PROJECT DEVELOPMENT AGREEMENT

Between Nisichawayasihk Cree Nation and Manitoba Hydro

March 2006

For complete details please refer to the full Project Development Agreement document.
The Project Development Agreement, or PDA, is the result of discussions and negotiations between Manitoba Hydro and NCN to jointly develop a hydroelectric generating station at Taskinigahp Falls on the Burntwood River in the Nelson House Resource Management Area. The PDA and its related agreements define and govern the ownership, financing, construction, operation, management and other aspects of the Wuskwatim Generation Project.

You may be familiar with the Summary of Understandings (SOU) issued in late 2003. Generally speaking the major points outlined in the SOU have been retained in the PDA, so if you understand the SOU, you will have a general understanding of the framework of the PDA. The PDA puts the SOU into legally binding text and includes some additional details.

Although the name suggests a single agreement, the PDA consists of a primary agreement and more than 14 other agreements called schedules, each focusing on a particular aspect of the project.

A brief description of the individual agreements is provided at the end of this brochure.
ACHIEVING KWAYASKONIKIWIN:
NCN’S APPROACH TO THE PDA

Project planning by Nisichawayasi Nehethowuk (the people from where three rivers meet and who speak the language of the four winds) incorporated Kihche’othasowewin (the Great Law of the Creator). Nisichawayasi Nehethowuk recognize that it is necessary to achieve Kwayaskonikiwin (reconciliation) and a balance between Kihche’othasowewin and the Wuskwatim Project.

NCN has worked to incorporate Ethinesewin (wisdom and traditional knowledge) and customary law principles, based on Kihche’othasowewin, into all aspects of the Wuskwatim Project including the PDA, heritage resources protection plans, environmental protection plans, environmental monitoring plans and project monitoring plans.

NCN and Manitoba Hydro collaborated in the development of the Access Management Plan and the various protection and monitoring plans for the Wuskwatim Project. NCN and Manitoba Hydro have ensured that Ethinesewin and western scientific knowledge are applied equally and meaningfully in accordance with the principles of customary law referred to in these documents.

Throughout the environmental assessment process, equal treatment of Ethinesewin and western scientific knowledge was also applied in the studies and processes that form the basis of the joint Environmental Impact Statements. The Clean Environment Commission recognized and described the Ethinesewin of Nisichawayasi Nehethowuk as “traditional scientific knowledge” and recommended that NCN and Manitoba Hydro continue this approach to engage and apply traditional scientific knowledge and western scientific knowledge.

TREATY RIGHTS AND OTHER OBLIGATIONS REMAIN IN PLACE

The specific limitations of the Aboriginal and Treaty rights of Nisichawayasi Nehethowuk that will result from the Wuskwatim Generation and Transmission Projects have been explored by Nisichawayasi Nehethowuk throughout the planning process.

Examples of the specific limitations are that less than one-half square kilometre of land will be flooded and conservation and safety measures will be applied to the use of the access road and transmission line right-of-way.

The PDA does not relieve Manitoba Hydro of continuing obligations under the Northern Flood Agreement or under the 1996 NFA Implementation Agreement. The 1997 Manitoba Treaty Land Entitlement Framework Agreement will be respected.
This partnership approach was first outlined in the Agreement in Principle (AIP) in 2001 and ratified by NCN Members in a secret ballot vote. It was described in more detail in the SOU that was released to Members in 2003.

**CONSTRUCTION COULD START IMMEDIATELY**

If the Wuskwatim Power Limited Partnership receives all approvals and licences, the Generation Project will begin with construction of the access road, perhaps within days of a positive ratification vote by NCN Members.

The project is expected to take six years to complete and is planned to be operational around 2012.

The current estimated cost (including interest) is roughly $1 billion, but this estimate will likely change as work progresses. Costs have already risen from earlier estimates due to:

- Project delays
- Higher overheads
- Requirement for a larger camp
- Additional environmental monitoring
- Increased costs for construction materials.

This estimate does not include the cost of the Wuskwatim Transmission Project.

Manitoba Hydro, rather than the Wuskwatim Power Limited Partnership, will own the Transmission Project, although NCN had input into determining the route and location of the transmission lines and facilities within its Resource Management Area.

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**THE PROJECT WILL NOT GO FORWARD WITHOUT NCN MEMBER APPROVAL**

Completion of the PDA does not mean Wuskwatim is a done deal. NCN Members will have the deciding say in a secret ballot ratification vote on whether to go ahead with the project.

The PDA will also need the approval of Manitoba Hydro’s board of directors, and the Wuskwatim Projects will need licences and regulatory approvals by the federal and provincial governments.

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**A HISTORIC LEGAL PARTNERSHIP WOULD BE ESTABLISHED**

Ratification will allow NCN (through a company owned by NCN called Taskingагhp Power Corporation – TPC) and Manitoba Hydro to become limited partners in the Wuskwatim Power Limited Partnership. Together they will own the proposed Wuskwatim Generation Project.

NCN and Hydro have been discussing the proposed Wuskwatim Project for several years and NCN has been a part of planning the proposed project at every stage. NCN’s Traditional Knowledge has been a very important part of the process.
How the Partnership WILL WORK

THE OVERALL BUSINESS STRUCTURE
The project would be owned by the Wuskwatim Power Limited Partnership.

The Wuskwatim Power Limited Partnership would be jointly owned by Manitoba Hydro and by NCN’s wholly-owned corporation, the Taskinigahp Power Corporation (TPC). A separate corporation, owned by Manitoba Hydro, would act as the General Partner.

TPC would hold NCN’s shares in the Wuskwatim Power Limited Partnership. The TPC board of directors will be appointed by NCN. If the PDA is not ratified, TPC would likely be dissolved.

This limited partnership structure provides tax advantages and protects NCN from the project’s debts and obligations.

A GENERAL PARTNER CORPORATION IS NECESSARY TO RUN THE BUSINESS
Manitoba Hydro has created a corporation (5022649 Manitoba Ltd.) to act as the General Partner and conduct the business of the Wuskwatim Power Limited Partnership on behalf of Manitoba Hydro and NCN/TPC. It is the only party that can legally make day-to-day decisions for the Wuskwatim Power Limited Partnership, but unlike the limited partners, it does not have limited liability.

The General Partner will be a subsidiary of Manitoba Hydro and own only 0.01 percent of the Wuskwatim Power Limited Partnership. NCN will have the right to appoint a minority of directors to the board of the General Partner. NCN also has the right to initiate reviews of pricing agreements and certain aspects of service contracts between the Wuskwatim Power Limited Partnership and Manitoba Hydro.
NCN CAN OWN UP TO 33 PERCENT OF THE GENERATION PROJECT

NCN has the option of owning up to 33 percent of the Generation Project through TPC, but can own less if it chooses. If NCN decides to own 33 percent, the proposed ownership structure of the Wuskwatim Power Limited Partnership would be:

- Manitoba Hydro, owning 66.99 percent
- TPC (NCN), owning 33 percent
- The General Partner, owning 0.01 percent

Manitoba Hydro will buy all the power produced by Wuskwatim and transmit that energy to customers. Manitoba Hydro has the responsibility to find customers, not the Wuskwatim Power Limited Partnership, TPC or NCN.

NO CHANGE TO FUNDAMENTAL FEATURES CAN OCCUR WITHOUT NCN’S CONSENT

While NCN, through its corporation, TPC, won't be the majority partner, Manitoba Hydro must still obtain NCN's consent before it can change certain fundamental features of the Generation Project such as the size of the station and the location of the camp and road. Other environmental protections will be included in the required federal and provincial licences for the project.
CONTRIBUTION IS BASED ON SHARE OF OWNERSHIP
The Generation Project will cost around $1 billion. This cost may change before 2012. The Wuskwatim Power Limited Partnership will borrow 75 percent of the cost, or about $750 million. The two limited partners will have to come up with the balance of about $250 million in cash. This will be split between Manitoba Hydro and TPC based on the proportion of ownership.

MANITOBA HYDRO WILL LEND NCN/TPC ABOUT $56 MILLION
If NCN decides to be a 33 percent partner, its corporation, TPC, will need to contribute about $84 million in cash. Recognizing that NCN would likely not be able to raise that amount of cash, Manitoba Hydro is prepared to lend TPC about $56 million, as equity loans, at a preferred interest rate during the construction period. TPC would pay this back to Manitoba Hydro from its share of future profits. There may also be cash call loans, which are described on page 9.

This leaves roughly $28 million (subject to change as the project budget changes) that TPC must come up with in cash to invest, if it chooses to own the full 33 percent.

NCN/TPC MUST INVEST ITS FIRST $1 MILLION BEFORE CONSTRUCTION STARTS
To demonstrate its commitment, TPC must invest an initial $1 million in the Wuskwatim Power Limited Partnership just before construction starts, possibly in 2006. Chief and Council have already set aside this money to be ready if there is a positive ratification vote.

TPC won’t have to invest any more cash of its own until just before construction is finished (about 2012). If it decides to, NCN can withdraw TPC from the Wuskwatim Power Limited Partnership at that time and get its $1 million back.

How the Project Will be FINANCED & FUNDED

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WUSKWATIM GENERATION PROJECT FINANCING
If NCN invests at the 33% level, it must contribute 33% of $250 million or about $84 million.

- All costs are subject to change.
- Assuming $1 billion cost
NCN HAS INVESTMENT OPTIONS
When construction is finished, NCN could also choose to invest at an ownership level less than 33 percent, which would require a smaller investment of cash. For example, it would only have to invest around $15 million of its own money for a 25 percent investment in the project, with the rest borrowed from Manitoba Hydro. However, that would also result in a decrease in TPC’s share of future profits.

FLEXIBLE INVESTMENT STRUCTURE REDUCES RISK
This flexible investment structure offers significant advantages and safeguards for NCN and TPC. It allows TPC to make a small, refundable down payment at the beginning of the project when all costs and revenues are only projections. NCN does not have to commit more money until the project is completed and capital costs are known. Then it can decide if it wants to own, through TPC, 33 percent, less than 33 percent, or nothing at all. NCN can then reassess the viability of the deal. If the deal no longer works to its advantage, TPC can withdraw and get its down payment back.

There are further safeguards for NCN; at 25 years or at 50 years after the project is operational, NCN will have the option of giving back its shares in the Wuskwatim Power Limited Partnership and getting back its own invested cash in the Wuskwatim Power Limited Partnership (see page 9).

NCN WILL NEED TO RAISE ITS SHARE OF THE INVESTMENT
Every year, NCN gets funds to spend on community initiatives from its 1996 Nisichawayasihk Trust. NCN can decide, through the Community Approval Process, to set aside some money every year until 2012, to use as part of the roughly $28 million that TPC will need to invest in cash for 33 percent ownership of the project. NCN may also approach governments or others for additional money.

NCN IS PROTECTED FROM UNFORESEEN COSTS
Many things can change over the six-year construction phase of the Wuskwatim Project, but contingencies and conservative forecasting have been built into project planning to help ensure its viability.

If the Wuskwatim Power Limited Partnership needs more money to cover unexpected costs, it will make cash calls on the two limited partners. Cash calls are demands for extra money.
Manitoba Hydro recognizes that TPC might not have the money to pay a cash call, so it is prepared to make extra loans to TPC, if this ever becomes necessary. TPC would also repay these loans from its share of future profits.

**NCN CAN WITHDRAW FROM THE PROJECT AT 25 OR AT 50 YEARS**

If it chooses, NCN can decide to withdraw from the Wuskwatim Power Limited Partnership on the 25th or 50th anniversaries of the date Wuskwatim begins operating. NCN negotiated this safeguard to respond to concerns about long-term viability raised by NCN Members.

On these dates only, if NCN decides to withdraw from the project, TPC would receive a refund of its investment. Also, TPC and NCN would not have to repay any remaining loans, including any dividend loans. The one exception is the Atoskiwin Training and Employment Centre of Excellence (ATEC) loan described on page 11, which would have to be repaid even if TPC withdrew from the Wuskwatim Power Limited Partnership, unless NCN decided to repay this amount earlier.

Whether or not NCN/TPC remains in the Wuskwatim Power Limited Partnership at that time, NCN will have benefited from Wuskwatim construction-related opportunities including jobs, revenue from the NCN joint-venture contracts, and skills training at ATEC. ATEC and its ongoing programs will remain for NCN to benefit from, even if NCN withdraws. The access road to the Wuskwatim site will also provide long-term benefits to some NCN Members, such as commercial fishers on Wuskwatim Lake.
How We Will Share Our PROFITS & REVENUES

SHORT-TERM CASH FLOW FOR COMMUNITY PROGRAMS
The project will generate revenues as soon as the turbines start to turn. TPC will have to use all or most of its share of the profits during the early years of operation to repay its loans from Hydro and there could be some years with no profits, for example, if there is a severe drought. During this phase, Manitoba Hydro recognizes NCN may need some cash flow for community programs and projects and is prepared to lend NCN some extra money as dividend loans – maybe about $1 million per year. This would be based on a formula tied to the amount of TPC’s own funds that were invested in the Wuskwatim Power Limited Partnership. NCN would repay these dividend loans from TPC’s future profits.

SHARING THE PROFITS OVER THE LONG TERM
If NCN proceeds with Wuskwatim, and TPC continues to own 33 percent of the Wuskwatim Power Limited Partnership, the long-term benefit for NCN will include a 33 percent share of the profits from the sale of electricity from the generating station.

It is anticipated TPC could begin paying some profits to the Taskinigahp Trust as early as 2019, well before the $56 million equity loans are repaid, but after other loans (including cash call and dividend loans, if any, and the ATEC loan) are repaid. When that will happen depends on a number of factors including the final cost of construction, interest rates, export market price for energy, water flow and currency fluctuations.

In addition, NCN will have access to annual cash flow from the dividend loans and water power rental rebates which together will be about $3 million annually commencing in year one of the plant’s operation. The amount will be dependent on the percentage of TPC’s ownership in the Wuskwatim Power Limited Partnership and the amount of TPC’s own funds that were invested in it.

After all NCN’s loans are paid off by about 2051, profits could amount to tens of millions of dollars per year and be available for community projects to improve the quality of life for NCN Members. Profits should be generated for as long as the generating station operates – estimated to be about 100 years.

ANNUAL PAYMENTS FROM TRANSMISSION FUND
Manitoba Hydro will establish a transmission development fund to make annual payments to NCN and other eligible First Nations and remote northern communities in the vicinity of the new Wuskwatim transmission lines and stations. Payments to NCN will go into the Resource Account of the new Taskinigahp Trust, to support NCN resource programs.
OTHER PAYMENTS TO NCN

NCN will get $5.7 million for adverse effects compensation, up to $2.7 million for implementation, up to $1 million in transition costs and an additional $1.2 million in advances for ATEC. NCN has already received advances for ATEC of $4.5 million.

If the PDA is signed, but the project doesn’t get built, or if it’s built, but is uneconomical, the ATEC loans will be forgiven, except for loans of about $1.8 million. Of this $1.8 million, $1 million, plus interest, is repayable over time out of annual funding provided to ATEC. The balance of $800,000, plus interest, is repayable by NCN.

This means that altogether, NCN will receive approximately $13 million in other payments.

PROFITS WILL BE PAID INTO A NEW TRUST

To receive and manage its share of Wuskwatim profits, NCN will create the Taskinigahp Trust, which will fund community projects and initiatives. The Taskinigahp Trust will receive all payments and funds from Wuskwatim including:

- All settlement proceeds for adverse effects
- Any dividend loans taken by NCN
- The Transmission Development Fund
- All dividends or profit payments declared by TPC.

The Taskinigahp Trust will operate in a similar way to the Nisichawayasihk Trust, but with additional features to encourage greater NCN Member participation and multi-year funding options. New features of the Taskinigahp Trust include:

- An enhanced Community Involvement Process
- A Resource Account for NCN resource programs
- A Seven Generations Account for long-term savings
- The possibility of individual payments to NCN Members and NCN businesses under limited circumstances.

THE TASKINIGAHP TRUST will operate like the Nisichawayasihk Trust, but with additional features to encourage greater NCN Member participation and multi-year funding options.

Profits in this document refer to the distributions of money based on the level of ownership in the Wuskwatim Power Limited Partnership. Shares refer to units of ownership in the Wuskwatim Power Limited Partnership.
As of March 2006, ATEC has trained around 300 NCN Members. Most graduates are now employed in their fields of study. While ATEC is focused on providing training programs for the construction of northern hydro projects, it also provides training for other jobs and careers.

**BURNTWOOD NELSON AGREEMENT GIVES FIRST PREFERENCE TO NORTHERN ABORIGINALS**

Hiring of construction workers for the Wuskwatim Generation Project will be governed by the Burntwood Nelson Agreement (BNA), a collective labour agreement between the Allied Hydro Council, which represents the unions that build hydro projects, and the Hydro Projects Management Association, which represents Manitoba Hydro and all the contractors and sub-contractors.

The BNA gives first preference to qualified northern Aboriginal workers, who are residents of the Churchill, Nelson, Burntwood River area, on all Manitoba Hydro Burntwood and Nelson River projects that begin construction before 2016. Future northern Manitoba Hydro projects may also include directly-negotiated contracts similar to the Wuskwatim Catering Contract.

**OVERVIEW**

**PROJECT DEVELOPMENT AGREEMENT**

**WUSKWATIM**

**TRAINING, JOBS AND BUSINESS OPPORTUNITIES ARE IMMEDIATE BENEFITS**

The Wuskwatim Generation Project offers training and job opportunities to qualified NCN Members, and contract opportunities to qualified NCN businesses during construction.

In addition, while NCN is not a co-owner of the Wuskwatim Transmission Project, it also offers some limited employment opportunities to NCN Members and contract opportunities to NCN businesses.

One of the most important aspects and legacies of the project is the $8.6 million Atoskiwin Training and Employment Centre of Excellence (ATEC) in Nelson House, which has been built to provide NCN Members with skills needed during construction of the generating station.

ATEC began offering training programs in 2003 for residents of Nelson House, South Indian Lake and other northern Manitoba communities. Training offered at ATEC includes:

- General education, upgrading and life skills
- Construction-support training, eg. clerical and security workers
- Non-designated trades training, eg. truck drivers
- Designated trades training, eg. electricians or carpenters.

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PROJECT CONTRACTS HAVE BEEN NEGOTIATED FOR NCN

Parallel to PDA negotiations, Manitoba Hydro and NCN’s Future Development Team are nearing completion on at least seven construction-related Wuskwatim contracts to be performed by NCN businesses without the need to go to open-competitive tender.

Under these contracts, which could represent over 10 percent of the value of the Generation Project, NCN and its joint venture partners will be able to directly hire NCN Members without going through the general referral system for other construction jobs.

NCN Members will also be eligible to apply for other jobs on the project through the general referral system, used to hire people from other communities.

THE CONTRACTS INCLUDE:

- Access road contract
- Security contract
- Catering contract
- Cross-cultural training and on-site counselling contract
- Main camp sewer and water contract
- Site preparation contract
- Transmission-line clearing contract
OVERVIEW

PROJECT DEVELOPMENT AGREEMENT

PDA AGREEMENTS

The PDA itself is the main agreement relating to the development of the Wuskwatim Generation Project. All of the other agreements listed below are attached as schedules to the PDA, so that the whole agreement can be combined in a single set of documents. The major agreements are described below.

- **PROJECT DEVELOPMENT AGREEMENT** (primary agreement) sets out the terms and conditions under which NCN and Manitoba Hydro will proceed with the development of the Wuskwatim Generation Project. It is the primary agreement that links to all of the other agreements and includes arrangements for the planning, development, construction and operation of the project.

  In some ways, the PDA brings together the entire relationship between NCN and Manitoba Hydro and the various agreements that have been drafted to define that relationship. It also deals with a number of issues that either cannot be dealt with separately under the various agreements, or would be needlessly repeated.

- **LIMITED PARTNERSHIP AGREEMENT** sets out the terms, conditions and agreements of the parties in respect of the formation, organization, management and governance of the Wuskwatim Power Limited Partnership, as well as its respective rights, entitlements and obligations attached to the units and interests.

- **MANAGEMENT AGREEMENT** establishes the terms and conditions under which Manitoba Hydro will be contracted by the Wuskwatim Power Limited Partnership to manage the business of the Wuskwatim Power Limited Partnership.

- **CONSTRUCTION AGREEMENT** establishes the terms and conditions under which Manitoba Hydro, as project manager, will build and operate the project.

- **PROJECT FINANCING AGREEMENT** deals with how Manitoba Hydro will lend money to the Wuskwatim Power Limited Partnership to build the Wuskwatim Generation Project, including the interconnection facilities, and how the loans will be repaid.

- **POWER PURCHASE AGREEMENT** deals with how the Wuskwatim Power Limited Partnership will sell the power produced by the project to Manitoba Hydro, and how the price for this power will be determined.

- **OPERATIONS AND MAINTENANCE AGREEMENT** provides the terms and conditions between the operator (Manitoba Hydro) and the Wuskwatim Power Limited Partnership for the operation and maintenance of the Wuskwatim Generating Station.
INTERCONNECTION AND OPERATING AGREEMENT is an agreement required by any generator, such as a wind farm operator or the Wuskwatim Power Limited Partnership, that wishes to transmit power through Manitoba Hydro’s transmission system.

SYSTEM OPERATIONS AND DISPATCH AGREEMENT establishes the terms and conditions between Manitoba Hydro and the Wuskwatim Power Limited Partnership with respect to the operation and dispatch of the Wuskwatim Project as part of Manitoba Hydro’s power system.

TASKINIGAHP POWER CORPORATION (TPC) FINANCING AGREEMENT sets out the terms and conditions under which Manitoba Hydro will make loans to TPC to assist it in the funding of its equity and cash calls in the Wuskwatim Power Limited Partnership.

NCN FINANCING AGREEMENT sets out the terms and conditions under which Manitoba Hydro will make dividend loans to NCN, if NCN needs additional cash flow for its programs.

ADVERSE EFFECTS AGREEMENT sets out the terms and conditions upon which NCN will be compensated for adverse effects from the Wuskwatim Generation and Transmission Projects. NCN will get $5.7 million for adverse effects compensation.

NCN DEED OF ASSIGNMENT deals with how NCN will put the profits and other payments from Wuskwatim into the new Taskinigahp Trust.

TASKINIGAHP TRUST AGREEMENT sets out the terms and conditions that will create the Taskinigahp Trust, which will receive all settlement proceeds for adverse effects, any dividend loans, transmission benefits and all dividends or profit payments received by TPC.

OTHER TECHNICAL AGREEMENTS such as an agreement with the province of Manitoba about the land required for the project, and other matters related to the Wuskwatim Project as described in the PDA.

This overview uses simple terms rather than technical ones. For example, it may say “NCN and Hydro” or “the partnership” rather than “the Wuskwatim Power Limited Partnership”, or “NCN” rather than the “Taskinigahp Power Corporation”, or “shares” instead of “partnership units”, or “profits” instead of “distributions on partnership units”.
