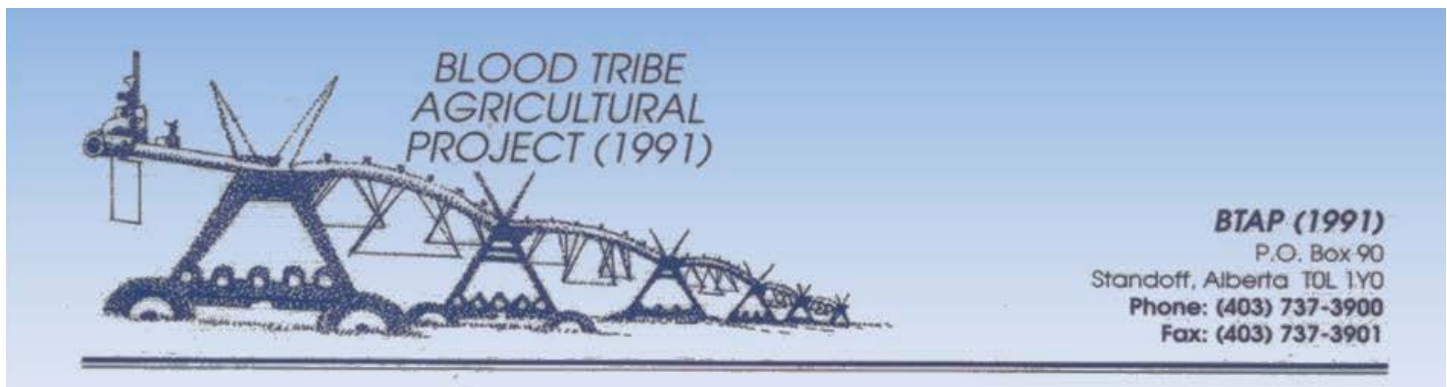


BLOOD TRIBE AGRICULTURAL PROJECT (1991)

COMMUNICATION UPDATE

OCTOBER 27, 2016





BLOOD TRIBE AGRICULTURAL PROJECT (1991)

Effective May 16, 2016, Blood Tribe Agricultural Project (1991) (BTAP) was placed under Co-Management by Blood Tribe Chief & Council/Shareholders to prevent legal action against BTAP for not meeting its financial & management responsibilities. In 2015/2016 Chief and Council were alerted by vendors and companies regarding non-payment of invoices.

CO-MANAGEMENT

PURPOSE

The purpose of Co-Management of BTAP is to assist and ensure that BTAP meets its obligations through the joint management by the Blood Tribe Management Team (BTA), the Co-Management Consultant(s) and BTAP, working with the BTAP Board of Directors. The group is working together towards common goals for the best interest of the Blood Tribe as a whole.

CO-MANAGEMENT

As at March 31, 2016, the operating entities of BTAP included Blood Tribe Irrigation Management, Blood Tribe Farming Initiative (Blood Band Ranch), Sawkee Feedlot Inc., Blood Band Farms Ltd., and 709204 AB Ltd (Blood Tribe Forage Processing Plant) and Aohkii Property Management.

Prior to the current Board of Directors, BTAP had an annual operating deficit for 2016 of (\$4,945,638)

The overall negative cash position for the organization as a whole on March 31, 2016 was (\$1,601,568).

Outstanding accounts payable at that date totalled \$3,657,457 and amounts owing to other Blood Tribe departments / entities totalled \$2,188,147, not including any long term loans.

Since Co-Management began on May 16, 2016, the team has been working on identifying all potential revenue sources and all additional outstanding payables in each of these divisions, as well as:

- Inventory valuation – BTFPP
- Inventory valuation – cattle
- Identifying and categorizing capital assets and equipment
- Bringing all custom work and other contracts up to date
- Identifying specific contact amounts and reconciling amounts owing to / from BTAP, Blood Tribe Lands, Blood Band Farms, Mataki Farms and West End Big Lease
- Managing the cash flow to ensure payroll and critical accounts payable are being met
- Preparing a financial position update for each division separately
- Reviewing and updating budgets
- Reviewing internal controls and start addressing the Management Letter points from the audit
- Implementing internal controls

West End Big Lease and Blood Band Farms

West End Big Lease consists of 10,782 acres and Blood Band Farms consists of 3,917 acres. For the 2016 crop year, B + D Walters Farms (Ben Walters) has been farming these parcels of land with Blood Band Farms doing custom work alongside, providing training and employment for Blood Band Farm employees. BTAP is in the process of reviewing and preparing contracts for the 2017 crop year.

On April 19, 2016 the Blood Tribe Chief and Council passed a motion to enter into a Co Management Agreement with the Blood Tribe Agriculture Project (1991) to provide management assistance as a result of the noted concerns, and that a forensic audit of BTAP and its affiliated entities be completed by an independent firm.

Unfortunately, the Board of Directors subsequently refused to enter into the Co Management Agreement or conduct a forensic audit as requested by Chief and Council. On May 16, 2016, the Council requisitioned a meeting of the BTAP Shareholders and the BTAP Shareholders replaced four of the Board of Directors for BTAP and its affiliated entities, Frank Black Plume, Al Black Water, Myron Eagle Speaker and Bill Wadsworth (the former Board of Directors) with four alternate Council members Mike Bruised Head, Kyla Crow, Lance Tail Feathers, Franklyn White Quills (the current Board of Directors). The Shareholders reaffirmed the request for a forensic review by an independent firm, BDO Canada LLP (BDO), and entered a Co Management Agreement in response to the concerns expressed by BTAP employees, its vendors, the auditors (MNP LLP), the community and other members of Council with regard to the lack of financial management and cash flow.

The forensic review conducted by BDO reviewed and analyzed the banking records including relevant documentation in support of the disbursements made from the following entities:

709204 Alberta Ltd/Blood Tribe Forage Processing Plant (including Canadian and US Account)

Blood Tribe Farming Initiative (Blood Band Ranch)

Blood Band Farms Ltd

Sawkee Feedlot Inc

Aohkii Investment Property Management and;

BTAP/BTIM

BDO requested financial information for two fiscal years April 1 2014 – March 31 2016. Due to the volume of transactions of this 2 year period, BDO tested a 3 month sample period April 1 – June 30 2015 for each of the entities listed above. BDO further reviewed \$4.7 million received from Blood Tribe Chief and Council and Blood Tribe Land Management department in December 2014.

The following points summarize the BDO findings:

BTAP had an overall negative cash position during the sample period, and BDO noted that the bank balances of BTAP, specifically BTIM were overdrawn by \$1,502,720.94 as at April 1 2015. Throughout this sample period, BDO noted that this negative cash position persisted, although total deposits of \$3,258,424.12 were received, including transfers from other BTAP entities, BTAP disbursed \$3,060,028.36 and at the end of the sample period the bank balance was overdrawn by \$1,304,325.18.

1. During the three month sample period it was noted that there were significant weaknesses in internal controls including:

- (a) A lack of financial policies and procedures;
- (b) Weak oversight regarding authorizations and approvals for cash disbursements by the former COO/GM and Board members; and
- (c) Poor internal controls, especially in the areas of record keeping, reconciliations and accounting practices.

2. Significant payments from BTAP for travel and honoraria to the former Board of Directors including:

- (a) During the three month period of April 1, 2015 to June 30, 2015 the four former Board of Directors received total payments for meeting and travel in the amount of \$74,822.41.
- (b) Board expenditures for the two fiscal years ending March 31, 2015 totaled \$227,709 and ending March 31, 2016 were over budget by a total of \$274,243.
- (c) No Board meeting minutes have been located for the two year period under review.
- (d) Honoraria were claimed for travel days and BTAP business meetings of which there were no recorded minutes to verify if the meetings took place.
- (e) Based upon the recorded payments of honoraria or per diem amount of \$250 for attendance at meetings it was calculated that there would have been 71 board meetings in 2014/15 and 87 board meetings in 2015/16.
- (f) The business purpose for meetings or travel was not clear, especially with regard to travel to the United States.

- (g) Meetings were held at locations away from the reserve and BTAP's main office which resulted in excessive mileage claims, which was contrary to the Travel Policy.
- (h) Mileage was claimed on trips to the United States versus the more economic option of flying.
- (i) Claims for accommodation, meals and incidentals were not supported by receipts.

3. The former Chief Operating Officer/General Manager (COO/GM) received payments related to travel expenditures in the amount of \$17,766.80 during the three month sample period. This included:

- (a) Mileage of \$8,175.20 while also driving a BTAP vehicle which was not in compliance with the Travel Policy, and
- (b) Expense reimbursements without supporting receipts for accommodation, meals and incidentals.
- (c) Received Vacation payouts that were not in compliance with Policy.

4. BTAP employees requested and received payroll advances of \$14,350 during the three month sample period.

5. Donations were made in the amount of \$11,400 during the sample period.

6. Crop Advances were made to Blood Tribe Occupants in the amount of \$53,725.20 during the sample period. The following concerns were noted with respect to these payments:

- (a) Certain occupants were paid rates of \$140 per metric ton and \$270 per metric ton which was not in accordance with the stated contract rates of \$85 and \$40 depending upon the quality of the hay.
- (b) Accounting records lacked information such as price and quantity relating to the delivery of the products and therefore made it difficult to determine what, if any, product was delivered.
- (c) Crop advances were paid to some occupants in excess of the product that was delivered to the processing plant.
- (d) Advances were paid to certain occupant sellers who did not have contracts with the Blood Tribe Forage Processing Plant at the time the advances were paid.

7. Advances on grazing agreements of \$45,920 were paid to Blood Tribe members by the Blood Tribe Farming Initiative on behalf of the Blood Band Ranch to graze cattle on lands occupied by them. Concerns surrounding the lack of supporting documentation to show what the agreements were and whether they were fulfilled were noted.

8. Cattle purchases from Band members during the period of review, totaled \$54,043.95 purchased by Blood Tribe Farming Initiative/Band Ranch and \$2616.00 purchased by Sawkee Feedlot. BDO noted that the brand of the cattle purchased did not match the registered brand of the band member who had sold the cattle to BTAP, but the brand of another family member. This resulted in questions with regard to who the actual owner of the cattle was at the time BTAP made the cattle purchase. The supporting documentation such as bill of sale, proper invoices or veterinary records were missing at the time of purchase which resulted in issues with the sale of cattle by the Blood Band Ranch.

9. Payments to parties who were related to staff or the former Board of Directors were paid without the necessary supporting documentation.

10. Payments to related parties and immediate family for fencing had no contracts in place, there appeared that no bids were submitted to perform this work, there was no independent approval of invoices, and there were no confirmation that the work had been completed. Several invoices lacked details or were noted as progress payments with no details of work that was being done. The amount paid for year 2014/2015 was \$42,763 and for year 2015/2016 was \$235,583.

11. Payments to an acquaintance of former COO/GM, BDO noted total crop advance was \$5800.00 for the year 2014/2015, BDO further noted a contract was filed with a start date of March 1 2016 the next fiscal year, and there was no recorded deliveries of product therefore it was an overpayment by this amount. In addition, a payment of \$2700 was made to the acquaintance regarding the purchase of promotional items such as jewelry and crafts, including a donation to this small business. BDO was not able to determine the business purpose for which these payments were made.

10. Payments were made to Consultants and Contractors for professional services such as legal, accounting IT and consulting in the total amount of \$581,126 for 2014/15 and \$946,524 in 2015/2016. It was noted that several consultants did not have contracts with BTAP.

11. Payments were made to non-Blood Tribe members from the Forage Processing Plant US funds for marketing, promotional and consulting purposes which were not related to operations of the processing plant. These payments were in the amount of \$28,750 US for the fiscal year of 2014/2015 and \$61,064 US for the fiscal year of 2015/2016.

12. Reconciliation of the \$4.7 million received by the Blood Tribe Farming Initiative showed that the funds were used to purchase farming equipment, vehicles, livestock and office supplies. The review noted several payments lacked accounting support such as purchase orders, bills of sale and invoices. BDO also noted that the capital assets were poorly tracked and it was recommended that a complete review of all capital equipment owned by BTAP (and its affiliated entities) be conducted in order to confirm that status and use of the assets.

13. Intermingled funds from the various BTAP entities resulted in payments for goods or services being made from an entity and these purchases did not relate to their operations and expenditures being incorrectly allocated during the Period of Review.

14. Conflicts of interest were noted during the course of the review, including payments to related parties, such as family members, former BTAP board members and friends, as well as the employment of related parties by BTAP during the two year period which could be interpreted as real, potential or apparent conflicts of interest.

BDO Conclusion and Recommendations:

Throughout the review of the financial records of BTAP, BDO noted poor internal controls and apparent careless accounting practices. Recommendations are being made with respect to addressing the weaknesses in BTAP's internal controls and it is anticipated that these will include the following:

Policies

1. Develop, amend and upgrade policies to address the internal concerns surrounding accountability, travel, HR, rates, payroll advances, donations, cell phone usage. Existing policies should be communicated to and followed by the Board of Directors, General Manager and staff.

Oversight and Accountability

2. Establish realistic budgets with regard to operations, board expenditures, travel and other related expenditures.
3. Put controls in place to monitor the spending of the Board of Directors and General Manager.
4. Establish spending limits for purchases and contracts.
5. Disclose activities undertaken by the entities, including special projects, to the shareholders on a monthly basis, including accurate financial statements and disclosure on all significant projects.

Accounting Practices

6. Ensure that an accounting team with strong leadership is put in place and that there is a separation between the accounting department and management of BTAP to ensure financial resources are safeguarded.
7. Segregate duties within the accounting department.
8. Provide adequate ongoing training to accounting staff to ensure that they perform their duties with due care and minimal error.
9. Conduct a reconciliation of all accounts on a regular basis.

Record Keeping

10. Put procedures in place to ensure that all payments are supported by valid invoices and approvals.
11. Ensure all cheques are accounted for.
12. Ensure all backup documentation with respect to the receipt of goods are attached to invoices to ensure that the goods were received and the work performed and verified.
13. Ensure that contracts are in place with all consultants and contractors.
14. Ensure that all meeting minutes are recorded, maintained and submitted to the shareholders on a timely basis.

Conflicts of Interest

15. Address the issues that have been identified including payments made to related parties, family members, payments made to employees or Board of Directors which could be interpreted as real, potential or apparent conflict of interest.
16. All situations that give rise to real, potential or apparent conflicts of interests should be reviewed and resolved by an independent committee.



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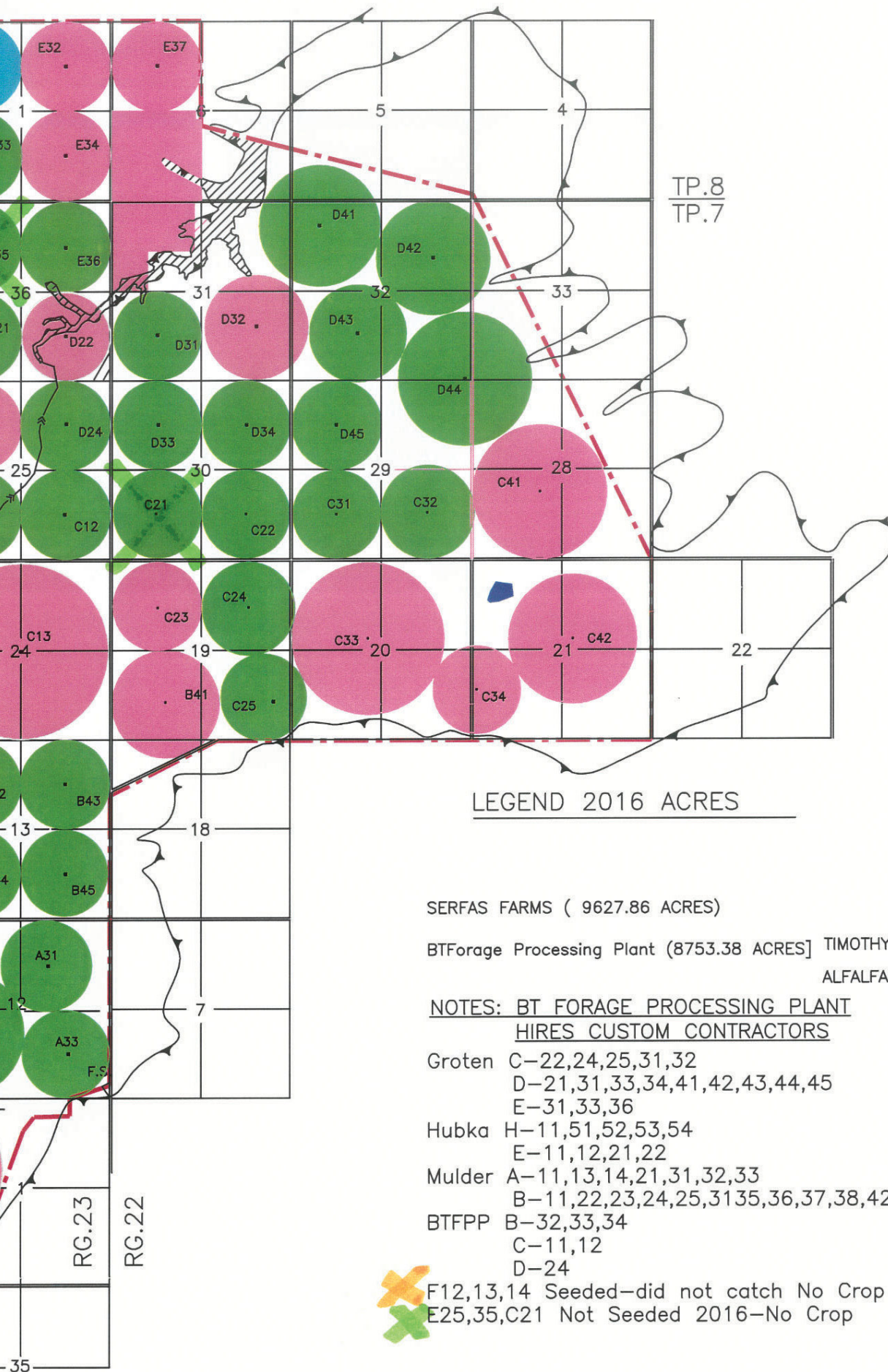
Detention pond
and Wasteway

BTAP
Office

Forage Processing Facility

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SALES SUMMARY

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Review and Assessment of Inventory Process and Controls at the Blood Tribe Forage Processing Plant

BDO Canada LLP (“BDO”) was engaged by the Blood Tribe Agricultural Project (BTAP) to perform a review and assessment of the current processes and internal controls in place at the Blood Tribe Forage Processing Plant (BTFPP) as it pertains the handling, processing and shipping of forage inventory.

BDO held an on-site visit and conducted discussions / interviews with staff and members of management. Findings include the following:

- Lack of appropriate review and authorization of contracts
- Contracts are not housed / maintained at BTAP Administration office
- Inconsistent tagging procedures
- Weigh scale tickets can be accessed by many individuals and are not consistently kept in one place
- Inventory and shipments are not being entered into Quickbooks in a timely manner
- Chaff bales are not being actively tracked
- Damaged / rejected inventory product is not being appropriately approved or tracked
- Lack of consistency among various methods of shipping documentation
- Lack of consistency among shipping documentation approval
- Lack of security of the product when left in the field
- Risk of quality diminishing when product is left in the field
- Weigh scale tickets are not the source documents for recording accounting and inventory received
- Accounting for pre-payments to off-project harvesters was done incorrectly
- Concern over the maintenance and calibration of the weigh scale
- Concern over reliability / accuracy of the document management system and Quickbooks





