

Kativik Regional Government
Statement of Accumulated Operating Surplus (Deficit)

Year ended December 31, 2019

| | Unappropriated surplus (deficit) (Appendix A) <u> </u> \$ | Appropriated surplus (deficit) (Appendix A) <u> </u> \$ | Balance, December 31, 2019 <u> </u> \$ |
|---|--|--|--|
| <i>UNAPPROPRIATED/APPROPRIATED OPERATING SURPLUS (DEFICIT)</i> | | | |
| Balance, beginning of year | (2,045,789) | 19,330,956 | 17,285,167 |
| Surplus (deficit) for the year for fiscal purposes | <u>482,796</u> | <u>472,529</u> | 955,325 |
| Balance, end of year | <u><u>(1,562,993)</u></u> | <u><u>19,803,485</u></u> | <u><u>18,240,492</u></u> |

The accompanying notes and appendices are an integral part of the financial statements.

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

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Kativik Regional Government

Notes to Financial Statements

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1 - REPORTING ENTITY

The Kativik Regional Government (KRG) was established pursuant to Section 239 of the Act respecting Northern villages and the Kativik Regional Government (CQLR, c. V-6.1) (hereafter "the Kativik Act"), adopted by the National Assembly of Quebec on June 23, 1978. Pursuant to this legislation and other mandates delegated to it by the Northern Villages and the Quebec Government, the KRG delivers public services to the residents of the Kativik Region. Specifically, the KRG has jurisdiction over the territory of Quebec located north of the 55th parallel, excluding the Category 1A and 1B lands intended for the Cree community of Whapmagoostui.

The KRG is led by a 17-member Council composed of elected municipal representatives appointed by each of the Northern Villages and the Naskapi First Nation of Kawawachikamach. A five-member Executive Committee is appointed from among and by the Council and is headed by a Chairperson and a Vice-chairperson who, pursuant to the Kativik Act, must devote all their time to the service of the KRG. The Executive Committee is responsible for the management of the affairs of the KRG and ensures that the decisions of the Council are carried out.

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Management is responsible for the preparation of the financial statements, which have been prepared in accordance with Canadian public sector accounting standards (hereafter "the accounting standards").

These financial statements include certain financial information determined for fiscal purposes in accordance with the *Manuel de la présentation de l'information financière municipale* published by the Ministère des Affaires municipales et de l'Habitation. This information includes the surplus (deficit) for the year for fiscal purposes presented on pages 10 and 11 and the statement of accumulated operating surplus (deficit) presented on page 6.

Internal charges and transfers

These financial statements reflect all the transactions of the various programs. Inter-programs operations are eliminated, except in Appendices A and B, in which internal charges and transfers are recorded as revenue and expenditure in the various departments.

Accounting estimates

The preparation of financial statements in accordance with the accounting standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements, notes to financial statements and appendices. These estimates are based on management's knowledge of current events and actions that the KRG may undertake in the future. Actual results may differ from these estimates.

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2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriated surplus

The appropriated surplus corresponds to the portion of the surplus which is reserved in virtue of agreements signed with governments and organizations.

Investments and loans receivable

Upon initial measurement, loans receivable are measured at cost (which generally corresponds to the cash transferred), with the exception of loans receivable with significant concessionary terms. Valuation allowances are used to designate loans receivable at the lower of cost and net recoverable amount and, accordingly, reflect the collectability and risk of loss. The assessment is done on an individual loan basis or for a particular class of loans. Valuation allowances are determined using the best estimates available in light of past events and current conditions, and taking into account all circumstances known at the date of the preparation of the financial statements. If a loan is provided for in a valuation allowance, in part or in total, and recovery of the loan is subsequently assessed as likely, the valuation allowance for the loan may be reduced.

The disbursements of loans receivable through Makigiarutiit I and II (#77, #177 and #85), and Makigiarutiit III and IV (#88) are recognized as expenses in the statement of surplus (deficit) for the year. All capital repayments and interest collected during the year in relation with these loans are recognized as revenues in the statement of surplus (deficit) for the year. However, the investment in loans receivable is recorded at cost plus related accrued interest in the statement of financial position while an equivalent amount is recorded under the investment in long-term assets equity account. As at December 31, 2019, a provision for doubtful loans of \$1,752,229 (\$2,406,832 as at December 31, 2018), equivalent to 50% to 100% of loans in default, was recorded.

Capital assets

Capital assets are recorded at cost. When the cost of an asset was not available, the fair market value of this asset was used. The fair market value was based on the value of the asset as per the insurance list. Capital assets are amortized using the straight-line method and based on their estimated useful lives as follows:

| | <u>Periods</u> |
|---|----------------|
| Buildings and houses | 20 years |
| Telecommunication infrastructure | 5 years |
| Heavy equipment | 10 years |
| Vehicles | 5 years |
| Equipment, office and housing furniture | 5 years |
| Construction equipment | 5 years |
| Marine infrastructure | 40 years |

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Notes to Financial Statements
December 31, 2019

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

When conditions indicate that a capital asset no longer contributes to the KRG's ability to provide goods and services, or that the value of future economic benefits associated with the capital asset is less than its net book value, the cost of the capital asset is reduced to reflect the decline in the asset's value. Any write-down of capital assets should be accounted for as an expenditure in the statement of surplus (deficit) for the year and no write-down may be subsequently reversed.

Capital projects of the Northern Villages

The Northern Villages have enacted and decreed authorization to the KRG to coordinate for and on their behalf the achievement of capital projects approved by them. Therefore, the Northern Villages' capital expenditure in progress and the related balances available, held by the KRG on behalf of the Northern Villages, are accounted for in the KRG books and presented in the financial statements of the Northern Villages. Upon completion of the project, the ownership title of the asset is transferred to the name of the related Northern Village and is recorded in the Northern Village's financial statements.

The capital projects of the Northern Villages are financed through the KRG. Therefore, the long-term debt presented in the KRG's financial statements also includes the financing of capital projects approved by the Northern Villages. The related portion not reimbursed at the end of the year is recorded as an amount to be recovered from the said Northern Villages for repaying the related long-term debt.

Cash and cash equivalents

Cash and cash equivalents consist of the cash and bank overdraft.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost is determined using the actual cost method plus estimated transportation.

Revenue recognition

Revenues from contributions are recognized in the financial statements in the year they were realized, based on authorizations and admissibility criteria.

Revenues from services rendered are recorded when the services rendered and the related amounts are due to the KRG.

Term deposits

Term deposits are recorded at cost.

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3 - INVESTMENTS AND LOANS RECEIVABLE

a) The investments and loans receivable are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|-------------|
| | \$ | \$ |
| Loans receivable and investments approved under Regional and Local Development departments | | |
| Makigiarutiit I and II (#77, #177 and #85) – Loans receivable | 3,413,566 | 4,084,223 |
| Makigiarutiit I and II (#77, #177 and #85) – Investments | 3,023,010 | 3,020,491 |
| Makigiarutiit III and IV (#88) – Loans receivable | 3,699,780 | 4,160,585 |
| | 10,136,356 | 11,265,299 |
| Provision for doubtful loans | (1,752,229) | (2,406,832) |
| | 8,384,127 | 8,858,467 |

The loans repayments to be recovered for the next years are detailed as follows:

| | <u>\$</u> |
|---------------------------|-------------------|
| 2020 | 899,334 |
| 2021 | 846,088 |
| 2022 | 739,071 |
| 2023 | 741,164 |
| 2024 | 573,707 |
| 2025 and subsequent years | 6,336,992 |
| | 10,136,356 |

All loans issued prior to January 1, 2019, for which the applicable repayment terms are not respected, have been classified under the 2025 and subsequent years.

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

3 - INVESTMENTS AND LOANS RECEIVABLE (Continued)

b) The details of the loans receivable and investments are as follows:

| | Principal \$ | Accrued interest \$ | Total \$ |
|---|-----------------|------------------------|-------------|
| <u>Loans receivable</u> | | | |
| Issued in 2001 | | | |
| Willie Cain – Lunch's Restaurant (\$28,302) (5 years – without interest) | 6,362 | | 6,362 |
| Issued in 2008 | | | |
| Fort Chimo Cooperative Association (\$215,000) (20 years – 3.5%) | 114,516 | 340 | 114,856 |
| Iniitsiaq Women's Shelter (\$210,704) (15 years – 3.25%) | 66,209 | 183 | 66,392 |
| Fort Chimo Cooperative Association – Hotel expansion (\$250,000) (20 years – 3.5%) | 112,226 | 334 | 112,560 |
| Issued in 2009 | | | |
| Laval Fortin Adams Inc. (\$363,700) (15 years – 3.25%) | 125,958 | 1,035 | 126,993 |
| Povungnituk Cooperative Association – Hotel expansion (\$500,000) (10 years – 3%) | 1,581 | 8 | 1,589 |
| Salluit Cooperative Association (\$450,000) (10 years – 3%) | 1,520 | 11 | 1,531 |
| Jobie Peters – Heavy equipment rental (\$119,000) (8 years – 0.25%) | 2,464 | 2 | 2,466 |
| Issued in 2010 | | | |
| Dépanneur Newviq'vi Inc. (\$366,500) (15 years – 0.25%) | 121,556 | 26 | 121,582 |
| Les Magasins Tullik Inc. (\$386,500) (15 years – 0.25%) | 127,766 | 27 | 127,793 |
| Tasiujaq Cooperative Association (\$250,000) (15 years – 3%) | 107,607 | 274 | 107,881 |
| Ajapirvik Women's Shelter of Inukjuak (\$308,250) (15 years – 0.25%) | 102,717 | 22 | 102,739 |
| Issued in 2011 | | | |
| Nayumivik Landholding Corporation (\$186,000) (14 years – 3.75%) | 89,427 | 285 | 89,712 |
| Great Whale Cooperative Association Kuujjuarapik (15 years – 0.25%) (\$405,000) | 175,082 | 37 | 175,119 |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

3 - INVESTMENTS AND LOANS RECEIVABLE (Continued)

| | Principal \$ | Accrued interest \$ | Total \$ |
|--|-----------------|------------------------|-------------|
| Loans receivable (Continued) | | | |
| Issued in 2011 | | | |
| Quaqtaq Cooperative Association (\$370,000) (15 years – 0.25%) | 161,986 | 34 | 162,020 |
| Tuvaaluk Landholding Corporation (\$210,000) (20 years – 0.25%) | 108,374 | 68 | 108,442 |
| Nayumivik Landholding Corporation (\$250,000) (14 years – 0.25%) | 106,644 | 23 | 106,667 |
| Issued in 2013 | | | |
| Nunabec Inc. (\$30,182) (10 years – 4.5%) | 13,741 | 53 | 13,794 |
| Nunavik Enterprises (\$105,000) (10 years – 4.49%) | 43,291 | 325 | 43,616 |
| Hébergement Communautaire Uvatinut (\$205,000) (15 years – 3.75%) | 143,502 | 457 | 143,959 |
| Hébergement Communautaire Uvatinut (\$250,000) (15 years – 0.25%) | 151,051 | 32 | 151,083 |
| Pituvik Landholding Corporation of Inukjuak (\$500,000) (16 years – 1%) | 297,026 | 252 | 297,278 |
| Nunabec Inc. (\$197,718) (10 years – 1%) | 84,192 | 71 | 84,263 |
| Nunavik Enterprises (Kuujjuaq) (\$500,000) (10 years – 3%) | 203,874 | 519 | 204,393 |
| Saputik Landholding Corporation of Kangirsuk (\$250,000) (8 years – 3%) | 71,702 | 183 | 71,885 |
| Auberge Kuujjuaq Inc. (\$250,000) (10 years – 4.49%) | 113,142 | 431 | 113,573 |
| Issued in 2014 | | | |
| Nunavik Rotors Inc. (\$474,650) (7 years – 1%) | 127,295 | 213 | 127,508 |
| Auberge Kuujjuaq Inc. (\$500,000) (10 years – 3%) | 221,810 | 565 | 222,375 |
| Auberge Kuujjuaq Inc. (\$500,000) (10 years – 3%) | 229,618 | 585 | 230,203 |
| Auberge Kuujjuaq Inc. (\$420,000) (10 years – 3%) | 174,155 | 444 | 174,599 |
| Issued in 2015 | | | |
| Nayumivik Landholding Corporation (\$500,000) (15 years – 2.75%) | 201,474 | 471 | 201,945 |
| Nayumivik Landholding Corporation (\$500,000) (15 years – 2.75%) | 192,625 | 450 | 193,075 |
| Plein Nord Inc. (\$29,000) (5 years – 2.75%) | 2,932 | 7 | 2,939 |
| Taqramiut Nipingat (\$158,000) (10 years – 2.5%) | 96,551 | 205 | 96,756 |
| Arqivik Landholding Corporation (\$75,000) (5 years – 6%) | 41,066 | 624 | 41,690 |

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Notes to Financial Statements
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3 - INVESTMENTS AND LOANS RECEIVABLE (Continued)

| | Principal \$ | Accrued interest \$ | Total \$ |
|---|-----------------|------------------------|-------------|
| Loans receivable (Continued) | | | |
| Issued in 2016 | | | |
| Angngutigiarvik Services Inc. (\$25,700) (5 years – 2.5%) | 8,894 | 19 | 8,913 |
| Tivic Inc. (\$113,000) (10 years – 2.5%) | 80,616 | 171 | 80,787 |
| Vincent Renaud (\$24,500) (6 years – 2.5%) | 10,844 | 23 | 10,867 |
| Issued in 2018 | | | |
| Les Entreprises Kayuk Inc. (\$28,000) (4 years – 3.75%) | 23,265 | 443 | 23,708 |
| Annituvik LHC (\$427,900) (15 years – 3.5%) | 390,514 | 1,161 | 391,675 |
| Qiniqtiq LHC (\$500,000) (20 years – 2.75%) | 466,841 | 3,243 | 470,084 |
| Qaqqalik LHC (\$71,321) (3 years – 2.5%) | 40,376 | 425 | 40,801 |
| Payne Bay Cooperative Association (\$500,000) (15 years – 2.75%) | 460,633 | 1,076 | 461,709 |
| Raymond Mickpegak (\$12,000) (4 years – 5.5%) | 9,468 | 400 | 9,868 |
| Issued in 2019 | | | |
| Pouvoirie Johnny and Billy Cain (\$20,900) (5 years – 3.75%) | 20,900 | 268 | 21,168 |
| Allen Gordon (\$4,455) (1 year – 3.75%) | 4,455 | 69 | 4,524 |
| Peter G. May (\$15,000) (5 years – 3.7%) | 11,534 | | 11,534 |
| Richard Moorhouse (\$50,000) (10 years – 3.75%) | 50,000 | 642 | 50,642 |
| Winifred Designs Inc. (\$6,993) (1 year – 3.75%) | 4,094 | 13 | 4,107 |
| Pirnoma Technologies Inc. (\$20,000) (2 years – 3.75%) | 20,000 | 63 | 20,063 |
| | 5,543,476 | 16,612 | 5,560,088 |
| Loans and investments in default | | | |
| Issued in 2003 | | | |
| Charlie's Restaurant (\$38,988) (5 years – 5.75%) | 37,082 | 53,098 | 90,180 |
| Samisa Epoo Pool Hall (\$19,761) (4 years – 6%) | 17,619 | 23,634 | 41,253 |
| Issued in 2004 | | | |
| Emma's Café (\$13,639) (2 years – 5.25%) | 13,639 | 16,884 | 30,523 |
| Issued in 2005 | | | |
| Ida Amagoaluk – Hair Dresser Shop – Puvirnituk (\$16,258) (4 years – 6.25%) | 16,258 | 23,542 | 39,800 |
| Punnik Camp Ltd. – Kuujjuaq – Camp acquisition (\$173,000) (10 years – 5.75%) | 153,474 | 129,307 | 282,781 |

Kativik Regional Government
Notes to Financial Statements
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3 - INVESTMENTS AND LOANS RECEIVABLE (Continued)

| | Principal \$ | Accrued interest \$ | Total \$ |
|---|-----------------|------------------------|-------------|
| <u>Loans and investments in default (Continued)</u> | | | |
| Issued in 2009 | | | |
| Avataq Cultural Institute Inc. – Northern Delights Fine Inuit Herbal Tea (\$155,000) (155,000 class "J" preferred shares with cumulative dividends of 3.25% and redeemable in seven years) | 155,000 | | 155,000 |
| Issued in 2012 | | | |
| Avataa Explorations & Logistics Inc. (\$421,426) (10 years – 1%) | 278,434 | 236 | 278,670 |
| Issued in 2013 | | | |
| Mary Johannes (\$4,900) (1 year – without interest) | 4,651 | | 4,651 |
| Alacie Suruslia (\$5,454) (3 years – without interest) | 5,454 | | 5,454 |
| Issued in 2014 | | | |
| Ikumak Services Inc. (\$125,000) (15 years – 3%) | 123,377 | 3,081 | 126,458 |
| 8523509 Canada Inc. (\$13,320) (1 year – 4.5%) | 6,398 | 122 | 6,520 |
| 8523509 Canada Inc. (\$45,945) (7 years – 3%) | 45,339 | 1,770 | 47,109 |
| Isa Sivuraapik (\$3,150) (2 years – 3%) | 2,868 | 29 | 2,897 |
| Arqivik Landholding Corporation Iqaluppik Hotel (\$500,000) (15 years – 3%) | 492,893 | 4,171 | 497,064 |
| Issued in 2015 | | | |
| 8523509 Canada Inc. – Kuujjuaq sports lounge (\$35,000) (8 years – 5.5%) | 34,549 | 4,006 | 38,555 |
| Putulik and Sons – Fish haversting and sales (\$37,000) (6 years – 5.75%) | 29,886 | 3,955 | 33,841 |
| Issued in 2016 | | | |
| Entreprises Munick Watkins (\$20,285) (3 years – 2.5%) | 20,285 | 1,645 | 21,930 |
| Rita Inukpuk Tukai Restaurant Inukjuak (\$5,000) (3 years – 3%) | 5,000 | 572 | 5,572 |
| Avataa Explorations & Logistics Inc. (\$166,800) (preferred shares, December 31, 2025 – 5.5%) | 166,800 | 21,216 | 188,016 |
| | 1,609,006 | 287,268 | 1,896,274 |

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Notes to Financial Statements
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3 - INVESTMENTS AND LOANS RECEIVABLE (Continued)

| | Principal \$ | Accrued interest \$ | Total \$ |
|--|--------------------|------------------------|--------------------|
| <u>Investments</u> | | | |
| Issued in 2013 | | | |
| Nunavik Cooperative Development Fund (\$2,500,000) | | | |
| Fort Chimo Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Aupaluk Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Payne Bay Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| George River Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Wakeham Bay Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Puvirnituk Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Akudlivik Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Great Whale River Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Tasiujaq Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Koartak Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Salluit Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Ivujivik Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Inukjuak Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Umiujaq Cooperative Association (\$178,571) (shares – 15 years) | 178,571 | | 178,571 |
| Issued in 2017 | | | |
| Tasiujaq Cooperative Association (\$180,000) (shares – 10 years) | 180,000 | | 180,000 |
| | <u>2,679,994</u> | <u>–</u> | <u>2,679,994</u> |
| | 9,832,476 | 303,880 | 10,136,356 |
| Provision for doubtful loans | <u>(1,486,358)</u> | <u>(265,871)</u> | <u>(1,752,229)</u> |
| | <u>8,346,118</u> | <u>38,009</u> | <u>8,384,127</u> |

Kativik Regional Government
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4 - CAPITAL ASSETS

| | 2019 | | | 2018 |
|---|--------------------|-------------------------------------|-----------------------|--------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| | \$ | \$ | \$ | \$ |
| Allavik building | 13,081,832 | 10,364,722 | 2,717,110 | 3,485,423 |
| Police stations | 19,654,326 | 13,499,799 | 6,154,527 | 7,110,217 |
| Other buildings and houses | 46,743,908 | 24,271,673 | 22,472,235 | 24,746,964 |
| Vehicles | 8,929,974 | 7,306,462 | 1,623,512 | 884,913 |
| Equipment and office furniture | 3,357,792 | 3,309,661 | 48,131 | 46,761 |
| Housing furniture | 2,857,630 | 2,713,077 | 144,553 | 157,246 |
| Telecommunication infrastructure | 58,561,488 | 43,194,623 | 15,366,865 | 23,050,298 |
| Construction equipment | 2,061,886 | 1,801,247 | 260,639 | 240,746 |
| Vehicles – Transport (Note 9 a)) | 1,622,410 | 1,397,132 | 225,278 | 227,624 |
| Heavy equipment – Transport (Note 9 a)) | 8,941,674 | 5,720,034 | 3,221,640 | 2,827,589 |
| Marine infrastructure | 46,577,450 | 10,479,931 | 36,097,519 | 37,261,960 |
| | 212,390,370 | 124,058,361 | 88,332,009 | 100,039,741 |
| Water points and plans for Northern Villages | 545,000 | 545,000 | | |
| Capital projects in progress (Appendix D) | 90,664,360 | | 90,664,360 | 62,430,318 |
| | 303,599,730 | 124,603,361 | 178,996,369 | 162,470,059 |

The amortization expense for the year ended December 31, 2019 amounted to \$14,542,823 (\$17,214,904 in 2018).

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5 - INVESTING ACTIVITIES

- a) The transfers to investing activities related to the acquisition of capital assets in 2019 are detailed as follows:

| | Housing furniture and tools | Office furniture and equipment | Vehicles, immovable and major renovations | Total |
|--|-----------------------------------|--------------------------------------|--|--------------------|
| | \$ | \$ | \$ | \$ |
| Transports Québec Airports (#310, #311, #313 to #324) | (99,852) | | (1,230,345) | (1,330,197) |
| Allavik Building (#17) | | (22,763) | | (22,763) |
| Capital projects management (#28) | | | (12,358) | (12,358) |
| Building maintenance (#27) | (5,272) | | (85,988) | (91,260) |
| KRG Houses (#74) | (65,398) | | | (65,398) |
| KRPF – Operations (#205 to #223) | | | (1,205,719) | (1,205,719) |
| Kuururjuaq Park – Operations (#63) | (6,388) | | | (6,388) |
| Uumajuit (#53) | | | (48,103) | (48,103) |
| Development of Parks in Nunavik (#56) | (6,145) | | | (6,145) |
| Tursujuq Park – Operations (#62) | | | | |
| Pingualuit Park – Operations (#59) | (23,767) | | | (23,767) |
| Civil security – Operations (#25) | (5,034) | | | (5,034) |
| Police stations – Building Operations (#14 and #204) | | (10,983) | | (10,983) |
| | <u>(211,856)</u> | <u>(33,746)</u> | <u>(2,582,513)</u> | <u>(2,828,115)</u> |

- b) The transfers to investing activities through investments in loans receivable are detailed as follows:

| | 2019 | 2018 |
|--|----------------|------------------|
| | \$ | \$ |
| Makigiarutiit I and II (#77, #177 and #85) – Loans and investments | | 12,000 |
| Makigiarutiit III and IV (#88) – Loans and investments | <u>117,347</u> | <u>1,527,221</u> |
| | <u>117,347</u> | <u>1,539,221</u> |

Kativik Regional Government
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6 - BANK OVERDRAFT

The KRG has authorized lines of credit that bear interest at prime rate (3.95%; 3.95% as at December 31, 2018) and that are authorized by the Quebec Government. The lines of credit are renewable annually and are limited to a total of \$8,500,000 for the General Operations; \$20,000,000 for Isurruutiit Projects; \$15,000,000 for Tamaani Phase V; \$9,047,000 for Pivallutiit III; \$1,000,000 for Sustainable Employment Programs and \$1,000,000 for the Kativik Regional Police Force.

Also, the KRG has entered into a credit for foreign exchange contracts for an amount of \$5,000,000 for Tamaani Phase V. This facility was not used as at December 31, 2019.

7 - DEFERRED REVENUES

The deferred revenues are detailed as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|------------------|
| | \$ | \$ |
| Indigenous and Northern Affairs Canada (Sustainable Employment – Illiviq) | 246,443 | 249,498 |
| Indigenous and Northern Affairs Canada (#76) | 137,688 | 137,688 |
| Indigenous and Northern Affairs Canada (#175) | 95,000 | 95,000 |
| Emploi-Québec (Sustainable Employment) | 847,385 | 96,444 |
| Employment and Social Development Canada (Sustainable Employment) | 122,210 | 961,789 |
| Employment and Social Development Canada (#43) | 509,076 | |
| Glencore Canada Corporation (#61) | 80,055 | 84,999 |
| Ministère de la Sécurité publique (#205 to #223) | 4,036,544 | 90,097 |
| Ministère de la Justice (#89) | | 227,372 |
| Ministère des Affaires municipales et de l'Habitation (#172) | 324,979 | 208,070 |
| Ministère de l'Environnement et de la Lutte contre les changements climatiques (#69) | 2,597,546 | 2,515,735 |
| Nunavik Regional Board of Health and Social Services (#201) | 18,918 | |
| Public Safety Canada (#205 to #223) | 2,807,318 | |
| Transports Canada (#312) | 229,742 | |
| | <u>12,052,904</u> | <u>4,666,692</u> |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT

a) The details of the long-term debt are as follows:

| | | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|-------------|
| | | \$ | \$ |
| Bonds, seventy-first series, issued July 7, 2010, bearing interest from 1.6% to 4.55% and maturing as follows | | | |
| Bonds, due July 7, 2020 | 726,000 | | |
| Bonds, renewable as at July 7, 2020 | 4,087,000 | 4,813,000 | 4,813,000 |
| Bonds, seventy-fourth series, issued March 9, 2011, bearing interest from 1.6% to 4.1% and maturing as follows | | | |
| Bonds, due March 9, 2021 | 580,000 | | |
| Bonds, renewable as at March 9, 2021 | 4,805,000 | 5,385,000 | 5,385,000 |
| Bonds, seventy-fifth series, issued May 10, 2011, bearing interest from 1.5% to 4.1% and maturing as follows | | | |
| Bonds, due May 10, 2021 | 1,402,000 | | |
| Bonds, renewable as at May 10, 2021 | 2,573,000 | 3,975,000 | 3,975,000 |
| Bonds, seventy-eighth series, issued October 12, 2011, bearing interest from 1.7% to 4% and maturing as follows | | | |
| Bonds, due October 12, 2021 | 912,000 | | |
| Bonds, renewable as at October 12, 2021 | 1,831,000 | 2,743,000 | 2,743,000 |
| Bonds, eighty-third series, issued December 13, 2012, bearing interest from 1.5% to 3.3% and maturing as follows | | | |
| Bonds, renewable as at December 13, 2022 | 7,428,000 | 7,428,000 | 7,428,000 |
| Bonds, eighty-fourth series, issued March 13, 2013, bearing interest from 1.5% to 3.2% and maturing as follows | | | |
| Bonds, renewable as at March 13, 2023 | 6,850,000 | 6,850,000 | 6,850,000 |
| Bonds, eighty-fifth series, issued June 12, 2013, bearing interest from 1.4% to 3.2% and maturing as follows | | | |
| Bonds, renewable as at June 12, 2023 | 2,696,000 | 2,696,000 | 2,696,000 |
| Bonds, eighty-sixth series, issued November 6, 2013, bearing interest from 1.55% to 3.75% and maturing as follows | | | |
| Bonds, renewable as at November 6, 2023 | 3,936,000 | 3,936,000 | 3,936,000 |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT (Continued)

| | | <u>2019</u> | <u>2018</u> |
|---|------------------|-------------|-------------|
| | | \$ | \$ |
| Bonds, eighty-seventh series, issued March 26, 2014, bearing interest from 1.5% to 3.55% and maturing as follows | | | |
| Bonds, renewable as at March 26, 2024 | <u>3,385,000</u> | 3,385,000 | 10,914,000 |
| Bonds, eighty-eighth series, issued July 9, 2014, bearing interest from 1.3% to 3.25% and maturing as follows | | | |
| Bonds, renewable as at July 9, 2024 | <u>3,724,000</u> | 3,724,000 | 8,001,000 |
| Bonds, ninetieth series, issued December 3, 2014, bearing interest from 1.4% to 3.25% and maturing as follows | | | |
| Bonds, renewable as at December 3, 2024 | <u>2,224,000</u> | 2,224,000 | 9,592,000 |
| Bonds, ninety-first series, issued April 1, 2015, bearing interest from 1.3% to 1.75% and maturing as follows | | | |
| Bonds, due April 1, 2020 | 528,000 | | |
| Bonds, renewable as at April 1, 2020 | <u>6,121,000</u> | 6,649,000 | 7,165,000 |
| Bonds, ninety-second series, issued June 16, 2015, bearing interest from 1.3% to 2% and maturing as follows | | | |
| Bonds, due June 16, 2020 | 313,000 | | |
| Bonds, renewable as at June 16, 2020 | <u>3,785,000</u> | 4,098,000 | 5,081,000 |
| Bonds, ninety-third series, issued October 28, 2015, bearing interest from 1.4% to 3.25% and maturing as follows | | | |
| Bonds, due October 28, 2020 | 999,000 | | |
| Bonds, renewable as at October 28, 2020 | 3,971,000 | | |
| Bonds, renewable as at October 28, 2025 | <u>1,920,000</u> | 6,890,000 | 7,862,000 |
| Loans with Fédération des caisses Desjardins du Québec, issued November 3, 2015, bearing interest at 2.97% and maturing as follows | | | |
| Loans, due November 3, 2020 | 238,351 | | |
| Loans, due November 3, 2021 | 245,428 | | |
| Loans, due November 3, 2022 | 252,716 | | |
| Loans, due November 2, 2023 | 260,221 | | |
| Loans, due November 2, 2024 | 267,948 | | |
| Loans, due November 2, 2025 | <u>275,905</u> | 1,540,569 | 1,772,046 |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT (Continued)

| | <u>2019</u> | <u>2018</u> |
|---|------------------|-------------|
| | \$ | \$ |
| Bonds, ninety-fifth series, issued March 9, 2016, bearing interest from 1.3% to 2% and maturing as follows | | |
| Bonds, due March 9, 2020 | 3,117,000 | |
| Bonds, due March 9, 2021 | 1,274,000 | |
| Bonds, renewable as at March 9, 2021 | <u>7,662,000</u> | 15,075,000 |
| Bonds, ninety-sixth series, issued June 22, 2016, bearing interest from 1.2% to 2.55% and maturing as follows | | |
| Bonds, due June 22, 2020 | 925,000 | |
| Bonds, due June 22, 2021 | 948,000 | |
| Bonds, renewable as at June 22, 2021 | 4,573,000 | |
| Bonds, renewable as at June 22, 2026 | <u>2,550,000</u> | 9,900,000 |
| Loans with Fédération des caisses Desjardins du Québec, issued August 31, 2016, bearing interest from 1.84% to 1.95% and maturing as follows | | |
| Loans, due August 31, 2020 | 571,212 | |
| Loans, due August 31, 2021 | 581,966 | |
| Loans, renewable as at August 31, 2021 | <u>901,238</u> | 2,615,072 |
| Bonds, ninety-eighth series, issued October 12, 2016, bearing interest from 1.2% to 1.75% and maturing as follows | | |
| Bonds, due October 12, 2020 | 1,471,000 | |
| Bonds, due October 12, 2021 | 623,000 | |
| Bonds, renewable as at October 12, 2021 | <u>3,501,000</u> | 7,034,000 |
| Bonds, ninety-ninth series, issued March 22, 2017, bearing interest from 1.2% to 2.85% and maturing as follows | | |
| Bonds, due March 22, 2020 | 1,964,000 | |
| Bonds, due March 22, 2021 | 2,013,000 | |
| Bonds, due March 22, 2022 | 2,062,000 | |
| Bonds, renewable as at March 22, 2022 | 8,755,000 | |
| Bonds, renewable as at March 22, 2027 | <u>2,646,000</u> | 19,357,000 |
| Bonds, hundredth series, issued May 24, 2017, bearing interest from 1.15% to 1.85% and maturing as follows | | |
| Bonds, due May 24, 2020 | 671,000 | |
| Bonds, due May 24, 2021 | 684,000 | |
| Bonds, due May 24, 2022 | 699,000 | |
| Bonds, renewable as at May 24, 2022 | <u>3,909,000</u> | 6,619,000 |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT (Continued)

| | <u>2019</u> | <u>2018</u> |
|--|------------------|-------------|
| | \$ | \$ |
| Bonds, hundred and first series, issued December 5, 2017, bearing interest from 1.75% to 2.35% and maturing as follows | | |
| Bonds, due December 5, 2020 | 1,405,000 | |
| Bonds, due December 5, 2021 | 1,446,000 | |
| Bonds, due December 5, 2022 | 1,489,000 | |
| Bonds, renewable as at December 5, 2022 | <u>1,889,000</u> | 7,593,000 |
| Bonds, hundred and second series, issued March 7, 2018, bearing interest from 1.85% to 2.55% and maturing as follows | | |
| Bonds, due March 7, 2020 | 1,567,000 | |
| Bonds, due March 7, 2021 | 1,611,000 | |
| Bonds, due March 7, 2022 | 1,657,000 | |
| Bonds, due March 7, 2023 | 1,704,000 | |
| Bonds, renewable as at March 7, 2023 | <u>1,569,000</u> | 9,631,000 |
| Bonds, hundred and third series, issued June 6, 2018, bearing interest from 2% to 2.8% and maturing as follows | | |
| Bonds, due June 6, 2020 | 958,000 | |
| Bonds, due June 6, 2021 | 986,000 | |
| Bonds, due June 6, 2022 | 1,014,000 | |
| Bonds, due June 6, 2023 | 1,043,000 | |
| Bonds, renewable as at June 6, 2023 | <u>2,606,000</u> | 7,540,000 |
| Loans with Fédération des caisses Desjardins du Québec, issued October 3, 2018, bearing interest at 3.75% and maturing as follows | | |
| Loans, due October 3, 2020 | 286,349 | |
| Loans, due October 3, 2021 | 297,192 | |
| Loans, due October 3, 2022 | 308,447 | |
| Loans, due October 3, 2023 | 320,127 | |
| Loans, due October 3, 2024 | 332,249 | |
| Loans, due October 3, 2025 and subsequent years | <u>1,459,668</u> | 3,279,933 |
| Bonds, hundred and fifth series, issued November 1, 2018, bearing interest from 2.4% to 2.95% and maturing as follows | | |
| Bonds, due November 1, 2020 | 1,432,000 | |
| Bonds, due November 1, 2021 | 1,477,000 | |
| Bonds, due November 1, 2022 | 1,523,000 | |
| Bonds, due November 1, 2023 | 1,570,000 | |
| Bonds, renewable as at November 1, 2023 | <u>2,078,000</u> | 9,471,000 |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT (Continued)

| | <u>2019</u> | <u>2018</u> |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| Bonds, hundred and sixth series, issued March 20, 2019, bearing interest from 2.05% to 2.9% and maturing as follows | | |
| Bonds, due March 20, 2020 | 1,929,000 | |
| Bonds, due March 20, 2021 | 1,996,000 | |
| Bonds, due March 20, 2022 | 2,066,000 | |
| Bonds, due March 20, 2023 | 2,138,000 | |
| Bonds, due March 20, 2024 | 2,213,000 | |
| Bonds, renewable as at March 20, 2024 | 4,749,000 | |
| Bonds, renewable as at March 20, 2029 | <u>3,540,000</u> | 18,631,000 |
| Bonds, hundred and seventh series, issued July 3, 2019, bearing interest from 1.9% to 2.5% and maturing as follows | | |
| Bonds, due July 3, 2020 | 1,906,000 | |
| Bonds, due July 3, 2021 | 1,946,000 | |
| Bonds, due July 3, 2022 | 1,988,000 | |
| Bonds, due July 3, 2023 | 2,031,000 | |
| Bonds, due July 3, 2024 | 2,075,000 | |
| Bonds, renewable as at July 3, 2024 | 7,125,000 | |
| Bonds, renewable as at July 3, 2029 | <u>4,261,000</u> | 21,332,000 |
| Loans with Fédération des caisses Desjardins du Québec, issued September 30, 2019, bearing interest at 2.62% and maturing as follows | | |
| Loans, due September 30, 2020 | 202,728 | |
| Loans, due September 30, 2021 | 202,728 | |
| Loans, due September 30, 2022 | 202,728 | |
| Loans, due September 30, 2023 | 202,728 | |
| Loans, due September 30, 2024 | <u>202,725</u> | 1,013,637 |
| Bonds, hundred and ninth series, issued November 27, 2019, bearing interest from 2% to 2.15% and maturing as follows | | |
| Bonds, due November 27, 2020 | 2,480,000 | |
| Bonds, due November 27, 2021 | 2,534,000 | |
| Bonds, due November 27, 2022 | 2,590,000 | |
| Bonds, due November 27, 2023 | 2,648,000 | |
| Bonds, due November 27, 2024 | 2,705,000 | |
| Bonds, renewable as at November 27, 2024 | <u>9,487,000</u> | 22,444,000 |
| Loans reimbursed or renewed during the year | | 19,003,213 |
| | <u><u>213,886,654</u></u> | <u><u>205,331,264</u></u> |

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

8 - LONG-TERM DEBT (Continued)

b) The capital repayments and renewals for the next years are detailed as follows:

| | <u>\$</u> |
|---------------------------|--------------------|
| 2020 | 41,653,639 |
| 2021 | 47,605,553 |
| 2022 | 37,832,891 |
| 2023 | 31,652,076 |
| 2024 | 38,489,922 |
| 2025 and subsequent years | 16,652,573 |
| | <u>213,886,654</u> |

c) The long-term contributions to be recovered for repaying the long-term debt are detailed as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------------|--------------------|
| | <u>\$</u> | <u>\$</u> |
| Contribution from Northern Villages financed by the Ministère des Affaires municipales et de l'Habitation | 159,311,917 | 141,026,418 |
| Contribution from Northern Villages financed by the Ministère de l'Éducation et de l'Enseignement supérieur – Sports facilities | 5,237,170 | 7,217,847 |
| Contribution from Northern Villages financed by the Secrétariat aux affaires autochtones – Sports facilities | 6,072,085 | 7,180,219 |
| Contribution from Northern Villages financed by the Ministère de la Sécurité publique – Fire Safety Cover Plan | 2,328,800 | 2,955,200 |
| Contribution from Northern Villages financed by the Ministère des Affaires municipales et de l'Habitation – Programme d'infrastructures Québec – Municipalités – Sports facilities | 657,600 | 864,300 |
| Contribution from the Ministère des Affaires municipales et de l'Habitation | 66,783 | 87,782 |
| Contribution from the Ministère des Transports | 26,591,500 | 30,925,700 |
| Contribution from the Ministère de la Sécurité publique | 1,384,500 | 1,691,600 |
| | <u>201,650,355</u> | <u>191,949,066</u> |

Kativik Regional Government
Notes to Financial Statements
 December 31, 2019

9 - TRANSPORT OPERATIONS

- a) As per the Agreement concerning Block Funding for the Kativik Regional Government (hereafter "the Sivunirmut Agreement") between the Quebec Government and the KRG, the Ministère des Transports agreed to transfer all airport equipment for a cash consideration of \$1. The total value of those equipment, as per the Sivunirmut Agreement, is established at \$5,245,893. The equipment to be returned by the KRG at the end of the Sivunirmut Agreement must be of an equivalent value. In the event the total value of the equipment returned would be inferior to that sum, the KRG will have to compensate financially the Ministère des Transports for the amount of the difference. To that effect and in order to comply with its obligations, the KRG has appropriated an amount of \$5,138,312 to the financial reserves as at December 31, 2019.
- b) In accordance with the Transports Canada agreement, other assets on the premises (inventory and assets totalling \$125,000) are to be considered as consumable items and are to be replaced by the KRG within the authorized operation budget. At the expiration of the agreement, the KRG will be responsible to transfer to Transports Canada assets of an equivalent value or to reimburse the amount representing the value of the shortages.

10 - COMMITMENTS REGARDING THE RESOURCE ENVELOPE FOR THE DEVELOPMENT OF INUIT COMMUNITIES

MAKIGIARUTIIT PROGRAM (Economic Development Projects)

Loans approved and disbursed as well as capital repayments made during the year ended December 31, 2019 are recorded under Investments and loans receivable. However, certain loans approved during the year or during previous years were not disbursed yet at year-end.

The loans are detailed as follows:

| | \$ |
|--|-------------------------|
| Makigiarutiit I and II (#77, #177 and #85) | |
| Puvirnitug Coop Association – Apartment for employees | 500,000 |
| | <u>500,000</u> |
| Makigiarutiit III and IV (#88) | |
| Puvirnitug Coop Association – Store and warehouse | 500,000 |
| Salluit Coop construction of a corner store and ready-to-eat meals | 500,000 |
| Aupaluk new store construction plan 2019 | 500,000 |
| | <u>1,500,000</u> |
| | <u><u>2,000,000</u></u> |

An equivalent amount totalling \$2,000,000 was set aside in the financial reserves for the financing of these loans and reimbursable contributions.

Kativik Regional Government
Notes to Financial Statements
 December 31, 2019

**10 - COMMITMENTS REGARDING THE RESOURCE ENVELOPE FOR THE
 DEVELOPMENT OF INUIT COMMUNITIES (Continued)**

PIVALLIUTIIT PROGRAM (Community Infrastructure Projects)

Pivallutiit II

The total amount available under the Pivallutiit program is \$14,000,000 (\$12,740,000 for projects and \$1,260,000 (14 x \$90,000) for management fees). The KRG decided, in 2010, to allocate the full amount of \$14,000,000 towards the project and to renounce to its management fees. As at December 31, 2016, funding applications totalling \$13,955,000 have been submitted by the Northern Villages under the program and approved by the KRG. As at December 31, 2019, a total of \$1,235,075 was disbursed by the KRG to thirteen communities, leaving an amount of \$28,925 to be disbursed. An equivalent amount (\$28,925) is set aside in the financial reserves.

Pivallutiit III

The total amount available under the Pivallutiit program is \$14,000,000 (\$12,740,000 for projects and \$1,260,000 for KRG management fees – Capital Projects Management (#28)). As at December 31, 2019, funding applications totalling \$12,280,000 have been submitted by the Northern Villages, Inuit non-profit organizations and some regional organizations under the program and approved by the KRG.

Pivallutiit IV

The total amount available under the Pivallutiit program is \$14,000,000 (\$12,740,000 for projects and \$1,260,000 for KRG management fees – Capital Projects Management (#28)). As at December 31, 2019, funding applications totalling \$6,370,000 have been submitted by the Northern Villages, Inuit non-profit organizations and some regional organizations under the program and approved by the KRG.

11 - SANARRUTIK AGREEMENT

In April 2002, the Quebec Government (hereafter "Quebec"), the Makivik Corporation (hereafter "Makivik") and the KRG signed the Partnership Agreement on Economic and Community Development in Nunavik (hereafter "the Sanarrutik Agreement"). The purpose of the 25-year agreement was to establish a new nation-to-nation relationship and to propose a common vision for the economic and community development of Nunavik. More specifically, Quebec, Makivik and the KRG agreed to accelerate hydroelectric, mining and tourism development to share the benefits of the resulting economic growth, to favour economic spin-offs for Nunavik Inuit, to favour a greater autonomy for the KRG and more responsibility for the economic and community development of Nunavik Inuit, and finally to enhance public services and infrastructure. Some sections of the Sanarrutik Agreement are specific to Makivik, others to the KRG, and still others concern both Makivik and the KRG. Since April 2002, the Sanarrutik Agreement has been amended four times:

- In March 2003 regarding the implementation of block funding for the KRG and the Northern Villages, the construction of a community residential centre in Kangirsuk and the hiring of wildlife conservation officers;

Kativik Regional Government
Notes to Financial Statements
 December 31, 2019

11 - SANARRUTIK AGREEMENT (Continued)

- In November 2004 regarding the indexation of community and economic development project funding;
- In August 2006 regarding the creation of a fund to be used to prevent and combat crime, as well as to promote safe and healthy communities, in lieu of the Quebec commitment to construct and operate a detention facility in the region;
- In March 2008 regarding the hiring of wildlife conservation officers and wildlife protection assistants, as well as funding for wildlife and habitat research activities.

Tourism (Section 2.4)

To support the development of Nunavik's under-exploited tourism potential, Quebec undertook to fund studies conducted by the KRG for the development of national parks. Quebec also undertook to create the Parc national des Pingualuit further to Schedule 6 of Complementary Agreement No. 6 of The James Bay and Northern Quebec Agreement (hereafter "the JBNQA").

Since 2002, the following national parks have been created: Pingualuit (December 10, 2003), Kuururjuaq (May 21, 2009) and Tursujuq (July 18, 2013). Funding for the management and operation of these parks by the KRG is covered under the Sivunirmut Agreement. Funding for capital expenses in these parks incurred by the KRG is covered under a specific agreement for each park: Pingualuit (renewed twice; current period 2014-2018), Kuururjuaq (renewed once; current period 2013-2017) and Tursujuq (current period 2013-2017).

Regarding the Ulittaniujalik National Park project, all the steps leading to the creation of the park have been completed. Ulittaniujalik National Park has been created in 2017.

Regarding the Baie-aux-Feuilles National Park project, research work was initiated in the study area in 2012. The status report was completed in 2015 but issue concerning delimitation of proposed boundaries could create delays in the creation of the park.

Community and Economic Development (Section 2.5)

To fund community and economic development, Quebec committed to transfer to Makivik and the KRG jointly \$7 million in 2002, \$8 million in 2003, \$15 million in 2004, \$15 million plus applicable indexation in 2005 and \$15 million plus applicable indexation for each subsequent year of the Sanarrutik Agreement. Since 2005, this amount is indexed according to the consumer price index of Quebec and, gradually over a five-year period, to population growth in Nunavik according to Schedule C. This funding is provided without prejudice to and in addition to regular Quebec funding (operations and capital expenses) for similar purposes in Nunavik.

Pursuant to a memorandum of agreement, Makivik and the KRG distribute the funding for community and economic development. Makivik is responsible for allocating a third of the annual funding to Inuit organizations, and the balance is divided equally between Makivik and the KRG for allocation to community and economic development projects. In 2019, the KRG received \$7,886,027 (\$7,682,011 in 2018) from the Sanarrutik Agreement.

Kativik Regional Government
Notes to Financial Statements
December 31, 2019

11 - SANARRUTIK AGREEMENT (Continued)

Block Funding (Section 3)

To simplify and ensure more efficient use of the public funds paid to the KRG and the Northern Villages as well as to contribute to a greater autonomy for these organizations, Quebec committed to consolidate the funding for the KRG and the Northern Villages under two distinct envelopes within the Sivunirmut Agreement. This funding is indexed annually according to population growth in Nunavik and the evolution of Quebec's capital-program expenditures. The agreement was signed by Quebec and the KRG on March 31, 2004; the Agreement concerning the Block Funding of the Northern Villages was signed on June 27, 2005.

Local Roads (Section 4.1)

To improve the conditions of local roads, Quebec committed to provide up to \$35.5 million, excluding financing costs, and technical support for the paving of 90 km of roads, including community-airport access roads. Between 2002 and 2009, this work was carried out by the KRG in all the Northern Villages in close cooperation with each local municipality.

Marine Infrastructure (Section 4.2)

To improve essential local marine infrastructure, Quebec committed to participate up to 50% of the cost of marine infrastructure construction work estimated at \$88 million. Between 2002 and 2011, this work was carried out by Makivik in all the Northern Villages. The additional funding required for the Kuujuaaraapik project was committed in 2010 by the governments of Canada and Quebec, as well as the Grand Council of the Crees of Quebec. On completion of the project in each Northern Village, ownership of the marine infrastructure has been transferred to the KRG by council resolution. Quebec committed to fund the daily maintenance costs, including major reparations subject to federal contribution, under conditions to be agreed upon between Canada and the parties. Over the years, some annual funding for basic maintenance costs was provided by Quebec. The commitment for permanent funding by Quebec and Canada has not yet been fulfilled.

Police Services (Section 4.3)

To improve police services in Nunavik and initiate the construction of new police stations, under the Sanarrutik Agreement, Quebec committed to disburse an additional amount of \$1.5 million, representing 48% of the total related costs. Quebec also agreed, at the renewal of the tripartite police-service agreement between Canada, Quebec and the KRG, to fund its share (48%) of the total cost of 54 police officers at a unit cost of \$148,800 as well as the construction of police stations. On March 31, 2004, the Ministère de la Sécurité publique, the Solicitor General of Canada and the KRG signed a five-year agreement concerning police services.

Kativik Regional Government
Notes to Financial Statements
 December 31, 2019

11 - SANARRUTIK AGREEMENT (Continued)

Correctional Services (Section 4.4)

Quebec committed to build and make operational by no later than December 31, 2005, a 40-place detention facility in the general spirit of the "Report of the joint working group on sentence management in Nunavik" and to fund the operation costs. On December 31, 2005, Quebec had not fulfilled this commitment. On August 9, 2006, Quebec, Makivik and the KRG agreed to amend the Sanarrutik Agreement in order to make available to Makivik and the KRG a financial envelope of \$10 million beginning in the 2005-2006 financial year, and \$10 million plus applicable indexation for each subsequent year of the Sanarrutik Agreement, to prevent and combat crime, to promote safe and healthy communities by, among other things, implementing culturally appropriate measures to improve the social environment in Nunavik, and to provide assistance to crime victims and improve correctional activities for Inuit. Applicable indexation is calculated according to the same formula used to determine the funding for community and economic development (Section 2.5). Pursuant to a memorandum of understanding between Makivik and the KRG signed on May 23, 2007, Makivik is responsible for the management of this financial envelope, known as the Ungaluk Safer Communities program. In return for the creation of this financial envelope, for the duration of the Sanarrutik Agreement, Makivik has given a full and complete discharge to Quebec for its commitment under the JBNQA to build a detention facility in Nunavik.

Quebec also committed to build and make operational, by no later than April 1, 2004, a 14-place community residential centre (hereafter "the half-way house") in Kangirsuk and to fund the operation costs. The construction of the Makitautik Centre was completed in September 2004.

Wildlife Management and Enforcement (Section 4.5)

To improve wildlife management and enforcement, Quebec committed to hire and train six additional wildlife conservation officers for Nunavik no later than April 1, 2004, and to provide the KRG with \$600,000 annually to hire wildlife protection assistants trained by Quebec. The KRG was given the option to allocate all or part of the annual funding to Quebec for the hiring of additional wildlife conservation officers. At the end of 2007, Quebec had not completely fulfilled its initial Sanarrutik commitment.

Further to the fourth amendment to the Sanarrutik Agreement, signed on March 10, 2008 by Quebec, Makivik and the KRG, Quebec remains committed to employing six permanent, full-time Inuit wildlife protection officers in Nunavik. Moreover, Quebec agreed to pay the KRG under the Sivunirmut Agreement an additional \$200,000 for wildlife protection assistants, indexed according to Appendix D of the Sivunirmut Agreement as at January 1, 2008.

Public Tenders (Section 4.6)

To increase the number of Nunavik Inuit businesses bidding on and being awarded public contracts, subject to the provisions of the Agreement on Internal Trade or any similar agreements, Quebec committed to evaluate the possibility of modifying legislation in order to allow the KRG, the Kativik School Board, the Kativik Regional Development Council (hereafter "the Katutjiniq") and the Nunavik Regional Board of Health and Social Services to set up a process for awarding contracts for goods and services that will give priority to Nunavik Inuit businesses. This commitment has not yet been fulfilled.

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12 - ISURRUUTIIT PROGRAM

Fourth Capital Plan (Isurruutiit IV)

On April 23, 2015, an agreement was signed with the Ministère des Affaires municipales et de l'Habitation and the Secrétariat aux affaires autochtones concerning the continued improvement of municipal infrastructure in the Northern Villages. Under the agreement, Quebec has committed \$100 million over an estimated five-year period. As at December 31, 2019, total expenditures incurred by the KRG under the agreement were \$66,879,880, the total value of approved projects is \$97,524,526 and \$53,672,000 has been financed.

Third Capital Plan (Isurruutiit III)

On April 29, 2011, an agreement was signed with the Ministère des Affaires municipales et de l'Habitation and the Secrétariat aux affaires autochtones concerning the continued improvement of municipal infrastructure in the Northern Villages. Under the agreement, Quebec has committed \$82.3 million over an estimated five-year period. On September 27, 2013, an amendment was signed in order to increase the funding to \$100,998,800. As at December 31, 2019, total expenditures incurred by the KRG under the agreement were \$100,817,000, the total value of approved projects was \$100,998,800 and \$100,817,000 has been financed.

First and Second Capital Plan

Two previous phases under the Isurruutiit Program (1999-2008 and 2006-2010) had a combined resource envelope of \$110 million.

13 - BLOCK FUNDING AGREEMENT

The Sivunirmut Agreement between Quebec and the KRG entered into force on April 1, 2004 and is effective until December 31, 2027. Under the Sivunirmut Agreement, Quebec has undertaken to simplify and make more efficient the public funds paid to the KRG and to provide the organization with a greater level of autonomy. For its part, the KRG has the responsibility to fulfil the objectives and execute the mandates contemplated in Appendix B of the agreement.

Since 2004, the Sivunirmut Agreement has been amended 12 times and now comprises 21 mandates. Moreover, the parties have agreed to revise Appendix B every five years to assess the pertinence of maintaining or modifying the established mandates, taking into account Quebec-Government orientations; a first revision was carried out in 2007. Specifically, in the event that Quebec modifies a law or regulation, implements a new program or decides to transfer to the KRG the management of a program, subject to the KRG's acceptance of the related responsibilities, terms and conditions, Appendix B and the attendant funding may be adjusted accordingly.

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13 - BLOCK FUNDING AGREEMENT (Continued)

In 2019, the indexed amount of \$79,351,732 (\$69,721,513 in 2018) was paid by Quebec to the KRG under the Sivunirmut Agreement. The KRG is entirely responsible for any deficit incurred in the delivery of its mandates and, at the end of each year, may use any surplus according to the priorities it sets, provided they comply with the established mandates. The KRG may also create reserves with this funding under certain conditions and for specific purposes listed in the agreement. The funding provided under the Sivunirmut Agreement is not intended for any expenditure related to exceptional circumstances, which were not reasonably foreseeable at the time the agreement was entered into.

All amounts paid under the Sivunirmut Agreement are indexed according to a formula based on the growth of the population in Nunavik and the evolution of Quebec's per capita expenditures in Programs pursuant to Appendix D.

14 - NET INVESTMENT IN LONG-TERM ASSETS

| | <u>2019</u> | <u>2018</u> |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| Investment in capital assets | 178,996,369 | 162,470,059 |
| Investment in loans receivable | 8,384,127 | 8,858,467 |
| Investment in long-term debt | (12,236,299) | (13,382,198) |
| Net investment in long-term assets, end of year | <u>175,144,197</u> | <u>157,946,328</u> |

The variation of the net investment in long-term assets is detailed as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| Balance, beginning of year | <u>157,946,328</u> | <u>149,087,088</u> |
| Additions | | |
| Acquisition of capital assets | 2,835,093 | 2,087,978 |
| Increase in capital projects in progress | 32,517,808 | 38,505,872 |
| Acquisition of investments and loans receivable | 117,347 | 1,539,221 |
| Provision (recovery) for doubtful loans | 682,215 | (1,073,692) |
| Provision for interest on loans receivable | 4,541 | (20,132) |
| Write-off of doubtful loans | | (54,439) |
| Increase in long-term contributions to be recovered for repaying the long-term debt | 9,701,289 | (9,355,239) |
| Capital repayments of long-term debt | 54,865,247 | 40,380,073 |
| | <u>100,723,540</u> | <u>72,009,642</u> |

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14 - NET INVESTMENT IN LONG-TERM ASSETS (Continued)

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| | \$ | \$ |
| Disposals | | |
| Capital projects closed during the year | 4,283,769 | 14,955,933 |
| Amortization of capital assets | 14,542,823 | 17,214,904 |
| Capital repayments – Loans receivable | 1,278,443 | 1,057,632 |
| Issuance of long-term debt | 31,759,000 | 12,519,933 |
| Refinancing of long-term debt | 31,661,637 | 17,402,000 |
| | <u>83,525,672</u> | <u>63,150,402</u> |
| Balance, end of year | <u>175,144,196</u> | <u>157,946,328</u> |

15 - NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|--------------------|
| | \$ | \$ |
| Contributions receivable | 10,767,967 | (7,508,183) |
| Accounts receivable | 1,539,454 | (4,797,767) |
| Other non-financial assets – Prepaid expenses and inventories | (460,724) | 2,100,012 |
| Accounts payable and accrued liabilities | (6,584,899) | 3,933,715 |
| Deferred revenues | 7,386,212 | (1,689,601) |
| | <u>12,648,010</u> | <u>(7,961,824)</u> |

16 - CONTRACTUAL OBLIGATIONS AND COMMITMENTS

- a) The KRG has entered into contractual obligations which, as at December 31, 2019, are as follows for the next years:

| | <u>\$</u> |
|------|------------------|
| 2020 | 5,423,816 |
| 2021 | 3,953,280 |
| | <u>9,377,096</u> |

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16 - CONTRACTUAL OBLIGATIONS AND COMMITMENTS (Continued)

- b) In addition to the above-mentioned obligations, the KRG has entered into contractual agreements with the Northern Villages in relation with the Economic and Community Development Fund (job creation) under the Sanarrutik Agreement. From those contractual agreements approved by the Council, during the financial year 2019, and amounting to \$4,729,678, a balance of \$2,355,355 was recorded as payable as at December 31, 2019 and is detailed as follows:

| | <u>\$</u> |
|--------------------------------------|------------------|
| Northern Village of Kangiqsualujjuaq | 175,277 |
| Northern Village of Kuujjuaq | 375,267 |
| Northern Village of Tasiujaq | 73,485 |
| Northern Village of Aupaluk | 53,552 |
| Northern Village of Kangirsuk | 117,765 |
| Northern Village of Quaqtaq | 87,537 |
| Northern Village of Kangiqsujuaq | 147,338 |
| Northern Village of Salluit | 274,945 |
| Northern Village of Ivujivik | 86,066 |
| Northern Village of Akulivik | 122,991 |
| Northern Village of Puvirnituq | 297,983 |
| Northern Village of Inukjuak | 313,669 |
| Northern Village of Umiujaq | 96,851 |
| Northern Village of Kuujjuaraapik | 132,629 |
| | <u>2,355,355</u> |

During the 2019 financial year, pursuant to the reception of the financial statements of the Northern Villages, the adjustment, related to the actual amounts, payable or receivable, will be recognized.

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17 - FINANCIAL RESERVE – TREASURY

The KRG has financed the construction, renovation and purchase of capital assets from its own monetary reserve (hereafter "the Treasury"). The balance as at December 31, 2019 of these internal loans is detailed as follows:

| | <u>2019</u> \$ | <u>2018</u> \$ |
|---|-------------------------|-------------------------|
| Issued in 2000 | | |
| Building extension (to be reimbursed by Allavik Building (#17)), bearing interest at 5% and maturing in December 2021 (\$3,600,000) | 360,000 | 540,000 |
| Issued in 2006 | | |
| Police station projects (to be reimbursed by Police Stations – Building operations (#14 and #204)), bearing interest at 5% and maturing in December 2026 (\$541,796) | 252,326 | 281,767 |
| Housing construction (to be reimbursed by KRG Houses (#74)), bearing interest at 5% and maturing in December 2026 (\$3,165,163) | 1,474,086 | 1,646,082 |
| Issued in 2007 | | |
| Warehouse (to be reimbursed by Warehouse (#73)), bearing interest at 5% and maturing in December 2027 (\$2,888,682) | 1,502,294 | 1,651,702 |
| Housing construction (to be reimbursed by KRG Houses (#74)), bearing interest at 5% and maturing in December 2027 (\$550,000) | 286,035 | 314,482 |
| Issued in 2009 | | |
| Housing construction (to be reimbursed by KRG Houses (#74)), bearing interest at 5% and maturing in December 2029 (\$4,374,301) | 2,716,500 | 2,921,468 |
| Courthouse renovations (to be reimbursed by Courthouse (#18)), bearing interest at 5% and maturing in December 2029 (\$357,724) | 222,152 | 238,914 |
| Issued in 2011 | | |
| Police station projects (to be reimbursed by Police Stations – Building operations (#14 and #204)), bearing interest at 5% and maturing in December 2021 (\$152,864) | 36,957 | 54,098 |
| Issued in 2013 | | |
| Police stations Kuujuaq and Kuujjuaraapik (to be reimbursed by Police Stations – Building operations (#14)), bearing interest at 5% and maturing in December 2033 (\$1,828,728) | 1,452,545 | 1,523,130 |
| | <u>8,302,895</u> | <u>9,171,643</u> |

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Notes to Financial Statements
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17 - FINANCIAL RESERVE – TREASURY (Continued)

The reimbursements for the next years are detailed as follows:

| | <u>\$</u> |
|---------------------------|-------------------------|
| 2020 | 903,581 |
| 2021 | 940,176 |
| 2022 | 778,713 |
| 2023 | 818,084 |
| 2024 | 859,446 |
| 2025 and subsequent years | <u>4,002,895</u> |
| | <u><u>8,302,895</u></u> |

18 - CONTINGENCIES

The KRG is involved in certain litigations. At the present time, it is impossible to determine the final amount that the KRG may have to pay regarding these litigations. The KRG believes that the total amount of the contingent obligations will not have a material and adverse effect on its financial position. However, a provision and a reserve totalling \$1,055,130 have been recorded as potential determinable liabilities in these financial statements. Any settlement resulting from the resolution of these contingencies will be accounted for as a charge or a credit to the statement of surplus (deficit) for the year of the financial year in which the settlement occurs.