Grant Thornton

Financial Statements

Nova Scotia Fisheries and Aquaculture Loan Board

March 31, 2021

Contents

Independent auditor's report

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To the Board of Directors of Nova Scotia Fisheries and Aquaculture Loan Board

Opinion

We have audited the financial statements of the Nova Scotia Fisheries and Aquaculture Loan Board ("the Loan Board"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and accumulated surplus, change in net debt and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2021, and its results of operations and accumulated surplus, its changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Loan Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 15 to the financial statements, which explains that certain comparative information presented for the March 31, 2020 year ended has been restated. Our opinion is not modified in respect of this matter.

The financial statements for the year ended March 31, 2020, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unqualified opinion on those financial statements on August 21, 2020.

As part of our audit of the financial statements for the year ended March 31, 2021, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Loan Board's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Loan Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Loan Board's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Loan Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Loan Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Loan Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Halifax, Canada
June 16, 2021

Chartered Professional Accountants

Nova Scotia Fisheries and Aquaculture Loan Board
Statement of financial position

March 31
(in thousands of dollars)

		2021		2020
Financial assets				
Loans receivable (Note 4)	$	**229,394**	$	193,608
Interest receivable, net of allowance $287 (2020 - $472)		**4,206**		3,734
Due from the General Revenue Fund of the Province (Note 5)		**150,093**		186,008
		383,693		383,350
Liabilities				
Applicants' funds on deposit (Note 5)		**171**		300
Due to the General Revenue Fund of the Province		**4,206**		3,734
Fisheries and Aquaculture Development Fund (Note 1)		**379,316**		379,316
		383,693		383,350
Accumulated surplus	**$**	**-**	$	-

Commitments and contingencies (Note 6)

On behalf of the Board

______________________________ Director ______________________________ Director

Nova Scotia Fisheries and Aquaculture Loan Board
Statement of operations and accumulated surplus

Year ended March 31 (in thousands of dollars)	Budget 2021	2021	2020 Restated (Note 15)
Revenues			
Interest on loans	$ 9,000	$ 10,689	$ 9,513
Loan processing and other fees	464	372	349
	9,464	11,061	9,862
Expenses			
Lending expenses (Note 8)	7,185	7,514	9,543
	7,185	7,514	9,543
Annual surplus before distributions to the Revenue Fund of the Province	2,279	3,547	319
Distributions to the General Revenue Fund of the Province	(2,279)	(3,547)	(319)
Annual and accumulated surplus - Beginning and End of year	$ -	$ -	$ -

See accompanying notes to the financial statements.

Nova Scotia Fisheries and Aquaculture Loan Board
Statement of cash flows

March 31 (in thousands of dollars)	2021	2020
Net increase (decrease) in cash and cash equivalents		
Operating		
Annual and accumulated surplus	**$ -**	$ -
Net charge (credits) to operations not involving cash		
(Decrease) increase in allowance for loan impairment	**(540)**	435
	(540)	435
Net change in non-cash operating working capital balances related to operations		
Increase in interest receivable	**(472)**	(514)
Decrease in due to the General Revenue Fund of the Province, net	**472**	514
(Increase) decrease in applicants' funds on deposit	**(129)**	185
	(669)	620
Financing activities		
Increase in due from the General Revenue Fund of the Province, net	**35,915**	39,051
Investing activities		
Increase in loans receivable, net	**(35,246)**	(39,671)
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
End of year	**$ -**	$ -

See accompanying notes to the financial statements.

(in thousands of dollars)

1. Nature of operations

Authority
The Nova Scotia Fisheries and Aquaculture Loan Board (the "Loan Board") was established pursuant to Section 34 of the Fisheries and Coastal Resources Act. The purpose of the Fisheries and Aquaculture Development Fund (the "Fund") is to finance the loans and guarantees of the Loan Board.

The objective and purpose of the Loan Board is to make loans and guarantees of loans to fishers, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province of Nova Scotia (the "Province").

As at March 31, 2021, the total principal in loans outstanding was limited by Order-in-Council to $400,000 less $20,685 in bad debt since the inception of the Fund. Maximum advances disbursed in any given year are established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2021, new advances were $59,653 (2020 - $61,450). During the year, the Loan Board received repayments of loan principal of $24,289 (2020 - $22,047).

	2021	2020
Fisheries and Aquaculture Development Fund – beginning of year	**$ 379,316**	$ 204,731
Add: loans written off (Note 4(c))	**-**	(415)
Add: additional capital added to Development Fund	**-**	175,000
Fisheries and Aquaculture Development Fund – end of year	**$ 379,316**	$ 379,316
Comprised of:		
Loans receivable (Note 4)	**$ 229,394**	$ 193,608
Loans authorized but not advanced (Note 5)	**23,615**	17,870
Funds available for additional loans (Note 5)	**126,307**	167,838
	$ 379,316	$ 379,316

Loans in excess of $5,000 or any loan write-offs, require approval by Governor in Council.

2. Capital management

As an agency of the Province of Nova Scotia, the Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

3. Summary of significant accounting policies (continued)

Basis of accounting
These financial statements have been prepared by management by applying the principles of the Chartered Professional Accountants of Canada Public Sector Accounting Standards for other government organizations as defined by the Canadian Public Sector Accounting Board, which sets out generally accepted accounting principles for government organizations.

Revenue recognition
Revenue is recorded on an accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest on loans is recognized in income only if there is no longer doubt as to the collectability of principal.

Expenses
Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenue.

Loans receivable
Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are considered for impairment when loan payments are in arrears for more than 90 days or when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

Valuation allowance for loan impairment
The valuation allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Loan Board's portfolio. The valuation allowance is determined based on management's identification and evaluation of the problem accounts and estimated losses that exist in the remaining portfolio. These judgments are influenced by the composition and quality of the portfolio, general economic conditions and conditions affecting specific commodities, as well as the Loan Board policy to act as a patient lender, providing time for repayment where full future repayment appears reasonable.

Valuation allowances are made for probable losses on certain loans and loan guarantees, which are recorded in the statement of operations and accumulated surplus as bad debt expense. Bad debt expense also reduces the balance of amount due to the Fisheries and Aquaculture Development Fund. Recoveries of bad debt does not increase the Fund's balance.

The Loan Board records a specific valuation allowance based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net recoverable value of their underlying security.

In addition, the Loan Board calculates a collective valuation allowance in the specific reserve. This is an estimate of incurred but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

(in thousands of dollars)

3. Summary of significant accounting policies (continued)

Management estimates
PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. By their nature, as described further in note 4, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of the future period financial statements.

Financial instruments
The Loan Board has adopted Handbook Section PS3450 “Financial Instruments” and is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Loan Board’s financial instruments are measured at amortized cost using the effective interest method.

The Loan Board’s financial instruments consist of loans receivable, interest receivable, applicants’ funds on deposit and amounts due to/from the General Revenue Fund of the Province. Transaction costs relating to loans are recorded as part of the total amount outstanding. The carry value of loans approximates its net recoverable value. The Loan Board holds all loans to maturity.

Remeasurement gains and losses
Under PSAS, the Loan Board is required to present a statement of remeasurement of gains and losses. As the Loan Board has no remeasurement gains and losses, this statement has not been presented.

4. Loans receivable

a) Loans receivable

The following table sets out the scheduled maturities of the financial assets as at March 31, 2021, together with the weighted-average interest rates being earned on the financial assets:

	Under 1 year	1-5 years	Over 5 years	**2021 Total**	2020 Total
Total performing loans	$ 8,750	$ 39,276	$ 178,782	**$ 226,808**	$ 191,300
Average effective annual interest rate				**4.8%**	5.4%
Add: principal receivable On impaired loans				**4,470**	4,603
Total principal				**231,278**	195,903
Add: applicants’ funds on deposit (Note 5)				**171**	300
Less: provision for loan impairment				**(2,055)**	(2,595)
Loans receivable				**$ 229,394**	$ 193,608

(in thousands of dollars)

4. Loans receivable (continued)

b) Allowance for impaired loans

Loans are considered impaired when there has been deterioration in credit quality to the extent the Loan Board no longer has reasonable assurance of timely collection of the full amount of principal and interest. The allowance calculated is comprised of two components, the specific allowance for individually identified impaired loans and a collective allowance for impaired loans.

The specific allowance for individually identified loans was established based upon a review of a large sample of impaired loans. Primary factors considered in estimating the specific allowance on individual loans were the estimated net realizable value of security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

The collective allowance for impaired loans has been determined by management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year end. The collective allowance was calculated based on management's judgment.

	2021		2020	
	Impaired loans	Allowance for impairment	Impaired loans	Allowance for impairment
Specific allowance	**$ 4,470**	**$ 1,590**	$ 4,630	1,516
Collective allowance	**-**	**509**	-	1,153
	$ 4,470	**$ 2,099**	$ 4,630	$ 2,669

Significant judgment was exercised by management in estimating the allowance for impaired loans. As such, actual losses that occurred on loans outstanding as at March 31, 2021 will differ from these estimates and the difference could be material. The actual realization of impaired loans could be significantly different from the estimated amounts.

c) Continuity for allowance for impaired loans

	2021	2020
Allowance for impaired loans – beginning of year	**$ 2,669**	$ 2,160
Add: Valuation allowance (recovery) for impaired loans	**(570)**	925
Less: Amounts written off	**-**	(416)
Allowance– end of year	**2,099**	2,669
Valuation allowance on principal	**2,055**	2,595
Valuation allowance on interest	**44**	74
	$ 2,099	$ 2,669

(in thousands of dollars)

4. Loans receivable (continued)

d) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because: (i) they have no payments over 90 days in arrears; or (ii) in management's opinion, there is reasonable assurance of the timely collection of the full amount of principal and interest. Loans that are past due but not impaired are as follows:

1-30 days	31-60 days	61-90 days	91 or more days	**2021**	2020
$ -	$ 504	$ 184	$ 2,131	**$ 2,819**	$ 3,243

5. Due from the General Revenue Fund of the Province

The portion of the Fund that has not been advanced as loans is maintained in the General Revenue Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (note 1). Deposits provided to the Loan Board by loan applicants are also maintained in the General Revenue Fund. Financial commitments made by the Loan Board reduce the amount of this account which is available for additional loans.

	2021	2020
Loan Board commitments (Note 6)		
Loans authorized but not advanced	**23,615**	17,870
Applicants' funds on deposit	**171**	300
Funds available for additional loans	**126,307**	167,838
Due from General Revenue Fund of the Province	**$ 150,093**	$ 186,008

6. Commitments

The Loan Board has committed to provide loans of $23,615 (2020 - $17,870) which were approved by the Loan Board but not advanced by year end.

(in thousands of dollars)

7. Bad debt expense (net of recoveries)

Bad debt expense (recovery) includes:

	Budget	2021	2020
Bad debt expense net of recoveries	$ 870	**$ (408)**	$ 1,011
Unpaid interest added to principal on refinance	-	**(162)**	(85)
	$ 870	**$ (570)**	$ 925

8. Lending expenses

	Budget	2021	2020 Restated (Note 15)
Bad debt expense (net of recoveries) (Note 4 (c) and 7)	$ 870	**$ (570)**	$ 924
Interest expense (Note 9 and 10)	6,000	**6,493**	6,795
Other	-	**57**	59
Professional services	-	**64**	82
Salaries and benefits	1,395	**1,331**	1,474
Supplies and services	295	**120**	133
Training and development	-	**4**	13
Travel	65	**15**	63
	$ 8,625	**$ 7,514**	$ 9,543

9. Interest expense

Loans provided by the Loan Board are funded through advances from the General Revenue Fund of the Province. Interest is charged, at a fixed rate, to the Loan Board for these advances. Interest expense is calculated by the Loan Board based on loan estimates provided quarterly by the Department of Finance at the rate at which the Province could borrow funds over the next quarter. The weighted-average interest rate for the year was 3.05% (2020 – 3.95%).

10. Distributions to the General Revenue Fund of the Province

Administration expenses of the Loan Board for the year ended March 31, 2021, totalling $1,591 (2020 - $1,823), were paid by the Department of Agriculture on behalf of the Loan Board. Interest expense on funds borrowed to make loans of $6,493 (2020 - $6,795) is an expense of the Department of Finance. Accordingly, the total of these expenses are included in Distributions to the General Revenue Fund of the Province in the statement of operations and accumulated surplus.

11. Related party transactions

The Loan Board is related to all other departments, agencies, board and commissions of the Province. The General Revenue Fund of the Province is the sole source of funding for loans (Note 5). Transactions with other provincial entities were entered into in the normal course of business. The Province pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses on behalf of, and with no charge to, the Loan Board.

12. Pension and post retirement benefits

All full-time employees of the Loan Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The pension plan is funded by equal employee and employer contributions. The employer's contributions of $98 (2020 - $104) are included in the Loan Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the pension plan.

13. Financial instruments

Risk management

Credit risk

The Loan Board is exposed to financial risk that arises from the credit quality of the individuals and entities to which it provides loan services. Credit risk arises from the possibility that the individuals and entities to which the Loan Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The risk that clients may not pay amounts owing on loans, resulting in a loss to the Loan Board, is managed through an initial assessment of the client's ability to pay and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to cyclical industry, or other temporary difficulties, it is the Loan Board's policy to work with clients on an individual basis to provide time for recovery. See note 4 for additional loan information.

The total performing loans as at March 31, 2021, is $226,808 (2020 - $191,300). The majority of loans are secured primarily by a first mortgage on a vessel. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

All clients are involved in fishing and aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 5% of the total loan. Collateral held for security is assigned a value by a vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The Loan Board adjusts the allowance for impaired loans to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears.

13. Financial instruments (continued)

Liquidity risk
The Province provides funding and cash management services to the Loan Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on spending authority as identified in Note 1.

Interest rate risk
In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Loan Board attempts to match terms of loans offered with those of funds drawn through the Province. The interest on loans offered and the interest on funds drawn through the Province are both at fixed rates. A 1% change in interest rates would have $2,294 (2020- $1,936) impact on interest revenue and expense.

14. Impact of COVID-19

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses were forced to cease or limit operations for long periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The continued spread of COVID-19 and the actions being taken to limit its spread could adversely impact the Loan Board's operations, including among others, increasing the credit risk and default rates in its loan portfolio, limiting the Loan Board's ability to quickly respond to changes in credit risk and potentially limiting the Loan Board's ability to serve customers. The timing and extent of the economic recovery as vaccines are rolled out and provincial restrictions ease is as of yet unknown. The impact of COVID-19 on our customers may extend beyond the current period as the economy recovers. These could have an adverse impact on the Loan Board's business and financial results.

15. Restatement of prior period financial statements

During the year, management identified that the allocation of common expenses between the Fund and the Nova Scotia Farm Loan Board was incorrectly allocated as a result of the use of legacy measurements of relative lending activity levels, which resulted in certain lending expenses being incorrectly over-allocated to the Nova Scotia Farm Loan Board, with a corresponding under-allocation to the Fund. As a result, the following financial items as at March 31, 2020, have been increased (decreased) as follows:

	As previously reported	Impact of restatement	Restated
Lending expenses	$ 8,294	$ 1,249	$ 9,543
Distributions to the General Revenue Fund of the Province	(1,568)	1,249	(319)
Annual and accumulated surplus – beginning and end of year	-	-	-