

Ahousaht First Nation
Consolidated Financial Statements
March 31, 2015

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Ahousaht First Nation

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For the year ended March 31, 2015

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Management's Responsibility

To the Members of Ahousaht First Nation:

The accompanying consolidated financial statements of Ahousaht 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 the consolidated financial statements.

The Ahousaht First Nation Council is 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 Council is also responsible for the appointment of the Nation's external auditors.

MNP LLP is appointed by Chief and Council on behalf of the Members 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 27, 2015



Executive Director

Independent Auditors' Report

To the Members of Ahousaht First Nation:

We have audited the accompanying consolidated financial statements of Ahousaht First Nation, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows 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 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 statement.

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

Basis for Qualified Opinion

In the prior year, our independent auditors' report included a disclaimer of opinion due to a lack of appropriate audit evidence for revenues, salaries and benefits, other expenses, accounts receivable, accounts payable and tangible capital assets. Further, we noted numerous duplicate payments of expenses. Our opinion on the current year's financial statements is modified because of the possible effects of these matters on the comparability of the current period's figures and the comparative information. Further, since the opening balances of accounts receivable, accounts payable and tangible capital assets enter into the determination of the results of operations we were unable to determine whether adjustments to revenues, expenses and opening accumulated surplus were necessary.

We were unable to obtain sufficient appropriate evidence about the completeness, accuracy and occurrence of amounts recorded as other revenue. Consequently, we were unable to determine whether any adjustments to this amount is necessary.

The financial statements of Ahousaht Fishing Corporation, for the year ending March 31, 2015 were not audited, nor prepared in accordance with International Financial Reporting Standards as required by Canadian public sector accounting standards for government business enterprises. Due to the financial statements not being reported in accordance with the required standards and being unaudited we were unable to determine whether adjustments to investments in Nation business entities and earnings from investments in Nation business entities were necessary. Further, the financial statements of Ahousaht Fishing Corporation report a \$3,563,944 payable to the First Nation, which has not been recorded in the First Nation's financial statements.

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

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly in all material respects the financial position of Ahousaht First Nation as at March 31, 2015 and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Nanaimo, British Columbia

August 27, 2015

MNP LLP

Chartered Professional Accountants

Ahousaht First Nation
Consolidated Statement of Financial Position
As at March 31, 2015

| | 2015 | 2014 (Restated - Note 19) |
|--|--------------------|---------------------------------|
| Financial assets | | |
| Cash | - | 323,784 |
| Accounts receivable (Note 3) | 1,047,536 | 820,650 |
| Restricted cash (Note 4) | - | 1,008 |
| Funds held in trust (Note 5) | 499,760 | 483,133 |
| Long-lived assets held for sale (Schedule 1) | 159,932 | - |
| Investments in Nation business entities (Note 7) | 101 | 42,326 |
| Portfolio investment (Note 6) | 124,884 | 162,746 |
| Total of financial assets | 1,832,213 | 1,833,647 |
| Liabilities | | |
| Bank indebtedness (Note 8) | 79,033 | - |
| Accounts payable and accruals | 690,623 | 612,307 |
| Deferred revenue (Note 10) | 812,068 | 818,597 |
| Long-term debt (Note 11) | 10,135,743 | 10,579,155 |
| Total of financial liabilities | 11,717,467 | 12,010,059 |
| Net debt | (9,885,254) | (10,176,412) |
| Contingencies (Note 13) | | |
| Non-financial assets | | |
| Tangible capital assets (Schedule 1) | 41,431,532 | 43,559,307 |
| Prepaid expenses | 9,175 | 40,141 |
| Total non-financial assets | 41,440,707 | 43,599,448 |
| Accumulated surplus | 31,555,453 | 33,423,036 |

Approved on behalf of the Chief and Council

Chief

Councillor

The accompanying notes are an integral part of these financial statements

Ahousaht First Nation
Consolidated Statement of Operations and Accumulated Surplus
For the year ended March 31, 2015

| | <i>Schedules</i> | <i>2015 Budget (Note 17)</i> | <i>2015</i> | <i>2014 (Restated - Note 19)</i> |
|---|------------------|--------------------------------------|-------------------|--|
| Revenue | | | | |
| Aboriginal Affairs and Northern Development Canada (Note 12) | | 7,253,509 | 7,351,734 | 7,862,975 |
| Nuu-chah-nulth Tribal Council | | 1,041,589 | 3,075,163 | 2,853,497 |
| Province of British Columbia | | 173,496 | 239,098 | 351,628 |
| Canada Mortgage and Housing Corporation | | - | 98,315 | 116,256 |
| First Nations School Association | | - | 297,380 | 432,232 |
| Aboriginal Head Start | | - | 152,262 | 143,550 |
| Other revenue | | 959,106 | 443,611 | 479,954 |
| Rental income | | 296,136 | 533,654 | 550,664 |
| Interest income | | 97,419 | 29,747 | 74,153 |
| Earnings from investments in Nation business entities (Note 7) | | - | - | 79,660 |
| West Climate Change Action Plan | | - | - | 137,667 |
| Government of Canada | | - | 92,960 | 40,400 |
| | | 9,821,255 | 12,313,924 | 13,122,636 |
| Expenses | | | | |
| Administration | 3 | 1,165,417 | 2,649,647 | 2,399,804 |
| Patient Travel | 4 | 1,062,670 | 2,443,967 | 2,169,775 |
| Cha-Chum-Hi-Yup-Tiichmis | 5 | - | 356,772 | 378,333 |
| Social Development | 6 | 1,114,402 | 1,187,696 | 959,607 |
| Ahousaht Capital | 7 | 499,494 | 139,449 | 167,269 |
| Operations & Maintenance | 8 | 330,600 | 540,370 | 519,786 |
| Other | 9 | 291,548 | 509,607 | 682,142 |
| Forestry | 10 | - | 6 | 148,547 |
| Fisheries | 11 | 198,773 | 203,577 | 389,971 |
| Economic Ventures | 12 | - | 6,995 | 88,009 |
| Housing | 13 | 336,083 | 1,300,862 | 1,813,422 |
| Ha'wiih | 14 | - | 3,876 | 158,534 |
| Ahousaht Education Authority | 15 | 4,347,945 | 4,873,400 | 5,140,294 |
| | | 9,346,932 | 14,216,224 | 15,015,493 |
| Recovery of (loss on) impairment of Nation business entities (Note 7) | | - | 34,717 | (313,833) |
| Surplus (deficit) before transfers | | 474,323 | (1,867,583) | (2,206,690) |
| Unallocated transfers | | - | - | (367,429) |
| Surplus (deficit) | | 474,323 | (1,867,583) | (2,574,119) |
| Accumulated surplus, beginning of year | | 33,423,036 | 33,188,093 | 35,997,155 |
| Correction of an error (Note 19) | | - | 234,943 | - |
| Accumulated operating surplus, beginning of year, as restated | | 33,423,036 | 33,423,036 | 35,997,155 |
| Accumulated surplus, end of year | | 33,897,359 | 31,555,453 | 33,423,036 |

The accompanying notes are an integral part of these financial statements

Ahousaht First Nation
Consolidated Statement of Change in Net Debt
For the year ended March 31, 2015

| | <i>2015 Budget (Note 17)</i> | <i>2015</i> | <i>2014 (Restated - Note 19)</i> |
|---|--------------------------------------|---------------------|--|
| Annual surplus (deficit) | 474,323 | (1,867,583) | (2,574,119) |
| Purchases of tangible capital assets | - | (147,779) | (725,695) |
| Amortization of tangible capital assets | - | 2,115,623 | 2,232,880 |
| Use of prepaids | - | 30,965 | 50,152 |
| Change in use of asset | - | 159,932 | - |
| Decrease (increase) in net debt | 474,323 | 291,158 | (1,016,782) |
| Net debt, beginning of year | (10,176,412) | (10,176,412) | (9,159,630) |
| Net debt, end of year | (9,702,089) | (9,885,254) | (10,176,412) |

The accompanying notes are an integral part of these financial statements

Ahousaht First Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2015

| | 2015 | 2014 (Restated - Note 19) |
|---|-------------|---------------------------------|
| Cash provided by (used for) the following activities | | |
| Operating activities | | |
| Surplus (deficit) | (1,867,583) | (2,574,119) |
| Non-cash items | | |
| Amortization | 2,115,623 | 2,232,880 |
| Loss on impairment of Nation business entities | 34,721 | 313,833 |
| | 282,761 | (27,406) |
| Changes in working capital accounts | | |
| Accounts receivable | (226,887) | 879,518 |
| Prepaid expenses | 30,964 | 50,152 |
| Accounts payable and accruals | 78,313 | (615,272) |
| Deferred revenue | (6,529) | (161,110) |
| Restricted cash | 1,008 | - |
| | 159,630 | 125,882 |
| Financing activities | | |
| Advances of long-term debt | - | 2,364,000 |
| Repayment of long-term debt | (435,903) | (1,354,077) |
| | (435,903) | 1,009,923 |
| Capital activities | | |
| Purchases of tangible capital assets | (147,779) | (725,695) |
| Investing activities | | |
| Increase in funds held in trust | (16,627) | (18,196) |
| Decrease in investment in Portfolio investments | 37,862 | 12,938 |
| | 21,235 | (5,258) |
| Increase (decrease) in cash resources (deficiency) | (402,817) | 404,852 |
| Cash resources (deficiency), beginning of year | 323,784 | (81,068) |
| Cash resources (deficiency), end of year | (79,033) | 323,784 |

The accompanying notes are an integral part of these financial statements

1. Operations

The Ahousaht First Nation (the "First Nation") is located in the province of British Columbia, and provides various services to its members. Ahousaht 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 including 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, including Nation business entities. Trusts administered on behalf of third parties by Ahousaht First Nation are excluded from the First nation reporting entity.

The First Nation has consolidated the assets, liabilities, revenues and expenses for the following entity:

- Ahousaht Education Authority

All inter-entity balances have been eliminated on consolidation.

Ahousaht First Nation business entities, owned or controlled by the Nation's council but not dependent on the Nation for their continuing operations, are included in the financial statements. These entities are recorded using the modified equity method. The First Nation has an investment in the following entity.

- Ahousaht Fishing Corporation

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.

Portfolio investments

Long-term investments in entities that are not owned, controlled or influenced by the First Nation reporting entity are accounted for using the cost method. They are recorded at cost, less any provision for other than temporary impairment.

Tangible capital assets

Tangible capital assets are initially recorded at cost. Contributed tangible assets are recorded at their fair value at the date of contribution.

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

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

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. In the year of acquisition, amortization is taken at one-half of the rates.

| | <i>Method</i> | <i>Rate</i> |
|--------------------------|-------------------|-------------|
| Automobile equipment | declining balance | 30 % |
| Boats and docks | declining balance | 15 % |
| Building | declining balance | 5 % |
| Computer equipment | declining balance | 30 % |
| Furniture and equipment | declining balance | 20 % |
| Roads and landfill | declining balance | 4 % |
| Social Housing buildings | declining balance | 5 % |
| Subdivisions and roads | declining balance | 4 % |
| Water and sewer systems | declining balance | 5 % |
| Clinic | declining balance | 4 % |
| Firehall | declining balance | 4 % |

Funds held in Ottawa Trust Fund

Funds held in trust on behalf of First Nation members by the Government of Canada in the Ottawa Trust Fund are reported on the statement of financial position. 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.

Net debt

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

Revenue recognition

- i) **Government Transfers**
The First 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 First Nation recognizes revenue as the liability is settled. Transfer of non-depreciable assets are recognized in revenue when received or receivable.
- ii) **First Nation Capital and Revenue Trust Funds**
The First Nation recognizes revenues 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.

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

- iii) Canada Mortgage and Housing Corporation ("CMHC")
CMHC revenue is recognized as it become 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 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) Own source revenue
Own source revenue is recognized when performance is completed, amounts are measurable and collection is reasonably assured.

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 collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of tangible capital assets. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in surplus in the periods in which they become known.

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.

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. Impairment losses are recognized when an asset's service potential is reduced. 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 surplus (deficit) 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.

Segments

The First Nation conducts its business through a number of reportable segments as described in Note 15. 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.

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

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

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, 2015.

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.

Recent accounting pronouncements

Related Party Disclosures

In March 2015, as part of the CPA Canada Public Sector Handbook Revisions No. 42, the Public Sector Accounting Board (PSAB) issued a new standard, PS 2200 Related Party Disclosures.

This new Section defines related party and established disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have a material financial effect on the financial statements.

This section is effective for fiscal years beginning on or after April 1, 2015. Early adoption is permitted.

Inter-entity Transactions

The Public Sector Accounting Board (PSAB) issued in March 2015 CPA Canada Public Sector Accounting Handbook Revisions Release No. 42, containing a new standard, PS 3420 Inter-Entity Transactions.

This new Section establishes standard on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The main features of the new Section are:

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis.
- Transactions are measured at the carrying amount, except in specific circumstances.
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice.
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.
- Inter-entity transactions are considered in conjunction with PS 2200 Related Party Disclosures

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted..

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

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

Financial instruments

In June 2011, the Public Sector Accounting Board (PSAB) issued PS 3450 *Financial Instruments* to establish standards for recognition, measurement, presentation and disclosure of financial assets, financial liabilities and non-financial derivatives. As a result of issuance of PS 3450, there have been numerous consequential amendments made to other Sections. PS 3450 is effective for fiscal years beginning on or after April 1, 2016. Earlier adoption is permitted.

PS 3450 is applied prospectively in the fiscal year of initial adoption; therefore, financial statements of prior periods, including comparative information, are not restated. The First Nation has not yet determined the effect of these new standards on its financial statements.

3. Accounts receivable

| | 2015 | 2014 <i>(Restated - Note 19)</i> |
|--|------------------|---|
| Education Authority accounts receivable | 82,034 | 81,312 |
| Aboriginal Affairs and Northern Development Canada | 303,196 | 528,167 |
| CMHC subsidy assistance receivable | 57,350 | 8,091 |
| Rent receivable | 807,417 | 557,201 |
| GST receivable | 115,309 | 115,309 |
| Nuu-chah-nulth Tribal Council | 622,929 | 201,024 |
| Less: allowance for doubtful account | (940,699) | (670,454) |
| | 1,047,536 | 820,650 |

4. Restricted cash

Under the terms of the agreement with Canada Mortgage and Housing Corporation, the replacement reserve account is to be credited in the amount of \$7,275 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 year end, these reserves were under funded by \$185,296 (2014 - under funded by \$178,021)

Under the terms of the agreement with Canada Mortgage and Housing Corporation, excess revenues 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 year end, the operating reserve was under funded by \$106,580 (2014 - underfunded by \$89,737)

| | 2015 | 2014 |
|-----------------------------------|------|-------|
| Replacement and operating reserve | - | 1,008 |

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

5. Funds held in trust

Capital and revenue trust moneys are transferred to the Nation on the authorization of the Minister of Aboriginal Affairs and Northern Development Canada, with the consent of the Nation's Council.

| | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Capital Trust | | |
| Balance, beginning and end of year | 38,978 | 38,978 |
| Revenue Trust | | |
| Balance, beginning of year | 444,155 | 420,585 |
| Interest | 11,754 | 18,675 |
| Special (BC) | 4,873 | 4,895 |
| Balance, end of year | 460,782 | 444,155 |
| | 499,760 | 483,133 |

Ottawa Trust Funds

The Ottawa Trust accounts arises 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 government by Sections 63 to 69 of the Indian Act.

6. Portfolio investment

| | <i>Share Capital</i> | <i>Loans/ advances</i> | 2015 | 2014 |
|---|----------------------|----------------------------|---------|---------|
| Iisaak Forest Resources Ltd. - 20% of outstanding share capital | 1 | 124,883 | 124,884 | 162,746 |

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

7. Investments in First Nation partnerships and business entities

The First Nation has investments in the following entities:

| | | | 2015 |
|---------------------------------|----------------------------|-----------------------------|-------------------------------------|
| | <i>Investment cost</i> | <i>Loans / advances</i> | <i>Total investment</i> |
| Wholly-owned Businesses: | | | |
| Ahousaht Fishing Corporation | 1 | - | 1 |
| Maaqtusiis Mini Mall Ltd. | 100 | - | 100 |
| | 101 | - | 101 |
| | | | |
| | <i>Investment cost</i> | <i>Loans / advances</i> | 2014 <i>Total investment</i> |
| Wholly-owned Businesses: | | | |
| Ahousaht Fishing Corporation | 1 | - | 1 |
| Maaqtusiis Mini Mall Ltd. | 100 | 39,725 | 39,825 |
| | 101 | 39,725 | 39,826 |
| Other companies: | | | |
| KHO USS Fisheries Ltd. | 2,500 | - | 2,500 |
| | 2,601 | 39,725 | 42,326 |

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

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

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

Financial information for Ahousaht Fishing Corporation is unaudited. Financial information for Maaqutusiis Mini Mall Ltd. was not available as the corporation is no longer in operation.

| | <i>Ahousaht Fishing Corporation As at March 31, 2015</i> |
|-------------------------------|--|
| Assets | |
| Cash | 252,775 |
| Accounts receivable | 203,802 |
| Prepaid expenses | 8,376 |
| Loans receivable | 2,170 |
| Property, plant and equipment | 18,413 |
| Intangible assets | 253,501 |
| Total assets | 739,037 |
| Liabilities | |
| Accounts payable and accruals | 39,230 |
| Due to shareholder | 3,563,944 |
| Long-term debt | 253,172 |
| Total liabilities | 3,856,346 |
| | (3,117,309) |
| Total revenue | 673,371 |
| Total expenses | 752,817 |
| | (79,446) |

During the year, the First Nation recorded an impairment provision of \$39,726 against the book value of its loans/ advances to Maaqutusiis Mini Mall Ltd., as a result of the projected future results of the entity's operations will be insufficient to recover the amounts outstanding.

During the year, the First Nation recorded an impairment provision of \$2,500 against the net book value of its investment in KHO USS Fisheries Ltd., as a result of the projected future results of the entity's operations will be insufficient to recover the original investment amount.

The Nation also recovered \$76,945 of advances to Ahousaht Fishing Corporation during the year.

8. Bank indebtedness

Bank indebtedness includes an operating loan amounting to \$600,000 (2014 - \$600,000) and bearing interest at prime plus 1.5% (2014 - prime plus 1.5%).

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

9. Treaty Loan

The Ahousaht First Nation received funds from the Nuuchah-nulth Tribal Council pursuant to an agreement the Tribal Council had negotiated on its behalf with AANDC and the provincial British Columbia Treaty Commission. Under the terms of that agreement, the Tribal Council received both loaned and contributed funds of \$4,917,699 (2014 - \$4,917,699), which it subsequently reloaned and contributed to the First Nation.

For the year ended March 31, 2015, the Ahousaht First Nation received no contribution funding and loans (2014 - 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 with the Nuuchah-nulth Tribal Council was made pursuant to instructions of the Commissioners;
- b) the seventh (7th) anniversary of the date of signing of an agreement in principle;
- c) the date on which a treaty is signed by the parties;
- d) the date on which the agreement is terminated or;
- e) the date on which the Nuuchah-nulth Tribal Council commits an act of bankruptcy.

10. Deferred revenue

| | 2015 | 2014 |
|--|----------------|----------------|
| AANDC - Construction of clinic | | |
| Balance, beginning and end of year | 36,122 | 36,122 |
| AANDC - Lot 363 development | | |
| Balance, beginning of year | 196,531 | 211,044 |
| Amounts recognized as revenue | (197) | (14,513) |
| Balance, end of year | 196,334 | 196,531 |
| AANDC - Infrastructure | | |
| Balance, beginning and end of year | 508,012 | 508,012 |
| AANDC - Public works building | | |
| Balance, beginning and end of year | 53,600 | 53,600 |
| AANDC - Housing - private mortgages | | |
| Balance, beginning of year | 6,332 | 94,049 |
| Amounts recognized as revenue | (6,332) | (87,717) |
| Balance, end of year | - | 6,332 |
| Other - Clean energy | | |
| Balance, beginning and end of year | 18,000 | 18,000 |
| | 812,068 | 818,597 |

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

11. Long-term debt

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Mortgage - Bank of Montreal; repayable at \$5,737 per month including interest at prime plus 1.875% per annum; term maturity date of August 31, 2016; secured by a Ministerial guarantee. | 47,806 | 112,629 |
| Loan - Nuuchahnulth Tribal Council - Note 9 | 4,917,699 | 4,917,699 |
| Loan - All Nations Trust, lender for CMHC housing; repayable at \$6,785 per month including interest at 1.64% per annum; term maturity date of December 1, 2036; secured by buildings with a net book value of \$1,759,876. | 1,488,527 | 1,545,111 |
| Loan - Bank of Montreal; repayable at \$2,350 per month including interest at prime plus 1.5% per annum; secured by Ministerial guarantee | 124,883 | 150,283 |
| Loan - Bank of Montreal; repayable at \$18,695 per month including interest at prime plus 2.0% per annum, secured by Ministerial guarantee | 2,245,670 | 2,355,342 |
| Demand loan - Royal Bank of Canada; repayable at \$2,275 per month including interest at 3.33% per annum; secured by a Ministerial guarantee | 301,331 | 318,593 |
| Demand loan - Royal Bank of Canada; repayable at \$2,095 per month including interest at 2.73% per annum; secured by a Ministerial guarantee | 60,656 | 83,801 |
| Demand loan - Royal Bank of Canada; repayable at \$2,637 per month including interest at 3.99% per annum; secured by a Ministerial guarantee | 444,240 | 457,905 |
| Demand loan - Royal Bank of Canada; repayable at \$2,350 per month including interest at 1.5%. | 49,271 | 74,652 |
| Loan - Nuuchahnulth Economic Development Corporation (loan #1); repayable at \$650 per month including interest at 8% per annum, term maturity date of January 1, 2019; secured by a promissory note in the amount of \$54,000 | 33,112 | 19,671 |
| Loan - Nuuchahnulth Economic Development Corporation (loan #2); repayable at \$2,329 per month including interest at 8% per annum, term maturity date of January 1, 2019; secured by a loan agreement in the amount of \$217,600 | 181,241 | 194,521 |
| Foregivable Loan - Nuuchahnulth Economic Development Corporation; forgivable against a contribution of \$25,000 towards the dock improvements, non-interest bearing, to be paid down by forgiving \$1 for every \$1 principal paid on loan #2. | 4,534 | 25,000 |
| Loan - Nuuchahnulth Economic Development corporation: repayable at \$2,427 per month including interest at 7% per annum; matures on April 1, 2022 and secured by a promissory note from Ahousaht Education Authority and Ahousaht First Nation. | 170,227 | 186,903 |
| Loan - Nuuchahnulth Economic Development corporation: repayable at \$1,093 per month including interest at 12% per annum; matures on May 1, 2022 and secured by a promissory note from Ahousaht Education Authority and Ahousaht First Nation. | 66,546 | 71,432 |
| Loan - Royal Bank of Canada | - | 40,346 |
| Loan - Royal Bank of Canada | - | 17,416 |
| Loan - Bank of Montreal | - | 7,851 |
| | 10,135,743 | 10,579,155 |

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

11. Long-term debt *(Continued from previous page)*

Principal repayments on long-term debt in each of the next five years are estimated as follows:

| | Principal | Interest | Total |
|------------------|-----------|----------|-----------|
| 2016 | 381,982 | 204,139 | 586,121 |
| 2017 | 342,840 | 188,146 | 530,986 |
| 2018 | 311,516 | 173,542 | 485,058 |
| 2019 | 303,749 | 159,637 | 463,386 |
| 2020 | 290,988 | 143,886 | 434,874 |
| Total repayments | 1,631,075 | 869,350 | 2,500,425 |

12. Aboriginal Affairs and Northern Development Canada funding reconciliation

| | 2015 | 2014 |
|---|------------------|------------------|
| Direct Band Funding | | |
| AANDC revenue per confirmation | 7,455,534 | 7,760,744 |
| Prior year unspent capital funds recognized | 6,529 | 102,231 |
| Prior year recoveries | (110,329) | - |
| | 7,351,734 | 7,862,975 |

13. Contingencies

The First Nation is involved in a dispute over the legal ownership of certain property. The effects of any contingent claims relating to this dispute are not determinable at the date of this report.

The Nation has been named defendant in a lawsuit related to compensatory damages and contract breach. Management cannot determine whether the claim will be successful and cannot estimate the potential loss, if any.

The Nation may be contingently liable with respect to Ministerial guarantees for "On Reserve Housing Loans" to various financial institutions in the amount of \$1,998,498. These loan guarantees are in addition to CMHC mortgages.

The First Nation is required to post its consolidated financial statements on a website and submit the consolidated statements to AANDC by July 29, 2015. As the audit report is dated after this date, the First Nation is in violation of this requirement. The possible effect of this violation has not yet been determined.

14. Economic dependence

Ahousaht First Nation receives substantially all of its revenue from Aboriginal Affairs and Northern Development Canada (AANDC) as a result of agreements entered into with the Government of Canada. These funding agreements are administered by AANDC 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.

AANDC reported an unfavourable financial ratio for the March 31, 2014 audited financial statements. A Management Action Plan was developed and approved by AANDC.

Due to the violation of the First Nation Financial Transparency Act as described in the Note 13, the AANDC funding agreement is in default.

15. Segments

The Nation receives revenues and incurs expenses from many different projects and sources. For management and reporting purposes, the revenues, expenses and surplus or deficits are organized by segments. Schedules 3 -15 disclose the details of the Nation's revenues and expenses by segment. The First Nation is organized into the following segments:

Administration

Includes general operations, support, and financial management of the Nation.

Patient Travel

Includes revenue and expenditures relating to patient travels.

Cha-Chum-Hi-Yup-Tiichmis

Includes activities related to the provision of health services within the Nation.

Social Development

Includes revenues and expenditures relating to the social assistance of the members of Ahousaht First Nation.

Economic Ventures

Includes activities related to the growth of revenue producing projects with the Nation.

Operations & Maintenance

Includes the maintenance of infrastructure owned by the Nation.

Fisheries

Includes revenues and expenditures related to conservation and stewardship of the Nation's fisheries.

Forestry

Includes revenues and expenditures related to conservation and stewardship of the Nation's land and resources.

Ahousaht Capital

Includes revenue and expenditures related to capital projects.

Other

Includes revenues and expenditures related to programs put on to support the Ahousaht First Nation community.

Housing

Includes revenue and expenditures related to Social Housing programs carried on by the Nation.

Hawiih

Includes revenue and expenditures related to treaty activities of the Nation.

Ahousaht Education Authority

Includes revenue and expenditures related to Ahousaht Education Authority.

16. Comparative figures

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

17. Budget information

The disclosed budget information has been submitted to AANDC as part of a Management Action Plan and was approved by the Chief and Council of the Ahousaht First Nation on February 4, 2014.

The First Nation does not budget for revenue or expenses from Forestry, government business entities or the Cha-Chum-Hi-Yup-Tiichmis segments, therefore, budget information has not been included in these financial statements.

18. Financial Instruments

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

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 with respect to long-term debt with a carrying value of \$10,135,743 (2014 - \$10,579,155), which includes loans subject to floating interest rates ranging from prime plus 0.5% to prime plus 2.0%.

Ahousaht First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

19. Correction of an error

During the year, the First Nation determined that AANDC receivables in the prior year was overstated by \$296,866. For 2014, the impact of this correction has resulted in a \$296,866 decrease in Accounts receivable and a \$296,866 increase in Unallocated transfers.

During the year, the First Nation determined that an amount owing to the Province of BC included in Accounts payable in 2014 had been repaid before March 31, 2014. For 2014, the impact of this correction has resulted in a \$477,549 decrease in Accounts payable and a \$477,549 decrease in Unallocated transfers.

During the year, the First Nation determined that amounts received from Iisaak Forest Resources Ltd. were incorrectly allocated. In addition loan payments made by Iisaak Forest Resources Ltd. on behalf of the Nation were recorded against interest expense. For 2014, the impact of this correction has resulted in Investment in Nation business entities being increased by \$54,260, interest expense being increased by \$25,400 and Earnings from investment in Nation business entities increased by \$79,660.

The errors have been corrected retrospectively and the impact of the correction of these errors on the financial statements is as follows:

| | |
|--|------------------|
| 2014 net debt, end of year decreased by | \$234,943 |
|--|------------------|

Statement of operations for the year ended March 31, 2014

| | |
|---|-----------|
| Unallocated transfers decreased by | \$180,683 |
| Earnings from investment in Nation business entities increased by | \$79,660 |
| Interest expense increased by | \$25,400 |

Statement of financial position as at March 31, 2014

| | |
|------------------------------------|-----------|
| Accounts receivable decreased by | \$296,866 |
| Accounts payable decreased by | \$477,549 |
| Portfolio investments increased by | \$54,260 |