



Rating Action: Moody's downgrades Crosslinx Transit Solutions General Partnership's rating to Baa3; changes outlook to stable

15 May 2023

Approximately CAD 731.9 million of rated debt affected (face value)

Toronto, May 15, 2023 – Moody's Investors Service ("Moody's") today downgraded Crosslinx Transit Solutions General Partnership's (the Issuer or ProjectCo)'s senior secured rating to Baa3 from Baa2 owing to the considerable delay in the completion of the Eglinton LRT Project. Concurrent with the rating change, Moody's changed the rating outlook to stable from negative, reflecting Moody's view that despite the delay and some additional risk, incremental time has been granted following the senior construction credit facility extension and we believe the project parties are working to achieve substantial completion and become operational.

Downgrades:

..Issuer: Crosslinx Transit Solutions Gen. Partnership

....Senior Secured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

Outlook Actions:

..Issuer: Crosslinx Transit Solutions Gen. Partnership

....Outlook, Changed To Stable From Negative

RATINGS RATIONALE

Today's rating action reflects the material delay in the completion of the Eglinton Crosstown Light Rail Transit Project (the Eglinton LRT Project) beyond the scheduled substantial completion date (February 23, 2023) and well beyond the original scheduled substantial completion date (September 29, 2021). To date, ProjectCo, and the Province of Ontario (Aa3 positive) and Metrolinx (together, the Contracting Authority), have been unable to reach a new agreement on a credible adjusted target date for substantial completion. Nonetheless, the terms of the project agreement give ProjectCo up to 18 months past the scheduled substantial completion date (i.e., up to August 23, 2024) to complete the Eglinton LRT Project (the long stop date) without triggering a termination of the project agreement, which should be sufficient time for the project to achieve substantial completion. Moreover, ProjectCo has recently secured lenders' consent to extend the maturity date of the senior construction credit facility by one year to September 29, 2024.

Furthermore, the rating action considers the fact that ProjectCo and the Contracting Authority have not been able to reach any timely settlement on the outstanding material supervening claims made by the Issuer. Moody's views the inability of the parties to reach a reasonable solution as a weakness in the quality of the parties' relationship, which, if it persists, will make more challenging issues more difficult to address as they arise.

The rating action also acknowledges that ProjectCo's design-build joint venture (DBJV), which is handling all design and build obligations under the project agreement, has been paying delay liquidated damages (LDs) for several months and are also incurring material additional costs without compensation for events that are outside of the DBJV's

control. Because the Eglinton LRT Project is a very large project, unexpected incremental costs can increase the credit risk of the DBJV in upholding their obligations to ProjectCo under the construction contract.

The rating action also recognizes that construction is 99% complete based on construction spend, with minor completion works and snagging items remaining at the majority of the stations and across the alignment. The main challenge for the project to achieve substantial completion and become operational is testing and commissioning, including operator driver training, which was materially delayed due to disagreements among the parties and because the Contracting Authority has yet to sign an operator agreement with an operator for the LRT system.

Moody's recognizes that the Eglinton LRT Project is being constructed by experienced parties and remains a highly visible and important project for the Province of Ontario. Additional comfort is derived from the composition of the DBJV, which includes four separate companies, which provides optionality towards project completion should there be severe credit deterioration with one or two DBJV members.

RATING OUTLOOK

The stabilization of the rating outlook reflects the fact that, despite delays and some additional risk, we believe that the project parties are working to achieve substantial completion and become operational. The current long stop date under the project agreement should allow for sufficient time to complete the project, even without an adjusted scheduled substantial completion date, which if agreed would push the long stop date further.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

The rating has limited ability to be upgraded until construction of the project is completed and there is a material track record of successful operations with a good control of operating costs and minimal deductions to the availability payments from the Contracting Authority.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- The DBJV is unable to maintain its current proposed schedule and expects a further delay that would push the expected completion date close to the current long stop date as outlined in the project agreement;
- The parties cannot reach an agreement on a new adjusted schedule substantial completion date and the DBJV reaches its liability cap, which would stop delay LDs and negatively affect ProjectCo's cash flow.
- The credit worthiness of the DBJV weakens materially or any DBJV member is insolvent or bankrupt;
- The providers of the letters of credit are downgraded below Baa2;
- When in operations, the debt service coverage ratio (DSCR) is below 1.16x on a consistent basis; or
- The credit quality of the Province of Ontario materially deteriorates

PROFILE

ProjectCo is a special purpose entity that has entered into a project agreement with the Contracting Authority to design, build, finance, maintain and rehabilitate a 19 km LRT line in Toronto, including a maintenance and storage facility for the vehicles, 15 new underground LRT stations, and 10 at-grade stops along Eglinton Avenue, as well as related infrastructure.

The methodologies used in these ratings were Construction Risk in Privately Financed Public Infrastructure

(PFI/PPP/P3) Projects published in July 2019 and available at <https://ratings.moody.com/rmc-documents/63363>, an Operational Privately Financed Public Infrastructure (PFI/PPP/P3) Projects published in March 2023 and available at <https://ratings.moody.com/rmc-documents/400755>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of these methodologies

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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