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MNP LLP

**Waterhen Lake First Nation
Consolidated Financial Statements**
March 31, 2014

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Waterhen Lake First Nation
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Management's Responsibility

To the Members of Waterhen Lake First Nation:

The accompanying consolidated financial statements of Waterhen Lake First Nation are the responsibility of management and have been approved by the Chief and Council.

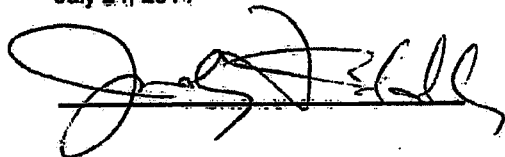
Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

Management is responsible for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Waterhen Lake First Nation Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Council is also responsible for recommending the appointment of the Nation's external auditors.

MNP LLP is appointed by Council to audit the consolidated financial statements and report directly to the Members of Waterhen Lake First Nation; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Council and management to discuss their audit findings.

July 24, 2014



Management

Independent Auditors' Report

To the Members of Waterhen Lake First Nation:

We have audited the accompanying consolidated financial statements of Waterhen Lake First Nation, which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations and accumulated operating surplus, changes in net financial assets (net debt), cash flows and the related schedules for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Waterhen Lake First Nation's business entity, Waterhen Lake Resort (North) Ltd. is consolidated in the financial statements of the First Nation and was not subject to audit procedures in the 2013 financial statement audit. We were unable to satisfy ourselves regarding the existence and valuation of customer charge accounts and inventory reported at the end of the previous fiscal year for Waterhen Lake Resort (North) Ltd. through alternative procedures. Because these balances factor into the determination of the results of operations and changes in cash flows, we were unable to determine whether adjustments were required to cost of goods sold, bad debts, current deficit, prior deficit and cash from operations.

Additionally, due to deficiencies in the sales records of Waterhen Lake Resort (North) Ltd. for the current year, we were unable to determine whether adjustments were necessary in respect of amounts recorded as revenue, bad debts and loss for the year.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly in all material respects the financial position of Waterhen Lake First Nation as at March 31, 2014 and the results of its operations, changes in net financial assets (net debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

The previous year financial statements were audited by another firm of professional accountants whose audit report was qualified due to certain of the First Nation's business included in the consolidated financial statements not being subject to audit.

Saskatoon, Saskatchewan


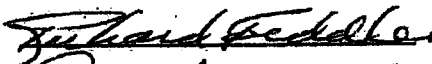

July 24, 2014

MNP LLP
Chartered Accountants

Waterhen Lake First Nation
Consolidated Statement of Financial Position
As at March 31, 2014

	2014	2013 (Restated - Note 19)
Financial assets		
Current		
Accounts receivable (Note 3)	176,426	793,323
Inventory for resale	1,500	59,859
Restricted cash (Note 4)	-	81,641
	177,926	934,823
Portfolio investments (Note 5)	21,502	20,002
Due from Waterhen Forestry Products Inc. (Note 6)	88,863	88,863
Investment in Waterhen Lake Forestry Products Inc. (Note 7)	1,982,169	1,465,768
Funds held in trust (Note 8)	45,813	44,138
Restricted cash (Note 4)	357,151	23,840
Total financial assets	2,673,424	2,577,434
Liabilities		
Current		
Bank indebtedness (Note 9)	272,405	231,213
Accounts payable and accruals	192,654	424,703
Deferred revenue (Note 10)	-	81,720
Current portion of long-term debt (Note 11)	347,528	481,760
Subtotal of current liabilities	812,587	1,219,396
Long-term debt (Note 11)	1,537,173	1,372,945
Total financial liabilities	2,349,760	2,592,341
Net financial assets (net debt)	323,664	(14,907)
Non-financial assets		
Tangible capital assets (Note 12)	13,519,610	14,095,839
Accumulated surplus (Note 13)	13,843,274	14,080,932




Approved by:

Chief

Councillor

Councillor

Councillor

Councillor

Councillor

The accompanying notes are an integral part of these financial statements

Waterhen Lake First Nation
Consolidated Statement of Operations and Operating Surplus
For the year ended March 31, 2014

	2014 <i>Budget</i> <i>(Note 17)</i>	2014	2013 <i>(Restated -</i> <i>Note 19)</i>
Revenue			
Aboriginal Affairs and Northern Development Canada (Note 15)	3,471,834	4,530,919	4,620,725
Meadow Lake Tribal Council	909,061	2,041,019	1,773,529
Meadow Lake Tribal Council - Health Services	1,063,063	1,102,771	1,103,334
Mistik Management Ltd.	110,000	166,197	66,302
Canada Mortgage and Housing Corporation	-	119,113	198,108
Other revenue	552,467	75,500	45,838
Health Canada	39,000	38,186	78,009
First Nations Trust	669,000	721,908	727,042
Earnings (loss) from investment in Nation business entities	-	516,401	(596,560)
Retail sales - Waterhen Lake Resort (North) Ltd.	-	203,523	1,549,539
Retail sales - Waterhen Lake Resort (South) Ltd.	-	150,454	131,742
Meadow Lake Tribal Council CFS Inc.	120,518	167,929	122,371
Rental income	32,000	134,066	128,115
Northern Lights CDC	-	117,508	188,936
Investment income - MLTC Resource Development LP	-	100,000	-
Province of Saskatchewan	-	36,000	10,883
Department of Highways	37,000	17,496	36,430
Sales Tax rebates	28,000	16,131	-
Interest income	-	1,675	1,419
	7,031,943	10,256,796	10,185,562
Program expenses			
Administration	1,062,016	933,717	911,757
Band Programs	643,639	585,129	545,888
Capital	72,000	1,599,209	741,308
Economic Development	62,486	641,728	1,828,554
Education	2,858,912	2,917,490	3,188,210
Health	996,445	1,085,254	1,166,532
Infrastructure	893,452	936,978	1,106,360
Reserves and Trusts	6,300	115,262	82,109
Social Services	498,774	1,698,474	1,531,802
	7,094,024	10,513,241	11,102,520
Operating deficit before other item	(62,081)	(256,445)	(916,958)
Other income			
Gain on disposal of tangible capital assets	-	18,787	-
Operating deficit	(62,081)	(237,658)	(916,958)
Surplus, beginning of year	14,317,932	14,080,932	14,997,890
Surplus, end of year	14,255,851	13,843,274	14,080,932

The accompanying notes are an integral part of these financial statements

Waterhen Lake First Nation
Consolidated Statement of Change in Net Financial Assets (Net Debt)
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 (Restated - Note 18)
Annual operating deficit	(62,081)	(237,658)	(916,958)
Purchases of tangible capital assets	-	(479,124)	(905,625)
Amortization of tangible capital assets	-	877,373	1,016,596
Proceeds on disposal of tangible capital assets	-	196,767	10,500
Inventory	-	-	41,212
Gain on disposal of tangible capital assets	-	(18,787)	-
Increase in net financial assets	(62,081)	338,571	(754,275)
Net debt, beginning of year	222,902	(14,907)	739,368
Net financial assets, end of year	160,821	323,664	(14,907)

The accompanying notes are an integral part of these financial statements

Waterhen Lake First Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2014

	2014	2013 (Restated - Note 19)
Cash provided by (used for) the following activities		
Operating activities		
Operating deficit	(237,658)	(916,958)
Non-cash items		
Amortization	877,373	1,016,596
Loss (gain) on disposal of capital assets	(18,787)	-
Loss (earnings) from investment in Nation business entities	(516,401)	596,560
	104,527	696,198
Changes in working capital accounts		
Accounts receivable	616,897	(295,597)
Restricted cash	(251,670)	18,025
Inventory for resale	58,359	(35,894)
Accounts payable and accruals	(232,049)	211,926
Deferred revenue	(81,720)	16,193
	214,344	610,851
Financing activities		
Increase (decrease) in bank indebtedness	41,192	(350,465)
Advances of long-term debt	359,210	934,880
Repayment of long-term debt	(329,214)	(288,223)
	71,188	296,192
Capital activities		
Purchases of tangible capital assets	(479,124)	(905,625)
Insurance proceeds on housing units	196,767	-
	(282,357)	(905,625)
Investing activities		
Increase in funds held in trust	(1,675)	(1,418)
Investment in Bird's Confectionary	(1,500)	-
	(3,175)	(1,418)
Increase in cash resources	-	-
Cash resources, beginning of year	-	-
Cash resources, end of year	-	-

The accompanying notes are an integral part of these financial statements

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

1. Operations

The Waterhen Lake First Nation (the "First Nation") is located in the province of Saskatchewan, and provides various services to its members. Waterhen Lake First Nation includes the Nation's government and all related entities that are accountable to the Nation and are either owned or controlled by the Nation.

2. Significant accounting policies

These consolidated financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards and including the following significant accounting policies:

Reporting entity

The financial statements consolidate the financial activities of all entities and departments comprising the First Nation reporting entity, except for First Nation business entities.

The First Nation has consolidated the assets, liabilities, revenue and expenses of the following entities and departments:

- Waterhen First Nation CMHC Housing Program 100% interest
- Waterhen Lake Resort (North) Ltd. 100% interest
- Waterhen Lake Resort (South) Ltd. 100% interest

All inter-entity balances have been eliminated on consolidation; however, transactions between departments have not been eliminated in order to present the results of operations for each specific department.

Waterhen Lake First Nation business entities, owned or controlled by the First Nation's Council but not dependent on the First Nation for their continuing operations, are included in the financial statements using the modified equity method. Under the modified equity method, the equity method of accounting is modified only to the extent that the business entity accounting principles are not adjusted to conform to those of the First Nation. Thus, the First Nation's investment in these entities is recorded at acquisition cost and is increased for the proportionate share of post acquisition earnings and decreased by post acquisition losses and distributions received. The following entity is accounted for by the modified equity basis:

- Waterhen Forestry Products Inc. 100% interest

Basis of presentation

Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Cash resources

Cash resources include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Inventory for resale

Inventory is valued at the lower of cost and net realizable value using weighted average cost.

Portfolio investments

Long-term investments in entities that are not owned, controlled or influenced by the First Nation reporting entity are accounted for using the cost method. They are recorded at cost, less any provision for other than temporary impairment.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

2. Significant accounting policies (Continued from previous page)

Funds held in Ottawa Trust Fund

Funds held in trust on behalf of First Nation members by the Government of Canada in the Ottawa Trust Fund are reported on the statement of financial position with an offsetting amount in accumulated surplus. Trust moneys consist of:

- Capital trust moneys derived from non-renewable resource transactions on the sale of land or other First Nation tangible capital assets; and
- Revenue trust moneys generated primarily through land leasing transactions or interest earned on deposits held in trust.

Tangible capital assets

Tangible capital assets are initially recorded at cost based on historical cost accounting records. Contributed tangible assets are recorded at their fair value at the date of contribution.

Amortization

Tangible capital assets are amortized annually using the following methods at rates intended to amortize the cost of the assets over their estimated useful lives:

	Method	Rate
Buildings	straight-line	30 years
Housing	straight-line	30 years
Equipment	straight-line	10 years
Infrastructure	straight-line	50 years
CMHC Housing	straight-line	30 years
Automotive	straight-line	10 years

Long-lived assets

Long-lived assets consist of tangible capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Nation performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cashflow from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value. Any impairment is included in deficit for the year.

Asset classification

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

Net financial assets

The First Nation's consolidated financial statements are presented so as to highlight net financial assets as the measurement of financial position. The net financial assets of the First Nation is determined by its financial assets less its liabilities. Net financial assets combined with non-financial assets comprises a second indicator of financial position, accumulated surplus.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

2. Significant accounting policies *(Continued from previous page)*

Revenue recognition

Non-government funding

Funding is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under funding arrangements that relate to a subsequent fiscal period are reflected as deferred revenue on the statement of financial position in the year of receipt.

Government Transfers

The First Nation recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances, the First Nation recognizes revenue as the liability is settled. Transfers of non-depreciable assets are recognized in revenue when received or receivable.

Rental income

Income associated with the rental of homes to members is recorded monthly when rental amounts are measurable and collection is reasonably assured.

Retail sales

Income from retail sales is recognized when the sale is made and the customer takes possession of the merchandise.

Investment income

Investment income is recognized when earned.

Segments

The First Nation conducts its business through 9 reportable segments:

- Administration - Includes the administration and governance activities.
- Band programs - Includes all other band activities of the First Nation.
- Capital - Includes the operations and maintenance of all on reserve housing.
- Economic development - Includes the activities of the First Nation's economic development initiatives and its business entities.
- Education - Includes the operations of education programs.
- Health - Includes the operations of health and community wellness programming.
- Infrastructure - Includes the operations and maintenance of the First Nation's buildings and infrastructure.
- Reserves and trusts - Includes activities for the development of the First Nation's land.
- Social services - Includes all activities relating to income assistance for membership.

For each reported segment, revenue and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. Inter program administration fees have been recorded based on a percentage of budgeted revenue, where permitted by the funder.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

2. Significant accounting policies (Continued from previous page)

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 revenue and expenses during the reporting period.

Accounts receivable are stated after an assessment as to their collectability has been made.

Amortization is based on useful life of the assets.

Recent accounting pronouncements

Financial instruments

In June 2011, the Public Sector Accounting Board (PSAB) issued PS 3450 *Financial Instruments* to establish standards for recognition, measurement, presentation and disclosure of financial assets, financial liabilities and non-financial derivatives. As a result of issuance of PS 3450, there have been numerous consequential amendments made to other Sections. PS 3450 is effective for fiscal years beginning on or after April 1, 2016. In the period that a public sector entity applies PS 3450, it also applies PS 1201, PS 2601 and PS 3041. Earlier adoption is permitted.

PS 3450 is applied prospectively in the fiscal year of initial adoption; therefore, financial statements of prior periods, including comparative information, are not restated. The First Nation has not yet determined the effect of these new standards on its consolidated financial statements.

3. Accounts receivable

	2014	2013
Canada Mortgage and Housing Corporation	12,315	275,484
AANDC	11,373	23,260
Meadow Lake Tribal Council	143,730	178,836
Northern Lights Community Development Corporation	-	77,830
Retail charge accounts	-	78,926
Member advances	105,131	105,131
Other	9,008	88,356
	<u>260,156</u>	<u>827,823</u>
Less: Allowance for doubtful accounts	105,131	34,500
	<u>176,426</u>	<u>793,323</u>

4. Restricted cash

	2014	2013
Current:		
Capital project - school mold	-	4,479
Capital project - water treatment plant	-	1,857
Capital project - School roof	-	75,505
	-	<u>81,841</u>
Long-term:		
CMHC replacement reserve	278,070	17,989
CMHC operating reserve	79,081	5,851
	<u>357,151</u>	<u>23,840</u>
	<u>357,151</u>	<u>105,481</u>

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

5. Portfolio investments

	2014	2013 <i>(Restated - Note 19)</i>
Measured at cost:		
IMI Brokerage LP.	20,000	20,000
MLTC Resource Development Inc.	1	1
MLTC Resource Development LP	1	1
Bird's Confectionary	1,500	-
	21,502	20,002

6. Due from Waterhen Forestry Products Inc.

During a previous year, funds were advanced to Waterhen Forestry Products Inc., a wholly owned business entity of the First Nation. The advance are unsecured bears no interest and has no fixed terms of repayment.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

7. Investment in Waterhen Lake Forestry Products Inc.

The First Nation has an investment in the following entity:

	2013 (Restated - Note 20)	Cumulative share of earning	2014
Wholly-owned Business:			
Waterhen Forestry Products Inc.	1,465,768	516,401	1,982,169

Summary financial information of the First Nation business enterprise, accounted for using the modified equity method, for its respective year-end is as follows:

	<i>Waterhen Forestry Products Inc. As at March 31, 2014</i>
Assets	
Cash	144,126
Accounts receivable	583,842
Prepaid expenses	17,232
Equipment	3,829,047
Total assets	4,574,247
Liabilities	
Accounts payable and accruals	703,425
Due to Waterhen Lake First Nation	88,863
Long-term debt	1,799,790
Total liabilities	2,592,078
Retained earnings	1,982,169
Total revenue	5,583,345
Total expenses	5,066,944
Comprehensive income	516,401

Waterhen Forestry Products Inc. has long-term debt which the First Nation has issued guarantees for repayment. The guarantees relate to loans outstanding of \$1,080,664 (2013 - \$1,773,641) used to acquire machinery. Interest rates range from prime +1.75% to prime + 2.50%. The current portion of these loans is \$438,319.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

8. Funds held in trust

Capital and revenue trust monies are transferred to the First Nation on the authorization of the Minister of Aboriginal Affairs and Northern Development Canada, with the consent of the First Nation's Council.

	2014	2013
Capital Trust		
Balance, beginning and end of year	33,890	33,890
Revenue Trust		
Balance, beginning of year	10,248	8,829
Interest	1,675	1,419
Balance, end of year	11,923	10,248
	45,813	44,138

9. Bank indebtedness

Bank indebtedness includes draws against lines of credit and bank balance less outstanding cheques. At March 31, 2014 the First Nation had a line of credit available:

- - approved limit of \$250,000; of which \$302,134 has been drawn.

The line of credit charges interest at bank prime plus 1.25% and is secured by a General Security Agreement allowing for a first charge on all assets and direction of AANDC funding to First Nations Bank.

10. Deferred Revenue

	2014	2013
School - AANDC	-	80,004
Water Treatment Plant - AANDC	-	1,716
	-	81,720

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

11. Long-term debt

	2014	2013
First Nations Bank loan repayable in quarterly instalments of \$25,000 plus monthly interest at prime plus 2.0%. Secured by a general security agreement of the First Nation. Due April 2016.	450,000	625,000
First Nations Bank loan advances in regard to the RCMP building project, repayable in monthly instalments of \$1,612 blended principal and interest at prime plus 2.0%. Secured by a general security agreement of the First Nation. Due September 2038.	271,075	274,348
First Nations Bank loan repayable in monthly instalments of \$3,770 blended principal and interest at 4.25%, due April 2019. Secured by a general security agreement of the First Nation and equipment having net book value of \$191,374	206,484	-
First Nations Bank operating debt repayable in monthly instalments of \$2,292 blended principal and interest at 5.5%, due October 2018. Secured by a general security agreement of the First Nation.	111,275	-
CMHC Mortgage, phase 1, repayable in monthly instalments of \$812 blended principal and interest at 2.84%. Secured by a guarantee by AANDC. Due January 2025.	91,090	98,178
CMHC Mortgage, phase 2, repayable in monthly instalments of \$1,978 blended principal and interest at 2.26%. Secured by a guarantee by AANDC. Due June 2026.	254,380	272,217
CMHC Mortgage, phase 3, repayable in monthly instalments of \$1,365 blended principal and interest at 2.35%. Secured by a guarantee by AANDC. Due July 2028.	199,704	211,090
CMHC Mortgage, phase 4, repayable in monthly instalments of \$2,295 blended principal and interest at 2.69%. Secured by a guarantee by AANDC. Due July 2025.	269,701	289,806
Ford Credit finance contract repayable in monthly instalments of \$1,049 blended principal and interest at 6.69%. Secured by a vehicle of the First Nation.	17,900	28,888
Ford Credit finance contract repayable in monthly instalments of \$1,047 blended principal and interest at 6.69%. Secured by a vehicle of the First Nation.	13,092	24,367
First Nations Bank loan, repaid during the year	-	28,891
First Nations Bank loan, repaid during the year	-	1,920
	1,884,701	1,854,705
Less: current portion	347,528	481,760
	1,537,173	1,372,945

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

11. **Long-term debt** *(Continued from previous page)*

Principal repayments on long-term debt in each of the next five years, assuming long-term debt subject to refinancing is renewed, are estimated as follows:

2015	347,528
2016	332,952
2017	181,590
2018	136,583
2019	129,649

Long-term debt is subject to certain financial covenants with respect to timely submission of the annual audited financial statements to their lender as well as restrictions that may be in place. As at March 31, 2014, the First Nation is in compliance with all such covenants. It is management's opinion that the First Nation is likely to remain in compliance with all long-term debt covenants throughout the next twelve months subsequent to March 31, 2014.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

12. Tangible capital assets

	Cost	Additions	Disposals	Accumulated amortization	2014 Net book value
Buildings	8,539,625	252,486	-	5,221,980	3,570,131
Housing	9,426,075	-	-	6,395,609	3,030,466
Equipment	722,195	6,835	-	654,718	74,312
Infrastructure	7,427,216	-	-	1,981,149	5,446,067
CMHC Housing	1,573,560	219,803	246,400	508,697	1,038,266
Automotive	763,313	-	-	402,945	360,368
	28,451,984	479,124	246,400	15,165,098	13,519,610

	Cost	Additions	Disposals	Accumulated amortization	2013 Net book value
Buildings	8,148,575	391,050	-	4,963,985	3,575,640
Housing	9,159,652	266,423	-	6,081,721	3,344,354
Equipment	723,761	8,934	10,500	616,129	106,066
Infrastructure	7,427,216	-	-	1,832,605	5,594,611
CMHC Housing	1,573,560	-	-	532,922	1,040,638
Automotive	524,095	239,218	-	328,783	434,530
	27,556,859	905,625	10,500	14,356,145	14,095,839

Amortization expense of \$877,373 (2013 - \$1,016,596) was recorded in Capital Expenses. Total amortization expense comprises \$44,194 amortization for CMHC housing, \$313,888 for housing, \$257,994 for buildings, \$38,589 for equipment, \$74,166 for automotive, and \$148,543 for infrastructure.

Buildings includes assets under construction with a carrying value of \$361,970 (2013 - \$201,977) for which no amortization has been recorded. CMHC Housing includes assets under construction with a carrying value of \$219,803 (2013 - nil) for which no amortization has been recorded.

13. Accumulated surplus

Accumulated surplus consists of the following:

	2014	2013 (Restated - Note 19)
Equity in Ottawa Trust Funds	45,813	44,138
Investments	2,003,671	1,485,770
CMHC reserves	482,739	449,500
Tangible Capital Assets	12,196,184	12,896,945
Operating	(885,133)	(795,421)
	13,843,274	14,080,932

The equity in tangible capital assets represents accumulated surplus amounts not available for operations, but rather past transactions creating tangible capital assets that will be used to provide future services.

The CMHC reserves are replacements and operating reserves required to be funded for future housing replacements, as per agreements with CMHC.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

13. Accumulated surplus (Continued from previous page)

The equity in investments represents amounts not readily available for operations as the investments are not likely to be liquidated within the next year.

14. Canada Mortgage and Housing Corporation reserves

Under agreements with Canada Mortgage and Housing Corporation (CMHC) the Nation established the following:

- A replacement reserve, to ensure replacement of capital equipment and for major repairs to the housing units, which requires an annual cash allocation to the reserve. At March 31, 2014, the replacement reserve is required to be funded to a level of \$275,906 (2013 - \$251,776). At March 31, 2014 the cash balance in the reserve is \$278,070 (2013 - \$17,989).
- An operating surplus reserve established for housing units under the Post 1997 Fixed Subsidy Program requires surpluses to be funded with cash. Future operating losses are able to draw on the reserve funds to sustain operations. At March 31, 2014 the operating reserve is required to be funded to a level of \$206,833 (2013 - \$197,724). At March 31, 2014 the cash balance in the reserve is \$79,081 (2013 - \$5,851).

In accordance with terms of the agreements, CMHC reserve moneys must be held or invested only in accounts or instruments guaranteed by the Canada Deposit Insurance Corporation, or as otherwise approved by CMHC. Reserve withdrawals are credited first to interest and then to principal.

15. Reconciliation of funding from Aboriginal Affairs and Northern Development Canada

Funding per AANDC confirmation	4,472,459
Add: Deferred revenue	81,720
Less: Tuition revenue recorded in 2013	(23,280)
	<u>4,530,919</u>

16. Economic dependence

Waterhen Lake First Nation receives substantially all of its revenue from Aboriginal Affairs and Northern Development Canada (AANDC) as a result of Treaties entered into with the Government of Canada. These treaties are administered by AANDC under the terms and conditions of the Indian Act. The ability of the First Nation to continue operations is dependent upon the Government of Canada's continued financial commitments as guaranteed by these treaties.

17. Budget Information

The disclosed budget information has been approved by the Chief and Council of the Waterhen Lake First Nation at the meeting held on March 19, 2013.

In preparation of the annual budget of the First nation, management does not budget for purchases of capital assets or principal payments on debt.

The budget process followed by management only includes activities directly by the First Nation. Management does not prepare a budget for capital projects administered through third party project managers. As such, no amount are included in the annual budget of the First Nation for the school roof repairs and industrial arts upgrade.

18. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Waterhen Lake First Nation
Notes to the Consolidated Financial Statements
For the year ended March 31, 2014

19. Correction of an error

During the year it was determined that the manner in which the First Nation had recorded its investments required restatement. Previously, the Nation's investments in IMI Brokerage Company Ltd., MLTC Resource Development Limited Partnership, and MLTC Resource Development Inc. were recorded using the modified equity method of accounting for its investment in these entities. However it has been determined that the First Nation's level of equity participation in these entities does not allow them to be accounted for under modified equity. The effect of restatement to account for the above noted investments from modified equity has reduced the amount reported as investments by \$4,238,187 and reduced the amount recorded as net investment income by \$456,126 in 2013.

The First Nation's wholly owned business entity, Waterhen Forestry Products Inc. was previously consolidated on a line by line basis with Waterhen Lake First Nation. It was determined that Waterhen Forestry Products Inc. qualifies as a government business enterprise, and as such is to be accounted for under the modified equity method. The effect on the 2013 financial statements is a reduction in the assets of Waterhen Forestry Products Inc. included with that of the First Nation of \$5,163,788, and a reduction in liabilities reported of \$3,461,020. The net assets of Waterhen Forestry Products Inc. of \$1,702,768, have been recorded in the investment in government business enterprise.

Additionally, the investment in Waterhen Forestry Products required adjustment due to liability previously not accrued of \$237,000. The effect of this correction was a reduction in the investment in Waterhen Forestry Products Inc. and a corresponding decrease in accumulated surplus.

Further, corrections were made to the manner in which the First Nation has recorded its patronage investment with certain business co-operatives and the manner in which revenues were reported from its Ottawa Trust Funds. The effect of this change was net increase in assets of \$17,955 and a decrease in income of \$5,630 for in 2013.

Corrections were also made with respect to the manner in which CMHC reserves were presented. The reserves, previously recorded as liabilities are now presented as a component within accumulated surplus.

Certain of the amounts previously recorded as reserve for unexpended funds (deferred revenue) were determined to not be eligible for deferral. The effect on the 2013 financial statements is a reduction in the amount recorded as deferred revenue by \$62,544 and an increase in income of \$62,544.

The effect on the 2013 financial statements as a result of these restatements was:

2013 Accumulated surplus as previously stated, beginning of the year:	19,021,053
Remove income previously recorded under modified equity method on investments	(4,238,187)
Removal of Co-op equity in investments	(24,764)
Reclassify the trust fund equity to accumulated surplus	42,719
Adjustment to record additional liability of Waterhen Forestry Products Inc.	(237,000)
Reclassify CMHC reserves to accumulated surplus	434,069
Opening accumulated surplus as restated:	14,997,890
2013 deficit as previously stated:	(517,748)
Equity pickup in IMI Brokerage Company Ltd.	(27,113)
Equity pickup in MLTC RDI Limited Partnership	(429,013)
Patronage income recorded	(7,049)
Investment income	1,421
Add deferred revenue	62,544
2013 deficit as restated	(916,958)
2013 Accumulated surplus, end of year as restated.	14,080,932

Waterhen Lake First Nation
Schedule 1 - Schedule of Consolidated Expenses by Object
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 (Restated - Note 19)
Consolidated expenses by object			
Administration	-	1,000	2,606
Advertising	-	2,221	1,400
Amortization	-	877,373	1,016,596
Assistance	105,546	1,355,125	1,260,601
Bad debts	-	132,620	-
Bank charges and interest	30,000	44,957	70,710
Community donations	13,000	940	17,690
Community support	-	18,725	-
Contracted services	446,917	945,499	658,817
Cost of goods sold	-	260,759	1,372,358
Cultural activities	61,503	108,141	51,432
Economic	30,000	13,264	12,000
Elders fees	4,900	69,437	4,900
Expense recoveries	(32,500)	(68,619)	(203,888)
Forfeited funding	-	8,043	-
Health	-	3,835	-
Honouraria	369,302	367,295	352,759
Insurance	52,361	69,691	61,265
Inter program administration fees	28,284	-	-
Interest on long-term debt	188,717	87,860	29,024
Meeting	7,800	9,633	15,945
Miscellaneous	20,000	4,700	53,314
Office equipment lease	26,100	34,824	56,647
Professional development	36,000	27,398	15,946
Professional fees	89,000	156,511	116,346
Program expense	201,877	77,282	94,346
Rent	-	2,644	14,953
Repairs and maintenance	39,085	364,899	280,980
Salaries and benefits	3,323,153	3,320,367	3,687,253
Sports, recreation and extra curricular activities	16,100	51,379	21,276
Student allowances	628,789	385,304	327,047
Student expenses	10,642	32,167	3,076
Student transportation	-	25,254	-
Supplies	463,116	594,416	592,596
Telephone	57,100	55,220	43,839
Training	231,175	104,839	59,659
Travel	415,043	416,899	484,551
Tuition	-	240,348	224,746
Utilities	231,014	310,991	301,730
	7,094,024	10,513,241	11,102,520

Waterhen Lake First Nation
Administration

Schedule 2 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 <i>Budget</i> <i>(Note 17)</i>	2014	2013 <i>Restated</i> <i>(Note 19)</i>
Revenue			
Aboriginal Affairs and Northern Development Canada	550,870	535,425	593,111
Other revenue	-	26,420	-
Meadow Lake Tribal Council	207,158	162,371	138,864
GST and Sales Tax rebates	28,000	16,131	-
Province of Saskatchewan	-	15,000	-
	786,028	755,347	731,975
Expenses			
Amortization	-	-	50,830
Bad debts	-	58,694	-
Bank charges and interest	30,000	29,530	49,993
Contracted services	46,000	31,958	70,758
Expense recoveries	(30,000)	(39,645)	(191,840)
Honouraria	343,800	338,038	335,100
Insurance	18,248	11,178	18,248
Inter program administration fees	(354,578)	(432,645)	(425,070)
Interest on long-term debt	-	27,121	-
Office equipment lease	8,500	1,567	21,759
Professional development	12,500	16,991	10,416
Professional fees	89,000	116,911	106,041
Repairs and maintenance	1,000	340	905
Salaries and benefits	522,762	414,174	526,081
Supplies	78,500	134,319	93,380
Telephone	30,400	30,451	29,606
Training	34,884	-	-
Travel	217,000	181,467	215,350
Utilities	14,000	13,268	-
	1,062,016	933,717	911,757
Deficit before transfers	(275,988)	(178,370)	(179,782)
Transfers between programs	-	218,618	155,042
Surplus (deficit)	(275,988)	40,248	(24,740)

Waterhen Lake First Nation
Band Programs
Schedule 3 - Schedule of Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 <i>Budget</i> <i>(Note 17)</i>	2014	2013 <i>Restated</i> <i>(Note 19)</i>
Revenue			
Aboriginal Affairs and Northern Development Canada	38,000	10,330	26,754
Other revenue	127,647	12,500	27,396
Meadow Lake Tribal Council	141,656	207,384	207,066
Northern Lights CDC	-	20,930	188,936
Rental income	-	70,054	12,600
Interest income	-	1,675	1,419
First Nations Trust	669,000	721,908	727,042
Province of Saskatchewan	-	21,000	10,683
	976,303	1,065,781	1,201,896
Expenses			
Administration	-	1,000	-
Amortization	-	-	34,955
Assistance	85,800	78,121	92,050
Bank charges and interest	-	219	2,333
Community donations	13,000	940	17,690
Community support	-	18,725	-
Contracted services	5,000	20,271	5,165
Cultural activities	21,000	47,093	23,490
Elders fees	4,900	69,437	4,900
Expense recoveries	(1,000)	(19,007)	-
Honouraria	11,573	6,165	8,809
Insurance	-	6,297	309
Inter program administration fees	(1,000)	1,000	4,530
Interest on long-term debt	112,000	13,792	4,282
Miscellaneous	5,600	4,386	-
Professional fees	-	750	750
Program expense	54,000	-	-
Repairs and maintenance	-	5,988	1,122
Salaries and benefits	227,266	198,779	212,422
Sports, recreation and extra curricular activities	-	10,930	21,276
Supplies	41,000	49,479	49,657
Telephone	-	80	-
Training	12,000	-	-
Travel	9,000	17,478	17,894
Utilities	43,500	53,206	44,254
	643,639	585,129	545,888
Surplus before transfers	332,664	480,652	656,008
Transfers between programs	(3,347)	(460,728)	(473,439)
Surplus	329,317	19,924	182,569

Waterhen Lake First Nation
Capital

Schedule 4 - Schedule of Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	-	444,323	368,021
Other revenue	-	18,295	(2,933)
Meadow Lake Tribal Council	72,000	108,570	-
Canada Mortgage and Housing Corporation	-	119,113	198,108
Northern Lights CDC	-	96,578	-
Rental income	-	63,075	82,800
	72,000	849,954	645,996
Expenses			
Amortization	-	877,373	366,655
Bank charges and interest	-	841	-
Contracted services	-	265,499	31,836
Insurance	-	18,260	9,711
Interest on long-term debt	-	21,851	23,694
Professional fees	-	4,950	1,800
Program expense	72,000	2,915	10,300
Repairs and maintenance	-	335,502	178,865
Salaries and benefits	-	41,580	97,664
Supplies	-	11,072	9,069
Travel	-	19,366	11,864
Expense recoveries	-	-	(150)
	72,000	1,599,209	741,308
Operating deficit before other items	-	(749,255)	(95,312)
Other income			
Gain on disposal of tangible capital assets	-	18,787	-
Deficit before transfers	-	(730,468)	(95,312)
Transfers between programs	-	167,237	54,000
Deficit	-	(563,231)	(41,312)

Waterhen Lake First Nation
Economic Development

Schedule 5 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	-	42,185	-
Meadow Lake Tribal Council	62,486	63,682	63,306
Mistik Management Ltd.	-	74,125	-
Other revenue	-	-	488
Earnings (loss) from investment in Nation business entities	-	516,401	(596,560)
Investment income - MLTC Resource Development LP	-	100,000	-
Retail sales - Waterhen Lake Resort (North) Ltd.	-	203,523	1,549,539
Retail sales - Waterhen Lake Resort (South) Ltd.	-	150,454	131,742
	62,486	1,150,370	1,148,515
Expenses			
Administration	-	-	2,606
Advertising	-	2,221	1,400
Amortization	-	-	15,309
Bad debts	-	73,926	-
Bank charges and interest	-	14,366	17,519
Contracted services	17,237	96,835	35,365
Cost of goods sold	-	260,759	1,372,358
Economic	30,000	13,264	12,000
Expense recoveries	-	(360)	-
Insurance	-	2,836	2,606
Inter program administration fees	6,249	6,368	-
Interest on long-term debt	-	2,737	-
Professional fees	-	33,900	7,755
Rent	-	2,643	14,953
Repairs and maintenance	-	4,353	21,148
Salaries and benefits	-	91,232	232,799
Supplies	-	8,338	18,254
Telephone	-	4,241	1,163
Travel	9,000	10,832	10,452
Utilities	-	13,237	62,867
	62,486	641,728	1,828,554
Surplus (deficit)	-	508,642	(680,039)

Waterhen Lake First Nation
Education

Schedule 6 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)

For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	2,576,448	2,624,209	2,694,342
Other revenue	95,000	12,481	-
Meadow Lake Tribal Council - Health Services	69,060	77,807	69,060
Meadow Lake Tribal Council	78,034	220,635	213,518
	2,818,542	2,935,132	2,976,920
Expenses			
Amortization	-	-	278,797
Bank charges and interest	-	-	865
Contracted services	173,875	212,888	322,421
Cultural activities	15,000	6,419	-
Honouraria	3,500	17,856	2,200
Inter program administration fees	208,178	220,062	215,546
Insurance	1,577	-	-
Interest on long-term debt	13,000	11,519	-
Meeting	1,000	2,783	-
Miscellaneous	-	215	53,314
Office equipment lease	-	442	10,499
Professional development	16,000	1,510	5,530
Student allowances	628,789	386,304	327,047
Program expense	-	28,560	-
Repairs and maintenance	500	2,423	2,211
Salaries and benefits	1,562,503	1,587,464	1,584,233
Student expenses	10,642	32,167	3,076
Supplies	122,500	114,796	93,871
Telephone	9,000	6,763	7,963
Training	7,000	-	-
Student transportation	-	25,254	-
Travel	52,402	10,023	48,567
Tuition	-	240,348	224,746
Assistance	19,746	-	15,875
Expense recoveries	-	(2,840)	(8,551)
Sports, recreation and extra curricular activities	13,700	13,534	-
	2,858,912	2,917,490	3,188,210
Surplus (deficit) before transfers	(40,370)	17,642	(211,290)
Transfers between programs	23,300	-	-
Surplus (deficit)	(17,070)	17,642	(211,290)

Waterhen Lake First Nation
Health

Schedule 7 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 <i>Budget</i> <i>(Note 17)</i>	2014	2013 <i>Restated</i> <i>(Note 19)</i>
Revenue			
Aboriginal Affairs and Northern Development Canada	-	-	90,000
Other revenue	20,000	5,805	20,888
Meadow Lake Tribal Council - Health Services	862,624	885,584	898,954
Meadow Lake Tribal Council	25,000	35,000	22,000
Health Canada	39,000	38,186	78,009
Meadow Lake Tribal Council CFS Inc.	120,518	167,929	122,371
	1,067,142	1,132,504	1,232,222
Expenses			
Amortization	-	-	44,432
Contracted services	66,165	79,313	55,174
Cultural activities	-	19,416	-
Health	-	3,835	-
Honouraria	4,129	4,036	2,025
Inter program administration fees	100,456	113,719	107,242
Insurance	1,449	2,707	1,888
Forfeited funding	-	8,043	-
Meeting	6,800	6,850	15,945
Office equipment lease	17,600	32,815	24,389
Professional development	4,500	3,561	-
Repairs and maintenance	5,085	930	48,163
Salaries and benefits	574,495	569,449	564,861
Supplies	93,216	110,022	180,820
Telephone	14,100	9,097	2,342
Training	25,350	8,791	9,817
Travel	63,100	90,549	89,417
Utilities	21,500	26,317	24,569
Expense recoveries	(1,500)	(4,196)	(2,552)
	996,445	1,085,254	1,166,532
Surplus before transfers	70,697	47,250	65,690
Transfers between programs	(34,754)	-	6,398
Surplus	35,943	47,250	72,088

Waterhen Lake First Nation
Infrastructure

Schedule 8 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)

For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	235,692	586,469	606,970
Other revenue	28,050	-	-
Meadow Lake Tribal Council	322,727	-	-
Rental income	32,000	937	32,715
Department of Highways	37,000	17,496	36,430
	655,469	604,902	676,115
Expenses			
Amortization	-	-	225,618
Contracted services	126,640	109,928	75,095
Expense recoveries	-	(2,572)	(995)
Insurance	31,087	28,413	28,503
Inter program administration fees	55,842	55,844	53,618
Interest on long-term debt	63,717	10,840	1,047
Miscellaneous	14,400	99	-
Professional development	3,000	1,782	-
Repairs and maintenance	32,500	15,363	30,586
Salaries and benefits	245,413	303,869	328,173
Supplies	117,700	156,508	140,550
Telephone	3,600	4,588	2,764
Travel	47,541	47,353	51,380
Utilities	152,012	204,963	170,041
	893,452	936,978	1,106,360
Deficit before transfers	(237,983)	(332,076)	(430,245)
Transfers between programs	-	74,873	258,000
Deficit	(237,983)	(257,203)	(172,245)

Waterhen Lake First Nation
Reserves and Trusts

Schedule 9 - Schedule of Segment Revenue and Expenses and Surplus (Deficit)
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	14,056	14,056	14,028
Mistik Management Ltd.	110,000	92,072	66,302
	124,056	106,128	80,330
Expenses			
Contracted services	-	80,400	35,070
Honouraria	6,300	1,200	4,625
Inter program administration fees	-	-	14,028
Supplies	-	3,010	5,681
Travel	-	30,652	22,705
	6,300	115,262	82,109
Deficit before transfers	117,756	(9,134)	(1,779)
Transfers between programs	(14,056)	-	-
Deficit	103,700	(9,134)	(1,779)

Waterhen Lake First Nation
Social Services

Schedule 10 - Schedule of Segment Revenue and Expenses Surplus (Deficit)
For the year ended March 31, 2014

	2014 Budget (Note 17)	2014	2013 Restated (Note 19)
Revenue			
Aboriginal Affairs and Northern Development Canada	56,768	273,922	227,499
Other revenue	281,770	-	-
Meadow Lake Tribal Council - Health Services	131,379	139,380	135,320
Meadow Lake Tribal Council	-	1,243,376	1,128,774
	469,917	1,656,678	1,491,593
Expenses			
Assistance	-	1,277,003	1,152,677
Contracted services	12,000	48,408	27,934
Cultural activities	25,503	35,213	27,941
Inter program administration fees	13,138	35,653	30,106
Professional development	-	3,554	-
Program expense	75,877	45,807	84,046
Salaries and benefits	190,715	113,821	141,020
Sports, recreation and extra curricular activities	2,400	26,916	-
Supplies	10,200	6,871	1,315
Training	151,941	96,048	49,842
Travel	17,000	9,180	16,921
	498,774	1,698,474	1,531,802
Deficit before transfers	(28,857)	(41,796)	(40,209)
Transfers between programs	28,857	-	-
Deficit	-	(41,796)	(40,209)