

Financial Statements of

**SYDNEY STEEL  
CORPORATION**

Year ended March 31, 2017



**MGM & Associates**  
**Chartered Accountants**  
Commerce Tower  
15 Dorchester Street Suite 500  
PO Box 1  
Sydney NS B1P 6G9

Telephone (902) 539-3900  
Fax (902) 564-6062  
Internet [www.mgm.ca](http://www.mgm.ca)

## INDEPENDENT AUDITORS' REPORT

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, 2017 and the statements of financial activities, change in net financial assets and cash flows for the year then ended, 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.

### 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 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 auditors' 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 auditors 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, these financial statements present fairly, in all material respects, the financial position of Sydney Steel Corporation as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants  
Licensed Public Accountants

Sydney, Canada  
June 29, 2017

# SYDNEY STEEL CORPORATION

## Statement of Financial Position

March 31, 2017, with comparative figures for 2016

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>FINANCIAL ASSETS</b>                     |                     |                     |
| Cash and cash equivalents                   | \$ 2,110            | \$ 3,775            |
| Receivables                                 |                     |                     |
| Province of Nova Scotia                     | 2,070,365           | 1,901,968           |
| Note receivable (note 2)                    | 168,440             | 212,626             |
|   | <u>2,240,915</u>    | <u>2,118,369</u>    |
| <b>FINANCIAL LIABILITIES</b>                |                     |                     |
| Payables and accruals                       | 479,342             | 106,146             |
| Payable to Nova Scotia Lands Inc.           | 668,033             | 687,098             |
| Payable to Harbourside Commercial Park Inc. | 17,862              | 255,158             |
| Payable to Sydney Utilities Limited         | 12,616              | 12,941              |
|   | <u>1,177,853</u>    | <u>1,061,343</u>    |
| <b>NET FINANCIAL ASSETS</b>                 | <u>\$ 1,063,062</u> | <u>\$ 1,057,026</u> |
| <b>ACCUMULATED SURPLUS</b>                  | <u>\$ 1,063,062</u> | <u>\$ 1,057,026</u> |

Commitment (note 4)  
Contingent liabilities (note 6)

See accompanying notes to financial statements.

On behalf of Sydney Steel Corporation

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# SYDNEY STEEL CORPORATION

## Statement of Financial Activities

Year ended March 31, 2017, with comparative figures for 2016

|  | Budget<br>(Unaudited) | 2017                | 2016                |
|--|-----------------------|---------------------|---------------------|
| <b>REVENUES</b>  |                       |                     |                     |
| Contributions from the Province<br>of Nova Scotia  | \$ 1,325,000          | \$ 524,718          | \$ 513,350          |
| Gain on sale of capital assets   | 1,000,000             | —                   | —                   |
| Recoveries related to contamination liability  | —                     | 548,501             | 708,315             |
| Interest   | 5,000                 | 6,036               | 7,040               |
|  | <u>2,330,000</u>      | <u>1,079,255</u>    | <u>1,228,705</u>    |
| <b>EXPENSES</b>  |                       |                     |                     |
| Remediation – accretion of<br>contamination liability  | 825,000               | 548,501             | 708,315             |
| Professional fees  | 400,000               | 479,342             | 459,403             |
| Property taxes   | 100,000               | 45,376              | 53,948              |
| Other administrative expense   | —                     | —                   | 145                 |
|  | <u>1,325,000</u>      | <u>1,073,219</u>    | <u>1,221,811</u>    |
| <b>OTHER REVENUES (EXPENSES)</b>   |                       |                     |                     |
| Remeasurement of contamination liability   | —                     | (915,488)           | 6,728,118           |
| Increase (reduction) of recoveries related<br>to remeasurement of contamination<br>liability | —                     | 915,488             | (6,728,118)         |
|  | <u>—</u>              | <u>—</u>            | <u>—</u>            |
| <b>ANNUAL SURPLUS</b>  | <u>1,005,000</u>      | <u>6,036</u>        | <u>6,894</u>        |
| <b>ACCUMULATED SURPLUS, BEGINNING<br/>OF YEAR</b>  | <u>1,057,026</u>      | <u>1,057,026</u>    | <u>1,050,132</u>    |
| <b>ACCUMULATED SURPLUS, END OF YEAR</b>  | <u>\$ 2,062,026</u>   | <u>\$ 1,063,062</u> | <u>\$ 1,057,026</u> |

See accompanying notes to financial statements.

# SYDNEY STEEL CORPORATION

## Statement of Change in Net Financial Assets

Year ended March 31, 2017, with comparative figures for 2016

|  | Budget<br>(Unaudited) | 2017         | 2016         |
|--|-----------------------|--------------|--------------|
| <b>ANNUAL SURPLUS</b>                              | \$ 1,005,000          | \$ 6,036     | \$ 6,894     |
| <b>NET FINANCIAL ASSETS, BEGINNING<br/>OF YEAR</b> | 1,057,026             | 1,057,026    | 1,050,132    |
| <b>NET FINANCIAL ASSETS, END OF YEAR</b>           | \$ 2,062,026          | \$ 1,063,062 | \$ 1,057,026 |

See accompanying notes to financial statements.

# SYDNEY STEEL CORPORATION

## Statement of Cash Flows

Year ended March 31, 2017, with comparative figures for 2016

|  | 2017            | 2016             |
|--|-----------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |                 |                  |
| Annual surplus   | \$ 6,036        | \$ 6,894         |
| Change in non-cash operating working capital                   |                 |                  |
| Decrease (increase) in receivable from Province of Nova Scotia | (168,397)       | 645,623          |
| Decrease in note receivable                                    | 44,186          | 44,589           |
| Increase (decrease) in payables and accruals                   | 373,196         | (49,196)         |
| Decrease in payable to Nova Scotia Lands Inc.                  | (19,065)        | (488,509)        |
| Decrease in payable to Harbourside Commercial Park Inc.        | (237,296)       | (410,334)        |
| Decrease in payable to Sydney Utilities Limited                | (325)           | -                |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                   | <b>(1,665)</b>  | <b>(250,933)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>            | <b>3,775</b>    | <b>254,708</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                  | <b>\$ 2,110</b> | <b>\$ 3,775</b>  |

See accompanying notes to financial statements.

# SYDNEY STEEL CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

---

## 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The Company's financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

### (b) Cash and cash equivalents

Cash and cash equivalents include balances with banks.

### (c) Net financial assets

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

### (d) Contamination provision

Liabilities for environmental contamination are recognized in the period in which the directly attributable costs of remediation activities can be estimated with a reasonable degree of certainty and are reduced by expected net recoveries. Any change to the estimated liability is charged to expense in the period of the changes.

### (e) Revenue recognition

Revenues are recognized in the period in which the transaction or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis except when accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government recoveries are recognized as revenue when expenses are incurred and collectability is reasonably assured.

### (f) Accumulated surplus

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

### (g) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingencies and the reported

# SYDNEY STEEL CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

amounts of revenues and expenses in the financial statements and accompanying notes. Significant items subject to management's estimates and assumptions include the valuation of receivables, as well as the valuation of the contamination provision. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

### (h) 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.

## 2. NOTE RECEIVABLE

Portside Aggregates Limited, demand note receivable bearing interest at Royal Bank of Canada prime rate, secured by certain equipment and vehicles.

## 3. CONTAMINATION PROVISION

The contamination provision relates 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 amount recorded in the financial statements has been discounted at a rate of 2.38% to reflect the fact that the expenditures will be made over several years. The Province of Nova Scotia has accepted responsibility to fund the remediation of the lands owned by the Corporation as per the Public Accounts of the Province of Nova Scotia for the fiscal year 1999 – 2000.

|  | 2017          | 2016          |
|--|---------------|---------------|
| Gross contamination provision, beginning of year | \$ 23,046,263 | \$ 29,761,131 |
| Expenditures during the year                     | (598,875)     | (695,065)     |
| Accretion expense                                | 548,501       | 708,315       |
| Change in estimate of contamination provision    | 915,488       | (6,728,118)   |
| Gross contamination provision, end of year       | 23,911,377    | 23,046,263    |
| Expected recoveries from Province of Nova Scotia | 23,911,377    | 23,046,263    |
| Net contamination provision                      | \$ -          | \$ -          |



# SYDNEY STEEL CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

---

### 3. CONTAMINATION PROVISION (CONTINUED)

The most recent expert valuation of the gross contamination provision was prepared April 12, 2016.

### 4. 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. This agreement, which was initially for a two-year period, has been renewed on an annual basis.

### 5. RELATED PARTY TRANSACTIONS

Included in the funds receivable from the Province of Nova Scotia are reimbursement of expenses of \$587,947 (2016 - \$564,735), \$Nil (2016 - \$119,077) and \$10,928 (2016 - \$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 \$45,376 (2016 - \$53,948), accounting fees of \$6,751 (2016 - \$Nil) and legal fees of \$472,591 (2016 - \$459,403) 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.

### 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. Subsequently, the court has determined that the class action cannot proceed as a class, but can proceed as a claim by individuals. There have been no claims made by the individuals involved in the class action to date.

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 person 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.