

May 7, 2014

Nancy Schepers
Deputy City Manager
Rail Implementation Office / Planning and Infrastructure
City of Ottawa
110 Laurier Avenue West
Ottawa, Ontario K1P 1J1

Re: **Ottawa Confederation Line LRT
RTG Proposal re Milestone #2**

Dear Ms Schepers,

As requested, this letter sets out our comments in respect of the above matter.

The following is based on our knowledge of the project based on our discussions with the City in respect of Milestone #2, our review of RTG's letter "RTG-OTT-00-0-LET-0067", in which RTG presents their proposed revisions to the description and acceptance criteria for Milestone #2 – Interim Completion of Mainline Tunneling, and the City's memo to the funding partners' Agreement Oversight Committees dated May 5 2014, and Altus Group Limited letter to City of Ottawa dated May 6 2014, and our involvement in the project to date to date,.

Please note that this is not legal advice, and that we have not considered any obligations that the City may have under the funding agreements.

1.0 Technical Merit of RTG's Proposal

Based on the City's technical review of RTG's proposal, there appears to be merit to the proposal. In addition, if the proposal were to be rejected, we understand there could be schedule risk to the project in light of the potential knock-down effects on the achievement of subsequent milestones, including the 2017 Readiness milestone.

2.0 Anticipated Contract Administration Requirements as a Result of RTG's Proposal

RTG's proposal, if accepted, would require an amendment to the Project Agreement. The City should seek legal advice as to the implementation of the amending agreement.

We anticipate that lenders' approval of the amendment is required under the Lenders' Direct Agreement.

3.0 RTG's Proposal and the Intent of the AFP Model

The intent of the milestone regime is to reduce the overall financing cost of the project, by providing payment to Project Co during the construction period based on defined amounts of

private capital being at risk, triggered by specific milestone acceptance criteria. The RFP provided additional constraints on the sizing of the milestone payments to ensure there is sufficient private capital at risk throughout the construction period.

We have reviewed the RTG financial documents provided by the City and are satisfied that at this time, RTG's proposal does not reduce the private capital in the project originally contemplated in the RFP. We understand that when RTG submits full documentation for achievement of the milestone for payment by the City, the Independent Certifier under the Project Agreement will be certifying the completion of the milestone and the Independent Engineer under the funding agreements will certify that all costs submitted by RTG are eligible for reimbursement by the funding partners to the City; as such, the proposed change will not substantially affect RTG's cash flow profile. Based on the technical analysis performed by the City and the Independent Certifier, the proposed change will leave the City in substantially the same position as under the current Project Agreement, since the amount of private capital in the project following the proposed revised Milestone # 2 is anticipated to be consistent with RTG's Financial Model as at Financial Close.

Under the RTG proposal, we understand that RTG would not be relieved of any other obligations under the project agreement; RTG's obligation to achieve all other milestone acceptances by the applicable scheduled milestone acceptance dates (including the 2017 Readiness milestone) would remain unchanged, as would the Required Revenue Service Availability Date.

4.0 Conclusion

Given the circumstances, and based on our understanding noted above, we support the City's preferred approach of accepting RTG's proposal to amend the acceptance criteria for Milestone #2, and we believe that the rejection of the Proposal would entail greater overall risk to the Project.

Regards,

INFRASTRUCTURE ONTARIO

Rob Pattison,
Vice President, Civil Infrastructure

c.c. via email: Kitty Chan, Infrastructure Ontario
Lorne Gray, City of Ottawa
Derrick Toigo, Infrastructure Ontario