

Muskrat Falls Project Astaldi Commercial Discussion Update

Boundless Energy



July 7, 2016



Outline

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2. Current Situation
3. MFCo CH0007 Cost Alternative Analysis
4. Potential Deal Structure

Purpose

- To provide an update on the current status of discussions with Astaldi and a recommended approach in order to facilitate a potential commercial settlement for their completion of the contract CH0007 scope of work

Current Situation

- Labor Max (LMAX) under the current CH0007 contract with Astaldi is expected to be reached on an incurred cost basis in July 2016 with the cash flow impact starting in August
- Astaldi have put forth an estimate of \$1.975B to complete the work, which includes ~ \$125M in profit (this compares to the current contract value of \$1.14B) – concerns on both sides this might be light
- Astaldi have incurred a loss on the contract of ~\$150M up to end of June 2016
- Astaldi have indicated they have now “reached the end” - no full deal, they are done in July
- Recent increase in Astaldi debt covenants has given them some breathing room for potential deal, but also greater ability to weather a legal fight
- Commercial impasse is appearing to impact efforts at MF site - execution and safety issues need to be addressed
- \$450-500M financial authority within MF Board approved AFE to deal with Astaldi
- **Now is time to put offer on table – Astaldi may not accept, but need to engage**

CH0007 Cost Alternative Analysis

(See Attached)

Potential Deal Structure - Payment

(\$M CAD, Rounded)		Astaldi Covenant Space	Potential Nalcor Contribution	Astaldi Loss	Cost Gap Above Contract
Year	Payment Structure				
2015	Completed - No Added Pmt	N/A	\$ -	\$ 110	\$ 110
2016	Re-Advance Converted to Pmt if Targets Met	\$ 90	\$ 100	\$ 90	\$ 190
2017	Performance Based Prorata Funding	\$ 110	\$ 190	\$ 100	\$ 290
2018	Performance Based Prorata Funding	\$ 180	\$ 60	\$ 40	\$ 100
Total			\$ 350	\$ 340	\$ 690
Plus: Forgone Profit				\$ 125	
				\$ 465	

Potential Deal Structure - Recommendation

- Initial offer of [\$X M] under payment structure proposed
- Need to be prepared to go to [\$X M] based on BATNA analysis
- May need to bridge expectation gap with added completion incentives or operating period payments
- Consultations with Province and Canada/IE

Potential Deal Structure - Protections

- Payment only made for performance
- Convert Advance LC to Performance LC - \$200M Performance LC to Nov 2018 + \$150M performance bond
- Astaldi Notices of Defaults and current/future Claims waived
- Astaldi waives rights to contest MFCo collection of LC's
- Increased Default thresholds tied to performance
- Off ramps at the end of each year based on achieving targets
- Transition Rights
- Ensure funds advanced by MFCo only used to pay project costs, not repatriated to Rome