FIRST NATIONS AND MÉTIS FUND INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of **First Nations and Métis Fund Inc.**, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of comprehensive income (loss), changes in deficit and cash flows for the year then ended, and notes, comprising 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 an 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 our 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, we consider 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 statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of First Nations and Métis Fund Inc. as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 18, 2015
Regina, Saskatchewan

FIRST NATIONS AND MÉTIS FUND INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

	Note	2014	2013
ASSETS			
Current			
Cash and cash equivalents		**$ 364,287**	$ 372,441
Interest and accounts receivable	5	**1,426,022**	473,147
		1,790,309	845,588
Long-term interest receivable		**218,934**	93,733
Investments	6	**6,486,600**	7,741,502
		$ 8,495,843	$ 8,680,823
LIABILITIES AND DEFICIT			
Current Liabilities			
Trade and other payables		**$ 54,563**	$ 56,152
Due to Crown Investments Corporation of Saskatchewan (CIC)	7	**12,617,500**	12,350,000
		12,672,063	12,406,152
Deficit			
Share capital	8	**100**	100
Deficit attributable to CIC		**(4,176,320)**	(3,725,429)
		(4,176,220)	(3,725,329)
		$ 8,495,843	$ 8,680,823

Commitments 9

(See accompanying notes)

On behalf of the Board:

________________________, Director

________________________, Director

FIRST NATIONS AND MÉTIS FUND INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31

	Note	2014	2013
INCOME FROM OPERATIONS			
Grant revenue from CIC		$ 105,000	$ 105,000
		105,000	105,000
OPERATING EXPENSES			
Management fees	10	277,328	336,136
Audit fees		9,240	9,240
Office and other		555	1,914
		287,123	347,290
LOSS BEFORE THE FOLLOWING		(182,123)	(242,290)
Finance income	11	1,470,723	1,158,420
Finance expenses	11	(455,592)	(1,177,327)
Impairment of loans	6	(432,447)	-
Change in fair value of financial assets at fair value through profit and loss	6	(851,452)	(1,070,984)
NET FINANCE LOSS		(268,768)	(1,089,891)
NET LOSS		(450,891)	(1,332,181)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO CIC		$ (450,891)	$ (1,332,181)

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT

For the year ended December 31

	2014	2013
DEFICIT		
Deficit - beginning of year	**$ (3,725,429)**	$ (2,393,248)
Total comprehensive loss	**(450,891)**	(1,332,181)
Deficit - end of year	**(4,176,320)**	(3,725,429)
SHARE CAPITAL		
Share capital - beginning of year	**100**	100
Share capital received	**-**	-
Share capital repaid	**-**	-
Share capital - end of year	**100**	100
DEFICIT ATTRIBUTABLE TO CIC	**$ (4,176,220)**	$ (3,725,329)

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

	Note	2014	2013
OPERATING ACTIVITIES			
Net loss		**$ (450,891)**	$ (1,332,181)
Adjustments:			
Impairment of loans	6	**432,447**	-
Change in fair value of financial assets at fair value through profit and loss	6	**851,452**	1,070,984
Discount on issuance of below market loans	11	**-**	762,367
Amortization of discount on below market loan	6	**(140,105)**	(81,880)
Adjustments to reconcile net earnings to cash from operating activities		**692,903**	419,290
Decrease in funds held in escrow		**-**	1,250,000
Increase in interest and accounts receivable		**(1,078,076)**	(555,872)
(Decrease) increase in trade and other payables		**(1,589)**	20,985
Net cash (used in) from operating activities		**(386,762)**	1,134,403
INVESTING ACTIVITIES			
Proceeds from collection of investments	6	**111,108**	330,556
Purchase of investments	6	**-**	(5,350,000)
Net cash from (used in) investing activities		**111,108**	(5,019,444)
FINANCING ACTIVITIES			
Increase in due to CIC		**267,500**	3,750,000
Net cash from financing activities		**267,500**	3,750,000
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING YEAR		**(8,154)**	(135,041)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**372,441**	507,482
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 364,287**	$ 372,441

(See accompanying notes)

1. General information

First Nations and Métis Fund Inc. (“the Corporation”) is a corporation domiciled in Canada. The address of the Corporation’s registered office and principal place of business is 1300 - 410 22nd Street East, Saskatoon, SK, S7K 5T6.

The Corporation was established on May 9, 2006 under *The Business Corporations Act.* The Corporation is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (“CIC”), a Saskatchewan provincial Crown corporation. Accordingly, the accounts of the Corporation are consolidated in the financial statements of CIC.

The consolidated financial statements of the corporation comprise the Corporation and its subsidiary 101039181 Saskatchewan Limited.

The Corporation was established to provide venture capital to qualifying First Nations and Métis businesses in the Province of Saskatchewan. Due to the Corporation’s ownership structure, it is not subject to provincial or federal income tax.

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were authorized for issue by the Corporation’s Board of Directors on February 18, 2015.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for cash and cash equivalents, and certain investments, which are classified as financial assets at fair value through profit and loss.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian Dollars, which is the Corporation’s functional currency.

d) Use of judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Accordingly, actual results may differ from these estimates.

Judgements, estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future year affected.

Significant items subject to judgements, estimates and assumptions include investments (Note 6).

3. Application of revised IFRS

The following new and amended accounting standards, effective for annual periods on or after January 1, 2014, have been applied in preparing these financial statements in accordance with the related transitional provisions:

IAS 32, *Financial Statements: Presentation*

The standard was applied prospectively, effective January 1, 2014 with no impact to the financial statements.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements:

a) Consolidation principles and basis of presentation

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary 101039181 Saskatchewan Limited. All material inter-company transactions have been eliminated on consolidation.

b) Cash and cash equivalents

Included in cash and cash equivalents are short-term investments that have a maturity date of ninety days or less.

c) Financial instruments

The Corporation recognizes financial assets and liabilities on the date originated. On initial recognition, financial instruments are measured at fair value. The Corporation recognizes all transaction costs immediately in consolidated net earnings. Measurement in subsequent periods depends on the classification of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred assets that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation does not net financial assets or liabilities for presentation in the consolidated statement of financial position.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on fair value. Cash and cash equivalents and equity investments are classified as held-for-trading and considered financial assets at fair value through profit or loss. Based on the specific investment characteristics, the Corporation has also designated certain loans and debentures as held for trading at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments. Interest and accounts receivable, and loans and debentures not designated as held for trading are classified as loans and receivables and recorded at amortized cost using the effective interest method, less any impairment losses.

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

Other liabilities

Other liabilities are non-derivative financial liabilities that are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost using the effective interest method. The Corporation classifies trade and other payables and due to CIC as other liabilities.

Embedded derivatives

Derivatives may be embedded in other host instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized on the consolidated statement of comprehensive income (loss).

The Corporation had no contracts with embedded derivatives as at the end of any period presented.

Determination of fair value

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using valuation methods which are significantly affected by management's assumptions used concerning, for example, the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

- Loans and debentures

  The net realizable value of loans and debentures designated as held for trading is determined on the basis of expected future cash flows discounted at the estimated market rate of interest for a loan with the same or similar risk profile and terms. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable value of loans and debentures is measured at the fair value of any security underlying the asset, net of expected costs of realization and any amounts legally required to be paid to the borrowers.

- Equity investments

  The fair value of equity investments is determined using a valuation method considered appropriate to the circumstances and may include one or more of the following: (a) a comparison of precedent transactions using valuation parameters such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples; (b) discounted cash flow analysis; (c) price to earnings or price to operating cash flow analysis using industry comparators and; (d) an analysis of the estimated liquidation value of the investment.

d) Impairment of loans and debentures, interest, and accounts receivable

Loans and debentures, interest, and accounts receivable are assessed at each reporting date to determine whether there is objective evidence that it is impaired. Loans and debentures are impaired if the present value of expected future cash flows discounted at the original effective interest rate of the asset is less than the carrying value of the asset. Any impairment is recognized immediately in profit or loss, with any recovery in future periods limited to the amount of previous impairments.

4. Summary of significant accounting policies (continued)

d) Impairment of loans and debentures, interest, and accounts receivable (continued)

Interest and accounts receivable is impaired if objective evidence indicates that a loss event has occurred subsequent to initial recognition and that the loss event had a negative effect on estimated future cash flows that can be estimated reliably. All impairment losses are recognized in net earnings immediately. An impairment loss is reversed to net earnings if the reversal can be related objectively to an event occurring after the impairment loss was recognized and the amount can be estimated reliably.

e) Grant revenue

The Corporation receives grants from CIC to cover expenditures for the Government of Saskatchewan's First Nations Business Development Program (FNBDP). Grants from CIC are recorded as revenue when received.

f) Finance income and expenses

Finance income consists of interest income from cash and cash equivalents, and investments. Finance income from debt investments is recognized on the consolidated statement of comprehensive income (loss) as earned.

Finance expenses consist of impairment losses on interest and accounts receivable, loans and receivables, discounts on issues of loans and receivables as determined by the effective interest method and changes in the fair value of financial assets at fair value through profit or loss.

g) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements. In particular, the following new and amended standards which become effective for years beginning on or after January 1, 2015:

IFRS 9, *Financial Instruments*

IFRS 9 was issued by the International Accounting Standards Board (IASB) on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standards are to be applied prospectively.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's credit risk in other comprehensive income, rather than within net earnings. This standard is effective for annual periods beginning on or after January 1, 2018. The Corporation does not intend to early adopt this standard but is reviewing it to determine the potential impact, if any, on the consolidated financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for *Annual Improvements Cycles* 2010 - 2012 and 2011 - 2013, which include minor amendments to a number of IFRS. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on July 1, 2014. The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The Corporation is in the process of assessing the impact of the amendments.

5. Interest and accounts receivable

Interest earned on investments is recognized on an accrual basis except where uncertainty exists as to ultimate collection. When collectability of interest is not reasonably assured, interest income is recorded when cash is received. Amounts allowed for during the year are as follows:

	2014	2013
Gross interest and accounts receivable (a)	**$ 2,683,205**	$ 1,274,738
Allowance for impairment	**(1,257,183)**	(801,591)
	$ 1,426,022	$ 473,147

The movement in the allowance for impairment during the year was as follows:

	2014	2013
Balance, beginning of year	**$ (801,591)**	$ (386,631)
Impairment loss for the year	**(455,592)**	(414,960)
Impairment reversal for the year	**-**	-
	$ (1,257,183)	$ (801,591)

a) Included in accounts receivable is $267,500 (2013 - Nil) due from CIC.

6. Investments

	2014	2013
Investments at fair value		
L & M Wood Products (2011) Ltd. (L&M (2011)) (a)	**$ -**	$ 111,108
Muskowekwan Resources Limited (MRL) (b)	**1,034,553**	1,886,005
Investments at fair value	**1,034,553**	1,997,113
Loans and receivables at amortized cost		
File Hills Qu'Appelle Tribal Council (FHQTC) (c) (d)	**1,125,167**	1,100,021
Sturgeon Lake Developments Ltd. (SLFN) (e)	**1,114,916**	1,092,566
Infinite Investments Inc. (f)	**1,367,553**	1,800,000
Red Dog Holdings Limited Partnership (g)	**1,625,147**	1,565,110
Saskatoon Fastprint (h)	**219,264**	186,692
Investments at amortized cost	**5,452,047**	5,744,389
Total Investments	**$ 6,486,600**	$ 7,741,502

Continuity of investments classified as fair value through profit or loss is as follows:

	Eagle Vision	**L&M (2011)**	**MRL**
Investment fair value, January 1, 2013	$ 156,990	$ 291,664	$ 2,950,000
Purchases	-	-	-
Repayments	(150,000)	(180,556)	-
Change in fair value of financial assets at fair value through profit and loss	(6,990)	-	(1,063,995)
Investments fair value, December 31, 2013	$ -	$ 111,108	$ 1,886,005
Investment fair value, January 1, 2014	**$ -**	**$ 111,108**	**$ 1,886,005**
Purchases	**-**	**-**	**-**
Repayments	**-**	**(111,108)**	**-**
Change in fair value of financial assets at fair value through profit and loss	**-**	**-**	**(851,452)**
Investments fair value, December 31, 2014	**$ -**	**$ -**	**$ 1,034,553**

6. Investments (continued)

Continuity of investments classified as loans and receivables is as follows:

	FHQTC 14% Note	FHQTC 0% Note	TOTAL
Amortized cost, January 1, 2013	$ 1,000,000	$ 74,875	$ 1,074,875
Purchases	-	-	-
Discount on issuance	-	-	-
Amortization of discount	-	25,146	25,146
Repayments	-	-	-
(Impairments) recoveries	-	-	-
Amortized cost, December 31, 2013	$ 1,000,000	$ 100,021	$ 1,100,021
Amortized cost, January 1, 2014	**$ 1,000,000**	**$ 100,021**	**$ 1,100,021**
Purchases	**-**	**-**	**-**
Discount on issuance	**-**	**-**	**-**
Amortization of discount	**-**	**25,146**	**25,146**
Repayments	**-**	**-**	**-**
(Impairments) recoveries	**-**	**-**	**-**
Amortized cost, December 31, 2014	**$ 1,000,000**	**$ 125,167**	**$ 1,125,167**

	SLFN Pref. Shares	SLFN 0% Note	TOTAL
Amortized cost, January 1, 2013	$ -	$ -	$ -
Purchases	1,000,000	250,000	1,250,000
Discount on issuance	-	(178,804)	(178,804)
Amortization of discount	-	21,370	21,370
Repayments	-	-	-
(Impairments) recoveries	-	-	-
Amortized cost, December 31, 2013	$ 1,000,000	$ 92,566	$ 1,092,566
Amortized cost, January 1, 2014	**$ 1,000,000**	**$ 92,566**	**$ 1,092,566**
Purchases	**-**	**-**	**-**
Discount on issuance	**-**	**-**	**-**
Amortization of discount	**-**	**22,350**	**22,350**
Repayments	**-**	**-**	**-**
(Impairments) recoveries	**-**	**-**	**-**
Amortized cost, December 31, 2014	**$ 1,000,000**	**$ 114,916**	**$ 1,114,916**

6. Investments (continued)

	Infinite Investments 12% Note	Infinite Investments 17% Note	TOTAL
Amortized cost, January 1, 2013	$ -	$ -	$ -
Purchases	1,200,000	600,000	1,800,000
Discount on issuance	-	-	-
Amortization of discount	-	-	-
Repayments	-	-	-
(Impairments) recoveries	-	-	-
Amortized cost, December 31, 2013	$ 1,200,000	$ 600,000	$ 1,800,000
Amortized cost, January 1, 2014	**$ 1,200,000**	**$ 600,000**	**$ 1,800,000**
Purchases	**-**	**-**	**-**
Discount on issuance	**-**	**-**	**-**
Amortization of discount	**-**	**-**	**-**
Repayments	**-**	**-**	**-**
(Impairments) recoveries	**-**	**(432,447)**	**(432,447)**
Amortized cost, December 31, 2014	**$ 1,200,000**	**$ 167,553**	**$ 1,367,553**

	Red Dog Holdings 14% Note	Red Dog Holdings 0% Note	TOTAL
Amortized cost, January 1, 2013	$ -	$ -	$ -
Purchases	1,250,000	700,000	1,950,000
Discount on issuance	-	(420,254)	(420,254)
Amortization of discount	-	35,364	35,364
Repayments	-	-	-
(Impairments) recoveries	-	-	-
Amortized cost, December 31, 2013	$ 1,250,000	$ 315,110	$ 1,565,110
Amortized cost, January 1, 2014	**$ 1,250,000**	**$ 315,110**	**$ 1,565,110**
Purchases	**-**	**-**	**-**
Discount on issuance	**-**	**-**	**-**
Amortization of discount	**-**	**60,037**	**60,037**
Repayments	**-**	**-**	**-**
(Impairments) recoveries	**-**	**-**	**-**
Amortized cost, December 31, 2014	**$ 1,250,000**	**$ 375,147**	**$ 1,625,147**

6. Investments (continued)

	Saskatoon Fastprint 0% Note	TOTAL
Amortized cost, January 1, 2013	$ -	$ -
Purchases	350,000	350,000
Discount on issuance	(163,308)	(163,308)
Amortization of discount	-	-
Repayments	-	-
(Impairments) recoveries	-	-
Amortized cost, December 31, 2013	$ 186,692	$ 186,692
Amortized cost, January 1, 2014	**$ 186,692**	**$ 186,692**
Purchases	**-**	**-**
Discount on issuance	**-**	**-**
Amortization of discount	**32,572**	**32,572**
Repayments	**-**	**-**
(Impairments) recoveries	**-**	**-**
Amortized cost, December 31, 2014	**$ 219,264**	**$ 219,264**

a) On September 7, 2011 the Corporation acquired a debenture from L&M (2011) as partial consideration for the Corporation's investment in L&M. The debenture is due in 36 monthly principal and interest payments beginning on October 31, 2011, at an interest rate equal to Bank of Nova Scotia prime plus 3.0 per cent.

On December 31, 2011 the Corporation purchased a $294,294 L&M (2011) debenture from CIC Asset Management Inc. (CIC AMI). The debenture is due in 33 monthly principal and interest payments, beginning on January 31, 2012 at an interest rate equal to Bank of Nova Scotia prime plus 3.0 per cent. CIC AMI is a related party due to common ownership by CIC.

On August 31, 2014, L&M (2011) fully repaid its loan outstanding.

b) On December 5, 2011 the Corporation purchased a $3,000,000, 12.0 per cent demand debenture and 100 Class G preferred shares in Muskowekwan Resources Limited (MRL), a wholly-owned subsidiary of the Muskowekwan First Nation for $3,000,000. The investment in MRL was subsequently used to purchase 12,940,000 shares and 6,470,000 warrants of Encanto Potash Corporation (Encanto), a publically traded corporation. The Corporation will receive payment of their debenture and interest from the sale of Encanto shares. Any excess proceeds will be shared between the Corporation and MRL, with the Corporation receiving 40.0 per cent of the excess.

The Corporation's investment is secured by MRL's 12,940,000 shares and 6,470,000 common share warrants of Encanto, which on December 31, 2014 were valued at $1,034,553 (2013 - $1,886,005).

c) On December 18, 2012 the Corporation purchased a $1,000,000 14.0 per cent demand debenture in File Hills Qu'Appelle Tribal Council (FHQTC). FHQTC utilized the proceeds from the debenture to purchase a 50.0 per cent interest in a joint venture, resulting in a 50.0 per cent ownership in an oil and gas drilling rig. The investment matures 7 years from issuance, with interest payable annually, interest accruing at 5.0 per cent per annum on outstanding amounts. Principal payments of $100,000 are due at the end of years 2 to 4, $200,000 in each of years 5 and 6, with the balance due at maturity. FHQTC may repay a portion or all of the principal balance any time after the first anniversary date of the loan by providing 30 days written notice and a prepayment penalty of 7.0 per cent of the prepayment amount. The loan is secured by a first charge general security over the assets of FHQTC, including FHQTC's interest in the joint venture. The investment is classified as loans and other receivables and is measured using the effective interest method. At issuance the contractual rate was considered to equal market rate for similar debt due to the arm's length nature of the transaction.

6. Investments (continued)

d) On December 18, 2012 the Corporation purchased a $250,000, 0.0 per cent demand debenture in File Hills Qu'Appelle Tribal Council. FHQTC utilized the proceeds from the debenture to purchase a 50.0 per cent interest in a joint venture, resulting in a 50.0 per cent ownership in an oil and gas drilling rig. The investment matures 7 years from issuance. The debenture is secured by a general security interest, subordinate to all current and future third party debt of FHQTC. FHQTC is restricted in its ability to distribute funds or property to its stakeholders as long as an amount is owing under the debenture, or where the debenture is in default. At issuance a market rate of 19.0 per cent was considered appropriate for debt of a similar risk profile, and the loan was recorded at its estimated fair value at the issuance date, resulting in a discount of $176,021.

e) On January 16, 2013 the Corporation purchased $999,000 of 12.0 per cent preferred limited partnership units, a $1,000, 12.0 per cent debenture, and a $250,000, 0.0 per cent subordinated debenture in Sturgeon Lake First Nation Development Limited Partnership (SLD LP). The proceeds from the investment were utilized by SLD LP to purchase a 33.0 per cent interest in Glenmor LP (Glenmor). The preferred limited partnership units provided SLD LP with equity-like repayment flexibility tied to Glenmor with a put right for the Corporation exercisable after 8 years. The debenture is secured against all of the land and property of SLD LP, with no senior ranking encumbrances, which provides the Corporation with the means to redeem its preferred limited partnership units with minimal risk. The subordinated debenture at issuance was recorded at a market rate of 17.0 per cent, which was considered appropriate for debt of a similar risk profile, and the loan was therefore recorded at its estimated fair value at the issuance date, resulting in a discount of $178,804.

f) On May 1, 2013 the Corporation purchased a $1,200,000 12.0 per cent 5 year debenture (Debenture A) and a $600,000 17.0 per cent 7 year debenture (Debenture B) in 101173077 SASKATCHEWAN LTD. (Infinite Investments Inc.). Infinite Investments Inc. utilized the proceeds to provide a $1,200,000 subordinated loan to Brigden Welding Inc. (Brigden) and a purchase of a 30 per cent fully diluted ownership interest in Brigden. The investments are secured by a first charge, general security interest in favor of the Corporation over all of the assets of Infinite Investments Inc. Infinite Investments Inc. has also directly pledged as security it's 30 Class A shares, 30 Class B shares, and 4,500 Class D shares in Brigden to the Corporation. During 2014, Brigden has seen a slow-down in operations due to inclement weather. As a result, operational cash flow has been below budget and Brigden has made no principal or interest payments on Debenture A. The Corporation expects principal and interest payments on Debenture A to begin in 2015 and therefore has not provided for any write-down. Debenture B payments are dependent on shareholder distributions. Due to the uncertainty of these distributions, in order to determine fair value, the Corporation has discounted estimated future cash flows at the stated rate of the loan of 17 per cent. As a result, the Corporation has written-down the value of Debenture B to its estimated fair value of $167,553.

g) On April 30, 2013 the Corporation purchased a $1,250,000 14.0 fixed interest, 5.0 per cent deferred interest, 7 year debenture and a $700,000, 0.0 per cent subordinate debenture in Red Dog Holdings Limited Partnership (Red Dog). Red Dog utilized the proceeds to purchase a 50.0 per cent ownership interest in a drilling rig joint venture partnership with CanElson Drilling. The fixed interest is compounded annually and serviced from partnership distributions and the deferred interest is compounded annually and paid upon maturity. The debenture is secured by a first charge, general security interest in favor of the Corporation over all of the assets of Red Dog. The subordinated debenture at issuance was recorded at a market rate of 14.0 per cent, which was considered appropriate for debt of a similar risk profile, and the loan was therefore recorded at its estimated fair value at the issuance date, resulting in a discount of $420,254. The subordinate debenture holds a second charge general security interest.

h) On November 30, 2013 the Corporation purchased $350,000 0.0 per cent debenture in Saskatoon Fastprint LP (SFP LP). The investment matures in 60 months of the closing date. The loan will be repaid in balloon payments on the 3rd, 4th, 5th anniversaries of closing. The debenture at issuance was recorded at a market rate of 17.0 per cent, which was considered appropriate for debt of a similar risk profile, and has therefore been recorded at its estimated fair value at issuance date resulting in a discount of $163,308. The investment is secured by a second charge general security interest, subordinate to a $680,000 First Nations bank debenture.

7. Due to Crown Investments Corporation of Saskatchewan

Order in Council #365/2006 authorized the Corporation to obtain funds not to exceed $20,000,000 from CIC. Amounts due to CIC are non-interest bearing and payable on demand.

8. Share capital

	December 31 2014	December 31 2013
Authorized - 100 Class A voting shares		
Issued and outstanding - 100 shares	**$ 100**	$ 100

9. Commitments

The Corporation has committed to invest up to $267,500 in debentures to Glenmor Equipment Limited Partnership (previously Sturgeon Lake First Nation Development Limited Partnership (SLD LP)).

10. Management fees

Under the terms of a management services agreement between Westcap Mgt. Ltd. and the Corporation, Westcap Mgt. Ltd. provides the general management and administration for the business and affairs of the Corporation for a monthly service fee. The management fee is calculated as the greater of i) $1/12^{th}$ of 2.5 per cent of the Corporation's net asset value or ii) $15,000 monthly. The management service agreement expires in 2020.

The Corporation also entered a management service agreement with Westcap Mgt. Ltd. for the management of FNBDP at a cost of $105,000 annually that expired December 31, 2013. A new management service agreement with Westcap Mgt. Ltd. was signed effective January 1, 2014 to December 31, 2020 at a cost of $50,000 annually.

11. Finance income and expenses

	Note	**2014**	2013
Recovery of loss on interest and accounts receivable		**$ -**	$ -
Interest income from cash, cash equivalents, and investments		**1,470,723**	1,158,420
Finance income		**1,470,723**	1,158,420
Discount on issuance of below market loans	6	**-**	(762,367)
Impairment loss on interest and accounts receivable	5	**(455,592)**	(414,960)
Finance expense		**(455,592)**	(1,177,327)
Net finance income (expense)		**$ 1,015,131**	$ (18,907)

12. Related party transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). The Corporation has elected to take a partial exemption under IAS 24 - *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

CIC provides management services to the Corporation without charge. The Corporation estimates $4,800 of CIC's senior management time is expended on the Corporation.

13. Financial risk management

Fair Value Hierarchy

The Corporation has classified the fair value of its financial instruments using the following hierarchy based on the nature of inputs used in the valuation:

<u>Level 1</u> Where quoted prices are readily available from an active market.
<u>Level 2</u> Valuation model not using quoted prices, but still predominantly observable market inputs such as market interest rates.
<u>Level 3</u> Fair value determined based on inputs that are not based on observable market data.

The Corporation has made the following classifications:

- Cash and cash equivalents are classified as level 1 due to their short term to maturity.
- Investments classified as held for trading are considered level 3 financial assets, with fair values determined using the accounting policies described in Note 4(c) and disclosed in Note 6.

Classifications of loans debentures and equity investments have not changed during the year.

Market risk

The Corporation is exposed to the risk that the fair value of its investments may decline due to a reduction in the anticipated earnings generated by the businesses invested in. The Corporation's investments are diversified across a number of economic sectors, however are generally dependant on the resource industry. For the Corporation's investments carried at fair value, the Corporation believes that the risks associated with business earnings and industry characteristics are adequately addressed through investment valuation policies. For investments classified as loans and receivable, the Corporation considers the industry and economic factors relevant to the investment during the annual impairment test, or more frequently if required, recording any identified impairments immediately.

Interest rate risk

Interest rate risk reflects the risk that the Corporation's earnings will fluctuate due to changes in interest rates. The Corporation's loans, debentures and cash equivalents are at fixed rates. However, the Corporation is exposed to interest rate risk related to the fair value of its loans and receivables classified as held for trading. Given the current low interest rate environment, the Corporation does not believe that the impact of fluctuations in interest rates will be significant and therefore has not provided a sensitivity analysis of the impact on consolidated net earnings.

13. Financial risk management (continued)

Credit risk

Credit risk is the risk that an investee will fail to perform its obligations. The Corporation's maximum credit risk exposure is equal to the book value of its investments and cash equivalents. The ability of an investee to meet contractual obligations is affected by changing economic, political or other conditions. The Corporation conducts a due diligence process prior to committing to the investment and actively monitors the financial condition of its investments. The Corporation believes that any deterioration in investee credit worthiness would be detected and addressed through the Corporation's investment valuation policies. Credit risk associated with the Corporation's cash equivalents is considered minimal since short term investments are made through the Saskatchewan Ministry of Finance and funds on deposit are held with Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. The Corporation is a subsidiary of a Provincial Crown corporation and as such has access to capital markets through the Saskatchewan Ministry of Finance. Currently the Corporation has sufficient resources to discharge all liabilities.

14. Comparative Figures

Certain of the 2013 comparative figures have been reclassified to conform to the current year's presentation.