Investing in Wahkohtowin: Triple Bottom Line Return

Request / Wahkohtowin Development GP Inc. is seeking a share secured loan to allow it to pay off short term bridge financing used to invest in Hornepayne Lumber LP (sawmill) and Hornepayne Power Inc, the associated Co-Gen Facility. This impact investment provides a triple bottom line return yielding a modest financial return and high value impact return by enabling First Nations’ ownership in value added processing of adjacent resources. It will allow First Nations and local communities to have a voice in creating and retaining jobs for residents while ensuring sustainable forest management of the Magpie and Martel Forests.

Background / The Northeast Superior Regional Chiefs’ Forum (NSRCF) was created in 2008 to raise the profile and increase the decision-making authority of the six First Nations that have a shared territorial interest in the Chapleau Crown Game Preserve and surrounding Sustainable Forest Licences. The First Nations members of the NSRCF include Chapleau Cree, Brunswick House, and Missanabie Cree. Wahkohtowin Development GP Inc. is the action and strategic planning body of the NSRCF, advancing member First Nations’ interests in economic development, employment, training, and partnerships. Chapleau Cree, Brunswick House, and Missanabie Cree First Nations are members of Wahkohtowin Development GPI, though this opportunity is being extended to others in the region.
Directly participating in this investment opportunity:
- Chapleau Cree First Nation
- Brunswick House First Nation
- Missanabie Cree First Nation
- Pic Mobert First Nation

Indirectly participating are:
- Michipicoten First Nation (to be determined)
- Constance Lake First Nation
- Hornepayne Aboriginal Community
- Ginnogaming First Nation
- Pic River First Nation

In 1925, all First Nation communities were physically removed to create the Chapleau Crown Game Preserve, and their economic and cultural activities on the land were prohibited. Nearly a century later, they are reclaiming their stewardship and decision making authority and furthering reconciliation. In 2011, the NSRFC advanced its leadership role by initiating a process to come to a consensus vision for the region. They began searching for an alternative economic model to help build a conservation based economy that provided jobs and allowed people to be better stewards of the land, air and water. This was in line with the culture and history of the Indigenous people of the area.

The shared vision that resulted led the NSRFC to create Wahkohtowin Development GP Inc. in April 2016, to create jobs and build local Indigenous ownership in the region.

The Challenge /

For over 100 years forestry has been a strong pillar of the regional economy providing jobs and bringing money into the local economy from the sale of wood harvested from the forests. Municipalities are typically 100 percent reliant on sawmill and forest operations as economic mainstays, but historically there has been little to no participation or benefit going to First Nations.

Changes in the forest sector and the lumber market, combined with fallout from the economic downturn of 2008, caused many of the mills in the region to close. As a result, there has been an exodus of non-aboriginal people from the region as they go elsewhere to find jobs. At the same time, the Indigenous communities that were physically removed from the Chapleau Crown Game Preserve and survived the cultural genocide are moving back or making plans to move back to their home lands and looking to rekindle their relationship to their traditional territory and build livelihoods that support their families. This influx of residents complicates the already unacceptably high unemployment and poverty rates among the current Indigenous residents of the region. The region needs jobs, and First Nation residents need job training, employment, and a voice in building the economy.

Hornepayne is a small town typical of the municipalities in the region. It has benefited from years of strong economic activity resulting from jobs created by the forest sector and a railroad divisional point. With a population of just under 1,000 people it is rich in institutional resources with a small hospital, three elementary schools and a high school. But over the last decades the economic base has eroded. The economic downturn of 2008 resulted in significant job loss and the population has steadily declined since the early 1990s.

Population of Hornepayne 1991-2011
The local sawmill, Hornepayne Lumber, closed in November 2015 when the company filed for bankruptcy. The mill closing meant a direct loss of 150 jobs and a negative economic ripple effect throughout the region. In September 2016, Frank Dottori, founder and past CEO of Tembec, bought the Hornepayne sawmill and an adjacent Co-Gen facility out of bankruptcy with a promise to refurbish the mill and bring back jobs. In early 2017 the mill reopened with one shift of workers and has reached profitability ahead of schedule. The Co-Gen facility has remained open throughout to fulfill the power purchase agreement with the Province. Joint operation with the sawmill allows for the integration of the two units into a competitive business.

The challenge for Wahkohtowin going forward is to ensure that the sawmill provides economic opportunities for First Nation residents and that sustainable forest management practices are used to ensure that the future benefit of adjacent resources is available for generations to come.

**Impact Opportunity /**

Wahkohtowin desires to purchase an ownership stake in Hornepayne Lumber LP and the associated Co-Gen facility. They are seeking impact investors to finance this purchase which is intended to provide short term and long term financial and social returns. The social purpose of this purchase is threefold:

- to create an economic development lever that will catalyze job creation in the region;
- to expand and enhance sustainable forest management practices in the Magpie from the Martel Forests; and
- to give First Nations an ownership stake in value added processing that can amplify their voice in support of economic and environmental benefit for First Nation residents.

The NSRCF is advancing their forest governance agenda through the enhanced Sustainable Forest Licence (eSFL) amalgamation process. The Martel Forest and Magpie Forest overlap a large portion of the Chapleau Crown Game Preserve and NSRCF is seeking a high environmental standard of care. This includes ecologically sustainable harvesting and renewal methods, and full reduction in herbicide use.

Through Wahkohtowin’s ownership in the Hornepayne Lumber LP they will become directly involved in the decisions involving sustainable forest management. The Martel Forest is FSC certified, and there is a commitment to have the Magpie Forest certified to then produce FSC products at the mill. These forests are critical to the role that the Boreal Forest plays in sequestering and absorbing carbon. Through sustainable forest management practices, the value of the ecosystem services of the forest will be enhanced and preserved.

The impact of this first investment by Wahkohtowin cannot be overestimated in its importance in positioning Wahkohtowin as an organization that can lever additional economic development in the region. As an owner of Hornepayne Lumber, Wahkohtowin can ensure that the sawmill hires and trains Indigenous workers and maintains high environmental standards including sourcing and milling Forest Stewardship Council (FSC) certified lumber. This voice as a shareholder with a significant ownership stake advances reconciliation and builds true participation in the economy.

Currently, Wahkohtowin has a partnership with Workforce to build a database of skills and work experience of local First Nations. This database will be used to train to employment and entrepreneurial opportunities. It will also allow Wahkohtowin to assist in building the pipeline of new workers for the mill and the Co-Gen facility.
**Investment Opportunity /**

To enable its purchase of shares in Hornepayne Limited Partnership that owns Hornepayne Lumber Inc. (the sawmill) and Hornepayne Power Inc. (the Co-Gen), Wahkohtowin needs to raise $1 – 3 million from Impact Investors. Each investment will be structured as a loan guarantee.

**Financial Return /**

The mill restarted in January 2017 with one shift of workers and is planning to increase production with a second shift starting in August. All scenarios in the Hornepayne Business Plan project a 6 month ramp up period. The best case scenario projects earnings before interest, tax, depreciation and amortization (EBITDA) for Year 1 at $5.3 million.

After 6 months of operation, financial performance has been better than projected. During that time, profitability has been somewhat impacted by the U.S. softwood tariff and the rise in value of the Canadian dollar. However, despite these issues the mill is profitable and continuing to build non U.S. markets. Management is preparing alternative scenarios in the event that tariffs of Canadian dollar fluctuations begin to hurt profitability.

The business plan and current financial statements are available upon request.

**Social Benefit /**

1) Sustainable forest management practices that will ensure that the Magpie and Martel Forests will regenerate for generations to come.

2) Living wage jobs across all vocations in the forest sector for people living in the region.

3) First Nations’ ownership of major economic assets in the region to enable advancement of a conservation economy.

4) Creation of an economic development fund at $1 per cubic meter harvested by First Nations-led forest operations that will further catalyze economic activity.

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Wahkohtowin is the action and strategic planning body of the North East Superior Chiefs’ Forum, tasked with implementing the conservation economy, advancing member First Nations’ interests in economic development, employment, and training, and building partnerships. It was formed to carry forward the work of the Northeast Superior Regional Chiefs’ Forum in a non-political arena, and is owned by its member communities.

Ecotrust Canada is a federally registered charity working at the community level to create and demonstrate unconventional solutions that get to the roots of today’s economic and social challenges. We find ways for communities, economies, and environments to thrive together, not apart. Working at the intersection of industry, conservation and community economic development, Ecotrust Canada promotes innovation and provides services for communities, First Nations and enterprises to green and grow their local economies. In all of our work, we aim to build the capacity of communities, institutions and businesses.