

NLIS 5
Executive Council
Natural Resources
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Investing in Muskrat Falls for an Energized Economy

Premier Announces Completion of Federal Loan Guarantee and Financing

The Honourable Kathy Dunderdale, Premier of Newfoundland and Labrador, today announced the completion of the federal loan guarantee and financing for the Muskrat Falls Hydroelectric Project. The Premier was joined this evening at the Confederation Building in St. John's by the Honourable Rob Moore, Minister of State (Atlantic Canada Opportunities Agency); the Honourable Andrew Younger, Minister of Energy, Government of Nova Scotia; the Honourable Derrick Dalley, Minister of Natural Resources, Government of Newfoundland and Labrador; Ed Martin, President and Chief Executive Officer of Nalcor Energy; Brian Rendell, Vice President, Corporate Affairs, Emera Newfoundland and Labrador; and representatives from Labrador's Innu Nation.

"A year ago, we announced sanction of the Muskrat Falls Project and celebrated a shared vision with our partners for a secure energy future through the development of this nation-building project. Today's announcement is the culmination of hard work and a strong commitment to drive this project forward. We thank the Prime Minister for fulfilling his commitment on a loan guarantee and for recognizing the value of Muskrat Falls to our province, the Atlantic region and the country. This is truly an exciting day for Newfoundlanders and Labradorians as we write another chapter in the province's energy story."

- The Honourable Kathy Dunderdale, Premier of Newfoundland and Labrador

The loan guarantee will result in projected savings of \$1 billion in interest costs for ratepayers and contribute to stable electricity rates for consumers in the province. Details of the loan guarantee can be viewed in the backgrounders below.

"Today's announcement is a testament to our Premier's leadership and reaffirms our government's confidence in the Muskrat Falls Project. We have done our due diligence right from the start on this project to ensure it is in the best interest of Newfoundlanders and Labradorians and we have achieved a project that will be a source of renewable electricity generation in Newfoundland and Labrador. This project will accrue significant benefits directly to the people of our province for generations to come."

- The Honourable Derrick Dalley, Minister of Natural Resources

The Federal Loan Guarantee applies to the Muskrat Falls Hydroelectric Generation Station, the Labrador-Transmission Assets, and the Labrador-Island Transmission Link.

“Arrangements to secure the federal loan guarantee, long-term debt financing, and equity financing have all been successfully completed. Achieving this milestone provides certainty with respect to how the Lower Churchill Project will be financed and the costs of this financing over the next 40 years.”

- Ed Martin, President and Chief Executive Officer, Nalcor Energy

Through sound fiscal management and responsible decisions, the Government of Newfoundland and Labrador is strengthening the business environment, encouraging the development of innovative industries and building a vibrant economy.

QUICK FACTS

- Officials from Newfoundland and Labrador, in collaboration with the Governments of Canada and Nova Scotia, as well as Nalcor Energy and Emera Incorporated have been in discussions on the terms of the Federal Loan Guarantee since December 2012.
- During construction of the Muskrat Falls Project, an average of 1,500 jobs across 70 skilled trades and occupations will be created with about 3,300 jobs at peak in 2015.
- An estimated \$1.9 billion in income will be generated over the course of the project to Newfoundland and Labrador businesses and labour.

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BACKGROUNDER

Agreements Signed by the Government of Newfoundland and Labrador to Support the Federal Loan Guarantee for the Muskrat Falls Project

The Federal Loan Guarantee term sheet was concluded in November 2012. Over the past year, the Government of Newfoundland and Labrador has worked with the Government of Canada, the Government of Nova Scotia, Nalcor Energy and Emera Inc. to conclude a number of agreements to support the Federal Loan Guarantee commitment. The Government of Newfoundland and Labrador is a signatory to the following agreements:

Intergovernmental Agreement for Lower Churchill Federal Loan Guarantee

The Intergovernmental Agreement was negotiated between the Government of Newfoundland and Labrador and the Government of Canada. The agreement contains and confirms a number of commitments required of the Government of Newfoundland and Labrador in the Federal Loan Guarantee term sheet, including: the approval of the creation of subsidiaries and entities controlled by Nalcor to facilitate the development and operation of the project; providing base level and contingent equity support required by Nalcor; and ensuring that regulated rates for Newfoundland and Labrador Hydro (Hydro) allow it to collect sufficient revenue to recover costs.

The agreement also contains indemnities for Canada by the Province against any costs, losses or damages that Canada may incur under the Federal Loan Guarantee in two circumstances: upon a failure by the Province to provide the committed equity to complete the projects; or upon an action by the Province to alter the cost recovery arrangements in place that prevents the recovery of project costs and the servicing of debt incurred under the Federal Loan Guarantee.

Newfoundland and Labrador Equity Support Agreements and Newfoundland and Labrador Equity Support Guarantees

The project will be financed through a combination of debt and equity. The financial contributions from the Government of Newfoundland and Labrador will be provided through an equity contribution to Nalcor, which Nalcor will then invest in subsidiary corporations responsible for each element of the project. Nalcor will borrow through its subsidiaries to cover the remaining project costs.

In exchange for providing the Federal Loan Guarantee for the financing, Canada requested binding confirmation of these equity commitments. To satisfy this commitment, the Province and Nalcor are providing separate agreements and guarantees for each aspect of the project.

With the Newfoundland and Labrador Equity Support Agreements, Nalcor is entering into a separate Agreement for each component of the Muskrat Falls Project for the provision of base and contingent equity to each subsidiary. Nalcor will commit to provide base equity to its subsidiaries sufficient to meet the budgeted debt-to-equity ratios for each component of the project, and contingent equity for any further costs to achieve commissioning.

The Government of Newfoundland and Labrador is guaranteeing the Equity Support Agreements through the Newfoundland and Labrador Equity Support Guarantees. The Province is entering into a separate agreement for each component of the project to guarantee the payment of Nalcor's equity commitments should Nalcor fail to fulfill its commitments.

Land Use Agreement and Joint Management Agreement with Canada in the Strait of Belle Isle for the Labrador-Island Link and Land Use Agreement and Joint Management Agreement with Canada and Nova Scotia in the Cabot Strait for the Maritime Link.

The Government of Newfoundland and Labrador will enter into a land use agreement with the Government of Canada to provide the necessary land rights to the subsea of the Strait of Belle Isle to the Nalcor subsidiary for the installation and operation of transmission cables as part of the Labrador-Island Link. The Government of Newfoundland and Labrador will also enter into an Agreement with the Government of Canada which provides for the joint management of the land use agreement for the Strait of Belle Isle.

The Government of Newfoundland and Labrador is also entering into a land use agreement with the Governments of Canada and Nova Scotia to issue to a subsidiary of Emera the necessary land rights to the subsea of the Cabot Strait for the installation and operation of transmission cables as part of the Maritime Link. The Government of Newfoundland and Labrador is also entering into an agreement with the Governments of Canada and Nova Scotia which provides for the joint management of the land use agreement for the Cabot Strait.

The initial lease terms included in the Land Use Agreements are for 55 years and may be extended for up to three further terms. The first extension is seven years and the second and third extensions are for 18 years each. Further extensions will be the subject of negotiation between parties.

Joint Management Agreements are also being negotiated which establish a mechanism for Canada, Nova Scotia and the Province to effectively manage and administer the Land Use Agreements, including a dispute resolution process.

Assignment of Churchill River Water Rights to Muskrat Falls Corporation

The 2009 Water Lease provides Nalcor with the exclusive use of the Lower Churchill River for a period of 50 years. The lease grants Nalcor certain rights, including the exclusive right to harness and make use of the Lower Churchill River; all power rights associated with the Lower Churchill River; the exclusive right to construct and utilize all works on the Lower Churchill River for the purposes of developing hydroelectric power; and the exclusive right to store and regulate so much of the lower Churchill River as may be economic or beneficial for the purposes of developing the Lower Churchill River.

By an Assignment and Assumption Agreement, Nalcor will transfer the 2009 Water Lease and the water rights on the lower Churchill River to its subsidiary, Muskrat Falls Corporation, for the purposes of developing power generation assets. Muskrat Falls Corporation will construct, own and operate these assets on behalf of the people of the Province.

BACKGROUNDER

Financing to Support the Federal Loan Guarantee for the Muskrat Falls Project

Debt Financing

The total debt financing for Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link is \$5 billion. The debt financing is divided into two separate financings: 1)

Muskrat Falls and Labrador Transmission Assets is \$2.6 billion; and 2) Labrador-Island Link is \$2.4 billion.

The equity portion of the financing is supported by an Equity Support Agreement between Nalcor and the project companies and an Equity Support Guarantee from the Province for each of Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link. Equity for Muskrat Falls and Labrador Transmission Assets will be provided by Nalcor, with equity for Labrador-Island Link provided by Nalcor with Emera having the right to participate.

The loan guarantee provided by the Government of Canada is a high quality guarantee that provides a direct, absolute, unconditional and irrevocable, present and continuing, obligation of Canada.

Based on the Federal Loan Guarantee, the \$5 billion debt financing has been rated AAA by Standard & Poor's, Aaa by Moody's, and AAA by DBRS. These are the highest ratings provided by the credit rating agencies and resulted in favourable interest rates for the project comparable with other AAA rated debt available in the market.

Upon completion of the Conditions Precedent required for the issuance of the Federal Loan Guarantee, Canada issued the Federal Loan Guarantee with respect to the Muskrat Falls/ Labrador Transmission Assets and Labrador-Island Link financings.

To implement the Federal Loan Guarantee, the Governments of Canada and Newfoundland and Labrador, and certain Nalcor project subsidiaries have entered into a series of project finance and related agreements. In addition, to secure the cash flow stream required to support the financing, the Province has provided direction to the Newfoundland and Labrador Board of Commissioners of Public Utilities on how costs incurred by Hydro with respect to power purchases and transmission costs related to Muskrat Falls, Labrador Transmission Assets and Labrador-Island Link will be treated in setting rates.

The debt financing structure has been designed such that it can be fully supported by the sales to Hydro. To provide certainty that the entire \$5 billion of the required financing would be available, Nalcor requested and received from the Lead Arrangers a fully underwritten commitment for the entire \$5 billion.

Request for Financing (RFF)

On May 31, 2013, Nalcor issued a RFF, inviting major financial institutions to provide proposals for the role of Lead Arranger in which they would provide a fully underwritten financing commitment for \$5 billion of debt financing that would be funded at financial close.

On October 1, Nalcor received fully underwritten proposals from a variety of financial institutions and began a comprehensive evaluation process that also involved Provincial and Federal Government representatives.

On November 6, Nalcor appointed TD Securities and Goldman Sachs as Co-Lead Arrangers. The Lead Arrangers, along with a syndicate of financial institutions, (including BMO Nesbitt Burns, CIBC World Markets, RBC Dominion Securities, Scotia Capital, HSBC, Bank of America Merrill Lynch, Beacon Securities, Casgrain & Company, Desjardins Securities, Laurentian Bank, and National Bank Financial) then proceeded to raise \$5 billion through the debt capital markets.

On December 9, the financing was formally launched and, following a global marketing effort, the Lead Arrangers priced the \$5 billion financing on December 10. Closing for the bonds will be December 13, 2013.

BACKGROUNDER

Power Purchase Agreement to Support the Federal Loan Guarantee for the Muskrat Falls Project

The Power Purchase Agreement (PPA) between Hydro and Muskrat Falls Corporation provides for the purchase by Hydro and the sale by Muskrat Falls Corporation of energy, capacity, ancillary services and greenhouse gas credits, payments for which are made on a full cost recovery basis.

In return for the payments that Hydro will make to Muskrat Falls Corporation, Muskrat Falls Corporation will provide three blocks of energy to Hydro to ensure Hydro receives energy where required to meet domestic supply:

Base Block Energy: an amount of energy predetermined at the date of execution of the PPA based on the latest load forecast.

Supplemental Block Energy: an amount of energy available to Hydro if load requirements exceed the initial load forecast. The Supplemental Block Energy ensures that energy produced by the Muskrat Falls generating plant that is in excess of the Base Block Energy and the Nova Scotia Block can be made available to meet Hydro requirements. Further, the Supplemental Block Energy will be provided at a cost of \$1 dollar per year to Hydro.

Commissioning Period Block Energy: an amount of energy available to Hydro during the commissioning period.

The PPA contains detailed provisions surrounding energy and capacity management/scheduling allowing Hydro the flexibility required to meet Newfoundland and Labrador native load during the contract term. Muskrat Falls Corporation cannot sell excess energy until Hydro has an opportunity to nominate such energy to meet its load forecast in accordance with the stated scheduling provisions.

The PPA will terminate at the earlier of: a period of not less than 50 years from the date of commissioning; and by written agreement of the parties (subject to approval of the lenders).

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6:15 p.m.