

MAY 2015

Q&A | Questions and Answers

PDA SUPPLEMENT AGREEMENT

2

Prepared For Nisichawayasihk Cree Nation Citizens



[For complete details please refer to the full Project Development Agreement, Supplement Agreement and related documents.]

Wuskwatim Project Development Agreement Supplementary Agreement 2

May 2014 Meet and Greet

QUESTIONS AND ANSWERS

1. Who owns the Wuskwatim Project? Who are the beneficial owners of the Wuskwatim Project?

The partners in the Wuskwatim Project are the NCN-owned Taskinigahp Power Corporation (TPC), Manitoba Hydro (MH) and a numbered Manitoba company that is referred to as the General Partner. These three entities make up the Wuskwatim Power Limited Partnership (WPLP). TPC's monetary investment, a value that increased between the original Project Development Agreement (PDA) and Project Development Agreement 2 (PDA 2), paid for 33% of the units.

MH is not a publicly traded company. Given that individuals cannot purchase or own shares in MH projects, such as Wuskwatim, TPC holds 33% of the Wuskwatim Project shares in trust on behalf of NCN and NCN Citizens. This means that NCN and the NCN Citizens are the beneficiaries of 33% of the Wuskwatim Project. As such, NCN and NCN Citizens are owed a fiduciary duty when decisions are made concerning these units.

2. What is NCN's investment in the Wuskwatim Project?

The sources of TPC's monies include the federal government, NCN Trusts and revenues, and a MH loan. Under PDA 2, NCN has committed to invest \$22 Million, which is a reduction from the original PDA commitment, the federal government granted \$4 Million and MH loaned \$110 Million. MH's loan terms and conditions were better than any available on the open market.

3. Where does money go once it is determined to be for Wuskwatim?

The monies are first invested in NCN trusts. Once CAP/CIP budgets are approved, a Council Resolution is sent to the corporate trustees requesting the release of the monies. From there, the trustees eventually transfer the monies to a separate account called the Wuskwatim Investment Account (WIA). The funds then go into TPC's account and then to MH by direct deposit or, in some instances, straight from the WIA to MH. If monies are not immediately used for Wuskwatim purposes, annual disclosure rules are not applicable to the monies.

4. Why was renegotiation of PDA initiated?

Every business deal has various risks. The Wuskwatim Project revenues are affected by cost increases, bank interest rates, US exchange rates, delays, export power rates and operation costs. Between 2006, when the PDA was signed, and 2012, when the generating station began to operate, the costs went up and the revenues went down. Building the dam ended up costing

\$1.4 Billion, almost twice its 2004 estimate of \$800 Million. Also, the global recession reduced what were expected to be large benefits from selling surplus power to the United States. Not to mention, a new fracking process resulted in abundant, cheap natural gas that has depressed the export price of energy, including electricity.

Essentially, all of these factors would have led to NCN potentially losing its investment units and benefits had the PDA arrangements not changed. PDA 2 was negotiated to minimize business risks on cash flow to NCN.

5. How were NCN Citizens consulted throughout renegotiation?

Both the 1996 Agreement and PDA had prior informed consent of NCN Citizens. In 2006, by double-majority, NCN Citizens voted to invest in the Wuskwatim Project knowing that there were risks. The PDA was widely discussed and is available to all NCN citizens. Members have repeatedly indicated that Council should take steps to maintain the investment.

The PDA gives authority to Chief and Council to amend and make adjustments from time to time as long as the fundamental features and operations are not significantly changed. NCN citizens elect leaders to make decisions in their interests. Again, NCN leaders have fiduciary duties and must act in their citizens' best interests. PDA 2 helps minimize risk, helps to ensure that TPC will not lose its units and ensures that benefits will be provided to NCN now and in the future.

Final drafts of PDA 2 and the Trust Amendments can be provided to NCN citizens; however, negotiations are generally confidential and are not disclosed until concluded and approved by the parties. In the meantime, concepts and projections have been provided to NCN Citizens and Chief and Council has been obtaining community feedback.

6. What are the significant differences between the PDA and PDA 2?

Financial models and agreements have been implemented in PDA 2 to adjust the cash flow to the NCN so that the community will benefit immediately and provide for future generations.

Under the original PDA, NCN had to pay various fees including a marketing fee of 3% annually. A "fee holiday" will be implemented so that while the equity loans are outstanding, no fees are payable. Once the loans are repaid, the fees will be implemented again. The parties negotiated an agreed upon net present value of the cash flows NCN would receive based on the 2013 Integrated Financial Forecast. Financial modelling was then done to determine what the fee needed to be based on the \$130 Million NPV for the cash flows. The model produced a 36% fee as being the fee to be implemented. This mechanism in PDA 2 will help ensure that NCN will receive benefits right away and retain its ownership interest in TPC.

To permit a higher cash flow in earlier years, to meet pressing community needs, cash distributions in later years will be reduced, fewer units will provide returns and MH will no longer make cash call loans available.

In 2007, Nisichawayasihk Trust Bond monies were invested in MH at a rate of 5.75%, which was the best rate at the time. In fact, market rates were about 2% at the time. Since then, bond rates in the global market have fallen. Under PDA 2, the bonds have been reinvested for 10 to 25 years at a rate equal to MH's 20 year borrowing rate, which is currently projected to range from 4%-4.5% - a rate higher than other bonds the NCN Trust is allowed to invest in. The interest will contribute to the annual projected cash flow of \$6.2 Million to be paid to the community.

7. Who was hired to project numbers and advise for the PDA? Did NCN do its own independent analysis?

Given that the return NCN receives for energy is based on the whole of MH sales, hydro experts and NCN's own financial, legal and engineering advisors have reviewed various future scenarios to assess the economic viability of the Wuskwatim Project.

NCN and MH jointly retained four or five firms to review energy export rates. MH and NCN also hired independent advisors to provide information about certain aspects of the Project. NCN received confidential financial information from MH and assessed that information independently from MH.

NCN had its own independent financial advisors to assist in reviewing the numbers and complexities of the investment. In 2011, Deloitte LLP, a highly respected international financial consulting firm, was consulted to assist NCN decide whether to maintain the investment. NCN advisors asked informed questions of MH and then made recommendations to NCN Chief and Council.

8. Are the projections in PDA 2 deemed to be more reliable than those in the PDA?

Under the original PDA, due to a combination of risk factors and uncertainty about the extent to which NCN can use third party contributions, NCN's returns depended on significantly improved project revenues, where the alternative was TPC becoming insolvent.

Under PDA 2, NCN is projected to receive about \$6.2 Million annually from interest on NCN Trust bonds, water rental rebate payments from the Province, distributions from the Project and payments from the Transmission Development Fund. Furthermore, the cash flow revisions in PDA 2 project that NCN will receive \$10.3 Million in 2014, \$8.3 Million in 2015 and then approximately \$6 Million annually until loans are repaid around 2048. After that point, NCN is projected to receive varying amounts between \$10 Million and \$30 Million annually.

The risk of business still applies, meaning these projected figures depend upon a somewhat unpredictable market. Presently, MH projects significant rate increases over the next couple decades. That said, while changes in certain factors could significantly increase hydroelectricity demand and financial returns, changes in others might decrease that demand. In either case, PDA 2 is better equipped to protect against unfavourable conditions than was the original PDA.

9. Is it possible for NCN to “go in to the hole”?

NCN cannot “go in to the hole” - the only recourse MB has is against NCN’s 33% shares of partnership units, not to the assets of the Nation.

10. Will the Wuskwatim Project provide NCN with the funds necessary to build a water treatment plant, improve NCN’s housing situation and contribute to other community infrastructure?

NCN’s Citizens needs are not being met by the federal government, which has capped its funding for a variety of programs since the 1990’s. Federal funding now provides about a third of NCN’s annual funding and yet, before NCN concluded the 1996 Agreement, Wuskwatim and other business deals, the community was 100% dependent on federal funding. NCN Citizens now benefit from programs and services funded through NCN’s own source of revenue.

Without the Wuskwatim Project, Atoskiwin Training and Employment Centre (ATEC) would not have been built, NCN would not have received over \$115 Million from the 1996 Agreement, there would not be \$40 Million in Nisichawayasihk Trust, NCN Citizens would not have been employed by the Project and NCN would not have received Millions of dollars from the PDA.

Housing and related infrastructure is a major priority for NCN Citizens. As such, NCN has negotiated benefits in the early years until the loans are repaid that will assist in addressing these issues in the community, at which point benefits will come from project revenues.

Payment of an additional \$6 Million in 2015 can be used to leverage other monies to start resolving the housing and infrastructure issues. NCN’s goal is to build at least 100 new housing units over the course of the next 5 years by also using the ability to forward commit under the Taskinigahp Trust, if amendments are approved.

In order to build new homes, the water treatment plant needs to be improved and new subdivisions added, as there are about 50 lots in the community that must be added to the water supply system. NCN has approximately \$3 Million available from the Claim 138 Agreement and \$500,000 from its own budget to put towards these improvements and is seeking cost-sharing partnerships with other levels of government to address this issue.

Further, NCN will maintain the \$40 Million investment in the Nisichawayasihk Trust and the \$2.5 Million in Taskinigahp Trust rather than investing those monies in Wuskwatim and the interest will be available for community programs and services.

11. How will the Wuskwatim Project benefit MH?

MH had economic, financial and commercial reasons to advance the Wuskwatim Project.

MH hydroelectric projects allow Manitobans to benefit from inexpensive electricity on which they are highly reliant. To meet Manitoba demand and export obligations, MH relies on a certain amount of hydroelectricity being produced annually. Exporting electricity to other Canadian

provinces and the United States is a growing endeavour with increasing revenue and is now an essential element of MH's future plans and strategies.

The Project will positively impact employment and income in the Province for years.

MH bears significant business risks and costs as well. Given that the Agreement is reimbursable, if costs increase, MH is responsible for that increase. Also, from the perspective of the Government of Manitoba, substantial government revenues accrue from hydroelectric development, primarily through water rental fees and capital taxes paid by Manitoba Hydro.

12. If the Canadian dollar increases, will NCN's interest in Wuskwatim increase as well? If revenues are lower, will that impact NCN's dividends?

Export power is predominantly sold to US-based customers who pay their bills in US dollars. As the Canadian dollar strengthens, we will receive fewer Canadian dollars for each US dollar received. However, the Canadian dollar may not always stay at the current high level and then we would once again get more Canadian dollars for each US dollar. Fluctuations in the exchange rates are very difficult to predict.

In a year when the Project does not make more than the minimum formulaic guarantee, lower revenues would not impact the dividends of NCN, but it would increase the debt against the partnership units. In a year, when revenues are above the formulaic guarantee but revenues are less than the projected amount, that would reduce the expected revenues.

13. How does MH's situation compare to hydro in other parts of the country?

MH is Manitoba's major energy utility and is one of the largest in Canada. MH provides the lowest electricity rates in Canada. MH exports electricity in markets throughout Canada and the mid-western United States.

14. What is the Keeyask Project? Why is Keeyask in the process of being approved while under the same economic climate of our province? Will Keeyask experience the same losses as were experienced under the PDA?

The Government of Manitoba may not approve any generation and transmission projects, or approve the commencement of spending on such projects, unless such projects have been examined through a comprehensive and regularly occurring resource planning process.

All this considered, in 2009, a hydroelectricity project was signed between MH and four Manitoba First Nations. The Keeyask Project is an attempt at developing sources of revenue other than federal funding, securing their Nations' economies and creating employment opportunities.

The Keeyask Generating Station is being built on the Nelson River. This project was subject to environmental and regulatory assessments. The First Nations - War Lake, Tataskweyak Cree Nation, York Factory and Fox Lake - will only own up to 25% of the equity of the partnership. MH will own and operate the transmission infrastructure required for the generating station. The

Project, like Wuskwatim, is not immune to business risk factors. For example, already the estimated cost has increased by \$3 Billion in just a few years.

15. Do NCN Citizens get paid to drop off Wuskwatim related newsletters?

Yes, the Wuskwatim Implementation Office hires people to do this work.

16. What do we need to vote about and why?

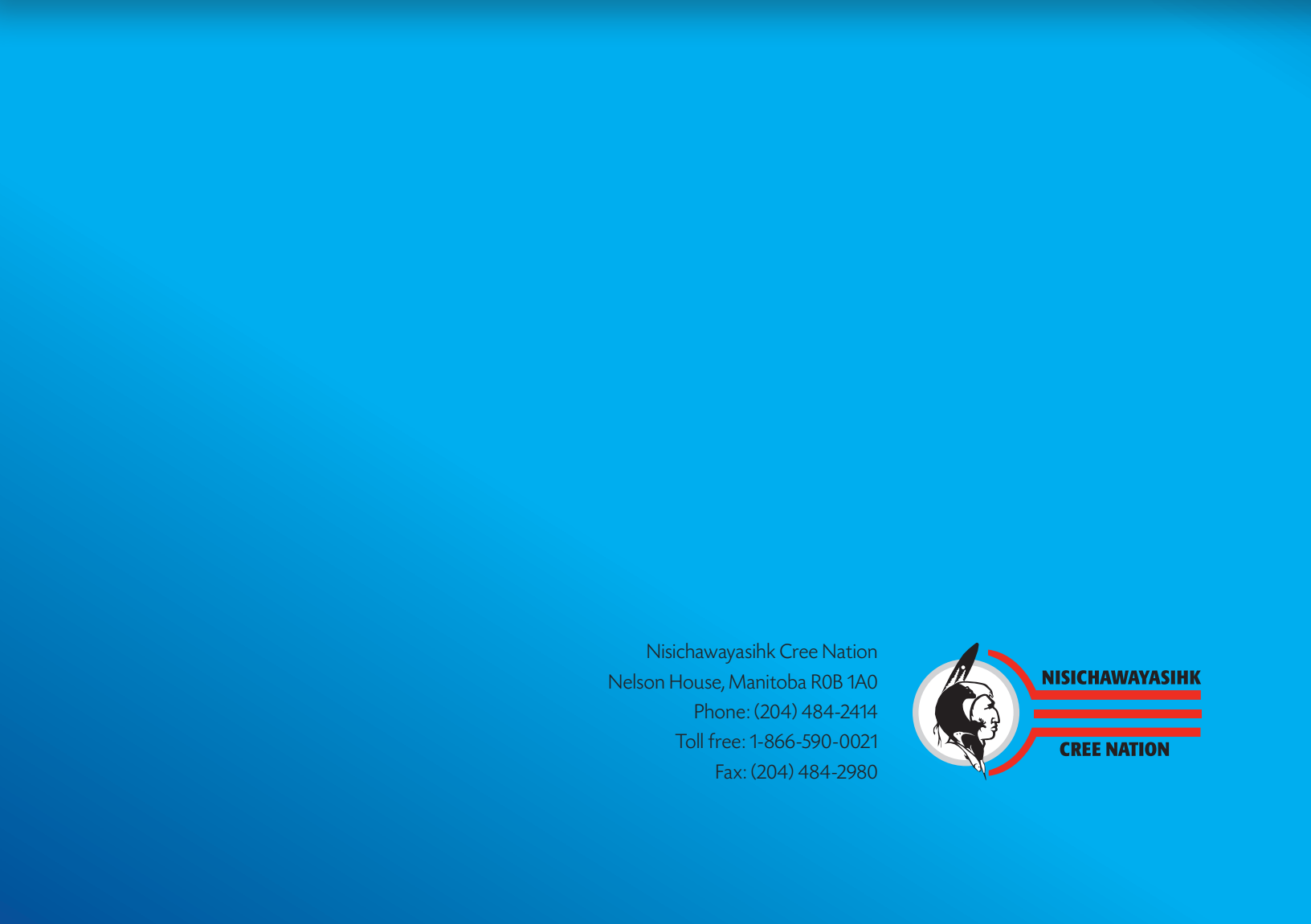
In the spring of 2014, it was anticipated we would need monies from Taskinigahp Trust to complete our investment in Wuskwatim. The current provisions of the Trust Agreement require at least \$2.5 Million to be retained in the Trust. The Trust Agreement also requires mandatory savings to be deposited in to the Seven Generations Growth Account. There are also limits on the forward committing of funds. As such, NCN will need to vote to amend these provisions if they are to be changed in the future, unless a court orders otherwise.

17. Will the vote be held according to NCN's present election code?

If a vote is needed in the future, the NCN Election Law in effect at that time will apply.

18. Can PDA 2 also be renegotiated?

Yes. Furthermore, NCN will maintain its rights to withdraw from the Project at years 25 and 50, at which points NCN can get its invested cash back.



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