

Financial Statements of

**PROVINCE OF NOVA SCOTIA  
INDUSTRIAL EXPANSION FUND**

Year ended March 31, 2011



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## INDEPENDENT AUDITORS' REPORT

To the Minister of Economic and Rural Development and Tourism Province of Nova Scotia

We have audited the accompanying financial statements of Province of Nova Scotia Industrial Expansion Fund which comprise the balance sheet as at March 31, 2011, 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, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Province of Nova Scotia Industrial Expansion Fund as at March 31, 2011, and the results of its operations, continuity of funds and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
June 30, 2011  
Halifax, Canada

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

Balance Sheet  
(in thousands of dollars)

March 31, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
Financial assets:		
Loans including current portion (2011 - \$10,025; 2010 - \$3,335)	\$ 186,561	\$ 190,442
Development incentives	31,814	34,318
Loans - Venture Corporations Act (note 2)	809	809
Royalty rights (note 3)	2,202	2,287
Shares (note 4)	41,412	17,812
	<u>262,798</u>	<u>245,668</u>
Provisions for concessionary assistance (note 5)	(6,472)	(9,904)
Provisions for development incentives	(31,814)	(34,318)
Allowance for doubtful accounts	(35,058)	(35,070)
	<u>(73,344)</u>	<u>(79,292)</u>
	189,454	166,376
Assistance authorized but unadvanced:		
Loans	57,680	76,706
Shares	-	19,600
Development incentives	12,372	20,296
	<u>70,052</u>	<u>116,602</u>
Due from consolidated fund:		
Guarantees (note 6)	64,300	54,712
Provisions for payment under guarantees	(2,350)	(500)
	<u>61,950</u>	<u>54,212</u>
Uncommitted balance of fund	80,739	75,643
	<u>\$ 402,195</u>	<u>\$ 412,833</u>
<b>Authorized Net Fund Balance - Committed and Uncommitted</b>		
Authorized, net of write offs:		
Industrial Development Act	\$ 473,482	\$ 488,217
Venture Corporations Act	4,408	4,408
	<u>477,890</u>	<u>492,625</u>
Provision for concessionary assistance, development incentives and possible losses on assistance (note 7)	(75,695)	(79,792)
Contingencies (note 8)		
	<u>\$ 402,195</u>	<u>\$ 412,833</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, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Interest	\$ 9,263	\$ 3,978
Guarantee fees	525	460
	<u>9,788</u>	<u>4,438</u>
Expenditures:		
Loans written off and development incentives earned	14,733	28,513
Deficiency of revenues over expenditures	<u>\$ (4,945)</u>	<u>\$ (24,075)</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, 2011, with comparative figures for 2010

	2011	2010
Fund balance, beginning of year	\$ 488,217	\$ 441,729
Deficiency of revenues over expenditures	(4,945)	(24,075)
Revenue recorded in the Consolidated Fund	(9,788)	(4,438)
Net expenditures	(14,733)	(28,513)
Other activities within the Fund:		
Increase in authorized capital	-	75,000
Expiration of guarantees	4,912	4,108
Cancellation of loans	2,981	6,693
Decrease (increase) in uncommitted balance of Fund	(5,096)	206,571
Principal repayments reinvested in the Fund	32,901	8,287
	35,698	300,659
Authorizations during the year	(35,200)	(225,356)
Capitalized interest	(66)	(63)
Guarantee payments	(434)	(239)
	(35,700)	(225,658)
Fund balance, end of year	\$ 473,482	\$ 488,217

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, 2011, with comparative figures for 2010

	2011		2010	
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, 2011

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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 and Tourism.

## 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, 2011

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## 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 and Tourism." Accordingly, administrative expenses of the Fund are included in the accounts of the Department of Economic and Rural Development and Tourism 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. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees and the determination of the fair value of the loans.

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

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## 2. 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.

During the year no payments (2010 - nil) were received on these loans.

	2011	2010
Loans made to venture corporations	\$ 809	\$ 809
Less: allowance for doubtful accounts	809	809
	\$ -	\$ -

## 3. 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.

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

## 4. Shares:

	2011		2010	
Preferred shares	\$	18,741	\$	14,741
Common shares		22,671		3,071
	\$	41,412	\$	17,812

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.

## 5. 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, shares and royalties is as follows:

	2011		2010	
	Assistance outstanding	Provision for concessionary assistance	Net book value	Net book value
Loans	\$ 12,276	\$ 1,635	\$ 10,641	\$ 5,779
Shares	9,741	4,300	5,441	5,441
Royalties	765	537	228	874
	\$ 22,782	\$ 6,472	\$ 16,310	\$ 12,094

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

## 6. Guarantees:

	2011	2010
Guarantees - in effect and utilized	\$ 36,534	\$ 37,379
Guarantees - in effect but unutilized	27,766	17,333
	<b>\$ 64,300</b>	<b>\$ 54,712</b>

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

The following is a continuity of the provision:

	2011	2010
Balance, beginning of year	\$ 79,792	\$ 86,176
Add current year provision:		
Doubtful accounts	3,028	10,021
Development incentives	7,608	12,108
	<b>90,428</b>	<b>108,305</b>
Less accounts written off	14,733	28,513
	<b>\$ 75,695</b>	<b>\$ 79,792</b>

## 8. 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, 2011

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## 9. Financial instruments:

### (a) Fair value:

The fair values of loans receivable approximate their net realizable value.

The fair value and book value of loans as at March 31, 2011 are \$168,542 and \$155,835 (2010 - \$164,834 and \$156,061), respectively. Certain loans receivable in the amount of \$3,247 (2010 - \$1,280) have no set terms of repayment and are carried on the financial statements at cost.

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 \$33,041, \$34,184, \$578 and \$nil (2010 - \$9,441, \$36,879, \$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:

- (i) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).
- (ii) 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 Capital Markets.
- (iii) 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.

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

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## 9. Financial instruments (continued):

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.

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The fair value of loans with scheduled repayment terms have been categorized as Level 3 in the fair value hierarchy.

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	2011
Fair value of loans receivable, beginning of year	\$ 164,834
Advances	41,170
Repayments	(32,823)
Provisions and write offs	(8,573)
Change in market value	3,858
Loans receivable, end of year	\$ 168,466

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(b) Associated risks:

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.

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

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## 9. Financial instruments (continued):

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. 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 on 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.

As at year end, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. The carrying value of the investments advanced to these investees at March 31, 2011 account for 68% of the total carrying value of the Fund's portfolio. At March 31, 2010 the concentration of investments advanced to the Fund's five largest investees was 66% of the carrying value of the investment portfolio.

(ii) Interest rate risk:

Interest rate risk is the risk that the market value of the Fund's investments and debt will fluctuate due to changes in market interest rates. Interest rate risk is mitigated due to the fact that the Fund matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical. It is management's opinion that the Fund is not exposed to significant interest rate risk arising from financial instruments.

(iii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. 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. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

# PROVINCE OF NOVA SCOTIA INDUSTRIAL EXPANSION FUND

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

Year ended March 31, 2011

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## 9. Financial instruments (continued):

### (c) Capital risk management:

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 decreased (increased) by \$10,638 (2010 - \$(52,872)).

## 10. Related party transactions:

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

In 2010, the Fund authorized a loan of \$1,000 to Harbourside Commercial Properties Limited, a crown corporation owned by the Province of Nova Scotia. The loan was made on commercial terms.

In 2008, the Fund purchased \$9,741 of preferred shares from Harbourside Commercial Properties Limited. 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.

## 11. Comparative figures:

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.