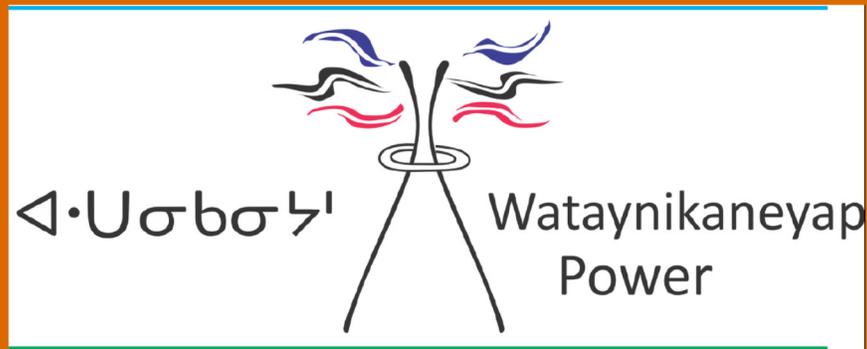


Wataynikaneyap Power

Financial Feasibility Study
for Electrical Grid
Connection of
Northwestern Ontario
Remote Communities



Private & Confidential

August 20, 2013

Updated June 9, 2015



Contents

Important Notice to Readers

Note on Updates

Executive Summary

1.	Background & Context	1
1.1	Description of Wataynikaneyap	1
1.2	Current State	1
1.3	Overview of Wataynikaneyap Power	2
1.4	Overview of the Transmission Project	3
1.5	Strategic Alignment and Benefits of the Project	4
1.6	The Local Landscape.....	4
1.7	Overview of Our Mandate.....	6
1.8	Purpose of Report	6
2.	The Case for Diesel	7
2.1	Overview of Current State	7
2.2	Information Considered in Developing Assumptions for the Analysis of the Current State.....	9
2.3	Assumptions Adopted in the Analysis of the Current State	10
2.4	Risks Associated with Current State	13
2.5	Base Case Avoided Diesel Cost.....	15
3.	The Case for Transmission	16
3.1	Overview of Proposed Transmission Case.....	16
3.2	Assumptions for Analysis of Transmission Case.....	16
3.3	Analysis of Transmission Case	19
3.4	Risks Associated with the Transmission Project.....	20
4.	Business Case and Sensitivities	24
4.1	The Base Business Case for Transmission.....	24



4.2	Principal Sensitivities	25
4.3	Other Sensitivities	31
4.4	Business Case – Preliminary Conclusions.....	32
5.	Revenue Responsibility.....	33
5.1	Introduction	33
5.2	The HORCI Communities – Total Cost	33
5.3	IPA Communities – Total Cost.....	35
5.4	Federal Electricity-Specific Funding and Capital	36
5.5	Other Government and Related Revenue.....	37
5.6	Rate Revenue.....	38
5.7	Total Cost, 2013.....	38
5.8	Revenue Responsibility – NPV Basis.....	40
6.	From Business Case to Project Funding	43
6.1	Potential Cost Responsibility in an Interconnected Future	43
6.2	Allocation of Phase 2 Project Costs.....	44
6.3	The Government Funder Perspective	45
6.4	The Ontario Ratepayer Perspective	45
6.5	Conclusion and Next Steps – Project Funding.....	46
	Excerpt from OPA Report August 2014, Section 3.1.....	5

Appendices

- A. Glossary of Terms
- B. Map of Project Phases 1 and 2
- C. OPA Methodology for Load Growth Forecasting
- D. Note on McDowell Lake First Nation



Important Notice to Readers

This Report is issued by PricewaterhouseCoopers LLP (“**PwC**”, “**we**” or “**us**”) for the exclusive use of Wataynikaneyap Power (“**Wataynikaneyap**” or “**you**”) in connection with its assessment of financing and funding options for the development of a Transmission Line in Northwest Ontario. The information included in this Report contains confidential information which if released could be harmful to Wataynikaneyap.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls nor attestation nor review services in accordance with the standards established by the Canadian Institute of Chartered Accountants. Accordingly, we do not express an opinion nor any other form of assurance on the financial or other information, or operating internal controls, of the Project.

PwC did not examine, compile or apply agreed upon procedures to satisfy the requirements of Canadian Institute of Chartered Accountants to the financial information used in this Report and we therefore are unable to express assurances on such information except where expressly stated in the Report to form part of the scope of our work.

Further this Report does not constitute an opinion as to legal matters, including the interpretation of the Transmission System Code or any other similar matters.

Our work is based primarily on the information and assumptions listed in the body of this Report. While we read information from various sources we did not perform checking or verification procedures except where expressly stated in the Report to form part of the scope of our work. Our work and commentary is subject to assumptions, which may change, with the benefit of further detailed information. We make no representation regarding the sufficiency of our work and had we been asked to perform additional work, additional matters may have come to our attention that would have been reported to Wataynikaneyap.

Additionally, it is important to interpret the results of the analysis presented in this Report as representing a level of detail and precision commensurate with the early stage of the project. Phase 2 of the project is at the concept stage, with routing yet to be determined, and the level of definition and precision concerning Phase 2 will develop over time. It is therefore recommended that the analysis in this Report be revisited as more and better quality information becomes available.

The outputs of the Report are intended to provide Wataynikaneyap with information to assist in informing their decision making process pertaining to the Project. The reader agrees that PwC, its partners, employees or agents, neither we nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature is caused by any use the reader may choose to make of this Report, or which is otherwise consequent upon the gaining of access to the Report by the reader.

Our Report, including schedules and appendices, must be considered in its entirety by the reader. Selecting and relying on specific portions of the analyses, or factors considered by us, in isolation may be misleading.



Note on 2014 and 2015 Updates

In January 2014, PwC was engaged by Wataynikaneyap to update the Financial Feasibility Study to reflect the addition of five communities:

- Deer Lake First Nation;
- Poplar Hill First Nation;
- North Spirit Lake First Nation;
- Keewaywin First Nation; and
- McDowell Lake First Nation

Other assumptions were also updated at that time. The original 2013 report Sections 7 (“Potential Commercial Structures”) and 8 (“Overview of Potential Government Funding Sources”) were removed in the 2014 update, reflecting decisions already made by Wataynikaneyap.

In January 2015, PwC was engaged to do a further update to the Financial Feasibility Study reflecting:

- The addition of Sandy Lake First Nation to the Wataynikaneyap group and this financial feasibility analysis (now 16 communities);
- A new fuel price forecast provided by the IESO;
- Revised growth capital costs and applicable federal subsidies provided by AANDC;
- Updated capital costs and project schedule information, notably a revised in-service date of January 1, 2021; and
- Other updates such as updated cost of capital information from the Ontario Energy Board (“OEB”).

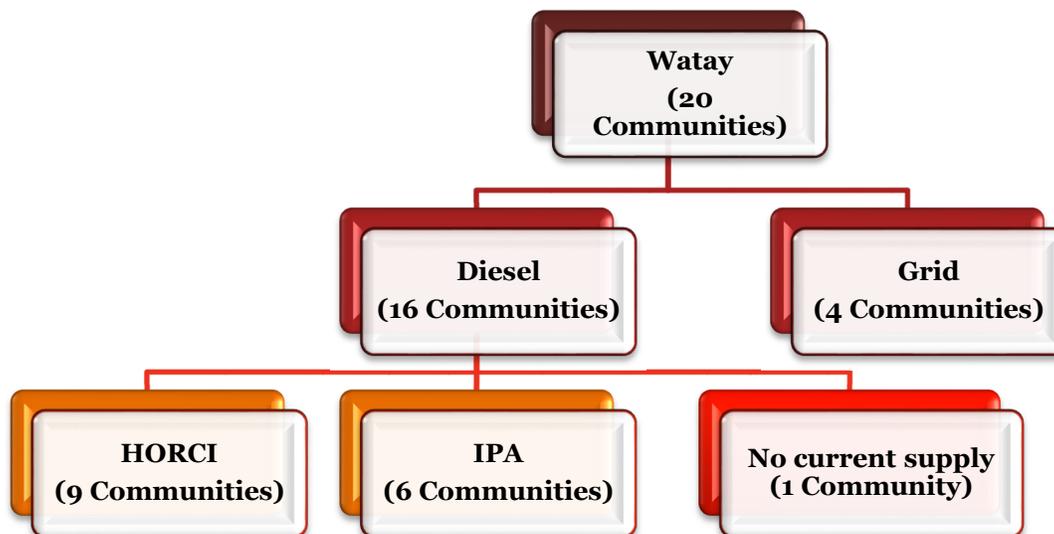
Readers are advised that the assumptions underlying this business case were frozen on May 1, 2015. At the date of this writing, some assumptions are under discussion among Wataynikaneyap and the governments of Canada and Ontario and are therefore subject to change subsequent to the date of this report.



Executive Summary

Description of Wataynikaneyap Power

Wataynikaneyap Power (“**Wataynikaneyap**”) was formed in 2008 with an objective of reinforcing existing regional transmission service north of Dryden and bringing a new transmission line to remote First Nation communities in Northwestern Ontario, most of whom currently operate on diesel generators. Twenty First Nations communities in northwestern Ontario form Wataynikaneyap. Of these, sixteen communities rely on diesel generation. Nine Wataynikaneyap communities are served by Hydro One Remote Communities Inc. (“**HORCI**”), a subsidiary of Hydro One Inc. and an entity regulated by the Ontario Energy Board (“**OEB**”). Six are served by Independent Power Authorities (“**IPAs**”), which are community-owned, non-regulated utilities that do not receive the benefits associated with standardization of rates and subsidies enjoyed by regulated utilities. One community (McDowell Lake) does not currently enjoy any electricity supply. The other three are connected to the grid.



Wataynikaneyap’s remote communities are spread across a large area north of Pickle Lake and Red Lake, and lack all season road access. There are ongoing challenges to uninterrupted supply, a significant cost premium associated with the transportation of fuel and adverse environmental impacts associated with diesel generation. In addition, the transmission line supplying Pickle Lake is aging, has a poor performance record and is unable to meet growing demand. Renewal and upgrades of this transmission line have been identified as a key priority for the Province.

As a result of these challenges, the Wataynikaneyap communities are working to evaluate the feasibility of connecting remote communities to the Ontario grid as part of a single project.



Wataynikaneyap was established to design, permit, construct, own and operate transmission lines north of Dryden in order to reinforce the existing grid and connect remote First Nation communities in Northwestern Ontario (“**the Project**”). 20 First Nations communities are equal owners in the company:

- Bearskin Lake First Nation
- North Caribou Lake First Nation
- Kasabonika Lake First Nation
- Sachigo Lake First Nation
- Kingfisher Lake First Nation
- Wapekeka First Nation
- Poplar Hill First Nation
- Wawakapewin First Nation
- Wunnumin Lake First Nation
- Sandy Lake First Nation
- Kitchenuhmaykoosib Inninuwug
- Muskrat Dam First Nation
- Deer Lake First Nation
- Keewaywin First Nation
- McDowell Lake First Nation (currently not serviced)
- North Spirit Lake First Nation
- Cat Lake First Nation (Grid Connected)
- Slate Falls Nation (Grid Connected)
- Lac Seul First Nation (Grid Connected)
- Wabigoon Lake Ojibway Nation (Grid Connected)

Goldcorp, owner of the Musselwhite Mine, was a partner in the project, but has now exited its ownership in Wataynikaneyap in order for the First Nations to partner with an experienced transmission company. The Project has been structured as a single investment opportunity comprising the following two phases:

Phase 1 – New Transmission Line to Pickle Lake

Phase 1 of the Project will have as its primary objective the delivery of a new transmission line to Pickle Lake. The new transmission line will reinforce the existing 115kv line and will provide two potential supply points. The existing line is over 70 years old and is prone to frequent, long-lasting outages which have on occasions lasted 20 days. The new line is intended to provide increased capacity and improved reliability for its existing residential and industry users as well as enable grid connection for remote communities in Phase 2.

Phase 1 is not in scope for this report.

Phase 2 – Grid Connection to Remote First Nations Communities

Phase 2 of the Project has as its primary objective the provision of grid connection to remote First Nations Communities. The current provincial grid in the northwestern Ontario ends at Pickle Lake and Red Lake. OPA studies have concluded that transmission connection is the most reliable and sustainable long-term solution for supplying power to remote First Nations communities. To achieve this aim, Wataynikaneyap has structured the Project to be attractive to and deliverable by a single transmission partner with the necessary experience, expertise, financial capacity and funding to design, develop, finance and operate the Project as Wataynikaneyap’s partner in the Project.

This report addresses the business case for Phase 2.

Transmission expansion north of Dryden and the connection of remote communities have been identified as priorities in the Ministry of Energy’s Ontario’s Long-Term Energy Plan (released December 2, 2013).

Strategic Alignment and Benefits of the Project

In 2010, the OPA was directed by the Ministry of Energy to develop a plan for 25 remote community connections beyond Pickle Lake and Red Lake. This report was updated in August 2014. The OPA’s study showed the existing



cost of supplying electricity in remote communities is about \$90 million per year and there is a strong business case in favour of the transmission solution. Additionally, the Project has the potential to enable new renewable power development and provide sufficient capacity to the Ring of Fire mining development.

The financial feasibility is based on a comparison of estimated avoidable diesel generation costs, compared to the long term cost for a transmission solution. Grid connection is also expected to result in a reduction in the environmental impact and environmental liabilities associated with diesel spills, lower greenhouse gas emissions, improved social and living conditions for remote community residents, and increased opportunities for economic development within First Nation communities.

Overview of PwC's Mandate

This Report has been prepared in order to provide Wataynikaneyap with an analysis of the financial feasibility of the Project as well as to set out the potential funding responsibility for its delivery. As part of our mandate we obtained and reviewed information and data from external sources such as Aboriginal Affairs and Northern Development Canada (“AANDC”), HORCI and the Ontario Power Authority (“OPA”, now part of the Ontario Independent Electricity System Operator or “IESO”) to the extent relevant for financing and funding the project. We also developed a financial model which covers the funding needs and financing sources for both phases of the Project and provides the functionality to address the various elements of the transmission business case.

The Case for Diesel

Our calculation of future diesel generation costs comprises the following components and is depicted graphically below:

- A cost-of-service calculation for the Wataynikaneyap remote communities served by HORCI. This approach is consistent with the standard methodology set out in HORCI's rate applications;
- An estimate of fuel, O&M and sustaining capital expenditures for the Wataynikaneyap remote communities served by IPAs. This approach has been selected as these non-regulated community utilities are not known to adhere to a standard cost-of-service rate-setting methodology and limited data has been available to us concerning the economics of these community utilities; and
- The capital funds invested by AANDC, in the Wataynikaneyap remote communities (both HORCI and IPA) for expansion associated with load growth.
- External revenue sources (that is, other than revenue paid by community payers net of subsidy) are as shown below:



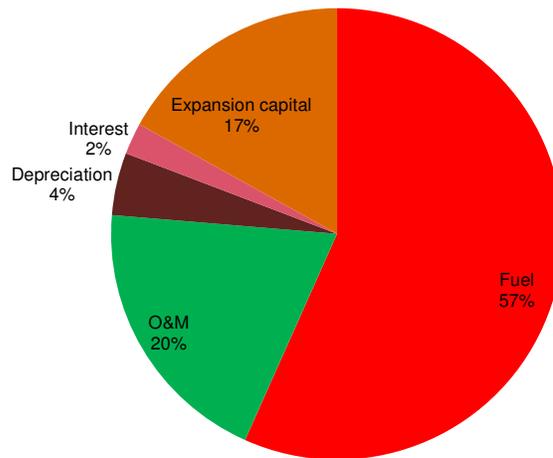
In developing assumptions for the analysis of the current state we relied on a number of sources including HORCI rate applications and the OPA’s August 2014 “Technical Report for the Connection of Remote First Nations Communities in Northwest Ontario”. In developing our assumptions for the current state analysis, we remained consistent with precedent analyses by recognized authorities such as OPA, HORCI, and OEB; used data sources of known reliability and/or sourced from knowledgeable (mostly government) information providers; and worked around the unavailability of certain classes of data, such as data for the IPA communities.

Based on the current state assumptions, the present value¹ of avoided costs for the diesel-based future (2021 through 2060) is \$3.4 billion, with the composition of costs as depicted below. The estimated cost for diesel generation for Wataynikaneyap remote communities in 2013 was \$43 million, and this cost is projected to grow with load growth, fuel price, and other costs. The largest avoidable cost element is fuel; this is also an input characterized by substantial cost volatility and environmental risks. O&M expenses are also significant.

¹ In this document, “present value”, Net Present Value” and “NPV” values are all discounted to January 1, 2021, being the projected in-service date at which the Project would supplant diesel generation



Composition of Avoided Diesel Case Costs



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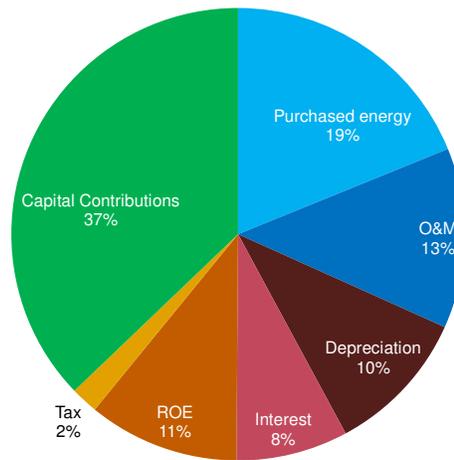
The Case for Transmission

Under the Transmission Case, diesel costs will be avoidable from the in-service date of Phase 2. Overall, the Transmission Case will require a substantial initial capital investment, minimal annual costs, and a pro forma 40-year service life. The transmission line will be developed to provide sufficient capacity to support load growth over the projected service life.

On the basis of updated estimates issued in April 2014, the capital expenditure required to construct Phase 2 of the Project is \$1.15 billion (in constant 2015 dollars, including HST) for the route preferred as at that date. The final routing will be selected on the basis of the results from additional engineering analyses as well as the outcome of community and stakeholder engagement processes. Based on the assumptions described in this report, the net present value (“NPV”) of Phase 2 transmission costs (including capital contributions), plus the cost of purchased energy, is \$2.3 billion comprising of the cost categories depicted in the following graph.



Composition of Transmission Case Costs



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Variable energy costs (based on load growth) are significantly lower for the transmission interconnection option compared to other costs which are essentially unaffected by future load growth and commodity prices. Capital-related costs are the most important.

Risks Associated with the Transmission Project

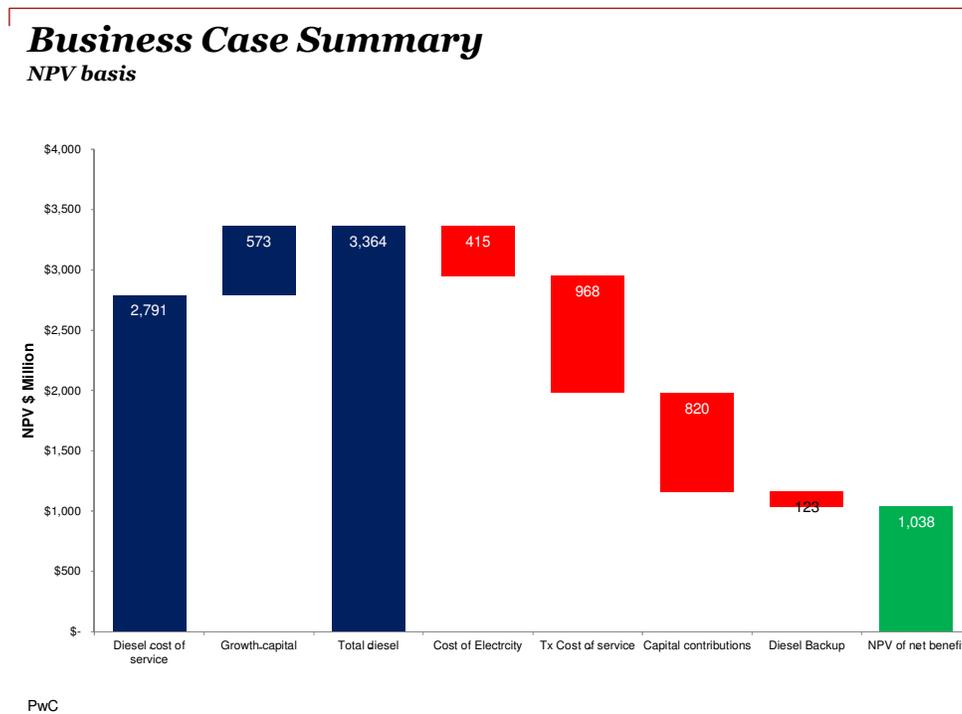
The impact of risks on project costs can be significant and typically vary between the development and operating phases of a project. The Transmission Project comprises the four distinct stages outlined in the following table, each with differing levels of associated risk. For example, it is anticipated that project risks will substantially decrease once the Project becomes operational.

Project Stage	Indicative Level of Associated Risks
Project Feasibility & Planning Stage	High (reflects the highly regulated nature of the sector)
Procurement Stage	Medium (dependent on market conditions)
Design and Construction Stage	High
Operations Stage	Low



Business Case and Sensitivities

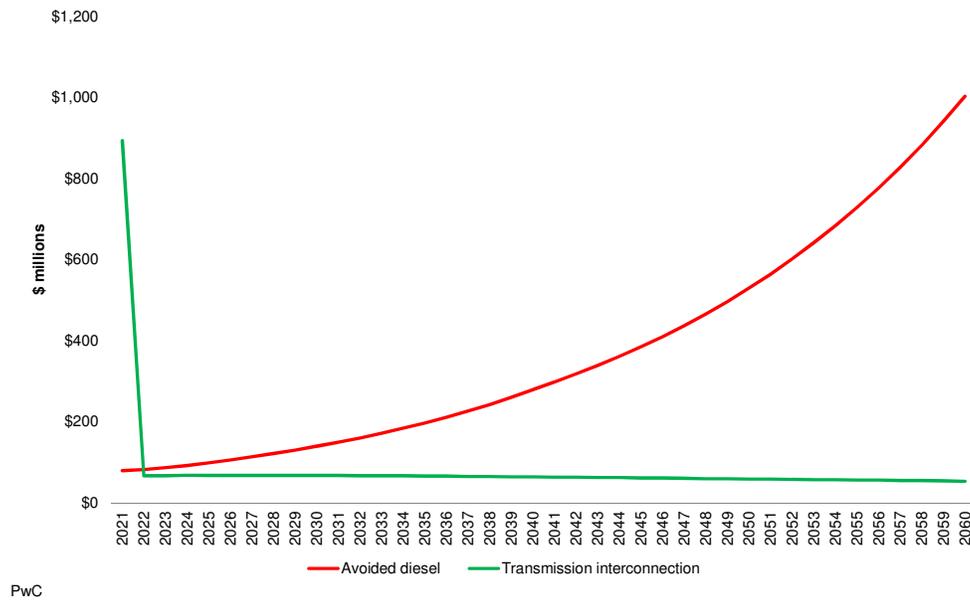
The Base Business Case is predicated on a comparative analysis of the Current State for avoided diesel generation costs against the Transmission Case, both valued on a NPV basis. This comparison shows a preference for the Transmission Case exceeding \$1 billion, or 31% of the Diesel Case NPV, as depicted by the following diagram:



It is common in business cases of this type that the options being compared have varying cost profiles over time. The Transmission Case has higher costs at the outset, rising slowly over time as the required revenue for the transmission facility falls (in turn due to a decreasing interest cost and required return on equity as both debt and equity are amortized via depreciation), and the volume and price of purchased electricity rises. As depicted in the diagram, the Diesel Case shows a rising cost over time driven principally by the cost of fuel. The large value shown for the first year of the Transmission interconnection option reflects the required capital contribution (see sections 5 and 6). The slightly larger value shown for the Diesel case in the first year is accrued AANDC growth capital during the period from Leave to Construct through commissioning.



Cost by Year – Avoided Diesel versus Transmission



In order to understand the impact of changes to key variables to the Project as well as to the point of indifference between the Diesel Case and the Transmission Case, we have conducted sensitivity tests around key variables and found that the business case for the transmission solution is most sensitive to load growth, fuel prices, transmission capital costs and the discount rate used in the NPV analysis.

Revenue Responsibility

The most important sources of external (that is, not paid by community sources) funding are:

- The Rural and Remote Rate Protection program (“RRRP”), which is funded by Ontario ratepayers as a group;
- The federal government, largely through AANDC; and
- To a limited extent, the Ontario government.

The implications of this revenue responsibility were explored. In particular, while direct provincial government revenue responsibility is relatively small, provincial government policy support may be crucial in realizing funding for the Phase 2 transmission project based on assignment of costs to the Ontario transmission rate base, displacing costs already to the account of Ontario ratepayers in the form of RRRP.

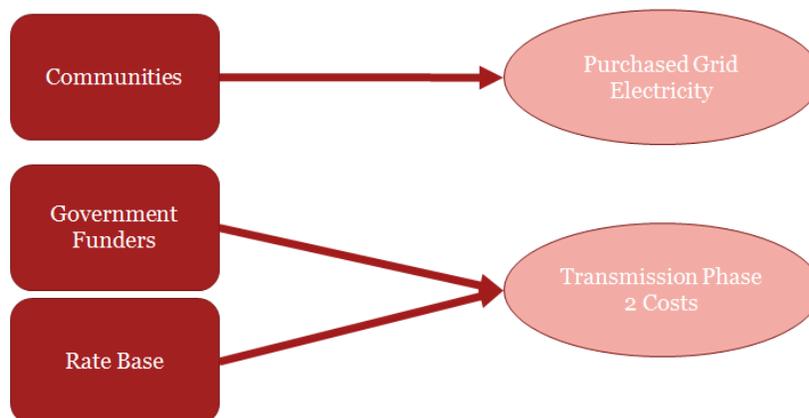


From Business Case to Project Funding

The analyses described above provide an overview of the business case for the Project and demonstrates the prospective long-term attractiveness for undertaking the Transmission Case in preference to continuing with the Diesel Case. However, these results do not necessarily translate directly to the ability of the project to attract financing.

The capital and operating costs of the Phase 2 transmission facility could potentially be met by revenue sources according to the high-level framework is illustrated below:

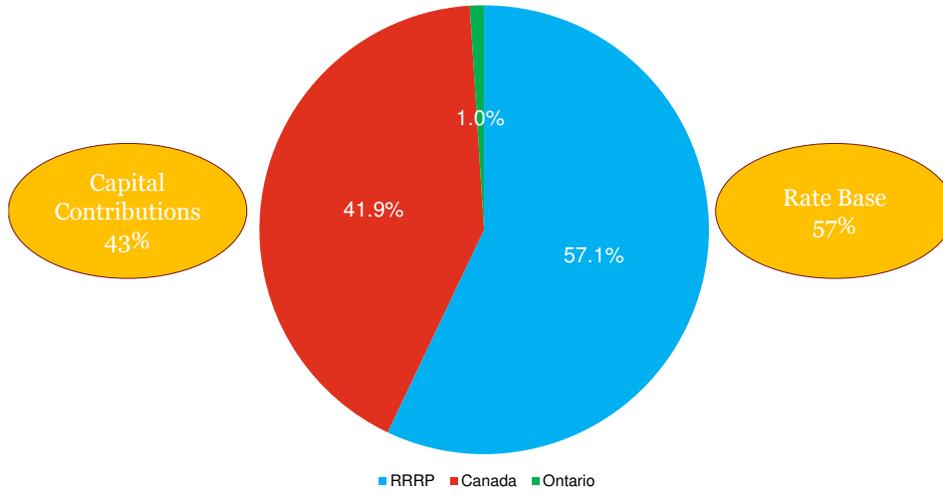
Potential Revenue Responsibility Model: Transmission Interconnection Future



Based on this framework, the apparent responsibility for funding of the Phase 2 transmission costs is as follows:



NPV Revenue Responsibility
Excluding Community ratepayers and other/unknown

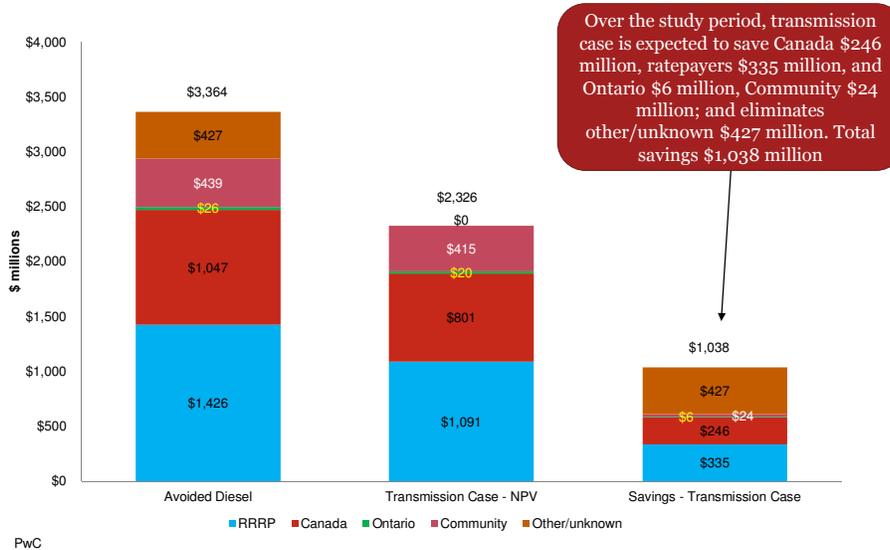


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Based on this framework, the overall cost responsibility and projected savings arising from the Project are as follows:



Revenue Responsibility – Transmission vs Diesel
NPV basis



Given the difference in the cost profile over time between the Diesel Case and the Transmission Case (see Section 4.1), an important challenge for funders will be that costs in the early years of the Transmission Case exceed those in the Diesel Case, an attractive overall business case notwithstanding.

The following series of next steps in establishing funding for the Phase 2 transmission project are recommended:

Step	Action	Participants
1	Continue to socialize the business case and its assumptions with key stakeholders including: <ul style="list-style-type: none"> The government of Canada; and The government of Ontario 	Wataynikaneyap
2	Conduct and communicate any required follow-on analyses arising from: <ul style="list-style-type: none"> The business case socialization; and New information and data, such as revised capital cost and schedule estimates or revised assumptions agreed to by funding entities 	Wataynikaneyap
3	Plan for other critical components to enable grid connection of Remote Communities	Wataynikaneyap



	<ul style="list-style-type: none"> • Local Distribution Company planning and readiness • Grid reinforcement to Pickle Lake and Red Lake 	
4	<p>Agree on the overall funding framework for the Phase 2 transmission project:</p> <ul style="list-style-type: none"> • The capital and operating costs to be funded over time; • Responsibility for funding these costs, such that all costs are funded: <ul style="list-style-type: none"> ○ Community ratepayers (net of subsidies); ○ Transmission ratepayers of Ontario (via inclusion of assets in the transmission rate base); ○ The government of Canada; ○ The government of Ontario; and ○ Other as agreed, if applicable 	<p>Wataynikaneyap</p> <p>Government of Canada</p> <p>Government of Ontario</p>
5	<p>Determine the legislative, regulatory, and contractual provisions required to implement the agreed-upon funding framework</p>	<p>Wataynikaneyap</p> <p>Government of Canada</p> <p>Government of Ontario</p>
6	<p>Conduct detailed analyses as required to support implementation of the funding framework, verify and agree on all assumptions</p>	<p>Wataynikaneyap</p> <p>Government of Canada</p> <p>Government of Ontario</p>
7	<p>Quantify and agree upon the specific funding commitment required to support implementation of the transmission project</p>	<p>Wataynikaneyap</p> <p>Government of Canada</p> <p>Government of Ontario</p>
8	<p>Implement the funding framework:</p> <ul style="list-style-type: none"> • Legislation; • Regulation or regulatory direction; and • Contract execution. 	<p>Wataynikaneyap</p> <p>Government of Canada</p> <p>Government of Ontario</p>