

ESK'ETEMC
Consolidated Financial Statements
Year Ended March 31, 2020

ESK'ETEMC**Index to Consolidated Financial Statements****Year Ended March 31, 2020**

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Esk'etemc are the responsibility of management and have been approved by Chief and Council.

The consolidated 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 consolidated financial statements are presented fairly, in all material respects.

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

The Chief and Council are responsible for ensuring the integrity of Esk'etemc's accounting and reporting systems and that appropriate internal controls are in place, including those for monitoring risk, financial reporting and compliance with the laws and that management fulfils its responsibilities for financial reporting. The Chief and Council are ultimately responsible for reviewing and approving the consolidated financial statements.

The Chief and Council review Esk'etemc's consolidated financial statements and recommend their approval. The Chief and Council meet periodically with management, as well as the independent auditor, 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, the consolidated financial statements and independent auditor's report. The Chief and Council also consider the engagement of the independent auditor.

The consolidated financial statements have been audited by FBB Chartered Professional Accountants LLP in accordance with Canadian generally accepted auditing standards on behalf of the members. FBB Chartered Professional Accountants LLP has full access to the Chief and Council.



Chief



Councilor

INDEPENDENT AUDITOR'S REPORT

To the Members of Esk'etemc

Opinion

We have audited the consolidated financial statements of the Esk'etemc, which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of changes in net financial assets, operations and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Esk'etemc as at March 31, 2020, and its financial performance and 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 Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the First Nation in accordance with 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is responsible for assessing the First Nation'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 First Nation or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (continued)**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 judgement 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 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 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 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 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 First Nation 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.

*FBB Charterd Professional
Accountants LLP*

ESK'ETEMC
Consolidated Statement of Financial Position
Year Ended March 31, 2020

| | 2020 | 2019 (restated) |
|--|----------------------|----------------------|
| Financial Assets | | |
| Cash | \$ 2,324,693 | \$ 500,256 |
| Short term investments (Note 4) | 1,230,501 | 1,305,105 |
| Cash restricted as to use (Note 5) | 177,678 | 247,645 |
| Trade accounts receivable (Note 6) | 1,901,475 | 1,636,304 |
| Ottawa Trust Accounts (Note 7) | 477,367 | 1,263,709 |
| Inventory | 46,187 | 37,248 |
| Investments (Note 8) | 4,151,128 | 2,871,775 |
| | <u>10,309,029</u> | <u>7,862,042</u> |
| Liabilities | | |
| Bank indebtedness (Note 9) | 105,000 | 70,000 |
| Accounts payable and accrued liabilities (Note 10) | 1,069,310 | 1,372,943 |
| Silviculture responsibility | 1,210,842 | 1,313,691 |
| Treaty negotiation loan (Note 11) | - | 7,773,605 |
| Long term debt (Note 12) | 1,543,715 | 1,204,748 |
| | <u>3,928,867</u> | <u>11,734,987</u> |
| Net financial assets (debt) | <u>6,380,162</u> | <u>(3,872,945)</u> |
| Non-financial assets | | |
| Prepaid expenses | 96,628 | 113,500 |
| Tangible capital assets (Note 13) | 28,001,768 | 26,645,751 |
| Treaty negotiation assets | - | 7,773,605 |
| | <u>28,098,396</u> | <u>34,532,856</u> |
| Band equity | <u>\$ 34,478,558</u> | <u>\$ 30,659,911</u> |
| Band equity | | |
| Accumulated surplus (Note 14) - page 6 | \$ 34,179,689 | \$ 30,289,948 |
| Replacement reserve (Note 15) | 113,920 | 185,014 |
| Contributed surplus (Note 16) | 184,949 | 184,949 |
| | <u>\$ 34,478,558</u> | <u>\$ 30,659,911</u> |

Contingencies (Note 19)

Approved on behalf of Esk'etemc

 Chief


 Councilor

See notes to financial statements

ESK'ETEMC**Consolidated Statement of Changes in Net Financial Assets****Year Ended March 31, 2020**

| | 2020 Budget (unaudited) | 2020 | 2019 |
|--|-------------------------------|--------------|----------------|
| Net revenue for the year | \$ 1,730,803 | \$ 3,889,741 | \$ 2,978,248 |
| Amortization | - | 849,403 | 656,662 |
| Net contribution by replacement reserve | - | (71,095) | (146,313) |
| Change in prepaid expenses | - | 16,872 | (12,257) |
| Tangible capital asset acquisitions | - | (2,171,599) | (3,466,751) |
| Loss (gain) on disposal of tangible capital assets | - | (33,820) | 46,181 |
| Forgiveness of Treaty negotiation loan | - | 7,773,605 | - |
| Decrease (increase) in net debt | 1,730,803 | 10,253,107 | 55,770 |
| Net debt - beginning of year | (3,872,945) | (3,872,945) | (3,928,715) |
| Net financial assets (debt) - end of year | \$ (2,142,142) | \$ 6,380,162 | \$ (3,872,945) |

See notes to financial statements

ESK'ETEMC**Consolidated Statement of Operations****Year Ended March 31, 2020**

| | 2020 Budget (Unaudited) | 2020 | 2019 |
|---|-------------------------------|----------------------|----------------------|
| Revenues <i>(from Schedule 1)</i> | \$ 10,732,823 | \$ 13,217,981 | \$ 11,756,464 |
| Expenses <i>(from Schedule 2)</i> | 9,002,020 | 12,930,860 | 14,173,886 |
| Net revenue before the following | 1,730,803 | 287,121 | (2,417,422) |
| Other income | | | |
| Surplus recoveries | - | - | (151,583) |
| Operating results of Band enterprises | - | 1,294,352 | 310,561 |
| Change in silviculture liability | - | 102,849 | - |
| Tangible capital assets purchases | - | 2,171,599 | 3,466,751 |
| Deferred revenue, beginning of year | - | - | 1,631,944 |
| Gain (loss) on disposal of tangible capital assets | - | 33,820 | (46,181) |
| Net revenue for the year | 1,730,803 | 3,889,741 | 2,794,070 |
| Interfund transfers | | | |
| Matured units adjustment | - | - | 110,427 |
| CMHC required adjustment | - | - | 73,751 |
| | - | - | 184,178 |
| Net change in surplus | 1,730,803 | 3,889,741 | 2,978,248 |
| Accumulated surplus - beginning of year, as restated (Note 26) | 30,289,948 | 30,289,948 | 27,311,700 |
| Accumulated surplus - end of year - page 4 | \$ 32,020,751 | \$ 34,179,689 | \$ 30,289,948 |

See notes to financial statements

ESK'ETEMC**Consolidated Revenues****(Schedule 1)****Year Ended March 31, 2020**

| | 2020 Budget (Unaudited) | 2020 | 2019 |
|--|-------------------------------|----------------------|----------------------|
| Revenues | | | |
| Federal Government | | | |
| ISC Operating | \$ 3,820,833 | \$ 3,688,329 | \$ 3,495,782 |
| ISC Capital | 653,800 | 653,800 | 180,700 |
| First Nations Health Authority | 1,641,507 | 1,636,154 | 2,061,082 |
| CMHC | 73,199 | 129,541 | 78,998 |
| CCATEC | 143,984 | 145,959 | 187,555 |
| Department of Justice | 30,192 | 30,192 | 30,192 |
| Fisheries and Oceans (recovery) | - | (600) | 10,100 |
| Natural Resources | - | 739,221 | 48,100 |
| First Nations Education Steering Committee | 260,626 | 377,645 | 310,331 |
| Province of British Columbia | 1,064,933 | 2,587,750 | 755,264 |
| Spectra Energy Ltd. | - | 50,000 | 80,000 |
| Store sales | 1,075,383 | 1,155,803 | 1,137,906 |
| Investment income (loss) | 18,120 | (34,558) | 50,346 |
| Wage subsidy | - | 2,280 | 12,780 |
| BC Hydro | 79,738 | 79,738 | 83,738 |
| Rental income | 463,493 | 721,844 | 688,769 |
| Royalties | - | - | 1,006,000 |
| Administration | - | 1,760 | - |
| New Relationship Trust | - | 25,000 | - |
| Service agreement | 517,145 | 302,910 | 567,085 |
| Canadian Red Cross | - | - | 97,574 |
| Daycare fees | 51,924 | 27,222 | 24,573 |
| All other sources | 837,946 | 897,991 | 849,589 |
| | \$ 10,732,823 | \$ 13,217,981 | \$ 11,756,464 |

See notes to financial statements

ESK'ETEMC**Consolidated Expenses****(Schedule 2)****Year Ended March 31, 2020**

| | 2020 Budget (Unaudited) | 2020 | 2019 |
|---|-------------------------------|----------------------|----------------------|
| Administration and economic development | \$ 2,762,012 | \$ 2,352,820 | \$ 2,275,637 |
| Amortization | - | 849,403 | 656,662 |
| Capital improvement projects | - | 1,619,711 | 987,562 |
| Education | 1,537,490 | 1,960,297 | 1,718,145 |
| Health and well-being | 1,928,576 | 1,899,641 | 1,889,180 |
| Housing | 349,096 | 372,210 | 418,183 |
| Natural resources | 332,655 | 432,488 | 2,501,423 |
| Public works | 787,926 | 1,060,637 | 1,294,186 |
| Social development | 1,304,265 | 1,209,442 | 1,142,645 |
| Store - Alkali Enterprises | - | 1,174,211 | 1,290,263 |
| | \$ 9,002,020 | \$ 12,930,860 | \$ 14,173,886 |

See notes to financial statements

ESK'ETEMC**Consolidated Statement of Cash Flows****Year Ended March 31, 2020**

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net revenue for the year | \$ 3,889,741 | \$ 2,953,016 |
| Items not affecting cash: | | |
| Amortization | 849,403 | 656,662 |
| Loss (gain) on disposal of tangible capital assets | (33,820) | 46,181 |
| Operating results of Band enterprises | (1,294,352) | (310,561) |
| | <u>3,410,972</u> | <u>3,345,298</u> |
| Changes in non-cash working capital: | | |
| Accounts receivable | (265,171) | (536,171) |
| Replacement reserve | (71,094) | - |
| Cash restricted as to use | 69,967 | (27,174) |
| Inventory | (8,939) | 979 |
| Accounts payable and accrued liabilities | (303,633) | 379,491 |
| Silviculture responsibility | (102,849) | - |
| Deferred revenue | - | (1,631,944) |
| Prepaid expenses | 16,872 | (12,257) |
| | <u>(664,847)</u> | <u>(1,827,076)</u> |
| Cash flows from operating activities | <u>2,746,125</u> | <u>1,518,222</u> |
| Cash flows used by investing activities | | |
| Change in trust funds held by Canada | 786,342 | (33,713) |
| Advances to related parties | 14,999 | - |
| Cash flows from (used by) investing activities | <u>801,341</u> | <u>(33,713)</u> |
| Cash flows from (used by) financing activities | | |
| Change in bank indebtedness | 35,000 | (95,000) |
| Proceeds from long term financing | 455,140 | 704,860 |
| Repayment of long term debt | (116,174) | (115,013) |
| Cash flows from financing activities | <u>373,966</u> | <u>494,847</u> |
| Cash flows used by capital activities | | |
| Tangible capital asset acquisitions | <u>(2,171,599)</u> | <u>(3,466,751)</u> |
| Increase (decrease) in cash flow | 1,749,833 | (1,487,395) |
| Cash - beginning of year | <u>1,805,361</u> | <u>3,292,756</u> |
| Cash - end of year | \$ 3,555,194 | \$ 1,805,361 |
| Represented by: | | |
| Cash | \$ 2,324,693 | \$ 500,256 |
| Marketable securities | <u>1,230,501</u> | <u>1,305,105</u> |
| | <u>\$ 3,555,194</u> | <u>\$ 1,805,361</u> |

See notes to financial statements

1. Basis of presentation

In order to satisfy the Reporting Guide's Financial Reporting Requirements of Indigenous Services Canada ("ISC") these consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards, as defined in the CPA Canada Public Sector Accounting Handbook, which encompasses the following:

- a. The focus of PSAB statements is on the financial position of Esk'etemc and the changes thereto. The Consolidated Statement of Financial Position includes all the assets and liabilities of Esk'etemc. Financial assets are economic resources controlled by Esk'etemc as a result of past transactions from which future economic benefits may be obtained. Liabilities are present obligations of Esk'etemc to others arising from past transactions, the settlement of which is expected to result in the future sacrifice of economic benefits.
- b. Esk'etemc uses fund accounting procedures which result in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions.

The various funds have been amalgamated for the purpose of presentation in the consolidated financial statements. Details of the operation of each fund are set out in the supplementary schedules.

Esk'etemc maintains the following funds:

- The Operations Fund which reports the general activities of Esk'etemc.
 - The Capital Fund which reports the capital projects of Esk'etemc together with their related financing, other than those tangible capital assets funded by CMHC.
 - The Investment Fund which reports Esk'etemc's investments in related entities.
 - The Trust Fund which reports on the trust funds owned by Esk'etemc and held by third parties.
 - The CMHC Social Housing Fund which reports assets, liabilities, revenues, expenses and reserves specifically related to housing funded by CMHC.
 - The Treaty Self-Government Fund which reports on activities related to treaty negotiations.
- c. Reporting entity and principles of financial reporting

The Esk'etemc reporting entity includes Esk'etemc and all related entities which are accountable to the Chief and Council and are either owned or controlled by Esk'etemc.

The consolidated financial statements include the assets, liabilities and results of operations for the following entities which use accounting principles which lend themselves to consolidation:

- Band government administration (Operating and Capital funds)
- Band Investment Fund
- Band Trust Fund (comprising the Ottawa Trust Funds)
- Band CMHC Social Housing Fund
- Treaty Self-Government Fund

All inter-entity balances have been eliminated on consolidation, but in order to present the results of operations for each fund, transactions amongst funds have not been eliminated on the individual schedules.

(continues)

1. Basis of presentation (*continued*)

Business entities, which are owned or significantly influenced by Esk'etemc and which are not dependent on Esk'etemc for their continuing operations, are included in the consolidated financial statements using the modified equity method. These include:

- Ecolink Forest Services Ltd.
- Alkali Resource Management Ltd.

2. Summary of significant accounting policies**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand less outstanding cheques and deposits with a maturity of less than three months at the time of purchase. When outstanding cheques are in excess of cash on hand, the excess is reported in bank indebtedness.

Inventory

Inventory is stated at the lower of cost and net realizable value. Inventory is valued using the first-in, first-out (FIFO) method.

Tangible capital assets

Tangible capital assets are non-financial assets having physical substance that:

- Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- Have useful economic lives extending beyond an accounting period;
- Are to be used on a continuing basis; and
- Are not for sale in the ordinary course of operations.

Tangible capital assets purchased are recorded at cost. Tangible capital assets contributed are recorded at the fair market value as at the date of the contribution.

Tangible capital assets are amortized over their expected useful life using the declining balance method at the following rates:

| | |
|-------------------------------|-------|
| Buildings | 2% |
| Buildings and Infrastructure | 1.25% |
| Automotive equipment | 20% |
| Equipment and machinery | 20% |
| Computer and office equipment | 30% |

Assets under construction are not amortized as they are not available for use.

Housing tangible capital assets acquired under Canada Mortgage and Housing Corporation sponsored housing programs are amortized at a rate equivalent to the annual principal reduction in the related long term debt, as required for Canada Mortgage and Housing Corporation reporting purposes.

(continues)

2. Summary of significant accounting policies (*continued*)Surplus recoveries and deficit funding

Under the terms of funding arrangements, remaining surpluses of certain programs may be recovered by the funding agency, and remaining deficits may be funded by the funding agency.

Trust funds held by Canada (Ottawa Trust Fund)

Ottawa Trust Fund operating account revenues are recorded on an accrual basis, and include interest earned on the Ottawa Trust account.

Ottawa Trust Fund capital account revenues are recorded when Esk'etemc is notified of their deposit by ISC.

Revenue recognition

Revenue is recognized as it becomes receivable and collection is reasonably assured under the terms of applicable funding agreements. Funding received under funding arrangements which relate to a subsequent fiscal period is reflected as deferred revenue in the year of receipt and classified as such on the Consolidated Statement of Financial Position.

Expenses are accounted for in the period the goods and services are acquired and a liability is incurred, or transfers are due.

Rental revenue is recognized when a tenant commences occupancy and rent is due. Esk'etemc retains all benefits and risks of ownership of its property and, therefore, accounts for leases with its tenants as operating leases.

Use of estimates

The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the impairment of assets, and rates for depreciation and amortization. Actual results could differ from those estimates.

Liability for contaminated sites

Esk'etemc has reviewed the implications of the CPA Canada Public Sector Accounting Handbook Section *PS 3260 - Liability for Contaminated Sites* and has concluded that it is not exposed to any contaminated sites. It has therefore not recorded any liability for remediation of contaminated sites.

3. Economic dependence

Esk'etemc receives a significant portion of its revenues pursuant to funding arrangements with ISC. Esk'etemc's ability to continue operations would be severely impacted should this funding be discontinued.

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****4. Marketable Securities**

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Forest and Range Capital, at fair market value | \$ 310,075 | \$ 333,010 |
| Silviculture, at fair market value | <u>920,426</u> | <u>972,095</u> |
| | <u>\$ 1,230,501</u> | <u>\$ 1,305,105</u> |

The cost amount of the above marketable securities are \$330,771 and \$990,119 as at March 31, 2020. The fair market values have fully recovered subsequent to March 31, 2020. The above investment mix is 70% equity investments and 30% fixed income and cash and cash equivalents and the investment portfolio is held by Raymond James.

5. Cash restricted as to use

| | <u>2020</u> | <u>2019</u> |
|---------------------|-------------|-------------|
| Replacement reserve | \$ 177,678 | \$ 247,645 |

Under the terms of the Band's Social Housing Agreement with Canada Mortgage and Housing Corporation, a separate replacement reserve account is maintained. The funds in this account may only be used for repairs and maintenance as approved by Canada Mortgage and Housing Corporation.

6. Accounts receivable

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Due from members: | | |
| Rent | \$ 616,482 | \$ 646,249 |
| Due from others: | | |
| First Peoples Cultural Council | 30,000 | - |
| Department of Fisheries and Oceans - Canada | 3,337 | 4,600 |
| Enbridge | 50,000 | 110,000 |
| ISC | 68,860 | 10,000 |
| FNESC | 24,572 | 51,168 |
| CCATEC | 35,380 | 63,852 |
| GST recoverable | 119,698 | 107,065 |
| CMHC | 5,564 | 6,239 |
| Province of British Columbia | 319,081 | 120,303 |
| Canadian Red Cross | - | 63,852 |
| First Nation Health Authority | 84,971 | 25,825 |
| All others | <u>543,530</u> | <u>427,151</u> |
| | <u>\$ 1,901,475</u> | <u>\$ 1,636,304</u> |

The above accounts receivable are presented net of an allowance for doubtful accounts in the amount of \$773,050 (2019 - \$773,755).

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020**

7. Trust funds held by Canada

| | 2020 | 2019 (restated) |
|-----------------------|--------------------------|----------------------------|
| Ottawa Trust Accounts | <u>\$ 477,367</u> | <u>\$ 1,263,709</u> |

The Ottawa Trust Accounts arise from monies 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 governed primarily by Sections 63 and 69 of the *Indian Act*.

Funds on deposit in the Ottawa Trust Accounts may be withdrawn by Band Council Resolution.

During the year, Chief and Council made a Band Council Resolution to withdraw \$805,002 from the Ottawa Trust Funds to use for costs incurred on the Youth and Elders building as disclosed in the March 31, 2019 consolidated financial statements.

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****8. Investments**

Investment in Ecolink Forest Services Ltd.

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Shareholder's Loan, due on demand, interest free, unsecured, no specific terms of repayment | \$ 64,739 | \$ 79,739 |
| Equity income in Ecolink | <u>431,020</u> | <u>435,788</u> |
| | <u>495,759</u> | <u>515,527</u> |
| Investment in Alkali Resource Management Ltd. 1 share of 1 share issued, at cost, held in Trust by Esk'etemc Band Council | 1 | 1 |
| Investment in Alkali Resource Management Ltd. | <u>765,188</u> | <u>765,188</u> |
| Equity gain (loss) in Alkali Resource Management Ltd. | <u>2,490,180</u> | <u>1,191,059</u> |
| Subtotal | <u>3,255,369</u> | <u>1,956,248</u> |
| Dog Creek Ranch Ltd., 100 shares at cost, Sole ownership | <u>400,000</u> | <u>400,000</u> |
| | <u>3,655,369</u> | <u>2,356,248</u> |
| | <u>\$ 4,151,128</u> | <u>\$ 2,871,775</u> |

A summary of the unaudited financial statements of Alkali Resource Management Ltd. (A.R.M.), for the year ended April 30, 2019, and for Ecolink for the year ended December 31, 2019 follows:

| | A.R.M. | EcoLink |
|--|---------------------|---------------------|
| Statement of Financial Position | | |
| Current assets | \$ 4,057,633 | \$ 855,601 |
| Long-term assets | <u>813,632</u> | <u>1,787,636</u> |
| | <u>\$ 4,871,265</u> | <u>\$ 2,643,237</u> |
| Current liabilities | \$ 339,320 | \$ 856,423 |
| Long term liabilities | - | 795,098 |
| Due to shareholders | 2,041,765 | 129,478 |
| Share capital | 1 | 200 |
| Surplus | <u>2,490,179</u> | <u>862,038</u> |
| | <u>\$ 4,871,265</u> | <u>\$ 2,643,237</u> |
| Statement of Operations | | |
| Revenue | \$ 14,100,635 | \$ 2,913,006 |
| Expenses | <u>12,801,515</u> | <u>2,922,541</u> |
| Net Income | 1,299,120 | (9,535) |
| Surplus, beginning of year | <u>1,191,059</u> | <u>871,573</u> |
| Surplus, end of year | <u>\$ 2,490,179</u> | <u>\$ 862,038</u> |

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****9. Bank indebtedness**

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------|
| RBC Line of Credit - Overdraft - Alkali Enterprises | \$ 105,000 | \$ 70,000 |

Esk'etemc has negotiated a line of credit with the Royal Bank of Canada to a maximum of \$450,000 with interest at the bank prime rate plus 0.25%, secured by a general security agreement.

The bank indebtedness for the store is in the form of an operating line payable to the Royal Bank of Canada to a maximum of \$200,000 with interest at the bank prime plus 0.75%, secured by a general security agreement.

As at March 31, 2020, the bank's prime rate was 2.45%.

10. Accounts payable and accrued liabilities

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|----------------------------|----------------------------|
| Trade accounts | \$ 1,031,724 | \$ 1,217,444 |
| Payroll and withholding taxes | 37,586 | 29,432 |
| ISC surplus recovery | - | 126,067 |
| | <u>\$ 1,069,310</u> | <u>\$ 1,372,943</u> |

11. Esk'etemc Treaty Negotiation Funding

| | <u>2020</u> | <u>2019</u> |
|---|-------------|--------------|
| INAC loan, secured by promissory notes issued by Council, non-interest bearing, repayable upon earlier of the signing of a treaty between Esk'etemc and the Governments of Canada and British Columbia, the twelfth anniversary of the original loan, or the seventh anniversary after signing an agreement in principle. | \$ - | \$ 7,773,605 |

During the year, the Governments of Canada and British Columbia extinguished the above mentioned promissory notes, leaving the First Nation with no amount outstanding as at March 31, 2020.

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****12. Long term debt**

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| Royal Bank of Canada non-revolving term loan, repayable in monthly instalments including interest at bank prime plus 0.5% (March 31, 2020 - 2.95%), secured by a general security agreement and guarantee and postponement of claim in the amount of \$260,000 signed by Dog Creek Ranch Ltd. and a general security agreement over all assets of Dog Creek Ranch, due July 2044. | \$ 1,143,634 | \$ 704,859 |
| CMHC mortgage, repayable in monthly instalments of \$3,390 including interest at 1.83%, maturing October 1, 2019. | - | 23,582 |
| CMHC mortgage, repayable in monthly instalments of \$2,921 including interest at 1.3%, maturing August 1, 2020. | 14,556 | 49,174 |
| CMHC mortgage, repayable in monthly instalments of \$1,667 including interest at 1.11%, maturing February 1, 2021. | 18,234 | 37,915 |
| CMHC mortgage, repayable in monthly instalments of \$1,440 including interest at 1.86%, maturing April 1, 2034. | 214,100 | 227,269 |
| CMHC mortgage, repayable in monthly instalments of \$901 including interest at 1.3%, maturing November 1, 2035. | 153,191 | 161,949 |
| | <u>\$ 1,543,715</u> | <u>\$ 1,204,748</u> |

The above CMHC mortgages are secured by a ministerial guarantee.

Principal repayments are scheduled as follows:

| | |
|------------|----------------------------|
| 2021 | \$ 71,169 |
| 2022 | 39,569 |
| 2023 | 40,800 |
| 2024 | 42,075 |
| 2025 | 43,205 |
| Thereafter | <u>1,306,897</u> |
| | <u>\$ 1,543,715</u> |

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****13. Tangible capital assets**

| | Cost | Accumulated amortization | 2020 Net book value | 2019 Net book value |
|-------------------------------|----------------------|-----------------------------|---------------------------|---------------------------|
| Land improvements - cost | \$ 71,952 | \$ - | \$ 71,952 | \$ 71,952 |
| Automotive equipment | 1,540,793 | 1,175,182 | 365,611 | 366,000 |
| Buildings and Infrastructure | 35,588,489 | 9,227,722 | 26,360,767 | 25,008,823 |
| Computer and office equipment | 2,533,254 | 2,181,683 | 351,571 | 225,086 |
| CMHC Social Housing | 1,978,006 | 1,304,296 | 673,710 | 773,517 |
| Alkali Enterprises | 559,335 | 381,178 | 178,157 | 200,373 |
| | <u>\$ 42,271,829</u> | <u>\$ 14,270,061</u> | <u>\$ 28,001,768</u> | <u>\$ 26,645,751</u> |

Tangible capital asset acquisitions during the year:

| | |
|---|---------------------|
| Water treatment additions | \$ 432,173 |
| Community infrastructure | 145,891 |
| Ecodepot | 98,068 |
| Spa Therapy Tub | 27,295 |
| Steel Building | 81,700 |
| Heavy equipment - wood chipper and wheel loader | 125,548 |
| Computer equipment, software and presentation monitor | 96,799 |
| HVAC additions for band office and shop | 31,045 |
| Biomass Heating Project | 1,045,041 |
| Ideal Canopy Tents | 41,439 |
| 2018 Ford F350 | 46,600 |
| | <u>\$ 2,171,599</u> |

There were no asset write-downs during the year (2019 - \$nil). During the year, Phase 6 buildings and accumulated depreciation were transferred from CMHC Social Housing to Buildings and Infrastructure in the amount of \$639,224.

14. Band equity - accumulated surplus

| | 2020 | 2019 (restated) |
|-------------------------------------|----------------------|----------------------|
| Operating and Capital Projects Fund | \$ 30,752,989 | \$ 27,628,619 |
| CMHC Social Housing Fund | 28,133 | (229,227) |
| Ottawa Trust Fund | 477,367 | 1,263,709 |
| Investment in Business Enterprises | 2,921,200 | 1,626,847 |
| | <u>\$ 34,179,689</u> | <u>\$ 30,289,948</u> |

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020****15. Replacement reserve**

The replacement reserve represents funds set aside by Esk'etemc to fund future anticipated costs. The replacement fund balance consists of the following amounts:

| | 2020 | 2019 (restated) |
|--|--------------------------|--------------------------|
| CMHC replacement reserve - beginning of year as restated (Note 26) | \$ 185,014 | \$ 331,327 |
| Interest | 3,138 | 3,611 |
| Contributions required | 26,059 | 30,840 |
| Expenditures for replacements | (100,291) | (67,451) |
| CMHC required adjustment | - | (2,887) |
| Maturing units adjustment | - | (110,427) |
| CMHC supplemental assistance | - | 1 |
| CMHC replacement reserve - end of year | <u>\$ 113,920</u> | <u>\$ 185,014</u> |

Under the terms of the mortgage agreements with Canada Mortgage and Housing Corporation, the Replacement Reserve account is to be credited in the amount of \$30,840 annually. These funds, along with accumulating interest are to be held in a separate bank account. The funds in this account may only be used as approved by Canada Mortgage and Housing Corporation.

16. Contributed surplus

Contributed surplus consists of the following:

| | 2020 | 2019 |
|--------------------------------|--------------------------|--------------------------|
| Band construction contribution | <u>\$ 184,949</u> | <u>\$ 184,949</u> |

17. Financial instruments and risk management

Esk'etemc's financial instruments consist of cash, cash restricted as to use, accounts receivable, trust funds held by Canada, accounts payable and accrued liabilities and long term debt. Unless otherwise noted, it is management's opinion that Esk'etemc is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Esk'etemc is exposed to financial risk that arises from the credit quality of the entities to which it provides services. Credit risk arises from the possibility that the entities to which Esk'etemc provides services may experience financial difficulty and be unable to fulfill their obligations.

Esk'etemc is exposed to interest rate risk arising from fluctuations in interest rates on its cash and investments and does not hold any financial instruments that mitigate this risk.

ESK'ETEMC

Notes to Consolidated Financial Statements

Year Ended March 31, 2020

18. Federal assistance payments

Esk'etemc Social Housing Fund has received federal assistance through Canada Mortgage and Housing Corporation pursuant to Section 56-1 of the National Housing Act to reduce mortgage interest expense to 2% to enable the project to provide housing to low income individuals. The amount of the assistance received for the year ended March 31, 2020 was \$90,299 (2019 - \$78,998). This assistance will continue, providing Esk'etemc is not in default of the agreement.

19. Contingent liability

Esk'etemc member loans

Esk'etemc has guaranteed loans made in previous years by various financial institutions under the CMHC Housing Program. The original balances on these loans were \$2,141,013. As at March 31, 2020 the balances outstanding were:

| | |
|----------------------|--------------------------|
| CMHC Housing Program | <u>\$ 400,081</u> |
|----------------------|--------------------------|

20. Reconciliation of ISC Comprehensive Funding Arrangement Revenue

Pursuant to the ISC's Reporting Guide's Financial Reporting Requirements, the following reconciliation has been prepared:

| | |
|--|----------------------------|
| Revenue total as per 2020 funding confirmation | <u>\$ 4,365,354</u> |
| Revenue as per Statement of Operations | |
| ISC Operating | \$ 3,688,329 |
| ISC Capital | 653,800 |
| Program reimbursement recorded as receivable in 2019 | <u>23,225</u> |
| | <u>\$ 4,365,354</u> |

21. Band registered pension plan

Esk'etemc provides a defined contribution pension plan to qualifying employees. Under the plan, the defined members' contributions, the Esk'etemc contributions, and the related plan earnings comprise the members' money purchase amount. The plan is registered with the Canada Revenue Agency.

Esk'etemc contributed \$158,737 to the plan during the year ended March 31, 2020 (March 31, 2019 - \$141,526), to match its employees' required contributions.

22. Subsequent event

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At this time, these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

ESK'ETEMC**Notes to Consolidated Financial Statements****Year Ended March 31, 2020**

23. Expenses by object

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|----------------------|----------------------|
| Amortization | \$ 849,403 | \$ 656,662 |
| Contracted services | 2,586,649 | 4,565,238 |
| Honouraria | 139,003 | 121,724 |
| Bad debts | 42,556 | 76,672 |
| Insurance | 159,598 | 142,099 |
| Interest and bank charges | 110,845 | 68,882 |
| Materials and supplies | 1,112,676 | 1,121,332 |
| Rent, maintenance and utilities | 795,743 | 832,337 |
| Salaries, wages and benefits | 4,737,923 | 4,171,777 |
| Social assistance | 561,344 | 611,273 |
| Store purchases | 795,620 | 921,382 |
| Travel | 428,188 | 392,330 |
| Tuition and education | 611,312 | 492,178 |
| | <u>\$ 12,930,860</u> | <u>\$ 14,173,886</u> |

24. Comparative figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.

ESK'ETEMC
Notes to Consolidated Financial Statements
Year Ended March 31, 2020

25. Related party transactions

During the year, Esk'etemc entered into transactions with the following related parties:

Alkali Resource Management Ltd. ("ARM"), a wholly owned subsidiary
Ecolink Forest Services Ltd. ("Ecolink"), a company in which Esk'etemc owns 50% of all issued shares
Cariboo Aboriginal Forest Enterprises Ltd. ("CAFE"), a company in with Alkali Resource Management Ltd. holds a 50% equity interest.
Dog Creek Ranch Ltd. ("Ranch"), a wholly owned subsidiary

| | 2020 | 2019 |
|-----------------|-------------------|---------------------|
| Revenue | | |
| ARM | \$ 199,122 | \$ 1,016,000 |
| Ecolink | - | 1,800 |
| CAFE | - | 10,000 |
| Ranch | 6,226 | 5,700 |
| | <u>\$ 205,348</u> | <u>\$ 1,033,500</u> |
| Expenses | | |
| ARM | \$ 379,937 | \$ - |
| Ecolink | - | - |
| CAFE | 104,788 | 5,280 |
| Ranch | 25,740 | 17,402 |
| | <u>\$ 510,465</u> | <u>\$ 22,682</u> |

Transactions are recorded at the exchange amount, which is the amount established and agreed to by the related parties.

Shareholder advances are due on demand interest free, unsecured with no specific terms of repayment and are disclosed in Note 8.

Included in accounts receivable is \$183,406 with respect to related parties. Included in accounts payable and accrued liabilities is \$381,537 with respect to related parties.

26. Prior Period Adjustments

In 2005, Esk'etemc recorded its \$400,000 investment in Dog Creek Ranch Ltd. as an expenditure rather than an investment. The effect of correcting this item is an increase to investments of \$400,000 and an increase to accumulated surplus of \$400,000.

During the year, it was also noted that CMHC required an adjustment to the replacement reserve in the Social Housing Program in the amount of \$25,232. The net effect of this adjustment is an increase to the accumulated surplus of \$25,232 and a reduction to the replacement reserve of \$25,232.