

Financial Statements of

NOVA SCOTIA BUSINESS INC.

Year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Directors of Nova Scotia Business Inc.

We have audited the accompanying financial statements of Nova Scotia Business Inc. which comprise the balance sheet as at March 31, 2011, the statements of revenue, expenditures, retained earnings, comprehensive income 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 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 Nova Scotia Business Inc. as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

June 29, 2011
Halifax, Canada

NOVA SCOTIA BUSINESS INC.

Financial Statements

Year ended March 31, 2011

Financial Statements

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NOVA SCOTIA BUSINESS INC.

Balance Sheet

(in thousands of dollars)

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 10,136	\$ 15,178
Accrued interest receivable	2,176	1,737
Due from the Province of Nova Scotia	8,697	9,657
Current portion of loans receivable (note 2)	5,333	6,758
Other receivables	718	789
	27,060	34,119
Nova Scotia Business Fund assets:		
Loans receivable (note 2 and 6)	84,437	80,111
Equity investments (note 3 and 6)	26,507	29,080
Industrial parks and malls (note 4)	2,429	2,076
	113,373	111,267
	\$ 140,433	\$ 145,386

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,902	\$ 15,757
Provision for payment of guarantees (note 6)	30	2,900
Dividend payable	967	1,915
Principal due within one year to the Province of Nova Scotia (note 7)	9,176	10,188
	24,075	30,760
Long-term debt:		
Due to the Province of Nova Scotia (note 7)	93,548	91,186
Shareholder's equity:		
Retained earnings	24,350	23,430
Accumulated other comprehensive income (loss)	(1,540)	10
	22,810	23,440
Commitments (note 9)		
Contingencies (note 10)		
	\$ 140,433	\$ 145,386

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

NOVA SCOTIA BUSINESS INC.

Statement of Revenue, Expenditures and Retained Earnings
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Provincial grants:		
Operating grant	\$ 10,972	\$ 10,905
Strategic investment grant	8,914	12,604
Loan valuation allowance	2,100	2,100
Gateway initiative grant	-	49
Interest on loans receivable	8,700	6,889
Other investment income	471	344
Gain on sale of property	564	1,515
Miscellaneous	1,788	2,321
	33,509	36,727
Expenses:		
Operating expenses (Schedule)	11,621	12,626
Strategic investments	8,914	12,604
Allowance for credit losses and provision for payment of guarantees	3,029	4,404
Nova Scotia Business Fund expenses (Schedule)	8,058	6,426
	31,622	36,060
Excess of revenue over expenditures	1,887	667
Retained earnings, beginning of year	23,430	24,678
Less: Dividend to shareholder	(967)	(1,915)
Retained earnings, end of year	\$ 24,350	\$ 23,430

See accompanying notes to financial statements.

NOVA SCOTIA BUSINESS INC.

Statement of Comprehensive Income
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Net income	\$ 1,887	\$ 667
Other comprehensive income (loss):		
Change in unrealized gains on available-for-sale securities	(1,550)	1,486
	\$ 337	\$ 2,153

Statement of Changes in Shareholder's Equity
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Share capital (note 8):		
Authorized:		
100 Class A common shares with a par value of \$1 each		
Issued and outstanding to the Province of Nova Scotia:		
100 common shares	\$ -	\$ -
Retained earnings	24,350	23,430
Accumulated other comprehensive income (loss):		
Balance beginning of year	10	(1,476)
Other comprehensive income (loss) for the year	(1,550)	1,486
Balance at end of year	(1,540)	10
Total Shareholder's Equity	\$ 22,810	\$ 23,440

See accompanying notes to financial statements.

NOVA SCOTIA BUSINESS INC.

Statement of Cash Flows
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	\$ 1,887	\$ 667
Items not involving cash:		
Amortization	95	114
Loss on sale of financial instruments	52	-
Allowance for credit losses and provision for payment of guarantees	3,029	4,404
Capitalized interest on loans (receivable) payable	397	(1,136)
Gain on sale of property	(564)	(1,515)
Loan valuation allowance - due from Province of Nova Scotia	(2,100)	(2,100)
Change in non-cash operating working capital:		
Decrease (increase) in accrued interest receivable	(439)	715
Decrease in due from the Province of Nova Scotia	960	1,728
Decrease (increase) in other receivables	71	(23)
Increase (decrease) in accounts payable and accrued liabilities	(1,855)	1,111
Increase (decrease) in dividend payable	(948)	1,915
	585	5,880
Financing:		
Dividends	(967)	(1,915)
New borrowings from the Province of Nova Scotia	18,076	15,905
Principal repayments to the Province of Nova Scotia	(15,023)	(7,648)
	2,086	6,342
Investments:		
Loan advances	(16,610)	(7,635)
Principal received on loans	8,361	7,763
Redemption of shares	4,000	-
Equity investments	(4,475)	(10,756)
Proceeds from disposal of Industrial Parks	1,011	1,915
Capital adjustments (additions)	-	13
Principal received on convertible debentures	-	216
	(7,713)	(8,484)
Increase (decrease) in cash	(5,042)	3,738
Cash, beginning of year	15,178	11,440
Cash, end of year	\$ 10,136	\$ 15,178

See accompanying notes to financial statements.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

Nova Scotia Business Inc. (the "Corporation") is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia. The Corporation is not subject to provincial or federal taxes.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at amortized cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investments in publicly traded companies are recorded at fair market value. Equity investments with limited market information available are recorded either at: 1) value determined by a specific valuation method or, 2) cost less a general allowance for credit losses equal to 10% of cost. This allowance or the difference between valuation and cost amount reflects the risk associated with equity investments. The cost approach is used in cases whereby the valuation result is higher than book value but the increase is considered temporary or in cases where there is no available data to perform any form of a valuation approach. The investments are reviewed twice yearly for potential declines in value.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves, and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

Asset	Basis	Rate
Industrial malls and other buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	4 - 15%

Assets not in use are not amortized.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

1. Summary of significant accounting policies (continued):

The Department of Transportation and Infrastructure Renewal has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Infrastructure Renewal and are not reflected in these financial statements.

Proceeds from the sale of assets less closing costs are remitted to the Province of Nova Scotia in the form of dividends. In 2011, the dividend payable was \$967 (2010 - \$1,915).

(d) Other assets:

Other assets consist of property acquired through foreclosure. Other assets are recorded at cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

(e) Due to the Province of Nova Scotia:

Amounts due to the Province of Nova Scotia are recorded at amortized cost.

(f) Other comprehensive income (loss):

Comprehensive income (loss) is composed of the Corporation's net income and other comprehensive income. Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale investments. All of the Corporation's publicly traded equity investments have been recorded as available for sale and this has resulted in a decrease (increase) of \$1,550 (2010 - \$(1,486)) to opening accumulated other comprehensive income (loss).

During the year, investments in the amount of \$720 (2010 - \$nil) were written off and included in other comprehensive income (loss).

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

1. Summary of significant accounting policies (continued):

(g) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears. In the event a loan is no longer considered to be impaired, interest revenue is recognized in the year of recovery.

(h) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. The Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by a loan valuation allowance from the Province of Nova Scotia.

(i) Employee future benefits:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis based on an annual actuarial assessment.

(j) 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 Nova Scotia Business Fund assets and the determination of the fair value of the loans receivable and the amount of the long-term debt due to the Province of Nova Scotia.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

2. Loans receivable:

	2011	2010
Principal due:		
Performing loans	\$ 104,537	\$ 106,885
Impaired loans	21,223	16,706
	125,760	123,591
Allowance for credit losses (note 6)	35,990	36,722
	89,770	86,869
Less current portion	5,333	6,758
	\$ 84,437	\$ 80,111

3. Equity investments:

	2011	2010
Common shares	\$ 8,225	\$ 12,327
Preferred shares	18,939	22,748
Convertible debentures	10,661	9,561
	37,825	44,636
Allowance for credit losses (note 6)	11,318	15,556
	\$ 26,507	\$ 29,080

Certain preferred shares have conversion options and warrants attached.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

4. Industrial parks and malls:

			2011		2010	
	Cost	Accumulated amortization	Net book value		Net book value	
Land	\$ 110	\$ -	\$ 110	\$	143	
Industrial malls and other buildings	2,057	766	1,291		649	
Wharves	1,752	1,061	691		921	
Utilities	458	121	337		363	
	\$ 4,377	\$ 1,948	\$ 2,429	\$	2,076	

During the year, a building valued at \$895 was acquired through a loan foreclosure and was transferred to industrial parks and malls as an owned asset.

5. Other assets:

			2011		2010	
Property acquired through foreclosure, at cost	\$	820	\$	822		
Less allowance for credit losses (note 6)		820		822		
	\$	-	\$	-		

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

6. Allowance for credit losses and provision for payment of guarantees:

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2011 Net balance outstanding
Loans receivable (note 2)	\$ 125,760	\$ 31,740	\$ 4,250	\$ 35,990	\$ 89,770
Equity investments (note 3)	37,825	8,984	2,334	11,318	26,507
Guarantees (note 10)	300	-	30	30	270
Other assets (note 5)	820	820	-	820	-
	\$ 164,705	\$ 41,544	\$ 6,614	\$ 48,158	\$ 116,547

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2010 Net balance outstanding
Loans receivable (note 2)	\$ 123,591	\$ 32,593	\$ 4,129	\$ 36,722	\$ 86,869
Equity investments (note 3)	44,636	13,218	2,338	15,556	29,080
Guarantees (note 10)	2,900	2,900	-	2,900	-
Other assets (note 5)	822	822	-	822	-
	\$ 171,949	\$ 49,533	\$ 6,467	\$ 56,000	\$ 115,949

During the year, investments in the amount of \$11,591 (2010 - \$286) were written off and included in the allowance for credit losses and provision for payment of guarantees and other comprehensive income.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

7. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

			2011	2010
	Fiscal year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Note payable 2002-01	-	-	\$ 19,358	\$ 29,504
Note payable 2002-02	2022	6.22%	30,385	32,424
Note payable 2003-03	2012	4.97%	17	68
Note payable 2003-04	2014	5.29%	315	454
Note payable 2003-05	2011	5.44%	-	145
Note payable 2004-01	2017	4.61%	904	1,259
Note payable 2004-02	2015	4.18%	2,778	3,448
Note payable 2005-01	2011	4.23%	-	1,013
Note payable 2005-02	2014	3.80%	128	270
Note payable 2006-01	2027	5.09%	1,379	1,474
Note payable 2006-02	2027	4.98%	1,760	1,877
Note payable 2006-03	2027	4.86%	2,854	3,044
Note payable 2006-04	2027	4.94%	1,970	2,101
Note payable 2007-01	2027	5.11%	888	947
Note payable 2007-02	2027	4.89%	899	959
Note payable 2007-03	2027	4.97%	383	409
Note payable 2007-04	2027	5.01%	73	78
Note payable 2007-05	2027	5.38%	1,281	1,367
Note payable 2007-06	2027	5.58%	133	142
Note payable 2008-01	2017	4.02%	778	908
Note payable 2008-02 to 2008-13	2012 - 2027	0.99% - 5.15%	3,261	3,746
Note payable 2009-01 & 2009-06	2012	1.60%	480	640
Note payable 2009-02	2027	3.16%	822	872
Note payable 2009-03 & 2009-05	2014	2.20%	1,748	2,150
Note payable 2009-04	2013	2.11%	205	265
Note payable 2009-07	2014	2.52%	311	400
Note payable 2009-08	2015	4.09%	992	1,050
Note payable 2009-09	2013	1.75%	157	197
Note payable 2009-10	2015	3.18%	6,186	5,996
Note payable 2009-11	2015	3.18%	758	735
Note payable 2009-12	2015	3.18%	1,041	1,009
Note payable 2009-13	2015	3.17%	286	277
Note payable 2009-14	2015	2.92%	331	350
Note payable 2009-15	2015	3.16%	155	151
Note payable 2009-16	2015	3.15%	1,181	1,145
Note payable 2009-17	2015	3.35%	207	200
Note payable 2009-18	2012	2.80%	300	300
Balance carry-forward			84,704	101,374

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

7. Due to Province of Nova Scotia (continued):

			2011	2010
	Fiscal year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Balance carried forward			84,704	101,374
Note payable 2010-01	2014	1.94%	219	-
Note payable 2010-02	2016	3.67%	259	-
Note payable 2010-03	2016	2.39%	123	-
Note payable 2010-04	2016	3.63%	310	-
Note payable 2010-05	2014	3.17%	142	-
Note payable 2010-06	2016	3.45%	206	-
Note payable 2010-07	2016	3.45%	515	-
Note payable 2010-08	2013	2.05%	100	-
Note payable 2010-09	2016	3.16%	64	-
Note payable 2010-10	2016	3.17%	87	-
Note payable 2010-11	2015	2.28%	27	-
Note payable 2010-12	2015	2.35%	350	-
Note payable 2010-13	2016	2.94%	28	-
Note payable 2010-14	2013	1.77%	107	-
Note payable 2010-15	2016	2.57%	557	-
Note payable 2010-16	2014	2.05%	1,010	-
Note payable 2010-17	2014	2.21%	800	-
Note payable 2010-18	2013	1.91%	150	-
Note payable 2010-19	2016	2.57%	1,497	-
Note payable 2010-20	2016	2.17%	70	-
Note payable 2010-21	2016	2.57%	550	-
Note payable 2010-22	2014	2.56%	504	-
Note payable 2010-23	2014	2.09%	1,639	-
Note payable 2010-24	2021	3.35%	5,000	-
Note payable 2010-25	2014	2.60%	502	-
Note payable 2010-26	2014	2.44%	200	-
Note payable 2010-27	2016	2.94%	509	-
Note payable 2010-28	2012	1.69%	196	-
Note payable 2010-29	2016	2.70%	99	-
Note payable 2010-30	2016	3.28%	502	-
Note payable 2010-31	2013	1.77%	8	-
Note payable 2010-32	2013	1.87%	940	-
Note payable 2010-33	2014	2.14%	750	-
			102,724	101,374
Less principal due within one year			9,176	10,188
			\$ 93,548	\$ 91,186

The principal for note 2002-01 is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

7. Due to Province of Nova Scotia (continued):

The remaining notes are repayable in quarterly instalments of principal and interest based on the maturity dates and rates set out above.

(b) Principal payments due in each of the next five years are as follows:

2012	\$	9,176
2013		8,172
2014		8,731
2015		6,227
2016		4,723

There are no set repayment terms for certain notes payable due to the Province of Nova Scotia in the amount of \$35,723.

8. Share capital:

The Corporation is authorized to issue 100 Class A common shares with a par value of \$1 each. At year-end, 100 common shares have been issued to the Province of Nova Scotia.

9. Commitments:

- (a) The Corporation has approved financing of \$20,089 (2010 - \$4,690) that is undisbursed at year-end.
- (b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2011, transactions were approved with maximum annual payments over the next seven years of \$79.4 million (2010 - \$113.7 million) as shown below.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

9. Commitments (continued):

2012	\$	26,260
2013		21,874
2014		17,462
2015		8,342
2016		3,653
2017		1,222
2018		585
	\$	79,398

10. Contingencies:

(a) Guarantees:

	Authorized	2011 Utilized	2010 Utilized
Bank loans	\$ 1,050	\$ 300	\$ 2,900
Less provision for payment		30	2,900
		\$ 270	\$ -

The above are guarantees of lines of credit and one or more of these will expire in 2012.

The guarantee is secured by various assets and proceeds from liquidation are expected to offset any possible payments under the guarantee.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

10. Contingencies (continued):

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. It is assumed that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

The Corporation is unable to form an opinion in regard to the likelihood of loss arising from the above litigation. Consequently, no provision for any possible loss has been recorded in these financial statements.

In addition, there are other outstanding claims against the Corporation for events that have arisen in the normal course of carrying on the operations of the Corporation. It is not possible at this time to determine the amount that may be assessed, or the impact to the Corporation's financial statements, with respect to these claims.

- (c) The Corporation completed a transfer agreement with the Municipality of the County of Colchester in fiscal 2008, which included a water system. The system has undergone GUDI (Groundwater Under the Direct Influence of Surface Water) testing. Of the three wells tested, two were non-GUDI. As a result of the third well being determined as GUDI, the Corporation will likely have to contribute additional funds to be used for water treatment. It is not known the extent of the liability that exists at the year end.

11. Financial instruments:

(a) Fair value

The fair values of accrued interest receivable, due from the Province of Nova Scotia, other receivables, and accounts payable and accrued liabilities approximate their fair value because of their short term-to-maturity. The fair value of loans receivable and due to the Province of Nova Scotia has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

11. Financial instruments (continued):

The fair value and book value, excluding any reserves, of loans receivable as at March 31, 2011 are \$105,604 and \$123,366 (2010 - \$97,047 and \$117,940) respectively. Certain notes receivable in the amount of \$2,394 (2010 - \$5,651) have no set terms of repayment and are carried on the financial statements at cost.

Equity investments in publicly-traded companies in the amount of \$1,459 (2010 - \$3,062) are recorded at fair market value, which represents the last bid price for the stock on the stock exchange. Equity investments in privately held companies in the amount of \$25,048 (2010 - \$26,018) are carried at cost less allowances in the financial statements. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets.

There are loan guarantees and other assets that represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets. These assets are carried on the financial statements at cost.

The amount due to the Province of Nova Scotia is comprised of a series of separate notes. The fair value and book value of the amounts due to the Province of Nova Scotia with scheduled repayment terms as at March 31, 2011 are \$72,341 and \$67,001 (2010 - \$67,867 and \$62,357), respectively. Notes payable in the amount of \$35,723 (2010 - \$39,017) have no set terms of repayment and are carried on the financial statements at cost. The principal on these notes are repaid to the Province as it is collected on the loans receivable financed by these notes. Due to the volume of accounts financed by these notes and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of this amount due to the Province of Nova Scotia.

The fair values of the loans receivable and the amount due to the Province of Nova Scotia are determined using Canadian bond market conventions.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

11. Financial instruments (continued):

The yield to maturity curve by month for the Corporation 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.
- (iii) The Corporation'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 Corporation respecting the borrowings of the Corporation.

The Corporation'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 Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

Fair value measurements recognized in notes 2 and 3 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.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

11. Financial instruments (continued):

The following table illustrates the classification of the Corporation's financial instruments using the fair value hierarchy at book value, excluding any reserves:

March 31, 2011	Level 1	Level 3	Undeterminable	Total
Assets:				
Cash	10,136	-	-	10,136
Loans receivable	-	123,366	2,394	125,760
Equity	1,459	-	36,366	37,825
Liabilities:				
Due to the Province of Nova Scotia	-	67,001	35,723	102,724
March 31, 2010	Level 1	Level 3	Undeterminable	Total
Assets:				
Cash	15,178	-	-	15,178
Loans receivable	-	117,940	5,651	123,591
Equity	3,062	-	41,574	44,636
Liabilities:				
Due to the Province of Nova Scotia	-	62,357	39,017	101,374

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy.

	Fair value March 31 2010	Advances	Repayments	Other gains and losses	Change in Market Value	Fair value March 31 2011
Loans receivable	\$ 97,047	\$ 16,610	\$ (8,361)	\$ (5,349)	\$ 5,657	\$ 105,604
Due to the Province of Nova Scotia	\$ 67,867	\$ 18,076	\$ (15,023)	\$ (1,703)	\$ 3,124	\$ 72,341

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

11. Financial instruments (continued):

(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 Corporation's Nova Scotia Business Fund assets are primarily exposed to credit, interest rate, market price and liquidity risk.

(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 Corporation. To mitigate this risk, the Corporation has developed the following policies:

Before financing is approved, a risk assessment is performed on the client. Each application is designated a risk rating based on the industry and business, quality of management, financial history and projections, the level of other creditor involvement and shareholder participation, and environmental risks. The terms and conditions of the approved financing are reflective of the assessed risk. Applications with unacceptable levels of risk are not approved.

Clients are usually limited to a total of \$15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Three clients have exceeded this total in the past; two loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately \$30,223 and \$22,526, respectively (2010 - \$32,222 and \$24,760). A third client, currently has an outstanding balance of \$13,320 which is now below the \$15,000 financing limit threshold (2010 - \$14,322 and \$2,760 of authorized but unutilized funding was still available).

During the year, financing to a new client in the amount of \$15,100 was authorized but unadvanced at year-end.

The risk rating for all clients is monitored on an on-going basis. Clients identified as higher risk are further assessed at year end to determine the extent of the potential loss, taking into account the value of the security pledged in support of the financial assistance. This assessment could result in a reduction in the carrying value of the investment via the provision for credit losses.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

11. Financial instruments (continued):

(ii) Interest risk:

Interest rate risk is the risk that the market value of the Corporation's investments and debt will fluctuate due to changes in market interest rates. Interest rate risk is mitigated due to the fact that the Corporation 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 Corporation is not exposed to significant interest rate risk arising from financial instruments.

(iii) Market price risk:

Market price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments traded in the market. At year end, the Corporation held \$1,459 (2010 - \$3,062) in publicly traded equities. As these equities are carried at fair value with fair value changes recognized in the statement of comprehensive income, all changes in market conditions will directly result in an increase (decrease) of other comprehensive income (loss).

(iv) 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 the receipt of provincial grants, income generated from the loans receivable and equity investments, and principal repayments received on the loans receivable. These sources of funds are used to pay operating expenses and debt service payments to the Province of Nova Scotia. In the normal course of business the Corporation enters into contracts that give rise to commitments for future payments which may also impact the Corporation's liquidity. The Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

12. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated ("NSBI") and investments have been transferred from the Nova Scotia Business Development Corporation Fund ("NSBDC") on November 6, 2001. The following is a summary of the Fund as at March 31.

								2011	2010
<u>NSBI Portfolio</u>				<u>NSBDC Portfolio</u>					
		Gross	Less allowance for credit losses		Gross	Less allowance for credit losses	Net total	Net total	
Assets:									
Loans receivable	\$	44,438	\$ 18,010	\$	81,322	\$ 17,980	\$ 89,770	\$ 86,869	
Equity investments		35,819	9,701		2,006	1,617	26,507	29,080	
Industrial parks and malls		-	-		2,429	-	2,429	2,076	
Other assets		-	-		820	820	-	-	
Guarantees		300	30		-	-	270	-	
Financing authorized but unadvanced		20,089	-		-	-	20,089	4,690	
	\$	100,646	\$ 27,741	\$	86,577	\$ 20,417	\$ 139,065	\$ 122,715	
								2011	2010
Funding authorized and committed:									
Fund balance authorized, net of write offs						\$	241,493	\$ 253,083	
Less: uncommitted balance of fund							54,270	74,368	
Committed fund balance							187,223	178,715	
Less allowance for credit losses and provision for payment of guarantees							48,158	56,000	
	\$						139,065	122,715	

13. Capital risk management:

The main objective of the Corporation is to expand business activity in Nova Scotia in five main areas: trade development, business advisory services, business financing, venture capital and investment attraction. The Corporation carries out its programs in conjunction with the funding allocated to it by the Province of Nova Scotia. During the year, the long-term debt increased by \$1,350 (2010 - \$6,235).

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

14. Supplementary cash information:

Cash is defined as cash and short-term investments.

During the year, cash received for interest income was \$8,665 (2010 - \$6,419) and cash paid for interest was \$7,312 (2010 - \$5,247).

During the year, dividends in the amount of \$1,915 (2010 - \$nil) were paid.

Non-cash investing activities	2011	2010
Equity market adjustments recorded as other comprehensive income (loss)	\$ (1,550)	\$ 1,486
Capital asset additions acquired through foreclosure	\$ 895	\$ nil

15. Related party transactions:

During the year, payroll rebates in the amount of \$585 (2010 - \$162) were awarded to companies which were controlled or otherwise not independent of certain directors of Nova Scotia Business Inc.

As at year-end, the total amount outstanding including current year balances to companies that were controlled or otherwise not independent of certain directors of Nova Scotia Business Inc. was \$6,781 (2010 - \$12,034) for financial assistance. These have only the 5% general reserve recorded against them. Furthermore, outstanding payroll rebates were in the amount of \$747 (2010 - \$162).

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

16. Employee pension plan:

Employees of the Corporation participate in the Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2011 were \$533 (2010 - \$538) and are recognized as an expense in the year. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

NOVA SCOTIA BUSINESS INC.

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2011

17. Comparative figures:

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

NOVA SCOTIA BUSINESS INC.

Schedule of Operating Expenses
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Business development	\$ 2,913	\$ 3,115
Gateway initiative expenses	-	753
Legal and audit	50	11
Office expenses	356	446
Other	255	132
Salaries and benefits	7,042	7,011
Telecommunications and technical support	391	478
Travel	614	680
	\$ 11,621	\$ 12,626

NOVA SCOTIA BUSINESS INC.

Schedule of Nova Scotia Business Fund Expenses
(in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Amortization	\$ 95	\$ 114
Commissions	52	19
Interest	7,624	5,926
Legal	8	17
Repairs and maintenance	279	350
	\$ 8,058	\$ 6,426