

## 2013 LP Investor Update - September 2014

### Overview

The investment objective of the Solar Flow-Through 2013-I Limited Partnership (2013 LP) is to develop and operate solar power generation projects in the Province of Ontario in a manner that provides for income tax deductions to investors during the start-up, development and construction phases, and steady income upon commencement of commercial operations. The 2013 LP has a targeted income distribution of 8% per annum. The 2013 LP raised \$10,000,000 (2013 Proceeds) in October 2013.

### Tax

The 2013 LP did a renunciation for Canadian Renewable Conservation Expenses (CRCE) for all of the 2013 Proceeds prior to 2013 year end. T5013A tax receipts were issued to all unitholders for the full amount of their investment for the 2013 tax year. Audits and tax returns have been completed for the 2013 LP for the year 2013. At this time, no issues regarding the tax deductions for the 2012 LP have been identified by unitholders, auditors or CRA.

### Use of Funds

From the 2013 Proceeds, \$750,000 was to be incurred on fully deductible partnership expenses. All of the \$750,000 was incurred on fully deductible partnership expenses during Q4 2013.

The remaining \$9,250,000 of the 2013 Proceeds was to be incurred on CRCE (CRCE Proceeds). It was anticipated that the CRCE Proceeds would be incurred in the following manner.

- The development of the FIT 2 projects originally secured by the Solar Flow-Through 2012-I Limited Partnership (2012 LP),
- To secure leases and develop projects for application submission for contracts under FIT 3,
- The development of projects that received FIT 3 contracts, and
- To secure leases and develop projects for application submission for contracts under FIT 4.

Approximately \$5,836,000 of the CRCE proceeds have been incurred to date. It is anticipated that the remaining \$3,414,000 of CRCE proceeds will be incurred on the following by the end of the current year.

- Remaining development of FIT 2 projects,
- Securing economic interest in FIT 3 projects held by other solar developers, and
- Securing leases and developing projects for application submission for contracts under FIT 4.

### FIT 2 Project Development

In 2013, FIT 2 contracts for projects were secured by Solar Flow-Through 2012-I Limited Partnership (2012 LP) along with 2012 LP's development partners. 2013 LP has funded the development of these FIT 2 projects for the purpose of securing an ongoing economic interest in the projects.

In addition to the economic interest held by the 2012 LP and the 2013 LP in the FIT 2 projects, there are economic interests held in these projects by First Nations and a solar developer. A First Nation has a 15% economic interest in each of the projects. In the case of only three projects,

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there is one solar developer with a 38% interest. In all the FIT 2 projects, the remaining interest is divided between the 2012 LP and the 2013 LP. The distributable cash flows resulting from the projects will be distributed to each party proportionate to their economic interest.

We have received nearly all of the rooftop assessments, engineering, designs, and approvals required from the OPA and local hydro companies to commence construction of the FIT 2 projects. This process took three to six months longer than anticipated. As a result, construction on projects which was originally anticipated to begin towards the end of Q2 2014 is now expected to begin in Q4 2014. Initial FIT 2 projects are expected to be operational by the end of the year with all of the FIT 2 projects expected to be operational by the end of Q2 2015.

### **FIT 3 Contracts**

In addition to the FIT 2 projects, the 2013 LP, together with the 2012 LP, applied to the OPA for FIT 3 contracts in Q4 2013. The OPA had indicated that awarding of FIT 3 contracts for these applications would occur in May 2014. The awarding of FIT 3 contracts did not occur until July 30, 2014 with the delay due in part to the Ontario provincial election in June 2014.

The initial OPA allocation of FIT 3 contract awards was for projects totalling up to 123 MW. The 2013 LP was successful in securing only one FIT 3 contract. Reasons for not securing more contracts were as follows:

- large amount of applications with seven Priority Points where the majority of the 2012 LP applications had five Priority Points,
- larger than anticipated amount of applications under the public sector set aside category for contracts where the majority of the 2012 LP applications were submitted, and
- DAT/TAT constraints where there was no longer sufficient capacity for the project at its connection point on the electrical grid.

The 2013 LP, along with the Solar Flow-Through 2014-I Limited Partnership (2014 LP), intends to secure economic interest in projects that were awarded FIT 3 contracts and held by other solar developers. At this time, the 2013 LP is negotiating to secure an economic interest in up to 13 MW AC of FIT 3 projects. The 2014 LP is to raise gross proceeds up to \$10,000,000 and is expected to close in October 2014.

### **FIT 3.5 Applications**

Subsequent to the awarding of FIT 3 contracts on August 29, 2014, there was a ministerial direction from the Ontario Minister of Energy instructing the OPA to extend the FIT 3 contract awards (FIT 3.5) where an additional 100 MW of contracts will be awarded to qualifying FIT 3 applications. Additionally, the OPA was instructed to conduct a review for the purpose of establishing the new tariff rate for FIT 3.5 contracts. Contract awards for FIT 3.5 are expected to occur by the end of this year.

It is anticipated that the 2012 LP, with the 2013 LP, will be awarded a high number of contracts based on its analysis of remaining FIT 3.5 applications. FIT 3.5 contracts awarded are expected to be operational in nine to 15 months from the time of contract award.

### **FIT 4 Applications**

The OPA had originally indicated that the FIT 4 application window for contracts would open in Q3 2014. With the delay in awarding the FIT 3 contracts and the recent introduction of the FIT 3.5 contract awards, the FIT 4 application window will not occur until sometime in 2015.

The 2013 LP has been securing leases with building and landowners for the purpose of submitting FIT 4 applications. In addition to securing leases, other development work on these sites is being performed in order to get them to the point where they can be submitted for applications. Although the FIT 4 application has been delayed into next year, the development

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work that has been undertaken is of value as these applications will be submitted at that time. The delay will allow 2013 LP to secure additional leases and perform additional development so that more applications will be ready for submission.

### Performance

As a project becomes operational, it will produce electricity and generate revenue over the twenty years of the FIT 2 contract. In addition to the FIT 2 projects, it is expected 2013 LP will secure interest in FIT 3, FIT 3.5 and FIT 4 contracts. It is expected that the distributable cash flows to the 2013 LP will be sufficient to meet the targeted income distribution of 8% per annum by the end of 2015. 100% of any distributable cash flows to the 2013 LP in excess of this target distribution will be paid to the unitholders subsequent to each year end.

As all the FIT 2 projects become operational in 2015, it is expected that the distributable cash flows to the 2013 LP from these projects alone will not be sufficient to meet the targeted income distribution of 8% per annum. However, any FIT 3 contracts held by other developers where 2013 LP secures an economic interest should result in greater distributable cash flow to its unitholders. Additionally, any FIT 3.5 contracts awarded to the 2013 LP should result in greater distributable cash flow to its unitholders. Finally, any FIT 4 contracts awarded to the 2014 LP should result in greater distributable cash flow to its unitholders.

The 2013 LP intended that unitholders would earn targeted 8% per annum distributions 13 months after the October 2013 close (i.e. December 2014). Due to the delays in the development of the FIT 2 projects, the results of the FIT3 contract awards, and lack of certainty regarding the timing of the award of FIT 3.5 and FIT 4 contracts, the timing and amount of the distributions to the 2013 LP unitholders is currently being evaluated. The commencement of dividend payments may be delayed slightly and the amount of the dividend payments (originally targeted at 2% per quarter) may be reduced until it is known that there will be sufficient distributable cash flows to meet this target.

### Liquidity

Unitholders in the 2013 LP can anticipate a steady income stream over the next 20 years. Alternatively, the General Partner of the 2013 LP is investigating possible liquidity options for its unitholders if they choose to divest their units. These options include the following:

- a sale of some of the assets (project interest) that would generate available cash to buy back units from unitholders,
- a listing of the 2013 LP on a stock exchange, and
- an outright sale of all the assets or of the 2013 LP.

Acceptance by Limited Partners of any of these liquidity options require the approval of at least two-thirds of the votes cast at a meeting of unitholders held to consider the transaction or, alternatively, by approval in writing by unitholders holding at least two-thirds of the outstanding Units.

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