



HENVEY INLET FIRST NATION

**Materials for
HIFN WINDFARM TRUST
COMMUNITY MEETING #4**

Tuesday, 13 October 2020

2:00 pm

- 1. Financial Projections - Crosbie & Co.**
- 2. Updated Windfarm Trust Proposal - Fogler
Rubinoff, LLP**
- 3. Member Feedback Form**

PRESENTATION TO:



HENVEY INLET WIND FARM FINANCIAL PROJECTIONS

PRIVATE & CONFIDENTIAL

SEPTEMBER 14, 2020

INTRODUCTIONS



Richard Betsalel
Managing Director

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- Over 20 years of investment banking experience
- Joined Crosbie in 2003
- Lead roles on First Nations Bank, Chiefs of Ontario among others
- Previously with Yorkton Securities (now Macquarie Capital Canada) and the Bank of Nova Scotia
- Schulich School of Business (MBA), McMaster University (B.Sc.)



M. Junaid Zia
Vice President

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- Over 10 years of investment banking and consulting experience
- Joined Crosbie in 2014
- Involved in multiple transactions and advisory roles
- Previously with Deloitte
- University of Toronto (B.Sc. in Financial Economics with high distinction)
- Chartered Financial Analyst

AGENDA

This presentation will cover the following key areas:

1. Summary of the projected economics to the Nation over the life of the Project
2. Projected growth of the Trust over time
3. Withdrawal/spending plan
4. Savings required to support future withdrawal/spending plan
5. Sustainability of Member Distributions

PROJECT PRODUCTION ESTIMATES

- To assess the Project economics, we have relied on various production estimates developed by Pattern Energy based on wind study data:

P50 – ‘Average’	P90 – ‘Conservative’
<ul style="list-style-type: none">• Estimated annual ‘average’ level of production• 50% probability of reaching or exceeding this production level in any given year• Also implies that there is a 50% probability that the estimate may not be achieved in any given year	<ul style="list-style-type: none">• Very conservative annual production estimate• Production level that is expected to be exceeded 90% of the time• 10% probability that the estimate may not be achieved in any given year

PROJECT ECONOMICS FOR THE NATION

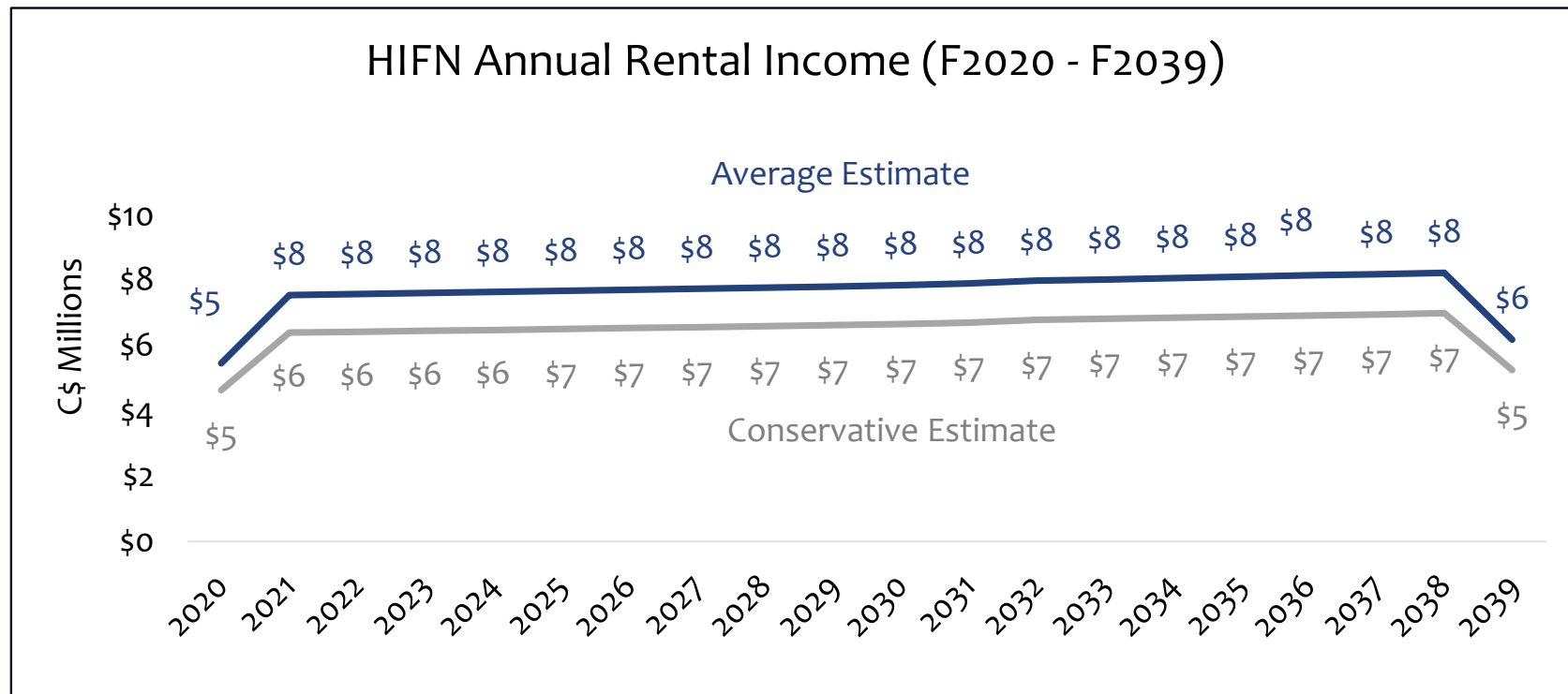
Key Assumptions	Notes
Forecast cashflows from the Project	<ul style="list-style-type: none"> Relied on the forecast model developed by Pattern Energy
Expiry of PPA post 2039	<ul style="list-style-type: none"> Did not include any forecasts beyond expiry of the PPA in 2039 Any post-PPA cash flows are highly uncertain Any post-PPA revenues would likely be significantly reduced and could possibly be zero
FNFA loan refinancing	<ul style="list-style-type: none"> Assumed that the loan balance of \$62M will be refinanced in 2030 at 4.0% interest rate and will be fully repaid by 2039
Rental income	<ul style="list-style-type: none"> All rental income from the Project will be used to fund the Nation's operating budget
Member Distributions (monthly)	<ul style="list-style-type: none"> \$500 per adult member, \$600 per senior, \$100 per minor (up to max \$10k) Distribution in December 2020 includes retroactive distributions since October 2019
HIFN Membership	<ul style="list-style-type: none"> 1,050¹ members currently; 260 minors (less than 18 years), 245 seniors (65 years and over) and 545 adults; population growth of 1.5% per annum
Taxes	<ul style="list-style-type: none"> No taxes payable by the Nation in respect of the Project

(1) Estimated number of members assuming an increase in membership due to new eligibility criteria

PROJECT ECONOMICS FOR THE NATION

CASH INFLOW FROM RENT/ROYALTY (“RENTAL INCOME”)

PRODUCTION ESTIMATES	ANNUAL CASH INFLOW/ RENTAL INCOME	CUMULATIVE RENTAL INCOME (2020-39)
Average	~\$8M	~\$150M
Conservative	~\$6.5M	~\$130M

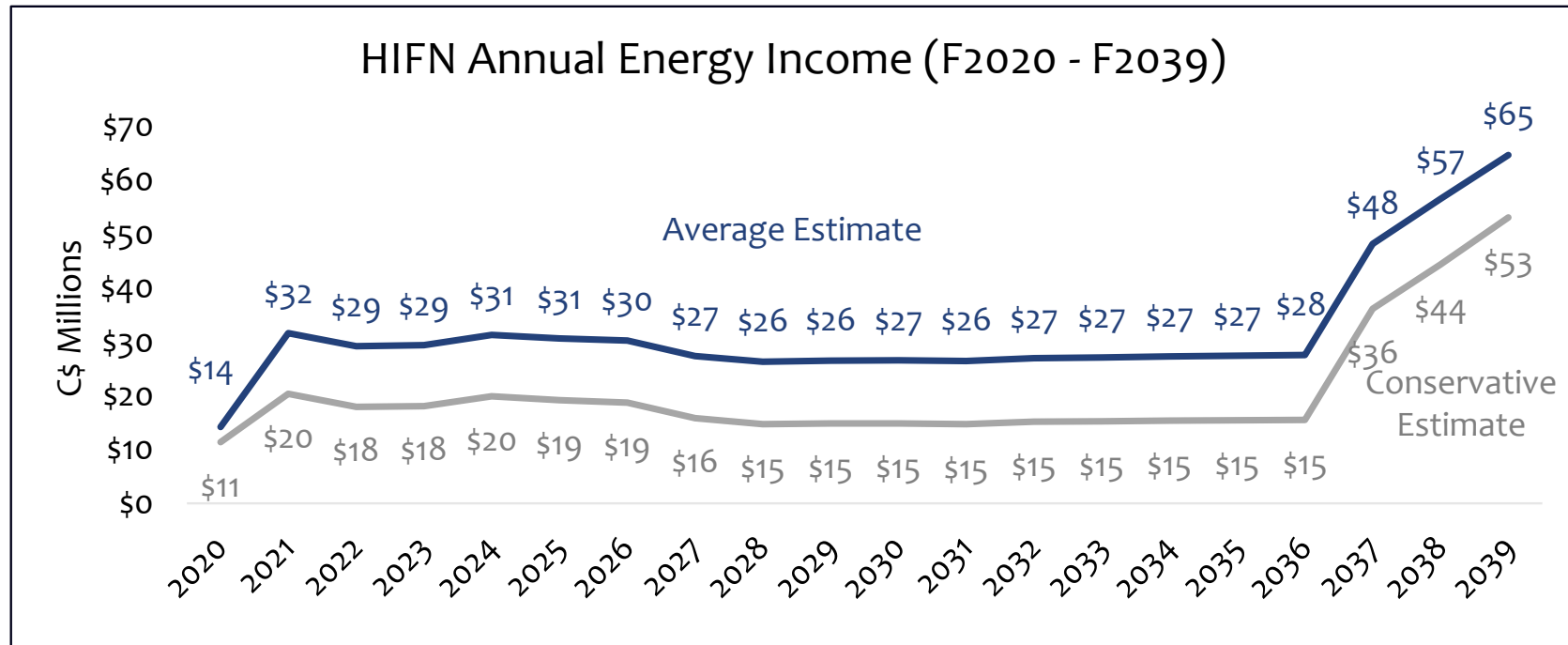


**Rental income will be used to fund any deficits in the Nation’s operating budget.
Any rental income remaining will be directed into the Investment Trust**

PROJECT ECONOMICS FOR THE NATION

CASH INFLOW FROM POWER PRODUCTION (“ENERGY INCOME”)

PRODUCTION ESTIMATES	ANNUAL CASH INFLOW / ENERGY INCOME	CUMULATIVE ENERGY INCOME (2020-39)
Average	\$26M to \$31M	~\$635M
Conservative	\$15M to \$20M	~\$410M



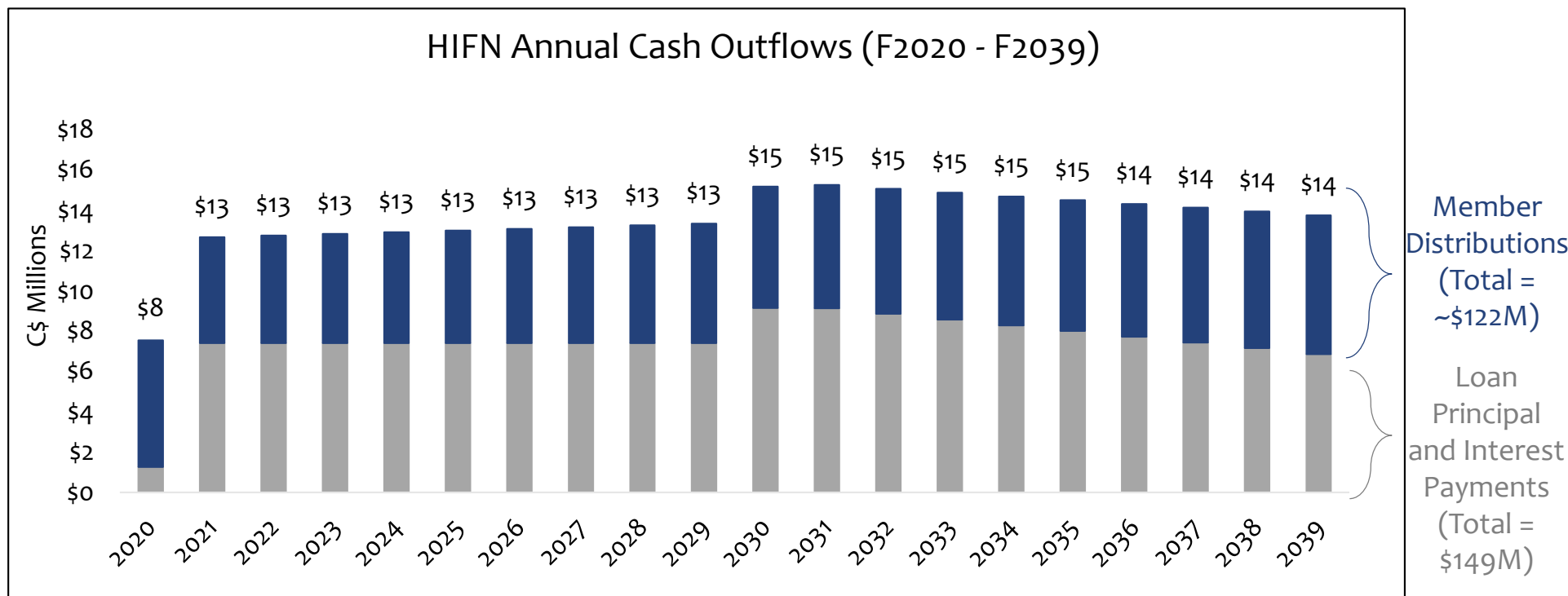
Energy Income increases dramatically in 2037 once the debt at the Project level has been fully repaid

PROJECT ECONOMICS FOR THE NATION

CASH OUTFLOW

TIME PERIOD	+ LOAN PAYMENTS (PRINCIPAL AND INTEREST)	+ ANNUAL MEMBER DISTRIBUTIONS	= ANNUAL CASH OUTFLOW
2020 – 2029	\$7.5M	\$5.0M to \$6.0M	= \$12M to \$13M
2030 – 2039 ¹	\$7.0M to \$9.0M	\$6.0M to \$7.0M	= \$14M to \$15M

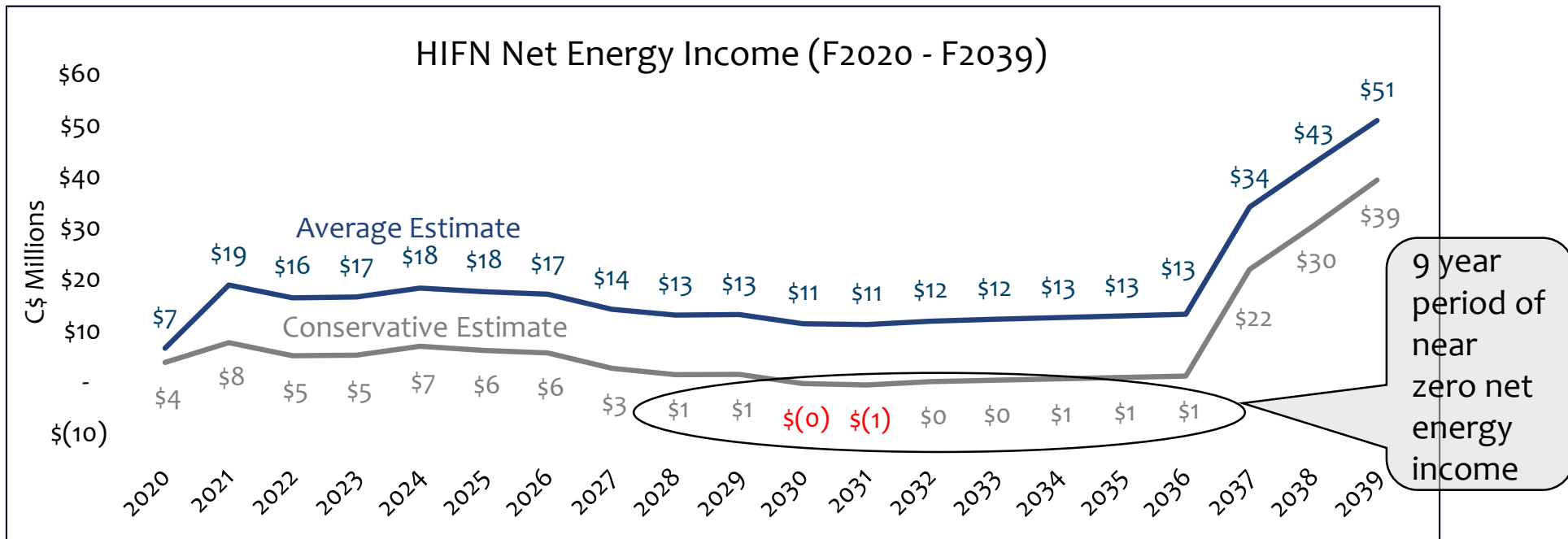
1. Assumed that the FNFA loan balance of \$62M will be refinanced in 2030



PROJECT ECONOMICS FOR THE NATION

NET ENERGY INCOME (CASH INFLOWS MINUS CASH OUTFLOWS)

PRODUCTION ESTIMATES	ANNUAL CASH INFLOW <i>(Energy Income)</i>	- ANNUAL CASH OUTFLOW <i>(Debt Repayment + Interest + Member Distributions)</i>	= ANNUAL NET ENERGY INCOME	CUMULATIVE NET ENERGY INCOME <i>(2020-39)</i>
Average	\$26M to \$31M	\$12M to \$15M	= \$13M to \$18M	~\$365M
Conservative	\$15M to \$20M	\$12M to \$15M	= (\$1M) to \$7M	~\$140M

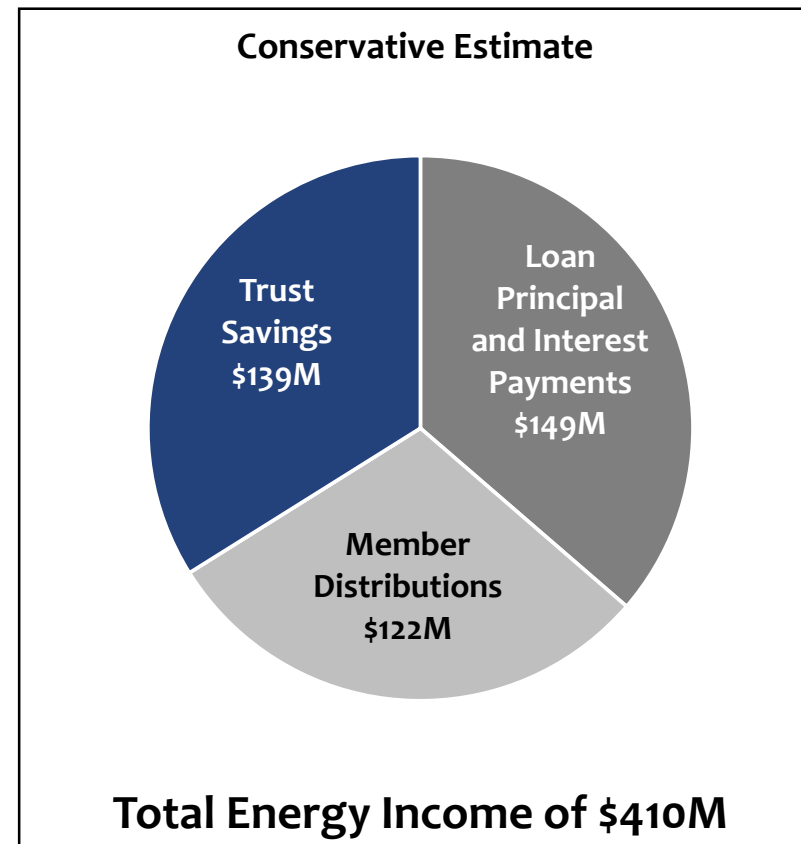
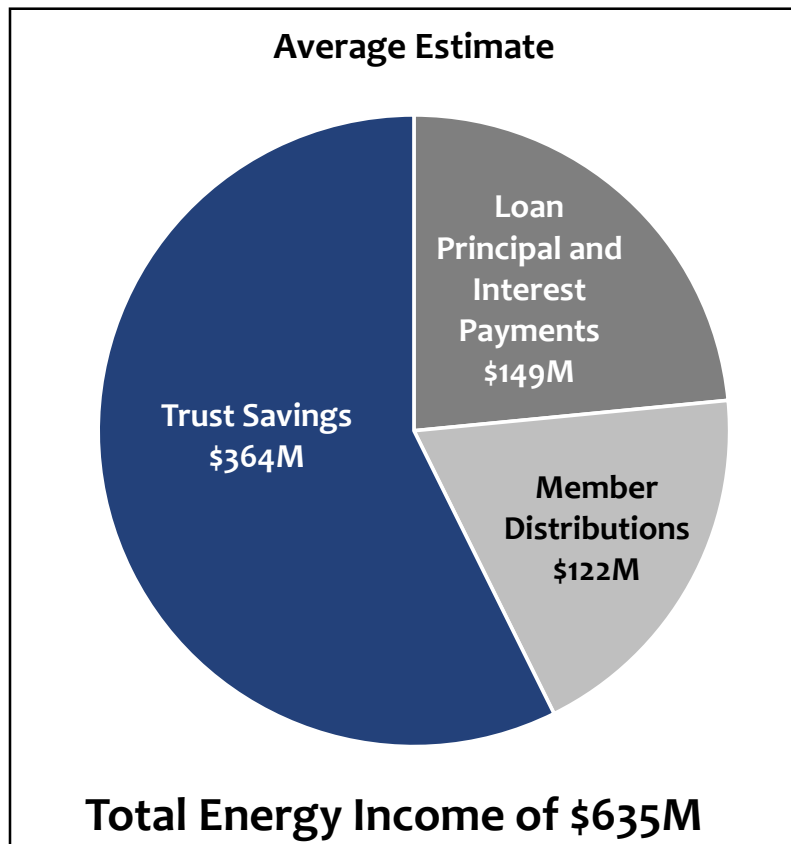


INVESTMENT TRUST

ENERGY INCOME – HOW IS IT SPENT AND SAVED?

- The charts below summarize how the cumulative energy income from 2020-39 is allocated under different performance scenarios

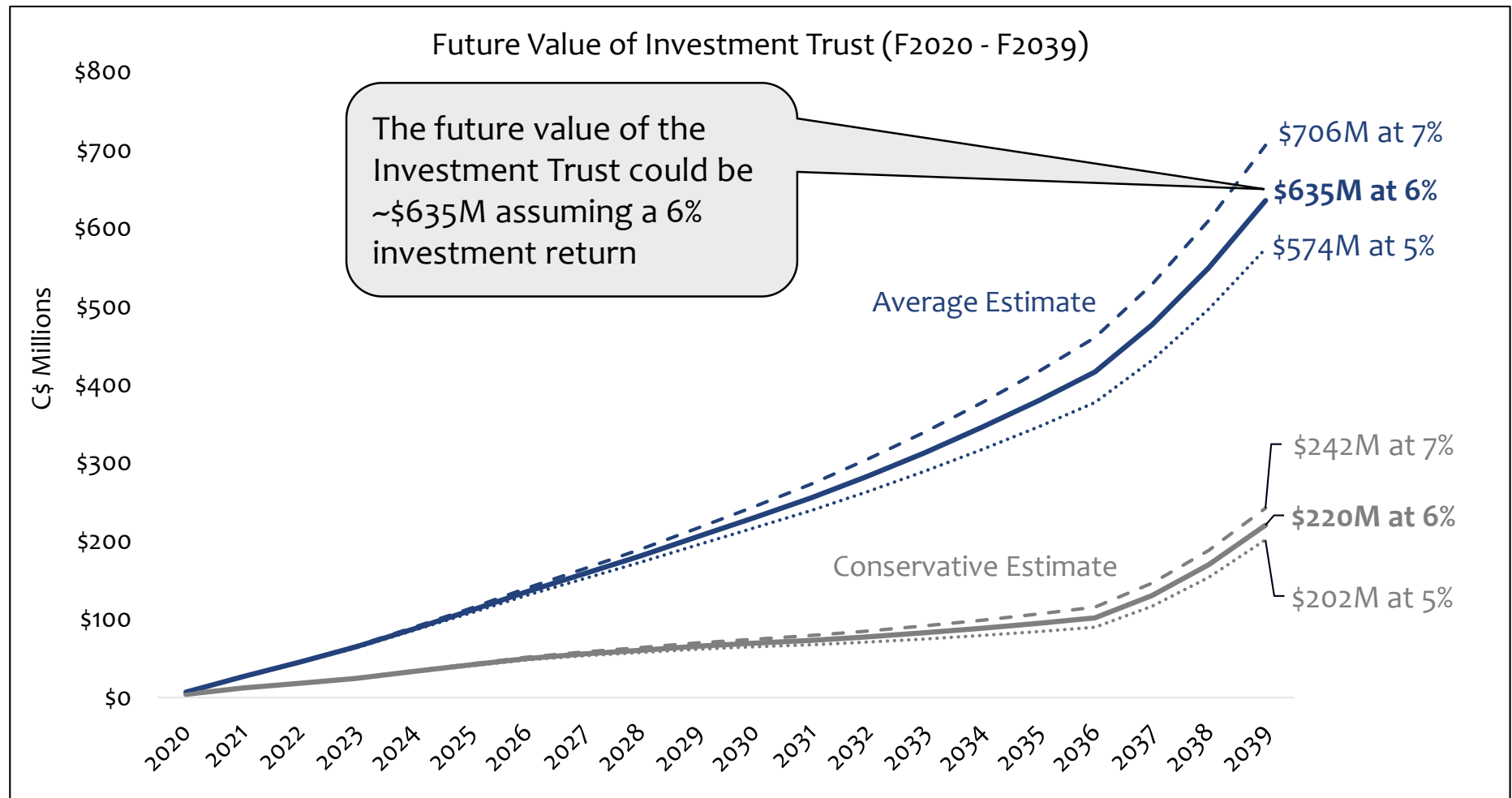
Allocation of Energy Income 2020-2039



INVESTMENT TRUST

VALUE OF INVESTMENT TRUST IN 2039

- The chart below illustrates the future value of the investment trust under different investment returns if the Nation was to invest all the Net Energy Income in the investment trust



INVESTMENT TRUST

FUTURE WITHDRAWAL PLAN

Important Questions	Answers
How long can the Trust afford to support the Nation's withdrawal plan?	<ul style="list-style-type: none">• If the Trust is protected properly and the funds are invested wisely, the Trust should have the potential to last for many generations or possibly forever
How much money needs to be set aside in order to ensure that future withdrawal needs can be maintained well beyond 2039?	<ul style="list-style-type: none">• It depends on several key variables:<ul style="list-style-type: none">➤ Level of future annual withdrawals➤ Inflation rate / growth in withdrawals➤ Investment rate of return

INVESTMENT TRUST

FUTURE WITHDRAWAL PLAN

- The table below summarizes the Nation's illustrative annual withdrawal plan (after 2039)

FUTURE WITHDRAWAL NEEDS	ESTIMATED ANNUAL REQUIREMENT AFTER 2039	
Member Distributions ⁽¹⁾	\$7M - \$8M	Increases to \$10M+ if Member Distributions are indexed to inflation
HIFN operational deficit	\$0M - \$2M	Represents spending in excess of revenue from Government
New health and social programs	\$1M - \$4M	Funds required to support new social/health programs (such as dental coverage, etc.)
New infrastructure spending and maintenance	\$2M - \$6M	Funds required to support new infrastructure projects and maintain/replace existing infrastructure. Could include housing, water treatment, community buildings, etc.
TOTAL ANNUAL WITHDRAWALS	\$10M - \$20M	

(1) Assuming 1,406 members in 2039 receiving distributions and membership growing at 1.5% per year. Distributions for adults (\$500), seniors (\$600) and minors (\$100 up to max \$10,000).

INVESTMENT TRUST

HOW MUCH MONEY DO WE NEED TO SAVE TO FUND WITHDRAWALS IN PERPETUITY?

		Estimated Fund Size Required ¹				
(in \$ millions)		Annual Withdrawal Requirement (\$)				
		\$10.0M	\$12.5M	\$15.0M	\$17.5M	\$20.0M
Investment	3.0%	\$667	\$833	\$1,000	\$1,167	\$1,333
Fund Rate	4.0%	\$400	\$500	\$600	\$700	\$800
of Return	5.0%	\$286	\$357	\$429	\$500	\$571

(1) Assuming withdrawal requirement increases @ 1.5% per annum

The Nation will need to have ~\$500M in the investment trust in 2039 to fund \$12.5M in annual withdrawal requirement in perpetuity (assuming 4% investment return)

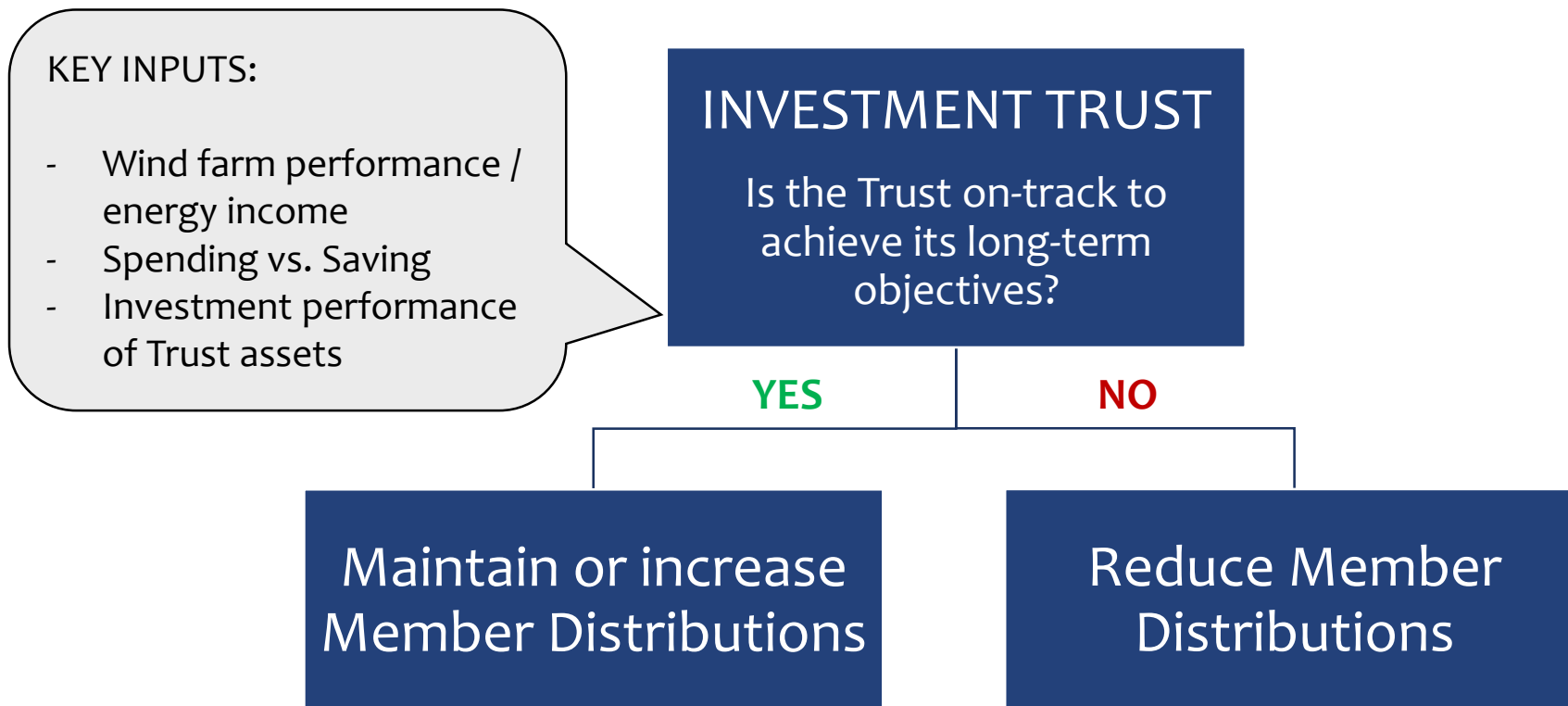
If the investment rate of return increases to 5%, the Nation would need to have ~\$357M in the investment trust to fund \$12.5M in annual withdrawal requirement in perpetuity

If the Nation's withdrawal requirement increases to \$15M, it will need to have ~\$600M in the investment trust in 2039 to fund it in perpetuity (assuming 4% investment return)

INVESTMENT TRUST

SUSTAINABILITY – MEMBER DISTRIBUTION POLICY

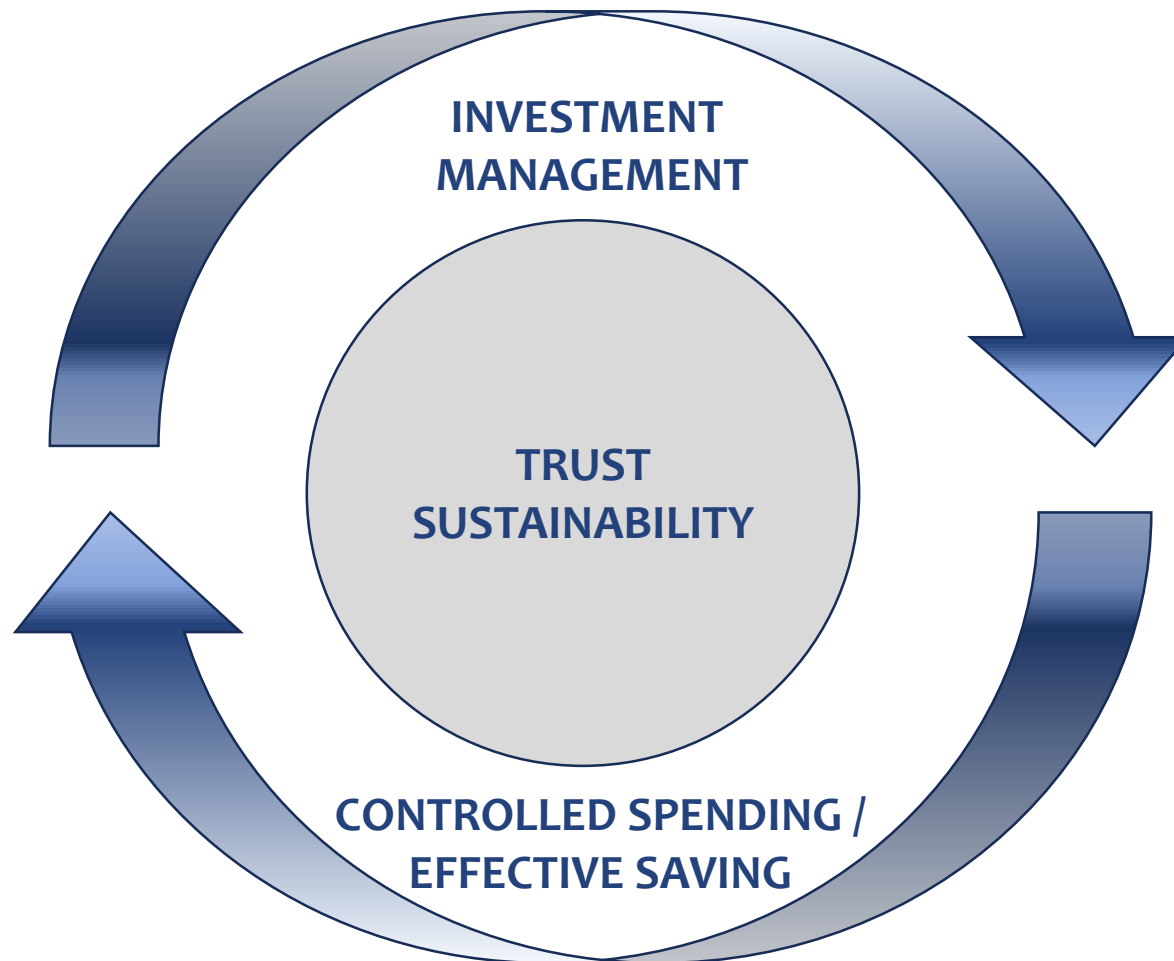
- How can the Nation ensure that the Trust will be able to pay Member Distributions long into the future?
 - Trustees to conduct regular financial reviews and assess if the Trust is on-track to achieve its long-term objectives



INVESTMENT TRUST

SUSTAINABILITY

- The Nation has an opportunity to grow the investment trust to the point where it can provide benefits to the community members for many generations to come
- These benefits can last forever if the investments and spending are effectively managed



A modern office lobby with a reception desk in the foreground. The desk is made of light-colored stone and has the name 'fogler rubinoff' engraved on it. In the background, there are large windows with a view of a city skyline, a colorful fish sculpture, and a large abstract painting on the wall. The floor is made of light-colored tiles, and there are several potted plants and armchairs in the seating area.

HIFN WINDFARM TRUST COMMUNITY MEETING #4

UPDATED TRUST PROPOSAL
13 October 2020

The FRLLP Lawyers on this matter...



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General Steps to Set Up a Trust

01

Trust Planning

Develop draft trust model: assets, purposes, goals, duration, features, structure, method of ratification

04

Prepare Trustees

Trustee selection, training and orientation, selection of trust investment advisor

02

Consult and Finalize

Consult with Council and the Community on trust model and revise; draw up trust agreement and trust policy documentation

05

Settle the Assets

Signing of the Trust Agreement and transfer of assets from the First Nation to the Trust

03

Trust Ratification

Final model and policy revisions, and Community Consultation, ratification by HIFN membership vote

06

Trust Operation

Hiring of investment manager, investment of trust funds, Trustee implementation of governance and management policies

Review of Windfarm Income

Two Windfarm Income Streams

1. PROFITS FROM ENERGY SALES

- Nigig receives $\frac{1}{2}$ of the HIW windfarm's net profit from energy sales, pays it to HIFN
- \$15M-\$31M per year (P90 and P50 projections)

2. HIW RENT

- The HIW pays windfarm rent directly to HIFN
- The rent varies with energy production
- \$6M-\$8M per year (P90 and P50 projections)

How will the funds be used?

HIFN's Objectives for Use of the Windfarm Income

1. IMPROVE QUALITY OF LIFE FOR MEMBERS

- Monthly member distributions
- Enhanced community facilities and services

2. SAME BENEFITS FOR FUTURE GENERATIONS

- After the FIT contract ends in 2039, plan is to continue member and community support indefinitely, if possible

Why Use a Trust?

- A trust can preserve and grow capital, and spread its benefits of over multiple generations:
 - Trust can only use its assets for the benefit of the First Nation and its members
 - Provisions of the Trust Agreement can prevent excessive withdrawals or cashing it out before the Trust's mandate is fulfilled
 - Investment can produce significant asset growth, enabling greater benefits for the beneficiary group over a longer time-frame
 - Tax efficient
 - Can provide protection against future "own source revenue" clawbacks.

What assets will be settled on the Trust?

- **Initial settlement:**

- Assignment of Nigig Power Corporation's annual net income from energy sales, projection is \$15M-\$31M per year

- **Additional settlements over the life of the Trust:**

- Annual surpluses of windfarm rent may be added to the trust
- Trust can be structured to permit additional capital contributions over time:
 - Future power sales agreements
 - Land claim and other settlements

What happens to the settled assets?

1. SAVINGS PHASE, 2020-2039

- Income received by the Trust from Nigig will be used to fund:
 - Distributions to members
 - Investment portfolio – target approx. \$635M
- Strict limits on withdrawals from the trust

2. FULL SUPPORT PHASE, 2039 →

- Both income streams from windfarm end, may or may not be replaced by new power sales contract (lower revenue)
- Trust Investment income (and windfarm income, if any) used to fund
 - Distributions to members
 - HIFN facilities, operations, programs and services

Distributions to Members

1. SAVINGS PHASE, 2020-2039

- Quarterly payments to each member from Trust capital:
 - Adults: \$500/mo from age 18 to 60
 - Seniors: \$600/mo commencing at age 60
 - Minors: \$100/mo, payable at age 21 or age 18 with a high school diploma or GED
- May be minor adjustments up or down every 5 years based on
 - Energy sales profits
 - Progress towards 2039 savings target
 - Membership growth

Distributions to Members (cont'd)

2. FULL SUPPORT PHASE, 2039 →

- Target: same payments to each member as during FIT contract, or better
- May adjust monthly amounts up or down, depending on:
 - energy sales profits/rent under a new power purchase agreement (if any)
 - actual Trust portfolio size and earnings
 - membership growth
 - funds required to support enhanced HIFN programs, facilities and services

Clawbacks

ODSP and Ontario Works

- Both programs permit members to receive up to \$10K/year with no claw-back under current policies

Income Tax

- Distributions should be tax-exempt for all members

Employment Insurance

- Distributions should not affect EI payments

Checks and Balances on Withdrawals

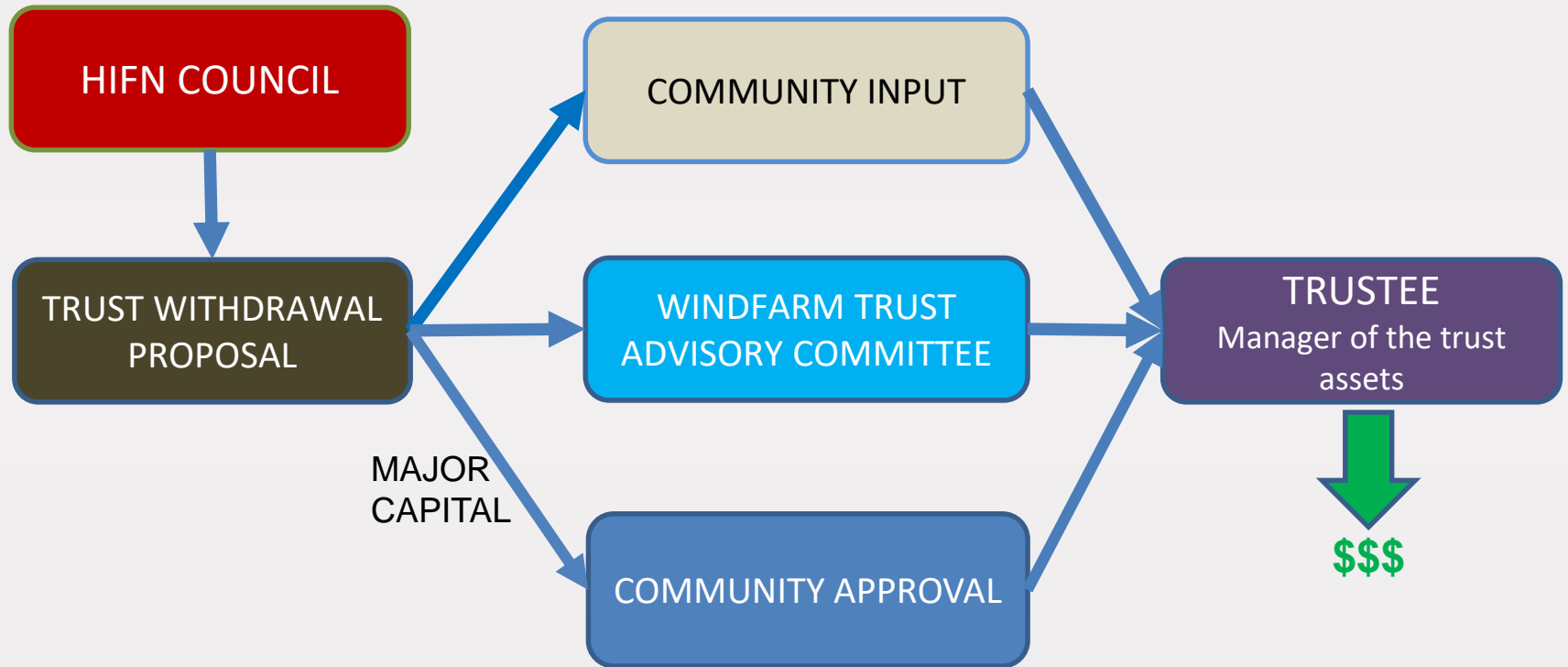
Windfarm Trust Advisory Committee

- Appointed by Council from membership on and off reserve
- Withdrawal proposal submitted by Council to the Trustees must have:
 - Windfarm Trust Advisory Committee's endorsement, or
 - Community Consultation (no or minor capital encroachment <5%)

Major capital withdrawal proposals

- Special rule applies if withdrawal proposal >5% of Trust's capital:
 - Unanimous Band Council Resolution
 - Community approval vote (special double majority rule)

Trust Withdrawal Proposals



Board of Trustees

Five Member Board

- **2 COMMUNITY TRUSTEES**
- **2 TRUSTEES WITH LEGAL/FINANCIAL EXPERTISE**
- **1 CORPORATE TRUSTEE**
- Limit one trustee from any one immediate family
- 3 year overlapping terms, maximum 2 consecutive terms (except for corporate trustee)
- Selected by Council from slate of candidates prepared by the Trust Advisory Committee and the Trustees jointly

Board of Trustees, cont'd

Community Trustees

- Qualifications
 - » High school diploma or better
 - » Financial experience
 - » Not an undischarged bankrupt
 - » Criminal records check
 - » Completion of NATOA trust officer training or equivalent within six months of appointment
 - » Members of Council, the Windfarm Trust Advisory Committee and employees of HIFN and the Trust disqualified

Board of Trustees, cont'd

Legal/Financial Experts and Corporate Trustee

- Qualifications
 - » MBA, law degree or equivalent
 - » Certification as trust expert by accredited institution
 - » Extensive trust management experience
 - » Criminal records check
 - » Members of Council, the Windfarm Trust Advisory Committee and employees of HIFN and the Trust disqualified

Next Steps

Review of Community Meeting #4 Feedback

- » Council, advisors will review feedback and make final revisions to the Draft Windfarm Trust Land Law and Trust Settlement Agreement, post to the HIFN Website before 20 October 2020

Ballot Package Mail-out – Wednesday, 21 October 2020

- » Draft Land Law, Draft Trust Settlement Agreement, backgrounder, voting instructions, mail-in ballot

Community Meeting #5 – Monday, 02 November 2020 [CHANGE]

- » Final pre-vote community review of financial modelling, Draft Windfarm Trust Land Law and Trust Settlement Agreement

Community Approval Vote – Sunday, 13 December 2020 [CHANGE]

HIFN WINDFARM TRUST COMMUNITY MEETING #2

THANK YOU!



