

Financial Statements of

**PROVINCE OF NOVA SCOTIA
INDUSTRIAL EXPANSION FUND**

Year ended March 31, 2009



KPMG LLP

Chartered Accountants

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AUDITORS' REPORT

To the Auditor General of Nova Scotia

We have audited the balance sheet of the Province of Nova Scotia Industrial Expansion Fund as at March 31, 2009 and the statement of operations and statement of continuity of fund under the Industrial Development Act and the statement of continuity of fund under the Venture Corporations Act for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2009 and the results of its operations, cash flows and continuity of Funds for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that serves as a flourish or underline.

Chartered Accountants

Halifax, Canada

June 10, 2009

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Balance Sheet
(in thousands of dollars)

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Financial assets:		
Loans including current portion (2009 - \$6,589; 2008 - \$2,159)	\$ 84,777	\$ 71,381
Development incentives	39,454	34,971
Loans - Venture Corporations Act (note 3)	809	809
Royalty rights (note 4)	2,297	1,707
Shares (note 5)	16,975	17,150
	<u>144,312</u>	<u>126,018</u>
Provisions for concessionary assistance (note 6)	(20,980)	(23,189)
Provisions for development incentives	(39,454)	(34,971)
Allowance for doubtful accounts	(21,741)	(13,292)
	<u>(82,175)</u>	<u>(71,452)</u>
	<u>62,137</u>	<u>54,566</u>
Assistance authorized but unadvanced:		
Loans	18,989	10,887
Shares	1,000	-
Development incentives	35,006	27,535
	<u>54,995</u>	<u>38,422</u>
Due from consolidated fund:		
Guarantees (note 7)	39,620	91,061
Provisions for payment under guarantees	(4,000)	(10,200)
	<u>35,620</u>	<u>80,861</u>
Uncommitted balance of fund	207,209	40,846
	<u>\$ 359,961</u>	<u>\$ 214,695</u>
Authorized Net Fund Balance - Committed and Uncommitted		
Authorized, net of write offs:		
Industrial Development Act	\$ 441,729	\$ 291,939
Venture Corporations Act	4,408	4,408
	<u>446,137</u>	<u>296,347</u>
Provision for concessionary assistance, development incentives and possible losses on assistance (note 8)	(86,176)	(81,652)
Contingencies (note 9)		
	<u>\$ 359,961</u>	<u>\$ 214,695</u>

See accompanying notes to financial statements.

On behalf of the Fund:

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Statement of Operations Under the Industrial Development Act
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenues:		
Interest	\$ 2,392	\$ 2,045
Guarantee fees	167	718
	<u>2,559</u>	<u>2,763</u>
Expenditures:		
Loans written off and development incentives earned	25,210	9,626
Deficiency of revenues over expenditures	<u>\$ (22,651)</u>	<u>\$ (6,863)</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Statement of Continuity of Fund Under the Industrial Development Act
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Fund balance, beginning of year	\$ 291,939	\$ 301,565
Deficiency of revenues over expenditures	(22,651)	(6,863)
Revenue recorded in the Consolidated Fund	(2,559)	(2,763)
Net expenditures	(25,210)	(9,626)
Other activities within the Fund:		
Increase in authorized capital	175,000	-
Expiration of guarantees	46,440	33,309
Cancellation of loans	2,203	-
Decrease in uncommitted balance of Fund	8,637	18,786
Principal repayments reinvested in the Fund	4,647	7,529
	236,927	59,624
Authorizations during the year	(61,614)	(59,366)
Capitalized interest	(7)	(7)
Guarantee payments	(306)	(251)
	(61,927)	(59,624)
Fund balance, end of year	\$ 441,729	\$ 291,939

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Statement of Continuity of Fund Under the Venture Corporations Act
(in thousands of dollars)

Year ended March 31, 2009, with comparative figures for 2008

	2009		2008	
Balance, beginning of year	\$	4,408	\$	4,408
Deduct: Accounts written off		-		-
Balance end of year	\$	4,408	\$	4,408
Comprising:				
Loans advanced	\$	809	\$	809
Uncommitted balance		3,599		3,599
	\$	4,408	\$	4,408

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2009

The Province of Nova Scotia Industrial Expansion Fund (the "Fund") was established under the Industrial Development Act. The Fund is used for the purposes of establishing, assisting, developing or expanding industries in the Province. All assistance provided by the Fund is required to be approved by Order-in-Council.

Effective November 6, 2001, pursuant to Order-in-Council 2001-523, administrative responsibility for the Industrial Expansion Fund was assigned to Nova Scotia Business Inc., a corporation formed under the Nova Scotia Business Incorporated Act. The Fund's account and assistance management activities are performed by staff of the Department of Economic and Rural Development.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The more significant policies are described below:

(a) Loans receivable:

Loans receivable are recorded at amortized cost less allowances.

(b) Royalties rights:

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

(c) Shares:

Equity investments with limited market information available are initially recorded at cost less allowances.

(d) Provision for concessionary assistance:

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

(e) Allowance for doubtful accounts:

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

1. Significant accounting policies (continued):

(f) Guarantees:

Guarantees, including utilized and unutilized portions, are recorded at cost.

(g) Revenues and administrative expenses:

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act. Clause 8, Administrative Expenses, states "The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic and Rural Development." Accordingly, administrative expenses of the Fund are included in the accounts of the Department of Economic and Rural Development and are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

(h) Statement of cash flows:

A statement of cash flows is not provided since disclosures in the statements of operations, statements of continuity of the funds and the balance sheet are considered adequate.

(i) Use of estimates:

The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

2. Change in accounting policy:

Effective April 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants' Handbook Section 3862 - Financial Instruments - Disclosures, Section 3863 - Financial Instruments - Presentation, on financial instruments and Section 1535 - Capital Disclosures.

Section 3862, Financial Instruments - Disclosures, describes the required disclosures related to the significance of financial instruments on the Fund's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation, establishes standards for presentation of financial instruments and non-financial derivatives.

As required by the transitional provisions, these new standards have been applied without restatement of prior period amounts. The information related to these sections is contained in note 12.

Section 1535, Capital Disclosures, establishes standards for disclosing information about an entity's capital and how it is managed. The Corporation has complied with the new disclosure requirements beginning April 1, 2008 and the new disclosure requirements are presented in note 12.

3. Venture Corporation Act:

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the Industrial Development Act, and payments made pursuant to the Act shall be made out of the Industrial Expansion Fund.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

3. Venture Corporation Act (continued):

During the year no payments (2008 - nil) were received on these loans.

	2009	2008
Loans made to venture corporations	\$ 809	\$ 809
Less: allowance for doubtful accounts	809	809
	\$ -	\$ -

4. Royalty rights:

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

5. Shares:

	2009	2008
Preferred shares	\$ 13,741	\$ 13,741
Common shares	3,234	3,409
	\$ 16,975	\$ 17,150

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

6. Provision for concessionary assistance:

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Fund.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans and shares is as follows:

	2009		2008	
	Assistance outstanding	Provision for concessionary assistance	Net book value	Net book value
Loans	\$ 31,889	\$ 16,679	\$ 15,210	\$ 12,507
Shares	9,741	4,300	5,441	5,441
	\$ 41,630	\$ 20,979	\$ 20,651	\$ 17,948

7. Guarantees:

	2009		2008	
Guarantees - in effect and utilized	\$ 22,833	\$ 77,152		
Guarantees - in effect but unutilized	16,787	13,909		
	\$ 39,620	\$ 91,061		

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

8. Provision for concessionary assistance, development incentives and possible losses on assistance:

The following is a continuity of the provision:

	2009	2008
Balance, beginning of year	\$ 81,652	\$ 57,252
Add current year provision:		
Doubtful accounts	8,120	11,626
Development incentives	21,614	22,400
	111,386	91,278
Less accounts written off	25,210	9,626
	\$ 86,176	\$ 81,652

9. Contingencies:

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

10. Financial instruments:

- (a) The fair values of loans receivable approximate their net realizable value.

The fair value and book value of loans as at March 31, 2009 are \$58,064 and \$51,822 (2008 - \$51,072 and \$44,156), respectively.

Equity investments, loan guarantees, royalty rights and other assets represent investments and guarantees held in crown corporations and privately held companies. These financial instruments are carried at cost less allowances in the financial statements in the amounts of \$9,441, \$18,833, \$874 and \$nil (2008 - \$9,536, \$66,952, \$874 and \$nil), respectively. Due to the limited amount of comparable market information available it is not practical to determine the fair value of these assets.

The fair values of the loans receivable are determined using Canadian bond market conventions.

The yield to maturity curve by month for the Fund was estimated using the following assumptions:

- a) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).
- b) The Province of Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.
- c) The Fund's credit spread relative to the Province of Nova Scotia credit spread for each specified maturity term based on a Memorandum of Understanding between the Nova Scotia Department of Finance and the Fund respecting the borrowings of the Fund.

The Fund's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Fund's credit spread. These inputs were used to determine the Fund's yield to maturity curve by month.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

11. Related party transactions:

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

In 2008, the Fund purchased \$9,741 of preferred shares from Harbourside Commercial Properties Limited, a crown corporation owned by the Province of Nova Scotia. The subscribed value of the shares is equal to the appraised value of the fixed assets of Harbourside Commercial Properties Limited. An allowance against the face value of the shares was recorded in 2008 for \$4,300 because of uncertainty in the date and amount of the ultimate redemption of the preferred shares. There was no change in the provision in the current fiscal year.

The Province of Nova Scotia pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund.

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

12. Risk management:

- (a) Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund's authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.
 - (i) Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at year-end, management performed an analysis of a number of accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.

PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2009

12. Risk management (continued):

(ii) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Fund matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical.

(iii) Liquidity risk:

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely and cost effective manner. Liquidity requirements are managed through income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia.

(b) Capital:

The Fund carries out its activities in conjunction with the budget funding allocated to it by the Province of Nova Scotia. During the year, the authorized net fund balance - committed and uncommitted increased by \$145,266.

13. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.