

**Quatsino First Nation  
Consolidated Financial Statements  
*March 31, 2017***

**Quatsino First Nation  
Contents  
For the year ended March 31, 2017**

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	Page
<b>Management's Responsibility</b>	
<b>Independent Auditors' Report</b>	
<b>Consolidated Financial Statements</b>	
Consolidated Statement of Financial Position.....	1
Consolidated Statement of Operations and Accumulated Surplus.....	2
Consolidated Statement of Changes in Net Financial Assets.....	3
Consolidated Statement of Cash Flows.....	4
<b>Notes to the Consolidated Financial Statements.....</b>	<b>5</b>
<b>Schedules</b>	
Schedule 1 - Consolidated Schedule of Tangible Capital Assets.....	19
Schedule 2 - Consolidated Schedule of Expenses by Object.....	21
Schedule 3 - Schedule of Revenue and Expenses - Administration.....	22
Schedule 4 - Schedule of Revenue and Expenses - Community.....	23
Schedule 5 - Schedule of Revenue and Expenses - Arcade and Economic Development.....	24
Schedule 6 - Schedule of Revenue and Expenses - Community Infrastructure.....	25
Schedule 7 - Schedule of Revenue and Expenses - Housing.....	26
Schedule 8 - Schedule of Revenue and Expenses - Social Housing - CMHC.....	27
Schedule 9 - Schedule of Revenue and Expenses - Natural Resources.....	28
Schedule 10 - Schedule of Revenue and Expenses - Income Assistance.....	29
Schedule 11 - Schedule of Revenue and Expenses - Health.....	30
Schedule 12 - Schedule of Revenue and Expenses - Education.....	31
Schedule 13 - Schedule of Revenue and Expenses - Enterprise Fund.....	32

## **Management's Responsibility**

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**To the Members of Quatsino First Nation:**

The accompanying consolidated financial statements of Quatsino First Nation are the responsibility of management and have been approved by the 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 Quatsino First Nation Chief and Council are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Chief and Council fulfil these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Chief and Council are 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 Chief and Council and management to discuss their audit findings.

July 18, 2017

  
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Jeff Marve  
Band Manager

## Independent Auditors' Report

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To the Members of Quatsino First Nation:

We have audited the accompanying consolidated financial statements of Quatsino First Nation, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations and accumulated surplus, changes in net financial assets, cash flows and the related schedules for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### *Basis for Qualified Opinion*

Financial information for the Gwabalis Fisheries Society for the year ended March 31, 2017 and the year ended March 31, 2016, was not available to be audited. Due to the financial information being unaudited, we were unable to determine whether adjustments to investments in Nation business entities, earnings from investments in Nation business entities, surplus and accumulated surplus were necessary.

Accordingly, we were not able to obtain sufficient audit evidence to satisfy ourselves that the consolidated financial statements are not materially misstated for these items.

### *Opinion*

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Quatsino First Nation as at March 31, 2017 and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Nanaimo, British Columbia

July 18, 2017

**MNP LLP**

Chartered Professional Accountants

**Quatsino First Nation**  
**Consolidated Statement of Financial Position**  
*As at March 31, 2017*

	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Cash	5,388,503	4,608,184
Restricted cash (Note 3)	648,525	686,746
Accounts receivable (Note 4)	563,760	523,480
Funds held in trust (Note 5)	944,015	925,088
Inventory for resale	7,990	7,547
Advances to related Nation entities (Note 6)	198,628	16,005
Investment in Nation business entities (Note 7)	1,372,217	1,869,301
<b>Total financial assets</b>	<b>9,123,638</b>	<b>8,636,351</b>
<b>Liabilities</b>		
Accounts payable and accruals	555,311	420,378
Deferred revenue	18,999	18,399
Advances from related Nation entities (Note 6)	6,272	160,963
Long-term debt (Note 8)	1,718,735	1,848,353
Treaty note payable (Note 9)	2,336,668	2,336,668
<b>Total liabilities</b>	<b>4,635,985</b>	<b>4,784,761</b>
<b>Net financial assets</b>	<b>4,487,653</b>	<b>3,851,590</b>
Commitments (Note 10)		
Contingencies (Note 11)		
Subsequent event (Note 12)		
<b>Non-financial assets</b>		
Tangible capital assets (Schedule 1)	9,168,821	8,803,659
Prepaid expenses	45,015	65,632
<b>Total non-financial assets</b>	<b>9,213,836</b>	<b>8,869,291</b>
<b>Accumulated surplus (Note 13)</b>	<b>13,701,489</b>	<b>12,720,881</b>

Approved on behalf of Chief and Council

Percy Nels

Councillor

Jamie Smith

Councillor

**Quatsino First Nation**  
**Consolidated Statement of Operations and Accumulated Surplus**  
*For the year ended March 31, 2017*

	Schedules	2017 Budget (Note 15)	2017	2016
<b>Revenue</b>				
Indigenous and Northern Affairs Canada (Note 16)		787,951	2,054,710	1,684,117
First Nations Health Authority		593,591	633,957	600,411
Canada Mortgage and Housing Corporation		130,359	257,106	129,757
Fisheries and Oceans Canada		128,210	152,261	138,530
Trust funds		-	18,927	125,326
Earnings from investment in Nation business entities		-	1,867,727	627,617
Miscellaneous		169,441	941,168	786,361
Province of British Columbia		-	605,650	804,283
Wind Farm		-	309,335	284,230
Investment income		166,728	200,144	186,020
Arcade		-	187,782	128,457
Forestry		-	66,484	42,609
First Nations organizations		-	35,471	15,163
North Vancouver Island Aboriginal Management Society		-	17,478	18,074
		<b>1,976,280</b>	<b>7,348,200</b>	<b>5,570,955</b>
<b>Expenses</b>				
Administration	3	383,405	928,164	666,934
Community	4	-	7,756	15,657
Arcade and Economic Development	5	-	508,850	164,740
Community Infrastructure	6	154,459	222,475	310,588
Housing	7	-	132,198	24,383
Social Housing - CMHC	8	164,192	364,395	296,847
Natural Resources	9	150,757	690,480	662,017
Income Assistance	10	343,125	327,514	318,131
Health	11	574,598	633,511	524,954
Education	12	214,902	1,395,690	1,099,438
Enterprise Fund	13	-	77,203	106,633
<b>Total expenditures</b>		<b>1,985,438</b>	<b>5,288,236</b>	<b>4,190,122</b>
<b>Annual surplus (deficit) before other items</b>		<b>(9,158)</b>	<b>2,059,964</b>	<b>1,380,833</b>
<b>Other Income (Expense)</b>				
Gain on dissolution of Quatsino Energy Corporation Ltd.		-	35,193	-
Loss on disposal of tangible capital assets		-	(184,845)	-
Change in valuation of Gwabalis Fisheries Society		-	-	(19,530)
Capital contribution (Note 17)		-	(654,704)	-
		<b>-</b>	<b>(804,356)</b>	<b>(19,530)</b>
<b>Annual surplus (deficit) before transfers</b>		<b>(9,158)</b>	<b>1,255,608</b>	<b>1,361,303</b>
<b>Transfer to Nation Members</b>		<b>-</b>	<b>(275,000)</b>	<b>(281,000)</b>
<b>Annual surplus (deficit)</b>		<b>(9,158)</b>	<b>980,608</b>	<b>1,080,303</b>
<b>Accumulated surplus, beginning of year</b>		<b>12,720,881</b>	<b>12,720,881</b>	<b>11,640,578</b>
<b>Accumulated surplus, end of year</b>		<b>12,711,723</b>	<b>13,701,489</b>	<b>12,720,881</b>

*The accompanying notes are an integral part of these financial statements*

**Quatsino First Nation**  
**Consolidated Statement of Changes in Net Financial Assets**  
*For the year ended March 31, 2017*

	<b>2017</b> <i>Budget</i> <b>(Note 15)</b>	<b>2017</b>	<b>2016</b>
<b>Annual surplus (deficit)</b>	<b>(9,158)</b>	<b>980,608</b>	<b>1,080,303</b>
Purchases of tangible capital assets	-	(1,978,300)	(159,523)
Amortization of tangible capital assets	-	490,640	497,615
Capital contribution of tangible capital assets (Note 17)	-	937,653	-
Loss on disposal of tangible capital assets	-	184,845	-
Acquisition of prepaid expenses	-	-	(317)
Use of prepaid expenses	-	20,617	-
<b>Increase (decrease) in net financial assets</b>	<b>(9,158)</b>	<b>636,063</b>	<b>1,418,078</b>
<b>Net financial assets, beginning of year</b>	<b>3,851,590</b>	<b>3,851,590</b>	<b>2,433,512</b>
<b>Net financial assets, end of year</b>	<b>3,842,432</b>	<b>4,487,653</b>	<b>3,851,590</b>

**Quatsino First Nation**  
**Consolidated Statement of Cash Flows**  
*For the year ended March 31, 2017*

	<b>2017</b>	<b>2016</b>
<b>Cash provided by (used for) the following activities</b>		
<b>Operating activities</b>		
Annual surplus	980,608	1,080,303
Non-cash items		
Amortization	490,640	497,615
Bad debts	2,678	2,927
Gain on dissolution of Quatsino Energy Corporation Ltd.	(35,193)	-
Loss on disposal of tangible capital assets	184,845	-
Earnings from investment in Nation business	(1,867,727)	(627,617)
Change in valuation of Gwabalis Fisheries Society	-	19,530
Decrease (increase) in trust funds	(18,927)	168,974
Capital contribution <i>(Note 17)</i>	654,704	-
Capital contribution impact on working capital accounts <i>(Note 17)</i>	2,657	-
Changes in working capital accounts		
Accounts receivable	(42,958)	(34,377)
Prepaid expenses	20,617	(317)
Inventory for resale	(443)	1,624
Accounts payable and accruals	134,933	40,386
Deferred revenue	600	-
	<b>507,034</b>	<b>1,149,048</b>
<b>Financing activities</b>		
Repayment of long-term debt	(129,618)	(119,863)
Withdrawals from restricted cash	-	(67,773)
Deposits to restricted cash	38,221	-
Advances from related Nation entities	-	3,861
Repayment of advances from related Nation entities	(57,018)	-
	<b>(148,415)</b>	<b>(183,775)</b>
<b>Capital activities</b>		
Purchases of tangible capital assets	(1,978,300)	(159,523)
<b>Investing activities</b>		
Cash distribution from Nation business entities	2,400,000	-
<b>Increase in cash</b>	<b>780,319</b>	<b>805,750</b>
<b>Cash, beginning of year</b>	<b>4,608,184</b>	<b>3,802,434</b>
<b>Cash, end of year</b>	<b>5,388,503</b>	<b>4,608,184</b>
<b>Supplementary cash flow information</b>		
Interest paid	23,719	44,292
Interest received	51,189	19,372

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**1. Operations**

The Quatsino First Nation (the "First Nation") is located in the province of British Columbia, and provides various services to its members. Quatsino First 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**

These consolidated financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and include the following significant accounting policies:

***Reporting entity consolidated***

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

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

- CMHC Housing
- Trust Funds

All inter-entity balances have been eliminated on consolidation.

Quatsino First Nation business entities, owned or controlled by the First Nation's Council but not dependent on the First 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 First Nation. Thus, the First 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. Entities accounted for by the modified equity basis include:

- Quatsino Economic Development Limited Partnership
- Quatsino First Nation Economic Development Corporation Ltd.

First Nation business partnerships, jointly owned and controlled by the First Nation's Council are not dependent on the First 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 First Nation. Thus, the First 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. Entities accounted for by the modified equity basis include:

- Gwabalis Fisheries Society
- Gilakasla Kwa Holdings Ltd.

***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.

***Long-lived assets***

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

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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

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 prices for similar items. Any impairment is included in operations for the year.

The Nation does not perform impairment testing on its long-lived assets that are held for public administration and situated on its reserve land as it is not possible to determine their fair market value.

***Cash***

Cash includes 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.

***Tangible capital assets***

Tangible capital assets are initially recorded at cost, based on historical cost accounting records, less accumulated amortization. Contributed tangible assets are recorded at their fair value at the date of contribution.

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

***Amortization***

Amortization for tangible capital assets is provided using the following methods at rates intended to amortize the cost of the assets over their estimated useful lives. In the year of acquisition, amortization is taken at one-half the rates. See below for amortization rates of specific asset categories.

Land, totem pole, and work-in-progress are not amortized.

	<b>Method</b>	<b>Rate</b>
Buildings and improvements	declining balance	4-10 %
CMHC housing	straight-line	25 years
Roads, streets and bridges	straight-line	38-100 years
Water, sanitary, and storm	straight-line	30-100 years
Boats	declining balance	15 %
Vehicles	declining balance	30 %
Equipment	declining balance	20 %
Computer hardware and software	declining balance	30-100 %
Equipment under capital lease	double declining balance	20 %

***Funds held in trust***

Funds held in trust on behalf of First 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 First Nation tangible capital assets; and
- Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

***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.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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

***Net financial assets***

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

***Revenue recognition***

**i) Government Funding**

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. Transfer revenue is recognized in the consolidated statement of operations as the stipulation liabilities are settled.

**ii) First Nation Capital and Revenue Trust Funds**

The First Nation recognized 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) Canada Mortgage and Housing Corporation ("CMHC")**

CMHC revenue is recognized as it becomes receivable under the terms of the applicable funding agreements. Funding received under funding arrangements that relate to a subsequent fiscal period are reflected as deferred revenue on the consolidated statement of financial position in the year of receipt.

**iv) Housing rental income**

Rental revenue is recorded in the year it is earned. At the end of each year, management evaluates whether rent revenue is collectible and records a bad debt expense and allowance for doubtful accounts for those amounts designated as unlikely to be collected.

**v) Other revenue**

Other revenue is recognized when performance is complete, collectibility is assured and an amount can be reasonably estimated.

***Inventory***

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of selling.

***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 First 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, 2017.

At each financial reporting date, the First 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 First 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, 2017, no liability had been reported in these consolidated financial statements.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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

***Measurement uncertainty***

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 collectibility 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 estimated based on the best information available regarding potentially contaminated sites that the First Nation is responsible for.

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

***Segments***

The First Nation conducts its business through a number of reportable segments as described in Note 14. These operating segments are established by senior management to facilitate the achievement of the First 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. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information.

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

***Recent accounting pronouncements***

The First Nation does not expect that the application of any new standards will have a material effect on the consolidated financial statements.

**3. Restricted cash**

Under the terms of the agreement with Canada Mortgage and Housing Corporation ("CMHC"), the replacement reserve account is to be credited in the amount of \$37,405 (2016 - \$37,405) 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. The funds in the account may only be used as approved by CMHC. At March 31, 2017, \$238,377 (2016 - \$303,140) has been set aside to fund these reserves. At year end, these reserves were adequately funded.

Under the terms of the agreements with Canada Mortgage and Housing Corporation ("CMHC"), excess revenue over expenditures for the Post 1996 phases may be retained in an Operating Reserve. 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 March 31, 2017, \$410,147 (2016 - \$383,606) has been set aside to fund this reserve. At year end, the operating reserve was underfunded by \$15,641 (2016 - \$25,657).

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

**4. Accounts receivable**

	<b>2017</b>	<b>2016</b>
Indigenous and Northern Affairs Canada	1,032	36,624
Fishing entities	15,428	6,825
Department of Fisheries and Oceans	1,506	60,087
New Relationship Trust	15,400	6,000
Other First Nations and First Nation business entities	109,175	80,945
Members	111,735	98,094
Forestry companies	48,811	9,216
Province of British Columbia	47,127	24,004
Rent receivable	87,018	82,549
Canada Mortgage and Housing Corporation	61,363	10,427
Other receivables	65,165	108,709
	<b>563,760</b>	<b>523,480</b>

**5. Funds held in trust**

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

	<b>2017</b>	<b>2016</b>
<b>Capital Trust</b>		
Balance, beginning and end of year	<b>11,238</b>	<b>11,238</b>
<b>Revenue Trust</b>		
Balance, beginning of year	913,850	1,082,824
Interest	17,667	18,791
Lease Revenue	-	105,279
BC special distribution	1,260	1,256
Member distribution	-	(285,800)
Member distributions in trust	-	(8,500)
Balance, end of year	<b>932,777</b>	<b>913,850</b>
	<b>944,015</b>	<b>925,088</b>

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*.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**6. Advances to (from) related Nation Entities**

Advances to (from) related Nation entities are unsecured, non-interest bearing and due on demand. These entities are related by virtue of common control or joint control by Quatsino First Nation.

	<b>2017</b>	<b>2016</b>
<b>Advances to related Nation Entities</b>		
688357 B.C. Ltd.	-	118
Quatsino Economic Development Limited Partnership	198,178	14,779
Quatsino First Nation Economic Development Corporation	-	1,108
Quattishe Forest Products Ltd.	450	-
	<b>198,628</b>	<b>16,005</b>
<b>Advances from related Nation Entities</b>		
Quatsino Economic Development Limited Partnership	6,272	160,963

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

**7. Investment in Nation business entities**

The First Nation has investments in the following entities:

	<i>Investment cost</i>	<i>Loans / advances</i>	<i>Cumulative share of earnings (loss)</i>	<i>Draws</i>	<i>Total Investment</i>
<b>Wholly-owned Businesses:</b>					
Quatsino First Nation Economic Development Corporation Ltd.	10	-	(2,189,735)	-	(2,189,725)
Quatsino Economic Development Limited Partnership - 99.9%	999	3,910,699	1,685,651	(2,400,000)	3,197,349
	<b>1,009</b>	<b>3,910,699</b>	<b>(504,084)</b>	<b>(2,400,000)</b>	<b>1,007,624</b>
<b>Significantly Influenced Businesses:</b>					
Gilakasia Kwa Holdings Ltd. - 33%	1	-	(1)	-	-
Gwabalis Fisheries Society - 25%	-	-	364,593	-	364,593
	<b>1</b>	<b>-</b>	<b>364,592</b>	<b>-</b>	<b>364,593</b>
	<b>1,010</b>	<b>3,910,699</b>	<b>(139,492)</b>	<b>(2,400,000)</b>	<b>1,372,217</b>
	<i>Investment cost</i>	<i>Loans / advances</i>	<i>Cumulative share of earnings (loss)</i>	<i>Draws</i>	<i>Total Investment</i>
<b>Wholly-owned Businesses:</b>					
Quatsino First Nation Economic Development Corporation Ltd.	10	-	(2,095,941)	-	(2,095,931)
Quatsino Economic Development Limited Partnership - 99.9%	999	3,910,699	82,647	-	3,994,345
	<b>1,009</b>	<b>3,910,699</b>	<b>(2,013,294)</b>	<b>-</b>	<b>1,898,414</b>
<b>Significantly Influenced Businesses:</b>					
Gilakasia Kwa Holdings Ltd. - 33%	1	-	(51,250)	-	(51,249)
Gwabalis Fisheries Society - 25%	-	-	22,136	-	22,136
	<b>1</b>	<b>-</b>	<b>(29,114)</b>	<b>-</b>	<b>(29,113)</b>
	<b>1,010</b>	<b>3,910,699</b>	<b>(2,042,408)</b>	<b>-</b>	<b>1,869,301</b>

The First Nation's investment in Quatsino First Nation Economic Development Corporation Ltd. was established for the purposes of running the economic activities of various business endeavours for the First Nation. It owns investments in 688357 B.C. Ltd., Quatsino Marine GP Ltd. and Quattishe Forest Products Ltd.

Quatsino Economic Development Limited Partnership was established for the purposes of running the economic activities of various business endeavours for the First Nation. It owns investments in Quatsino Marine Limited Partnership, Quattishe Limited Partnership, Quatern Limited Partnership and 3 Nations' Construction Limited Partnership. The year-end for the First Nation business entities is December 31, 2016. No significant or unusual transactions occurred between December 31, 2016 and March 31, 2017, therefore the December 31, 2016 figures are included without adjustment.

See Note 19 for a description of the reorganization that occurred in Quatsino First Nation Economic Development Corporation Ltd. and in Quatsino Economic Development Limited Partnership during the year.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**7. Investments in First Nation business entities (Continued from previous page)**

Summary financial information for each First Nation business entity, accounted for using the modified equity method, for their respective year-end is as follows:

	<b>Quatsino First Nation Economic Development Corporation Ltd. As at December 31, 2016</b>	<b>Quatsino Economic Development Limited Partnership As at December 31, 2016</b>	<b>Gilakasla Kwa Holdings Ltd. As at December 31, 2016</b>	<b>Gwabalis Fisheries Society As at March 31, 2017</b>
<b>Assets</b>				
Cash	37,945	355,190	258,525	341,399
Accounts receivable	1,933	56,681	76,640	155,015
Inventory	-	25,121	-	-
Prepays	75,975	43,090	6,000	5,000
Advances to related parties	2,065,198	2,246,021	-	-
Property, plant and equipment	663,821	224,451	-	-
Investments	3,644	2,070,927	51	990,000
<b>Total assets</b>	<b>2,848,516</b>	<b>5,021,481</b>	<b>341,216</b>	<b>1,491,414</b>
<b>Liabilities</b>				
Accounts payable and accruals	15,976	133,963	195,706	17,296
Payable to shareholder	4,417,406	-	-	-
Advances from related parties	604,648	189,439	145,509	-
Long-term debt	-	80,519	-	-
<b>Total Liabilities</b>	<b>5,038,030</b>	<b>403,921</b>	<b>341,215</b>	<b>17,296</b>
<b>Equity (deficit)</b>	<b>(2,189,514)</b>	<b>4,617,560</b>	<b>1</b>	<b>1,474,118</b>
<b>Total revenue</b>	<b>69,276</b>	<b>3,194,563</b>	<b>195,137</b>	<b>862,667</b>
<b>Total expenses</b>	<b>198,263</b>	<b>1,671,527</b>	<b>41,390</b>	<b>132,097</b>
<b>Net income (loss)</b>	<b>(128,987)</b>	<b>1,523,036</b>	<b>153,747</b>	<b>730,570</b>
<b>Comprehensive income (loss)</b>	<b>(128,987)</b>	<b>1,523,036</b>	<b>153,747</b>	<b>730,570</b>

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**8. Long-term debt**

	<b>2017</b>	<b>2016</b>
<b>All Nations Trust loan - Phase 6</b>		
- Interest at 2.11%, compounded semi-annually		
- Monthly blended payments of \$1,790, maturing November 1, 2018		
- Secured by buildings and equipment with a net book value of \$6,982 (2016 - \$20,945)	35,157	55,671
<b>All Nations Trust loan - Phase 7</b>		
- Interest at 1.83%, compounded semi-annually		
- Monthly blended payments of \$2,185, maturing November 1, 2024 and renewing December 1, 2019		
- Secured by buildings and equipment with a net book value of \$183,320 (2016 - \$207,822)	187,476	210,064
<b>All Nations Trust loan - Phase 8</b>		
- Interest at 1.05% (2016 - 2.26%), compounded semi-annually		
- Monthly blended payments of \$1,182 (2016 - \$1,252), maturing June 1, 2026 and renewing on August 1, 2021		
- Secured by buildings and equipment with a net book value of \$136,952 (2016 - \$153,118)	124,978	137,454
<b>All Nations Trust loan - Phase 9</b>		
- Interest at 1.67%, compounded semi-annually		
- Monthly blended payments of \$2,488, maturing April 1, 2028 and renewing on June 1, 2018		
- Secured by buildings and equipment with a net book value of \$394,457 (2016 - \$420,169)	302,010	326,631
<b>All Nations Trust loan - Phase 10</b>		
- Interest at 1.11%, compounded semi-annually		
- Monthly blended payments of \$5,182, maturing April 1, 2036 and renewing on April 1, 2021		
- Secured by buildings and equipment with a net book value of \$1,317,276 (2016 - \$1,386,701)	1,069,114	1,118,533
	<hr/> 1,718,735	<hr/> 1,848,353

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

	Principal
2018	132,380
2019	127,578
2020	114,563
2021	116,157
2022	117,776
	<hr/> 608,454
<b>Thereafter</b>	<hr/> 1,110,281

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**9. Treaty note payable**

The First Nation received funds negotiated with INAC and the provincial British Columbia Treaty Commission. Under the terms of that agreement, the Nation received both loaned and contributed funds of \$2,336,668 (2016 - \$2,336,668), which it subsequently reloaned and contributed to the First Nation.

For the year ended March 31, 2017, the First Nation received no contribution funding and loans (2016 - no contribution funding and loans). The funds are to be used solely for the purpose of treaty negotiations. The loan proceeds are non-interest bearing and become due and payable upon the earlier of:

- a) the twelfth (12th) anniversary of the date on which the first loan advance by Canada to the First Nation under the earliest First Nation Funding Agreement;
- b) the date on which a treaty is signed by the parties unless otherwise agreed in the treaty;
- c) the date on which the agreement is terminated or;
- d) the date on which the First Nation commits an act of bankruptcy.

**10. Commitments**

The First Nation has entered into the following agreement as follows:

**Quatsino Administration Facility:**

Contract dated April 18, 2017 with a contracting company for the construction of the Quatsino Administration Facility. Total fees payable on this contract are \$1,449,704.

**11. Contingencies**

The First Nation is contingently liable to the BC Treaty Commission for \$41,433 for unexpended negotiation support funding (2016 - \$41,433).

**12. Subsequent event**

Subsequent to March 31, 2017, the First Nation obtained additional long-term debt for construction on the new Quatsino Community/Administration Facility. Under terms of the agreement with the Bank of Montreal, the First Nation is able to borrow \$1,350,000.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

**13. Accumulated surplus**

Accumulated surplus consists of the following:

	<b>2017</b>	<b>2016</b>
Deficit in treaty	(2,236,668)	(2,336,668)
Equity in operating fund	5,504,535	4,916,034
Equity in tangible capital assets	7,450,086	5,950,731
Equity in operating and replacement reserves	649,665	667,629
Equity in enterprise fund	1,389,856	2,598,067
<b>Equity in Ottawa Trust Funds</b>	<b>944,015</b>	<b>925,088</b>
	<b>13,701,489</b>	<b>12,720,881</b>

**14. Segments**

Quatsino First Nation receives revenue from many different projects and sources. For management and reporting purposes, the revenue, expenses and surplus or deficit are organized by segments. Schedules 3 to 13 disclose Quatsino First Nation's revenue, expenses and surpluses or deficit's for the following segments:

**Administration:**

This segment includes general operations, support, and financial management of the First Nation.

**Community:**

This segment includes revenue and expenses for programs which are of benefit to the entire community of the First Nation.

**Arcade and Economic Development:**

This segment includes activities related to the growth of revenue producing projects within the First Nation.

**Community Infrastructure:**

This segment includes the revenue and expenses related to the acquisition, maintenance and repairs of the First Nation's infrastructure.

**Housing:**

This segment includes the activities related to the provision of housing within the First Nation, not subject to CMHC

**Social Housing - CMHC:**

This segment includes the activities related to the provision of housing within the First Nation, subject to CMHC.

**Natural Resources:**

This segment includes revenue and expenses from projects dealing with the natural resources of the First Nation.

**Income Assistance:**

This segment includes revenue and expenses relating to the social assistance of the members of the First Nation.

**Health:**

This segment includes activities related to the provision of health services within the First Nation.

**Education:**

This segment includes revenue and expenses relating to the primary, secondary and post secondary education of the members of the First Nation.

**Enterprise Fund:**

This segment includes activities related to the investment in First Nation business entities.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

**15. Budget information**

Budgets were not prepared for all segments and all departments in 2017. As such, the budget figures in the Consolidated Statement of Operations and Accumulated Surplus are not presented for the same scope of activities as the actual results.

The disclosed budget information for the following segments has been approved by the Chief and Council of the Quatsino First Nation at the following Chief and Council meetings:

- Administration - June 14, 2016;
- Education - June 28, 2016;
- Income Assistance - May 17, 2016;
- Natural Resources - May 17, 2016.

The disclosed budget information for all other segments were not approved by Chief and Council in 2017.

Budget figures in the Consolidated Statement of Operations and Accumulated Surplus are presented using the same basis of accounting as the actual results. A reconciliation of these amounts to the amounts budgeted is as follows:

Budgeted annual deficit, per the Statement of Operations and Accumulated Surplus	\$ 9,158
Adjusted for:	
Internal administration fees - Health	59,359
Internal administration fees - Natural Resources	6,000
Principal repayments on long-term debt	129,619
 Budgeted deficit approved by Chief and Council	 \$ 204,136

**16. INAC revenue reconciliation**

	2017	2016
INAC revenue per confirmation	2,114,606	1,689,135
Education - recovery	(49,826)	-
Income Assistance - recovery	(9,002)	-
Income Assistance - anticipated reimbursement	1,031	401
Community Infrastructure - anticipated reimbursement	-	(4,530)
Community Infrastructure - recovery	(2,099)	(889)
 2,054,710	 1,684,117	

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

**17. Capital contribution**

On January 1, 2017, the First Nation made a capital contribution to Quatsino Marine Limited Partnership on behalf of Quatsino Economic Development Limited Partnership. This capital contribution resulted in the transfer of assets and liabilities with the following book values from the First Nation to Quatsino Marine Limited Partnership:

	<b>2017</b>	<b>2016</b>
<b>Tangible capital assets</b>		
Building	64,227	-
Furniture and Equipment	20,872	-
Wharf and Docks	611,169	-
Fuel Outlet	232,172	-
Forklift Equipment	9,213	-
	<b>937,653</b>	-
<b>Working Capital</b>		
Cash	908	-
Accounts payable	(3,565)	-
	<b>(2,657)</b>	-
<b>Related party balances</b>		
Advances to related parties	117	-
Advances from related parties	(280,409)	-
	<b>(280,292)</b>	-
	<b>654,704</b>	-

**18. Economic dependence**

Quatsino First Nation receives substantially all of its revenue from Indigenous and Northern Affairs Canada ("INAC") as a result of Treaties entered into with the Government of Canada. These treaties are administered by INAC under the terms and conditions of the *Indian Act*. The ability of the First Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these treaties.

**Quatsino First Nation**  
**Notes to the Consolidated Financial Statements**  
*For the year ended March 31, 2017*

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**19. Reorganization**

**Dissolution of related parties controlled by the First Nation**

During the year, the following related parties have been dissolved:

- Quatsino Community Society – February 9, 2017
- Quatsino Contracting Corporation – February 8, 2017
- Quatsino Energy Corporation – February 8, 2017
- Quatsino Forestry Limited Partnership – December 31, 2016
- Quatsino Energy Limited Partnership – December 31, 2016

Prior to dissolution, on December 31, 2016, all of the assets in Quatsino Community Society and Quatsino Contracting Corporation were transferred to the First Nation. Because the assets, liabilities, revenue and expenses of these entities were consolidated in the First Nation prior to dissolution, these dissolutions had no impact on the First Nation's consolidated financial statements.

All assets and liabilities of Quatsino Energy Corporation were transferred to Quatsino First Nation Economic Development Corporation, a business entity controlled by the First Nation's Council, prior to dissolution.

Prior to dissolution, all of the assets in Quatsino Forestry Limited Partnership were transferred to Quattishe Forestry Limited Partnership. All remaining liabilities in Quatsino Forestry Limited Partnership were transferred to Quatsino Economic Development Limited Partnership. Quattishe Forestry Limited Partnership is a business entity controlled by Quatsino Economic Development Limited Partnership, and Quatsino Economic Development Limited Partnership a business entity controlled by the First Nation's Council.

Prior to dissolution, all of the assets and liabilities in Quatsino Energy Limited Partnership were transferred to Quatsino Economic Development Limited Partnership.

**Amalgamation of Related Parties**

On February 8, 2017, Quattishe Forest Products Ltd. and Quatsino Forestry Company Ltd. were amalgamated under the name "Quattishe Forest Products Ltd." Quattishe Forest Products Ltd. is a business entity controlled by Quatsino First Nation Economic Development Corporation, and is therefore controlled by the First Nation's Council.

**20. Comparative figures**

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