



Six Nations
Natural Gas

2019 annual report

six nations natural gas

ten year comparative summary to 2019

(in thousands of dollars, except for number of customers and volumes sold which are in 1000's of cubic meters)

<i>fiscal year ended, mar 31</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<i>revenues</i>	3,410	3,213	3,135	2,897	3,507	3,175	2,907	2,932	3,350	3,346
<i>income before amortization</i>	348.0	306.1	314.8	78.0	745.9	363.1	275.0	427.1	557.0	487.9
<i>net earnings</i>	(217.4)	(180.9)	(145.1)	(282.2)	449.7	63.8	36.7	266.3	409.5	348.7
<i>cash flow</i>	3,429	3,822	3,445	4,256	3,645	3,129	3,059	2,739	3,161	3,074
<i>total debt</i>	0	0	0	0	0	0	0	0	0	0
<i>total assets</i>	6,018	6,152	6,375	6,410	6,810	5,825	5,626	5,580	5,377	4,893
<i>percentage return on average contributed equity</i>	(3.8)	(3.1)	(2.4)	(4.3)	7.7	1.2	0.7	5.2	8.5	7.6
<i>total bank debt as a percentage of contributed equity</i>	0	0	0	0	0	0	0	0	0	0
<i>number of customers</i>	2,690	2,619	2,541	2,417	2,371	2,331	2,295	2,295	2,256	2,163
<i>total volumes consumed</i>	9,221	8,258	7,711	7,110	8,572	8,567	7,078	6,466	7,133	6,670

These financial highlights should be read in conjunction with management's discussion and analysis of financial condition and results of operations and the consolidated financial statements which appear within.

Six Nations Natural Gas Company Limited

Management's Discussion and Analysis of Financial Condition

And

Results of Operations

The following discussion reviews the Limited Partnership's operations for the Fiscal Year ended March 31st, 2019. It presents management's discussion and analysis of these results along with a comparison to the two prior year periods. This material should be read in conjunction with the Limited Partnership's 2019 Audited Financial Statements and notes therein. In this discussion, Limited Partnership, the Gas Company and Six Nations Natural Gas are used interchangeably.

INTRODUCTION

For the fiscal year just ended, March 31st 2019, Six Nations Natural Gas had a bottom line net loss of \$217,436. Despite the bottom line result, the Gas Company had a profit before amortization of \$348,047.

Over the last several years, it has become apparent that there is no longer anything known as a "normal weather season". This comment is especially so in winter and in summer. The changing climate has produced much more extremes in terms of cold and hot temperatures.

Because of the extreme winters, Six Nations Natural Gas is selling higher and higher volumes of natural gas during the year.

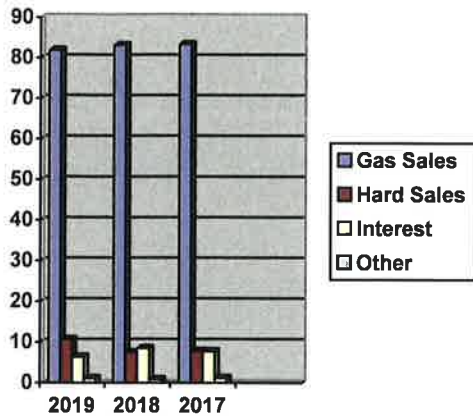
During the winter, monthly consumption in excess of one million cubic meters

occurred in four months. The cold weather of winter hung around well past March 2019.

Expansion of the natural gas plant continued in calendar year 2019. A 4 inch line was extended east from Cayuga Road towards Highway 6. This construction was to provide natural gas to the Monthill Golf Course which is expanding its operations

At no time this past winter did we have to worry about gas flame outs to houses and businesses on Chiefswood Road as a result of a heavy draw on gas demand by customers because of the cold weather. This was due to the new 6-inch pipe which provided additional capacity down Chiefswood Road.

RESULTS OF OPERATIONS



Income as a result of natural gas sales alone was \$2,792,510 in 2019 (81.9% of total revenues). This compares to \$2,670,913 (83.1% of total revenues) in 2018 and \$2,610,905 (83.3% of total revenues) in 2017.

As can be seen in the above chart, natural is the largest single revenue stream for Six Nations Natural Gas. As a percentage of total revenue when compared to the other revenue streams, it has been declining. This is due to the weakened commodity cost of natural gas on the world markets as more and more gas fields being discovered and the infrastructure required to bring natural gas to the markets is completed. There is enough natural gas right now to supply North America for the next 100 years.

In the past few years, a number of tobacco kilns have come on stream. The demand for these customers is very high and comes during late August and early September. This time period is one of lower natural gas demand from residential customers. As such, we get a bump in energy demand during these months, which comes at the time for

balancing our storage account with Union Gas.

At March 31st, 2019 there were 152 kilns that were consuming natural gas. This number is increasing and such, so will the demand.

COST OF GOODS SOLD

Cost of goods sold is made up of three items. These are the cost of natural gas, the cost of hard goods sold such as piping, parts and appliances, and the cost of labour.

For natural gas, the cost is further subdivided into:

1. The commodity cost of the molecule as dictated by the markets.
2. The cost to transport the molecule from the well-head, and then across Canada from Alberta to Ontario or from Pennsylvania to Ontario, as we are now buying some natural gas from there.
3. The bundled cost to bring gas to Six Nations territory by Enbridge Distribution Company. This includes the cost of transporting and storing the gas once it arrives in Ontario.
4. There is also a fixed monthly charge. The costs described in items 2 through 4, are grouped together in the monthly invoice under 'Transportation to Six Nations.'
5. The cost to deliver the gas within the Six Nations and New Credit Communities. This latter cost is

Working capital maintenance provided a cash inflow of \$102,159.

Cash flow in Fiscal Year 2019 was supported by operations and the line of credit.

In 2018, there was an overall net cash flow out of the firm of \$3,822,199. In 2017, there was an overall net cash flow out of \$3,384,343.

THE BALANCE SHEET

At March 31st, 2019 total assets under management were valued at \$6,018,090. This was \$134,375 lower than the same point in time in 2018 when total assets were valued at \$6,152,465. Total assets held at March 31st 2017 were \$6,374,682.

Cash on hand at March 31st, 2019 was \$115,931. This was a \$136,213 decrease over the year from March 31st, 2018.

Cash on hand March 31st 2017, was \$1,489,092.

Non-cash current assets include receivables, gas in storage, HST recoverable, inventory and prepaid expenses. At March 31st, 2019 these were valued at \$1,025,445.

In terms of liquidity, the Gas Company's working capital position at March 31st for each of the past three years and its effect on cash flow is provided in the following table:

Fiscal Year, March 31 st	Non-Cash Working Capital (\$)	Cash Flow From (To) Non-Cash Working Capital (\$)
2019	501,029	12,159
2018	488,870	(8,147)
2017	497,017	37,554

Capital items after depreciation decreased by \$93,382 over the year to \$4,876,714. In 2018, capital items increased from 2017 by \$428,578. In 2017, capital asset growth was \$448,782.

During the summer of 2012, the Gas Company began a program to replace old natural gas meters with new, radio read meters. This replacement program is now complete and we are in a stage of maintenance.

OPERATIONS

In the summer of 2015, Six Nations Natural Gas began a major expansion of the gas plant. As mentioned previously, this is now complete with the extension of a 4" plastic gas main from Cayuga Road east to the Monthill Golf Course.

The Gas Company remains committed to improve the education skill of its employees. As such, they are sent on those courses that will help them improve their skill sets to carry out their jobs within the community.

All employees received a Damage Prevention Technician certification as issued through the Ontario Regional Common Ground Alliance. This



Financial Statements

Six Nations Natural Gas
Company Limited Partnership

March 31, 2019

Independent auditor's report

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To the Partners of
Six Nations Natural Gas Company Limited Partnership

Opinion

We have audited the financial statements of Six Nations Natural Gas Company Limited Partnership ("the Company"), which comprise the balance sheet as at March 31, 2019, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Six Nations Natural Gas Company Limited Partnership as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Six Nations Natural Gas Company
Limited Partnership
Balance Sheet**

March 31

2019

2018

Assets

Current

Cash and cash equivalents (Note 3)	\$ 115,931	\$ 252,144
Accounts receivable (Note 4)	545,263	543,380
Installation loans receivable (Note 5)	25,974	31,372
HST recoverable	158,730	92,302
Inventory	280,778	249,315
Banked gas	4,680	6,069
Prepaid expenses	<u>10,020</u>	<u>7,787</u>

1,141,376 1,182,369

Property, plant and equipment (Note 6) 4,876,714 4,970,096

\$ 6,018,090 \$ 6,152,465

Liabilities

Current

Operating line of credit (Note 3)	\$ 90,000	\$ -
Accounts payable and accrued charges (Note 7)	432,241	428,281
Employee deductions payable	<u>2,175</u>	<u>13,074</u>

524,416 441,355

Partners' equity 5,493,674 5,711,110

\$ 6,018,090 \$ 6,152,465

Commitments (Note 10)

On behalf of the Board of the General Partner, Six Nations Natural Gas Company Limited

 Director

 Director

**Six Nations Natural Gas Company
Limited Partnership
Statement of Operations**

Year Ended March 31	2019		2018	
Revenues				
Gas	\$ 2,792,510	100.0%	\$ 2,670,913	100.0%
Purchases	<u>1,482,870</u>	<u>53.1</u>	<u>1,650,942</u>	<u>61.8</u>
Gross margin	<u>1,309,640</u>	<u>46.9</u>	<u>1,019,971</u>	<u>38.2</u>
Other revenues				
Interest and service charges	217,841		241,334	
Pipe-ins and equipment sales	216,681		123,769	
Equipment rentals	146,878		133,394	
Miscellaneous	13,275		19,350	
Equipment sales	13,200		13,901	
Solar	<u>9,232</u>		<u>10,359</u>	
	<u>617,107</u>	<u>22.1</u>	<u>542,107</u>	<u>20.3</u>
Net revenues	<u>1,926,747</u>	<u>69.0</u>	<u>1,562,078</u>	<u>58.5</u>
Expenses				
Salaries, wages, consulting fees and benefits (Note 8)	936,880		688,618	
Materials	110,628		51,708	
Maintenance and repairs	99,813		98,370	
Office supplies and general	98,660		88,463	
Professional fees	65,931		91,281	
Miscellaneous	63,333		49,738	
Vehicles	47,115		32,985	
Utilities and telephone	41,714		38,335	
Insurance	38,168		36,724	
Equipment rentals	17,309		21,890	
Bank charges and short term interest	17,283		13,646	
Janitorial	15,243		15,047	
Education and training	9,633		3,275	
Fees and dues	6,362		2,411	
Advertising and promotion	4,207		5,220	
Honorariums	3,836		9,860	
Bad debt	<u>2,585</u>		<u>8,406</u>	
	<u>1,578,700</u>	<u>56.5</u>	<u>1,255,948</u>	<u>47.0</u>
Net income before amortization	348,047		306,130	
Amortization	<u>565,483</u>	<u>20.2</u>	<u>486,990</u>	<u>18.2</u>
Net loss	<u>\$ (217,436)</u>	<u>(7.8)%</u>	<u>\$ (180,860)</u>	<u>(6.8)%</u>

See accompanying notes to the financial statements

Six Nations Natural Gas Company Limited Partnership

Notes to the Financial Statements

March 31, 2019

1. Nature of operations

The Six Nations Natural Gas Company Limited Partnership (the "Partnership") is engaged in the business of distributing natural gas to homes, businesses and industrial customers.

2. Summary of significant accounting policies

Basis of presentation

The financial statements of the Partnership are the representations of management and have been prepared in accordance with Canadian accounting standards for private enterprises ("ASPE"). The significant accounting policies used in the preparation of these financial statements are summarized below, and conform to ASPE in all material respects.

Inventory

Inventories are measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out basis.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The cost of inventories may not be recoverable if those inventories have been damaged, become obsolete, selling prices have declined or their estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

Cash and cash equivalents

Cash and cash equivalents include cash as well as overnight deposits in an investment account with a Schedule A bank. Investments are carried at cost, which approximates fair value.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the products have been delivered to the customer or the services have been rendered and there are no significant obligations remaining, the price is fixed or determinable, and collectability is reasonably assured.

Six Nations Natural Gas Company

Limited Partnership

Notes to the Financial Statements

March 31, 2019

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

The Partnership removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in net income.

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to net income as appropriate in the year they become known.

Items subject to significant management estimate include the allowance for doubtful accounts and inventory obsolescence.

3. Cash and cash equivalents

The Partnership's bank accounts are held with one chartered bank. The Partnership also has a credit facility available in the amount of \$400,000 with an interest rate of prime plus 0.25%. At year end, \$90,000 (2018 - \$Nil) of the credit facility was utilized by the Partnership.

4. Accounts receivable

	<u>2019</u>	<u>2018</u>
Trade	\$ 558,691	\$ 568,294
Allowance for doubtful accounts	<u>(13,428)</u>	<u>(24,914)</u>
	<u>\$ 545,263</u>	<u>\$ 543,380</u>

Six Nations Natural Gas Company

Limited Partnership

Notes to the Financial Statements

March 31, 2019

9. Allocation of net income or net loss

In each fiscal year, one-hundredth of one percent of the net income is allocated to the General Partner in direct proportion to the General Partner's Income Interest, with the remainder being allocated to the Limited Partner. Any loss is allocated solely to the General Partner in accordance with the terms of the Limited Partnership Agreement.

10. Commitments

The Partnership has entered into agreements to lease equipment through fiscal year 2023. The minimum lease payments in the next four years are as follows:

2020	\$ 20,207
2021	17,274
2022	8,472
2023	706

Forward purchase contracts

The Partnership has entered into certain obligations for the future purchase of natural gas, with end dates ranging from March 31, 2020 to March 31, 2021. These contracts minimize the effect of future price fluctuations by fixing the price of part or all of these purchase obligations.

11. Pension plan

The Partnership offers a defined contribution pension plan for qualified personnel. An expense is recorded in the period when the Partnership is obligated to make contributions for services rendered by employees. The expense for this plan in the current year was \$49,641 (2018 - \$ 49,380) and is included in the salaries and consulting fees figure on the statement of operations. Any unpaid contributions are included in employee deductions payable on the balance sheet.

12. Related parties

Six Nations Council, the Partnership's limited Partner, acts as a guarantor for the Partnership's natural gas purchases from Shell Energy Corporation.

Six Nations Natural Gas Company Limited

Balance Sheet (unaudited)

March 31st	2019	2018
Liabilities		
Due to Six Nations Natural Gas Limited Partnership	(\$997,383)	(\$779,947)
Shareholders' Deficiency		
Share Capital	1	1
Deficit	<u>(\$997,382)</u>	<u>(\$779,946)</u>