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Financial Advisor
Communication

January 27, 2006

Mr. Gilbert J. Bennett, P. Eng.
Vice President
Labrador Hydro Project
Hydro Place
Columbus Drive
P.O. Box 12400
St. John's, Newfoundland
A1B 4K7

Dear Gilbert,

In reference to your letter of November 18th, 2005, RBC Capital Markets Inc. and Scotia Capital Inc. are pleased to provide our written views with respect to certain financing issues related to the Lower Churchill development project (the "Project") that were discussed at a meeting held on September 19th.

You have asked that we specifically address questions 1, 3, 4, 5, 6, 8, 9, and 10 that were presented to us prior to the September 19, 2005 meeting. We have attached written responses to these specific questions in the attached Schedule A. Note that the responses reflect the information presented at the September 19th meeting as we have been advised that no material updates or changes to the assumptions then relied upon are applicable other than as noted below.

Additionally, you have asked that we consider the following information with respect to certain points of clarification.

1) Project Configuration:

- a. Staged development of the Gull Island and Muskrat Falls hydro-electric facilities.
- b. HVDC link between the Gull Island site and Soldier's Pond in Newfoundland.

2) Sale of Power in Tranches:

- a. Tranche 1: largest block of power sold via 25 year PPA with creditworthy counterparties sufficient to achieve an investment grade rating for non-recourse debt financing.
- b. Tranche 2: power sold via 3 to 5 year bilaterals with creditworthy counterparties to achieve flexibility over the medium term.
- c. Tranche 3: smallest block of power sold via spot market sales to take advantage of market opportunities that may exist from time to time.

You have also asked that we provide some points of clarification which we outline below with the answers provided following each question.

1) *With respect to the target DSCR of 1.45:*

- (i) ***Whether the target must be achievable based upon pro forma cash flows for: (1) each of Gull Island and Muskrat Falls on its own, OR (2) in total for the combined project cash flows?***

We believe that the target DSCR of 1.45 is a good guideline for each stage / component of the project to achieve an investment grade rating. With this in mind, the rating agencies may still assign an investment grade rating to later stages of the Project despite a DSCR that is less than 1.45 for such stage, provided that: a) each new stage of the Project is cross-collateralized with earlier stages; and b) earlier stages of the Project achieve greater than 1.45 DSCR resulting in a combined DSCR of at least 1.45 incorporating all stages of the Project. In the event that the individual financing for each stage of the Project is not cross-collateralized, each stage of the Project will be evaluated on its own merits (stand alone basis) and a target DSCR of 1.45 will be a good guideline for each stage of the Project individually.

- (ii) ***Whether the pro forma cash-flow must achieve 1.45 DSCR from: (1) total revenue streams (potentially a combination of long term PPA(s), shorter term PPA(s) and any spot sales), OR (2) specifically from a long-term PPA revenue stream only?***

We expect that the rating agencies would consider cash flow from both the long-term PPA(s) and medium term PPA(s) in the calculation of the DSCR, whereas the cash flow generated from spot sales / shorter term contracts may be discounted substantially based upon a variety of factors, including items such as access rights to transmission grids for the export power to other markets. In general, uncontracted cash flows generated from spot sales are uncertain and

therefore cannot be relied upon to service interest and principal repayments for the project debt on the same basis as contracted cash-flows.

- (iii) *If the projects are staged (Muskrat Falls to follow three or more years after Gull Island in-service) and Gull Island reaches in-service on, or below budget thereby improving projected DSCR; then would the DSCR requirement for Muskrat Falls: (1) be less than 1.45 to the extent that Gull Island now exceeds its target, OR (2) still be 1.45?***

As discussed in question 1) (i) above, in the event that the Gull Island stage achieves greater projected DSCR and, provided the stages are cross-collateralized, the rating agencies may determine that the Muskrat Falls stage need not achieve a 1.45 DSCR on a stand-alone basis. In addition to requiring fulsome discussions with the ratings agencies should the approach of a "blended" DSCR of 1.45 be selected, it may have an impact on the financing arrangements for each stage and should be incorporated into the overall financing strategy at the outset.

- (iv) *If the Project configuration includes the HVDC in-feed, do you consider that the 1.45 DSCR objective is a sufficient test for the financing of the complete project, or are other risk considerations attributed to the in-feed component that would require specific mitigation?***

Should the Project configuration include the HVDC in-feed, presumably the costs relating to the procurement and installation of the HVDC line would be included in total project costs and the amount of non-recourse debt raised versus total project costs to achieve a 1.45 DSCR would be serviced by all the cash flow generated by each stage of the Project. Any additional DSCR requirements solely related to the HVDC in-feed would typically be associated with certain risks unique to the HVDC in-feed that are not sufficiently mitigated. For example, we expect that the rating agencies will focus upon the demand characteristics that support an HVDC in-feed in addition to contract details and counterparty assessments. This type of analysis is inherently more subjective and will likely result in significant downside case review. As such, it is uncertain whether the 1.45 DSCR objective is a sufficient measure to ensure an investment grade rating. Should the contracted cash flow of HVDC in-feed not be sufficient to support a DSCR of 1.45 on a stand-alone basis, overall leverage on the Project will be negatively impacted.

We trust that this letter accurately portrays the substance of our discussions on September 19, 2005 and adequately deals with the indicated points of clarification.

Yours very truly,



David Dal Bello
Managing Director
RBC Capital Markets



John Matovich
Managing Director
Scotia Capital

SCHEDULE A

1. Based on current forecasts for the Province's fiscal and economic outlook, what is the Province's fiscal capacity to undertake borrowings to invest in the Lower Churchill development without having a negative impact on the Province's credit rating? What are the key forecast assumptions supporting the province's ability to participate?

We have interpreted and re-stated the question to more specifically focus on the following:

What is the ability of the Province of Newfoundland and Labrador (the "Province") and Newfoundland Hydro ("Hydro") to satisfy their ongoing financing needs, and the ability of the Province to finance its share of equity in the Project, while maintaining the Province's current credit ratings using cost estimates totaling C\$9.1 Bn and the most recent assumption of the staged execution of the Project configuration?

Based on many years of observing provincial rating behavior, we believe that the most important quantitative measures used by the rating agencies in setting and changing provincial ratings are the Debt/GDP, Debt per Capita and Debt Service Costs/Revenue ratios. As a matter of practice the appropriate target range or level of these ratios varies amongst the rating agencies and are not generally provided to issuers. Analysis of these ratios for other Canadian provinces does however provide a general correlation to ratings for the Province. For our purposes, a range of levels of these ratios which were prevailing at the time of past rating changes for the Province was used as our primary guide in estimating the Province's contribution capacity. Other measures, such as the provincial budgetary balance and general economic and fiscal trends, are also important because they act as leading signals of future changes in all 3 ratios. To assess the ability of the Province to finance its share of equity in the project, we focused on these ratios as a guide to the rating agency position regarding the implications of the Project on the Province's rating. The exercise of stress-testing these ratios will provide the Province and ourselves with the necessary tools to assist in developing the overall rating agency strategy.

Fundamental to our analysis are the following assumptions:

- 1) The C\$2 Bn Atlantic Accord advance will be used solely for a reduction of Tax Supported Debt ("TSD") and/or applied to the Province's Unfunded Pension Liabilities ("UPL").
- 2) The Province is able to achieve its balanced budget targets, so that TSD and UPL do not increase by more than inflation.

Tax Supported Debt

- 3) The Project's key risks are transferred to the project contractors and/or the purchasers of the energy produced.
- 4) The Province's "equity" stake will be approximately 25% of the total capital cost (including contingencies).

Debt/GDP

Our analysis indicates that a total Provincial contribution of C\$2.0 to \$2.5 Bn is financeable in order to provide its equity contribution and to accommodate unforeseen cost overruns under reasonable growth assumptions of both GDP and annual growth in TSD plus UPL.

Our analysis was comprised of two phases, the first being a base case review. Under this methodology, we used the budget 2005-06 GDP forecast, followed by a range of subsequent GDP forecasts over the duration of the project. The subsequent GDP forecasts ranged from 2% to 6%. The main purpose here was to look at the worst-case scenarios. Using this range of forecasts, it was determined that the maximum equity contribution would be approximately C\$2.0 to \$2.5 Bn, assuming nominal GDP growth of 4%. This nominal GDP growth rate is about 50% of the compound annual growth rate ("CAGR") experienced by the Province from 1996 to 2005. Under this assessment, we continued our assumption of zero growth in TSD plus UPL. This last assumption is perhaps somewhat restrictive, given the typically inverse correlation between GDP growth and growth of TSD plus UPL.

In the 2nd phase of our analysis, the zero growth assumption of TSD plus UPL was relaxed, up to the 1996-2005 CAGR of 4.6%, and as in phase 1 above, nominal GDP forecasts ranging from 2% to 6% were used. The results of this stress-testing confirmed that C\$2.0 to \$2.5 Bn was a responsible maximum limit under a set of reasonable assumptions.

Debt per Capita

This metric is used by the rating agencies to provide a measure of debt burden on the tax-payer and is used to rate sovereign, provincial and municipal issuers. We expect that this ratio will become increasingly relevant as the general population ages and in the case of Newfoundland where the population growth is likely to remain modest.

Debt Service Costs/Revenue

Debt/GDP is a broad measure of ability to pay, while the Debt Service Costs/Revenue is a more specific measure of the debt service burden. At the end of the day, the additional Provincial debt of C\$2 to \$2.5 Bn will add to the Province's annual debt service costs (interest payments and sinking fund obligations). At current interest rates there is a natural gravity to lower debt

service costs as older high-coupon debt matures or is rolled-over. However, if the Province contributes C\$2.5 Bn by issuing 30 year bonds at an average rate of 6%, the additional annual debt service will be approximately C\$178MM. The Province will need to accommodate this in its Budget through a combination of revenue and expenditure measures or TSD will increase. The rating agencies will want to review the long-term fiscal plans to determine the Province's intentions towards the debt servicing of the Province's equity contribution.

In arriving at our range of the maximum Provincial contribution of C\$2.0 to \$2.5 Bn, we have made certain additional assumptions which are highlighted below:

- 1) The non-recourse financing portion of the Project will be successfully completed on budget – that is to say, that probability for an additional equity infusion from the Province to cover cost overruns is low;
- 2) The equity contributions are made in the early part of the Project;
- 3) The rating agencies would become uncomfortable with the existing ratings if the key debt ratios begin to rise towards or approach the levels which existed before the most recent rating upgrades;
- 4) We have **not** allowed for any ancillary GDP benefit that would most certainly arise from the construction activity associated with the Project and attendant spill-over effects into the Newfoundland economy;
- 5) The credit rating agencies will likely assume the most conservative scenario in which all of the debt used to finance the Province's equity investment will be TSD, or in other words, not self-supporting. In all our work over the past 7 years, we have always modeled our projections using this conservative approach; and
- 6) We have not attempted to estimate the correlation between the growth of GDP versus TSD plus UPL.

Finally, it is our opinion that the additional borrowing to be completed by the Province could be easily placed in the domestic capital markets under normal market conditions. The additional incremental borrowing requirement, while not insignificant, is tempered by the general slowing of net new government debt issuance which in turn is the result of the improved fiscal positions of most Canadian governments. Furthermore, it is our view that the Province could, if necessary, use international capital markets to diversify its financing sources as a strategy that it has used at times when the domestic market capacity is limiting.

3. What changes in forecast assumptions would have a material negative impact on this assessment?

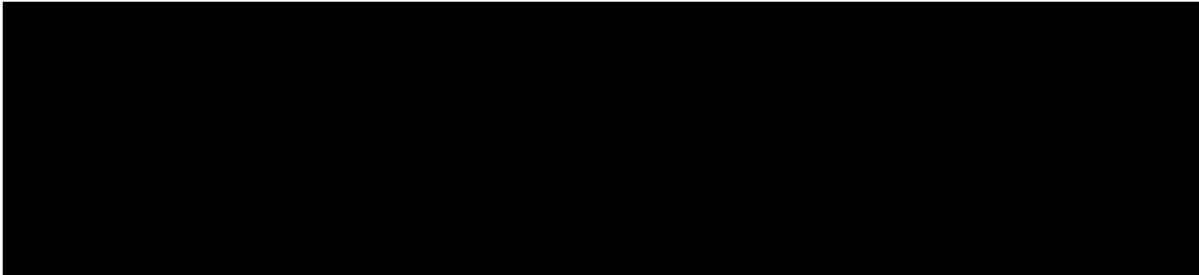
The maintenance of the Province's current ratings is assumed to be a minimum requirement. Any impairment in overall rating will affect the Province's ability to borrow in financial markets for its equity contribution or other purposes. The Province's capacity to finance its equity contribution to the project will be dependent on its economic and fiscal performance through the construction period, and into the early years of Project operations. However a staged project will allow the Province the opportunity to generate a return on equity sooner which may be beneficial in continuing with its disciplined fiscal performance.

The principal factor that the bond market and the rating agencies will evaluate will be the Province's overall fiscal performance. The continuation of the Province's current fiscal discipline through this period will, in our view, be required to maintain its current ratings level and allow it to raise its share of the equity through the debt markets. While at present we believe that the Province's fiscal prospects are quite robust, we note that economic and fiscal performance are both increasingly sensitive to oil prices. Should oil prices fall significantly, it may become difficult for the province to make the necessary adjustments to maintain a balanced fiscal position. Maintaining the fiscal balance will be further impacted by the requirement that the Province's equity contribution is the first element of the overall financing for the project. As such, the proportion of the Province's overall financial capacity that is dedicated to the project is likely to increase significantly should oil prices be reduced dramatically. We caution that, even if the province did make fiscal adjustments adequate to maintain budgetary balance, the reduced fiscal flexibility of operating in a challenging environment of low oil prices or decreased production could decrease the confidence of the ratings agencies and/or bond investors and ultimately increase funding costs.

An additional risk is the increasing sensitivity of electricity prices in Ontario and Northeast electricity markets to natural gas prices. This is due to the increased presence on the dispatch curve of natural gas-fired plants as the "price setting" producers of marginal power in these markets. (The same would be true of oil-fired plants, though we believe their role will gradually diminish over the next decade.) As the proportion of natural gas fired generation increases in these jurisdictions, electricity prices in these markets will tend to become increasingly correlated to natural gas prices. Natural gas prices in turn, are expected to remain highly correlated to oil prices for the foreseeable future. As a result, not only is the Province's revenue sensitive to oil prices but any uncontracted project revenues may also be influenced by fluctuations in oil prices. This element would be incorporated in the rating agencies views on the generation projects, specifically.

The “double-sensitivity” of revenue to oil prices (of both the project, and the Province as project sponsor) not only makes the base oil price assumption crucial, in our view, it also makes detailed modeling of the Province’s and the project’s revenue sensitivity an important aspect of project planning. This double-sensitivity is expected to most significantly impact the rating agencies’ views on the HVDC line, reflecting the Province’s dual role on this project as sponsor and primary offtaker. We would expect that the rating agencies, and ultimately investors, will require that the results of such modeling be shared with them in significant detail.

More broadly, even if oil prices remain within the forecast range and the Province posts strong fiscal performance, an overall weak fiscal performance by other Canadian provinces could cause repercussions in the bond market which could impact the borrowing cost of Newfoundland and Labrador.



4. The Government is considering investment in Gull Island, Muskrat Falls, and a high voltage DC transmission line from Labrador to the Island. What is the anticipated view of the credit rating agencies to each of these components and this configuration in totality?

Individually, each phase of this Project ranks among the largest infrastructure projects ever undertaken in Canada. We would expect that, on this basis alone, the rating agencies and the bond market may consider it prudent to approach their construction and commissioning sequentially / in stages, to mitigate both financial and construction risk to the project and to the Province as sponsor. A staged project will offer the Province the benefits of: a) spreading its equity contribution over a longer period of time; b) a more gradual impact of the incremental debt service on Provincial revenues; and, c) the opportunity to earn a return on its equity contribution and service the associated debt sooner.

With respect to the two generation projects, it may be considered prudent to construct them sequentially since the availability of power from Gull Island is likely to cause a "step-function" change in the supply of power to the Ontario and Northeast markets, which by itself could impact forward electricity prices in these markets. With this in mind, optimal pricing for Muskrat Falls may not be achieved until after a period of time passes to allow the supply-demand dynamic to adjust. This is a complex dynamic, as it depends not only on demand growth but also on generation plant retirements and the commissioning of potential new generation projects with exposure to these markets.

With respect to the HVDC transmission line, we believe that the rating agencies and investors will closely scrutinize the economics of delivering power to the island versus alternative on-island energy supply sources and the financial strength of the Province versus other potential PPA counterparties. Ultimately, the decision to construct the HVDC line must be demonstrated to be a sound economic decision for both the Province and the Project, otherwise it has the potential of detracting from an otherwise commercial project from a ratings perspective whether it is a separate stage or as part of a larger combined undertaking.

The practical constraints of simultaneous construction may pose a challenge for the project. Constraints associated with labour, materials, engineering expertise, etc. has dramatically driven up the cost of several resource projects in Alberta. In the past two years, the dramatic increase in oil prices has been able to offset this impact in the judgement of project proponents and the capital markets. However, expected margins from these projects have been reduced as a result and the rating agencies have in some cases adjusted ratings or outlooks in direct response to their decreased degree of comfort with rising cost structures.

Even assuming a favourable fiscal environment and a staged approach to project realization, we expect that project contracting will receive detailed scrutiny by the

rating agencies and investors and will have to be complete and comprehensive. For example, we would expect that:

- 1) The Project will employ comprehensive contractual protections with the construction managers (such as liquidated damages and performance guarantees), financial incentives for good performance, insurance, and other available safeguards to mitigate construction risk of the Project. These will all be the subject of investigation by the rating agencies, lenders, and investors (and third party independent consultants).
- 2) For the operations phase of the project, a portfolio of power sales contracts with highly-rated counterparties for a substantial portion of the plant's rated output will be a requirement prior to the commencement of construction.

A recent example of the ratings benefit of comprehensive contracting and risk mitigation is the Bruce A refurbishment project. OMERS and TransCanada Corp. as proponents, have successfully entered into fixed-price contracts with highly-rated counterparties (AECL* and SNC-Lavalin) to perform the aspects of the rehabilitation that would be most prone to cost overruns. As well, the agreement with the Ontario Power Authority allows risk mitigation through limited, well-defined sharing of cost overruns. This was an important factor in the rating agencies taking no action on the TransCanada PipeLines ratings, despite the cost, scale, and complexity of the Bruce A project.

* Although AECL is not a rated entity, as an Agent Crown corporation, its formal obligations are backed by the Government of Canada.

5. Does the Project have the financial capacity to undertake these projects concurrently? Given the magnitude of the capital investment required, what approach to staging these projects would be viewed most favourably / required by: (1) the credit rating agencies; and, (2) the debt markets?

We have addressed overall financial capacity for the Province under Question 1 and the views of the credit rating agencies and debt investors to staging the Project under Question 4. We believe the Province has the financial capacity to contribute up to C\$2.0 to \$2.5 billion over the construction period. Additionally, we believe it would be less than optimal to attempt to undertake all of the stages concurrently, owing to: a) the potential impact on the market for manpower and materials that such a large undertaking is likely to have; b) the scope of managing and financing three concurrent construction projects; and, c) the magnitude of potential risks such as cost overruns to the Province and the Project as a whole.

6. What are the fundamental project economic and risk management parameters required to achieve an investment grade credit rating for each of the project components (non-recourse)?

PPA contracts will be a core requirement to satisfy a reasonable revenue expectation for the operational phase of the project. We think that the rating agencies will view a portfolio of contracts of varying tenor as most appropriate; nonetheless, emphasis will be placed on very long-term contracts as assurance that the project will receive a predictable minimum revenue stream well into its operational phase. These contracts should optimally be with a number of highly-rated counterparties and be of a length that is equal to or longer than the average term of the project's debt.

Hydrology risk, including clear control of water rights, will be assessed. We would expect the rating agencies and investors to subject historical hydrology data to stress-testing to assess the robustness of the Project's ability to manage its revenue requirements and contractual delivery commitments during prolonged periods of low hydrology.

Financial metrics for the project will naturally be a focus for the rating agencies and the bond market. In our experience, project financing can achieve investment grade ratings with DSCRs (including some degree of principal amortization) of about 1.45. We believe that this level of coverage should be an appropriate planning target for the Project. Upon detailed discussions with the rating agencies, it should be anticipated that this 1.45 target level may be subject to change, either up or down, depending on how the rating agencies view other aspects of the Project's risk profile.

EPC contracting with experienced, creditworthy firms of appropriate scale will be examined to ensure appropriate risk mitigation had been achieved. The rating agencies will also expect appropriate insurance as an essential component of the contracting package. Contracting should also include adequate contingency amounts in the event of time delays, cost overruns, and other foreseeable potential problems. In our experience, the rating agencies often view contractual incentives to perform as a useful adjunct to penalties for non-performance. Such incentives should be explored as part of the overall package of contractual risk mitigants.

Returning to the example of the Bruce A rehabilitation, the deal features an element of risk-sharing whereby defined cost overruns are recovered from Ontario electricity consumers by the project partners over the life of the power purchase contract. The risk borne by Ontario electricity consumers is only one element of the whole project's risk mitigation, though it helped give the rating agencies and bond investors comfort that the credit quality of project proponents (in particular, TransCanada PipeLines) was not degraded. On the other hand, the

recourse to the Province was well-defined and limited and thus was not material to the provincial ratings.

8. What will be the key considerations in determining the non-recourse premium for an investment grade project? What is the estimate or range of the non-recourse premium over Government of Canada benchmark long bonds, assuming investment grade rating, based on the range of the potential D/E ratios identified in # 7?

The non-recourse premium or credit spread for the Project will largely be influenced by the credit characteristics of the Project. The credit characteristics that investors and credit rating agencies will focus upon will include:

- 1) The expected DSCR profile and financial performance of the Project;
- 2) The structure of the PPA, the major project contracts and specifically what risks are retained by the Project versus what is passed on to the PPA counterparty or other project counterparties (eg. EPC contractor);
- 3) The credit quality of the PPA counterparty;
- 4) Whether the Project is being financed during the construction phase or post completion; and,
- 5) Project sponsorship / ownership and their financial capacity to finance cost overruns or deal with major operating issues.

If financed during the construction phase, investors and the rating agencies will evaluate the construction risks associated with the project and any risk mitigants that have been structured into the construction plan. These may include:

- 1) Nature and structure of EPC contract;
- 2) Credit quality and experience of EPC contractor(s);
- 3) Construction budget, including cost overrun cushion; and
- 4) Ability and willingness of the Project sponsor / owner to finance any unbudgeted cost overruns or mitigate any construction risks not covered by EPC contract.

Additionally, the credit spread for the Project may be influenced by the market tone at the time of financing considering the tenor and size of the financing requirement and credit spreads for recently financed projects.

Assuming that the Project achieves credit ratings that are within the A, or higher end of the BBB ratings categories, under current market conditions, we anticipate that the non-recourse credit spread for the project would be in the range of 150 to 200 basis points over the benchmark Government of Canada bond.

9. What is the forecast availability of non-recourse and recourse financing for projects of this magnitude in the next 10 to 15 years? To what extent, if any, will foreign denominated debt be required?

The Canadian capital markets have shown an increased appetite for high credit quality infrastructure issuers of revenue bonds, secured project bonds, and medium term notes. In 1996, Nav Canada issued \$750 million in revenue bonds which at the time were still novel in the Canadian market. Nav Canada followed up by issuing another \$750 million in 1997. Also in 1997, the Greater Toronto Airports Authority (GTAA) issued \$980 million of revenue bonds. GTAA raised \$500 million and \$575 million in 1999 and 2000, respectively, and increased its activity to \$1.1 billion in 2001, and reached a peak of annual issuance with \$1.5 billion in 2002. GTAA continued to tap the capital markets for \$975 million in 2003, \$850 million in 2004, and \$860 million in 2005. 407 International Inc., owner and operator of the toll highway, has raised similar amounts in the capital markets: just over \$1.9 billion in 1999, nearly \$1.2 billion (including junior and subordinated tranches of debt) in 2000, and over \$650 million in two subordinated term credit facilities in 2001. Each of these issuers remains active in Canadian capital markets, financing debt maturities and new capital investments.

In the electricity sector, Hydro One Inc. issued a total of \$1.0 billion of senior unsecured debt in three different maturities in its initial public debt offering on June 1, 2000. Hydro One has returned regularly to the bond market, and is highly regarded as a well-managed company operating essential infrastructure. Ownership by the Ontario government is also viewed favourably by the rating agencies (in particular by Moody's) and by the bond market.

We believe that these issuers, and other precedents, demonstrate that the Canadian capital markets are quite receptive to debt issuers involved in essential service infrastructure. Notably, the order size by key institutional investors is rising over time, with current transactions having lead orders of as much as \$150 million for some large public debt issues.

While we anticipate that corporate bond spreads, which are presently at historically tighter than average levels, are likely to widen during the project planning horizon, we still expect that demand for high quality corporate bonds including infrastructure project financings will remain robust for at least the next ten years.

We believe the Project can rely on the Canadian capital markets for a substantial portion of the financing requirement, however it may not be the optimal strategy to achieve the best pricing for the entire transaction. Foreign investors could add pricing tension to a bond offering and also serve to diversify the financing sources for the Project. Marketing the bonds or bank debt to international investors would be standard practice for most project financings.

*Maybe national debt's opportunity as well
in the short term we have seen
dominated - a focus
on*

10. What is the forecast availability of short-term financing during the construction period? What are the anticipated premiums on project short-term borrowing, assuming up front equity infusion?

We expect that the current capacity for non-recourse Bank construction financing is approximately C\$1.5 billion in the Canadian market from Schedule A banks for a project of this type. We also observe that several foreign banks have increased their presence in Canada in the past several years. More important, some of these banks have shown very significant interest in infrastructure and public / private partnership projects and have demonstrated a very material appetite for this type of large essential infrastructure financing. We anticipate that the appetite from the foreign banks when combined with that of the Canadian Schedule A bank market, will be adequate to finance the construction of each stage of the Project. Additionally, we expect that during the construction of each phase of the Project, permanent bond financing will be periodically put in place to reduce the amount of bank indebtedness as the construction of the Project achieves key milestones.

*Probably at decreasing spread
given the varying levels
of remaining construction not
as of the project progress.*

We anticipate that a deal could be financed at a spread of between 100-125 basis points over BA's / LIBOR in the context of the current Bank market with up front fees also in the 100-125 bps range. In order to appeal to the broadest possible market and thereby maximize pricing tension, we would seek to structure the debt to be withholding tax friendly which allows for the participation of U.S. and European resident lenders and increases the overall Bank market capacity. Market capacity and pricing will largely be driven by the credit characteristics and final structure of the Project as well as timing with respect to the overall credit cycle.