30th IECA Annual Canadian Conference

June 4–7, 2023 • Calgary, Alberta

CALGARY MARRIOTT DOWNTOWN

Innovations in Security:

Transactional TCI, Microbonds, On-Demand Bonds, & Fronted Letters of Credit

Panelists:

Jay Rose, Founder & Managing Director, Navitas Assurance Partners

Dustin Thompson, Senior Manager, Financial Transactions & Credit, Plains Midstream Canada ULC

Mike Fodchuk, Credit Manager, PetroChina International (Canada) Trading Ltd.

Moderator: Kevin Sullivan, First Vice President - Energy Specialty, OneSource Risk Management Canada, Inc

Agenda

- **Innovation from Markets**
  - Managing General Underwriters - Navitas & Bondaval
- **Innovation in Trade Credit Insurance**
  - Transactional TCI
  - Liquidated Damages (MTM) coverage
  - Structured Trade Credit (longer tenor programs)
- **Innovation in Collateral**
  - Microbonds – Bondaval
  - On-Demand Bonds
  - Fronted Letters of Credit

Innovation in Markets

- Managing General Underwriters – Navitas and Bondaval


RCA

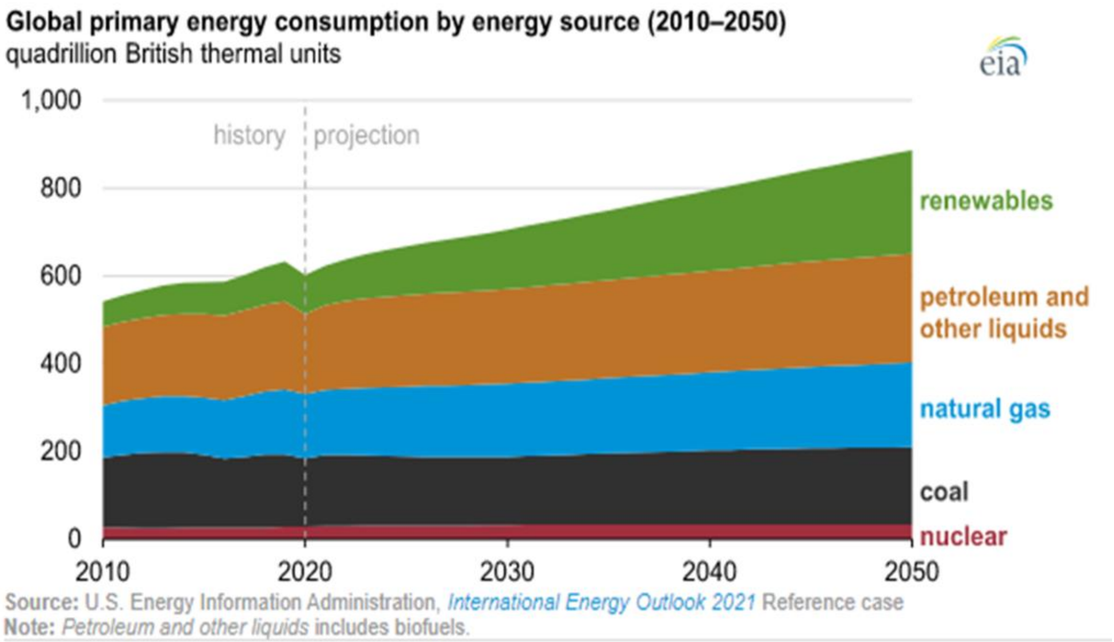

OBAMA TO VISIT CITY IN MARCH
CALGARY HERALD
NFL PLAYOFFS
DOMINATION AT THE DOME
NEWS

The Market Position

Growth and stability. Two fundamental concepts that are constantly challenged in the energy industry. Restricted liquidity and limited optionality multiply the friction. Traditional tools, while functional, fall short. Navitas Assurance Partners unlocks liquidity and expands optionality, clearing the way for greater growth and stability.

- Most energy companies* need innovative, off-balance sheet sources of liquidity to meet growing assurance requirements to support expansion and transition
- Trade Credit Insurance and Commercial Surety markets are emerging further as the solution
- Market adoption of trade credit and surety for this purpose is growing rapidly
- This market is expected to double in the next 5 years
- Navitas is uniquely positioned to be the leading conduit for capacity to this emerging market enabling participants to trade more, move more, process more and profit more.

[EIA projects nearly 50% increase in world energy use by 2050, led by growth in renewables]



The Navitas Story

Created for an evolving market and bringing over 100 years of operational development and risk management experience from the energy and insurance industries, Navitas is built to know the market and focus the resources of the insurance industry to streamline capital and credit risk management.

Launched in 2022, Navitas is by no means a "startup" organization. The people involved were the genesis of the alternative assurance markets and fostered an industry that has delivered billions in new liquidity to the energy markets. The team's broad experience in both energy and insurance creates the required expertise to partner with you at every level to intelligently, accurately, and quickly address your requirements.

What is Navitas?

Navitas is a managing general underwriter (MGU) that represents some of the strongest balance sheets in North America; Navitas acts as the leading conduit in between the energy markets, their broker partners and Navitas' carrier partners.

Partnering with Navitas provides:

- Customers with insight only available through experience to accurately underwrite and create value
- Broker partners with unparalleled service, flexibility, and dedicated expertise to meet your clients needs
- Carriers with expertise, and access to one of the fastest growing North American markets

Adopting a pro-active approach, Navitas is "flipping the script" for energy assurance – We look forward to crafting that script with you…

Leadership…

- Managing Director - Jay Rose
- First VP - Risk - Nithya Venkatesan
- First VP - Energy Markets and Digital Distribution – Pat McKinnon
- VP - Surety Underwriting – John Matesic
- VP - Trade Credit Underwriting – Mike Wojcik
- VP – Underwriting and Client Management – Michael Rapp

Backed by A rated insurer partners

Bondaval

All the risk we secure is placed 100% with our insurers, so you can trust your claim will be paid out.

Arch

LLOYD'S

FORTEGRA

HAMILTON

Innovation in Trade Credit Insurance

- Transactional TCI
- Liquidated Damages (MTM) coverage
- Structured Trade Credit

Innovation in Collateral

- Microbonds
- On-Demand Bonds
- Fronted Letters of Credit

MicroBonds: the next generation of credit security

Bondaval

Investment grade security.

'A-rated' security provided by a panel of global insurers

100%, non-cancellable cover.

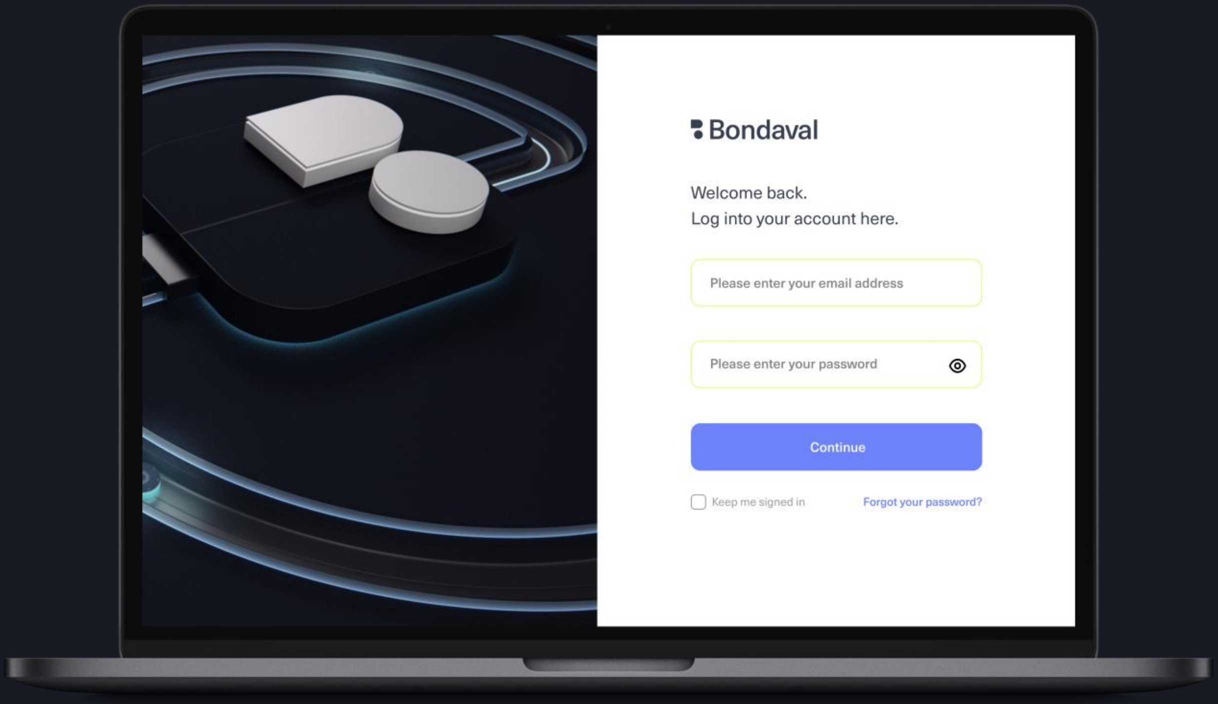
No deductible, no co-insurance, renew at 12 months

On-demand payment.

Contractually obligated to pay within 5-days of claim

Fully flexible.

Secure, adjust, and claim cover through the Bondaval platform



Bondaval

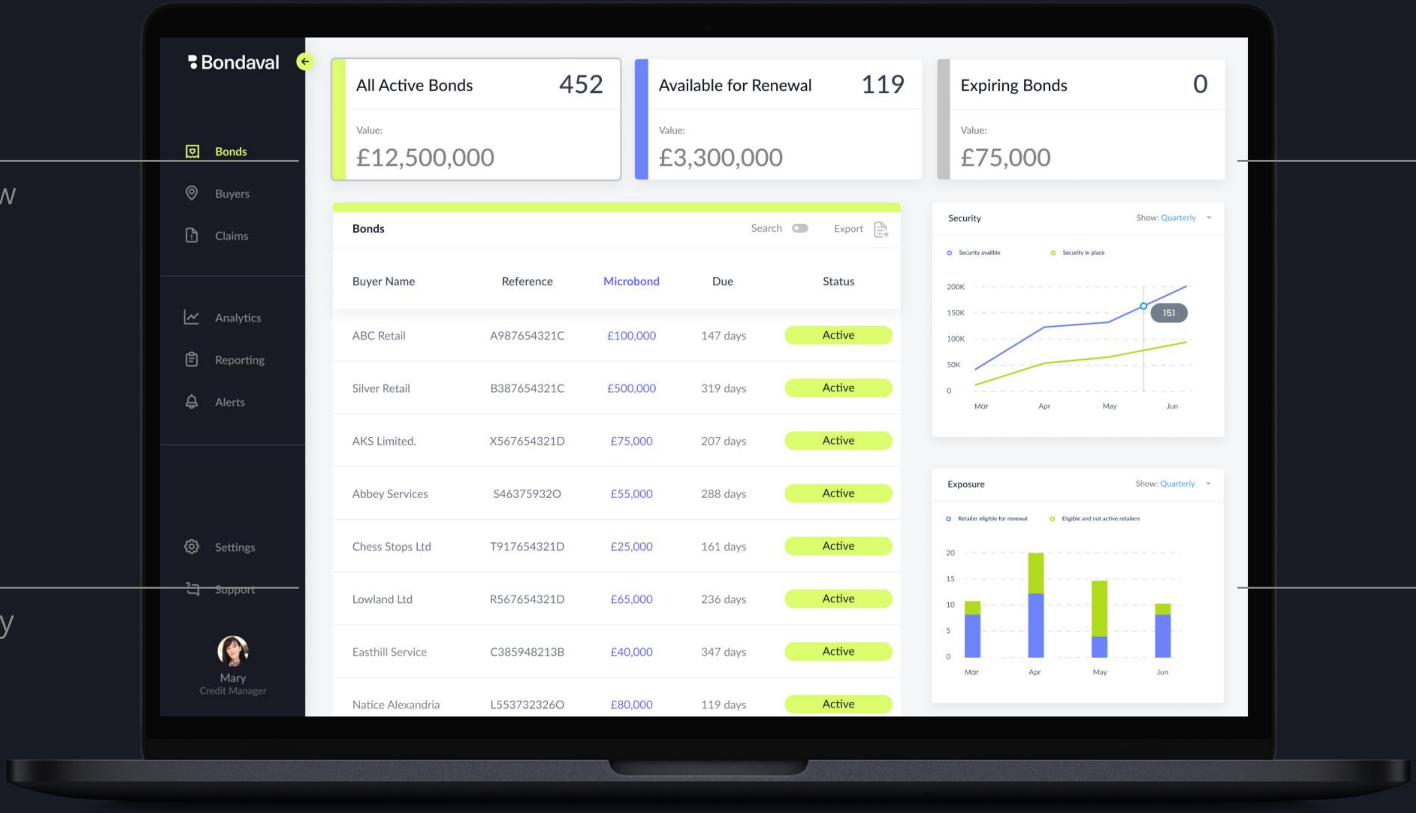
Secured and managed in a market-leading platform

Mission control

Centralized portfolio overview with detailed drill-down into individual buyers

Intuitive design

No training required. Instantly scalable across multiple jurisdictions and markets



Automated renewals

Remove friction from renewals process. Integrates with supplier ERPs & data sources

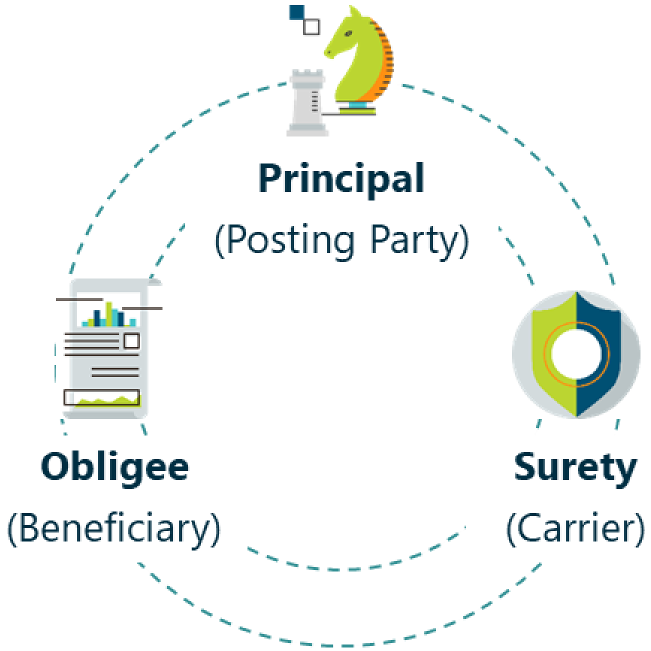
Scalable credit function

Enables suppliers to optimize and scale their credit function without increasing head count

On-Demand Bonds

Characteristics Summary

- ## Bond Instrument
  - Mitigates Risk created via failure to perform on underlying contract.
  - Structured to be payable "On Demand" within 5 – 7 days of demand.
  - Surety **waives all defenses** to payment.
  - 12-month term with auto-renewal unless notified within 60 days of expiry.
  - Obligee can demand payment at expiry/non-renewal if replacement security not provided.
- ## Key Documents
  - **Indemnity Agreement** – Executed between Indemnitor/Principal and Bond Provider in advance of all issuances. Agreement sets forth obligations to Surety and represents the foundation on which the program is based.
  - **Bond Form** – Issued and sealed by bond provider detailing the underlying obligations being secured along with the procedural elements and terms for making a demand under the bond.
- ## Underwriting Criteria
  - **Underwriting criteria is more stringent for these instruments versus traditional credit insurance. Lack of defenses (claim review) and payment timing (On-Demand) lead to elevated underwriting relationship in line with banking relationships.**



ON-DEMAND BOND APPLICATIONS

Pipeline (Midstream) and Commodity Processing Bonds

- Bond securing the payment of transportation fees by the shipper to the pipeline, but also for the usage of other midstream assets (such as gathering facility, storage, etc…)
- Bond amount can typically amount to the equivalent of 3 months to 3 years of payment obligations at pipeline discretion.
- Can also cover only performance obligations (no payment) in case a pipeline is being built: in this case the bond secures that the principal will enter into a transportation agreement at the end of the construction

Independent System Operator ("ISO") Bonds

- ISOs are independent entities in charge of securing the reliability of the grid in their area. Their role is to ensure reliability of the grid and mitigate risk due to the failure by a market participant either to supply electricity or to pay for the electricity
- Stronger investment grade companies have some level of open credit (max $50m) but most participants need to post collateral to ISOs to mitigate credit exposure and collateral amount required by ISO are usually conservative

Commodity Supply Bonds

- Bonds aimed at mitigating credit exposure between counterparties for the purchase of commodity. Such bonds are similar to reverse credit insurance.
- Counterparties can use LCs/ Surety bonds to reduce the amount of open credit between them. Such collateral often only covers a portion of the total outstanding credit exposure

Evolving Collateral Requirements

- RGGI and CARB auctions for renewables credits
- Collateral related to Power Purchase Agreements
- Collateral Support for Renewables Projects

One Source
Risk Management
A Division of Alliant

Regular SBLC Flows With Sureties

Company A

1 Business arrangement

5 Business can be conducted

Trading Partner or Regulator

2 Standby Letter of Credit requested to support financial arrangement

Issuing Bank

4 Standby Letter of Credit Issued

Surety Applicant

3 Standby Letter of Credit requested via the reimbursement agreement via the applicant and Issuing bank

Issuing Bank

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Questions?