

FINAL TRANSCRIPT

Alterra Power Corp.

Q2 2015 Earnings Conference Call

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PRESENTATION**Operator**

Good morning, ladies and gentlemen, and welcome to the Alterra Power Corp Second Quarter Results Conference Call. At this time all lines are in a listen-only mode.

Following the presentation we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions.

If anyone has any difficulties hearing the conference, please press *, 0 for the Operator at any time.

I would like to remind everyone that this call is being recorded on Wednesday, August 12, 2015.

And I would now like to turn the conference over to Ross Beaty. Please go ahead.

Ross Beaty — Executive Chairman, Alterra Power Corp.

Thank you very much, Operator, and welcome, ladies and gentlemen, to our second quarter conference call of our financial and operational results for Alterra Power Corp.

I am pleased to be here in Vancouver with our senior management team, and I'll let John Carson, our CEO, introduce them when it comes time to that. I would welcome everybody. We will have questions after, and remind everyone as well that we will making a number of forward-looking

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statements today. We seek Safe Harbor for these. We have a disclosure statement in our website and in our—all of our materials, and I would direct your attention to those.

The web presentation that usually accompanies us is there. We can't seem to find it ourselves—it's out now. Good. So it's just been put up, and you can go into our own website alterrapower.ca to follow along with the presentation today as we provide it.

So I'm going to turn things over right now to John Carson, who will be referring to the web presentation that you can look at simultaneous with the presentation as both his material and our operating and financial team today. And just go straight to that.

So, John, over to you.

John Carson — Chief Executive Officer, Alterra Power Corp.

Thank you, Ross. It's been a quarter for us. We did close the Shannon wind project financing this quarter; we're very excited about that. We have two large projects under construction, and so you'll hear a lot about those projects as we go through the call today.

I'd like to introduce the members of senior management that are here with me. You'll hear first from Lindsay Murray, our Interim CFO; then you'll hear from Jay Sutton, our Head of Hydro; Paul Rapp, our Head of Geothermal and Wind. Also with me today is our General Counsel, Shannon Webber, and also on the phone from Iceland is our CEO of the business there, Ásgeir Margeirsson.

So with that, I'd like to proceed into the presentation and turn it over to Lindsay.

Lindsay Murray — Interim Chief Financial Officer, Alterra Power Corp.

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Thanks, John. As you'll have seen from our financial statements and MD&A released yesterday, Q2 was another busy quarter for Alterra, with the advancement of construction at the Jimmie Creek and Shannon projects, execution of project financing, partnership, and tax equity agreements at Shannon, and strong operating results. Although there has been a lot going on at Alterra during the quarter, Shannon had the biggest impact on our financial statement presentation. On June 30th, we successfully closed a \$287 million credit facility and concurrently partnered with Starwood Energy Group, which resulted in both parties owning 50 percent of the project.

Shannon has been recorded as an equity investment in the June 30th financial statements, where previously it had been consolidated into our results. As you will have seen in our financial statements, we have deconsolidated the assets and liabilities of Shannon, recorded our equity investment at 62.7 million, and received a 750,000 construction management fee, a \$1.5 million developer fee, and will continue to manage the project. The completion of both the financing, partnership, and tax equity agreement further demonstrates the strength of our company and executive team, as we were able to obtain new equity and financing partners from key players in the market, adding to our great partners on our existing projects.

As for the project, construction is well underway at site and I will leave Paul Rapp, our VP of Wind, to provide you with an update on construction. However, I'd like to highlight that following completion of the construction loan and equity contribution, the Company does not expect to make any further equity contributions towards the project.

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Moving on to our operating results. And for all of you following along the analyst presentation, I refer you to Slide 4. At June 30th, we continue to consolidate the results of our geothermal facilities in Iceland owned by our Icelandic subsidiary, HS Orka, of which we own 66.6 percent. EBITDA and gross profit increased 17 percent and 44 percent, respectively, as a result of increased retail sales and decreased costs at HS Orka, increased revenue at Toba Montrose, and foreign exchange.

Foreign exchange had a significant impact on our results during the quarter, as both the Canadian dollar and Icelandic krona weakened. Our consolidated revenues decreased 3 million against the comparative quarter, and due to the sale of Soda Lake in January 2015, as well as foreign exchange as revenues in ISK were up quarter on quarter.

Consistent with the comparative quarter, our income statement fluctuated significantly due to the noncash movements and foreign exchange. In the current and comparative quarter, such noncash movements were due to movements in the Company's holding company bonds and derivatives as well as the gain on the deconsolidation of Shannon's net assets.

Consistent with previous reporting presentations, the Company continues to monitor the performance of our operating results on a net interest rate basis. Net interest reflects our ownership percentage at June 30th being 66.6 percent of HS Orka, 40 percent of Toba Montrose, and 25.5 percent of Dokie 1.

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During the quarter, the Company benefitted from strong fleet generation, achieving 103 percent of budget. Both Toba Montrose and Dokie 1's generation increased over the comparative quarter, due to strong water and wind, respectively, resulting in increased revenue and EBITDA. In fact, our statements don't give a true picture of the exceptional performance of Toba Montrose in the quarter as foreign exchange almost entirely offset a 10 percent increase in generation. Although HS Orka's revenues declined quarter on quarter, this is entirely due to foreign exchange. Lastly, development and head office costs decreased due to lower reoccurring costs and fluctuations in foreign exchange.

Turning to the balance sheet. Total assets decreased 6 percent to 586 million since December 31st. This is in part due to the sale of Soda Lake, repayments of loans, and foreign exchange, which on average decreased 8 percent since December 31, 2014. The Company's working capital available cash and liquidity has decreased against December, primarily due to cash spend on Shannon coupled with debt repayments and spend on plant and equipment at HS Orka. However, it should be noted that the Company has a \$20 million Canadian revolving credit facility available to fund its working capital needs and received distributions from Toba Montrose and Dokie 1 of CAD \$8.1 million subsequent to the quarter-end.

The final slide I will talk to is Slide 8. This slide provides details of all the long-term debt held by the Company on a net interest basis, including debt service paid in the quarter. You will see the addition of the Shannon construction loan in the quarter, which is short term and expected to

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be repaid in late 2015 or early 2016 when tax equity investors will fund \$219 million to the project and repay the loan. The key point to highlight is the Company's operating projects continue to pay down their debt.

That concludes my presentation. I now hand back to John.

John Carson

Thanks, Lindsay. And, Lindsay, we're happy to have her as our interim CFO. Our regular CFO, Lynda Freeman, is on temporary maternity leave, but Lindsay has done a fantastic job this quarter, especially logging the addition of the Shannon project.

So with that I'd like to turn our attention to operations, and for that I'll turn it over to Jay Sutton and Paul Rapp. Jay?

Jay Sutton — Vice President, Hydro Power, Alterra Power Corp.

Thanks, John. So referring to Slide 9, TMGP had a very successful second quarter of 2015, producing 270 gigawatt hours of energy versus our forecast of 229 gigawatt hours. A warm spring and hot summer resulted in continued higher-than-forecast inflows, and as a result we achieved on 118 percent of our forecast generation in Q2 and our 118 percent of forecast generation year to date. Our strong generation is continuing into our third quarter, and we have achieved 99 percent of the forecast for the month of July and are currently at 95 percent of our prorated forecast for the month of August. As we stand, all four units are currently running and operating—generating just under 200 megawatts.

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In the second quarter, we did make some further improvements to sediment exclusion at our Montrose plant that will result in reduced annual outage time and further reduction in our long-term operating costs. Our crews continue to operate and maintain the plant safely and according to our environmental commitments, and there are no significant operating issues at either of the facilities.

That's all I have for Toba. Over to you, Paul.

Paul Rapp — Vice President, Wind and Geothermal Power, Alterra Power Corp.

Thanks, Jay. I'll refer everybody to Slide 10 for the Dokie 1 highlights. The Dokie wind farm performed slightly below plan in Q2. It produced about 61.6 gigawatt hours of electricity or 90 percent of the budget. The production was negatively impacted by low wind in May, which was seen throughout the region at all our neighbouring wind farms as well. Production recovered well and exceeded plan in both June and July, and we're tracking at plan through August, as of this morning. Production overall is at 95 percent of the year-to-date plan. The Dokie facility continues to operate well, we have no safety or environmental issues, no equipment issues, and we're exceeding our availability targets.

Moving on to Slide 11 for highlights at our Iceland operations, at Svartsengi and Reykjanes. Both plants performed well in the second quarter, and production was at 97 percent of plan for the quarter and 98 percent of the plan year to date. Focus up in Iceland right now is on capital works for operational improvements at our Svartsengi plant. We've completed setting surface casing for two

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planned production drill holes adjacent to the Svartsengi field. Drilling in the two holes will commence in September. One hole is a makeup hole to provide additional steam to the plant, and the second hole is an exploratory hole as we look to expand the field.

At Svartsengi, we're also continued to work on a new fluid disposal pipeline, and we've commenced construction of the outlook works to the sea and construction of the pipe alignment. This pipeline will allow better control of fluid discharge at the plant and will allow for increased power production at the plant.

At Reykjanes, the main capital work continued to focus on construction of a pipeline from the plant, which will transport geothermal fluid from power production to the previously drilled RN-33 and -34 drill hole areas north of the plant for reinjection. This reinjection will provide pressure support for the Reykjanes geothermal field and will provide long-term stability for the Reykjanes plant.

I'll hand it back over Jay and talk about some of our active construction projects.

Jay Sutton

Thanks, Paul. So referring to Slide 12 now. Jimmie Creek continues to make great progress. At a high level, we are expecting to complete the civil work on the project by the end of this year and then focus on the electrical and mechanical insulations through the winter to the spring when we'll begin our commissioning.

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Up at the intake, we are more than 65 percent complete with the concrete for the intake and rubber dam; scheduled to divert the flows back into our new intake structure in late September. The river and tributary diversions have functioned well through the high summer flows, and the intake is on schedule to be complete by the end of the year.

Down the penstock construction, the contractor continues to make great progress with nearly 80 percent of the penstock installed, welded, and backfilled, including the bifurcation and pipe bridge sections. We expect to complete the installation of the penstock in October of this year.

Then as you can see on the photo, we've completed the construction of the steel superstructure and bridge crane for the powerhouse, and we are now working on the control room and electrical balance of plant work inside the powerhouse. Construction of the switchyard foundation is complete, and we are ready for the delivery of the transformer, which is scheduled for later this month.

Members of our engineering team are wrapping up their site visits for the factory acceptance tests of electrical and mechanical equipment, and we've been very pleased with the quality of the equipment being supplied. So all of the key components have now been shipped with the exception of the nozzles that are currently being assembled for shipment at the end of August. So early September, everything will be in shipment or on site. We've got a great project team and great contractors performing the work, and we extend our thanks to them for keeping this project on schedule and on budget.

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That's all I've got for Jimmie Creek, Paul. Back to you.

John Carson

Great. Thanks, Jay. Let's start off with Shannon, just talking about the financing, which just closed on June 30. We did close a US\$287 million construction credit facility. That was provided by affiliates of Citi, Santander, and RBC. And with that, we also closed a commitment to tax equity of 212 million—could move up a little bit—from of Berkshire Hathaway and Citi affiliates. So we're very pleased that after a long process of getting really a global class financing done for a large wind farm in Texas with great participants. We're going to hold this asset in a 50 percent partnership with Starwood. We've known them corporately for a lot of years, and we're very happy to have this deal completed with them.

We expect strong cash flows and EBITDA, about \$7.5 million of EBITDA, out the gate and close to that in cash flow from the project. So this is a very positive project for us. We're excited about it to hold with our partners with Starwood.

With that, I'm going to turn over to Paul to give an update of the construction activities.

Paul Rapp

Sure. Thanks, John. Construction activity has been ongoing since December, as we reported in the last quarterly call, and continued strongly prior to financial close. So to date we have completed construction of all site roads, all the wind turbine foundations, the underground collector system, the overhead transmission line, and the project substation. The project main

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power transformer has been delivered and it's ready for energization. Energization of our project substation from the Oncor interconnection substation is scheduled to be completed this month.

Wind turbine erection is in full swing, and as of yesterday we got a total of 14 wind turbines fully completed and a further 34 were in progress. Wind turbine deliveries are well underway, and the photo on Slide 13 shows one of the wind turbine rotors being installed earlier this week. Our construction contractor, Mortenson, is doing a great job and has a very high quality crew on site, and they're really getting efficient in their turbine erection as we're really getting into full swing.

The project is expected to reach commercial operations in late 2015 to early 2016.

John Carson

Thanks, Paul. With that, I'll refer you to Slide 14, which is the last slide we'll speak to today. This is just a bit of looking ahead in brief. The big thing that I'm looking forward to personally is something I've been involved with for years, and Ross Beaty, our Executive Chairman, even longer, is our South American asset in Chile, the Mariposa field, where we own a fantastic prospect there with our partner, Energy Development Corporation. We are going to commence drilling there in a couple of months, we think. In October, maybe November, but depending on the weather. So we're very excited about this. This is a big opportunity for us. It will be funded by our partner, and we couldn't be more excited about the prospects.

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We're also looking at multiple wind opportunities in the USA and other places, so you'll be hearing more about these hopefully in the coming days. We're working very hard additionally on a 20 megawatt solar opportunity in Chile in a different region from our Mariposa asset. And then we're also, as you heard last time, working on several early stage hydro projects both in Canada and in Iceland. Right now we're very active on 90 megawatts in our larger portfolio, with many more megawatts is behind those. After we get these earlier stage ones done, we'll be able to focus hopefully more on those.

In the meantime, as Paul has emphasized, we're continuing our asset optimization plan. We're working on the Reykjanes field and expanding the Svartsengi fields. You'll be hearing more about that later and our hopes and plans for continued increase in generations there in Iceland.

With that, Ross, it's back to you. That's our quarter.

Ross Beaty

Thank you very much, John, and everybody here today. My final comments really are involving more of the macro space. I think we've had quite a year this year in the renewable energy business in North America and the world. Renewable energy is now a mainstream form of power generation and growing very, very rapidly, outpacing all other forms of electricity generation in the world. And I think with the announcements by the G7 that they are going to drive to phasing out fossil fuel use by the end of the century, and particularly the announcement by President Obama last month that he was going to aggressively push phasing out of coal-fired electricity generation in

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favour of renewable energy generation, we're going to see continued interest by governments, by communities, by a lot of people to get more and more renewable energy because it is the ultimate sustainable energy solution for the world.

This has helped to drive our own share price up. We've outperformed the market. We've had a good year so far, but it's also been the growth that we've seen in our own development assets. Jimmie Creek and Shannon particular you've seen we're hitting our generation targets, we're really doing well right now as a company, and so it's very enjoyable time to be part of this company and part of this business. And I don't see that changing any time soon. I still think our stock is much undervalued, and I think we're going to have a continuing good year ahead.

So with that, listeners, I will stop the editorial here and open the call to questions, and we can take questions right now, Operator.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. Should you wish to decline from the polling process, please press *, followed by 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

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Your first question is from Marin Katusa, KCR Fund. Please go ahead.

Marin Katusa — KCR Fund

Hey, guys. Great job. I've got a quick question. I couldn't quite hear the part regarding Shannon. Will the commercial operation be declared for January 1, 2016?

Paul Rapp

We're shooting to have it done before the end of the year, but it really is dependent on exactly how the turbine erection and commissioning schedule goes. It's going to come in either December or January.

Marin Katusa

And is it on budget right now? Because with all the floods that happened, I haven't seen any—like there was no literature on are we above budget, or are we behind budget, or.

John Carson

Yeah, Marin, thanks. We're just probably about \$2 million over budget due to floods that we'd had; some rain events in the area. We hope to make those savings back before the project is done. But, yeah, we were just slightly over budget due to delays that were caused by heavy rains in the area, which were well publicized.

Marin Katusa

My final question is a reiteration from the last call. Just wondering if there's been anything on the Board level regarding a dividend? Or what Ross and the Board's opinion is on that?

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John Beaty

Thanks for that question, Marin. We constantly talk about when, not if, we're going to be able to pay a dividend. We're looking at all sorts of different scenarios right now. I would say let's give us another quarter to come up with a more definitive discussion about that subject.

Marin Katusa

Perfect.

Operator

Thank you. Your next question is Jonathan Lo, Raymond James. Please go ahead.

Jonathan Lo — Raymond James

Hi, thanks. Just two questions. First one, the cash; the net interest cash declined quite a bit. Is that from the Shannon investment?

Lindsay Murray

It would be from the Shannon investment as well as repayment of debt at HS Orka. We were also doing capital projects at HS Orka, which would have decreased our cash.

Jonathan Lo

Okay. And for the reinjection wells at Reykjanes, do you have an idea of the expected impact those will have on the generation there?

Paul Rapp

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Yeah, the intent with those that provide pressure support to keep the field at its current output. It's the typical, I guess, evolution of a geothermal field is as it matures you need to provide reinjection support for the fluids you're extracting. So that's the intent here is to try and provide pressure support to maintain the existing output.

Jonathan Lo

Okay. Thank you.

Operator

Thank you. Your next question is from Mike Plaster, Salman Partners. Please go ahead.

Mike Plaster — Salman Partners

Hi, thanks very much. I guess just sticking with HS Orka. We've seen aluminum prices coming off a bit this year and the value of the krona coming down. Just wondering if that's put any pressure on the local market power prices. I know previously you were saying they're fairly strong. Is that still the case?

Ross Beaty

Yeah, it's continuing strong and we don't see that changing.

Mike Plaster

Okay. Great. Now there has been some talk of potentially lifting the capital controls in Iceland. Do you think that could open up some new opportunities there if it brings in more foreign capital?

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Ross Beaty

Yes, we do, and we do see that changing. It's an actively evolving space right now. It's got lots of issues around it. But absolutely we think it'll be very positive for our business there and other businesses there when it ultimately happens. John, do you have any complement to that?

John Carson

No. I think you got it, Ross.

Ross Beaty

Okay.

Mike Plaster

Do you any sort of sense on timing? Or is this something that could be kind of bogged down in the political process for a while?

Ross Beaty

Well, we have our Iceland manager with us today, Ásgeir Margeirsson. Ásgeir, do you have any comments on that question? I think you could probably answer that more fulsomely than anyone here in Vancouver.

Ásgeir Margeirsson — Icelandic Country Manager and Chairman of HS Orka, Alterra Power Corp.

Thank you, Ross. There is a master plan in place that was introduced by the government recently. It was extremely well accepted by the market. It will be a step-wise process, but they haven't put out yet the exact details of it. The main bulk of it has to do with the states of the fallen

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banks and their assets. So there is a master plan in place; we have yet to see more of the details of it. And I underline it's been extremely well accepted by the markets. So we're very happy about the progress.

Ross Beaty

Thanks, Ásgeir.

Mike Plaster

Okay. Great. Thank you. Just shifting over to BC, we've certainly seen lots of forest fires going on in the province right now. Do you see any risks to any of your operations from any of them?

Ross Beaty

There's always risk, but so far—I've been speaking to Jay and Paul—so far we haven't had any issues. And the summer is rapidly drawing to an end here, and so we expect to see the fall rains come in. And when that happens, the issue is going to be behind us. So so far so good, but it is a constant threat, and we have to keep vigilant.

John Carson

One of the things I'd like to add is last year we publicized the fact that the Mount McAllister forest fire approached closely to our Dokie 1 wind facility. The fact that it did so, which is a natural occurrence, and subsided and didn't touch the facility actually gives us some additional

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safety in coming years for a while since brush and trees, et cetera, have been burned down for a bit around and near the plant. So that is added safety there at Dokie 1.

Mike Plaster

Okay, fair enough. And then I guess with Jimmie Creek, if there were any fire-related delays presumably there's insurance for that.

Ross Beaty

It could be fires, floods, hurricanes, landslides. We've got insurance for all that. But let's hope it doesn't happen.

Mike Plaster

Yeah. Okay. Great. Thank you. That's it for me.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have questions please press the *, followed by the 1.

There are no further questions at this time. You may proceed.

Ross Beaty

Thank you, Operator, and thank you all. I think that's all we need to say today. It was a good quarter once again. The Company's having a good run this year, and we don't see that ending anytime soon. We've got some interesting new things we're looking at, and we look forward to reporting on those in the next quarterly report in three months' time.

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Thank you all for joining us today, and we'll end the call now. Thank you, Operator.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.

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