

CariCRIS ID: 072000000000



Caribbean Information &
Credit Rating Services Limited

MEDIA RELEASE

September 23, 2019

CariCRIS reaffirms 'good' creditworthiness for NiQuan Energy Trinidad Limited

CariA+ (Regional Scale Foreign Currency)
CariA+ (Regional Scale Local Currency)
ttA+ (National Scale Foreign Currency)
ttA+ (National Scale Local Currency)

Caribbean Information and Credit Rating Services Limited (CariCRIS) has finalised and reaffirmed the assigned corporate credit ratings of *CariA+* (Foreign and Local Currency Ratings) on the regional rating scale and *ttA+* on the Trinidad and Tobago (T&T) national scale to NiQuan Energy Trinidad Limited (NETL). 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 assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation that Phase 1B will be successfully completed on time, given the substantial project risk mitigants deployed, and that operations will be fully commercialised by June 2020 with no material variations in the output product's quality and quantity.

The ratings are supported by low construction risk which is supported by a valid Fixed Price Lump Sum Turnkey (LSTK) contract with plant performance guarantees, and the use of reputable and commercially-tested technology. The ratings are also supported by a favourable natural gas supply arrangement with the Trinidad and Tobago Upstream Downstream Energy Operations Company Limited, and a valid take-or-pay offtake agreement with Paria Fuel Trading Company Limited¹ for 25 years. Favourable demand conditions driven by the importance of the end products and a changing regulatory and macroeconomic environment also serve as a credit driver. Further, assuming a successful start-up of operations in June 2020, we expect favourable financial performance with adequate debt servicing capacity based on operationally efficient guaranteed output levels. The Owner-Controlled Insurance Program (OCIP) provides an additional layer of protection to the lenders and the company's knowledgeable and experienced Board of Directors and Executive management team also support the ratings. These rating strengths are tempered by NETL's vulnerability to the cyclicity of global energy prices.

¹ To be transferred via novation of the existing contract with Petrotrin.

About the company:

NiQuan Energy Trinidad Limited (NETL) 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) process². As at June 2019, NETL's shareholders comprised of NiQuan Energy, LLC (NQE)³ (81%), Inshallah Investments Limited (9.7%) and other individual investors (9.3%).

The WGTL plant was originally designed and developed under a joint venture between the Petroleum Corporation of Trinidad and Tobago (Petrotrin)⁴ and a private developer. The WGTL initiative was premised on the notion that a gas-to-liquids plant was required to 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 as a result 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, PriceWaterhouse Coopers (PwC), 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 GTL⁵ plant at a cost of US \$35 million⁶ in June 2018. The GTL plant was estimated to be approximately 85%

² The GTL process converts natural gas and other gaseous hydrocarbons into refined products such as gasoline or 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.

³ 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.

⁴ 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.

⁵ 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.

⁶ This comprised of an initial cash payment of US \$10 million and preference shares sold to Petrotrin in the amount of US \$25 million.

completed at the point of acquisition, and this was subsequently verified by a leading engineering, procurement and construction (EPC) manager, Black and Veatch (B&V)⁷. 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 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 Delivery, Sale and Purchase Agreement with the Government to provide for a guaranteed supply of natural gas for the Proposed GTL plant;
3. An Interconnections Agreement and Interconnections Lease with Petrotrin for an initial term equal to the Product Offtake Agreement;
4. A land lease with Petrotrin;
5. An electricity supply agreement with Petrotrin;
6. The assignment of the License Agreement with WGTL and other associated agreements; and
7. All other necessary permits and licenses to complete and operate the facility.

On July 11, 2018, NETL acquired the ownership title for the plant.

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 2⁸. Phase 1A was successfully 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 loan⁹ which was issued in June 2018. Based on the positive results of

⁷ 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.

⁸ Phase 2 involved the installation of the upgraded catalyst which was carded to be executed in 2020.

⁹ The arranger and underwriter in the bridge facility is primarily Republic Bank Limited.

Phase 1A and advice from the project's technical experts, management took the decision in early 2019 to incorporate the SOW of Phase 2 into Phase 1B. 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. Under the revised plan of action and master schedule, Phase 1B will also now include the earlier installation of the upgraded catalyst which will increase and guarantee production capacity between 2,400 to 2,640 bpd.

In July 2019, NETL successfully raised funding to complete Phase 1B and bring the plant into production, by way of an 18-month US \$87.8 million note, with interest being capitalized during the period. Subsequently, this facility is expected to be refinanced with a 10-year loan facility from February 2021¹⁰. The proceeds of the US \$87.8 million instrument will be used as follows:

Item	Cost US \$'000
Repayment of Bridge Loan and Capitalised Interest Expenses	32,229
Mechanical Construction (Phase 1A)	1,416
Mechanical Construction (Phase 1B)	39,084
Procurement & Engineering	3,797
Turbine Replacement	300
Administrative and Operating Expenses	4,925
Debt Service Reserve Account	5,745
Cash to Balance Sheet	317
Total Uses of Cash	87,813

Source: NETL

Given that project financing for Phase 1B is now in place, the notice to proceed was granted and construction of Phase 1B commenced in August 2019. Phase 1B is expected to be completed within 9 to 10 months with full commercial operations forecasted to commence no later than June 2020. 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 has sought to de-risk Phase 1B by:

1. Continuing its partnerships with highly experienced and knowledgeable experts in the field, which include:

¹⁰ NETL is also currently reviewing proposals from institutional investors for equity participation in the company totalling US \$25 million, the proceeds of which would be used primarily to reduce outstanding debt.

- a. BD Energy Systems, LLC (BDE) as the Engineer of Record, which is supported by Hargrove and Associates, Inc. and Hargrove Controls + Automation, LLC (Hargrove) as consulting engineers. BD Energy LSTK contract 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);
 - b. B&V as an operational and management consultant
 - c. Haldor Topsoe and Emerging Fuels Technology (EFT), two of the world's primary authorities in GTL technology specialising in licensing catalysts and catalytic technologies. The respective catalyst from each vendor is to be used in different sections of the GTL plant.
 - d. JSCL, which will provide all construction services necessary to reach mechanical completion for Phase 1B under a valid lump sum turnkey (LSTK) fixed price contract, which was finalised in July 2019. There is a provision in the JSCL 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), 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.

CariCRIS ID: 072000000000



Caribbean Information &
Credit Rating Services Limited

For more information on NETL's ratings, please visit www.caricris.com or contact:

Andre Joseph

Senior Manager, Ratings

Tel: 1-868-627-8879 Ext. 224

E-mail: ajoseph@caricris.com

OR

Kathryn Budhooram

Manager, Ratings

Tel: 1-868-627-8879 Ext. 227

E-mail: kbudhooram@caricris.com

Note

This press release is transmitted to you for the sole purpose of dissemination through your agency/newspaper/magazine. You may use this press release in full or in part without changing the meaning or context thereof, but with due credit to CariCRIS. CariCRIS has the sole right of distribution of its press releases, for consideration or otherwise, through any media, including websites, portals, etc.