NISGA'A LISIMS GOVERNMENT
FISCAL 2011 CONSOLIDATED FINANCIAL STATEMENTS
DISCUSSION AND ANALYSIS

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The fiscal year ending March 31, 2011 has been another financially successful year for Nisga'a Lisims Government (the "Government"). The Government continued to grow and expand its activities and the level of services to Nisga'a citizen in policy and legislation. For example, the post-secondary policy to Nisga'a students was revised and improved, Social Assistance levels increased, preparations were made to implement Land Title holding legislation, and through implementation of the Nass Area Strategy a deal was negotiated which will bringing in additional revenues and opportunities. This increased level of activity is reflected in the costs in the operation of Government. Additionally, the performance of the Nisga'a Settlement Trust (the "Trust") has improved both the market value of the Trust and the investment income earned by the Trust as compared to fiscal 2010.

Consolidated statement of operations and accumulated surplus

The Government's main source of revenue to fund Government programs, services, and operations comes from the Fiscal Financing Agreement (the "FFA") which was renewed in fiscal 2010. As a result of this renewal, beginning in April 2011, 2.4 million from Canada and British Columbia was consolidated into the base funding. Previously this same $2.4 million was provided through other funding agreements. This consolidation is beneficial to the Government because that funding is now adjusted for inflation and population changes. As well, as a result of the renewed FFA, Nisga'a Nation received a one-time funding amount of $8.4 million which was recorded in fiscal 2010. This is the main reason why total revenues decreased by $4.94 million (6.3%) in fiscal 2011 in comparison to fiscal 2010.

The government brought in additional revenues as a result of the successful negotiation of the Northwest Transmission Line Impact Benefit Agreement. The Government was successful in negotiating a payment of $1.8 million in capacity funding to offset the Government's costs in completing the environmental assessment. Improvements in general economic conditions resulted in an increase of $1.55 million (44%) of investment income earned within the Trust.

The performance, however, of the Nisga'a Commercial Group (the "NCG"), whose results are reported in the Government's financial statements, was below both expectations and fiscal 2010's results. This was due to low salmon volumes and poor river conditions reducing the revenues of Nisga'a Fish Limited and a loss of six weeks of timber harvesting. The latter of which, as well as an accounting change to the allocation of NCG's management expenses to reduce Own Source Revenue ("OSR") tax, resulted in Lisims Forest Resources Limited Partnership reporting a loss of $189,460 as opposed to an income of $685,263 in fiscal 2010.

A change between fiscal 2010 to fiscal 2011 within the Administration expenses relates to the final OSR payments that Nisga'a government must pay to Canada and BC. The amounts estimated to be paid for fiscals 2006 and 2007 were higher than the actual amounts owed as calculated and reviewed by the Government, Canada and BC. Estimated OSR payments for fiscals 2008 and 2009 have been revised resulting in a further reduction of $115,000. The final amounts to be paid for fiscals 2008 and 2009 are to be calculated and reviewed in fiscal 2012. Finally, estimated OSR expense for fiscal 2011 was also reduced from $900,000 in fiscal 2010 to $672,000 mainly due to the accounting change in allocating the NCG's management expenses as well as a refinement of the Government's calculation for OSR liability.

The Fish, Wildlife and Migratory Birds and Programs and Services directorates both had increases in activity. For Fish, Wildlife and Migratory Birds, this is due to additional funding through the FFA for fisheries conservation and fish priorities. The Programs and Services directorate had increases due to increased staffing costs of Nisga'a Child and Family Services (NCFS) in transitioning to a C6 level of delegation as well as the commencement of a Labour Market Plan study which resulted in an increase in expenses of $475,582 (16.8%). Additional funding for both was also received.

The major activity surrounding the Nass Area Strategy meant a reallocation of focus and resources towards the Lands and Resources directorate. As a result, the expenses for Lands and Resources increased by $1.28 million (73.6%) over fiscal 2010 and $412,374 (15.8%) over budget. This focus of resources on Lands and Resources caused the overall decreases in activity within the Administration and Governance cost centres.

The decrease of Fisheries Corporation expenses of $475,588 (27.8%) is associated with the reduction of revenues discussed above. Telecom expenses increased $373,145 (80.5%) as a result of additional computer service costs and a write-off of a $190,000 prepaid associated with the fibre build project that is to connect the Nass Valley to Terrace. There was a tentative agreement with TELUS for fees from the wide area network to be applied as a credit to the cost of constructing the fibre strands. However the Government negotiated to obtain fibre strands in a separate agreement with a different supplier at a significantly reduced cost to the Nation.

Fees charged by the Trust's trustees and investment managers are calculated based upon the market value of the Trust. Increased expenses $235,090 (35.0%) over fiscal 2010 coincide with increases in the Trust`s market value due to improved market conditions and the contribution of capital by the Government in fiscal 2011.

In fiscal 2010, a number of elders eligible for elder's payments did not have current contact information with the Government and their payments could not be provided. Payments to these elders were thus deferred into fiscal 2011 when their contact information was updated. Of the increase in payments of $195,000 (31.0%) in fiscal 2011, $60,000 represents payments to those elders eligible in fiscal 2010.

In December 2009, the Government re-negotiatedthe interest rate on the Treaty debt from 5.185% to 1.77% for a one year period. In December 2010, a further re-negotiation was completed to 3.20% for a three year period. This has reduced the amount of interests cost on the debt by $1.24 million (60.6%).

Grants from the Business Development Fund are dependent upon proposals of which many small business grants were approved in fiscal 2011. Due to the size of two grant proposals, significant due diligence work is ongoing before approval.

Appropriated transfers of FFA and Treaty funds to the Nisga'a Village Governments provided an increase in funding of $632,078 (3.3%) but was offset by a decrease in targeted funding flowed through the Government to the Nisga'a Village Governments. Increases to the Nisga'a Valley Health Authority, Nisga'a Urban Locals and Wilp Wilxo'oskwhl Nisga'a followed the budgeted appropriations for fiscal 2011. Nisga'a School Board #92 had fewer full time equivalent students for the 2009-2010 school year. This resulted in a decrease in funding provided to Nisga'a School Board #92 for the 2009-2010 and 2010-2011 school years. In order to protect and enhance the Nisga'a Language program and the music program, the Government provided an additional grant of $390,929 in fiscal 2011.

The net of these transactions has resulted in a surplus of $6.09 million. This is a less than the $12.50 million (51.3%) from fiscal 2010 but an increase over this fiscal year's budget of $3.99 million (35.1%).

Consolidated statement of financial position

Total financial assets decreased by $19.65 million (7.3%) mainly due to the receipt of funds from the renewed FFA in fiscal 2011. The decrease in accounts receivable of $13.72 million (75.7%) was a result of the increased funding from the FFA for fiscal 2010 ($8.4 million in one-time funding and $4.9 million in new base year funding) not being received until April 2011. The Government also received an additional $3.6 million in Capital Finance Commission monies which was deposited into the designated cash account. The six asset owners withdrew $5.47 million of these monies to finance various capital projects. The Government continued to transfer payments from the Nisga'a Final Agreement receivable, subtracting payments on the Treaty debt, to the designated trust fund.

Total liabilities decreased by $17.6 million (16.4%) as a result of repaying or reducing many of the Government's long term liabilities. Utilizing the one-time funding from the FFA, the Government repaid $5.4 million of the operating line of credit. Payments from the Nisga'a Final Agreement receivable were used to pay $9.77 million on the Treaty debt payable. Finally, use of funds by asset owners from the Capital Finance Commission reduced the deferred revenue liability.

An additional $610,061 (33.8%) in Due to Other Entities represents monies borrowed by Nisga'a Fish Limited and enTel Communications Inc. from Lisims Forest Resources Limited Partnership to finance their operations. To finance the construction of the Nisga'a Museum, two credit facilities of $4.875 million was executed with Royal Bank of Canada (the "RBC"). The first was a line of credit from which $3.27 million was drawn down at the end of fiscal 2010 with the balance drawn down in fiscal 2011. The line of credit was fully repaid with the second credit facility which was a standard demand loan. Monthly repayments have commenced on the demand loan.

The increase in tangible capital assets of $8.22 million, net of amortization, is mainly associated with work on the Nisga'a Museum, the purchase of Nass Camp and Vetter Lodge and various upgrades to the Lisims office building. Of the increase, $5.8 million was for work in progress on the Nisga'a Museum which was opened on May 11, 2011. Funding for this work was from the RBC credit facility and an appropriation from the Trust. Nass Camp and Vetter Lodge were purchased for $2.26 million and were also funded by an appropriation from the Trust. Upgrades to the Lisims office building included $606,977 to repair deficiencies in the building envelope of which $510,950 was received as settlement from the building's construction contractors. The difference, as well as all other upgrades to the Lisims office building, was funded through the designated cash held by the Capital Finance Commission.

Consolidated statement of changes in net financial assets

The change from an increase in net financial assets of $9.24 million in fiscal 2010 to a decrease in net financial assets of $2.03 million in fiscal 2011 is a result of the increased funding received in fiscal 2010 from the renewed FFA and the additional emphasis placed by the Government on capital projects. The change in the prepaid mainly represents the write-off of enTel's prepaid with TELUS.

Consolidated statement of cash flows

Despite the difference, in surplus between fiscal 2010 and 2011 of $6.09 million, the cash from operating activities for fiscal 2011 was only lower than fiscal 2010 by $2.08 million. This is due to the receipt of monies from the renewed FFA coming in April 2011. In addition, the renewed FFA also resulted in the recognition of an additional five years of Capital Finance Commission deferred revenue in fiscal 2010.

The increase in cash used for capital activities is reflected in the increase in work on the Nisg̲a'a Museum, the purchase of Nass Camp and Vetter Lodge and upgrades to the Lisims office building.

Under investing activities, the decrease in designated cash represents disbursements from the Capital Finance Commission to the various asset owners net of cash receipts. The increase in designated trust funds is a combination of monies transferred by the Government into the Trust as well as investment income earned and re-invested within the Trust. No permanent disbursement of cash was made from the Trust for Government operations although an appropriation of $3.7 million was made in fiscal 2011's approved Final Budget.

The increase in cash from financing activities is mainly a result of the net cash retained by the Government and transferred to the Trust from the Nisg̲a'a Final Agreement receivable and Treaty debt payable. Monies from the Capital Finance Commission receivable was deposited in designated cash and disbursed within the operations of the Commission. The long-term debt advance represents a draw on the Nisg̲a'a Museum demand loan credit facility which fully repaid the line of credit credit facility. The repayment of long-term debt reflects the repayment of this line of credit as well as payment on the line of credit and Treaty debt payable.

The net result is a cash outflow of $145,295 which places the Government in the status of bank indebtedness at year end. This indebtedness is mainly represented by cheques issued by the Government that have not yet cleared.

It should be noted that while cash from operating activities is $15.52 million (2010 - $17.61 million), this amount includes $7.57 million (2010 - $5.97 million) of the Trust's investment income and Treaty receivable and debt interest revenues and expenses. The cash from these transactions are retained and reinvested within the Trust and are only available for use by the Government upon a request from Wilp Si'ayuuk̲hl Nisg̲a'a to make a permanent disbursement from the Trust.

Cash for Government operations continues to be strategically managed by the Government to maximize the financial benefit to the Nation. In total, $24.06 million has been appropriated from the Trust between fiscal 2007 to fiscal 2011 however no permanent disbursements of cash has been made in those fiscal years. While the Government has expended these funds through transfers to Nisg̲a'a entities and for its own operations, the Government has done so with cash reserves from the Commercial Fisheries Fund as well as borrowings from RBC.

Cash reserves held within RBC only earn an interest rate of Prime minus 0.75% and are subject to OSR tax. Borrowings from RBC are charged interest at Prime. The current Prime rate is 3.00% but has been as low as 2.25% in fiscal 2011. By contrast, the Trust has earned a return of 6.8% per year and does so free of OSR tax until January 1, 2013. Further, any cash permanently disbursed from the Trust cannot be returned to the Trust. The only exception is the repayment of loans from the Trust to the Government. These loans charge interest at 1%. However if the Trust loans too much of its capital, it could negatively impact the long term return of the Trust. Therefore, the Government has prioritized the funding of transfers and operations through the internal borrowing of cash reserves, then external borrowing from RBC, then external borrowing from the Trust and finally permanent disbursements from the Trust.

The effectiveness of this strategy and its effects on the Trust are illustrated in Schedule A. This schedule calculates the market value of the Trust and investment income earned both within the Trust and from cash on hand held by the Government net of OSR. The effects of this strategy are compared to yearly permanent disbursements or yearly loans by the Trust to the Government. The benefit of the cash management strategy is directly correlated with additional investment income that has been earned within the Trust as a result of the Government first using cash reserves and external borrowings from RBC to fund transfers and operations.

The appropriations from the Trust included in the Government's budget follow a strict investment analysis developed by the Government's actuaries. Based upon the Trusts' investment managers meeting the targeted yearly real rates of return provided to them, the Government is restricted from appropriating a maximum of 8% of the Trusts' market value between fiscal 2007 and fiscal 2011 and 4% each year thereafter. Market volatility, especially in the past couple years, have caused the investment managers to fall slightly short of their targets. The Government has mitigated this issue by only appropriating $24.06 million of the maximum allowable of $37.06 million in that period.

Notes to the consolidated financial statements

Adjustments to note 2 (a) reflect the addition of four new entities consolidated into the Government's financial statements: Nass Area Properties Limited, Nass Area Properties Limited Partnership, Nass Area Enterprises Ltd. and Nass Area Enterprises Limited Partnership. They represent the general partner and the limited partnership which will operate Nass Camp and Vetter Lodge respectively. Note 2 (g) also has been amended to add clarity that the land purchased by the Government is recorded at cost however the lands, natural resources and cultural resources acquired through the Treaty are all recorded at a nominal value of $1 each.

Under Note 3, the increase in HST, GST and PST receivable is mainly due to the lack of a refund agreement with British Columbia for the provincial part of HST paid by the Government. The delay in completing this agreement is due to the uncertainty surrounding the HST and the ongoing referendum. Draft agreements are scheduled for completion and presentation at the October 2011 sitting of Wilp Si'ayuuk̲hl Nisg̲a'a. The Nisg̲a'a Commercial Group receivables are mainly held by Nisg̲a'a Fish Limited and a large amount of them appear to have been collected in early fiscal 2012.

Note 7 provides additional details on the Trust and the current market value of $143.96 million (2010 - $112.36 million) and also lists the appropriations approved in the Nation's budgets each year.

Note 18 provides additional details on the other revenue reported on the statement of operations. The reduction of $1.31 million from other grants and contributions represents funding from British Columbia that has now been rolled into the FFA. The additional $2.39 million in contract revenues represents the capacity funding for Nass Area Strategy projects and funding for the Labour Market Plan study.

Note 19 illustrates the Government's operational expenditures by object rather than cost centre. The increase of $2.38 million in purchased goods and services relate to increased reliance upon outside legal counsel and consultants to assist the Government in completing environmental assessment due diligence on Nass Area Strategy projects. This increase is largely offset by a reduction in interest paid on the Treaty debt.

Consolidated schedule of tangible capital assets

This schedule provides a breakdown of additions and disposals to capital assets and amortization by asset type. The additions to land and building are represented by the purchase of Nass Camp and Vetter Lodge. An additional boat to replace an aging vessel used by the Government's fisheries department was purchased. The additional furniture, fixtures and office equipment represents various purchases by the Government and NCG and includes new radio equipment for the Nation's emergency operations. The construction in progress contains the costs associated with the construction of the Nisg̱a'a Museum.

Consolidated schedule of segment disclosure

This schedule provides the operating results and balances of each of the funds listed in note 2 (c). The Government and Administration Fund consists of the operations and administration of the Government. The surplus of 7.16 million includes the Trust's surplus of $7.57 million and interest expense on internal borrowings from the Commercial Fisheries Fund of $322,824.

The Investment Fund represents the activities of the NCG, the Nass Area Properties Limited Partnership and the Nass Area Enterprises Limited Partnership. The deficit of $835,415 is a result of their performance and an elimination of transactions between the Government and the group of companies.

SCHEDULE A
Strategic Cash Management Analysis

Settlement Trust Transactions	**Cash Management**	**Yearly Disbursements**	**Yearly Loans**
Value at March 2006	55,439,163	55,439,163	55,439,163
Transfers	11,012,841	5,506,420	5,506,420
Investment Income	5,498,031	5,042,447	5,097,511
Value at March 2007	71,950,035	65,988,030	66,043,094
Transfers	11,012,841	3,197,427	3,197,427
Investment Income	(489,979)	(408,610)	(275,716)
Value at March 2008	82,472,897	68,776,847	68,964,805
Transfers	12,298,006	5,258,006	5,258,006
Investment Income	(16,183,602)	(12,642,600)	(12,471,078)
Value at March 2009	78,587,301	61,392,254	61,751,733
Transfers	12,298,006	8,473,006	8,473,006
Investment Income	21,476,486	16,509,382	16,836,197
Value at March 2010	112,361,793	86,374,642	87,060,935
Transfers	13,072,413	7,173,125	7,173,125
Investment Income	18,525,771	13,816,363	14,218,585
Value at March 2011	**143,959,977**	**107,364,130**	**108,452,645**

Cash, Net of Bank Indebtedness	**Cash Management**	**Yearly Disbursements**	**Yearly Loans**
Balances			
March 2007	(3,638,155)	1,768,303	1,768,303
March 2008	(2,227,935)	11,058,456	11,058,456
March 2009	(4,592,448)	15,718,939	15,718,939
March 2010	(8,113,772)	15,981,956	15,981,956
March 2011	**(2,425,141)**	**27,650,187**	**27,650,187**

Interest Revenue, Net of Interest and OSR Expense	**Cash Management**	**Yearly Disbursements**	**Yearly Loans**
March 2007	(99,963)	83,476	33,435
March 2008	(35,444)	562,678	434,418
March 2009	(50,448)	469,608	290,943
March 2010	(91,107)	201,305	224
March 2011	(10,795)	471,936	217,618
Total	**(287,757)**	**1,789,003**	**976,639**

Net Asset Value	**141,247,079**	**136,803,320**	**137,079,471**
Benefit of Cash Management	**-**	**4,443,759**	**4,167,608**