Special Report

First Nations Finance Authority

Macro Strategy

Government Credit

October 20, 2017

Soaring On Sound Financial Principles

Bloomberg Ticker: FNFACA

Established in 1992, First Nations Finance Authority (‘FNFA’ or ‘Authority’) is a statutory non-profit Aboriginal government-owned and controlled institution operating under the authority of the First Nations Fiscal Management Act, 2005. It was built on a robust planning framework that spanned more than 20 years of development. The process originated with meticulous Federal Government policy research and eventually led to the enactment of supportive and protective legislation that underpins sound financial practices. This framework ensures the utmost protection for bank lenders and bondholders. The framework establishes clear parameters which give First Nations communities access to capital for important infrastructure and economic development.

Canada’s First Nations have made strong progress over the past decade in securing their entitlement to share in the financial benefits of Canada’s natural resources and asserting their rights to be consulted on major energy and resource projects. First Nations and Canadian government relations at all levels are being re-set on a course of stronger understanding and cooperation to secure a brighter and better future for all Canadians. To this end, FNFA is an important funding platform that harnesses the capacity of the institutional capital markets to participate in this journey. There are currently 228 First Nations out of 634 across Canada “Scheduled” in the program. These are First Nations that are voluntarily opting into the First Nations Fiscal Management Act (FNMA). Of these First Nations, 72 are Current Members of which 43 are Borrowing Members (i.e. with loans or loans in process). **FNFA projects its loan program to grow from approximately $395mln today to over $1.4bln by 2022.**

“No relationship is more important to Canada than the relationship with Indigenous Peoples. Our Government is working together with Indigenous Peoples to build a nation-to-nation, Inuit-Crown, government-to-government relationship — one based on respect, partnership, and recognition of rights. We are determined to make a real difference in the lives of Indigenous Peoples — by closing socio-economic gaps, supporting greater self-determination, and establishing opportunities to work together on shared priorities. We are also reviewing all federal laws and policies that concern Indigenous Peoples and making progress on the Calls to Action outlined in the Final Report of the Truth and Reconciliation Commission.”

The Right Honourable Justin Trudeau, P.C., M.P.
Statement by the Prime Minister of Canada on National Aboriginal Day — June 21, 2017

We highlight that on October 17, 2017, Moody’s Investors Service upgraded FNFA’s Senior Secured Debt rating to “A2 Stable” from “A3 Positive” reflecting “FNFA’s continued positive performance and the improved diversification and continued solid credit quality of the pool of borrowing members.”

Topics Covered (Click Through to Sections)

FNFA Web-Site Click Here

FNFA: “Of the 634 First Nations across Canada, 228 or approximately 1/3 have joined FNFA’s Act with the intent to borrow and improve their communities. These cover 8 Provinces and 1 Territory.”

FNFA Achievements

- $395mln in loans to 43 First Nations since 2014
- 71 new houses built, 30 remediated
- On-reserve school, wellness centre, recreation centre, admin building, paved roads, building supply centre, 2 grocery stores
- 5 First Nations owned “Green Energy” projects
- Over 2,260 acres of purchased land

FNFA Credit Ratings

Moody’s	A2 Stable*
S&P	A- Stable

*Upgraded from A3 Positive on October 17, 2017

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Dr. Dominique Collin is a former senior economist with the Government of Canada (Department of Indigenous and Northern Affairs Canada or 'INAC'). Today, he is a Principal of Waterstone Strategies, a private consulting firm.

A quote from Dr. Dominique Collin:

> I have been involved in Aboriginal access to capital issues for 30 years, from the Federal Government side and from the Aboriginal financial institution side, and in all that time I have not come across any instance of First Nation governments defaulting on long-term infrastructure or public work-related debt. Social housing debt, the single largest block of First Nation government debt, has been an important feature of First Nation government finances for more than a generation, most of it with federal government backstop. The published loss rates for government housing backstop programs are close to nil, as confirmed by a sequence of Auditor General reports on Aboriginal housing, confirming that First Nation governments are a good lending risk.
>
> Over the past 10 years, a rapid increase in own-source revenues from benefit agreements, royalties, revenue sharing agreements, and participation in major energy and resource projects has multiplied the capacity of First Nation governments to address business and infrastructure investment needs with debt. Setting aside community-owned business ventures, which on the whole have done well but remain within the business risk category, I am not aware of any defaults. This likely results from the solidity of the revenue streams used for borrowing, the increased ability of lenders to understand the lending environment and, most important, from the willingness of revenue-rich First Nations to opt into rigorous financial administration oversight regimes such as the one provided by the First Nations Financial Management Board certification process.

Dr. Collin has been involved in a number of Aboriginal financial institution development initiatives in the areas of business, infrastructure and housing finance. He is a co-author, along with Michael Rice, of *Access To Capital for Business: Scoping out the First Nation and Inuit Challenge* – an in-depth analysis of Aboriginal access to capital performance and issues from 1975 to 2003. An update of this report to 2013, with an analysis of the 10-year increase in outstanding business / infrastructure debt was published in the fall of 2016.

Siksika Nation

The devastating Flood of 2013 from the Bow River in Alberta destroyed around 200 homes and several public buildings on the Siksika Nation, forcing the evacuation of the community. The leadership of the community was worried that sufficient aid might not be received and reliance on traditional funding sources to rebuild was questionable. Fortunately, the Siksika Nation had gone through the process of being scheduled to the First Nations Fiscal Management Act and received certification for their financial management and governance practices giving them access to funds to rebuild the Chief Crowfoot Elementary School.

"One of the successes we have had is the opportunity to expand through the First Nations Finance Authority." says Siksika former Councillor Barry Yellowfly. "We now have the resources and ability to recover and improve our infrastructure in a good way.

Siksika Nation has a total population of approximately 7,476 members. Siksika Nation is a part of the Blackfoot Confederacy which also consists of the Piikani and Kainaiwa of southern Alberta and the Blackfeet in the State of Montana. The Siksika Nation is governed by a chief and twelve councillors, all of whom are elected by members for three-year terms. The current chief of the Siksika Nation is Joseph Weasel Child.

An example of an FNFA loan is the $17.5mln 30-year amortizing loan term maturing in 2045 to fund the Chief Crowfoot Elementary School in Siksika, Alberta (shown below), which is backed by the earnings from a fixed income Trust Fund.

Chief Crowfoot Elementary School — Located in Siksika Nation, a one hour's drive east of the City of Calgary, Alberta

Source: FNFA.

Debt Issuance, Valuation and Portfolio Placement

First Nations Finance Authority

FTSE TMX Canada Universe Bond Index Classification

- Sector: Government
- Industry Group: Municipal
- Industry Sub-Group: British Columbia
- Rating: A
- Index Weight: Less than 0.5%

Regulatory Classification:

- Basel III Risk-Weighting – Standardized Approach*: FNFA is a non-share, non-profit corporation and may meet the criteria for a 'Claim on Corporate' with a credit assessment rating of A- to A+. Under the criteria, bonds would be subject to a 50% haircut. Investors are advised to consult their legal counsel.
- HQLA – OSFI Liquidity Adequacy Guideline / Basel III: FNFA is a non-share, non-profit corporation and may meet the requirement of a Level 2B asset (50% haircut). Investors are advised to consult their legal counsel.

  *FNFA is not classified as a Public Sector Entity (PSE) for purposes of the Capital Adequacy Guidelines. Chapter 3.1.3 of the guidelines provides that where PSEs other than Canadian provincial or territorial governments provide guarantees or other support arrangements other than in respect of financing of their own municipal or public services, the PSE risk weight may not be used. The PSE risk weight is meant for the financing of the PSE's own municipal and public services.

First Nations Finance Authority began funding in the institutional debt markets in June 2014 with its inaugural 10Y issue of $90mln (FNFACA 3.4% June 26, 2024). Since 2014, the Authority has tapped the market once a year by upsizing the existing issue twice. The outstanding amount of the issue is currently $251mln.

Going forward, FNFA is planning to continue targeting the 10-year funding area. It expects to issue approximately $130mln annually for next two fiscal years (2017 and 2018) as the client base increases. In the third fiscal year (2019), it anticipates doing both spring and fall issuances, aggregating about $250mln in the fiscal year.

FNFACA 3.05% June 1, 2028 $126mln (Senior Secured Bonds)

S&P Rating A- Stable, Moody's Rating A2 Stable

Issue Date	Amount *($mln)*	Issue Spread vs. Canada*	Issue Spread vs. Ontario	Details
19-Oct-17	126	102	31	New
* vs. CAN 1% 06/01/27				

FNFACA 3.4% June 26, 2024 $251mln (Senior Secured Bonds)

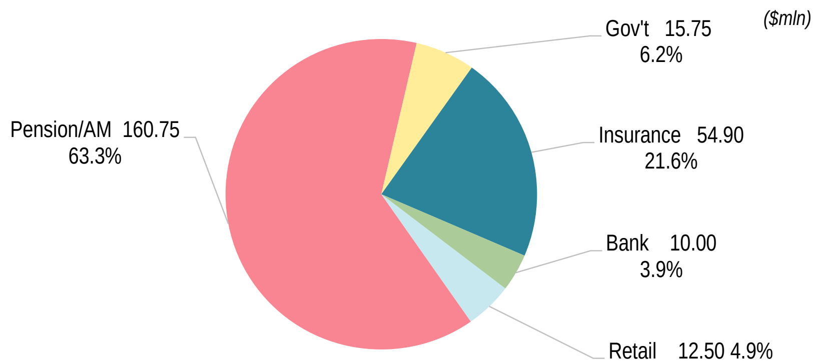
S&P Rating A- Stable, Moody's Rating A2 Stable

Issue Date	Amount *($mln)*	Issue Spread vs. Canada*	Issue Spread vs. Ontario	Details
1-Jun-16	111	146	58	Increase
16-Jul-15	50	123	50	Increase
19-Jun-14	90	121	43	New
* vs. CAN 2.5% 06/01/24				

Source: CIBC Capital Markets- Macro Strategy.

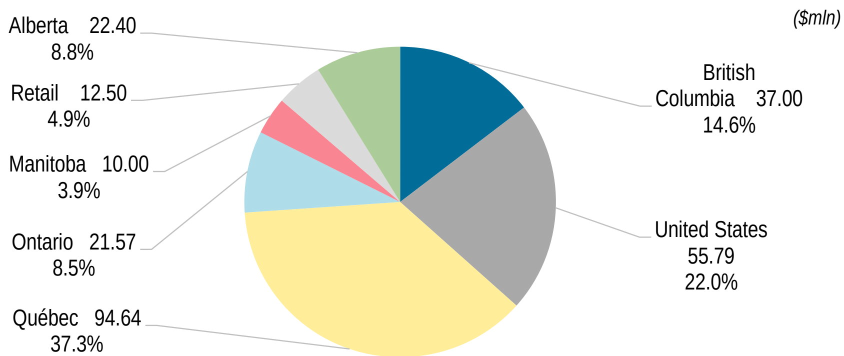
Like other government issuers, FNFA raises debt in the exempt market by offering securities via an Information Memorandum. The Authority has historically borrowed through a syndicated market process. There are 20 to 25 investors currently participating in FNFA's debt issues, crossing all investor types. While the majority of investors fall into the category of large Canadian institutional, there has been a modest level of Canadian retail participation. There has also been a good level of participation by US investors. The most recent transaction was distributed to 22 institutional investors with an overall blend of almost 50 / 50 between repeat and new as the investor base continues to grow.

Debt Issuance by Type of Investor



Source: FNFA, CIBC Capital Markets – Macro Strategy.

Debt Issuance by Location



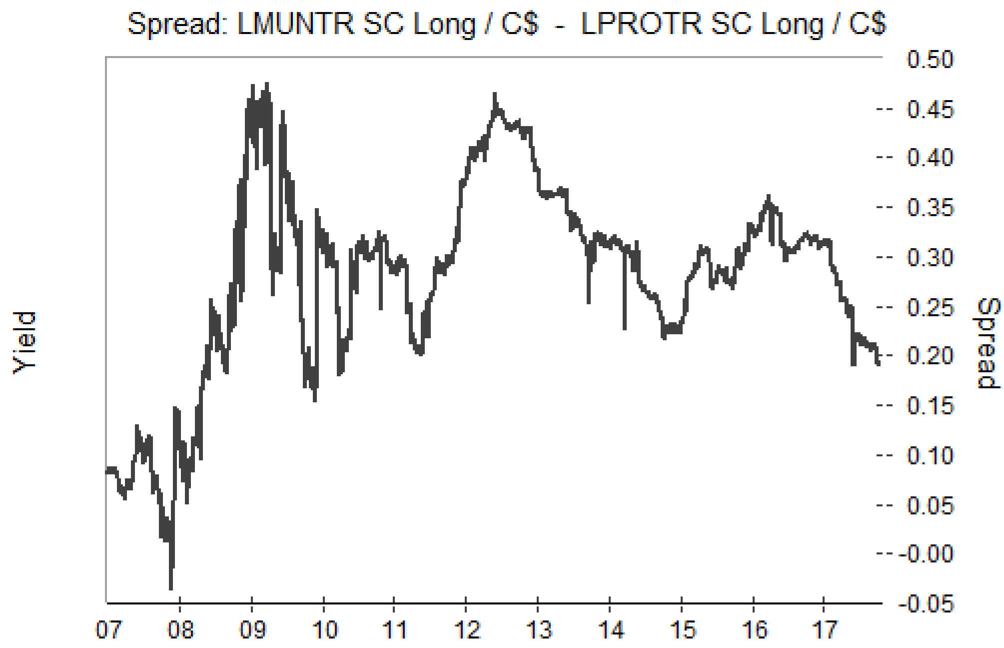
Source: FNFA, CIBC Capital Markets – Macro Strategy.

FNFA bonds are classified in the FTSE TMX Canada Universe Bond Index in the Municipal sub-sector category. Like other Canadian bonds in this category, FNFA bonds are best suited in investment portfolios as 'buy-and-hold' positions in passive mandates, as well as a fixed component of active mandates due to their relatively less liquid market characteristics. They also have broad appeal in retail accounts due to their investment grade quality and name familiarity. FNFA bonds may also be suitable for holdings by regulated financial institutions.

The municipal sub-sector represents about 2% of the FTSE TMX Canada Universe Bond Index. We are constructive on a 'modest' overweight position (3 – 5%) with a position in FNFA bonds towards an overweight. However, we highlight that spreads across the entire municipal sector are much tighter than they were a year ago and, therefore, the risk / reward trade-off is reduced.

In spite of the generally stronger credit risk profiles of municipal bonds, these types of bonds trade back of their more senior provincial counterparts and generally move in tandem. As depicted in the spread graph below, in late 2015 as well as early 2016, municipal spreads moved wider than their senior provincial counterparts (i.e. basis risk) reflecting a global re-pricing of liquidity premiums that was spurred by extreme market volatility and risk aversion. Since then, spreads have tightened significantly with liquidity risk premiums moving lower as a result. In fact, since the global financial crisis, secondary market liquidity has been increasingly impinged upon by stricter regulatory requirements imposed on financial institutions and their broker / dealers along with a trend towards dealer inventory aging requirements. Still, the tightening of spreads shows that investors are flocking to the sector and finding value as they search for stable long-term returns.

Long Muni Index Spread over Long Provi Index



Source: PC Bond.

We like FNFA municipal bonds as a means to anchor portfolio credit quality (Moody's A2, Stable outlook; Standard & Poor's A-, Stable outlook) and for yield pick-up. We expect FNFA's credit risk profile to remain relatively stable in the near-term and improve gradually over the medium-to-long term.

10Y New Issue Indicative Bond Market Comparables

	Bloomberg Ticker	Spread vs. ONT (bps)	Credit Ratings*			
			DBRS	Fitch	Moody's	S&P
First Nations Finance Authority	FNFACA [Govt]	+31.0	-	-	A2	A-
Municipal Comps	[Muni]					
Municipal Finance Authority of BC	BCMFA	+7.5	-	AAA	Aaa	AAA
City of Vancouver	VANC	+10.0	-	-	Aaa	AAA
City of Winnipeg	WINNPG	+23.0	-	-	Aa2	AA
Regional Municipality of Durham	DURHAM	+17.0	-	-	Aaa	AAA
Regional Municipality of Halton	HALTON	+17.0	-	-	Aaa	AAA
Regional Municipality of Niagara	NIAGMU	+20.0	-	-	-	AA
City of Ottawa	OTTAWA	+18.0	-	-	Aaa	AA
Regional Municipality of Peel	PEEL	+17.0	-	-	Aaa	AAA
City of Toronto	TRNT	+19.0	AA	-	Aa1	AA
Regional Municipality of Waterloo	WTRLOO	+17.0	-	-	Aaa	-
Regional Municipality of York	YORKMU	+17.0	-	-	Aaa	AA+
City of Laval	LAVAL	+35.0	-	-	-	AA[P]
City of Montreal	MNTRL	+24.5	AH	-	Aa2	AA-
Quebec City	QC	+35.0	-	-	Aa2	-
Provincial Comps	[Govt]	vs. CAN				
British Columbia	BRCOL	+66.5	AAH	AAA	Aaa	AAA
Alberta	ALTA	+76.5	AAH[N]	-	Aa1[N]	A+
Saskatchewan	SCDA	+75.5	AA	AA	Aaa	AA
Manitoba	MP	+79.5	AH	-	Aa2	A+
Ontario	ONT	+72.0	AAL	AA-	Aa2	A+
Quebec	Q	+69.5	AH	AA-	Aa2	AA-
New Brunswick	NBRNS	+82.0	AH	-	Aa2	A+
Nova Scotia	NS	+78.0	AH	-	Aa2	A+[P]
Prince Edward Island	PRINCE	+87.0	AL	-	Aa2	A
Newfoundland & Labrador	NF	+94.5	AL	-	Aa3[N]	A
Federal Crown	[Govt]					
CHT No. 1 (CMB Program)	CANHOU	+47.5	AAA	-	Aaa	AAA

Source: CIBC *Outlooks stable unless otherwise noted. N=Negative P=Positive.

FNFA's credit ratings are predicated on several factors. These factors include the strong institutional and legislative framework, the expectation that FNFA is likely to receive extraordinary government support, a solid governance and management structure, a rigorous credit review process, strong interest and debt service coverage ratios, and several structural protections that include:

- A mechanism to intercept revenue streams ('Other Revenues' referring to revenues other than property taxes) that secure a Borrowing Member's loan payments and the deposit of these revenues, either directly or by an intermediate account, into a segregated trust account (a 'Secured Revenues Trust Account');
- A Debt Reserve Fund (DRF) that is funded by a hold-back of 5% of the loan advance, which serves as a layer of cross-collateral protection. Recent changes to the First Nations Financial Management Act (FNFMA) now permit the holdback to vary between 1 – 5%, but management's intentions are to stick with the practice of 5%. *(Additionally, rating agencies will be consulted ahead of a change, as the FNFMA provides that the FNFA's Board can only permit a lower hold-back if there are no adverse rating consequences.)*. There is a requirement to replenish the DRF on a 'joint and several' basis among all Borrowing

Requirements to replenish the DRF and CEF are Joint and Several. As per audited 2016 financial statements, Borrowing Members annual surplus was $85mln, a rate of 16.72% of expenditures.

Members who received financing from the FNFA, but only within each borrowing stream (i.e. Property Taxes or Other Revenues);

- A $30mln Credit Enhancement Fund (CEF) that was funded by the Federal Government. The CEF was established to enhance the FNFA's credit rating by being available to temporarily offset any shortfalls in the Debt Reserve Fund;
- A legislative requirement to establish a sinking fund for each bond issue, which builds based on the amortizing structure of the underlying loan; and
- A statutory right of intervention – Under the Act, the FNFA has the right to authorize intervention on any Member whereby the Treasury functions of the First Nation are taken over. **Currently, total Members' revenues available under intervention are $508mln vs. annual loan service of $20,889,000. Intervention would also reimburse any Members' temporarily covering a loan service payment of another Member under a Joint & Several call.**

The presumption of extraordinary Federal Government support is reasoned on the fact that it is highly embedded in the overall program's legal framework. The Federal Government has played an integral role in establishing the FNFA through the enactment of federal legislation, the establishment of federally operated boards engaged in processing membership of First Nations community groups in the program, ongoing oversight thereafter, and the provision of funds for the Credit Enhancement Fund. With respect to the latter, the 2016 Federal budget, the Liberal government's first budget, explicitly mentioned ongoing intentions to build a better future for Canada's Indigenous Peoples through a wide range of initiatives as well as support for the First Nations Finance Authority to provide $20mln over two years to strengthen the Authority's capital base. The full $20mln was received by April 4, 2017. There were no additional measures announced in the 2017 Federal budget.

While there is no explicit federal guarantee on FNFA bonds nor is it an agent of Her Majesty or a Crown corporation, the aforementioned factors add up to a strong level of implicit and explicit support.

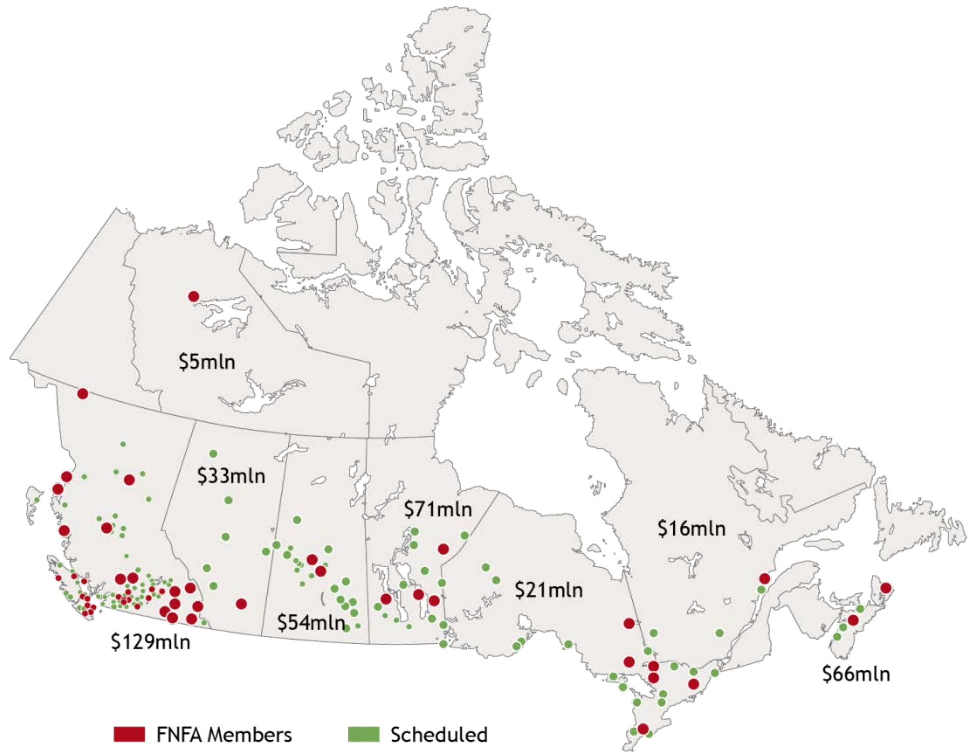
FNFA offers its borrowing members two types of loan facilities: Interim and Long-Term Loans. These facilities are discussed in more detail below. FNFA finances these loans through a syndicated secured Bridge Financing Facility (the 'Facility') totalling $175mln with four Canadian chartered banks until it arranges long-term funding through a debenture offering. The Syndicated Facility includes CIBC, National Bank, RBC and Laurentian Bank.

The Facility is secured by first-ranking liens on all real and personal, corporeal and incorporeal, present and future assets, including on all of the accounts of FNFA (including accounts that hold the Debt Reserve Fund) and the rights of FNFA in the Secured Revenues Trust Accounts and the Property Tax Accounts. FNFA is subject to non-financial covenants, including a Material Adverse Change Clause and a ratings test should the ratings drop below investment grade. **The credit facility also requires the maintenance of two ratings, which indirectly provides protections to bondholders as the debentures do not contain this provision.** Since inception of the Facility, there has never been a breach.

In February 2016, the security rankings of FNFA's debentures were upgraded to rank *pari passu* with FNFA's $175mln secured line of credit. This was a major enhancement for bondholders.

We note, however, that FNFA's ratings are constrained by a number of rating factors which are expected to abate over time. The rating agencies have cited FNFA's relatively high – but declining – volatility in profitability (previous losses from one-time start-up, and lower federal grants and management fees), the geographic concentration of borrowers in the province of British Columbia, which currently stands at approximately 33% (September 2017), but is down from 65% in 2014, as well as its short operating history. An improvement in any of these along with a stronger liquidity profile could drive the ratings up. Conversely, a deterioration in the overall quality of the loan pool or change in the FNFA's framework and / or structural considerations for the rating, including a reduction in government support, could put downward pressure on the ratings. **We continue to believe that FNFA's credit risk profile will continue to improve. Following the recent upgrade by Moody's, we expect that S&P will eventually follow through with a similar rating change.**

FNFA Borrowing Map ($395mln in Loans – September 2017)



Source: FNFA.

Prov.	Scheduled & Pending	FNFA Members
AB	10	3
BC	105	40
MB	31	9
NB	7	0
NS	7	6
ON	31	7
SK	29	4
QC	6	2
NWT	2	1
	228	72

FNFA MEMBERS:

- 72 Members (2016 = 56)
- 43 Borrowing Members (2016 = 28)*

*with loans or loans in process

Moody's Summary Rating Rationale:

(Credit Opinion – October 17, 2017)

"The upgrade of the long-term issuer and debt ratings to A2 reflects FNFA's continued positive performance and the improved diversification and continued solid credit quality of the pool of borrowing members.

S&P Global Ratings:

(Credit Analysis Report – August 5, 2016)

"In accordance with our government-related entity criteria, we view the likelihood of the authority receiving extraordinary government support as moderately high based on our assessment of the strong link with the federal government, as the funding support and oversight from the government demonstrate."

FNFA's internal liquidity consists of approximately $4.8mln in cash and equivalents, $20.2mln in investments in the Debt Reserve Fund and $30mln in the CEF. Today's level of internal liquidity of around $55.0mln is 14% of outstanding debt and is considered adequate for the ratings and an improvement from under 10% last year. The liquidity metric will improve with additional deposits in the CEF. External liquidity consists of the $175mln Bridge Financing Facility.

All-in-all, liquidity is considered adequate given the conduit nature of the intermediation process where payments are intercepted from Borrowing Member revenue sources to service outstanding debt and, therefore, liquidity needs beyond what is necessary for servicing debt are minimal. Although FNFA's borrowing powers are not restricted to providing loans to Borrowing Members and it could borrow to finance working capital, historically the FNFA has financed its operations through Federal Government grants and operating income from the spread between what it borrows and lends at. On the lending side, FNFA's mandate is only to make loans to First Nations that have qualified as Borrowing Members.

In the past year, FNFA's loan portfolio has grown from around $250mln to $395mln. Of FNFA's 72 members, 43 have borrowed (an increase from 28 borrowers from last year). In the current fiscal year, it anticipates its loan portfolio to reach $451mln by March 31, 2018 and the DRF to accumulate to approximately $24mln with an annual interest liability of approximately $15mln. With the CEF at $30mln, interest coverage will be over 3.5 times ($30+24 / $15). **The FNFA plans to submit a request for a further $20mln for the CEF to expand it to $50mln when its loan portfolio approaches $700mln in order to maintain the interest coverage ratio at or above four times coverage (target interest coverage).**

FNFA projects its loan portfolio to grow from about $395mln today to over $1.4bln by 2022 (Loan Growth: 2018 projected to $451mln; 2019 $586mln; 2020 $775mln; 2021 $955mln; 2022 $1.423bln).

Both Moody's and S&P rate FNFA according to their government-related entities methodology. With respect to S&P, the criteria falls specifically under *Rating Government-Related Entities: Methodology and Assumptions*, published March 25, 2015. S&P gives FNFA a two-notch uplift from its Stand-Alone Credit Profile, or SACP, rating of ‘bbb’ because it views the likelihood of FNFA receiving extraordinary government support as ‘moderately high’. In a sovereign downgrade scenario – which we are not anticipating – the methodology permits the Government of Canada rating to fall two notches (i.e. from AAA to AA), without impacting FNFA’s ratings (all else remaining unchanged). However, in September 2017 S&P issued an Draft: Request for Comment on a new methodology titled “Public-Sector Funding Agencies: Methodology and Assumptions” which has similarities to its corporate rating methodologies. The new methodology assesses an issuer on the basis of its enterprise risk profile and financial risk profile. Methodology changes are intended to be rating neutral. However, in step with Moody’s, we anticipate that S&P will eventually upgrade FNFA’s rating outlook and/or rating to acknowledge its improving fiscal performance as well as its more diversified business and financial profile.

Under Moody’s *Government-Related Issuers Rating Methodology* (October 30, 2014), Moody’s applies its Joint Default Analysis (JDA) framework to its analysis of Government-Related Issuers (GRI) to explain the credit links between GRIs and their supporting central, regional, and local governments. This approach gives FNFA a two-notch uplift from Moody’s intrinsic Baseline Credit Assessment score of ‘baa2’ on a “strong likelihood of extraordinary support”. Moody’s framework incorporates the concepts of dependency and support which, in FNFA’s case, would also accommodate a multiple notch downgrade of Canada. The framework suggests a rating change only if Canada’s Aaa were to drop to A1, assuming everything else remains the same.

We caution that all rating agency methodologies are theoretical reference points and final ratings are subject to the adjudication of the rating committees, but the aforementioned analysis does suggest a strong degree of flexibility in a sovereign downgrade scenario.

Legislative Framework, Lending Approach, and Bondholder Protections

First Nations Finance Authority (the ‘FNFA’ or the ‘Authority’) is a non-share, non-profit corporation established under Part 4, Section 58 of the First Nations Fiscal Management Act (FNFMA, or the ‘Act’) which came into force on April 1, 2006. The FNFA is not an agent of Her Majesty or a Crown Corporation. It is an Aboriginal government-owned and controlled institution.

First Nations Finance Authority’s head office is in Westbank, British Columbia. It operates within the terms of reference embodied in the FNFMA. It runs its operations from a single location with credit adjudication done in-house as well as externally through a network of advisors located across Canada.

The impetus for the development of the First Nations Finance Authority was based on government policy research that concluded that a large gap exists in First Nations / Inuit access to affordable private capital which is hindering their economic potential. This conclusion was reached following a study that covered data from 1975 up to and including 2003.

The study’s conclusions were that:

> “First Nations / Inuit business financing access levels, trends and gaps all point to historical over-reliance on insufficient levels of government contribution capital and growth stalled at the early expansion phases for both the small and mid-sized ventures for lack of an organic connection to market capital. Correcting the situation is urgent and will require innovative ways to engage market sources of capital beyond the limited leverage ability of existing sources of government help.”

Source: *Access to Capital for Business: Scoping out the First Nation and Inuit Challenge*, by Dr. Dominique Collin, Waterstone Strategies and Michael Rice, Indian and Northern Affairs Canada, May 2009.

First Nations Finance Authority fulfills an important role in reducing this gap. To facilitate funding for First Nations communities, FNFA’s objectives are to monetize federal and provincial revenue agreements with First Nations as well as First Nation’s own-source revenues.

The First Nations Fiscal Management Act sets out the procedure for First Nations to become 'Borrowing Members' of the Authority and the requirements that must be fulfilled as part of the borrowing process. It also gives the First Nations Finance Authority the powers to secure financing for its Borrowing Members and to issue securities.

In addition to facilitating access to funding for its Borrowing Members, the FNFA also sponsors a pooled investment fund program for its 'Investing Members'. Two pooled funds are offered: the MFA Money Market Fund and the MFA Intermediate Fund. The funds are operated and managed by the Municipal Finance Authority of BC.

It's important to understand that participation in the FNFMA is optional. It was designed as an optional piece of legislation to promote the continued economic development of participating First Nations, but respecting their rights to self-government and self-determination.

While all First Nations have the authority to pass by-laws related to the taxation of land under the Indian Act, the FNFMA offers an alternative and rigorous authority for First Nations to collect property tax. By opting into the property tax system under FNFMA, First Nations are better positioned to promote economic growth and capitalize on solid business relationships, resulting in a better quality of life for community members.

The act enables First Nations to participate more fully in the Canadian economy and foster business-friendly environments, while meeting local needs by:

- Strengthening First Nations real property tax systems and First Nations financial management systems;
- Providing First Nations with increased revenue raising tools, strong standards for accountability, and access to capital markets available to other governments;
- Allowing for the borrowing of funds for the development of infrastructure on-reserve through a co-operative, public-style bond issuance; and
- Providing greater representation for First Nation taxpayers

The process to initiate participation in the FNFMA is via submission by a Band Council Resolution to the Minister of Indigenous and Northern Affairs requesting that the band be added to the "Schedule of the FNFMA". The process takes four to six months from the time the Band Council Resolution is received, but recent amendments to the Act are expected to shorten and streamline the process.

The FNFMA framework is supported by the work of the First Nations Finance Authority (FNFA), First Nations Tax Commission (FNTC), and First Nations Financial Management Board (FMB). The FNTC provides regulatory support to First Nations' property tax jurisdictions. The FMB sets standards for financial administration laws that it must review and approve as well as conducts certification reviews of First Nations' financial management systems and financial performance.

An important protection to bondholders is that before a First Nation can borrow funds from the Authority, the First Nation is required to make a Financial Administration Law regarding its financial administration. The law must be approved by the First Nations Financial Management Board (the 'FMB'), the independent board established pursuant to the Legislation that reviews the law for compliance with the Legislation and the FMB's standards. The FMB's standards are intended to support sound financial administration practices for a First Nation.

A First Nation is required under the Legislation to obtain a Financial Performance Certificate from the FMB before it can become a Borrowing Member of the Authority. A Financial Performance Certificate will only be issued after the FMB reviews a First Nation's financial condition to determine if it complies, in all material respects, with the FMB's standards. These standards are comprised of seven financial ratios that are applied to the First Nation's past five years of audited financial statements. The standards are intended to measure financial capacity or risk of overall structural deficit; ability to meet short-term operating obligations; ability to generate sufficient annual cash flows to maintain operations; ability to maintain a sustainable level of capital investment; debt burden and overall insolvency; ability to manage and execute budgets; and, the efficiency and stability in collecting property taxes.

Financial Ratios

FMB examines the First Nation's past five years of audited financial statements to assess the following 7 financial ratios:

1. Fiscal Growth Ratio (if a decline greater than 5% occurs, then test failed)
2. Liquidity Test (if a decline greater than 10% occurs, then test failed)
3. Core Surplus Test (weighted average EBITDA must exceed 5% of current revenues)
4. Asset Maintenance (maintenance / replacement must exceed depreciation)
5. Net Debt Ratio (EBITDA is equal to or exceeds 1.5 times interest expenses)
6. Budget Performance (actual expenses cannot exceed budget more than 15%)
7. Property Tax Collection Rate (prior 5 year average collection rate must exceed 95%)

A First Nation must also obtain a Financial Management Systems Certificate within 36 months of receiving financing from the Authority (other than interim financing). Also, the Authority will require such a First Nation to obtain a Financial Management Systems Certificate prior to providing any loans subsequent to the loans contemplated by that First Nation's initial borrowing law. A Financial Management Systems Certificate is more encompassing than a Financial Performance Certificate and will only be issued after the FMB reviews a First Nation's financial management system to ensure it is operational and complies, in all material respects, with the FMB's standards. These standards are intended to establish sound financial practices for the operation, management, reporting and control of the financial management system of a First Nation.

Claims to and collection of financial cash flows to service the FNFA's debt is assured by several legal and structural protections.

Direction to Pay | Intercept

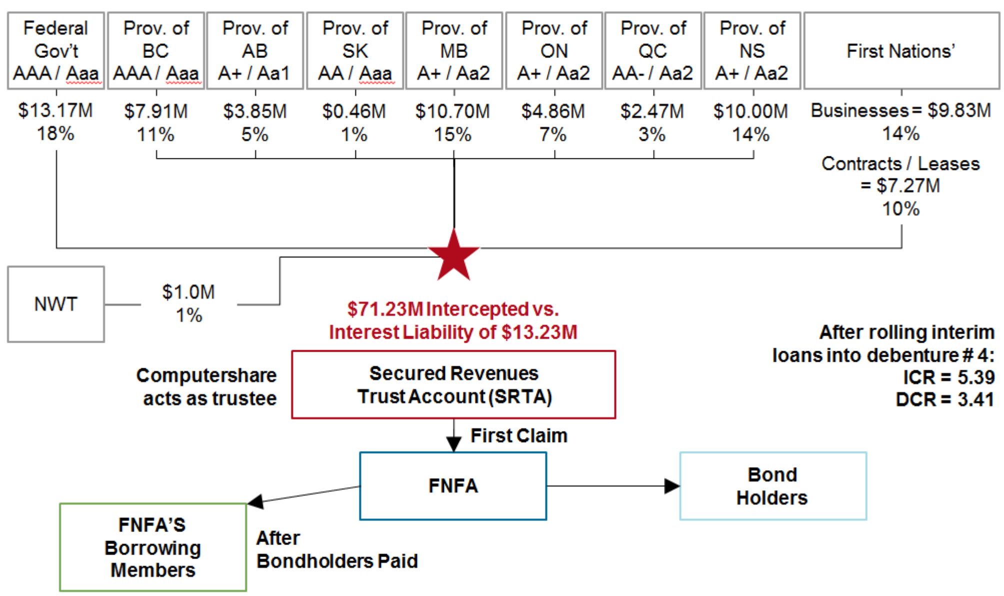
The Authority uses a mechanism to intercept revenue streams ('Other Revenues') that secure a Borrowing Member's loan payments. As required by the Legislation, each Borrowing Member irrevocably instructs third parties paying Other Revenues that secure a loan to pay those revenues, either directly or by an intermediate account, into a trust account (a 'Secured Revenues Trust Account') maintained by Computershare Trust Company of Canada (the 'SRTA Manager') throughout the period of the loan. Under the terms of the Secured Revenues Trust Account, only the Authority (and not the applicable Borrowing Member) is entitled to instruct the SRTA Manager on the allocation and payment out of amounts from the Secured Revenues Trust Account and all payments to the Authority from the Secured Revenues Trust Account are made by the SRTA Manager. This ensures that amounts due to the Authority, including any amounts required to replenish the Debt Reserve Funds, are paid before any remaining amounts are paid to the Borrowing Member.

Intercepted Revenues Supporting FNFA Loans

FNFA Membership = 43 Borrowers

(Accessible Revenues = $508.6 Million under Joint & Several)

Revenues Intercepted



Source: S&P and Moody's ratings.

Where the Other Revenues comes from a contract or an agreement, generally, the full amount of the Other Revenues is paid into the Secured Revenues Trust Account. Where the Other Revenues is from a Borrowing Member's owned business, the amount collected into the Secured Revenues Trust Account is greater than that needed to fulfill loan payments. The Authority ensures the Secured Revenues Trust Account collections are equal to or greater than a debt coverage ratio. Each revenue stream is evaluated upon criteria such as payor risk, duration of stream, stability, etc. and has a debt coverage ratio applied to it.

Revenue Sharing by Province

Province	Type of Revenue Shared
BC	Forest Tenure Agreements, Added Value Rebate Tax, BC Hydro-IPPs, Mineral Specific Resource Revenue Sharing Policy, Gaming (Host)
AB	Added Value Tax Rebate, Fuel Tax Rebate, Gaming
MB	Added Value Tax Rebate, Fuel Tax Rebate, Gaming
NB	Forestry Stumpage, Fuel Tax Rebate, Added Value Tax, Gaming
NS	Added Value Tax Rebate, Gaming
ON	Mineral Specific Resource Revenue Sharing Policy, Gaming (OFNLP)
QC	Mineral Specific Resource Revenue Sharing Policy, Hydro Revenues, Added Value and Fuel Tax
SK	Fuel and Added Value Rebate Tax, Gaming
Canada	FNGST / FN Sales Tax (opt-in only), FN Personal Income Tax (Self-Government Agreement only)

Source: FNFA.

Priority of Claims

In the event that a Borrowing Member becomes insolvent, the Legislation (section 78) provides that the Authority has priority over all other creditors of the Borrowing Member (other than the Crown) for any amounts payable by the Borrowing Member to the Authority in connection with a loan secured by Other Revenues (as authorized under an agreement governing a Secured Revenues Trust Account) or under the Legislation.

The Authority does not rely on provincial Personal Property Security Act ('PPSA') legislation to perfect its security. To prevent inconsistent priorities, PPSA legislation generally excludes from its application security given by another enactment. Moreover, the Indian Act (section 88) provides that provincial laws of general application (such as PPSA legislation) are not applicable to or in respect of Indians to the extent that those laws are inconsistent with the Legislation.

Sinking Fund

The Authority is required by the Legislation to maintain a Sinking Fund to fulfill its repayment obligations for each bond issue. All principal repayments by Borrowing Members on loans from the Authority financed with proceeds of bonds are placed in a Sinking Fund for such bonds.

Debt Reserve Fund

The Authority is required by the Legislation, in connection with providing loans to Borrowing Members, to establish Debt Reserve Funds. The Authority is required to withhold between 1% and 5% (the Authority currently withholds 5%) of the amount of any loan. Other Revenues and loans are deposited into the Other Revenues Debt Reserve Fund; loans supported by property tax are deposited into the Property Tax Debt Reserve Fund. If at any time the Authority has insufficient funds from Borrowing Members that have received financing secured by Other Revenues to make payments to bondholders, including Sinking Fund contributions, such payments are to be made from the Other Revenues Debt Reserve Fund; the same rule applies to loans supported by property tax.

If payments from either Debt Reserve Fund reduce its balance by 50% or more of the total amount contributed by Borrowing Members, then the Legislation provides that the Authority must (and may where the balance is reduced by less than 50%) require all Borrowing Members who contributed to the Other Revenues Debt Reserve Fund to pay amounts sufficient to replenish that fund; and all Borrowing Members who contributed to the Property Tax Debt Reserve Fund to pay amounts sufficient to replenish that fund. As a consequence of this replenishment mechanism, Borrowing Members that have received financing secured by

Other Revenues (or Property Tax) are potentially liable for, and support the debt obligations of any defaulting Borrowing Members that have received financing secured by Other Revenues (or Property Tax). Amounts due to the Authority to replenish the Other Revenues Debt Reserve Fund may be drawn from the Secured Reserve Trust Account of a Borrowing Member, which collects an amount above what is required to service regular debt payments.

Credit Enhancement Fund

In accordance with the Legislation, the Authority has established a Credit Enhancement Fund of $10mln to support the Debt Reserve Funds in making payments to bondholders. This fund may be used by the Authority to temporarily off-set any shortfalls in either Debt Reserve Funds. On March 22, 2016, the Government of Canada, as part of its 2016 budget, announced that it proposes to provide $20mln over two years, beginning in the Government of Canada's 2016 – 2017 fiscal year, to strengthen the Authority's capital base. The full $20mln was received by April 4, 2017.

Investment Authority

The Legislation provides that amounts in Sinking Funds, Debt Service Reserve Funds and the Credit Enhancement Fund can only be invested in certain eligible investments. The Authority may only invest in: (a) securities issued or guaranteed by Canada or a province; (b) investments guaranteed by a bank, trust company or credit union; and (c) deposits in a bank or trust company, or non-equity or membership shares in a credit union. With respect to Sinking Funds, the Authority may also invest in (a) securities of a local, municipal or regional government in Canada and (b) securities of the Authority or a municipal finance authority established by a province, if the day on which they mature is not less than the day on which the security for which the sinking fund is established matures.

The Authority has adopted a formal Investment Policy not to invest funds in a Sinking Fund for deposits in a trust company or non-equity or membership shares in a credit union.

The Investment Policy has incorporated the following constraints:

- Sinking Fund investments should attempt to preserve capital and approximately match the debenture maturity date. However, it is understood that prudent investment management may entail some investments matching the loan term to the Borrowing Members instead of the debenture maturity term where these loan terms are for a longer period than the debenture (i.e. loans that will need to be refinanced over their term).
- DRF investments should attempt to provide sufficient liquidity through cash or cash equivalents to permit the FNFA to meet up to one year of sinking fund and interest payments for all outstanding debentures.

The Investment Policy has established guidelines with respect to credit quality and diversification.

Intervention Mechanism

If a Borrowing Member that has received financing secured by Other Revenues fails to make a payment to the Authority under a borrowing agreement, or fails to pay a charge imposed by the Authority in connection with replenishing a shortfall in the Other Revenues Debt Reserve Fund, the Authority can require the FMB to either impose a 'co-management arrangement' in respect of that Borrowing Member's Other Revenues, or assume 'third-party management' of that Borrowing Member's Other Revenues. If the FMB assumes 'third-party management' of the Borrowing Member's Other Revenues, the FMB has exclusive right to, among other things, act in place of the Council of that Borrowing Member in relation to assets of that Borrowing Member that are generating Other Revenues.

In the case of loans secured by property tax, intervention by FMB would also be under co-management or third-party management. If FMB assumes third-party management, the FMB would exercise jurisdiction over the property tax regime and system.

In four years of FNFA loans, no third-party management or co-management arrangement has ever been initiated as a result of a Borrowing Member failing to make payments to the FNFA. It is highly unlikely in the future for any of FNFA's clients since revenue streams are irrevocably intercepted for the full loan term from the payor source prior to loan release and the majority of these loans are payments from provincial governments or crowns. Hence, a failure in the intercept arrangements or a default of a province (or crown) would be a necessary scenario for this to happen. We highlight Canada's strong AAA rating and the senior ratings enjoyed by Canada's provinces. We also point out that FNFA does not have any single revenue stream clients. However, we also point out that FNFA does not have a legal limit on what percentage of its revenues could come from non-government sources.

In a revenue intercept scenario, FNFA staff would immediately contact the payor for an understanding. If the payor still refused to pay into the revenue intercept account with the SRTA manager, then a court action would be started.

The Financial Management Board, under the Legislation, has full authority to become the manager / treasurer over all of a Borrowing Member's Other Revenues, including Other Revenues that currently do not secure loans by the FNFA. The FMB can use that authority to ensure amounts due to the FNFA are repaid. The FMB's authority is under the Legislation, rather than contractual, which makes enforceability very strong. FMB staff do not do this intervention. FMB has an agreement with a national accounting firm that is an experienced intervenor to handle this function.

Recent Changes to the FNFMA

Legislative and regulatory amendments to the FNFMA came into force on April 1, 2016 stemming from recommendations and consultations with the FNFA, FMB and FNTC to improve the regime's overall framework. The changes are expected to have a positive impact on facilitating entry of more First Nations, accelerating bond issuance and strengthening investor confidence.

Notable enhancements include:

- Allowing payments in lieu of taxation through a new fiscal power to collect fees for water, sewer, waste management, animal control, recreation, transportation and other similar services.
- Giving First Nations the power to recover costs of enforcement, including the costs for seizure and sale of taxable property.
- First Nations' Financial administration laws must meet higher requirements set by the Financial Management Board (FMB) on an ongoing basis and these laws cannot be repealed unless they are replaced by laws approved by the FMB.
- Tougher requirements on management of local revenues including their maintenance in separate accounts from all other First Nations moneys as well as separate financial reporting and auditing requirements, unless permitted by FMB to include as part of audited annual financial statements.
- Clarification of the separation and distinction of Debt Service Reserve Funds (DRF) for loans secured by property tax revenues and loans secured by other revenues. The FNFA has been given flexibility to withhold between 1 – 5% of the loan amount, depending on the circumstances and in accordance with regulations. Initially, the withheld rate was set at 5%, at a higher threshold than observed in municipal borrowing practices. Some flexibility was granted with this change, but the Authority's practices are expected to remain unchanged. Clarification was also given that only Borrowing Members who have received financing can be called on to contribute to or replenish a DRF and only the DRF for their borrowing stream. There are two streams, one for Property Taxation and the other for Other Revenues. In each stream, however, Borrowing Member obligations to replenish are joint and several. Enhancement to the Act also established that the FNFA's priority over other creditors of a First Nation in the event of an insolvency arises from the date the borrowing member has received financing from the FNFA, thus strengthening its priority.
- The ability to invest sinking fund proceeds in FNFA bonds to reduce net funding costs, although, from a ratings perspective, this does not reduce the total amount of outstanding debt. The increased flexibility will also allow FNFA to manage its bonds in the secondary markets.
- Introducing a mechanism for repayment to the Credit Enhancement Fund (CEF), within 18 months, where the CEF has been used to replenish a DRF.

Credit Underwriting Process and Experience

The credit history of lending to First Nations through the First Nations Finance Authority is short as it only came into existence in 2006. More history can be found in the bank lending sector of making loans on First Nations reserves. There has not been a recorded loan default by a First Nation since at least 1970. There have been only a few known cases in the past where there was difficulty in collecting but, in those cases, either the financial institution failed to follow its own normal lending criteria or failed to properly contractually secure its position including the 'Redirection to Pay'. Banking lenders have often noted strong moral suasion and moral obligation to fulfill loan repayment requirements due to the closeness of First Nations Communities and a sense of duty and honour. We highlight that FNFA's experience to date shows a meaningful percentage of First Nations making payments ahead of schedule. In FNFA's 2016 Annual Report, the level of prepayments is shown at $5.8mln, almost a full year's interest payment ahead.

The financial strength and economic potential of First Nations communities continues to evolve in a constructive manner as evidenced by the number of First Nations that are participating in the First Nations Fiscal Management Act (FNFMA) and the growth in their own-source revenue. A total of 13 First Nations opted to participate in the FNFMA shortly after it came into force in April 2006 (i.e. original members). Today, there are 228 First Nations scheduled versus 634 First Nations across Canada.

Robust Framework Ensures No "Over-Borrowing"

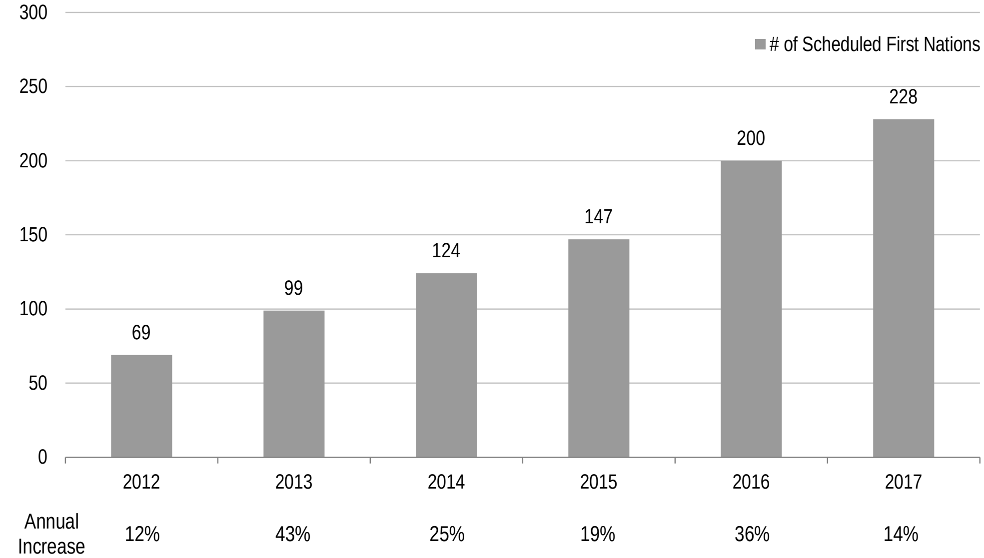
It is estimated by Dr. Dominique Collin of Waterstone Strategies that own-source revenues accounted for about one-third of total revenues of participating First Nations combined, or $2.6bln, in Fiscal 2014 – 15. This is up from about 16% 10 years ago.

FNFA's mandate allows First Nations to access 'Long-Term Loans' or financing that is supported by two types of revenue streams: property taxation revenues and other revenues. It also offers 'Interim Financing Loans' to cover costs during construction or bridge financing until FNFA issues its next debenture. **FNFA has issued only one loan which falls under the property taxation revenue stream for under $2mln, although the legislation was originally contemplated for this type of borrowing.**

Long-term financing or lease financing of capital assets is made for the provision of local services on reserve bands. Short-term financing for operating or capital purposes is made either in accordance with the stated purposes of paragraph 5 (1) (b) of the FNFMA which relates to spending supported by Property Tax Revenues or to refinance short-term debt incurred for capital purposes. The Other Revenues Regulation outlines spending purposes for Other Revenues (i.e. infrastructure, social and economic, land purchases, etc.).

FNFA's ratings are constrained to the upside by a lack of diversity in size, credit quality and geographic diversification of its loan portfolio. Rating agencies have taken a cautious approach to rating the FNFA given its short operating history, early periods of operating losses, rapid loan growth and loan concentration issues; but these overall characteristics are expected to strengthen over time as FNFA continues to grow and expand across Canada. **FNFA projects its loan portfolio to grow from about $395mln today to over $1.4bln by 2022 (Loan Growth: 2018 projected to $451mln; 2019 $586mln; 2020 $775mln; 2021 $955mln; 2022 $1.423bln).**

Annual Increase in FNFMA Scheduled First Nations



Of the 634 First Nations across Canada, greater than 1/3 have joined FNFA's Act with the intent to borrow and improve their communities.

Minimum Board Policy	Actual Coverage Ratio
DCR 1.55x	3.41 times
ICR 2.75x	5.39 times

As a matter of practice to ensure adequate diversification and to support its strong credit ratings, the FNFA has reduced its individual loan exposures with the goal of keeping concentrations below 20%. In 2014, Membertou (largest borrower) was 24.59% of the loan pool. In September 2017, it was down to less than 10%.

FNFA aspires to stronger geographical distribution as currently its members are located in only eight provinces and 1 territory. FNFA Board Policy for minimum Debt Coverage Ratio ('DCR') of its individual Borrowing Member loans is set to at least 1.55 times, but its members are operating at much higher thresholds. The Board's minimum Interest Coverage Ratio ('ICR'), based upon the current various revenue streams that aggregate to support the borrowing members' loans outstanding, is set at 2.75 times. While Borrowing Members must meet stringent requirements to participate in the program already, the Authority limits their borrowing to 75% of their calculated borrowing capacity (75% Rule). Should a member want their loan amount to exceed 75%, the FNFA staff conducts a further review of financial information / revenue stream documents before granting such loan privileges.

Borrowing Member loans are all in Canadian dollars and are amortizing, but have loan terms that expire ahead of full amortization and therefore must be refinanced. FNFA's borrowings are done in Canadian dollars, hence there is no foreign exchange risk assumed.

With respect to the amortization of client loans and refinancing risk, 90% of client loans have repayment terms that extend beyond FNFA's debenture maturity in 2024. These clients are given a choice to lock-in rates with an interest rate swap for their full loan term, but only one has selected this option since Supreme Court decisions in respect of First Nations entitlements have caused revenues to grow much faster than the national average of revenue growth for First Nations (up 2.5 times since 2005) and, therefore, First Nations generally want the option to fully payout their loans in 2024. Of those First Nations that do not payout the loan and need to refinance, because FNFA operates under a sinking-fund approach with debt service collected to include principal along with interest, any amounts refinanced would approximate 50% of the original balance. Thus, interest rates would have to double to maintain the same annual interest commitments for FNFA's clients.

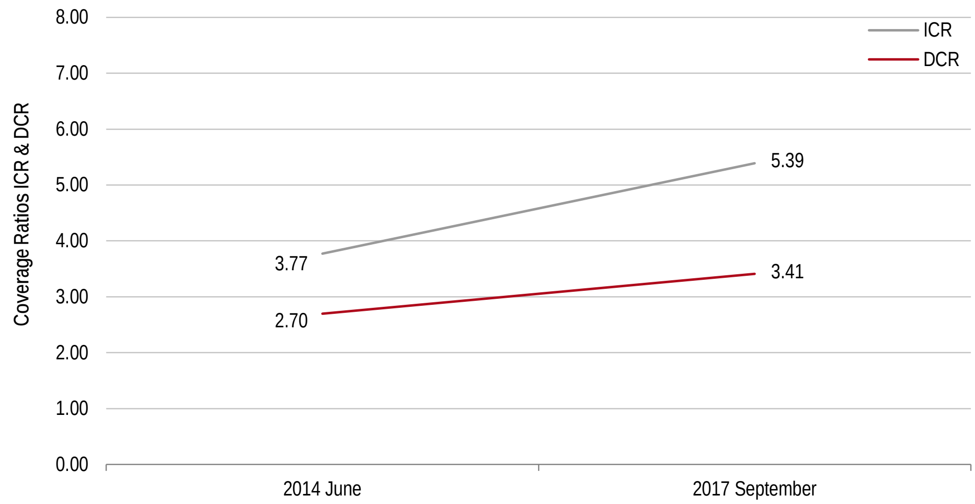
Currently, the majority of FNFA's intercepted revenues are from federal and provincial grants or revenue sharing arrangements, accounting for approximately 76% of total intercepted revenues. Although there are some risks associated with respect the cyclicality of these revenue streams or other credit factors, in general, these are well secured. As it concerns FNFA's other intercepted revenue streams (i.e. non-government related business type revenues), normal credit risk factors apply. Business revenues include lease contracts from owned buildings that are anchored by strong national tenants and gaming businesses. The only existing pipeline and utility related revenues are associated with BC Hydro, Hydro Quebec and Hydro One which are provincial crowns.

In Fiscal 2016 – 2017, the FNFA's intercepted revenues had an Interest Coverage Ratio ('ICR') of 5.42 times (i.e. revenues intercepted were 5.4 times greater than the debenture's interest liability). Approximately 76% of revenues were from federal / provincial revenue sharing agreements; the balance came from contractual revenues, lease agreements and established Band businesses.

Anticipated Interest Rate Coverage Ratio ('IRC') and Debt coverage Ratio ('DCR') after Debenture #4

Anticipated ICR & DCR after Debenture #4

FNFA intercepts from the Payor the full revenue streams supporting loans to its members; 76% are from the Federal Government and the Provinces.



Source: FNFA.

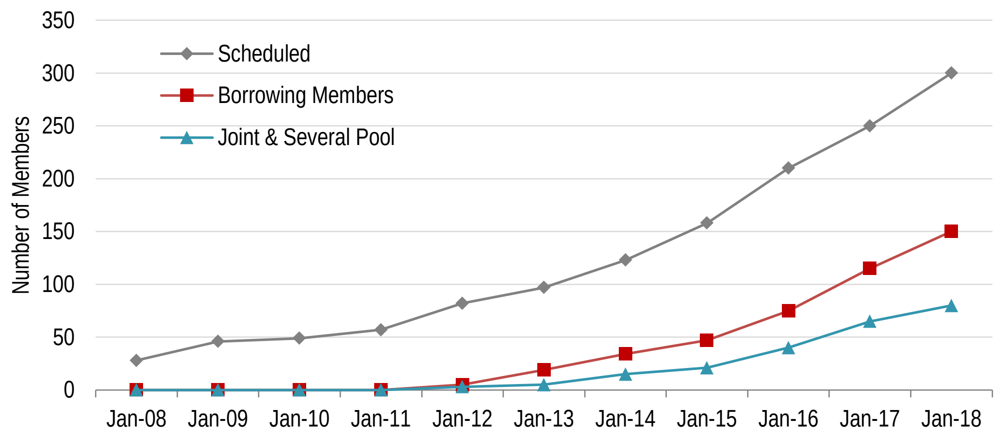
FNFA's lending program is projected to grow strongly in the years ahead.

Debt Coverage Ratios (Other Revenues)

Debt Coverage by Revenue Type	Minimum Ratios set by FNFA`s Board	Revenues per Loan Service	Safety Margin per Revenue Stream
Federal or Provincial Transfer	1.23	$1.23 / $1.00	23%
Municipal Transfer	1.30	$1.30 / $1.00	30%
Independent Power Projects	1.25	$1.25 / $1.00	25%
Provincial Gaming Revenues	1.60	$1.60 / $1.00	60%
Land Benefit Agreements	1.23 --2.25*	$123 / $1.00 $225 / $1.00	23% 125%
Contracts & Leases	1.75	$1.75 / $1.00	75%
Band Business	1.75	$1.75 / $1.00	75%

*The DCR applied to “Land Benefit Agreements” can be with the local Province (DCR=1.23) or a private sector proponent (DCR=2.25)

FNFA Borrowing Members, Future Projections



Source:FNFA.

Financial Reporting and Transparency

Canada's accounting architecture is founded on the work of several independent, volunteer bodies to establish authoritative standards of recommended or required practice. These bodies include the Public Sector Accounting Board (PSAB). PSAB issues standards and guidance with respect to matters of accounting (Public Sector Accounting Standards – PSAS), as well as financial reporting recommendations of good practice (Statements of Recommended Practice – SORPs). Their work is to serve the public interest by strengthening accountability in the public sector. The public sector refers to governments, government components, government organizations, and government partnerships. While compliance with PSASs is voluntary by the sovereign (Federal Government of Canada) and sub-sovereigns (Provinces), adherence to the PSAB requirements is generally legally required at the municipal level under various municipal acts. **As it pertains to First Nations and their right to self-govern, reporting and transparency is voluntary by opting to participate under the First Nations Transparency Act and report under PSAB.**

Successful monitoring of participating First Nations by the First Nations Finance Authority is dependent on access to financial information. FNFA accesses financial information directly from the First Nation Borrowing Members and from the First Nations Transparency Act. The First Nations Transparency Act requires that each First Nation to which the Act applies publish on its Internet site, or cause to be published on an Internet site, the following documents within 120 days after the end of each financial year:

- Its audited consolidated financial statements
- The Schedule of Remuneration and Expenses
- The auditor's written report respecting the consolidated financial statements; and
- The auditor's report or the review engagement report, as the case may be, respecting the Schedule of Remuneration and Expenses

These documents must remain accessible to the public on an internet website, for at least 10 years.

The Act further states that the Minister of Aboriginal Affairs and Northern Development must publish these same documents on the departmental website "without delay after the First Nation has provided him or her with those documents or they have been published."

First Nations do not have interim reporting requirements. INAC is currently looking at feedback received from a focused engagement with First Nations to a new approach to mutual transparency and accountability.

With respect to the First Nations Finance Authority, it has to file an annual report before July 31 of each year, within 120 days after year end (Section 88 of the Act). There are no interim reporting requirements, but management is actively engaged in providing investors with regular updates.

First Nations Finance Authority

Statement of Financial Position ($)

As at March 31	2017	2016
Financial Assets		
Cash and cash equivalents	4,815,732	2,165,305
Accounts receivable	25,000	0
Debt Reserve Funds investments	16,267,238	12,543,690
Sinking Funds investments	10,720,144	2,129,624
Loans to members	308,569,191	246,022,335
Restricted cash and cash equivalents	7,491,379	6,169,524
	347,888,684	269,030,478
Liabilities		
Accounts payable and accrued liabilities	198,656	282,579
Accrued interest payable	2,243,531	1,215,346
Deferred contributions	330,652	0
Principal and interest payments received in advance	7,167,344	5,845,489
Due to members	16,267,238	12,543,690
Interim financing	64,977,997	109,840,118
Debenture financing		
Principal	251,000,000	140,000,000
Unamortized premium (discount)	8,084,941	2,154,567
Unamortized debenture issuance costs	(3,596,670)	(3,462,652)
	346,673,689	268,419,137
Net Financial Assets	1,214,995	611,341
Non-Financial Assets		
Credit Enhancement Fund assets	20,000,000	10,000,000
Tangible capital assets	37,830	33,870
Prepaid expenses	280,800	267,143
	20,318,630	10,301,013
Accumulated Surplus		
Accumulated surplus	21,790,389	10,912,354
Accumulated remeasurement loss	(256,764)	0
	21,533,625	10,912,354

Source: FNFA Financial Statements.

Statement of Operations and Accumulated Surplus ($)

Year ended March 31	2017 Budget	2017	2016
Revenue			
Grants and contributions	3,149,268	2,878,968	2,227,975
Interest from members	9,392,075	8,773,199	6,279,163
Debenture issuance premium amortization	650,000	1,042,140	206,333
Investment income	365,000	474,107	409,233
Management fees	69,331	138,344	84,220
	13,625,674	13,306,758	9,206,924
Expenses			
Interest on financing	8,944,833	8,868,146	5,863,938
Debenture issuance discount amortization	50,000	47,224	46,800
Debenture issuance costs amortization	259,992	476,481	369,744
Interim financing fees amortization	202,779	202,779	33,668
Financing fees	859,268	357,018	256,033
Professional fees	699,088	532,274	491,076
Travel and workshops	432,000	299,318	220,934
Salaries and benefits	1,095,000	997,646	885,190
Operations and management	380,150	381,249	357,385
Investment income due to members	171,341	249,049	81,502
Amortization of tangible capital assets	10,500	17,539	19,759
	13,104,951	12,428,723	8,626,029
Annual surplus	520,723	878,035	580,895
Credit Enhancement Fund contribution	0	10,000,000	0
	520,723	10,878,035	580,895
Accumulated surplus, beginning of year	10,912,354	10,912,354	10,331,459
Accumulated surplus, end of year	11,433,077	21,790,389	10,912,354

Auditors: KPMG LLP

Canada's Political System and First Nations

Canada's political system is a Westminster-style democracy with a federal system of parliamentary government. Canada is a constitutional monarchy in which the Queen or King is recognized as the head of state. Since February 6, 1952, the Canadian monarch has been Queen Elizabeth II, who is represented by the Governor General. The federal system is a union of partially self-governing regions, known as provinces (i.e. sub-sovereigns), under a central (federal) government (i.e. sovereign) where there is a division of power between the Federal Government and the provinces.

Canada has three main levels of government: federal, provincial (and territories), and municipal. The Constitution Act, signed in 1867, defines their respective powers, some of which are shared. While territories and municipalities have their own governments, they are not considered sub-sovereigns as they have no legislative authority to determine their powers and responsibilities. The responsibilities of the three territories are granted to them by the Federal Government while the responsibilities of municipal governments are granted by their respective provincial governments.

Under the constitution, the Federal Government has jurisdiction over: national defence, foreign affairs, employment insurance, banking, federal taxes, the post office, fisheries, shipping, railways, telephones, pipelines, aboriginal lands and rights, and criminal law. The Federal Government re-distributes wealth among the provinces through a system of equalization payments (i.e. extra money) given to provinces that are less wealthy, thus ensuring that the standards of health, education and welfare are the same for every Canadian.

The provinces have powers over: direct taxation, health care, prisons, education, some natural resources, marriage, road regulations, as well as property and civil rights. Power over agriculture and immigration is shared between the federal and provincial governments.

Municipalities are responsible for areas such as libraries, parks, community water systems, local police, roadways, and parking. They are delegated their authority by their provincial governments. Across the country there are also band councils, which govern First Nations communities. These elected councils are similar to municipal councils and make decisions that affect their local communities and operate under a framework of right to self-government or self-determination.

Aboriginal self-government is specifically referred to governments designed, established and administered by Aboriginal peoples under the Canadian Constitution through a process of negotiation and, where applicable, the provincial or territorial government.

History of Canada's First Nations

According to the last census (2011), there were approximately 1.4 million indigenous people living in Canada (status and non-status), representing just over 4% of Canada's 34.3 million population at that time. The indigenous count included 851,000 First Nations, 451,000 Métis, and 59,000 Inuit. A Canadian status indigenous person is a legal term referring to any First Nations individual who is registered with the Federal Government or a band which signed a treaty with the Crown. Many indigenous First Nations Canadians live on reserves, an area of land in which the legal title is held by the Crown, but is set apart for the use and benefit of a First Nations band.

First Nations lived in Canada for thousands of years before the arrival of the Europeans in the eleventh century. These First Nations were able to satisfy their material and spiritual needs through the resources of the natural world surrounding them. Historians tend to group Canada's First Nations into six main geographic areas of the country as it exists today:

- Woodland First Nations, who lived in dense boreal forest in the eastern part of the country
- Iroquoian First Nations, who inhabited the southernmost area, a fertile land suitable for planting corn, beans and squash

- Plains First Nations, who lived on the grasslands of the prairies
- Plateau First Nations, whose geography ranged from semi-desert conditions in the south, to high mountains and dense forest in the north
- Pacific Coast First Nations, who had access to abundant salmon and shellfish and gigantic red cedar trees used for building houses
- First Nations of the Mackenzie and Yukon River Basins, whose harsh environment consisted of dark forests, barren lands, and the swampy terrain known as muskeg

Within each of these six areas, First Nations had very similar cultures, largely shaped by a common environment. They tended to function on the basis of a complex system of government based on democratic principles.

Today, the relationship between First Nations and the government is based on a broad collection of treaties covering pre-confederation, peace, and friendship treaties, as well as post-confederation or numbered treaties. In more recent history, there are also 'Modern Treaties', with the first one historically documented in the mid-1970s. Modern treaties have been entered into to satisfy comprehensive or specific land claim rights of Aboriginals that were not addressed by previous treaties, or by other legal means.

Aboriginal peoples, under the treaties, are recognized as the descendants of the original inhabitants of North America. The Canadian Constitution recognizes three groups of Aboriginal people with unique heritages, languages, cultural practices and spiritual beliefs. These are the Indians, Métis and Inuit. The term 'First Nation' came into usage in the 1970s and is widely used today to replace the word 'Indian' or 'band', although it is not a term that is legally recognized.

An historic Canadian settlement in the right to self-government was achieved in 2006, after 16 years of legal negotiations challenging the authority of the Federal Government. The agreement resulted in the transfer of $350mln in energy royalties to the Samson Cree. The money was placed in an independent trust fund ('Kisoniyaminaw Heritage Trust'). It was the first time an Indian group was successful in seizing its own moneys and setting up a trust to which it had power of trustee and control of its own assets. The settlement also saw the removal of the Federal Government as trustee of all energy royalties for the Samson Cree and Ermineskin, two bands located on the Hobbena reserve in central Alberta.

"Control of our heritage trust moneys is a major step forward for the present and future generations of Samson Cree Nation members, and an important recognition of our Treaty 6 rights," said Chief Victor Buffalo.

Additional Sources

- Government of Canada, FNFMA Act
- FNFA website
- Indigenous and Northern Affairs Canada
- The Canadian Press

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