



Financial statements

Sydney Steel Corporation

March 31, 2015

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Independent auditor's report

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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, 2015, the statements of financial activities, changes in net financial assets, and cash flows for the year ended March 31, 2015, 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, 2015, and the results of its operations, changes in net financial assets and cash flows for the year ended March 31, 2015, in accordance with Canadian public sector accounting standards.

Emphasis of matters

We draw attention to Note 4 to the financial statements which describes the restatement of a prior period. Our opinion is not qualified in respect to this matter.

Sydney, Canada

October 9, 2015

Grant Thornton LLP

Chartered accountants

Sydney Steel Corporation

Statement of financial position

March 31

2015

2014
(Restated -
Note 3 & 4)

Financial assets

Cash and cash equivalents	\$ 254,708	\$ 566,533
Receivables		
Province of Nova Scotia	1,081,423	927,432
Province of Nova Scotia–Contamination (Notes 4 & 5)	31,356,373	33,127,437
Note receivable	<u>257,215</u>	<u>299,076</u>
	<u>32,949,719</u>	<u>34,920,478</u>

Liabilities

Payables and accruals (Note 6)	155,344	338,276
Contamination provision (Notes 3 & 7)	29,761,131	30,501,366
Payable to Nova Scotia Lands Inc. (Note 9)	1,175,605	2,962,917
Payable to Harbourside Commercial Park Inc. (Note 9)	665,492	-
Payable to Sydney Utilities Limited (Note 9)	<u>12,941</u>	<u>13,069</u>
	<u>31,770,513</u>	<u>33,815,628</u>

Net financial assets \$ 1,179,206 \$ 1,104,850

Accumulated surplus \$ 1,179,206 \$ 1,104,850

Commitment (Note 8)

Contingent liabilities (Note 10)

On behalf of the Board

 Director

 Director

See accompanying notes to the financial statements.

Sydney Steel Corporation

Statement of financial activities

Year ended March 31	Budget	2015	2014 (Restated - Note 3 & 4)
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Revenue

Contributions from the Province of Nova Scotia	\$ 495,000	\$ 570,480	\$ 674,243
Gain on sale of capital assets	1,000,000	-	-
Interest	<u>5,000</u>	<u>800,289</u>	<u>850,896</u>
	<u>1,500,000</u>	<u>1,370,769</u>	<u>1,525,139</u>

Expenditures

Remediation – Accretion of contamination liability	-	725,933	768,557
Professional fees	500,000	516,532	599,327
Property taxes	50,000	53,948	47,210
General and administration	<u>50,000</u>	<u>-</u>	<u>27,706</u>
	<u>600,000</u>	<u>1,296,413</u>	<u>1,442,800</u>

Annual surplus	<u>900,000</u>	<u>74,356</u>	<u>82,339</u>
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Accumulated surplus

Beginning of year, as originally reported	1,038,276	1,038,276	1,022,511
Prior period adjustment (Note 4)	-	33,127,437	32,292,306
Change in accounting policy (Note 3)	<u>-</u>	<u>(33,060,863)</u>	<u>(32,292,306)</u>
Beginning of year, as restated	<u>1,038,276</u>	<u>1,104,850</u>	<u>1,022,511</u>
End of year	<u>\$ 1,938,276</u>	<u>\$ 1,179,206</u>	<u>\$ 1,104,850</u>

See accompanying notes to the financial statements.

Sydney Steel Corporation

Statement of changes in net financial assets

Year ended March 31	Budget	2015	2014 (Restated - Note 3 & 4)
Annual surplus	\$ 900,000	\$ 74,356	\$ 82,339
Decrease in prepaid expenses	<u>-</u>	<u>-</u>	<u>27,706</u>
Increase in net financial assets	<u>900,000</u>	<u>74,356</u>	<u>110,045</u>
Net financial assets			
Beginning of year, as originally reported	1,038,276	1,038,276	994,805
Prior period adjustment (Note 4)	-	33,127,437	32,292,306
Change in accounting policy (Note 3)	<u>-</u>	<u>(33,060,863)</u>	<u>(32,292,306)</u>
Beginning of year, as restated	<u>1,038,276</u>	<u>1,104,850</u>	<u>994,805</u>
End of year	<u>\$ 1,938,276</u>	<u>\$ 1,179,206</u>	<u>\$ 1,104,850</u>

See accompanying notes to the financial statements.

Sydney Steel Corporation

Statement of cash flows

Year ended March 31

2015

2014
(Restated -
Note 3 & 4)

Increase (decrease) in cash and cash equivalents

Operating

Annual surplus

\$ 74,356 \$ 82,339

Change in non-cash operating
working capital (Note 11)

(386,181) (489,301)

Decrease in cash and cash equivalents

(311,825) (406,962)

Cash and cash equivalents, beginning of year

566,533 973,495

Cash and cash equivalents, end of year

\$ 254,708 \$ 566,533

See accompanying notes to the financial statements.

Sydney Steel Corporation

Notes to the financial statements

March 31, 2015

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

Basis of accounting

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector, which are represented by the Public Sector Accounting Standards (PSAS) of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

Cash and cash equivalents

Cash and cash equivalents include balances with banks.

Net financial assets

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

Revenue recognition

Revenues are recorded on the accrual basis of accounting.

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.

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, 2015

2. Summary of significant accounting policies (continued)

Government transfers

Government transfers are transfers of monetary assets or tangible capital assets to or from the Government that are not the result of an exchange transaction, a direct financial return, or expected to be repaid in the future. Government transfers are recognized in the financial statements as revenue when the transfers are authorized and all eligibility criteria have been met except when there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met.

3. Adoption of new accounting policy

Effective April 1, 2014, the Public Sector Accounting Board issued Section 3260 *Liability for contaminated sites*. This Section establishes standards on how to account for and report a liability associated with the remediation of contaminated sites. A liability should be recognized when an environmental standard exists, contamination exceeds the environmental standard, the Government is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made.

This change in accounting policy was applied retroactively and the figures for 2014 have been restated as prescribed by the transitional provision in Section 3260. This resulted in the recognition of a provision for the estimated costs to complete the remediation of the Sysco site of \$32,292,306. As a result of this retroactive adjustment, the following financial statement items as at March 31, 2014, have been increased (decreased) by the following amounts:

Statement of net financial assets, March 31, 2014

Net financial assets, beginning of year	\$ (32,292,306)
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Statement of financial position, March 31, 2014

Contamination provision	\$ 30,501,366
Accumulated surplus, beginning of year	\$ (32,292,306)

Statement of financial activities, year ended March 31, 2014

Contamination expenses	\$ (2,559,497)
Accretion of contamination liability - expense	768,557

Sydney Steel Corporation

Notes to the financial statements

March 31, 2015

4. Prior period adjustment

During the year, the Corporation discovered a prior period error in which a specific government transfer receivable from the Province of Nova Scotia was not recorded. The Corporation had been recording the revenue as related expenses were incurred instead of when the revenue recognition criteria for a government transfer were met which was in a prior period. As a result, the Corporation has determined that accounts receivable from the Province of Nova Scotia and opening accumulated surplus were understated in 2014. As a result of the correction, the following financial statement items as at March 31, 2014, have been increased by the following amounts:

Statement of net financial assets March 31, 2014
 Accumulated surplus, beginning of year \$ 32,292,306

Statement of financial position March 31, 2014
 Receivables, Province of Nova Scotia –
 Contamination \$ 33,127,437
 Accumulated surplus, beginning of year \$ 32,292,306

Statement of financial activities, year ended March 31, 2014
 Contributions from the Province of Nova Scotia \$ (2,559,497)
 Accretion of the receivable - revenue 835,131

5. Receivable from Province of Nova Scotia - Contamination

The Province of Nova Scotia transfer receivable is related to authorized funding for the remediation of contaminated properties held by the Corporation.

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ 33,127,437	\$ 35,089,557
Received during the year	(2,559,497)	(2,797,251)
Accretion of the receivable	<u>788,433</u>	<u>835,131</u>
End of year	<u>\$ 31,356,373</u>	<u>\$ 33,127,437</u>

6. Payables and accruals

	<u>2015</u>	<u>2014</u>
Trade payables and accruals	\$ 119,087	\$ 302,019
Deposit on sale of land	<u>36,257</u>	<u>36,257</u>
	<u>\$ 155,344</u>	<u>\$ 338,276</u>

Sydney Steel Corporation

Notes to the financial statements

March 31, 2015

7. Contamination provision

The contamination provision recognized is related to the estimated cost to remediate the contamination located on lands owned by the Corporation. The contamination resulted from a century of steel-making on the site. The basis of determining the estimate of the liability relies on a report from an expert and management's assessment. The liability is currently estimated at \$29,761,131. The amount recorded in the financial statements has been discounted to reflect the fact that the expenditures will be made over several years.

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ 30,501,366	\$ 32,292,306
Expenditures during the year	(1,466,168)	(2,559,497)
Accretion of contamination liability	<u>725,933</u>	<u>768,557</u>
End of year	<u>\$ 29,761,131</u>	<u>\$ 30,501,366</u>

8. Commitment

On March 30, 2007, the Corporation retained the services of a related party, 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 (Note 9). This agreement which was initially for a two-year period has been renewed on an annual basis.

9. Related party transactions

Included in the funds receivable from the Province of Nova Scotia are reimbursement of expenses of \$789,422 (2014 - \$2,548,244), \$665,492 (2014 - nil) and \$11,253 (2014 - \$11,253) paid to Nova Scotia Lands Inc., Harbourside Commercial Park Inc. and Sydney Utilities Limited, respectively. All companies are controlled by the Province of Nova Scotia.

As well, funds receivable from the Province of Nova Scotia are used to pay property taxes of \$53,948 (2014 - \$47,210), general and administration expenses of \$nil (2014 - \$27,706), and legal fees of \$516,532 (2014 - \$592,827) to the Province of Nova Scotia - Department of Justice for services in relation to the lawsuit as disclosed in Note 10 to the financial statements.

Sydney Steel Corporation

Notes to the financial statements

March 31, 2015

10. 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. Subsequently, the court has determined that the class action cannot proceed as a class, but can proceed as a claim by individuals. The action is still outstanding and confirmation of whether the individuals will proceed has not yet been received.

The second claim involves a self-represented litigant seeking damages as an individual based on the original statement of claim from the class action, from which she removed references to the class action and added her own personal information. The individual will be proceeding with the claim and the claim is considered outstanding.

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

11. Supplemental cash flow information

	<u>2015</u>	<u>2014</u> (Restated - Note 3 & 4)
Change in non-cash operating working capital:		
Receivables		
Province of Nova Scotia	\$ (153,991)	\$ (135,017)
Province of Nova Scotia – Contamination	1,771,064	1,962,120
Note receivable	41,861	40,542
Prepays	-	27,706
Payables		
Payables and accruals	(182,932)	(233,221)
Contamination provision	(740,235)	(1,790,940)
Nova Scotia Lands Inc.	(1,787,312)	(355,360)
Harbourside Commercial Park Inc.	665,492	-
Sydney Utilities Limited	<u>(128)</u>	<u>(5,131)</u>
	<u>\$ (386,181)</u>	<u>\$ (489,301)</u>
