agencies and the equity provider conducted at the time of project development. This due diligence can range from ensuring all risks are appropriately allocated to Project Co parties, to technical viability of the proposed solution, to overall reasonableness of the transaction cost and structure. Through the construction phase, oversight is conducted by the lenders' technical advisor and an independent certifier to ensure the construction activities stay on track and to certify substantial completion. This additional level of diligence and oversight provides greater certainty to Sponsors through the request for proposals ("RFP") evaluation process and construction phase, as well as mitigates due diligence and oversight risk to the Sponsors.

- ***Additional performance securities*** – Private Financing lenders impose additional performance securities on Project Co and its contractors including letters of credit, parent company guarantees, and major lifecycle rehabilitation reserves to secure performance risks and incentivize timely completion and on-budget outcomes. While Sponsors may also impose these performance securities on non-P3 projects, for these to be effective Sponsors would need to have resources in place to exercise these performance securities in the same manner that lenders would.

- ***Project default security*** – In the event of a Project Co default, Private Financing is at risk for cost overruns that arise through a need to replace a contractor or any other Project Co team member, which can be significant. Prior to such default, lenders also have the right to exercise escalating measures such as step-in rights to remedy issues.

- ***Long-term risk transfer*** – For P3 projects that include a long-term concession period with long-term financing, Private Financing is at risk through to the end of the concession period via the payment mechanism and hand back specifications that require Project Co to return the infrastructure asset to the Sponsors in a pre-specified condition.

- ***Low interest rate environment*** – Short and long-term financing rates for P3 projects are available at efficient pricing, and at small premiums over Government of Ontario financing rates. These premiums could be considered cost effective when compared to the other benefits that third-party due diligence, project default security, additional performance securities and long-term risk transfer bring.

Using IO's value for money ("VFM") methodology[1], past P3 projects[2] with Private Financing at IO have been shown to achieve VFM results across P3 delivery models over undertaking the same projects using traditional delivery models due in part to the features described above at VFM values of:

- 0% to 10% using Build-Finance,

- 10% to 15% using Design-Build-Finance, and

- 15% to 22% under Design-Build-Finance-Maintain.

It is our view that future P3 projects, under the right conditions which include the use of IO's templated P3 project agreement documentation, have the potential to achieve similar VFM results.

In addition to IO's well documented P3 delivery models at the time of this letter, we understand that a Progressive P3 approach to procurement will also be used to deliver other major infrastructure projects. Progressive P3s will include several enhancements to the classic P3 procurement process including a development phase between a selected development partner and the Sponsor to finalize design, risk transfer and price prior to the execution of the P3 project agreement. Because these Progressive P3 projects will be based on IO's templated P3 project agreement documents with similar risk transfer profiles, inclusive of leveraging the use Private Financing, it can be expected that the benefits of Private Financing will largely extend to Progressive P3 projects as well.

Sincerely,

Ernst & Young Orenda Corporate Finance Inc.

Ernst & Young Orenda Corporate Finance Inc.

[1] VFM is an analytical exercise based on a quantification of project risks and cost cashflows whereby positive 'value for money' is demonstrated if the risk-adjusted costs of the project under a P3 delivery model are estimated to be lower than the risk-adjusted costs of the project under a traditional delivery model.
[2] Based on sample of past IO P3 (Build-Finance, Design-Build-Finance and Design-Build-Finance-Maintain) projects as estimated at Financial Close.