

Esgenoôpetitj First Nation
Consolidated Financial Statements
March 31, 2019

Nicholson & Beaumont
Chartered Professional Accountants

**Esgenoôpetitj First Nation
Consolidated Financial Statements
As at March 31, 2019**

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NICHOLSON & BEAUMONT
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Chief and Councillors of
Esgenoôpetitj First Nation

Qualified Opinion

We have audited the accompanying consolidated financial statements of Esgenoôpetitj First Nation, which comprise the consolidated statement of financial position as at March 31, 2019 and the consolidated statements of operations, changes in accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, except for the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Esgenoôpetitj First Nation as at March 31, 2019, the results of its operations, for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Qualified Opinion

Esgenoôpetitj Development Corporation Ltd., a government business enterprise of the Esgenoôpetitj First Nation that is accounted for in these financial statements on a modified equity basis, derives revenue and expenses from mini-casino operations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues and expenses was limited to the amounts recorded in the records of Esgenoôpetitj Development Corporation Ltd. Therefore, we were not able to determine whether any adjustments might be necessary to revenue, expenses, excess of revenue over expenditures, cash flows from operations, net debt and accumulated surplus.

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

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Entity'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 Entity'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 consolidated 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 Entity to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation. 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.


Fredericton, NB
October 4, 2019


Nicholson & Beaumont
Chartered Professional Accountants

**Esgenoôpetitj First Nation
Consolidated Statement of Financial Position
As at March 31, 2019**

	<u>2019</u>	<u>2018</u>
Financial assets		
Restricted cash (Note 2)	\$ 215,198	\$ 471,455
Cash (Note 2)	507,628	547,379
Accounts receivable (Note 6)	3,157,145	2,801,346
Receivable from Esgenoôpetitj Development Corporation Ltd. (Note 8)	2,846,605	3,321,198
Investment in government business enterprises (Note 11)	<u>454,818</u>	<u>230,987</u>
	<u>7,181,394</u>	<u>7,372,365</u>
Liabilities		
Accounts payable and accrued liabilities (Note 9)	2,093,974	1,341,752
Deferred revenue (Note 10)	4,621,877	3,119,059
Payable to Pêcheres Baie Chaleurs Fisheries (2012) Inc. (Note 7)	296,616	342,770
Long-term debt (Note 12)	<u>18,097,269</u>	<u>16,876,325</u>
	<u>25,109,736</u>	<u>21,679,906</u>
Net debt	<u>(17,928,342)</u>	<u>(14,307,541)</u>
Non-financial assets		
Tangible capital assets (Note 13)	47,896,538	43,997,924
Prepaid expenses (Note 14)	<u>114,150</u>	<u>122,306</u>
	<u>48,010,688</u>	<u>44,120,230</u>
Accumulated surplus	<u>\$ 30,082,346</u>	<u>\$ 29,812,689</u>

Approved by the First Nation

 Chief

 Councillor

See accompanying notes to the financial statements

Nicholson & Beaumont
Chartered Professional Accountants

**Esgenoôpetitj First Nation
Consolidated Statement of Operations
For the Year Ended March 31, 2019**

	2019 Budget (Unaudited)	2019 Actual	2018 Actual
Revenue			
Aboriginal Affairs and Northern Development			
Canada (AANDC) (Note 20)	\$ 14,133,508	\$ 16,062,856	\$ 15,896,402
Federal government	742,397	1,056,734	1,227,961
Health Canada	1,631,554	2,511,089	1,717,730
Provincial government	-	582,817	720,266
Other	<u>3,311,029</u>	<u>4,360,712</u>	<u>6,733,054</u>
	<u>19,818,488</u>	<u>24,574,208</u>	<u>26,295,413</u>
Expenses			
Indian registry administration	14,789	17,265	16,131
Economic development	121,688	128,663	121,430
Education	4,458,966	4,281,701	4,080,452
Social assistance	5,006,591	6,171,054	5,190,254
Child, family and community services	1,330,523	1,439,131	1,144,610
Headstart	300,280	269,425	245,599
Capital – infrastructure assets	357,797	1,478,166	1,242,716
Capital – education assets	369,398	698,771	724,608
Capital housing	934,677	1,908,755	1,786,652
Band financial management	1,222,957	1,355,750	1,113,906
Medical services	1,708,182	1,898,091	1,683,014
Fisheries	367,642	1,036,456	842,157
Day camp	-	66,755	69,930
Tiny treasures day care	175,834	217,546	174,839
Healing foundation	-	267	12,744
Community public safety	-	47,190	1,279
ASETS	409,394	543,692	522,420
Other band activities	<u>2,454,191</u>	<u>2,969,704</u>	<u>4,249,333</u>
	<u>19,232,909</u>	<u>24,528,382</u>	<u>23,222,074</u>
	<u>585,579</u>	<u>45,826</u>	<u>3,073,339</u>
Other income (loss)			
Net income (loss) investment in government business enterprises	<u>-</u>	<u>223,831</u>	<u>(2,139,799)</u>
Annual surplus	<u>\$ 585,579</u>	<u>\$ 269,657</u>	<u>\$ 933,540</u>

See accompanying notes to the financial statements

Esgenoôpetitj First Nation
Consolidated Statement of Changes in Net Debt
For the Year Ended March 31, 2019

	<u>2019</u> <u>Actual</u>	<u>2018</u> <u>Actual</u>
Annual surplus	\$ <u>269,657</u>	\$ <u>933,540</u>
Net acquisition of tangible capital assets	(5,932,593)	(5,261,672)
Amortization of tangible capital assets	2,033,979	1,831,505
Decrease (increase) in prepaid expenses	<u>8,156</u>	<u>(98,028)</u>
	<u>(3,890,458)</u>	<u>(3,528,195)</u>
Decrease (increase) in net debt	(3,620,801)	(2,594,655)
Net debt, beginning of year	<u>(14,307,541)</u>	<u>(11,712,886)</u>
Net debt, end of year	<u>\$(17,928,342)</u>	<u>\$(14,307,541)</u>

See accompanying notes to the financial statements

Nicholson & Beaumont
Chartered Professional Accountants

Esgenoôpetitj First Nation
Consolidated Statement of Cash Flows
For the Year Ended March 31, 2019

	<u>2019</u>	<u>2018</u>
Operating activities		
Annual surplus	\$ 269,657	\$ 933,540
Add non-cash items:		
Amortization of tangible capital assets	<u>2,033,979</u>	<u>1,831,505</u>
	<u>2,303,636</u>	<u>2,765,045</u>
Net changes in non-cash operating items		
Accounts receivable	(355,799)	223,136
Prepaid expenses	8,156	(98,028)
Accounts payable and accrued liabilities	752,222	(774,415)
Deferred revenue	<u>1,502,818</u>	<u>2,137,091</u>
	<u>4,211,033</u>	<u>4,252,829</u>
Financing activities		
Increase of long-term debt	2,138,121	2,638,624
Repayment of long-term debt	(917,177)	(1,013,777)
Advances from (to) Pêcheries Baie Chaleurs Fisheries (2012) Inc.	(46,154)	684,509
Advances (to) from Esgenoôpetitj Development Corporation Ltd.	<u>474,593</u>	<u>(1,039,301)</u>
	<u>1,649,383</u>	<u>1,270,055</u>
Investing activities		
Net acquisition of tangible capital assets	(5,932,593)	(5,261,672)
Investment in government business enterprises	<u>(223,831)</u>	<u>905,575</u>
	<u>(6,156,424)</u>	<u>(4,356,097)</u>
Increase (decrease) in cash and cash equivalents	(296,008)	1,166,787
Cash and cash equivalents, beginning of year	<u>1,018,834</u>	<u>(147,953)</u>
Cash and cash equivalents, end of year	\$ <u>722,826</u>	\$ <u>1,018,834</u>
Cash and cash equivalents consist of the following:		
Cash	\$ 507,628	\$ 547,379
Restricted cash	<u>215,198</u>	<u>471,455</u>
	\$ <u>722,826</u>	\$ <u>1,018,834</u>

See accompanying notes to the financial statements

Nicholson & Beaumont
Chartered Professional Accountants

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

1. Significant accounting policies

Basis of accounting

These consolidated financial statements have been prepared by Band management in accordance with the First Nation Reporting Handbook, which states that you follow the Canadian public sector accounting standards for government entities, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants, which encompasses the following principles:

(a) Accrual accounting

Expenses are recorded for all goods and services received or consumed during this fiscal year.

Amounts received or recorded as receivable, but not earned by the end of the fiscal year are recorded as deferred revenue.

(b) Reporting entity

The Esgenoôpetitj First Nation reporting entity includes the Esgenoôpetitj First Nation government and all related entities which are accountable to the First Nation and are either owned or controlled by it.

(c) Principles of consolidation

All controlled entities are to be fully consolidated on a line-by-line basis except for commercial enterprises which meet the definition of a government business enterprise, which are to be accounted for by the modified equity method. Inter-organizational balances and transactions are to be eliminated upon consolidation.

Under the modified equity method of accounting, only Esgenoôpetitj First Nation's proportionate share of the government business enterprise's earnings (loss) and other changes in equity are recorded as an increase (decrease) to its investment in the government business enterprise. No adjustment is made for accounting policies of the enterprise that are different from those of Esgenoôpetitj First Nation.

Organizations accounted for on a modified equity basis include Pecheries Baie Chaleurs Fisheries (2012) Inc. and Esgenoôpetitj Development Corporation Ltd.

There are no organizations that are required to be fully consolidated in Esgenoôpetitj First Nation's financial statements.

(d) 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 and are not to be consumed in the normal course of 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.

(e) Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and expenses for the periods covered. The main estimates relate to the useful life of tangible capital assets subject to amortization and the allowance for doubtful accounts. Actual results could differ significantly from these estimates.

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

1. Significant accounting policies (continued)

(f) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the consolidated statement of operations as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor, and are recognized as revenue when used for the specific purpose.

Revenue related to fees or services received in advance of the fee being earned or the service is performed is deferred and recognized when the fee is earned or service is performed.

(g) Income taxes

The Esgenoôpetitj First Nation is an Indian Band and is not subject to income tax. Accordingly, no provision has been made for income taxes.

(h) Cash and cash equivalents

The First Nation's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition. Cash and cash equivalents that the First Nation cannot use for current transactions because they are pledged as security are also excluded from cash and cash equivalents.

(i) Financial instruments

The First Nation initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The First Nation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, accounts receivable, receivable from Pêcheries Baie Chaleurs Fisheries (2012) Inc., receivable from Esgenoôpetitj Development Corporation Ltd. and investments in government business enterprises.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities, deferred revenue and long-term debt.

(j) Accounts receivable

Accounts receivable include trade receivables, loans and advances, and federal and provincial government receivables. An allowance for bad debts has been recorded by management through an assessment of circumstances influencing the collectability of amounts, and using historical loss experience. Amounts deemed uncollectable are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

1. Significant accounting policies (continued)

(k) 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 producing goods or delivering services.

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Contributions received to assist in the acquisition of tangible capital assets are reported as deferred revenue and amortized to income at the same rate as the related asset.

Amortization is provided annually, at rate and methods calculated to write-off the assets over their estimated useful lives as follows:

Residential buildings	Declining balance	4%
Commercial buildings	Declining balance	4%
Water and sewer infrastructure	Declining balance	4%
Paving	Declining balance	8%
Recreational structure	Declining balance	4%
Vehicles	Declining balance	30%
Computer equipment	Declining balance	30%
Equipment	Declining balance	20%
Midshore vessel	Declining balance	8%
Shoreline erosion	Straight line	40 years

Amortization of Section 95.1 Housing is provided on buildings and equipment purchased on loans insured by CMHC at a rate equal to the annual principal reduction of the mortgage.

Tangible capital assets are written down when conditions indicate that they no longer contribute to Esgenoôpetitj First Nation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write downs are accounted for as expenses in the consolidated statement of operations.

Certain assets which have historical or cultural value, including works of art, historical documents and historical and cultural artifacts, are not recognized as tangible capital assets.

Assets under construction are not amortized until the asset is available to be put into service.

(l) Deferred revenue

Deferred revenue represents unspent Government transfers for programs where the eligibility criteria has not been met at year end. The unspent revenue is carried forward to be recognized as eligibility criteria is met or until the funder deems the surpluses to be repayable at which time an amount payable is recognized.

(m) Net debt

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

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

1. Significant accounting policies (continued)

(n) Segmented information

The First Nation discloses segmented results of operations for the year in Note 24 to the consolidated financial statements. The First Nation has segregated its activities into the following segments based on distinguishable groups of activities:

Education

Provides elementary, secondary and postsecondary tuition for qualifying members along with related programs and support.

Health

Contains activities that provide medical services to band members.

Economic Development

Contains activities of the economic development program.

Housing

Contains activities related to the maintenance of buildings and land of the First Nation houses. It also includes the section 95 housing and related expenditures.

Community

Contains all activities related to the maintenance of buildings and land of the First Nation. It also includes the expenses related to Day Care and Day Camp.

Social

Provides social assistance to qualifying members.

Band Government

Includes all other activities not described in another fund, mainly centralized and shared activities.

Other

Includes the band constable program and the fisheries activities.

2. Cash

	<u>2019</u>	<u>2018</u>
Externally restricted		
AANDC – Ottawa trust (Note 3)	\$ 49,656	\$ 49,084
CMHC – Replacement reserve (Note 4)	165,198	383,455
CMHC – Operating reserve (Note 5)	344	38,916
	<u>215,198</u>	<u>471,455</u>
Unrestricted		
Capital projects	94,312	32,774
Operating	413,316	514,605
	<u>507,628</u>	<u>547,379</u>
	\$ <u>722,826</u>	\$ <u>1,018,834</u>

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

3. Ottawa trust money

The Ottawa Trust accounts arise from monies derived from capital or revenue sources as outlined in Section 62 of the Indian Act. These funds are held in trust 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.

	<u>Opening Balance</u>	<u>Additions</u>	<u>Withdrawal</u>	<u>2019 Balance</u>	<u>2018 Balance</u>
Revenue	\$ 29,345	\$ 572	\$ -	\$ 29,917	\$ 29,345
Capital	<u>19,739</u>	<u>-</u>	<u>-</u>	<u>19,739</u>	<u>19,739</u>
Total	\$ <u>49,084</u>	\$ <u>572</u>	\$ <u>-</u>	\$ <u>49,656</u>	\$ <u>49,084</u>

4. Replacement reserve bank account

Under the terms of an agreement with Canada Mortgage and Housing Corporation, the Replacement Reserve bank account is to be credited in the amount of \$70,364 (2018 - \$70,364) annually. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canadian Deposit Insurance Corporation or otherwise approved by the Canada Mortgage and Housing Corporation,

As at March 31, 2019, the bank account is underfunded by \$590,525 (2018 - \$301,904).

5. Operating reserve bank account

Under the terms of an agreement with Canada Mortgage and Housing Corporation, excess federal assistance payments received may be retained in an operating reserve fund. The reserve is to be comprised of monies deposited in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or otherwise approved by the Canada Mortgage and Housing Corporation. The funds in this account may be used to meet future subsidy requirements of income-tested occupants over and above the maximum federal assistance.

As at March 31, 2019, the bank account is underfunded by \$353,209 (2018 - \$314,637).

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

6. Accounts receivable

	<u>2019</u>	<u>2018</u>
Due from members		
Advances – employees and other	\$ <u>221,744</u>	\$ <u>223,072</u>
Due from others		
Aboriginal Affairs and Northern Development Canada	1,732,519	1,028,614
Health Canada	182,253	289,356
Fisheries and Oceans	480,392	430,392
Other	<u>722,390</u>	<u>1,028,087</u>
	<u>3,117,554</u>	<u>2,776,449</u>
Subtotal	3,339,298	2,999,521
Allowance for doubtful accounts	<u>(182,153)</u>	<u>(198,175)</u>
	\$ <u>3,157,145</u>	\$ <u>2,801,346</u>

7. Receivable from (payable to) Pêcheries Baie Chaleurs Fisheries (2012) Inc.

	<u>2019</u>	<u>2018</u>
Loan receivable from (payable to) Pêcheries Baie Chaleurs Fisheries (2012) Inc., a subsidiary company, non-interest bearing, unsecured and no set terms of repayment.	\$ <u>(296,616)</u>	\$ <u>(342,770)</u>

8. Receivable from Esgenoôpetitj Development Corporation Ltd.

The loan receivable from Esgenoôpetitj Development Corporation Ltd., a subsidiary company, is non-interest bearing, unsecured and has no set terms of repayment.

9. Accounts payable and accrued liabilities

	<u>2019</u>	<u>2018</u>
Suppliers	\$ 1,128,889	\$ 1,167,450
Sales tax (recovery)	(43,044)	14,673
Accrued liabilities	785,018	62,886
Accrued clawbacks	<u>223,111</u>	<u>96,743</u>
	\$ <u>2,093,974</u>	\$ <u>1,341,752</u>

10. Deferred revenue

	<u>2019</u>	<u>2018</u>
Health Canada	\$ 104,766	\$ 507,405
AANDC	4,512,111	2,556,984
MAWIW Council Inc.	-	49,670
Province of New Brunswick	<u>5,000</u>	<u>5,000</u>
	\$ <u>4,621,877</u>	\$ <u>3,119,059</u>

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

11. Investment in government business enterprises

The following is a list of government business enterprises, and their fiscal year ends, which are included in the First Nation reporting entity, as described in note 1(c) – Principles of consolidation to these consolidated financial statements:

Esgenoôpetitj Development Corporation Ltd. (Dev. Corp.)	31-03-19
Pêcheries Baie Chaleurs Fisheries (2012) Inc. (Baie Chaleurs)	31-12-18

Esgenoôpetitj First Nation owns 100% of Esgenoôpetitj Development Corporation Ltd.

Esgenoôpetitj First Nation owns 100% of Pêcheries Baie Chaleurs Fisheries (2012) Inc.

Esgenoôpetitj First Nation's investment in government business enterprises consist of the following:

	<u>2019</u>	<u>2018</u>
Esgenoôpetitj Development Corporation Ltd.	\$ (929,540)	\$ (925,942)
Pêcheries Baie Chaleurs Fisheries (2012) Inc.	<u>1,384,358</u>	<u>1,156,929</u>
	<u>\$ 454,818</u>	<u>\$ 230,987</u>

For the three months ended March 31, 2019, Pêcheries Baie Chaleurs Fisheries (2012) Inc. incurred an unaudited net loss of \$368,715 which is not reflected in these financial statements.

The following table presents condensed financial information for these government business enterprises:

	<u>Dev. Corp.</u>	<u>Baie Chaleurs</u>
<u>Assets</u>		
Receivables	\$ 115,574	\$ 94,551
Inventory	138,801	301,485
Prepays	22,512	-
Loans and advances receivable	248,061	506,884
Long term investment	150,000	-
Property, plant and equipment	1,995,766	4,633,800
Future income taxes	<u>-</u>	<u>308,198</u>
	<u>\$ 2,670,714</u>	<u>\$ 5,844,918</u>
<u>Liabilities</u>		
Bank indebtedness	\$ 36,741	\$ 151,029
Payables	146,977	1,126,991
Short-term debt	-	130,558
Deferred revenue	-	642,000
Loans and advances payable	2,871,606	800,000
Current portion of long-term debt	252,675	161,350
Long-term debt	<u>292,254</u>	<u>1,710,705</u>
	<u>\$ 3,600,253</u>	<u>\$ 4,722,633</u>

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

11. Investment in government business enterprises (continued)

	<u>Dev. Corp.</u>	<u>Baie Chaleurs</u>
<u>Equity</u>		
Share capital	\$ 2	\$ 2,640,000
Contributed surplus	-	1,802,173
Retained earnings (deficit)	<u>(929,541)</u>	<u>(3,319,888)</u>
	<u>\$ (929,539)</u>	<u>\$ 1,122,285</u>
<u>Net income</u>		
Revenue	\$ 2,374,431	\$ 21,984,122
Other income	-	186,771
Expenses	2,378,029	(21,958,837)
Income tax (expense) recovery	<u>-</u>	<u>15,373</u>
	<u>\$ (3,598)</u>	<u>\$ 227,429</u>

12. Long-term debt

	<u>2019</u>	<u>2018</u>
Loan from Bank of Montreal, repayable by monthly instalments of \$15,876 including principal and interest at the rate of 3.75%, secured by a general security agreement, renewable February 2021.	\$ 2,375,157	\$ 2,474,571
Loan from Bank of Montreal, repayable by monthly instalments of \$10,006 including principal and interest at the rate of 3.75%, secured by a general security agreement, renewable February 2021.	730,483	821,315
Demand loan from Bank of Montreal, secured by a general security agreement, interest payable by monthly instalments at prime + 1.50%.	-	3,586,255
Demand loan from Bank of Montreal, secured by a general security agreement, interest payable by monthly instalments at prime + 1.50%.	-	1,031,616
Demand loan from Bank of Montreal, repayable in monthly instalments of \$19,660 including principal and interest at the rate of prime + 1.50%, secured by a general security agreement.	2,798,615	1,711,378
Demand loan from Bank of Montreal, repayable in monthly instalments of \$4,684 including principal and interest at the rate of prime + 1.50%, secured by a general security agreement.	182,263	227,654
Demand loan from Bank of Montreal, repayable in monthly instalments of \$27,252 including principal and interest at the rate of 4.40%, secured by a general security agreement.	3,442,789	-
Demand loan from Bank of Montreal, repayable in monthly instalments of \$17,303 including principal and interest at the rate of 4.40%, secured by a general security agreement.	1,584,575	-

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**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
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12. Long-term debt (continued)	<u>2019</u>	<u>2018</u>
Demand loan from Bank of Montreal , repayable in monthly instalments of \$353 including principal and interest at the rate of prime + 1.50%, secured by a general security agreement.	350,699	-
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$981 including principal and interest at the rate of 1.04%, renewable in October 2020.	176,865	186,750
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$772 including principal and interest at the rate of 1.30%, renewable in December 2020.	59,149	67,588
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$623 including principal and interest at the rate of 1.30%, renewable in December 2020.	46,557	53,378
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,980 including principal and interest at the rate of 1.14%, renewable in June 2021.	368,786	388,235
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$2,095 including principal and interest at the rate of 1.31%, renewable in December 2021.	69,894	93,952
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,562 including principal and interest at the rate of 1.31%, renewable in December 2021.	220,029	235,787
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$978 including principal and interest at the rate of 1.31%, renewable in December 2021.	84,670	95,223
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$625 including principal and interest at the rate of 1.35%, renewable in May 2022.	89,378	95,628
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,315 including principal and interest at the rate of 1.30%, renewable in June 2022.	190,868	204,077
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$901 including principal and interest at the rate of 2.41%, renewable in April 2023.	87,450	96,083
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,000 including principal and interest at the rate of 2.41%, renewable in April 2023.	121,268	130,284

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

12. Long-term debt (continued)

	<u>2019</u>	<u>2018</u>
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$2,031 including principal and interest at the rate of 2.41%, renewable in April 2023.	246,257	264,566
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$900 including principal and interest at the rate of 2.35%, renewable in May 2019.	131,986	139,596
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$2,233 including principal and interest at the rate of 2.35%, renewable in September 2018.	329,172	348,025
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,637 including principal and interest at the rate of 2.14%, renewable in March 2024.	249,619	263,894
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,756 including principal and interest at the rate of 1.92%, renewable in April 2019.	275,878	291,509
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$1,172 including principal and interest at the rate of 2.68%, renewable in October 2023.	214,416	222,799
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$2,773 including principal and interest at the rate of 1.92%, renewable in July 2019.	560,289	582,621
Loan secured by a first mortgage on buildings, repayable by monthly instalments of \$847 including principal and interest at the rate of 1.05%, renewable in April 2020.	43,859	53,511
Loan from Province of New Brunswick for outstanding tuition arrears, repayable by monthly principal instalments of \$11,978, maturing June 2040. Interest is accrued at 10.69% if in default, 0% otherwise.	<u>3,066,298</u>	<u>3,210,030</u>
	18,097,269	16,876,325
Current portion of long-term debt	(526,295)	(531,648)
Current portion to be refinanced	(1,297,324)	(974,314)
Demand loans	<u>(8,358,942)</u>	<u>(6,556,902)</u>
	<u>\$ 7,914,708</u>	<u>\$ 8,813,461</u>

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

12. Long-term debt (continued)

Estimated long-term debt principal repayments to be made during the next five fiscal years are:

2020	\$ 10,182,561
2021	536,831
2022	543,516
2023	533,591
2024	538,911
Thereafter	<u>5,761,859</u>
	<u>\$ 18,097,269</u>

13. Tangible capital assets

	<u>Rate</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2019 Net Book Value</u>	<u>2018 Net Book Value</u>
Land	0%	\$ 14,000	\$ -	\$ 14,000	\$ 14,000
Residential buildings	4%	20,977,299	3,940,849	17,036,450	14,345,408
Commercial buildings	4%	23,830,306	7,910,709	15,919,597	15,682,995
Water and sewer Infrastructure	4%	10,356,612	1,979,180	8,377,432	7,588,848
Paving	8%	2,327,603	588,126	1,739,477	1,890,735
Recreational structure	4%	333,230	119,284	213,946	222,860
Vehicles	30%	526,756	345,337	181,419	206,591
Computer equipment	30%	340,564	323,575	16,989	24,270
Equipment	20%	851,278	636,934	214,344	267,931
Vessel	8%	1,060,000	730,281	329,719	358,390
Shoreline erosion S.L. 40 years		3,825,911	731,140	3,094,771	3,190,419
Assets under construction	0%	<u>758,394</u>	<u>-</u>	<u>758,394</u>	<u>205,477</u>
		<u>\$ 65,201,953</u>	<u>\$ 17,305,415</u>	<u>\$ 47,896,538</u>	<u>\$ 43,997,924</u>

14. Prepaid expenses

	<u>2019</u>	<u>2018</u>
Insurance	\$ 19,164	\$ 17,775
Other	<u>94,986</u>	<u>104,531</u>
	<u>\$ 114,150</u>	<u>\$ 122,306</u>

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

15. Expenses by object

The following is a summary of expense by object which includes all expenditures contained in the non-consolidated statement of operations and accumulated surplus (page 4).

	<u>2019</u>	<u>2018</u>
Amortization	\$ 2,033,979	\$ 1,831,504
Interest	587,802	429,766
Insurance	169,970	180,596
Professional and consultant fees	456,901	506,225
Repairs and maintenance	1,020,845	1,019,045
Salaries and wages	6,872,548	7,128,963
Travel	333,036	333,593
Materials and supplies	728,260	565,012
Telephone	127,415	113,883
Tuition	1,946,507	1,886,236
Utilities	143,743	141,319
Office supplies and equipment	170,856	92,674
Other	9,378,216	8,505,613
Health programs	<u>558,304</u>	<u>487,645</u>
	<u>\$ 24,528,382</u>	<u>\$ 23,222,074</u>

16. Contingencies

General

Esgenoôpetitj First Nation has entered into contribution agreements with various federal government departments. Funding received under these contribution agreements is subject to repayment if the First Nation fails to comply with the terms and conditions of the agreements.

In addition, in the normal course of its operation, Esgenoôpetitj First Nation may become involved in legal actions. Some other potential liabilities may become actual liabilities when one or more future events occur or fails to occur. To the extent that the future events are likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in Esgenoôpetitj First Nation's consolidated financial statements.

Contingent liability for accrued interest on tuition fees

Esgenoôpetitj First Nation is contingently liable for accrued interest and service fees totalling \$1,416,272 (2018 - \$1,043,915) to the Province of New Brunswick applicable to the *Tuition Arrears Repayment* Agreement. Under the agreement and through on-going discussions with the Province, accrued interest applicable to the current (and future) liability of delinquent tuition would be waived upon full principal repayment. In the meantime, current year accrued interest totalled \$372,357 (2018 - \$376,460) which is included in the above mentioned totals. During the year, principal repayments on delinquent tuition balances amounted to \$143,733 (2018 - \$143,733). It is the opinion of Chief and Council that Esgenoôpetitj First Nation will continue to repay delinquent tuition balances over time along with participating in additional settlement negotiations to ensure that the full amount of accrued interest and service fees is waived. As such, there is no liability for this item recorded in the consolidated financial statements.

**Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019**

16. Contingencies (continued)

Loan guarantees

The Esgenoôpetitj First Nation has guaranteed a Bank of Montreal loan in the amount of \$1,872,055 for Pêcheries Baie Chaleurs Fisheries (2012) Inc. The loan bears interest at prime + 1.5%, is repayable in monthly blended payments of \$21,164, and matures in February 2028. Additional security for this loan includes a debenture on all of the company's assets and a marine mortgage over a vessel, the licenses and gear. The First Nation also guarantees an operating line of credit of \$500,000 which \$369,442 (2018 - \$500,000) was unused at December 31, 2018. Additional security for the line of credit is the same as the Bank of Montreal loan.

The Esgenoôpetitj First Nation has guaranteed a Bank of Montreal loan in the amount of \$544,929 for Esgenoôpetitj Development Corporation Ltd. The loan bears interest at 6.25% per annum, is repayable in monthly blended payments of \$23,928, and matures April, 2021.

17. Economic dependence

The Esgenoôpetitj First Nation receives a major portion of its revenues from AANDC and Health Canada. The nature and extent of this funding is of such significance that the First Nation is economically dependent upon it.

18. Related party transactions

The following amounts have been (paid to) or received from related parties during the year which includes Chief and Councillors, management staff, Esgenoôpetitj Development Corporation Ltd., Pêcheries Baie Chaleurs Fisheries (2012) Inc. and other companies owned by Chief or Councillors.

	<u>2019</u>	<u>2018</u>
Chief and councillors	\$ (988,101)	\$ (776,331)
Rental income	\$ 272,000	\$ 240,000
Snow crab income	\$ 2,154,932	\$5,110,961

19. Financial instruments

The First Nation is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The following analysis provides a measure of the organization's risk exposure and concentration as at March 31, 2019.

Credit risk

Credit risk is the risk that one party to a financial asset will cause a financial loss for the First Nation by failing to discharge an obligation. The First Nation's credit risk is mainly related to accounts receivable and related party receivable. The First Nation provides credit to its clients in the normal course of its operations.

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

19. Financial instruments (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of the First Nation's financial instruments will fluctuate because of changes in market prices. Some of the Company's financial instruments expose it to this risk, which comprises currency risk, interest rate risk and other price risk. The First Nation is primarily exposed to interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The First Nation is exposed to interest rate risk on its fixed interest rate financial instruments. Fixed interest rate instruments subject the First Nation to a fair value risk, since fair value fluctuates inversely to changes in market interest rates.

Liquidity risk

Liquidity risk is the risk that the First Nation will encounter difficulty in meeting obligations associated with financial liabilities. The First Nation is exposed to this risk mainly in respect of its bank indebtedness, accounts payable and accrued liabilities and long-term debt.

20. Government Transfers

	<u>Operating</u>	<u>Capital</u>	<u>2019 Total</u>
Federal government transfers			
Aboriginal Affairs and Northern Development Canada	\$ 16,062,856	\$ -	\$ 16,062,856
Health Canada	2,511,089	-	2,511,089
Canada Mortgage and Housing Corporation	242,060	-	242,060
Department of Fisheries and Oceans	630,004	-	630,004
Government of Canada (Canada Child Benefit, etc.)	<u>184,670</u>	<u>-</u>	<u>184,670</u>
	19,630,679	-	19,630,679
Provincial government transfers	<u>582,817</u>	<u>-</u>	<u>582,817</u>
	<u>\$ 20,213,496</u>	<u>\$ -</u>	<u>\$ 20,213,496</u>
	<u>Operating</u>	<u>Capital</u>	<u>2018 Total</u>
Federal government transfers			
Aboriginal Affairs and Northern Development Canada	\$ 15,896,402	\$ -	\$ 15,896,402
Health Canada	1,717,730	-	1,717,730
Canada Mortgage and Housing Corporation	174,776	-	174,776
Department of Fisheries and Oceans	906,572	-	906,572
Government of Canada (Canada Child Benefit)	<u>146,613</u>	<u>-</u>	<u>146,613</u>
	18,842,093	-	18,842,093
Provincial government transfers	<u>720,266</u>	<u>-</u>	<u>720,266</u>
	<u>\$ 19,562,359</u>	<u>\$ -</u>	<u>\$ 19,562,359</u>

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
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21. Reconciliation of Aboriginal Affairs and Northern Development Canada (AANDC) Funding

	<u>2019</u>
AANDC funding per consolidated financial statements	\$ 16,062,856
Plus: Deferred revenue:	
Post Secondary Student Support (NP5A)	519,757
Student Transportation Services (NP18)	38,016
Band Operated Schools Direct Service (NP34)	618,129
Schools O&M (NTHL)	127,850
CFS Operations (NPD3)	746,192
Prevention/Least Disruptive Measures (NPD7)	1,192,770
Water > \$1.5M (NTFX)	1,269,397
Current year clawbacks:	
Basic Needs (NP85)	14,789
Tuition Agreements (NP0R) - accrual	80,841
Less: Accrued recoveries and (adjustments):	
Prior year deferred revenue:	
Renovations and additions (NTLC)	(50,100)
Water < \$1.5M (NTF6)	(65,000)
A&C Wastewater > \$1.5M (NTF9)	(35,000)
Water > \$1.5M (NTFX)	(577,048)
CFS Operations (NPD3)	(229,749)
Prevention/Least Disruptive Measures (NPD7)	(118,771)
Waste Site Decommission/Closure (NTVH)	(690,600)
Post Secondary Student Support (NP5A)	(359,478)
Band Operated Schools Direct Service (NP34)	(352,981)
Schools O&M (NTHL)	<u>(78,257)</u>
Funding per AANDC revenue confirmation	\$ <u>18,113,613</u>

22. Budgeted figures

Unaudited budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Chief and Council.

23. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ending March 31, 2019.

Esgenoôpetitj First Nation
Notes to the Consolidated Financial Statements
For the Year Ended March 31, 2019

24. Segment disclosure

Esgenoôpetitj First Nation provides a range of services to its members. For each segment separately reported, the segment revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies in Note 1. The segment results for the year ended March 31, 2019 are as follows:

	Education		Health		Economic Development		Housing	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenues								
Federal government	\$ 4,601,506	\$ 4,376,374	\$ 2,511,089	\$ 1,717,730	\$ 268,977	\$ 297,165	\$1,455,874	\$691,361
Provincial government	23,139	42,696	-	-	534,160	428,890	-	-
Other revenue	693,300	481,957	-	-	2,673,062	5,452,951	570,951	516,807
	<u>5,317,945</u>	<u>4,901,027</u>	<u>2,511,089</u>	<u>1,717,730</u>	<u>3,476,199</u>	<u>6,179,006</u>	<u>2,026,825</u>	<u>1,208,168</u>
Expenses								
Salaries and benefits	2,208,344	2,207,205	1,007,215	911,962	1,295,372	1,765,221	129,853	246,561
Amortization	422,384	428,859	32,773	35,375	5,685	6,631	731,271	617,691
Debt servicing	-	-	-	-	-	-	563,872	406,895
Other expenses	2,893,437	2,691,416	858,103	735,677	2,066,735	2,844,510	483,759	515,505
	<u>5,524,165</u>	<u>5,327,480</u>	<u>1,898,091</u>	<u>1,683,014</u>	<u>3,367,792</u>	<u>4,616,362</u>	<u>1,908,755</u>	<u>1,786,652</u>
Annual Surplus (Deficit)	<u>\$ (206,220)</u>	<u>\$ (426,453)</u>	<u>\$ 612,998</u>	<u>\$ 34,716</u>	<u>\$ 108,407</u>	<u>\$ 1,562,644</u>	<u>\$ 118,070</u>	<u>\$ (578,484)</u>

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24. Segment disclosure (continued)

	Community Services		Social Services		Band Government		Other		Total
	2019	2018	2019	2018	2019	2018	2019	2018	2018
Revenues									
Federal government	\$ 2,248,084	\$ 3,331,354	\$ 6,896,350	\$ 6,602,890	\$ 978,638	\$ 918,647	\$ 670,161	\$ 906,572	\$19,630,679
Provincial government	-	-	-	-	-	-	25,518	248,680	582,817
Other revenue	<u>253,859</u>	<u>167,500</u>	<u>-</u>	<u>-</u>	<u>149,890</u>	<u>113,839</u>	<u>19,650</u>	<u>-</u>	<u>4,360,712</u>
	<u>2,501,943</u>	<u>3,498,854</u>	<u>6,896,350</u>	<u>6,602,890</u>	<u>1,128,528</u>	<u>1,032,486</u>	<u>715,329</u>	<u>1,155,252</u>	<u>24,574,208</u>
									<u>26,295,413</u>
Expenses									
Salaries and benefits	326,646	317,539	866,484	719,726	597,730	534,036	440,904	426,713	6,872,548
Amortization	<u>597,521</u>	<u>550,731</u>	<u>-</u>	<u>-</u>	<u>26,219</u>	<u>28,422</u>	<u>218,126</u>	<u>163,795</u>	<u>2,033,979</u>
Debt servicing	-	-	-	-	23,930	22,871	-	-	587,802
Other expenses	<u>838,567</u>	<u>631,959</u>	<u>6,743,699</u>	<u>5,615,139</u>	<u>725,137</u>	<u>544,707</u>	<u>424,616</u>	<u>252,928</u>	<u>15,034,053</u>
	<u>1,762,734</u>	<u>1,500,229</u>	<u>7,610,183</u>	<u>6,334,865</u>	<u>1,373,016</u>	<u>1,130,036</u>	<u>1,083,646</u>	<u>843,436</u>	<u>24,528,382</u>
									<u>23,222,074</u>
Annual Surplus (Deficit)	<u>\$ 739,209</u>	<u>\$ 1,998,625</u>	<u>\$ (713,833)</u>	<u>\$ 268,025</u>	<u>\$ (244,488)</u>	<u>\$ (97,550)</u>	<u>\$ (368,317)</u>	<u>\$ 311,816</u>	<u>\$ 45,826</u>
									<u>\$ 3,073,339</u>

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