CariCRIS ID: 072000000000

MEDIA RELEASE

December 4, 2020

CariCRIS reaffirms 'good' creditworthiness for NiQuan Energy Trinidad Limited

*Cari***A+**	**(Regional Scale Foreign Currency)**
*Cari***A+**	**(Regional Scale Local Currency)**
*tt***A+**	**(National Scale Foreign Currency)**
*tt***A+**	**(National Scale Local Currency)**

Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the assigned corporate credit ratings of *Cari***A+** (Foreign and Local Currency Ratings) on the regional rating scale and *tt***A+** on the Trinidad and Tobago (T&T) national scale to NiQuan Energy Trinidad Limited (NETL or the company). These ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in the Caribbean and within T&T is **good.**

CariCRIS has also maintained a **stable** outlook on the ratings. The stable outlook is based on our expectation that Phase 1B will be successfully completed no later than December 2020, given the mechanical completion of the plant, and that operations will be fully commercialized by January 2021, with no material variations in the output product's quality and quantity. Once full commercial operations successfully begin in January 2021, we expect NETL to maintain a stable credit profile over the ensuing 12 months.

The ratings of NETL are underpinned by low construction risk which is supported by a valid Fixed Price Lump Sum Turnkey (LSTK) contract with plant performance guarantees, as well as the use of a reputable and commercially-tested technology. The ratings are further supported by a favourable projected financial performance with adequate debt servicing capacity, together with legally binding supply and offtake agreements which are likely to be enhanced with more favourable terms and conditions. Favourable demand conditions as well as the Owner-Controlled Insurance Program (OCIP) which provides an additional layer of protection to the lenders also support the ratings. These rating strengths are tempered by NETL's vulnerability to the cyclicality of global energy prices.

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Rating Sensitivity Factors:

Factors that can lead to an improvement in the ratings/outlook:

- Higher than projected revenues and profits based on favourable selling prices and lower than projected operating costs

Factors that can lead to a lowering of the ratings/outlook:

- Unsuccessful start-up of full commercial operations in January 2021 and/or production falling below 2,400 bpd
- Absence of a functioning Offtake Agreement with either the existing contracted offtaker or an alternate offtaker at the time of plant start up
- A fall in the Interest Cover to below 2.5 times and/or a drop in the Effective Debt Service Coverage Ratio to below 1.3 times
- Failure to refinance the18-months note by February 2021

About the company:

NiQuan Energy Trinidad Limited (NETL or the company) is a limited liability company incorporated on July 17, 2012, in the Republic of Trinidad and Tobago (T&T). The principal activity of NETL is to complete, commission, and ultimately operate the former World GTL Trinidad and Tobago Limited (WGTL) plant, which when completed, will produce zero sulphur diesel and naphtha via the Gas-to-Liquids (GTL) process[1]. As at September 2020, NETL's shareholders comprised of NiQuan Energy, LLC (NQE)[2] (75.9%), Inshallah Investments Limited (7.6%), and other individual investors (16.5%).

The WGTL plant was originally designed and developed under a joint venture between the Petroleum Company of Trinidad and Tobago (Petrotrin)[3] and a private developer. The WGTL initiative was premised on the notion that a gas-to-liquids plant was required to

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[1] *The GTL process converts natural gas and other gaseous hydrocarbons into refined products such as diesel fuel. Two general approaches to conversion are: (1) direct partial combustion of methane and (2) the Fischer-Tropsch (FT) process that converts partially oxidized natural gas into hydrocarbon products. The FT process is well-utilized on a commercial basis in GTL plants around the world including the Pearl GTL plant owned by Shell and the Escravos GTL plant owned by Chevron Corporation.*

[2] *NQE is a clean energy company incorporated in the United States that specializes in the development and operations of small and mid-scale gas-to-liquid (GTL) projects.*

[3] *As a result of the reorganization of Petrotrin in the latter half of 2018, a new holding company was created, namely Trinidad Petroleum Holdings Limited ("TPHL"). Three operating subsidiaries were also established, these being: The Guaracara Refining Company Limited, the owner of legacy Petrotrin's refinery operation assets; Paria Fuel Trading Company Limited, the owner of legacy Petrotrin's terminal operation and marketing assets; and Heritage Petroleum Company Limited, the owner of legacy Petrotrin's exploration and production assets. The Petroleum Company of Trinidad and Tobago Limited still exists as a legal entity.*

improve the quality of the diesel and other refined products from the Petrotrin refinery, given the high level of sulphur content and the increasingly stringent regulations arising in the international markets for refined products regarding sulphur levels. Construction of the plant commenced in 2007 and the cost of construction was estimated to have been of the order of US $135 million. In 2009 the project fell into bankruptcy because of significant cost overruns, delinquency on the part of the joint venture partner to fund its portion of the project, and failure to meet project deadlines.

A receiver was appointed in 2009 by Petrotrin to sell the WGTL assets, and NETL was selected as the preferred bidder for the plant in 2012. On May 19, 2016, a Sale and Purchase (SPA) agreement was executed which gave NETL the exclusive rights to purchase all the assets. NETL acquired the GTL[4] plant at a cost of US $35 million[5] in June 2018. The GTL plant was estimated to be approximately 85% completed at the point of acquisition, and this was subsequently verified by a leading engineering, procurement, and construction (EPC) manager, Black and Veatch Corporation (B&V)[6]. Throughout WGTL's receivership process from 2009 to 2012, the plant was well-maintained through a comprehensive asset preservation program. Asset preservation was continued by NETL upon its acquisition of the assets.

As part of the GTL Plant Sale and Purchase Agreement, NETL obtained the following which remains valid to date:

1. The execution of a 25-year Product Offtake Agreement (for GTL diesel and naphtha) with Petrotrin for 100% of the output from its GTL plant;
2. The execution of a 25-year Gas Sales Contract with Trinidad and Tobago Upstream Downstream Energy Operations Company Limited, a 100% owned State entity, for the proposed GTL plant[7];
3. An Interconnections Lease Agreement with Petrotrin for an initial term equal to the Product Offtake Agreement;

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[4] *GTL products generally include zero sulphur diesel, naphtha, kerosene, base oils, waxes and liquified petroleum gas (LPG). The WGTL Plant was designed to produce zero sulphur diesel and naphtha.*

[5] *This comprised of an initial cash payment of US $10 million and preference shares issued to Petrotrin in the amount of US $25 million.*

[6] *B&V is ranked 7th by Engineering News Record among the top design-build firms in the world. In Trinidad, B&V was previously awarded 2 projects by Phoenix Park Gas Processors Limited (PPGPL), the first being to construct a cryogenic natural gas liquids (NGL) recovery train at Point Lisas and secondly to construct a new butanes fractionator at Point Lisas natural gas processing and natural gas liquids (NGL) fractionation facility. Other major international energy projects B&V worked on included the PaRBLc Rubiales Floating liquified natural gas (LNG) project in Colombia, the White Martin LNG regasification project in Brazil, and the Plum Point power plant in Arkansas.*

[7] *NETL is currently renegotiating the pricing terms and conditions of the natural gas feedstock.*

4. A land lease with Petrotrin for an initial term equal to the Product Offtake Agreement;
5. An electricity supply agreement with Petrotrin for an initial term equal to the Product Offtake Agreement;
6. A Water Sale Agreement with the Water and Sewerage Authority for an initial term of the Product Offtake Agreement; and
7. All other necessary permits and licenses to complete and operate the facility.

On July 11, 2018, NETL acquired the ownership and title to the plant, property and equipment.

Originally, NETL planned to bring the GTL plant into commercial operations in 2 phases i.e. Phase 1 (which was divided into Phases 1A and 1B) and Phase 2[8]. Phase 1A was completed in January 2019 and involved a thorough technical (civil, electrical, and mechanical) inspection of the plant as is, and the drawing up of a detailed scope of works (SOW) required to bring the plant into full production. Phase 1A was jointly completed by a local general contractor, Junior Sammy Contractors Limited (JSCL), and B&V. Phase 1A was funded through the proceeds of a short-term US $24.5 million senior secured bridging loan[9] which was originally issued in June 2018. Based on the positive results of Phase 1A and advice from the project's technical experts, management decided in early 2019 to incorporate the SOW[10] of Phase 2 into Phase 1B. Under the revised plan of action and master schedule, Phase 1B now includes the earlier installation of the upgraded catalyst which will increase and guarantee a nameplate production capacity of 2,400 bpd with a normal operating capacity of 2,640 bpd. Phase 1B involves the completion of construction, commissioning of the plant, and bringing it into full operation.

In February 2020, NETL refinanced its US $87.8 million 18-month facility and raised an additional US $32.2 million in funding[11] to complete Phase 1B. The additional funding,

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[8] Phase 2 involved the installation of the upgraded catalyst. The catalyst was subsequently installed on 16th October, 2020 as part of Phase 1B.

[9] The arranger and underwriter in the bridge facility was Republic Bank Limited. In July 2019, the short-term bridging facility used to fund Phase 1A was replaced and supplemented with an 18-month US$70 million facility. The facility is due in January 2021.

[10] Originally, Phase 1B involved the completion of construction works, the pre-commissioning and full commissioning of the plant, which would have allowed for commercial operations by October 2019. This would have resulted in a production capacity of 2,044 barrels/day (bpd), with an 80/20 split between GTL diesel and GTL naphtha. Capacity would then have been further enhanced by an optimisation process. In the event, the optimisation process to provide a nameplate capacity of 2,400 was rolled into Phase 1B.

[11] In July 2019, NETL successfully raised US $87.8 million to complete Phase 1B and bring the plant into production, by way of an 18-month note with interest being capitalized during the period. This facility included US $39.2 million to repay the US $24.5 million bridge loan plus capitalized interest which funded Phase 1A. The facility was subsequently

which was used to finance additional operating expenses and working capital requirements, brought the total amount of debt outstanding to US $120 million, with interest being capitalized during the period. The holders of the current debt consist of both institutional and private noteholders. This debt is expected to be subsequently refinanced by a 10-year international placement of US $150 million in secured notes in January 2021[12].

The proceeds of the US $120 million loan are being used as follows:

Item	Cost US $'000
Mechanical Construction (Phase A)	1,416
Mechanical Construction (Phase B)	26,902
Procurement and Engineering	29,963
Administrative and Operating Expenses	14,390
Repayment of Bridge Loan, Capitalized Interest Expenses and Finance Costs	39,282
Debt Service Reserve Costs	7,964
Project Escrow Account Balance	84
TOTAL USES OF CASH	120,000

Source: NETL

To ensure successful construction completion, start-up, and commissioning of the plant as well as to avoid cost overruns and other risks incurred by the previous WGTL plant, NETL sought to de-risk Phase 1B by:

1. Continuing its partnerships with highly experienced and knowledgeable experts in the field, which include:
    a. BD Energy Systems, LLC (BDE) as the Engineer of Record, which is supported by Balanced Engineering and Construction Management Limited (BECM) as an engineering support services provider. The lump-sum turnkey contract (LSTK) specifies that the statement of works includes the start-up of the facility and achievement of the normal operating status and are part of the contractors' responsibilities. It also includes a plant performance guarantee which will legally ensure that the contractors complete the plant in a manner such that output is in accordance with design specifications (quality and quantity);

refinanced in 2020 and the lead arranger was changed from Republic Bank Limited to JMMB Investments (Trinidad and Tobago) Limited (JMMB).

[12] *The proceeds of the US $150 million will mainly be used to refinance the existing construction facility and meet working capital and operational expenses. No equity injections are being considered at this time.*

b. Black & Veatch Management Consulting LLC as an operational and management consultant;
c. Haldor Topsoe and Emerging Fuels Technology (EFT), two of the world's primary authorities in GTL technology specializing in licensing catalysts and catalytic technologies. The respective catalyst from each vendor is to be used in different sections of the GTL plant. The EFT proprietary TL8 catalyst is used in the two Fischer Tropsch reactors and the Haldor Topsoe catalyst is used in the Hydrocracker section of the plant.
d. JSCL, which will provide all construction services necessary to reach mechanical completion for Phase 1B under a valid LSTK fixed-price contract, which was finalized in July 2019. There is a provision in the LSTK contract to deliver a mechanical completion guarantee.

2. Hiring international experts who previously worked on other GTL plants as part of its executive team; and
3. Purchasing an Owner-Controlled Insurance Program (OCIP) which was developed by Aon Energy Caribbean Limited (AECL)[13], a leading provider of insurance risk solutions in the region. The OCIP covers virtually all liability and loss arising from the project including the loss of revenue from delays and debt service payments during this period to prevent default. AECL operates as a subsidiary of Aon plc, which provides risk management services, insurance and reinsurance brokerage, and human resource consulting and outsourcing services worldwide. Once the plant becomes operational, the OCIP will allow for an easy transition of insurances that will then cover operations.

Phase 1B was expected to be completed in April/May 2020 with full commercial operations forecasted to commence no later than June 2020. However, the onset of the COVID-19 pandemic delayed the completion of the project due to factors such as the implementation of new public health regulations which limited the size of the onsite workforce as well as delays in the receipt of expatriate technical[14] support due to restrictions on international travel. The procurement[15] and shipping of critical items were also impacted by global supply chain disruptions. Notwithstanding the challenges the

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[13] *The OCIP was succeeded by Genesis Insurance Brokers & Benefits Consultants Limited, exclusive agents in Trinidad for Aon Energy London.*
[14] *Overseas support personnel were unable to travel to T&T due to the current travel restrictions*
[15] *Internationally, manufacturing and exports are subject to a variety of COVID-related regulations and restrictions which vary according to vendor, supplier, and country of origin. These agencies have either been operating at reduced capacity or in some cases have fully shut down. Additionally, NETL is also subject to the import regulations and requirements of Trinidad and Tobago. As a result, NETL's procurement schedule was largely affected by the major disruption to global supply chains.*

pandemic presented, NETL was able to successfully source locally available alternatives and workarounds to effectively mitigate the delays in procurement. Additionally, NETL was able to obtain the requisite permits to allow the requisite expatriate support personnel to enter Trinidad and Tobago. The operations at the plant have been challenged by COVID-19 with several cases reported, however, the outbreak was brought under control and an extensive random testing regime conducted, which revealed no further cases. The plant continues to maintain rigorous COVID-19 related health and safety protocols. In addition to the challenges related to COVID-19, the project suffered another setback due to the failure of the auxiliary boiler[16] in August 2020. Though it was subsequently replaced in September 2020, the failure also contributed to a further delay[17] in the expected date of commencement[18]. Notably, all process systems are now mechanically completed and the start-up of the plant is scheduled for December 2020[19].

For more information on the ratings of NiQuan Energy Trinidad Limited, please visit www.caricris.com or contact:

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Note

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[16] *The auxiliary boiler is a significant component in the operations of the plant. The failure of the boiler is covered by the extensive wrap insurance, however it resulted in further delays in the completion and commissioning of the plant.*

[17] *We have assumed that the month of December 2020 will be used to finalize any revisions coming out of the commissioning and lender's reliability test and that full operations will commence on January 1, 2021 while NETL has estimated that first product is scheduled for December 13, 2020.*

[18] *Within 48 hours of the commencement of operations, there will be a gradual ramp-up of production to the stipulated 2640 barrels/ day.*

[19] *An Aon Energy Risk Engineering (AERE) replacement cost valuation as at October 2020 valued the plant at a replacement cost of US $444.1 million as compared to the AERE valuation done in December 2018 which valued the plant at US $327 million.*