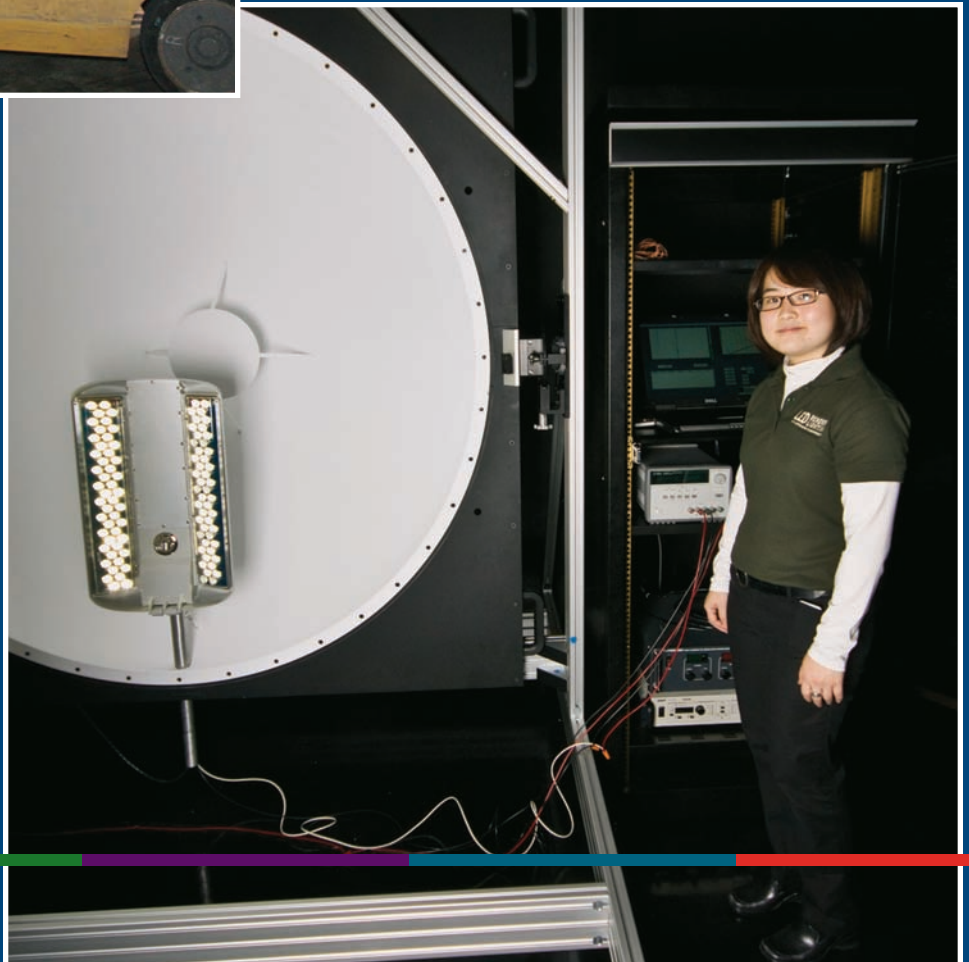




# Industrial Expansion Fund Annual Report

March 31, 2008



# **Industrial Expansion Fund Annual Report**

March 31, 2008

© Crown Copyright, Province of Nova Scotia 2008

*This document is available on the Internet at  
[www.gov.ns.ca/IEFreport](http://www.gov.ns.ca/IEFreport)*

*For further information, please contact:*

*Nova Scotia Economic Development*

*Government of Nova Scotia*

*PO Box 2311*

*Halifax, Nova Scotia, Canada B3J 3C8*

*Telephone: (902) 424-6721*

*Fax: (902) 424-1263*

*E-mail: [mills@gov.ns.ca](mailto:mills@gov.ns.ca)*

*Designed and published in conventional and  
electronic form by Communications Nova Scotia*

*This document is printed on FSC certified paper,  
50% recycled with 25% post-consumer content*

*ISSN 1916-5587*

# Contents

Introduction, Authority and Administration ..... 1

Overview of the Industrial Expansion Fund..... 1

*Opportunities for Sustainable Prosperity* and the Industrial Expansion Fund ..... 1

Activity During the 2007/08 Fiscal Year..... 6

Commentary on Current Authorizations ..... 9

Economic Impact of Industrial Expansion Fund Activities.....14

Collins Management Report on the Impact of Industrial Expansion Fund Activity.....14

Advances, Repayments, Interest and Guarantee Fees.....15

Amounts Written Off.....15

Appendix A: Evaluation Criteria for Proposals.....17

Appendix B: Listing of Accounts .....19

Appendix C: Audited Financial Statements..... 21



## Introduction, Authority and Administration

The Industrial Expansion Fund (IEF) is constituted under the Industrial Development Act. The purpose of the Act is “establishing, assisting, developing or expanding industries in the province.” The responsibility for the IEF rests with the Minister of Economic Development and is subject to the approval of the Governor in Council.

### Overview of the IEF

The IEF is one method the government of Nova Scotia uses to support economic development in the province. It supports industries involved with innovation and technology and contributes to a prosperous and sustainable business climate for Nova Scotia.

The IEF has considerable flexibility in the amount and type of funding it can provide and is frequently employed to assist the development initiatives of other departments and agencies, or to find a solution when a potential opportunity falls outside the programs available. It also serves as a corporate funding source for broader government initiatives and policy implementation to further the goals outlined in the province’s economic growth strategy, *Opportunities for Sustainable Prosperity*. In keeping with this role, the IEF does not actively seek out, but rather responds to investment opportunities.

Criteria for the evaluation of proposals can be found in Appendix A. The principles guiding the assessment of proposals are based on whether the anticipated benefits will exceed the anticipated costs to the province of Nova Scotia. The objectives and focus of the proposal must be aligned with *Opportunities for Sustainable Prosperity*.



### *Opportunities for Sustainable Prosperity and the IEF*

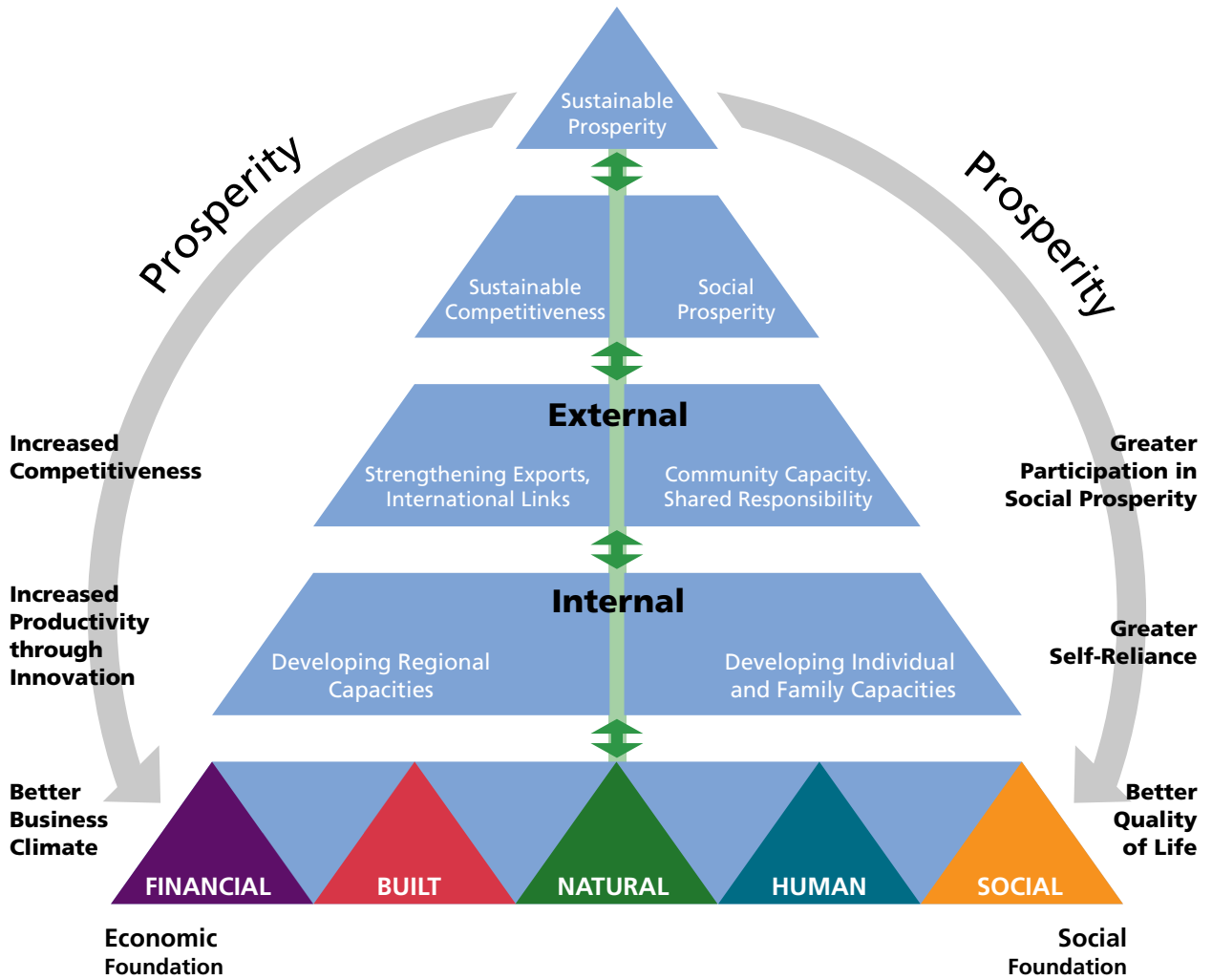
The province’s economic growth strategy takes a bold departure from a traditional approach to economic development. It integrates environmental, social, and economic systems, while investing in Nova Scotia’s financial, built, natural, human, and social capitals.

In banking terms, these “capitals” can be thought of as investment accounts. We must manage them carefully, and continue to invest strategically to ensure future prosperity. If one or more of these accounts dip down or become overdrawn, our portfolio becomes unbalanced.

Businesses run on the same principles. Solid infrastructure, access to money, a clean environment, skilled workers, and community engagement are all essential elements for success. The IEF plays a key role in implementing *Opportunities for Sustainable Prosperity* and helping businesses achieve balance. The IEF provides the financial capital to enable businesses to invest in their built capital, as well as nurture their human capital through training and education.

*Opportunities for Sustainable Prosperity* is a vital companion to the Environmental Goals and Sustainable Prosperity Act that plans to make Nova Scotia one of the cleanest and most sustainable environments in the world by the year 2020. This includes achieving economic performance at or above the Canadian average by the same year.

The essence of this economic growth strategy is illustrated graphically in the following diagram. It shows the linkages between the capitals and other focus areas needed to achieve sustainable competitiveness, and ultimately, sustainable prosperity.



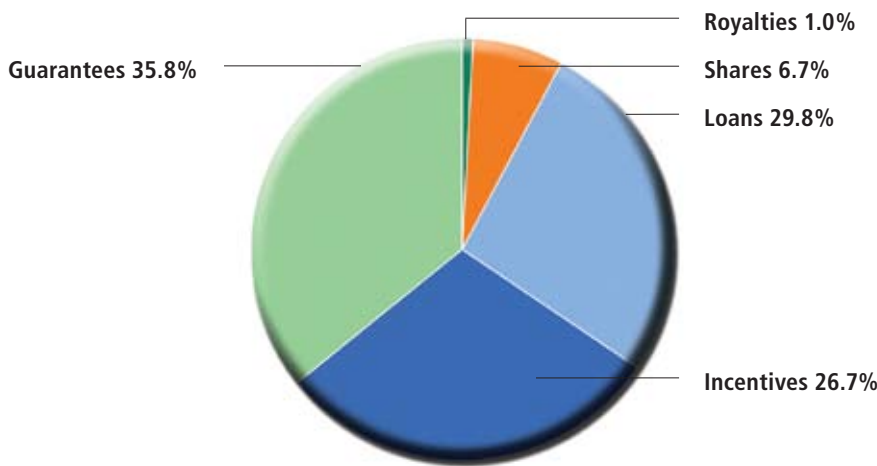
For more details and for the progress report including the appendices, visit [www.gov.ns.ca/econ/ofsp](http://www.gov.ns.ca/econ/ofsp)

*Sustainable prosperity means seizing today's opportunities without compromising tomorrow, while working together for a strong, competitive economy, a healthy environment, and vibrant, thriving communities.*

## Composition of Funds as of March 31, 2008

The main types of assistance provided by the fund are guarantees, loans, shares, royalties and incentives. Chart 1 shows an overview of the \$255 million outstanding as of March 31, 2008. Approximately 80 clients have received funding through the IEF.

Chart 1. IEF: Funding by Type (As of March 31, 2008 )



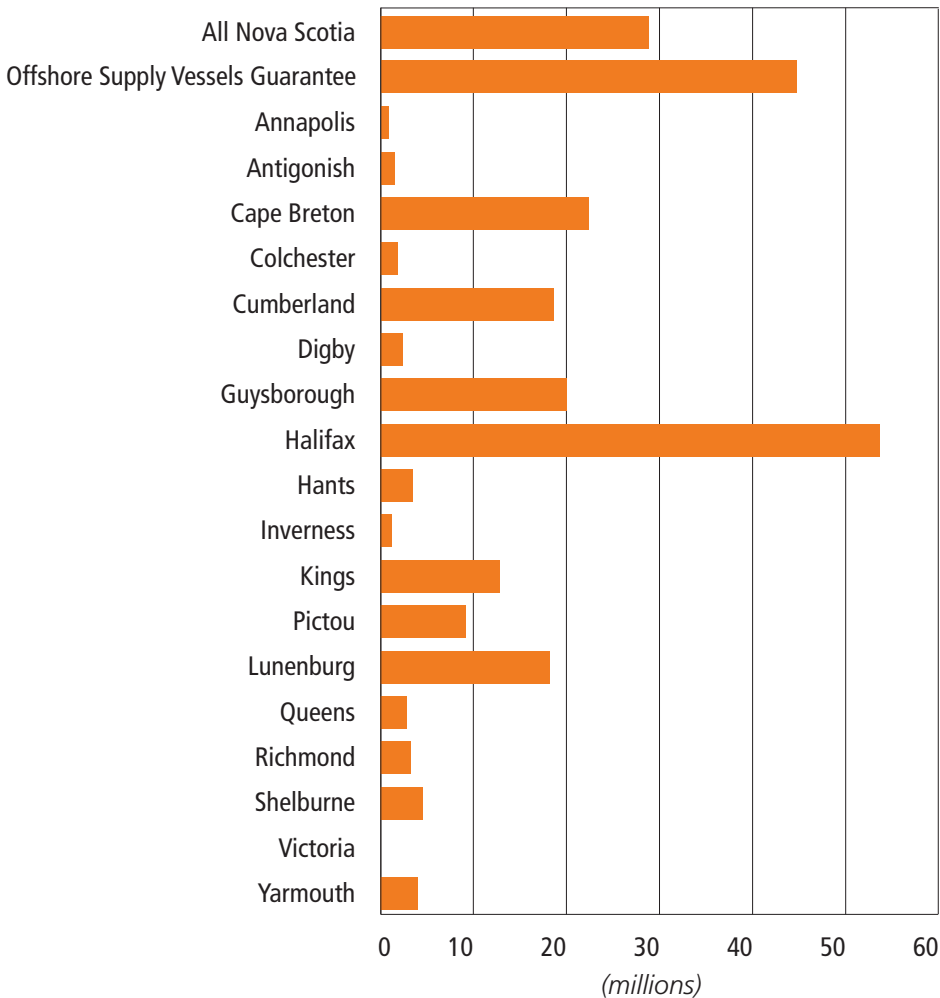
*A \$12 million investment for Pratt & Whitney Canada Incorporated, will result in a significant impact on the aerospace and defence industry. It is part of a \$45 million investment program to develop the first jet-engine assembly and full test cell capabilities in Atlantic Canada.*

*From left to right: Brooke Taylor, Minister of Agriculture, Barry Barnet, Minister of Health Promotion and Protection, Angus MacIsaac, Minister of Economic Development, Rodney MacDonald, Premier of Nova Scotia, Benoît Brossoit, Senior Vice President, Service Centres and Operations, Karen Casey, Minister of Education, Kevin P. Smith, Vice President, Human Resources, Marc Paquet, General Manager, P&WC Halifax, Maria Valerio, Director, Canadian Manufacturing, Paolo Dal Cin, Director, Strategic Sourcing.*



Chart 2 illustrates the distribution of funding by county across Nova Scotia.

Chart 2. IEF: Outstanding Assistance (*As of March 31, 2008*)

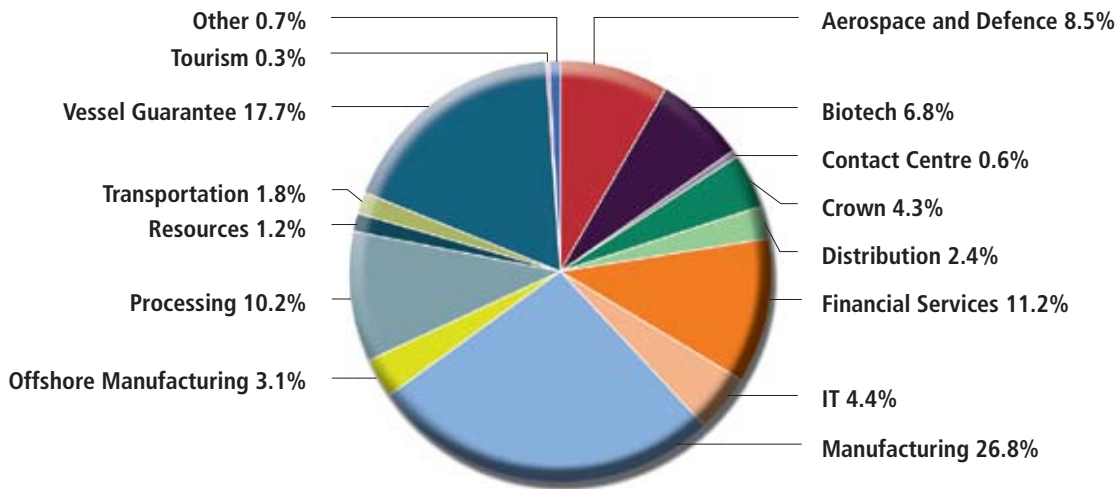


Halifax County received about 25 per cent of the authorized funding in the IEF portfolio. Twenty four accounts make up the balance of the \$54 million provided. Five large accounts make up 72 per cent: Cherubini Metalworks, Labatt Breweries of Canada, Ocean Nutrition Canada, Pratt & Whitney Canada Incorporated and Research In Motion (RIM).

The \$29 million shown under the category for All Nova Scotia is made up of a \$25 million guarantee for the Credit Union Loan Guarantee Program and a \$3.5 million investment in ACF Equity Atlantic Inc. The benefits from these authorizations are experienced across the province.

Chart 3 presents the outstanding funding by economic sector.

Chart 3. IEF: Funding by Sector (As of March 31, 2008)



Seventy three per cent of the financial assistance offered through the IEF has been provided in support of manufacturing and processing business, which includes aerospace, biotech and vessel guarantees. Another significant sector is financial services at 11.2 per cent that is provided to small businesses across the province.

*A \$4.5 million provincial contribution to Labatt Breweries of Canada towards a \$45 million upgrade to the Oland Brewery in north-end Halifax will result in a state-of-the-art operation. It will also allow the company to better compete in markets outside of the Maritimes, increase production capacity and increase exports.*



## Activity During the 2007/08 Fiscal Year

During the year, 27 transactions totaling \$59.366 million were authorized through the IEF. The following tables set out summary information on the type of funding provided and the economic sectors in which the recipient companies operate.

### Authorizations by Type of Funding

Type of Funding	Authorization Amount	Number of Transactions
Loans	11,850,000	9
Incentives	35,375,950	11
Guarantees	1,500,000	1
Shares	9,740,619	1
Amendments	0	3
Indemnity agreements	0	1
Royalty agreement	900,000	1
<b>Total</b>	<b>59,366,569</b>	<b>27</b>

### Authorizations by Sector

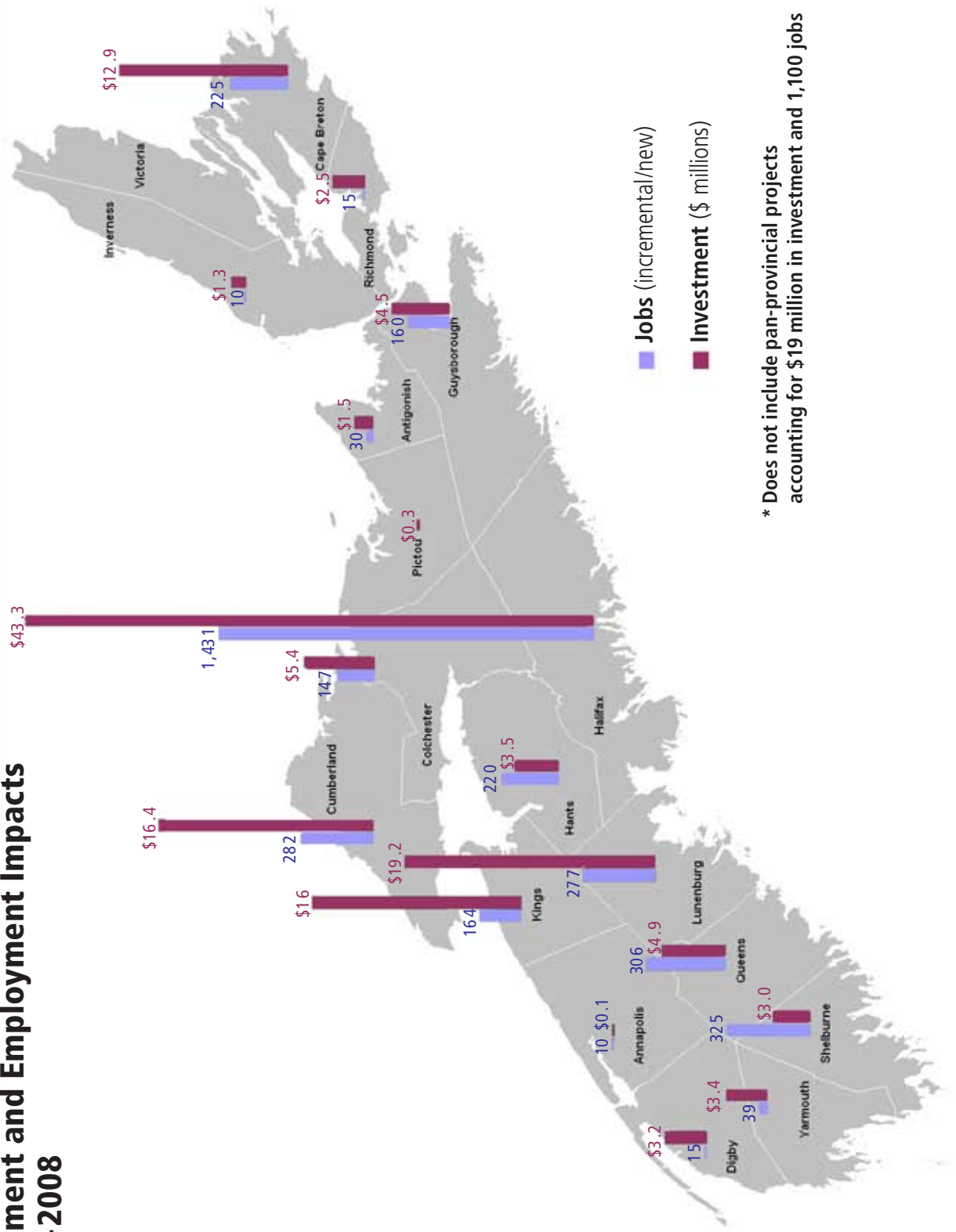
Sector	Authorization Amount	Number of Transactions
Aerospace	12,000,000	1
Financial	1,475,000	1
Biotech	2,400,000	2
IT	2,900,950	2
Manufacturing	18,100,000	10
Industrial Parks	9,740,619	1
Other	2,750,000	2
Processing	10,000,000	8
<b>Total</b>	<b>59,366,569</b>	<b>27</b>

The following table presents individual authorizations by recipient, funding amount and type, location of the business, and the purpose for which the financing was authorized.

### Summary of Financial Assistance

Company	Authorized Amount	Type	Location (County)	Purpose
Atlantic Castings Limited	\$2,000,000	Incentive	Cape Breton	Fixed assets and training
Bay Ferries Limited	\$2,500,000	Incentive	Yarmouth	Service continuation
CanJam Trading Limited	—	Amendment	Shelburne	Amendment
C-Vision Limited	\$750,000	Loan	Cumberland	Equipment and certification costs
C-Vision Limited	\$750,000	Incentive	Cumberland	Equipment and certification costs
Citco (Canada) Incorporated	\$1,475,000	Incentive	Halifax	Training
ECI Medical Technologies Incorporated	\$250,000	Loan	Lunenburg	Working capital
Federation Protein Holdings Incorporated	\$1,500,000	Loan	Antigonish	Purchase of business
Freeman Forest Products Limited	\$2,000,000	Loan	Queens	Working capital
Halifax Biomedical Incorporated	\$900,000	Loan	Inverness	Working capital
Harbourside Commercial Incorporated	\$9,740,619	Shares	Cape Breton	Purchase of park Park preferred shares
Keane Canada Incorporated	\$2,600,950	Incentive	Halifax	Training
Labatt Breweries of Canada	\$4,500,000	Incentive	Halifax	Equipment upgrades
Lewis Mouldings and Wood Specialties Limited	\$1,200,000	Loan	Digby	Equipment
MacKinnon-Cann Historic Inn and Function Facility	\$250,000	Loan	Yarmouth	Construction
Marwood Incorporated	\$2,950,000	Loan	Colchester	Equipment
MedMira Incorporated	\$1,500,000	Guarantee	Halifax	Working capital
Michelin North America (Canada) Incorporated	\$6,000,000	Loan	Lunenburg	Equipment
Minas Basin Pulp and Power Company Limited	\$3,000,000	Incentive	Hants	Expansion
NF Douglas Lumber Limited	\$1,500,000	Loan	Queens	Working capital and equipment
Nova Forge Corporation	—	Indemnity	Pictou	Land
Oxford Frozen Foods Limited	—	Amendment	Cumberland	Amendment
Paragon Advanced Development Limited (Ignition)	\$300,000	Incentive	Halifax	Training
Pratt & Whitney Canada Incorporated	\$12,000,000	Incentive	Halifax	Expansion
Protocase Incorporated	\$1,200,000	Loan	Cape Breton	Land and construction
Scotian Halibut Limited	—	Amendment	Shelburne	Amendment
The Cider House Company Limited	\$500,000	Loan	Kings	Manufacturing facility
<b>Total</b>	<b>\$59,366,569</b>			

# Industrial Expansion Fund Investment and Employment Impacts 2004 – 2008



\* Does not include pan-provincial projects accounting for \$19 million in investment and 1,100 jobs

## Commentary on Current Authorizations

The IEF maintained its focus on the manufacturing (including aerospace) and processing sectors with \$40 million of the \$59 million authorized directed to these sectors. The largest authorizations in these sectors were provided to Pratt & Whitney Canada Incorporated, Michelin North America (Canada) Incorporated and Minas Basin Pulp and Power Company Limited.



**Minas Basin Pulp and Power Company Limited** received a \$3 million incentive as part of a \$20.7 million capital investment project. Additional provincial funding was provided through a loan from the Nova Scotia Strategic Opportunities Fund for \$12.5 million and a \$2 million contribution from EcoNova Scotia for Clean Air and Climate Change. The province also purchased land from the company for \$3.2 million.

The company is constructing a biomass co-generation plant in Hantsport combined with a facility to convert plastics to diesel. It will divert an additional 4,000 tons annually of plastics from provincial landfills, converting this to biodiesel fuel. The combined facility will result in the elimination of oil as a fuel source for operations. Through its operational practices, the company already reduces 48,000 tons of carbon emissions each year. This is an excellent example of an important project that contributes to the health of Nova Scotia's environment and economy.



**Michelin North America (Canada) Incorporated** continued its investment activities in Nova Scotia with a \$50 million investment in advanced manufacturing equipment at the Bridgewater plant. The IEF supported this investment with an incentive of \$6 million for capital costs. The continued investment in new facilities and equipment helps to ensure that Michelin's Nova Scotia plants are at the forefront of technology and innovation in the tire industry.



## **Pratt & Whitney Canada**

A United Technologies Company

**Pratt & Whitney Canada Incorporated** selected its Halifax plant to assemble and test the new PW617 engines designed for the rapidly expanding Very Light Jet market. The IEF provided an incentive of \$12 million for this \$45 million project. Engine assembly and testing is the essence of Pratt and Whitney Canada's business and one of its highest value added functions. This investment demonstrates the company's confidence in its Nova Scotia facility and workforce, and also sustains the future of the facility while making a significant economic impact in the province.

The IEF purchased \$9.7 million in the preferred shares of **Harbourside Commercial Park Incorporated** to fund the acquisition of former Sysco lands. The company develops and operates a new industrial park facility in Sydney. This investment ensures the availability of serviced land in Sydney for future industrial development.

# Type of Funding

The following charts provide additional details on the current authorizations and also present a cumulative view of authorizations over the past four years. Information is presented on the type of funding, the economic sector to which funding was provided, and the county where the recipient business operates.

Chart 4. Authorizations by Type (*Fiscal 2007-08*)

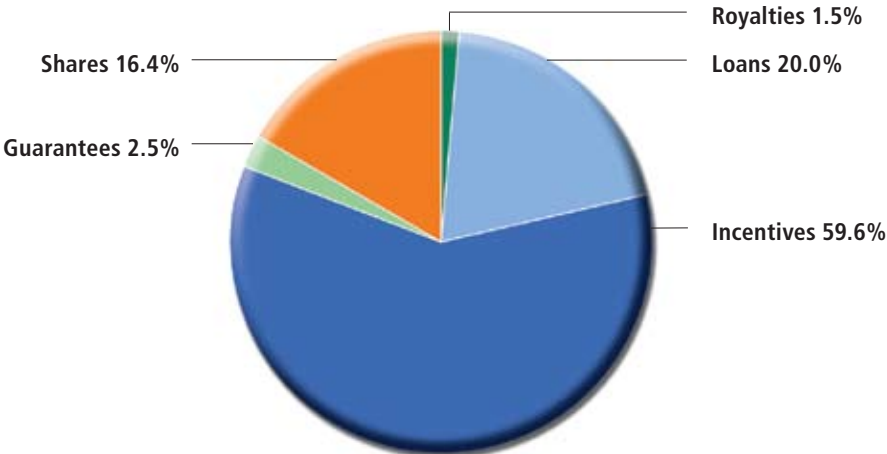


Chart 5. Authorization by Type (*Four-Year History*)

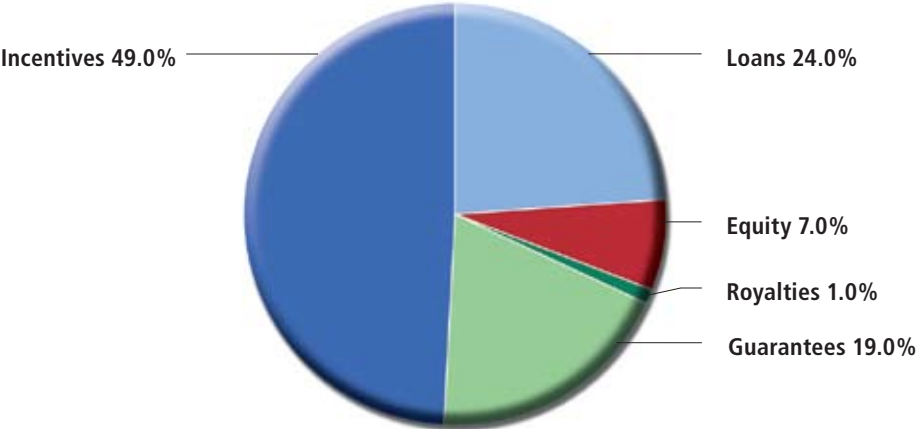


Chart 6. Authorizations by County in Fiscal 2007–08

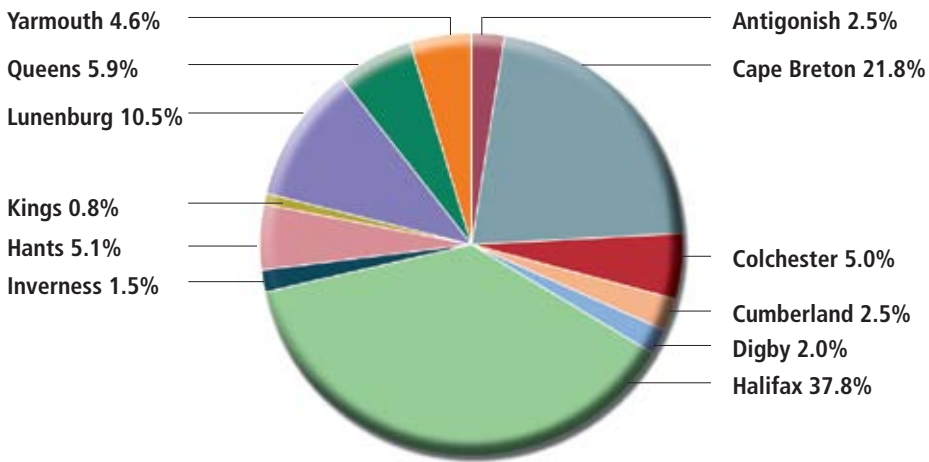


Chart 7. IEF: Authorizations by County (*Four-Year History*)

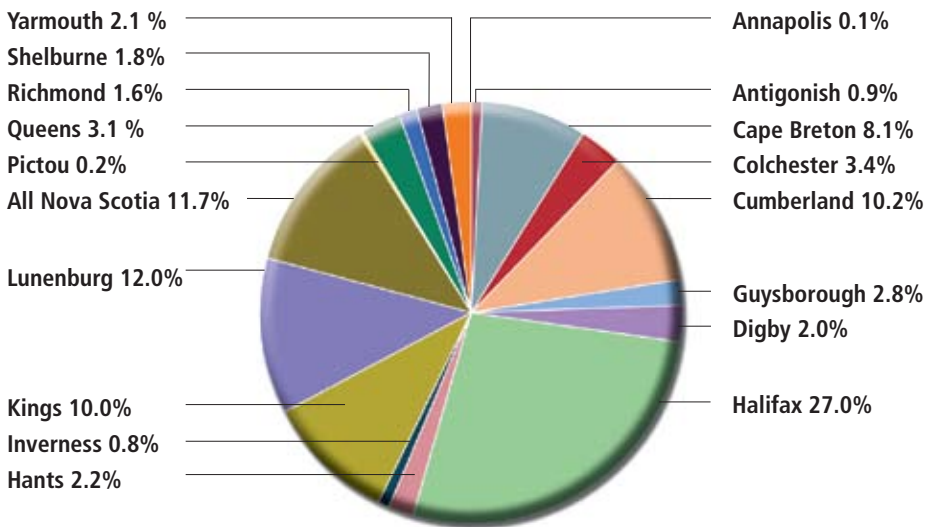


Chart 8. Assistance by Sector in Fiscal 2007–08

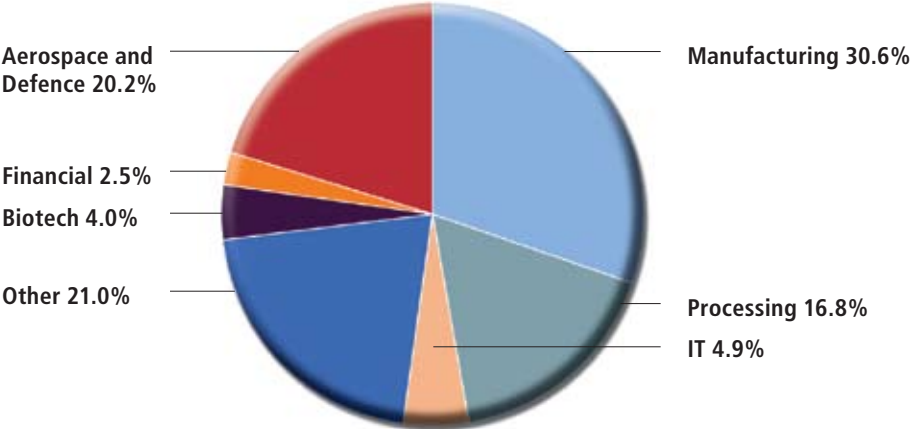
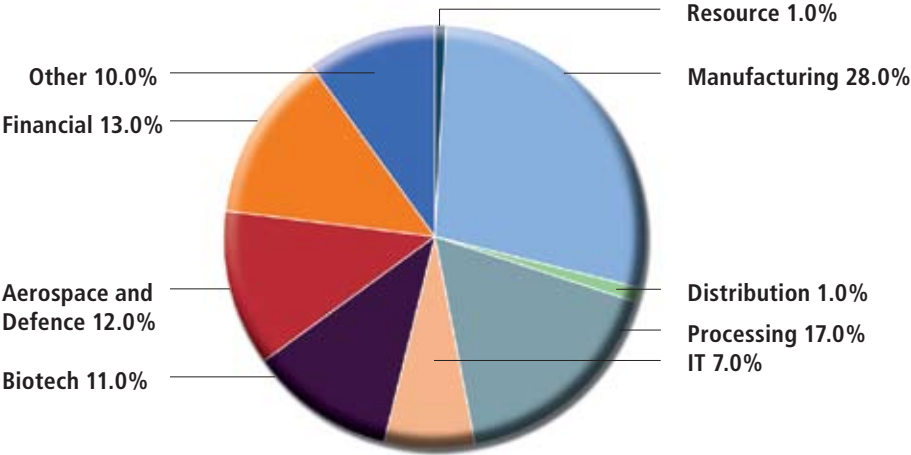


Chart 9. Assistance by Sector (Four-Year History)



## Economic Impact of IEF Activities

The following table presents an estimate of the economic impact of IEF activity in fiscal 2007/08 for both employment and increased revenues to the government of Nova Scotia.

Impacts of IEF Activity	2008	2007	2006	2005
Incremental employment:				
Jobs created or maintained	1,193	289	2,480	834
New annual salaries and wages	\$51.2M	\$9.2M	\$69.0M	\$19.2M
Annual tax revenues from new jobs	\$6.6M	\$1.1M	\$8.0M	\$2.4M
One-time revenues from construction	3.7M	\$1.9M	\$5.1M	\$1.7M

## Collins Management Report on the Impact of IEF Activity

During the year, an independent assessment of the impact of the activities of the IEF was undertaken by Collins Management Consultants Ltd., an economic consulting firm. This analysis shows the IEF created or maintained an estimated 11,000 full-time jobs during a six-year period, ending in March 2007. It also shows a return of \$1.89 for every dollar invested from the fund.

The following table summarizes the findings of the consultant's assessment. It presents aggregated cash flows and return on investment (ROI) for the period ending in the 2006-07 fiscal year, and for the 10-year period ending 2011-12. For each time period shown in the table, the ROI represents net cash inflows divided by total outlays, expressed as a percentage.

IEF Return on Investment by Time Period	2001-02 to 2006-07	2001-02 to 2011-12
Net cash flow (\$000)	\$144,158	\$418,849
ROI (%)	189.6	536.7

The ROI increases substantially when considered over a 10-year time period. This increase is the result of the continuation of economic benefits over the 10-year period, whereas the cost of any non repayable funding to offset a company's capital or training costs is usually delivered over the first one to five-year period.

## Advances, Repayments, Interest and Guarantee Fees

During the year, the IEF advanced \$ 34.8 million (2007: \$22.9 million) and repayments of \$75 million (2007: \$2.5 million) were received and \$2.045 million (2007: \$2.214 million) was earned in interest income, and \$718,000 (2007: \$604,000) in guarantee fees.

## Amounts Written Off

Write-offs include both amounts for incentives earned for performance achievement under development agreements and for uncollectable bad debts.

During the year, \$9.626 million (2007: \$4.682 million) was written off. The largest portion of write-offs, \$9.313 million (2007: \$4.068 million), related to companies achieving targets to earn incentives.

### Incentives Earned: Fiscal 2008

<u>Company</u>	<u>Amount</u>
Apple Valley Foods Incorporated	150,000
Bay Ferries Limited	766,000
Blue Wave Seafoods Incorporated	200,000
Composites Atlantic Limited	74,970
Crossley Carpet Mills Limited	254,834
GFS Canada Company	500,000
Michelin North America (Canada) Incorporated	6,900,262
Polysteel Atlantic Limited	167,504
Yarmouth Area Industrial Commission	299,000
<b>Total</b>	<b>9,312,570</b>

### Bad Debts: Fiscal 2008

<u>Company</u>	<u>Amount</u>	<u>Explanation</u>
Credit Union Loan Guarantee Program	163,886	Guarantee payments for loan defaults
Scotia Slate Products Limited	150,000	Bankruptcy
<b>Total</b>	<b>313,886</b>	



## Appendix A: Evaluation Criteria for Proposals

### Eligibility

Determine eligibility under the Industrial Expansion Act and operating policies and whether requests should be forwarded to another agency to consider—Nova Scotia Business Inc., Farm and Fisheries Loan Board, the Atlantic Canada Opportunities Agency, InNOVAcorp or Film Nova Scotia.

### Information requested

As relevant depending on circumstances:

- Cash flow projections
- Financial statements
- Business plan
- CVs of key personnel
- Information on markets and products
- Other as determined

### Evaluation process

The following areas are considered:

- a) Management background, experience and capability
- b) Operating and financial history
- c) Potential markets
- d) Reasonable financial projections
- e) Nature and level of shareholder investment and commitment including willingness to provide personal guarantees
- f) Adequacy of underlying security to support loan
- g) Economic benefits to province
- h) Risk versus rewards of transaction
- i) Development considerations: rural versus urban, Cape Breton location, targeted sectors, export versus domestic
- j) Recommendation of outside parties regarding specific information i.e. banking references, provincial departments with knowledge of industry and company, consultants engaged
- k) Co-investment by other development agencies, shareholders, financial institution



## Appendix B: Listing of Accounts

### Loans and Incentives Authorized

A. Lassonde Inc.  
 Acrobat Research Nova Scotia Limited  
 Advance Laboratories Limited  
 Apple Valley Foods Incorporated  
 Atlantic Castings  
 Bartlett Plastics and Precision Machining Incorporated  
 Bay Ferries Limited  
 Bedford Waterfront Development Corporation  
 Blue Wave Seafoods Incorporated  
 Bowlby Quality Meats Limited  
 C-Vision Limited  
 CanJam Trading Limited  
 CGI Canada Nova Scotia ULC  
 Cherubini Metal Works Limited  
 Citco (Canada) Incorporated  
 Co-Op Atlantic  
 Credit Union Atlantic Limited  
 Composites Atlantic Limited  
 Consolidated Fastfrate Incorporated  
 Crossley Carpet Mills Limited  
 CS Yachts Manufacturing Limited  
 Diamond Diversified Industries Limited  
 Doug Bragg Enterprises Limited  
 DRUM! Live Incorporated  
 E&M Burgess Enterprises Limited  
 ECI Medical Technologies Incorporated  
 Federal Gypsum Company  
 Federation Protein Holdings Incorporated  
 Frito Lay Canada  
 GFS Canada Company  
 HRDA Enterprises Limited  
 Halifax Biomedical Incorporated  
 Harry Freeman & Son Limited  
 IMP Group Limited  
 IMP Group International Incorporated  
 Irving Shipbuilding Incorporated  
 Keane Canada Incorporated  
 Labatt Breweries of Canada  
 Laurentian Energy Corporation Incorporated  
 Lewis Mouldings and Wood Specialties Limited  
 Lunenburg County Shipwrights Incorporated  
 MacDonald Peat Moss Limited  
 MacKinnon Cann Historic Inn and Function Facility  
 Maritime Pride Eggs Incorporated  
 Marwood Incorporated  
 Michelin North America (Canada) Incorporated  
 Minas Basin Pulp and Power Company Limited  
 NF Douglas Lumber Limited  
 Nova Scotia Boat Builders Loan Program  
 OC Financial Services Incorporated  
 Ocean Nutrition Canada Limited  
 On Line Support Incorporated  
 Oxford Frozen Foods Limited  
 Paragon Advanced Development Limited (Ignition)  
 Polysteel Atlantic Limited  
 Pratt & Whitney Canada Incorporated  
 Protocase Incorporated  
 Rafes Construction Limited  
 Register.com Incorporated  
 Research In Motion Limited (RIM)  
 Rocky Lake Development Association  
 Rosedale Farms Limited  
 S&J Potato Farms Incorporated  
 Sable Fish Packers (1988) Limited  
 Scotia Slate Products Limited  
 Scotian Halibut Limited  
 Seafreeze Foods Incorporated  
 Stenek Corporation  
 Strait of Canso Superport Corporation Limited  
 Superport Marine Services Limited  
 Terry Hawkins Industries Limited  
 The Cider House Company Limited  
 Village Developments Limited  
 Weavexx Canada  
 YachtSmiths International Incorporated  
 Yarmouth Area Industrial Commission

### Shares

ACF Equity Atlantic Limited  
 Composites Atlantic Limited  
 Harbourside Commercial Park Incorporated

### Guarantees

Freeman Forest Products Limited  
 Harbourfront Developments Limited  
 Credit Union Loan Guarantee Program  
 HRDA Enterprises Limited  
 Interhabs Limited  
 Irving Shipbuilding Incorporated  
 MedMira Incorporated  
 Ocean Nutrition Canada Limited  
 TrentonWorks Limited



## Appendix C: Audited Financial Statements

*Province of Nova Scotia  
Industrial Expansion Fund  
Financial Statements*

*March 31, 2008*

### Contents

Auditor's Report .....	23
Balance Sheet.....	24
Statement of Operations Under the Industrial Development Act.....	25
Statement of Continuity of Fund Under the Industrial Development Act .....	25
Statement of Continuity of Fund Under the Venture Corporations Act .....	26
Notes to the Financial Statements .....	27



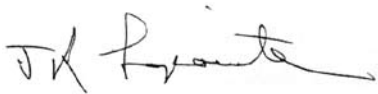
## AUDITOR'S REPORT

*To the Auditor General of Nova Scotia*

We have audited the balance sheet of the Province of Nova Scotia Industrial Expansion Fund as at March 31, 2008 and the statement of operations and statement of continuity of fund under the Industrial Development Act and the statement of continuity of fund under the Venture Corporations Act for the year then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008 and the results of its operations and continuity of Funds for the year then ended in accordance with Canadian generally accepted accounting principles.



*Jacques R. Lapointe, CA CIA*  
*Auditor General*

*Halifax, Nova Scotia*  
*May 30, 2008*

## Province of Nova Scotia Industrial Expansion Fund Balance Sheet

March 31, 2008

(\$ thousands)

Assets	2008	2007
<b>Financial assets:</b>		
Loans including current portion (2008 – \$2,159; 2007 – \$11,601)	\$ 71,381	\$ 67,321
Development incentives	34,971	21,692
Loans – Venture Corporations Act (Note 3)	809	809
Royalty rights (Note 4)	1,707	1,334
Shares (Note 5)	17,150	7,493
	<b>126,018</b>	<b>98,649</b>
Provisions for concessionary assistance (Note 6)	(23,489)	(19,081)
Provisions for development incentives	(34,671)	(21,692)
Allowance for doubtful accounts	(13,292)	(10,679)
	<b>(71,452)</b>	<b>(51,452)</b>
	<b>54,566</b>	<b>47,197</b>
Assistance authorized but unadvanced		
Loans	10,887	4,420
Development incentives	27,535	21,101
	<b>38,422</b>	<b>25,521</b>
Due from consolidated fund:		
Guarantees (Note 7)	91,061	122,170
Provisions for payment under guarantees	(10,200)	(5,800)
	<b>80,861</b>	<b>116,370</b>
Uncommitted balance of fund	<b>40,846</b>	<b>59,633</b>
	<b>\$ 214,695</b>	<b>\$ 248,721</b>

### Authorized Net Fund Balance – Committed and Uncommitted

Authorized, net of write offs:		
Industrial Development Act	\$ 291,939	\$ 301,565
Venture Corporations Act	4,408	4,408
	<b>296,347</b>	<b>305,973</b>
Provision for concessionary assistance, development incentives and possible losses on assistance (Note 8)	(81,652)	(57,252)
	<b>\$ 214,695</b>	<b>\$ 248,721</b>

Contingencies (Note 9)  
Subsequent events (Note 10)  
On behalf of the Fund:  
(See accompanying notes to the financial statements)

## Province of Nova Scotia Industrial Expansion Fund Statement of Operations Under the Industrial Development Act

For the Year Ended March 21, 2008	(\$ thousands)	
	Actual 2008	Actual 2007
<b>Revenues:</b>		
Interest	\$ 2,045	\$ 2,214
Guarantee fees	<u>718</u>	<u>604</u>
	2,763	2,818
<b>Expenditures:</b>		
Loans written off and development incentives earned	<u>9,626</u>	<u>4,682</u>
<b>Deficiency of revenues over expenditures</b>	<u>\$ (6,863)</u>	<u>\$ (1,864)</u>

(See accompanying notes to the financial statements)

## Province of Nova Scotia Industrial Expansion Fund Statement of Continuity of Fund Under the Industrial Development Act

For the Year Ended March 21, 2008	(\$ thousands)	
	2008	2007
<b>Fund balance, beginning of year</b>	<u>\$ 301,565</u>	<u>\$ 306,247</u>
Deficiency of revenues over expenditures	(6,863)	(1,864)
Revenue recorded in the Consolidated Fund	<u>(2,763)</u>	<u>(2,818)</u>
Net expenditures	<u>(9,626)</u>	<u>(4,682)</u>
Other activities within the Fund:		
Expiration of guarantees	33,309	16,385
Decrease in uncommitted balance of Fund	18,786	—
Principal repayments reinvested in the Fund	<u>7,529</u>	<u>2,547</u>
	<u>59,624</u>	<u>18,932</u>
Increase in uncommitted balance of Fund	—	(2,504)
Authorizations during the year	(59,366)	(16,230)
Capitalized interest	(7)	(3)
Guarantee payments	<u>(251)</u>	<u>(195)</u>
	<u>(59,624)</u>	<u>(18,932)</u>
<b>Fund balance, end of year</b>	<u>\$ 291,939</u>	<u>\$ 301,565</u>

(See accompanying notes to the financial statements)

## Province of Nova Scotia Industrial Expansion Fund Statement of Continuity of Fund Under the Venture Corporations Act

March 21, 2008	<i>(\$ thousands)</i>	
	2008	2007
Fund balance, beginning of year	\$ 4,408	\$ 4,408
Deduct: Accounts written off	<u>—</u>	<u>—</u>
<b>Fund balance, end of year</b>	<b><u>\$ 4,408</u></b>	<b><u>\$ 4,408</u></b>
Comprising:		
Loans advanced	\$ 809	\$ 809
Uncommitted balance of fund	<u>3,599</u>	<u>3,599</u>
	<b><u>\$ 4,408</u></b>	<b><u>\$ 4,408</u></b>

*(See accompanying notes to the financial statements)*

# Province of Nova Scotia Industrial Expansion Fund Notes to the Financial Statements

March 31, 2008

The Province of Nova Scotia Industrial Expansion Fund (the "Fund") was established under the Industrial Development Act. The Fund is used for the purposes of establishing, assisting, developing or expanding industries in the province. All assistance provided by the Fund is required to be approved by Order-in-Council.

Effective November 6, 2001, pursuant to Order-in-Council 2001-523, administrative responsibility for the Industrial Expansion Fund was assigned to Nova Scotia Business Inc., a corporation formed under the Nova Scotia Business Incorporated Act. The Fund's account and assistance management activities are performed by staff of the Department of Economic Development.

## 1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The more significant policies are described below:

### (a) Loans receivable

Loans receivable are recorded at amortized cost less allowances.

### (b) Royalties rights

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

### (c) Shares:

Equity investments with limited market information available are initially recorded at cost less allowances.

### (d) Provision for concessionary assistance:

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

### (e) Allowance for doubtful accounts:

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis.

### (f) Guarantees:

Guarantees, including utilized and unutilized portions, are recorded at cost.

### (g) Revenues and administrative expenses:

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act, Clause 8, Administrative Expenses states "The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic Development." Accordingly, administrative expenses of the fund are included in the accounts of the Department of Economic Development and are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

**(h) Statement of cash flows**

A statement of cash flows is not provided since disclosures in the statements of operations, statements of continuity of the funds and the balance sheet are considered adequate.

**i) Use of estimates**

The preparation of financial statements require 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.

**2. Change in accounting policy**

a) Effective April 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants' Handbook Section 3855 Financial Instruments – Recognition and Measurement. Under this section, all of the Fund's loans are classified as loans and receivables and are accounted for on the amortized cost basis. The adoption of the accounting policy has been applied prospectively without restatement of the prior year's amounts.

b) The following summarizes a future accounting change that will be relevant to the Fund's financial statements subsequent to March 31, 2008.

The CICA has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Fund commencing April 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Fund is exposed and how it manages those risks.

**3. Venture Corporation Act**

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the Industrial Development Act, and payments made pursuant to the Act shall be made out of the Industrial Expansion Fund.

During the year, no payments (2007 – nil) were received on these loans.

	(\$ thousands)	
	2008	2007
Loans made to venture corporations	\$ 809	\$ 809
Less: Allowance for doubtful accounts	<u>809</u>	<u>809</u>
	<u>\$ —</u>	<u>\$ —</u>

**4. Royalty Rights**

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

**5. Shares**

	(\$ thousands)	
	2008	2007
Preferred shares	\$ 13,741	\$ 4000
Common shares	<u>3,409</u>	<u>3,493</u>
	<u>\$ 17,150</u>	<u>\$ 7,493</u>

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

## 6. Provision for concessionary assistance

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Fund.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans and shares is as follows:

	(\$ thousands)			
			2008	2007
	Assistance Outstanding	Provision for Concessionary Assistance	Net Book Value	Net Book Value
Loans	\$ 31,696	\$ 19,189	\$ 12,507	\$ 10,318
Shares	<u>17,150</u>	<u>4,300</u>	<u>12,850</u>	<u>—</u>
	<u>\$ 48,846</u>	<u>\$ 23,489</u>	<u>\$ 25,357</u>	<u>\$ 10,318</u>

## 7. Guarantees

	(\$ thousands)	
	2008	2007
Guarantees – in effect and utilized	\$ 77,152	\$ 83,706
Guarantees – in effect but not utilized	<u>13,909</u>	<u>38,464</u>
	<u>\$ 91,061</u>	<u>\$ 122,170</u>

## 8. Provision for concessionary assistance, development incentives and possible losses on assistance

	(\$ thousands)	
	2008	2007
Balance, beginning of year	\$ 57,252	\$ 39,316
Add: current year provision		
Doubtful accounts	11,627	7,851
Development incentives	<u>22,399</u>	<u>14,767</u>
	<u>91,278</u>	<u>61,934</u>
Less: accounts written off	<u>9,626</u>	<u>4,682</u>
	<u>\$ 81,652</u>	<u>\$ 57,252</u>

## 9. Contingencies

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

## 10. Subsequent Event

A payment in the amount of \$8,800,000 was disbursed subsequent to March 31, 2008 to respond to a demand by a financial institution as a result of a default on a loan guaranteed by the Industrial Expansion Fund.

## 11. Financial Instruments

a) The fair values of loans receivable approximate their net realizable value.

The fair value and book value of loans as at March 31, 2008 are \$51,072 and \$44,156, respectively.

Equity investments, loan guarantees, royalty rights and other assets represent investments and guarantees held in crown corporations and privately held companies. These financial instruments are carried at cost less allowances in the financial statements in the amounts of \$9,536, \$66,952, \$875 and nil, respectively. Due to the limited amount of comparable market information available, it is not practical to determine the fair value of these assets.

b) Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Fund regularly monitors entities to whom financial assistance has been provided. In addition to its regular monitoring procedures at year-end, management performed an analysis of a number of accounts in order to assess the Fund's total exposure to credit and other risks.

Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance, or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees

## 12. Related Party Transactions

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

In 2002, the Fund provided a guarantee in the amount of \$20,400,000 to the Nova Scotia Government Fund in 2002 authorized by OIC 2002-481. At March 31, 2008, the guarantee was no longer required by the Nova Scotia Government Fund and was rescinded. At March 31, 2007, \$8,800,000 of this guarantee had been utilized and in effect. The guarantee was provided on terms and conditions that would be similar to non-related parties.

During the year, the Fund purchased \$9,740,619 of preferred shares from Harbourside Commercial Properties Limited, a crown corporation owned by the Province of Nova Scotia. The subscribed value of the shares is equal to the appraised value of the fixed assets of Harbourside Commercial Properties Limited. An allowance against the face value of the shares has been recorded because of uncertainty in the date and amount of the ultimate redemption of the preferred shares.

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.



