

Tseshah First Nation
Consolidated Financial Statements
March 31, 2018

Management's Responsibility

Independent Auditors' Report

Consolidated Financial Statements

| | |
|---|---|
| Consolidated Statement of Financial Position..... | 1 |
| Consolidated Statement of Operations and Accumulated Surplus..... | 2 |
| Consolidated Statement of Change in Net Debt..... | 3 |
| Consolidated Statement of Cash Flows..... | 4 |

| | |
|--|----------|
| Notes to the Consolidated Financial Statements..... | 5 |
|--|----------|

Schedules

| | |
|--|----|
| Schedule 1 - Consolidated Schedule of Tangible Capital Assets..... | 21 |
| Schedule 2 - Schedule of Consolidated Expenses by Object..... | 24 |
| Schedule 3 - Consolidated Schedule of Revenue and Expenses and Accumulated Surplus - Operating..... | 25 |
| Schedule 4 - Consolidated Schedule of Revenue and Expenses and Accumulated Surplus - Trust..... | 27 |
| Schedule 5 - Consolidated Schedule of Revenue and Expenses and Accumulated Surplus - Social Housing..... | 28 |
| Schedule 6 - Consolidated Schedule of Revenue and Expenses and Accumulated Surplus - Enterprise..... | 29 |
| Schedule 7 - Consolidated Schedule of Revenue and Expenses and Accumulated Deficit - Treaty..... | 30 |

Management's Responsibility

To the Members of Tseshah First Nation:

The accompanying consolidated financial statements of Tseshah 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 Tseshah 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 is also responsible for recommending the appointment of the First 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 17, 2018

Signed by: Chris Anderson

Director of Finance

Independent Auditors' Report

To the Members of Tseshah First Nation:

We have audited the accompanying consolidated financial statements of Tseshah First Nation, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations and accumulated surplus, change 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 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tseshah First Nation as at March 31, 2018 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Nanaimo, British Columbia

July 17, 2018

MNP LLP

Chartered Professional Accountants

Tseshaht First Nation

Consolidated Statement of Financial Position

As at March 31, 2018

| | 2018 | 2017 |
|---|-------------------|-------------|
| Financial assets | | |
| Cash and cash equivalents | 2,221,223 | 2,364,740 |
| Accounts receivable (Note 3) | 1,085,797 | 832,345 |
| Term investments (Note 4) | 952,759 | 767,698 |
| Inventory for resale (Note 5) | 203,865 | 177,960 |
| Restricted cash (Note 6) | 1,639,420 | 1,509,634 |
| Funds held in trust (Note 7) | 158,657 | 154,256 |
| Portfolio investments (Note 8) | 25,000 | 25,000 |
| Investment in First Nation business enterprises (Note 8) | 6,678,498 | 5,024,206 |
| Investment in First Nation business partnerships (Note 8) | 103,925 | 51,291 |
| Total financial assets | 13,069,144 | 10,907,130 |
| Financial liabilities | | |
| Accounts payable | 1,156,008 | 1,063,741 |
| Deferred revenue (Note 9) | 536,890 | 358,065 |
| Demand loan (Note 10) | - | 275 |
| Long-term debt (Note 11), (Note 12) | 11,668,028 | 11,938,444 |
| Total of financial liabilities | 13,360,926 | 13,360,525 |
| Net debt | (291,782) | (2,453,395) |
| Contingencies (Note 13) | | |
| Non-financial assets | | |
| Tangible capital assets (Schedule 1) | 20,048,592 | 20,110,382 |
| Prepaid expenses | 63,011 | 32,925 |
| Total non-financial assets | 20,111,603 | 20,143,307 |
| Accumulated surplus (Note 14) | 19,819,821 | 17,689,912 |

Approved on behalf of the Chief and Council

Signed by: Cynthia Dick

Chief
Councillor

Signed by: Hugh Braker

Councillor

The accompanying notes are an integral part of these financial statements

Tseshaht First Nation

Consolidated Statement of Operations and Accumulated Surplus

For the year ended March 31, 2018

| | Schedules | 2018 Budget (Note 18) | 2018 | 2017 |
|--|-----------|-----------------------------|-------------------|------------|
| Revenue | | | | |
| Sales | | 55,000 | 9,504,881 | 8,540,965 |
| Nuu-chah-nulth Tribal Council - CFNFA | | 3,540,609 | 3,869,168 | 3,764,630 |
| Earnings from investment in First Nation business enterprises (Note 8) | | - | 1,847,882 | 843,657 |
| Government of Canada | | 330,184 | 1,474,201 | 154,295 |
| Nuu-chah-nulth Tribal Council - non CFNFA | | 458,795 | 686,206 | 1,067,302 |
| Rental income | | 99,600 | 511,380 | 548,337 |
| Canada Mortgage and Housing Corporation | | - | 451,697 | 179,883 |
| Province of B.C. | | 146,000 | 196,644 | 159,147 |
| Fees | | 39,000 | 179,047 | 190,490 |
| Fish license fees | | 192,000 | 156,588 | 252,807 |
| First Nations Health Authority | | 116,333 | 141,468 | 119,488 |
| Other revenue | | 66,500 | 141,886 | 171,938 |
| Nuu-chah-nulth Employment & Training Board | | 52,000 | 91,229 | 56,336 |
| Earnings (loss) from investment in First Nation business partnerships (Note 8) | | - | 83,775 | (47,343) |
| First Nation Education Steering Committee | | - | 63,670 | 16,430 |
| Lease income | | 5,600 | 57,200 | 57,200 |
| Interest income | | 350,352 | 51,949 | 41,802 |
| Administration recoveries | | - | 48,570 | 56,251 |
| Nuu-chah-nulth Economic Development Corporation | | - | 5,898 | 19,311 |
| Other grants | | 4,000 | 4,400 | 29,000 |
| BC Special | | - | 2,737 | 2,707 |
| | | 5,455,973 | 19,570,476 | 16,224,633 |
| Expenses (Schedule 2) | | | | |
| Operating | 3 | 5,455,973 | 6,246,834 | 6,184,042 |
| Trust | 4 | - | 8,000 | 9,500 |
| Social Housing | 5 | - | 713,705 | 623,896 |
| Enterprise | 6 | - | 10,389,126 | 8,227,447 |
| Treaty | 7 | - | 82,902 | 65,949 |
| | | 5,455,973 | 17,440,567 | 15,110,834 |
| Annual surplus | | - | 2,129,909 | 1,113,799 |
| Accumulated surplus, beginning of year | | 17,689,913 | 17,689,912 | 16,576,113 |
| Accumulated surplus, end of year (Note 14) | | 17,689,913 | 19,819,821 | 17,689,912 |

The accompanying notes are an integral part of these financial statements

Tseshaht First Nation
Consolidated Statement of Change in Net Debt
For the year ended March 31, 2018

| | 2018 Budget (Note 18) | 2018 | 2017 |
|--|--------------------------------------|--------------------|-------------|
| Annual surplus | - | 2,129,909 | 1,113,799 |
| Purchases of tangible capital assets | - | (1,483,265) | (827,005) |
| Amortization of tangible capital assets | - | 1,393,896 | 1,628,225 |
| Transfer of work in progress tangible capital assets | - | 151,158 | - |
| | - | 61,789 | 801,220 |
| Acquisition of prepaid expenses | - | (63,010) | (32,924) |
| Use of prepaid expenses | - | 32,925 | 34,586 |
| | - | (30,085) | 1,662 |
| Decrease in net debt | - | 2,161,613 | 1,916,681 |
| Net debt, beginning of year | (2,453,395) | (2,453,395) | (4,370,076) |
| Net debt, end of year | (2,453,395) | (291,782) | (2,453,395) |

The accompanying notes are an integral part of these financial statements

Tseshah First Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2018

| | 2018 | 2017 |
|---|------------------|------------------|
| Cash provided by (used for) the following activities | | |
| Operating activities | | |
| Annual surplus | 2,129,909 | 1,113,799 |
| Non-cash items | | |
| Amortization | 1,393,896 | 1,628,225 |
| Bad debts | 16,684 | 55,998 |
| Earnings (loss) from investment in First Nation business partnerships | (83,775) | 47,343 |
| Earnings from investment in First Nation business enterprises | (1,847,882) | (843,657) |
| Tseshah Economic Development Corporation consolidation | (217,708) | - |
| Impairment of capital assets <i>(Note 8)</i> | 1,224,524 | - |
| | 2,615,648 | 2,001,708 |
| Changes in working capital accounts | | |
| Accounts receivable | (253,452) | (252,054) |
| Prepaid expenses | (30,086) | 1,661 |
| Inventory for resale | (25,906) | (39,979) |
| Funds held in trust | (4,252) | - |
| Accounts payable and accruals | 79,165 | 107,444 |
| Deferred revenue | 178,824 | (16,942) |
| | 2,559,941 | 1,801,838 |
| Financing activities | | |
| Advances of long-term debt | 697,738 | 677,929 |
| Repayment of long-term debt | (968,154) | (1,212,304) |
| Advances (repayments) of demand loan | (275) | 275 |
| | (270,691) | (534,100) |
| Capital activities | | |
| Purchases of tangible capital assets | (1,483,265) | (827,005) |
| Investing activities | | |
| Purchase of term investments | (185,061) | (22,695) |
| Purchase of trust term investments | (410,000) | - |
| Proceeds of disposal of term investments | - | 405,400 |
| Increase in restricted cash | (129,786) | (125,947) |
| Increase in funds held in trust | (150) | (5,596) |
| Advances from related parties | (224,505) | - |
| Withdrawal from First Nation business enterprises | - | 318,000 |
| Decrease in portfolio investments | - | (20,000) |
| | (949,502) | 549,162 |
| Increase (decrease) in cash and cash equivalents | (143,517) | 989,895 |
| Cash and cash equivalents, beginning of year | 2,364,740 | 1,374,845 |
| Cash and cash equivalents, end of year | 2,221,223 | 2,364,740 |

The accompanying notes are an integral part of these financial statements

1. Operations

The Tseshahat First Nation (the "First Nation") is located in the province of British Columbia, and provides various services to its members. Tseshahat First Nation includes the First Nation's members, government and all related entities that are accountable to the First Nation and are either owned or controlled by the First 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 and First Nation business partnerships. Trusts administered on behalf of third parties by Tseshahat 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:

- Tseshahat Market (Wholly owned)
- Tseshahat Somass Society (Wholly owned)
- Tseshahat Development Society (Wholly owned)
- Tseshahat Economic Development Corporation
- Social Housing

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

Tseshahat First Nation business enterprises, owned or controlled by the First Nation's Chief and Council but not dependent on the First Nation for their continuing operations, are included in the consolidated financial statements using the modified equity method.

First Nation business partnerships, jointly owned and controlled by the First Nation's Chief and 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:

- Tseshahat Forestry Corporation (Wholly owned)
- Omoah Forestry LLP and its General Partner, Omoah Forestry Corporation (Wholly owned)
- Cissaa Forestry LLP, and its General Partner, Cissaa Forestry Corporation (Wholly owned)
- Ekoolthaht Marine LLP, and its General Partner, Ekoolthaht Marine Corporation (Wholly owned)
- Tseshahat Fisheries Corporation (Wholly owned)
- Equis Forest Products Ltd. (51% ownership)
- 1054423 Fisheries Limited Partnership and its General Partner, 10554233 B.C. Ltd. (50% ownership)

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

Cash and cash equivalents

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

Tangible capital assets

Tangible capital assets exceeding \$1,000 are initially recorded at cost less accumulated amortization. Contributed tangible assets are recorded at their fair value at the date of contribution.

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 of the rates. See below for amortization rates of specific asset categories.

All intangible assets and items inherited by the right of the First Nation, such as reserve land, forests, water and mineral resources, are not recognized in the First Nation's consolidated financial statements. Thunderbird poles have an unlimited useful life, and are therefore no longer depreciated.

| | <i>Method</i> | <i>Years/Rate</i> |
|----------------------|----------------------|--------------------------|
| Automotive equipment | straight-line | 5 years |
| Boat | straight-line | 10 years |
| Community buildings | straight-line | 20 years |
| Computer equipment | straight-line | 3 years |
| Dock and gazebo | straight-line | 10 years |
| Housing | straight-line | 20 years |
| Infrastructure | straight-line | 20 years |
| Office equipment | straight-line | 5 years |
| Other equipment | straight-line | 5 years |
| Paving | straight-line | 10 years |
| Shellfish licenses | straight-line | 20 years |
| Social Housing | straight-line | 30 years |

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.

The First 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 First 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.

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.

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

Net debt

The First Nation's consolidated 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.

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, 2018.

At each financial reporting date, the First Nation reviews the carrying amount of the liability. Any revisions required to the amount previously recognized are 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.

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 capital assets; and
- Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

Revenue recognition

Non-government Funding

Revenue is recognized as it becomes receivable under the terms of 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.

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. Transfers of non-depreciable assets are recognized in revenue when received or receivable.

Funds held in trust

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

Sales

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and collection is reasonably assured.

Other Revenue

Other revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the First Nation and when the amount of revenue can be reliably measured and collectibility is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable.

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 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.

Inventories are valued at lower of cost and net realizable value using the first in, first out costing method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling costs.

Expenditures that relate to on-going environmental and remediation programs are charged against operations 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.

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

Segments

The First Nation conducts its business through five reportable segments as described in Note 16. 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.