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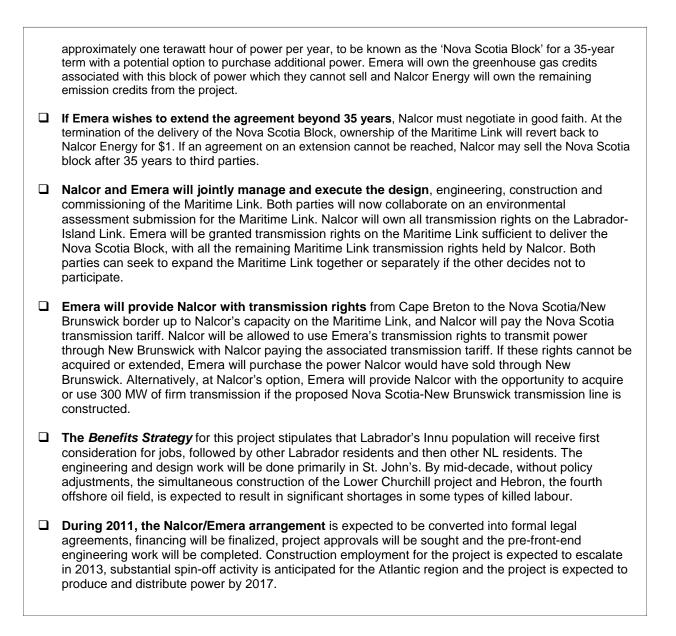
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Newfoundland and Labrador

... The First Stage of the Lower Churchill Hydro-Electricity Project

Nalcor, Newfoundland and Labrador's energy corporation, and Emera, a Nova Scotia-based energy and services company owning Nova Scotia Power, announced in November 2010 an agreement for a thirty-five year arrangement for the development of Muskrat Falls generating station (824 MW) in central Labrador, as well as a 1,100 km High Voltage Direct Current Labrador-Island Transmission Link and a 180 km sub-sea Maritime Transmission Link between the Island of Newfoundland and Cape Breton, Nova Scotia. This arrangement marks a new level of regional power co-operation. Of the annual 4.9 TWh of power expected from the Muskrat Falls facility when it commences production in 2017, 40% will meet NL's own power demands, 20% is allocated to Nova Scotia for 35 years and the remaining 40% can be sold to the rest of Atlantic Canada or the New England States or retained in Labrador to supply its additional industrial development. For Newfoundland and Labrador, the business case for proceeding with the Muskrat Falls generating station is not based on power sales outside the province. Instead it represents the low-cost solution for NL to meet the peak capacity power deficit anticipated in 2015 and the overall power deficit by 2019. Power from the Muskrat Falls station will allow the 500 MW oil-fired Holyrood thermal station, in service since 1969, to be closed, creating a provincial power system 98% carbon free. If the Muskrat Falls project unexpectedly does not proceed, the government is committed to making significant emissionsreductions investments during the refurbishing of Holyrood. Fuel costs for Holyrood have been trending higher since 1999 from less than C\$30 per megawatt hour to roughly C\$135 by 2011. Currently, Newfoundland and Labrador's residential power rates are lower than many other regions in Canada, but NL's government estimates that NL's power rates will climb 37% from 2011 to 2016 as escalating power demand forces a heavier reliance on Holyrood. The cost of Muskrat Falls and the Labrador-Island Transmission Link will only be included in the power rates when the project is completed and operating. The net cost of incorporating this amortized cost into power rates while removing Holyrood is expected to leave power rates in 2017 virtually unchanged from 2016. Thereafter, power rates with the first stage of the Lower Churchill project are expected to stabilize after 2016, with annual increases less than 1% as NL curtails its exposure to the volatile and rising trajectory of global oil prices. ☐ The Churchill River in Labrador, with the 5,428 MW Upper Churchill Falls generating station operating since 1971, still has about 35% of its generating capacity available for the Lower Churchill Generation Project. The contract with Hydro-Québec for most of the power from the existing Upper Churchill Falls station is up for automatic renewal for a further 25 years in 2016. The renewal would be based upon the originally negotiated price of \$2 per megawatt hour, a mere fraction of the wholesale and retail power prices presently prevailing across Canada. ☐ The Lower Churchill project will consist of two installations: Gull Island (2,250 MW) and Muskrat Falls. By proceeding in two stages, with the first phase the smaller generating station, Newfoundland and Labrador reduces its risk. To date, Newfoundland and Labrador's efforts to obtain transmission rights through Quebec to gain additional access to the U.S. north-eastern and mid-Atlantic States markets have not been successful. Nalcor will manage and execute the design, engineering, construction and commissioning of the Muskrat Falls generating station and the Labrador-Island Link. Emera's investment in the Labrador-Island Link will be capped at 49% and it will be held in a Newfoundland and Labrador public utility. Nalcor will be provided similar investment opportunities in future Emera infrastructure. Nalcor will provide Emera with

Fiscal Pulse



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