

FINAL TRANSCRIPT

Alterra Power Corp.

Fourth Quarter Results Conference Call

Event Date/Time: March 16, 2017 — 11:30 a.m. E.T.

Length: 56 minutes

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Alterra Power Corp. Fourth 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.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, March 16, 2017, 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 good morning, ladies and gentlemen. I'd like to welcome you all to Alterra's fourth quarter and year-end results call.

The first thing I'd like to bring everybody's attention to, as usual, is the fact that today we'll be making some forward-looking statements. We have a lot of disclosure on this in our materials and our financial statements, and I would just like to remind people that we seek safe harbor in our forward-looking statements.

Well, going through the year was it reminded me that we had a really big year. It was a tremendous transition year for Alterra, I think.

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Our power production increased by 20 percent from 1,250 gigawatt hours to 1,500 gigawatt hours. Jimmie Creek, our hydro operation in British Columbia, entered production. We had our first full year of production from our new Shannon wind farm in Texas. We started up the Kokomo solar farm. We did our first equity financing in six years.

And something that's not material, perhaps, to many shareholders, but it's a very important thing for me in principle, we inaugurated our first dividend. And we would like that to be thought of as a very long-term thing that really establishes Alterra as a long-term returner of capital to our shareholders.

And most significantly, I think, we've put in place a platform of growth projects in the United States and Iceland that can double our size over the next few years, and really get us to critical mass.

Well, what does critical mass mean? It means getting us to a size that will materially lower our cost of capital; that will put us on the radar to all investors as a major clean energy company, increasing our liquidity, and making us a great investment option for North American and international investors; and allow us more options at a lower cost to finance our tremendous pipeline of growth.

So while I saw 2016 as a transition year, I see 2017 as a real year of liftoff. We've built a great sustainable base. We now have eight operating plants in wind, hydro, solar, and geothermal power. As far as I know, we're the only clean energy company in the world with operations and management expertise in all four true clean energy technologies.

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And from this base, we plan to at least double our size over the next few years. I say at least double because, quite frankly, we have projects in our pipeline that could triple our current size by 2020. And we have the human resources and access to capital to execute this amazing growth platform.

That's why I can say that I'm as excited about our future as I've ever been since we began the Company in 2008.

Now from that 40,000-foot overview down to ground level, I'm going to turn the call over to our Chief Executive Officer, John Carson, to go over what the fourth quarter looked like, and what 2017 is shaping up like right now. John will also introduce our outstanding senior team who make all of this happen.

John?

John Carson — Chief Executive Officer, Alterra Power Corp.

Thanks, Ross. I will take a few minutes just to reintroduce the team to everyone on the call.

Going to take advantage of this being our year-end results call to also restate our company mission, restate our growth plan, and just familiarize you again with the nature of our assets, which we believe are top quality.

So we're going to start, though, with a review of our year-end financials. And with that, I turn it over to you, Lynda Freeman, our CFO.

Lynda Freeman — Chief Financial Officer, Alterra Power Corp.

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Thanks, John. We were pleased to report our annual results yesterday. And as Ross just summarized, we concluded another busy year at Alterra.

It was an exciting year, which saw Jimmie Creek and Kokomo commence commercial operation, good advancement of our development projects, and completion of significant financing activities.

From an operational side, we had the benefits 12 months' worth of revenue and earnings from Shannon, which came online in December 2015. However, the common theme you will hear this morning is low winds across North America significantly impacted our generation in the year, and this was particularly felt at Shannon.

Turning to our consolidated results on Page 4 of our results presentation. We finished 2016 with 61 million in revenue, up 3 million from the prior year. This reflects 100 percent of revenue from HS Orka, and the increase was predominantly due a strengthening Icelandic krona, which was up 8.5 percent year on year.

Generation at HS Orka was down against 2015 due to lower resource availability at our Reykjanes facility, which the Company is working hard to enhance.

In the meantime until the effects of the field enhancement project are felt, in order to maximize revenue the Company purchases additional power for resale. This has a direct impact on gross profit, as the margin on such sales is significantly lower. Consequently, gross profit was down 4.1 million year on year to 12 million.

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Income before tax was 9.1 million for the year, up 30 million from 2015 due to noncash movements in the derivatives on fair value and foreign exchange, as well as movements in earnings from equity accounted investees, which were down year on year, predominantly due to a onetime hedge gain at Shannon that was recognized in 2015.

Also included for the first time in our income statement was the research and development costs incurred on the deep drilling project in Iceland of \$2 million. The cost to the Company for this project is minimal, due to the significant grants received from a number of parties, including Statoil and the European Union.

The Company continues to monitor performance by reviewing operating assets on a net interest basis reflecting actual share ownership. Such numbers are demonstrated on Slides 5 and 6.

Generation was up year on year due to the impact of the 12 months of generation from Shannon and peak season generation from Jimmie, which had a fantastic start to operations generating at 110 percent of budget. This increase was partially offset by reduced generation in Iceland, marginally lower generation from Toba Montrose, together with the impact of the low winds experienced in 2016 at Dokie.

Year on year, adjusted EBITDA was up 5 percent to \$39 million due to the new operating project additions in the year and strong performance from the Blue Lagoon, which still continues to outperform expectations.

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Turning to the balance sheet and Slides 7, 8, and 9, where you can see the impact and details of some of our financing activities in the year. Specifically, in July the Company extended the maturity of our Icelandic krona bond by 12 months to July 2017. The amount due under this bond of 60 million remains as a current liability, consistent with the treatment in 2015.

The Company is working with an advisor on refinancing this bond. However, as a reminder, should the Company be unable or elect to not refinance the bond, we will return the shares held as collateral equivalent to 12.7 percent of HS Orka. In this situation we would continue to own 53.9 percent of HS Orka and would continue to consolidate their results.

In October, we refinanced the Reykjavik Energy bond, which was due in December 2016, into two bonds with a combined value of \$70 million. The new bonds have repayment dates in April 2018 and October 2021, and consequently are now recorded as long-term liabilities.

In late October, we successfully completed our first equity raise since 2010. The Company initially announced an equity raise of C\$50 million; however, with the combined bought deal and concurrent private placement, raised grossed proceeds of just under C\$68 million.

As disclosed at the time of the raise, the Company was using these proceeds to further advance the Flat Top wind project, with spend in 2016 on payment deposits for turbines and transformer, as well as on-site construction activities.

Remaining proceeds are to be used to fund project activities intending to qualify several wind projects for the US production tax credit, as well as for general corporate purposes. There have

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been no changes to the intended use of proceeds, and at the end of 2016 C\$25 million had been spent.

Net assets for the year ended at 278 million with working capital a negative 62 million, up 61 million from 2015 due to some of the refinancing activities just mentioned. Excluding the Icelandic krona bond, together with a 10 million contingency developer fee which will only be paid on closing of Flat Top project financing, the Company ended the year with a positive working capital of \$7.5 million.

2016 saw the commencement of dividends to our shareholders. Our modest dividend plan will pay out an annual dividend of \$0.05 per share through four quarterly payments. Our first dividend was paid mid-December, and our second payment was made yesterday.

Referring to Slide 10 and Appendix 1, as at December 31st, the Company continues to pay down project debt in accordance with loan agreements and is in compliance with all covenants during and at the end of the year.

Project debt to HS Orka continues to be paid down rapidly, with over 19 million repaid in 2016, reflecting 100 percent at HS Orka. Appendix 1 demonstrates the dramatic decline in principal payments over the next few years, which are already being felt with scheduled debt payments in 2017 down \$4 million to 15 million.

The last slide I'm going to talk to is Slide 11 and our forecast outlook for 2017 and 2018. In 2017, we are forecasting a full year of operations from all or our eight operating assets, which based

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on internal budgets and forecasts, management expects to see an increase in adjusted EBITDA of 26 percent against 2016.

Our 2018 projections include operating results for Spartan PV 1 and Flat Top, which are expected to come online in January in '18 and April 2018, respectively. The introduction of these new assets, together with a forecast increase in generation from our Reykjanes facility due to the field enhancements measures currently underway, indicates a further increase in adjusted EBITDA of 28 percent over 2017 forecast, and 45 percent increase from 2016 numbers just released.

That concludes my presentation. I'll hand you back to John.

John Carson

Thanks for that, Lynda. Excited as we're moving into the new year here, and let's take a look at how our assets are doing to start the year off and how they performed last year.

Over to you, Jay, for Hydro.

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

Thanks, John. Referring to Slide 12, Toba Montrose's fourth quarter generation was 79 megawatt—or gigawatt hours versus our forecast of 82 gigawatt hours, which is 96 percent of plan.

For 2016, we finished the year at 103 percent of our forecast generation, primarily due to a very strong second quarter.

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2016 was the third year in a row where we've exceeded our annual generation forecasts. I'd like to acknowledge our crews on site for their continued efforts to minimize outage time, and maintain a high availability.

2017 generation is at 39 percent of plan to the end of February, due to lower than forecast inflows caused by lower than average temperatures in January and February. The snowpack, however, in the region is trending along our long-term average, so we're looking forward to good generation through the spring and summer.

On site we performed our annual maintenance and inspection work on the Montrose plant at the end of 2016 and at our East Toba plant in the first two months of 2017, so all the maintenance is now complete. And the units are ready for increased flow starting in April.

John Carson

And, Jay, just one reminder for those on the call today, when you mentioned 39 percent year to date for total Montrose, just want to remind the listeners that this is by far our lowest-projected generation period. So it's not as if we're losing a lot of generation here, as low as that number may seem.

Jay Sutton

That's right. And the first quarter of our year is the lowest-generation period, and we only produce 3 percent of our annual generation in those three months.

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The photo on the right of the slide shows a technician grinding and polishing one of our East Toba runners. This work is performed every second year to ensure the turbines are operating at their maximum efficiency.

Then flipping to Jimmie Creek, so Slide 13. Jimmie Creek generated 126 percent of plan in the fourth quarter and finished the year at 110 percent of its forecast generation since start up on August 1st. For 2017, we are at 144 percent of plan through the end of February.

We are currently performing warranty and maintenance inspections on the plant, and turbine generator supplier is on site completing outstanding construction deficiencies on each of the units. All of the work will be completed in early April, and both units will be ready for increased flows once they come in the spring.

The photo on the right shows our crews in the Jimmie powerhouse working on the nozzles for Unit 2 in January. With the warmer weather we're experiencing in Vancouver this week, flows have started to increase, and this morning we're in the process of starting up Unit 2.

As always, our crews continue to operate and maintain the plant safely and within our environment commitments, and we're now over three years without a recordable incident for our employees or our contractors.

And that's it for hydro, John. I'll pass it back to you.

John Carson

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All right. Turning to Paul Rapp, who's remote from us today, Paul, could you please report out on Shannon and Dokie?

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

Certainly, John. I draw everyone's attention to Slide 14 for highlights of the Shannon wind operations in 2016.

As Lynda mentioned earlier, it was a tough year from a wind point of view at Shannon. We ended up at 86 percent of plan for the year, 100 percent due to lower wind. We have—we've got a further slide that provides a bit more detail on the low wind we did see in 2016, but the realized wind speeds in the region were about 14 percent below the long-term normal wind speeds.

GE has been doing a great job of maintaining our turbines and balance of plant at Shannon, and our production-based availability in 2016 was 98 percent. The plant is operating very well.

We have no significant equipment issues on either the balance of plant or the wind turbines, and we are operating the plant safely and within all the environmental requirement at Shannon.

With that, I'll move on to Slide 15. Slide 15 shows a wind trends map that's published annually by AWS Truepower. And in it it shades the regions of North America relative to the long-term and average wind speeds.

I'll draw your attention to the darker blue colours. Darker blue means low relative to long-term averages. And unfortunately you will note two darker blue lobes, one in the Texas region centred

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right around our Shannon wind farm and the other in Northern BC centred right around our Dokie wind farm.

Overall, North America had on average average wind speeds, but there were certain regions that had what the industry is calling a bit of a wind drought in the last year. And unfortunately both Dokie and Shannon suffered from that localized reduction in long-term wind speeds.

With that, I'll take you on to Slide 16 for highlights at our Dokie plant in Northern BC. Again, due to the aforementioned wind drought in the region, we ended up at 84 percent of plan for 2016.

Again, Vestas at Dokie is doing a great job of maintaining wind turbines, and our Alterra crew is maintaining the balance of plant. So we maintained very high availability for the equipment at site.

One of the highlights at Dokie for the year was renegotiation and extension of the service and maintenance agreement we have with Vestas. We initially signed up for a seven-year term starting in 2010—or sorry, 2011, when we went into commercial operation. As we approached the end of it, we had been working with Vestas for about the last year, and the result of that is we agreed on an extension of the service and maintenance contract with Vestas through 2031.

The renewed contract brings several enhancements to the plant; primarily savings of nearly \$2 million per year in service and maintenance costs from Vestas. But other enhancements include better alignment of the Vestas work with Alterra's goals, so we have production-based availability

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measures, and portions of their fee are at risk for generation. So the new contract does a very good job of aligning the interests of both Vestas and Alterra at Dokie.

So we're very happy with that. It was a huge piece of work to renegotiate that contract. We're in a good position now to have stable operating expense, cash flows for the rest of the useful life of Dokie.

Moving on to Slide 17, I'll just hit the highlights on our Icelandic operations. So overall, the generation in Iceland was 93 percent of plan for 2016. The primary reason for lower-than-planned generation was, as Lynda mentioned, low resource ... lower-than-planned resource availability at our Reykjanes plant.

The plant itself, the aboveground works, at both Svartsengi and Reykjanes are operating very well with high resource availability, so 96 percent for the year.

The Reykjanes field enhancement work is ongoing, as Lynda mentioned, and we're seeing positive results. And we're seeing stabilized generation at the Reykjanes field.

Another highlight for the year that was released in previous press releases is positive arbitration results with our long-standing dispute with Nordural, and that was very positive and really frees up the Company for pursuing long-term PPAs with other potential offtakes.

Finally, just to touch back on the Icelandic deep drilling program at the Reykjanes plant. So that program completed in 2016. It was extremely successful from all measures. We reached a final depth of 4,650 metres, which is a new record for a geothermal hole in Iceland.

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Initial indications at the bottom of the hole are with a temperature of over 427 degrees Celsius. Based on initial ratings, we are quite hopeful that the well could produce as much as 30 to 50 megawatts of output by itself. This, of course, is subject to further testing and further research.

The plan is to continue to stimulate and test the hole through 2017. And we should have a better idea in late 2017 to early 2018 as to what the production potential from the deep hole looks like.

John Carson

Thanks, Paul, and I'd just like to interject there that you'll notice that we named this well IDDP-2. There was an earlier effort. And to get to this depth at these temperatures, et cetera, it really is uncharted territory.

The previous effort in Iceland to do a deep drilling exercise actually ended up striking literally magma, and that created a lot of complications, et cetera. You may think it's a very elementary exercise: just drill the hole deep, you know it's going to be hot, but we really were pleased with how this came out.

All the risks and the things that could have happened that didn't and all the successful readings that we have today really make us feel good about the future for this well.

Thanks, Paul.

Jay Sutton

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All right. I'll look after Kokomo then, so turning to Slide 18. Kokomo is our newest addition to the operating fleet at Alterra, located in Indiana with a 7 megawatt capacity. It started commercial operations at the end of 2016.

Generation year to date is 75 percent of plan, so 0.9 gigawatts, so a little bit lower than forecast, which is primarily due to higher-than-expected snow and frost on the panels over the first couple months.

And then on the right you can see a great shot of the facility in December. That was taken just during our commissioning of the plant.

John Carson

All right. Thanks very much, Jay. With that, I'd like to take you to Page 19, and again, at the year-end here I'd like to reintroduce the team and the Company, starting with our Founder, Ross Beaty; probably needs very little introduction, but this Company's here because he started it, and he had heart for renewables. We'll get to that just a little bit later.

I'd like to remind you just a little bit about myself. I started in renewable power back in 2003 with GE Energy Financial Services. In 2006, I was a founding, original member of GE's first renewable energy group at EFS. From there I went on to two other positions at smaller renewable power producers in the USA, and I've been here at Alterra now for six years. So I've seen it all when it comes to wind and hydro and geothermal. We really have a great team here that works with me.

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I'd like to next talk about Lynda Freeman, who's been working 15 years, as you see, in finance. You've seen her on these call now for multiple years, and what a team she has. I won't pass too many plaudits, but it's just sterling to bring such a complex set of financials in in such a way.

Shannon Webber has been with us now just at two-and-a-half years, I believe, going on in her third year. And she came to us from Borden Ladner Gervais; just a top-notch corporate securities attorney: transaction-minded; compliance-minded; she could run the Company if I weren't here.

Then we move to Iceland where we have our Icelandic CEO, Asgeir Margeirsson, and I'll remind folks on the call that we have a fully equipped management team there under Asgeir's leadership. So it's quite a impressive structure there.

There is the different discipline of geothermal. And Asgeir has worked on Iceland drilling and Reykjavic Energy, and so we're well-suited to have him leading that.

With that, I take you back over to the left side of the slide, and there we actually did have a couple of title changes. I'll leave those for you to see.

We're no longer dividing by technology, hydro, geothermal, et cetera. Jay is now leading our ops, and in fact the foreman of our reporting calls that you'll hear going forward, all the operations will be reported by Jay. Paul will be reporting on our development work.

And then Murray has now taken a full role as our VP of Engineering and Safety; has his own team. So he'll still be around on these calls from time to time.

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And of course, Jon Schintler, and what I'd like to emphasize about Jon, like me, he hails from a USA background. He comes from Invenergy, a very large Chicago-based renewable company developer. What you may not know about this humble Canadian company is we have deep American roots as well, and that comes in very important as we're especially achieving our growth strategies in the USA.

We are familiar with and know almost all industry participants. We've known them for corporate decades, and so it's really a well-suited team for exactly what we're doing.

Lastly, two recent additions from the bottom-up and the bottom-right corner: first, Dave Kline. We brought him in from Recurrent, and he had a lot of solar and PJM market experience. And now he's helping us across the board in development.

And then Scott Caldwell recently hired. He's our VP of US Development. And, Scott, if you're available on the call, why don't you just ... This is your first time with us. Can you just briefly describe your background?

Scott Caldwell — Vice President, US Development, Alterra Power Corp.

Sure. Absolutely. Thank you, John. Very happy to be onboard. Hello, everyone.

So just a quick summary, I've been focused on renewable project development and business development for the last 14 years in various roles with Renewable Energy Systems, known as RES Americas here in the States, Terra-Gen Power, and several years as a project development and strategy consultant.

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So far I've been involved in or led about 1,300 megawatts worth of operating projects in the US in ERCAS (phon), BP, WECC, and CAISO markets. So again, very happy to be a part of the team and looking forward to build on the success that Alterra's already had in the US and help take us to the next level here.

John Carson

Thanks, Scott. And Scott will be opening our maiden USA office, official office, in Austin, Texas. That's where our official USA address will be.

Now then on Slide 20 I would like to restate our mission; very important. We are all green. There is no gas-fired generation, coal-fired generation, et cetera. All we do is renewable power. That's the way Ross founded the Company, and we're sticking with that.

And I'd like that first sub-bullet to stand out to you: successful origination and development. To me those are two of the most key and unique skills that we have.

If you've noticed, we build generally large projects, such as the Shannon wind project, 200 megawatts; Toba Montrose, 230. This is not an accident. Notwithstanding a few small solar transactions, we stick with large deals, and it takes a lot of money to build these deals. Shannon wind farm was about a US\$340 million cost.

To do that you have to have world-class partners with deep pockets, and we have them. So we are an originator and developer that has been proven to be able to deliver new utility-scale projects. And I couldn't be happier about our successes there.

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Secondly, opportunistic acquisitions of other projects. These consist primarily of development projects, for example, last year when we acquired the flat top development project from Pioneer Green, which we're preparing to deliver into construction.

And finally, production and safety as a premier operator/manager; I can't tell you what a strong emphasis our company has on making sure our plants run well and that our plants are run safely, and our people are protected.

So this is our mission. This is what we're about. We're growing renewable power assets, and we're displacing carbon-generating assets. That's the mission of the Company.

Now our growth strategy. As you know and we've made it well-known, we are primarily focused in the USA market. We love our Canadian assets, we love our Islandic assets, but the biggest growth opportunity that we have is in the USA.

A word about that. You may have heard that there had been a deregulation in the Mexican market, and there is a lot of new competition and new shingles hung out in Mexico; same thing in Argentina and actually in Chile as well where we participated for a bit in the solar market there. But what we found in each of those areas is that there's such intensity of competition that why would we go to a place where we're not as certain about the rule of law, we're not as certain about stability, and the future of payments. So why not stay in a well-known, stable domicile like the USA where the return opportunities are about the same.

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That's what we've seen. The bidding is so intense in the Mexico's and the Argentina RFPs that the returns come out about the same to the USA, and we're very happy to stay where we are.

We focus there on the first sub-bullet on liquid power markets; areas where you could actually connect up a wind farm without a contract and start to make money by just delivering power into the grid.

What this assures us is that at the end of our power purchase agreements or revenue hedges, we'll have a place to sell that power. We can just keep generating. So we don't have that uncertainty that many projects face of at the end of a contract what are you going to do then? Where are you going to sell your power? We know where we're going to sell our power: right into the grid.

Secondly, there's a growing trend of corporations that are seeking renewable power. If you look, and it's easily Googled on the Internet, to see that there are Microsofts, Amazons, et cetera of the world who are procuring large amounts of renewable power. Many green mandates. We are part of the service of that trend.

As we've shown you before, we're serving Facebook from our Shannon wind farm and happy with that relationship.

The next point, I've mentioned those deep pockets and good partners that are so important to doing our business. And I've just listed there our Shannon partners; Starwood; Berkshire Hathaway Energy; Citi; then there's Axium and others. And we'll hopefully soon be revealing to you our partners

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at the Flat Top project. So these relationships are extremely important. These are what enable us to build the very large projects on a global scale.

Next, our PTC qualification efforts. As we publicized, we worked hard to qualify many, many projects that we hope to harvest into production over the next four years.

The next bullet tells you that that construction window extends through the end of 2020. We don't know that we're going to build all of those megawatts. More than likely—our current target is about half of that, about 800 megawatts over the next four years, which ardently we would love to beat. But that's kind of an idea, though, of what we can do.

And lastly there, the growth in the USA market; I've already mentioned our deep experience and how our team is uniquely attuned to the USA market. So we're in the right place, we are the right people for this task, and I believe that there's no better place for renewable energy growth to be pursued than where we are and what we're doing in the USA.

Lastly, I don't want to neglect our growing presence in the Iceland market. We have a solid position there. We're the third-largest utility, and we have good hydro and geothermal growth opportunities there. And as I'll mention in a little bit, we hope to start a Brúarvirjkjun hydro project later on this year.

Turning now to Page 21. I just want to remind people about the characteristics of our assets. The key and first bullet is dependable long-term cash flow. This is why we're in stable domiciles. This is why we get exceptionally long contracts on our projects.

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Alterra has a uniquely long-weighted contract life of 18 years; 22 years if you just look at North America. Our offtakes are credit-worthy. BC Hydro, which is about half of our portfolio, is AAA rated; Citi and the other offtakes are very credit-worthy.

Also, the asset life that we have and the land positions that we take are exceedingly long. Normally our leases run for decades and well past the contractual life on the initial revenue contract.

And of course, the last bullet is Ross's favourite: the resource here is perpetual as there's no fuel cost; the wind is going to keep blowing; the sun is going to keep shining; and the water will flow. So this is what we love about our industry and our business. We'll have wind farms generating in the future that have really almost a zero-cost base, and will just deliver us revenue for years to come.

I'd also like to remind people about the USA asset profile briefly. I've just put a brief bullet around it, but this is the nature of the projects and the financings that you'll be seeing generally from us.

There's a ten-year financing horizon. Why ten years? It's because that's how long the production tax credit tax benefit lasts. And so financing agreements with tax equity partners generally are ten years in length because that's the length of the PTC.

So at the end of that period what typically happens in almost all tax equity agreements is that the tax sponsor who will take a position of anywhere from 20 percent to 60 percent around about of the initial cash flows, they will go down to a residual interest after that tenth year of 5 percent. So we own virtually all of the asset at that time.

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And typically what you'll see with partners and their tax equity partners at the end of the period is that they'll buy out their partners. So I'm just telling you what to expect.

So you have smaller distributions in these USA projects in early years, and then you have basically all of the distributions and what I've called high back-end returns here. So that's the cash flow profile that you should expect to see for deals we'll be cutting in the USA.

The last thing about our assets that I'd like to point out is that our fleet is heavily resource diversified. As Ross said, we don't know that there's another company that really has a strong interest in all four of the major renewable technologies, and we're very happy about that.

I'm going to take you now to the last page just looking ahead into the next year and the photo there of a turbine excavation site. This is at Flat Top, again, where we hope to be very soon in construction, as you see there in the upper left.

Our equipment and construction contracts are complete; we have selected our financiers; we've agreed to terms; term sheets are done; exclusivity is signed; and we are also very far along in our process of having a 49 percent partner join us at that project. And we hope to make future announcements there too. So Flat Top is getting close, and we're excited about it.

Next, we continue to work very hard on development and acquisition efforts for other projects. If you were to see our Vancouver office on a daily basis, it is a beehive of activity of really people who are well-equipped, well-experienced grappling with development issues, acquisition issues.

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These projects are all very complex. They all take months and months, if not years, to carry out. So you have to have patience to get these deals done, and we have the right team to carry out these types of transactions.

In addition to the PTC qualification efforts, I also mentioned that we're undertaking more and more greenfield efforts in multiple states to develop our future renewable projects.

I want to mention our Spartan solar project. You saw that we recently amended a PPA with Michigan State University and our fine partner there, Innovative Solar. We hope that that small solar project enters full construction and completes construction, mind you, in 2017.

And I mentioned already in Iceland the Brúarvirkjun hydro project. And I note there that the Reykjanes 4 project that we've told you about previously we delayed it from six to twelve months because of the field mitigation efforts that Paul mentioned earlier.

So that's where we're headed this year: a lot of growth, a lot of exciting activities. And with that, I'd like to turn it back over to you, Ross.

Ross Beaty

Thanks very much, John. And that's all we have today. It's been a little bit longer than our usual conference call, but I think it was a nice way to remind our shareholders and interested parties where we are; what we've got coming off of the base that we've established. It's a very, very exciting year ahead of us, and I think John's gone over very well some of the fundamentals of our business.

So with that, Operator, I'll turn the call over to questions. Thank you.

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Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touch-tone phone. Should you wish to decline from the polling process, please press *, followed by the 2.

If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from David Quezada from Raymond James. David, please go ahead.

David Quezada — Raymond James

Great. Thanks. Good morning, everyone. My first question just, I guess, on the Iceland operations and how that relates to your guidance. I see that certainly at Reykjanes things are performing quite a bit better year to date. Is that—I think it was 98.5 percent—is that something that we could assume going forward? And I guess on a related note, what kind of assumption at Reykjanes are you baking into your 2017–2018 guidance?

Ross Beaty

Thanks very much for that. So, Asgeir, maybe you can take that question or Lynda?

Lynda Freeman

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Yeah. So in that 2017 guidance we've assumed it's an average of sort of sort of 70 megawatts for the whole year; sort of first half of the year of an average of 65 and second half of the year 75. And then going forwards we'd expect that to increase up to ... back up sort of the 85 megawatts in 2018.

Ross Beaty

Thanks, Lynda.

David Quezada

Okay. Great.

Ross Beaty

Maybe, Asgeir, you can give some commentary on how things are going so far this year.

Asgeir Margeirsson — Chief Executive Officer, HS Orka, Alterra Power Corp.

Absolutely, Ross. Thank you. We are actually moving on that direction. And we have already seen 70 compared to below 65 in the whole of last year. So we are on the move upwards.

Ross Beaty

Very good.

David Quezada

Okay. Great. Thank you. And then I guess while we're talking about Iceland, just it certainly sounds like really encouraging results with the deep drilling program. Could you just remind us what

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the time line would be for the next steps there, the next piece of news that we might see on that development?

Ross Beaty

Go ahead, Asgeir.

Asgeir Margeirsson

Thank you. Yes. After completing the drilling operations we left the well with a string of pipes down to the bottom. And we are now injecting cold water through that string and on the top of the hole for about six months, bringing that cold water down to the bottom of the well. And we call it a shock stimulation operation basically bringing the cold water down into the formations because there is permeability down towards the bottom of the hole.

And the aim is to open up the cracks by cooling the rock formations and breaking it a bit more to strive for increased permeability afterwards. This will be about six months and then about six months again for heating up.

So early into next year we will start looking at what the well will possibly be able to produce. And we are now designing the tools for the top of the well to take on what comes up next year. And we are highly optimistic that this will be an exciting one.

David Quezada

Okay. Great. Thank you. That's very helpful. Just my last one before I hop back in the queue just on the potential corporate offtake or offtake agreement at Flat Top. I know at one point you were

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considering a hedge or a PPA or some kind of hybrid arrangement. Are you able to comment at all on how that's going? And if you've narrowed it down at all at this point?

John Carson

Yeah. We have. We're dealing with one party right now, and it's a familiar party to us and familiar documentation. So it's a pretty easy agreement to get, we think, to the point of execution.

That said, if you follow gas curves you've seen that the markets have been pretty depressed for future curves. So we don't like where the price has settled, but thankfully at our project we have a very high capacity factor, and that forgives a lot. So we don't see anything currently that's going to stop us from a smooth execution on that power hedge.

David Quezada

Okay. Great. Thank you. I'll get back in the queue.

Operator

Thank you. Your next question comes from Nelson Ng from RBC Capital Markets. Nelson, please go ahead.

Nelson Ng — RBC Capital Markets

Great. Thanks. Good morning, everyone. Just more like a high-level question in terms of Iceland removing the currency or capital controls. What's the, I guess, near-term impact? And I'm just thinking in terms of HS Orka refinancing debt and also the Swedish bonds having a debt maturity later this year I was wondering if you expect to see any positive impacts from those things?

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**John Carson**

Yeah. Really, Nelson, thanks for that. It's too early to tell. We've just—we got the breaking news just as you did yourself. I saw your note saying probably a generally positive indicator. We feel the same. We are still in the process of assessing impact still, so really can't answer you fully on that one today.

Nelson Ng

Okay. Great. And then just moving on to Flat Top, so I think in your MD&A you mention that some construction activities have started. When do you expect to really kind of ramp things up? Are you essentially just waiting for the hedge to be finalized before you can kind of ramp up construction? Or is it dependent on the sell-down of 49 percent?

John Carson

Everything's kind of dovetailing to the same date, Nelson. You saw where we've agreed to term sheets with our financiers; told you about where the hedge is; we signed our contracts with Vestas for the turbines and Mortenson for the EPC. I'd love to see this thing go as early as late April.

We've given guidance for the first half. That's where it stands. So we expect it to get ready in the first half. The upside, like I say, would probably be late April. All things are going well on that dovetailing of multiple events.

Nelson Ng

Okay—

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Ross Beaty

And completing—

Nelson Ng

Got it.

Ross Beaty

—by the end of 2017.

Nelson Ng

Sorry, it'll be completed by the end of 2017?

Ross Beaty

Correct.

Nelson Ng

And I think in your—

John Carson

Actually, no, first half of 2018.

Ross Beaty

It's about a 12-month build.

John Carson

Yeah.

Nelson Ng

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Okay. Got it. I was just about to say I think your outlook assumes contributions starting in April 1, 2018?

Lynda Freeman

That's correct, yeah.

Nelson Ng

And then just one last question on Flat Top; the PTC qualifications, so was that based purely on starting construction? Or did you also spend 5 percent? Or which rule are you using to PTC qualify the project?

John Carson

Yeah. Thanks, Nelson. Strictly on start of construction; we did both on-site and on-site efforts, so all of our PTC qualification efforts were start of construction. Many other players in the market selected/elected to go with a 5 percent threshold of spending where you had to actually spend 5 percent of the project cost for a project. You could imagine on a project like Shannon that's a \$340 million project, you're talking about \$17 million of expenditures.

We think we've taken the smarter route, and we're going to be glad for it. We didn't have to invest huge amounts of money to qualify these projects. We spent much less thanks to the guidelines. We just operated strictly within the guidelines of IRS qualification, so.

Nelson Ng

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I see. And is that the same—like I'm just looking at the uses of funds from the equity financing. So I noticed that the PTC qualification spend on the early stage win projects were also a lot lower. It was like 0.9 million compared to 11 million.

Lynda Freeman

Yeah. We—

Nelson Ng

By the end of the year; is that the reason as well?

Lynda Freeman

No, we do anticipate spending the full 11 million. It's just the initial amount; a lot of it was deposits that we've paid down—

John Carson

Yeah. No, these contracts are run by accrual. So the charges just go as the things are constructed. These things take about ... Transformers take about a year to construct.

Nelson Ng

So technically you've committed for about 11 million and the spend was 0.9 million? Or how does that 5 percent rule work?

John Carson

There's no 5 percent rule with this method of PTC qualification. This only refers to start of construction. So we merely started construction on off-site activities for transformers at the end of

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the calendar year. And it's not a commitment for that whole amount of 11 million; however, we certainly do plan to spend it and complete work on the transformers.

If we wanted to stop our efforts, which we won't do—though we're not committed; we could walk away—we wouldn't pay any more on the transformers. And I don't know what we've paid to date, Lynda, probably a few hundred thousand—

Lynda Freeman

No, we haven't made any further payments yet.

John Carson

Okay. All right. So payments are on the way; transformers are getting built; we will follow through on those; and we will spend all those funds.

Nelson Ng

Okay. Got it. I'll just get back in the queue. Thanks.

John Carson

Thanks, Nelson.

Operator

Thank you. Your next question comes from Rupert Merer from National Bank Financial. Rupert, please go ahead.

Ryan Hoogendam — National Bank Financial

Hi. This is Ryan filling in for Rupert.

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**John Carson**

Hey, Ryan.

Ryan Hoogendam

So I have a question about the Flat Top project. Are your expectations for returns still the same even though that you're likely going to get a power hedge instead of a PPA contract?

John Carson

We always were counting—when we looked at our returns, Ryan, at the hedge, the hedge was the safety net transaction; the PPA was the upside. Interestingly, if you look at a PPA transaction, you're liable to get lower returns sometimes because of the fierce competition for traditional PPAs. That said, the quality of cash flow would be higher on that PPA; hence, the lower return.

But just to answer your question, yeah. Every time we've ever talked about the kind of returns that we look to achieve as we build a project in a liquid power market, it's based on a hedge price that we're fairly certain that we could get. So that hasn't changed.

The only thing, we've dampened our returns a little bit on this one for those gas curb prices that I mentioned earlier, but still very attractive returns out there.

Ryan Hoogendam

Okay. Thank you. That was very helpful. Also, how should we think about the Spartan PV project? Is it very similar to the Kokomo project?

John Carson

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Yeah. It is similar in the respect that it's a small project; has a long-term contract. There's a few differences between them, but it's in the same power market region, MISO. That said, both of these projects are behind the metre for their transmission characteristics. So yeah, they're similar. They're small solar with a behind-the-metre profile of transmission.

Ryan Hoogendam

Okay. Great. And last one for me: does Alterra have a long-term payout ratio target in mind? Or is this too soon to start thinking about that?

Ross Beaty

It's too early to start thinking about that. We started our dividend because we felt it was the appropriate time to do that to reflect our growth and our operating base and our cash flow, quite frankly. But we started it at a low level, and we are very optimistic we are going to be able to increase this regularly in the future.

Ryan Hoogendam

Okay. Perfect. That's it for me. Thanks.

John Carson

Thanks, Ryan.

Operator

Thank you. Your next question is a follow up from David Quezada from Raymond James. David, please go ahead.

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**David Quezada**

Thanks. Yeah. Just a quick follow-up on the Spartan solar project; we've heard other solar developers talk about rapidly declining costs of late in solar developments. I'm wondering if with having recently started construction were you able to capture any of that at Spartan?

John Carson

Yeah. We have. We certainly did. And the project would be difficult to build if we hadn't. So yeah, we're very pleased with the drop in solar prices.

That said, this is a smaller project. In the end we expect a net equity investment of just over \$2 million. So this won't move the needle tremendously on net present value, but we're very happy to be back in the solar business and looking to the future of more projects like these.

David Quezada

Okay. Great. Thank you. That's all I had.

Operator

Thank you. Your next question is a follow-up from Nelson Ng, RBC Capital Markets. Nelson, please go ahead.

Nelson Ng

Great. Thanks. Quick question on overhead costs; can you just talk about your expectations on how that's going to trend forward? I'm just thinking directionally is it going to be like much higher,

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given that you've started construction on a number of projects? And I think John mentioned that you're opening a US office, so just big picture on how we should be thinking about overhead costs?

John Carson

Yeah. No, you should not look for a large ramp-up. You should look for a modest one. We are growing. You did see the two new hires. Our office will be a modest one, but needful to have.

So I think it's just what you'd expect to have a modest, but lean company-feel to our growth. We have to add people, and we have added people as our company's grown 50 percent in capacity over the last year and a half. And with Flat Top and other projects, we could do the same kind of growth very rapidly.

So we're really doing just-in-time hiring; just-in-time growth. I don't expect leaps and bounds in the overhead, but we have to have some, and they'll be modest.

Lynda?

Lynda Freeman

And just to add to that, as we bring projects online where possible we try and get a management fee. And in fact, as John said, we've increased our capacity significantly over the last years, but our team hasn't grown relative to that. We managed to absorb a lot of the cost.

So in fact, over time you would hope that our costs will actually come down as we manage to pass more on to the projects.

Nelson Ng

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I see. And you're—like in terms of the construction costs in terms of starting construction on a number of projects, is that being capitalized or expensed at the moment, given that it's still pretty early stages?

Lynda Freeman

For projects like Flat Top that we own, we capitalize those costs. And in certain PPC project work that we, again, own, we capitalize. Projects we don't yet own, we have to expense. So you'll see a bit of a mix.

Nelson Ng

Okay.

Lynda Freeman

But we capitalize where we can.

Nelson Ng

Okay. Got it. And then just one last question; in terms of Reykjanes and the production levels, I think in the past few years—I just wanted to better understand the level of production. So in the last few years I think you drilled some reinjection wells, and I think that helped. But then in 2016 production actually went down. So I was just wondering why did it not—why wasn't it as effective in the past few years? And why I guess the current initiatives would be, I guess, more effective to bring generation back up to the 85 megawatt level?

Ross Beaty

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I guess Asgeir is the right one to tackle that one, and we can supplement it as needed. Go ahead, Asgeir.

Asgeir Margeirsson

Thank you, Ross. The main reason is that we are finding the right balance between production, what we take out of the reservoir, and the reinjection, what we put into it or return into it and where we do that and the quantities. And this is about physics, so to speak.

It's not about degrading in temperature. It's not about scaling. It's about the water level in the reservoir. To operate the reservoir shed (phon) stock we maintain the proper water level and hence steam production. And following this, these ideas, has now brought us on the track upwards from the bottom we faced in the fall of last year.

So we believe that we will be able to come closer to the proper operating level of the water table in the reservoir, so to speak. This is of course a bit simplified, but this is what we're dealing with and what we're getting out of now with gradually increased production.

Nelson Ng

Sorry. So is it fair to—

Asgeir Margeirsson

The injection is ... Sorry, the injection is in a way a catch 21 of maintaining pressure and not cooling off the reservoir. It has to be in the right location and the right quantity and temperature. And we believe that we're finding the path forward here as our latest results have shown.

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**Nelson Ng**

I see. So from a simplistic perspective, like essentially did you inject too much compared to your production in the last few years? And then I guess going forward you're going to try to find that balance?

Asgeir Margeirsson

Maybe too much in a well that was earlier on used as an injector, and we abandoned that as an injector earlier. That is not one of the two injection wells we drilled; it was a previous producer. That was—what we found was not properly located for reinjection, and we stopped that, the reinjection, yes.

Nelson Ng

I see. Okay. Thanks, Asgeir.

John Carson

Okay. I'll take this brief interruption, brief intermission here. My team has reminded me that I attributed the EPC in the Flat Top deal to Mortenson, who is a fine relationship and did our Shannon farm and a great job, but if there's any Blattner folks on, we didn't want to short-change you. Blattner is our contractor for Flat Top; my mistake.

John Beaty

Thank you. Thank you.

John Carson

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Any other questions?`

Operator

Thank you. There are no further questions at this time.

Ross Beaty

Okay. Well, that's it for the call then. Thank you all for joining us, and we'll look forward to seeing you in three months.

Good day.

Operator

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

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