

Gwa'Sala-'Nakwaxda'xw Nation
Consolidated Financial Statements
March 31, 2015

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Management's Responsibility

To the Members of Gwa'Sala-'Nakwaxda'xw Nation

The accompanying consolidated financial statements of Gwa'Sala-'Nakwaxda'xw 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 Gwa'Sala-'Nakwaxda'xw 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 recommending the appointment of the Nation's external auditors.

MNP LLP is appointed by 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.

July 27, 2015

_____ Band Manager

Independent Auditors' Report

To the Members of Gwa'Sala-'Nakwaxda'xw Nation:

We have audited the accompanying consolidated financial statements of Gwa'Sala-'Nakwaxda'xw 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 financial assets 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 statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of Gwa'Sala-'Nakwaxda'xw Nation as at March 31, 2015 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 27, 2015

MNP LLP
Chartered Accountants

Gwa'Sala-'Nakwaxda'xw Nation

Consolidated Statement of Financial Position

As at March 31, 2015

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Financial assets | | |
| Cash resources | 1,167,129 | 1,451,791 |
| Short-term investments | - | 100,000 |
| Accounts receivable (Note 4) | 768,519 | 1,213,781 |
| Inventory for resale | - | 157,654 |
| Advances to related Nation entities (Note 10) | 483,036 | - |
| Portfolio investments (Note 5) | 26,316,047 | 23,490,831 |
| Investments in Nation partnerships (Note 9) | 327,052 | 904,037 |
| Investment in Nation business entities (Note 9) | 1,569,010 | - |
| Funds held in Ottawa trust (Note 6) | 293,035 | 185,382 |
| Investment in Treaty (Note 8) | 7,782,946 | 6,977,538 |
| Restricted cash (Note 7) | 214,638 | 196,839 |
| Total financial assets | 38,921,412 | 34,677,853 |
| Liabilities | | |
| Accounts payable and accruals | 459,103 | 877,578 |
| Deferred revenue | 144,683 | 8,006 |
| First Nation loan agreement (Note 8) | 6,360,794 | 5,802,074 |
| Long-term debt (Note 11) | 1,630,625 | 1,728,965 |
| Due to partner Nations (Note 12) | 289,784 | - |
| Total liabilities | 8,884,989 | 8,416,623 |
| Net financial assets | 30,036,423 | 26,261,230 |
| Contingencies (Note 18) | | |
| Non-financial assets | | |
| Tangible capital assets (Schedule 1) | 8,383,359 | 8,244,139 |
| Prepaid expenses | 63,478 | 59,014 |
| Total non-financial assets | 8,446,837 | 8,303,153 |
| Accumulated surplus (Note 14) | 38,483,260 | 34,564,383 |

Approved on behalf of the Chief and Council

Chief

Councillor

The accompanying notes are an integral part of these financial statements

Gwa'Sala-'Nakwaxda'xw Nation

Consolidated Statement of Operations and Accumulated Surplus

For the year ended March 31, 2015

| | <i>Schedules</i> | 2015 Budget (Note 21) | 2015 | 2014 Restated (Note 22) |
|--|------------------|--------------------------------------|-------------------|--|
| Revenue | | | | |
| Aboriginal Affairs and Northern Development Canada (Note 17) | | 3,499,604 | 3,913,691 | 4,649,568 |
| First Nation Health Authority | | - | 1,041,436 | 994,341 |
| Other revenue | | - | 315,165 | 380,330 |
| Fisheries and Oceans Canada | | - | 210,265 | 366,163 |
| First Nations Education Steering Committee | | - | 159,371 | 147,628 |
| Canada Mortgage and Housing Corporation | | - | 88,295 | 96,372 |
| Investment income | | - | 3,577,829 | 1,128,452 |
| Province of BC | | - | 1,387,312 | 912,529 |
| Marine services and fisheries | | - | 288,978 | 326,241 |
| Earnings from investment in Nation partnerships | | - | 814,544 | 904,037 |
| Earnings from investment in Nation business entities | | - | 1,661,995 | - |
| School District 85 | | - | 220,346 | 228,642 |
| Coast Opportunity Fund | | - | 768,750 | 225,000 |
| Forest and Range Agreement | | - | 223,014 | 222,951 |
| Rental income | | - | 164,639 | 221,673 |
| British Columbia Treaty Commission | | - | 144,680 | 141,680 |
| Fishing income | | - | 502,590 | 85,393 |
| | | 3,499,604 | 15,482,900 | 11,031,000 |
| Expenses | | | | |
| Administration | 3 | 956,908 | 1,762,454 | 1,208,815 |
| Income Assistance | 5 | 994,716 | 900,677 | 914,105 |
| Education | 6 | 1,074,776 | 574,967 | 658,991 |
| Gwa'Sala-'Nakwaxda'xw School | 7 | - | 2,255,114 | 2,111,484 |
| Economic Development | 8 | 45,353 | 1,722,217 | 564,789 |
| Community Infrastructure | 9 | - | 183,502 | 202,758 |
| Natural Resources | 10 | - | 720,512 | 566,003 |
| Capital Projects | 11 | 84,952 | 213,666 | 483,978 |
| Community | 12 | 136,942 | 715,236 | 786,202 |
| Health | 13 | - | 1,039,369 | 969,285 |
| CMHC Social Housing | 14 | - | 195,498 | 259,506 |
| Trust | 15 | - | 758,577 | 553,053 |
| | | 3,293,647 | 11,041,789 | 9,278,969 |
| Annual surplus before other items | | 205,957 | 4,441,111 | 1,752,031 |
| Provision for distribution to Partner nations | | - | (289,784) | - |
| Annual surplus | | 205,957 | 4,151,327 | 1,752,031 |
| Accumulated surplus, beginning of year | | 33,660,346 | 33,660,346 | 33,000,752 |
| Correction of an error (Note 22) | | - | 904,037 | - |
| Distribution to members | | - | (232,450) | (188,400) |
| Accumulated surplus, end of year | | 33,866,303 | 38,483,260 | 34,564,383 |

The accompanying notes are an integral part of these financial statements

Gwa'Sala-'Nakwaxda'xw Nation
Consolidated Statement of Change in Net Financial Assets
For the year ended March 31, 2015

| | 2015 Budget (Note 21) | 2015 | 2014 |
|--|--------------------------------------|-------------------|-------------|
| Annual surplus | 205,957 | 4,151,327 | 1,752,031 |
| Purchases of tangible capital assets | - | (636,663) | (1,247,720) |
| Amortization of tangible capital assets | - | 497,443 | 459,416 |
| Distribution to members | - | (232,450) | (188,400) |
| Acquisition of prepaid expenses | - | (4,464) | - |
| Use of prepaid expenses | - | - | 125,059 |
| Correction of an error (Note 22) | - | 904,037 | - |
| Increase in net financial assets | 205,957 | 4,679,230 | 900,386 |
| Net financial assets, beginning of year | 25,357,193 | 25,357,193 | 25,360,844 |
| Net financial assets, end of year | 25,563,150 | 30,036,423 | 26,261,230 |

The accompanying notes are an integral part of these financial statements

Gwa'Sala-'Nakwaxda'xw Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2015

| | 2015 | 2014 |
|---|-------------|-------------|
| Cash provided by (used for) the following activities | | |
| Operating activities | | |
| Annual surplus | 4,151,327 | 1,752,031 |
| Non-cash items | | |
| Amortization | 497,443 | 459,416 |
| Earnings from investment in Nation partners | (814,544) | (904,037) |
| Withdrawal from investment in Nation partnerships | 473,088 | - |
| Earnings from investment in Nation business | (1,661,995) | - |
| | 2,645,319 | 1,307,410 |
| Changes in working capital accounts | | |
| Accounts receivable | 445,261 | (242,815) |
| Prepaid expenses | (4,464) | 125,059 |
| Accounts payable and accruals | (418,475) | 445,953 |
| Deferred revenue | 136,677 | (26,526) |
| Inventory for resale | 157,654 | (157,654) |
| Provision for distribution to partner Nations | 289,784 | - |
| | 3,251,756 | 1,451,427 |
| Financing activities | | |
| Advances of First Nation loan agreement | 558,720 | 576,003 |
| Repayment of long-term debt | (99,412) | (117,769) |
| Distribution to members | (232,450) | (188,400) |
| | 226,858 | 269,834 |
| Capital activities | | |
| Purchases of tangible capital assets | (636,663) | (1,247,720) |
| Investing activities | | |
| Purchase of temporary investments | - | (2,000) |
| Proceeds on disposition of temporary investment | 100,000 | - |
| Advances to related Nation entities & departments | (388,978) | - |
| Funds held in Ottawa trust | (107,653) | (7,306) |
| Restricted cash | (17,799) | (77,021) |
| Investment in Treaty | (805,408) | (711,889) |
| (Purchase) sale of portfolio investments | (2,825,216) | 74,559 |
| Withdrawals from investment in Nation partnerships | 918,441 | - |
| | (3,126,613) | (723,657) |
| Decrease in cash resources | (284,662) | (250,116) |
| Cash resources, beginning of year | 1,451,791 | 1,701,907 |
| Cash resources, end of year | 1,167,129 | 1,451,791 |

The accompanying notes are an integral part of these financial statements

1. Operations

The Gwa'Sala-'Nakwaxda'xw Nation (the "Nation") is located in the province of British Columbia, and provides various services to its members. Gwa'Sala-'Nakwaxda'xw 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. Change in accounting policy

Effective April 1, 2014, the First Nation adopted the recommendations relating to PS 3260, *Liability for Contaminated Sites*, as set out in the Canadian public sector accounting standards. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

Previously, no accounting policy existed to account for a liability for contaminated sites. Under the new recommendations, the First Nation is required to recognize a liability for contaminated sites when economic benefits will be given up, as described in Note 3 Significant Accounting Policies.

There was no effect on the First Nation's financial statements of adopting the above-noted change in accounting policy.

3. 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

The financial statements consolidate the financial activities of all entities and departments comprising the Nation reporting entity, except for Nation's business entities. Trusts administered on behalf of third parties by Gwa'Sala-'Nakwaxda'xw Nation are excluded from the Nation reporting entity.

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

- Gwa'Sala-'Nakwaxda'xw School
- CMHC Housing
- Gwa'Sala-'Nakwaxda'xw Treaty
- Gwa'Sala-'Nakwaxda'xw Band Trust

All inter-entity balances have been eliminated on consolidation.

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

- k'awat'si Economic Development Limited Partnership
- k'awat'si Economic Development General Partner Corporation
- Nanwakolas Forestry Limited Partnership
- Nanwakolas Carbon Credit Limited Partnership

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

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.

Short-term investments

Short-term investments includes balances in guaranteed investment certificates with maturities over three months, but under one year. Short-term investments are recorded at cost, less any provision for other than temporary impairment.

Portfolio investments

Portfolio 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. The intent of these investments is to be held in order to generate income for the purpose of funding the Trust's administrative expenditures and distributing funds to the Nation's members.

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 selling costs.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Contributed tangible capital assets are recorded at fair value at the date of contribution.

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

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. Land and work-in-progress are not amortized. In the year of acquisition amortization is taken at one-half the rates.

| | Method | Rate |
|--------------------------|---------------|----------|
| Buildings | straight-line | 40 years |
| Paving | straight-line | 25 years |
| Bridges | straight-line | 40 years |
| Computer and IT hardware | straight-line | 4 years |
| Computer software | straight-line | 10 years |
| Furniture and fixtures | straight-line | 10 years |
| Boats | straight-line | 10 years |
| Vehicles | straight-line | 10 years |
| CMHC Housing | straight-line | 25 years |
| Infrastructure | straight-line | 40 years |
| Docks and wharfs | straight-line | 20 years |

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

Funds held in Ottawa trust

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

- Capital trust moneys derived from non-renewable resource transactions on the sale of land or other Nation tangible capital assets; and
- Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

Investment in Treaty

The Nation is in negotiations with the Government of Canada to negotiate a treaty. Both funding and interest free loans are received from the federal government to assist in the process. Expenses pertaining to the negotiation are capitalized to reflect the amount of investment the Nation has made in the treaty process. The loan will be repaid as outlined in Note 8.

Net financial assets

The Nation's consolidated financial statements are presented so as to highlight net financial assets as the measurement of financial position. The net financial assets of the Nation is determined by its financial assets less its liabilities. Net financial assets is comprised of two components, non-financial assets and accumulated surplus.

Asset classification

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

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

Revenue recognition

i) *Government Funding*

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. Transfers 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 Ottawa Trust Fund at the time income is 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 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*

Revenue from own sources is recognized when performance is achieved, amounts can be reasonably estimated and collectibility is reasonably assured.

vi) *Investment Income*

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

Financial instruments

The Nation's financial instruments consist of cash, restricted cash, funds held in Ottawa trust, accounts receivable, advances to related Nation entities, short-term investments, portfolio investments, accounts payable and accruals, long-term debt, First Nation loan agreement and due to partner Nations. Unless otherwise noted, it is management's opinion that the Nation is not exposed to significant interest, credit or currency risks arising from these financial instruments. The portfolio investments are exposed to market risk as the investments are in capital markets as identified in Note 5.

3. 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 surplus in the periods in which they become known.

Liability for contaminated site

Expenditures that relate to on-going environmental and remediation programs are charged against surplus (deficit) as incurred. A liability for a contaminated site reflects management's best estimate of the amount required to remediate the contaminated site. The best estimate of the liability is based upon assumptions and estimates related to the amount and timing of costs for future site remediation.

Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provision recognized.

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. 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 surplus 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.

3. Significant accounting policies (Continued from previous page)

Segments

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

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

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

Recent accounting pronouncements

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, 2019. 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. This will result in both short-term investments and long-term portfolio investments recorded at fair value instead of cost.

4. Accounts receivable

| | 2015 | 2014 |
|--|----------------|-------------|
| Aboriginal Affairs and Northern Development Canada | 39,412 | 195,183 |
| Province of BC | 204,429 | - |
| CMHC subsidy assistance receivable | 7,135 | 8,008 |
| Fisheries and Oceans Canada | 96,909 | 149,174 |
| Social housing rent | 2,761 | - |
| Members | 47,338 | 20,261 |
| Marine Harvest | 118,036 | 43,218 |
| Accrued trust investment income | 213,884 | 763,849 |
| Other accounts receivable | 38,615 | 34,088 |
| | 768,519 | 1,213,781 |

5. Portfolio investments

Portfolio investments are held in the following investments within Scotia Trust accounts:

| | 2015 | 2014 |
|--|-------------------|-------------|
| Bentall Kennedy Prime Can Property Fund | 2,528,475 | 2,405,970 |
| Fiera Capital - Fiera Active Fixed Income Fund (202) | 7,230,856 | 6,240,768 |
| Mawer Canadian Equity Pooled Fund (112) | 11,477,990 | 14,844,093 |
| Mawer Global Equity Fund (220) | 5,078,726 | - |
| | 26,316,047 | 23,490,831 |

Gwa'Sala-'Nakwaxda'xw Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

6. Funds held in Ottawa 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 consent of the Nation's Council.

| | 2015 | 2014 |
|---------------------------------------|----------------|-------------|
| Capital Trust | | |
| Balance, beginning and end of year | 94,133 | 94,133 |
| Transfer - release to capital | 44,025 | - |
| Balance, end of year | 138,158 | 94,133 |
| Revenue Trust | | |
| Balance, beginning of year | 91,249 | 83,943 |
| Interest | 8,662 | 7,306 |
| Transfer - release to revenue account | 54,966 | - |
| Balance, end of year | 154,877 | 91,249 |
| Total | 293,035 | 185,382 |

7. Restricted cash

| | 2015 | 2014 |
|---------------------|----------------|-------------|
| Replacement reserve | 157,578 | 160,235 |
| Operating reserve | 57,060 | 36,604 |
| | 214,638 | 196,839 |

Under the terms of the agreement with Canada Mortgage and Housing Corporation, the replacement reserve account is to be credited in the amount of \$26,268 (2014 - \$30,115) 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 underfunded by \$6,490 (2014 - adequately funded).

Under the terms of the agreements with CMHC, 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 adequately funded (2014 - underfunded by \$22,309).

8. First Nation loan agreement

Gwa'Sala-'Nakwaxda'xw First Nation receives interest free advances from Aboriginal Affairs and Northern Development Canada pursuant to an agreement with the British Columbia Treaty Commission and the Minister of Aboriginal Affairs and Northern Development Canada. Under the terms of the agreement the Nation receives both loaned and contributed funds.

During the year the Nation received \$144,680 (2014 - \$141,680) contributed funds and loans in the amount of \$558,720 (2014 - \$566,720) resulting in a cumulative loan balance of \$6,360,794 (2014 - \$5,802,074).

The funds are to be used solely for the purposes of treaty negotiations. The loan proceeds are non-interest bearing and become due and payable upon the earlier of:

- a) the date a treaty signed by the Negotiating Parties takes effect unless otherwise agreed in the treaty;
- b) the later of;
 - the twelfth anniversary of the date of the first Loan Advance by Canada to the First Nation under the earliest First Nation Funding Agreement; or
 - the Extended Due Date; and
- c) the date the Federal Minister demands payment of the Loan due to an event of default under the agreement or under any First Nation Funding Agreement.

The Nation capitalizes all expenses related to the Treaty process as management expects the future settlement to exceed the investment in treaty balance. During the year, the Nation capitalized \$805,409 (2014 - \$711,889). The Nation is in Stage 4 of treaty negotiation, which is the Negotiation of an Agreement in Principle stage.

Gwa'Sala-'Nakwaxda'xw Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

9. Investments in First Nation partnerships and business entities

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

The First Nation has investments in the following entities:

| | <i>Investment cost</i> | <i>Share of earnings (loss)</i> | <i>Withdrawals</i> | <i>2015 Total investment</i> |
|--|----------------------------|-------------------------------------|--------------------|--------------------------------------|
| Wholly-owned Businesses: | | | | |
| k'awat'si Economic Development General Partner Corporation | (102,984) | (1,820) | - | (104,804) |
| k'awat'si Economic Development Limited Partnership | 9,999 | 1,663,815 | - | 1,673,814 |
| | (92,985) | 1,661,995 | - | 1,569,010 |
| First Nation Business Partnerships – Modified Equity: | | | | |
| Nanwakolas Forestry Limited Partnership - 40.278% | 362,325 | 712,404 | (918,441) | 156,288 |
| Nanwakolas Carbon Credit Limited Partnership - 33.98% | 541,712 | 102,140 | (473,088) | 170,764 |
| | 904,037 | 814,544 | (1,391,529) | 327,052 |
| | 811,052 | 2,476,539 | (1,391,529) | 1,896,062 |
| First Nation Business Partnerships – Modified Equity: | | | | |
| Nanwakolas Forestry Limited Partnership - 40.278% | - | 362,325 | - | 362,325 |
| Nanwakolas Carbon Credit Limited Partnership - 33.98% | - | 541,712 | - | 541,712 |
| | - | 904,037 | - | 904,037 |

Gwa'Sala-'Nakwaxda'xw Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2015

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

The First Nation's investment in k'awat'si Economic Development General Partner Corporation was established for the purposes of running the economic activities of various business endeavours for the First Nation. It owns investments in Gwa'Nak Resources Ltd., 0997211 B.C. Ltd., 0997328 B.C. Ltd., 0997329 B.C. Ltd., 0997330 B.C. Ltd..

k'awat'si 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 Gwa'Nak Resources Limited Partnership, 09973211 Fisheries Limited Partnership, 0997328 Marine Services Limited Partnership, 0997329 Tourism Services Limited Partnership, and 0997330 Contracting Limited Partnership.

The Nation holds units of Nanwakolas Forestry Limited Partnership equal to 40.278% of the total partnership units outstanding. The investment in Nanwakolas Forestry Limited Partnership was established for the purpose of developing profitable forestry based activities within the Partners collective territories.

The Nation holds units of Nanwakolas Carbon Credit Limited Partnership equal to 33.98% of the total partnership units outstanding. The investment in Nanwakolas Carbon Credit Limited Partnership was established to develop profitable carbon credit projects within the South Central Coast Region of the area commonly known as the Great Bear Rainforest in British Columbia.

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

| | <i>k'awat'si Economic Development Limited Partnership As at December 31, 2014</i> | <i>k'awat'si Economic Development General Partner Corporation As at December 31, 2014</i> | <i>Nanwakolas Forestry Limited Partnership As at March 31, 2015</i> | <i>Nanwakolas Carbon Credit Limited Partnership As at March 31, 2015</i> |
|------------------------------------|---|---|---|--|
| Assets | | | | |
| Cash | 975,710 | - | 270,124 | 368,703 |
| Accounts receivable | 326,511 | - | 31,060 | 41,851 |
| Prepaid expenses and deposits | 65,865 | - | 72,205 | 1,025 |
| Investments | - | 186 | - | - |
| Inventory | - | - | - | 84,693 |
| Property, plant and equipment | 156,960 | - | - | - |
| Intangible asset | - | - | - | 85,190 |
| Advances to related parties | 276,660 | 6 | - | - |
| Total assets | 1,801,706 | 192 | 373,389 | 581,462 |
| Liabilities | | | | |
| Accounts payable and accruals | 70,880 | 2,000 | 10,848 | 79,573 |
| Deferred revenue | 112,500 | - | - | - |
| Advances from related parties | 644,410 | 102,996 | - | - |
| Total liabilities | 827,790 | 104,996 | 10,848 | 79,573 |
| | 973,916 | (104,804) | 362,541 | 501,889 |
| Total revenue | 1,769,898 | 180 | 6,682,777 | 853,901 |
| Total expenses | 805,987 | 2,000 | 4,842,726 | 553,313 |
| Net income (loss) | 963,911 | (1,820) | 1,840,051 | 300,588 |
| Comprehensive income (loss) | 963,911 | (1,820) | 1,840,051 | 300,588 |

Gwa'Sala-'Nakwaxda'xw Nation
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10. Advances to related First Nation entities

Advances to related Nation entities are unsecured, non-interest bearing and due on demand.

11. Long-term debt

| | 2015 | 2014 |
|---|------------------|------------------|
| Post 96 - Phase 2 - All Nations Trust - repayable at \$4,972 per month including interest at 1.62% per annum; secured by a N. H. A. and Ministerial Guarantee. Matures March 1, 2033 and renewing on March 1, 2018. | 931,521 | 975,760 |
| Post 96 - Phase 1 - All Nations Trust - repayable at \$2,656 per month including interest at 1.80% per annum; secured by a N. H. A. and Ministerial Guarantee. Matures October 1, 2031 and renewing on October 1, 2016. | 456,876 | 480,324 |
| Post 96 - Phase 5 - All Nations Trust - repayable at \$976 per month including interest at 1.71% per annum; secured by a N. H. A. and Ministerial Guarantee. Matures September 1, 2037 and renewing on September 1, 2017. | 218,796 | 226,708 |
| Pre 97 - Phase 9 - All Nations Trust - repayable at \$1,250 (2014 - \$1,261) per month including interest at 2.57% (2014 - 1.58%) per annum; secured by a N. H. A. and Ministerial Guarantee. Matures October 1, 2016. | 23,432 | 37,796 |
| Pre 97 - Phase 10 - All Nations Trust - repayable at \$2,102 per month including interest at 1.80% per annum; secured by a N. H. A. and Ministerial Guarantee. Matured July 1, 2014. | - | 8,377 |
| | 1,630,625 | 1,728,965 |

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 | Interest | Total |
|------|----------------|----------------|----------------|
| 2016 | 91,477 | 26,915 | 118,392 |
| 2017 | 86,842 | 25,248 | 112,090 |
| 2018 | 79,421 | 23,834 | 103,255 |
| 2019 | 80,770 | 22,485 | 103,255 |
| 2020 | 82,142 | 21,113 | 103,255 |
| | 420,652 | 119,595 | 540,247 |

12. Due to partner Nations

During the prior year, the Nation made the decision to withdraw from the Gwabalis Fisheries Group and are currently holding funds on behalf of the group. There is no formal agreement in place that describes how these funds are to be distributed between the five member Nations.

13. Loan guarantees

As at March 31, 2015, the First Nation has guaranteed credit facilities for the following Nation government business enterprises:

0997211 B.C. Ltd

\$100,000 (2014 - \$nil) credit facility revolving line of credit and \$800,000 (2014 - \$nil) credit facility demand loan, up to a maximum amount of \$900,000 (2014 - \$nil) that bears interest at prime plus 1.5% and is secured by a general security agreement. As at March 31, 2015 \$800,000 (2014 - \$nil) has been drawn on the credit facility demand loan.

0997329 B.C. Ltd

\$1,000,000 (- \$nil) credit facility demand loan, up to a maximum amount of \$1,000,000 (- \$nil) that bears interest at prime plus 1.5% and is secured by a general security agreement. As at March 31, 2015 \$1,000,000 (2014 - \$nil) has been drawn on the credit facility demand loan.

0997329 Tourism Services Limited Partnership

\$5,550,000 (2014 - \$nil) credit facility demand loan, \$250,000 (2014 - \$nil) overdraft lending facility and \$50,000 credit cards (2014 - \$nil), up to a maximum amount of \$5,850,000 (2014 - \$nil) that bears interest at prime plus 0.5% and is secured by a general security agreement. As at March 31, 2015 \$nil (2014 - \$nil) has been drawn on the credit facility demand loan.

As at March 31, 2015, no liability has been recorded associated with the above noted guarantees.

14. Accumulated surplus

Accumulated surplus consists of the following:

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Equity in Gwa'Sala-'Nakwaxda'xw Band Trust | 26,968,111 | 24,547,699 |
| Equity in Treaty | 1,422,152 | 1,175,464 |
| Equity in Ottawa Trust Fund | 293,035 | 185,382 |
| Operating surplus | 917,414 | 1,018,656 |
| Equity in tangible capital assets | 6,752,734 | 6,515,174 |
| Social Housing Replacement and Operating Reserves | 233,752 | 217,971 |
| Investment in Nation business entities | 1,896,062 | 904,037 |
| | 38,483,260 | 34,564,383 |

15. Economic dependence

Gwa'Sala-'Nakwaxda'xw Nation receives a significant portion of its revenue from Aboriginal Affairs and Northern Development Canada (AANDC) as a result of agreements entered into with the Government of Canada. These agreements are administered by AANDC under the terms and conditions of the *Indian Act*. The ability of the Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these agreements.

Gwa'Sala-'Nakwaxda'xw Nation
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16. Trust

Funds held in trust on behalf of the Nation's members by the Gwa'Sala-'Nakwaxda'xw Band Trust are reported on the consolidated statement of financial position and consolidated statement of operations and accumulated surplus as follows:

| | 2015 | 2014 |
|----------------------|-------------|------------|
| Financial Assets | 27,023,116 | 24,611,504 |
| Liabilities | (55,405) | (64,205) |
| Net Financial Assets | 26,967,711 | 24,547,299 |
| Non Financial Assets | 400 | 400 |
| Revenues | 3,563,176 | 1,111,387 |
| Expenses | (1,030,264) | (741,453) |
| Surplus | 2,532,912 | 369,934 |

17. Aboriginal Affairs and Northern Development Canada funding reconciliation

| | 2015 | 2014 |
|--|-----------|-----------|
| AANDC revenue per confirmation | 3,898,919 | 4,647,789 |
| Difference between estimated and actual recoveries | 14,772 | 1,779 |
| | 3,913,691 | 4,649,568 |

18. Contingent liabilities

The First Nation is involved in a dispute over outstanding invoices for services. The resolution of this claim is not determinable at the date of this report. The maximum potential loss is \$65,000.

The financial results of the CMHC Social Housing program are subject to review by CMHC. It is possible that adjustments could be made based on the results of their review.

19. Comparative figures

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

20. 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 to 15 disclose the details of the Nation's revenues and expenses by segment. The Nation is organized into the following segments:

Administration

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

Treaty

Includes revenues and expenditures related to the negotiation of treaty.

Income Assistance

Includes revenues and expenses relating to the social assistance of the members of Gwa'Sala-'Nakwaxda'xw First Nation.

Education

Includes revenues and expenses related to primary, secondary and post secondary education of the members.

Gwa'Sala-'Nakwaxda'xw School

Includes the operation of the school.

Economic Development

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

Community Infrastructure

Includes the maintenance of infrastructure owned by the Nation.

Natural Resources

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

Capital Projects

Includes revenue and expenditures related to capital projects.

Community

Includes revenues and expenditures related to the delivery of programs that support the Gwa'Sala-'Nakwaxda'xw First Nation community.

Health

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

CMHC social housing

Includes rent collection and maintenance related to the mortgaged homes owned by the Nation.

Trust

Includes revenues and expenditures related to the financial settlement arising out the relocation of the Nation.

21. Budget information

The disclosed budget information has been approved by the Chief and Council of the Gwa'Sala-'Nakwaxda'xw Nation at the Chief and Council meeting held on July 29, 2014.

Approved budgets were not prepared for all programs of the Nation. As such, the budget figures in the Statement of Operations and Accumulated Surplus are not presented for the same scope of activities as the actual results.

Budget figures on the Statement of Operations are presented using the same basis of accounting as the actual results. A reconciliation of these amounts to the Chief and Council approved budget is as follows:

| | |
|---|-------------|
| Budgeted annual surplus per the Statement of Operations | \$205,957 |
| Adjusted for: | |
| Contingency | (\$ 27,699) |
| Capital purchases | (\$437,845) |
| Budgeted deficit approved by Chief and Council | (\$259,587) |

22. Correction of an error

During the year, information became available that determined that the First Nation holds an investment in Nanwakolas Forestry Limited Partnership and Nanwakolas Carbon Credit Limited Partnership. The impact of this correction has resulted in an increase in the prior year investment in Nation partnerships of \$904,037 and increase in the prior year earnings from an investment in Nation partnerships of \$904,037.