



TAHLTAN HERITAGE TRUST

2019 ANNUAL REPORT TO TAHLTAN MEMBERSHIP

Agenda

- Trust Overview:
 - About
 - History
 - Trustees
 - Beneficiaries
- Financial Update:
 - Financial Statement Highlights
 - Sources of Income
 - Income & Expenses
 - 3 Year Growth
 - Investment Portfolio Profile
 - Current Asset Mix
 - Diversification Transition
- Distributions
- Other Business



About the Tahltan Heritage Trust

- Established January 2007:
 - Original funds from the Novagold Participation Agreement.
 - Expanded to include other sources of funds, e.g. AltaGas, BC Hydro, Province of BC and Red Chris Mine (future Silvertip & Brucejack mines).
- The Trust invests funds to generate long-term stable revenues to support the Tahltan Nation.

About the Tahltan Heritage Trust

- **Beneficiaries:**

- Iskut Band
- Tahltan Band
- Tahltan Central Government

- **Parameters:**

- No per capita distributions
- A Corporate Trustee
- Preserve the spending power of the investment capital
- Prudent long-term investment rules
- Distributions for education, training, capacity development, housing, health, education and economic development

Decision to Establish the Trust

- Realization that mines have a limited life.
- Self sufficient versus Government dependent.
- Financial plan for current and future generations of Tahltans.
- Estimate \$200,000 million needed to become self sufficient ($\$200,000,000 \times 5\% \text{ Net ROI}^* = \$10,000,000$).

*Return on Investment

Trustees

- **Trustees:**

- Bill Adsit – Chair
- Garry Merkel – Vice Chair
- Rob McPhee – Secretary/Treasurer
- Looking to appoint qualified Trustees

- **Duties:**

- Hired Nesbitt Burns as the Investment Manager
- Develop and follow trust agreement & investment policies
- Approve annual income distributions
- Monitor financial performance & conduct annual audit
- Prepare Annual Report, including financial statements
- Annual reporting to Tahltan Membership
- Hold regular Trustee meetings
- Developed Policy and Operations Manual

Heritage Trust/Volcano Creek Combined Income Statement 2018

INCOME STATEMENT DECEMBER 31

INCOME	2018	2017
Investment	\$157,909	\$372,618
Royalties	\$2,812,313	\$2,875,255
TOTAL INCOME	<u>2,970,222</u>	<u>\$3,247,873</u>
EXPENSES		
Advisor fees/bank charges	\$88,466	\$86,255
Professional services/travel	<u>\$97,827</u>	<u>\$21,465</u>
TOTAL EXPENSES	<u>\$186,293</u>	<u>\$107,720</u>
NET INCOME	<u>\$2,783,929</u>	<u>\$3,140,153</u>

Heritage Trust/Volcano Creek Combined Balance Sheet 2018

BALANCE SHEET DECEMBER 31 ASSETS

CURRENT	2018	2017
Cash	\$3,346,069	\$876,339
Marketable securities, at cost	<u>\$9,323,751</u>	<u>\$9,108,902</u>
	<u>\$12,669,820</u>	<u>\$9,985,241</u>
OTHER		
Coast Mountain Hydro LP, partnership units	<u>\$2,000,000</u>	<u>\$2,000,000</u>
TOTAL ASSETS	<u>\$14,669,820</u>	<u>\$11,985,241</u>

Heritage Trust/Volcano Creek Combined Balance Sheet 2018

BALANCE SHEET DECEMBER 31 LIABILITIES AND EQUITY

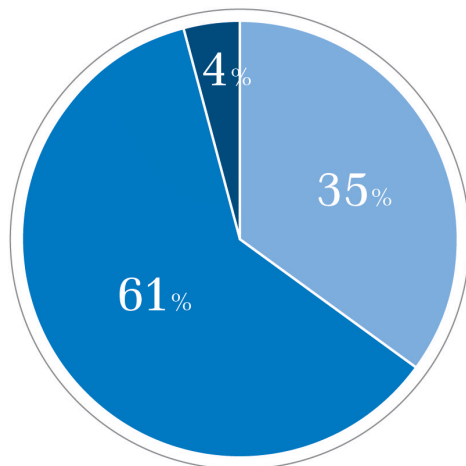
CURRENT	2018	2017
Accounts payable and accruals	<u>\$3,000</u>	<u>\$2,350</u>
EQUITY		
Opening balance	\$11,982,891	\$8,842,738
Net Income	2,783,929	3,140,153
Distribution	<u>-100,000</u>	<u>-</u>
Closing balance	<u>\$14,666,820</u>	<u>\$11,982,891</u>
TOTAL LIABILITIES & EQUITIES	<u>\$14,669,820</u>	<u>\$11,985,241</u>

Financial Statement Highlights

- 2018 Capital Contribution of \$2,970,222
 - Coast Mountain - \$2,109,165
 - Red Chris - \$400,000
 - Teck Resources - \$303,148
- 2018 fund balance (before distributions) \$12,669,820
- 2018 Interest Income \$157,909
- Advisor Fee and Bank Charges \$88,466
- Professional services & travel \$97,827
 - (Includes some expenses for AltaGas transaction)

Asset Mix – Transition Since 2017

2016

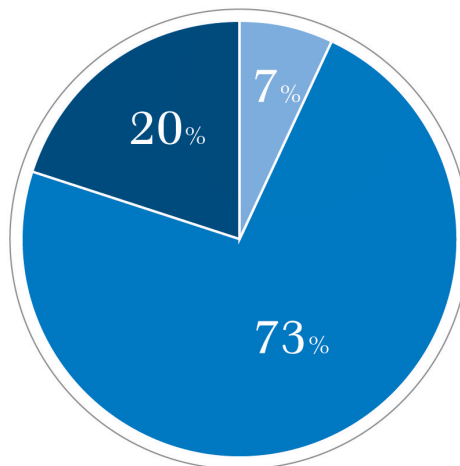


- Cash/Short Term (35%)
- GICs/Bonds/Fixed Income (61%)
- Equities (Dividend Stocks) (4%)

Investment Objective:

Conservative Account. Mostly GICs and Bonds. High percentage of principle guaranteed but low interest rates.

Mid-2017

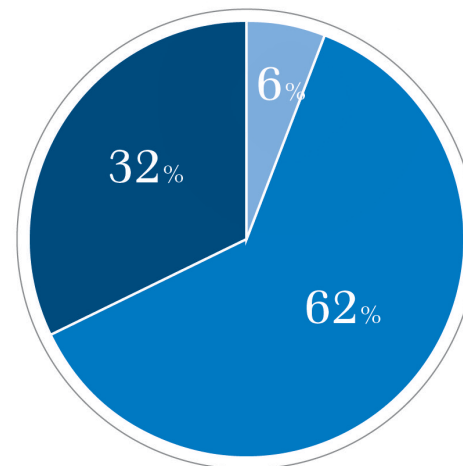


- Cash/Short Term (7%)
- GICs/Bonds/Fixed Income (73%)
- Equities (Dividend Stocks) (20%)

Investment Objective:

Income Account. Slight increase in equities, but still mostly GICs and Bonds

2018-Current

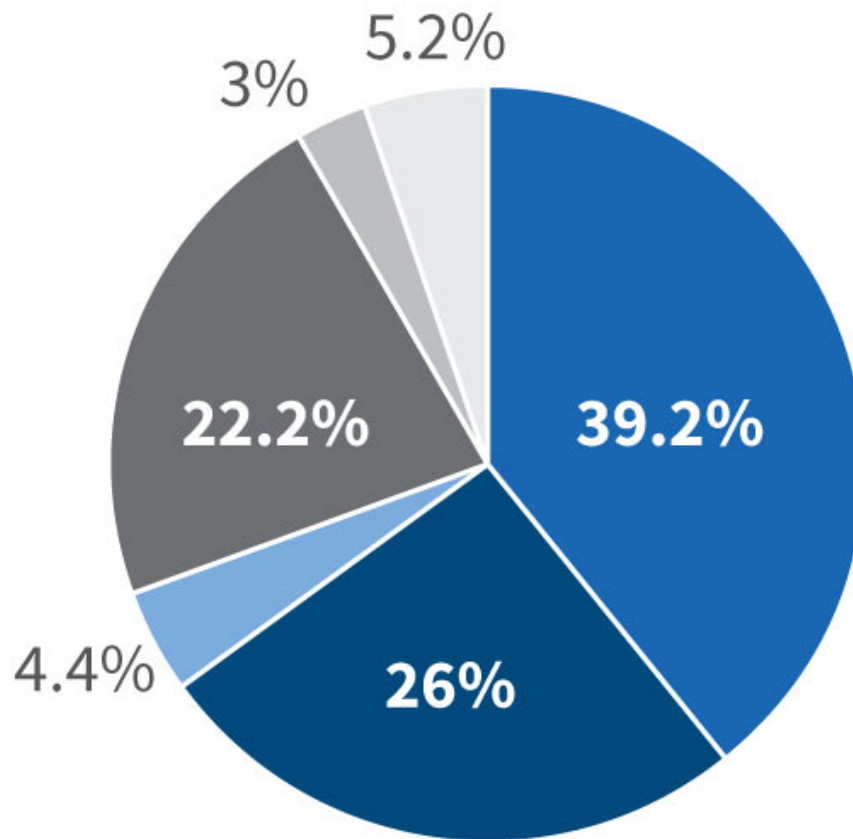


- Cash/Short Term (6%)
- GICs/Bonds/Fixed Income (62%)
- Equities (Dividend Stocks) (32%)

Investment Objective:

Moderate Balanced Account. Increase equities to approximately 1/3. Dividend stocks such as CIBC, Royal Bank, Telus, Microsoft and McDonalds. Slightly more risk but increased rate of income (dividends) and potential capital gains.

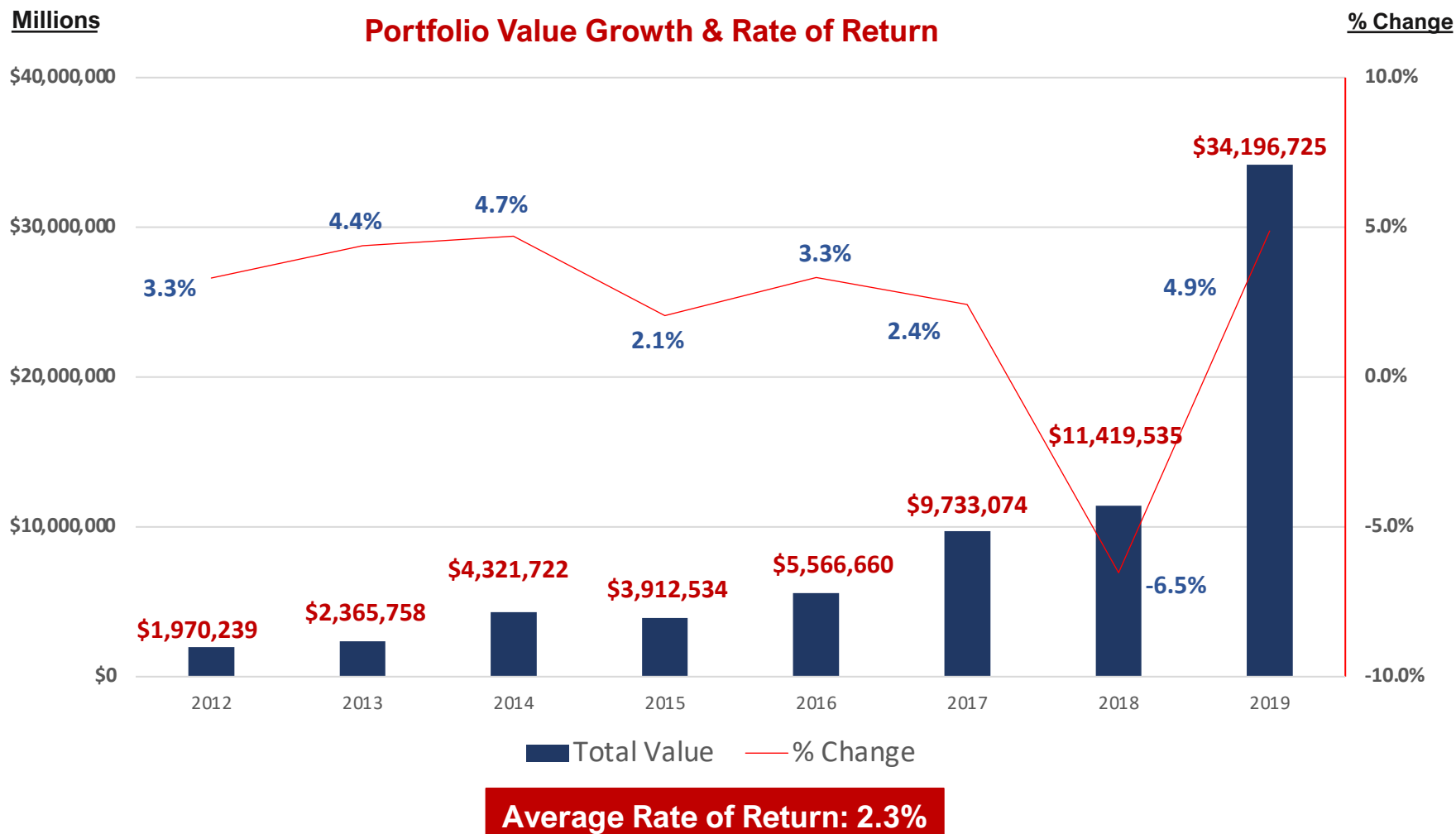
Sources of Income



Total Income: \$15,590,639

Altagas	\$4.6M
BC Hydro	\$4.4M
Red Chris	\$750K
Nova Gold/Teck	\$4.0M
Province of BC	\$500K
Investments	\$1.2M

Portfolio Performance Report



Distribution History

- No distributions have been made during the first 14 years to allow the fund to grow to approximately \$12,000,000.
- A resolution was approved at the 2017 AGM that TCG be provided \$100,000 from the Trust to establish an education fund.
 - The Trustees approved this distribution and issued a cheque to the TCG for the \$100,000 in April 2018.
 - The beneficiaries have agreed the TCG will be responsible for the distribution of the education fund.
 - The TCG will provide a financial report at year end to the Tahltan Heritage Trust to account for the distribution of the education funds.
- TCG will be issued \$200,000 in 2019 for the Education Fund.

Distribution Policy (formula)

- The formula for Funds Available for Distribution (FAD) in any given year is:

Interest earned from previous year

Minus Fees and Expenses

Minus Inflation Index

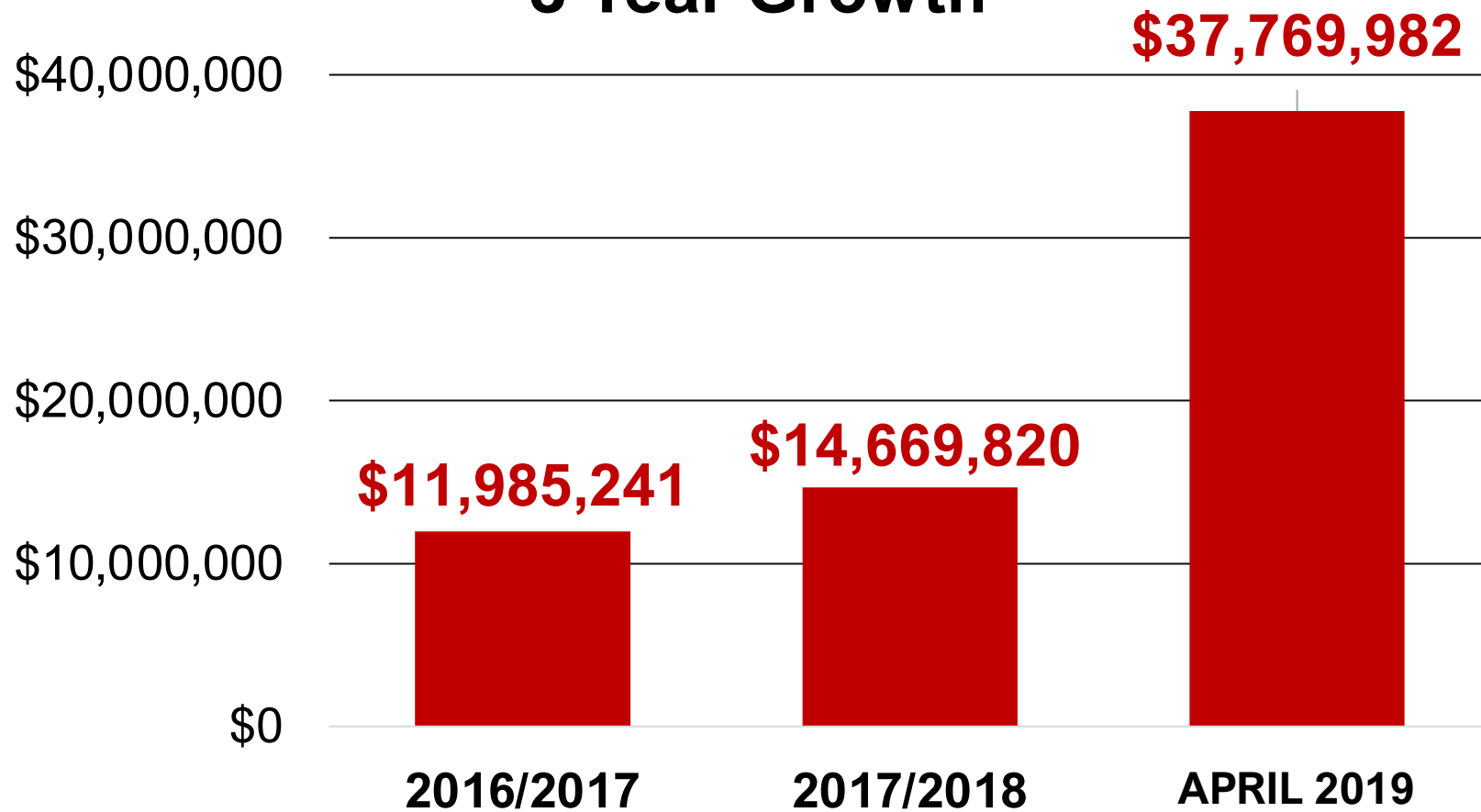
= Funds Available for Distribution

The principle and its spending power will be protected to ensure equal or greater value for future generations.

OTHER BUSINESS TRUST GROWTH

Trust Growth – Year Over Year

3 Year Growth



Heritage Trust/Volcano Creek

Pro-forma Combined Balance Sheet 2019

BALANCE SHEET JUNE 2019 ASSETS

CURRENT	2019	2018
Cash & Marketable securities	<u>\$7,300,00</u>	<u>\$12,669,820</u>
OTHER		
Coast Mountain Hydro LP, partnership units	\$2,000,000	\$2,000,000
New Investment	<u>\$124,300,000</u>	<u>\$0</u>
TOTAL ASSETS	<u>\$133,600,000</u>	<u>\$14,669,820</u>

Heritage Trust/Volcano Creek

Pro-forma Combined Balance Sheet 2019

BALANCE SHEET JUNE 2019 LIABILITIES AND EQUITY

	2019	2018
LONG-TERM DEBT (Bond Financing)	\$94,900,000	\$0
CURRENT (Accounts payable and accruals)	<u>\$0</u>	<u>\$3,000</u>
EQUITY		
Opening balance	\$14,700,000	\$11,982,891
Estimated trust income for 6 months	\$1,000,000	\$0
Contribution by Axium/Manulife	\$1,000,000	\$0
Consent payment	\$22,000,000	\$0
Net Income	\$0	2,783,929
Distribution	<u>\$0</u>	<u>-100,000</u>
Closing Balance	<u>\$38,700,000</u>	<u>\$14,666,820</u>
TOTAL LIABILITIES & EQUITIES	<u>\$133,600,000</u>	<u>\$14,669,820</u>

Northwest Projects Sale

Recapping
what we
negotiated
and where
we are

VCLP On January 31, 2019 received the following in exchange for Consent on the sale of the Projects to Axium & Manulife:

1. Cash Payment for Consent of \$22 million by AltaGas at Closing; and
2. An option to buy up to a 5% equity interest in the Projects in 0.5% increments up to 60 days post bond financing and no later than July 31, 2019.

Northwest Projects Sale

What does
the 5%
investment
look like?

- 5% equity purchase price is ~ \$29.5 million (\$124.3 million purchase price less \$94.8 million of bond financing).
- Agreement provides another \$1,000,000 when we made the Investment Decision and this brings our final purchase price down to \$28.5 million
- Decision to purchase 5% was made on June 13th.
- No extra fees were charged to us (savings of \$2 million on our portion of the purchase price)
- This ownership interest is in addition to the royalties and buy-in rights for up to 20% interest in the Projects in years 20 to 40.

Northwest Projects Sale

Illustrated expected returns on 5%

Illustrated expected returns on 5% based on the Axiom/Manulife financial projections provided are:

Gross purchase price	\$124.3mm
Less: Debt	(\$94.9mm)
Less: Contribution from Axiom/Manulife	(\$1.0mm)
Net Investment	\$28.5mm
IRR Year 1 to 57	8.5%
Annual Returns \$ and % – Years 1 to 10	\$1.6mm or 4.4%
Total \$ returns – Years 1 to 57	\$256.1mm
Cost of debt – Years 1 to 20	3.9%

Northwest Projects Sale

Illustrative Average Cash Returns and IRR on a 5% Investment

- Expected equity IRR of 8.5% based on Axium financial model.
- Assumes no distributions beyond Year 57 when the PPA expires, which likely is conservative.
- Assumes non-amortizing bond debt is refinanced in Years 18 and 20 at a cost of 5.5% and amortized over the remaining 40 years of the PPA.
- All debt is non-recourse to the equity holders and is zero in Year 57.

Northwest Projects Sale

Net Equity Investment for 5% Stake

Net Equity Investment for 5% Stake
IRR Years 1 to 57

\$28.5
8.5%

Years	Total Distributions	Yearly Average	% Cash Return	Average Debt
1 to 10	\$16.0	\$1.6	5.6%	\$98.5
11 to 20	\$32.7	\$3.3	11.5%	\$98.4
21 to 30	\$32.5	\$3.3	11.4%	\$91.7
31 to 40	\$48.9	\$4.9	17.1%	\$75.7
41 to 50	\$71.2	\$7.1	24.9%	\$48.4
51 to 57	\$54.7	\$6.8	24.0%	\$11.9
Total	\$256.11	\$4.49	15.7%	

Northwest Projects Sale

Risks & Mitigants

Risk	Mitigant
Level of Water Flows and Power Generation	Sensitivity analysis has been performed on base case, P90 and the lowest water levels resulting in a minimum DSCR of 1.18x during the terms of the bonds.
Power Pricing	This Project is backstopped by a PPA with 57 years remaining.
Debt refinancing	Current rating of the bonds is A- and DBRS has considered the ability for the bonds to be refinanced in 18-20 years time.
Capital Calls	In the event a capital call is needed and the TFN are not in a position to fund, Axium and Manulife have agreed to fund TFN's portion at a cost of 11% interest which the TFN can repay afterwards.

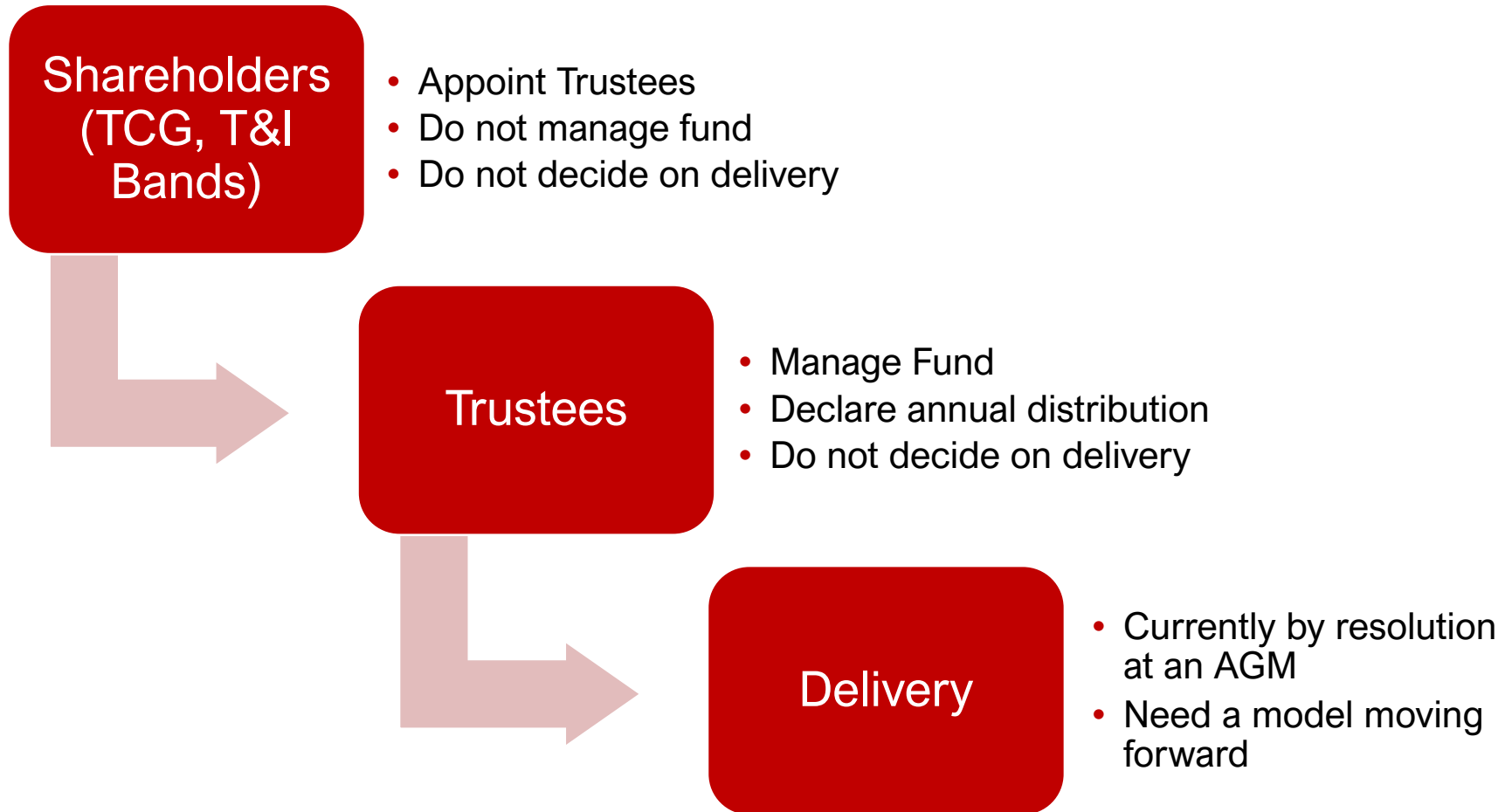
REALIZING OUR FUTURE

DELIVERY MODELS OPTIONS FOR TAHLTAN HERITAGE TRUST FUND DISTRIBUTIONS

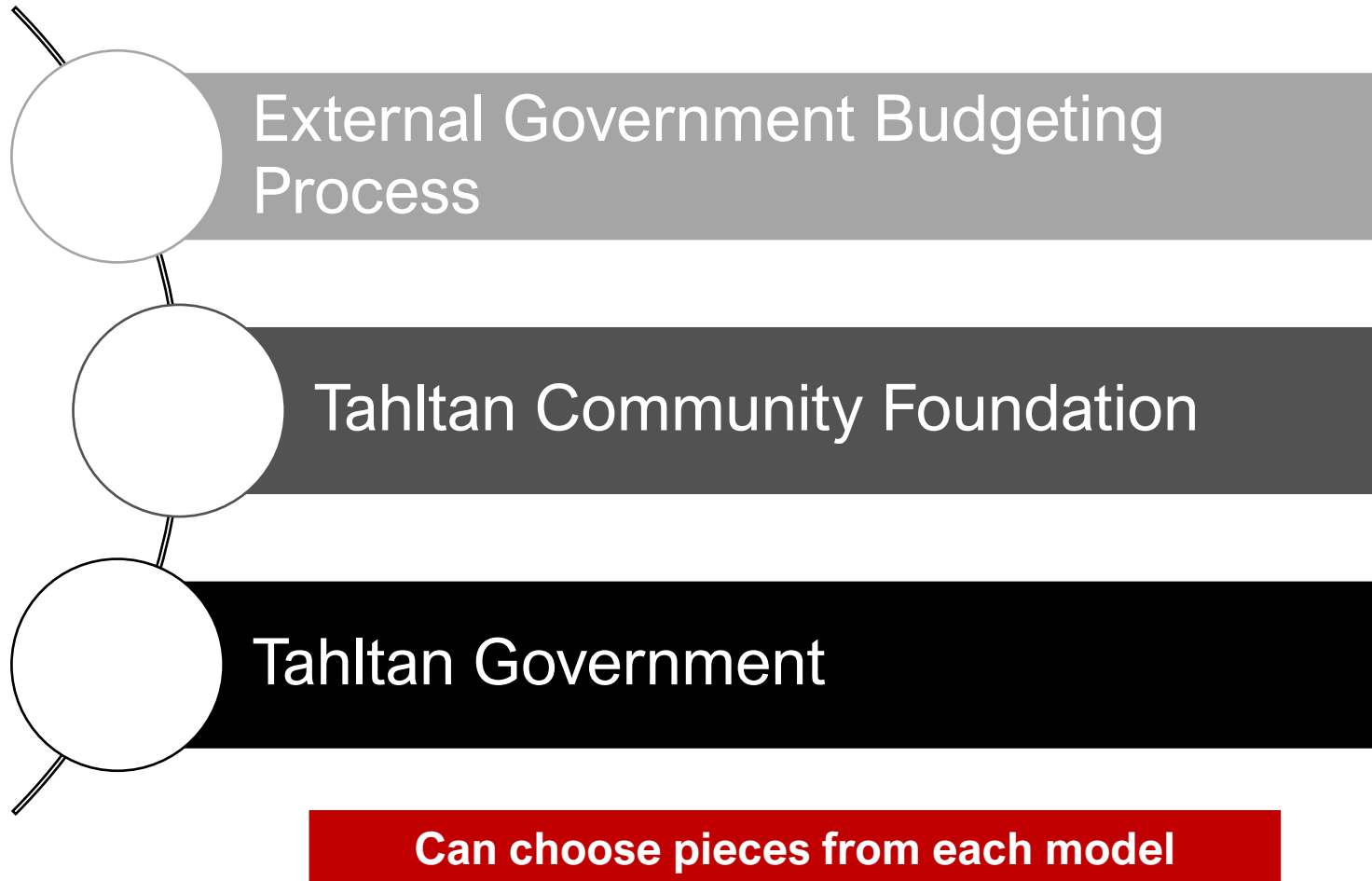
Principles

1. Preserve the legacy (capital)
 - Only earned interest is spent minus inflation
2. The principal is untouched and adjusted for inflation each year to ensure it does not decrease in value.
3. Accountability
 - Clear reporting on benefits
4. Citizen driven
 - Consultation process every 3 to 5 years to reset priorities.
5. Keep administrative overhead low

The Issue...



Potential Delivery Models



Model 1: External Government Budgeting Process

- Canada & Provinces adopt cabinet authorities which set government priorities and generally include an overall multi-year budget.
 - Cabinet authorities are assigned to departments or ministries in government.
 - Each department or ministry annually develops a workplan and budget to address the priority through programs, services or other means.
 - This is their Treasury Board submission which they deliver each year.
- Tahltan model would have:
 - Tahltan Governments approve Tahltan Priorities based on engagement of Tahltan membership every 3 to 5 Years.
 - Delivery agents (Tahltan government, Tahltan organizations, other governments) make submissions to address an approved Tahltan Priority.
 - Reporting and accountability measures to ensure that each delivery agent addresses their Tahltan Priority as promised.

Model 2: Tahltan Community Foundation

- Foundation governed by a board with staff that specialize in program design and delivery.
- Separates the functions where the Trust makes money and the Foundation spends money.
- Programs and services are delivered by the Foundation or through outside delivery agents who specialize in specific areas, e.g., health, education, language, land management, etc.
- Multi-year priorities are set in a strategic plan prepared through engagement with Tahltan membership.
- Annual priorities are approved by the foundation board.

Model 3: Tahltan Government

- Each Tahltan government:
 - Delivers programs or services.
 - Can use external delivery agents.
 - Receives a share of Trust distributions based on the Tahltan Revenue Sharing Protocol.
 - Conducts their own engagement process with Tahltan membership (although they can choose to work with each other).
 - Reports annually on their achievements.

External Government Process	Pros	Clear & simple process Don't have to create new structures	Can use any delivery agent Holds leadership accountable for setting priorities
	Cons	How to make budget decisions No central accumulation of expertise	
Community Foundation	Pros	Accumulates experience in delivery Common model in communities (learn from others)	
	Cons	Additional overhead Requires creating a new structure	
Tahltan Government	Pros	Forces deeper engagement with membership Known entities	Don't have to create new structures
	Cons	Leadership use \$\$ for political means Generally outside of government's expertise	Overlapping programs & priorities Multiple consultation processes

Design - Engagement Process

- Will (who) be going to the Tahltan People?
 - In October? March?
- Get feedback on:
 1. Delivery model design
 2. Tahltan Priorities
 - Build off community process from 6 or 7 years ago
 3. Who is interested in helping
 - Individuals and possible delivery agents

2019 ANNUAL REPORT PRESENTATION

QUESTIONS?