

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2009 and all information contained in these statements rests with the management of Indian and Northern Affairs Canada (INAC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of INAC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in INAC's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Department.

Management is supported by a Departmental Audit Committee (DAC), which includes members external to INAC. The role of the DAC is to oversee management's responsibilities for maintaining adequate processes and key control systems and reviews assessments of the probity and prudence of the Department's operations. The DAC will also review and recommend for approval internal audit plans and recommend for approval internal audit reports and the accompanying management action plans addressing recommendations.

The financial statements of INAC have not been audited.

Michael Wernick
Deputy Minister

Jim Quinn, CMA
Chief Financial Officer

Gatineau, Canada
August 11, 2009

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Operations (Unaudited)

For the year ended March 31

(in thousands of dollars)

| | 2009 | (restated) 2008 |
|------------------------------------|------------------|--------------------|
| <hr/> | | |
| Expenses (Note 4) | | |
| People | 3,671,072 | 3,083,449 |
| Government | 1,840,816 | 1,910,260 |
| Economy | 1,430,463 | 1,291,519 |
| Land | 394,783 | 414,963 |
| Office of the Federal Interlocutor | 43,522 | 29,982 |
| Total Expenses | 7,380,656 | 6,730,174 |
| <hr/> | | |
| Revenues (Note 5) | | |
| People | 719 | 2,929 |
| Economy | 2,255 | 2,829 |
| Government | 9,305 | 10,425 |
| Land | 272,702 | 232,920 |
| Office of the Federal Interlocutor | - | 12 |
| Total Revenues | 284,981 | 249,115 |
| <hr/> | | |
| Net Cost of Operations | 7,095,675 | 6,481,059 |
| <hr/> | | |

The accompanying notes form an integral part of these financial statements.

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Financial Position *(Unaudited)*

As at March 31

(in thousands of dollars)

| | 2009 | (restated) 2008 |
|--|---------------------|---------------------|
| Assets | | |
| Financial assets | | |
| Accounts receivable and advances (Note 6) | 62,138 | 64,928 |
| Interest receivable (Note 7) | 18,489 | 29,308 |
| Loans receivable (Note 8) | 777,937 | 751,259 |
| Total financial assets | 858,564 | 845,495 |
| Non-financial assets | | |
| Prepaid expenses | 2,172 | 2,172 |
| Land held for future claims settlements (Note 9) | 25,826 | 25,013 |
| Tangible capital assets (Note 10) | 44,870 | 36,939 |
| Total non-financial assets | 72,868 | 64,124 |
| TOTAL | 931,432 | 909,619 |
| Liabilities and Equity | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | 987,948 | 855,608 |
| Vacation pay and compensatory leave | 17,254 | 15,419 |
| Other liabilities (Note 11) | 53,949 | 61,049 |
| Trust accounts (Note 12) | 1,126,747 | 1,033,554 |
| Settled claims (Note 13) | 607,931 | 546,534 |
| Allowance for claims and litigation (Note 14) | 10,335,936 | 9,107,409 |
| Environmental liabilities (Note 14) | 1,571,348 | 1,497,137 |
| Allowance for loan guarantees (Note 14) | 1,800 | 1,800 |
| Employee severance benefits (Note 15) | 78,549 | 58,502 |
| Total liabilities | 14,781,462 | 13,177,012 |
| Equity of Canada | (13,850,030) | (12,267,393) |
| TOTAL | 931,432 | 909,619 |

Contingent liabilities (Note 14)

Contractual obligations (Note 16)

The accompanying notes form an integral part of these financial statements.

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Equity of Canada (Unaudited)

As at March 31

(in thousands of dollars)

| | 2009 | (restated) 2008 |
|---|---------------------|--------------------|
| Equity of Canada, beginning of year | (12,267,393) | (12,711,328) |
| Net cost of operations | (7,095,675) | (6,481,059) |
| Current year appropriations used (Note 3) | 6,938,947 | 7,268,728 |
| Revenue not available for spending | (284,981) | (249,115) |
| Change in net position in the Consolidated Revenue Fund (Note 3c) | (233,752) | (168,387) |
| Services provided without charge from other government departments (Note 17) | 85,698 | 73,768 |
| Transfer of Indian Residential Schools Resolution Canada (Note 18) | (992,874) | - |
| Equity of Canada, end of year | (13,850,030) | (12,267,393) |

The accompanying notes form an integral part of these financial statements.

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Cash Flow *(Unaudited)*

For the year ended March 31

(in thousands of dollars)

| | 2009 | (restated) 2008 |
|---|------------------|--------------------|
| Operating activities | | |
| Net cost of operations | 7,095,675 | 6,481,059 |
| Non-cash items: | | |
| Services provided without charge from other departments | (85,698) | (73,768) |
| Amortization of capital assets | (8,380) | (7,607) |
| Gain (loss) on disposal of tangible capital assets | 2 | (447) |
| Adjustments to tangible capital assets | 1,454 | - |
| Variations in Statement of Financial Position: | | |
| Decrease in accounts receivable and advances | (2,790) | (43,232) |
| Decrease in interest receivable | (10,819) | (1,925) |
| Increase in loans receivable | 26,678 | 31,925 |
| Decrease in prepaid expenses | - | (1,758) |
| Increase in land held for future claims settlements | 813 | 778 |
| Decrease (increase) in liabilities | (1,604,449) | 460,198 |
| Cash used by operating activities | 5,412,486 | 6,845,223 |
| Capital investment activities | | |
| Acquisitions of tangible capital assets | 14,925 | 6,215 |
| Proceeds from disposal of tangible capital assets | (71) | (211) |
| Cash used by capital investment activities | 14,854 | 6,004 |
| Financing Activities | | |
| Net cash provided by Government of Canada | 5,427,340 | 6,851,227 |

The accompanying notes form an integral part of these financial statements.

INDIAN AND NORTHERN AFFAIRS CANADA

Notes to the Financial Statements (*Unaudited*)

1. Authority and objectives

Indian and Northern Affairs Canada (INAC) was established by the *Government Organization Act, 1966* and has been continued in its current form by the *Department of Indian Affairs and Northern Development Act (R.S., 1985, c. I-6)*. Effective June 1, 2008, pursuant to Order-in-Council P.C. 2008-805, Indian Residential Schools Resolution Canada (IRSRC) was amalgamated and combined with INAC under the Minister of INAC. INAC is named as a department in Schedule I of the *Financial Administration Act*.

INAC's vision is a future in which First Nations, Inuit, Métis and northern communities are healthy, safe, self-sufficient and prosperous - a Canada where people make their own decisions, manage their own affairs and make strong contributions to the country as a whole.

INAC is one of the federal government departments responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Northerners, and for fulfilling the federal government's constitutional responsibilities in the North. The broad mandate of the Department is derived largely from the *Department of Indian Affairs and Northern Development Act*, the *Indian Act*, and territorial acts, some of which are expressions of Parliament's legislative jurisdiction found in section 91(24) of the *Constitution Act, 1867*.

Consistent with its vision and to achieve its mandate, INAC has structured its operations along five strategic outcomes as follows:

a) Government - Under this strategic outcome, activities support capacity building for governance and institutions, cooperative relationships, and claims settlements as the foundation for self-reliant First Nations, Inuit and Northerners. These activities promote:

- Stable, effective First Nations and Inuit governments;
- Sustainable intergovernmental relationships recognized by all parties; and
- Legal certainty over ownership and use of lands and resources.

b) People - Activities within this strategic outcome support the Department's mandate with respect to provincial-type services on reserves south of the 60th parallel, as well as fulfilling other departmental statutory and treaty obligations to individuals. Taken together, these activities create a range of essential services throughout an individual's life such as:

- The registration of eligible persons as Indians and estate administration;
- Education; and
- Social services.

Notes to the Financial Statements (*Unaudited*)

c) Land - Activities within this strategic outcome promote efficient land management practices that address the Crown's obligation to protect, conserve, and manage lands, resources and the environment in a manner consistent with the principles of sustainable development and First Nations' aspirations for greater control and decision making over their lands, resources, and environment. These activities are required to:

- Develop the underlying infrastructure and capacity for First Nations governance;
- Create opportunities for more direct responsibility and control by First Nations over land, resources and the environment; and
- Realize economic development, improved socio-economic and environmental conditions, and sound First Nations governance over land, resources and the environment.

d) Economy - This strategic outcome concentrates on establishing a supportive investment/business climate to enable First Nations, Inuit and Northerners, their communities and their businesses to seize economic opportunities. It also focuses on building the economic and community foundations necessary to increase Aboriginal and Northern participation in the economy. These activities promote:

- Investment leading to jobs in communities;
- Management of infrastructure facilities; and
- Mitigation of health and safety risks.

e) Office of the Federal Interlocutor - Under this strategic outcome, activities are designed to improve socio-economic conditions for Métis, Non-Status Indians and urban Aboriginal people through strengthened relationships with Métis and Non-Status Indian groups and organizations, urban Aboriginal Canadians, and provincial governments and municipalities. These activities support:

- Agreements furthering self-government for Métis and Non-Status Indians;
- Increased employment for urban Aboriginal people; and
- An increased knowledge base relating to Métis Aboriginal rights.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations - INAC is primarily financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to INAC do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

Notes to the Financial Statements (*Unaudited*)

b) Net cash provided by Government - INAC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by INAC is deposited to the CRF and all cash disbursements are paid from the CRF. Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Change in net position in the Consolidated Revenue Fund - The difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the Department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

d) Revenues - Revenues from regulatory fees are recognized in the accounts based on the services provided in the year. Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

e) Expenses - Expenses are recorded on the accrual basis:

- Grants are recognized in the year in which conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives Parliamentary approval prior to the completion of the financial statements;
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement;
- Vacation pay and compensatory leave are expensed in the year that the entitlement occurs; and
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.

f) Employee future benefits

- Pension benefits - Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. INAC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the plan.
- Severance benefits - Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

Notes to the Financial Statements (*Unaudited*)

g) Accounts and loans receivable

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Loans receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program. Interest is not accrued on loans approved for write-off or forgiveness.

h) Provision for losses on accounts and loans receivable

Accounts receivable

The amount of the allowance is determined based on an assessment of each account. The collectibility of each account is reviewed by regional accounting offices on a semi-annual basis using a standard set of criteria to assess default risk.

Direct loans and defaulted guaranteed loans

The amount of the allowance is determined based on an assessment of each loan. The collectibility of each loan is reviewed by program managers on an annual basis using a standard set of criteria to assess default risk.

Loan guarantees (contingent)

An allowance for loan guarantees is recorded for potential losses on loan guarantees when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated. The amount of the allowance is determined by taking into consideration the weighted average of the contingent liability and the historical percentage of default. The allowance is reviewed on at least an annual basis with any changes in the allowance being charged or credited to current year's expenditures.

i) Contingent liabilities

A contingent liability is a potential liability which may become an actual liability when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

Notes to the Financial Statements (*Unaudited*)

j) Environmental liabilities

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, or assets located on Indian Reserves.

Capital assets which are held for future contribution to First Nations are reported as land held for future claims settlements. Lands north of 60 degrees latitude owned by the Crown as a result of confederation are recorded at nominal value.

Notes to the Financial Statements (*Unaudited*)

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the assets as follows:

| <u>Asset Class</u> | <u>Amortization Period</u> |
|--|---|
| Buildings - | |
| Residential mobile | 10 years |
| Administrative, institutional, recreational and residential | 40 years |
| Works and infrastructure | 30 years |
| Machinery and equipment - | |
| Communication equipment | 5 years |
| Lab, scientific and testing equipment | 10 years |
| Construction, excavating and clearing equipment | 15 years |
| Generating equipment | 20 years |
| Informatics hardware and software | 3 years |
| Ships and boats | 10 years |
| Motor vehicles - | |
| Passenger vehicles and light trucks less than 1 ton | 5 years |
| Heavy trucks greater than 1 ton | 10 years |
| Other vehicles | 5 years |
| Leasehold improvements | Lesser of useful life or term of lease |
| Assets under construction | Once in service, in accordance with asset type |

1) Measurement uncertainty

The preparation of financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the allowance for claims and litigation, environmental liabilities, contingent liabilities, the liability for employee severance benefits, and the useful life of tangible capital assets. Actual results could differ significantly from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Notes to the Financial Statements (*Unaudited*)

3. Parliamentary appropriations

INAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years.

Accordingly, INAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year appropriations used

| <i>(in thousands of dollars)</i> | <u>2009</u> | (restated) <u>2008</u> |
|---|-------------------------|---------------------------|
| Net cost of operations | 7,095,675 | 6,481,059 |
| Adjustments for items affecting net cost of operations but not affecting appropriations: | | |
| Add (Less): | | |
| Expenses for claims and litigation | (261,225) | 678,402 |
| Revenue not available for spending | 284,981 | 249,115 |
| Services provided without charge | (85,698) | (73,768) |
| Environmental liabilities | (74,211) | (183,281) |
| Settled claims | (61,397) | 95,626 |
| Refunds of transfer payments | 43,211 | 29,987 |
| Employee severance benefits | (20,047) | (2,153) |
| Amortization of tangible capital assets | (8,380) | (7,607) |
| Vacation pay and compensatory leave | (1,835) | 788 |
| Gain (loss) on disposal of tangible capital assets | 2 | (447) |
| Other | <u>12,131</u> | <u>(4,228)</u> |
| | 6,923,207 | 7,263,493 |
| Adjustments for items not affecting net cost of operations but affecting appropriations: | | |
| Add (Less): | | |
| Acquisition of tangible capital assets | 14,925 | 6,215 |
| Prepaid expenses | - | (1,758) |
| Land held for future claims settlements | <u>815</u> | <u>778</u> |
| Current year appropriations used | <u>6,938,947</u> | <u>7,268,728</u> |

Notes to the Financial Statements (*Unaudited*)

b) Appropriations provided and used

| | Appropriations Provided | |
|---|----------------------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| | <i>(in thousands of dollars)</i> | |
| Vote 1 - Operating expenditures | 1,189,276 | 725,942 |
| Vote 5 - Capital expenditures | 17,754 | 1,210 |
| Vote 10 - Grants and Contributions | 5,733,595 | 6,341,338 |
| Vote 15 - Payment to Canada Post Corporation | 56,100 | 47,600 |
| Vote 20 - Office of the Federal Interlocutor - Operating | 9,672 | 9,692 |
| Vote 25 - Office of the Federal Interlocutor - Contributions | 30,344 | 27,249 |
| Statutory amounts | <u>194,216</u> | <u>219,003</u> |
| | 7,230,957 | 7,372,034 |
| Less: | | |
| Appropriations available for future years | (31,823) | (31,937) |
| Lapsed appropriations | <u>(260,187)</u> | <u>(71,369)</u> |
| | (292,010) | (103,306) |
| Current year appropriations used | <u>6,938,947</u> | <u>7,268,728</u> |

Notes to the Financial Statements (*Unaudited*)

c) Reconciliation of net cash provided by Government to current year appropriations used

| | <u>2009</u> <i>(in thousands of dollars)</i> | <u>2008</u> |
|--|---|-------------------------|
| Net cash provided by Government | 5,427,340 | 6,851,227 |
| Revenue not available for spending | <u>284,981</u> | <u>249,115</u> |
| | 5,712,321 | 7,100,342 |
| Change in net position in the Consolidated Revenue Fund: | | |
| Variation in accounts receivable and advances | 2,790 | 43,232 |
| Variation in interest receivable | 10,819 | 1,925 |
| Variation in loans | (26,678) | (31,925) |
| Variation in accounts payable and accrued liabilities | 132,340 | 101,989 |
| Variation in trust accounts | 93,193 | 39,830 |
| Other adjustments | <u>21,288</u> | <u>13,335</u> |
| | 233,752 | 168,386 |
| Transfer of Indian Residential Schools Resolution Canada | 992,874 | - |
| Current year appropriations used | <u>6,938,947</u> | <u>7,268,728</u> |

Notes to the Financial Statements (*Unaudited*)

4. Expenses

The following table presents details of expenses by category:

| | <u>2009</u> | (restated) <u>2008</u> |
|---|----------------------------------|---------------------------|
| | <i>(in thousands of dollars)</i> | |
| Transfer payments - First Nations | 4,929,682 | 5,667,146 |
| Transfer payments - Provincial/Territorial governments and institutions | 706,691 | 657,251 |
| Transfer payments - Non-profit organizations | 55,348 | 38,782 |
| Transfer payments - Industry | 21,369 | 2,676 |
| Transfer payments - Other | <u>5,727</u> | <u>3,613</u> |
| <i>Total transfer payments</i> | <i>5,718,817</i> | <i>6,369,468</i> |
| Salaries and employee benefits | 488,900 | 399,136 |
| Professional services | 335,049 | 246,892 |
| Court awards and other settlements | 316,507 | 33,586 |
| Claims and litigation | 261,226 | (678,402) |
| Environmental liabilities | 74,211 | 183,281 |
| Canada Post Corporation | 56,100 | 43,987 |
| Travel and relocation | 42,304 | 33,919 |
| Accommodations | 33,795 | 29,377 |
| Machinery and equipment | 15,603 | 13,206 |
| Communications services | 12,590 | 10,918 |
| Rentals of buildings and machinery | 11,443 | 9,644 |
| Utilities, materials and supplies | 8,327 | 9,012 |
| Other expenses | <u>5,784</u> | <u>26,149</u> |
| <i>Total operating expenses</i> | <i>1,661,839</i> | <i>360,706</i> |
| Total | <u>7,380,656</u> | <u>6,730,174</u> |

Notes to the Financial Statements (*Unaudited*)

5. Revenues

The following table presents details of revenues by category:

| | <u>2009</u> | <u>2008</u> |
|------------------------------|----------------------------------|----------------|
| | <i>(in thousands of dollars)</i> | |
| Resource royalties | 140,166 | 87,560 |
| Norman Wells project profits | 125,435 | 115,780 |
| Interest on loans | 11,005 | 11,750 |
| Miscellaneous | 4,208 | 29,656 |
| Leases and rentals | <u>4,167</u> | <u>4,369</u> |
| Total | <u>284,981</u> | <u>249,115</u> |

Resource royalties

The most significant sources of resource royalty revenues are those earned pursuant to the *Northwest Territories and Nunavut Mining Regulations* (formerly the *Canada Mining Regulations*) and the *Frontier Lands Petroleum Royalty Regulations*.

The *Northwest Territories and Nunavut Mining Regulations* (the Mining Regulations) prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of minerals extracted from land leased by these companies pursuant to the Mining Regulations. The Mining Regulations prescribe that royalties are generally payable four months after the fiscal year-end of the company.

The *Frontier Lands Petroleum Royalty Regulations* (the Royalty Regulations) also prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of oil and gas extracted from the land, which the company has the right to use pursuant to a production licence issued under the authority of the *Canada Petroleum Resources Act*. The Royalty Regulations prescribe that royalties are generally payable on the last day of the month following the month of production.

Norman Wells project profits

This project is a source of revenues earned pursuant to a contract between INAC and Imperial Oil. This contract prescribes a profit-sharing formula and sets out a payment schedule, whereby payments are made annually to INAC no later than March 20.

Leases and rentals

The major source of lease and rental revenues is lease fees prescribed in the Mining Regulations. After a waiting period of 10 years, companies may lease land in the North for purposes of exploration and extraction of minerals. Leases are for a period of 21 years and are renewable. Lease fees are set out in the Mining Regulations and are payable annually on the anniversary date of the signing of the lease.

Notes to the Financial Statements (*Unaudited*)

6. Accounts receivable and advances

The following table presents details of accounts receivable and advances:

| | <u>2009</u> | <u>2008</u> |
|--|----------------------------------|-----------------|
| | <i>(in thousands of dollars)</i> | |
| Receivables from other Federal Government departments and agencies | 29,856 | 33,541 |
| Receivables from external parties | 51,962 | 51,311 |
| Employee advances | <u>186</u> | <u>105</u> |
| | 82,004 | 84,957 |
| Less: allowance for doubtful accounts on external receivables | <u>(19,866)</u> | <u>(20,029)</u> |
| Total | <u>62,138</u> | <u>64,928</u> |

7. Interest receivable

The following table provides details of accrued interest receivable on loans:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|----------------------------------|----------------|
| | <i>(in thousands of dollars)</i> | |
| Direct loans | 21,744 | 32,487 |
| Defaulted guaranteed loans | <u>429</u> | <u>399</u> |
| | 22,173 | 32,886 |
| Less: allowance for doubtful accounts | <u>(3,684)</u> | <u>(3,578)</u> |
| Total | <u>18,489</u> | <u>29,308</u> |

Notes to the Financial Statements (*Unaudited*)

8. Loans receivable

The following table presents details of loans receivable:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------------|-----------------------|
| | <i>(in thousands of dollars)</i> | |
| Direct loans portfolio: | | |
| Native claimants | 436,205 | 431,497 |
| First Nations in British Columbia | 419,918 | 392,265 |
| Other direct loans | <u>519</u> | <u>519</u> |
| | 856,642 | 824,281 |
| Less: allowance for doubtful accounts | <u>(100,690)</u> | <u>(97,015)</u> |
| Net recoverable value | <u>755,952</u> | <u>727,266</u> |
| Defaulted guaranteed loans portfolio: | | |
| On-reserve housing guarantees | 8,891 | 7,945 |
| Aboriginal loan insurance | 7,200 | 8,752 |
| Indian economic development guarantees | 3,176 | 6,255 |
| Other defaulted guaranteed loans | <u>124</u> | <u>124</u> |
| | 19,391 | 23,076 |
| Add: capitalized interest | 11,111 | 9,434 |
| Less: allowance for doubtful accounts | <u>(8,517)</u> | <u>(8,517)</u> |
| Net recoverable value | <u>21,985</u> | <u>23,993</u> |
| Loans receivable, net recoverable value | <u>777,937</u> | <u>751,259</u> |

Notes to the Financial Statements (*Unaudited*)

Direct loans portfolio

The objective of direct loans is to support active participation by First Nations and First Nations organizations and to promote a balanced exchange of ideas in negotiating the settlement of comprehensive land claims, specific claims, and treaties.

INAC's direct loans portfolio has two active programs in support of this objective:

Native claimants

These are loans made to Native claimants to defray the costs related to the research, development and negotiation of comprehensive land claims and specific claims.

The significant terms and conditions of loans to Native claimants are as follows:

- (a) loans made before an agreement-in-principle for the settlement of a claim is reached are non interest bearing;
- (b) loans made after the date on which an agreement-in-principle for the settlement of a claim has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations;
- (c) loans are due and payable, as to principal and interest, on the date on which the claim is settled, or on a date fixed in the loan agreement;
- (d) loans may be restructured, including forgiveness of a portion of the principal or interest in arrears, when the borrower cannot meet the term of the original loan agreement; and
- (e) INAC may seek security for loans when deemed appropriate.

The interest bearing and non-interest bearing portions of direct loans for Native claimants outstanding at March 31 are as follows:

| <i>(in thousands of dollars)</i> | <u>2009</u> | <u>2008</u> |
|----------------------------------|----------------|----------------|
| Interest bearing | 125,981 | 138,561 |
| Non-interest bearing | <u>310,224</u> | <u>292,936</u> |
| Total | <u>436,205</u> | <u>431,497</u> |

First Nations in British Columbia

These are loans made to First Nations in British Columbia to support their participation in the British Columbia Treaty Commission and to defray the costs related to the research, development and negotiation of treaties.

The significant terms and conditions of direct loans to First Nations in British Columbia are the same as those for loans to Native claimants, except as follows:

- (a) loans made between April 1, 2004 and March 31, 2009, and after the date on which an agreement-in-principle for the settlement of a treaty has been reached, shall be interest free unless the loans become due and payable during this period.

Notes to the Financial Statements (*Unaudited*)

The interest bearing and non interest bearing portions of direct loans for First Nations in British Columbia outstanding at March 31 are as follows:

| <i>(in thousands of dollars)</i> | <u>2009</u> | <u>2008</u> |
|----------------------------------|----------------|----------------|
| Interest bearing | 54,545 | 54,060 |
| Non-interest bearing | <u>365,373</u> | <u>338,205</u> |
| Total | <u>419,918</u> | <u>392,265</u> |

Other direct loans

INAC also has various legacy programs that are no longer active, as such no new loans will be granted under these programs. These legacy programs will continue to operate under their existing arrangements until the land claims are settled, at which point the loans will become repayable and the respective programs closed.

All loans outstanding at year-end under the various legacy programs both for the current and prior year are interest bearing.

Defaulted guaranteed loans portfolio

The objective of loan guarantees is to encourage lending institutions to make loans for properties located on First Nations lands and to support access to credit markets for First Nations and First Nations organizations. Since properties located on First Nations lands cannot be used as collateral to secure the loans and lending institutions are prevented from foreclosing on these properties in the event of borrower default, as prescribed by the *Indian Act*, lending institutions can be exposed to greater business risk in issuing loans for properties located on First Nations lands.

As guarantor, loan guarantees issued under the various programs may become receivables of the Department when, at the request of a lending institution, INAC is required to honour these loan guarantees. As a result, INAC makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

The various loan guarantee programs are described below:

On-reserve housing guarantee program

This program authorizes the Department to guarantee loans to individuals and Indian bands to assist in the purchase of housing on reserves because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. These loan guarantees enable status Indians residing on reserves, Band councils, or their delegated authorities, to secure housing loans without giving the lending institution rights to the property.

Notes to the Financial Statements (*Unaudited*)

The significant terms and conditions of the On-reserve housing guarantee program are as follows:

Payments of principal and interest for loans issued under this program are amortized over a period of 25 years. The interest rates on the guaranteed loans are consistent with conventional mortgage interest rates offered by the major banks. On a semi-annual basis, any accrued interest receivable outstanding is capitalized as part of the principal amount owing on the loan.

To control the occurrence of defaulted loans in this program, the Department restricts the eligibility of recipients for further loans until such time as a recovery plan has been reached and has been in operation in accordance with its terms and conditions for a period of six months.

Aboriginal business loan insurance program

This program, originally established under the Department of Industry, provides loan insurance to financial institutions on behalf of loans issued to Aboriginal individuals, organizations, corporations or partnerships for the purpose of increasing commercial enterprise activity by Aboriginal Canadians.

Indian economic development guarantee program

This program authorizes the Department to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of Indians and enable them to develop long-term credit relationships with mainstream financial institutions.

The significant terms and conditions of the Indian economic development guarantee program are as follows:

Loans issued under this program cannot exceed a term of 15 years and the line of credit must be renewed every year. Interest rates on guaranteed loans are consistent with rates provided by lending institutions to commercial businesses, which are usually based on a spread from the prime lending rate. Accrued interest on loans issued under this program is never capitalized. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of INAC.

Other defaulted guaranteed loans

INAC also has a legacy program that is no longer active. This legacy program will continue to operate under its existing arrangements until the defaulted guaranteed loans are paid and the program closed.

Notes to the Financial Statements (*Unaudited*)

9. Land held for future claims settlements

Land held for future claims settlements is segregated from other tangible capital assets as these assets are not acquired with the intention of being used on a continuous basis in government operations. Rather, these assets are properties acquired and held by INAC for the purpose of future settlements of Aboriginal land claims. Following the ratification of a negotiated agreement of a claim, these assets are transferred to the Aboriginal group.

Changes in this account are summarized in the following table:

| | <u>2009</u> | | | <u>2008</u> | |
|--|----------------------------|---------------------|------------------|----------------------------|----------------------------|
| | <u>Opening balance</u> | <u>Acquisitions</u> | <u>Transfers</u> | <u>Closing balance</u> | <u>Closing balance</u> |
| Land held for future claims settlements | <u>25,013</u> | <u>823</u> | <u>10</u> | <u>25,826</u> | <u>25,013</u> |

Notes to the Financial Statements (*Unaudited*)

10. Tangible Capital Assets

(in thousands of dollars)

| Capital asset class | <u>Cost</u> | | | <u>Accumulated amortization</u> | | | | <u>Total</u> | | |
|---------------------------|------------------------|----------------------|-------------------------------|---------------------------------|------------------------|---------------------|-------------------------------|------------------------|----------------------|----------------------|
| | <u>Opening balance</u> | <u>Acquisitions</u> | <u>Disposals/ Adjustments</u> | <u>Closing balance</u> | <u>Opening balance</u> | <u>Amortization</u> | <u>Disposals/ Adjustments</u> | <u>Closing balance</u> | 2009 net book value | 2008 net book value |
| Land | 606 | - | - | 606 | - | - | - | - | 606 | 606 |
| Buildings | 28,600 | - | - | 28,600 | 11,795 | 716 | - | 12,511 | 16,089 | 16,805 |
| Works and infrastructure | 1,409 | 35 | - | 1,444 | 1,225 | 45 | - | 1,270 | 174 | 184 |
| Machinery and equipment | 8,537 | 470 | (1,470) | 7,537 | 5,387 | 509 | (1,402) | 4,494 | 3,043 | 3,150 |
| Informatics hardware | 32,884 | 2,359 | 590 | 35,833 | 27,103 | 3,751 | (85) | 30,769 | 5,064 | 5,781 |
| Informatics software | 9,103 | 11,583 | 1,825 | 22,511 | 2,131 | 2,727 | 1,083 | 5,941 | 16,570 | 6,972 |
| Ships and boats | 130 | - | - | 130 | 69 | 8 | - | 77 | 53 | 61 |
| Motor vehicles | 4,473 | 363 | (413) | 4,423 | 2,907 | 590 | (413) | 3,084 | 1,339 | 1,566 |
| Other vehicles | 340 | 42 | - | 382 | 245 | 34 | - | 279 | 103 | 95 |
| Leasehold improvements | 240 | 73 | 33 | 346 | - | - | - | - | 346 | 240 |
| Assets under construction | <u>1,479</u> | <u>-</u> | <u>4</u> | <u>1,483</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,483</u> | <u>1,479</u> |
| Total | <u>87,801</u> | <u>14,925</u> | <u>569</u> | <u>103,295</u> | <u>50,862</u> | <u>8,380</u> | <u>(817)</u> | <u>58,425</u> | <u>44,870</u> | <u>36,939</u> |

Amortization expense for the year ended March 31, 2009 is \$8,380 (\$7,607 in 2008).

Notes to the Financial Statements (*Unaudited*)

11. Other liabilities

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|----------------------------------|---------------|
| | <i>(in thousands of dollars)</i> | |
| Guarantee deposits | 895,075 | 569,332 |
| Securities held in trust | (874,783) | (543,619) |
| Other specified purpose accounts | <u>33,657</u> | <u>35,336</u> |
| Total | <u>53,949</u> | <u>61,049</u> |

Guarantee deposits & securities held in trust

In fulfilling its duties under various acts that govern the use of federal Crown land, including land use activities, water resources, and water rights, the Department may issue licences, permits, and other instruments to individuals and organizations that propose to undertake resource exploration and other types of development projects.

In accordance with the terms and conditions of the instrument, the Department may require security deposits to ensure the lands and waters are returned in a condition acceptable to the Department. These security or guarantee deposits can be in the form of cash or paper securities (usually letters of credit).

Cash amounts received are transferred to and held in the CRF, whereas paper securities are held by the Department and recorded in the contra-liability account securities held in trust.

Other specified purpose accounts

These include a number of Indian special accounts, the most significant of which is the Indian moneys suspense account. This account was established to hold moneys received for individual Indians and bands pending execution of the related lease, permit or licence, settlement of litigation, registration of the Indian or identification of the recipient. These monies are then disbursed to an Indian, or credited to an Indian Band Fund or Individual Trust Fund account, as appropriate.

12. Trust Accounts

In accordance with the *Indian Act*, INAC has responsibility to administer certain Indian moneys of bands, minors, mentally incompetent individuals and deceased Indians.

All moneys collected or received on behalf of these groups are deposited to the CRF and bear interest at a rate fixed from time to time by the Governor-in-Council pursuant to Section 61(2) of the *Indian Act*. Interest is accumulated in the accounts and is compounded semi-annually.

Notes to the Financial Statements (*Unaudited*)

The following table shows the Department's financial obligations in its role as administrator of these Indian moneys:

| | <u>2009</u> | | | | <u>2008</u> |
|-------------------------|-------------------------|-----------------------|-----------------------|-------------------------|------------------|
| | <u>Opening balance</u> | <u>Receipts</u> | <u>Payments</u> | <u>Closing balance</u> | Closing balance |
| Indian Band Funds | 981,562 | 327,952 | 237,706 | 1,071,809 | 981,562 |
| Indian Savings Accounts | 38,787 | 5,728 | 4,815 | 39,700 | 38,787 |
| Indian Estates Accounts | <u>13,205</u> | <u>6,851</u> | <u>4,817</u> | <u>15,238</u> | <u>13,205</u> |
| Total | <u>1,033,554</u> | <u>340,531</u> | <u>247,338</u> | <u>1,126,747</u> | <u>1,033,554</u> |

Indian Band Funds

These accounts were established to record moneys belonging to Indian bands throughout Canada pursuant to sections 61 to 69 of the *Indian Act*.

Moneys are classified as either capital moneys or revenue moneys.

Capital moneys of the band include all moneys derived from the sale of surrendered lands or the sale of band capital assets. Moneys from the sale of surrendered lands can include land sales, timber sales, oil and gas royalties, and sale of gravels. Revenue moneys are all moneys not classified as capital moneys.

Moneys are disbursed from these accounts pursuant to an authorized request from a band.

Indian Savings Accounts

These accounts were established to record moneys belonging to Indian minors pursuant to sections 52 and 52.1 to 52.5 of the *Indian Act*.

Sources of moneys include inheritances and per capita distribution of band funds. Moneys are held in these accounts until the minor attains the age of majority and are then paid out to the beneficiary in instalments over a period not exceeding three years.

Indian Estate Accounts

These accounts were established to record moneys belonging to mentally incompetent individuals and deceased Indians pursuant to sections 42 to 51 and 52.3 of the *Indian Act*.

Sources of moneys belonging to mentally incompetent individuals include inheritances, per capita distribution of band funds, and provincial assistance payments. Payments are made from these accounts for the maintenance and care of the individuals.

Estate accounts for deceased Indians include the proceeds of their liquidated assets that are held pending the settlement of the estate. The closing of the account usually corresponds with the final distribution to their heirs.

Notes to the Financial Statements (*Unaudited*)

13. Settled claims

The liability for settled claims represents INAC's financial obligation pursuant to agreements related to comprehensive land claims and specific claims.

Comprehensive land claims are negotiated in areas where Aboriginal title has not been dealt with by treaty or by other legal methods. In such cases, the claim is based on an Aboriginal group's traditional use and occupancy of that land. Comprehensive land claim settlements result in agreement on special rights Aboriginal peoples will have in the future with respect to lands and resources.

Specific claims address past grievances arising out of non-fulfilment of Indian treaties and other lawful obligations, the improper administration of lands and other assets under the *Indian Act*, or formal agreements that are being pursued through negotiations.

An act of Parliament, based on a negotiated agreement, establishes the authority for INAC to make claim payments. The interest rate attached to these claim payments is set out in the act, along with a claim payment schedule. Claim payments are generally made over a number of years.

At March 31, 2009, INAC had 10 outstanding settled claims (12 in 2008). Payments totalled \$113,000,000 in 2009 (\$128,000,000 in 2008).

The present value of the liability for settled claims, calculated using the appropriate Consolidated Revenue Fund Monthly Lending Rate as published by the Department of Finance, at March 31, 2009 is \$607,931,000 (\$546,534,000 in 2008).

Future scheduled claim payments are as follows:

(in thousands of dollars)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014 and thereafter</u> | <u>Total</u> |
|--------------------|---------------|---------------|---------------|---------------|--------------------------------|----------------|
| Scheduled payments | <u>93,000</u> | <u>97,000</u> | <u>98,000</u> | <u>76,000</u> | <u>301,000</u> | <u>665,000</u> |

Notes to the Financial Statements (*Unaudited*)

14. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are classified into three categories: claims and litigation, environmental liabilities (contaminated sites) and loan guarantees.

Claims and litigation

There are hundreds of claims and pending and threatened litigation cases outstanding against the Department. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

There are four significant types of claims faced by the department: comprehensive land claims, specific claims, general litigation claims, and claims arising from the legacy of Indian residential schools.

There are 76 (75 in 2008) comprehensive land claims and 588 (689 in 2008) specific claims under negotiation, accepted for negotiation, or under review. Legal proceedings for 525 (525 in 2008) claims being pursued through the courts were still pending at March 31, 2009. And there are thousands of claims being managed by the Department with respect to the legacy of Indian residential schools, including class action claims, as well as claims submitted under its Alternative Dispute Resolution process and its Independent Assessment Process.

INAC has recorded an allowance of \$10,335,936,000 (\$9,107,409,000 in 2008) as an estimate of the likely liability that will result from the above claims. This estimate includes projections based on historical rates and costs of settlement of similar claims.

Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated to incur such costs.

INAC has identified contaminated sites for which a liability of \$1,571,348,000 (\$1,497,137,000 in 2008) has been recorded. Estimated additional clean-up costs of \$333,634,000 (\$628,767,000 in 2008) have not been accrued, as the likelihood of incurring these costs cannot be determined at this time.

INAC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become known.

Notes to the Financial Statements (*Unaudited*)

Loan guarantees

Losses on loan guarantees are recorded when it is likely that a payment will be made to honour a guarantee. As at March 31, 2009, INAC has issued loan guarantees of \$1,780,871,000 (\$1,682,352,000 in 2008) for which a liability of \$1,800,000 (\$1,800,000 in 2008) has been recorded. INAC's authority limit for issuing loan guarantees under its On Reserve Housing Guarantee program is \$2.2 billion (\$1.7 billion in 2008).

15. Employee Benefits

Pension benefits

INAC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. For the year ended March 31, 2009, the expense amounts to \$43,660,000 (\$37,978,000 in 2008), which represents approximately 2.0 times (2.1 in 2008) the contributions by employees.

INAC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada as the Plan's sponsor.

Severance benefits

INAC provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------------|-----------------------|
| | <i>(in thousands of dollars)</i> | |
| Accrued benefit obligation, beginning of year | 58,502 | 56,349 |
| Expense for the year | 25,818 | 8,735 |
| Benefits paid during the year | <u>(5,771)</u> | <u>(6,582)</u> |
| Accrued benefit obligation, end of year | <u>78,549</u> | <u>58,502</u> |

Notes to the Financial Statements (*Unaudited*)

16. Contractual Obligations

The nature of INAC's activities can result in some multi-year contracts and obligations whereby the Department will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014 and thereafter</u> | <u>Total</u> |
|-------------------|------------------|----------------|----------------|----------------|----------------------------|------------------|
| Transfer payments | <u>1,549,000</u> | <u>811,000</u> | <u>560,000</u> | <u>519,000</u> | <u>1,152,000</u> | <u>4,591,000</u> |

17. Related party transactions

INAC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. INAC enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, INAC received services which were obtained without charge from other Government departments as presented below.

a) Services provided without charge

During the year INAC received without charge from other departments, accommodation, the employer's contribution to the health and dental insurance plans, workman's compensation coverage, and legal services. These services without charge have been recognized in INAC's statement of operations as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------------|---------------|
| | <i>(in thousands of dollars)</i> | |
| Accommodation provided by Public Works and Government Services Canada (PWGSC) | 33,795 | 29,377 |
| Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds) | 32,292 | 22,592 |
| Workers' compensation coverage provided by Human Resources Canada | 516 | 587 |
| Salary and associated expenditures for legal services provided by Justice Canada | 19,095 | 21,212 |
| Total | <u>85,698</u> | <u>73,768</u> |

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in INAC's statement of operations.

Notes to the Financial Statements (*Unaudited*)

b) Payables outstanding at year-end with related parties

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------------|---------------|
| | <i>(in thousands of dollars)</i> | |
| Accounts payable to other government departments and agencies | <u>17,303</u> | <u>15,211</u> |

18. Transfer from other government department

Effective June 1, 2008, pursuant to Order-in-Council P.C. 2008-805, Indian Residential Schools Resolution Canada (IRSRC) was amalgamated and combined with INAC under the Minister of INAC.

Accordingly, the following assets and liabilities related to IRSRC have been included in INAC's financial statements at March 31, 2009:

(in thousands of dollars)

Assets:

| | |
|--|--------------|
| Accounts receivable and advances | 5,035 |
| Tangible capital assets (net book value) (Note 10) | <u>3,276</u> |
| | 8,311 |

Liabilities:

| | |
|---|----------------|
| Accounts payable | 84,210 |
| Vacation and compensatory leave | 478 |
| Employee severance benefits | 6,405 |
| Allowance for claims and litigation (Note 14) | <u>910,182</u> |
| | 1,001,185 |

Adjustment to equity of Canada 992,874

Notes to the Financial Statements (*Unaudited*)

19. Prior period error

In 2008, INAC recorded an allowance of \$10,618,915,000 as an estimate of the likely liability that will result from the hundreds of claims and pending and threatened litigation cases outstanding against the Department. In 2009, it was discovered that some of those claims had been improperly recorded as a likely liability. The financial statements of 2008 have been restated to correct this error. There is no effect in 2009.

The effect of the restatement on the 2008 financial statements is summarized below.

| <i>(in thousands of dollars)</i> | Effect on <u>2008</u> |
|---|--------------------------|
| Decrease in expenses for claims and litigation | <u>1,511,506</u> |
| Decrease in net cost of operations | <u>1,511,506</u> |
| Decrease in allowance for claims and litigation | <u>1,511,506</u> |
| Increase in equity of Canada | <u>1,511,506</u> |

20. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.