

KWADACHA NATION

Financial Statements

March 31, 2016

KWADACHA NATION
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For the year ended March 31, 2016

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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, 2016 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.

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 PricewaterhouseCoopers LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the Nation's members. PricewaterhouseCoopers, Chartered Professional Accountants have full and free access to Chief and Council.

June 22, 2016

Councillor


Ronald Van Den Heever
Chief



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, 2016, 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 audit opinion.



INDEPENDENT AUDITORS' REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kwadacha Nation as at March 31, 2016, and the results of operations, the changes in net financial assets and 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, 2015 were prepared audited by another auditor who expressed an unmodified opinion on those financial statements on July 17, 2015.

Prince George, BC
June 22, 2016

PricewaterhouseCoopers LLP
Chartered Professional Accountants

KWADACHA NATION
STATEMENT OF FINANCIAL POSITION
March 31, 2016

	<u>2016</u>	<u>2015</u>
FINANCIAL ASSETS		
Cash	\$ 2,066,001	\$ 1,876,855
Restricted cash (Note 3)	18,485,508	18,979,651
Accounts receivable (Note 4)	1,256,559	1,201,729
Investment in Government Business Entities (Note 5)	1,155,739	1,469,015
Inventory held for sale	316,272	199,398
Trust funds (Note 16)	<u>117,178</u>	<u>113,556</u>
	<u>23,397,257</u>	<u>\$ 23,840,204</u>
LIABILITIES		
Accounts payable and accrued liabilities	784,915	\$ 680,807
Capital asset reserve (Note 17)	661,537	560,631
Due to Kwadacha Education Society (Note 18)	2,607,333	2,513,106
Long-term debt (Note 19)	5,686,201	5,847,797
Replacement reserve (Note 20)	200,105	178,627
Deferred revenue (Note 21)	<u>2,303,718</u>	<u>1,771,624</u>
	<u>12,243,809</u>	<u>\$ 11,552,592</u>
NET FINANCIAL ASSETS		
	<u>11,153,448</u>	<u>12,287,612</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 22)	30,105,538	30,688,628
Prepaid expenses	<u>28,653</u>	<u>12,881</u>
	<u>30,134,191</u>	<u>30,701,509</u>
ACCUMULATED SURPLUS (Note 23)		
	<u>\$ 41,287,639</u>	<u>\$ 42,989,121</u>

Approved on behalf of the Kwadacha Nation

Donald Van Sonny, Chief

Diane Gross, Councillor

KWADACHA NATION

STATEMENT OF FINANCIAL ACTIVITIES AND ACCUMULATED SURPLUS

For the year ended March 31, 2016

	2016	2015
REVENUE		
Federal Government:		
Aboriginal Affairs & Northern Development Canada	\$ 5,552,320	\$ 6,798,068
Canadian Mortgage and Housing Corporation	31,028	32,263
Federal Government of Canada	91,306	91,306
First Nation Health Authority	1,400,400	1,066,208
Other revenue	2,368,460	2,541,281
Hydro contribution	1,342,814	1,419,878
Province of British Columbia	786,791	780,760
Kwadacha Community Store gross profit	739,812	657,163
Rent	687,990	571,004
Administration fees	205,736	245,027
Trust revenue	56,522	52,535
Wages subsidy	52,000	52,000
Exchange gains	11,871	5,751
BC Hydro	-	109,600
Gain on disposal of tangible capital assets	-	35,891
Interest	(211,051)	1,630,859
Investment (loss) income	(471,087)	512,519
	<u>\$ 12,644,912</u>	<u>\$ 16,602,113</u>
EXPENSES (Note 29)		
Own source	\$ 3,424,205	\$ 3,676,609
Education and training	2,877,748	3,161,702
Health and wellness	1,876,222	1,686,953
Hydro settlement funds	1,838,735	1,078,657
Capital	1,708,279	1,652,755
Administration	1,378,522	1,233,777
Operations and maintenance	1,200,285	1,104,633
Income assistance	551,766	638,589
Trust accounts	46,302	35,960
	<u>14,902,064</u>	<u>14,269,635</u>
REIMBURSEMENT (RECOVERY)	<u>555,670</u>	<u>(28,176)</u>
EXCESS OF EXPENSES OVER REVENUE	<u>(1,701,482)</u>	<u>2,287,825</u>
ACCUMULATED SURPLUS AT BEGINNING OF THE YEAR	<u>42,989,121</u>	<u>40,701,296</u>
ACCUMULATED SURPLUS AT END OF THE YEAR	<u>\$ 41,287,639</u>	<u>\$ 42,989,121</u>

KWADACHA NATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

March 31, 2016

	2016	2015
EXCESS OF EXPENSES OVER REVENUE	\$ (1,701,482)	\$ 2,287,825
Tangible capital assets:		
Acquisition	(898,520)	(2,611,118)
Amortization	1,481,610	1,447,699
Gain on disposal	-	(35,891)
Proceeds from disposal	-	89,205
	583,090	(1,110,105)
Use of prepaid expenses	(15,772)	7,889
(Decrease) increase in net financial assets	(1,134,164)	1,185,609
NET FINANCIAL ASSETS AT BEGINNING OF THE YEAR	12,287,612	11,102,003
NET FINANCIAL ASSETS AT END OF THE YEAR	\$ 11,153,448	\$ 12,287,612

KWADACHA NATION

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Excess of expenses over revenue	\$ (1,701,482)	\$ 2,287,825
Items not affecting cash:		
Amortization	1,481,610	1,447,699
Gain on disposal of tangible capital assets	-	(35,891)
	<hr/>	<hr/>
	(219,872)	3,699,633
Changes in non-cash working capital items:		
Accounts receivable	(54,830)	1,840,428
Inventory held for sale	(116,874)	45,716
Prepaid expenses	(15,772)	7,889
Accounts payable and accrued liabilities	104,108	(1,287,126)
Deferred revenue	532,094	30,996
Capital asset reserve, net	100,906	107,838
	<hr/>	<hr/>
	329,760	4,445,374
FINANCING ACTIVITIES		
Advances from Kwadacha Education Society	94,227	524,446
Proceeds from long-term debt	260,951	862,000
Repayment of long-term debt	(422,547)	(439,579)
Repayment of bank indebtedness, net	-	(40,000)
	<hr/>	<hr/>
	(67,369)	906,867
INVESTING ACTIVITIES		
Increase in investments in Government Business Entities	313,276	(364,725)
Increase in Ottawa Trust Funds	(3,622)	(5,524)
Purchase of tangible capital assets	(898,520)	(2,611,118)
Proceeds on disposal of tangible capital assets	-	89,205
Replacement reserve, net	21,478	16,404
	<hr/>	<hr/>
	(567,388)	(2,875,758)
INCREASE IN CASH AND CASH EQUIVALENTS	(304,997)	2,476,483
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	20,856,506	18,380,023
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 20,551,509	\$ 20,856,506
REPRESENTED BY:		
Cash	\$ 2,066,001	\$ 1,876,855
Restricted cash	18,485,508	18,979,651
	<hr/>	<hr/>
	\$ 20,551,509	\$ 20,856,506

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

1. DESCRIPTION OF OPERATIONS

Kwadacha Nation (the “Nation”) is a self-governed First Nation located at Fort Ware, British Columbia, with an office located in Prince George, British Columbia.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards prescribed for governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants.

Reporting Entity Principles of Financial Reporting

Kwadacha Nation reporting entity includes Kwadacha Nation government and all related entities which are either owned or controlled by Kwadacha Nation.

All controlled entities are fully consolidated on a line-by-line basis except for the commercial enterprises which meet the definition of government business enterprises or government business partnerships, which are included in these financial statements on a modified equity basis. Inter-entity balances and transactions are eliminated upon consolidation.

Under the modified equity method of accounting, Kwadacha Nation’s investment in the government business enterprises or government business partnerships and their share of the enterprise’s net income and other changes in equity are recorded. No adjustment is made for accounting policies of the enterprise that are different from those of Kwadacha Nation.

Kwadacha Nation CMHC Housing Program and Kwadacha Nation Settlement Negotiations Agreement are consolidated in Kwadacha Nation’s consolidated financial statements.

Government business enterprises, which are wholly-owned or partially owned by Kwadacha Nation and which are not dependent on the Nation for their continuing operation, included in the consolidated financial statements using the modified equity method are as follows:

- 0936269 BC Ltd. (100%)
- Kwadacha Natural Resources GP Ltd. (100%)
- Obo Forest Management GP Ltd. (100%)
- Three Feathers GP Ltd. (33.33%)
- Chee Ventures Ltd. (30.76%)
- Kaska Energy Corp (20%)

Government business partnerships of which Kwadacha Nation is a limited partner and which are not dependent on the Nation for their continuing operations, included in the consolidated financial statements using the modified equity method, are as follows:

- Kwadacha Natural Resources Limited Partnership (99.99% interest)
- Three Feathers Limited Partnership (33.33% interest)
- Kaska Oil and Gas Services Limited Partnership (20%)
- Kaska Drilling Limited Partnership (20%)

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Cash

Cash includes cash on hand, cash on deposit net of cheques issued and outstanding at the reporting date, and short-term deposits with maturity dates of less than 90 days.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost for retail inventory is valued using FIFO method; cost for gravel is valued using the weighted average cost method.

Tangible Capital Assets and Amortization

Tangible capital assets are recorded at cost, which includes amounts that are directly related to acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Transfers of tangible capital assets from related parties are recorded at carrying value.

Tangible capital assets are amortized using the declining balance method rates calculated to amortize the cost less salvage as follows:

Automotive	30% Declining balance
Buildings	4% Declining balance
Computer equipment	30% Declining balance
Furniture and office equipment	20% Declining balance
Housing	4% Declining balance
Infrastructure	4% Declining balance

In the year of acquisition, 50% of the annual amortization is expensed. Assets under construction are not amortized until the asset is available to be put into service. Renovations are amortized using the straight line method at 10%.

Revenue and Expenditures

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 measurable until cash is received are accounted for at that time.

Government transfers are recognized as revenue when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability and recognized in the statement of operations as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor, and are recognized when use for the specific surface.

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

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 period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Funding Recoveries and Reimbursements

Funding received from federal government sources in the form of conditional transfer payments are subject to recovery by the Crown, of unexpected balances or unallowable expenses. The Crown may also reimburse over expenditures upon determining adherence to the terms and conditions of payment for a specified purpose. Recoveries and reimbursements are accounted for when they are paid or payable or received or receivable.

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.

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.

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Liability for Contaminated Sites

During the year the Nation adopted new accounting standard PS 3260 – Liability for Contaminated Sites, effective for the years beginning on or after April 14, 2014. The standard requires the Nation to identify contaminated sites which meet the requirements of the standard, specifically those sites where:

- i. An environmental standard exists
- ii. Contamination exceeds the environmental standards
- iii. The Nation is directly responsible or accepts responsibility
- iv. It is expected that future economic benefits will be given up and
- v. A reasonable estimate of the amount those benefits that can be made

The Nation has elected to apply this standard prospectively. As at the date of these financial statements no contaminated sites have been identified that meet the criteria outlined in the standard.

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

3. RESTRICTED CASH

	<u>2016</u>	<u>2015</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.	\$ 200,105	\$ 178,627
Victoria Foundation		
Consists of endowment funds held on behalf of the Nation in an Endowment Fund created under the Endowment Fund Public Deed of Trust between the Victoria Foundation and the Nation dated November 27, 2009 and the Payment Trustee Agreement among the Victoria Foundation, the Nation, and the British Columbia Hydro and Power Authority dated November 28, 2009.		
i) Endowment Funds	15,766,115	17,090,631
ii) Trustee Funds	1,855,251	1,147,262
Capital Asset Reserve Fund		
Consists of internally restricted funds designated for future acquisition of tangible capital assets.	661,537	560,631
Minister of Finance deposit.	2,500	2,500
	<u>\$ 18,485,508</u>	<u>\$18,979,651</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

4. ACCOUNTS RECEIVABLE

	2016	2015
Trade receivables	\$ 404,620	\$ 468,286
Government receivables	23,312	262,917
Band members and employee advances	74,546	158,767
Mortgage receivable	91,280	96,780
Band housing	525,032	471,486
Other	<u>660,215</u>	<u>212,284</u>
Allowance for doubtful accounts	<u>1,779,005</u> <u>(522,446)</u>	<u>1,670,520</u> <u>(468,791)</u>
	<u>\$ 1,256,559</u>	<u>\$ 1,201,729</u>

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

5. INVESTMENTS IN GOVERNMENT BUSINESS ENTITIES

	2016	2015
0936269 BC Ltd. (100%)		
Shares	\$ 100	\$ 100
Opening equity	3,286	2,629
Income for the year	2,076	657
Advances	<u>120,054</u>	<u>135,960</u>
	125,516	139,346
Kwadacha Natural Resources GP Ltd. (100%)		
Shares	100	100
(Deficiency) equity	(5,090)	2,987
Advances	<u>(100)</u>	<u>(100)</u>
	(5,090)	2,987
OBO Forest Management GP Ltd. (100%)		
Shares	100	100
Deficiency	(1,357)	(427)
Advances	<u>(100)</u>	<u>(100)</u>
	(1,357)	(427)
Kwadacha Natural Resources Limited Partnership		
Units	99	99
(Deficiency) equity	(140,868)	360,085
Advances	<u>1,103,031</u>	<u>933,860</u>
	962,262	1,294,044
Three Feathers GP Ltd. (33.33%)		
Shares	100	100
Equity	17	7
Advances	<u>(100)</u>	<u>(100)</u>
	17	7
Three Feathers Limited Partnership (33.33%)		
Units	33	33
Advances	(33)	(33)
Equity	<u>110,612</u>	<u>69,332</u>
	110,612	69,332
Balance carried forward	\$ 1,191,960	\$ 1,505,289

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

5. INVESTMENTS IN GOVERNMENT BUSINESS ENTITIES, continued

	2016	2015
Balance brought forward	\$ 1,191,960	\$ 1,505,289
Chee Ventures Ltd. (30.76%)		
Equity	2,281	2,281
Advances	<u>47,250</u>	<u>46,047</u>
	<u>49,531</u>	<u>48,328</u>
Kaska Drilling Limited Partnership (20%)		
Equity	(46,984)	(46,726)
Income (loss) for the year	-	(258)
Drawings	<u>-</u>	<u>-</u>
	<u>(46,984)</u>	<u>(46,984)</u>
Kaska Oil and Gas Services Limited Partnership (20%)		
Deficiency	(66,707)	(64,825)
Income (loss) for the year	-	(1,882)
Drawings	<u>-</u>	<u>-</u>
	<u>(66,707)</u>	<u>(66,707)</u>
Kaska Energy Corp (20%)		
Shares	100	100
Advances	<u>24,900</u>	<u>24,900</u>
	<u>25,000</u>	<u>25,000</u>
OBO Forest Management Limited Partnership		
Advances	<u>2,939</u>	<u>4,089</u>
	<u>\$ 1,155,739</u>	<u>\$ 1,469,015</u>

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

6. INVESTMENT IN CHEE VENTURES LTD.

The fiscal year end of Chee Ventures Ltd. is December 31. The financial summary of Chee Ventures Ltd. is prepared from the unaudited financial statements as at December 31, 2014.

The Nation has a 31.76% ownership. Financial statements to December 31, 2015 were unavailable and are not expected to have a material impact on the financial statements.

	2016	2015
ASSETS	\$ 64,269	\$ 64,269
LIABILITIES	62,237	62,237
NET EQUITY	\$ 2,032	\$ 2,032
 REVENUE AND EXPENSES		
Revenue	\$ 18,408	\$ 18,408
Expenses	(18,427)	(18,427)
(Income tax) recovery	16	16
 NET LOSS	\$ (3)	\$ (3)

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 financial statements as at March 31, 2014.

The Nation has a 20% ownership. Financial statements to March 31, 2015 and 2016 were unavailable and not expected to have a material impact on these financial statements.

	2016	2015
ASSETS	\$ 9,403	\$ 9,403
LIABILITIES	10,344	10,344
NET (DEFICIT) EQUITY	\$ (941)	\$ (941)
 REVENUE AND EXPENSES		
Revenue	\$ 5,098	\$ 5,098
Expenses	(6,388)	(6,388)
 NET LOSS	\$ (1,290)	\$ (1,290)

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

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 financial statements as at March 31, 2014.

The Nation has a 20% ownership. Financial statements for March 31, 2015 and March 31, 2016 were unavailable and are not expected to have a material impact on these financial statements.

	2016	2015
ASSETS	\$ 150,642	\$ 150,642
LIABILITIES	<u>2,496</u>	<u>2,496</u>
NET EQUITY	<u>\$ 148,146</u>	<u>\$ 148,146</u>
REVENUE AND EXPENSES		
Revenue	\$ -	\$ -
Expenses	<u>(9,410)</u>	<u>(9,410)</u>
NET LOSS	<u>\$ (9,410)</u>	<u>\$ (9,410)</u>

9. INVESTMENT IN KASKA ENERGY CORP.

The 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, 2016

10. INVESTMENT IN THREE FEATHERS GP LTD.

The fiscal year end of Three Feathers GP Ltd. is April 30. The financial summary of Three Feathers GP Ltd. is prepared from unaudited financial statements as at April 30, 2015.

The Nation has a 33.33% ownership with a net income of \$7 allocated to the Nation in the current year (2015 - \$2).

	2016	2015
ASSETS	\$ 357	\$ 320
LIABILITIES	<u>5</u>	-
NET EQUITY	<u><u>\$ 352</u></u>	<u><u>\$ 320</u></u>
REVENUE AND EXPENSES		
Revenue	\$ 37	\$ 20
Expenses	<u>(5)</u>	-
NET INCOME	<u><u>\$ 32</u></u>	<u><u>\$ 20</u></u>

11. INVESTMENT IN THREE FEATHERS LIMITED PARTNERSHIP

The fiscal year end of Three Feathers Limited Partnership is April 30. The financial summary of Three Feathers Limited Partnership is prepared from unaudited financial statements as at April 30, 2015.

The Nation has a 33.33% ownership with a net income of \$121,292 allocated to the Nation in the current year (2015 - \$72,624).

	2016	2015
ASSETS	\$ 417,429	\$ 228,441
LIABILITIES	<u>85,575</u>	<u>20,464</u>
NET EQUITY	<u><u>\$ 331,854</u></u>	<u><u>\$ 207,977</u></u>
REVENUE AND EXPENSES		
Revenue	\$ 641,401	\$ 560,328
Expenses	<u>(277,524)</u>	<u>(342,435)</u>
NET INCOME (LOSS)	<u><u>\$ 363,877</u></u>	<u><u>\$ 217,893</u></u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

12. 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, 2016.

	2016	2015
ASSETS	\$ 353,082	\$ 365,442
LIABILITIES	124,190	138,627
NET EQUITY	\$ 228,892	\$ 226,815
REVENUE AND EXPENSES		
Revenue	\$ 45,000	\$ 45,000
Expenses	(41,108)	(43,790)
Income tax	(1,816)	(553)
NET INCOME	\$ 2,076	\$ 657

13. 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, 2015.

	2016	2015
ASSETS	\$ 1,898,502	\$ 2,184,893
LIABILITIES	2,038,535	1,819,462
NET DEFICIT	\$ (140,033)	365,431
REVENUE AND EXPENSES		
Revenue	\$ 1,236,851	\$ 1,242,302
Expenses	(1,177,544)	(1,061,692)
Other income (charges)	(510,462)	397,999
NET INCOME (LOSS)	\$ (451,155)	\$ 578,609

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

14. 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, 2015.

	2016	2015
ASSETS	\$ 836	\$ 5,347
LIABILITIES	5,826	2,633
NET DEFICIT	\$ (4,990)	2,714
 REVENUE AND EXPENSES		
Expenses	\$ (3,565)	\$ (1,260)
Other income	(4,511)	5,908
Income tax	372	(372)
 NET INCOME (LOSS)	\$ (7,704)	\$ 4,276

15. 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, 2015.

	2016	2015
ASSETS	\$ 6,194	\$ 4,114
LIABILITIES	7,451	4,441
NET DEFICIT	\$ (1,257)	(327)
 REVENUE AND EXPENSES		
Expenses	\$ (3,010)	\$ (3,440)
Other income (charges)	2,080	4,045
 NET (LOSS) INCOME	\$ (930)	\$ 605

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

16. 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.

	<u>2016</u>	<u>2015</u>
Capital funds held in trust	\$ 1	\$ 1
Revenue funds held in trust	<u>117,177</u>	<u>113,555</u>
	<u>\$ 117,178</u>	<u>\$ 113,556</u>

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 \$2,607,333 (2015 - \$2,513,106) is unsecured, non-interest bearing and has no term of repayment. The Nation advanced (charged) the Society the following during the year:

	<u>2016</u>	<u>2015</u>
Aboriginal Headstart	\$ 133,240	\$ 126,294
Comprehensive Education Support, net of recovery	23,868	24,531
Education Enhancement	50,000	54,000
Financial Support	7,370	7,370
Guidance and Councelling	14,472	14,874
Instructional Services	2,414,163	2,602,603
Post Secondary Student Support	137,418	191,221
Salary Enhancement	-	14,711
Student Transportation	-	90,477
Teacherages	94,940	(60,000)
Administration fees	<u>(60,041)</u>	<u>-</u>
	<u>\$ 2,815,430</u>	<u>\$ 3,066,081</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, 2016

19. LONG-TERM DEBT

	2016	2015
Mortgage repayable in monthly instalments of \$3,434 bearing interest at 2.11% per annum, maturing Sept 1, 2025, secured by a Government of Canada ministerial guarantee.	\$ 100,275	\$ 138,929
Mortgage repayable in monthly instalments of \$3,047 bearing interest at 1.98% per annum, maturing April 1, 2019, secured by a Government of Canada ministerial guarantee.	109,298	143,335
Mortgage repayable in monthly instalments of \$3,671 bearing interest at 0.79% per annum, maturing April 1, 2018, secured by a Government of Canada ministerial guarantee.	90,998	134,029
Mortgage repayable in monthly instalments of \$1,163 including interest at 2.59% per annum, maturing February 1, 2021 secured by a Government of Canada ministerial guarantee.	172,220	180,857
Mortgage repayable in monthly instalments of \$2,917, including interest at 2.24% per annum, maturing April 1, 2020 secured by a Government of Canada ministerial guarantee	542,141	564,477
Mortgage, repayable in monthly instalments of \$1,764 including interest at 2.59% per annum, maturing July 1, 2017 secured by a Government of Canada ministerial guarantee.	207,672	223,239
Mortgage, repayable in monthly instalments of \$2,321 including interest at 3.36% per annum, maturing December 30, 2018 secured by a Government of Canada ministerial guarantee.	369,316	384,475
Mortgage, repayable in monthly instalments of \$5,518 including interest at 2.56% per annum, maturing January 1, 2021 secured by a Government of Canada ministerial guarantee.	574,553	623,057
Mortgage, repayable in monthly instalments of \$765 including interest at 2.98% per annum, maturing April 1, 2019 secured by a Government of Canada ministerial guarantee.	88,741	95,170
Balance carried forward	<u>\$ 2,255,214</u>	<u>\$ 2,487,568</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

19. LONG-TERM DEBT, continued

	2016	2015
Balance brought forward	\$ 2,255,214	\$ 2,487,568
Mortgage repayable in monthly instalments of \$5,119 bearing interest at 3.44% per annum, maturing August 1, 2018, secured by a Government of Canada ministerial guarantee.	958,942	986,853
Mortgage repayable in monthly instalments of \$4,900 bearing interest at 2.99% per annum, maturing November 1, 2019, secured by a Government of Canada ministerial guarantee.	996,499	1,025,039
Demand loan, repayable in monthly instalments of \$10,100 bearing interest at 4.45% per annum, maturing July 17, 2016.	1,119,376	1,188,189
Demand loan, repayable in monthly instalments of \$2,850 bearing interest at 4.15% per annum, maturing April 4, 2016.	32,831	64,900
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 \$26,641.	39,630	51,703
Conditional sales contract repayable in monthly instalments of \$5,174, bearing interest of 6.25% per annum, maturing October 30, 2020, secured by equipment with a net book value of \$251,745.	248,393	-
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 \$23,557.	35,316	43,545
	\$ 5,686,201	\$ 5,847,797

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

2017	\$ 474,999
2018	\$ 456,908
2019	\$ 409,594
2020	\$ 349,442
2021	\$ 330,542

An individual Nation member has a loan secured by a Government of Canada ministerial guarantee of \$121,728 (2015 - \$129,426).

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

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 \$200,105 (2015 - \$178,627).

21. DEFERRED REVENUE

The Nation has recorded the following as deferred revenue:

	2016	2015
Guide Outfitter - hunt deposits	\$ 12,250	\$ 78,810
BC Hydro Settlement Fund - 2016/2017 allocation	<u>2,291,468</u>	<u>1,692,814</u>
	<u>\$ 2,303,718</u>	<u>\$ 1,771,624</u>

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

22. TANGIBLE CAPITAL ASSETS

	Cost	Additions	Disposals	Accumulated Amortization	2016	2015
					Net book Value	Net book Value
Automotive	\$ 962,188	\$ 296,170	\$ -	\$ 854,426	\$ 403,932	\$ 217,412
CMHC	2,224,775	-	-	1,336,672	888,103	925,108
Community buildings	10,047,693	30,546	-	1,881,027	8,197,212	8,507,612
Computer equipment	284,614	8,400	-	273,134	19,880	18,201
Equipment	303,015	20,485	-	151,469	172,031	192,965
Infrastructure - PDP						
ACRS	54,652	-	-	13,955	40,697	42,393
Electrical	470,260	-	-	70,846	399,414	416,056
Landfill	1,168,532	269,562	-	200,319	1,237,775	1,014,170
PDP	60,084	-	-	30,156	29,928	31,175
Wastewater	727,222	-	-	58,300	668,922	696,794
Water systems	1,414,619	27,135	-	440,955	1,000,799	1,014,798
Housing	9,113,041	-	-	2,350,982	6,762,059	7,043,829
Renovations	2,035,990	195,592	-	1,674,089	557,493	493,800
School	5,100,993	-	-	2,527,452	2,573,541	2,680,772
Store	1,942,103	9,527	-	866,105	1,085,525	1,121,029
Store equipment	251,422	-	-	127,093	124,329	156,295
Subdivision	6,505,961	41,102	-	1,403,159	5,143,904	5,316,275
Guiding territory	799,994	-	-	-	799,994	799,944
	\$ 43,467,158	\$ 898,519	\$ -	\$ 14,260,139	\$ 30,105,538	\$ 30,688,628

23. ACCUMULATED SURPLUS

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

	2016	2015
Surplus (Note 24)	\$ 25,521,524	\$ 25,898,489
Endowment fund restricted	\$ 15,766,115	\$ 17,090,632
	\$ 41,287,639	\$ 42,989,121

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

24. SURPLUS

The surplus in Note 23 consists of the following funds:

	2016	2015
Operations Fund	\$ 1,375,630	\$ 1,959,997
Capital Fund	22,201,517	23,302,479
BC Hydro Fund	16,867,852	17,776,733
Investment Fund	839,107	-
Trust Fund	117,178	113,556
CMHC Housing Fund	(113,645)	(163,645)
Less BC Hydro Endowment Fund	<u>(15,766,115)</u>	<u>(17,090,631)</u>
	<u>\$ 25,521,524</u>	<u>\$ 25,898,489</u>

25. 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.

26. ECONOMIC DEPENDENCE

Kwadacha Nation receives a significant portion of its revenue pursuant to a funding agreement with Indigenous and Northern Affairs Canada.

27. COMPARATIVE AMOUNTS

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

KWADACHA NATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

28. 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, 2016.

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.

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, 2016

29. EXPENSES BY OBJECT

	2016 Budget	2016	2015
Accomodations	\$ 6,500	\$ 7,832	\$ 6,600
Activities	36,500	24,819	137,089
Administration	147,200	133,961	160,003
Adult Institutional Care	47,937	63,966	63,354
Advertising and Promotion	9,450	13,979	11,492
Amortization	1,155,000	1,493,969	1,447,699
Appliances	15,000	14,265	10,199
Bad Debts (Recovery)	40,000	53,656	24,574
Bank Members Assistance	7,500	8,678	36,634
Bank and Service Charges	38,000	36,677	28,312
Basic	121,569	144,721	194,948
Basic Shelter	100,000	101,604	135,310
Bereavement	10,000	17,745	13,328
Cash Short (Over)	-	28,522	-
Charter Expense	955,000	769,603	878,636
Computer Maintenance	18,000	21,510	15,579
Contracts	853,317	2,200,455	1,543,176
Consulting Fees	301,000	245,516	379,727
Disbursements	-	(1,804)	8,646
Donations	6,500	500	20,500
Education	-	2,877,748	3,161,702
Elders Cost of Living Assistance	193,544	198,000	185,850
Equipment Rental	29,000	27,153	26,332
Equipment Repairs and Maintenance	37,500	35,400	43,150
Fees and Dues	29,600	26,529	36,415
Fuel	128,868	137,211	120,237
Freight	167,975	188,175	209,558
GFA	29,374	30,798	34,184
Honorarium	135,500	120,345	84,351
Horse care	25,000	29,955	21,291
Hot Lunch Program	22,299	40,095	56,549
Inspections	6,850	1,800	7,045
Insurance	160,154	147,066	142,822
Interest on Long-Term Debt	201,300	196,461	211,434
Janitorial	5,000	6,132	-
Materials	6,500	3,438	23,010
 Balance carried forward	 \$ 5,046,937	 \$ 9,446,480	 \$ 9,479,736

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

29. EXPENSES BY OBJECT, continued

	2016	2016	2015
	Budget		
Balance brought forward	\$ 6,417,937	\$ 9,446,480	\$ 9,479,736
Management Fees	50,000	271,796	64,764
Meeting Expenses	17,753	11,699	13,221
Meeting Expenses - Gifts	1,500	830	386
Meeting Expenses - Other	1,500	-	9,854
Membership	4,140	4,140	3,950
Mortgage Payments	5,200	5,135	5,135
Office Supplies	17,750	19,753	18,126
Off Reserve Members Assistance	49,500	60,181	49,547
Office Supplies - Fort Ware	12,000	9,120	11,281
Patient Travel - Transportation	340,000	449,170	380,494
Patient Travel - Accomodations and Meals	186,537	211,832	174,519
Postage and Courier	5,110	3,508	4,681
Premises	-	39,000	9,641
Professional Fees	68,859	59,961	49,325
Property Taxes	6,820	5,951	499
Provision for Taxes	500	-	-
Purchases - Massetoe (L)	-	46,302	35,960
Rent	87,960	92,460	92,460
Repairs and Maintenance	165,455	184,137	121,550
Replacement Reserve	129,281	129,281	129,281
Research	1,500	905	26
Satelite Services	3,950	3,758	2,086
Security and Monitoring	850	616	1,956
Special Needs	15,228	19,108	15,805
Supplies	396,244	386,438	323,785
Telephone and Fax	46,550	52,312	42,749
Telephone and Fax - Fort Ware	7,500	2,024	6,766
Training and Workshops	69,500	23,964	22,752
Travel	276,867	324,361	277,814
Travel: Council	27,000	33,091	4,595
Utilities	126,500	167,973	132,425
Vehicle	1,500	386	-
Wages and Benefits	2,847,049	2,834,049	2,781,243
Warehousing	2,500	2,343	3,223
	<hr/> \$ 11,390,540	<hr/> \$ 14,902,064	<hr/> \$ 14,269,635

KWADACHA NATION
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2016

30. INAC FUNDING RECONCILIATION

Total INAC funding per statement of financial activities and accumulated surplus	\$ 5,552,320
NP05-002 - INSTRUC SERV FORMULA (2014/2015 TEFA Adjustment (low Enrolment))	15,664
NPC9-002 - INSTITUTIONAL CARE-CO-PMT (2010/2011 Audit Reimbursement Adjustment)	<u>3,835</u>
Total INAC Funding per 2015 - 2016 PAYE report	<u>\$ 5,571,819</u>