

DISCLAIMER:

The following FAQs are provided by FNFA for informational purposes only. They are revised and updated periodically to reflect ongoing discussions with various stakeholders regarding the SPV initiative.

SPV Package – Website Version Frequently Asked Questions:

Definitions

Debt Coverage Ratio – a financial metric used to determine how much revenue will be required to be pledged and flow to FNFA to meet the member’s debt obligations. It is calculated by comparing a borrowing member’s pledged revenues to its debt service payments. A higher ratio indicates a stronger capacity to repay debt.

Debt Reserve Fund – a fund established pursuant to the First Nations Fiscal Management Act (the “Act”) through 5% withholding of each loan to support loan payments in the event of a member default; upon loan extinguishment, the principal held along with all related investment earnings are returned to the member. FNFA has never had a member default.

Loan Guarantee - a guarantee given that the debt will be repaid by the guarantor (the party providing the guarantee) should the borrower (SPV) be unable to repay the debt.

Qualified SPV - means a body corporate or limited partnership that is wholly owned, directly or indirectly, by one or more band(s) within the meaning of the Indian Act, First Nation(s) within the meaning of the Act, or Indigenous group(s) that is a party to a treaty, land claims agreement or self-government agreement with Canada.

Secured Revenues Trust Account – an account established for each borrowing member through which pledged revenues flow directly from the payor source; the trust company flows what is required to cover loan payments to FNFA and the remainder to the borrowing member. It ensures that loan repayment obligations are met on time by automatically directing the secured revenues to cover debt payments. It acts as a safeguard for the FNFA and helps maintain the financial integrity of the borrowing system under the Act.

SPV – Special Purpose Vehicle: a limited partnership, body corporate or corporation created for investment into a project.

Purpose

A number of new scenarios are emerging for Indigenous groups to seek a loan from FNFA. Many Indigenous groups are now receiving revenues from economic development streams and investments, such as royalties from specific projects, as well as fixed income from long-term contracts. Additionally, Canada and several provinces have recently established, or announced the development of loan guarantee programs for Indigenous groups. Such guarantees could be used to support loans by FNFA to eligible Indigenous groups. There is an opportunity to expand this eligibility for FNFA financing that would improve the access to capital and participation in major projects by more Indigenous groups. Currently, only First Nations that are bands under the *Indian Act* are eligible to receive loans from FNFA. New regulations to the Act are in process to expand FNFA's mandate to make loans to Indigenous groups that are party to a treaty or self-government agreement with Canada. Until those regulations are brought into force, such Indigenous groups and all other Indigenous groups that are not bands are ineligible for a loan from FNFA. A First Nation must also qualify for, and obtain, financial performance certification from the First Nations Financial Management Board ("FMB") to be eligible for a loan.

We are proposing to amend the Act to allow FNFA to lend to an Indigenous-owned Special Purpose Vehicle (SPV) - a limited partnership, body corporate established to invest in a specific project. An SPV could be owned by one or more Indigenous groups. This could enable all Indigenous groups to participate in FNFA's loan program, securing low-cost capital for their projects. This would also generate more own-source revenues opportunities to bolster economic growth and prosperity. These generated revenues could potentially be leveraged into financing put towards closing the ever-widening infrastructure gap.

Additionally, many economic opportunities are usually offered to a group of Nations or other Indigenous groups when a project passes through their territorial areas. Since these are project-based equity opportunities, there is usually an opt-in deadline date. The ability to participate in the opportunity as part of a group, whether a Nation is a current FNFA member or not, means full and complete participation. Allowing an SPV to access financing through FNFA whose rates are significantly lower than those offered by other financial institutions (i.e. banks or private lenders) increases the net financial outcome. Importantly, First Nations and Indigenous groups owning the SPV would benefit from this equity opportunity and see the venture's profits flow to their community to meet their priority needs.

An SPV is established to hold the equity shares of the participating Indigenous group. Since FNFA would not lend to individual Nations but directly to the SPV benefitting from a loan guarantee, the issuance of a Financial Performance Certificate by the FMB would not be necessary. Indeed, an FMB certificate ensures that a prospective borrower meets FMB's standards applicable to financial administration and performance, thereby minimizing the risks of default the member. Utilizing a loan guarantee for SPV financing opportunities mitigates the risks to FNFA's borrowing pool and provides comfort to investors buying FNFA's debenture issuances (bonds).

The SPV could therefore apply for FNFA membership through a modified application process tailored for these circumstances. In contrast, if the First Nations or Indigenous groups owning the SPV wish to pursue FNFA financing directly and without the loan guarantee for their own community projects, then the full steps outlined under the Act would apply, including working towards FNFA borrowing membership and obtaining all necessary certifications.

1. What is the time lag between a default by the SPV and a claim under the government loan guarantee?

- A loan guarantee will be in the form of a contract between the SPV, FNFA, as lender, and applicable government, as guarantor.
- The terms of the loan guarantee will be negotiated between the SPV, FNFA and the applicable loan guarantee body.
- A review of the published terms of the federal and provincial Indigenous loan guarantee programs indicates only Ontario has a stated 90-day notice period before a claim under a guarantee is paid.
- When considering whether to make a loan to an SPV, FNFA will evaluate the government guarantee's terms. If the terms of the guarantee improperly limit the ability of FNFA to rely on it, FNFA would not proceed with the loan.

2. What are the eligibility criteria for an SPV to be eligible for a loan from FNFA?

- The eligibility criteria are purposefully intended to not be restrictive. If the SPV qualifies for a guarantee under an Indigenous loan guarantee program, then the SPV would generally be eligible for a loan from FNFA, subject to FNFA undertaking of its own due diligence in determining whether to issue the loan.
- The eligibility criteria for an SPV as outlined in the current proposed draft legislative amendments are as follows. Please note the amendments are subject to change as discussions are ongoing with CIRNA and other stakeholders such as the FMB.

A **"qualified SPV"** means a body corporate, corporation or limited partnership that is wholly owned, directly or indirectly, by one or more band(s) within the meaning of the Indian Act, First Nation(s) within the meaning of the Act, or Indigenous group(s) that is a party to a treaty, land claims agreement, self-government agreement with Canada.

The Authority shall not make a loan to a borrowing member that is a qualified SPV unless the Authority is satisfied that

- the borrowing member has the ability to repay the loan;

- repayment of the loan is guaranteed by His Majesty or a Crown corporation.*
- the borrowing member and the Authority have established a secured revenues trust account that is managed by a third party approved by the Authority and subject to terms that require the third party managing the account to periodically pay to the Authority the amounts required to be paid to it under the borrowing agreement with the borrowing member, at the times set out in that agreement, before paying any remaining amount to the borrowing member; and

The borrowing member has required the payers of the other revenues being used to secure the loan to deposit those other revenues into the secured revenues trust account or an intermediate account during the period of the loan.

*Note: the guarantee may be provided either by the Federal government, a province, a federal corporation or a provincial corporation.

3. Must the government loan guarantee cover the entire loan amount, or is a partial guarantee also possible?

- A partial governmental loan guarantee is sufficient for an SPV to be eligible for a loan from FNFA (i.e. a full loan guarantee is not required)
- FNFA will take into consideration the amount of the guarantee in determining whether to make a loan to an SPV.
- For context, a summary of the guarantee caps for Indigenous loan guarantee programs is found below:

Indigenous Loan Guaranteed Programs	Investment Amount (Billions)	Criteria
NAT: ILGP	10	The federal indigenous loan guarantee program (together with other federal sources) only guarantees up to 75% of the equity investment by an SPV, but does permit "stacking" with other provincial Aboriginal loan guarantee programs, so that the aggregate guarantee is 100% of the equity investment by an SPV
AB: AIOC	3	The AIOC will support ICs' investment in natural resource projects and related infrastructure in the energy (both renewable and non-renewable sectors), mining and/or forestry industries. Project proposals require a minimum aggregate IC investment of \$20 million. Projects located in Alberta and in other provinces are eligible for AIOC support.

		Indigenous groups outside of Alberta are eligible for AIOC support by partnering with one or more Alberta ICs that have at least 25% of the total combined Indigenous ownership of a project.
BC: BCLGP	N/A	Program parameters not yet published
SK: SIIF	5 million	Who can apply? A Saskatchewan First Nation or Tribal Council An economic development corporation that is owned by Métis Nation – Saskatchewan, Métis Nation – Saskatchewan Region, or Métis Nation – Saskatchewan Local An economic development corporation owned by a self-declared Northern Métis municipality in Saskatchewan that has a board of directors, the majority of whom are registered members of Métis Nation – Saskatchewan Any other entity that demonstrates they fall within the mandate of the SIIFC A corporation wholly owned by an entity mentioned above
MB:	N/A	program parameters not yet published
ONT: ALGP	3	The \$3 billion Aboriginal Loan Guarantee Program, now called Indigenous Opportunities Financing Program delivered under the Building Ontario Fund supports Indigenous participation in electricity infrastructure projects, including renewable energy infrastructure in Ontario (e.g., wind, solar and hydroelectric generation projects) and transmission projects. The program provides a Provincial guarantee for a loan to an Indigenous entity to finance a portion of its equity investment (typically about 75 per cent) in an eligible project. The program is available to entities that are wholly owned by Indigenous communities. The Ontario Financing Authority (OFA) administers the program on behalf of the province.

4. Will SPVs participate in the governance of FNFA?

No. Due to the structural differences of the SPV and to avoid duplication of representatives from both an Indigenous group and an SPV owned by the same Indigenous group, SPV representatives would not be eligible to sit on the board of directors, nor would they vote in the election of the board of directors. They would also not be entitled to attend the Annual General Meetings of the Authority. However, Indigenous groups who own the SPV and are borrowing members of FNFA would continue benefitting from any rights provided to them under the Act.

5. a) Is there a maximum number of First Nations that can collaborate to form an SPV?

No, there isn't a predetermined number of First Nations that can collaborate in an SPV. The primary advantage of this initiative is the ability of FNFA to finance a single entity (the SPV) instead of multiple First Nation partners, which improves financing efficiency and streamlining the process.

b) In order for an SPV to obtain a loan from FNFA supported by a loan guarantee, do all the participating First Nations or Indigenous groups owning an SPV need to have i) have a Financial Administration Law ("FAL") issued by the FMB and ii) a Financial Performance Certificate ("FPC") issued by the FMB?

No - Unlike loans made to First Nations, which require a FAL and FPC in conformity with FMB's standards to ensure sound financial management and minimize the risks to FNFA's borrowing pool, the structure of an SPV allows FNFA to lend directly to the SPV, and the government loan guarantee creates a safety net which largely reduces any risks of detrimental impact on the borrowing pool. One of the purposes of the SPV initiative is to provide affordable access to capital to more Indigenous groups. Those who have not gone through the traditional process to access FNFA financing (via FMB certification) can access it through an SPV, provided a loan guarantee is granted.

6. If there isn't a loan guarantee in place, but the project has a contract guarantee with a set revenue target, will the FNFA still consider financing an SPV?

Yes, in a scenario where the SPV is participating in an equity partnership where there is a revenue guarantee, FNFA would consider financing. Revenue guarantees usually take the form of royalties or derived revenues (i.e. hydro contracts) from the equity partnership.

7. What happens if one of the participating First Nations wants to leave the SPV?

The governance of the SPV will determine the terms and conditions of participation, including the wishes of any participant to leave the SPV. They would require the consent of all SPV members and need to determine who would take on their portion of the debt/equity. However, an SPV that is a borrowing member of FNFA with an unpaid loan could not change its ownership without the prior written consent of the Authority, to ensure it remains a "qualified SPV" and wholly owned by Indigenous groups.

8. Is there a minimum or maximum in financing that can be secured for an SPV?

No. There is no predetermined limit on the amount of financing that can be accessed through FNFA. It is important to note, however, that under Canada's Indigenous Loan Guarantee Program, the minimum guarantee threshold is \$20 million and the maximum loan guaranteed threshold is \$1 billion, subject to review/adjustments over time. Other governmental loan guarantees may also have determined loan guarantee thresholds.

9. Will SPVs need to contribute to the debt reserve fund and the sinking fund?

Yes, the expectation is that the SPV will participate in all risk mitigation activities, including contributions to any established funds. As well, if the SPV has obtained a loan from FNFA, it will only be able cease being a borrowing member with the consent of all other borrowing members.

10. Will SPVs be subject to intervention (i.e. third-party intervention or co-management arrangement) in case of default?

Intervention by the FMB will not apply to SPVs.

11. Will FNFA continue to have priority over other creditors in the case of a default by an SPV?

- Yes, the relevant section of the Act providing for FNFA's priority would apply to an SPV that is a borrowing member.