Federal Loan Guarantee Briefing

December 4, 2012

Boundless Energy

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Summary

- Binding Agreement
- Provides for Federal Loan Guarantee (FLG) regarding financing for the "Projects"
  - Muskrat Falls (MF)
  - Labrador Island Link (LIL)
  - Labrador Transmission Assets (LTA)
  - Maritime Link (ML)
- Confirms the national and regional significance, as well as economic, financial and greenhouse gas significance of the Projects
- The interest rate savings benefits flow to ratepayers
- Ensures the Project debt components will achieve Canada's AAA credit rating, ensuring that financing is readily available
- Provides for guarantee on up to $6.3 billion of debt:
  - MF/LTA up to $2.6 billion
  - LIL up to $2.4 billion
  - ML up to $1.3 billion

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Summary (continued)

- Specific Term of the FLG:
  - MF/LTA: 35 years
  - LIL: 40 years
  - ML: 40 years
- Provides the certainty required for lenders to structure and commit to financing, culminating in Financial Close with the lender in late 2013

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Binding Agreement

- August 2011 – Memorandum of Agreement (MOA)
  - Non-binding agreement
  - Established key principles
  - MOA contemplated that detailed terms and conditions would be established in binding agreement

- November 30, 2012 – Federal Loan Guarantee Agreement
  - Binding agreement that sets out the detailed terms and conditions related to the Federal Loan Guarantee.
  - Will form a key component of the documentation to be used by the Proponents to go to market to arrange financing (commencing in Q1 2013)

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FLG Agreement Overview

- Canada will provide a guarantee of the Project debt obligations
- Ensures that the guarantee structure will result in the Project debt obtaining Canada's AAA credit rating
- Provides significant financial benefit to ratepayers through reduced financing costs
- Establishes the terms and conditions under which Canada will provide guarantee to the Projects.
- Establishes key terms and conditions to be included in the financing arrangements to be put in place for the Projects

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Prudent Financial Structuring

- The Projects were designed and structured to be attractive to lenders even without a Federal Loan Guarantee
  - A prudent and conservative approach was used
  - Realistic assumptions based on knowledge of capital markets
- Prior to finalizing the FLG Agreement Canada completed a comprehensive due diligence process
  - Financial Advisor retained by Canada
  - Established credit worthiness of the project without a Federal Loan Guarantee
  - Completed detailed reviews of the DG3 business case, financial models, and capital costs
  - Independent Engineer was engaged to represent the Guarantor and Lenders (typical in financings of this nature)

Benefits of the FLG

- The project debt will have Canada's AAA credit rating
  - Canada has the highest credit rating given by the credit rating agencies
  - The projects have been structured to be highly credit worthy even without a guarantee
  - FLG Agreement will ensure the Project debt has Canada's AAA rating
  - The AAA rating will:
    - provide the Projects with the most attractive financing terms available in the market
    - make the project debt very attractive to lenders
    - ensure that financing is readily available at low cost
  - The full benefit of the FLG will be passed onto ratepayers

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Structure of the FLG Agreement

- The FLG Agreement is structured similar to typical project lending agreements
  - Fairly standard terms and conditions
- Key Components of the FLG Agreement:
  - Transaction and Financing Structure: Flexibility to maximize ratepayer benefit
  - Amount of the Guaranteed Debt : $6.3 billion
  - Term of the Guaranteed Debt and Guarantee
    - MF/LTA: 35 years
    - LIL and ML: 40 years
  - Conditions Precedent
    - Standard type conditions precedent that are expected to be satisfied on a timely basis to facilitate the financing process
  - Debt Service Coverage Ratio Tests
  - Events of Default
  - Debt Service and Liquidity Reserves
  - Role of the Independent Engineer

All typical of similar terms and conditions contained in project lending arrangements

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Financing Structure

- Two typical sources of financing: Debt and Equity
- Proportion of debt and equity used is called "Debt-Equity Ratio" or "Capital Structure"
- The amount of debt is sized to ensure the cash flow available to service the debt results in a prudent "Debt-Service Coverage Ratio" or "DSCR"
  - Projects structured to produce DCSR's consistent with those of investment grade utility project financings
  - Conservative approach used in sizing debt for MF – based on domestic sales only (export revenues excluded)
  - The DSCR tests in the Agreement are prudent and typical of similar financings
- The Debt-Equity Ratios described in the FLG Agreement are commercially reasonable and consistent with comparable utility project financings
  - Muskrat Falls – Labrador Transmission Assets: 65:35
  - Labrador Island Link: 75:25
  - Maritime Link: 70:30
- The FLG applies to the debt component of the Debt-Equity Ratio

Financing Process – Next Steps

- Financing Process (Q1- Q3 2013)
  - With the FLG Agreement in hand, Nalcor will go to market to arrange financing with lenders
  - Optimal financing structure will be determined with lenders within the context of the terms and conditions of the FLG Agreement
  - Credit rating of the project debt will be identical to Canada (AAA)
  - Interest rate on the project debt will be based on the AAA credit rating

- Financial Close (Q4 2013)
  - All financing agreements, final credit ratings, and other documentation will have been finalized
  - Guaranteed debt facilities will be available for Nalcor to commence drawdowns
  - Project expenditures financed with equity until Financial Close