

**KWADACHA NATION
FINANCIAL STATEMENTS**

March 31, 2014

RHB SCHMITZ de GRACE
Chartered Accountants

KWADACHA NATION
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For the year ended March 31, 2014

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Kwadacha Nation and all the information in this annual report for the year ended March 31, 2014 are the responsibility of management and have been approved by Chief and Council.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The Kwadacha Nation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance the financial information is relevant, reliable and accurate and the Nation's assets are appropriately accounted for and adequately safeguarded.

Chief and Council are responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

Chief and Council review the Nation's financial statements and recommends their approval. Chief and Council meet periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the annual report, the financial statements and the external auditors' report. Chief and Council take this information into consideration when approving the financial statements for issuance to the Members. Chief and Council also consider the engagement of the external auditors.

The financial statements have been audited by RHB Schmitz de Grace, Chartered Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the Nation's members. RHB Schmitz de Grace, Chartered Accountants have full and free access to Chief and Council.

July 28, 2014

Approved on behalf of the Kwadacha Nation

Nenny Van Somer, Chief

Angela Hocken, Councillor

RHB SCHMITZ de GRACE

Chartered Accountants

Partners

- Lynn Ross, CPA, CA
- Norm Hildebrandt, CPA, CA
- Allison Beswick, CPA, CA

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INDEPENDENT AUDITORS' REPORT

To the Members of Kwadacha Nation

We have audited the accompanying financial statements of Kwadacha Nation, which comprise the statement of financial position as at March 31, 2014, and the statements of financial activities and accumulated surplus, change in net financial assets and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

INDEPENDENT AUDITORS' REPORT, continued

Basis for Qualified Opinion

The Nation derives a portion of its revenue from retail sales, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the general ledger.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kwadacha Nation as at March 31, 2014, and the results of its operations, the changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Kwadacha Nation for the year ended March 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements July 26, 2013.



Prince George, BC
July 28, 2014

RHB SCHMITZ de GRACE
Chartered Accountants

KWADACHA NATION
STATEMENT OF FINANCIAL POSITION
March 31, 2014

	<u>2014</u>	<u>2013</u>
FINANCIAL ASSETS		
Cash	\$ 677,131	\$ 703,950
Restricted cash (Note 3)	17,702,892	17,293,070
Accounts receivable (Note 4)	3,042,157	3,341,280
Investment in Government Business Entities (Note 5)	1,104,290	1,055,923
Inventory held for sale	245,114	236,348
Trust funds (Note 15)	<u>108,032</u>	<u>105,365</u>
	<u>22,879,616</u>	<u>\$ 22,735,936</u>
LIABILITIES		
Bank indebtedness (Note 16)	40,000	\$ 65,000
Accounts payable and accrued liabilities	1,967,933	3,373,813
Capital asset reserve (Note 17)	452,793	272,000
Due to Kwadacha Education Society (Note 18)	1,988,660	2,112,628
Long-term debt (Note 19)	5,425,376	5,091,767
Replacement reserve (Note 20)	162,223	197,898
Deferred revenue (Note 21)	<u>1,740,628</u>	<u>1,698,545</u>
	<u>11,777,613</u>	<u>\$ 12,811,651</u>
NET FINANCIAL ASSETS		
	<u>11,102,003</u>	<u>9,924,285</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 22)	29,578,523	28,535,611
Prepaid expenses	<u>20,770</u>	<u>48,097</u>
	<u>29,599,293</u>	<u>28,583,708</u>
ACCUMULATED SURPLUS (Note 23)		
	<u>\$ 40,701,296</u>	<u>\$ 38,507,993</u>
CONTINGENCY (Note 25)		

Approved on behalf of the Kwadacha Nation

Henry Van Somer, Chief

Angela Hocken, Councillor

KWADACHA NATION
STATEMENT OF FINANCIAL ACTIVITIES AND ACCUMULATED SURPLUS
For the year ended March 31, 2014

	2014	2013
REVENUE		
Federal Government:		
Aboriginal Affairs & Northern Development Canada	\$ 7,727,537	\$ 11,905,713
CMHC subsidy	31,943	33,082
Federal Government of Canada	113,702	98,670
Health Canada	1,831,174	3,529,846
Hydro contribution	3,579,378	3,167,856
Other revenue	2,998,688	1,789,842
Province of British Columbia	813,506	780,618
Rent	561,410	548,508
Interest income	527,649	138,102
Kwadacha General Store gross profit	326,096	541,028
Administration fees	242,485	315,559
BC Hydro	119,600	313,375
Trust revenue	35,752	35,654
Northern Health Authority	2,000	-
Donations	-	3,200
Investment loss	(129,699)	(46,647)
	<hr/> \$ 18,781,221	<hr/> \$ 23,154,406

KWADACHA NATION
STATEMENT OF FINANCIAL ACTIVITIES AND ACCUMULATED SURPLUS
For the year ended March 31, 2014

	2014	2013
EXPENSES		
BC Hydro settlement funds	\$ 3,125,748	\$ 2,429,938
Own source	3,092,300	2,202,319
Education and training	3,055,798	3,101,493
Capital	2,572,804	4,289,706
Health and wellness	1,551,068	1,545,864
Operations and maintenance	1,365,619	1,528,662
Administration	1,299,731	1,340,232
Income assistance	541,147	606,773
Trust accounts	<u>22,786</u>	<u>19,569</u>
	<u>16,627,001</u>	<u>17,064,556</u>
RECOVERY	39,083	340,950
EXCESS OF REVENUE OVER EXPENSES	2,193,303	6,430,800
ACCUMULATED SURPLUS AT BEGINNING OF THE YEAR	<u>38,507,993</u>	<u>32,077,193</u>
ACCUMULATED SURPLUS AT END OF THE YEAR	<u>\$ 40,701,296</u>	<u>\$ 38,507,993</u>

RHB SCHMITZ de GRACE
Chartered Accountants

KWADACHA NATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

March 31, 2014

	2014	2013
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 2,193,303</u>	<u>\$ 6,430,800</u>
Tangible capital assets:		
Acquisition	(2,443,097)	(9,932,732)
Amortization	1,400,186	1,193,176
Loss on disposal	-	919,206
Proceeds from disposal	-	56,010
	<u>(1,042,911)</u>	<u>(7,764,340)</u>
Use (acquisition) of prepaid expenses	<u>27,326</u>	<u>(3,133)</u>
Increase (decrease) in net financial assets	<u>1,177,718</u>	<u>(1,336,673)</u>
NET FINANCIAL ASSETS AT BEGINNING OF THE YEAR	<u>9,924,285</u>	<u>11,260,958</u>
NET FINANCIAL ASSETS AT END OF THE YEAR	<u>\$ 11,102,003</u>	<u>\$ 9,924,285</u>

KWADACHA NATION

STATEMENT OF CASH FLOWS

For the year ended March 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 2,193,303	\$ 6,430,800
Items not affecting cash		
Amortization	1,400,186	1,193,176
Loss on disposition of tangible capital assets	-	919,206
	3,593,489	8,543,182
Changes in non-cash working capital items:		
Accounts receivable	299,123	(1,715,974)
Inventory held for sale	(8,766)	(136,293)
Prepaid expenses	27,327	(3,133)
Accounts payable and accrued liabilities	(1,405,880)	1,173,146
Deferred revenue	42,083	24,189
Capital asset reserve, net	180,793	272,000
	2,728,169	8,157,117
FINANCING ACTIVITIES		
Advances from Kwadacha Education Society	(123,968)	314,943
Proceeds from long-term debt	789,073	1,974,661
Repayment of long-term debt	(455,464)	(396,927)
Advances to Kwadacha Natural Resource Agency	-	(98,038)
Advances from (repayment of) bank indebtedness, net	(25,000)	46,739
	184,641	1,841,378
INVESTING ACTIVITIES		
Increase in investments in Government Business Entities	(48,367)	(177,144)
Increase in Ottawa Trust Funds	(2,667)	(3,645)
Purchase of tangible capital assets	(2,443,097)	(9,932,732)
Proceeds on disposal of tangible capital assets	-	56,010
Replacement reserve, net	(35,676)	19,973
	(2,529,807)	(10,037,538)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	383,003	(39,043)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	17,997,020	18,036,063
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 18,380,023	\$ 17,997,020
REPRESENTED BY:		
Cash	\$ 677,131	\$ 703,950
Restricted cash	17,702,892	17,293,070
	\$ 18,380,023	\$ 17,997,020

See notes to the financial statements.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

1. DESCRIPTION OF OPERATIONS

Kwadacha Nation is a self-governed First Nations Band and operates on Tsek'ene traditional territory, located at Fort Ware, BC. Off-reserve aboriginal communities are also located throughout Northern BC with its head office located in Prince George, BC.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These summary financial statements have been prepared in accordance with Canadian generally accepted accounting principles for government entities, as defined in the CICA Public Sector Accounting and Auditing Handbook, which encompasses the following principles:

Fund Accounting

Kwadacha Nation ("the Nation") uses fund accounting procedures which result in a self-balancing set of accounts for each fund established by legal, contractual, or voluntary actions. The various funds have been amalgamated for the purposes of presentation in the consolidated Summary Financial Statements. Detail of the operations of each fund are set out in the supplementary schedules. The First Nation maintains the following funds:

- The Operating Fund which reports the general activities of the Nations administration.
- The Capital Fund which reports the capital assets of the Nation not included in other funds, together with their related activities.
- The Trust Fund which reports on the trust funds of the First Nation and held by third parties.
- The CMHC Housing Fund which reports on activities within the CMHC Housing Program.
- The BC Hydro Settlement Fund which reports on project briefs and settlement monies received from BC Hydro.

Reporting Entity Principles of Financial Reporting

These financial statements report only on the activities of the Kwadacha Nation.

Kwadacha Nation's reporting entity includes the Nation and all related entities which are accountable to the Nation and are either owned or controlled by the Nation.

These financial statements consolidate the assets, liabilities and results of operations for the following entities which lend themselves to consolidation:

1. Operations Fund
2. Capital Fund
3. Trust Fund
4. CMHC Housing Fund
5. BC Hydro Settlement Fund

All inter-entity balances have been eliminated on consolidation, but in order to present the results of operations for each specific fund, transactions amongst funds have not necessarily been eliminated on the individual schedules.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Investments in Government Business Entities

Incorporated business entities, which are wholly-owned by Kwadacha Nation, are accounted for in the financial statements using the modified equity method and include Kaska Energy Corp., 0936269 BC Ltd., Kwadacha Natural Resources GP Ltd., and OBO Forest Management GP Ltd.

Government partnerships, in which Kwadacha Nation has an ownership interest, are accounted for in the financial statements using the modified equity method. These include Kaska Oil and Gas Services Limited Partnership, Kaska Drilling Limited Partnership, Kwadacha Natural Resources Limited Partnership and OBO Forest Management Limited Partnership.

Tangible Capital Assets and Amortization

Tangible capital assets are recorded except for reserve lands, natural resources and cultural resources which are not recorded.

Intangible properties are recorded at cost and due to their nature are not subject to amortization. These properties are reviewed for impairment on an annual basis.

Tangible capital assets are recorded at cost. The Nation provides for using the declining balance methods and straight line method at rates designed to depreciate the cost of the tangible capital assets over their estimated useful lives. The annual rates are as follows:

Automotive	30% Declining balance
CMHC	4% Declining balance
Community buildings	4% Declining balance
Computer equipment	30% Declining balance
Infrastructure	4% Declining balance
New Housing	4% Declining balance
Renovations	10 year Straight line
School	4% Declining balance
Store	4% Declining balance
Store equipment	20% Declining balance
Subdivision	4% Declining balance

Financial Instruments

Measurement of financial instruments

The Nation initially measures its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The Nation subsequently measures all its financial assets and financial liabilities at cost or amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value of these financial instruments are recognized in net income.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Financial assets measured at amortized cost include, cash (restricted and unrestricted), accounts receivable, and trust funds.

The entity has designated investments in Government Business Entities to be measured at fair value.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities, reserves, deferred revenue, due to Kwadacha Education Society and long-term debt.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs

The Nation's transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in net income in the period occurred. The carrying amount of the financial instruments that will not be subsequently measured at fair value is adjusted for transaction costs directly attributable to the origination, issuance or assumption of these instruments.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is measured using the average weighted cost method.

Revenue Recognition

Revenue and expenditures are recorded using the accrual basis of accounting. Revenue is recognized in the period in which the transactions or events occurred that gave rise to the revenue. Gains are recognized when realized. Items not practically measureable until cash is received are accounted for at that time.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from management's best estimates as additional information becomes available in the future.

Recoveries of Funding and Agency Reimbursements

Funding received from federal government sources in the form of conditional transfer payments are subject to recovery by the Crown. The Crown may also reimburse expenditures upon determining adherence to the terms and conditions of payment for a specific purpose. Recoveries and reimbursements are accounted for in the period they are recovered or received.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

3. RESTRICTED CASH

	<u>2014</u>	<u>2013</u>
Funded replacement reserve		
Under the terms of the Nation's Housing Agreement with Canada Mortgage and Housing Corporation (CMHC), a separate replacement reserve account is maintained. The funds in this account may only be used based on criterion as set out by CMHC.	\$ 150,580	\$ 175,766
Victoria Foundation: Endowment Fund Restricted		
Consists of funds held on behalf of Kwadacha in an Endowment Fund created under the Endowment Fund Public Deed of Trust between the Victoria Foundation and the Kwadacha Nation dated November 27, 2009 and the Payment Trustee Agreement among the Victoria Foundation, the Kwadacha Nation, and the British Columbia Hydro and Power Authority dated November 28, 2009.	15,535,714	15,496,120
Victoria Foundation: Trustee Fund Restricted		
Consists of funds dedicated to dispute resolution of issues arising under the terms of the Settlement Negotiation Agreement.	1,549,661	1,618,684
Capital Asset Reserve Fund		
Consists of funds dedicated for future capital asset purchases.	464,437	-
Deposit required by Minister of Finance for gravel pit	<u>2,500</u>	<u>2,500</u>
	<u>\$ 17,702,892</u>	<u>\$17,293,070</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

4. ACCOUNTS RECEIVABLE

	2014	2013
Trade receivables	\$ 951,720	\$ 591,423
Government	1,552,468	2,410,308
GST receivable	10,420	34,637
Band members and employee advances	110,827	106,538
Mortgage receivable	103,280	109,280
Band housing	467,258	415,410
Other	<u>313,442</u>	<u>89,094</u>
Allowance for doubtful accounts	<u>3,509,415</u> <u>(467,258)</u>	<u>3,756,690</u> <u>(415,410)</u>
	<u>\$ 3,042,157</u>	<u>\$ 3,341,280</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

5. INVESTMENTS IN GOVERNMENT BUSINESS ENTITIES

	2014	2013
Kwadacha Natural Resources Agency Ltd. (100%)		
Shares	\$ -	\$ 1
Opening equity (deficiency)	- -	863,882
Income (loss) for year (Note 5)	- -	(154,183)
Advances	- -	255,870
	- -	965,570
Kaska Drilling Limited Partnership (20%)		
Equity	(40,484)	(39,018)
Loss for year	9	(1,466)
Drawings	<u>(6,250)</u>	-
	<u>(46,725)</u>	(40,484)
Kaska Oil and Gas Services Limited Partnership (20%)		
Deficiency	(62,615)	(60,272)
(Income) loss for year	4,040	-
Drawings	<u>(6,250)</u>	(2,343)
	<u>(64,825)</u>	(62,615)
Kwadacha Natural Resources Limited Partnership		
Advances	<u>1,036,246</u>	32,733
Kaska Energy Corp. (20%)	<u>25,000</u>	12,500
0936269 BC Ltd. (100%)		
Shares	100	100
Opening equity	148,119	-
Income	- -	813
Advances	<u>4,149</u>	147,306
	<u>152,368</u>	148,219
Kwadacha Natural Resources GP Ltd.		
Shares	100	-
Advances	<u>(100)</u>	-
	- -	-
OBO Forest Management Limited Partnership	<u>2,226</u>	-
OBO Forest Management GP Ltd.		
Shares	100	-
Advances	<u>(100)</u>	-
	- -	-
	<u>\$ 1,104,290</u>	<u>\$ 1,055,923</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

6. INVESTMENT IN KWADACHA NATURAL RESOURCES AGENCY LTD.

The fiscal year end of "KNRA" is April 30. The financial summary of "KNRA" is prepared from the audited statements as at April 30, 2013 and April 30, 2012.

	2013	2012
ASSETS	-	\$ 1,765,364
LIABILITIES	-	2,045,372
NET EQUITY	<u>\$ -</u>	<u>\$ (280,008)</u>
REVENUE AND EXPENSES		
Revenue	1,966,142	1,843,429
Expenses	(2,063,837)	(1,998,527)
(Income tax) recovery	<u>(5,546)</u>	<u>915</u>
NET LOSS	<u>\$ (103,241)</u>	<u>\$ (154,183)</u>

The company was wound up on April 28, 2013.

7. INVESTMENT IN KASKA DRILLING LIMITED PARTNERSHIP

The fiscal year end of Kaska Drilling Limited Partnership is March 31. The financial summary of Kaska Drilling Limited Partnership is prepared from unaudited statements as at March 31, 2013 and unaudited statements as at March 31, 2012.

Kwadacha Nation has a 20% ownership with a net loss of \$1,458 allocated to the Nation in the current year (2013 - \$21,548)

	2013	2012
ASSETS	<u>\$ 5,349</u>	<u>\$ 56,777</u>
LIABILITIES	<u>5,000</u>	<u>5,390</u>
NET EQUITY	<u>\$ 349</u>	<u>\$ 51,387</u>
REVENUE AND EXPENSES		
Expenses	<u>(7,288)</u>	<u>(107,743)</u>
NET LOSS	<u>\$ (7,288)</u>	<u>\$ (107,743)</u>

The March 31, 2014 financial statements are not yet available.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

8. INVESTMENT IN KASKA OIL AND GAS LIMITED PARTNERSHIP

The fiscal year end of Kaska Drilling Limited Partnership is March 31. The financial summary of Kaska Drilling Limited Partnership is prepared from unaudited statements as at March 31, 2013 and unaudited statements as at March 31, 2012.

Kwadacha Nation has a 20% ownership with a net income of \$1,679 allocated to the Nation in the current year (2012 - \$2,277).

	2013	2012
ASSETS	\$ 162,954	\$ 185,937
LIABILITIES	5,398	5,616
NET EQUITY	<u>\$ 157,556</u>	<u>\$ 180,321</u>
REVENUE AND EXPENSES		
Revenue	19,381	-
Expenses	<u>(10,986)</u>	<u>(11,385)</u>
NET INCOME (LOSS)	<u>\$ 8,395</u>	<u>\$ 11,385</u>

The March 31, 2014 financial statements are not yet available.

9. INVESTMENT IN KASKA ENERGY CORP

Kwadacha Nation has a 20% ownership. The amount shown represents the original advances with no change due to inactivity.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

10. INVESTMENT IN 0936269 BC LTD.

The fiscal year end of 0936269 BC Ltd. is March 31. The financial summary is prepared from unaudited statements as at March 31, 2014 and March 31, 2013.

	2014	2013
ASSETS	\$ 378,317	\$ 374,626
LIABILITIES	152,159	148,713
NET EQUITY	\$ 226,158	\$ 225,913
REVENUE AND EXPENSES		
Revenue	\$ 38,430	\$ 36,000
Expenses	(37,978)	(34,530)
Income tax	(207)	(657)
NET INCOME	\$ 245	\$ 813

11. INVESTMENT IN KWADACHA NATURAL RESOURCES LIMITED PARTNERSHIP

The fiscal year end of Kwadacha Natural Resources Limited Partnership is April 30. The financial summary is prepared from unaudited statements as at April 30, 2013.

	2013
ASSETS	\$ 1,605,727
LIABILITIES	1,671,838
NET DEFICIT	\$ (66,111)
REVENUE AND EXPENSES	
Revenue	22,915
Expenses	(44,730)
Other charges	(44,396)
NET LOSS	\$ (66,211)

The partnership was formed on March 26, 2013. The April 30, 2014 financial statements are not yet available.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

12. INVESTMENT IN KWADACHA NATURAL RESOURCES GP LTD.

The fiscal year end of Kwadacha Natural Resources GP Ltd. is April 30. The financial summary is prepared from unaudited statements as of April 30, 2013.

	<u>2013</u>
ASSETS	\$ 100
LIABILITIES	<u>1,662</u>
NET DEFICIT	<u>\$ (1,562)</u>
 REVENUE AND EXPENSES	
Expenses	<u>(1,662)</u>
 NET LOSS	<u>\$ (1,662)</u>

The partnership was formed on March 26, 2013. The April 30, 2014 financial statements are not yet available.

13. INVESTMENT IN OBO FOREST MANAGEMENT LIMITED PARTNERSHIP

The fiscal year end of OBO Forest Management Limited Partnership is April 30. The financial summary is prepared from unaudited statements as of April 30, 2013.

	<u>2013</u>
ASSETS	\$ 550,100
LIABILITIES	<u>553,226</u>
PARTNER'S DEFICIENCY	<u>\$ (3,126)</u>
 REVENUE AND EXPENSES	
Expenses	<u>3,226</u>
 NET LOSS	<u>\$ 3,226</u>

The partnership was formed on March 26, 2013. The April 30, 2014 financial statements are not yet available.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

14. INVESTMENT IN OBO FOREST MANAGEMENT GP LTD.

The fiscal year end of OBO Forest Management GP Ltd. is April 30. The financial summary is prepared from unaudited statements as of April 30, 2013.

	2013
ASSETS	\$ 100
LIABILITIES	1,032
NET DEFICIT	\$ (932)
REVENUE AND EXPENSES	
Expenses	(1,032)
NET LOSS	\$ (1,032)

The partnership was formed on March 26, 2013. The April 30, 2014 financial statements are not yet available.

15. TRUST FUNDS

The Ottawa Trust Accounts arise from monies from capital or revenue sources outlined in Section 62 of the Indian Act. These funds are held in trust in the consolidated revenue fund of the Government of Canada and are subject to audit by the office of the Auditor General of Canada. The management of these funds governed by Sections 63 and 69 of the Indian Act.

	2014	2013
Capital funds held in trust	\$ 1	\$ 1
Revenue funds held in trust	108,031	105,364
	<u>108,032</u>	<u>105,365</u>

16. BANK INDEBTEDNESS

	2014	2013
Revolving line of credit of up to \$100,000, revolving in increments of \$5,000, bearing interest at prime plus 1.75%, due on demand.	\$ 40,000	\$ 65,000

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

17. CAPITAL ASSET RESERVE

Capital asset reserves are internally restricted and have been designated for future acquisitions of tangible capital assets.

18. DUE TO KWADACHA EDUCATION SOCIETY

Kwadacha Education Society is related to Kwadacha Nation by virtue of ownership. The amount due to Kwadacha Education Society of \$1,988,660 (2013 - \$2,112,628) is unsecured, non-interest bearing and has no term of repayment. The Nation advanced (charged) the Society the following during the year:

	2014	2013
Aboriginal Headstart	\$ 119,625	\$ 119,625
Ancillary Support, net of recovery	-	26,228
Comprehensive Education Support, net of recovery	21,310	8,316
Education Enhancement	50,000	50,000
Financial Support	7,260	7,260
Guidance and Councelling	14,740	14,472
Instructional Services	2,502,338	2,609,199
Post Secondary Student Support	197,640	191,221
Salary Enhancement	-	254
Student Transportation	49,181	33,637
Teacherages	93,371	91,281
Administration fees	<u>(54,028)</u>	<u>(54,035)</u>
	<u>\$ 3,001,437</u>	<u>\$ 3,097,458</u>

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established by and agreed to by the related parties.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

19. LONG-TERM DEBT

	2014	2013
Mortgage repayable in monthly instalments of \$3,495 bearing interest at 2.11% per annum, maturing April 1, 2018, secured by a Government of Canada ministerial guarantee.	\$ 176,790	\$ 213,295
Mortgage repayable in monthly instalments of \$3,048 bearing interest at 1.99% per annum, maturing May 1, 2014, secured by a Government of Canada ministerial guarantee.	176,717	209,433
Mortgage repayable in monthly instalments of \$3,787 bearing interest at 2.84% per annum, maturing April 1, 2015, secured by a Government of Canada ministerial guarantee.	175,058	214,941
Mortgage repayable in monthly instalments of \$1,245 including interest at 3.59% per annum, maturing February 1, 2016.	189,155	197,104
Demand loan, repayable in monthly instalments of \$840, including interest at prime plus 1.25% per annum, maturing July 2014, secured by specific equipment owned by a band member that is not carried as an asset within Kwadacha Nation.	2,597	12,614
Demand loan, repayable in monthly instalments of \$3,250, including interest at 3.49% per annum, maturing April 1, 2015.	583,475	601,655
Demand loan, repayable in monthly instalments of \$12,506 including interest at 2.53% per annum, maturing July 2014.	65,807	206,855
Mortgage, repayable in monthly instalments of \$2,067 including interest at 4.88% per annum, maturing July 1, 2012.	238,425	253,171
Demand loan, repayable in monthly instalments of \$2,642 including interest at 4.83% per annum, maturing January 1, 2016.	399,170	412,161
Mortgage, repayable in monthly instalments of \$5,766 including interest at 3.50% per annum, maturing January 1, 2016.	669,613	714,374
Mortgage, repayable in monthly instalments of \$783 including interest at 3.33% per annum, maturing March 30, 2014.	100,887	106,825
Demand loan	-	-
Balance carried forward	<u>\$ 2,777,694</u>	<u>\$ 3,142,428</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

19. LONG-TERM DEBT, continued

	2014	2013
Balance brought forward	\$ 2,777,694	\$ 3,142,428
Mortgage repayable in monthly instalments of \$3,495 bearing interest at 2.86% per annum, maturing December 1, 2013, secured by a Government of Canada ministerial guarantee.	1,251,517	994,661
Mortgage repayable in monthly instalments of \$3,048 bearing interest at 1.99% per annum, maturing May 1, 2014, secured by a Government of Canada ministerial guarantee.	95,474	124,678
Mortgage repayable in monthly instalments of \$3,787 bearing interest at 2.84% per annum, maturing April 1, 2015, secured by a Government of Canada ministerial guarantee.	1,013,917	830,000
Construction advances (Note 30)	172,420	-
Conditional Sales Contract repayable in monthly instalments of \$1,245 bearing interest at 6.29% per annum, maturing February 27, 2019. Secured by equipment with a net book value of \$154,267.	63,050	-
Conditional Sales Contract repayable in monthly instalments of \$881, bearing interest at 5.96%, per annum, maturing December 15, 2019, secured by equipment with a net book value of \$48,075.	51,304	-
	\$ 5,425,376	\$ 5,091,767

Principle portion of long-term debt due within the next five years:

2015	\$ 431,060
2016	\$ 376,097
2017	\$ 388,999
2018	\$ 368,566
2019	\$ 320,309

20. REPLACEMENT RESERVE

Under the terms of the agreement with CMHC, the Replacement Reserve account is to be credit in the amount of \$23,281 annually plus interest. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or the Credit Union Deposit Insurance Corporation; in investments guaranteed by a Canadian government; or in other investments approved by CMHC. The funds in the account may only be used as approved by CMHC. Withdrawals are credited to interest first and then principle. At year end, the program has funded reserves of \$162,223 (2013 - \$197,898) and is underfunded in the current year by \$11,643 (2013 - \$22,132). The reserve was fully funded on July 18, 2014.

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KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

21. DEFERRED REVENUE

The Nation has recorded the BC Hydro Settlement Fund surplus as deferred revenue to be used in the delivery of community related projects.

	2014	2013
Guiding Territory deposits	\$ 61,250	\$ 12,490
BC Hydro Settlement Fund	1,679,378	1,679,378
Kwadacha Community Store	-	6,677
	<u>\$ 1,740,628</u>	<u>\$ 1,698,545</u>

22. TANGIBLE CAPITAL ASSETS

	Cost	Additions	Disposals	Accumulated Amortization	2014	2013
	Cost	Additions	Disposals	Accumulated Amortization	Net book Value	Net book Value
Automotive	\$ 1,000,849	\$ 179,992	\$ -	\$ 845,000	\$ 335,841	\$ 261,212
CMHC	2,224,755	-	-	1,261,121	963,634	1,003,806
Community buildings	8,964,595	886,338	-	1,189,678	8,661,255	8,117,284
Computer equipment	263,674	19,057	-	259,016	23,715	10,738
Equipment	62,395	225,749	-	63,097	225,047	27,342
Infrastructure - PDP						
ACRS	40,712	13,940	-	10,492	44,160	31,769
Electrical	470,260	-	-	36,868	433,392	451,450
Landfill	317,103	467,523	-	120,102	664,524	214,949
PDP	60,084	-	-	27,610	32,474	33,827
Wastewater	33,875	15,574	-	15,516	33,933	19,449
Water systems	1,259,381	111,057	-	358,457	1,011,981	940,776
New housing	7,535,920	397,462	-	1,800,314	6,133,068	6,000,452
Renovations	2,035,990	-	-	1,417,513	618,477	726,762
School	5,100,993	-	-	2,308,522	2,792,471	2,908,824
Store	1,942,103	-	-	774,364	1,167,739	1,219,275
Store equipment	170,559	17,180	-	67,305	120,434	133,019
Subdivision	6,375,720	109,325	-	968,611	5,516,434	5,634,683
Guiding territory	799,944	-	-	-	799,944	799,994
	<u>\$ 38,658,912</u>	<u>\$ 2,443,197</u>	<u>\$ -</u>	<u>\$ 11,523,586</u>	<u>\$ 29,578,523</u>	<u>\$ 28,535,611</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

23. ACCUMULATED SURPLUS

The surplus on the summary statement of financial position consists of the following funds:

	2014	2013
Surplus (Note 24)	\$ 25,165,582	\$ 23,011,873
Endowment fund restricted	<u>15,535,714</u>	<u>15,496,120</u>
	<u>\$ 40,701,296</u>	<u>\$ 38,507,993</u>

24. SURPLUS

The surplus on the summary statement of financial position consists of the following funds:

	2014	2013
Operations Fund	\$ 596,424	\$ 908,405
Capital Fund	23,186,093	20,727,225
BC Hydro Fund	16,119,062	16,046,066
Investment Fund	1,000,126	1,129,372
Trust Fund	108,032	105,366
CMHC Housing Fund	(308,441)	(408,441)
Less BC Hydro Endowment Fund	<u>(15,535,714)</u>	<u>(15,496,120)</u>
	<u>\$ 25,165,582</u>	<u>\$ 23,011,873</u>

25. CONTINGENCY

Kwadacha Nation has a letter of guarantee facility in the amount of \$50,000 held in favor of the Grocery People.

26. INCOME TAX

Kwadacha Nation is tax exempt as a public body performing a function of government in Canada under Section 149 (1)(c) of the Income Tax Act.

27. ECONOMIC DEPENDENCE

Kwadacha Nation receives a significant portion of its revenue pursuant to a funding agreement with Aboriginal Affairs & Northern Development Canada

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

28. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current period.

29. CONSTRUCTION ADVANCE

Kwadacha Nation has committed to a construction mortgage in the amount of \$1,034,500. Monthly payments of \$4,836, including interest at 2.85% per annum will begin August 2014, maturing July 2019.

30. FINANCIAL INSTRUMENT RISKS

Risks and concentrations

The Nation is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The following analysis provides a measure of the company's risk exposure as at March 31, 2014.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Nation is exposed to this risk mainly in respect of its bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Nation's main credit risks relate to its accounts receivable. The Nation provides credit to its client in the normal course of operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Nation has no significant transactions completed in foreign currencies.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

30. FINANCIAL INSTRUMENT RISKS, continued

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Nation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-interest instruments subject the Nation to a fair value risk, since fair value fluctuates inversely to changes in market interest rates. Floating rate instruments subject the Nation to related cash flow risk.

Other price risk

Other price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Nation is not exposed to significant other price risk.

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

31. EXPENSES BY OBJECT

	2014	2013
Accomodations	\$ 6,815	\$ 6,600
Activities	83,573	151,849
Administration	170,199	300,171
Advertising and Promotion	11,735	3,595
Amotization	1,396,008	1,193,176
Appliances	13,173	-
Bad Debts (Recovery)	54,548	125,385
Bank Members Assistance	2,236	4,862
Bank and Service Charges	30,500	24,990
Bereavement	33,874	9,696
Cash Short (Over)	-	31,010
Charter Expense	894,619	34,679
Computer Maintenance	27,075	26,970
Contracts	2,028,763	1,936,447
Consulting Fees	668,636	727,059
Counsellor Services	4,560	-
Disbursements	1,990,000	1,528,500
Donations	1,645	11,600
Education	3,055,798	3,101,493
Elders Cost of Living Assistance	185,400	182,588
Election Expense	2,722	-
Equipment Rental	27,234	25,755
Equipment Repairs and Maintenance	43,951	98,958
Fees and Dues	21,345	12,861
Fuel	85,743	897,722
Freight	251,501	178,012
Honorarium	80,263	143,543
Horse care	23,970	7,126
Hot Lunch Program	-	26,374
Inspections	12,247	4,249
Insurance	111,317	87,492
Interest on Long-Term Debt	189,521	147,694
Janitorial	4,883	-
Less on disposal of tangible capital assets	-	919,206
Materials	119,313	391,598
Management Fees	103,168	116,516
Meeting Expenses	13,708	19,372
Meeting Expenses - Gifts	464	2,238
Meeting Expenses - Other	880	583
 Balance carried forward	 \$ 11,751,387	 \$ 12,479,969

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KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

31. EXPENSES BY OBJECT, continued

	2014	2013
Balance brought forward	\$ 11,751,387	\$ 12,479,969
Membership	4,323	3,745
Mortgage Payments	5,135	5,135
Office Supplies	17,164	18,182
Off reserve Memebrs Assistance	50,000	50,130
Office Supplies - Fort Ware	12,896	12,419
Patient Travel - Transportation	336,821	325,308
Patient Travel - Accomodations and Meals	158,875	139,198
Postage and Courier	4,330	2,229
Premises	-	30,740
Professional Fees	101,083	141,843
Property Taxes	6,811	380
Purchases - Massetoe	22,786	19,569
Rent	81,360	49,794
Repairs and Maintenance	136,421	86,565
Replacement Reserve	203,281	295,286
Satellite Services	1,288	1,299
Security and Monitoring	987	78
Adult Institutional Care	63,078	63,771
Basic	185,619	177,654
Basic Shelter	105,919	112,443
GFA	38,653	43,167
Special Needs	14,546	12,427
Restaurant Upgrades	42	-
Station Operation Costs	-	188,395
Supplies	315,155	208,737
Support Services	-	1,700
Research	82	523
Telephone and Fax	37,122	34,519
Telephone and Fax - Fort Ware	4,464	5,370
Training and Workshops	21,176	41,657
Travel	379,737	243,953
Travel: Council	16,696	11,788
Utilities	138,276	163,880
Vehicle	5,500	5,500
Vouchers	2,500	1,358
Wages and Benefits	2,402,342	2,060,515
Warehousing	1,146	25,330
	<hr/> <u>\$ 16,627,001</u>	<hr/> <u>\$ 17,064,556</u>

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NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

32. AANDC FUNDING RECONCILIATION

Total AANDC funding per statement of financial activities and accumulated surplus	\$ 7,727,537
08579 - 001 WATER - Over \$1.5 M - 08/09 receivable received in 2014	30,000
08768 - 002 ELECTRICAL SYSTEMS - 12/13 Budget Adj. - prior year receivable received in 2014	41,560
02126 - 001 ANCILARY SUPPORT recovery	(5,214)
02148 - 001 COMPREHENSIVE EDUCATION SUPPORT SERVICES recovery	<u>(5,238)</u>
Total AANDC Funding per 2013 - 2014 PAYE report	<u>\$ 7,788,645</u>