# Financial Overview

Boundless Energy

December 15, 2015

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# Overview

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3) Financial Review
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# KEY MESSAGES

# Key Messages

- Financial plans and strategies in place and being executed as planned
- Current state characterized by:
  - High capital investment in each business - total of $3.0 billion in 2016 (peak year);
  - Significant portion of total assets (>70%) comprised of LCP and Hebron remain in development phase and not yet producing cash flow;
  - Based on regulated capital structure and LCP Project Financing Agreements, debt capacity is currently optimized
    - $5.0 billion LCP financing completed,
    - Hydro financing program active with up to $600 million borrowing in 2016;
    - Limited ability to raise debt in other parts of the business;
  - Significant reliance on equity financing over the next two years;
  - Annual cash flow generation currently in the $200-250 million range, anticipated to increase to $400 million in 2017 and to $900 million by 2019;
  - Balance Sheet / Capital Structure improving and anticipated to be in 55/45 range by 2018
- Since 2006, the asset base, net income, and cash from operations will have increased by 5-6 times by 2018
- Overall Requirements for equity currently forecast to peak in 2016, decreasing thereafter.
  - Oil & Gas should be self-sufficient once Hibernia South production ramps up - has been delayed due to completion of water injection wells. Based on current production forecasts equity requirements would end after 2016.

# Key Messages (continued)

- Based on current forecasts, by end of 2016/17 fiscal year over 85% of total NL equity requirements should be funded
- Significant portion of current and future earnings exposed to commodity price and FX risks in the oil & gas and electricity export markets:
  - Forecasts show gradual recovery in oil prices, but risk and potential volatility exists;
  - Favourable USD exchange rate providing positive offset to weak oil prices (over half of current earnings denominated in USD, increasing to two-thirds in the future)
- Cash available for dividends and/or reinvestment post 2017 should be significant.......over 2018-25 period cash flow available for dividends and/or re-investment should approximate total equity contributions made by NL over the 2008-17 period
- Pipeline of major growth and re-investment opportunities is significant:
  - Bay-du-Nord project,
  - Gull Island,
  - Re-investment in aging electricity assets (Hydro and Churchill Falls) of almost $2 billion over next 10 years,
  - Other potential oil & gas opportunities
- Once major development projects are in-service focus then turns to:
  - Optimizing net income and cash flow performance; and
  - Managing a sustained level of investment while maintaining our financial metrics
  - Determining appropriate balance of dividends versus re-investment

# Key Messages (continued)

### Key Drivers of Financial Performance

- Regulatory certainty, predictability and timing
- Oil production levels
- Commodity prices (electricity, oil)
- USD exchange rates
- Macroeconomic factors
- Generation and transmission availability / uptime
- Cost management
- Capital investment levels
- Access to low cost debt financing
- Access to equity financing
- Tax exempt status

### Steps Taken to Manage Financial Risk

- 100% of debt covered by regulatory recovery mechanisms
- LCP debt fully funded, eliminating any future interest rate and market risk
- Hedging program utilized for commodity price and FX risks
- All products being sold into commodity markets (oil & electricity) have a favourable underlying cost base
- Significant re-investment in aging electricity assets (fully funded by internally generated cash and self-supporting debt)
- By the end of 2016/17, 85% of currently forecast equity requirements will be complete
- Certainty obtained for regulatory recovery for LCP costs

# Chronology – Key Finance Milestones





| 2006-09 (Planning) | 2010-12 (Laying the Foundation) | 2013-17 (Consolidation / Execution) | 2018+ (Realizing Value / Growth) |
|---|---|---|---|
| ▪ Developed Financial Strategy to facilitate re-investment and growth<br>▪ Investment evaluation, due diligence, and commercial skills enhanced<br>▪ Nalcor credit facility put in place<br>▪ Arrangement with Shareholder to discontinue dividend payments and fund pre-sanction investments with internally generated cash flow and Shareholder equity injections<br>▪ Financial advisors for LCP engaged<br>▪ Shareholder support to enhance financial integrity of Hydro (ROE and equity)<br>▪ Significant upgrades to external financial reporting<br>▪ Financial Risk Management Policy (commodity price, foreign exchange, interest rate, and credit risks) | ▪ Original Churchill Falls debt fully repaid<br>▪ Obtained investment grade credit ratings for LCP (without FLG)<br>▪ Shareholder commitment to fund required equity required for LCP financing<br>▪ Developed structure required to finance LCP, including steps to protect tax-exempt status<br>▪ Independent Engineer engaged<br>▪ Legislative changes to facilitate LCP project<br>▪ Executed Federal Loan Guarantee Term Sheet<br>▪ Financing plans for long-term asset management developed<br>▪ $75 million Reserve Fund in Churchill Falls fully funded<br>▪ Commenced hedging commodity and FX risks<br>▪ Balance Sheet ready for execution of large growth projects | ▪ Finalized Project Finance Agreements with Canada<br>▪ Equity Support Agreement to provide equity for LCP executed<br>▪ TD Bank selected as lead arranger for LCP financing<br>▪ Completed $5.0 billion LCP Financing<br>▪ Enhanced risk management and taxation expertise<br>▪ Focus on cash management to fund large investment program, including active hedging program<br>▪ Major project to replace and upgrade all financial and business systems by 2017<br>▪ Commenced quarterly financial reporting<br>▪ GRA completed with regulatory decision anticipated in Q1 2016<br>▪ Planning and regulatory activities to incorporate Muskrat Falls in customer rates<br>▪ Ensure financial position solid to support future growth opportunities | ▪ Major investment project in-service (Muskrat Falls & Hebron)<br>▪ Cash available for dividends and growth / re-investment<br>▪ Repayment of LCP debt commences<br>▪ Obtain stand-alone investment grade credit rating for Nalcor<br>▪ Financial position strong and able to facilitate future growth |



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# FINANCIAL POSITION – 2005/06

# Assessment of Financial Position – 2005/06

- **Capital Structure**
  - Overall capital structure was 74/26 (debt/equity)
  - Regulated capital structure was 85/15 (one of the highest regulated debt levels in Canada)

- **Availability of Cash Flow**
  - All available cash flow was being paid to Shareholder through dividends
  - No cash or liquidity was available to fund re-investment and growth plans
  - Hydro had the lowest approved ROE of any regulated utility in Canada (and likely North America)

- **Capital Re-investment**
  - Level of annual re-investment in existing electricity assets was in the range of $40-50 million
  - No long-term plan in place to address and finance required investment in aging assets

- **Supporting Processes that Required Upgrades to Support Growth**
  - Corporate Structure
  - Corporate Governance practices
  - Financial reporting & MD&A
  - Commercial, risk and investment evaluation expertise

# FINANCIAL STRATEGY

## (DEVELOPED IN 2006 AND SUBSEQUENTLY REFINED AS REQUIRED)

# Financial Strategy

**Ensure appropriate access to equity financing**

a) Discontinue paying dividends to Shareholder to retain cash to fund growth and re-investment
b) Obtain Shareholder commitment for equity contributions
c) Consider access to "strategic" equity as part of individual investment planning and execution

**Maintain access to short-term financing / liquidity**

a) Put additional bank operating lines in place as required at the Nalcor and subsidiary levels
b) Fund $75 million Reserve Fund in Churchill Falls (as per Shareholder's Agreement)
c) Establish minimum cash balance levels

**Undertake Financing at the Subsidiary Level**

a) Nature of cash flows and assets available to support debt varies from business to businesses (ranging from pure regulated utility to pure commodity-based businesses)
b) Protect assets from financing and business risks related to other assets
c) Limited ability to borrow at parent company level

**Fund oil & gas investments with equity**

a) Debt financing not as readily available for oil & gas assets as for regulated electricity assets
b) Typical oil & gas capital structures contain lower levels of debt
c) Revisit financing strategy once a balanced portfolio of producing assets is contributing cash flow

# Financial Strategy (continued)

**Fund Churchill Falls re-investment through equity**

a) Significant re-investment in aging capital assets required
b) Original debt from 1969 would be fully repaid by 2010
c) Power Contract rate to decrease in 2016 in Renewal Contract
d) Cash flows decreasing over time – so little ability to fund re-investment through new debt financing
e) Retain internally generated cash flow to fund capital program (discontinue Common Dividends)
f) Optimize opportunity for new revenue source in 2015 when Twinco arrangements expire

**Ensure financial integrity of Hydro**

a) Financial Position of Hydro required improvement in order to finance re-investment
   - Allowed Return on Equity (ROE) the lowest in North America
   - Capital structure (debt levels) one of the highest of regulated utilities in Canada
   - Need to re-invest in capital assets would put additional pressure on capital structure

b) Continue to borrow in Hydro with a NL debt guarantee (possibly consider options to restructure balance sheet and borrow without an NL guarantee once sustained financial performance of Hydro achieved)

**Maintain an Appropriate Level of Cash Flow Certainty**

a) Required to finance investments and to provide dividend payments to the Shareholder
b) Cash flow profile consists of businesses with a predictable cash flow stream and those businesses that have more variability in cash flow due to commodity price and foreign exchange exposure
c) Utilize hedging to bring greater stability to less stable cash flow streams



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# Financial Strategy (continued)

**Develop optimal financing strategy for Lower Churchill:**

a) Obtain Power Purchase arrangements to maximize the amount & quality of financing available
b) Obtain clarity and certainty regarding regulatory cost-recovery process
c) Pursue a federal loan guarantee
d) Design structure to facilitate project financing
e) Obtain Shareholder commitment to fund equity financing requirements
f) Optimize debt financing as equity financing has a higher cost to customers
g) Take advantage of available low interest rates
h) Consider equity partners for strategic benefit (retain ownership of strategic generation assets)
i) Fund capital with equity prior to sanction decision and financial close

**Plan for optimal long-term capital structure**

a) The optimal capital structure would be a function of the mix and size of the various businesses
b) In short-term the capital structure might contain either too much equity or too much debt at various times until the optimal long-term sustained capital structure is achieved
c) In the longer term the consolidated capital structure would likely be in the range of 55/45

**Maintain Required Level of Credit Worthiness**

a) Hydro continue to borrow with the benefit of a debt guarantee from the Province
b) LCP borrow in the capital markets with a loan guarantee from the Government of Canada
c) Limited ability to borrow at parent company level without a stand-alone investment-grade credit rating. Stand-alone credit rating contingent on completion of major development projects, a sustained period of cash flow generation, diversification of oil production, and continued balance sheet improvement.



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# Financial Strategy (continued)

**Maintain appropriate risk management practices**

a) A fully functional corporate Enterprise-Risk Management (ERM) framework
b) Focus on risk management and due diligence in investment decisions, project execution, and operational activities
c) Financial Risk Management (commodity, interest rate, FX, liquidity and credit exposures)
d) Appropriate insurance coverages

**Maintain high-quality, timely financial reporting at public-company standards**

a) Quarterly reporting (45 days) and annual financial reporting (90 days)
b) Comprehensive, complete, clear disclosures, timely and transparent reporting

**Maintain rigorous investment evaluation process**

a) Ensure the processes used to make investment decisions and to monitor progress are rigorous
    - Consistent approach and assumptions used for evaluation of all investments
    - A due diligence process to assess potential investments and major contracts
    - Regular financial forecasts for each key investment, business unit and corporation overall

# Financial Overview
# - Actuals (1975-2015)
# - Forecast (2016-2025)

# Key Inputs

- Actuals results to 2014
- Current Forecast for 2015
- Budget for 2016
- Forecast Data for 2017-25
- Reflects the September 2015 LCP cost update of $7.653 billion
- Based on existing LCP schedule with first power at the end of 2017
- Based on December 2015 Financial Forecast Update
- Commodity Price and FX assumptions based on latest forecasts at November 30/15
- Scope Exclusions:
  - Potential Bay-du-Nord Investment
  - Development of Gull Island (some minor pre-development and planning costs included)
  - Post Hebron plan for Bull Arm site
  - Other new Oil & Gas Developments
  - MF Rate Implementation Impacts
  - New England states RFP bid

# Historical Overview

- The 1970's / 80's characterized by heavy investment and rate changes
  - During the 1975-84 period over 700MW of generation was added
  - Significant rate increases over the 1974-84 period (rates more than tripled)
  - Hydro was earning appropriate returns and obtaining the required rate adjustments
  - The balance sheet continued to improve
- The 1990's and early 2000's brought significant changes:
  - Provincial economy was weak and load growth was stagnant
  - 7% GST added to power bills in 1991
  - Government discontinued rural subsidy to Hydro (approx. $30 million annually at that time) and commenced charging Hydro a 1% debt guarantee fee of approx. $10 million annually
  - Commenced payment of dividends to Shareholder in 1996
  - Legislative changes made to make Hydro fully regulated on an ROE basis in the future
  - Hydro's net income levels became a lever to mitigate rate impacts
  - Positive impacts from the commencement of Recall and GWAC Sales to Hydro-Quebec
  - First GRA in 2001 as a fully-regulated utility (Hydro proposed initial ROE of 3.0%)
  - In 2003 GRA, Hydro was awarded an ROE equal to the long-term cost of debt of 4.4%

# Current State – Nalcor Consolidated View

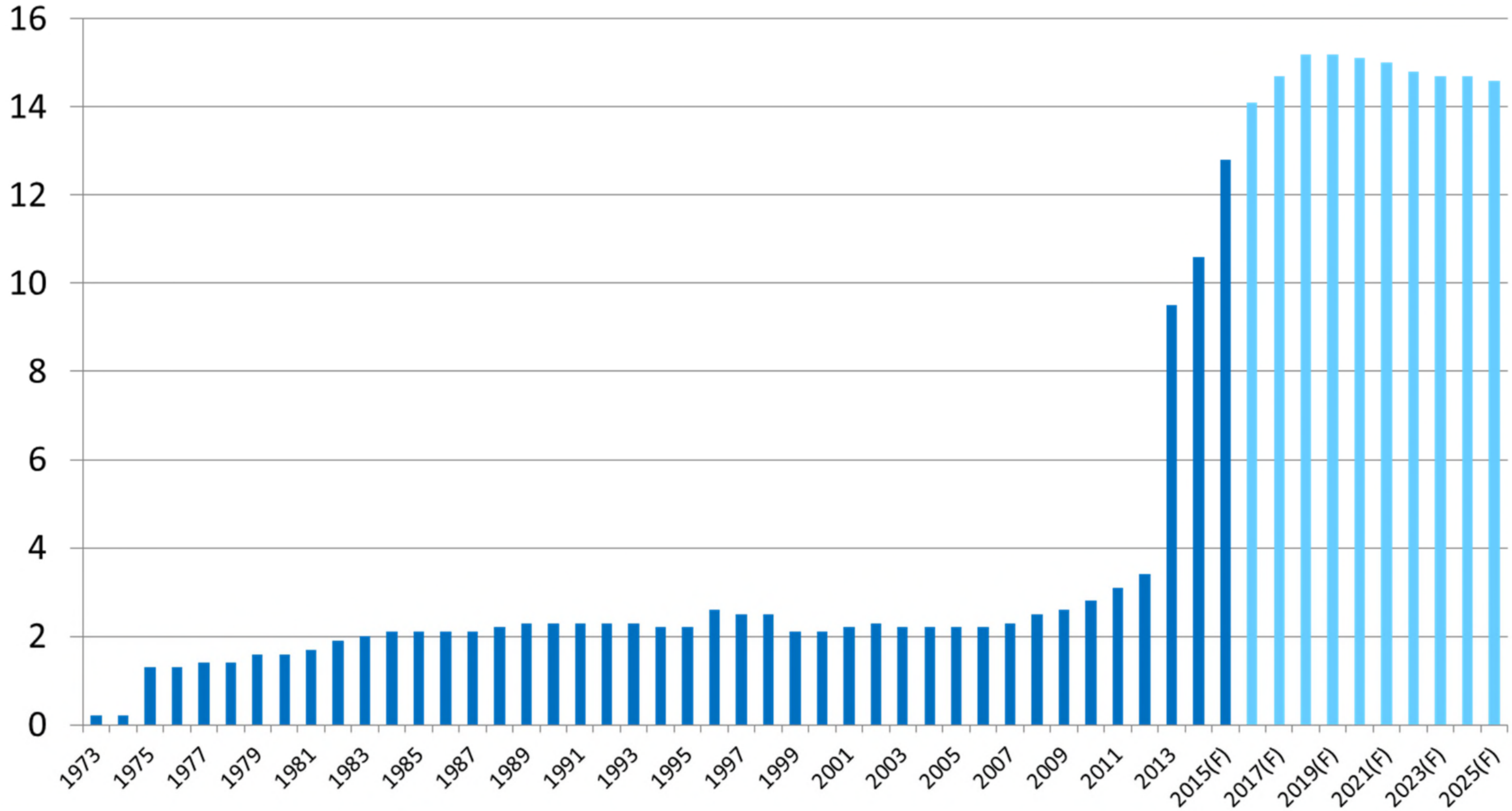
- Current state reflects where we anticipated financial position to be at this stage in our development
- Total assets of $11.6 billion at the end of Q3 2015 (>70% represents Assets Under Development)
- Net income and cash flow generation have not yet caught up with balance sheet improvements due to timing of projects with long development periods
- Capital expenditures reaching peak levels of $3.0 billion in 2016
- Annual cash from operations of approx. $200-250 million to be applied against the capital requirements
- Active hedging program to reduce volatility in cash flow by managing commodity price and foreign currency exposures
- No dividends paid to NL since early 2006 – cash being re-invested
- Remain dependent on equity contributions from NL for next few years
- Capital structure of 67/33 at end of Q3 2015 and forecast continued improvement
- Total capital of $6.9 billion invested from 2006-15

# Future Outlook

- **Significant levels of capital investments will continue**
  - Total forecast capital investment of $5.2 billion over 2016-18 period
  - Peak capital expenditure levels in 2016 of $3.0 billion
- **Internally generated equity will continue to increase**
  - Annual Net income in $450 million range by 2019
  - Three oil fields in production by 2018 (annual production of 4 million barrels by 2020)
  - LCP delivering power by 2018 and contributing to net income (from both NL sales and export sales)
- **Requirements for Equity Contributions will continue into 2018**
  - NL Equity contributions for Lower Churchill will continue to 2017/18
  - NL Equity contributions for Oil & Gas expected to end after 2016/17
  - Total NL base equity contributions from 2016-18 of $1.6 billion
- **Hydro and Churchill Falls capital re-investment programs will continue**
  - To be financed by internally generated cash flow (and debt financing in the case of Hydro)
  - Hydro capital re-investment of $1.3 billion from 2016-25
  - Churchill Falls capital re-investment of $0.6 billion from 2016-25
- **Capital Structure will Continue to Improve**
  - Capital structure forecast to be in the 55/45 range
- **Cash Available for Dividends**
  - Cash available for dividend payments by 2018

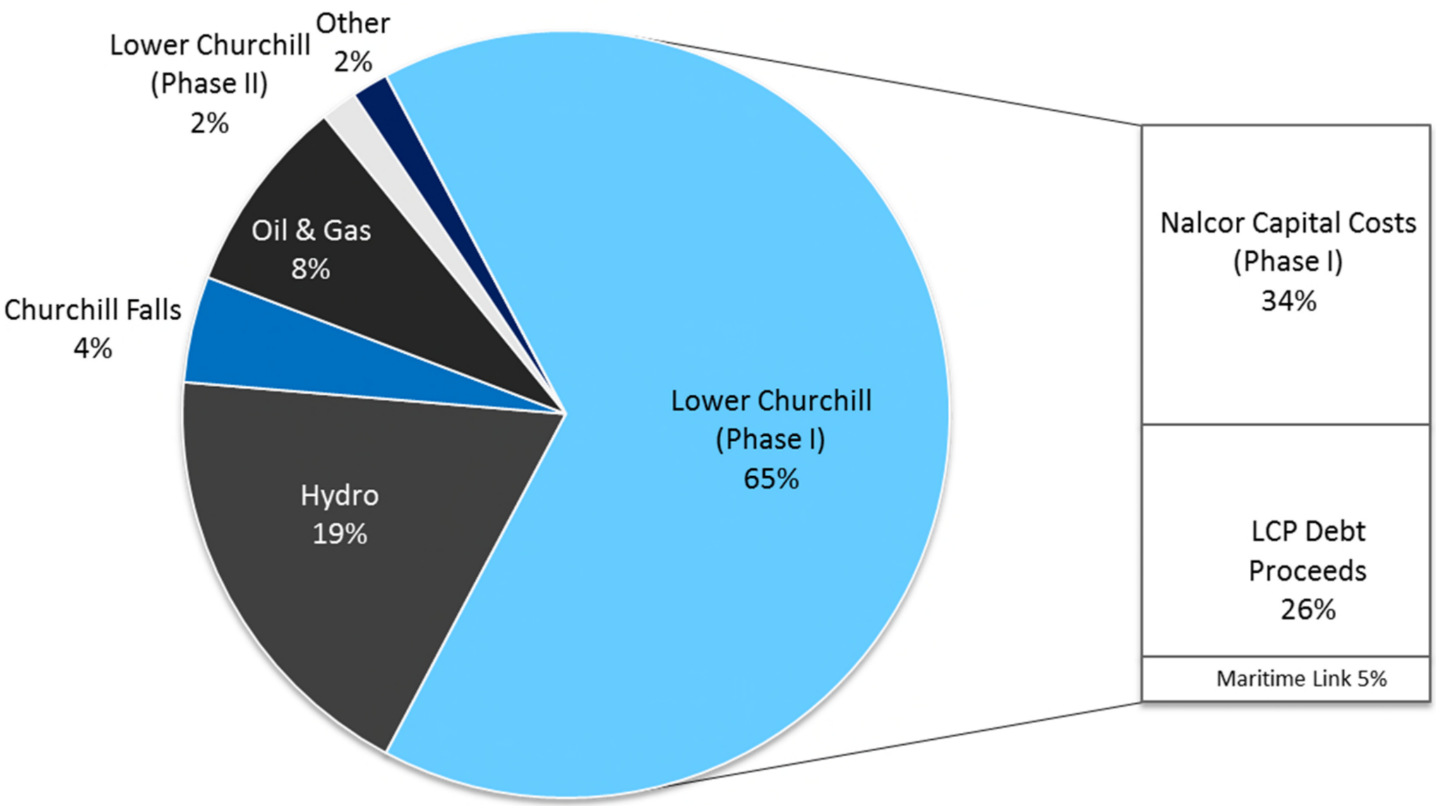
# Total Assets

## ($ billions)



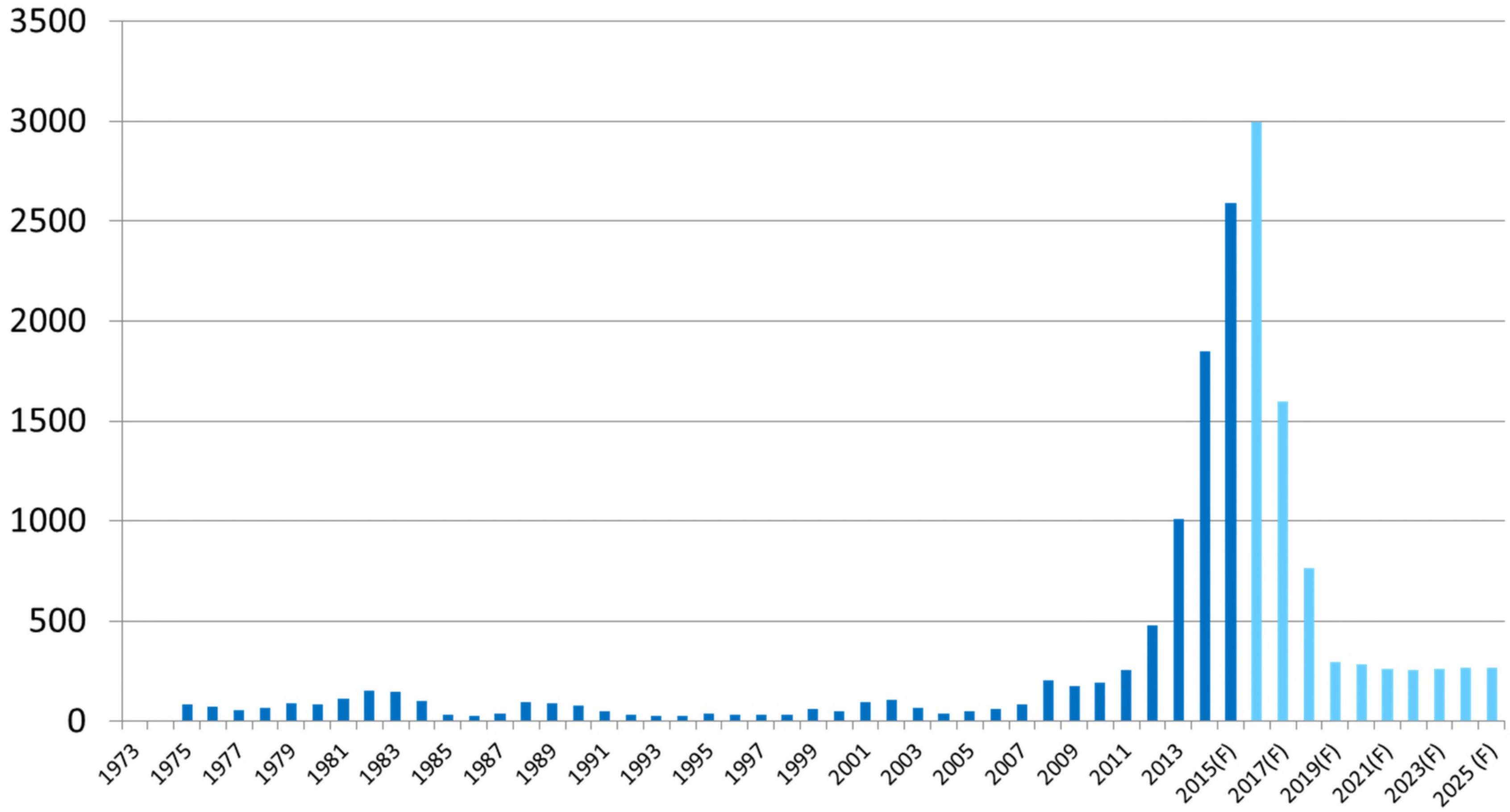
# Total Assets by Business

**Total Assets of $11.6 billion (at Q3 2015)**



# Capital Expenditures

**($ millions)**



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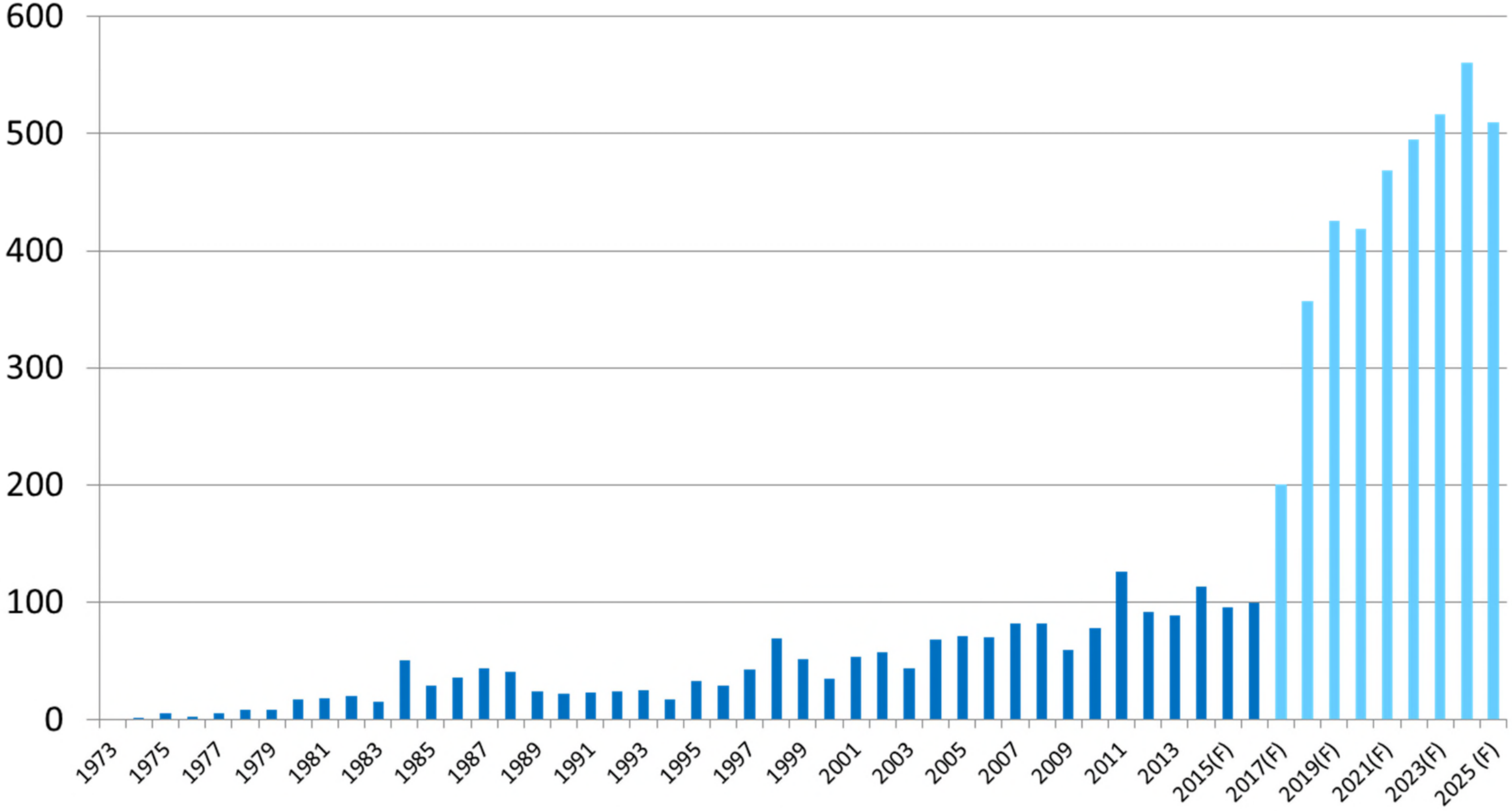
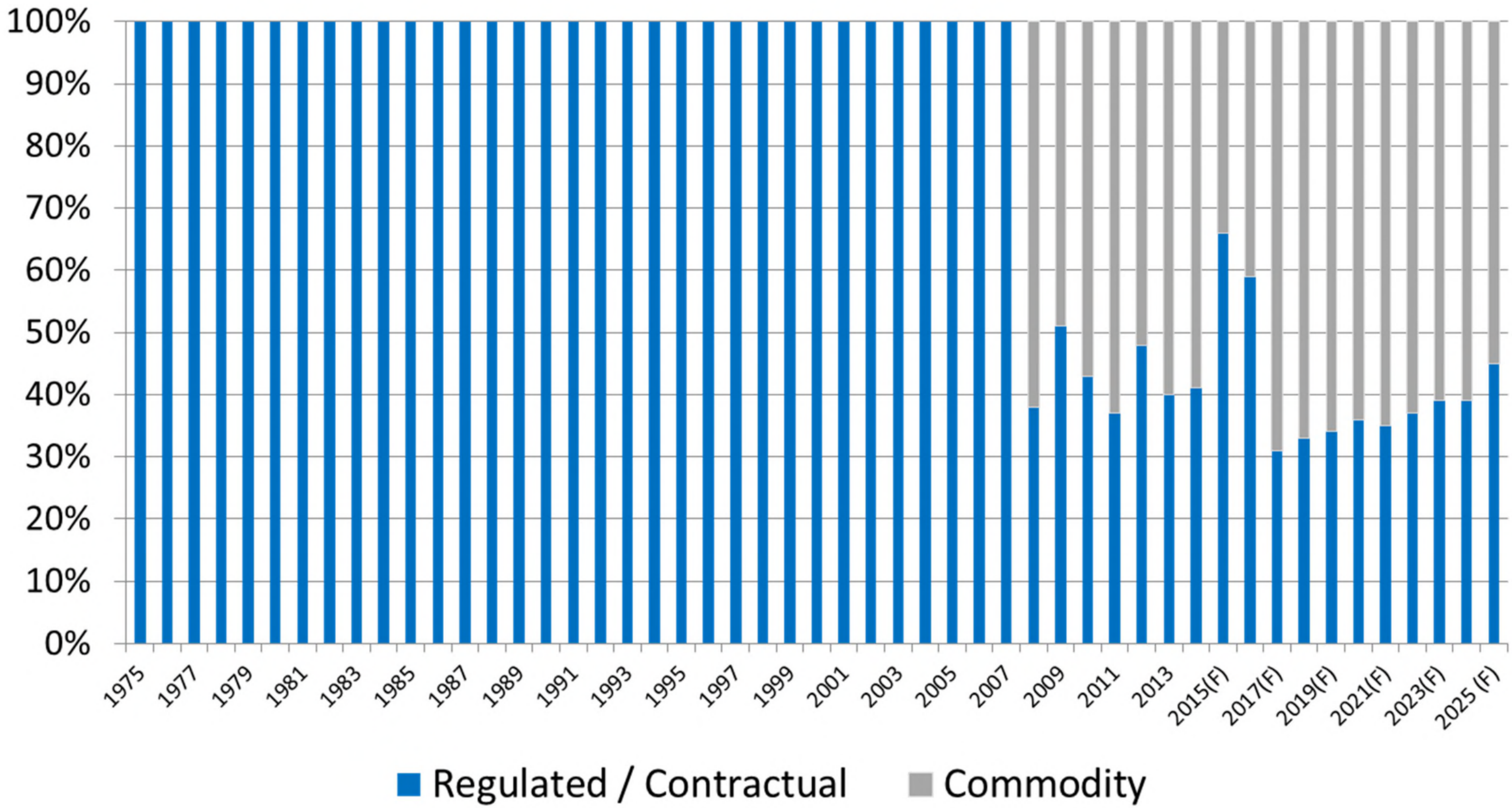
# Net Income

**($ millions)**




Note: Excludes a $119 million write-off of historical LCP costs in 2003.

# Net Income Split (Regulated vs. Commodity) (%)



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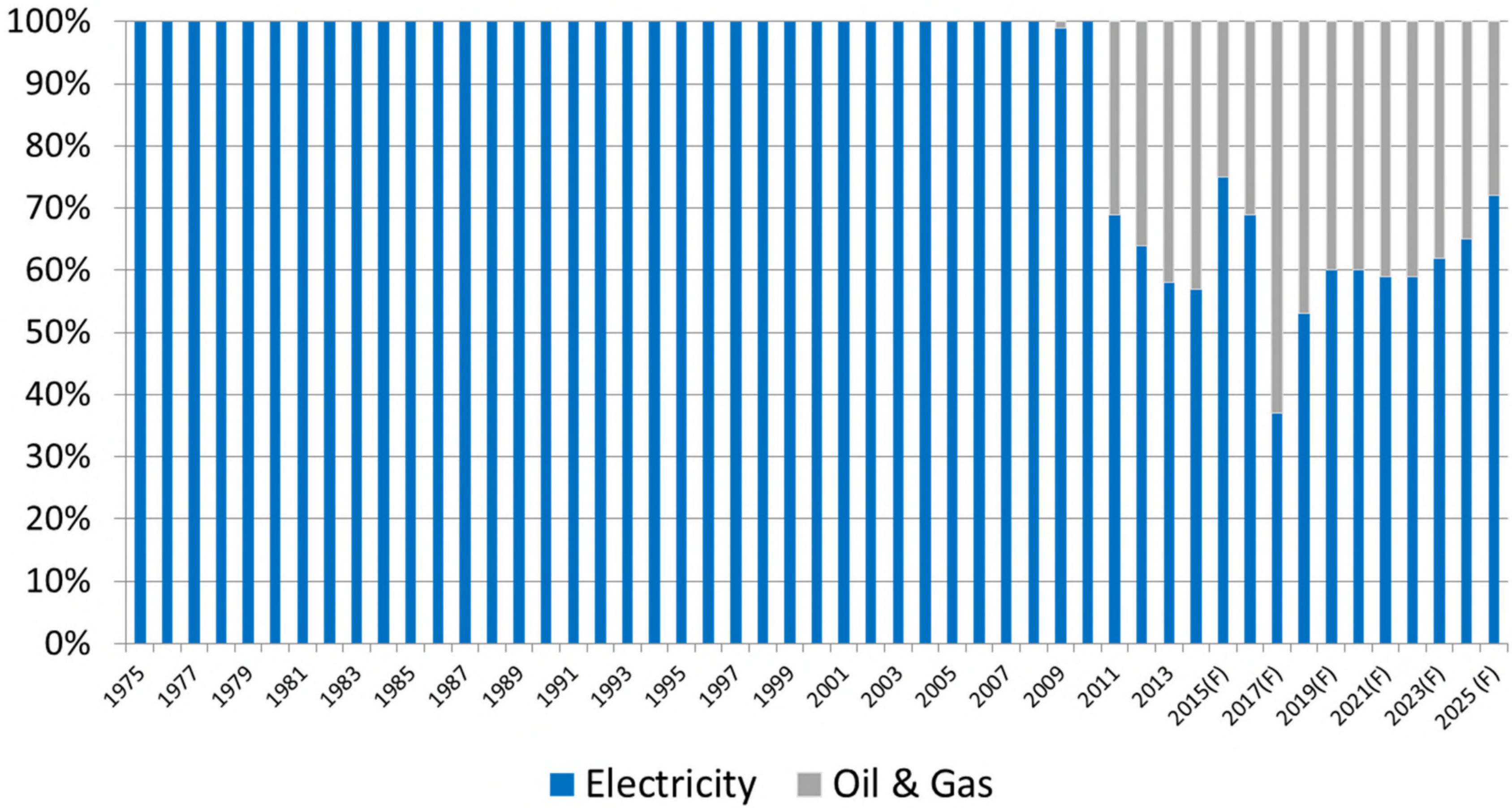
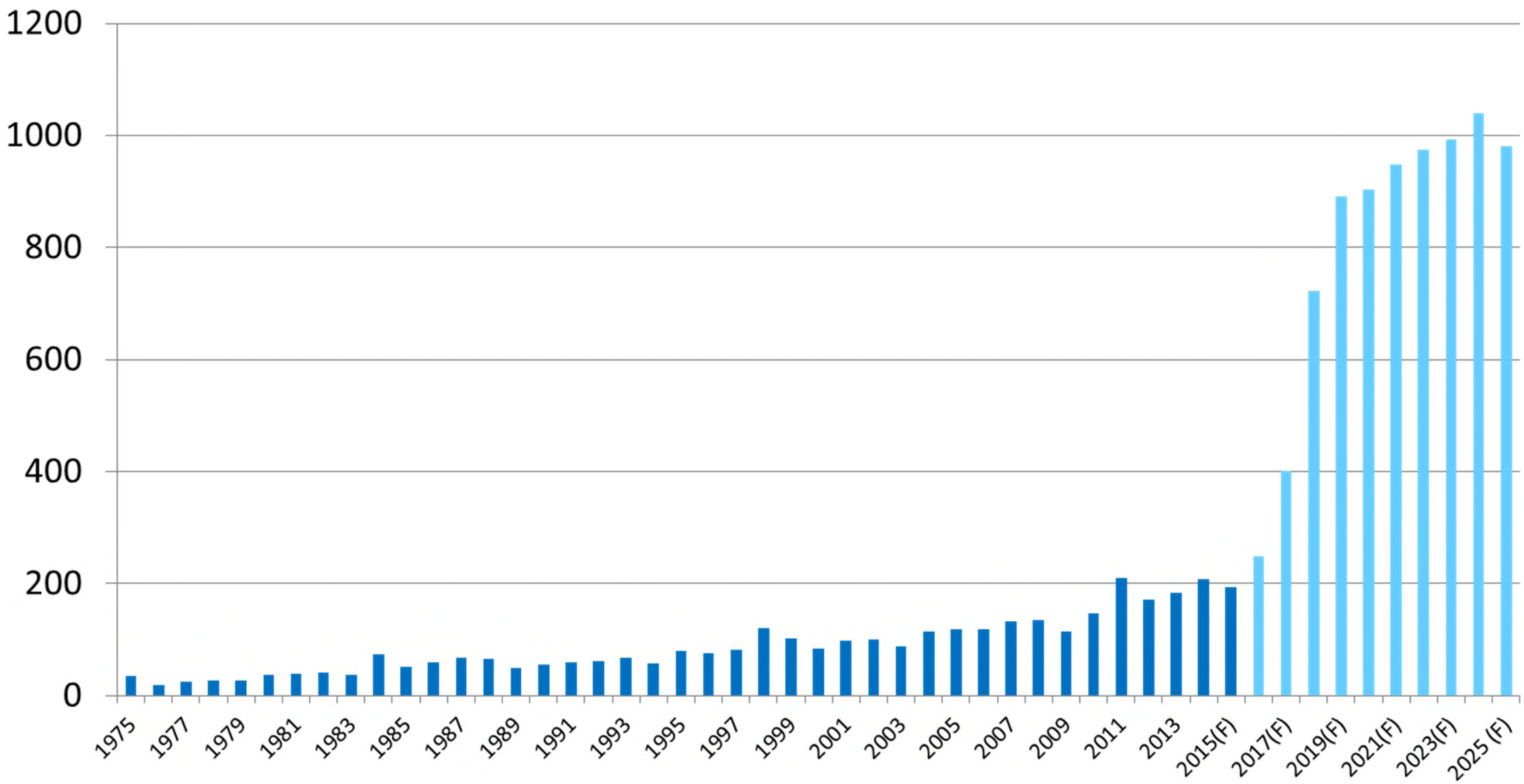
# Net Income Split (Electricity vs. Oil & Gas) (%)



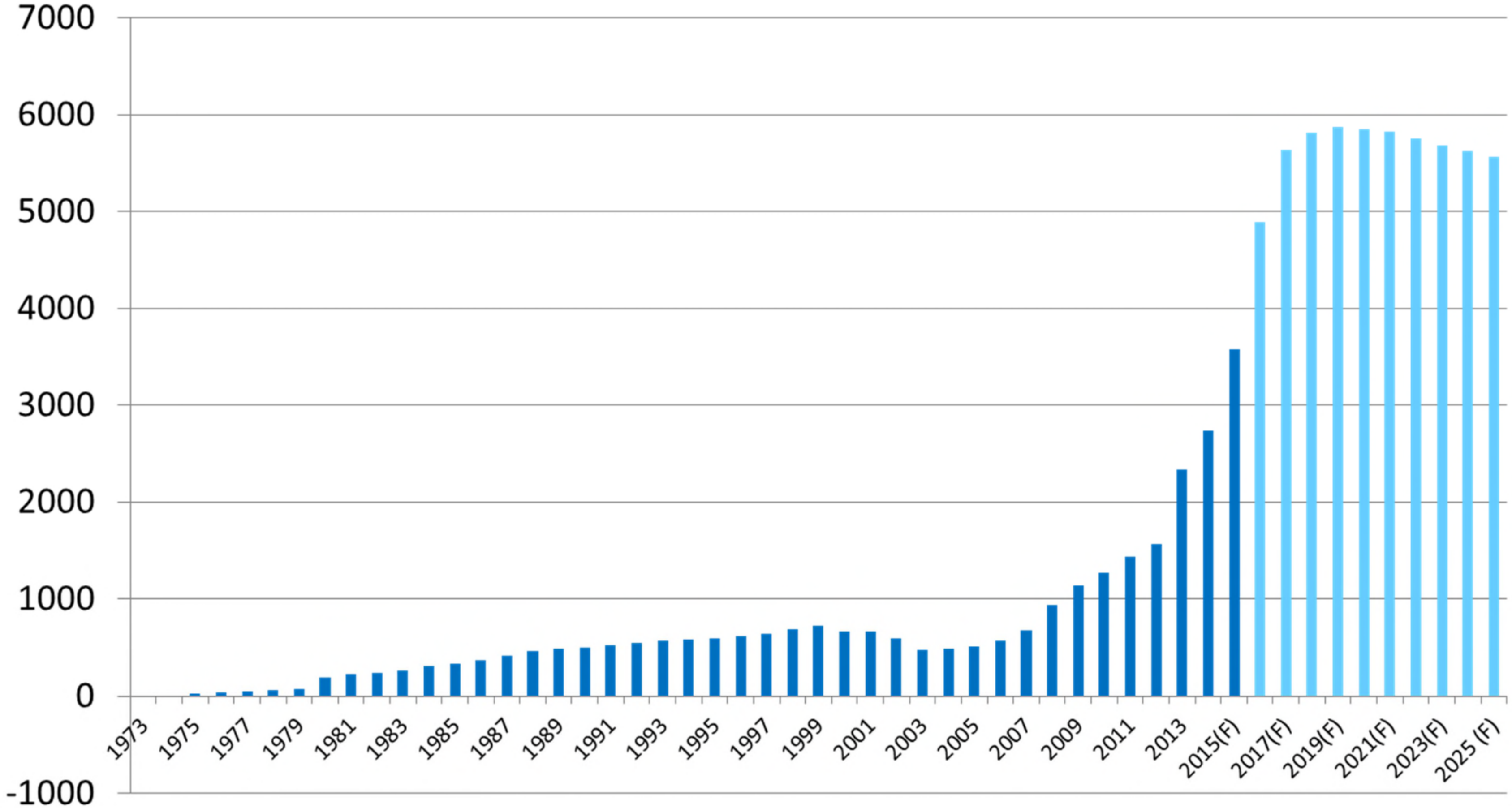
# Cash Flow from Operations

## ($ millions)



# Equity

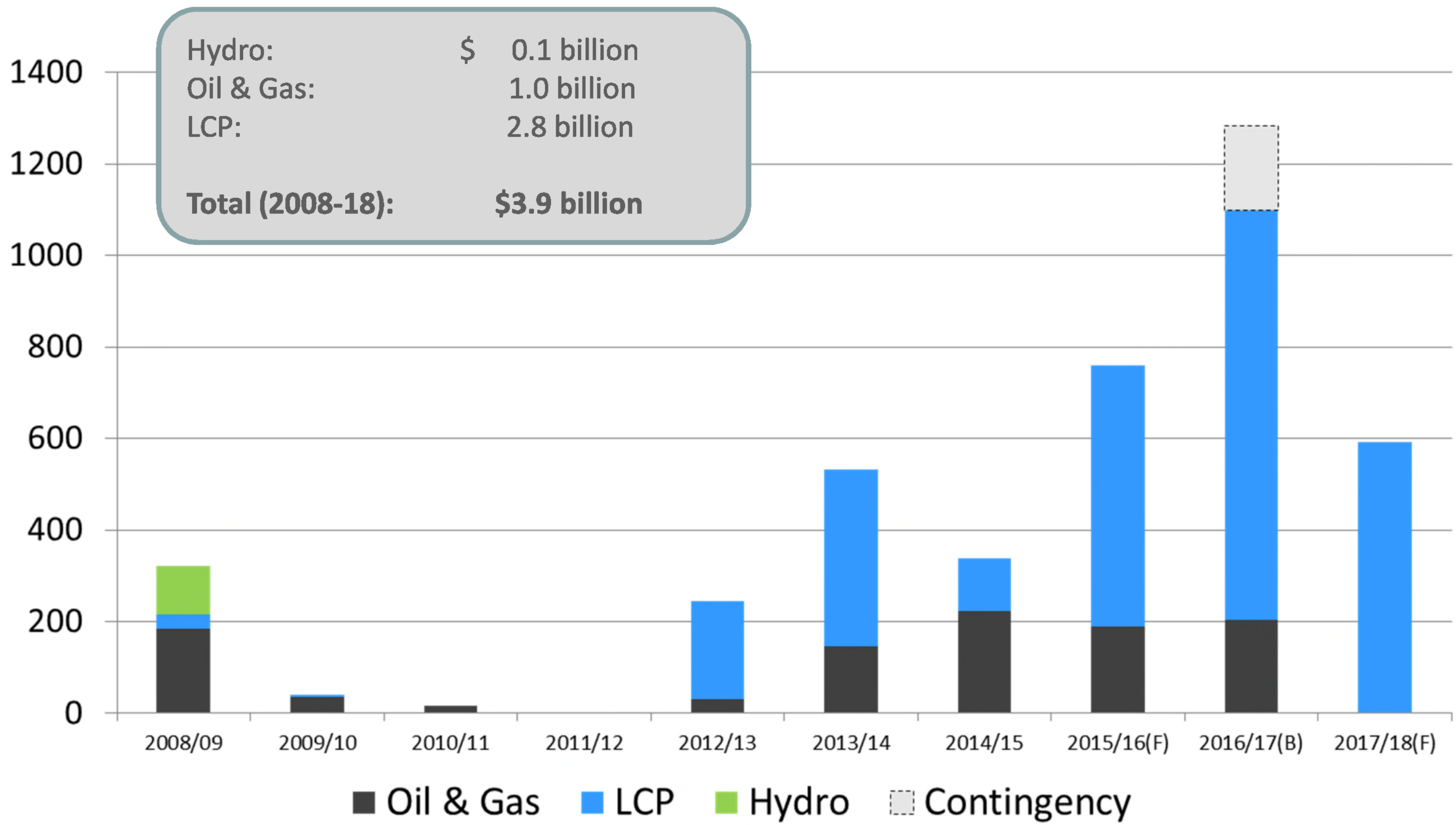
($ millions)



# NL Equity Contributions

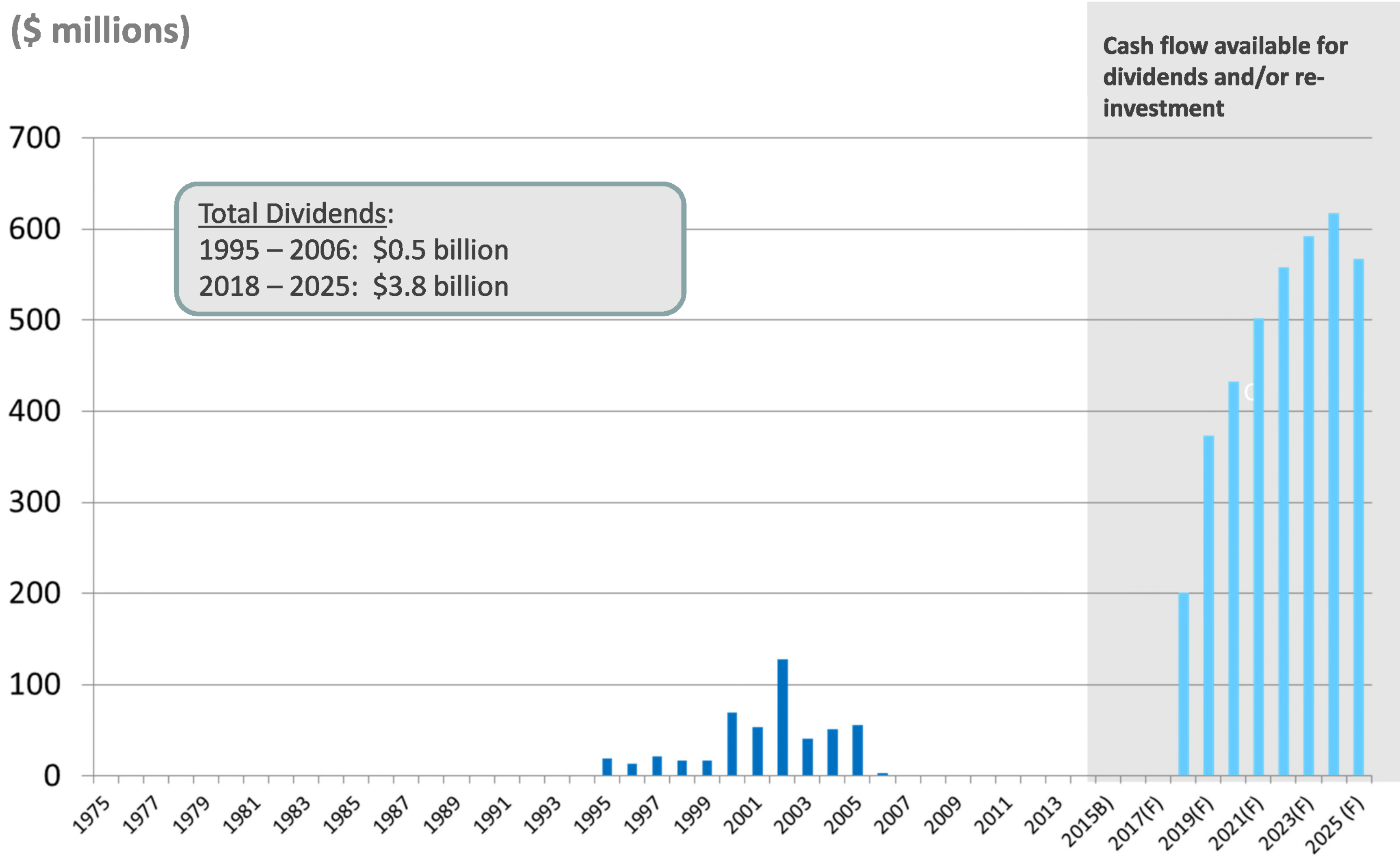
**($ millions by NL fiscal year)**

| | | |
|---|---|---|
| Hydro: | $ | 0.1 billion |
| Oil & Gas: | | 1.0 billion |
| LCP: | | 2.8 billion |
| **Total (2008-18):** | | **$3.9 billion** |



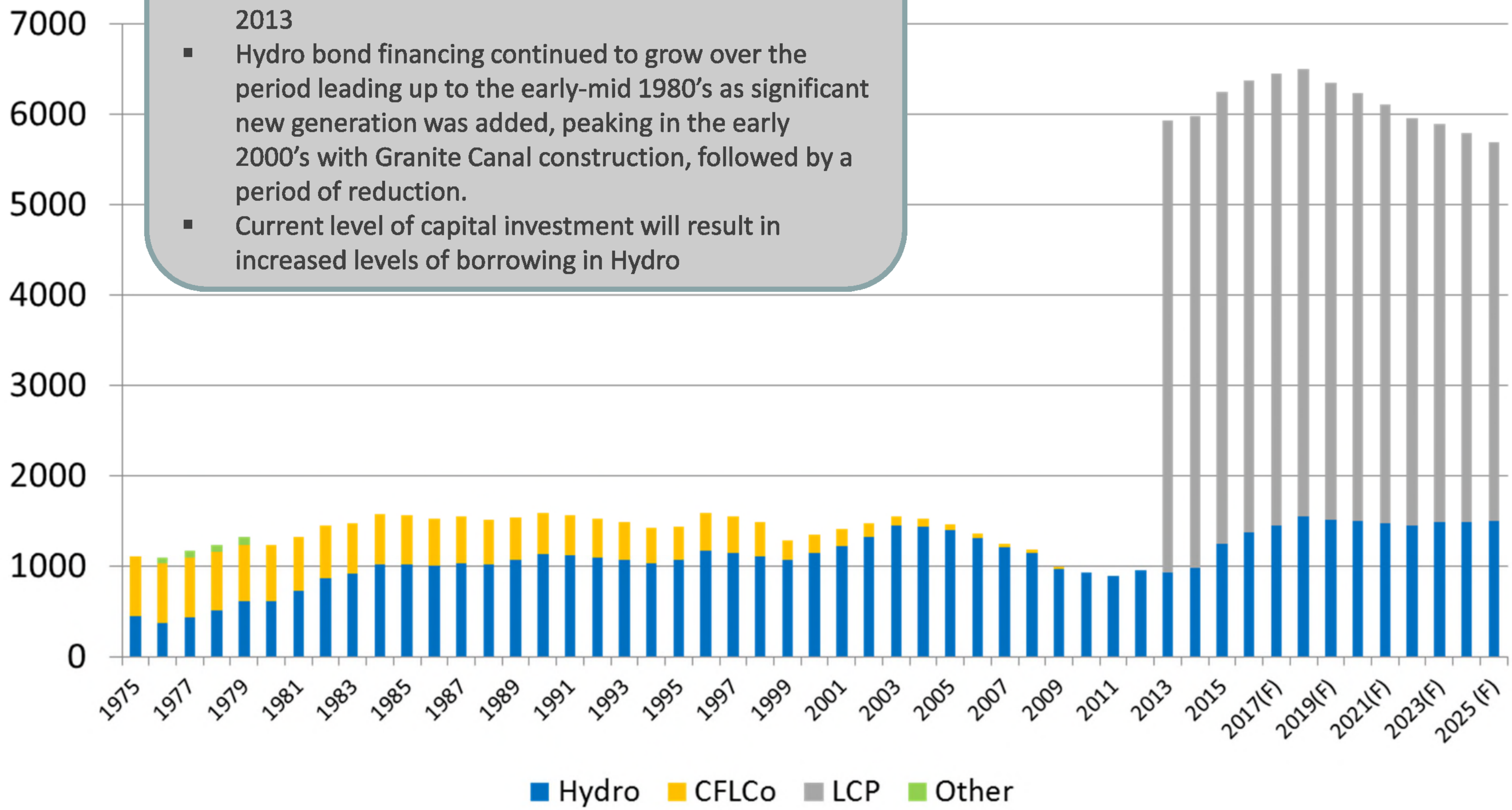
# Dividends

## ($ millions)

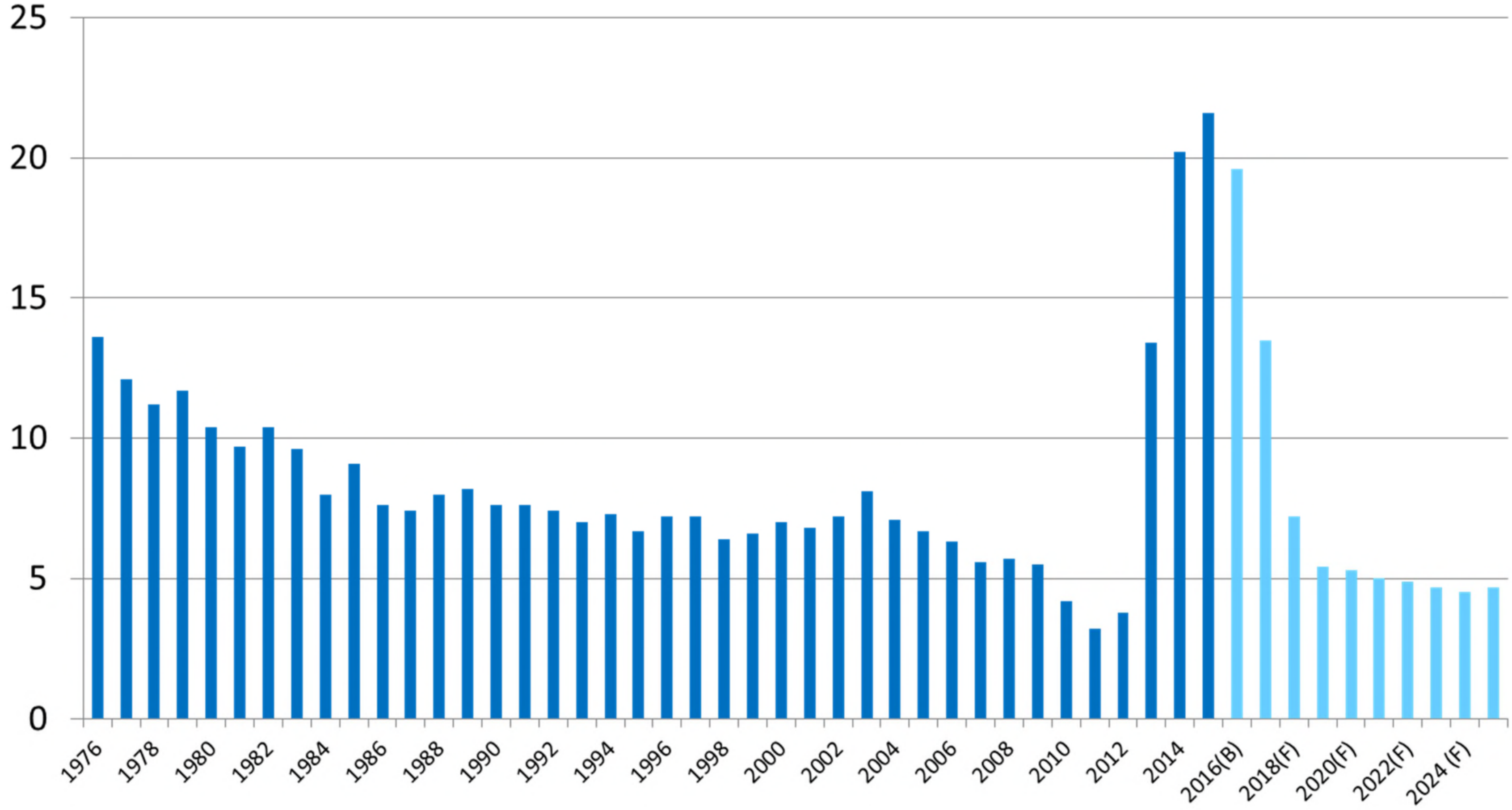


# Debt ($ millions)

- CFLCo debt fully retired in 2010
- LCP $5.0 billion financing put in place in December 2013
- Hydro bond financing continued to grow over the period leading up to the early-mid 1980's as significant new generation was added, peaking in the early 2000's with Granite Canal construction, followed by a period of reduction.
- Current level of capital investment will result in increased levels of borrowing in Hydro



# Debt to EBITDA Ratio



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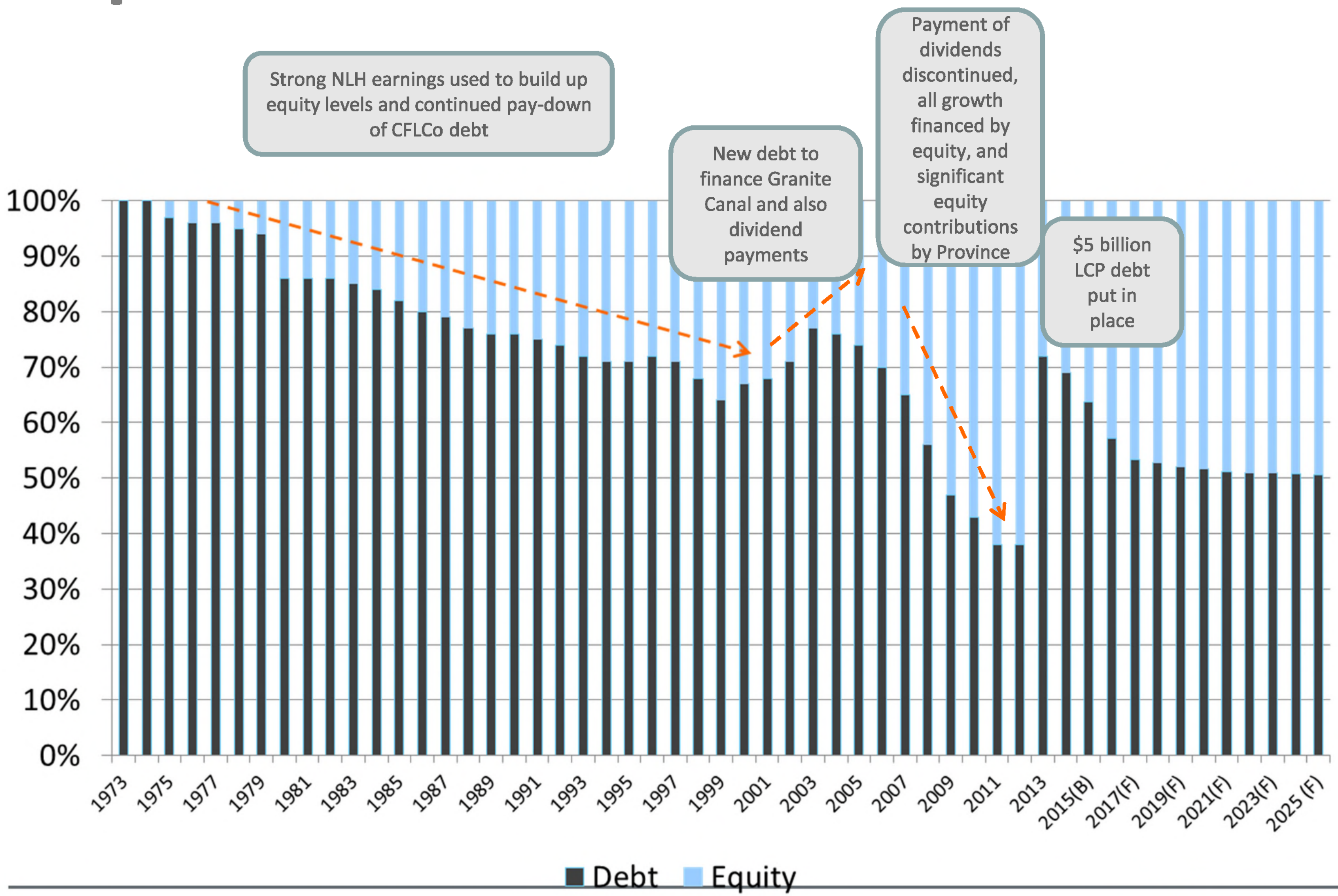
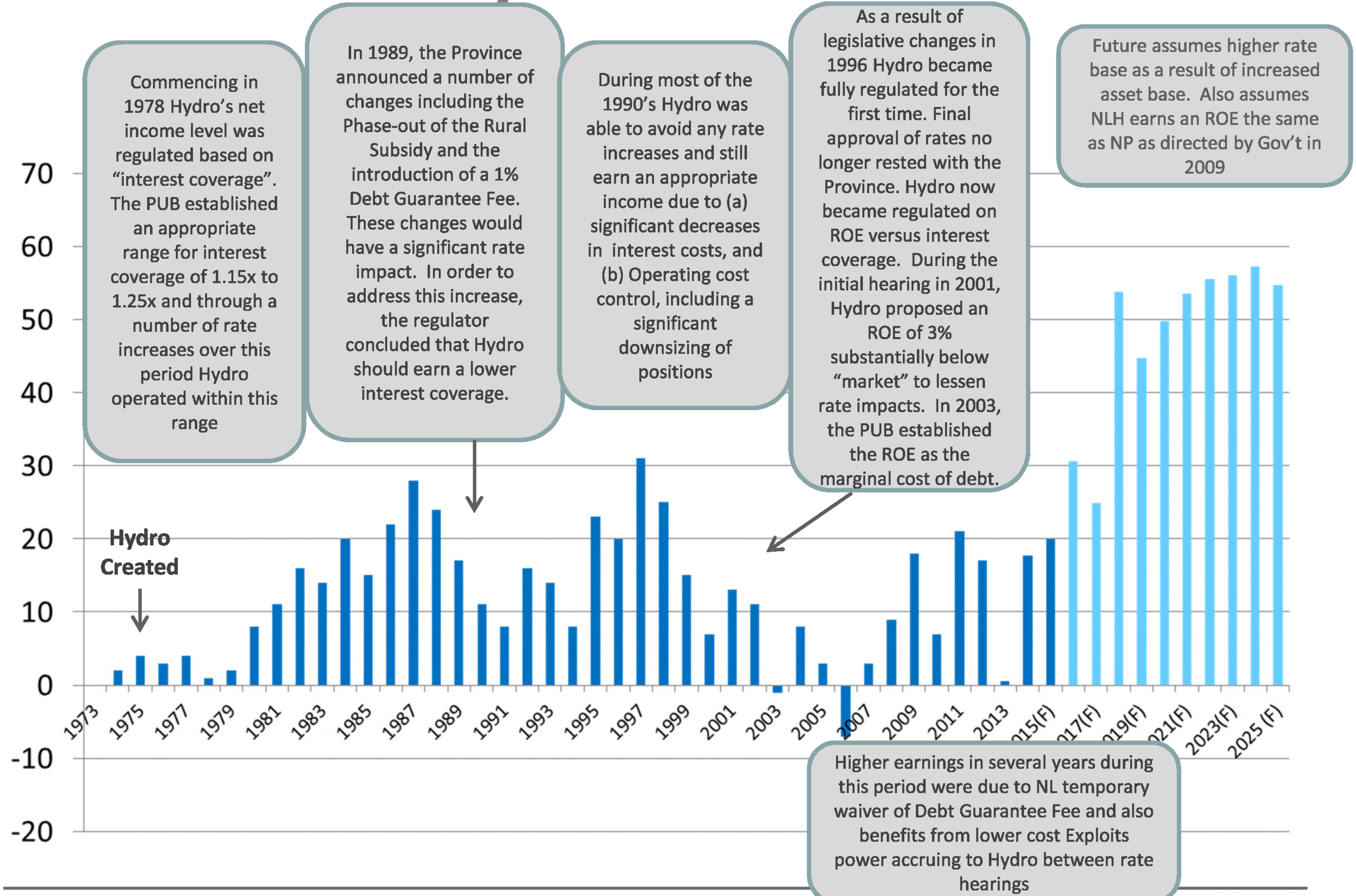
# Capital Structure



# Current State – Hydro

- Long-Term Asset Management Plan in place and being executed
- Capital structure improved to 75/25
- PUB directed by Government (in 2009) to provide Hydro with same ROE as Newfoundland Power at Hydro's next GRA
- Province injected $100 million equity in 2009 to improve capital structure
- Significant step change in annual capital re-investment levels
- Continue to borrow with a NL debt guarantee
- Have yet to achieve the approved ROE and sustain the earnings level over a period of time
  - Completion of current GRA will be key milestone
  - Hearing completed end of Novemer 2015
  - PUB decision anticipated in Q1 2016

# Net Income – Hydro ($ millions)



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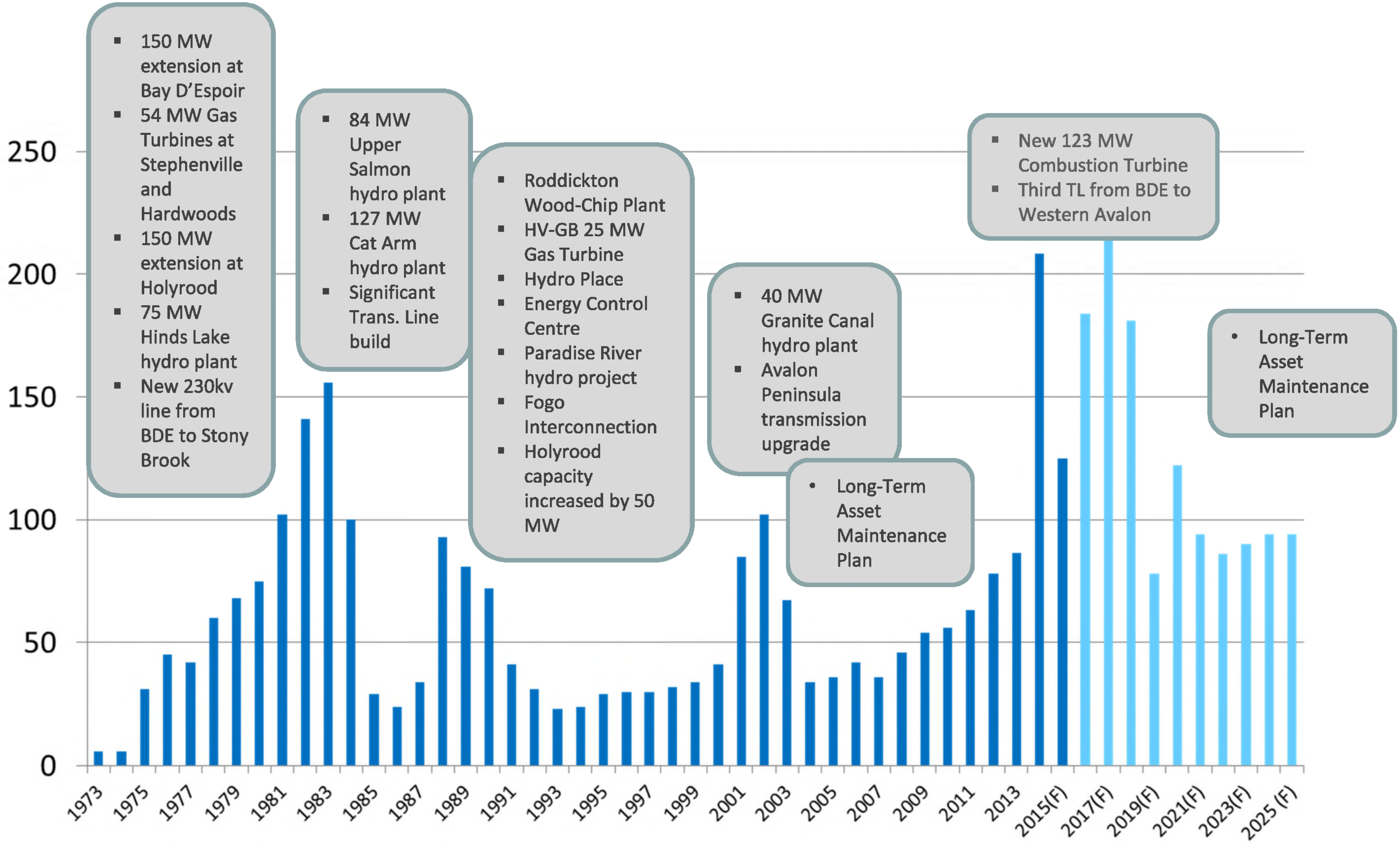
# Capital Expenditures - Hydro ($ millions)



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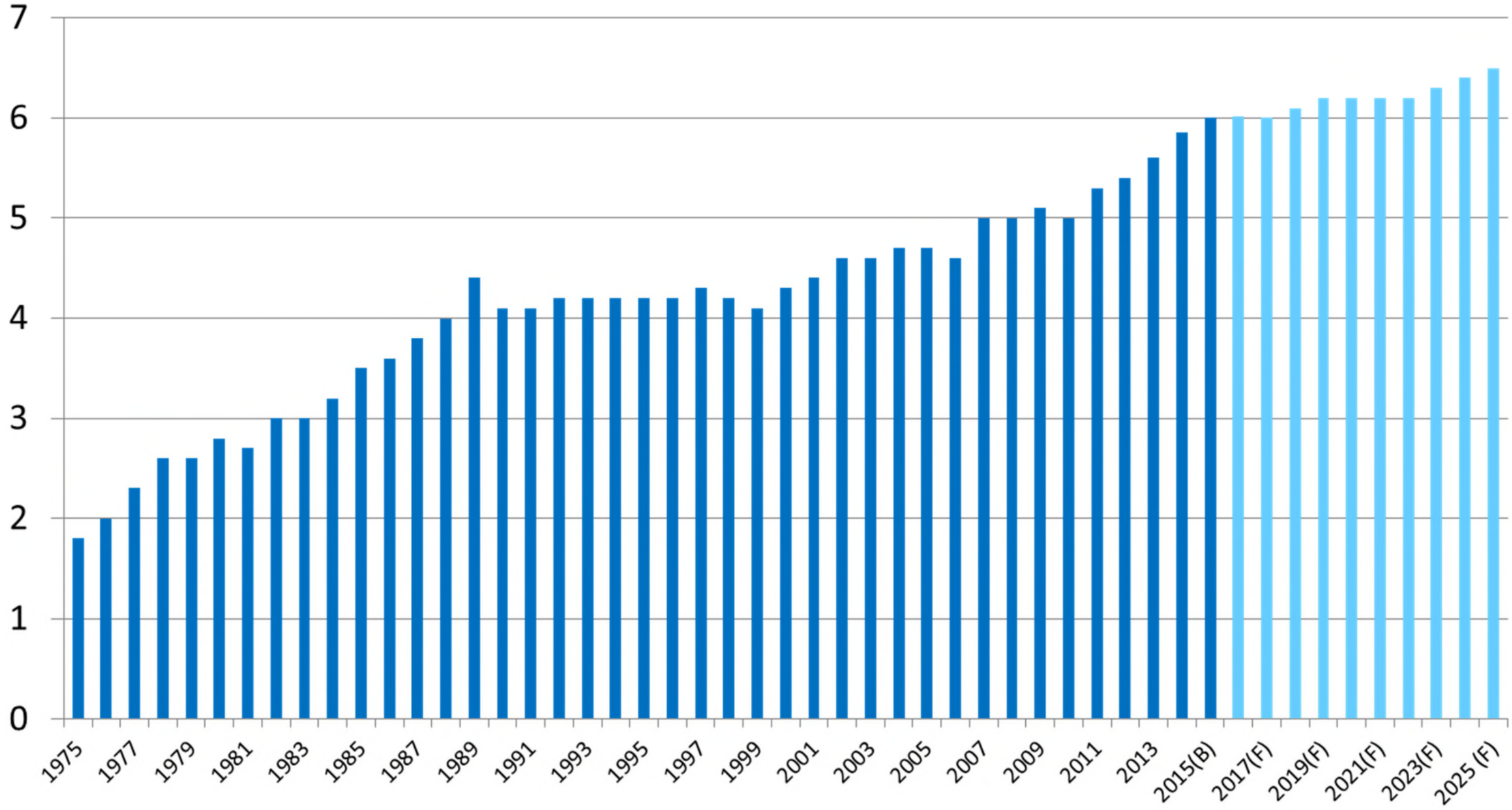
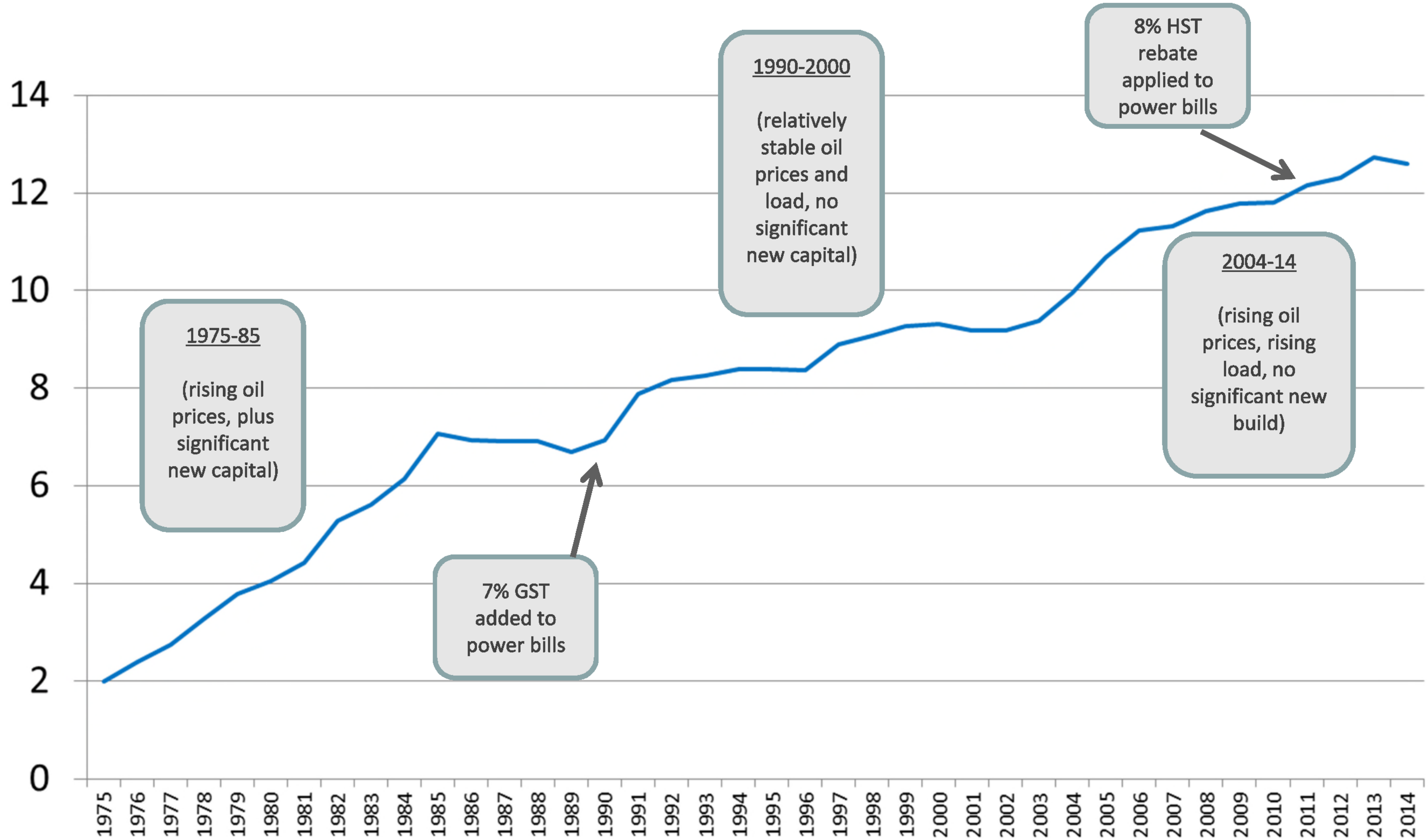
# Energy Sales to NP (TWh)



# Average Domestic End Consumer Rate

(cents/kWh – including taxes)



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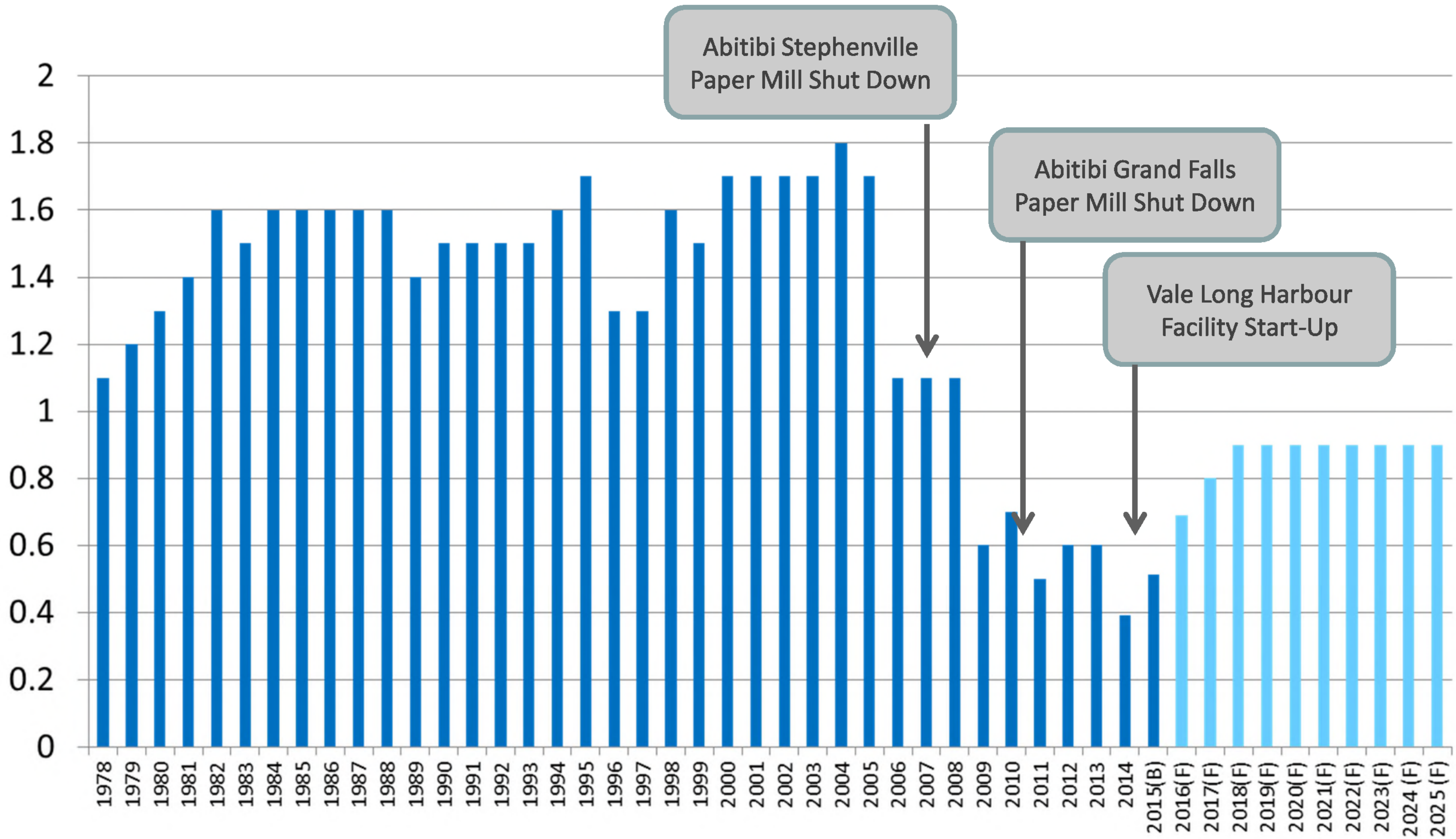
# Energy Sales – Island Industrial Customers (TWh)



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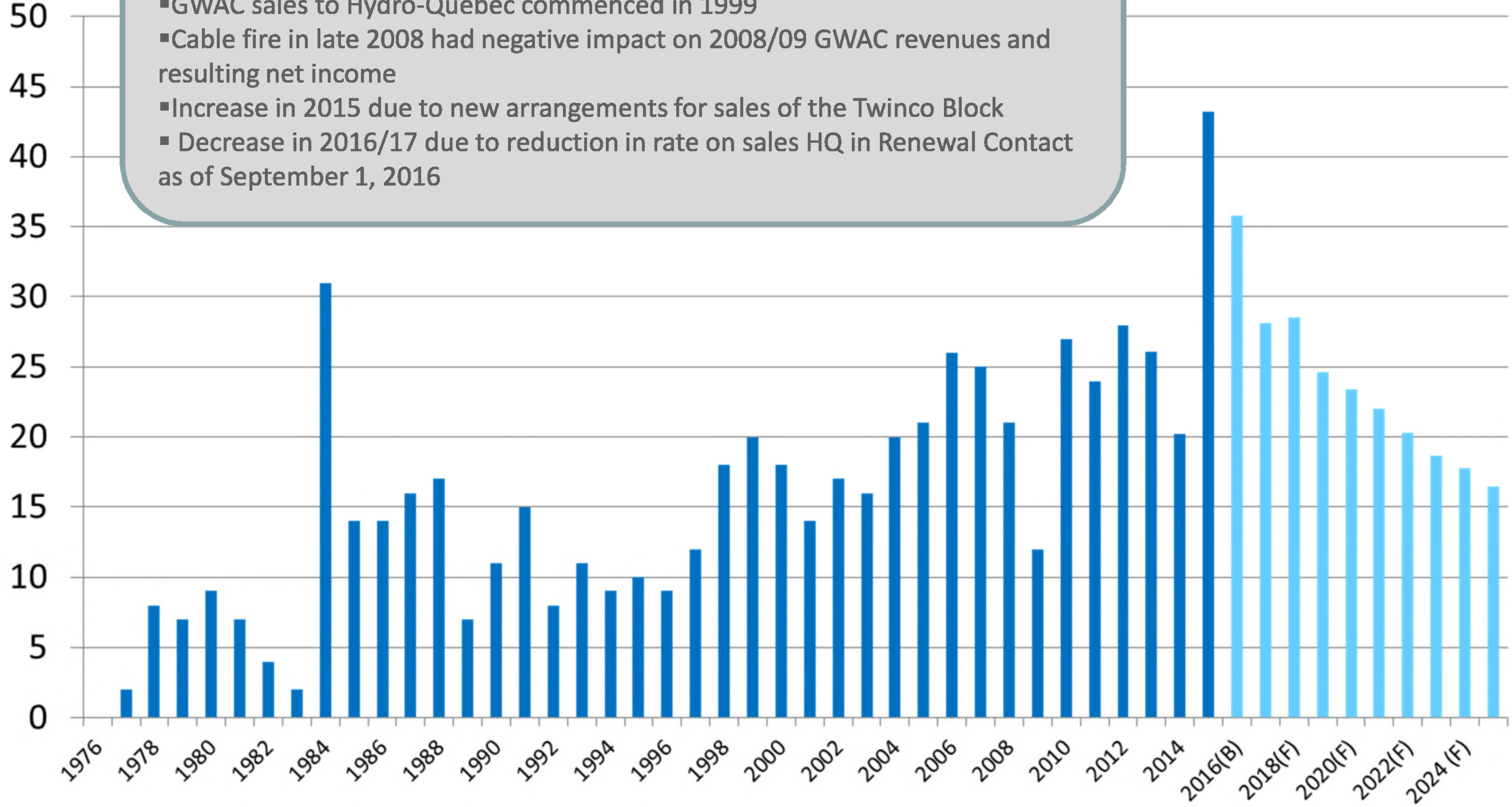
# Current State – Churchill Falls

- No debt (original 1969 debt now fully repaid)
- Long-Term Asset Management Plan in place and being executed, resulting in a 10X increase in annual capital investment
- Common Dividends discontinued to provide cash to support capital program
- $75 million Reserve Fund funded and being utilized as intended to fund capital investments
- Additional $35 million cash flow annually from new Twinco arrangements with Hydro commencing January 1, 2015 (equivalent to more than half the annual capital re-investment funding requirements). Hydro resells power to industrial customer in Labrador West.
- Annual capital program being funded through internally generated cash flow
- Net income and cash flow will continue to weaken until 2041 as power contract price decreases on September 1, 2016, operating costs and depreciation will continue to escalate, and sustained level of capital expenditures continues
- Significant focus on cash flow management and planning to 2041

# Net Income – Churchill Falls – *Nalcor Share* ($ millions)

Highlights:

- Interest costs declined over time until debt fully repaid in 2010
- AEB adjustment in 1984 from initial eight-year review period in power contract
- GWAC sales to Hydro-Quebec commenced in 1999
- Cable fire in late 2008 had negative impact on 2008/09 GWAC revenues and resulting net income
- Increase in 2015 due to new arrangements for sales of the Twinco Block
- Decrease in 2016/17 due to reduction in rate on sales HQ in Renewal Contact as of September 1, 2016



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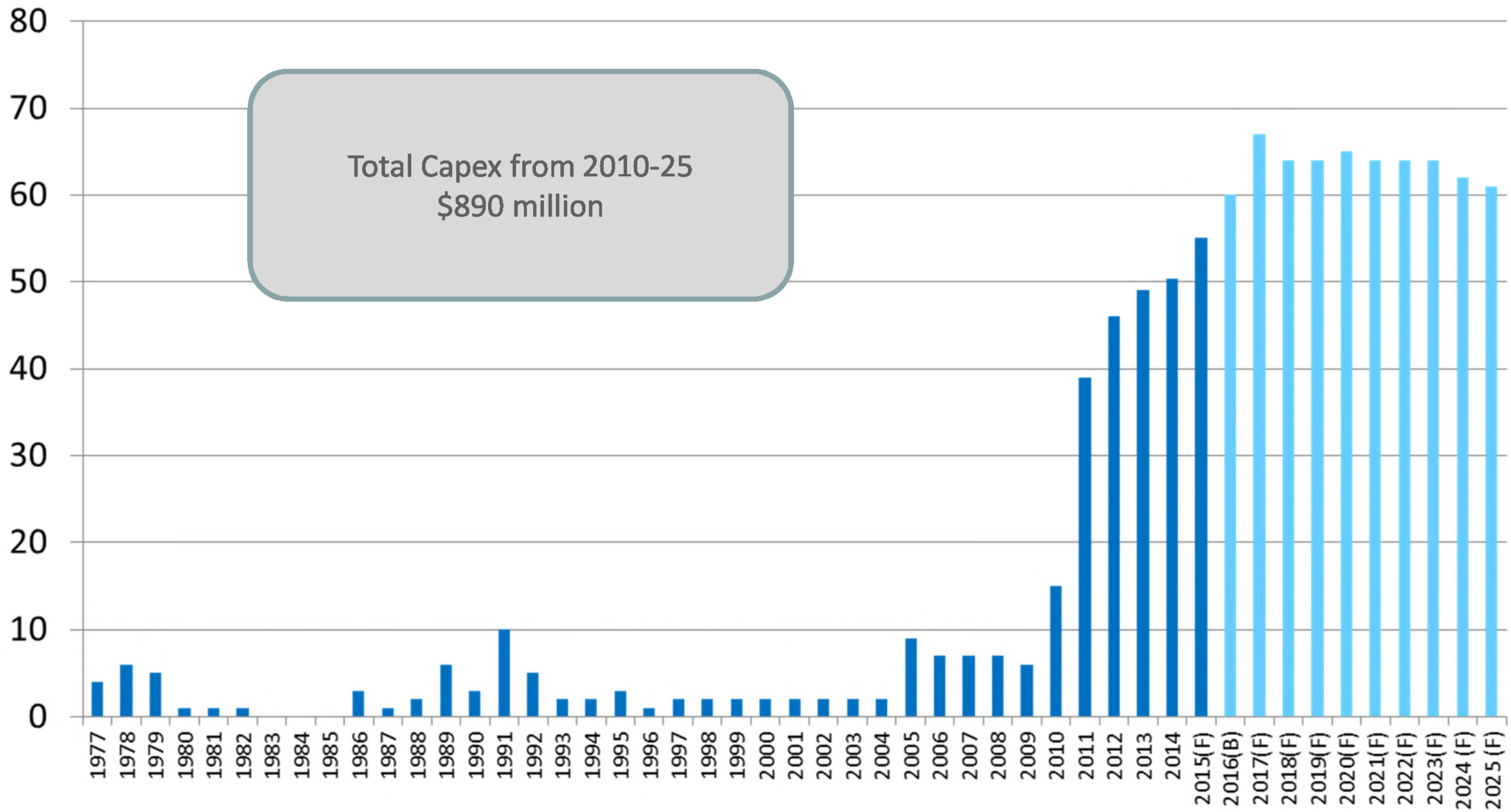
# Capital Expenditures - Churchill Falls ($ millions)



# Current State – Oil & Gas

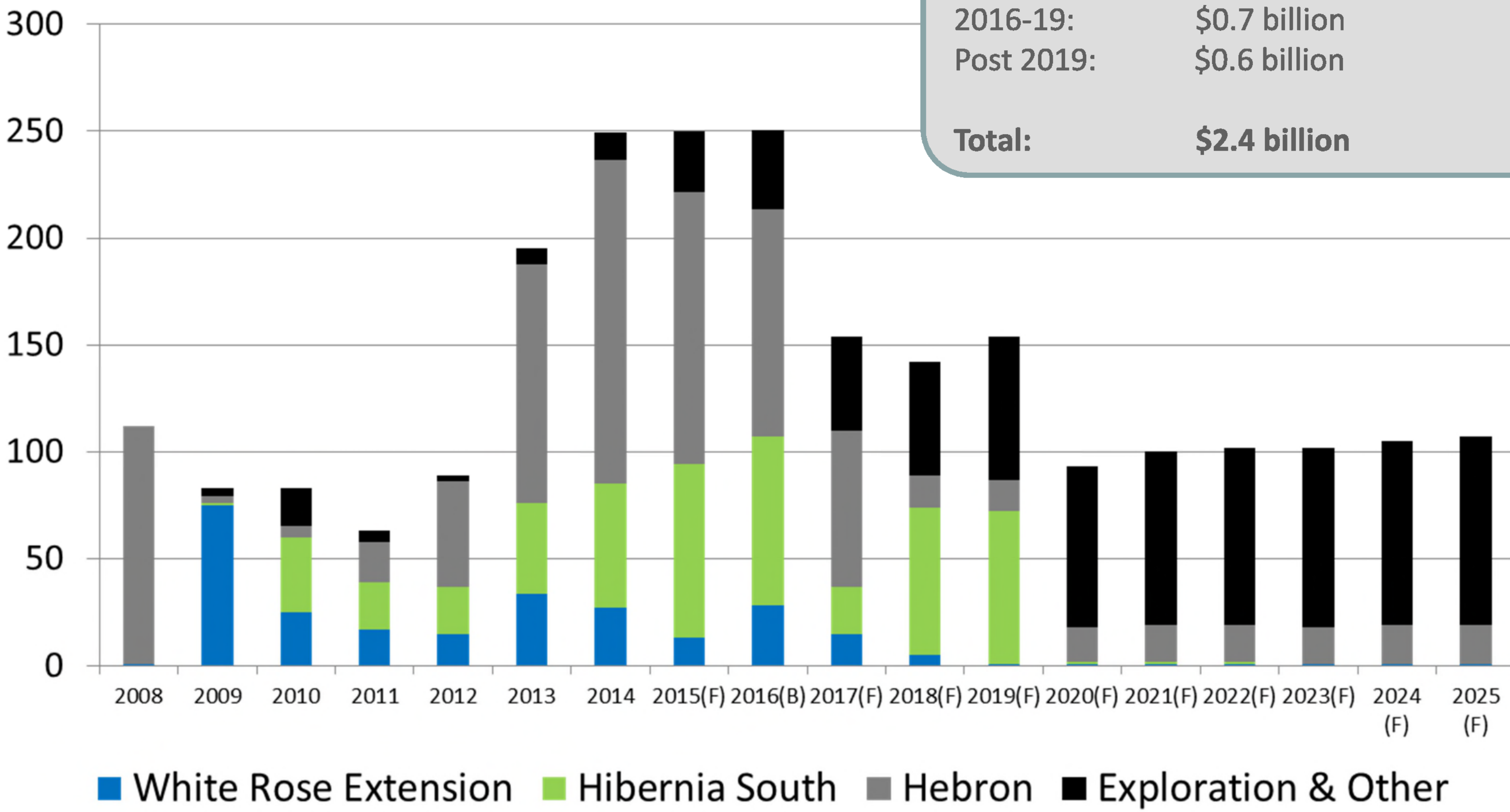
- All oil & gas investment to end of 2015 have been financed by equity (internally generated equity + equity contributions from NL)
- Production levels forecast to take a positive step change in 2017
- Requirement for equity contributions from NL forecast to end after 2016/17 fiscal year
  - Based on current capital spend, production, price, and foreign exchange assumptions
  - Key driver is timing of ramp-up of Hibernia South Extension (HSE) production
- Significant cash flow timing risks remains due to
  - Timing of new fields being put into service and achieving sustained production levels
  - Oil price levels and foreign exchange rates
- To the extent possible, hedging program used to provide additional stability to cash flows

# Oil & Gas Investments

($ millions)

Cumulative Investment:

| | |
|---|---|
| 2008-15: | $1.1 billion |
| 2016-19: | $0.7 billion |
| Post 2019: | $0.6 billion |
| **Total:** | **$2.4 billion** |



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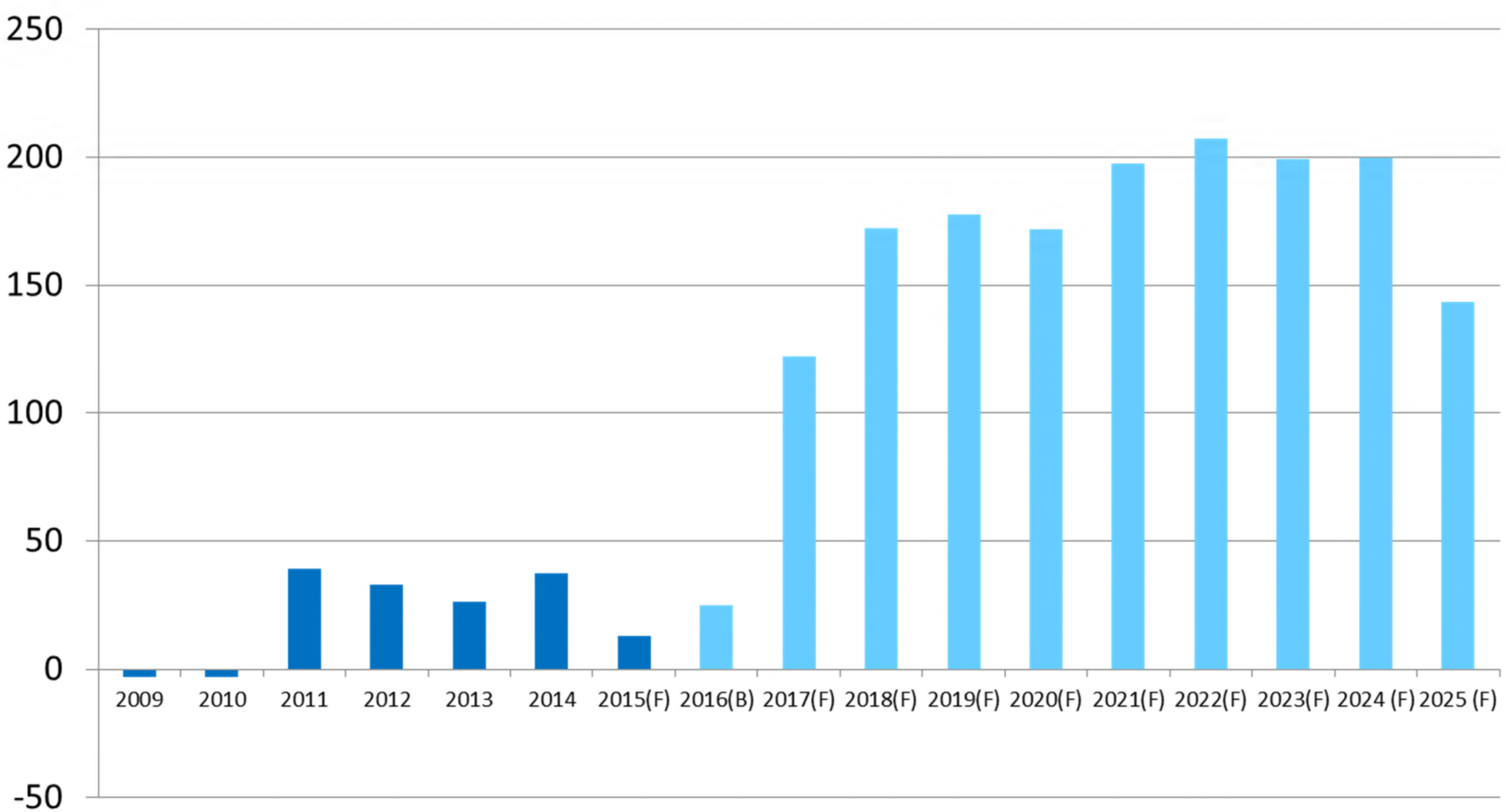
# Realized Oil Price

## ($/barrel)

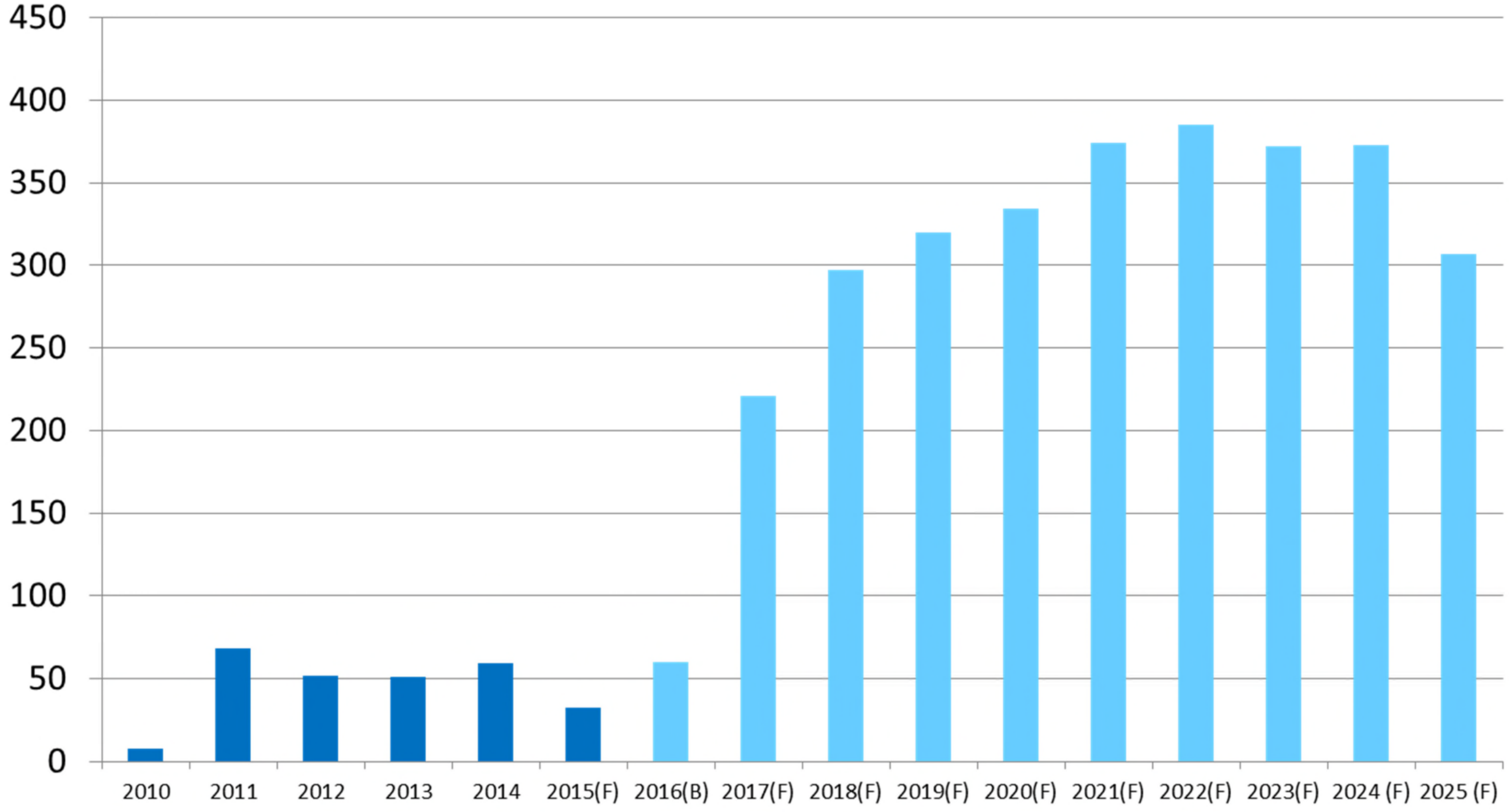
# Net Income – Oil & Gas

**($ millions)**



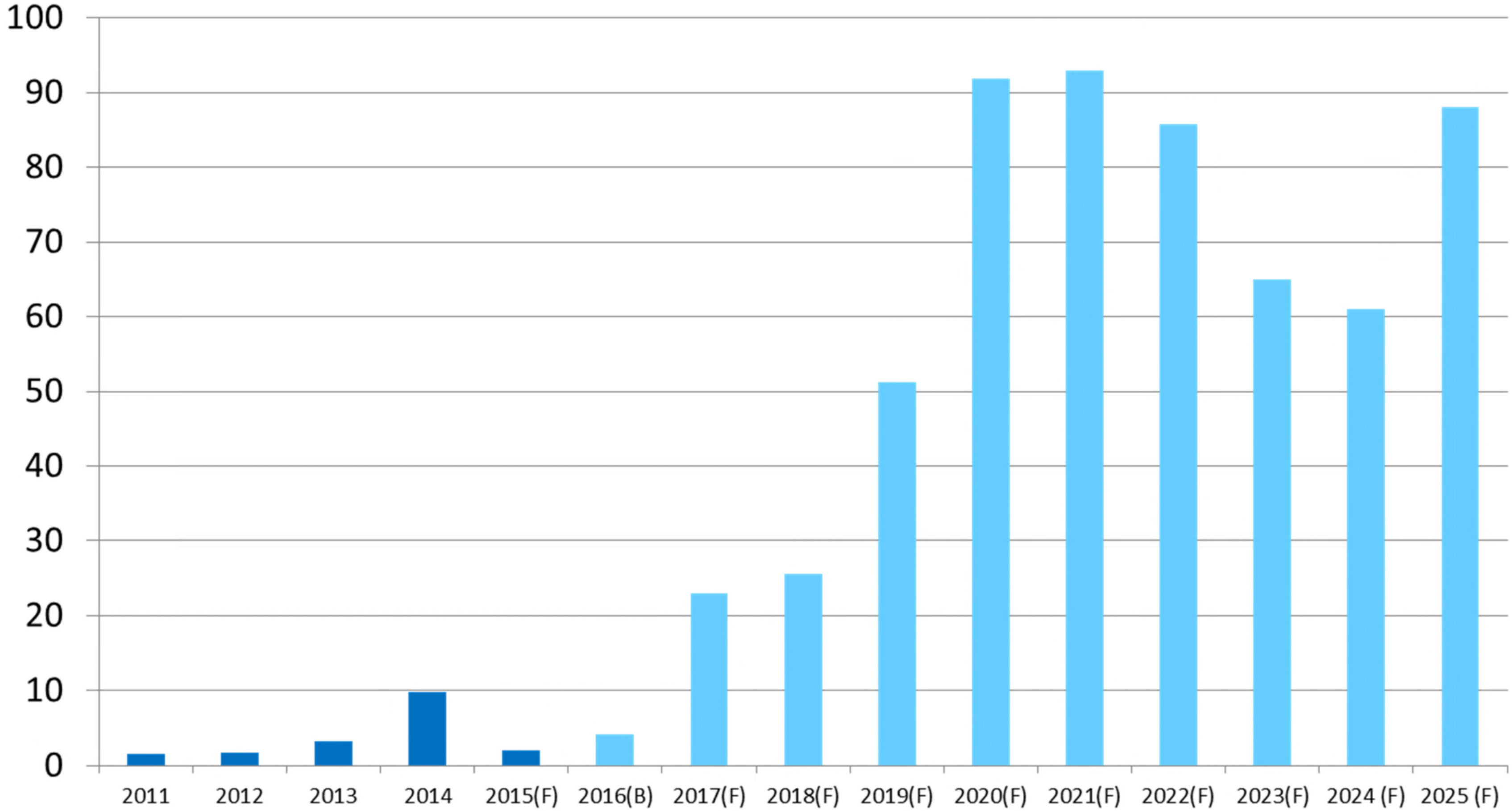
# Cash Flow from Operations – Oil & Gas

($ millions)



# Oil Royalty Payments

($ millions)



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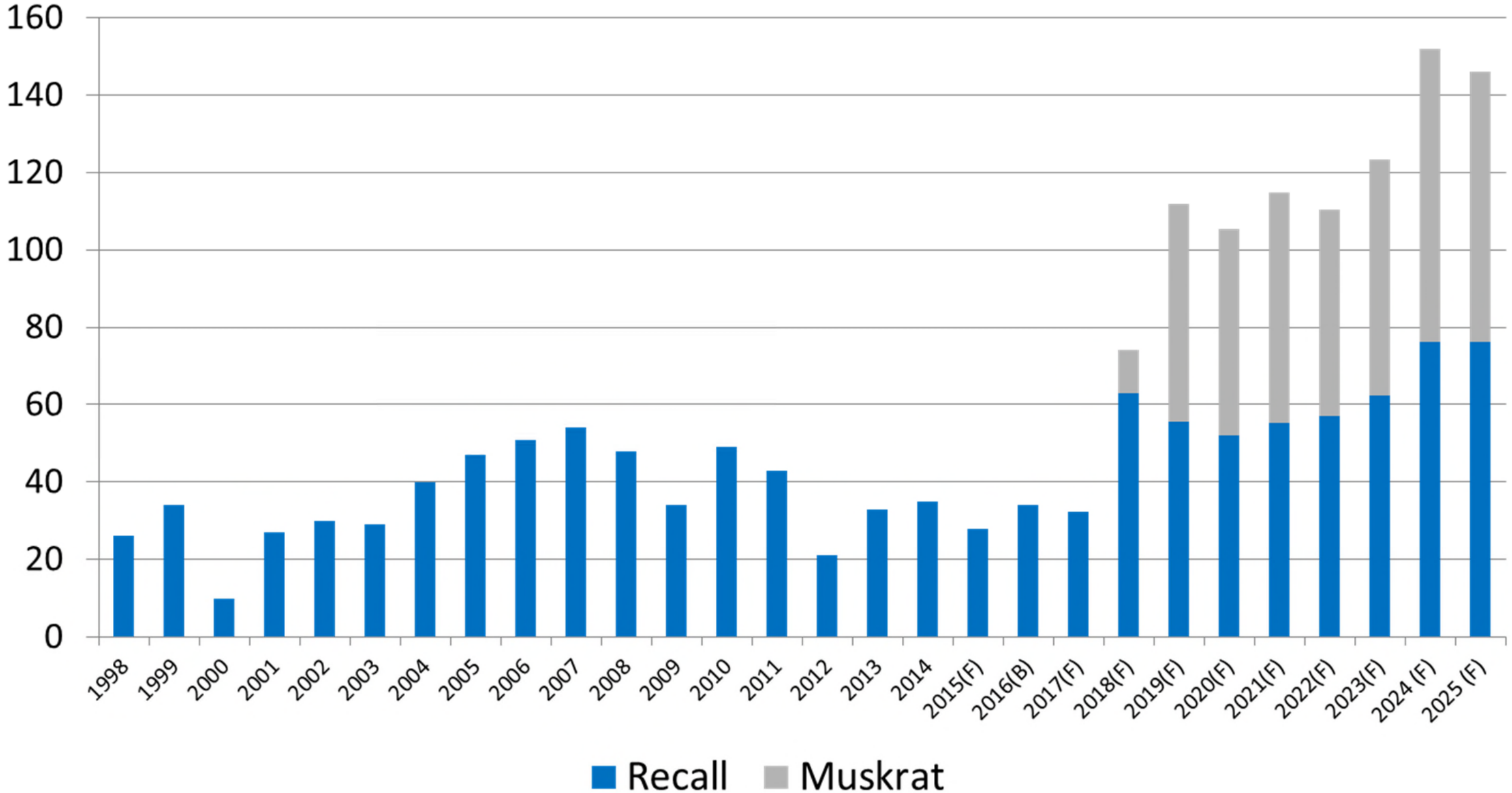
# Current State – Energy Marketing

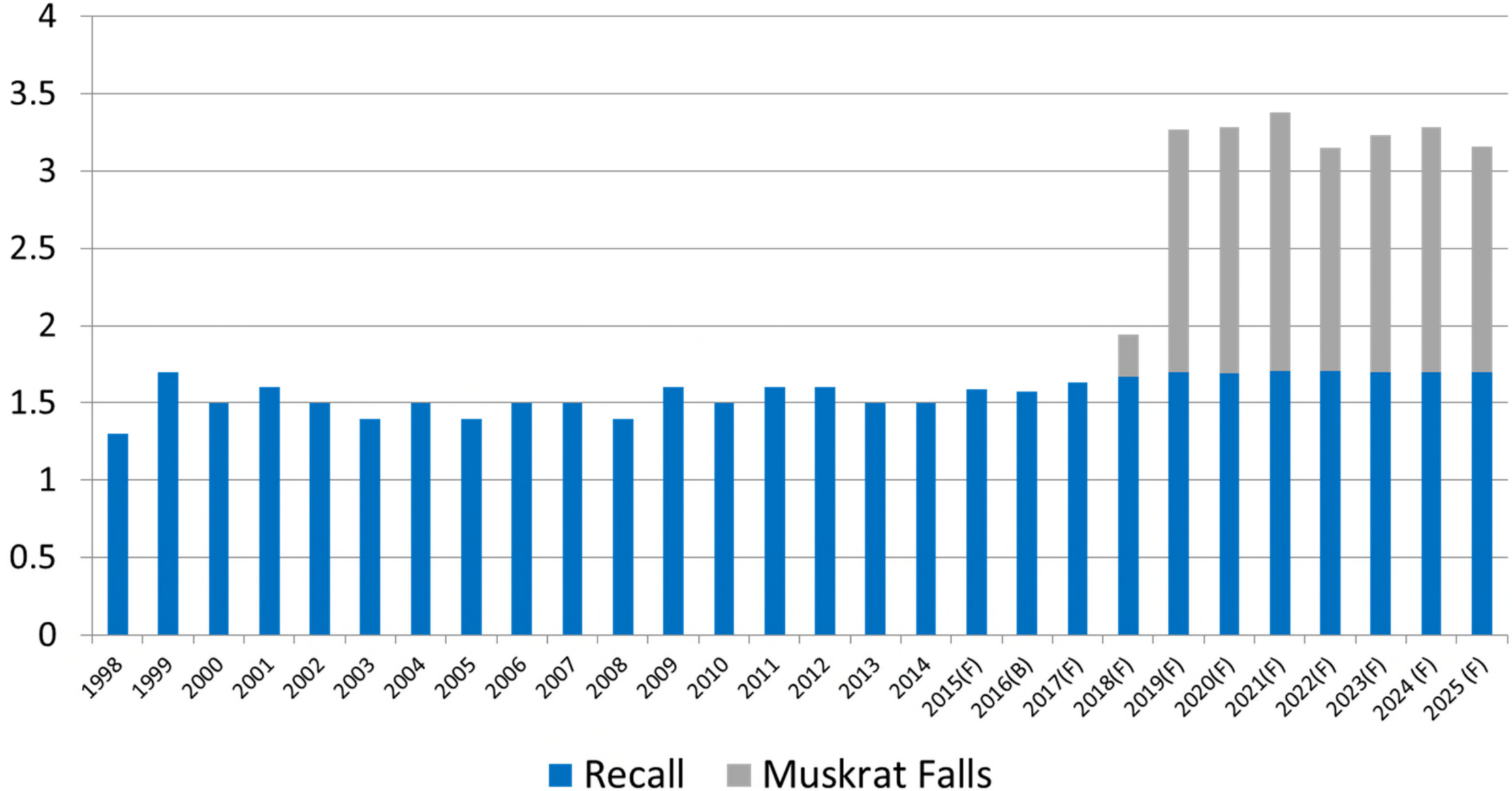
- Sale of recall energy to HQ at the Quebec/Labrador border commenced in 1998 at fixed rate pricing
- Several contract renewals – final contract ran from April 1, 2004 – March 31, 2009
- Upon expiry of contract in 2009, arrangements with HQ ended and Nalcor opted not to renew and instead seek its own transmission access to access export markets
- Effective April 1, 2009 Nalcor obtained 265 MW transmission booking from the Quebec /Labrador border to New York and started selling into export markets in Canada and US (using Emera as its agent and trading desk to access US markets)
- Post 2008 there was considerable volatility and reduced prices in export markets
- Commencing April 1, 2015 Nalcor ended its relationship with Emera (as planned) and initiated its own energy trading business to access export markets
- Currently producing annual net income in the $30-35 million range
- Starting in 2018 will include MF export sales

# Net Income – Electricity Export Sales

## ($ millions)



# Electricity Export Sales Volumes (TWh)



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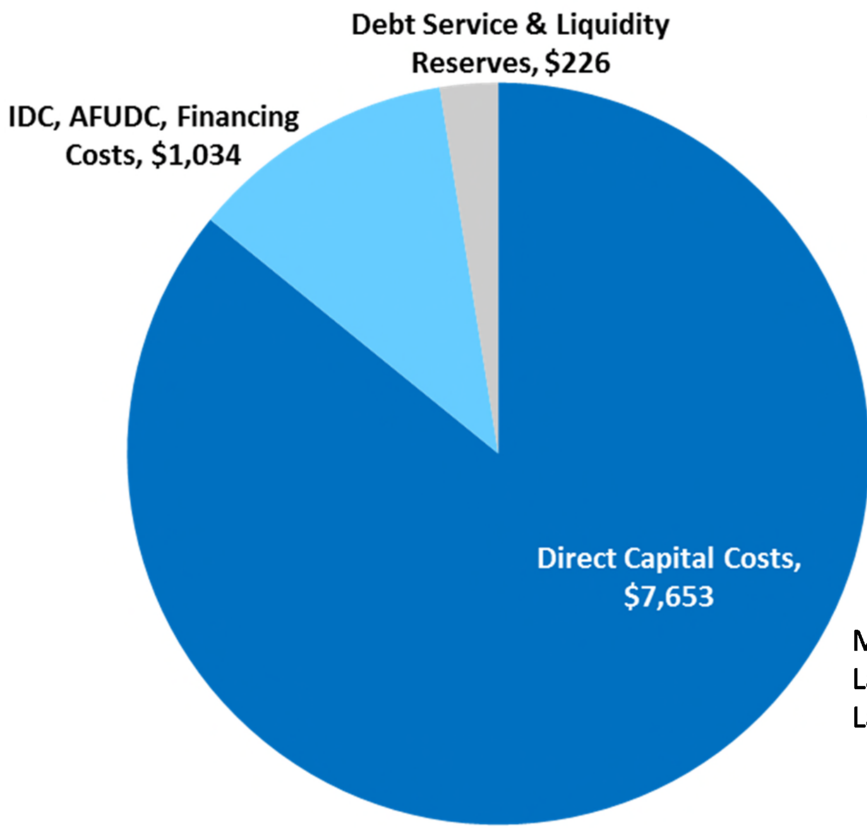
# Current State – Lower Churchill (Phase I)

- Total direct costs incurred to the end of Q3 2015 of $3.5 billion, equating to 46% of the current estimated direct costs of $7.653 billion (excluding capitalized financing costs)
- $5.0 billion debt financing and Federal Loan Guarantee completed in 2013
  - Largest single long-term infrastructure financing ever completed in Canada
  - Unused funds of $3.1 billion at the end of Q3 2015 invested until required to fund construction activities
- Equity commitment and guarantee from NL for the balance of required financing
- Maximum permitted debt levels in capital structure as per federal loan guarantee
  - 65% MF/LTA and 75% for LIL
- Emera Providing Significant level of Equity Investment
  - Emera will provide >40% of the total equity required for LIL
  - Emera owns Maritime Link and is funding 100% of equity requirements
- Future cash flow contribution has two elements:
  - Export market sales
  - Domestic sales to Hydro

# LCP Amounts to Be Financed

**($ millions)**

**Total: $8.9 billion**



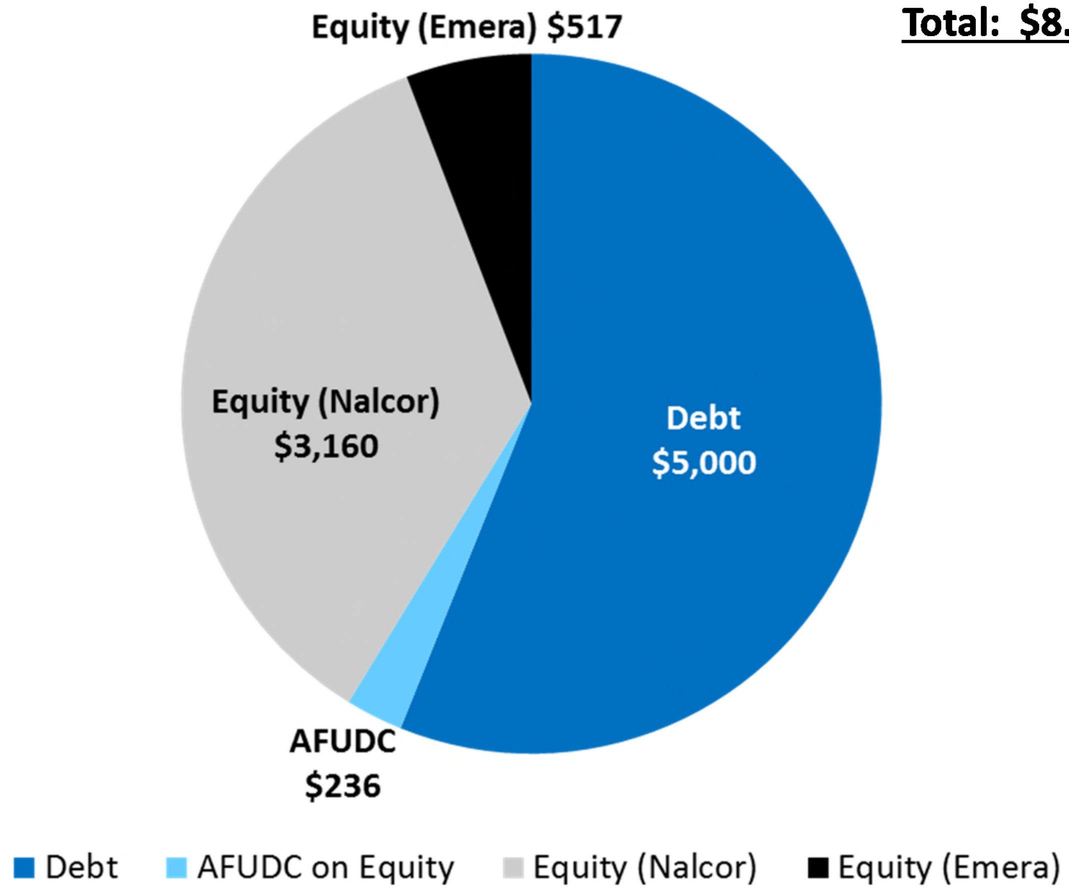

| | |
|---|---|
| Muskrat Falls | $3,686 |
| Labrador Transmission Assets | 878 |
| Labrador-Island Link | 3,089 |

■ Direct Capital Costs ■ IDC, AFUDC, Financing Costs ■ Debt Service & Liquidity Reserves

# Sources of LCP Financing

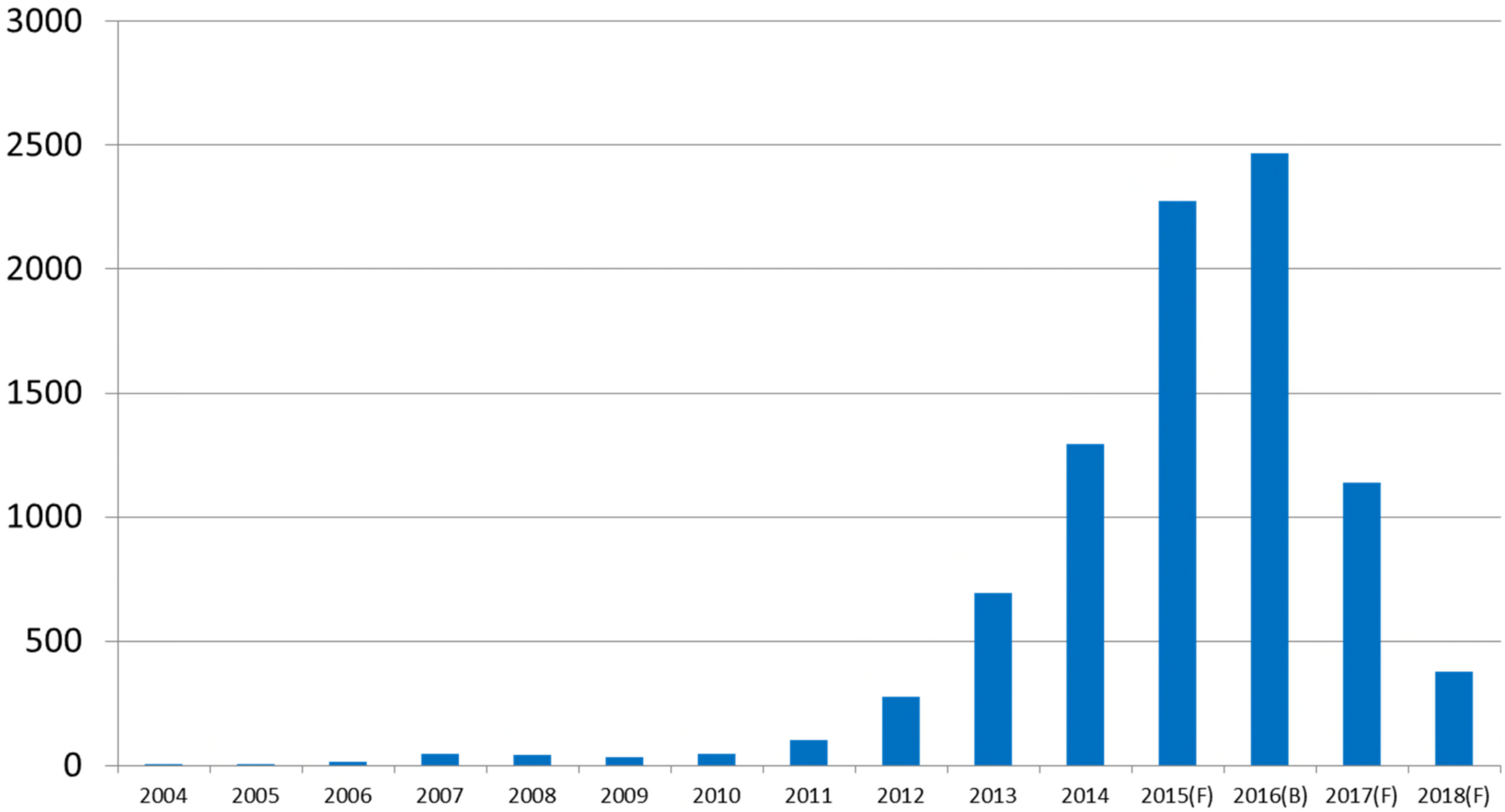
**($ millions)**

**Total: $8.9 billion**



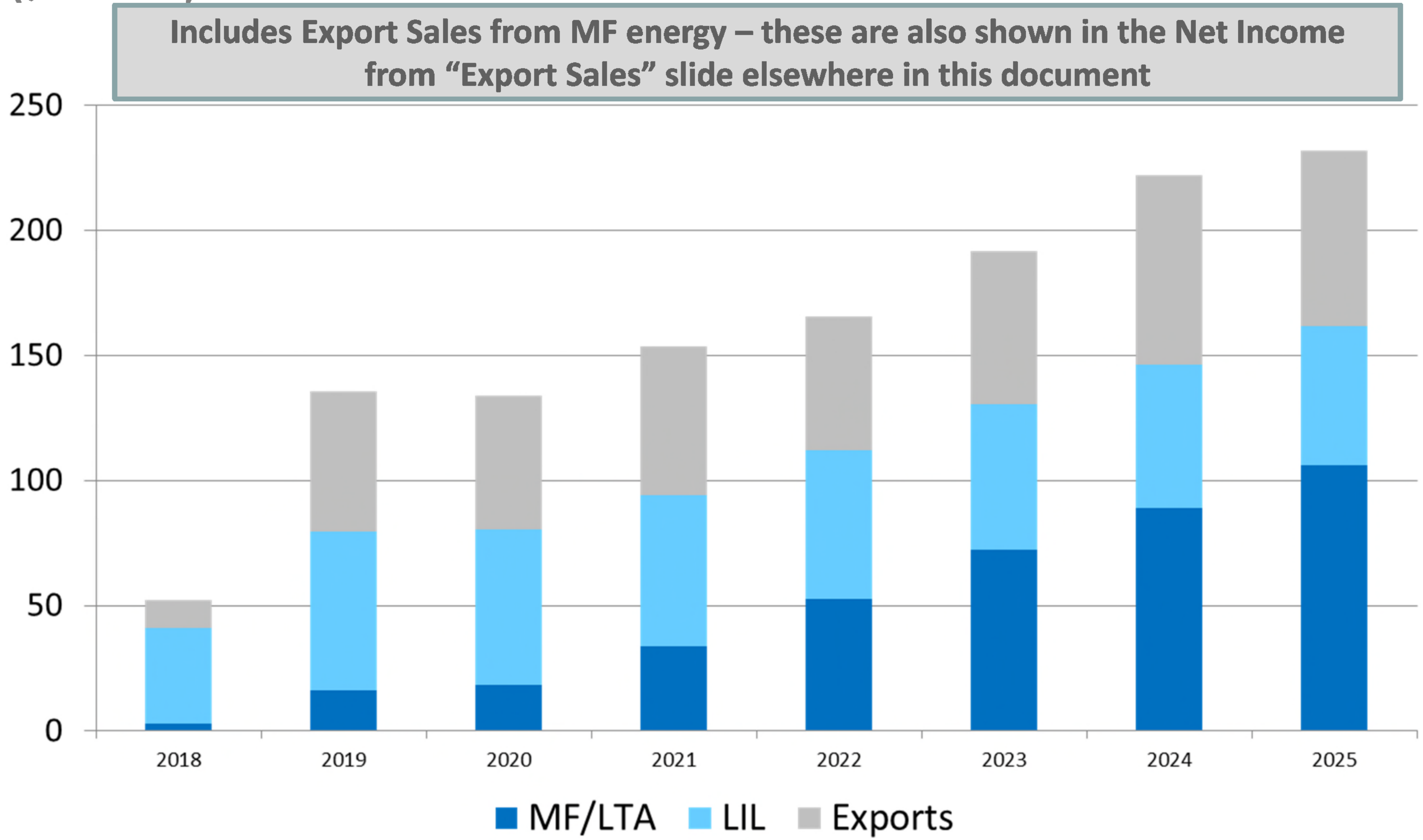
# Capital Expenditures – Lower Churchill

## ($ millions)



# Net Income - LCP

($ millions)



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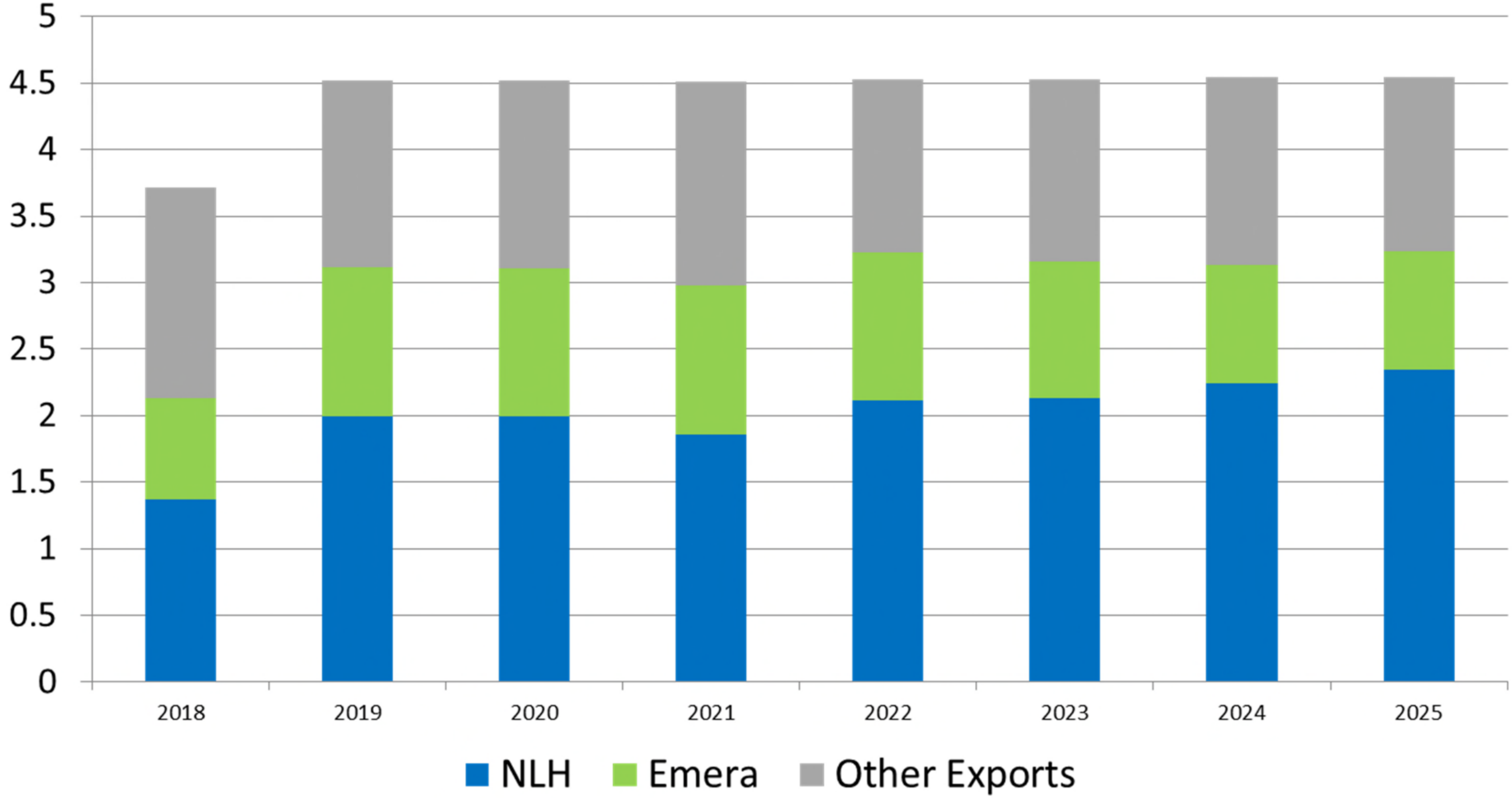
# Muskrat Falls - Energy Deliveries (TWh)

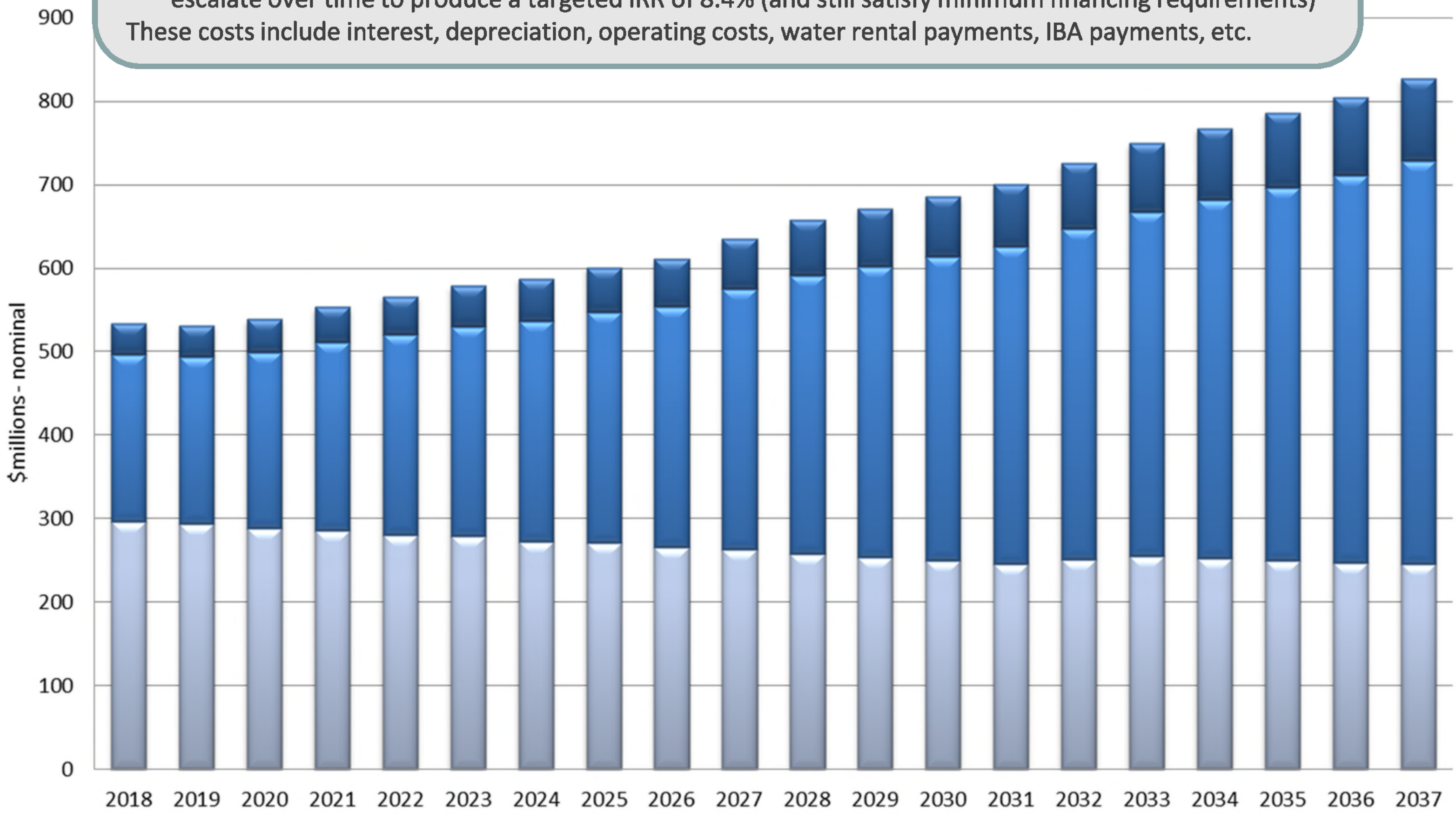


# LCP Costs to Be Recovered in Rates

The chart below shows the costs required to be recovered in rates for the first 20 years after in-service (similar pattern continues in subsequent years).

1) LIL (the grey bars) – cost recovery mechanism based on a regulated cost recovery model (higher cost recovery in the initial years and decreasing over time)
2) MF / LTA (the blue bars) – cost recovery mechanism designed to start with lower cost recovery and escalate over time to produce a targeted IRR of 8.4% (and still satisfy minimum financing requirements)

These costs include interest, depreciation, operating costs, water rental payments, IBA payments, etc.



# 2016/17 EQUITY REQUIREMENTS

# Financing Overview

- The requirement for cash to finance the capital investment program is satisfied through the following sources:
  - Internally generated cash flow
  - Debt financing
  - Equity contributions from the Province
- All cash flow generated by Nalcor is used to support the capital investment program and equity requirements
- Hydro, Churchill Falls, Energy Marketing, and Bull Arm are all self financing through a combination of internally generated cash flow and in the case of Hydro, debt guaranteed by the Province
  - Any net cash flow generated by these businesses after satisfying their own requirements is utilized to fund other Nalcor capital investments
- Financing requirements for Oil & Gas are derived through a combination of internally generated cash flow in the oil & gas business and equity funding from the Province
- Financing for LCP is in accordance with terms and conditions of the LCP Project Finance Agreements with Canada. The primary sources of cash for construction activities include:
  - Proceeds from the December 2013 LCP Debt Financing
  - Equity contributions from Nalcor (funded by the Province)
  - Equity contributions from Emera (for LIL)

# Key Drivers - 2016/17 Equity Requirements

1) Capital investment levels in 2016 are at peak levels, totaling $3.0 billion;
2) Oil production, while forecast to increase in 2016 over 2015 levels, is not currently anticipated to make a significant step-change until 2017, resulting in a continued need for equity contributions in 2016/17 of $204 million. Timing of ramp-up in production from Hibernia South Extension is a key factor;
3) The financing of LCP is in accordance with terms and conditions of the Project Finance Agreements with Canada.
   a) LCP capital was financed 100% by equity until financial close at the end of 2013.
   b) From the end of 2013 to mid-2015, expenditures were financed 100% from the proceeds of the 2013 LCP debt issue until the target debt/equity ratios were achieved.
   c) Since mid-2015, capital expenditures have been financed by a combination of debt proceeds and equity contributions. This will continue until the debt proceeds are exhausted. The equity portion of the financing for 2016/17 is $420 million.
   d) Once the debt proceeds are exhausted, the remainder of the project will then be financed with equity to in-service;
4) The Project Finance Agreements with Canada require that a portion of the forecast estimated capital cost in excess of $6.5 billion be pre-funded by depositing cash (funded through equity) in a cost overrun escrow account ("COREA"). A portion of the 2016/17 equity requirements ($335 million) relates to these pre-funded "COREA" payments;
5) A portion of the 2016/17 equity request ($140 million) relates to a shortfall in the 2015/16 equity requirements that will be financed by Nalcor on an interim basis until the 2016/17 equity request could be made;
6) Changes in the timing of expenditures and payments could alter the timing of when equity is required. To provide flexibility for such changes, the equity ask includes a contingency of $185 million.

# Equity Requirements from Shareholder

| ($ millions) | Nalcor 2016 Fiscal Year | Province's 2016/17 Fiscal Year |
|---|---|---|
| Base Equity contributions to Oilco | $ 214 | $ 204 |
| Base equity contributions to MFLTA | 385 (1) | 298 |
| Base Equity contributions to LIL | 142 | 122 |
| COREA payments | 335 | 335 |
| 2015/16 NL equity request shortfall | 140 | 140 |
| Base equity requirements | 1,216 | 1,099 |
| 2016 funding contingency | 185 | 185 |
| **Total Equity Requirement** | **1,401** | **1,284** |

(1) In addition to this base equity amount, $75 million is forecast to be drawn from the funds in the MF and LTA COREA's which were deposited in prior years in accordance with the terms of the MF/LTA Project Finance Agreement.



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# ENERGY SECTOR BENCHMARKING

## (COMPLETED BY NALCOR IN 2015)

*To ensure consistency in the benchmarking, analysis was based on data publicly available from latest annual published financial statements and may not incorporate the level of precision used by the individual companies in calculating the specific targets*

# Benchmark Results

| | Electricity | | Oil & Gas | |
|---|---|---|---|---|
| | Investor-Owned | Crown/ Municipal | Private Sector | State-Owned |
| Capital Structure: | | | | |
| Debt % | 55% | 65% | 27% | 34% |
| Equity % | 45% | 35% | 73% | 66% |
| Debt / EBITDA | 4.9 | 6.3 | 1.1 | 2.2 |
| Capex / FFO | 1.7 | 1.5 | 1.2 | 1.0 |
| Dividend Payout Ratio | 76% | 25% | 61% | 58% |
| ROCE | 6.1% | 5.6% | 10.5% | 7.4% |
| ROE | 8.2% | 9.5% | 12.2% | 6.3% |

Definitions:
- EBITDA = Earnings before Interest, Tax, Depreciation and Amortization
- FFO (Funds from Operations) = Net Income + Depreciation
- Dividend Ratio = Common Dividends / Net Income
- ROCE = Return on Capital Employed
- ROE = Return on Equity

**Benchmark Details:**
- # Companies 50
- Asset Size ($billions):
  - (less than $10B) 34%
  - ($10B - $30B) 26%
  - (> $30 B) 40%

**Benchmark Sample – Geographic Location:**
- Canada 64%
- United States 10%
- Other 26%



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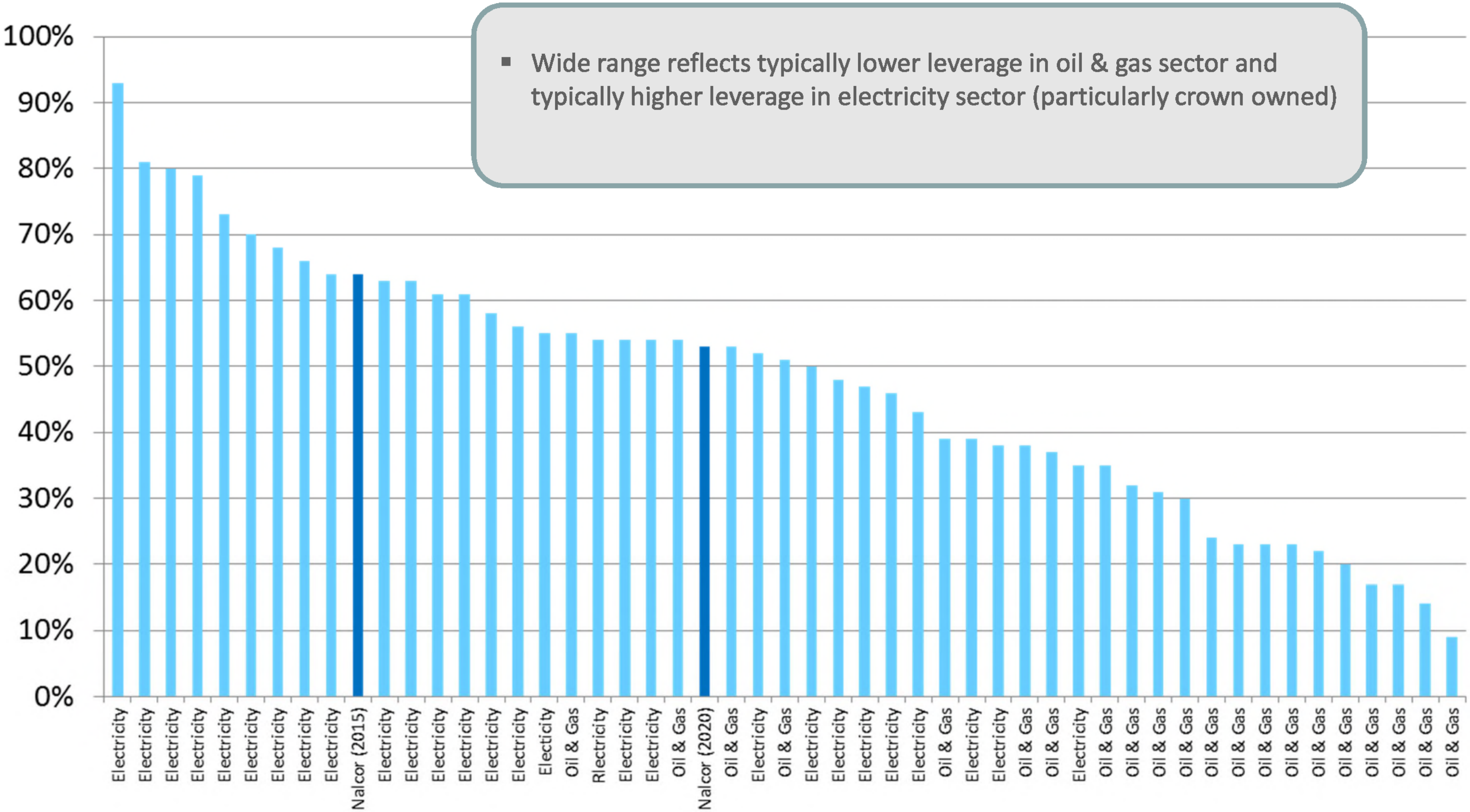
# Debt in Capital Structure



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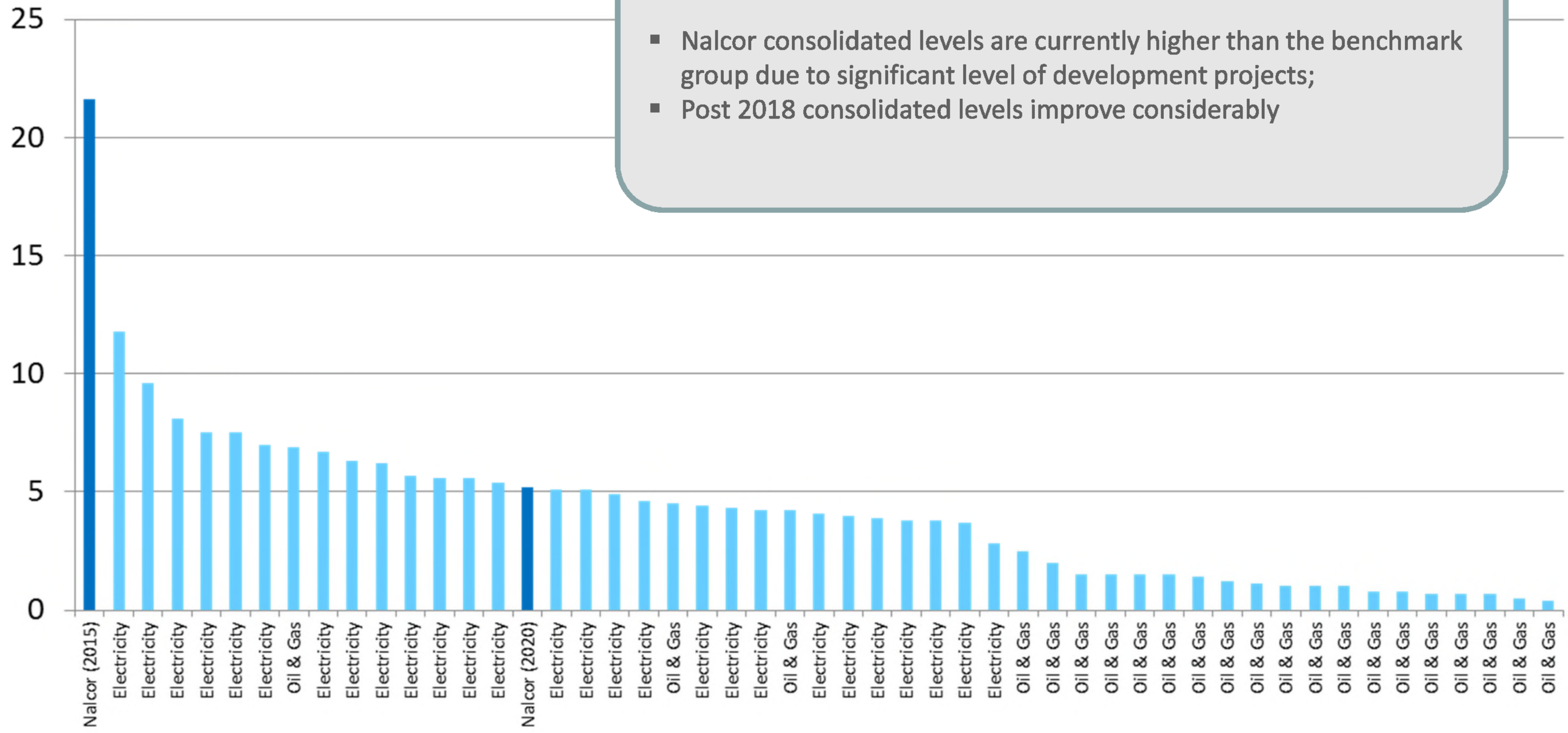
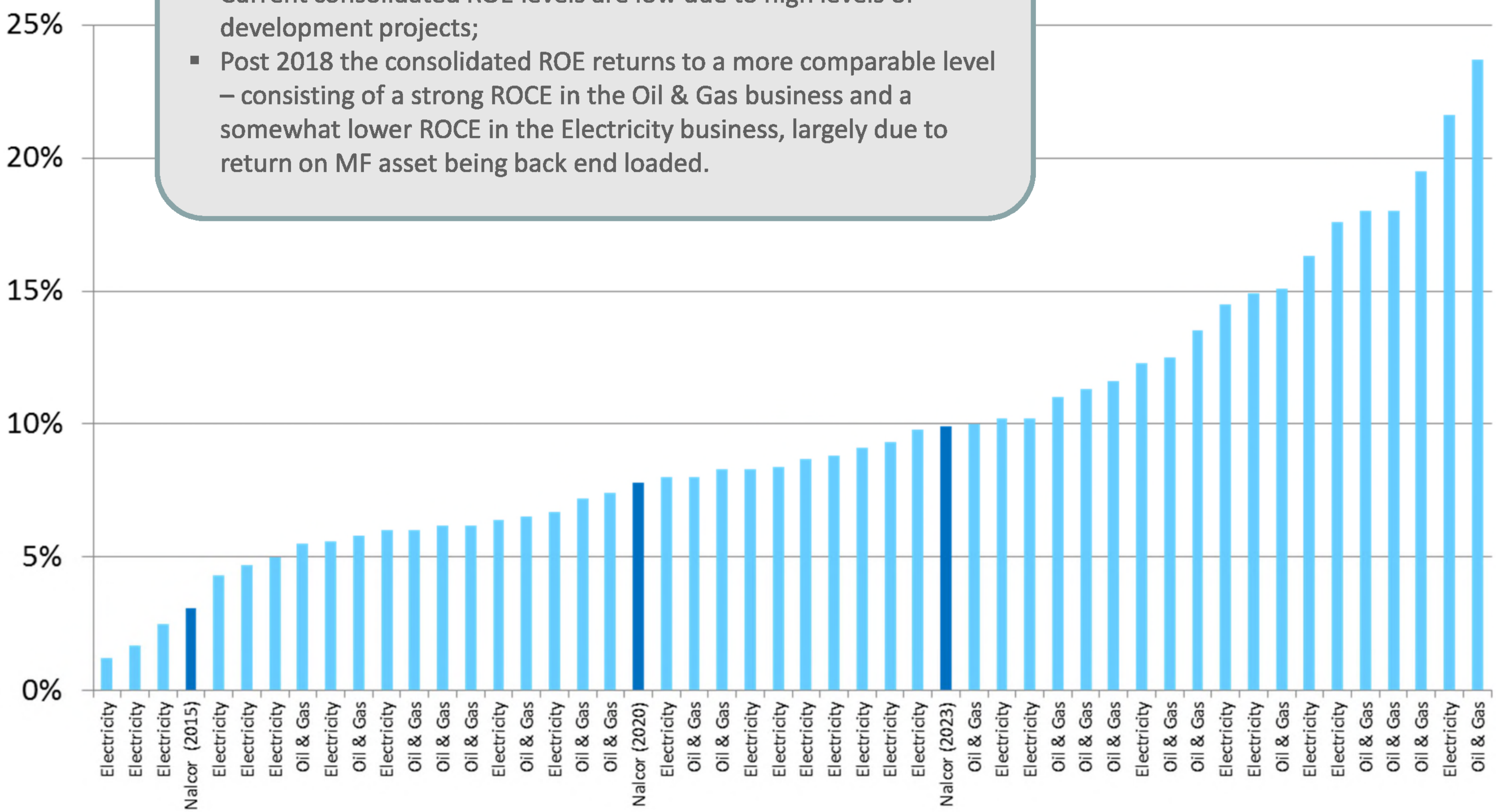
# Debt / EBITDA Ratio

- Nalcor consolidated levels are currently higher than the benchmark group due to significant level of development projects;
- Post 2018 consolidated levels improve considerably



# Return on Equity (ROE)

- Current consolidated ROE levels are low due to high levels of development projects;
- Post 2018 the consolidated ROE returns to a more comparable level – consisting of a strong ROCE in the Oil & Gas business and a somewhat lower ROCE in the Electricity business, largely due to return on MF asset being back end loaded.



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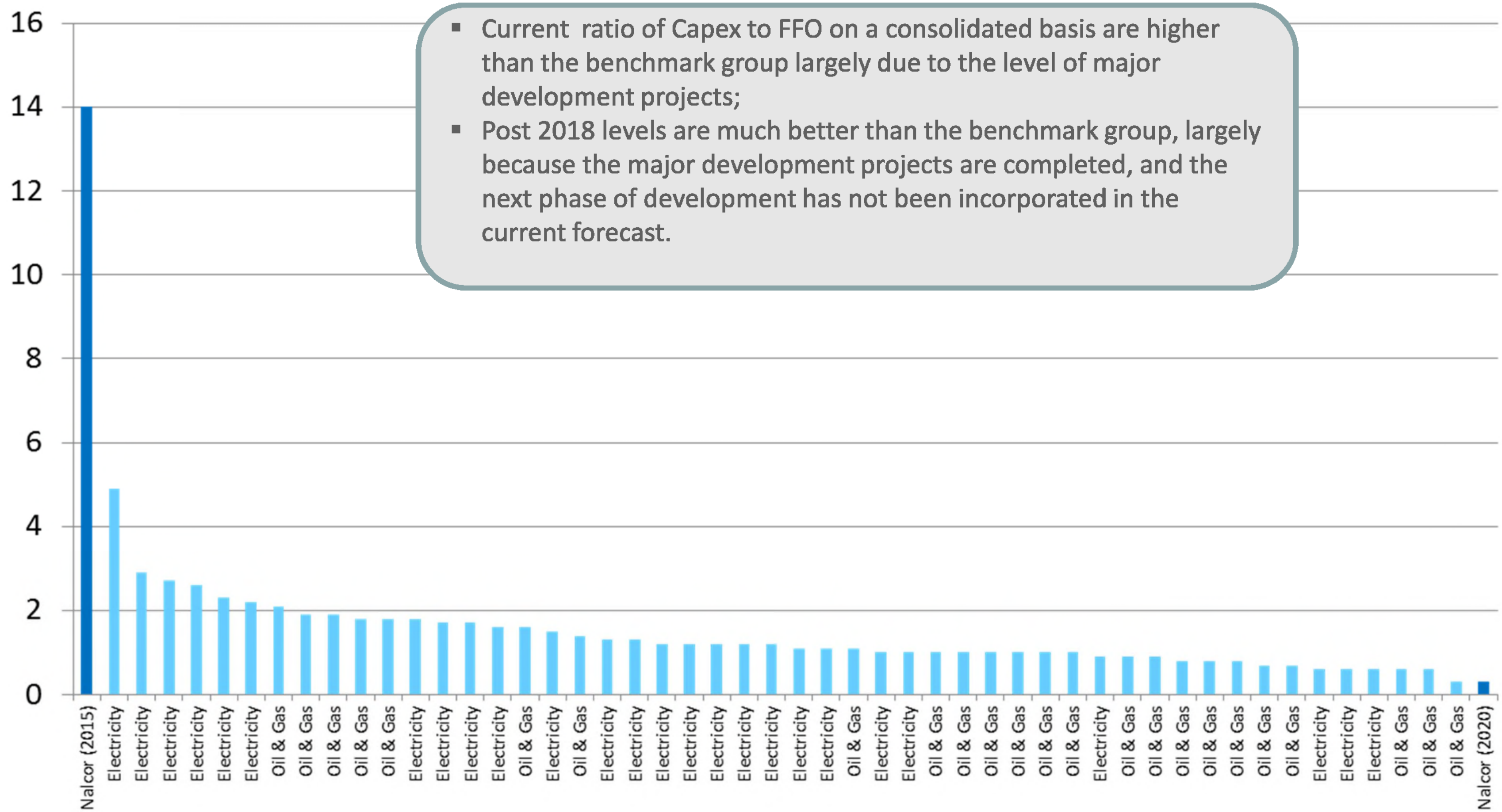
# Capex / Funds from Operations

- Current ratio of Capex to FFO on a consolidated basis are higher than the benchmark group largely due to the level of major development projects;
- Post 2018 levels are much better than the benchmark group, largely because the major development projects are completed, and the next phase of development has not been incorporated in the current forecast.



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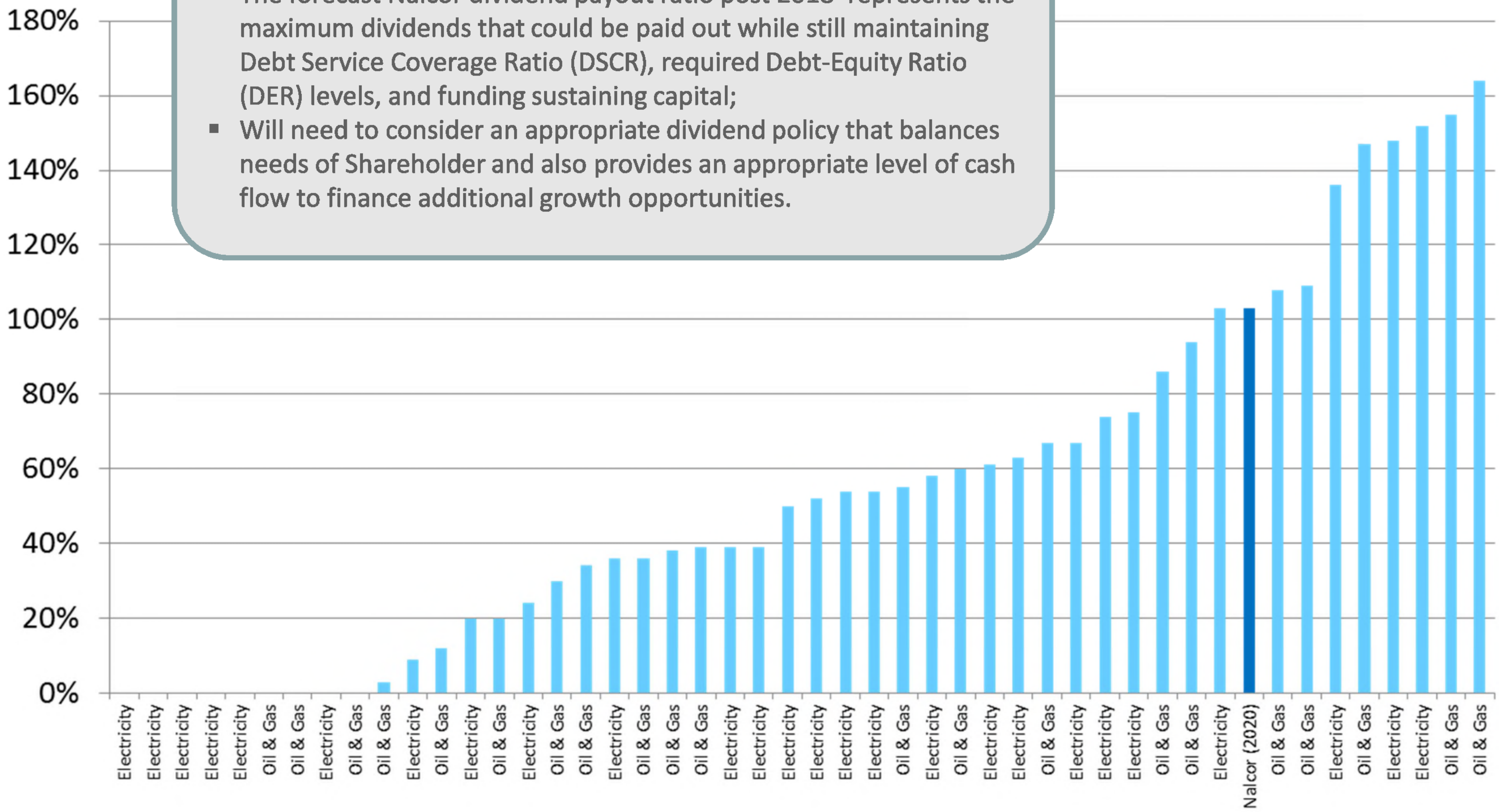
# Dividend Payout Ratio

- The forecast Nalcor dividend payout ratio post 2018 represents the maximum dividends that could be paid out while still maintaining Debt Service Coverage Ratio (DSCR), required Debt-Equity Ratio (DER) levels, and funding sustaining capital;
- Will need to consider an appropriate dividend policy that balances needs of Shareholder and also provides an appropriate level of cash flow to finance additional growth opportunities.



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# LCP FINANCING OVERVIEW

# Introduction

- The financing structure is designed such that it is supported solely by the cash flow from these domestic sales and does not require any export sales
- The full costs of the Projects are paid by NLH customers through contractual arrangements between NLH and the Projects' entities
- Agreements developed to ensure cash flow stream from NLH supports financing of the Projects
- The Province has directed the Board of Commissioners of Public Utilities ("PUB") to allow NLH to recover in rates the costs incurred under these contractual arrangements
- The equity portion of the financing will be provided to Nalcor by NL under Equity Support Agreements and Equity Support Guarantees and by Emera under Nalcor/Emera Formal Agreements for their investment in LIL
- The $5.0 billion debt financing was funded through a series of long term bonds, all issued on a single financial close date, that carry the Government of Canada's AAA credit rating based on the Federal Loan Guarantee ("FLG")
- The financing is split into the two major project components:
  - MF/LTA ($2.6 billion)
  - LIL ($2.4 billion)
- The debt financing arrangements consist of two distinct pieces:
  - the arrangements with the external bond holders through Funding Trusts, and
  - the internal arrangements between MF/LTA and LIL with Canada
- The financing agreements put in place the financing and guarantee arrangements between Canada, the Funding Trusts (Vehicles) and the Nalcor special purpose entities created to facilitate the financing



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# LCP Entity Structure Key Considerations

- Project Financing – "ring-fence" project debt from Nalcor and other assets; FLG also required separate MF, LTA and LIL borrowing entities
- Limitation of liability – limit liability back to Nalcor and NL relating to financing/commercial arrangements, construction contracts, etc.
- Separate ownership in MF/LTA from LIL – separate entities required as Emera has interest in LIL, but not MF/LTA
- Protect tax-exempt status of Nalcor in LIL – Emera being taxable resulted in adoption of the partnership structure for LIL
- Ensure LIL transmission rights are held in separate entity from that owned in part by Emera - 100% transmission rights to be owned by Nalcor in separate entity from the LIL Partnership (i.e. LIL Opco)
- Satisfy US/FERC regulatory requirements

# LCP Corporate Structure

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- Lower Churchill Management Corporation (LCMC)
- Muskrat Falls Corporation
- Labrador Transmission Corporation
- Labrador-Island General Partner Corporation
- Labrador-Island Link Holding Corporation
- Labrador-Island Link Operating Corporation

100% Control

Labrador-Island Link Limited Partnership

65% Ownership

# LCP Subsidiaries

- **Labrador-Island General Partner Corporation (“LIL GP”)**
  - It is the general partner of the LIL Limited Partnership (“LIL LP”) and is 100% owned by Nalcor. As general partner, LIL GP has the full power to manage and control the LIL LP (which is the entity through which debt was borrowed to finance construction of the LIL)
- **Labrador-Island Link Holding Corporation (“LIL Holdco”)**
  - It holds Nalcor’s limited partnership interest in the LIL. This is the entity that is used to fund Nalcor equity contributions for LIL development and receive distributions during operations
- **Labrador-Island Link Operating Corporation (“LIL Opco”)**
  - Entity that will receive operating control over 100% of the transmission capacity on the LIL from the LIL LP. Will be the “transmission owner” for purposes of offering transmission service over the LIL
  - LIL Opco also guarantees the debt financing related obligations of the LIL LP, as payments from NLH relating to use of the LIL will flow through LIL Opco as part of the commercial agreement structure
- **Muskrat Falls Corporation (“Muskrat”)**
  - Entity that holds the water power and land rights necessary for the construction of the power generation facility at MF and will construct, own and operate these assets
  - Muskrat is the entity through which Nalcor finances construction of the MF plant
- **Labrador Transmission Corporation (“Lab Transco”)**
  - Entity that constructs, owns and operates the transmission link between the MF plant and Churchill Falls. Will be the “transmission owner” for purposes of offering transmission service over the LTA
  - Lab Transco is the entity through which Nalcor finances construction of the LTA
- **Lower Churchill Management Corporation (“LCMC”)**
  - Carries out project management functions during the development phase of the project
  - LCP Project Management team housed in LCMC through contractual arrangements

# Financing & Commercial Agreements

**Debt Financing**

- LIL Financing Agreements
- MF/LTA Financing Agreements

**Equity Financing**

- Equity Support Agreements
- Equity Support Guarantees
- Nalcor/Emera Formal Agreements

**Revenue Agreements**

**LIL**

- LIL Assets Agreement / LIL Lease
- Transmission Funding Agreement
- LIL Remedies Agreement

**MF/LTA**

- Power Purchase Agreement
- Generator Interconnection Agreement



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# NL Revenue Agreements - Overview

**Arrangements provide for full recovery of all project costs from NLH, and allow for a defined equity return to the project owners**

- **Power Purchase Agreement ("PPA")**
  - Provides for the purchase by NLH and the sale by Muskrat of energy, capacity, ancillary services and greenhouse gas credits, payments for which are made on a full cost recovery basis
- **Generator Interconnection Agreement ("GIA")**
  - Provides for the construction of LTA by Lab Transco to enable interconnection of the MF Plant with the NL transmission system. Muskrat makes payments to Lab Transco and recovers such costs from NLH via the PPA (flow-through cost recovery)
- **LIL Assets Agreement**
  - Provides for the interconnection of the LIL with the NL transmission system, the provision of budget information prior to commissioning of the LIL, and the payment of the optional prepaid rent
- **LIL Lease ("Lease")**
  - Provides for a lease/sublease and assignment of the LIL assets and associated rights by LIL LP to LIL Opco in exchange for the payment of rent and the obligation of LIL Opco to operate and maintain the LIL
- **Transmission Funding Agreement ("TFA")**
  - Provides for the TFA payment which includes an amount equal to the rent and the operating and maintenance costs by NLH to LIL Opco to enable LIL Opco to meet its financial obligations under the Lease and the TFA



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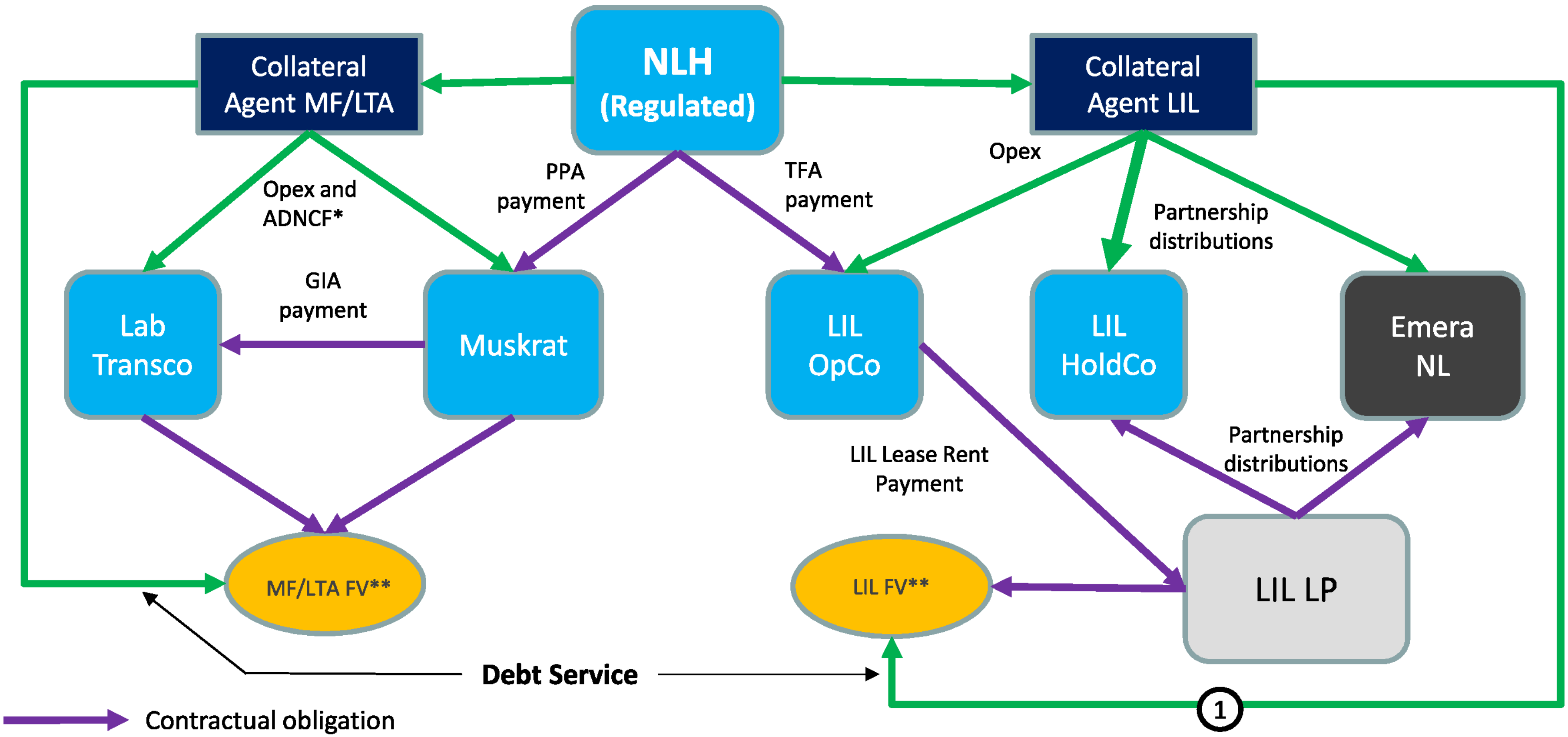
# NL Revenue Agreements Structure




Contractual obligation

Cash flow as directed by Trustee in priority order per lending agreements

***ADNCF** - After Debt Net Cash Flow **** FV** – Funding Vehicle

1 During the construction period for LIL, an Intermediary Trust receives debt service and then pays it on the LIL FV

# Financing Background

- MF, LTA and LIL expenditures are funded through the equity agreements and the debt financing that is guaranteed by the Government of Canada as per the Federal Loan Guarantee Agreement
- NL has committed to provide the base level and contingent equity, if required, to ensure the Projects achieve in-service
- Debt guarantee constitutes a direct, absolute, unconditional and irrevocable obligation of Canada and thereby carries the full faith and credit of Canada (i.e.. AAA ratings or equivalent from each of Standard & Poor's, Moody's, and DBRS)
- Nalcor engaged TD Bank as Lead Arranger to provide a fully underwritten debt financing of $2.6 billion for the MF/LTA Funding Trust and $2.4 billion for the LIL Funding Trust
- The Transaction Structure reflects a flow through structure whereby Bond Holders (Lenders) provide financing to a Funding Vehicle ("LCP FV") which in turn on-lends the proceeds of such financing to a LCP special purpose project entity (the "Transaction Structure") on a limited recourse project finance basis and that project financing by the LCP FV is secured on all the assets of the LCP special purpose project entity (a "Borrower")
- Bond Holders, through the Indenture Trustee, receive an irrevocable, absolute and unconditional guarantee from Canada for all the payment obligations of the LCP FV
- The payment streams from each Borrower to the LCP FV correspond to the payment streams of the LCP FV to its respective Bond Holders



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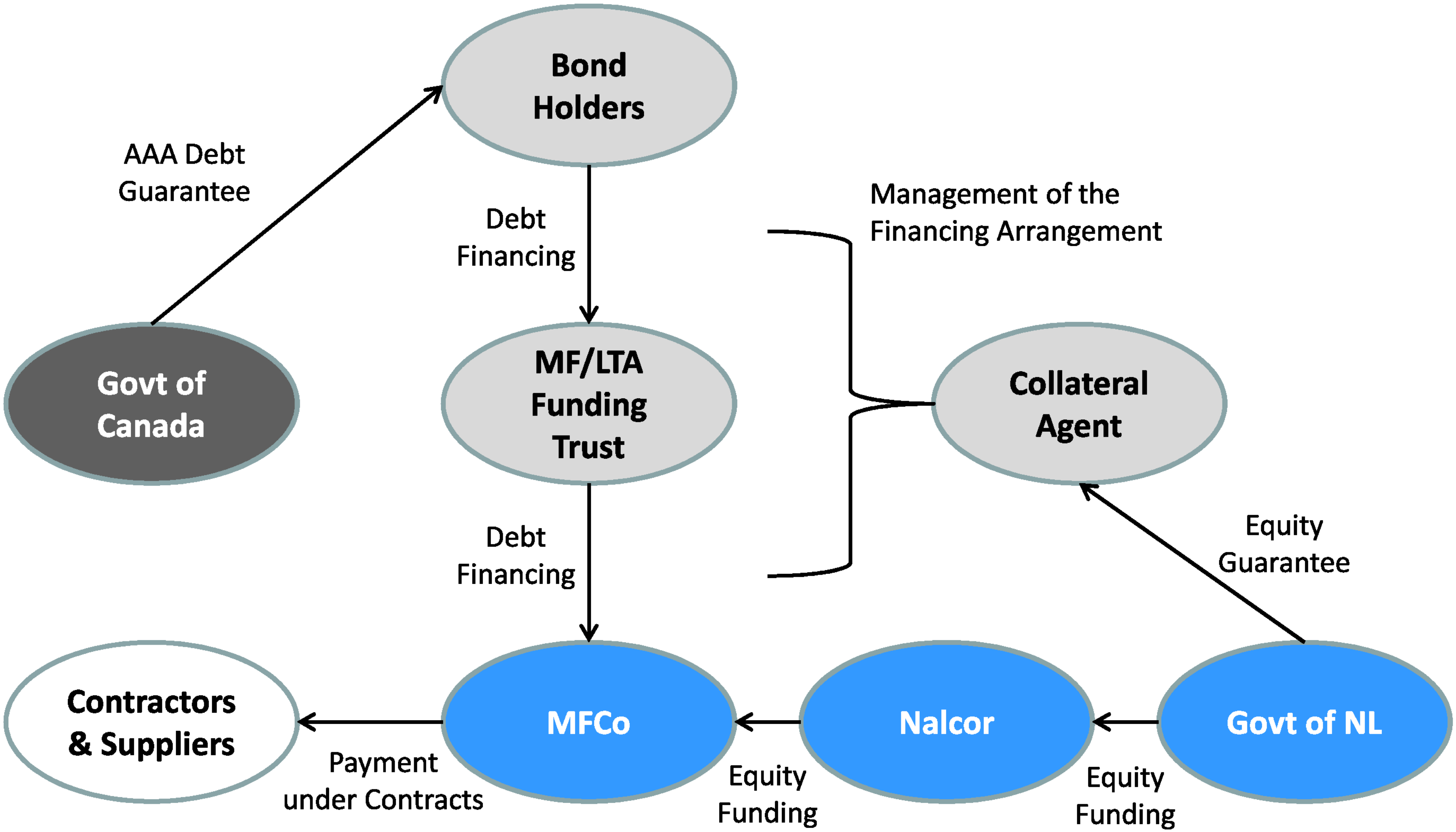
# FLG Transaction Structure



# Financing - Key Objectives

- The following outlines objectives relating to the FLG Financing Structure which were collectively agreed to by Nalcor and Canada:

1. Maximize credit substitution benefits of the FLG
2. Ensure total guaranteed exposure of Canada does not exceed $5 billion
3. Minimize all-in cost for both the construction and long-term financing components, based on risk adjusted NPV to NL ratepayers
4. Completeness of the financing solution, including the amount of funding available and the Lead Arranger's financial commitment to implementation of solution
5. Mitigation of interest rate risk
6. Successful execution of the financing plan
7. Debt repayment based on an amortizing profile following COD
8. Ensure a fair and competitive RFF process
9. Simplified decision making with respect to execution of the financing arrangements

# Financing Options Evaluated

- Overall Financing Structure approach predicated on: (i) construction financing, (ii) long-term financing and (iii) hedging facilities, as required
- The analysis presented by Nalcor to Canada focused on three representative Financing Structures:
  - ***Upfront Bond*** – single issuance or series of bonds all issued at Financial Close
  - ***Leading Tranched Bonds*** - multiple tranches of long-term bonds issued during the construction period to align with project funding requirements
  - ***Bank Facility + Trailing Tranched Bonds*** - appropriately sized bank facility that is drawn upon during construction and periodically refinanced through issuance of long-term bonds
- Financing Structures including tranched bonds would require implementation of a hedging program to mitigate interest rate risk
- While all of these alternatives were representative of the spectrum of solutions being implemented in the market to fund projects of this nature, the final Financing Structure selected through the Request for Financing ("RFF") process was a series of long term bonds, all issued on a single financial close date



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# RFF Background

- Nalcor approached the financial markets through the RFF process on May 31, 2013 to provide a fully underwritten debt financing of up to $2.6 billion for the MF/LTA Funding Trust and $2.4 billion for the LIL Funding Trust
- 17 major Canadian and international financial institutions were invited to participate in the RFF process - 6 Proponents put forth submissions of which 3 were compliant under the terms of the RFF
- In procuring the financing, certainty was a key theme
  - Magnitude of total debt amount required and NL's significant equity investment
  - Opportunity to secure financing at historically low Government of Canada base rates and spreads, which the FLG further reduced - all forecasts pointed towards increases over the planned construction period
  - Presence of FLG facilitated the use of financing structures such as the Upfront Bond that provide certainty on availability and cost of total funding requirements from Day 1
  - Due to the magnitude of the financing, the Upfront Bond structure would not be available for project financing not guaranteed by Canada
  - Significant risk mitigation benefits given 5 year construction period and potential for change in global or Canadian economic conditions or "black swan" events over that time - could impact ability to issue debt or potentially even Canada's AAA rating