

Financial statements of

Nova Scotia Business Inc.

March 31, 2016

Nova Scotia Business Inc.

March 31, 2016

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Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements on a quarterly basis and external audited financial statements yearly.

The external auditors, Deloitte LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to financial management of Nova Scotia Business Inc. and meet with them when required.

On behalf of **Nova Scotia Business Inc.**

Laurel C. Broten
CEO

Ferdinand Makani
Controller

June 22, 2016

Independent Auditor's Report

To the Board of Directors of
Nova Scotia Business Inc.

We have audited the accompanying financial statements of Nova Scotia Business Inc., which comprise the statement of financial position as at March 31, 2016, and the statements of operations and changes in accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Business Inc. as at March 31, 2016 and the results of its operations, changes in net financial assets and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Accountants
June 22, 2016
Halifax, Nova Scotia

Nova Scotia Business Inc.

Statement of operations and changes in accumulated operating surplus year ended March 31, 2016

(In thousands of dollars)

	Budget (Unaudited)	2016	2015
	\$	\$	\$
Revenue			
Provincial			
Operating grant	14,041	14,836	9,967
Strategic investment grant	11,482	9,785	9,237
Loan valuation allowance grant	716	716	2,420
Miscellaneous	1,105	520	2,011
Interest on loans receivable	2,030	1,822	2,172
Recovery of equity investments and development loans	-	130	-
Independent Production Fund ("IPF") revenue (Schedule 1)	-	528	-
Other	844	1,462	2,881
Federal	1,195	605	984
Investment income	447	(220)	479
Gain on sale of tangible capital assets	-	313	32
	31,860	30,497	30,183
Expenses			
Operating expenses (Schedule 2)	16,571	15,783	12,600
Transfer payments to the Province of Nova Scotia	-	313	53
Strategic investments	11,482	9,785	9,237
Independent Production Fund ("IPF") expenses (Schedule 1)	-	528	-
Provision for credit losses and payment of guarantees	716	2,056	19,094
Provision for accrued interest receivable	-	(175)	2,245
Nova Scotia Business Fund: other expenses (Schedule 3)	3,888	3,987	3,250
	32,657	32,277	46,479
Annual operating deficit	(797)	(1,780)	(16,296)
Accumulated operating surplus, beginning of year	10,786	10,766	27,062
Accumulated operating surplus, assumed from FCINS (Note 1)	-	20	-
Accumulated operating surplus, end of year	9,989	9,006	10,766

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

Nova Scotia Business Inc.
Statement of changes in net financial assets
year ended March 31, 2016
(In thousands of dollars)

	Budget (Unaudited)	2016	2015
	\$	\$	\$
Annual operating deficit	(797)	(1,780)	(16,296)
Change in tangible capital assets			
Amortization of tangible capital assets	44	55	58
Gain on sale of tangible capital assets	-	(313)	(32)
Proceeds from sale of tangible capital assets	-	313	53
Net change in tangible capital assets	(753)	(1,725)	(16,217)
Change in other non-financial assets			
Acquisitions of prepaid assets	-	(55)	(7)
Use of prepaid assets	-	8	4
Net change in other non-financial assets	-	(47)	(3)
Decrease in non-financial assets	(753)	(1,772)	(16,220)
Decrease in net financial assets	(753)	(1,772)	(16,220)
Net financial assets, beginning of year	9,637	9,637	25,857
Net financial assets, assumed from FCINS (Note 1)	-	19	-
Net financial assets, end of year	8,884	7,884	9,637

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

Nova Scotia Business Inc.

Statement of financial position

as at March 31, 2016

(In thousands of dollars)

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents (Note 14)	23,825	22,109
Accrued interest receivable	161	288
Loan valuation allowance receivable (Note 8)	-	11,833
Other receivables	512	1,571
Receivables - IPF	31	-
Due from the Province of Nova Scotia	10,834	9,907
Loans receivable (Note 3 and 7)	28,969	33,793
Equity investments (Note 4 and 7)	13,055	15,452
	77,387	94,953
Liabilities		
Accounts payable and accrued liabilities	15,348	15,280
Accounts payable and accrued liabilities - IPF (Note 1)	5	-
Deferred revenue	360	315
Deferred revenue - IPF (Note 1)	30	-
Accrued interest payable	95	171
Employee benefits and other liabilities (Note 16)	1,769	1,317
Provision for payment of guarantees (Note 7 and 11)	367	149
Due to shareholder (Note 8)	50,706	-
Film production assistance commitments payable	235	-
Film production assistance commitments payable - IPF (Note 1)	275	-
Long-term debt due to the Province of Nova Scotia (Note 8)	-	68,031
Transfer payments payable to the Province of Nova Scotia	313	53
	69,503	85,316
Net financial assets	7,884	9,637
Non-financial assets		
Tangible capital assets (Note 5)	1,067	1,122
Prepaid expenses	55	7
	1,122	1,129
Accumulated operating surplus	9,006	10,766
Accumulated operating surplus is comprised of:		
Accumulated operating surplus	9,006	10,766
	9,006	10,766

Contractual obligations (Note 10)

Contingencies (Note 11)

Subsequent event (Note 21)

On behalf of the Board

Director

Director

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

Nova Scotia Business Inc.

Statement of cash flows year ended March 31, 2016

(In thousands of dollars)

	2016	2015
	\$	\$
Operating transactions		
Annual operating (deficit) surplus	(1,780)	(16,296)
Items not affecting cash and cash equivalents		
Amortization of tangible capital assets	55	58
Redemption of loan valuation allowance receivable	(12,544)	(455)
Allowance for credit losses and provision for payment of guarantees	2,057	19,094
Capitalized interest on loans payable	900	947
Capitalized interest and dividends on loans and equity	(161)	(85)
Gain on sale of tangible capital assets	(313)	(32)
Exercised warrant options	-	(1,225)
	(11,786)	2,006
Change in other (Note 14(b))	11,616	2,343
	(170)	4,349
Capital transaction		
Proceeds from sale of tangible capital assets	313	53
	313	53
Investing transactions		
Loan advances	(206)	(1,941)
Principal received on loans	5,749	5,174
Acquisition of equity investments	-	(500)
	5,543	2,733
Financing transactions		
New notes payable from the Province of Nova Scotia	56	2,266
Principal repayments to the Province of Nova Scotia	(5,737)	(7,134)
	(5,681)	(4,868)
Increase in cash and cash equivalents	5	2,267
Cash and cash equivalents, beginning of year	22,109	19,842
Cash and cash equivalents, assumed from FCINS (Note 1)	1,711	-
Cash and cash equivalents, end of year	23,825	22,109

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

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

1. Business overview

Nova Scotia Business Inc. (the "Corporation") is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000.

On April 9th, 2015 the Corporation was assigned all of the assets and liabilities of the Film and Creative Industries Nova Scotia ("FCINS") by Bill No. 108 passed by the Government of Nova Scotia. As a result, net assets having a value of \$20, being \$1,711 in cash, \$648 in accounts receivable, \$641 in accounts payable and accrued liabilities, \$554 in deferred revenue, \$1,150 in commitments payable and \$6 in prepaid expenses were transferred into the Corporation.

The Corporation's mission is to help Nova Scotia businesses grow exports through access to business advisory services, skill development and training to build trade capacity, market intelligence, financing, and support in accessing global markets, with a focus on developing new exporters and attracting innovative, globally competitive companies to establish a business location in Nova Scotia. The Corporation is not subject to provincial or federal taxes.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of the Corporation have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") as established by the Public Sector Accounting Board ("PSAB").

The Corporation follows the accrual method of accounting for revenues 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 and services and/or the creation of a legal obligation to pay.

Cash and cash equivalents

Cash includes petty cash and amounts on deposit with financial institutions. Cash equivalents include short-term highly liquid investments with a term to maturity of 365 days or less at acquisition. All are measured at fair market value.

Loans receivable

Loans receivable are recognized at amortized cost using the effective interest rate method. 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 principal and interest. A specific valuation allowance is established to reduce the recorded value of the impaired loan to its estimated net recoverable value.

A general allowance of 5% of cost is recorded to reflect anticipated future losses for all loans receivable which do not have a specific allowance.

Initial and subsequent changes in the amount of valuation allowance are recorded as a charge or credit to the statement of operations.

Loans receivable are written off after all reasonable restructuring and collection activities have taken place, and management believes that there is no realistic prospect of recovery. Once all or a part of a loan receivable has been written off, the write-off is not reversed, unless the loan receivable is recovered, in which case the recovery is credited to the statement of operations upon receipt.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

2. Summary of significant accounting policies (continued)

Equity investments

Investments in equity instruments of private enterprises are carried at cost with realized gains and losses recognized in the statement of operations in the period they are derecognized.

Investments in equity instruments of private enterprises are classified as impaired when, in the opinion of management, there has been a loss in the value of the equity instruments that is other than a temporary decline. A specific valuation allowance is established to reduce the recorded value of the impaired investments to their estimated net recoverable value.

A general allowance of 10% of cost is recorded to reflect anticipated future losses for all investments in private enterprises receivable which do not have a specific allowance.

The investments are reviewed twice yearly for potential declines in value.

A write-down of an investment to reflect a loss in value is not reversed if there is a subsequent increase in value.

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of assets. The cost, less residual value, of the tangible capital assets, excluding land, is amortized over their estimated useful lives as follows:

Asset	Basis	Rate
Buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	4 - 15%

Assets not in use are not amortized until the asset is available for productive use.

In previous fiscal years, the Department of Transportation and Infrastructure Renewal had operational responsibility for the industrial parks and buildings. Certain revenues and expenses associated with the operation of the industrial parks and buildings were accounted for by the Department of Transportation and Infrastructure Renewal and were not reflected in NSBI's financial statements. However, effective April 1, 2014, Nova Scotia Business Inc. took over the operational responsibilities of these assets and their related expenses and revenues are now recorded in these financial statements.

Proceeds from the sale of assets less closing costs are remitted to the Province of Nova Scotia in the form of transfer payments. In the current year, the transfer payments payable to the Province of Nova Scotia was \$313 (2015 - \$53).

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded in revenues at their fair value at the date of donation, except in circumstances where fair value cannot be reasonably determined, in which case they are recognized at nominal value.

Other assets

Other assets consist of property acquired through foreclosure. Other assets are recorded at cost less a general allowance for the credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

2. Summary of significant accounting policies (continued)

Due to the Province of Nova Scotia

Amounts due to the Province of Nova Scotia, which are comprised of long-term debt, are recorded at amortized cost.

Government transfers

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. The transfer payments recorded by the Corporation are flow-through arrangements of proceeds from the sale of crown assets which the Corporation administers and are remitted to the Province of Nova Scotia. In accordance with PS 3410, Government transfers do not include flow-through arrangements where a government agrees to act merely as an intermediary to administer funds on behalf of another party and has no ability to make decisions regarding the use of the funds.

Similarly, when funds are received as a result of an administrative flow-through arrangement in which a recipient government serves only as a cash conduit (i.e., it has no direct financial involvement in the program nor decision-making capability in relation to the program) the receipt and disbursement of cash would not be recognized as transfers in that recipient government's financial statements.

Revenue recognition

Government contributions are recognized as revenue in the period the transfer is authorized, and all eligibility criteria have been met, except when, and to the extent, the transfer includes stipulations which have not yet been met.

Government contributions with stipulations are initially deferred and recognized as revenue as the related stipulations are met.

- a. Operating grants have no criteria or stipulations and the Corporation recognizes revenue on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.
- b. Strategic investment grants are recognized when expenditure is recorded in accordance with the Corporation's approved budget and shall be provided in accordance with policies and procedures set out in the Corporation's business plan.
- c. Loan valuation grant is provided by the Province of Nova Scotia to offset the provision for credit losses and payment of guarantees.
- d. Miscellaneous consists of various contracts for trade programs. Revenue is recognized in the period the transfer is authorized, and all eligibility criteria have been met, except when and to the extent the transfer includes stipulations which have not yet been met.

Interest revenue on the loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears. In the event a loan is no longer considered to be impaired, interest revenue is recognized in the year of recovery.

Provision for credit losses and payment of guarantees

The provision for credit losses is partially offset by a non-cash loan valuation allowance contribution from the Province of Nova Scotia. The contribution is recorded as both a receivable and revenue.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

2. Summary of significant accounting policies (continued)

Employee future benefits

The Corporation provides certain employee benefits which will require funding in future periods. These benefits include vacation pay and public service awards. Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis with actuarial assessments being carried out every three years. The next assessment is due in the 2017 fiscal year.

Permanent employees of the Corporation participate in the Public Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. The costs of the employer pension benefits are the Corporation's contributions due to the Plan in the period. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

The Corporation accounts for severance pay on an accrual basis and the amount is calculated based upon accumulated unused sick leave or on years of service. The amount is payable when the employee ceases employment with the Corporation.

Use of estimates

The preparation of the financial statements 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 loans receivable and equity investments. Actual results could differ materially from these estimates.

Impairment of long-lived assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

3. Loans receivable

	2016	2015
	\$	\$
Principal due	55,301	60,436
Allowance for credit losses (Note 7)	(26,332)	(26,643)
	28,969	33,793

Interest charged on these loans ranges from 0% to 12%. Repayment terms are negotiated on specific loans and would normally not exceed 20 years. The level of security on loans is also negotiated between the Corporation and the debtor based on the risk associated with the individual loan. The security can include life insurance, company assets, personal guarantees or the value of the parent company. Security can range from an unsecured position to a fully secured position.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

4. Equity investments

	2016	2015
	\$	\$
Common shares	12,380	16,663
Preferred shares	25,691	27,626
Convertible debentures and promissory notes	3,000	5,350
	41,071	49,639
Allowance for credit losses (Note 7)	(28,016)	(34,187)
	13,055	15,452

Certain preferred shares have conversion options and warrants attached.

5. Tangible capital assets

	2016	2015		
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land	86	-	86	86
Buildings	873	666	207	218
Wharves	1,752	1,217	535	563
Utilities	458	219	239	255
	3,169	2,102	1,067	1,122

6. Other assets

	2016	2015
	\$	\$
Property acquired through foreclosure, at cost	750	750
Less: allowance for credit losses (Note 7)	(750)	(750)
	-	-

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

7. Allowance for credit losses and payment of guarantees

	2016				
	Gross balance outstanding	Specific allowance	General allowance	Total allowance	Net balance outstanding
	\$	\$	\$	\$	\$
Loans receivable (Note 3)	55,301	24,934	1,398	26,332	28,969
Equity investments (Note 4)	41,071	26,746	1,270	28,016	13,055
Guarantees (Note 11)	825	367	-	367	458
Other assets (Note 6)	750	750	-	750	-
	97,947	52,797	2,668	55,465	42,482

	2015				
	Gross balance outstanding	Specific allowance	General allowance	Total allowance	Net balance outstanding
	\$	\$	\$	\$	\$
Loans receivable (Note 3)	60,436	25,056	1,587	26,643	33,793
Equity investments (Note 4)	49,639	32,917	1,270	34,187	15,452
Guarantees (Note 11)	625	149	-	149	476
Other assets (Note 6)	750	750	-	750	-
	111,450	58,872	2,857	61,729	49,721

During the year, investments and other assets in the amount of \$7,970 (2015 - \$818) were written off and included in the allowance for credit losses and provision for payment of guarantees.

8. Due to shareholder

The Corporation signed a Memorandum of Understanding effective March 31, 2016 with the Province of Nova Scotia allowing and changing the treatment and recognition of the former long-term debt with the Province. The outstanding notes payable balance of \$50,706 as at year-end between the Corporation and the Province was converted into a non-interest bearing shareholder loan with no set terms of repayment. As a condition of this conversion, the Corporation was required to reduce its Loan Valuation Allowance receivable (\$11,833) due from the Province by applying it against the outstanding notes payable to the Province of Nova Scotia.

As at March 31, 2015 the long-term debt consisted of notes with interest rates of 0-5.58% and maturity dates through 2027.

9. Share capital

The Corporation is authorized to issue 100 Class A common shares with a par value of \$1 each. At year-end, 100 common shares have been issued to the Province. Share capital is grouped with accumulated surplus on the statement of financial position.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

10. Contractual obligations

The Corporation has no approved financing (2015 - \$99) that has not been disbursed as at year-end.

The Corporation provides strategic investments that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant.

As at March 31, 2016, transactions were approved with maximum annual payments over the next nine years of \$91,945 (2015 - \$100,647) as shown below:

	\$
2017	23,024
2018	18,485
2019	16,146
2020	14,093
2021	8,547
2022	3,465
2023	2,763
2024	2,763
2025	2,659
Total	91,945

The Corporation is the administrator of the Nova Scotia Film and Television Production Incentive Fund ("NSFPIF") which was established during the year to support the film and television production industry in the province and to create economic value for Nova Scotians. Expenses incurred by the Corporation will be match-funded by the Province of Nova Scotia in the form of a NSFPIF grant. Eligible organizations that have a permanent establishment in Nova Scotia will be able to apply to the NSFPIF to receive support on completion date of the targeted production based on the following funding streams:

- a. Base funding of 25% of all eligible Nova Scotia costs for indigenous/co-productions and foreign/service productions;
- b. Incentives for rural production work and Nova Scotia producers.

As at March 31, 2016, the following commitments in the amounts of \$7,125 were recognized at the point of issuance of Letters of Intent over the next two years:

	\$
2017	4,626
2018	2,499
Total	7,125

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

11. Contingencies

Guarantees

	Authorized	Utilized 2016	Utilized 2015
	\$	\$	\$
Bank loans	1,500	825	625
Less: provision for payment (Note 7)	-	(367)	(149)
	1,500	458	476

The guarantees are secured by various assets and proceeds from liquidation are expected to offset a portion of any possible payments under guarantees.

Litigation

The Corporation is co-defendant with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. The Corporation believes that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

The Corporation is unable to form an opinion in regard to the likelihood of loss arising from the above litigation. Consequently, no provision for any possible loss has been recorded in these financial statements.

In addition, there are other outstanding claims against the Corporation for events that have arisen in the normal course of carrying on the operations of the Corporation. It is not possible at this time to determine the amount that may be assessed, or the impact to the Corporation's financial statements, with respect to these claims.

12. Financial instruments

Fair value

Equity investments in publicly-traded companies are recorded at fair market value, which represents the last bid price for the stock on the stock exchange. The Corporation sold all its publicly traded equity investments in prior years.

Fair value measurements in connection with the allowance for credit losses recognized in Notes 3 and 4 are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1 - unadjusted quoted prices in the active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

Cash and cash equivalents have been recorded as Level 1 using the fair value hierarchy.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

12. Financial instruments (continued)

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 Corporation's Nova Scotia Business Fund assets are primarily exposed to credit, interest rate, market price and liquidity risk.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Corporation. To mitigate this risk, the Corporation has developed the following policies:

Before financing is approved, a risk assessment is performed on the client. Each application is designated a risk rating based on the industry and business, quality of management, financial history and projections, the level of other creditor involvement and shareholder participation, and environmental risks. The terms and conditions of the approved financing are reflective of the assessed risk. Applications with unacceptable levels of risk are not approved.

Clients are usually limited to a total of \$15 million in financing from the Corporation's Nova Scotia Business Fund. Three clients have exceeded this total in the past; two were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001 and both were paid out in a previous year. A third client, that was authorized financing of \$15,100 approved in fiscal 2011, currently has an outstanding balance of \$11,195 which is now below the \$15,000 financing limit threshold (2015- \$13,134) and has now been fully disbursed.

The risk rating for all clients is monitored on an on-going basis. Clients identified as higher risk are further assessed at year end to determine the extent of potential loss, taking into account the value of the security pledged in support of the financial assistance. This assessment could result in a reduction in the carrying value of the investment via the provision for credit losses.

Interest rate risk

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

Market price risk

Market price risk is the risk that the value of an investment will fluctuate as a result of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting similar financial instruments traded in the market. As these equities are carried at fair value with the fair value changes recognized in the statement of remeasurement gains and losses, all changes in the market conditions will directly result in an increase (decrease) of accumulated remeasurement gains (losses).

Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through the receipt of provincial grants, income generated from loans receivable and equity investments, and principal repayments received on loans receivable. These sources of funds are used to pay operating expenses and debt servicing payments to the Province of Nova Scotia. In the normal course of business the Corporation enters into contracts that give rise to commitments for future payments which also impact the Corporation's liquidity. The Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

12. Financial instruments (continued)

The following table summarizes the fixed contractual maturities for all financial liabilities as at March 31, 2016:

					2016	2015
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	15,353	-	-	-	15,353	15,280
Accrued interest payable	95	-	-	-	95	171
Employee benefits and other liabilities	854	254	110	551	1,769	1,317
Transfer payments payable to the Province of NS	313	-	-	-	313	53
Deferred revenue	122	238	-	-	360	315
Deferred revenue - IPF	30	-	-	-	30	-
Provision for payment of guarantees	367	-	-	-	367	149
Long-term debt due to the Province	-	-	-	-	-	66,740
Film production assistance commitments payable	235	-	-	-	235	-
Film production assistance commitments payable - IPF	275	-	-	-	275	-
	17,644	492	110	551	18,797	84,025

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

13. Nova Scotia Business Fund

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of the Corporation and investments transferred from the Nova Scotia Business Development Corporation Fund ("NSBDC") on November 6, 2001. The following is a summary of the Fund as at March 31, 2016:

	NSBI portfolio		NSBDC portfolio		2016	2015
	Gross	Less allowance for credit losses	Gross	Less allowance for credit losses	Net total	Net total
	\$	\$	\$	\$	\$	\$
Assets						
Loans receivable	33,848	12,273	21,454	14,060	28,969	33,793
Equity investments	40,862	27,995	210	22	13,055	15,452
Industrial parks & buildings	-	-	1,067	-	1,067	1,122
Other assets	-	-	750	750	-	-
Guarantees	825	367	-	-	458	476
Financing authorized but unadvanced	-	-	-	-	-	99
	75,535	40,635	23,481	14,832	43,549	50,942
Funding authorized and committed						
Fund balance authorized, net of write-offs					215,889	223,859
Less: uncommitted balance of fund					116,875	111,188
Committed fund balance					99,014	112,671
Less: allowance for credit losses and provision for payment of guarantees (Note 7)					55,465	61,729
					43,549	50,942

14. Supplementary cash information

Cash and cash equivalents include:

	2016	2015
	\$	\$
Cash	15,825	14,109
Short-term investments	8,000	8,000
	23,825	22,109

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

14. Supplementary cash information (continued)

Changes in other

	2016	2015
	\$	\$
Accrued interest receivable	127	1,661
Loan valuation allowance receivable	11,833	(1,965)
Other receivables	1,579	(411)
Due from the Province of Nova Scotia	(927)	(3,160)
Prepaid expenses	(48)	(4)
Accounts payable and accrued liabilities	(469)	6,954
Accrued interest payable	(76)	(553)
Non-cash accrued interest clearing loan valuation allowance	5	10
Employee benefits and other liabilities	452	(202)
Deferred revenue	(1,162)	9
Transfer payments payable to the Province of Nova Scotia	260	4
Commitments payable - operating	(23)	-
Commitments payable - IPF	65	-
	11,616	2,343

During the year, cash received for interest income was \$1,684 (2015 - \$1,982) and interest paid was \$762 (2015 - \$1,777).

	2016	2015
	\$	\$
Non-cash investing transactions		
Equity market adjustments recorded		
as accumulated remeasurement loss	1,500	-
Conversion of convertible debentures to equity investments	161	1,000
Conversion of accrued interest to equity investments	500	85
Conversion of preferred dividends to equity investments	-	1,225

15. Related party transactions

During the year, there were no companies controlled or otherwise not independent of Nova Scotia Business Inc. eligible for payroll rebate rewards (2015 - \$nil). As at year-end, the total amount outstanding to companies that were controlled by, or otherwise not independent of, certain directors of Nova Scotia Business Inc. was \$12,974 (2015 - \$12,995) for financial assistance. Certain of these investments have specific allowances recorded against them totaling \$480 (2015 - \$500), with a 10% general reserve recorded against the rest. Furthermore, there were no payroll rebates under this category this year (2015 - \$NIL).

The Corporation occupies premises for which no rental fee is charged by the Province of Nova Scotia. Management estimates the annual cost to lease the premises is approximately \$717 (2015 - \$683).

The Corporation receives legal services free of charge from the Province of Nova Scotia. Management estimates the annual cost of these services is approximately \$322 (2015 - \$300).

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

15. Related party transactions (continued)

In the prior year, due to the change in the Corporation's mandate, certain employees were transferred from the Province of Nova Scotia to the Corporation on secondment basis effective September 1, 2014. The related costs including operating costs in the amount of \$907 were fully absorbed by the Province of Nova Scotia and are not reflected in these financial statements. Effective April 1, 2015 these individuals became permanent employees of the Corporation and their related costs for the current year are reflected in these financials.

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

16. Employee benefits, post-retirement benefits and other liabilities

The employee benefits, post-retirement benefits and other liabilities, reported on the statement of financial position, are made up of the following:

	2016	2015
	\$	\$
Public service awards	771	720
Vacation pay	212	237
Other payroll accruals	786	360
	1,769	1,317

Pension benefits

All full-time employees are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act ("PSSP") based on the employees' length of service and earnings. The plan is funded by the employee and the employer contributions. The employer's contributions for 2016 were \$594 (2015 - \$525) and are recognized as an operating expense in the year. As a result of changes to the PSSP that took effect April 1, 2013, the Province of Nova Scotia is no longer responsible for any unfunded liabilities of the PSSP, and the Province no longer administers the PSSP. The PSSP is now administered by an independent trustee, the Public Service Superannuation Plan Trustee Inc., which also administers the actuarial and investment risk.

17. Film production development loans

Film production development loans previously committed by FCINS are provided to eligible producers to support essential process of the development which takes an idea through the stages of research, writing, market analysis and costing, which must precede the completion of the production financing arrangements. Support for the development of a project does not necessarily imply support for a production. Film production development loans are interest free and are to be repaid the earlier of the first day of principal photography or on the optioning, sale or transfer of the property to a third party.

During the year, effective April 9, 2015, the Corporation received \$nil in recovery of development loans. As at March 31, 2016, \$26 remains undisbursed and is included in commitments payable. Total film production development loans outstanding at year-end were \$2,982.

Nova Scotia Business Inc.

Notes to the financial statements

March 31, 2016

(in thousands)

18. Film production special projects

Non-repayable assistance previously committed by FCINS in the form of grants is provided to eligible parties for training, sponsorship, festivals and other business development initiatives to promote the Nova Scotia film, television and creative industries.

There are no committed but undisbursed amounts relating to special projects remaining in commitments payable.

19. Film production equity investments

Film production assistance previously committed by FCINS, in the form of equity investments are provided to eligible producers for the financing of productions that will provide employment and economic benefit to Nova Scotians. Equity investments are made with conditions of repayment through participation in revenues by projects. Revenue is recorded as reported by producers.

During the year, effective April 9, 2015, the Corporation received \$130 in recovery of equity investments. As at March 31, 2016, \$209 remains undisbursed and is included in commitments payable. Total film production equity investments outstanding were \$46,767 (April 9, 2015 - \$46,975).

20. Independent Production Fund ("IPF")

This fund through The Eastlink TV Independent Production Fund program provides production assistance in the form of film production equity investments to eligible producers for the financing of production that will support employment and economic benefits to Nova Scotia. Film production equity investments are made with the condition of repayment through participation in revenues by projects. Revenue is recorded as reported by producers. Funds received under the IPF are externally restricted and included on the statement of financial position in cash and cash equivalents and are deferred until committed. The Corporation through FCINS did not receive any of this funding from Eastlink TV during the year.

During the year, effective April 9, 2015, the Corporation received \$31 in recovery of equity investments. As at year-end, \$275 remains undisbursed and is included in commitments payable. Total film production equity investments outstanding at year-end were \$3,644.

21. Subsequent event

On April 1, 2016 with the consent of the Province of Nova Scotia pursuant to Section 68(1) of the Finance Act, the Corporation created a wholly owned subsidiary, Nova Scotia Independent Production Fund ("NSIPF"). On June 9, 2016, NSIPF was certified by the CRTC and was added to the list of independent production funds to administer The Eastlink TV Independent Production Fund program. As a result, the assets and liabilities of the IPF will be assigned to and become assets and liabilities of the NSIPF effective June 9, 2016.

NSIPF's purpose continues to be as was FCINS's as an IPF, to support Nova Scotia and Canadian television programming by receiving contributions as a restricted independent production fund under the Broadcasting Distribution Regulations and to distribute such contributions to productions determined to be eligible for funding in accordance with the requirements of the Canadian Radio-television and Telecommunications Commission.

Nova Scotia Business Inc.

Schedule of the Independent Production Fund ("IPF")

revenues and expenses - Schedule 1

year ended March 31, 2016

(In thousands of dollars)

	2016	2015
	\$	\$
Revenue		
Eastlink contributions	493	-
Recovery of equity investments	31	-
Interest income	4	-
	528	-
Expenses		
Equity investments	523	-
Administrative expenses	5	-
	528	-

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

Nova Scotia Business Inc.

Schedule of operating expenses - Schedule 2 year ended March 31, 2016

(In thousands of dollars)

	Budget (Unaudited)	2016	2015
	\$	\$	\$
Salaries and benefits	8,657	8,908	6,735
Business development	6,107	5,090	4,139
Travel	895	620	733
Telecommunications and technical support	486	520	492
Office	304	385	286
Other	70	201	168
Legal and audit	52	59	47
	16,571	15,783	12,600

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

Nova Scotia Business Inc.

Schedule of Nova Scotia Business Fund: other expenses - Schedule 3 year ended March 31, 2016

(In thousands of dollars)

	Budget (Unaudited)	2016	2015
	\$	\$	\$
Interest	2,057	1,993	2,181
Repairs, maintenance, salaries and other	1,676	1,859	960
Amortization	44	55	58
Legal	110	79	51
Recovery of commissions and other fees	1	1	-
	3,888	3,987	3,250

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