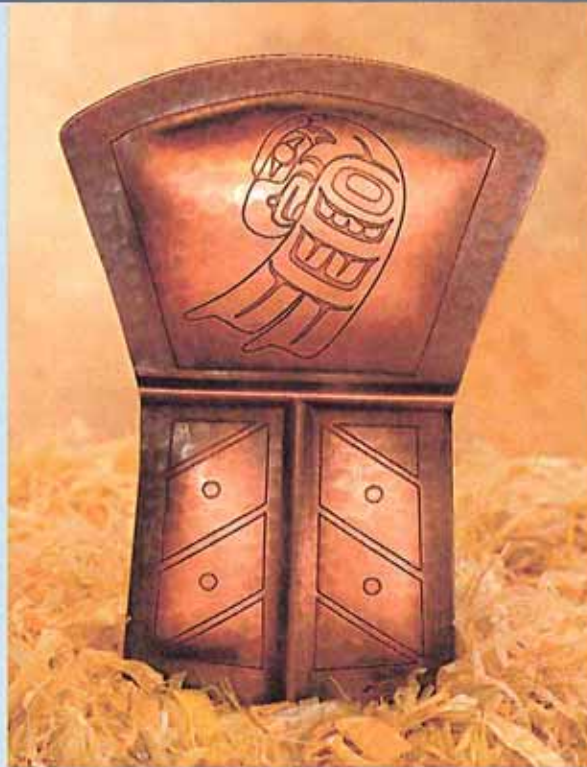


ANNUAL REPORT 2007



FNFA

FIRST NATIONS FINANCE AUTHORITY



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DIRECTORS



Chief Sophie Pierre
Chairperson



Chief Joe Hall
Deputy Chairperson



Deanna Hamilton
Director



Chief Robert Sam
Director



Alexander Cope
Director

MEMBERS

Adams Lake Indian Band
Bonaparte Indian Band
Chawathil Indian Band
Chemainus First Nation
Ch-ihl-kway-uhk Tribe Society
Cowichan Tribes
Kamloops Indian Band
Kwaw Kwaw A Pilt Band Taxation
Lakahahmen Band Taxation
Lower Kootenay Band
Matsqui Band Taxation
Millbrook First Nation
Nangis First Nation
Old Massett Village Council
Seabird Island Indian Band

Skowkale Band Taxation
Sliammon Taxation Authority
Songhees Indian Band
Songhees Indian Band & Esquimalt First Nation Trust
St. Mary's Band
Sto:lo Nation Investment
T'it'q'et
Te'mexw Treaty Association
Tsawout First Nation
Tsawwassen First Nation
Tzeachten Band Taxation
Tzeachten First Nation
Waabnoong Bemjiwang Association of First Nations
Westbank First Nation
Westbank First Nation Taxation

CONSULTANTS

Municipal Finance Authority of B.C., Victoria, B.C.

AUDITORS

KPMG LLP, Victoria, B.C.

GENERAL LEGAL COUNSEL

Micha J. Menczer, Vancouver, B.C.

SENIOR POLICY ADVISOR

Dr. Tim Raybould, Westbank, B.C.

MESSAGE FROM THE CHAIR



TO THE MEMBERS OF THE FIRST NATIONS FINANCE AUTHORITY

It is my pleasure to present this 2007 Annual Report on behalf of the Board and staff of the First Nations Finance Authority.

This past year we enjoyed continued growth as we moved toward full implementation of the *First Nations Fiscal and Statistical Management Act* (FSMA). The original dream of our First Nations, to be able to raise our own financing to support our own community growth through economic development, has finally been reached. The year 2006 has been one of transition as we become self-governing, self-determining and self-reliant with the coming into force of the FSMA.

It has truly been an honour to be part of this historic change, to see real opportunities being created by our own communities. Opportunities that did not exist before the tools created through the FSMA were put in place to pool our respective First Nation's borrowing requirements so that we can issue our own bonds and build much needed capital infrastructure such as sewer, water and roads, on our reserves.

We look forward to the next months and full implementation of the FSMA as we prepare for our first bond issue.

Chair

A handwritten signature in black ink that reads "Chief Sophie Pierre". The signature is written in a cursive, flowing style.

Chief Sophie Pierre

PRESIDENT'S REPORT



TO THE MEMBERS:

The *First Nations Fiscal and Statistical Management Act* (FSMA) came into force on April 1st, 2006 with the purpose of providing the tools of government that will enable First Nations' governments to secure public-debt financing to meet their borrowing requirements.

The past year saw the new statutory First Nations Finance Authority (the 'Authority') take over the business activities of FNFA Inc. In accordance with the FSMA, the assets and liabilities of FNFA Inc. have now been transferred to the Authority. The staff of the Authority have been busy in ensuring the smooth transition. The directors of FNFA Inc. are continuing as directors of the Authority until the first members' meeting. At the first meeting of members a new board will be elected by the borrowing members.

The FSMA provides for three other institutions in addition to the FNFA; the First Nations Tax Commission (FNTC); the First Nations Financial Management Board (FMB), and; the First Nations Statistical Institute (FNSI). First Nations that will participate in property tax bonds issued by the Authority will be certified by the FMB and have their borrowing laws approved by the FNTC. The timing of the Authority's first property tax bond issue will be dependent on when borrowing members are certified by the FMB and when we receive and can batch FNTC approved borrowing laws from our borrowing members. The management and board continue to work with the other

institutions and Canada in developing the regulations, standards, policies and systems required by the borrowing process.

Two federal regulations directly related to the Authority's operations – one dealing with replenishing the Debt Reserve Fund (DRF) and one addressing permitted short-term investments – have been made and are now law. The first, regarding the DRF, sets out the formula for how the DRF will be replenished in the event that the borrowing members are ever collectively called upon. The second regulation concerning permitted short-term investments, ensures that the Authority can continue to participate in the pooled investment funds of the Municipal Finance Authority of British Columbia (MFA).

Following the making of the Short-Term Pooled Investment Fund Regulations, the First Nation organizations that were previously investing in the MFA funds through FNFA Inc. were notified that their accounts were being transferred to the Authority. First Nations continue to receive the same benefits and services as before; quality of management and the low fees reflecting the total size of the pools. Pooled investing has been available since 1995.

The FNFA continues to explore establishing new borrowing pools that would use 'other revenues' for 'other purposes' and that go beyond property tax borrowing and which would have an independent credit rating. Work is ongoing with the Assembly of First Nations and Canada with

respect to developing a housing bond program as well as a water infrastructure bond program that is not tied to property tax revenues. There has also been interest expressed from communities that are no longer governed under the *Indian Act* and that are a party to self-government agreement. In both the case of self-governing First Nations or for other borrowing schemes federal regulations will be needed and work in this regard is ongoing.

On March 10th, 2006 the Authority submitted an application to the BC Securities Commission to obtain exemptions from certain filing requirements under securities legislation. These exemptions would ensure that the Authority is treated in the same manner as other government issuers in Canada are treated. On June 27th, 2006, the Authority obtained an advance tax ruling from the Canada Revenue Agency confirming that under the conditions specified in the ruling

the Authority will be exempt from paying income tax.

For the management and staff of the Authority 2006 was very rewarding as we made the transition from FNFA Inc. to the 'new' Authority and as we build our administrative capacity. We continue to explore the types of services our communities need and what we can provide through the Authority. We look forward to being a borrowing vehicle of choice for First Nations' governments and their organizations.



Deanna Hamilton
President/C.E.O.



creating sustainable economic development



AUDITORS' REPORT

TO THE MEMBERS OF THE FIRST NATIONS FINANCE AUTHORITY

We have audited the balance sheet of First Nations Finance Authority (the "FNFA") as at March 31, 2007 and the statements of revenue and expenses, net assets and cash flows for the year then ended. These financial statements are the responsibility of the FNFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the FNFA as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Victoria, Canada
April 26, 2007

FIRST NATIONS FINANCE AUTHORITY

Balance Sheet

March 31, 2007

Assets

Current assets:

| | |
|-------------------------------------|------------|
| Cash and short-term investments | \$ 739,389 |
| Management fees receivable (note 2) | 2,289 |
| Prepaid expenses | 8,812 |
| | <hr/> |
| | 750,490 |

Capital assets (note 3) 71,179

\$ 821,669

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued liabilities \$ 91,024

Deferred capital contributions 63,667

Net assets:

Unrestricted surplus 659,466
Investment in capital assets 7,512

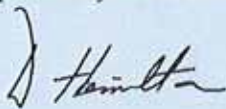
666,978

Commitments (note 6)

\$ 821,669

See accompanying notes to financial statements.

Approved by the Director:



FIRST NATIONS FINANCE AUTHORITY

Statement of Revenue and Expenses

Year ended March 31, 2007

| | |
|--|--------------|
| Revenue: | |
| Grants (note 4) | \$ 1,035,000 |
| Interest | 20,105 |
| Management fees | 3,673 |
| Other | 370 |
| Amortization of deferred capital contributions | 19,839 |
| | <hr/> |
| | 1,078,987 |
| Expenses: | |
| Administration | 628,280 |
| Amortization | 22,029 |
| Loss on disposition of capital assets | 1,378 |
| Write-down of capital assets | 1,972 |
| | <hr/> |
| | 653,659 |
| Excess of revenue over expenses before the following | <hr/> |
| | 425,328 |
| Contribution of net assets (note 5) | 241,650 |
| Excess of revenue over expenses | <hr/> |
| | \$ 666,978 |

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Net Assets

Year ended March 31, 2007

| | Unrestricted surplus | Investment in capital assets | Total |
|--|-------------------------|---------------------------------|------------|
| Excess (deficiency) of revenue over expenses for the year | \$ 672,518 | \$ (5,540) | \$ 666,978 |
| Investment in capital assets | (13,052) | 13,052 | - |
| Balance, end of year | \$ 659,466 | \$ 7,512 | \$ 666,978 |

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2007

Cash provided by (used in):

Operations:

| | |
|---|------------|
| Excess of revenue over expenses | \$ 666,978 |
| Amortization of capital assets | 22,029 |
| Loss on disposition of capital assets | 1,378 |
| Write-down of capital assets | 1,972 |
| Amortization of deferred capital contributions | (19,839) |
| Non-cash contribution | 169,556 |
| Net change in non-cash operating working capital: | |
| Management fees receivable | (1,373) |
| Prepaid expenses | (1,100) |
| Accounts payable and accrued liabilities | (87,160) |
| Cash provided by operating activities | 752,441 |

Investing:

| | |
|--|----------|
| Purchase of capital assets | (14,052) |
| Proceeds on disposal of capital assets | 1,000 |
| Cash used in investing activities | (13,052) |

| | |
|--|------------|
| Cash and short-term investments, end of year | \$ 739,389 |
|--|------------|

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

1. Significant accounting policies:

(a) Basis of presentation:

First Nations Finance Authority (the "FNFA" or the "Authority") was announced April 1, 2006 as a result of Bill C-20 and operates under the *First Nations Fiscal and Statistical Management Act* (the "Act") as a non-profit corporation without share capital to provide investment pooling arrangements and to develop borrowing capacity for First Nations governments. The FNFA, through an agreement with the Municipal Finance Authority of British Columbia (the "MFA"), acts as a non-assignable corporate investment vehicle contracting with the MFA for the provision of investment services for FNFA unitholders.

The financial statements of the FNFA have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Authority applies fund accounting as follows:

Operating Fund:

The FNFA has established an Operating Fund to meet the annual operating budget. In addition to funds received from grants and interest, the Operating Fund receives management fees from the Pooled Investment Funds and pays the cost of their operations. The Operating Fund is the only fund being utilized to March 31, 2007. Upon formal commencement of borrowing activities, the following additional funds are to be established:

Sinking Fund:

Under the Act the FNFA is required to establish a Sinking Fund to fulfill its repayment obligations to the holders of each security issued by the Authority. Where a Sinking Fund is established a separate sinking account is kept for each borrowing member participating in a security issued by the Authority.

Debt Reserve Fund:

Under the Act the FNFA is required to establish a Debt Reserve Fund ("DRF"). Each Borrowing Member sharing in the proceeds of a securities issue with a term to maturity of five years or more, as a condition of participating contributes an amount equal to 5% of the total amount borrowed into the DRF. This amount is payable to the FNFA at the time of issue and is returned, with interest, to the Borrowing Member at maturity of the Bond. If at any time the FNFA lacks sufficient funds to meet the principal, interest or sinking fund payments due on its obligations because of a default in payment by a Borrowing Member it can utilize the DRF to satisfy these obligations.

Credit Enhancement Fund:

Under the Act the FNFA is required to establish a Credit Enhancement Fund ("CEF") for the enhancement of the Authority's credit rating. The funds of the CEF may be invested in only those securities, investments or deposits as specified under the Act. Investment income from the CEF may be used to temporarily offset shortfalls in DRF, to defray the Authority's costs of operation, and for any other purpose prescribed by regulation.

(b) Revenue recognition:

The FNFA receives management fees from the Pooled Investment Fund and pays the costs of its operations. The operations of the Pooled Investment Fund are reported separately to the Fund's unitholders.

The FNFA follows the deferral method of accounting for grants and other contributions. Operating grant revenue is recognized in the period to which the grant relates. When a portion of the grant relates to a future period, it is deferred and recognized in that subsequent period. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

(c) Short-term investments:

Short-term investments consists of investments in the Municipal Finance Authority of British Columbia Money Market Funds, which are recorded at cost plus interest earned and reinvested in the funds, which approximates market values.

FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements cont'd

Year ended March 31, 2007

1. Significant accounting policies continued:

(d) Capital assets:

Capital assets are reported at cost. Amortization is provided on a declining balance basis over the assets' estimated useful life at the following rates:

| Asset | Rate |
|-------------------------|-----------|
| Furniture and equipment | 20% |
| Computer equipment | 20% - 45% |
| Computer software | 100% |

The Authority recognizes a liability at its fair value for any legal obligations associated with the retirement of leased premises and equipment when those obligations result from the acquisition or normal operation of assets. A corresponding asset retirement cost is required to be added to the carrying amount of the related asset and amortized to expense on the same basis as the related asset.

(e) Impairment of long-lived assets:

The Authority monitors assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If assets are considered to be impaired, an impairment loss is recorded in the amount by which the carrying amount of the assets exceeds their fair market value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(f) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

2. Management fees:

Management fees are accrued daily at the rate of 1/25 of 1% per annum of the net assets of the FNFA's share of the MFA's Pooled Investment Funds and are receivable semi-annually on June 30th and December 31st. These management fees are paid to the FNFA through the MFA.

3. Capital assets:

| | Cost | Accumulated amortization | Net book value |
|-------------------------|-----------|--------------------------|----------------|
| Furniture and equipment | \$ 48,370 | \$ 9,146 | \$ 39,224 |
| Computers | 7,298 | 2,751 | 4,547 |
| Computer equipment | 37,540 | 10,132 | 27,408 |
| | \$ 93,208 | \$ 22,029 | \$ 71,179 |

FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements cont'd

Year ended March 31, 2007

4. Grants:

During the year, the FNFA received the following grants:

| | |
|---|--------------|
| Indian Affairs and Northern Development Funding 2006-2007 | \$ 1,035,000 |
|---|--------------|

The Department of Indian Affairs and Northern Development provided a 2006-2007 Funding Grant. The grant is for further delivery of the concept of a pooled borrowing instrument marketing its services to First Nations, maintaining a business plan that will address the financial and legal aspects of implementation, and continuing coordination between the four institutions created under the *First Nations Fiscal and Statistical Management Act*, those being the First Nations Finance Authority, the First Nations Tax Commission, the First Nations Financial Management Board and the First Nations Statistical Institute.

Under the terms of the grant, which is for the continued development of the pooled borrowing instrument concept, the FNFA is to receive a maximum of \$1,150,000 during the period April 1, 2006 to March 31, 2007.

5. Contribution of net assets:

On April 1, 2006 assets and liabilities of the FNFA Inc., a predecessor organization which was controlled by the same Board as the FNFA, were transferred to the Authority, resulting in a contribution of \$324,035 comprised of the following amounts:

| | |
|--|------------|
| Contribution of net assets: | |
| Cash | \$ 411,206 |
| Less net liabilities assumed | (169,556) |
| | 241,650 |
| Deferred contribution - capital assets | 82,385 |
| Total contribution | \$ 324,035 |

The contribution was recorded at the carrying amounts of the assets transferred and liabilities assumed, which approximate market values.

6. Commitments:

The FNFA rents office space under a lease that expires October 31, 2007. The aggregate rent payable to the expiry date amounts to \$14,500.

Starting in October 2007, the FNFA has committed to a lease agreement for a period of five years with total commitment as follows:

| | |
|------------|-----------|
| 2008 | \$ 37,166 |
| 2009 | 62,332 |
| 2010 | 62,332 |
| 2011 | 62,332 |
| 2012 | 62,332 |
| Thereafter | 25,166 |

AUDITORS' REPORT

TO THE UNITHOLDERS OF THE FIRST NATIONS FINANCE AUTHORITY

Pooled Investment Funds

We have audited the statement of net assets of the Money Market Fund and the Intermediate Fund of the First Nations Finance Authority (the "FNFA") as at December 31, 2006 and the statement of earnings and unitholders' equity of these Funds for the year then ended. These financial statements are the responsibility of the FNFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 2006 and the results of their operations and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Victoria, Canada
April 26, 2007

FIRST NATIONS FINANCE AUTHORITY

Pooled Investments – Statements of Net Assets

December 31, 2006 with comparative figures for 2005

| | Money Market Fund | | Intermediate Fund | | Total | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Assets | | | | | | |
| Cash | \$ 97 | \$ 104 | \$ 964 | \$ 907 | \$ 1,061 | \$ 1,011 |
| Investments (note 2) | 4,281,616 | 3,941,112 | 5,146,984 | 5,212,946 | 9,428,600 | 9,154,058 |
| Subscription receivable | 1,201 | - | - | 4,763 | 1,201 | 4,763 |
| | <u>\$ 4,282,914</u> | <u>\$ 3,941,216</u> | <u>\$ 5,147,948</u> | <u>\$ 5,218,616</u> | <u>\$ 9,430,862</u> | <u>\$ 9,159,832</u> |
| Liabilities | | | | | | |
| Accrued management fees | \$ 554 | \$ 504 | \$ 863 | \$ 944 | \$ 1,417 | \$ 1,448 |
| Unitholder payable | 1,244 | 4,142 | - | 4,337 | 1,244 | 8,479 |
| | <u>1,798</u> | <u>4,646</u> | <u>863</u> | <u>5,281</u> | <u>2,661</u> | <u>9,927</u> |
| Net Assets and Unitholders' Equity | <u>4,281,116</u> | <u>3,936,570</u> | <u>5,147,085</u> | <u>5,213,335</u> | <u>9,428,201</u> | <u>9,149,905</u> |
| | <u>\$ 4,282,914</u> | <u>\$ 3,941,216</u> | <u>\$ 5,147,948</u> | <u>\$ 5,218,616</u> | <u>\$ 9,430,862</u> | <u>\$ 9,159,832</u> |

See accompanying notes to financial statements.

Approved by the Director



FIRST NATIONS FINANCE AUTHORITY

Pooled Investments – Statements of Earnings and Unitholders' Equity

Year ended December 31, 2006, with comparative figures for 2005

| | Money Market Fund | | Intermediate Fund | | Total | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Investment income: | | | | | | |
| Interest income | \$ 166,692 | \$ 104,532 | \$ 252,059 | \$ 162,434 | \$ 418,751 | \$ 266,966 |
| Less management fees | 6,146 | 5,752 | 9,957 | 11,229 | 16,103 | 16,981 |
| | 160,546 | 98,780 | 242,102 | 151,205 | 402,648 | 249,985 |
| Gain (loss) on investments: | | | | | | |
| Net realized loss | - | - | (31,737) | (5,144) | (31,737) | (5,144) |
| Net unrealized loss | - | - | (16,615) | (30,948) | (16,615) | (30,948) |
| Net loss on investments | - | - | (48,352) | (36,092) | (48,352) | (36,092) |
| Net earnings distributed | \$ 160,546 | \$ 98,780 | \$ 193,750 | \$ 115,113 | \$ 354,296 | \$ 213,893 |
| Net assets and unitholders' equity: | | | | | | |
| Units outstanding, beginning of the year | \$ 3,936,570 | \$ 3,497,900 | \$ 5,213,335 | \$ 6,253,289 | \$ 9,149,905 | \$ 9,751,189 |
| Units subscribed | 280,000 | 689,890 | 40,000 | - | 320,000 | 689,890 |
| Distributions reinvested | 160,546 | 98,780 | 193,750 | 115,095 | 354,296 | 213,875 |
| Units redeemed | (96,000) | (350,000) | (300,000) | (1,155,049) | (396,000) | (1,505,049) |
| Units outstanding, end of the year | \$ 4,281,116 | \$ 3,936,570 | \$ 5,147,085 | \$ 5,213,335 | \$ 9,428,201 | \$ 9,149,905 |

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Pooled Investments – Notes to Financial Statements

Year ended December 31, 2006

First Nations Finance Authority (the "FNFA") was announced April 1, 2006 as a result of Bill C-20 and operates under the *First Nations Fiscal and Statistical Management Act* (the "Act") as a non-profit corporation without share capital to provide investment pooling arrangements and to develop borrowing capacity for First Nations governments. The FNFA, through an agreement with the Municipal Finance Authority of British Columbia (the "MFA"), acts as a non-assignable corporate investment vehicle contracting with the MFA for the provision of investment services for FNFA unitholders. This contracting service was assumed from First Nations Finance Authority Inc. which administered the funds on the same basis as the FNFA.

Under the Act the FNFA may establish short-termed pooled investment funds. Funds in FNFA short-term pooled investment funds may be invested only in:

- (a) securities issued or guaranteed by Canada, a province or the United States;
- (b) fixed-term deposits, notes, certificates or other short-term paper of, or guaranteed by, a bank, trust company or credit union, including swaps in United States currency;
- (c) securities issued by the Authority or by a local, municipal or regional government in Canada;
- (d) commercial paper issued by a Canadian company that is rated in the highest category by at least two recognized security-rating institutions;
- (e) any class of investments permitted under an Act of a province relating to trustees; or
- (f) any other investments or class of investments prescribed by regulation.

In accordance with the Pooled Investment Regulation made under the *First Nations Fiscal and Statistical Management Act*, the Authority has, by contract, arranged to continue to participate in the short to intermediate term investment pools established by the Municipal Finance Authority of British Columbia. These funds are the Money Market Fund and the Intermediate Fund.

1. Significant accounting policies:

Monies received from unitholders are invested in two pooled investment funds administered by the MFA:

- Money Market Fund; and
- Intermediate Fund.

These funds are authorized to issue an unlimited number of units, each of which represents an equal undivided interest in the net assets of the respective funds, pro rata, with all other units from time to time issued and outstanding. Units are issued or redeemed at \$1,000 per unit.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies used in the preparation of the financial statements.

(a) Money Market Fund:

- (i) Investments are carried at cost, adjusted for amortization of premiums and accretion of discounts on an effective yield basis, which approximates market value.
- (ii) Interest income is recognized as earned.
- (iii) Management fees are accrued daily at the rate of 3/20 of 1% per annum of the net assets of the fund and are paid monthly to the MFA.
- (iv) Net earnings from operations are distributed to unitholders daily as additional units of the fund.

(b) Intermediate Fund:

- (i) Investments are carried at market values which are determined as follows:
 - Bonds and debentures – at the quoted mid-market value.
 - Treasury bills, short-term notes, etc. – at amortized cost which approximates mid-market value.

FIRST NATIONS FINANCE AUTHORITY

Pooled Investments – Notes to Financial Statements cont'd

Year ended December 31, 2006

1. Significant accounting policies continued:

- (ii) Investment transactions are accounted for on the trade date and gains/losses from such transactions are calculated on an average cost basis.
- (iii) Interest income is recognized as earned.
- (iv) Management fees are accrued weekly and at month end at the rate of 1/5 of 1% per annum of the net assets of the fund and are paid monthly to the MFA.
- (v) Net earnings from operations are distributed to unitholders weekly and at month end as additional units of the fund.
- (vi) Accretion of discounts and premiums are amortized on a straight-line basis over the term of the investment.

2. Investments:

The investments held by the FNFA represent their unitholders proportionate share of securities invested in the Money Market Fund and Intermediate Fund administered by the MFA's Pooled Investment Funds.

As at December 31 the Money Market Fund and Intermediate Fund of the MFA held the following securities:

| | 2006 | | 2005 | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Money Market Fund | Intermediate Fund | Money Market Fund | Intermediate Fund |
| Bankers' acceptance | 1.6% | – | 12.06% | – |
| Corporate bonds, coupons and notes | 3.7% | 12.6% | 1.45% | 39.51% |
| Government of Canada treasury bills | 27.9% | 83.5% | 31.86% | 58.27% |
| Commercial paper | 66.8% | – | 54.63% | – |
| Government of Canada federal bonds | – | 3.9% | – | 2.22% |
| | 100% | 100% | 100% | 100% |

The investments of the FNFA unitholders represent approximately 0.4% (2005 - 0.3%) of the Money Market Fund and 2.6% (2005 - 3.1%) of the Intermediate Fund administered by the MFA's Pooled Investment Funds.

3. Management Fees:

A portion of management fees paid to the MFA is attributable and paid to the FNFA general operating fund by the MFA. Management fees of \$3,673 (2005 - \$3,620) were paid to the FNFA general operating fund through the MFA.

FIRST NATIONS FINANCE AUTHORITY

Money Market Fund – Schedule of Investments (Schedule 1)

(Reproduced from the annual report of the Municipal Finance Authority of B.C.)

December 31, 2006

| THOUSANDS OF DOLLARS | MATURITY DATE | PAR | MARKET VALUE | % OF TOTAL |
|---------------------------------------|-------------------|---------|--------------|------------|
| SHORT-TERM INVESTMENTS | | | | |
| Treasury Bills | | | | |
| Canada Treasury Bill | June 28, 2007 | 65,000 | 63,704 | |
| Canada Treasury Bill | April 5, 2007 | 130,650 | 129,260 | |
| Canada Treasury Bill | May 3, 2007 | 22,500 | 22,190 | |
| Canada Treasury Bill | May 31, 2007 | 64,600 | 63,510 | |
| Province of Nova Scotia Treasury Bill | February 15, 2007 | 30,000 | 29,846 | |
| | | 312,750 | 308,510 | 27.91% |
| Bankers' Acceptance | | | | |
| Desjardins Acceptance Bank | January 24, 2007 | 17,750 | 17,702 | |
| | | 17,750 | 17,702 | 1.60% |
| Discount Commercial Paper | | | | |
| Bay Street Funding Trust | March 5, 2007 | 18,000 | 17,867 | |
| Caisse Centrale Desjardins | January 22, 2007 | 37,000 | 36,909 | |
| City Group Finance Canada Ltd. | March 14, 2007 | 4,000 | 3,966 | |
| Darwin Receivable Trust | January 19, 2007 | 7,000 | 6,985 | |
| Darwin Receivable Trust | February 14, 2007 | 5,250 | 5,223 | |
| Darwin Receivable Trust | March 2, 2007 | 23,000 | 22,838 | |
| Darwin Receivable Trust | March 29, 2007 | 12,500 | 12,372 | |
| Enbridge Inc. | January 17, 2007 | 10,500 | 10,480 | |
| Enbridge Inc. | January 19, 2007 | 3,825 | 3,817 | |
| Enbridge Gas | March 28, 2007 | 15,000 | 14,849 | |
| Encana Corp | January 25, 2007 | 15,000 | 14,958 | |
| Financiere CDP | February 2, 2007 | 14,100 | 14,047 | |
| Financiere CDP | March 26, 2007 | 10,500 | 10,397 | |
| Financiere CDP | March 27, 2007 | 22,425 | 22,202 | |
| Finning International | March 20, 2007 | 7,300 | 7,233 | |
| GE Canada | January 26, 2007 | 6,000 | 5,982 | |
| GE Capital Canada FDG | January 19, 2007 | 12,000 | 11,975 | |
| GE Capital Canada FDG | January 30, 2007 | 9,500 | 9,468 | |
| GE Capital Canada FDG | February 22, 2007 | 19,000 | 18,884 | |
| HSBC Bank Canada | March 30, 2007 | 12,750 | 12,619 | |
| Key Nova Scotia | March 12, 2007 | 5,000 | 4,959 | |
| King Street Funding Trust | March 5, 2007 | 13,000 | 12,904 | |
| Manulife Bank of Canada | March 9, 2007 | 55,000 | 54,568 | |
| Max Recovery | February 15, 2007 | 5,000 | 4,974 | |
| Max Recovery | March 6, 2007 | 22,500 | 22,331 | |

FIRST NATIONS FINANCE AUTHORITY

Money Market Fund – Schedule of Investments (Schedule 1) cont'd

(Reproduced from the annual report of the Municipal Finance Authority of B.C.)

December 31, 2006

| THOUSANDS OF DOLLARS | MATURITY DATE | PAR | MARKET VALUE | % OF TOTAL |
|---|-------------------|------------------|------------------|----------------|
| Merit Trust | February 28, 2007 | 12,100 | 12,018 | |
| Merit Trust | March 22, 2007 | 12,000 | 11,887 | |
| Maple NHA Trust | January 24, 2007 | 10,000 | 9,972 | |
| Maple NHA Trust | March 1, 2007 | 10,000 | 9,929 | |
| Macro Trust 95 | February 27, 2007 | 17,500 | 17,383 | |
| Mccain Finance (Canada) Ltd. | March 21, 2007 | 3,000 | 2,972 | |
| Mccain Finance (Canada) Ltd. | January 17, 2007 | 11,000 | 10,979 | |
| Mccain Finance (Canada) Ltd. | January 23, 2007 | 7,250 | 7,231 | |
| Mccain Finance (Canada) Ltd. | February 20, 2007 | 2,300 | 2,286 | |
| Mccain Finance (Canada) Ltd. | February 2, 2007 | 6,700 | 6,675 | |
| Performance Trust | February 13, 2007 | 40,000 | 39,798 | |
| Performance Trust | February 5, 2007 | 14,000 | 13,942 | |
| Pure Trust | January 26, 2007 | 13,600 | 13,560 | |
| Safe Trust | January 19, 2007 | 5,000 | 4,989 | |
| Safe Trust | February 26, 2007 | 25,000 | 24,836 | |
| Smart Trust | February 26, 2007 | 19,900 | 19,769 | |
| Storm King Funding Trust | February 1, 2007 | 7,525 | 7,498 | |
| Storm King Funding Trust | February 15, 2007 | 3,000 | 2,984 | |
| Storm King Funding Trust | March 14, 2007 | 30,500 | 30,243 | |
| Sound Trust | February 9, 2007 | 6,500 | 6,470 | |
| Sound Trust | March 13, 2007 | 20,950 | 20,776 | |
| Zeus Receivable Trust | February 20, 2007 | 8,000 | 7,953 | |
| Zeus Receivable Trust | March 2, 2007 | 9,200 | 9,135 | |
| Zeus Receivable Trust | March 14, 2007 | 14,000 | 13,882 | |
| Vancouver City Savings Credit | January 26, 2007 | 7,000 | 6,979 | |
| Vancouver City Savings Credit | January 31, 2007 | 4,750 | 4,733 | |
| Vancouver City Savings Credit | February 13, 2007 | 3,000 | 2,985 | |
| Vancouver City Savings Credit | February 8, 2007 | 6,250 | 6,222 | |
| Vancouver City Savings Credit | February 20, 2007 | 2,500 | 2,485 | |
| Vancouver City Savings Credit | March 23, 2007 | 8,000 | 7,924 | |
| Wells Fargo Financial Canada Corporation | January 25, 2007 | 25,680 | 25,608 | |
| Wells Fargo Financial Canada Corporation | March 30, 2007 | 11,250 | 11,134 | |
| | | 742,605 | 738,044 | 66.78% |
| Total Short-term Investments | | 1,073,105 | 1,064,256 | 96.29% |
| CORPORATE BONDS | | | | |
| Vancouver International Airport Authority | November 14, 2007 | 12,000 | 12,069 | |
| CHN Capital Canada Receivable Trust | May 15, 2007 | 28,750 | 28,895 | |
| | | 40,750 | 40,964 | 3.71% |
| TOTAL INVESTMENTS PORTFOLIO | | 1,113,855 | 1,105,220 | 100.00% |

FIRST NATIONS FINANCE AUTHORITY

Intermediate Fund – Schedule of Investments (Schedule 2)

(Reproduced from the annual report of the Municipal Finance Authority of B.C.)

December 31, 2006

| THOUSANDS OF DOLLARS | MATURITY DATE | PAR | MARKET VALUE | % OF TOTAL |
|--------------------------------------|-------------------|----------------|----------------|----------------|
| SHORT-TERM INVESTMENTS | | | | |
| Treasury Bills | | | | |
| Canada Treasury Bill | November 1, 2007 | 63,600 | 61,455 | |
| Canada Treasury Bill | December 27, 2007 | 112,430 | 107,985 | |
| Total Short-term Investments | | 176,030 | 169,440 | 83.50% |
| CANADIAN BONDS | | | | |
| Federal Bonds | | | | |
| Government of Canada | June 1, 2007 | 7,900 | 7,883 | |
| Government of Canada | June 1, 2008 | 25 | 25 | |
| | | 7,925 | 7,908 | 3.90% |
| Corporate Bonds | | | | |
| Bell Mobility Cellular Inc. | January 8, 2007 | 6,850 | 7,095 | |
| Enbridge Inc. | January 4, 2007 | 6,970 | 7,164 | |
| Household Financial Corporation Ltd. | June 1, 2007 | 4,920 | 4,986 | |
| Royal Bank of Canada | June 4, 2012 | 4,800 | 4,871 | |
| Telus Communications Inc | February 1, 2007 | 1,400 | 1,444 | |
| | | 24,940 | 25,560 | 12.60% |
| Total Canadian Bonds | | 32,865 | 33,468 | 16.50% |
| TOTAL INVESTMENTS PORTFOLIO | | 208,895 | 202,908 | 100.00% |

FIRST NATION FINANCE AUTHORITY AT A GLANCE

HOW WE OPERATE

Legal Authority

Under Part 4 of the *First Nations Fiscal and Statistical Management Act 2005*, c. 9 (the 'FSMA') which came into force on April 1st 2006, the First Nations Finance Authority (the 'Authority') is established as a non-profit corporation without share capital. The Authority is not an agent of Her Majesty or a Crown corporation.

Representation

The members of the Authority are its borrowing members and investing members. Borrowing members are First Nations that have been accepted as a borrowing member by the Authority. Investing members are First Nations that have invested in a short-term investment pool managed by the Authority.

The Authority is managed by a board of directors, consisting of from 5 to 11 directors, including a Chairperson and Deputy Chairperson. The directors are elected by the borrowing members from among the members.

Mandate

The purposes of the Authority are to:

- (a) secure for its borrowing members, through the use of property tax revenues,
 - (i) long-term financing of capital infrastructure for the provision of local services on reserve lands,
 - (ii) lease financing of capital assets for the provision of local services on reserve lands, or
 - (iii) short-term financing to meet cashflow requirements for operating or capital purposes under a law made under paragraph 5(1)(b) or to refinance a short-term debt incurred for capital purposes;
- (b) secure for its borrowing members, through the use of other revenues prescribed by regulation, financing for any purpose prescribed by regulation;

- (c) secure the best possible credit terms for its borrowing members;
- (d) provide investment services to its members and First Nations organizations; and
- (e) provide advice regarding the development of long-term financing mechanisms for First Nations.

OUR CAPITAL FINANCING PROGRAM

Property Taxation

When the borrowing members of the Authority wish to finance capital projects using property tax revenues, First Nation Tax Commission-approved law requests are presented to the Authority and are subject to approval by the Authority's borrowing members. Taking into account market and economic conditions, the borrowing members of the Authority may authorize the issue and sale of securities in an amount sufficient to meet the requests. Securities of the Authority, the proceeds of which would not exceed the amount authorized, may then be issued at such rates and pursuant to such terms and conditions and in such markets and currencies as the directors may determine.

The Authority has the power to provide for the creation, management and application of reserve sinking funds or other means of securing the repayment of securities issued by the Authority. A separate sinking fund account will be maintained for each debenture issue and for each borrowing member. Contributions to this fund may be invested only in:

- (a) securities issued or guaranteed by Canada or a province;
- (b) securities of a local, municipal or regional government in Canada;
- (c) investments guaranteed by a bank, trust company or credit union; or
- (d) deposits in a bank or trust company in Canada or non-equity or membership shares in a credit union.

HOW WE SAFEGUARD OUR INVESTORS

Financial Protection

The combined credit of all the borrowing members stands behind the Authority's obligations.

In addition, the Authority will establish a debt reserve fund. Borrowing members sharing in the proceeds of a securities issue having a term to maturity of five years or over must contribute five percent of the principal amount borrowed to the debt reserve fund. Moneys paid into the debt reserve fund, and interest earned thereon, are obligations of the Authority to the borrowing member and are refunded to them when the final installments of their loans have been paid.

If at any time the Authority lacks sufficient funds to meet the principal, interest or sinking fund payments due on its obligations, it would utilize the debt reserve fund. All or any part of this fund is available to satisfy the Authority's obligations, regardless of sources of the moneys in the fund. In the event that payments were ever made from the debt reserve fund, the Authority is able to recover such payments from the borrowing member involved in order to restore the debt reserve fund.

If the directors are of the opinion that payments would not be recovered within a reasonable period of time the Authority may, in accordance with the regulations made under the FSMA require all borrowing members to pay amounts sufficient to replenish the debt reserve fund. If, however, the debt reserve fund drops to 50% or less of the total amount contributed by borrowing members, the Authority must, in accordance with the regulations made under the FSMA, require all borrowing members to pay without delay amounts sufficient to replenish the debt reserve fund and the borrowing members shall recover those amounts under their property taxation laws.

In addition to the debt reserve fund, the Authority must establish a fund for the enhancement of the Authority's credit rating, the capital of which can be used to temporarily offset any shortfalls in the debt reserve fund. Canada is contributing to the credit enhancement fund up to a maximum of \$10 million.

Moneys in the debt reserve fund and credit enhancement fund may be invested only in:

- a) securities issued or guaranteed by Canada or a province;
- b) investments guaranteed by a bank, trust company or credit union; or
- c) deposits in a bank or trust company in Canada or non-equity or membership shares in a credit union.

These investments must mature or be callable within five years, 25% of which must be callable within 90 days.

Legislative Protection

The FSMA establishes a strict regulatory system that ensures borrowing members are certified and meet specific borrowing standards that ensure safeguards on indebtedness are maintained. Such safeguards include the requirement that the local revenues of the borrowing member are sufficient to service the debt.

The FSMA sets out that the Authority shall only accept a First Nation as a borrowing member where the First Nations Financial Management Board has issued to the First Nation a certificate that, in its opinion, the First Nation was in compliance with the financial management standards established by the Board. This includes having made a law respecting the financial administration of the First Nation. A First Nation may cease to be a borrowing member only with the consent of all other borrowing members.

The Authority shall not make a long-term loan to a borrowing member for the purpose of financing capital infrastructure for the provision of local services on reserve lands unless:

- (a) the First Nations Tax Commission has approved the law made by the borrowing member; and
- (b) the loan is to be paid out of the property tax revenues of the borrowing member in priority to other creditors of the borrowing member.

OUR POOLED INVESTMENT PROGRAM

Organization

The Authority may establish short-term pooled investment funds. Funds in the Authority's short-term pooled investment fund may be invested only in:

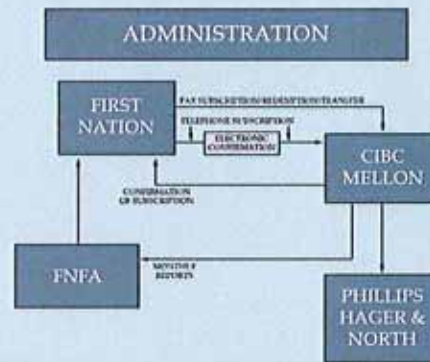
- (a) securities issued or guaranteed by Canada, a province or the United States;
- (b) fixed-term deposits, notes, certificates or other short-term paper of, or guaranteed by, a bank, trust company or credit union, including swaps in United States currency;
- (c) securities issued by the Authority or by a local, municipal or regional government in Canada;
- (d) commercial paper issued by a Canadian company that is rated in the highest category by at least two recognized security-rating institutions;
- (e) any class of investments permitted under an Act of a province relating to trustees; or
- (f) any other investments or class of investments prescribed by regulation.

Investment Activities

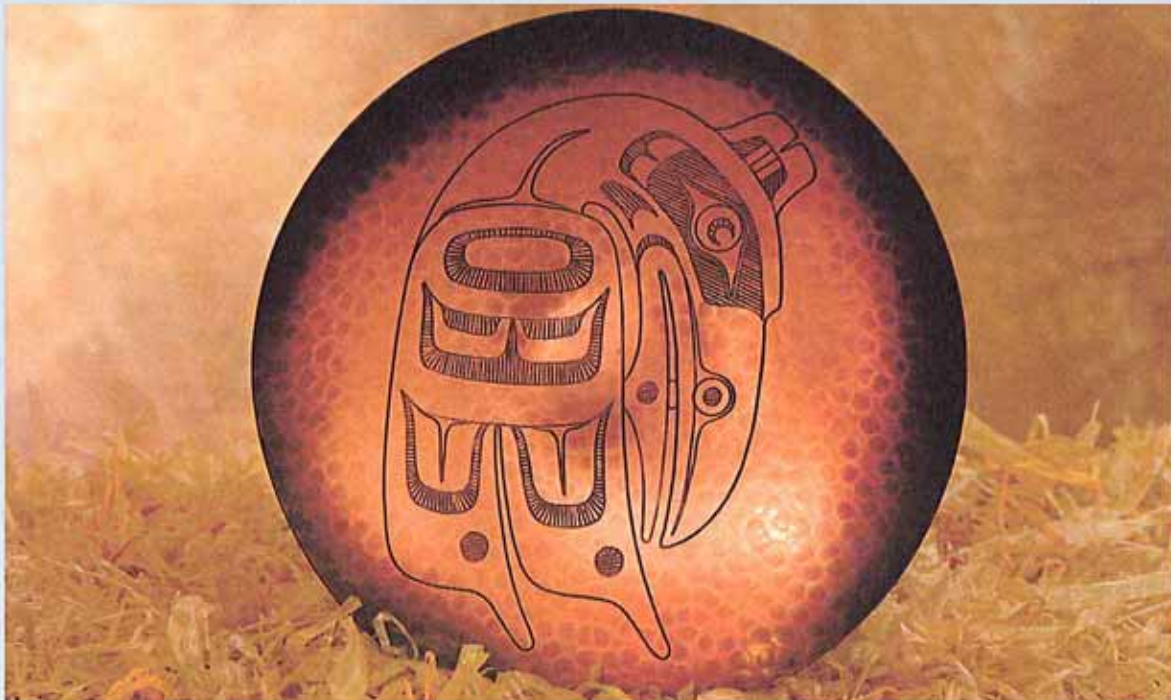
In accordance with the Pooled Investment Regulation made under the *First Nations Fiscal and Statistical Management Act*, the Authority has,

by contract, arranged to participate in the short to intermediate term investment pools established by the Municipal Finance Authority of British Columbia. These funds are the Money Market Fund and the Intermediate Fund. Both of these funds offer flexibility of subscription and redemption with ease of electronic access. The investment activities of these funds are governed by the *Municipal Finance Authority Act* and a charter of investment policies, objectives and guidelines.

The diagram below shows how the Funds are managed: (Fig 1)



FIRST NATIONS FINANCE AUTHORITY



DIRECTORS PROFILES

THE FNFA IS GOVERNED BY AN ALL ABORIGINAL BOARD OF DIRECTORS MADE UP OF POLITICAL LEADERS REPRESENTING THE PARTICIPATING FIRST NATIONS.

Chief Sophie Pierre *Chairperson*

Sophie Pierre is the elected Chief of the St. Mary's Indian Band and Administrator for the Ktunaxa/Kinbasket Tribal Council. Previously she served as Chief of the St. Mary's Indian Band for a decade from 1978 - 1988, and Councillor 1988 - 1992. Chief Pierre has been instrumental in the quest to resolve land claims in B.C., has been involved in the work of the British Columbia Claims Task Force, and was co-chair of the First Nations Summit. She has served on a number of Boards and committees. Currently Chief Pierre is Chairperson of the Board of Regents for the Ktunaxa Independent School System, a board member of BC Hydro Power Authority and Chairperson of the St. Eugene Mission Development Board. In the past, she has been an executive member of the First Nations Congress, a board member of the Native Courtworkers and Counselling Association, a board member of UNESCO - Decade for culture, and a board member and Chairperson of the College of the Rockies. Chief Pierre has been an associate instructor in the Administration of Aboriginal Governments Program at the University of Victoria. Chief Pierre was recipient of the 2003 National Aboriginal Achievement Award for Public Service and in June 1994 was awarded the Order of British Columbia.



Chief Joe Hall *Deputy Chairperson*

Joe Hall is Chief of the Tzeachten First Nation, a dynamic and progressive First Nation located in the Fraser Valley. He is also the President of the Sto:lo Nations Chiefs Council and former CEO of Sto:lo Nation.

A graduate of the BCIT and BC Vocational School, Joe subscribes to the life-long learning concept and has enhanced his skill set through training at UBC, the University of Victoria, the Justice Institute and the University College of the Fraser Valley. Prior to coming to the Sto:lo Nation in 1986, Joe was employed for eleven years with the Genstar Development Company as a Civil Engineering Technician, where he was primarily involved in land development.

Joe's current affiliations include Director of the Sto:lo Nation Development Corporation, Member of the Sto:lo Nation Development Corporation Investment Committee, President of the Ch-ihl-kway-uhk Tribal Society, Vice-President of Chi-ihl-kway-uhk Forest Limited Partnership and the First Nations Finance Authority, Director of the Tale'awtxw Aboriginal Capital Corporation, and Chairman of the Tale'awtxw Economic Development Association.

Joe has served on a number of Boards and Committees including the First Nations Statistical Institute, BC AFN Director, BC AFN Chief's Committee on Fiscal Relations, BC AFN Chief's Committee on Housing, Chairman of the First Nation Education Steering Committee, RCMP Commissioner's Advisory Panel, Chilliwack Official Planning Committee. Joe has lectured at the University of Victoria on taxation, participated on the tax panel at the Union of BC Municipalities in Victoria, and assisted the BC Region DIAND Executive Committee with the development of the "Government to Government" handbook.

Joe is married with two sons and is a very active participant and coach, with more than 35 years involvement in community sports (baseball, soccer).

Deanna Hamilton

Director

FNFA President/Chief Executive Officer

Deanna Hamilton is Okanagan and a member of the Westbank First Nation in British Columbia, Canada. Ms. Hamilton coordinated the development of the First Nations Finance Authority (FNFA) from its conception in 1992 through to Royal Assent in March 2005. She is currently a director and President and Chief Executive Officer of the FNFA.



Ms. Hamilton attended the University of British Columbia. Throughout her career she has worked in business in a number of management and supervisory positions and has successfully operated her own land development companies. Ms. Hamilton returned to her community in 1990 to accept the position of Surveyor of Taxes for the Westbank First Nation and was responsible for establishing the system of property tax administration at Westbank. Ms. Hamilton was elected Councillor to the Westbank First Nation from 1996 to 1998 and 2000 to 2002.

Ms. Hamilton is past President of the First Nation Tax Administrators Association, was a Board member of the Kelowna Chamber of Commerce, Economic Development Commissioner for Westbank First Nation, a Director of All Nations Trust Company and served two consecutive terms as a Director of the British Columbia Assessment Authority and was a member of the National Revenue Options Technical Table.

Ms. Hamilton is married, has three children and resides in Westbank, British Columbia.



Chief Robert Sam

Director

Chief Robert Sam attended residential school in Kamloops before moving to St. Louis College for boys in Victoria. He has attended the University of

Victoria. Robert Sam was elected the Chief of the Songhees First Nation in June 1996 and re-elected in June 2000 and again in 2003. He was elected Councillor numerous times since the 1960's.

Chief Sam is the Chief Negotiator for the Songhees Nation for Treaty Negotiations and is a Committee Member of the AFN's Chief's Committee on Treaties.

Chief Sam has worked in the area of economic development in Prince George for the Carrier Sekani people. As Chief of his community Robert was the driving force in developing the local government bylaws including taxation and fire protection. He successfully negotiated a local education agreement with the Victoria School Board.

In addition to his duties as Chief, Chief Sam currently runs a garbage disposal business and employs local people. As a strong community member, he has been involved with the Songhees Canoe Club and owns Lekwammen Chief, an eleven man War Canoe. Chief Sam is active with the Songhees Youth Groups and trains the youth in canoe paddling for canoe races.

Chief Sam's strong cultural beliefs guide his leadership style.

Alexander Cope

Director



A member of the Millbrook First Nation, located in Truro, Nova Scotia, Alexander Cope is presently serving his sixth 2-year term as Band Councillor. Alex graduated from the University of New Brunswick in 1991 with a Bachelor Business Administration and currently holds the position of Band Administrator for the Millbrook First Nation. Alex also serves on the Board of the Chignecto Central School Board, the Millbrook Gaming Commission, Millbrook Economic Development Corporation and the Millbrook Housing Authority.

STAFF



Pamela Severson
Financial Officer/Corporate Clerk

Pam is responsible for the day to day accounting of the FNFA including annual financial statements and reporting requirements. She maintains the FNFA Pooled Investment Funds Program and oversees the general office administration. As Corporate Clerk she is responsible for corporate record keeping and organization of Board of Directors meetings.



Shannon Jenner
Administrative Assistant

Shannon is the voice and smile you hear when you call the FNFA. In addition to answering phones and greeting visitors Shannon is responsible for staff travel arrangements, incoming and outgoing mail, assisting in conference organization, monitoring the FNFA website and assisting administrative personnel with overflow projects.





FIRST NATIONS FINANCE AUTHORITY

Financing Sustainable Communities

www.fnfa.ca