FIRST NATIONS MAJOR PROJECTS COALITION

Government Loan Guarantees for First Nation Equity Participation: A Primer

Prepared by:
Shaun Fantauzzo, Niilo Edwards, and Mark Podlasly

Commissioned by:
First Nations Major Projects Coalition

Hummingbird Illustration: Storm Angeconeb, Indigenous artist, Treaty Three Territory (Lac Seul First Nation)

About the First Nations Major Projects Coalition

The First Nations Major Projects Coalition (Canada) is a national 150+ First Nation collective working towards the enhancement of the economic well-being of its members. The FNMPC understands that a strong economy is reliant upon a healthy environment supported by vibrant cultures, languages, and expressions of traditional laws, and supports members to:

» Safeguard air, land, water and medicine sources from the impacts of resource development by asserting its members' influence and traditional laws on environmental, regulatory and negotiation processes;

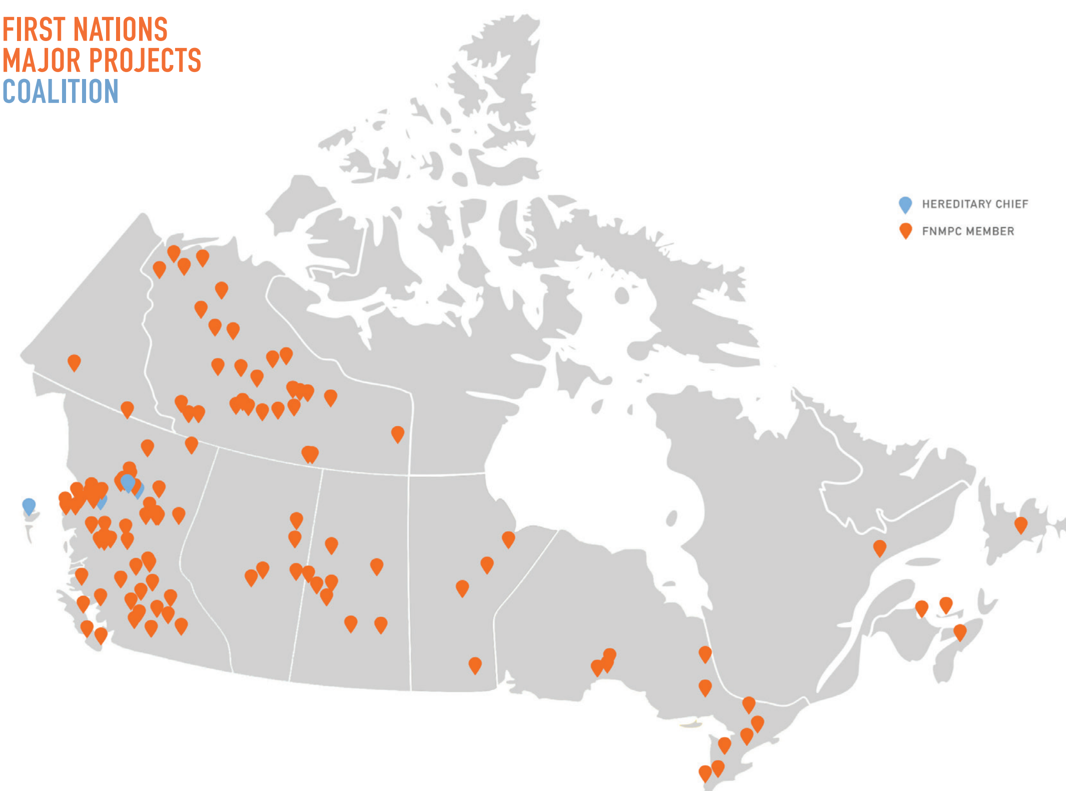
» Receive a fair share of benefits from projects undertaken in the traditional territories of its members, and;

» Explore ownership opportunities of projects proposed in the traditional territories of its members.

The FNMPC is currently providing business capacity support to its members on 14 major projects located across Canada, each with a First Nations equity investment component, and a portfolio exceeding a combined total capital cost of over CAD$55 billion. FNMPC's business capacity support includes tools that support First Nations making informed decisions on both the economic and environmental considerations associated with major project development.

FNMPC's Operating Principles include being member driven, neutral, unbiased, non-profiting, maximizing value, collaborative, and advancing reconciliation. The FNMPC is project and industry agnostic.

FIRST NATIONS MAJOR PROJECTS COALITION



First Nations Major Projects Coalition | Suite 300, 100 Park Royal | West Vancouver, BC. V7T 1A2 Canada
website www.fnmpc.ca | *email* ceo@fnmpc.ca

Purpose of this primer

To help inform discussions with FNMPC membership on how equity loan guarantees can be leveraged to help First Nations access competitively priced capital to finance equity investment and ownership opportunities in major projects across the country. This primer is timely as the Government of Canada recently announced its intention to launch a federal equity loan guarantee program that supports Indigenous equity investment and ownership in Canada's natural resource sector. Considerations on program design, First Nation business preparedness, and next steps are highlighted.

FNMPC's history and mandate on access to capital for First Nations

Since First Nations founded FNMPC as a non-profit society, it has been advocating on behalf of its growing First Nation membership for the Government of Canada to offer access to capital support for the purpose of First Nation equity investment and ownership in major projects. This work was launched due to the systemic challenges that First Nations face financing equity participation in major projects in Canada. In the case of the Pacific Trails Project, First Nations negotiated the option to acquire a 30% ownership stake and forfeited the opportunity in exchange for a benefit agreement worth substantially less because of financing challenges. These access to capital challenges were a catalyst issue for founding FNMPC members and continue to inform FNMPC's advocacy efforts.

Jobs, service contracts, and impact benefit agreements are the most common forms of economic participation deployed by proponents seeking to build and operate major projects on First Nation lands and traditional territories. Despite the continued importance of those opportunities, equity partnership (i.e., owning some percentage of the project) is emerging as a leading industry model for First Nation economic participation. The trust and collaboration that comes with co-ownership play meaningful roles in aligning First Nation and industry interests and ensuring projects are built and operated in a good way, on time, or ideally, ahead of schedule. Partnering with impacted First Nations and incorporating First Nation values and priorities directly into the project's commercial structure can also streamline regulatory processes where proponents typically must address project impacts on First Nation rights and interests as a condition of project permitting and approval.

Several First Nations are now leading and advancing major projects, as majority owners. Examples include the Tu Deh-Kah Geothermal Project in British Columbia led by Fort Nelson First Nation and the Chatham-to-Lakeshore Transmission Project in Ontario where a collective of First Nations formed a 50-50 partnership with Hydro One. As of early 2024, FNMPC is offering support to member First Nations on these two projects and 12 other major projects, representing combined capital costs of nearly $55 billion. FNMPC members have decided to explore or pursue equity ownership in each project. Up to four of the projects will require financing in 2024. The need for a federal Indigenous loan guarantee program is urgent.

What has the Government of Canada announced?

In the 2023 Fall Economic Statement, the federal Minister of Finance announced the Government of Canada's intention to develop an equity loan guarantee program to support Indigenous equity investment and ownership in the Canadian natural resource sector, with details to come later this spring. This commitment builds on existing provincial Indigenous loan guarantee programs in Alberta, Saskatchewan, and Ontario described later in this primer. In addition, it acknowledges the growing importance of equity partnerships in advancing economic reconciliation and helping de-risk major projects that impact First Nation rights, interests, and resources but that Canada requires to secure its economic and energy futures.

FNMPC has been advocating for the Government of Canada to make the Indigenous Loan Guarantee Program sector agnostic, and the program should ensure that First Nations can decide what sector and projects are best for them. FNMPC would like to see the Government support First Nation equity investment and ownership opportunities in major natural resource projects and enabling infrastructure projects (e.g., oil and gas pipeline systems, clean electricity generation and transmission, critical minerals extraction facilities, and hydrogen production plants). FNMPC also recognizes the need for a loan guarantee program to consider First Nations economic participation outside of the natural resources sector, such as telecommunications and real estate.

Government of Canada Commitment in the 2023 Fall Economic Statement

The federal government is determined to ensure that Indigenous communities can share in the benefits of major projects in their territories on their own terms.

With the number of major projects with potential for Indigenous equity ownership anticipated to grow significantly over the next decade, the government, with Indigenous partners, is working to increase access to the affordable capital that Indigenous communities will require to make these opportunities a reality. This will make projects more economically feasible for Indigenous communities by decreasing the cost of capital.

Informed by Natural Resources Canada's ongoing work to develop a National Benefits-Sharing Framework, the 2023 Fall Economic Statement announces that the government will advance development of an Indigenous Loan Guarantee Program to help facilitate Indigenous equity ownership in major projects in the natural resource sector. Next steps will be announced in Budget 2024.

Why should my First Nation care about equity participation?

Equity comes with special ownership rights to exercise control over a project, which is what makes it so attractive as a model for aligning First Nation and industry interests. The flipside is that equity is risky and expensive—project owners keep whatever is left when debts are repaid and expenses are covered, which sometimes might be nothing. First Nations are still being asked to consent and shoulder the risks of major projects being built and operated in their backyards—it is only fair for impacted First Nations to have meaningful opportunities to influence project outcomes and share in the returns of major project economic developments across Canada, even if some First Nations ultimately make informed decisions not to invest.

According to Natural Resources Canada, upwards of $530 billion in capital investment is planned over the next ten years related to major projects in the Canadian natural resource sector. FNMPC's internal assessment is that approximately $50 billion in Indigenous equity investment and ownership opportunities may require financing support.

Table: Projected First Nation Equity Investment Opportunities, from 2023 to 2033

Industry	Capital Cost	Debt-to-equity	Total equity	First Nation %	First Nation %
Oil and Gas	$300B	75:25	$75B	33%	$25B
Generation	$120B	70:30	$36B	33%	$12B
Transmission	$26B	60:40	$11B	50%	$5B
Metals	$66B	50:50	$33B	20%	$7B
Non-Metals	$19B	50:50	$10B	20%	$2B
Total	$531 billion	$165 billion		$51 billion	

Why is it challenging for First Nations to finance equity participation?

The challenge is many First Nations do not have the funds required to invest in business ventures and cannot easily access competitively priced capital that is needed to finance larger investments. In most instances, First Nations must borrow 100% of their equity investment, causing lenders to charge higher rates that approach the project's expected returns on equity, which eats away what is left over for First Nations shareholders. The alternative is accepting a smaller position or nothing at all, both of which are realities all too familiar for First Nations across the country. For example, the First Nations impacted by TC Energy's Coastal GasLink Project signed an option agreement to become 10% equity owners. Some First Nations attempted to acquire an additional 10% in a now-completed financing round and had to forfeit their opportunity to their private-sector partners as they were unable to successfully raise capital at rates that made the equity investment financially viable.

One reason it is so difficult for First Nations to invest and borrow is that they are legally prohibited from pledging reserve-based assets as collateral, due to Section 89 of the *Indian Act*. First Nations with modern treaties and comprehensive land claims can face a similar challenge with respect to fee simple settlement lands. Lenders can be reluctant to accept such lands as collateral since First Nation governance rights are typically embedded within—the risk of conflict is too high. Land and property rights are drivers of economic growth except for First Nations. These legal constructs are partly responsible for why the historical narrative surrounding First Nation economic participation has been about compensation instead of partnership and shared prosperity.

Image Source: UnSplash

How can federal equity loan guarantees benefit my First Nation?

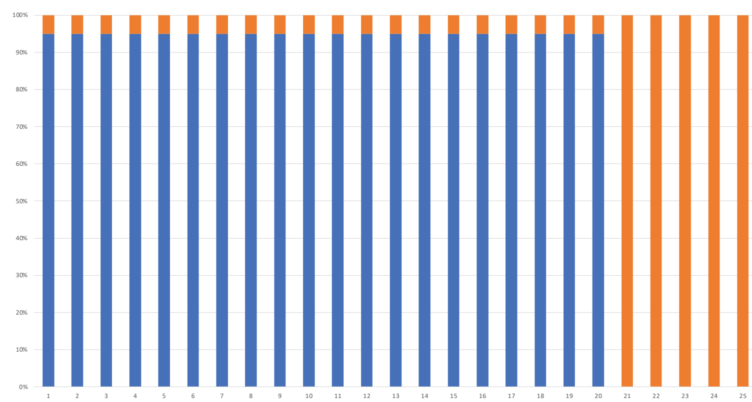
Federal equity loan guarantees can help to reduce the barriers First Nations face financing equity investment and ownership opportunities in major projects, lowering borrowing costs and leading to higher returns for First Nations. In addition, federal equity loan guarantees can help to achieve a greater degree of fairness by recognizing First Nations hosting major projects and infrastructure on their lands and traditional territories should be afforded equitable opportunities to influence projects and benefit from economic developments in their communities.

In the typical project finance structure, project distributions (i.e., cash generated by a project) are used to repay lenders and reward owners. As discussed earlier, a distinction for many First Nations is that they must borrow most or all the money needed to finance their equity investments, which translates into lower returns (i.e., smaller payments to First Nations). Equity loan guarantees can help reverse this outcome. When a First Nation acquires a loan from a lender, such as a bank or a pension fund, the Government of Canada gives the lender additional security as the guarantor by committing to repay all or some of the loan if something negatively impacts project distributions. This additional security encourages lenders to lower the interest rate and enables First Nations to receive meaningful returns sooner in a project's lifecycle.

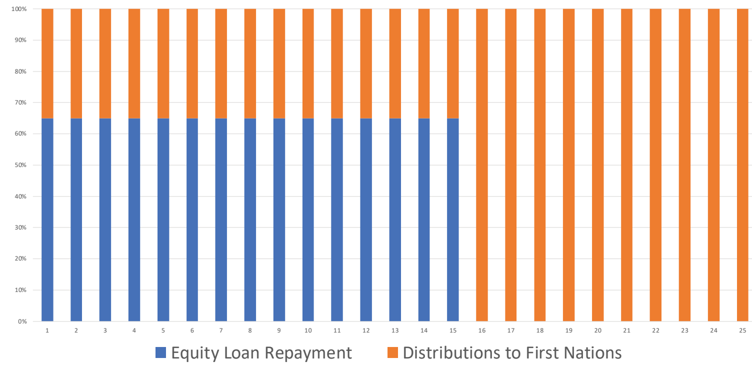
No Guarantee Scenario and Guarantee Scenario Chart Comparison

These charts illustrate the impact of equity loan guarantees on project distributions to First Nation owners by showing what percentage of revenues are allocated each year to repaying the loan compared to revenues available to be distributed to First Nation equity investors, in a scenario where there is no guarantee and one where there is a guarantee. In the first chart, the First Nation does not receive meaningful distributions from the project until year 21 when the equity loan is repaid. In addition, the equity loan has a higher interest rate and a longer term, which means a smaller total distribution for First Nations. In the second chart, the First Nation receives much larger distributions in year 1 and even larger distributions earlier in the project's lifecycle, starting in year 16. The equity loan also has a lower interest rate and shorter term, which means a larger overall distribution for First Nations. For major projects, these differences can amount tens to hundreds of millions over a project's lifecycle.

No Guarantee Scenario



Guarantee Scenario



Without guarantees, equity loans can be prohibitively expensive for First Nation equity investors due to the high-risk assessment that lenders place on First Nation equity investors. Additionally, First Nations may be required to repay all their debt before receiving a return, which can take 15 years or more. According to internal research conducted by FNMPC, interest rates for equity loans tend to be near or at a project's expected returns on equity, which erodes economic benefits and often means that equity investment and ownership opportunities are not financially viable for First Nations. With equity loan guarantees, interest rates can be lower and terms fairer.

How have equity loan guarantee programs helped First Nations in other parts of Canada?

Government equity loan guarantee programs are not novel in Canada. Both the Governments of Ontario and Alberta have been operating programs that target Indigenous equity investment and ownership in their jurisdictions since 2009 and 2019. Saskatchewan launched its program in 2021.

Table: Existing Indigenous Load Guarantee Programs in Canada

	**Alberta Indigenous Opportunities Fund** (AIOC)	Crown Corporation created by of the Alberta Provincial Government, whose investment supports are available for "natural resource projects in Canada that have at least one Alberta-based Indigenous group as an investor".[1] The AIOC supports Indigenous investments with loan guarantees backed by Alberta.
	**Ontario Aboriginal Loan Guarantee Program** (ALGP)	ALGP focuses support on Indigenous participation in Ontario for new renewable green energy infrastructure like wind, solar and hydroelectric and other electricity infrastructure projects.[2]
	**Saskatchewan Indigenous Investment Finance Corporation** (SIIFC)	The Saskatchewan Indigenous Investment Finance Corporation was established to provide access to capital for Indigenous communities and entities participating in Saskatchewan's natural resource and value-added agriculture sectors.[3]

The Wataynikaneyap Power Transmission Project is one example from Ontario, which involved 24 First Nations joining a 51-49 equity partnership with Fortis. First Nations have an option to acquire 100% in the future and benefit from having an experienced public utility as their business partner. An initial $220 million equity loan was secured from two life insurance companies and guaranteed by Ontario's government through its "Aboriginal Loan Guarantee Program." Upon completion, the project will connect 17 remote diesel dependent First Nation to Ontario's grid, which is powered primarily by renewable energy. First Nation equity investors are also involved in the construction, operation, and maintenance of the new transmission network.[4]

1 Alberta Indigenous Opportunities Corporation. https://www.theaioc.com/
2 Ontario Financing Authority. "Ontario Aboriginal Loan Guarantee Program". www.ofina.on.ca/algp/faq.htm#p3
3 Government of Saskatchewan. https://siifc.ca/about/
4 Wataynikaneyap Power Transmission Project. https://www.wataypower.ca/ownership/partnership#:~:text=Wataynikaneyap%20Power%20LP%20(the%20"Wataynikaneyap,other%20private%20investors%20(49%25

Athabasca Indigenous Investment's acquisition of an 11.57% non-operating ownership interest in an Enbridge-owned and operated pipeline system required Athabasca's 23 First Nation and Métis community owners to raise $1.12 billion in capital for their investment. The first $250 million was secured from ATB Financial as an equity loan guaranteed by the Alberta Indigenous Opportunities Corporation. The remaining funding came from a $870 million bond issuance. Alberta's equity loan guarantee allowed ATB Financial to price its equity loan on more favourable terms and gave comfort to bondholders. The alternative would have been a smaller investment or likely no investment at all.[5]

To date, the provincial programs in Ontario and Alberta have unlocked approximately $1.5 billion in First Nation equity investment and ownership opportunities that have created sustainable long-term revenue streams for nearly 50 First Nations in those provinces. Saskatchewan has not closed any deals as of January 2024, although program officials have indicated that deals are underway. In addition, Alberta recently announced that its initiative will increase from $1 billion to $3 billion over the next two years.

What does my First Nation need to request a federal equity loan guarantee on a major project?

The Government of Canada has not yet released details related to the Indigenous Loan Guarantee Program, and details are not expected until the spring. Based on the existing provincial programs, First Nations will be required to demonstrate that deals are economically viable and commercially sound. For example, revenue quality should meet or exceed industry standards, financial ratios should be acceptable and resilient to stress testing, and project parties should be experienced and competent. In addition, the Government of Canada likely will be keen to ensure First Nations do not assume inequitable risks. For reference, the Alberta Indigenous Opportunities Corporation has published its own Loan Guarantee Investment Program Guidelines and Ontario's Aboriginal Loan Guarantee Program has a detailed FAQ section.

Engaging the services of qualified advisors to perform due diligence activities will be essential to ensuring that First Nations can make informed decisions. The Government of Canada can also be expected to perform its own due diligence given the potential financial implications of issuing an equity loan guarantee. A due diligence processes involves reviewing and scrutinizing confidential and complex legal financial, technical, environmental, and operation information.

Common areas of assessment include:

- Permits and licenses
- Litigation risk
- Revenue projections
- Feasibility studies
- Regulatory compliance
- Construction risk
- Environmental impacts
- Market sounding
- Management plans
- Insurance

Warranties and representations are provided to assure potential buyers that the data is accurate, which also requires review and scrutiny.

[5] Athabasca Indigenous Investment. https://www.cbc.ca/news/canada/edmonton/enbridge-stake-pipelines-indigenous-1.6598405

How can FNMPC assist my First Nation in financing equity participation in a major project?

FNMPC provides a range of free services to support its members as they navigate the complexities of financing equity participation in major projects. These services include financial modelling and economic analyses, risk assessment, negotiations, commercial structuring, and representing First Nation interests to governments, industry, and financial institutions in search of access to capital that is priced competitively. The dual objectives are to break down the barriers to project finance and reduce the risks associated with First Nation equity investment and ownership. This capacity support is intended to ensure First Nations can make free, prior, and informed decisions in respect of commercial transactions.

Currently, FNMPC limits its business advisory services to members that have equity participation opportunities in projects where capital costs exceeding $100 million. As of January 2024, FNMPC is offering these services to members on 14 major projects with First Nation equity investment or ownership components, with combined capital costs exceeding $55 billion.

WHAT WE DO

- ✓ Corporate structures & aggregation of FN interests
- ✓ Benefit sharing models and best-practices
- ✓ Facilitation
- ✓ Bringing government, proponents, and our members to a common table
- ✓ Negotiation support
- ✓ Financing strategies & risk evaluation
- ✓ Advocacy based on member priorities
- ✓ Environmental capacity
- ✓ EA & IA capacity and technical support
- ✓ Capacity building workshops
- ✓ Proponent-level capacity funding agreement review & support
- ✓ Use capacity and service delivery tools at scale Provide external legal & commercial support as available and required

WHAT WE DON'T DO

- ✗ Any matters that are political in nature First Nation internal governance matters
- ✗ Projects below $100 million
- ✗ Projects that are not commercially viable (no revenue stream attached)
- ✗ Housing, community services, etc.
- ✗ Respond to requests from project proponents for help
- ✗ Requests must be member driven
- ✗ Make decisions on behalf of our members
- ✗ Take a financial interest in a project or charge for our service

FIRST NATIONS MAJOR PROJECTS COALITION

CURRENT PROJECT PORTFOLIO

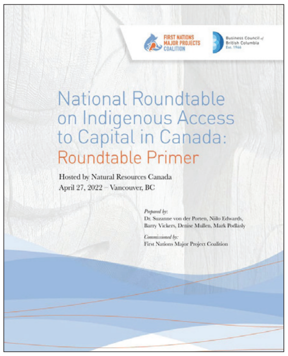
BREAKDOWN OF PROJECTS BY CATEGORY

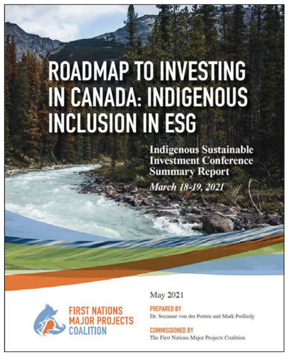
5 – Electrification
5 – Energy
2 – Hydrogen
1 – Critical Minerals
1 – Real Estate Development

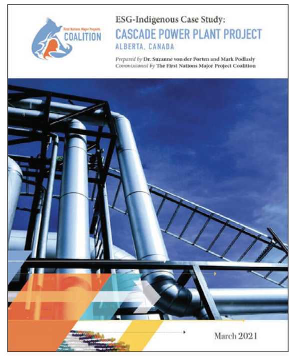
FNMPC is currently providing support for 14 major projects, each with a First Nations equity investment component and a portfolio exceeding a combined total capital cost of $55 billion.

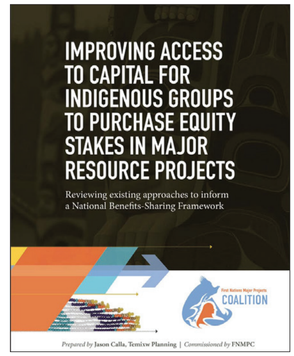
PROJECT NAME	ESTIMATED CAPITAL COST	LOCATION
Coastal GasLink Equity Option (10%)	$14.2B	British Columbia
Hydro One Southwest Ontario (50%)	$2B	Ontario
Miawpukek Hydrogen Opportunities	TBD (>$100M)	Newfoundland and Labrador
LNG Newfoundland and Labrador	$7B	Newfoundland and Labrador
NeToo Hydropower Project	$300M	British Columbia
Tu-Deh-Kah Geothermal	$200M	British Columbia
Blackwater Transmission Line	$100M	British Columbia
North Coast Transmission Line	$2B est.	British Columbia
Rock Tech Lithium	TBD (>$100M)	Ontario
Tla’amin Tisk’wat Opportunity	TBD (>$100M)	British Columbia
Confidential Commercial Real Estate Acquisition	TBD (>$100M)	Ontario
Enbridge’s BC Pipeline	$10B	British Columbia
Pathways Alliance Indigenous Economic Option	TBD (>$100M)	Alberta
Nithi Wind Project	TBD (>$100M)	British Columbia

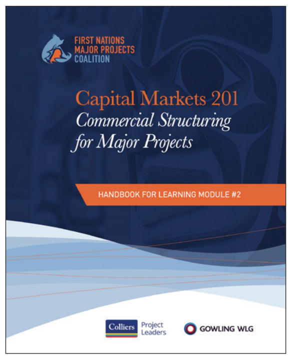
Further Readings

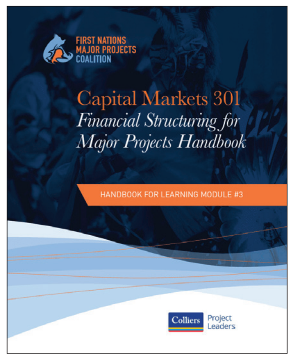


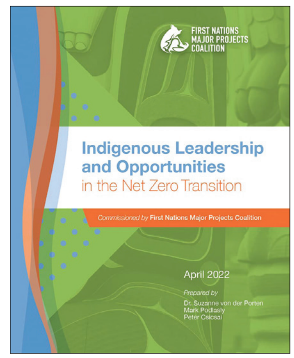












» National Roundtable on Indigenous Access to Capital in Canada: Roundtable Primer

» Roadtrip to Investing in Canada: Indigenous Inclusion in ESG

» ESG-Indigenous Case Study: Cascade Power Plant Project

» Improving Access to Capital for Indigenous Groups to Purchase Equity Stakes in Major Resource Projects

» Capital Markets 101: Financing First Nations' Participation in Major Projects - Module #1

» Capital Markets 201: Commercial Structuring for Major Projects - Module #2

» Capital Markets 301: Financial Structuring for Major Projects Handbook - Module #3

» Indigenous Leadership and Opportunities in the Net Zero Transition

FIRST NATIONS MAJOR PROJECTS COALITION

FOR MORE INFORMATION:

Niilo Edwards
Chief Executive Officer
Tel: (778) 875-0169
Email: ceo@fnmpc.ca

Barry Vickers
Senior VP, Project Development
Tel: (250) 613-9822
Email: barryvickersconsulting@gmail.com