

Kwadacha Nation
Consolidated Financial Statements
March 31, 2019

Kwadacha Nation

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For the year ended March 31, 2019

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Management's Responsibility

To the Members of Kwadacha Nation

The accompanying consolidated financial statements of Kwadacha Nation are the responsibility of management and have been approved by Chief and Council.


Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Chief and Council are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Chief and Council is also responsible for recommending the appointment of the Nation's external auditors.

MNP LLP is appointed by Chief and Council to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with both the Council and management to discuss their audit findings.

August 13, 2019


Executive Director

Independent Auditor's Report

To the Members of Kwadacha Nation:

Opinion

We have audited the consolidated financial statements of Kwadacha Nation (the "Nation"), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations, accumulated operating surplus, remeasurement gains and losses, change in net financial assets (net debt) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and related schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Nation as at March 31, 2019, and the results of its consolidated operations, its consolidated remeasurement gains and losses and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Nation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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.

In preparing the consolidated financial statements, management is responsible for assessing the Nation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Nation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit 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 Nation's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Nation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Nation to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Nation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Prince George, British Columbia

August 13, 2019

MNP LLP

Chartered Professional Accountants

Kwadacha Nation
Consolidated Statement of Financial Position
As at March 31, 2019

	2019	2018 <i>Restated (Note 17)</i>
Financial assets		
Cash and cash equivalents	3,182,521	1,797,573
Accounts receivable (Note 4)	772,373	1,894,197
Portfolio investments (Note 5)	92,482	92,482
Restricted cash and reserves (Note 6)	7,459,987	6,080,534
Advances to Nation entities (Note 7)	212,186	148,056
Inventories (Note 8)	401,430	268,730
Investment in Nation partnerships and business entities (Note 9)	2,294,262	1,969,909
Mortgage receivable	-	116,048
Funds held in trust (Note 10)	127,431	124,708
Total financial assets	14,542,672	12,492,237
Liabilities		
Accounts payable and accruals	2,640,068	1,985,145
Deferred revenue	98,679	182,765
Debt (Note 11)	4,663,113	5,175,650
Promissory note payable (Note 12)	1,950,364	2,027,532
Advances from related Nation entities (Note 13)	4,034,631	3,754,527
Total financial liabilities	13,386,855	13,125,619
Net financial assets (net debt)	1,155,817	(633,382)
Contingent liabilities (Note 14)		
Non-financial assets		
Tangible capital assets (Schedule 1)	41,369,162	39,623,838
Prepaid expenses	48,018	37,878
Total non-financial assets	41,417,180	39,661,716
Accumulated surplus (Note 15)	42,572,997	39,028,334
Accumulated surplus is comprised of:		
Accumulated surplus	41,312,262	39,414,637
Accumulated remeasurement gains (losses)	1,260,735	(386,303)
	42,572,997	39,028,334

Approved on behalf of Chief and Council:



Chief

Councilor



Councilor

Councilor



Councilor

Kwadacha Nation

Consolidated Statement of Operations and Accumulated Surplus

For the year ended March 31, 2019

	<i>Schedules</i>	2019 Budget (Note 20)	2019	2018 Restated (Note 17)
Revenue				
Indigenous Services Canada (Note 19)		8,435,640	9,809,095	8,891,123
Kwadacha Community Store		2,531,000	2,911,657	2,800,602
BC Hydro Trust Funds Contribution		1,808,782	1,918,842	1,808,782
First Nations Health Authority		1,573,437	1,768,439	1,601,743
Province of BC		704,266	1,143,708	1,012,939
Government of Canada		111,306	235,446	122,334
Band Member Trust		-	31,759	37,696
Other revenue		2,067,740	1,895,138	1,964,467
Rental		777,000	624,325	646,930
Earnings from investment in Nation partnerships and business entities		-	270,437	67,804
Loss on disposal of tangible capital assets		-	(38,973)	(22,499)
Interest and investment income (loss)		1,538,700	(557,830)	1,347,650
Hydro Briefs Funding Allocation		(390,000)	-	-
		19,157,871	20,012,043	20,279,571
Program expenses (Schedule 2)				
Administration	3	1,418,524	1,247,257	829,852
Education and Training	4	149,720	3,192,170	3,088,277
Income Assistance	5	596,781	695,849	609,935
Operations and Maintenance	6	1,295,750	1,230,715	1,265,294
Capital	7	4,175,847	2,077,639	2,156,745
Own Source	8	5,257,063	6,033,385	5,346,100
Health and Wellness	9	1,945,854	2,494,536	2,095,682
Settlement Negotiations	10	1,226,256	1,121,276	1,068,937
Band Member Trust	11	-	21,591	32,547
		16,065,795	18,114,418	16,493,369
Annual surplus		3,092,076	1,897,625	3,786,202
Accumulated surplus, beginning of year, as previously stated		37,536,917	37,536,917	34,533,972
Correction of an error (Note 17)		-	1,877,720	1,094,463
Accumulated surplus, beginning of year, as restated		37,536,917	39,414,637	35,628,435
Accumulated surplus, end of year		40,628,993	41,312,262	39,414,637

The accompanying notes are an integral part of these financial statements

Kwadacha Nation
Consolidated Statement of Remeasurement Gains and Losses

For the year ended March 31, 2019

	2019	<i>2018 Restated (Note 17)</i>
Accumulated remeasurement gains (losses), beginning of year	(386,303)	212,040
Unrealized gains (losses) attributable to:		
Fair value of financial instruments in restricted cash and reserves	1,647,038	(598,343)
Accumulated remeasurement gains (losses), end of year	1,260,735	(386,303)

The accompanying notes are an integral part of these financial statements

Kwadacha Nation
Consolidated Statement of Change in Net Financial Assets (Net Debt)

For the year ended March 31, 2019

	2019 Budget (Note 20)	2019	2018 Restated (Note 17)
Annual surplus	3,092,076	1,897,625	3,786,202
Purchases of tangible capital assets	-	(3,825,980)	(4,864,547)
Amortization of tangible capital assets	1,110,000	2,011,680	1,919,349
Loss on disposal of tangible capital assets	-	38,973	22,499
Proceeds on disposal of tangible capital assets	-	30,003	-
	1,110,000	(1,745,324)	(2,922,699)
Acquisition of prepaid expenses	-	(10,140)	(32,377)
Change in remeasurement gains (losses) for the year	-	1,647,038	(598,343)
Decrease in net debt	4,202,076	1,789,199	232,783
Net debt, beginning of year, as restated	(633,382)	(633,382)	(866,165)
Net financial assets (net debt), end of year	3,568,694	1,155,817	(633,382)

The accompanying notes are an integral part of these financial statements

Kwadacha Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2019

	2019	2018 <i>Restated (Note 17)</i>
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	1,897,625	3,786,202
Non-cash items		
Amortization	2,011,680	1,919,349
Loss on disposal of tangible capital assets	38,973	22,499
Change in remeasurement gains (losses) for the year	1,647,038	(598,343)
	5,595,316	5,129,707
Changes in working capital accounts		
Accounts receivable	1,121,824	(531,522)
Inventory	(132,700)	17,169
Prepaid expenses	(10,140)	(32,377)
Funds held in trust	(2,723)	(3,983)
Mortgage Receivable	116,048	(29,018)
Accounts payable and accruals	654,925	884,307
Deferred revenue	(84,086)	(1,788,359)
	7,258,464	3,645,924
Financing activities		
Repayment of debt	(512,537)	(546,837)
Net advances from related Nation entities	215,974	1,047,362
Repayment of promissory note	(77,168)	(25,468)
	(373,731)	475,057
Capital activities		
Purchases of tangible capital assets	(3,825,980)	(4,864,547)
Proceeds on disposal of tangible capital assets	30,003	-
	(3,795,977)	(4,864,547)
Investing activities		
Increase in portfolio investments	-	(92,482)
Net investment in Nation partnerships and business entities	(324,353)	(510,482)
Net restricted cash and reserves	(1,379,455)	948,729
	(1,703,808)	345,765
Increase (decrease) in cash and cash equivalents	1,384,948	(397,801)
Cash and cash equivalents, beginning of year	1,797,573	2,195,374
Cash and cash equivalents, end of year	3,182,521	1,797,573

The accompanying notes are an integral part of these financial statements

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

1. Operations

The Kwadacha Nation (the "Nation") is located in the province of British Columbia, and provides various services to its members. Kwadacha Nation includes the Nation's members, government and all related entities that are accountable to the Nation and are either owned or controlled by the Nation.

2. Significant accounting policies

The consolidated financial statements of Kwadacha Nation (the "Nation") are the representations of management, and are prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of CPA Canada and are consistent with accounting policies set out by Indigenous Services Canada ("ISC"). Significant aspects of the accounting policies adopted by the Nation are as follows:

Reporting entity

The financial statements consolidate the financial activities of all entities and departments comprising the Nation reporting entity, except for Nation business entities. Trusts administered on behalf of third parties by Kwadacha Nation are excluded from the Nation reporting entity.

The Nation has consolidated the assets, liabilities, revenue and expenses of the following entities and departments:

0936269 B.C. Ltd.

Kwadacha Settlement Negotiations Agreement

CMHC program

Kwadacha Community Store

Kwadacha Land Corp.

Kwadacha Community Restaurant

All inter-entity balances have been eliminated on consolidation; however, transactions between departments have not been eliminated in order to present the results of operations for each specific department.

Kwadacha Nation business entities, owned or controlled by the Nation's Chief and Council but not dependent on the Band for their continuing operations, are included in the consolidated financial statements using the modified equity method. Nation business partnerships, jointly owned and controlled by the Nation's Chief and Council that are not dependent on the Nation for their continuing operations, are included in the consolidated financial statements using the modified equity method.

Under the modified equity method, the equity method of accounting is modified only to the extent that the business entity accounting principles are not adjusted to conform to those of the Nation. Thus, the Nation's investment in these entities is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and distributions received.

Government business entities accounted for by the modified equity basis include:

Kwadacha Natural Resources GP Ltd. (100%)

Obo Forest Management GP Ltd. (100%)

Government business partnerships accounted for by the modified equity basis include:

Kwadacha Natural Resources LP (99.99%)

Tse Keh Nay LLP (33.33%)

Claw Mountain Outfitters LLP (50%)

Three Feathers LP (33.33%)

KNGV Freight Services JV (50%)

2. Significant accounting policies *(Continued from previous page)*

Entities which are not controlled or jointly controlled are accounted for at cost. These include:

- Chee Ventures Ltd. (30.76%)
- Kaska ITA Land Corporation (33.33%)
- Kaska Oil & Gas Services LP (20%)
- Kaska Energy Corp. (20%)
- Kaska Drilling LP (20%)
- Three Feathers GP Ltd. (33.33%)

Basis of presentation

Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Funds held in Ottawa Trust Fund

Funds held in trust on behalf of Nation members by the Government of Canada in the Ottawa Trust Fund are reported on the consolidated statement of financial position with an offsetting amount in accumulated surplus. Trust moneys consist of:

Capital trust moneys derived from non-renewable resource transactions on the sale of land or other Nation tangible capital assets; and

Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

Financial net assets (debt)

The Nation's consolidated financial statements are presented so as to highlight financial net assets (debt) as the measurement of financial position. The financial net assets (debt) of the Nation is determined by its financial assets less its liabilities. Financial net assets (debt) combined with non-financial assets comprise a second indicator of financial position, accumulated annual surplus.

Asset classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale in the normal course of operations. Non-financial assets include tangible capital assets and prepaid expenses.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Inventory

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

2. Significant accounting policies *(Continued from previous page)*

Tangible capital assets

Capital expenditures are any significant expenditure incurred to acquire or improve land, buildings, engineering structures, machinery or equipment. The benefits last beyond one year and result in the acquisition of an asset or are an extension of the life of an asset. Tangible capital assets are initially recorded at cost less accumulated amortization. Contributed tangible assets are recorded at their fair value at the date of contribution.

Assets under construction are not amortized until the asset is available for productive use.

All intangible assets and items inherited by the right of the Nation, such as reserve lands, forests, water resources and mineral resources, are not recognized in the Nation's consolidated financial statements.

Long-lived assets consist of tangible capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Nation performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using quoted market prices.

Amortization

Tangible capital assets are amortized annually using the following methods at rates intended to amortize the cost of the assets over their estimated useful lives:

	<i>Method</i>	<i>Rate</i>
Buildings	declining balance	4 %
Computers	declining balance	30 %
Automotive	declining balance	30 %
Housing	declining balance	4 %
Equipment	declining balance	20 %
Infrastructure	declining balance	4 %
Renovations	straight-line	10 years

Revenue recognition

i) Government Transfers

The Nation recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances, the Nation recognizes revenue as the liability is settled. Transfers of non-depreciable assets are recognized in revenue when received or receivable.

ii) Nation Capital and Revenue Trust Funds

The Nation recognizes revenue of the Capital and Revenue Trust Fund at the time funds are contributed from the accounts held in Ottawa. Interest revenue is recognized when earned.

iii) Investment Income

Investment income is recognized by the Nation when the investment income is earned.

iv) Other Revenue

Revenue earned from the sale of fuel, tobacco and confectionary items is recognized when the goods are delivered to the customer, persuasive evidence of an arrangement exists, and collection is reasonably assured.

Interest income, rental income, and other revenue are recognized when earned and/or when the service is provided and collection is reasonably assured.

2. Significant accounting policies *(Continued from previous page)*

Measurement uncertainty (use of estimates)

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of tangible capital assets. Liabilities for contaminated sites are based on the best information available regarding potentially contaminated sites that the Nation is responsible for.

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in operations in the periods in which they become known.

Segments

The Nation conducts its business through a number of reportable segments as described in Note 20. These operating segments are established by senior management to facilitate the achievement of the Nation's long-term objectives to aid in resource allocation decisions, and to assess operational performance.

For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements.

Liability for contaminated site

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the Nation is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at March 31, 2019.

At each financial reporting date, the Nation reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The Nation continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made. As at March 31, 2019, no liability for contaminated sites exists.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments

The Nation recognizes its financial instruments when the Nation becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value.

The First Nation has designated endowment and trustee funds to be subsequently measured at their fair value. Fair value is determined by quoted prices in active markets.

The Nation subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Transactions to purchase or sell these items are recorded on the trade date. Net gains and losses arising from changes in fair value are recognized in the consolidated statement of remeasurement gains and losses. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost. With the exception of those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost using the effective interest rate method.

Transaction costs directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in operating annual surplus. Conversely, transaction costs are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

All financial assets except derivatives are tested annually for impairment. Any impairment, which is not considered temporary, is recorded in the consolidated statement of operations. Write-downs of financial assets measured at cost and/or amortized cost to reflect losses in value are not reversed for subsequent increases in value. Reversals of any net remeasurements of financial assets measured at fair value are reported in the consolidated statement of remeasurement gains and losses.

3. Change in accounting policy

PS 3430 Restructuring Transactions

Effective April 1, 2018, the First Nation adopted the recommendations relating to *PS 3430 Restructuring Transactions* as set out in the CPA Canada Public Sector Accounting Handbook. The main features of this standard are as follows:

- A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities that does not involve an exchange of consideration.
- Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor at their carrying amount and recognized by the recipient at their carrying amount with applicable adjustments.

There was no material impact on the consolidated financial statements of adopting the new section.

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

4. Accounts receivable

	2019	2018
Accounts receivable	307,839	449,963
Government receivables	230,874	25,121
Member rent receivable	252,799	359,979
Allowance for member rent receivable	(252,799)	(359,979)
Other receivables	174,157	1,351,215
Members	43,168	58,962
GST receivable	16,335	6,350
CMHC	-	2,586
	772,373	1,894,197

5. Portfolio investments

	2019	2018
Measured at cost:		
Chee Ventures Ltd.	67,457	67,457
Kaska Energy Corp.	25,000	25,000
Three Feathers GP Ltd.	25	25
	92,482	92,482

6. Restricted cash and reserves

	2019	2018
Reserves		
Replacement Reserve - CMHC	41,161	245,922
Capital Reserve	639,892	633,960
Debt Reserve - First Nations Finance Authority	108,591	104,474
Secured Revenues Trust Account - First Nations Finance Authority	232,390	229,763
Minister of Finance Security Deposit	2,500	2,500
	1,024,534	1,216,619
Victoria Foundation		
Endowment Fund	4,576,749	3,971,978
Trustee Payments	1,858,704	891,937
	6,435,453	4,863,915
	7,459,987	6,080,534

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

6. Restricted cash and reserves *(Continued from previous page)*

Replacement Reserve

Under the terms of agreement #17-496-969 with Canada Mortgage and Housing Corporation, the Nation must set aside funds in the amount of \$14,632 (2018 - \$23,281) annually. 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 as may otherwise be approved by CMHC from time to time. At year end the replacement reserve is fully funded and is in compliance with the agreement with CMHC.

Capital Asset Reserve

The Capital Asset Reserve consists of internally restricted funds designated for the future acquisition of tangible capital assets in accordance with the Nation's capital plan.

Debt Reserve

Under the terms of a Borrowing Agreement with First Nation Finance Authority, five percent of the loan amount is withheld in the event that FNFA lacks sufficient funds to meet its obligations due to default in payment by the Nation. Upon extinguishment of the loan, the Debt Reserve, \$102,650 plus daily interest at 0.85%, will be repaid to the Nation.

Secured Revenues Trust Account

Under the terms of a Secured Revenues Trust Account Management Agreement with First Nations Finance Authority, a minimum debt service coverage ratio must be maintained with interest calculated monthly at 0.7%. Scheduled principal and interest payments are withdrawn in accordance with the Borrowing Agreement.

Victoria Foundation

Trust funds held on behalf of the Nation in an Endowment Fund created under the Endowment Fund Public Deed of Trust and a Payment Trustee Agreement between Kwadacha Nation, the Victoria Foundation and British Columbia Power Authority dated November 28, 2009. The initial capital contribution is disclosed in Note 16.

7. Advances to related Nation entities

Amounts due from Nation entities are unsecured, non-interest bearing with no specific terms of repayment.

8. Inventories

	2019	2018
Retail	310,529	242,176
Jet fuel	82,665	18,318
Gravel	8,236	8,236
	401,430	268,730

For the year ended March 31, 2019

9. Investments in Nation partnerships and business entities

The Nation has investments in the following entities:

	<i>Balance, beginning of year</i>	<i>Loans / advances</i>	<i>Share of earnings (loss)</i>	2019 <i>Total investment</i>
Wholly-owned Businesses:				
Kwadacha Natural Resources GP Ltd.	(11,736)	-	(1,665)	(13,401)
Obo Forest Management GP Ltd.	(7,923)	-	(2,174)	(10,097)
	(19,659)	-	(3,839)	(23,498)
First Nation Business Partnerships – Modified Equity:				
Kwadacha Natural Resources LP - 99.99%	1,501,886	53,916	(80,030)	1,475,772
Three Feathers LP - 33.33%	94,443	-	161,227	255,670
Claw Mountain LP - 50%	361,123	-	50,387	411,510
Tse Keh Nay LLP - 33.33%	32,116	-	231,249	263,365
KNGV Freight Services - 50%	-	-	(88,557)	(88,557)
	1,989,568	53,916	274,276	2,317,760
	1,969,909	53,916	270,437	2,294,262
				2018
	<i>Balance, beginning of year</i>	<i>Loans / advances</i>	<i>Share of earnings (loss)</i>	<i>Total investment</i>
Wholly-owned Businesses:				
Kwadacha Natural Resources GP Ltd.	(9,008)	-	(2,728)	(11,736)
Obo Forest Management GP Ltd.	(5,179)	-	(2,744)	(7,923)
	(14,187)	-	(5,472)	(19,659)
First Nation Business Partnerships – Modified Equity:				
Kwadacha Natural Resources LP - 99.99%	1,043,962	2,753	455,171	1,501,886
Tse Keh Nay LLP - 33.33%	-	46,425	(14,309)	32,116
Three Feathers LP - 33.33%	128,663	-	(34,220)	94,443
Claw Mountain LP - 50%	352,122	(7,872)	16,873	361,123
	1,524,747	41,306	423,515	1,989,568
	1,510,560	41,306	418,043	1,969,909

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

9. Investments in Nation partnerships and business entities *(Continued from previous page)*

Summary financial information for each Nation business entity, accounted for using the modified equity method, for their respective year-ends is provided below.

The Nation's investees have a different year-end than March 31, 2019, as described below. The Nation uses the investees' year-end financial statements to account for its investment in these investees. For most investments, there have been no significant events or transactions in the interim period.

For Kwadacha Natural Resources LP, losses of \$929,152 were incurred between April 1, 2018 and March 31, 2019. For KNGV (A Partnership), losses of \$38,626 were incurred between April 1, 2018 and March 31, 2019. These losses are reflected in the investment balances in the Nation's consolidated financial statements for March 31, 2019.

All entities listed are unaudited.

As at the audit report date, financial statements were unavailable for Chee Ventures Ltd., Kaska Energy Corp., Kaska Oil & Gas Services LP and Kaska Drilling LP, and as such financial information for these entities has not been included in the summary below.

	<i>Three Feathers LP As at March 31, 2019 (unaudited)</i>	<i>Tse Keh Nay LLP As at March 31, 2019 (unaudited)</i>	<i>Claw Mountain Outfitters LLP As at December 31, 2018 (unaudited)</i>	<i>Kwadacha Natural Resources GP Ltd. As at April 30, 2018 (unaudited)</i>
Assets				
Cash	814,307	606,807	244,916	-
Accounts receivable	270,942	187,339	16,340	-
Prepaid expenses	18,993	-	7,300	-
Due from related party	13,200	-	-	188
Investments	-	-	-	-
Property, plant, equipment	-	-	76,555	-
Intangibles	-	-	547,660	-
Total assets	1,117,442	794,146	892,771	188
Liabilities				
Accounts payable and accruals	350,292	4,053	35,170	4,037
Bank indebtedness	-	-	-	-
Current portion long term debt	-	-	-	-
Deferred revenue	-	-	34,580	-
Deficiency in investment	-	-	-	335
Due to related party	-	-	-	9,117
Long term debt	-	-	-	-
Total liabilities	350,292	4,053	69,750	13,489
Shareholders' Equity/Partners' Capital	767,150	790,093	823,021	(13,301)
Total revenue	525,537	706,266	475,517	85
Total expenses	41,857	10,648	374,741	1,750
Net income (loss)	483,680	695,618	100,776	(1,665)

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

9. Investments in Nation partnerships and business entities *(Continued from previous page)*

	<i>Kwadacha Natural Resources LP As at April 30, 2018 (unaudited)</i>	<i>Obo Forest Management GP Ltd. As at April 30, 2018 (unaudited)</i>	<i>KNGV Freight Services As at April 30, 2018 (unaudited)</i>
Assets			
Cash	-	-	14,449
Accounts receivable	99,675	-	29,162
Prepaid expenses	2,284	-	-
Due from related party	12,375	100	-
Investments	3,064,837	5,275	-
Property, plant, equipment	1,053,602	-	-
Intangibles	-	-	-
Total assets	4,232,773	5,375	43,611
Liabilities			
Accounts payable and accruals	53,473	4,037	2,762
Bank indebtedness	146,526	-	-
Current portion long term debt	123,095	-	-
Deferred revenue	-	-	-
Deficiency in investment	-	-	-
Due to related party	2,611,167	11,335	-
Long term debt	253,842	-	-
Total liabilities	3,188,103	15,372	2,762
Shareholders' Equity/Partners' Capital	1,044,670	(9,997)	40,849
Total revenue	2,683,113	147	375,310
Total expenses	1,833,998	2,321	475,173
Net income (loss)	849,115	(2,174)	(99,863)

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

10. Funds held in trust

Capital and revenue trust monies are transferred to the Nation on the authorization of the Minister of Indigenous Services Canada, with the consent of the Nation's Council.

	2019	2018
Capital Trust		
Balance, beginning and end of year	1	1
Revenue Trust		
Balance, beginning of year	123,298	120,724
BC special	1,268	1,281
Interest	2,864	2,702
Balance, end of year	127,430	124,707
	127,431	124,708

Ottawa Trust Funds

The Ottawa Trust accounts arise from monies derived from capital or revenue sources as 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 is primarily governed by Sections 63 to 69 of the *Indian Act*.

11. Debt

	2019	2018
Royal Bank of Canada demand loan, repayable in monthly instalments of \$4,900 including interest at 2.99% per annum, secured by a Government of Canada ministerial guarantee, matures November 2019	905,600	936,809
Royal Bank of Canada term loan, repayable in monthly instalments of \$10,100 including interest at RBC prime plus 1.75%, secured by a Government of Canada ministerial guarantee matures, July 2019	904,051	973,922
Royal Bank of Canada demand loan, repayable in monthly instalments of \$5,184 including interest at 3.59% per annum, secured by a Government of Canada ministerial guarantee, matures August 2023	869,546	900,172
Royal Bank of Canada demand loan, repayable in monthly instalments of \$2,917 including interest at 2.24% per annum, secured by a Government of Canada ministerial guarantee, matures April 2020	471,288	495,436
Royal Bank of Canada demand loan, repayable in monthly instalments of \$5,518 including interest at 2.56% per annum, secured by a Government of Canada ministerial guarantee, matures January 2021	414,127	468,975
Royal Bank of Canada demand loan, repayable in monthly instalments of \$2,341 including interest at 3.61% per annum, secured by a Government of Canada ministerial guarantee, matures December 2023	319,881	338,850
Conditional Sales Contract repayable in monthly instalments of \$7,918 including interest at 3.03% per annum, secured by equipment with a net book value \$260,457 (2018 - \$372,082), matures September 2021	228,334	315,057

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

11. Debt (Continued from previous page)

Royal Bank of Canada demand loan repayable in monthly instalments of \$1,783 including interest at 2.81% per annum, secured by a Government of Canada ministerial guarantee, matures July 2022	158,748	175,420
Conditional Sales Contract repayable in monthly instalments of \$4,375 including interest at 3.24% per annum, secured by equipment with a net book value \$116,792 (2018 - \$151,543), matures March 2022	149,768	196,625
Royal Bank of Canada demand loan, repayable in monthly instalments of \$1,163 including interest at 2.59% per annum, secured by a Government of Canada ministerial guarantee, matures February 2021	142,651	152,763
Royal Bank of Canada demand loan, repayable in monthly instalments of \$765 including interest at 2.98% per annum, secured by a Government of Canada ministerial guarantee, matures April 2019	68,265	75,295
All Nations Trust demand loan, repayable in monthly instalments of \$1,050 including interest at 8.25% per annum, unsecured, matures August 2021	12,919	34,571
All Nations Trust demand loan, repayable in monthly instalments of \$500 including interest at 7.00% per annum, unsecured, matures August 2021	10,204	17,825
Conditional Sales Contract repayable in monthly instalments of \$881 including interest at 6.25% per annum, secured by equipment with a net book value \$8,080 (2018 - \$11,543), matures December 2019	7,731	17,496
CMHC mortgage, fully repaid this year	-	39,166
CMHC mortgage, fully repaid this year	-	20,476
Conditional Sales Contract, fully repaid this year	-	13,122
CMHC mortgage, fully repaid this year	-	3,670
	4,663,113	5,175,650

Principle repayments on debt in each of the next five years, assuming debt subject to refinancing is renewed, are estimated as follows:

2020	505,096
2021	501,771
2022	464,691
2023	375,176
2024	386,410
Thereafter	2,233,144
	4,663,113

Prime rate at March 31, 2019 was 3.95% (2018 - 3.45%).

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

12. Promissory Note

	2019	2018
First Nation Finance Authority		
Note payable for interim financing obtained for the construction of a biomass plant, due the earlier of (a) five years from the first principal amount drawdown (May 11, 2021), (b) the date of completion of the plant (April 21, 2017), or (c) the date upon which the Authority issues debt securities to replace the interim financing, secured by reserves established in accordance with an agreement with First Nation Finance Authority	1,950,364	2,027,532

13. Advances from related Nation entities

Amounts due to Nation entities are unsecured, non-interest bearing with no specific terms of repayment.

	2019	2018
Due to Kwadacha Education Society	3,089,275	2,812,636
Due to Obo Forest Management LP	827,504	828,200
Due to Kaska Oil & Gas LP	69,632	66,707
Due to Kaska Drilling LP	48,220	46,984
	4,034,631	3,754,527

14. Contingent liabilities

Kwadacha Nation has entered into contribution agreements with various government agencies. Funding received under these contribution agreements is subject to repayment if the Nation fails to comply with the terms and conditions of the agreements. The amount of the liability related to current year funding, if any, of the Nation is not determinable at this time.

The Nation may have future silviculture commitments for government business enterprise owned forest licenses if future costs exceed current estimates. The amount of the liability, if any, is not determinable at this time.

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

15. Accumulated surplus

Accumulated surplus consists of the following:

	2019	<i>2018 Restated (Note 17)</i>
Operations Fund	(5,262,523)	(3,791,784)
CMHC Housing Fund	-	247,722
Investment in tangible capital assets	34,755,687	32,420,655
Capital Asset Fund - internally restricted	639,892	633,960
Investment in Nation partnerships and business entities	2,294,262	1,969,908
Ottawa Trust Fund	127,431	124,708
Settlement Negotiations Fund	8,757,513	7,809,468
Remeasurement Gains and Losses	1,260,735	(386,303)
	42,572,997	39,028,334

16. Endowment Fund

Trust funds are held on behalf of the Nation in an Endowment Fund with the Victoria Foundation, created under the Endowment Fund Public Deed of Trust and a Payment Trustee Agreement between Kwadacha Nation, the Victoria Foundation and British Columbia Power Authority dated November 28, 2009. The initial capital contribution earning interest in this fund is \$13,500,000. As the amount is an endowment held in perpetuity, it has not been recorded in these consolidated financial statements.

17. Correction of error

During the year, the Nation determined that tangible capital assets were recorded as expenses in the consolidated financial statements during the March 31, 2017 year. The impact of this correction for the year ended March 31, 2017 is as follows:

- Tangible capital assets increased by \$1,094,463
- Accumulated surplus increased by \$1,094,463

Additionally, the Nation determined that tangible capital assets were recorded as expenses in the consolidated financial statements during the March 31, 2018 year. The impact of this correction for the year ended March 31, 2018 is as follows:

- Tangible capital assets increased by \$783,257
- Expenses decreased by \$783,257
- Annual surplus increased by \$783,257
- Accumulated surplus increased by \$783,257

Kwadacha Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2019

18. Economic dependence

Kwadacha Nation receives a significant portion of its revenue from Indigenous Services Canada (ISC) as a result of Treaties entered into with the Government of Canada. These treaties are administered by ISC under the terms and conditions of the *Indian Act*. The ability of the Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these treaties.

19. Indigenous Services Canada reconciliation

	2019	2018
Direct Nation Funding		
ISC revenue per confirmation	9,657,895	7,306,581
ISC reimbursements	22,181	-
ISC recoveries	(55,067)	(255)
ISC overpayment	-	(103,562)
Deferred for future capital projects	(98,679)	(182,765)
ISC funding for capital projects	100,000	(100,000)
Deferred revenue recognized during the year	182,765	1,971,124
Recipient total per consolidated financial statements	9,809,095	8,891,123

20. Budget information

Budgets were not prepared for all segments and all departments in 2019. As such, the budget figures in the Consolidated Statement of Operations are not presented for the same scope of activities as the actual results.

The disclosed budget information has been approved by the Chief and Council on the Kwadacha Nation. The original budget was approved at the Chief and Council meeting held on September 15, 2018.

21. Segments

During the year, the Nation had 9 reportable segments. These segments are differentiated by factors such as major activities, services lines, accountability, and control relationships. For management and reporting purposes, the revenues, expenses, surpluses or deficits are organized by the following segments:

Administration:

This segment provides governance initiatives and training through the activities of Chief and Council and administration of other activities relating to program delivery, membership and finance.

Education and Training:

This segment provides elementary and secondary education instructional services and provides financial support to Post Secondary students.

Income Assistance:

This segment provides programs and services for the social benefit and welfare of Nation members.

Operations and Maintenance:

The segment manages community and facilities operations and maintenance including capital projects, municipal services, water and waste water operations, roads, fire protection, and maintenance of community buildings.

Capital:

This segment provides for capital infrastructure development.

Own Source:

This segment provides for a variety of non-funded local services.

Health and Wellness:

This segment provides a variety of health care programs, services and support to Nation members. .

Settlement Negotiations:

This segment provides programs and services not otherwise funded for the social, economic and capital needs of Nation members.

Band Member Trust:

This segment provides administration services for funds held in trust for band members.

22. Financial Instruments

The Nation as part of its operations carries a number of financial instruments. It is management's opinion that the Nation is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Credit Risk

Credit risk is the risk assumed by the creditor that the borrower will fail to fully honour its financial obligations. Financial instruments that potentially subject the Nation to concentrations of credit risk consists principally of cash, accounts receivable and advances to related parties. The maximum credit risk exposure is \$772,374 (2018 - \$1,894,197). Management believes that the credit risk is low in regards to cash as balances are held with a chartered financial institution and low for accounts receivable and advances to related parties as management provides allowances for potentially uncollectible amounts.

Risk management

The Nation does not have formal risk management policies in place.

Liquidity Risk

Liquidity risk is the risk that the Nation will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Nation enters into transactions to purchase goods and services on credit for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Nation's future net cash flows for the possibility of negative net cash flow. The Nation and its entities manage liquidity risk by maintaining liquid assets. The current liabilities of the Nation and its entities are expected to be settled and mature within one year of the year-end date.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Nation is exposed to interest rate risk primarily due to the debt as it is subject to floating rates.

The prime rate for both RBC at March 31, 2019 was 3.95% (2018 - 3.45%).

23. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.