

FORT MCKAY FIRST NATION

Financial Statements

Year Ended March 31, 2021

July 29, 2021

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 LLP Chartered Professional Accountants in accordance with Canadian generally accepted auditing standards on behalf of the band members. Pennock Acheson Nielsen Devaney LLP have full and free access to the members of the Chief and Council.

FORT MCKAY FIRST NATION



INDEPENDENT AUDITORS' REPORT

To the Members of Fort McKay First Nation

Opinion

We have audited the accompanying financial statements of Fort McKay First Nation, which comprise the statement of financial position as at March 31, 2021 and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fort McKay First Nation as at March 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Responsibility* section of our report. We are independent of the Fort McKay First Nation 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 those 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 the 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.

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

Those charged with governance are responsible for overseeing the Fort McKay First Nation's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fort Mckay First Nation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fort Mckay First Nation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fort Mckay First Nation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Pennock Acheson Nielsen Devaney LLP

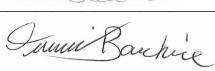
Chartered Professional Accountants

July 29, 2021

FORT MCKAY FIRST NATION**Statement of Financial Position****As at March 31, 2021**

	2021	2020
FINANCIAL ASSETS		
Cash (Note 3)	\$ 35,300,916	\$ 20,813,386
Cash held in trust (Note 4)	1,717,922	2,032,025
Accounts receivable (Note 5)	3,804,134	2,978,881
Investment in Settlement Trust (Note 6)	63,538,049	52,995,113
Investment in Business Enterprises (Note 7)	<u>141,941,563</u>	108,973,838
	<u>\$ 246,302,584</u>	<u>\$ 187,793,243</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 7,644,297	\$ 6,987,262
Unexpended grants (Note 9)	19,825,737	9,400,973
Debt (Note 10)	<u>28,706,002</u>	30,296,873
	<u>56,176,036</u>	<u>46,685,108</u>
NET FINANCIAL ASSETS	<u>190,126,548</u>	<u>141,108,135</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	122,233,179	119,014,867
Prepays and deposits	<u>2,933,232</u>	216,328
	<u>125,166,411</u>	119,231,195
COMMITMENTS AND CONTINGENCIES (Note 13)		
ACCUMULATED SURPLUS (Note 14)	<u>\$ 315,292,959</u>	<u>\$ 260,339,330</u>

APPROVED BY THE CHIEF AND COUNCIL


 M. Seawell

 D. Bachee


 A. Marshall

 R. G. Bachee

FORT MCKAY FIRST NATION
Statement of Operations and Accumulated Surplus
Year Ended March 31, 2021

	<i>(Note 18)</i> Budget 2021	2021	2020
REVENUE			
Business enterprise income	\$ 18,779,500	\$ 52,348,988	\$ 36,074,704
Long-term sustainability funding and industry grants	13,787,690	14,382,048	14,470,667
Investment income (loss)	-	11,785,947	(2,962,375)
Indigenous Services Canada	18,056,161	11,186,705	3,314,615
Health Canada	1,164,992	3,367,870	1,297,588
Property tax income	1,540,000	1,804,728	2,074,483
Miscellaneous and other	784,500	1,599,912	1,182,242
Rent	1,383,189	1,485,307	1,708,513
First Nations Development Funding	-	607,627	415,064
Athabasca Tribal Council	485,360	605,316	764,578
Canada Mortgage and Housing Corporation	-	191,921	176,107
Interest	180,000	110,577	404,578
	56,161,392	99,476,946	58,920,764
EXPENSES			
Education (<i>Schedule 1</i>)	3,484,295	2,731,028	2,935,524
Social development (<i>Schedule 2</i>)	389,509	424,281	625,088
Operation and maintenance (<i>Schedule 3</i>)	3,201,549	4,404,655	4,451,646
Housing and capital projects (<i>Schedule 4</i>)	7,466,708	5,387,689	7,068,742
Government support and administration (<i>Schedule 5</i>)	8,562,020	6,971,707	12,192,864
Community support (<i>Schedule 6</i>)	3,264,607	2,654,107	4,863,524
Land trusts and claims (<i>Schedule 7</i>)	600,651	738,316	410,491
Community health services (<i>Schedule 8</i>)	6,661,133	6,212,293	5,170,721
Economic development (<i>Schedule 9</i>)	1,066,885	1,576,913	1,463,795
Sustainability department (<i>Schedule 10</i>)	4,178,077	5,097,309	4,697,595
	38,875,434	36,198,298	43,879,990
SURPLUS BEFORE THE FOLLOWING			
	17,285,958	63,278,648	15,040,774
OTHER ITEMS			
Depreciation	5,366,310	5,371,944	5,410,683
Business profit distributions	1,680,000	2,953,075	7,366,350
Impairment loss on investments (<i>Note 7</i>)	-	-	3,500,000
	7,046,310	8,325,019	16,277,033
ANNUAL SURPLUS (DEFICIT)	\$ 10,239,648	54,953,629	(1,236,259)
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		260,339,330	261,575,589
ACCUMULATED SURPLUS AT END OF YEAR		\$ 315,292,959	\$ 260,339,330

FORT MCKAY FIRST NATION
Statement of Change in Net Financial Assets
Year Ended March 31, 2021

	<i>(Note 18)</i> Budget 2021	2021	2020
Annual surplus (deficit)	\$ 10,239,648	\$ 54,953,629	\$ (1,236,259)
Acquisition (net of disposals) of tangible capital assets	(16,826,618)	(8,590,256)	(4,465,785)
Depreciation	-	5,371,944	5,410,683
	<u>(16,826,618)</u>	<u>(3,218,312)</u>	<u>944,898</u>
Net acquisition of prepaid asset	-	(2,716,904)	625,067
INCREASE IN NET FINANCIAL ASSETS	(6,586,970)	49,018,413	333,706
NET FINANCIAL ASSETS AT BEGINNING OF YEAR	141,108,135	141,108,135	140,774,429
NET FINANCIAL ASSETS AT END OF YEAR	\$ 134,521,165	\$ 190,126,548	\$ 141,108,135

FORT MCKAY FIRST NATION**Statement of Cash Flows****Year Ended March 31, 2021**

	2021	2020
OPERATING ACTIVITIES		
Cash receipts from revenues	\$ 44,811,610	\$ 26,940,975
Cash paid to suppliers and employees	(37,043,651)	(41,351,358)
Interest received	110,576	404,580
Interest paid	<u>(1,195,180)</u>	<u>(1,245,160)</u>
	<u>6,683,355</u>	<u>(15,250,963)</u>
INVESTING ACTIVITIES		
Investment in business enterprise	19,381,263	34,153,596
Purchase (net of disposals) of tangible capital assets	(8,590,256)	(4,465,785)
Decrease in cash held in trust	314,103	5,763,063
Decrease in settlement trust	<u>1,243,011</u>	<u>-</u>
	<u>12,348,121</u>	<u>35,450,874</u>
FINANCING ACTIVITIES		
Business profit distributions	(2,953,075)	(7,366,350)
Repayment of debt	<u>(1,590,871)</u>	<u>(1,309,196)</u>
	<u>(4,543,946)</u>	<u>(8,675,546)</u>
INCREASE IN CASH	14,487,530	11,524,365
CASH - BEGINNING OF YEAR	20,813,386	9,289,021
CASH - END OF YEAR	<u>\$ 35,300,916</u>	<u>\$ 20,813,386</u>

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

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
- Community Support
- Land Trusts and Claims
- Community Health Services
- Economic Development
- Sustainability Department

The Fort McKay Investment 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.

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.

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 18).

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

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

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%

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.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

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

Tangible Capital Assets (continued)

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, cash held in trust, accounts receivable, investment in settlement trust, investment in business enterprises, 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.

Future Accounting Standard Pronouncements

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board (PSAB). In 2022, the First Nation will continue to assess the impact and prepare for the adoption of these standards.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

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

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, 2022. 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.

PS 3280 Asset Retirement Obligations

Effective April 1, 2022, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

PS 3400 Revenue

Effective April 1, 2023, this standard provides guidance on how to account for and report revenue, and specifically, it differentiates between revenue arising from exchange and non-exchange transactions.

PSG-8 Purchased Intangibles

Effective April 1, 2023, this standard allows for purchased intangible assets to be recognized as assets in a public sector entity's financial statements.

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.

3. CASH

	2021	2020
Cash	\$ 35,159,307	\$ 20,606,777
CMHC replacement reserve	526,570	495,037
Outstanding items	<u>(384,961)</u>	<u>(288,428)</u>
	<u>\$ 35,300,916</u>	<u>\$ 20,813,386</u>

The First Nation has available a revolving demand line of credit of \$5,000,000 (2020 - \$5,000,000) bearing interest at prime plus 0.25% and is secured under the same terms noted for the Royal Bank of Canada loan (Note 10). At year-end the First Nation has not drawn on this facility.

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2021****4. CASH HELD IN TRUST**

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.

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 Services Canada ("ISC") 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. In 2021, \$1,106,598 was withdrawn from the Trust (2020 - \$1,778,993).

	2021	2020
Fort McKay First Nation Community Trust	\$ 897,324	\$ 896,750
Consolidated Revenue Fund	<u>820,598</u>	<u>1,135,275</u>
	<u>\$ 1,717,922</u>	<u>\$ 2,032,025</u>

5. ACCOUNTS RECEIVABLE

	2021	2020
Due from members:		
Rent	\$ 206,888	\$ 212,169
Less: allowance for doubtful accounts	<u>(206,888)</u>	<u>(212,169)</u>
	-	-
Due from others:		
Trade accounts receivable	2,033,450	2,282,889
Indigenous Services Canada	628,324	271,691
Health Canada	589,538	156,093
Property taxes receivable	462,819	530,175
First Nations Development Fund	355,916	-
Other receivables	254,519	815,273
GST rebate receivable	192,789	174,929
Athabasca Tribal Corporation	112,116	110,339
Canadian Natural Resources Ltd.	100,000	-
Canadian Mortgage and Housing Corporation	6,524	6,524
For McKay Daycare Centre	<u>-</u>	<u>128,068</u>
	4,735,995	4,475,981
Less: allowance for doubtful accounts	<u>(931,861)</u>	<u>(1,497,100)</u>
Total accounts receivable	<u>\$ 3,804,134</u>	<u>\$ 2,978,881</u>

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2021****6. INVESTMENT IN SETTLEMENT TRUST**

	2021	2020
Balance, beginning of year	\$ 52,995,113	\$ 55,957,488
Current year income, net of fees	2,773,952	3,314,945
Increase (decrease) in fair market value	9,011,995	(6,277,320)
Disbursements, net	<u>(1,243,011)</u>	-
Balance, end of year	<u>\$ 63,538,049</u>	<u>\$ 52,995,113</u>

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 year-end the First Nation is in compliance with the Bylaw.

7. INVESTMENT IN BUSINESS ENTERPRISES

	2021	2020
Balance, beginning of year	\$ 108,973,838	\$ 110,552,730
Equity earnings	52,348,988	36,074,704
Impairment loss on investments	-	(3,500,000)
Draws	(24,746,263)	(34,663,596)
Contributions	<u>5,365,000</u>	510,000
	<u>\$ 141,941,563</u>	<u>\$ 108,973,838</u>

The following is a summary of Fort McKay First Nation's investment in its fully owned business enterprise:

	2021	2020
Unaudited aggregate balance sheet information:		
Assets	<u>\$ 165,410,335</u>	\$ 160,723,341
Liabilities	<u>\$ 23,468,772</u>	\$ 51,749,503
Equity	<u>141,941,563</u>	108,973,838
	<u>\$ 165,410,335</u>	<u>\$ 160,723,341</u>

	2021	2020
Unaudited aggregate income statement information:		
Revenue	\$ 361,748,678	\$ 376,086,252
Expenses	<u>309,399,690</u>	340,011,548
Net income	<u>\$ 52,348,988</u>	<u>\$ 36,074,704</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade payables and accrued liabilities	\$ 5,896,747	\$ 4,903,274
Accrued salaries and employee benefits payable	420,736	1,136,226
Business profit distribution payable	<u>1,326,814</u>	947,762
	<u>\$ 7,644,297</u>	<u>\$ 6,987,262</u>

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

9. UNEXPENDED GRANTS

	Unexpended 2020	Approved	Expended	Unexpended 2020
ISC				
<i>Education</i>				
Fixed funding	424,309	512,174	936,483	-
<i>Social Development</i>				
Set funding	-	474,889	88,357	386,532
Fixed funding	-	160,718	160,718	-
<i>Operations and Maintenance</i>				
Flexible funding	77,951	362,189	440,140	-
Fixed funding	-	519,659	519,659	-
<i>Housing and Capital Projects</i>				
Fixed funding	-	15,040,160	7,856,684	7,183,476
<i>Government Support and Administration</i>				
Grant funding	-	367,404	367,404	-
Fixed funding	-	162,963	62,963	100,000
<i>Land Trusts and Claims</i>				
Fixed funding	218,516	273,786	492,302	-
<i>Community Health Services</i>				
Fixed funding	-	180,214	180,214	-
<i>Economic Development</i>				
Fixed funding	-	81,781	81,781	-
TOTAL ISC	720,776	18,135,937	11,186,705	7,670,008
Health Canada	-	3,854,483	3,367,870	486,613
Specific project grant funding	5,816,783	3,690,408	435,657	9,071,534
Sustainability payments	1,742,830	1,782,171	2,115,667	1,409,334
Deferred head lease payment	223,833	779,249	859,420	143,662
Mothers of McKay	-	521,932	374,668	147,264
Community trust	896,751	13,630,187	13,629,616	897,322
TOTAL	9,400,973	42,394,367	31,969,603	19,825,737

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2021****10. DEBT**

	2021	2020
20 individual Peace Hills Trust mortgages repayable with payments totaling \$203,200 per month, including interest at 3.75% maturing February 2023, and secured by a government guarantee, assignment of insurance proceeds, and specific houses with a net book value of \$28,211,356.	\$ 26,119,535	\$ 27,564,343
9 individual CMHC direct Section 95 housing mortgages repayable with payments totaling \$15,780 per month, including interest at rates ranging from 0.46% to 2.68% maturing between November 2024 and May 2043, and are secured by specific houses with a net book value of \$3,304,916.	2,586,467	2,732,530
	\$ 28,706,002	\$ 30,296,873

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

2022	\$ 1,632,315
2023	24,786,710
2024	153,072
2025	151,134
2026	144,932
Thereafter	<u>1,837,839</u>
	\$ 28,706,002

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, 2021 was \$191,921 (2020 - \$176,107). The above estimated principal repayments assume refinancing will occur at similar financing terms over the amortization period.

The First Nation has available a Royal Bank of Canada revolving term facility up to a maximum of \$15,000,000. The First Nation may opt for loans that bear interest at prime plus 0.25%, bankers' acceptances at RBC stamping fee plus 2% or loans at the applicable CDOR rate. At year-end, this facility has not been drawn.

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 Investment 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, 2021****11. TANGIBLE CAPITAL ASSETS**

	Cost	Accumulated Depreciation	2021 Net Book Value	2020 Net Book Value
Band buildings and houses	\$ 129,226,660	\$ 35,988,969	\$ 93,237,691	\$ 89,117,542
CMHC rental houses	6,108,592	2,608,001	3,500,591	3,614,243
Infrastructure	34,536,459	11,645,584	22,890,875	23,304,115
Office, furniture and equipment	5,342,838	3,725,992	1,616,846	1,728,928
Vehicles	3,029,210	2,042,034	987,176	1,250,039
	\$ 178,243,759	\$ 56,010,580	\$ 122,233,179	\$ 119,014,867

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	2021	2020
Tangible capital assets	\$ 178,243,759	\$ 170,080,934
Accumulated depreciation	(56,010,580)	(51,066,067)
Debt	(28,706,002)	(30,296,873)
	\$ 93,527,177	\$ 88,717,994

13. 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 party to a combined credit agreement and is therefore contingently liable for an unlimited guarantee with Royal Bank of Canada. The facility is authorized up to a maximum of \$26,000,000 at year-end the facility has not been drawn on.
- (c) Government transfers related to projects of the First Nation are subject to conditions regarding expenditures of funds. The Nation's accounting records as well as those agencies delegated to execute those projects, are subject to audit by various funding agencies. Should any instances be identified in which the amount charged to the project are not in accordance with the agreed terms and conditions, amounts would be refundable to the funding agencies. Adjustments to the financial statements as a result of these audits will be recorded in the year in which they become known.
- (d) At times, the First Nation is named as a defendant in employment related litigation. The amount of the claim totals \$250,000 and the likelihood of settlement is not determinable at this time. The First Nation has accrued \$150,000, which management feels is a reasonable estimate of the potential loss.
- (e) The First Nation's total annual obligations under various equipment operating leases are as follows: 2022 - \$32,700; 2023 - \$2,725.
- (f) In March 2020 the World Health Organization has declared the COVID-19 outbreak as a pandemic. This pandemic has caused governments around the world to enact policies to restrict the spread of the COVID-19 virus. It is unknown how long these policies will be in place, their potential impact on business, funding and the First Nation operations, including the continued availability of credit, and the economy in general.

FORT MCKAY FIRST NATION**Notes to Financial Statements****Year Ended March 31, 2021****14. ACCUMULATED SURPLUS**

	2021	2020
General First Nation operations	\$ 156,509,811	\$ 116,594,198
Restricted surplus:		
Cash held in Trust	1,717,922	2,032,025
Investment in Settlement Trust	63,538,049	52,995,113
Equity in tangible capital assets	93,527,177	88,717,994
	\$ 315,292,959	\$ 260,339,330

15. 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 \$528,405 (2020 - \$37,329) and total revenue charged is \$267,153 (2020 - \$2,151,511). In addition, the First Nation purchased \$30,000 (2020 - \$146,291) of services and charged \$27,192 (2020 - \$34,427) to a Company controlled by a member of Chief and Council. These transactions are carried out at commercial terms offered to third parties.

Included in trade accounts receivable are amounts receivable from related parties of \$nil (2020 - \$44,589). Included in trade accounts payable are amounts payable to related parties of \$65,632 (2020 - \$nil).

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 \$397,664 (2020 - \$559,486) to the defined contribution plan. The First Nation made no additional contributions to other individual employee pension plans.

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.

FORT MCKAY FIRST NATION

Notes to Financial Statements

Year Ended March 31, 2021

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. BUDGET FIGURES

The 2021 budget figures represent the budget prepared by the First Nation for the fiscal period April 1, 2020 - March 31, 2021. The budget figures have not been audited.