

FORT MCKAY FIRST NATION

Financial Statements

Year Ended March 31, 2016

July 26, 2016

Management's Responsibility For Financial Reporting

The accompanying financial statements of the Fort McKay First Nation and all the information in this annual report are the responsibility of management and have been approved by the Chief and Councilor-in-Charge of Finance on behalf of Council.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.


The Fort McKay First Nation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Fort McKay First Nation assets are appropriately accounted for and adequately safeguarded.

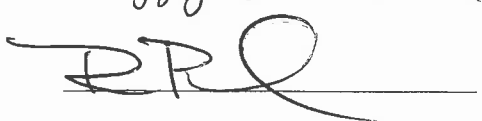
The Fort McKay First Nation Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. Council carried out this responsibility principally through Chief and Council.

The Council, composed of five Council members, reviews the financial statements and recommends their approval to Chief and Council. The Fort McKay First Nation Chief and Council meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities, and to review the annual report, financial statements and the external auditor's management report. The Chief and Council also approve the engagement of the external auditors.

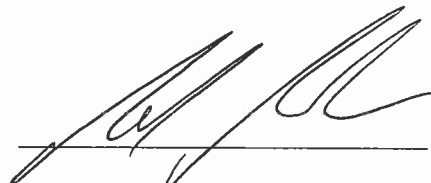
The financial statements have been audited by Pennock Acheson Nielsen Devaney Chartered Accountants in accordance with Canadian generally accepted auditing standards on behalf of the band members. Pennock Acheson Nielsen Devaney have full and free access to the members of the Chief and Council.

FORT MCKAY FIRST NATION



Peggy Lacourse


Peggy Lacourse



Councilor-in-Charge of Finance

Pennock Acheson Nielsen Devaney
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Fort McKay First Nation

We have audited the accompanying financial statements of Fort McKay First Nation, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fort McKay First Nation as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

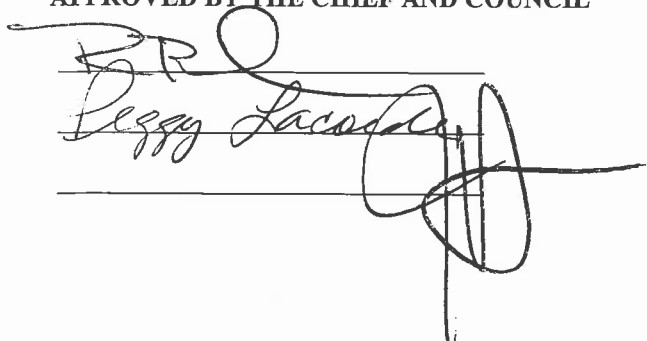
Pennock Acheson Nielsen Devaney

Chartered Accountants

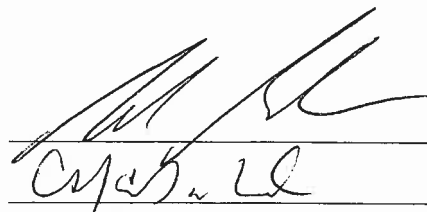
July 26, 2016

FORT MCKAY FIRST NATION**Statement of Financial Position****As at March 31, 2016**

	2016	2015
FINANCIAL ASSETS		
Cash held in trust (Note 3)	\$ 3,104,822	\$ 2,820,839
Accounts receivable (Note 4)	3,179,886	3,930,379
Investment in Settlement Trust (Note 5)	46,742,682	49,984,168
Investment in Business Enterprises (Note 6)	75,016,440	86,958,518
	<u>\$ 128,043,830</u>	<u>\$ 143,693,904</u>
LIABILITIES		
Short-term borrowings (Note 7)	\$ 578,689	\$ 3,782,523
Accounts payable and accrued liabilities (Note 8)	9,028,643	10,759,008
Unexpended grants (Note 9)	2,767,483	1,209,697
Debt (Note 10)	45,142,928	37,077,670
	<u>57,517,743</u>	<u>52,828,898</u>
NET FINANCIAL ASSETS	<u>70,526,087</u>	<u>90,865,006</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	106,774,840	103,627,843
Prepaid expenses	211,662	332,182
	<u>106,986,502</u>	<u>103,960,025</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
ACCUMULATED SURPLUS (Note 13)	<u>\$ 177,512,589</u>	<u>\$ 194,825,031</u>

APPROVED BY THE CHIEF AND COUNCIL

Peggy Lacourse



Councillor

FORT MCKAY FIRST NATION**Statement of Operations and Accumulated Surplus****Year Ended March 31, 2016**

	2016	2015
REVENUE		
Business enterprise income	\$ 13,881,102	\$ 22,808,131
Long-term sustainability funding	7,415,700	15,033,183
Industry grants	7,349,373	8,067,981
Rent	2,697,224	2,126,128
Property tax income	2,574,961	2,975,171
Indigenous and Northern Affairs Canada	1,700,710	1,297,601
Miscellaneous and other	1,094,608	1,428,421
Health Canada	650,985	600,968
First Nations Development Funding	570,000	550,679
Canada Mortgage and Housing Corporation	134,926	68,095
Athabasca Tribal Council	101,194	121,581
Interest	35,994	17,357
Investment income	(473,521)	5,187,434
	<u>37,733,256</u>	<u>60,282,730</u>
EXPENSES		
Education (Schedule 1)	1,624,166	1,748,375
Social development (Schedule 2)	516,188	426,690
Operation and maintenance (Schedule 3)	3,469,369	4,499,198
Housing and capital projects (Schedule 4)	7,281,857	14,122,542
Government support and administration (Schedule 5)	8,528,079	12,011,679
Economic development and human resources (Schedule 6)	1,584,260	1,012,280
Land trust and claims (Schedule 7)	710,552	1,645,425
Community health services (Schedule 8)	3,087,949	2,852,436
Enterprise fund (Schedule 9)	1,226,306	923,982
Sustainability department (Schedule 10)	4,776,130	5,671,939
	<u>32,804,856</u>	<u>44,914,546</u>
SURPLUS BEFORE THE FOLLOWING	<u>4,928,400</u>	<u>15,368,184</u>
OTHER ITEMS		
Impairment loss on business investments (Note 6)	14,816,500	-
Depreciation	4,608,437	4,567,159
Impairment loss on assets	1,732,630	-
Per capita distributions	1,083,275	4,801,500
	<u>22,240,842</u>	<u>9,368,659</u>
ANNUAL (DEFICIT) SURPLUS	<u>(17,312,442)</u>	<u>5,999,525</u>
ACCUMULATED SURPLUS AT BEGINNING OF YEAR	<u>194,825,031</u>	<u>188,825,506</u>
ACCUMULATED SURPLUS AT END OF YEAR	<u>\$ 177,512,589</u>	<u>\$ 194,825,031</u>

FORT MCKAY FIRST NATION**Statement of Change in Net Financial Assets****Year Ended March 31, 2016**

	2016	2015
Annual (deficit) surplus	\$ (17,312,442)	\$ 5,999,525
Acquisition of tangible capital assets	(9,488,064)	(9,616,410)
Depreciation	4,608,437	4,567,159
Impairment loss	1,732,630	-
	<u>(3,146,997)</u>	<u>(5,049,251)</u>
Net use (acquisition) of prepaid asset	<u>120,520</u>	<u>(77,812)</u>
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	(20,338,919)	872,462
NET FINANCIAL ASSETS AT BEGINNING OF YEAR	<u>90,865,006</u>	<u>89,992,544</u>
NET FINANCIAL ASSETS AT END OF YEAR	<u>\$ 70,526,087</u>	<u>\$ 90,865,006</u>

FORT MCKAY FIRST NATION**Statement of Cash Flows****Year Ended March 31, 2016**

	2016	2015
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Cash receipts from revenues	\$ 26,124,439	\$ 41,257,465
Cash paid to suppliers and employees	(32,536,579)	(48,892,797)
Interest received	35,994	17,357
Interest paid	(1,878,122)	(1,779,642)
	<u>(8,254,268)</u>	<u>(9,397,617)</u>
INVESTING ACTIVITIES		
Purchase of tangible capital assets	(9,488,064)	(9,629,410)
Proceeds on disposal of tangible capital assets	-	13,000
Investment in business enterprise - net	11,006,680	24,648,430
Investment in Settlement Trust	3,241,486	(3,284,422)
Increase in cash held in trust	(283,983)	(3,641,054)
	<u>4,476,119</u>	<u>8,106,544</u>
FINANCING ACTIVITIES		
Proceeds from debt	11,900,579	7,487,488
Repayment of debt	(3,835,321)	(1,868,544)
Proceeds from short-term borrowings, net	(3,203,834)	473,629
Per capita distributions	(1,083,275)	(4,801,500)
	<u>3,778,149</u>	<u>1,291,073</u>
INCREASE IN CASH	-	-
CASH - BEGINNING OF YEAR	-	-
CASH - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2016

The Fort McKay First Nation (the First Nation) is a First Nation Settlement located in Fort McKay, Alberta, Canada and operates under the provisions of the Indian Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the First Nation are as follows:

Reporting Entity

The financial statements reflect the revenues, expenses, assets, liabilities and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations and enterprises accountable for the administration of the financial affairs and resources of the First Nation and which are owned or controlled by the First Nation. In addition to general government tax-supported departments, they include the following:

- Education
- Social Development
- Operations and Maintenance
- Housing and Capital Projects
- Government Support and Administration
- Economic Development and Human Resources
- Land Trust Claims
- Community Health Services
- Business Enterprise
- Sustainability Department

The Fort McKay 2008 Business Trust holds investments which the First Nation is the beneficiary of and also is controlled through a trust agreement. These investments include:

- Fort McKay Group of Companies Limited Partnership
- Fort McKay Landing Limited Partnership

Investments in these limited partnerships are accounted for using the modified equity basis, consistent with the generally accepted accounting treatment for a government business enterprise. Under the modified equity basis, the government business enterprise's accounting principles are not adjusted to conform with those of the First Nation and inter-organizational transactions and balances are not eliminated. Effective April 1, 2014 the accounting policy was changed to coincide the business enterprise income with that of the First Nation. This policy change has been applied prospectively. (Note 6)

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are accounted for in the period in which they are earned and measurable. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as unexpended grants until used for the purpose specified.

Property tax revenue is based on market value assessments. Tax mill rates are established annually. Taxation revenues are recorded at the time tax billings are issued. Assessments are subject to appeal.

Government transfers to the First Nation are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Prior to that time, any amounts received, along with restricted interest thereon is recorded as unexpended grants.

Rental revenue is recognized over the term of the rental agreement and when collection is reasonably assured.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Expenses are recognized as they are incurred and measurable based upon receipt of the goods and services and/or the legal obligation to pay.

Budget information, as approved by Chief and Council, is reported on an accrual basis, consistent with principles applied in the financial statements (Note 19).

Use of Estimates

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

Administration has used estimates to determine accrued liabilities, tangible capital asset useful lives as well as provisions made for allowances for amounts receivable or any provision for impairment of investment values.

Asset Classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale. Non-financial assets include tangible capital assets and prepaid expenses.

Cash and Cash Equivalents

Cash includes cash on hand, balances with banks net of bank overdraft, and short-term investments which mature at various times during the next fiscal year and are deemed to be temporary in nature. The short-term investments are recorded at cost.

Investment in Settlement Trust

Investments in cash and marketable securities are accounted for at market value. The Fort McKay Settlement Trust holds the Heritage Fund of which the First Nation is the beneficiary and also controls through a trust agreement. These funds are derived from the Fort McKay Treaty Entitlement Settlement Agreement, are held in trust by the Royal Trust Corporation of Canada and are subject to audit by the office of the Trustee. The management of these funds is governed by the Fort McKay Settlement Trust Agreement.

Tangible Capital Assets

Tangible capital assets include acquired, built, developed and improved tangible capital assets, whose useful life extends beyond one year and which are intended to be used on an ongoing basis for delivering services.

Tangible capital assets are reported at net book value. Contributions received to assist in the acquisition of tangible capital assets are reported in income in the period received. Contributions received to assist in the construction of tangible capital assets are reported in deferred revenue and are amortized into income under the percentage of completion method.

Tangible capital assets are depreciated over their estimated useful lives using the declining balance method at the following rates:

Housing, buildings and improvements	4% and 5%
Infrastructure	4%
Office furniture and equipment	20%
Vehicles	30%

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In the year of acquisition, one-half of the annual depreciation is recorded. Tangible capital assets under construction are not depreciated until the asset is available to be put into service.

Leases are classified as capital or operating leases. Leases which transfer substantially all benefits and risks incidental to ownership of property are accounted for as capital leases. Assets under capital lease are included within the respective asset classifications. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Equity in Tangible Capital Assets

Equity in tangible capital assets is included within accumulated surplus. It represents the investment in tangible capital assets, after deducting the portion financed by long-term debt.

Long-Lived Assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Net Financial Assets

The First Nation's financial statements are presented so as to highlight the net financial assets as the measurement of financial position. The net financial assets of the First Nation is determined by its financial assets less its liabilities.

Employee Benefits

The First Nation has a defined contribution pension plan. Employer contributions to the plan are expensed as employees earn the entitlement and contributions are made.

Financial instruments

The First Nation's financial instruments recognized in the statement of financial position consist of cash held in trust, accounts receivable, investment in settlement trust, investment in business enterprises, short-term borrowings, accounts payable and accrued liabilities, unexpended grants, and debt. Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in operations. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments, which are subsequently measured at fair value, are expensed when incurred. All other financial instrument transaction costs are capitalized and amortized over the life of the instrument.

Comparative figures

Certain of the comparative figures have been reclassified to be consistent with the presentation for the current period.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future Accounting Standard Pronouncements

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board (PSAB). In 2016, the First Nation will continue to assess the impact and prepare for the adoption of these standards.

PS 3450 Financial Instruments

Items within the scope of the financial instruments section are assigned to one of two measurement categories: fair value, or cost or amortized cost. Fair value measurement will apply to derivatives and portfolio investments in equity instruments that are quoted in an active market. Also, when groups of financial assets and financial liabilities are managed on a fair value basis they may be reported on that basis. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement will be reported in the Statement of Remeasurement Gains and Losses.

The First Nation has not yet adopted this standard. The effective date of this standard has been deferred to April 1, 2019. Adoption of this standard requires corresponding adoption of PS 2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation, and PS 3041 Portfolio Investments in the same fiscal period. The First Nation is currently assessing the impact of these standards on the financial statements.

Other New Standards

In June 2015, PSAB issued the following accounting standards; Assets (PS 3210), Contingent Assets (PS 3320), Contractual Rights (PS 3380) and Restructuring Transactions (PS 3430). All these standards have an effective date of April 1, 2017 except for Restructuring Transactions (PS 3430) with an effective date of April 1, 2018. The First Nation is currently assessing the impact of these standards on the financial statements.

2. ECONOMIC DEPENDENCE

The First Nation receives a major portion of its revenues from its Business Enterprises, funds operational requirements with cash generated from these investments, and is dependent on continued cash flow from these investments.

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2016****3. CASH HELD IN TRUST**

Consolidated Revenue Fund accounts arise from monies derived from revenue sources as outlined in Section 62 of the Indian Act (lease of reserve lands). These funds are held in trust by Indigenous and Northern Affairs Canada ("INAC") in the Consolidated Revenue Fund of the Government of Canada, and are subject to audit by the Office of the Auditor General of Canada. The management of these funds is primarily governed by Sections 63 to 69 of the Indian Act. During the year \$1,665,824 (2015 - \$1,125,240) were withdrawn from the Trust fund.

The Fort McKay First Nation Community Trust holds funds for which the First Nation is the beneficiary and also controls through a trust agreement. These funds are derived from long-term sustainability agreements, are held in trust by the Royal Trust Corporation of Canada and are subject to audit by the office of the Trustee. The management of these funds is governed by the Fort McKay First Nation Community Trust Indenture.

	<u>2016</u>	<u>2015</u>
Consolidated Revenue Fund	\$ 2,763,587	\$ 2,048,092
Fort McKay First Nation Community Trust	<u>341,235</u>	<u>772,747</u>
	<u>\$ 3,104,822</u>	<u>\$ 2,820,839</u>

4. ACCOUNTS RECEIVABLE

	<u>2016</u>	<u>2015</u>
Due from members:		
Rent	\$ 177,687	\$ 198,282
Business loans	<u>95,858</u>	<u>95,858</u>
	273,545	294,140
Less: allowance for doubtful accounts	<u>(273,545)</u>	<u>(294,140)</u>
	-	-
Due from others:		
Trade accounts receivable	1,694,558	2,545,665
GST rebate receivable	914,926	625,340
Property taxes receivable	702,918	1,324,575
Indigenous and Northern Affairs Canada	404,964	16,623
Health Canada	265,472	240,983
Sustainability department and other receivables	160,410	60,312
Canadian Mortgage and Housing Corporation	148,977	45,194
Athabasca Tribal Corporation	<u>25,298</u>	<u>18,299</u>
	4,317,523	4,876,991
Less: allowance for doubtful accounts	<u>(1,137,637)</u>	<u>(946,612)</u>
Total accounts receivable	<u>\$ 3,179,886</u>	<u>\$ 3,930,379</u>

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2016****5. INVESTMENT IN SETTLEMENT TRUST**

	2016	2015
Balance, beginning of year	\$ 49,984,168	\$ 46,699,746
Current year income, net of fees	4,193,667	3,531,897
(Decrease) increase in fair market value	(4,952,968)	2,385,419
Disbursements, net	(2,482,185)	(2,632,894)
Balance, end of year	\$ 46,742,682	\$ 49,984,168

The Settlement Trust annually distributes the earnings of the trust investments to the First Nation in accordance with the trust agreement. Pursuant to a community bylaw, the First Nation is required to reinvest a calculated amount designed to protect the value of the fund against inflation. At March 31, 2016, \$4,646,817 (2015 - \$3,501,041) was outstanding to be reinvested. \$3,994,246 is expected to be distributed subsequent to year end with respect to 2015 trust earnings. This entire amount will be reinvested in the settlement trust. Management is working to ensure the remaining required reinvestment is satisfied within fiscal 2017.

6. INVESTMENT IN BUSINESS ENTERPRISES

	2016	2015
Balance, beginning of year	\$ 86,958,518	\$ 88,798,817
Equity earnings	13,881,102	22,808,131
Impairment loss on investment	(14,816,500)	-
Draws	(11,006,680)	(24,648,430)
Balance, end of year	\$ 75,016,440	\$ 86,958,518

7. SHORT-TERM BORROWINGS

	2016	2015
Outstanding items	\$ 1,135,155	\$ 2,215,227
(Cash) Demand operating loan	(556,466)	1,599,931
Short-term investments	-	(32,635)
	\$ 578,689	\$ 3,782,523

The First Nation has available a revolving demand line of credit of \$2,000,000 bearing interest at prime plus 0.25% and is secured under the same terms noted for the Royal Bank of Canada loan (Note 10).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade payables and accrued liabilities	\$ 7,586,426	\$ 8,934,926
Per capita distribution payable	1,251,009	1,396,964
Accrued salaries and employee benefits payable	191,208	427,118
	\$ 9,028,643	\$ 10,759,008

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2016****9. UNEXPENDED GRANTS**

	2015	Approved	Expensed	2016
INAC				
<i>Education</i>				
Student transportation services - FTP	-	35,207	35,207	-
<i>Social Development</i>				
Basic needs - Contribution	-	500,602	500,602	-
Child out-parental home - Contribution	-	33,881	33,881	-
Special needs - Contribution	-	7,254	7,254	-
In-home care - Contribution	-	58,415	58,415	-
Service delivery - FTP	-	84,000	84,000	-
<i>Operations and Maintenance</i>				
Fire protection - FTP	-	5,000	5,000	-
Wastewater systems - FTP	-	8,781	8,781	-
Water systems - FTP	-	18,965	18,965	-
Electrical services - FTP	-	7,211	7,211	-
Community buildings - FTP	-	47,371	47,371	-
Solid waste - FTP	-	278,262	278,262	-
<i>Housing and Capital Projects</i>				
Major renovations, extensions and repairs - FTP	-	231,200	231,200	-
Roads and bridges - FTP	-	25,624	25,624	-
Management support - FTP	-	2,200	2,200	-
<i>Government Support and Administration</i>				
Band support funding - Grant	-	293,921	293,921	-
Community economic development - FTP	-	56,781	56,781	-
Registry events - Contribution	-	6,035	6,035	-
TOTAL INAC	-	1,700,710	1,700,710	-
CMHC Mortgage subsidy	-	134,926	134,926	-
Specific project grant funding	-	4,000,000	2,045,751	1,954,249
Deferred head lease payment	-	1,890,000	1,418,000	472,000
Community trust	1,209,697	7,203,254	8,071,717	341,234
TOTAL	1,209,697	14,928,890	13,371,104	2,767,483

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2016****10. DEBT**

	<u>2016</u>	<u>2015</u>
23 individual Peace Hills Trust mortgages repayable with payments totaling \$212,553 per month, including interest at rates ranging from 3.95% to 4.25% maturing between May 2016 and March 2020, and secured by a government guarantee, assignment of insurance proceeds, and specific houses with a net book value of \$17,959,325.	\$ 32,787,645	\$ 31,768,982
Royal Bank of Canada demand loan repayable in quarterly principal payments of \$493,897 plus interest at prime plus 0.5% maturing March 31, 2021.	9,877,936	-
9 individual CMHC direct Section 95 housing mortgages repayable with payments totaling \$9,501 per month, including interest at rates ranging from 1.6% to 2.8% maturing between November 2024 and January 2040, and are secured by specific houses with a net book value of \$3,864,637.	2,477,347	2,555,816
Loans paid out during the year	-	2,752,872
	<u>\$ 45,142,928</u>	<u>\$ 37,077,670</u>

Estimated principal payments required to service debt in each of the next five years are:

2017	\$ 3,359,972
2018	3,414,664
2019	3,471,825
2020	3,512,811
2021	3,573,680
Thereafter	27,809,976
	<u>\$ 45,142,928</u>

The above mortgages receive Federal assistance through the Canada Mortgage and Housing Corporation which reduces mortgage interest expense to 2% to enable the project to provide housing for low income individuals. The amount of assistance received for the year ended March 31, 2016 was \$134,926 (2015 - \$68,095).

Royal Bank of Canada loans are secured by a general security agreement granted by the First Nation and in favour of the Lender all of its present and after-acquired real and personal property. An unlimited guarantee granted by the Fort McKay Group of Companies Limited Partnership, limited recourse guarantee and pledge of the First Nation's partnership interest by the Fort McKay 2008 Business Trust, an assignment of Fort McKay Landing Limited Partnership's interest in certain material contracts, and a debenture by the Fort McKay Group of Companies Limited Partnership mortgaging its interest in each Head Lease.

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2016****11. TANGIBLE CAPITAL ASSETS**

	Cost	Accumulated Depreciation	2016 Net Book Value	2015 Net Book Value
Band buildings and houses	\$ 98,812,570	\$ 20,346,650	\$ 78,465,920	\$ 75,077,125
CMHC rental houses	5,681,162	1,650,308	4,030,854	3,922,579
Infrastructure	29,604,500	7,258,370	22,346,130	22,697,148
Office, furniture and equipment	3,423,826	1,894,806	1,529,020	1,552,217
Vehicles	1,709,890	1,306,974	402,916	378,774
	\$ 139,231,948	\$ 32,457,108	\$ 106,774,840	\$ 103,627,843

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	2016	2015
Tangible capital assets	\$ 139,231,948	\$ 131,483,274
Accumulated depreciation	(32,457,108)	(27,855,431)
Debt	(45,142,928)	(37,077,670)
	\$ 61,631,912	\$ 66,550,173

13. ACCUMULATED SURPLUS

	2016	2015
General First Nation operations	\$ 66,033,173	\$ 75,469,851
Restricted surplus:		
Cash held in trust	3,104,822	2,820,839
Settlement trust	46,742,682	49,984,168
Equity in tangible capital assets	61,631,912	66,550,173
	\$ 177,512,589	\$ 194,825,031

14. RELATED PARTY TRANSACTIONS

The First Nation purchases certain products and services as well as charges rent and property tax to several of its Business Enterprises. Total purchases from related parties is \$1,645,189 (2015 - \$4,468,536) and total revenue charged is \$2,992,030 (2015 - \$2,409,211). These transactions are carried out at commercial terms offered to third parties. During the 2015 fiscal year the First Nation purchased contract services \$614,180 from a company controlled by a Councilor. All transactions have been carried out at commercial terms offered to third parties.

Included in trade accounts receivable are amounts receivable from related parties of \$2,127 (2015 - \$127,690). Included in trade accounts payable are amounts payable to related parties of \$1,453,047 (2015 - \$2,005,228).

15. COMMITMENTS AND CONTINGENCIES

- a) The First Nation is liable under a number of forgivable loans under the CMHC Residential Rehabilitation Assistance Program. The amount of any repayable liability is not known.
- b) The First Nation is contingently liable for an unlimited guarantee with Royal Bank of Canada and up to \$25,000,000 with another financial institution for the debt of a related party. At year-end the debt balances drawn on this guarantee is \$12,114,528.
- c) The First Nation has been named as a defendant in lawsuits with former employees of the First Nation for wrongful dismissal and breach of employment contracts. The amount of the claims total \$6,852,128 and the likelihood of gain or loss is not determinable at this time. The First Nation has accrued \$1,000,000, which management feels is a reasonable estimate of the potential loss.
- d) The First Nation's total annual obligations under various operating leases for vehicles are as follows:
2017 - \$79,696 and 2018 - \$39,848.

16. EMPLOYEE BENEFITS

The First Nation has a defined contribution plan for employees into which the First Nation contributes 5% of the base salary for each employee. During the year, the First Nation funded contributions of \$258,119 (2015 - \$341,252) to the defined contribution plan.

17. RISK MANAGEMENT ACTIVITIES

The First Nation has exposure to the following risks from its use of financial instruments: credit risk, market risk, interest rate risk, liquidity risk, and currency risk

Risk management framework

The Chief and Council has overall responsibility for the establishment and oversight of the First Nations risk management framework. The First Nation's risk management policies are established to identify and analyze the risks faced by the First Nation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions to the First Nation's activities.

Credit risk

Accounts receivable include balances from a large number of customers. The majority of customers are large oil companies and their contractors, consequently management is of the opinion that the First Nation is not exposed to significant credit risk arising from the accounts receivable and that an adequate allowance for doubtful accounts has been provided.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than interest rate risk or currency risk. The First Nation enters into transactions to purchase portfolio investments for which the market price fluctuates in the Fort McKay Settlement Trust. This portfolio is spread over a large number of public companies in various industries and is invested in both equity and fixed income products in order to reduce market risk exposure.

17. RISK MANAGEMENT ACTIVITIES (continued)

The First Nation's investment in Business Enterprises is primarily in businesses involved in the oil sands service and development, as such the First Nation is exposed to fluctuations in commodity prices for natural gas, crude oil and natural gas liquids. Commodity prices are affected by many factors including supply, demand and the Canadian to U.S. dollar exchange rate. The First Nation has no financial hedges or price commodity contracts in place at year-end.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the First Nation manages exposure through its normal operating and financing activities. The First Nation is exposed to interest rate risk primarily through its floating interest rate short-term borrowings.

Liquidity risk

Liquidity risk is the risk that the First Nation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The First Nation enters into transactions to purchase goods and services on credit and borrow funds from financial institutions or other creditors for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the First Nation's future net cash flows for the possibility of negative net cash flow.

Currency risk

Currency risk is the risk to the First Nation's operations that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The First Nation is exposed to foreign currency exchange risk via the Heritage Trust Fund. The First Nation does not use derivative instruments to reduce its exposure to foreign currency risk.

18. SUBSEQUENT EVENT

In May 2016 wildfires seriously affected Fort McMurray and surrounding communities, including the community of Fort McKay. The community sustained no physical damage, however, due to smoke and safety reasons a mandatory evacuation notice was issued for Fort McKay on May 7, 2016. As a result of the evacuation the First Nation incurred significant costs, relating both to housing evacuees from Fort McMurray who were forced to go north on evacuation, and then related to assisting evacuated members of the community of Fort McKay. The First Nation is in the process of applying for financial assistance through the Government of Alberta's Disaster Recovery Programs (DRP).

The financial impact on the First Nation, as a result of the wildfires is uncertain at this time.

19. BUDGET FIGURES

The 2016 budget figures represent the budget prepared by the First Nation for the fiscal period April 1, 2015 - March 31, 2016. The budget figures have not been audited.