

Kehewin Cree Nation
Consolidated Financial Statements
March 31, 2014

Kehewin Cree Nation

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Kehewin Cree Nation

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of **Kehewin Cree Nation** and all the financial information in this annual report are the responsibility of management and have been approved by the **Kehewin Cree Nation** Chief and Council.

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgment. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The First Nation's management is also responsible for implementing and maintaining systems of internal accounting and administrative control. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the First Nation's assets are appropriately accounted for and adequately safeguarded.

The Chief and Council are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements.

The consolidated financial statements have been audited by Doyle & Company in accordance with Canadian auditing standards on behalf of the members.

AL ERNEST GADWA

Chief

[Signature]

Councilor

Allan J. Grykuliak, C.A.*
Scott T. Mockford, C.A.*

* Operates as a Professional Corporation

To the Chief and Council

INDEPENDENT AUDITORS' REPORT

11210 - 107 Avenue N.W. 2nd Flr
Edmonton, Alberta T5H 0Y1
Tel (780) 452-2300, Fax (780) 452-2335

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the **Kehewin Cree Nation**, which comprise the statement of financial position as at March 31, 2014 and the statements of financial activities, change in net financial assets and the statement of cash flows 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.

Auditor's 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's 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 preparations 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 statements.

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

Basis for Qualified Opinion

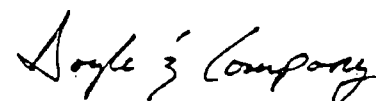
KCN Contracting Ltd. is a wholly owned subsidiary of Kehewin Cree Nation, we were unable to obtain sufficient appropriate audit evidence of Kehewin Cree Nation's share of KCN Contracting Ltd.'s net income (loss) and any advances to (from) the company for the year. The auditors are still in the process of preparing the financial statements for the current year. Consequently, we were not able to determine whether any adjustments to these amounts were necessary.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded program expenditures and payables, and the elements making up the consolidated statements of financial position, financial actives and cashflow.

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 Kehewin Cree Nation as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

September 9, 2014
Edmonton, Alberta



Chartered Accountants

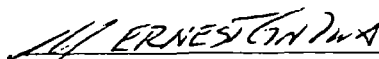
Kehewin Cree Nation

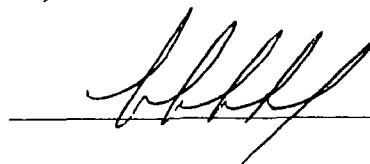
Consolidated Statement of Financial Position

As at March 31, 2014

| | 2014 \$ | 2013 \$ |
|--|--------------------|--------------------|
| FINANCIAL ASSETS | | |
| Cash | 616,419 | 230,464 |
| Investments | 42,725 | 42,687 |
| Accounts receivable (Note 6) | 574,193 | 503,891 |
| Band trust funds (Note 15) | 346,363 | 439,257 |
| Investment in and advances to subsidiaries (Note 12) | 4,219,145 | 3,032,203 |
| | 5,798,845 | 4,248,502 |
| LIABILITIES | | |
| Accounts payable (Note 7) | 1,609,108 | 2,484,538 |
| Deferred revenue (Note 8) | 472,244 | 520,371 |
| Long-term liabilities (Note 9) | 4,431,550 | 5,551,942 |
| Reserves (Note 11) | 559,194 | 491,247 |
| | 7,072,096 | 9,048,098 |
| NET FINANCIAL DEBT | (1,273,251) | (4,799,596) |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (Schedule 2) | 17,747,007 | 18,289,447 |
| Prepaid expenses | 11,563 | - |
| | 17,758,570 | 18,289,447 |
| ACCUMULATED SURPLUS (DEFICIT) (Note 16) | 16,485,319 | 13,489,851 |

Approved by:

 Ernest Chawa Chief

 Councilor

Kehewin Cree Nation

Consolidated Statement of Financial Activities

For the year ended March 31, 2014

| | 2014 \$ | 2013 \$ |
|---|-------------------|-------------------|
| REVENUE | | |
| Aboriginal Affairs and Northern Development Canada (AANDC) - fixed | 4,477,464 | 4,197,646 |
| AANDC - set | 874,246 | 2,806,951 |
| AANDC - grant | 517,280 | 518,906 |
| Administration fees | 149,713 | 87,540 |
| Aboriginal Skills and Employment Training Strategy (ASETS) | 277,640 | 438,758 |
| Canada Mortgage Housing Corporation | 434,986 | 432,106 |
| First Nations Development Fund | 675,996 | 680,414 |
| Government of Alberta | 228,401 | 447,492 |
| Health Canada | 2,102,650 | 1,985,396 |
| Investment in entities | 1,186,942 | 1,470,489 |
| Oil and gas | 330,000 | 320,022 |
| Rental income | 1,037,429 | 565,858 |
| Solicitor General | 16,071 | 22,499 |
| Trust Funds with AANDC - Capital account (Note 15) | 503,252 | 345,547 |
| Trust Funds with AANDC - Revenue account (Note 15) | 127,993 | 50,000 |
| Other | 2,931,182 | 1,318,678 |
| Funding returned to provider | (307,776) | (387,933) |
| Recovery | - | (51,200) |
| Revenue deferred from prior period | 352,680 | 2,895,131 |
| Revenue deferred to subsequent period | (472,242) | (1,043,464) |
| | 15,443,907 | 17,100,836 |
| EXPENDITURES | | |
| Aboriginal Skills and Employment Training Strategies (ASETS) | 317,983 | 254,195 |
| Administration | 1,160,551 | 1,312,710 |
| Band Support Funding - Third Party Managers (TPM) | 564,430 | 429,201 |
| Canada Mortgage and Housing Corporation (CMHC) | 774,574 | 720,993 |
| Chief and Council | 501,863 | 396,275 |
| Daycare | 170,430 | 186,582 |
| Daycare - TPM | 144,615 | 171,945 |
| Economic Development | 11,359 | 112,146 |
| Economic Development - TPM | - | 3,661 |
| Education | 297,902 | 390,310 |
| Education - TPM | 2,723,281 | 2,373,054 |
| Education - Post - Secondary - TPM | 475,349 | 334,440 |
| Education - Student Transportation - TPM | 191,946 | 208,193 |
| Health | 2,095,747 | 2,150,691 |
| Housing | 511,277 | 88,232 |
| National Child Benefit - TPM | - | 500 |
| Public Works | 48,663 | 270,542 |
| Public Works - TPM | 1,193,878 | 925,452 |
| Social Services - TPM (Note 5) | - | 2,344,003 |
| Social Services Delivery - TPM (Note 5) | - | 93,933 |
| Previous Third Party Managers - TPM | 229,155 | - |
| | 11,413,003 | 12,767,058 |
| EXCESS OF REVENUE OVER EXPENDITURE BEFORE OTHER REVENUES (EXPENSES) | 4,030,904 | 4,333,778 |
| OTHER REVENUE (EXPENSES) | | |
| Amortization | (887,542) | (863,287) |
| Loss on disposal of assets | (55,000) | - |
| | (942,542) | (863,287) |
| EXCESS OF REVENUE OVER EXPENDITURE BEFORE CAPITAL PURCHASES | 3,088,362 | 3,470,491 |
| Capital purchases | (481,602) | (74,128) |
| EXCESS (SHORTFALL) OF REVENUES OVER EXPENDITURES AFTER CAPITAL PURCHASES | 2,606,760 | 3,396,363 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation
Consolidated Statement of Change in Net Financial Assets
For the year ended March 31, 2014

| | 2014 \$ | 2013 \$ |
|--|--------------------|--------------------|
| EXCESS OF REVENUES OVER EXPENSES | 3,088,362 | 3,470,491 |
| Acquisition of tangible capital assets | (481,602) | (74,128) |
| Amortization of tangible capital assets | 887,542 | 863,287 |
| Equity adjustment | (276,087) | - |
| Proceeds on disposal of tangible capital assets | 359,589 | - |
| (Gain) Loss on disposal of tangible capital assets | 55,000 | - |
| Increase (Decrease) in trust Funds | (92,894) | 2,668 |
| | 451,548 | 791,827 |
| Acquisition of prepaid assets | (11,563) | - |
| INCREASE IN NET ASSETS | 3,528,347 | 4,262,318 |
| NET FINANCIAL DEBT, BEGINNING OF YEAR | (4,801,598) | (9,063,916) |
| NET FINANCIAL DEBT, END OF YEAR | (1,273,251) | (4,801,598) |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation
Consolidated Statement of Cash Flows
For the year ended March 31, 2014

| | 2014 \$ | 2013 \$ |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from funding agencies and customers | 15,325,478 | 15,865,531 |
| Cash paid to suppliers and employees | (12,042,392) | (13,387,784) |
| Interest on Long-term liabilities | (268,998) | (607,367) |
| | 3,014,088 | 1,870,380 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in long-term liabilities | - | 231,787 |
| Repayment of long-term liabilities | (1,120,392) | (1,125,116) |
| | (1,120,392) | (893,329) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital asset additions | (481,602) | (74,128) |
| Increase in investments | (1,186,942) | (1,513,176) |
| Proceeds on disposal on investments | - | 61,639 |
| Decrease in trust funds | 92,894 | 2,668 |
| Decrease in reserves | 67,947 | - |
| | (1,507,703) | (1,522,997) |
| INCREASE (DECREASE) IN CASH DURING THE YEAR | 385,993 | (545,946) |
| CASH - Beginning of year | 273,151 | 819,097 |
| CASH - End of year | 659,144 | 273,151 |
| Cash Consists of: | | |
| Cash and Short Term Deposits | 616,419 | 230,464 |
| GICs | 42,725 | 42,687 |
| | 659,144 | 273,151 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation
Consolidated Statement of Expenditures by Object
For the year ended March 31, 2014

| | 2014 | 2013 |
|---------------------------------|-------------------|-------------------|
| | \$ | \$ |
| EXPENDITURES | | |
| Amortization | 887,542 | 863,286 |
| Contracted and general services | 2,442,718 | 2,199,135 |
| Education and tuition | 366,021 | 511,889 |
| Insurance | 332,042 | 211,024 |
| Interest and bank charges | 7,953 | 27,111 |
| Interest on long term debt | 268,998 | 607,367 |
| Materials and supplies | 109,631 | 290,126 |
| Office | 81,310 | - |
| Professional services | 970,230 | 577,685 |
| Program expenses | 1,183,797 | 117,845 |
| Rent | 12,411 | 143,165 |
| Repairs and maintenance | 575,584 | 562,539 |
| Replacement reserve | 61,639 | 61,639 |
| Salaries, wages and benefits | 3,776,976 | 4,554,105 |
| Social assistance (Note 5) | 20,629 | 1,871,966 |
| Supplies and services | 584,463 | 601,818 |
| Training and workshops | 106,541 | 113,768 |
| Travel | 85,208 | 44,192 |
| Utilities and telephone | 426,852 | 269,683 |
| | 12,300,545 | 13,628,343 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation

Schedule of Changes in Accumulated Surplus - Schedule 1

For the year ended March 31, 2014

| | Unrestricted Surplus | Equity in Tangible Capital Assets | Equity in Enterprise Fund | Equity in Trust Funds | 2014 \$ | 2013 \$ |
|--|-------------------------|--------------------------------------|------------------------------|--------------------------|-------------------|-------------------|
| Balance, Beginning of Year | (3,258,388) | 13,276,779 | 3,032,203 | 439,257 | 13,489,851 | 10,014,690 |
| Excess of revenue over expenses | 3,088,362 | - | - | 538,351 | 3,626,713 | 3,868,706 |
| Excess of revenue over expenses - investments | (1,186,942) | - | 1,186,942 | - | - | - |
| Trust funds used for operations | - | - | - | (631,245) | (631,245) | (395,547) |
| Current years funds used for tangible capital assets | (481,602) | 481,602 | - | - | - | - |
| Disposal of capital assets | 136,500 | (136,500) | - | - | - | - |
| Annual amortization expense | 887,542 | (887,542) | - | - | - | - |
| Long-term liabilities repaid | (1,120,615) | 1,120,615 | - | - | - | - |
| Change in accumulated surplus | 1,323,245 | 578,175 | 1,186,942 | (92,894) | 2,995,468 | 3,473,159 |
| Balance, End of Year | (1,935,143) | 13,854,954 | 4,219,145 | 346,363 | 16,485,319 | 13,487,849 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation
Consolidated Statement of Tangible Capital Assets - Schedule 2
For the year ended March 31, 2014

| | Land | Buildings & Houses | Automotive | Computer Equipment | Furniture & Equipment | Infrastructure | 2014 | 2013 |
|--|--------------|-----------------------|----------------|-----------------------|--------------------------|------------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| COST: | | | | | | | | |
| Balance, Beginning of Year | 1,500 | 24,119,746 | 2,296,474 | 257,903 | 1,130,781 | 3,082,198 | 30,888,602 | 30,814,474 |
| Acquisition of tangible capital assets | - | 402,860 | 77,352 | 1,390 | - | - | 481,602 | 74,128 |
| Disposal of tangible capital assets | - | (497,228) | - | - | - | - | (497,228) | - |
| Balance, End of Year | 1,500 | 24,025,378 | 2,373,826 | 259,293 | 1,130,781 | 3,082,198 | 30,872,976 | 30,888,602 |
| ACCUMULATED AMORTIZATION: | | | | | | | | |
| Balance, Beginning of Year | - | 8,469,000 | 1,895,739 | 235,817 | 889,380 | 1,109,219 | 12,599,155 | 11,735,868 |
| Annual amortization | - | 647,512 | 105,996 | 6,834 | 48,281 | 78,919 | 887,542 | 863,287 |
| Accumulated amortization on disposals | - | (360,728) | - | - | - | - | (360,728) | - |
| Balance, End of Year | - | 8,755,784 | 2,001,735 | 242,651 | 937,661 | 1,188,138 | 13,125,969 | 12,599,155 |
| NET BOOK VALUE | 1,500 | 15,269,594 | 372,091 | 16,642 | 193,120 | 1,894,060 | 17,747,007 | 18,289,447 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation
Consolidated Statement of Financial Activities by Program - Schedule 3
For the year ended March 31, 2014

| | AANDC Revenue \$ | Other \$ | Total Revenue \$ | Total Expenditures \$ | Surplus (Deficit) \$ | Capital Expenditures \$ | 2014 Surplus (Deficit) \$ | 2013 Surplus (Deficit) \$ |
|--|------------------------|------------------|------------------------|-----------------------------|----------------------------|-------------------------------|------------------------------------|------------------------------------|
| Aboriginal Skills and Employment Training Strategies (ASETS) | - | 300,926 | 300,926 | 317,983 | (17,057) | - | (17,057) | 36,930 |
| Administration | - | 3,809,366 | 3,809,366 | 1,160,551 | 2,648,815 | - | 2,648,815 | 1,024,209 |
| Band Support - TPM | 564,430 | - | 564,430 | 564,430 | - | - | - | (178,102) |
| CMHC | - | 1,172,875 | 1,172,875 | 774,574 | 398,301 | (402,860) | (4,559) | (6,722) |
| Chief and Council | - | 285,682 | 285,682 | 501,863 | (216,181) | - | (216,181) | (396,275) |
| Daycare | - | 200,978 | 200,978 | 170,430 | 30,548 | - | 30,548 | 16,498 |
| Daycare - TPM | 149,040 | 6,000 | 155,040 | 144,615 | 10,425 | - | 10,425 | (22,905) |
| Economic Development | - | 1,236,966 | 1,236,966 | 11,359 | 1,225,607 | - | 1,225,607 | 2,010,086 |
| Economic Development - TPM | - | - | - | - | - | - | - | 185,989 |
| Education | - | 200,651 | 200,651 | 297,902 | (97,251) | - | (97,251) | (108,594) |
| Education - TPM | 2,771,758 | 139,714 | 2,911,472 | 2,723,281 | 188,191 | - | 188,191 | 269,320 |
| Education - Post Secondary - TPM | 535,616 | - | 535,616 | 475,349 | 60,267 | - | 60,267 | 201,176 |
| Education - Transportation - TPM | 268,505 | - | 268,505 | 191,946 | 76,559 | - | 76,559 | 38,023 |
| Health Centre | - | 2,167,401 | 2,167,401 | 2,095,747 | 71,654 | (35,890) | 35,764 | (75,854) |
| Housing | - | 361,400 | 361,400 | 511,277 | (149,877) | - | (149,877) | - |
| National Child Benefit - TPM | - | - | - | - | - | - | - | 259,460 |
| Public Works | - | 13,831 | 13,831 | 48,663 | (34,832) | (42,852) | (77,684) | (248,043) |
| Public Works - TPM | 1,579,641 | (29,049) | 1,550,592 | 1,193,878 | 356,714 | - | 356,714 | 342,706 |
| Social Services - TPM | - | - | - | - | - | - | - | (738,279) |
| Social Services Delivery - TPM | - | - | - | - | - | - | - | 265,409 |
| Previous Third Party Manager | - | (291,821) | (291,821) | 229,155 | (520,976) | - | (520,976) | - |
| | 5,868,990 | 9,574,920 | 15,443,910 | 11,413,003 | 4,030,907 | (481,602) | 3,549,305 | 2,875,032 |

The accompanying notes form part of these financial statements.

Kehewin Cree Nation

Notes to the Consolidated Financial Statements

March 31, 2014

DESCRIPTION OF OPERATIONS

The Chief and Council of Kehewin Cree Nation (the "First Nation") primary function is to administer the affairs of Kehewin Cree Nation.

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian public sector accounting standards for governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Fund Accounting

The Kehewin Cree Nation uses fund accounting procedures which result in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions. The various funds have been amalgamated for the purpose of presentation in the financial statements. Details of the operations of each fund are set out in the supplementary schedules. The Kehewin Cree Nation maintains the following funds:

- The Operating Fund which reports the general activities of the First Nation Administration.
- The Equity in Capital Assets Fund which reports the capital assets of the First Nation, together with their related financing.
- The Equity in Enterprise Fund which reports the investment made in controlled entities.
- The Trust Fund which reports on trust funds owned by the First Nation and held by third parties.

(b) Reporting Entity and Principles of Financial Reporting

The Kehewin Cree Nation reporting entity includes the Kehewin Cree Nation's government and all related entities which are accountable to the First Nation and are either owned or controlled by the Kehewin Cree Nation.

These financial statements consolidate the assets, liabilities and results of operations for the following entities which lend themselves to consolidation.

- Kehewin Cree Nation Operating Fund
- Kehewin Cree Nation Trust Funds
- Kehewin Health Services
- Third Party Managed Programs

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

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

(b) Reporting Entity and Principles of Financial Reporting - continued

Incorporated business entities, which are owned or controlled by the Kehewin Cree Nation and which are not dependent on the First Nation for their continuing operations are included in the summary financial statements using the modified equity method. These include:

- 681415 Alberta Ltd. (Kehewin Gasification)
- KCN Contracting Ltd.

(c) Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated Change in Net Financial Assets for the year.

i) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a declining balance basis over the estimated useful life of the assets at the annual rates as follows:

| | |
|-----------------------------|-----|
| Automotive | 30% |
| Buildings | 4% |
| Computer equipment | 30% |
| Furniture and equipment | 20% |
| Machinery and equipment | 20% |
| Projects under construction | 0% |
| Water system | 4% |

Annual amortization is charged in the year of acquisition and not in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

ii) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operation leases and the related lease payments are charges to expenses as incurred.

d) Revenue Recognition

Revenue is recognized as it becomes receivable under the terms of applicable funding agreements. Funding received under the funding arrangements which relates to a subsequent fiscal period is reflected as deferred revenue in the year of receipt and classified as such on the statement of financial position.

Kehewin Cree Nation

Notes to the Consolidated Financial Statements

March 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Trust Funds

The Ottawa Trust Accounts arise from monies derived from capital or revenue sources as outlined in Section 62 of the Indian Act. These funds are held in trust in the Consolidated Revenue Fund of the Government of Canada and are subject to audit by the Office of the Auditor General of Canada. The management of these funds is primarily governed by Sections 63 to 69 of the Indian Act.

First Nation trust funds are included as revenue in these statements only to the extent they have been received from the First Nation's trust fund accounts, or are receivable or accrued at year-end, which have been authorized by Aboriginal Affairs and Northern Development Canada (AANDC) approved band council resolution (BCR). The amounts on deposit with the Government of Canada are audited by the Auditor General of Canada.

(f) Financial Instruments

The Nation's financial instruments consist of cash, accounts receivable, investments, trust funds, accounts payable, deferred revenue and long-term liabilities. Unless otherwise noted, it is management's opinion that the Nation is not exposed to significant interest or foreign currency risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

(g) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. ECONOMIC DEPENDENCE

The Kehewin Cree Nation receives the majority of its funding from Aboriginal Affairs and Northern Development Canada (AANDC). The Nation is also dependent on Health Canada for funding to run its health program through a health funding consolidated contribution agreement.

3. GOING CONCERN

These financial statements have been prepared in accordance with accounting principles that apply to a going concern. Under the going concern assumption, an entity is viewed as being able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of operations.

The Nation's ability to continue as a going concern depends on its ability to improve operations, access additional financing and obtain the ongoing support of its creditors.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate because management feels that the measures it intends to take will improve operations and a refinancing of accounts payable will mitigate the effect of the conditions and facts that raise doubt about the appropriateness of this assumption.

Kehewin Cree Nation

Notes to the Consolidated Financial Statements

March 31, 2014

4. THIRD PARTY MANAGEMENT

Effective April 1, 2010, Aboriginal Affairs and Northern Development Canada appointed a third party manager to administer the delivery of all programs funded by Aboriginal Affairs and Northern Development Canada and certain expenditures from the Nation's Ottawa trust funds. On April 1, 2013 there was a changeover to a new third party management group.

5. SOCIAL ASSISTANCE PROGRAM

Effective April 1, 2013, the social assistance program is administered by an independent third party. The program has been separately audited by another accounting firm and has not been consolidated with the Nation.

6. ACCOUNTS RECEIVABLE

| | 2014 \$ | 2013 \$ |
|--|------------|------------|
| Aboriginal Affairs and Northern Development Canada | 248,167 | 483,819 |
| First Nation Development Fund | 170,877 | - |
| Members - Maintenance | 266,642 | - |
| Members - Rent | 290,495 | - |
| Trade Accounts | 149,914 | 9,023 |
| GST Receivable | 5,234 | 11,049 |
| | 1,131,329 | 503,891 |
| Allowance for Doubtful Accounts (Maintenance and Rent) | (557,136) | - |
| | 574,193 | 503,891 |

7. ACCOUNTS PAYABLE

| | 2014 \$ | 2013 \$ |
|----------------------------------|------------|------------|
| Trade Accounts | 1,460,237 | 1,970,269 |
| Ministerial Loan Guarantee (MLG) | 148,871 | 514,269 |
| | 1,609,108 | 2,484,538 |

8. DEFERRED REVENUE

| | 2014 Total \$ | 2013 Total \$ |
|-------------------------------|---------------------|---------------------|
| AANDC | 45,120 | - |
| First Nation Development Fund | 3,189 | 167,688 |
| Health Canada | 134,419 | 16,294 |
| National child benefit | 6,183 | 13,056 |
| Rental revenue | 283,333 | 323,333 |
| | 472,244 | 520,371 |

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

9. LONG-TERM LIABILITIES

| | 2014 | 2013 |
|---|------------------|-------------|
| | \$ | \$ |
| Alberta Indian Investment Corporation loan repayable in monthly installments of \$6,520 including interest at 10.00%, due October 2014. | 39,466 | 116,881 |
| First Nations Bank of Canada mortgage repayable in monthly installments \$3,473 including interest at 5.55%, due July 2018. | 160,795 | 192,470 |
| First Nations Bank of Canada mortgage repayable in monthly installments \$1,980 including interest at 5.55%, due June 2013. | - | 4,157 |
| First Nations Bank of Canada mortgage repayable in monthly installments \$3,586 including interest at 5.55%, due June 2018. | 162,892 | 195,401 |
| First Nations Bank of Canada mortgage repayable in monthly installments \$3,429 including interest at 8.44%, due April 2017. | 110,856 | 141,232 |
| CMHC mortgage repayable in monthly installments of \$7,355 including interest at 14.75%, due December 2016. | 200,725 | 253,753 |
| CMHC mortgage repayable in monthly installments of \$3,033 including interest at 11.75%, due February 2016. | 62,253 | 89,223 |
| CMHC mortgage repayable in monthly installments of \$908 including interest at 2.63%, due March 2026. | 112,361 | 119,959 |
| CMHC mortgage repayable in monthly installments of \$1,616 including interest at 1.64%, due January 2027. | 224,686 | 239,962 |
| CMHC mortgage repayable in monthly installments of \$2,489 including interest at 1.82%, due November 2036. | 554,643 | 573,422 |
| CMHC mortgage repayable in monthly installments of \$13,731 including interest at 2.69%, due August 2030. | 2,167,693 | 2,268,151 |
| CMHC mortgage repayable in monthly installments of \$1,974 including interest at 1.81%, due February 2019. | 111,530 | 132,826 |
| First Nations Bank of Canada mortgage repayable in monthly installments \$8,045 including interest at 7.64%, due October 2015. | 142,641 | 224,732 |
| First Nations Bank of Canada construction term loan bearing a variable interest rate at prime plus 2% per annum, repayable in monthly installments of \$8,285 including interest. | 40,085 | 111,378 |
| First Nations Bank of Canada term loan bearing interest at cost of fund plus 3.44% per annum, repayable in monthly installments of \$30,187 including interest. | 339,385 | 882,217 |
| CMHC mortgage repayable in monthly installments of \$198 including interest at 10.625%, due May 2015. | 958 | 3,110 |

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

9. LONG-TERM LIABILITIES - continued

| | 2014 \$ | 2013 \$ |
|---|------------------|------------------|
| CMHC mortgage repayable in monthly installments of \$86 including interest at 9.50%, due July 2013. | - | 263 |
| CMHC mortgage repayable in monthly installments of \$52 including interest at 10.00%, due May 2013. | - | 34 |
| CMHC mortgage repayable in monthly installments of \$198 including interest at 10.625%, due May 2015. | 581 | 2,771 |
| | 4,431,550 | 5,551,942 |

Long-term debts are secured by:

The CMHC and First Nations Bank of Canada mortgage loans are guaranteed by the Minister of Indian Affairs.

Security for the First Nations Bank of Canada loans includes a Band Council Resolution authorizing AANDC to forward funding to the First Nations Bank of Canada, and an assignment of insurance over specific assets.

Interest paid on long-term liabilities amounted to \$261,654 (2013 - \$607,367) during the year.

Future principal repayments on long-term liabilities are estimated as follows:

| | \$ |
|---------------------|------------------|
| 2015 | 877,400 |
| 2016 | 444,115 |
| 2017 | 362,723 |
| 2018 | 269,886 |
| 2019 | 214,520 |
| 2020 and thereafter | 2,262,906 |
| | 4,431,550 |

10. TRUST FUNDS

The Government of Canada - Aboriginal Affairs and Northern Development Canada (AANDC) has custody of the Capital fund on behalf of the First Nation and has full responsibility for the investment of this fund. Income from Oil and Gas royalties, surface rights, and interest income from investment of the capital fund is collected and controlled by the Government of Canada - AANDC. Capital funds held by AANDC cannot be disbursed or committed by the First Nation without approval from the Government of Canada. Revenue funds held by AANDC can be disbursed by Band Council Resolution (BCR).

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

11. Canada Mortgage and Housing Corporation (CMHC) Reserves

Replacement Reserve

Under the terms of the agreements with Canada Mortgage and Housing Corporation (CMHC), the Replacement Reserve account is to be credited annually plus interest, less any CMHC approved withdrawals. These funds, along with accumulated interest, must be held in a separate bank account and invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC from time to time. The funds in the account may only be used as approved by CMHC. Withdrawals are credited to interest first and then principal.

The nation has previously not been submitting all expenditures to decrease the replacement reserve balance. CMHC has allowed the nation to review their invoices from 2008 to present to apply against the reserve. Once all amounts have been submitted the balance of the un-funded replacement reserve is expected to decrease.

Operating Reserve

Under the terms of agreement with CMHC, any surplus revenue, after payments of all costs and expenses including the allocation to the Replacement Reserve, may be retained by Kehewin Cree Nation in an Operating Reserve fund. These funds, along with accumulated interest, must be held in a separate bank account and invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC from time to time. The funds in the account may only be used as approved by CMHC. Withdrawals are credited to interest first and then principal. The funds in this account may only be used to meet future deficits of the housing projects committed under the post 1997 On-Reserve Program. Withdrawals are credited to interest first and then principal.

At year-end the CMHC Reserves consisted of the following.

| | 08-239-758 | 17-666-777 | 2014 \$ | 2013 \$ |
|-------------------------------|------------|------------|------------|------------|
| Replacement reserve | 169,460 | 393,057 | 562,517 | 500,878 |
| Funded portion | - | - | - | - |
| Un-funded replacement reserve | 169,460 | 393,057 | 562,517 | 500,878 |
| Operating reserve (surplus) | - | (3,323) | (3,323) | (9,631) |
| Total CMHC reserves | 169,460 | 389,734 | 559,194 | 491,247 |

Kehewin Cree Nation

Notes to the Consolidated Financial Statements

March 31, 2014

12. INVESTMENTS IN AND ADVANCES TO (FROM) WHOLLY OWNED SUBSIDIARIES AND INVESTMENTS

| | 2014 \$ | 2013 \$ |
|---|------------------|------------------|
| <u>Wholly Owned Subsidiaries</u> | | |
| 681415 Alberta Ltd. (Kehewin Gasification) - 100% | | |
| Shares (at cost) | 100 | 100 |
| Accumulated surplus in earnings | 499,442 | 491,984 |
| | 499,542 | 492,084 |
| KCN Contracting Ltd. - 100% | | |
| Shares (at cost) | 10 | 10 |
| Accumulated surplus in earnings | 1,581,965 | 1,146,184 |
| | 1,581,975 | 1,146,194 |
| <u>Investments</u> | | |
| Seven Lakes Oilfield Services Limited Partnership - 8.3333% | | |
| Preferred units (at cost) | 100 | 100 |
| Accumulated surplus in earnings | 1,022,579 | 623,687 |
| | 1,022,679 | 623,787 |
| Pimee Well Servicing Ltd. - 16.6666% | | |
| Shares (at cost) | 20 | 20 |
| Advances | 150,191 | 135,947 |
| | 150,211 | 135,967 |
| Pimee Well Servicing Limited Partnership - 16.6666% | | |
| Accumulated surplus in earnings | 964,738 | 634,171 |
| Total investments in wholly owned subsidiaries and investments | 4,219,145 | 3,032,203 |

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

**12. INVESTMENTS IN AND ADVANCES TO (FROM) WHOLLY OWNED
SUBSIDIARIES AND INVESTMENTS - continued**

Wholly Owned Subsidiaries

March 31, 2014 unaudited financial information for **681415 Alberta Ltd. (Kehewin Gasification)** is as follows:

| | March 31 2014 \$ | March 31 2013 \$ |
|---------------------------|------------------------|------------------------|
| Assets | 586,308 | 577,173 |
| Liabilities | 19,277 | 17,600 |
| Revenue | 306,410 | 363,175 |
| Net Earnings for the Year | 7,458 | 29,392 |

March 31, 2014 draft audited financial information for **KCN Contracting Ltd.** is as follows:

| | March 31 2014 \$ | March 31 2013 \$ |
|---------------------------|------------------------|------------------------|
| Assets | 4,774,219 | 1,504,126 |
| Liabilities | 91,895 | 313,886 |
| Revenue | 14,805,731 | 3,301,934 |
| Net Earnings for the Year | 3,062,003 | 1,016,043 |

13. EQUITY IN TANGIBLE CAPITAL ASSETS

| | 2014 \$ | 2013 \$ |
|--|--------------|--------------|
| Capital assets (Schedule 2) | 30,872,976 | 30,888,602 |
| Accumulated amortization (Schedule 2) | (13,125,969) | (12,599,155) |
| Long-term liabilities (Note 9) | (4,431,550) | (5,551,942) |
| Long-term liabilities not related to tangible capital assets | 688,368 | 1,053,542 |
| Ministerial loan guarantee | (148,871) | (514,268) |
| | 13,854,954 | 13,276,779 |

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

14. EQUITY IN ENTERPRISE FUND

| | 2014 \$ | 2013 \$ |
|----------------------------------|------------|------------|
| Balance, beginning of year | 3,032,203 | 1,561,714 |
| Surplus from controlled entities | 1,186,942 | 1,470,489 |
| Balance, end of year (Note 12) | 4,219,145 | 3,032,203 |

15. EQUITY IN TRUST FUNDS

| | Capital \$ | Revenue \$ | Total \$ |
|----------------------------|---------------|---------------|-------------|
| Balance, Beginning of year | 659,932 | 174,872 | 834,804 |
| Royalties | 88,071 | - | 88,071 |
| Rental and interest | - | 54,732 | 54,732 |
| | 748,003 | 229,604 | 977,607 |

| BCR NUMBER | PURPOSE OF PROGRAM EXPENDITURE | | | |
|----------------------|-----------------------------------|------------------|---------|---------|
| 2370-2013-2014 | Public Works | Operations | 101,772 | - |
| 2374-2013-2014 | Admin | Governance | 75,550 | - |
| 2363-2013-2014 | Housing | R&M | 108,940 | - |
| 2362-2013-2014 | Admin | Office | 123,592 | - |
| 2348-2012-2013 | Public Works | Utilities | 57,435 | - |
| 2349-2012-2013 | Housing | Plumbing | 35,962 | - |
| 2374-2014-2014 | Admin | Legal settlement | - | 8,914 |
| 2346-2012-2013 | Post Secondary | Tuition | - | 113,148 |
| 2350-2012-2013 | Admin | Vehicle | - | 5,931 |
| | | | 503,251 | 127,993 |
| Balance, End of year | | | 244,752 | 101,611 |
| | | | | 346,363 |

Note the following BCRs were submitted prior to March 31, 2014 but were approved after year-end:

| BCR NUMBER | PURPOSE OF PROGRAM EXPENDITURE | | Capital \$ | Revenue \$ | Total \$ |
|----------------|-----------------------------------|-----------|---------------|---------------|-------------|
| 2348-2012-2013 | Public Works | Utilities | 57,435 | - | 57,435 |
| 2349-2012-2013 | Housing | Plumbing | 35,932 | - | 35,932 |
| 2346-2012-2013 | Post Sec. Ed. | Tuition | - | 113,148 | 113,148 |
| 2348-2012-2013 | Public Works | Loan | - | 5,931 | 5,931 |
| | | | 93,367 | 119,079 | 212,446 |

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

16. ACCUMULATED SURPLUS

| | 2014 \$ | 2013 \$ |
|---|-------------------|-------------------|
| Unrestricted surplus | (1,935,143) | (3,258,388) |
| Equity in tangible capital assets (Note 13) | 13,854,954 | 13,276,779 |
| Equity in enterprise fund (Note 14) | 4,219,145 | 3,032,203 |
| Equity in trust funds (Note 15) | 346,363 | 439,257 |
| | 16,485,319 | 13,489,851 |

17. CONTINGENT LIABILITIES

- a) An action filed against the Kehewin Cree Nation (Nation) by a contractor resulted in a judgment against the Nation in the amount of \$25,000.

The Nation has appealed this judgment and the appeal has not been heard yet. The Nation has not paid this judgment yet. These financial statements do not reflect the amount of this judgment.

- b) A claim and an amended counter claim has been filed against the Nation by a contractor for the construction of the structure known as the Kehewin Cree Nation Elder's Lodge, renovations of single family homes known as the Kehewin Cree Nation Housing Project and indebtedness. The indebtedness is a loan repayment and for the cost of fuel used on the projects as mentioned above.

The Nation is actively defending its position in legal proceedings and at March 31, 2014, the Nation has not recorded a liability in connection with the above claim and an amended counter claim. Should a liability result from an unfavourable judgment, the amount will be recognized as an expense in the year the liability is determined.

- c) A claim filed against the Nation by members of the band was settled in the amount of \$30,000.

The Nation has not paid this judgment yet. A provision for this amount has been set-up in these financial statements to reflect the amount of this judgment.

- d) A claim filed against the Nation by members of the band was settled in the amount of \$4,240.

The Nation has not paid this judgment yet. A provision for this amount has been set-up in these financial statements to reflect the amount of this judgment.

- e) The Nation has an unfunded CMHC replacement reserve balance of \$562,517.

Kehewin Cree Nation
Notes to the Consolidated Financial Statements
March 31, 2014

18. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Under environmental law, there is a requirement for closure and post-closure care of solid waste landfill sites. Canadian Public Sector Accounting Standards require that the liability to close these sites be recorded based on an estimate of expected costs. As of March 31, 2014 there is no liability provision recorded in these financial statements for the estimated closure and post-closure costs.

19. COMPARATIVE FIGURES

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