WUSKWATIM IMPLEMENTATION NEWS

April 2012

Chief and Council Set to Proceed with Wuskwatim Investment that Maintains Option for 33% Ownership

As a result of a long, careful process, NCN's Chief and Council have decided to take the necessary steps to try to maintain NCN's investment in the Wuskwatim project at 33 percent.

As part of its decision, Council rejected an option to convert its common units to preferred units. This option would have required no loans and involved less risk but would have provided much-reduced ownership and less opportunity for higher revenues.

NCN's investment decision has to be made before Final Closing (currently anticipated to be around June 15, 2012).

Chief and Council have decided to pay an additional $4.4 million before Final Closing to ensure they meet the 27.5 percent threshold. This was necessary to give NCN until July 3, 2013 to pay the remaining moneys to maintain 33 percent ownership.

Council also decided to pay the additional $2.8 million approved as part of the 2012 CAP/CIP process at Final Closing. Based on current projections, this means NCN will have invested a total of $16.428 million ($9.188 million plus $4.440 million plus $2.8 million) which represents about 28.5 percent of the units.

Chief and Council are now seeking input from NCN Citizens about how to fund the approximately $16 million remaining so we can maintain our 33 percent ownership.

Study Recommends Proceeding

Before making its final decision, Chief and Council commissioned the financial consulting firm, Deloitte, to conduct an external due-diligence evaluation of NCN's options under different market and operational circumstances to determine if our First Nation should proceed or not, given current and projected economic conditions. The report recommended proceeding with the investment. (Read a more thorough summary of Deloitte's report on the next page).

"The Deloitte study essentially confirmed that with the built-in safeguards to protect NCN's investment, and subject to financing terms, the Wuskwatim investment target of 33 percent ownership is our best overall option if we have the money available to make the investment," Councillor and Wuskwatim Portfolio Holder, Marcel Moody said.

Funds Needed to Maintain 33 Percent

Additional funds needed to move from 27.5 percent to 33 percent ownership total about $19.1 million. Council has approved $2.8 million from Taskinigahp Trust during the 2012 CAP/CIP process. NCN must now decide how to pay for the remainder, which, based on current projections, will be about $16.3 million. Since Hydro's six-times loan option does not extend to the final 5.5 percent ownership, NCN must either obtain third-party financing (loan) or use other assets such as a further $2.8 million from Taskinigahp Trust along with moneys from Nisichawayasihk Trust to pay for the units.

Deloitte noted that obtaining a loan from a commercial lender could add significant additional cost and risk for NCN.

"Even though the 33 percent investment level gives us the highest potential cash flow, the Deloitte study confirmed the optimal ownership was 27.5 percent due to the loan leverage from Hydro. But, as 33 percent provides the greatest cashflow, NCN Citizens must decide whether to make the investment by borrowing further, given the risks Deloitte noted. Alternatively we could use some of our other assets to allow us to maintain 33 percent ownership as the community has directed us during previous consultations," said Marcel.

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Deloitte Review Confirms Previous Wuskwatim Investment Analysis

An in-depth analysis of NCN's options for investing in the Wuskwatim project by Deloitte, a highly respected international financial-consulting firm, has confirmed there is no reason NCN should not maintain its investment in the Wuskwatim Project.

Chief and Council commissioned the evaluation as a due-diligence exercise to verify recommendations made by NCN's advisors, considering the significantly changed economic environment resulting from the global economic collapse in late 2008, not anticipated in the original Project Development Agreement but addressed in the subsequent Supplementary Agreement.

Four Options Examined

NCN directed Deloitte to examine four options:

1. Return NCN's units back to Manitoba Hydro at final closing and have no ownership
2. Replace NCN's common units with preferred units that provide only 3.93 percent ownership but require no loans
3. Retain common unit ownership of 33 percent using either four-times or six-times borrowing leverage
4. Retain common unit ownership at lower levels of participation using either four-times or six-times leverage.

External Factors Considered

Deloitte was asked to explore the impact of several "sensitivity" factors in the external environment, largely beyond the control of the Partnership, that could affect the returns from the investment. These included:

- A six-month delay in the operation of the project
- Foreign exchange rate changes including a 10 percent decrease and a five percent increase
- High and low export prices
- Operation and maintenance increases of 10 percent and 20 percent for the station
- Increased project capital costs of $50 million, $100 million and $200 million.

To examine the impact of different situations and options, Deloitte used the analytical tools previously discussed with NCN citizens, including the Internal Rate of Return (IRR) that is used to compare and measure the relative performance of capital investments, non-discounted cashflows and NCN's objectives.

Recommendations

1. **Deloitte determined NCN should not give its units back to Hydro.**
   NCN will earn positive returns from the dividend loans, water power rental rebates, annuities and distributions. Aside from investment returns, surrendering its units would mean NCN would have to return $4 million in government funding and lose the revenues from dividend loans, annuity payments and water rental rebate payments. NCN would also lose its status as an investor in a facility within its own traditional territory.

2. **Deloitte recommends that NCN maintain its common-unit ownership in the project.**
   Even though preferred units offer less risk, only in low-export-price years would the preferred option generate more revenue for NCN. However, common unit ownership offers NCN considerably greater potential returns under positive market situations and the ability to exit the partnership at the 25th and 50th anniversaries if performance is poor and get back all its invested cash (approximately $33 million at 33 percent). In addition, preferred shares are not eligible for dividend loans that guarantee income in lean years. Preferred units also produce a lower share of the water rental rebate and pay no annuity.

3. **Deloitte recommends the six-times loan option from Hydro since it lowers the cash NCN is required to invest.**
   In comparing the loan options of four-times or six-times NCN's cash investment, Deloitte determined there is little difference in the impact between the two in terms of repayment over the long term and therefore recommended six-times allowing NCN to make a lower initial cash investment to maintain 33 percent ownership.

4. Deloitte determined that in comparing internal rates of return for four investment levels, the 33 percent option offered the lowest IRR of return on the total NCN money invested in all cases, even though it would provide the largest cash flows over time. Deloitte compared four investment levels: 20 percent, 25 percent, 27.5 percent and 33 percent.

About the Hydro Loans

NCN can borrow from Manitoba Hydro at either four- or six-times the amount of cash it puts into its investment – but only up to the 27.5 percent ownership level. Above that, NCN must pay the full amount in cash.

Based on current projected costs of the project, using the six-times loan leverage option, NCN can purchase 27.5 percent ownership for about $13.6 million in cash. To buy the additional 5.5 percent to own the full 33 percent, NCN must invest $19.1 million more in cash for a total of about $32.6 million.

To date NCN has committed $9.2 million to the project and approved another $7.2 million for a total of $16.4 million. This exceeds by $2.8 million what is needed for 27.5 percent ownership.

Options to Achieve 33 Percent Ownership

If NCN wants to achieve 33 percent ownership, it will need an additional $16.3 million by July 3, 2013. NCN has three options or a combination of these:

1. Obtain third-party financing which would be subject to risk if there is a default. The rate of return on this additional investment would be considerably lower than for the initial 27.5 percent investment and the need for NCN to pay interest on the additional loan would produce even lower returns.
2. Using part of NCN's $40-million Hydro bond. This would be subject to approval by the NCN community, Federal and Provincial Governments and the Court of Queens' bench.
3. Obtain further funding from internal sources CAP/CIP 2013 ($1 million), Taskinigahp Trust ($2.8 million) and other NCN resources.

Global Economic Situation Affects Return on Investment

Ever since negotiations on Wuskwatim began in the late 1990s, external economic, financial and market factors have always been a consideration in evaluating the quality of NCN's investment in the project as well as for determining safeguards for the investment.

At the beginning of negotiations, no one predicted some of the extreme events that have occurred and are still affecting the global economy. Some of the most dramatic events occurred after the Project Development Agreement was signed in 2006, which prompted the PDA review process and negotiation of the Supplementary Agreement which was signed last spring. Some of these factors include:

- The value of the Canadian dollar has fluctuated from a low of 62 cents U.S. to over $1.10.
- The cost of the generating station has more than doubled from about $600 million to about $1.4 billion.
- The collapse of the global economy in 2008 brought down major financial institutions and contributed to a global recession that particularly impacted the U.S. economy, which is Canada's major trading partner and market for Hydro's export power.
- The on-going weakness in the U.S. economy, fuelled by the mortgage default crisis, high consumer debt, high unemployment, and a weak manufacturing sector, has reduced demand and prices for electricity.
- The on-going European debt crisis may still see countries like Greece, Portugal, Ireland and Italy default on their sovereign debt, which could drive the Global economy into another recession or worse.

Low Natural Gas Prices Impact Future Power Sales

Most recently, the price of natural gas has plummeted due to weak industrial demand, a warm winter across North America, and rapidly increasing supplies from new and more prevalent shale-gas extraction methods.

Low natural gas prices can create major competition to Manitoba Hydro's export power sales because electric utilities in the U.S. may choose to build gas turbine plants in their own regions fuelled by cheap natural gas rather than purchasing power from Manitoba Hydro. Although natural-gas generated power is not as "green" as hydro power, it is significantly greener than coal-generated electricity that the gas turbines would be replacing.

However, significant moves in this direction could eventually drive up demand and prices for natural gas, which would again make Manitoba Hydro's power more competitive.

Public Utilities Board Concerns About Future Hydro Projects

Manitoba's Public Utilities Board has recently raised concerns about competition from low natural gas prices for generating electricity, which could affect the economics of constructing the Keeyask and Conawapa generating stations, and postpone their development. However, Wuskwatim will benefit from existing confirmed contracts.

Deloitte Review Affirms Value of Investment

In spite of the above economic circumstances, the Deloitte review recommended NCN proceed with the investment given the safeguards in the PDA and PDA Supplement. If the economic environment does sour, NCN has the option of withdrawing from the project on the 25th or 50th anniversaries and having its cash investment returned, but without interest. In the meantime NCN will have received millions of dollars the community can use.

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Notice of the Amendment to Taskinigahp Trust

An amendment to the terms of the Taskinigahp Trust has been proposed to allow the use of the remaining $2.8 million compensation in the Taskinigahp Trust as part of NCN's cash investment in the Wuskwatim project.

Glossary of Terms

Common Units: a type of ownership in a limited partnership where all of the income from the operations are available for distribution to unit holders subject to certain conditions being met and after deduction of operating and maintenance costs.

Preferred units: a type of ownership where a certain agreed upon minimum distribution is paid to unit holders and a higher distribution may be paid only if certain conditions are met.

Due diligence: the care a reasonable person would take to investigate a matter prior to entering into a business transaction or investment.

Final closing date: 5th business day following the First Completion date or such an earlier or later date as may be agreed to by the parties.

First completion date: Date on which the first of the three turbine units comprising the Wuskwatim Generating Station is fully commissioned and comes into service as evidenced by a commissioning certificate issued in respect of that turbine unit by Hydro's commissioning engineer.

Initial closing date: June 28, 2006 (two days after the June 26, 2006 signing of the Project Development Agreement).

25th anniversary: 25th anniversary past the Final Closing date.

Time Delays Contribute to Wuskwatim Cost Increases

Based on the most recent information from Manitoba Hydro, NCN's advisors are projecting the final cost of the Wuskwatim Project could be about $150 million (3.9 percent increase) more than the 2010 IFF estimate of $1.238 billion. The increase is due in part to a four-month delay in completing the project, conversion of infrastructure for use during operations as well as additional costs incurred during the commissioning process and higher labour and contractor costs. The first generator was expected to go online in late 2011, but that has been moved into the second quarter of 2012. The date for the generator to go into service is expected to be June 15, 2012 with the remaining generators to come online in the fall of 2012.

Final Consultations Planned With NCN Citizens

In advance of the Wuskwatim in-service date, Chief and Council have scheduled consultations with NCN Citizens.

The purpose: to review and explain Council's investment decision; to seek approval of an amendment to Taskinigahp Trust; to seek input from NCN citizens about whether the Nisichawayasihk Trust assets should be invested in Wuskwatim (which will require amendments to be approved by Canada, Manitoba, Manitoba Hydro and the Queen's Bench); and to answer questions about the investment decision and financing options. The meetings include:

SMALL-GROUP MEETINGS IN NELSON HOUSE

Date	Time	NCN Group	Location
April 30	9:30 a.m.	Elders	Wellness Centre
April 30	2:00 p.m.	Staff & high school students NNOC/OK	OK School Gymnasium
May 1	9:30 a.m.	NCN Government Office staff	Wellness Centre
May 1	1:00 p.m.	Youth and ATEC students	Wellness Centre
May 2	9:30 a.m.	Wellness/PCH staff	Wellness Centre
May 2	1:00 p.m.	WIO/Trust Office staff	Wellness Centre
May 3	9:30 a.m.	ATEC/HR/Education staff	ATEC
May 3	1:00 p.m.	Resource Harvesters	Wellness Centre
May 4	9:30 a.m.	Dev. Corp., NCLP, Medicine Lodge	Arena Mezzanine

MEET AND GREETS

Date	Time	Community	Location
May 23	4:00 - 8:00 p.m.	Leaf Rapids	Town Centre
May 24	5:00 - 9:00 p.m.	Thompson	Legion (Elizabeth Dr.)
May 28	5:00 - 9:00 p.m.	Winnipeg	Marlborough Hotel
May 30	4:00 - 8:00 p.m.	Nelson House	Arena

* *Transportation will be provided to Leaf Rapids for NCN Citizens living in South Indian Lake and Granville Lake. NCN Citizens will be advised of times and locations once they are confirmed.*

Nisichawayasihk Cree Nation
Wuskwatim Implementation Office
Ensuring the Future of Our Children & Our Children's Children...

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