

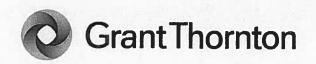
Financial statements

Sydney Steel Corporation

March 31, 2014

Contents

	<u>Page</u>
independent auditors' report	1 - 2
Statement of financial position	
Statement of financial activities	
Statement of changes in net financial assets	
Statement of cash flows	
Notes to the financial statements	7 - 10



Independent auditors' report

Grant Thornton LLP Suite 200 500 George Place Sydney, NS B1P 1K6

T (902) 562-5581 F (902) 562-0073 www.GrantThornton.ca

To the directors of

Sydney Steel Corporation

We have audited the accompanying financial statements of Sydney Steel Corporation, which comprise the statement of financial position as at March 31, 2014, the statements of financial activities, changes in net financial assets, and cash flows for the year ended, March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

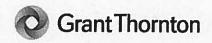
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 the 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 the auditor's 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, the auditor considers 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 Sydney Steel Corporation as at March 31, 2014, and the results of its operations, changes in net financial assets and cash flows for the year ended March 31, 2014, in accordance with Canadian public sector accounting standards.

Sydney, Canada

June 27, 2014

Grant Thornton LLP
Chartered accountants

Sydney Steel Corporation Statement of financial position

March 31		2014		2013
Financial assets				
Cash and cash equivalents	\$	566,533	\$	973,495
Receivables		000,000	•	070,400
Province of Nova Scotia (Note 3)		3,486,929		3,589,666
Note receivable		299,076		339,618
		4,352,538		4,902,779
Liabilities				
Trade payables and accrued liabilities		338,276		571,497
Payable to Nova Scotia Lands Inc. (Note 5)		2,962,917		3,318,277
Payable to Sydney Utilities Limited (Note 5)		13,069		18,200
	-	3,314,262		3,907,974
Net financial assets		1,038,276	<u></u>	994,805
Non-financial assets				
Prepaids		-		27,706
Accumulated surplus	\$	1,038,276	\$	1,022,511
Commitment (Note 4) Contingent liabilities (Note 6)				
On behalf of the Board				
Director			Direct	or

See accompanying notes to the financial statements.

Sydney Steel Corporation Statement of financial activities

Year ended March 31	2014	2013
Revenue		
Contributions from the Province of Nova Scotia		
(Note 3)	\$ 3,233,740	\$ 3,589,666
Interest	15,765	35,620
	3,249,505	3,625,286
Expenditures		
Demolition and remediation (Note 5)	2,559,497	2,797,251
Professional fees	599,327	694,301
Property taxes	47,210	53,948
General and administration	27,706	44,166
	3,233,740	3,589,666
Annual surplus	15,765	35,620
Accumulated surplus,		
Beginning of year	1,022,511	986,891
End of year	\$ 1,038,276	\$ 1,022,511

Sydney Steel Corporation Statement of changes in net financial assets

Year ended March 31	2014			2013	
Annual surplus	\$	15,765	\$	35,620	
Decrease in prepaid expenses	_	27,706		44,166	
Increase in net financial assets		43,471		79,786	
Net financial assets Beginning of year		994,805		915,019	
End of year	<u>\$</u>	1,038,276	\$	994,805	

Sydney Steel Corporation Statement of cash flows

Year ended March 31		2014		2013
Increase (decrease) in cash and cash equivalents				
Operating				
Annual surplus	\$	15,765	\$	35,620
Change in non-cash operating				
working capital (Note 7)	<u>-</u>	(422,727)	_(1	,890,774)
Decrease in cash and cash equivalents		(406,962)	(1	,855,154)
Cash and cash equivalents, beginning of year		973,495	2	2,828,649
Cash and cash equivalents, end of year	\$	566,533	\$	973,495

See accompanying notes to the financial statements.

Sydney Steel Corporation Notes to the financial statements

March 31, 2014

1. Nature of operations

Sydney Steel Corporation ("the Corporation") is a Crown Corporation incorporated by a special act of the Province of Nova Scotia. The Corporation's main function is to facilitate the remediation of the former steel plant site in Sydney, Nova Scotia.

2. Summary of significant accounting policies

a) Basis of accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the public sector, which for purposes of the Corporation's financial statements, are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA accounting standards and pronouncements.

b) Accrual basis of accounting

Revenues and expenses are recorded on the accrual basis of accounting.

c) Financial assets

Cash and cash equivalents are recorded at cost which approximates market value.

Accounts receivable are recorded at the principal amount less valuation allowances. These allowances are recorded where collectability is considered doubtful.

d) Net financial assets

Net financial assets represent the financial assets of the Corporation less direct liabilities.

e) Accumulated surplus

Accumulated surplus represents the financial and non-financial assets of the Corporation less liabilities. This represents the accumulated balance of surplus/net deficit arising from the operations of the Corporation.

Sydney Steel Corporation Notes to the financial statements

March 31, 2014

2. Summary of significant accounting policies (continued)

f) Financial instruments

Risk management policy

The Corporation is exposed to various risks through its financial instruments, which consist of cash and cash equivalents, receivables and payables and accruals. The following analysis provides a measure of the risks at the balance sheet date, March 31, 2014.

Credit risk

The Corporation provides credit to its clients in the normal course of its operations. The Corporation determines, on a continuing basis, the probable losses and sets up a provision for losses based on the estimated realizable value.

Fair value

The fair value of cash, accounts receivable and accounts payable approximates their carrying value given their short-term maturity date.

g) Use of estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Sydney Steel Corporation Notes to the financial statements

March 31, 2014

3. Province of Nova Scotia

In connection with the former active operations of Sydney Steel Corporation, the Province of Nova Scotia (the "Province") has:

- Established the Sysco Decommissioning Fund to finance the closure, demolition, and remediation obligations of the Corporation; and
- Established the Sydney Steel Corporation Superannuation Fund to assume direct responsibility for the Corporation's pension obligations.

During the period 2001 – 2006, the Province provided contributions of \$58,751,000 to the Corporation to fund certain closure, demolition, and remediation expenditures. Upon further review in 2007, it was determined that the Corporation did not require these direct contributions due to better than expected recoveries on asset and scrap sales since the closure. As such, the Province directed the Corporation to return these contributions to the Sysco Decommissioning Fund (the "Fund"). The Fund will be utilized for future decommissioning, demolition and remediation of this Corporation's and adjacent sites.

In connection with the current liquidation and redevelopment plan, the Province has committed to continuing support. Expenses incurred during the year for which the Corporation will receive reimbursements from the Sysco Decommissioning Fund total \$3,233,740 (2013- \$3,589,666).

4. Commitment

On March 30, 2007, the Corporation retained the services of Nova Scotia Lands Inc. to manage the remediation, redevelopment and by-product operations to be conducted on Corporation lands and to provide other services as may be required. This agreement which was initially for a two-year period has been renewed on an annual basis.

5. Related party transactions

Included in the demolition and remediation costs are reimbursement of expenses of \$2,548,244 (2013 - \$2,785,139) and \$11,253 (2013 - \$12,112) paid to Nova Scotia Lands Inc. and Sydney Utilities Limited, respectively. Both companies are controlled by the Province of Nova Scotia.

The Corporation paid legal fees of \$592,827 (2013 - \$687,801) to the Province of Nova Scotia – Department of Justice for services in relation to the lawsuit as disclosed in Note 6 to the financial statements.

These transactions are in the normal course of operations and are measured at the exchange amount which approximates fair market value.

Sydney Steel Corporation Notes to the financial statements

March 31, 2014

6. Contingent liabilities

The Corporation is a defendant in two separate but similar lawsuits. Both claims seek damages as a result of environmental contamination caused by years of steel making. One of the lawsuits was class action certified in January 2012. An appeal of the certification decision has been filed by the Sydney Steel Corporation, the Province of Nova Scotia and by the Attorney General of Canada. The appeal was heard in March 2013 and was successful, however that decision is expected to be appealed.

Because these matters are still in the preliminary stages, the outcomes are not currently predictable.

		-123	The state of the s	
7. St	pplemental cash flow information		2014	2013
Change in	non-cash operating working capital:			
Receivable	95			
Province	of Nova Scotia	\$	102,737	\$ (3,831,604)
Note rec	eivable		40,542	39,444
Prepaids			27,706	44,166
Payables				
Trade pa	ayables and accrued liabilities		(233,221)	33,100
Nova Sc	otia Lands Inc.		(355,360)	1,895,255
Sydney I	Utilities Limited	<u> </u>	<u>(5,131</u>)	(71,135)
		\$	(422,727)	\$ (1,890,774)