

Nova Scotia
Jobs Fund
Annual Report
2017-2018



INTRODUCTION

The Nova Scotia Jobs Fund Act was proclaimed December 21, 2011, replacing the Industrial Development Act (Industrial Expansion Fund).

The Jobs Fund (the Fund) was created to provide investment to support economic development such as attracting businesses, sustaining or increasing employment, promoting growth, renewal and restructuring in economic regions or sectors and pursuing regional or strategic initiatives. Investments were made to support activities such as productivity, capital expansion, and working capital. At times, the Fund functioned as a lender of last resort for use in rural Nova Scotia when key employers could not fit eligibility criteria among private-sector lending providers.

Starting in 2014, government shifted away from investments in specific businesses. Government is focused on broader economic objectives, such as workforce, sector and regional development, as well as having the right policies, laws, and accountability measures to foster private-sector growth. Meantime, direct to business work continues via Crown corporations or agencies with arms-length boards of directors.

Effective April 2014, the Jobs Fund was closed to new transactions. It is, however, still comprised of 68 active, contractual economic development agreements, including investments approved under the Industrial Expansion Fund, all of which require monitoring and administration. Some of the investments

currently still active in the Fund date back to the mid-1980s. As at March 31, 2016, the total funding amount authorized via the Jobs Fund is \$858,805,822.

In 2015, the Province of Nova Scotia transferred administration of the Jobs Fund portfolio to NSBI, while the Minister of Business maintains oversight of the Fund.

PORTFOLIO MAKEUP

Within the Jobs Fund, different instruments were structured to respond to companies with specific economic development situations. The resulting variety of financial instruments included the following:



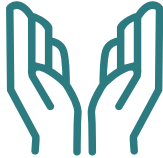
REPAYABLE LOANS

These were typically repayable, secured and interest-bearing loans.



ROYALTY RIGHTS

Repayment may be structured based on revenues or other measurable activity.



CONCESSIONARY LOANS

These were structured with security and repayment, but there may be provisions for the forgiveness for all or a portion of the principal, typically based on job creation.



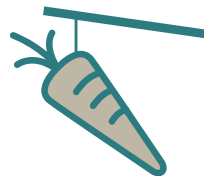
GUARANTEES (UTILIZED)

Offered to a financial institution to provide additional support for loans or lines of credit. An annual fee is charged to the company for use of this instrument.



SHARES

These could be in the form of common shares or preferred shares. Repayment may be in the form of dividends.



INCENTIVES

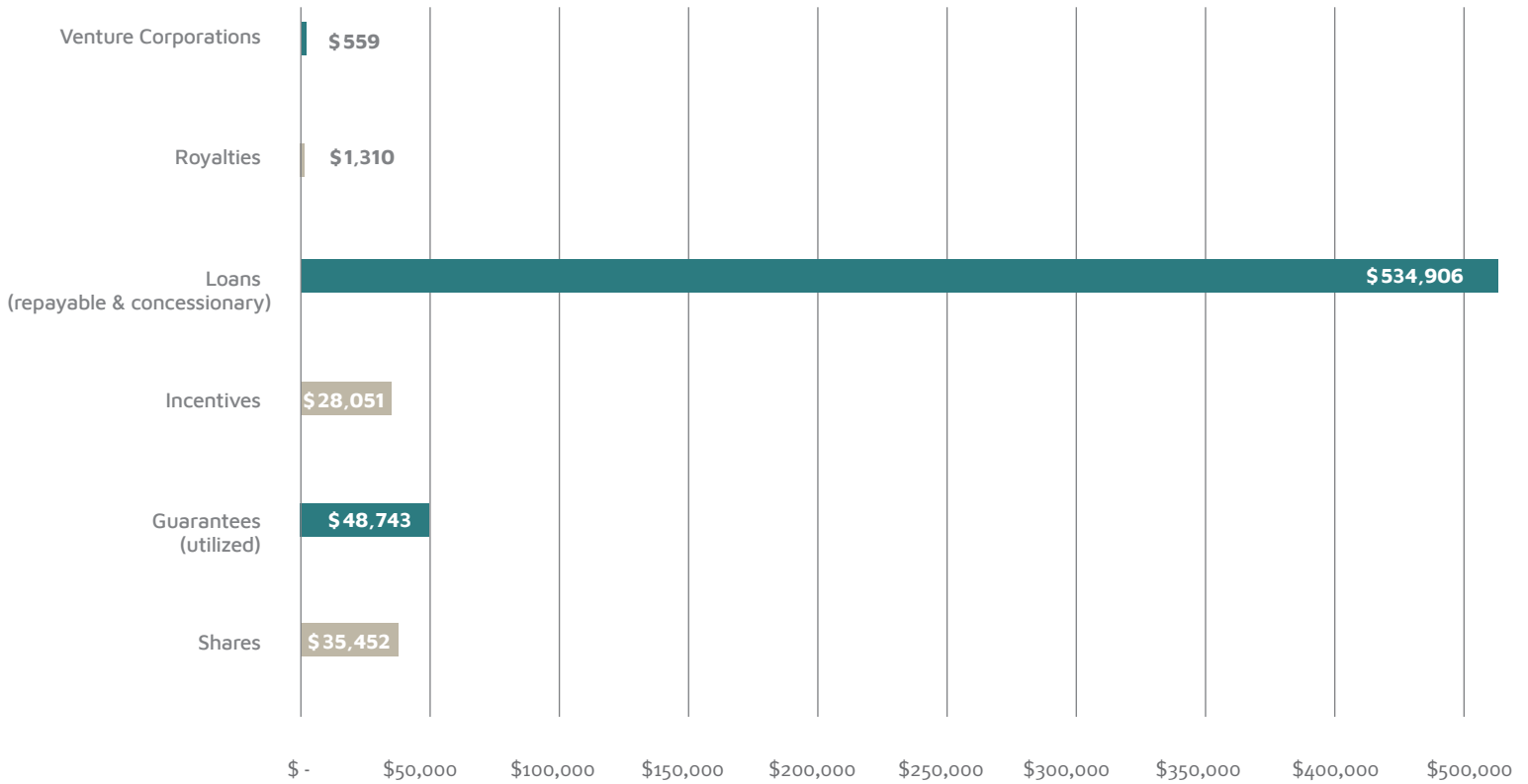
Monies are paid as incentives after a company meets certain conditions such as job creation or capital expenditure.

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As shown by the following graph, the two largest parts of the Jobs Fund portfolios are loans (repayable and concessionary), and utilized guarantees.

Investments under the Venture Corporations Act were done in the earlier days of the Industrial Expansion Fund.

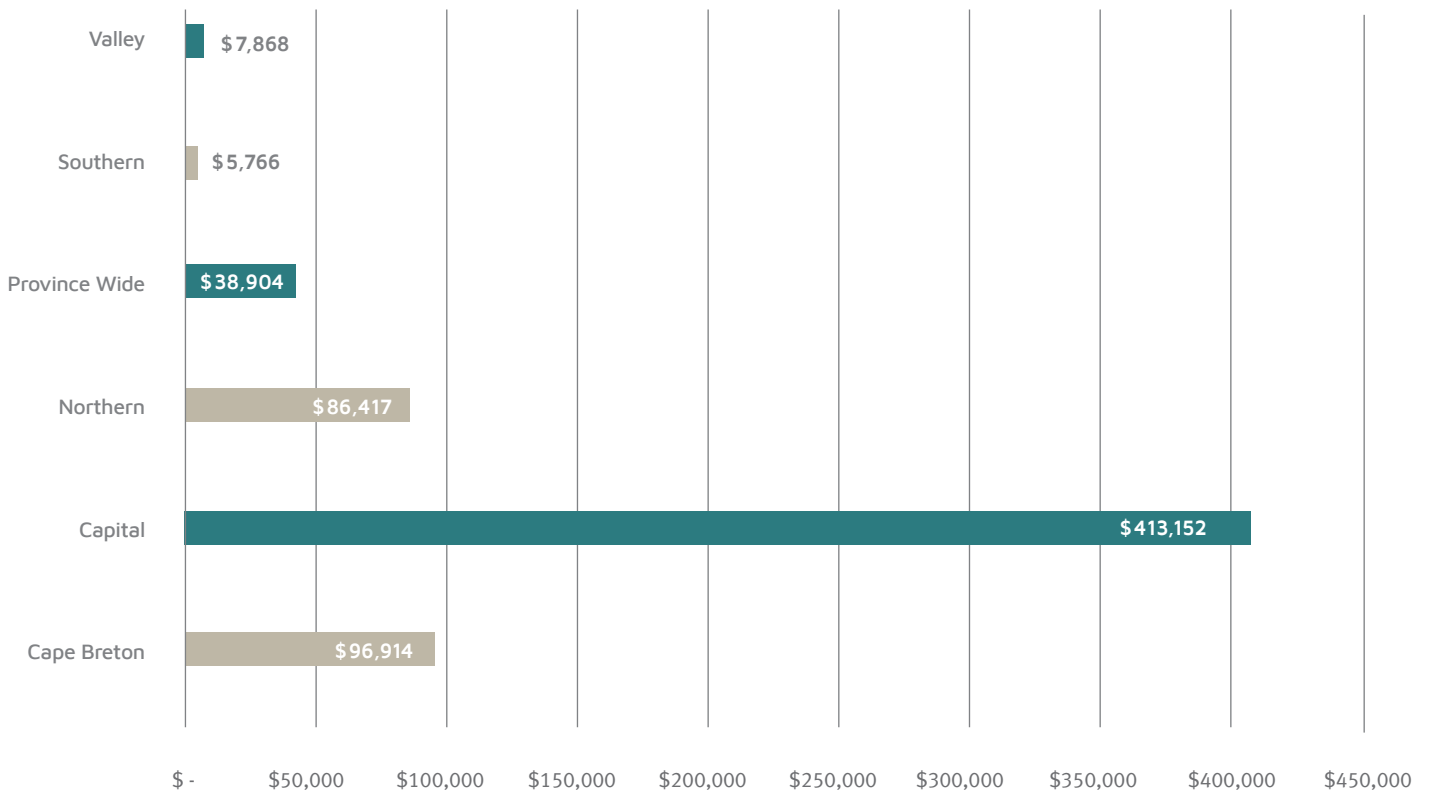
**Jobs Fund Portfolio by Investment Type ('000s)
as at March 31, 2018**



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The geographic location of current Jobs Fund companies shows that the top three areas are the Capital region, followed by Cape Breton, then by Northern Nova Scotia. Within the Capital region, most of the value of the portfolio is linked to agreements with Irving Shipbuilding Inc. regarding the National Shipbuilding Procurement Strategy. In addition, the Small Business Loan Guarantee Program (administered by the Credit Unions in Nova Scotia) is a province-wide program that provides financing to companies throughout Nova Scotia.

**Jobs Fund Portfolio by Region ('000s)
as at March 31, 2018**



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AGGREGATE CHANGES IN THE JOBS FUND PORTFOLIO

As of its proclamation in 2011, the original authorization amount for the Jobs Fund (including predecessor funds) was \$892 million. This represented the maximum envelope within which agreements may be signed. If agreement totals do not equal \$892 million, there is a remaining uncommitted amount. Since the Fund was closed in April 1, 2014, uncommitted amounts cannot be used for additional agreements going forward.

The asset value of the Jobs Fund is also expected to change over time as development incentives are paid, loan forgiveness is earned, and as principal is repaid on loans. As with any loan portfolio, economic and business circumstances may result in write-off of bad debt in future years.

Changes to Number of Companies in the Fund in the 2017/18 fiscal year

- As of April 1, 2017, there were 58 companies in the portfolio.
- Three companies earned their total eligible incentive amounts.
- Three companies repaid loans (closing their accounts).
- As of April 1, 2018, there were 52 companies in the Jobs Fund portfolio.

Portfolio Activity in the 2017/18 fiscal year

- \$24.1 million was paid by companies in principal and interest payments.
- \$28.1 million in development incentives and forgiveness.
- \$0.5 million in debt written-off.
- \$0.5 million in other income and earned (guarantees and incentives).

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SURVEY

To gauge client metrics, NSBI requested all companies with active Jobs Fund files as of the fiscal year 2017/18 provide the following data: total revenue, total employment (in full-time equivalents), total annual payroll, and exporting activity and export-derived sales data.

Survey Response

Total Number of companies as at April 1, 2017	58
Province-wide programs (SBLP).....	1
Inactive accounts	17
Subtotal	40
Non-responders.....	28
Number of companies that responded	12

The number of companies that responded are 20.7 per cent of all companies in the portfolio (30 per cent of active and non-province-wide programs) and 21.4 per cent of the value of the Jobs Fund portfolio, based in outstanding dollar value.

This data request was voluntary as opposed to mandatory because the contractual agreements signed between the companies and the Jobs Fund did not include terms and conditions requiring such data capture and dissemination.

The information provided and compiled herein is not part of an independent, third-party designed data collection. Nor is the information subject to an independent, third-party audit. The information contained herein comes from Jobs Fund portfolio companies that voluntarily submitted the information. The administrator (NSBI) is not responsible for the accuracy of the supplied information.

The data represents a snapshot in time, but provides an indication of the activity of the companies in the portfolio. The survey was conducted for the first time for fiscal 2015/16. Differences in the results are related to the number and type of companies that responded. As the portfolio reduces in the number of companies it would be expected to have a decline in revenues, employment and total export sales.

Companies responding to the survey indicated that they had \$ 742 million dollars in sales with 45.2 per cent of sales occurring outside the Province of Nova Scotia. As the Ivany Report indicated, exporting is a very important activity to the Nova Scotia economy and for the economy to grow, exports need to grow. The vast majority of businesses in Nova Scotia do not export internationally. Based on data published in the Ivany Report it can be derived that approximately 3 per cent of Nova Scotia businesses exported in 2009, (this may not capture service exporters). There is a difference between establishment and business location counts for the number of businesses but it is evident that a low percentage of Nova Scotia businesses export internationally. 58.3 per cent of respondents to the survey indicated that they export outside of Nova Scotia. In 2017 there were 970 exporters in Nova Scotia (NS Finance and Treasury Board) and 80,501 businesses¹.

REVENUE INCLUDING EXPORTS OF REPORTING COMPANIES

	2016/17	2017/18
Total Revenue	\$1,256,979,159	\$ 742,025,578
Number of companies exporting outside Nova Scotia	21 75.0 per cent of respondents	7 58.3 per cent of respondents
Export Sales (estimated)	\$ 842,337,238 67.0 per cent of total sales	\$ 335,182,102 45.2 per cent of total sales

Not strictly comparable year to year

Employment was a consideration for some of the agreements entered into for both the Jobs Fund and its predecessors. Expressed in full-time equivalent terms, employment at responding firms was 2,326 with an associated payroll \$159.4 million. The derived average salary is \$68,516, which is approximately 66.7 per cent higher than the Nova Scotia average of \$41,100².

EMPLOYMENT AND PAYROLL OF REPORTING COMPANIES

	2016/17	2017/18
Total full time equivalents (FTEs)	4,895	2,326
Total Annual Payroll	\$ 302,257,910	\$ 159,367,672
Average Salary (payroll/FTEs)	\$ 57,797	\$ 68,516

Not strictly comparable year to year

¹ Derived from Statistics Canada (Stats Can tables 12-10-0104-01, and 33-10-0037-01).

² Derived from Statistics Canada (Canadian Income Survey, CANSIM 206-0011 through 206-0094 released March 2018).

Portfolio

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#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
1	ACF Equity Atlantic Inc		Active Portfolio Account	Jun-96	\$ 3,890,000	Common shares	Equity investment to establish a venture capital fund in Atlantic Canada
2	Advance Laboratories Limited		Active Portfolio Account	Apr-97	\$ 380,000	Loan	Equipment and working capital
3	Advance Laboratories Limited		Active Portfolio Account	Apr-97	\$1	Loan	Equipment and working capital
4	Authentic Seacoast Company Ltd.		Active Portfolio Account	Sep-12	\$1,000,000	Forgivable loan	New building, equipment, and working capital for distillery
5	Bluedrop Performance Learning Inc.		Active Portfolio Account	Mar-12	\$1,700,000	Loan	Equipment and leaseholds
6	Cabot Links		Active Portfolio Account	Aug-13	\$ 8,250,000	Loan	Costs to construct golf course and facilities
7	Canaqua Seafoods Limited		Active Portfolio Account	Jun-13	\$1,000,000	Loan	Working capital and capital development
8	CanJam Trading Limited		Active Portfolio Account	Jun-04	\$1,850,000	Loan	Working capital
9	CelluFuel Inc.		Active Portfolio Account	Sep-13	\$1,500,000	Loan	Capital equipment purchase to establish a biodiesel demonstration facility
10	Chorus Aviation Inc.		Active Portfolio Account	Jul-12	\$12,000,000	Loan	Funding for expansion - hanger improvements, purchase of building, building modifications
11	Chorus Aviation Inc.		Active Portfolio Account	Jul-12	\$2,500,000	Forgivable loan	Funding for expansion - hanger improvements, purchase of building, building modifications
12	CKF Inc.		Active Portfolio Account	Jul-13	\$8,700,000	Loan	Equipment acquisition and compressed natural gas facility

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#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
13	Composites Atlantic Limited (STELIA Aerospace North America Inc.)		Active Portfolio Account	May-04	\$ 350,000	Royalty rights	Funding for plant expansion, repaid with royalties
14	Cooke Aquaculture Inc.		Active Portfolio Account, Amount Rescinded	Jun-12	\$ 25,000,000	Forgivable loan	Four projects in Nova Scotia. Forgivable in part based on completion of projects, employment levels and investment in industry research
15	Co-Op Atlantic	Defunct	Active Portfolio Account	Sep-98	\$ 1,930,000	Loan	Convert warehouse to frozen food distribution facility
16	Co-Op Atlantic	Defunct	Active Portfolio Account	Jun-01	\$ 3,761,000	Loan	Expand freezing capacity
17	Credit Unions (Nova Scotia Co-operative Council)		Active Portfolio Account	Jun-03	\$ 50,000,000	Guarantee	Small business loan program, original commitment \$6,000,000. Increased to \$50,000,000
18	DRUM! Live Inc.		Active Portfolio Account	Sep-04	\$ 235,000	Loan	Development of DRUM, a stage production
19	DRUM! Live Inc.		Active Portfolio Account	Aug-09	\$ 1,100,000	Forgivable loan, development incentive	Completion of show DVD and shows in other cities
20	DSME Trenton Ltd.	Defunct	Active Portfolio Account	Mar-10	\$ 6,000,000	Loan	Stand-by working capital
21	DSME Trenton Ltd.	Defunct	Active Portfolio Account, Amount Rescinded	Mar-10	\$ 30,000,000	Loan	Purchase of equipment, and working capital
22	DSME Trenton Ltd.	Defunct	Active Portfolio Account	Mar-10	\$ 19,600,000	Common shares	Purchase of equipment, facility, employee costs and working capital
23	E & M Burgess Enterprises Limited		Active Portfolio Account	Nov-06	\$ 300,000	Loan	Building and equipment

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#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
24	E & M Burgess Enterprises Limited		Active Portfolio Account	Jul-09	\$100,000	Loan	Working capital
25	EPC Industries Limited		Active Portfolio Account	Feb-13	\$7,100,000	Loan	Equipment
26	Halifax Biomedical Incorporated		Active Portfolio Account	Mar-08	\$900,000	Royalty rights	Expansion project
27	Harbourside Commercial Park Inc.		Active Portfolio Account	Aug-07	\$10,000,000	Preferred Shares	Funding to purchase certain assets of Sysco
28	Harry Freeman & Son Limited		Active Portfolio Account	April-11	\$10,000,000	Loan	Refinancing and working capital
29	Immunovaccine Technologies Inc.		Active Portfolio Account	Aug-13	\$5,000,000	Loan	Working Capital
30	IMP Group Interational Inc.		Active Portfolio Account	Feb-06	\$850,000	Loan	Program equipment acquisition
31	Irving Shipbuilding Inc.		Active Portfolio Account	Jul-11	\$44,000,000	Loan	Value Proposition Repayable Loan
32	Irving Shipbuilding Inc.		Active Portfolio Account	Jul-11	\$260,000,000	Forgivable loan	Funding for Irving Shipping building for the Combat Vessel and Non-Combat Vessel for Government of Canada
33	Ka'Le Bay Seafoods Limited		Active Portfolio Account	Jun-09	\$3,500,000	Loan	To purchase redfish quota and working capital
34	LED Roadway Lighting Ltd.		Active Portfolio Account	Mar-09	\$1,000,000	Loan	Funding for research, development, and demonstration project
35	LED Roadway Lighting Ltd.		Active Portfolio Account	Mar-11	\$10,000,000	Guarantee	Support working capital operating line

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#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
36	Ledwidge Lumber Company Limited		Active Portfolio Account	Feb-09	\$1,500,000	Loan	Working Capital
37	Lewis Mouldings & Wood Specialties Limited		Active Portfolio Account	May-07	\$1,200,000	Loan	Funding to equipment, facilities, and working capital
38	Lewis Mouldings & Wood Specialties Limited		Active Portfolio Account	Mar-13	\$1,600,000	Guarantee	Support working capital operating line
39	MacDonald Peat Moss Limited		Active Portfolio Account	Aug-97	\$250,000	Royalty rights	Funding to develop and upgrade peat lands facility
40	MacKinnon-Cann House Historic Inn and Function Facility Inc.		Active Portfolio Account	Nov-07	\$250,000	Loan	Building Renovations and Working Capital
41	Marwood Limited		Active Portfolio Account	Jun-12	\$5,000,000	Loan	Capital Investment and Refinance for Brookfield site, Glenholme site, and Hammond Plains site
42	Medmira Inc.		Active Portfolio Account	Sep-09	\$3,500,000	Loan	Refinancing and working capital
43	Michelin North America (Canada) Inc. - Kentville		Active Portfolio Account	Jan-13	\$8,880,000	Loan	Capital Upgrades
44	N.P.V. Investments		Active Portfolio Account	1986	\$250,000	Loan	Investment in venture capital company to be invested in other companies
45	Northern Pulp Nova Scotia Corporation		Active Portfolio Account	Apr-13	\$15,000,000	Loan	Capital and Maintenance expenditures plus Principle from 2009 Loan Agreement
46	Northern Pulp Nova Scotia Corporation		Active Portfolio Account	Apr-13	\$14,700,000	Loan	Precipitator Project and Chip Plant Project
47	Northern Pulp Nova Scotia Corporation		Active Portfolio Account	Apr-13	\$2,500,000	Development incentive	Precipitator Project and Chip Plant Project

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#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
48	Northern Pulp Nova Scotia Corporation		Active Portfolio Account	Apr-13	\$3,600,000	Loan	Clean Energy Project
49	Northern Timber Nova Scotia Corporation		Active Portfolio Account	Feb-10	\$75,000,000	Loan	Purchase of 475,000 acres of timberland
50	Nova Plastics Inc.		Active Portfolio Account	May-09	\$300,000	Loan	Working Capital
51	Nu-Air Ventilation Systems Inc		Active Portfolio Account	May-08	\$1,500,000	Loan	Equipment purchase
52	Pacific West Commercial Corporation		Active Portfolio Account	Sep-12	\$2,500,000	Development incentive	Fund Training and Marketing to re-start the former NewPage mill in Port Hawkesbury
53	Pacific West Commercial Corporation		Active Portfolio Account	Sep-12	\$40,000,000	Loan	Working Capital to re-start the former NewPage mill in Port Hawkesbury
54	Pacific West Commercial Corporation		Active Portfolio Account	Sep-12	\$24,000,000	Forgivable loan	Working Capital to re-start the former NewPage mill in Port Hawkesbury
55	Protocase Incorporated and Advanced Glazings Limited		Active Portfolio Account	May-07	\$1,200,000	Loan	Expansion and new building
56	RCR Investment Limited		Active Portfolio Account	1986	\$250,000	Loan	Investment in venture capital company to be invested in other companies
57	Rosedale Farms Limited		Active Portfolio Account	Feb-99	\$1,000,000	Loan	Paid out loan guarantee
58	Seaside Communications Inc.		Active Portfolio Account	Oct-10	\$4,000,000	Preferred shares	Funding to complete the Broadband Rural NS contract and restructure

#	Account Name	Company Status	Portfolio Status	LOO date	Funding Amount	Original investment structure	Original purpose
59	Seaside Wireless Communications Inc.		Active Portfolio Account	Feb-10	\$7,000,000	Loan	Funding to complete the Broadband Rural NS contract and restructure
60	Sustainable Fish Farming Canada Ltd.		Active Portfolio Account	Mar-08	750,000	Loan	Working capital
61	Sustainable Fish Farming Canada Ltd.		Active Portfolio Account	Feb-10	\$700,000	Loan	Working capital
62	Terry Hawkins Industries Limited		Active Portfolio Account	Jan-07	\$160,000	Loan	Loan for leasehold improvements, equipment, and marketing
63	The Cider House Company Limited		Active Portfolio Account	Oct-07	\$500,000	Loan	Funding for capital Investments
64	Tony's Meats Ltd (Federation Protein)		Active Portfolio Account	Jul-07	\$1,500,000	Loan	Share purchase and working capital
65	Vencorp Limited		Active Portfolio Account	est 1984	\$250,000	Loan	Investment in venture capital company to be invested in other companies
66	Web.com (Register.com, Inc.)		Active Portfolio Account	Mar-08	\$1,050,000	Development incentive	Based on start of operations and employee levels
67	White Point Holdings Limited		Active Portfolio Account	May-11	\$1,000,000	Loan	Facility upgrades
68	Yarmouth Area Industrial Commission		Active Portfolio Account	Nov-06	\$300,000	Development incentive	Funding for portion of costs for new facility in an industrial park

Total Funding Amount Authorized

\$754,686,001

Notes: Defunct accounts are either bankrupt, in receivership, or have ceased operating, however, require active administration.

Financial statements
of
Nova Scotia
Jobs Fund
March 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Business,
Province of Nova Scotia

We have audited the accompanying financial statements of Nova Scotia Jobs Fund, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, changes in net financial assets, continuity of fund under the Nova Scotia Jobs Fund Act and continuity of fund under the Venture Corporations Act 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.

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 Nova Scotia Jobs Fund as at March 31, 2018 and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

A handwritten signature in dark ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
July 12, 2018

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Statement of financial position

As at March 31, 2018

(In thousands of dollars)

	Notes	<u>2018</u>	<u>2017</u>
		\$	\$
Financial assets			
Investments and development incentives			
Loans	3	534,906	541,596
Development incentives		28,051	54,135
Loans - Venture Corporations Act	4	559	559
Royalty rights	5	1,310	1,310
Shares	6	<u>35,452</u>	<u>35,452</u>
		600,278	633,052
Provision for concessionary assistance	7	(112,340)	(87,699)
Provision for development incentives		(28,051)	(54,135)
Allowance for doubtful accounts	3,4,5 and 6	<u>(102,646)</u>	<u>(100,671)</u>
		<u>(243,037)</u>	<u>(242,505)</u>
Net investments and development incentives		<u>357,241</u>	<u>390,547</u>
Assistance authorized but unadvanced:			
Loans		44,000	44,000
Development incentives		<u>3,341</u>	<u>5,072</u>
		47,341	49,072
Due from Consolidated Fund of the Province of Nova Scotia			
Guarantees	8	61,600	61,600
Provisions for payment under guarantees		<u>(7,005)</u>	<u>(1,266)</u>
		54,595	60,334
Uncommitted balance of fund, due from Consolidated Fund of the Province of Nova Scotia		<u>128,783</u>	<u>122,916</u>
Net financial assets, being accumulated surplus		<u>587,960</u>	<u>622,869</u>
Contingencies	10		
Accumulated surplus - committed and uncommitted			
Accumulated surplus is comprised of Authorized, net of write offs			
Nova Scotia Jobs Fund Act		833,595	862,232
Venture Corporations Act		<u>4,408</u>	<u>4,408</u>
		838,003	866,640
Provision for concessionary assistance, development incentives and possible losses on assistance	9	<u>(250,043)</u>	(243,771)
		<u>587,960</u>	<u>622,869</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Fund

Statement of operations under the
Nova Scotia Jobs Fund Act
Year ended March 31, 2018
(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
	\$	\$
Revenue		
Interest	16,579	16,779
Guarantee fees	<u>448</u>	726
	<u>17,027</u>	<u>17,505</u>
Expenditures		
Loans written off and development incentives earned Interest	28,637	11,167
	<u>(100)</u>	=
	<u>28,537</u>	<u>11,167</u>
Operating (deficit) surplus for the year	<u>(11,510)</u>	<u>6,338</u>

The accompanying notes are an integral part of the financial statements.

Statement of changes in net financial assets

Year ended March 31, 2018

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
	\$	\$
Change in net financial assets		
Increase in uncommitted balance of Fund	5,869	12,936
Cancellation of loans	—	(349)
Principal repayments reinvested in the Fund	(17,307)	(23,068)
Loans written off and development incentives earned	(28,637)	(11,167)
Change in provisions	(6,272)	(19,178)
Protective disbursement advances	61	184
Capitalized interest	9,766	9,777
Share repayments reinvested in the Fund	—	4
Guarantee payments	<u>1,611</u>	<u>517</u>
Decrease in net financial assets	<u>(34,909)</u>	<u>(30,344)</u>
Net financial assets, beginning of year	<u>622,869</u>	<u>653,213</u>
Net financial assets, end of year	<u>587,960</u>	<u>622,869</u>

The accompanying notes are an integral part of the financial statements.

Statement of continuity of fund under the Nova Scotia Jobs Fund Act

Year ended March 31, 2018

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
	\$	\$
Fund balance, beginning of year	862,232	873,399
Operating (deficit) surplus for the year	(11,510)	6,338
Interest	(100)	—
Revenue recorded in the Consolidated Fund	(17,027)	(17,505)
Net expenditures	833,595	862,232
Other activities within the Fund		
Principal repayments reinvested in the Fund	17,307	23,068
Cancellation of loans	—	349
Share repayments reinvested in the Fund	—	(4)
Increase in uncommitted balance of the Fund	(5,869)	(12,936)
Other	(61)	(183)
	11,377	10,294
Capitalized interest	(9,766)	(9,777)
Guarantee payments	(1,611)	(517)
	(11,377)	(10,294)
Fund balance, end of year	833,595	862,232

The accompanying notes are an integral part of the financial statements.

Statement of continuity of fund under the Venture Corporations Act

Year ended March 31, 2018

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
	\$	\$
Fund balance, beginning of year	<u>4,408</u>	<u>4,408</u>
Fund balance, end of year	<u>4,408</u>	<u>4,408</u>
Comprising		
Loans advanced	559	559
Uncommitted balance	<u>3,849</u>	<u>3,849</u>
	<u>4,408</u>	<u>4,408</u>

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements March 31, 2018

(In thousands of dollars)

1. Reporting entity

The Nova Scotia Jobs Fund Act (the "Act") was proclaimed in force by Order in Council 2011 - 440 and came into effect on December 21, 2011. It provided, in sub-section 3(1), that the former Industrial Expansion Fund continue as a special account in the office of the Deputy Minister of Finance as the Nova Scotia Jobs Fund (the "Fund"). Effectively, all assets of the Industrial Expansion Fund became part of the Nova Scotia Jobs Fund as it ceased to exist as a separate fund. The Fund has been used for the purposes set out in section 4 of the Act, and includes providing investment for the purpose of economic growth, attracting business or foreign direct investment, promoting international trade and commerce and sustaining or increasing employment. All investments from the Fund need approval of the Governor in Council. The Fund's account and management activities as well as the accounting function are wholly performed by Nova Scotia Business Incorporated ("NSBI"). On May 1, 2014, Nova Scotia Jobs Fund was closed to new investments or increases to existing statutory capital advances authority on present investments.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") as established by the Public Sector Accounting Board ("PSAB"). These financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the Fund. The more significant policies are described below.

The Fund follows the accrual method of accounting for revenue and expenses. Revenues are recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

Loans receivable

Loans receivable are recognized at cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount. Loans receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of the principal and interest.

Royalty 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.

Shares

Equity investments with limited information available are initially recorded at cost, which approximates fair value, and are reviewed annually for the possible impairment allowances. This allowance or the difference between valuation and cost amount reflects the risk associated with equity investments.

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.

Allowance for doubtful accounts

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis by examining such factors as client's financial condition and the fair value of the underlying security.

Guarantees

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

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 and Rural Development and Tourism, now the Department of Business. The administrative expenses of the Fund are included in the accounts of the Department of Business upon consolidation with the accounts of Nova Scotia Business Incorporated, which was assigned to absorb them during the year. Accordingly, administrative expenses 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.

Government transfers

Government transfers received and paid are to establish and assist in developing or expanding industries in the Province.

Government transfers are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Statement of cash flows

A statement of cash flows is not provided since the Fund does not maintain a cash account and disclosures in the statements of financial position, statement of operations, statement of net financial assets, and statements of continuity of the funds adequately represent the changes in Fund balances.

Statement of remeasurement gain and loss

The Fund has not presented a statement of remeasurement gain and loss as the Fund has no financial instruments that give rise to remeasurement gains or losses.

Use of estimates

The preparation of financial statements in accordance with PSAS requires 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. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees. Actual results could materially differ from those estimates.

Budget

The Fund has not presented a budget in its statement of operations as the Fund does not prepare an assessment of future operations.

3. Loans

	<u>2018</u> \$	<u>2017</u> \$
Principal due		
Performing loans	489,619	501,003
Impaired loans	<u>45,287</u>	<u>40,593</u>
	534,906	541,596
Less: allowance for doubtful accounts	<u>77,016</u>	<u>76,090</u>
	<u>457,890</u>	465,506

Interest charged on these loans ranges from nil to 8.75% (nil to 7% in 2017). The level of security on loans is also negotiated between the Fund and the debtor. Security can range from an unsecured position to a fully secured position.

4. Venture Corporations Act

The Venture Corporations Act (the "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.

No funds were advanced nor received on these loans during the year (nil in 2017).

	<u>2018</u> \$	<u>2017</u> \$
Loans made to venture corporation	559	559
Less: allowance for doubtful accounts	<u>559</u>	<u>559</u>
	=	=

5. Royalty rights

	<u>2018</u>	<u>2017</u>
	\$	\$
Royalty rights	<u>1,310</u>	1,310
Less: allowance for doubtful accounts	<u>1,310</u>	<u>1,310</u>
	=	=

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 related companies.

6. Shares

	<u>2018</u>	<u>2017</u>
	\$	\$
Preferred shares	<u>12,741</u>	12,741
Common shares	<u>22,711</u>	<u>22,711</u>
	<u>35,452</u>	35,452
Less: allowance for doubtful accounts	<u>23,761</u>	<u>22,711</u>
	<u>11,691</u>	<u>12,741</u>

During the year, no common shares (nil in 2017) were redeemed. Certain preferred shares are eligible for concessionary assistance.

7. Provision for concessionary assistance

The provision for concessionary assistance is the difference between the net present value at period end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced.

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, shares, and royalties is as follows:

	<u>Assistance outstanding</u>	<u>Provision for concessionary assistance</u>	<u>2018</u> <u>Net book value</u>	<u>2017</u> <u>Net book value</u>
	\$	\$	\$	\$
Preferred shares	<u>355,652</u>	<u>109,340</u>	<u>246,312</u>	263,476
	<u>9,741</u>	<u>3,000</u>	<u>6,741</u>	<u>5,441</u>
	<u>365,393</u>	<u>112,340</u>	<u>253,053</u>	<u>268,917</u>

8. Guarantees

	<u>2018</u> \$	<u>2017</u> \$
Guarantees - in effect and utilized	48,743	48,598
Guarantees - in effect but unutilized	<u>12,857</u>	<u>13,002</u>
	<u>61,600</u>	<u>61,600</u>

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

	<u>2018</u> \$	<u>2017</u> \$
Opening balance	243,771	224,594
Add current year provision		
Doubtful accounts	32,428	24,990
Development incentives	<u>2,481</u>	<u>5,354</u>
	278,680	254,938
Less: accounts written off	<u>28,637</u>	<u>11,167</u>
	<u>250,043</u>	<u>243,771</u>

10. 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 certainty and are not reflected in the financial statements. When amounts are determinable, they are recorded during the year and reflected in the statement of operations.

11. Financial instruments

Fair value

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

There are no financial instruments recorded at fair value.

Associated risk

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund’s authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.

Financial risk factors

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Nova Scotia Jobs Fund assets are primarily exposed to credit, market price, interest rate, and liquidity risk.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at year-end, management performed an analysis on 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.

As at March 31, 2018, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. The concentration of investments advanced to the Fund's five largest investees was 87% (85% in 2017) of the carrying value of the investment portfolio.

As at March 31, 2018, the Fund had a significant concentration in its investment portfolio with respect to the forestry and shipbuilding industries. The concentration of investments advanced to companies participating in timber-related industries was 24% (26% in 2017). The concentration of the investments advanced to companies participating in the shipbuilding industry was 64% (61% in 2017).

Market price risk

Market risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market prices. Some of the Fund's financial instruments expose it to this risk, which comprises currency risk, interest rate risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the market value of the Fund's investments and debt will fluctuate due to changes in market interest rates. It is management's opinion that the Fund is not exposed to significant interest rate risk arising from financial instruments.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

12. Related party transactions

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

No shares were sold to related parties in current year. In 2016, ReNova Scotia Bioenergy Inc., purchased all the outstanding shares previously held by the Nova Scotia Jobs Fund valued at \$1,268.

NSBI pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund. These were previously paid by the Province of Nova Scotia until the Fund's administrative responsibilities were transferred to NSBI in 2016 fiscal year.

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.