

PUBLIC ACCOUNTS
OF THE
PROVINCE OF NOVA SCOTIA
FOR THE
Fiscal Year Ended March 31
1998

VOLUME 2 - AGENCIES AND FUNDS

PRINTED BY ORDER OF THE LEGISLATURE



HALIFAX, N.S.
1998

PROVINCE OF NOVA SCOTIA**TABLE OF CONTENTS****AGENCIES AND FUNDS**

Art Gallery of Nova Scotia	5
Check Inns Limited	20
Environmental Trust Fund	23
Fisheries and Aquaculture Development Fund	28
Highway 104 Western Alignment Corporation	34
Housing Development Corporation	45
Housing Development Fund	54
Industrial Expansion Fund	61
Insured Prescription Drug Plan Trust Fund	71
Law Reform Commission	77
Members' Retiring Allowance Account	80
Nova Scotia Alcohol & Gaming Authority	84
Nova Scotia Arts Council	89
Nova Scotia Business Development Corporation	100
Nova Scotia Crop and Livestock Insurance Commission	108
Nova Scotia Farm Loan Board	115
Nova Scotia Film Development Corporation	121
Nova Scotia Gaming Corporation	129
Nova Scotia Gaming Foundation	149
Nova Scotia Hospital	154
Nova Scotia Innovation Corporation	167
Nova Scotia Legal Aid Commission	179
Nova Scotia Liquor Commission	187
Nova Scotia Municipal Finance Corporation	194
Nova Scotia Police Commission	203
Nova Scotia Power Finance Corporation	210
Nova Scotia Primary Forest Products Marketing Board	218
Nova Scotia Resources Limited	223
Nova Scotia Talent Trust	232
Nova Scotia Teachers' Pension Fund	236
Nova Scotia Utility and Review Board	245
Novaco Limited	254
Provincial Community Pasture Board	258
Provincial Resort Hotels	263
Public Archives	264
Public Service Superannuation Fund	277
Public Trustee	287
Queen Elizabeth II Health Sciences Centre	292
Resource Recovery Fund Board Inc.	310
Sherbrooke Restoration Commission	318
Sydney Environmental Resources Limited	328
Sydney Steel Corporation	333
Tidal Power Corporation	345
Trade Centre Limited	349
Transportation Trust Fund	356
Upper Clements Family Theme Park Limited	358

Victims' Assistance Fund	362
Waterfront Development Corporation Limited	364

AUDITOR'S REPORT

To the Governors and Members of the
Art Gallery of Nova Scotia

We have audited the financial statements of the Art Gallery of Nova Scotia consisting of the following:

- | | |
|--|--|
| Art Gallery of Nova Scotia | - Combined Balance Sheet as at March 31, 1998 |
| Gallery, Gallery Shop and Western Branch | - Balance Sheet as at March 31, 1998 |
| Gallery | - Statement of Revenue, Expenditures and Surplus for the year ended March 31, 1998 |
| Gallery Shop | - Statement of Revenue, Expenditures and Surplus for the year ended March 31, 1998 |
| Western Branch | - Statement of Revenue, Expenditures and Surplus for the year ended March 31, 1998 |
| Endowment Fund | - Balance Sheet as at March 31, 1998
- Statement of Revenue, Expenditures and Surplus for the year ended March 31, 1998 |
| Acquisition Fund | - Balance Sheet as at March 31, 1998
- Statement of Revenue, Expenditures and Surplus (Deficit) for the year ended March 31, 1998 |

These financial statements are the responsibility of the Gallery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 common with many charitable organizations, the Art Gallery of Nova Scotia derives revenues from donation receipts, special events, corporate campaigns, admissions and other income, the completeness of which is not susceptible of conclusive audit verification. Accordingly, we were unable to determine whether any adjustments for unrecorded revenues might be necessary to revenue, excess (deficiency) of revenue over expenditures for the year or surplus (deficit).

In our opinion, except for the effect of any adjustments which might have been required had we been able to satisfy ourselves with respect to the revenue described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Art Gallery of Nova Scotia as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Halifax, Canada
May 18, 1998

ERNST & YOUNG
Chartered Accountants

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Combined Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Cash and cash equivalents	\$ 391,147	\$ 285,929
Accounts receivable	115,746	154,438
Inventory	100,726	107,369
Prepaid expenses	968	---
	608,587	547,736
Investments (Market value - \$2,455,735; 1997 - \$2,189,784)	2,021,178	1,694,969
	\$ 2,629,765	\$ 2,242,705
LIABILITIES AND SURPLUS		
Current		
Accounts payable and accrued liabilities	\$ 137,140	\$ 155,728
Deferred revenue	8,000	18,000
	145,140	173,728
Surplus - Gallery	2,432	5,861
Surplus - Gallery Shop	63,931	49,543
Deficit - Western Branch	(48,001)	---
Surplus - Endowment Fund	2,457,252	2,019,280
Surplus (Deficit) - Acquisition Fund	9,011	(5,707)
	2,484,625	2,068,977
	\$ 2,629,765	\$ 2,242,705

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA
Gallery, Gallery Shop and Western Branch

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Accounts receivable	\$ 110,014	\$ 124,438
Due from Endowment and Acquisition Funds	9,562	40,623
Inventory	86,524	92,592
Prepaid expenses	968	---
	<u>\$ 207,068</u>	<u>\$ 257,653</u>
LIABILITIES AND SURPLUS		
Current		
Bank indebtedness	\$ 24,165	\$ 32,306
Accounts payable and accrued liabilities	126,112	151,943
Due to Endowment Fund	30,429	---
Deferred revenue	8,000	18,000
	<u>188,706</u>	<u>202,249</u>
Surplus - Gallery	2,432	5,861
Surplus - Gallery Shop	63,931	49,543
Deficit - Western branch	(48,001)	---
	<u>18,362</u>	<u>55,404</u>
	<u>\$ 207,068</u>	<u>\$ 257,653</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Gallery

Statement of Revenue, Expenditures and Surplus

for the year ended March 31, 1998

	1998	1997
Revenue		
Province of Nova Scotia (Note 2)		
- Operating	\$ 1,204,000	\$ 1,204,000
Sponsorships	117,348	222,991
Special grants (Note 2)	85,884	111,309
Donations		
- Arts appeal	30,696	39,252
- Other	---	52,012
Contribution from Endowment Fund	35,000	75,000
Contribution from Gallery Shop.	20,000	---
Other income	45,935	35,238
Special events.	34,752	66,818
Memberships	32,243	27,922
Public Education Programs	31,615	21,717
Corporate campaign.	26,576	24,241
Admission	25,785	24,000
Phase II expansion fees	12,000	---
Interest.	5,744	11,444
Building fund	---	6,000
	<u>1,707,578</u>	<u>1,921,944</u>
Expenditures (Schedule)		
Salaries and benefits	670,023	659,437
Program development	389,900	516,395
Building operations.	492,118	495,087
Technology/capital purchases	---	75,951
Administration	126,835	145,809
Printing and publications	20,681	18,799
Miscellaneous	11,450	9,964
	<u>1,711,007</u>	<u>1,921,442</u>
(Deficiency) excess of revenue over expenditures for the year.	(3,429)	502
Surplus, beginning of year	<u>5,861</u>	<u>5,359</u>
Surplus, end of year.	\$ <u>2,432</u>	\$ <u>5,861</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Gallery

Schedule of Expenditures

for the year ended March 31, 1998

	1998	1997
Salaries and Benefits		
Salaries and employee benefits	\$ 670,023	\$ 659,437
Program Development		
Programs	223,606	292,554
Development/Public relations	69,214	75,168
Maud Lewis event	70,908	133,047
Collections management and gallery services	8,074	2,151
Workshop supplies	6,196	7,899
Vehicle	5,777	4,594
Catalogues.	4,579	---
Conservation lab	1,546	982
	389,900	516,395
Building Operations		
Utilities.	182,012	181,606
Security	129,623	125,959
Climate control	96,988	93,048
Building maintenance and cleaning	40,755	38,407
Insurance	25,891	34,795
Building repairs	11,159	16,960
Elevator maintenance.	5,690	4,312
	492,118	495,087
Administration		
Stationery and postage.	42,960	46,203
Telephone	29,657	26,368
Travel.	22,516	25,070
Yarmouth Branch Gallery	---	17,207
Equipment maintenance	8,135	1,986
Professional fees	7,823	7,260
Equipment rental.	3,824	7,900
Memberships	3,770	4,162
Receptions.	3,086	4,349
Administration promotional.	2,831	3,256
Delivery administration	2,233	2,048
	126,835	145,809

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Gallery

Schedule of Expenditures (Cont'd)

for the year ended March 31, 1998

	1998	1997
Technology/Capital Purchases		
Technology/capital purchases	---	75,951
Printing and Publication		
Printing and publication	19,574	17,128
Photography	1,107	1,671
	20,681	18,799
Miscellaneous		
Miscellaneous	7,636	6,873
Bank charges	3,814	3,091
	11,450	9,964
Total Expenditures	\$ 1,711,007	\$ 1,921,442

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Gallery Shop

Statement of Revenue, Expenditures and Surplus

for the year ended March 31, 1998

	1998	1997
Revenue		
Art and craft sales	\$ 219,042	\$ 142,241
Art and craft sales on consignment	47,536	62,916
Books, notes and posters	33,200	19,352
	299,778	224,509
Cost of sales	188,928	102,231
Gross profit	110,850	122,278
 Expenditures		
Salaries and employee benefits	55,252	54,588
Office and administration	14,819	8,765
Members' discount	6,391	4,371
	76,462	67,724
 Excess of gross profit over expenditures		
for the year	34,388	54,554
Surplus, beginning of year	49,543	4,989
Contribution to Gallery	(20,000)	---
Contribution to Acquisition Fund (Maud Lewis House)	---	(10,000)
Surplus, end of year	\$ 63,931	\$ 49,543

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Western Branch

Statement of Revenue, Expenditures and Deficit

for the year ended March 31, 1998

1998

Revenue

Donations	\$	105,039
Auction Yarmouth		15,090
Interest		243
		120,372

Expenditures

Capital purchases		150,811
Building Fundraising		17,499
Miscellaneous		63
		168,373

Deficiency of revenue over expenditures

for the year		(48,001)
Surplus, beginning of year		---
Deficit, end of year	\$	(48,001)

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Endowment Fund

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current (Note 3)		
Cash and cash equivalents	\$ 411,571	\$ 309,175
Accounts receivable	1,326	---
Due from Western Branch	42,429	---
Due from acquisition fund	---	16,200
	455,326	325,375
Investment (market value - \$2,455,735; 1997 - \$2,189,784) . .	2,021,178	1,694,969
	\$ 2,476,504	\$ 2,020,344

LIABILITIES AND SURPLUS

Current		
Accounts payable	\$ 7,252	\$ 1,064
Due to Gallery	12,000	---
	19,252	1,064
Restricted surplus, Phase II expansion	573,802	300,222
Unrestricted surplus	1,883,450	1,719,058
	2,457,252	2,019,280
	\$ 2,476,504	\$ 2,020,344

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Endowment Fund

Statement of Revenue, Expenditures and Surplus

for the year ended March 31, 1998

	1998	1997
Revenue (Note 3)		
Phase II expansion	\$ 646,625	\$ 305,000
Investment income	35,809	45,191
Life memberships	23,750	12,000
Marian deWitt Endowment	15,590	---
Gallery endowments.	7,923	3,811
Heirloom Discovery Days	2,532	---
	732,229	366,002
Expenditures (Note 3)		
Phase II expansion	72,823	4,778
Salaries	50,000	38,000
Trustee fees (Note 3).	39,695	2,336
Rent	12,000	12,000
Life membership servicing.	10,000	11,341
Receptions.	4,960	3,459
Gallery Endowment expenses.	3,452	1,325
Promotion and public relations.	3,667	2,567
Administration	2,462	6,107
Printing and postage	2,198	643
Miscellaneous.	1,000	567
	202,257	83,123
Excess of revenue over expenditures for the year.	529,972	282,879
Surplus, beginning of year	2,019,280	1,861,401
	2,549,252	2,144,280
Contribution to Gallery.	(35,000)	(75,000)
Contribution to Acquisition Fund.	(57,000)	(50,000)
Restricted surplus, Phase II expansion.	(573,802)	(300,222)
Unrestricted surplus, end of year	\$ 1,883,450	\$ 1,719,058

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA

Acquisition Fund

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Cash	\$ 3,741	\$ 9,060
Accounts receivable	4,406	30,000
Due from Gallery Shop	---	10,000
Inventory	14,202	14,777
	\$ 22,349	\$ 63,837

LIABILITIES AND SURPLUS (DEFICIT)

Current		
Accounts payable	\$ 3,776	\$ 2,721
Due to Gallery and Endowment Funds.	9,562	66,823
	13,338	69,544
Surplus (deficit)	9,011	(5,707)
	\$ 22,349	\$ 63,837

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA
Acquisition Fund

Statement of Revenue, Expenditures and Surplus (Deficit)
for the year ended March 31, 1998

	1998	1997
Revenue		
Donations:		
Other \$	24,133 \$	22,801
Art Sales and Rental Society	16,000	14,000
Volunteer committee	9,000	8,000
Bequest	---	10,000
Sculpture project grant	57,000	30,000
Contribution from Endowment fund	26,000	50,000
Maud Lewis House	13,884	34,389
Arts Appeal	1,071	2,930
Evan Petley-Jones Fund	1,000	13,005
Interest	618	649
Miscellaneous income	12	---
Contribution from Gallery Shop	---	10,000
John Poad Drake project	---	1,454
NSCAD archive project	---	1,000
	<u>148,718</u>	<u>198,228</u>
Expenditures		
Acquisitions	75,857	111,917
Maud Lewis House	21,566	25,607
Administration	12,998	1,128
Appraisal and professional fees	12,370	8,978
Insurance	5,000	5,000
Promotion	2,471	3,054
Miscellaneous	1,591	410
Shipping	1,537	2,327
Bank charges	566	107
ACQ Exhibitions	44	---
Ceramics Gallery	---	786
John Poad Drake expense	---	336
Sculpture competition	---	70
	<u>134,000</u>	<u>159,720</u>
Excess of revenue over expenditures for the year	14,718	38,508
Deficit, beginning of year	<u>(5,707)</u>	<u>(44,215)</u>
Surplus (deficit), end of year \$	<u>9,011</u> \$	<u>(5,707)</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
ART GALLERY OF NOVA SCOTIA
Gallery, Gallery Shop, Endowment Fund, Acquisition Fund
Notes to Financial Statements
for the year ended March 31, 1998

1. Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Investments

Investments are recorded at cost. Income is recognized on the settlement date.

Revenue recognition

Revenue from donations is recognized when received. All other revenue, with the exception of investment income, is recognized on the accrual basis of accounting.

Acquisitions

Acquisitions of works of art, including donated works, become the property of the Province of Nova Scotia. Accordingly, acquisitions paid for by the Art Gallery of Nova Scotia are expensed in the year acquired. Acquisitions expensed in the current year amounted to \$75,857 (1997 - \$111,917).

2. Government Assistance

During the year the Art Gallery of Nova Scotia recognized revenue from provincial government grants from the Nova Scotia Department of Education and Culture in the amount of \$1,204,000 (1997 - \$1,204,000) and federal government and other grants as follows:

	1998	1997
Halifax Regional Municipality	\$ 26,000	\$ 25,000
Federal Department of Canadian Heritage	46,718	70,509
The Canada Council	13,166	15,800
	<u>\$ 85,884</u>	<u>\$ 111,309</u>

3. Endowment Fund

Endowment Fund donations and bequests are allocated to the Endowment Fund together with investment income thereon. The income of the fund, or a portion thereof as determined by the Board of Governors, after a balance of \$500,000 has been accumulated shall be available for the purpose of:

- a) the acquisition of artworks for the permanent collection;
- b) the expansion of exhibition and art education programs; and
- c) other special projects.

The funds which will be placed in the Endowment Fund will be:

- a) donations designated as such by the donor;
- b) special types of donations which are stipulated to go to the Fund, such as Life Member's fees; and
- c) any funds specifically designated by the Board of Governors.

Expenses relating to the activities of the Endowment Fund will be charged to the Endowment Fund.

The current year Trustee fee include amounts from fiscal 1997 that were not accrued at that year end.

4. Income Tax

The Art Gallery of Nova Scotia is an incorporated agency of the Province of Nova Scotia and accordingly is exempt from income tax.

5. Comparative Amounts

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

PROVINCE OF NOVA SCOTIA**CHECK INNS LIMITED**

The following statements for Check Inns Limited are unaudited.

Unaudited

PROVINCE OF NOVA SCOTIA

CHECK INNS LIMITED

Balance Sheet

March 31, 1998

ASSETS

	1998	1997
Current		
Cash	\$ 1,747	\$ 1,937
	<u>1,747</u>	<u>1,937</u>
Computer equipment	110,520	221,040
	<u>\$ 112,267</u>	<u>\$ 222,977</u>

LIABILITIES

Current		
Payables and accruals		
Trade	\$ 1,775	\$ 3,125
Department of Economic Development and Tourism	89,879	86,754
	<u>91,654</u>	<u>89,879</u>

SHAREHOLDER'S EQUITY

Capital Stock		
Authorized:		
5,000 common shares with par value of \$1 each		
Issued:		
3 common shares	3	3
Retained earnings	<u>20,610</u>	<u>133,095</u>
	<u>20,613</u>	<u>133,098</u>
	<u>\$ 112,267</u>	<u>\$ 222,977</u>

PROVINCE OF NOVA SCOTIA

CHECK INNS LIMITED

Statement of Loss and Retained Earnings

year ended March 31, 1998

	1998	1997
Expenses		
Interest	\$ ---	\$ 11,590
Office and miscellaneous expenses	187	1,171
Professional fees	1,775	2,112
	<u>1,962</u>	<u>14,873</u>
Loss before depreciation	1,962	14,873
Depreciation	110,520	110,520
Net loss	\$ <u>112,482</u>	\$ <u>125,393</u>
Retained earnings, beginning of year	\$ 133,095	\$ 258,488
Net loss	<u>(112,482)</u>	<u>(125,393)</u>
Retained earnings, end of year	\$ <u>20,613</u>	\$ <u>133,095</u>

AUDITOR'S REPORT

To the Chair and Members of the Nova Scotia
Round Table on Environment and Economy

I have audited the balance sheet of the Environmental Trust Fund as at March 31, 1998 and the statement of revenues and fund equity for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1998, and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. SALMON, F.C.A.
Auditor General

Halifax, Nova Scotia
July 28, 1998

PROVINCE OF NOVA SCOTIA
ENVIRONMENTAL TRUST FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Cash	\$ 250	\$ 76
Investments (Schedule 1)	5,000	4,988
Interest receivable	14	11
	<u>\$ 5,264</u>	<u>\$ 5,075</u>

FUND EQUITY

Fund equity	<u>\$ 5,264</u>	<u>\$ 5,075</u>
-------------------	-----------------	-----------------

PROVINCE OF NOVA SCOTIA
ENVIRONMENTAL TRUST FUND
Statement of Revenues and Fund Equity
for the year ended March 31, 1998

	1998	1997
Revenues		
Interest	189 \$	209
Fund equity, beginning of year	<u>5,075</u>	<u>4,866</u>
Fund equity, end of year	<u>\$ 5,264</u>	<u>\$ 5,075</u>

PROVINCE OF NOVA SCOTIA**ENVIRONMENTAL TRUST FUND****Notes to Financial Statements****March 31, 1998****1. Authority**

Effective January 1, 1995 the authority for Environmental Trust Fund operations is the Environment Act. The purpose of the Trust is to fund programs for environmental research and management and conservation of the environment.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the treatment of administrative expenses. Administrative expenses incurred on behalf of the Fund are included in the expenditures of the Nova Scotia Department of the Environment. These amounts are not reflected in the financial statements.

Schedule 1

PROVINCE OF NOVA SCOTIA
ENVIRONMENTAL TRUST FUND

Schedule of Investments

March 31, 1998

Investment	Interest Rate	Maturity Date	Cost
Bank of Nova Scotia, Term Deposit	4.75%	April 14, 1998	\$ 5,000

The investments of the Environmental Trust Fund are recorded at cost, which approximates their market value.

AUDITOR'S REPORT

To the Minister of Fisheries and Aquaculture; and
To the Chair and Members of the
Nova Scotia Fisheries and Aquaculture Loan Board

I have audited the balance sheet of the Fisheries and Aquaculture Development Fund as at March 31, 1998 and the statement of continuity of fund for the year then ended. These financial statements are the responsibility of the Loan Board's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Fisheries and Aquaculture Development Fund as at March 31, 1998 and the continuity of the fund for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
May 8, 1998

PROVINCE OF NOVA SCOTIA
FISHERIES AND AQUACULTURE DEVELOPMENT FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Loans Receivable - net of allowance for doubtful accounts (Schedule 1)	\$ 36,424,553	\$ 37,844,837
 Due from Consolidated Fund		
Loans authorized but unadvanced	1,980,423	2,225,550
Aquaculture loan guarantees (Note 4).	4,107,000	573,000
Free balance	95,422,918	97,332,950
Applicants' funds on deposit	160,880	155,435
	<u>101,671,221</u>	<u>100,286,935</u>
	<u>\$ 138,095,774</u>	<u>\$ 138,131,772</u>

LIABILITIES AND FUND BALANCE

Liabilities

Applicants' funds on deposit	\$ 160,880	\$ 155,435
 Fisheries and Aquaculture Development Fund	 137,934,894	 137,976,337
	<u>\$ 138,095,774</u>	<u>\$ 138,131,772</u>

Contingency (Note 5)

PROVINCE OF NOVA SCOTIA
FISHERIES AND AQUACULTURE DEVELOPMENT FUND

Statement of Continuity Fund
for the year ended March 31, 1998

	1998	1997
Balance, beginning of year	\$ 137,976,337	\$ 138,022,370
<i>Deduct:</i> Increase in allowance for doubtful accounts	(31,265)	(4,872)
Accounts written off	(10,178)	(41,161)
Balance, end of year	<u>\$ 137,934,894</u>	<u>\$ 137,976,337</u>
 Comprising:		
Loans receivable	\$ 36,424,553	\$ 37,844,837
Loans authorized but unadvanced	1,980,423	2,225,550
Aquaculture loan guarantees	4,107,000	573,000
Free balance	95,422,918	97,332,950
	<u>\$ 137,934,894</u>	<u>\$ 137,976,337</u>

PROVINCE OF NOVA SCOTIA
FISHERIES AND AQUACULTURE DEVELOPMENT FUND

Notes to Financial Statements

March 31, 1998

1. Authority

The Fisheries and Aquaculture Development Fund is established pursuant to Section 24 of the Fisheries and Coastal Resources Act. The purpose of the Fund is to finance the loans and guarantees of the Fisheries and Aquaculture Loan Board.

The object and purpose of the Board is to make loans and guarantees of loans to fishers, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the following policies.

Administrative Expenses, Interest Revenue and Expense

Administrative expenses of the Board, and the differential between capital advance interest charges from the Department of Finance and interest revenues earned on loans are included in the expenditures of the Department of Fisheries and Aquaculture. These amounts are not reflected in these financial statements, nor is accrued loan interest receivable.

3. Deferment Program

On December 21, 1993 government approved an assistance program for borrowers affected by quota cuts and ground fish fishery closure, in cases where economic hardship resulted. Borrowers can apply to have the principal portion of their loan payment deferred until March 31, 1999. As of March 31, 1998 loans receivable under the program total \$2,998,436 (1997 - \$3,860,510).

On April 15, 1997 government approved an assistance program for borrowers suffering economic hardship as a result of reduced income. The Board may extend, defer or adjust the repayment or terms of any loan or loan guarantee. As of March 31, 1998 loans receivable under the program total \$2,133,819.

4. Guarantees

On August 30, 1995 the government's Priorities and Planning Committee approved the Nova Scotia Aquaculture Development Strategy. On April 1, 1996 the aquaculture loan and guarantee program was transferred from the Nova Scotia Economic Renewal Agency to the Board, along with \$1,000,000 of existing loan guarantees. The Strategy provides approval for capital advances and guarantees of \$2.0 million per year, for five years.

5. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Fisheries and Aquaculture Loan Board, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Board's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 Issue affecting the Board, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

Schedule 1

PROVINCE OF NOVA SCOTIA
FISHERIES AND AQUACULTURE DEVELOPMENT FUND

Continuity of Loans Receivable
for the year ended March 31, 1998

	1998	1997
Loans Receivable		
Balance, beginning of year	\$ 38,773,310	\$ 44,021,737
<i>Add:</i> Advances during the year	7,684,843	8,717,168
	46,458,153	52,738,905
<i>Deduct:</i> Repayments during the year	9,063,684	13,924,434
Accounts written off	10,178	41,161
	9,073,862	13,965,595
Balance, end of year	37,384,291	38,773,310
Allowance for Doubtful Accounts	959,738	928,473
Loans Receivable - net of allowance for doubtful		
accounts	\$ 36,424,553	\$ 37,844,837

AUDITOR'S REPORT

To the Shareholder of Highway 104
Western Alignment Corporation

We have audited the balance sheet of Highway 104 Western Alignment Corporation as at March 31, 1998, and the statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with 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.

As a result of system deficiencies with the Tolling System, we were unable to obtain sufficient evidence with respect to the completeness of operating revenue and the customer account balances for the four month period ended March 31, 1998. Consequently, we were unable to determine whether any adjustments might be necessary to the operating revenue and customer account balances presented in the financial statements.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to obtain sufficient evidence regarding the completeness of operating revenue and customers account balances as explained in the previous paragraph, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998, and the results of its operations and and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

GRANT THORNTON
Chartered Accountants

Halifax, Canada
August 14, 1998

PROVINCE OF NOVA SCOTIA
HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

Balance Sheet

as at March 31, 1998

	ASSETS	
	1998	1997
Project bank account	\$ 1,095,535	\$ ---
Inventory	12,137	---
Prepays (Note 3)	214,029	---
Receivables (Note 4)	1,198,583	196,962
Loan receivable (Note 5)	---	3,507,612
Restricted assets (Note 6)	7,929,146	8,102,788
Facility (Note 7)	123,585,732	84,761,733
Deferred costs (Note 8)	1,280,017	900,978
	<u>\$ 135,315,179</u>	<u>\$ 97,470,073</u>

LIABILITIES		
Payable and accruals	\$ 1,168,717	\$ 1,096,616
Deferred revenue	260,090	---
Long term debt (Note 10)	80,288,098	67,373,456
Payable to the Province of Nova Scotia (Note 11)	250,000	---
Deferred government assistance (Note 2)	55,022,911	29,000,000
	<u>136,989,816</u>	<u>97,470,072</u>

SHAREHOLDERS' DEFICIENCY

Capital stock, one no par value share issued and outstanding in favour of the Province of Nova Scotia	1	1
Reserve for restricted assets (Note 12)	1,908,808	---
Deficit	(3,583,446)	---
	<u>(1,674,637)</u>	<u>1</u>
	<u>\$ 135,315,179</u>	<u>\$ 97,470,073</u>

Commitments and contractual obligations (Note 15)

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

Statements of Loss and Deficit

Four months ended March 31, 1998

REVENUE

Facility revenue.	\$ 2,705,173
Interest income.	166,391
	<u>2,871,564</u>

EXPENSES

Bondholder representative fees.	\$ 13,333
Trustee fees	13,118
Salaries & benefits.	51,682
Office	18,786
General & administrative.	54,146
Enforcement.	20,000
Independent engineer	1,753
Routine maintenance.	216,668
Facility operations.	430,902
Transponders	225,563
	<u>1,045,951</u>
Earnings before other items	1,825,613
Other items	
Government assistance amortization (Note 2)	277,450
Amortization and depreciation	(660,894)
Interest on line of credit.	(389,260)
Interest on long term debt	<u>(2,727,547)</u>
Net loss	<u>\$ (1,674,638)</u>
Retained earnings, beginning of period.	\$ ---
Net loss	(1,674,638)
Transfer to reserve for restricted assets (Note 12).	<u>(1,908,808)</u>
Deficit, end of period	<u>\$ (3,583,446)</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

Statement of Changes in Financial Position

Year ended March 31, 1998

	1998	1997
Cash derived from (applied to)		
Operating		
Net loss \$	(1,674,638)	\$ ---
Government assistance amortization	(277,450)	---
Amortization of deferred financing fees	11,800	---
Amortization and depreciation	660,894	---
	(1,279,394)	---
Change in non-cash operating working		
Capital (Note 13)	2,612,016	(2,607,958)
	1,332,622	(2,607,958)
Financing		
Issue of common share	---	1
Issue in long term debt	12,914,642	67,373,456
Government assistance	26,300,361	29,000,000
Advance from Province of Nova Scotia	250,000	---
	39,465,003	96,373,457
Investing		
Decrease (increase) in restricted assets	173,642	(8,102,788)
Construction of facility	(39,446,933)	(84,761,733)
Deferred costs - finance fee	---	(760,368)
Deferred costs - start up	(428,799)	(140,610)
	(39,702,090)	(93,765,499)
Net increase in cash	1,095,535	---
Cash		
Beginning of year	---	---
End of year \$	1,095,535	\$ ---

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

Notes to the Financial Statements

March 31, 1998

1. Nature of operations

The Corporation has been established for the purpose of financing, design, construction, operation and maintenance of the Facility consisting mainly of a 45 km stretch of highway (referred to as the Highway 104 Western Alignment) between Masstown and Thomson Station in the Counties of Colchester and Cumberland, Nova Scotia.

2. Summary of significant accounting policies

Pre-operating and operating periods

The pre-operating period was the twenty month construction period commencing April 1, 1996 until the date of acceptance in November 1997. Operations began December 1, 1997.

Facility

The Facility consists of the highway referred to as the Highway 104 Western Alignment and the toll plaza constructed on the highway. The costs of the facility include certified progress payments to the Facility's contractor, independent engineer fees, professional fees and interest costs incurred during the pre-operating period. These costs are being amortized over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

Deferred costs - start up

Administrative expenses incurred during the pre-operating period have been deferred as start-up costs and are being amortized to operations, on a pro-rata basis, over a five year period commencing at the start of the operating period.

Deferred costs - financing fee

Financing, commitment and bondholder representative fees related to the establishment and placement of the senior and junior toll revenue bonds have been deferred and are being amortized to operations over the term of the related bond debt commencing at the start of the operating period.

Deferred government assistance

Government assistance provided by the Province of Nova Scotia has been recorded as a deferral and is being amortized to operations over thirty years commencing at the start of the operating period using the sinking fund method with an annual compounding rate of 5%.

3. Prepays

	1998	1997
Operating expenses \$	50,421 \$	---
Advance to operator	163,608	---
	<u>\$ 214,029</u>	<u>---</u>

4. Receivables

	1998	1997
Final contract adjustments \$	174,795 \$	---
Provincial contribution (Note 9)	675,637	---
Provincial supplemental payments	215,052	---
Interest	---	196,962
Harmonized Sales Tax	134,099	---
	<u>\$ 1,199,583</u>	<u>196,962</u>

5. Loan receivable

Mobilization loan advanced to Atlantic highway Corporation, non-interest bearing and repayable at a rate of 10% of certified progress payments repaid during the year.

6. Restricted assets

	Cash	Investment	1998 Total	1997 Total
Construction account \$	20,338	---	\$ 20,338	\$ 7,602,498
Senior debt service reserve account	337	5,636,429	5,636,766	500,290
Capital reserve account	319	1,763,989	1,764,308	---
Major maintenance reserve account	622	507,112	507,734	---
Total \$	<u>21,616</u>	<u>7,907,530</u>	<u>\$ 7,929,146</u>	<u>\$ 8,102,788</u>

Investments are recorded at costs, have a weighted average term of 8.46 months to maturity and a weighted average interest rate of 4.94%. The market value of the investment approximates the carrying value.

The following restricted accounts have been established in accordance to trust indenture agreements between the Corporation and the senior and junior bondholders and an Omnibus Agreement between the Corporation and the Province of Nova Scotia:

- (i) The construction trust account includes funds held in trust, in accordance with the Construction Trust Agreement, for the benefit of the Corporation and were eligible for withdrawal based on approved payment directives and certified progress payment requests. The residual funds will be transferred to the project bank account.
- (ii) The capital reserve account has been established to provide funds to pay the interest and principal on the senior and junior bonds and the subordinated notes. These funds are also available to pay the trustee and bondholders' representative fees to the extent they are not paid out of the project account. This account provides funding to the major maintenance reserve and the senior debt reserve accounts. The capital reserve account is funded from excess funds transferred from the project bank account of the Corporation.
- (iii) The senior debt reserve account has been established to provide a reserve of funds to be available for payments as they come due for the senior toll revenue bonds. Funds can only be transferred from this fund when funds in the capital reserve account are insufficient to pay senior toll revenue bond payments. The account should maintain sufficient reserves equal to 12 months principal and interest payments due on the senior toll revenue bonds. The replenishment of the reserve comes from the capital reserve account.

(iv) The major maintenance reserve account has been established for the purpose of paying major maintenance repair and rehabilitation expenses. This reserve is funded from the capital reserve account in accordance with a maintenance budget recommended by the Independent Engineer through the terms of the major maintenance reserve fund agreement.

7. Facility

			1998	1997
	Cost	Accumulated Depreciation	Net book Total	Net book Total
Facility	\$ <u>124,208,666</u>	\$ <u>622,934</u>	\$ <u>123,585,732</u>	\$ <u>84,761,733</u>

8. Deferred costs

		1998	1997
Start up	\$	531,449	\$ 140,610
Financing fees		<u>748,568</u>	<u>760,368</u>
		\$ <u>1,280,017</u>	\$ <u>900,978</u>

9. Offset of asset and liability

Pursuant to the Omnibus Agreement with the Province of Nova Scotia, the Corporation has drawn on the Provincial line of credit. The outstanding balance on the line of credit has been repaid on April 15, 1998, with a contribution receivable from the Province of Nova Scotia. The Provincial contribution receivable has been offset by the outstanding balance of the Provincial line of credit in the financial statements. The values of the offset amounts at March 31, 1998 are as follows:

	1998
Provincial contribution receivable	\$ 26,000,000
Provincial contribution receivable	<u>(25,324,363)</u>
	\$ <u>675,637</u>

The Provincial line of credit bears interest at a rate of 4.5% per annum.

10. Long-term debt

	1998	1997
Senior toll revenue bonds bearing interest at 10.13%, maturing March 31, 2026, repayable in partial interest payments from June 30, 1998 until March 31, 2006 and then 80 equal blended quarterly payments of interest and principal of \$2,251,191. Interest from the date of issue will be capitalized as part of the principal and will continue to be capitalized until June 30, 1998. As security, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the Facility, a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.	\$ 62,293,389	\$ 56,364,537
Junior toll revenue bonds bearing interest at 10.76%, maturing March 31, 2011, repayable in interest payments only from June 30, 1998 March 31, 2001 and then 40 equal blended quarterly payments of principal and interest of \$503,395. Interest from the date of issue has been capitalized as part of the principal and will continue to be capitalized until June 30, 1998. As security, the Corporation has assigned a second charge security interest in all security pledged to senior toll revenue bondholders.	12,242,063	11,008,919
Subordinated notes bearing interest at 13.4%, interest only is payable monthly out of excess cash, to the extent it is not paid, it will be compounded semi-annually in arrears, quarterly principal repayments are to begin when surplus cash is available. The notes are expressly subordinated and postponed in right of payment to the senior toll revenue bonds and the junior toll revenue bonds.	5,752,646	---
	<u>\$ 80,288,098</u>	<u>\$ 67,373,456</u>

Principal repayments will begin in year 2002 and are as follows:

2002	\$ 725,000
2003	\$ 806,000

11. Payable to the Province of Nova Scotia

On the date of acceptance, the Province advance \$250,000 to the Corporation to facilitate the Provincial subsidy. Under the First Amendment to the Omnibus Agreement, the Province reduced the tolls for transponder users and created a Provincial subsidy payable to the Corporation to offset the reduction. The advance is to be repaid to the Province on the earlier of the date when the toll rates are increased back to the original rates laid out in the Omnibus Agreement or when the Corporation has fully extinguished its obligations under the Senior and Junior Bond Indentures.

12. Reserve for restricted assets

The capital reserve account is to be funded from excess funds in the Project Bank Account. In addition, any interest earned on restricted assets should form part of the reserve account. To date, \$1,908,808 has been transferred from operations of the Corporation.

13. Change in non-cash operating working capital

	1998	1997
Inventory.....	\$ (12,137)	\$ ---
Prepays.....	(214,029)	---
Receivables.....	(1,001,621)	(196,962)
Loan receivable.....	3,507,612	(3,507,612)
Payables and accruals.....	72,101	1,096,616
Deferred revenue.....	260,090	---
	<u>\$ 2,612,016</u>	<u>\$ (2,607,958)</u>

14. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. Commitments and contractual obligations

The Corporation has entered into the following agreements to finance, design, construct, operate and maintain the Highway 104 Western Alignment:

- **Omnibus Agreement**

Agreement dated April 1, 1996, between the Corporation, the Contractor, the Operator and the Province of Nova Scotia to design, finance, construct, operate and maintain the Highway 104 Western Alignment. This agreement acknowledges that the Corporation has entered into a Design Build Agreement and an Operating Agreement to fulfil its obligations to the Province.

Under this agreement, the Province of Nova Scotia retains ownership of the Facility, however, the Corporation is granted the right to operate and collect tolls for a thirty-year period, at which time this right will revert back to the Province.

The Province will contribute \$55,000,000 payable as follows: the first \$29,000,000 available April 1, 1996 was released for payment of progress payments; and, the second \$26,000,000 will be available after April 15, 1998 and will be paid to the Corporation only for purposes of repaying the Credit Facility detailed in Note 9 or for paying costs of construction.

- **Operating Agreement**

Agreement dated May 22, 1996 between the Corporation and Atlantic Highways Management Corporation (the Operator) whereby the Operator is required to operate the Facility which includes the toll collection system, toll plaza and the administration building. Operator compensation is based on the annual operating budget plus as variable fee, subject to adjustment under certain conditions, equal to 10% of the total annual budget.

- **Major Maintenance Reserve Fund Agreement**

Agreement between the Corporation, the Trustee and the Bondholders' Representative to provide for the major maintenance work required during the operating period of the Facility. The Agreement required the Corporation, on an annual basis, to engage an independent engineer to report on all major maintenance work to be completed in the upcoming year, as well as a major maintenance budget to determine the required annual amount to be deposited in the Major Maintenance Trust Account.

- **Annual Roadway Maintenance Agreement**

Five year agreement between the Corporation and the Department of Transportation and Public Works of the Province of Nova Scotia to provide annual roadway maintenance services for an annual fee of \$650,000 commencing April 1, 1998 and subsequently adjusted thereafter for inflation.

AUDITOR'S REPORT

To the Minister of Housing and Municipal Affairs

I have audited the balance sheet of the Nova Scotia Housing Development Corporation as at March 31, 1998, and the statements of revenues and expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Nova Scotia Housing Development Corporation as at March 31, 1998, and the results of its operations and the changes in the fund balance for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 30, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current Assets		
Accounts receivable and accrued interest (Note 6) \$	10,781,544	\$ 209,415
Current portion of mortgages receivable (Note 5)	715,900	646,290
	11,497,444	855,705
Mortgages receivable (Note 5)	23,415,191	26,460,242
Investment in social housing (Note 6)	325,952,334	88,348,736
Fund for future social housing expenditures (Note 6)	4,015,832	---
	\$ 364,880,801	\$ 115,664,683

LIABILITIES

Current liabilities		
Accounts payable \$	---	\$ 3,500
Housing Development Corporation Fund (Note 4)	12,749,737	7,635,624
Current portion of long-term debt note (Note 7)	9,001,201	6,419,473
Deferred federal contributions (Note 6)	4,015,832	---
	25,766,770	14,058,597
Long-term debt (Note 7)	325,850,315	101,284,997
Reserve for social housing & interest rate risk (Note 6)	13,263,716	321,089
	\$ 364,880,801	\$ 115,664,683

Contingency (Note 8)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Statement of Revenues and Expenditures

for the year ended March 31, 1998

	1998	1997
Revenues		
Interest revenue \$	2,858,864	\$ 2,934,093
Recoveries from CMHC (Note 6)	14,807,365	---
Recoveries from provincial government departments	8,221,722	8,563,678
	25,887,951	11,497,771
Expenditures		
Interest on long-term debt	22,105,287	10,244,588
Amortization of investments in social housing	3,374,659	1,134,131
Administration fee (Note 3)	404,505	115,552
Miscellaneous	3,500	3,500
	25,887,951	11,497,771
Excess of revenues over expenditures		
(Note 3) \$	---	---

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Statement of Changes in Fund Balance

for the year ended March 31, 1998

	1998	1997
Funds provided by (used for):		
Operations		
Excess of revenues over expenses \$	--- \$	---
Add: Expenses not requiring cash		
Amortization	3,374,659	1,134,131
Transfer to (from) provision for concessionary assistance & doubtful recoveries.	(1,075,000)	2,443,648
Transfer to reserve for social housing.	12,942,627	---
Net change in current assets and liabilities	(10,575,629)	24,807
	4,666,657	3,602,586
Investing activities		
Repayment of mortgages receivable	4,050,441	5,678,778
Investment in social housing (Note 6).	(240,978,257)	(2,929)
	(236,927,816)	5,675,849
Financing activities		
Issue of long-term debt-social housing transfer (Note 6)	240,976,488	4,661
Repayment of long-term debt	(13,829,442)	(11,772,614)
	227,147,046	(11,767,953)
Decrease in fund balance during the year	(5,114,113)	(2,489,518)
Fund balance, beginning of year	(7,635,624)	(5,146,106)
Fund balance, end of year \$	(12,749,737) \$	(7,635,624)

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION****Notes to Financial Statements****March 31, 1998****1. Authority**

On June 17, 1986 the Nova Scotia Housing Development Corporation Act established the Nova Scotia Housing Development Corporation. The purpose of the Corporation is to provide long-term mortgage financing through outside lenders for social housing programs, and the home ownership programs of the Department of Housing and Municipal Affairs, and loan guarantees for housing purposes.

2. Accounting Policies**Mortgages Receivable**

Mortgages receivable are carried at cost less provisions for concessionary assistance and doubtful recoveries as described in Note 5 to the financial statements.

Provision for Concessionary Assistance

Concessionary assistance consists of subsidies provided by the Department of Housing and Municipal Affairs to low income borrowers to assist them in meeting their monthly mortgage payments. The amount of concessionary assistance is calculated as the difference between the net present value of the anticipated future repayments to be received by the Corporation and the amount of the loans advanced. Any adjustments to, or recover of, the net present value of this assistance is reflected in the Provision for Concessionary Assistance in the year in which the related recovery or adjustment occurs. The net change in the Provision for Concessionary Assistance is funded by the Department of Housing and Municipal Affairs legislative vote and is recorded as a direct charge to the Housing Development Corporation Fund.

Provision for Doubtful Recoveries

The Department of Housing and Municipal Affairs maintains 1st and 2nd Mortgage Insurance Funds. The Funds consist of mortgage insurance fees charged to borrowers which are used to finance the write off of bad debts from the mortgage receivable portfolios of the Housing Development Fund and the Housing Development Corporation. A Provision for Doubtful Recoveries is established to the extent that anticipated losses on bad debts exceed the funding available in the 1st and 2nd Mortgage Insurance Funds. The net change in the Provision for Doubtful Recoveries is funded by the Department of Housing and Municipal Affairs legislative vote and is recorded as a direct charge to the Housing Development Corporation Fund.

Investment in Social Housing

Investments in Social Housing are carried at cost which includes the cost of site investigation, land, construction, administration, and interest during construction.

There are some programs which are jointly funded with the Nova Scotia Housing Development Fund. Only the Corporation's 75% share of these programs are reflected in these financial statements.

Amortization of Investments in Social Housing

The capital cost of fixed assets is amortized, using the sinking fund method, by the amount of the principal repaid on the related long-term debt financing the project. Long-term debt is obtained for periods of 20 to 35 years. Amortization for the year ended March 31, 1998 amounted to \$3,374,659. (1997 - \$1,134,131).

Final Settlements

Recoveries from CMHC and provincial government departments are subject to final settlement reviews. Adjustments to recoveries, accounts receivable, deferred federal contributions and the fund for future social housing expenditures, arising from the final settlement process, are recorded in the year the review is finalized.

3. Administration Fee

The administration of the Nova Scotia Housing Development Corporation is carried out by the staff of the Department of Housing and Municipal Affairs. The Corporation reimburses the Department to the extent that revenues earned by the Corporation exceed expenditures.

4. Housing Development Corporation Fund

To provide working capital for the Nova Scotia Housing Development Corporation, the Housing Development Corporation Fund was established by Order-In-Council. The Fund is set up as a revolving account which records all receipts and expenditures, and allows the Corporation to borrow up to \$20 million.

5. Mortgages Receivable

Mortgages receivable have an amortization period of 25 years and five or ten-year renewal terms. Aggregate monthly payments are approximately \$260,000 including interest. Interest rates vary from 6.75% to 13.00%, with renewal dates ranging from April 1, 1998 to October 1, 2012. The mortgages are secured by registered first mortgages on the related properties. The Corporation has assigned the mortgages receivable as security for notes payable.

Mortgages receivable.	\$	25,756,091	\$	29,806,532
Less: Current portion due within one year		715,900		646,290
Provision for concessionary assistance and doubtful recoveries		1,625,000		2,700,000
		<u>2,340,900</u>		<u>3,346,290</u>
	\$	<u>23,415,191</u>	\$	<u>26,460,242</u>

Estimated principal repayments for the next five years are as follows:

1998-1999	\$	715,900
1999-2000	\$	782,739
2001-2002	\$	855,734
2002-2003	\$	935,503
2003-2004	\$	1,022,674

6. Social Housing Transfer

Effective October 1, 1997, the Corporation entered into an Agreement to transfer program delivery responsibilities for certain social housing programs from Canada Mortgage and Housing Corporation (CMHC) to the Nova Scotia Housing Development Corporation. The Agreement includes the transfer of the assets, liabilities and reserves and involves funding commitments as described below.

Investment in Social Housing and Long Term Debt

Under the Agreement, CMHC transferred its interest in certain social housing investments located in Nova Scotia to the Corporation. The assets were transferred at CMHC's book value at October 1, 1997 of \$240,978,257. The acquisition was financed by long-term debt payable to CMHC in the same amount and the investments have been assigned as security for the related debt.

Some assets transferred from CMHC are jointly owned by the Nova Scotia Housing Development Fund (25%). For these assets, only CMHC's 75% ownership interest was transferred to the Corporation.

Contingent Liability

The Social Housing Transfer Agreement required the Corporation to indemnify CMHC against future losses related to their insured loan portfolio in Nova Scotia. See Note 8 for financial details.

Recovery Revenue

The Agreement required CMHC to pay to the Corporation annual contributions to assist with program operating and administration expenses. Funding from CMHC is credited to Deferred Federal Contributions on an accrual basis.

The Corporation reduces Deferred Federal Contributions and records recovery revenue from CMHC equal to interest on long term debt to CMHC and amortization of social housing assets.

The Department of Housing and Municipal Affairs required CMHC funding to pay for subsidy and administration expenses associated with social housing programs. Funding required by the Department is recorded as a direct charge against the Deferred Federal Contributions account.

CMHC funding not used during the fiscal year by the Corporation or the Department is eligible for carry forward to future years. Unused CMHC funding at year end is transferred to an interest bearing account entitled Fund for Future Social Housing Expenditures. These amounts are subject to final settlement review (Note 2).

Reserve for Social Housing and Interest Rate Risk

The Corporation has established reserves for the risks associated with interest rate fluctuation, mortgage default, and fire losses for the assets received as part of the Social Housing Transfer. CMHC provided \$8.1 million of the reserve pursuant to the Agreement. The remainder was provided by the Corporation.

7. Long Term Debt

	1998	1997
Notes payable (Note 6)	\$ 248,698,886	\$ 19,355,734
Mortgages payable	86,152,630	88,348,736
	<u>334,851,516</u>	<u>107,704,470</u>
Less: Current portion due within one year	<u>9,001,201</u>	<u>6,419,473</u>
	<u>\$ 325,850,315</u>	<u>\$ 101,284,997</u>

Long term debt is comprised of mortgages and notes payable from various lenders. The amortization of the notes payable range from 5 to 37 years. The mortgage amortization periods range from 20 to 35 years with either five or ten year renewal terms. Mortgages and notes payable are secured by an assignment of mortgages receivable and investments in social housing. Monthly installments of interest and principal total \$3,443,599. Interest rates vary from 5.3% to 12.254% with renewal dates ranging from April 1, 1998 to February 1, 2009.

Estimated principal repayments for the next five years are as follows:

1998-1999	\$	9,001,201
1999-2000	\$	9,330,696
2000-2001	\$	7,871,172
2001-2002	\$	8,140,369
2002-2003	\$	8,978,672

8. Contingent Liability

The Corporation provides mortgage guarantees of interest and principal to lenders financing certain housing projects. As at March 31, 1998 a total of 30 (1997- 29) mortgage guarantees were in effect, and the outstanding balance of mortgages guaranteed was \$23,587,844. (1997 - \$24,136,327).

The Corporation has indemnified CMHC against future losses related to their insured loan portfolio for Nova Scotia. As at March 31, 1998 there were 468 loans with an approximate outstanding balance of \$192,539,419.

9. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

10. Comparative Figures

Prior year comparative figures have been reclassified, where necessary, to conform to the financial statement presentation adopted for the current year.

AUDITOR'S REPORT

To the Minister of Housing and Municipal Affairs

I have audited the balance sheet of the Housing Development Fund as at March 31, 1998, and the statement of continuity of net advances for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Housing Development Fund as at March 31, 1998, and the continuity of the net advances for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 30, 1998

PROVINCE OF NOVA SCOTIA
HOUSING DEVELOPMENT FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Accounts receivable and advances \$	25,795 \$	9,321
Mortgages receivable (Note 3 and 4)	20,782,271	26,363,407
Investment in land and housing projects (Note 3 and 5)	114,711,067	107,246,862
	<u>\$ 135,519,133</u>	<u>\$ 133,619,590</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable \$	591,980 \$	383,556
Deferred recovery	---	475,000
Notes payable (Note 6)	36,455,272	37,781,526
	<u>37,047,252</u>	<u>38,640,082</u>

Fund Balance

Advances from Consolidated Fund (Authorized \$154,000,000)	103,708,726	100,127,097
Less: Provision for concessionary assistance & doubtful recoveries	(5,236,845)	(5,147,589)
Net advances	98,471,881	94,979,508
	<u>\$ 135,519,133</u>	<u>\$ 133,619,590</u>

PROVINCE OF NOVA SCOTIA

HOUSING DEVELOPMENT FUND

Statement of Continuity of Net Advances

for the year ended March 31, 1998

	1998	1997
Balance, beginning of the year	\$ 94,979,508	\$ 95,333,641
Add: Advances for lending, public housing and land development programs	16,037,336	9,216,408
Increase in valuation of land development projects due to change in accounting policy	---	5,154,936
	<u>16,037,336</u>	<u>14,371,344</u>
Less: Recoveries from lending and land development programs	12,455,707	12,717,888
Increase (decrease) in Provision for Doubtful Recoveries	2,019,256	(292,411)
Increase (decrease) in Provision for Concessionary Assistance (Note 3)	(1,930,000)	2,300,000
	<u>12,544,963</u>	<u>14,725,477</u>
Balance, end of the year	<u>\$ 98,471,881</u>	<u>\$ 94,979,508</u>

PROVINCE OF NOVA SCOTIA
HOUSING DEVELOPMENT FUND

Notes to Financial Statements

March 31, 1998

1. Authority

The Provincial share of capital housing programs is financed through the Housing Development Fund as established by Section 20(1) of the Housing Act. These programs include the construction of lease purchase housing units, low interest loans for home construction and rehabilitation, the assembly and servicing of land, and the construction of public housing.

2. Accounting Policies

Mortgages Receivable

Mortgages receivable are carried at cost less provisions for concessionary assistance and doubtful recoveries as described in Note 4 to the financial statements.

Provision for Doubtful Recoveries

The Department of Housing and Municipal Affairs maintains 1st and 2nd Mortgage Insurance Funds. The Funds consist of mortgage insurance fees charged to borrowers which are used to finance the write off of bad debts from the mortgage receivable portfolios of the Housing Development Fund and the Housing Development Corporation. A Provision for Doubtful Recoveries is established to the extent that anticipated losses on bad debts exceeds the funding available in the 1st and 2nd Mortgage Insurance Funds.

Provision for Concessionary Assistance

Concessionary assistance consists of subsidies provided by the Department of Housing and Municipal Affairs to low income borrowers to assist them in meeting their monthly mortgage payments. The amount of concessionary assistance is calculated as the difference between the net present value of the anticipated future repayments to be received by the Fund and the amount of the loans advanced. Any adjustments to, or recovery of, the net present value of this assistance is reflected in the Provision for Concessionary Assistance in the year in which the related recovery or adjustment occurs. The net change in the Provision for Concessionary Assistance is funded by the Department of Housing and Municipal Affairs legislative vote.

Investment in Housing Projects

Housing projects are carried at cost which includes the cost of site investigation, land, construction, administration and interest during construction.

There are some programs which are jointly funded with the Nova Scotia Housing Development Corporation. Only the Fund's 25% share of these programs are reflected in these financial statements.

Amortization of Housing Projects

The capital cost of public housing projects is amortized each year, using the sinking fund over periods of 25 to 50 years. Amortization of housing projects amounted to \$654,527 (1997 - \$631,636).

Investment in Land Projects

Land projects are carried at cost of acquisition plus servicing costs, capitalized interest charges and administrative costs where applicable. If recovery is doubtful, the net capital cost is reduced to its estimated net realizable value.

Profit or loss on the sale of land is recorded as lots are sold except if revenue or costs cannot be reasonably determined. Costs incurred plus estimated costs to complete are accumulated and allocated to individual units on the basis of relative sales values and written off as lots are sold. Certain common costs, such as main roadways, are allocated to that phase of the project with the applicable spending authority.

Operating Revenues and Expenditures

The Provincial share of operating expenditures related to capital programs is funded by the legislative vote of the Department of Housing and Municipal Affairs. Operating revenues consist primarily of interest revenue on loan programs and profits and losses on land sales and are credited to the revenues of the Province. Operating expenditures include administrative costs of the Fund, the Province's share of operating deficits on public housing projects, the net change in provision for concessionary assistance and doubtful recoveries and grants and assistance associated with capital and other programs. Details of operating revenues and expenditures are reported in the Province's Public Accounts Volume 1.

3. Change in Accounting Policies

Investment in Rural and Native Housing

In prior years, the Rural and Native Housing program was accounted for as a mortgage receivable with appropriate provisions for concessionary assistance for program subsidies. In order to more accurately reflect the substance and operation of the Program and to make accounting practices consistent with Canada Mortgage and Housing Corporation and other provinces, the Program is now being accounted for as a depreciable asset amortized over 25 years.

The financial impact of the change in accounting policy has been to increase the net carrying value of the asset by \$2.3 million caused by eliminating the provision for concessionary assistance and to reclassify the book value of the asset of \$6.7 million from mortgages receivable to investment in housing projects. This change in accounting policy has not been applied retroactively.

4. Mortgages Receivable

Mortgages receivable have amortization periods of 25 to 35 years and renewal terms ranging from 5 to 35 years. Aggregate monthly payments are approximately \$312,000, including interest. Interest rates vary from 5.00% to 14.00% with renewal dates ranging from April 1, 1998 to March 1, 2023. The mortgages are secured by a registered first or second mortgage on the related properties or a promissory note.

	1998	1997
Mortgages Receivable	\$ 21,102,271	\$ 28,663,407
Less: Provision for doubtful recoveries	150,000	200,000
Provision for concessionary assistance (Note 3)	170,000	2,100,000
	<u>\$ 20,782,271</u>	<u>\$ 26,363,407</u>

Estimated principal repayments for the next five years are as follows:

1998-1999	\$ 1,969,577
1999-2000	\$ 1,768,377
2000-2001	\$ 1,636,010
2001-2002	\$ 1,524,963
2002-2003	\$ 1,415,596

5. Investment in Land and Housing Projects

	1998	1997
Investment in Housing Projects	\$ 97,576,645	\$ 91,208,326
Investment in Land Projects	20,781,930	18,312,365
Department owned foreclosed properties	1,269,337	573,760
	119,627,912	110,094,451
Less: Allowance for doubtful recoveries	4,916,845	2,847,589
	<u>\$ 114,711,067</u>	<u>\$ 107,246,862</u>

6. Notes Payable

Notes payable are owing to Canada Mortgage & Housing Corporation, for a variety of public housing, co-operative housing and residential rehabilitation assistance programs. The amortization periods range from 20 to 50 years, and interest rates range from 6.375% to 10.15%.

	1998	1997
Notes Payable	\$ 36,455,272	\$ 37,781,526

Estimated principal repayments for the next five years are as follows:

1998-1999	\$	2,086,828
1999-2000	\$	2,127,573
2000-2001	\$	2,208,540
2001-2002	\$	2,321,677
2002-2003	\$	2,462,121

7. Subsequent Event

The Government is considering a proposal to discontinue further land development of the Sackville, Second Lake property and to convert the balance of land owned in this area to a park. The likelihood of this event is not determinable at this time. If this proposal is accepted in the absence of compensation for the land, the Housing Development Fund would be exposed to a loss equal to the book value of the property of \$5,914,438.

8. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Fund's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Fund, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

9. Comparative Figures

Prior year comparative figures have been reclassified, where necessary, to conform to the financial statement presentation adopted for the current year.

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Economic Development and Tourism

I have audited the balance sheet of the Industrial Expansion Fund as at March 31, 1998, and the statements of continuity of Fund for the year then ended. These financial statements are the responsibility of the Nova Scotia Business Development Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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.

These financial statements reflect proposed write-offs of assistance outstanding of \$16,371,000 which were yet to be approved by Governor in Council as required under Section 23 of the Provincial Finance Act.

In my opinion, except for the effect of adjustments, if any, which I might determine to be necessary should Governor in Council not approve the amounts for write-off, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1998 and the continuity of Fund for the year then ended in accordance with the basis of accounting required by Section 8 of the Industrial Development Act and the accounting policies detailed in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 8, 1998

PROVINCE OF NOVA SCOTIA
INDUSTRIAL EXPANSION FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
		Restated
		Note (13)
		(in thousands)
Financial Assets, at cost		
Loans - Industrial Development Act	\$ 77,139	\$ 90,539
Loans - Venture Corporations Act (Note 3)	2,188	3,316
Royalty rights (Note 5)	5,186	---
Shares (Note 4)	11,551	11,556
	<u>96,064</u>	<u>105,411</u>
Less: Provision for concessionary Assistance (Note 6)	62,397	52,672
Allowance for Doubtful Accounts	7,432	19,089
	<u>69,829</u>	<u>71,761</u>
	<u>26,235</u>	<u>33,650</u>
Other Assets	<u>846</u>	<u>846</u>
Due from Consolidated Fund		
Guarantees (Note 7)	39,782	35,979
Less: Provision for Payments under Guarantees	2,075	2,071
	<u>37,707</u>	<u>33,908</u>
Assistance Authorized but Unadvanced (Note 8)	51,079	17,084
	<u>88,786</u>	<u>50,992</u>
	<u>\$ 115,867</u>	<u>\$ 85,488</u>

FUNDING AUTHORIZED AND COMMITTED

Authorized, Net of Write-offs		
Industrial Development Act	\$ 276,827	\$ 292,145
Venture Corporations Act	5,685	6,738
Contributed Surplus (Note 9)	1,984	1,984
	<u>284,496</u>	<u>300,867</u>
Less: Provision for Concessionary Assistance and Possible Losses on Assistance (Note 10)	<u>71,904</u>	<u>73,832</u>
Net Fund Balance	212,592	227,035
Less: Uncommitted Balance of Fund	<u>96,725</u>	<u>141,547</u>
	<u>\$ 115,867</u>	<u>\$ 85,488</u>

Contingency (Note 11)

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
INDUSTRIAL EXPANSION FUND
Statement of Continuity of Fund
Under the Industrial Development Act
for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Balance, beginning of year	\$ 292,145	\$ 312,193
<i>Add:</i> Loans and Guarantees authorized	---	255
<i>Deduct:</i> Loans and guarantees rescinded or expired	---	16,783
Accounts written-off	15,318	3,520
	<u>15,318</u>	<u>20,303</u>
Balance, end of year	<u>\$ 276,827</u>	<u>\$ 292,145</u>
 Comprising:		
Loans, shares, royalty rights and other assets	\$ 92,808	\$ 101,027
Guarantees in effect and utilized	31,282	32,242
Loans and other investments authorized but unadvanced, and guarantees in effect but not utilized	59,579	20,821
Uncommitted balance	<u>93,158</u>	<u>138,055</u>
	<u>\$ 276,827</u>	<u>\$ 292,145</u>

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA
INDUSTRIAL EXPANSION FUND
Statement of Continuity of Fund
Under the Venture Corporations Act
for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Balance, beginning of year	\$ 6,738	\$ 6,738
<i>Deduct:</i> Accounts written-off	1,053	---
Balance, end of year	<u>\$ 5,685</u>	<u>\$ 6,738</u>
 Comprising:		
Loans advanced	\$ 2,188	\$ 3,316
Uncommitted balance	<u>3,497</u>	<u>3,422</u>
	<u>\$ 5,685</u>	<u>\$ 6,738</u>

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA

INDUSTRIAL EXPANSION FUND

Statement of Continuity of Fund

Under the Terms of the Canada-Nova Scotia

Development Fund Agreement

for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Balance	\$ <u>1,984</u>	\$ <u>1,984</u>
Comprising:		
Acquired assets	\$ 846	\$ 845
Loans advanced	1,068	1,069
Uncommitted balance	<u>70</u>	<u>70</u>
	\$ <u>1,984</u>	\$ <u>1,984</u>

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA**INDUSTRIAL EXPANSION FUND****Notes to Financial Statements****March 31, 1998****1. Authority**

The Industrial Expansion 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.

The Business Development Corporation Act provides that the Industrial Expansion Fund may be administered by the Nova Scotia Business Development Corporation. A ministerial letter of assignment was issued authorizing the Corporation to administer the Industrial Expansion Fund as it related to the accounts sent to the Corporation for administration from time to time. The Corporation's activities are administered through a division of the Nova Scotia Department of Economic Development and Tourism (formerly the Nova Scotia Economic Renewal Agency).

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by paragraph (a), (b) and (c) below. Paragraph (d) (e) and (f) describe significant accounting policies of the Fund.

(a) Administrative Expenses and Interest Revenue

Administrative expenses of the Fund, and revenues earned on guarantees are included in the accounts of the Department of Economic Development and Tourism and are not reflected in the financial statements. In addition, accrued loan interest is not recognized as a receivable in the financial statements of the Fund. Interest and other income earned on loans and shares is included in the accounts of the Department of Finance and reflected in the financial statements.

(b) Statement of Changes in Financial Position

A statement of changes in financial position is not provided since disclosure in the statements of continuity of the fund and the balance sheet are considered adequate.

(c) Current Assets

Payments receivable within one year of the balance sheet date are not segregated and classified as current assets.

(d) Provision for Concessionary Assistance

The Fund provides for the effect of the decrease in the 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 authorized, loans receivable, shares and other assets on an item-by-item basis. In addition, a general reserve is provided on any unreserved assistance outstanding.

(f) 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 flow. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to its net present value.

3. Venture Corporations 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 one venture corporation repaid a total of \$75,000 (1997 - \$151,000) against the principal balance of its loan.

	1998	1997
	(in thousands)	
Loans made to venture corporations	\$ 2,188	\$ 3,316
Less: Allowance for doubtful accounts	<u>1,648</u>	<u>2,789</u>
	<u>\$ 540</u>	<u>\$ 527</u>

4. Shares

	1998	1997
	(in thousands)	
Preferred shares	\$ 9,995	\$ 10,000
Common shares	<u>1,556</u>	<u>1,556</u>
	<u>\$ 11,551</u>	<u>\$ 11,556</u>

5. Royalty Rights

During the year the Fund provided funds to a company and entered a royalties agreement with the company to provide a return on its investment. The royalty payments are based upon net sales of the company.

6. Provision for Concessionary Assistance

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 provided by the Fund has included 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 (NBV) related to loans and shares are as follows:

	1998		1997	
	Assistance Outstanding	Provision for Concessionary Assistance	NBV	Restated (Note 13) NBV
	(in thousands)			
Loans	\$ 69,029	\$ 58,958	\$ 10,071	\$ 26,744
Shares	5,995	3,439	2,556	2,783
	\$ 75,024	\$ 62,397	\$ 12,627	\$ 29,527

7. Guarantees

Guarantees have been provided for the following purposes:

	1998	1997
	(in thousands)	
Authorized		
Bank loan guarantees	\$ 14,782	\$ 10,979
Performance guarantee	25,000	25,000
	\$ 39,782	\$ 35,979
In Effect and Utilized		
Bank loan guarantees	\$ 6,282	\$ 7,242
Performance guarantee	25,000	25,000
	31,282	32,242
In Effect but not Utilized	8,500	3,737
	\$ 39,782	\$ 35,979

During the year guarantees totalling \$190,970 were paid out.

8. Assistance Authorized but Unadvanced

	1998	1997
	(in thousands)	
Loans	\$ 48,745	\$ 14,750
Shares	2,334	2,334
	\$ 51,079	\$ 17,084

9. Contributed Surplus

Contributed surplus represents the balance of funds provided to the Industrial Expansion Fund for the purpose of providing assistance in accordance with the terms of the Canada-Nova Scotia Development Fund Agreement.

10. Provision for Concessionary Assistance and Possible Losses on Assistance

The following is a continuity of the provision:

	1998	1997
		Restated (Note 13)
		(in thousands)
Balance, beginning of year	\$ 73,832	\$ 72,380
<i>Add:</i> Current year provision	14,443	4,973
<i>Deduct:</i> Accounts written-off	16,371	3,521
	<u>(1,928)</u>	<u>1,452</u>
Balance, end of year	\$ <u>71,904</u>	\$ <u>73,832</u>

11. Contingency

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. An estimate of the amount of future costs, if any, under these agreements cannot be reasonably determined are not reflected in the financial statements.

12. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 (or beyond) dates, is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Corporation, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal operations. The Corporation and Province of Nova Scotia have initiated certain steps aimed at identifying the scope and alternative resolutions for the issue and it is acknowledged that additional effort will be required to address the issue. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

13. Restatement of Prior Year's Result

In 1998 an error in the assumption used to calculate the provision for concessionary assistance for an account was identified. As a result, the provision for concessionary assistance in prior years was understated. The error occurred when the Corporation changed its accounting policies to account for concessionary assistance and began reporting a provision for concessionary assistance on the financial statements. A provision was initially reported on the March 31, 1994 financial statement of the Fund. The 1997 provision for concessionary assistance reported was understated by \$9,307,498 and has been restated in these financial statements.

AUDITOR'S REPORT

To the Minister of Health, the Minister of Finance; and
To the Chair and Members of Seniors' Pharmacare Board

I have audited the balance sheet of the Insured Prescription Drug Plan Trust Fund as at March 31, 1998, and the statements of revenues, expenses, and fund balance for the year then ended. These financial statements are the responsibility of the management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Insured Prescription Drug Plan Trust Fund as at March 31, 1998 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 17, 1998

PROVINCE OF NOVA SCOTIA
INSURED PRESCRIPTION DRUG PLAN TRUST FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Cash	\$ 1,132,952	\$ 2,029,327
Receivables		
Seniors	170,593	254,714
Province of Nova Scotia (Note 3)	3,384,303	122,519
Investments (Note 2)	7,588,019	2,597,400
	\$ 12,275,867	\$ 5,003,960

LIABILITIES AND FUND BALANCE

Liabilities

Payables and accruals	\$ 2,776,534	\$ 1,580,371
Prepaid premiums	9,465,213	8,585,698
Payable to Low Income Trust Fund (Note 4)	34,120	22,003
	12,275,867	10,188,072
Fund Balance (Deficit) (Note 5)	---	(5,184,112)
	\$ 12,275,867	\$ 5,003,960

PROVINCE OF NOVA SCOTIA

INSURED PRESCRIPTION DRUG PLAN TRUST FUND

Statement of Revenues, Expenses and Fund Balance (Deficit)

for the year ended March 31, 1998

	1998	1997
Revenues		
Seniors		
Premiums paid by seniors \$	11,861,528	\$ 10,876,998
Premiums paid from the		
Low Income Trust Fund (Note 4)	10,920,727	12,197,795
Co-payments to pharmacies	12,474,096	12,054,370
	<u>35,256,351</u>	<u>35,129,163</u>
Department of Health		
Department's 50% share of expenses	44,451,501	41,609,047
Investment income	1,069,197	1,295,772
	<u>80,777,049</u>	<u>78,033,982</u>
Expenses		
Provider claims	88,903,002	83,218,094
Excess of Expenses over Revenues	(8,125,953)	(5,184,112)
Additional contribution from		
Province of Nova Scotia (Note 5)	13,310,065	---
Excess of Revenues over Expenses (Expenses over Revenues) and Additional Contribution	5,184,112	(5,184,112)
Fund Balance, beginning of year	(5,184,112)	---
Fund Balance (Deficit), end of year (Note 5) \$	<u>---</u>	<u>\$ (5,184,112)</u>

PROVINCE OF NOVA SCOTIA
INSURED PRESCRIPTION DRUG PLAN TRUST FUND

Notes to Financial Statements

March 31, 1998

1. Authority

Seniors' Pharmacare is a voluntary prescription drug insurance plan with costs shared between seniors and the Government of Nova Scotia effective April 1, 1995. The Insured Prescription Drug Plan Trust Fund was established pursuant to Order-In-Council 95-557 on July 25, 1995. Contributions made by seniors and government are placed in the Insured Prescription Drug Plan Trust Fund and are used to pay Seniors' Pharmacare program costs.

2. Significant Accounting Policies

Investments

Investments consist of government and corporate bonds, and short-term investments. All investments are carried at cost which approximate market value.

Premium Revenues

Premium revenues are recorded on the accrual basis.

Claim Expenses

Claim expenses are recorded on the accrual basis. Claims, submitted by providers, are subject to audit by the program administrators. Any adjustments to claims as a result of these audits are recorded in the year of settlement.

Administration of Program

Maritime Medical Care Inc. administers Seniors' Pharmacare on behalf of the Department of Health, on a cost recovery basis. Administration costs for the 1997-98 fiscal year were paid by the Province of Nova Scotia and are not reported in these financial statements.

3. Receivable - Province of Nova Scotia

This receivable consists primarily of unpaid funding from the Province of Nova Scotia at year end as follows:

	1998	1997
Department of Health 50% share of expenses	\$ 44,451,501	\$ 41,609,047
Additional contribution from Province of Nova Scotia	13,310,065	---
Miscellaneous other receivables	<u>122,737</u>	<u>101,472</u>
	57,884,303	41,710,519
 Less: Payments from Province of Nova Scotia	 <u>54,500,000</u>	 <u>41,588,000</u>
Receivable - Province of Nova Scotia	<u>\$ 3,384,303</u>	<u>\$ 122,519</u>

4. Low Income Trust Fund

The Insured Prescription Drug Plan Low Income Trust Fund was established pursuant to Order-In-Council 95-558 on July 25, 1995. The Province of Nova Scotia's contributions to the Low Income Trust Fund are used to assist low income seniors with Seniors' Pharmacare premiums and co-payments costs. These financial statements include the premium revenues for which the Low Income Trust Fund is responsible but do not include the assets, liabilities, fund balance, revenues and other expenses of the Low Income Trust Fund.

The payable to the Low Income Trust fund of \$34,120 (1997 - \$22,003) represents amounts owing for reassessments of seniors that will be reimbursed to the Low Income Trust Fund and remain unpaid at year end.

5. Fund Balance (Deficit)

For the 1996-97 and 1997-98 fiscal years, revenues from the seniors were insufficient to cover 50% of program expenses. The total revenue shortfall for the the two-year period amounted to \$13,310,065 (1996-97 - \$5,184,112, 1997-98 -\$8,125,953).

In December 1997, the Province of Nova Scotia provided an additional contribution of \$11,500,000 to fund shortfalls in revenue from seniors. The Province of Nova Scotia has also agreed to fund the remaining shortfall of \$1,810,065 subject to approval by Executive Council. The full amount of the revenue shortfall has been recorded in these financial statements as an additional contribution from the Province of Nova Scotia.

6 Uncertainty due to the Year 2000 Issue

The year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Fund's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

PROVINCE OF NOVA SCOTIA
LAW REFORM COMMISSION OF NOVA SCOTIA

Balance Sheet

as at March 31, 1998

ASSETS

		1998
Current Assets		
Petty Cash	\$	25.00
Bank Operating Account	8,977.83	
Term Deposits	65,580.31	
Total Cash		<u>74,558.14</u>
Total Current Assets		<u>74,583.14</u>
Fixed Assets		
Computer Office Equipment	11,795.83	
Accum Computer Office Equipment	(7,863.88)	
Net Office Equipment.		<u>3,931.95</u>
Total Fixed Assets		<u>3,931.95</u>
Total Assets	\$	<u><u>78,515.09</u></u>

LIABILITIES

Current Liabilities		
Accrued Salary	\$	1,000.00
Accounts Payable.		27,751.07
Accrued Audit		600.00
Vacation Payable.		---
UIC Payable.	132.34	
CPP Payable	113.44	
Income Tax Payable	380.76	
Receiver General Payable		<u>626.54</u>
Total Current Liabilities		<u>29,977.61</u>
Total Liabilities		<u>29,977.61</u>

EQUITY

Surplus		
Surplus Beginning of Year		52,357.51
Surplus Current Year		<u>(3,820.03)</u>
Accumulated Surplus		<u>48,537.48</u>
Total Equity		<u>48,537.48</u>
Liabilities and Equity	\$	<u><u>78,515.09</u></u>

PROVINCE OF NOVA SCOTIA

LAW REFORM COMMISSION OF NOVA SCOTIA

Statement of Income

as at March 31, 1998

	1998
Revenue	
Operating & Project Income	
Dept. of Justice	\$ 200,000.00
NS Law Foundation Contribution.	---
Interest Income.	3,036.58
Total Contributions	<u>203,036.58</u>
Total Revenue	<u>203,036.58</u>
Expenses	
Project Expenses	
Project Advisory Group	---
Project Miscellaneous	14.35
Project Meeting Costs	973.80
Project Non Legal Consult	2,896.36
Project Library Cost.	36.45
Project Commissioners Fees & Disbursements	6,663.42
Project Conferences/Workshops	14.00
Project Courier	498.45
Project HST Cost	353.75
Project Photocopy/Printing Cost	6,069.02
Project Distribution	1,016.00
Project Telephone Cost	36.82
Project Travel & Transportation	200.46
Total Special Project Cost	<u>18,772.88</u>

PROVINCE OF NOVA SCOTIA

LAW REFORM COMMISSION OF NOVA SCOTIA

Statement of Income (continued)

as at March 31, 1998

1998

Administrative Expenses

Wages	138,793.03	
UIC	3,315.97	
CPP	2,289.94	
Group Insurance	1,021.04	
Total Personnel Related		145,419.98
Non Legal Consultants Fees		220.00
Admin Commissioners Fees & Disbursements		1,651.85
Electrical Expense		914.20
Meeting Costs		34.37
Library		1,362.90
Amortization		3,931.94
Audit Fees		(2,475.00)
Professional Fees		687.95
Vacation Relief		924.00
Computer Office Equipment		106.25
Internet		300.00
Admin Travel Costs		296.68
Rent	18,821.27	
Office Equipment	2,099.50	
Insurance	507.00	
Total Premises Related		21,427.77
Office Supplies	2,577.06	
Parking	21.50	
Photocopy/Printing	826.68	
Petty Cash	---	
Postage & Courier	1,025.80	
Telephone Equipment & Internet	3,640.61	
Telephone Long Distance Charges	337.35	
Conference/Workshop	4.71	
Staff Development. & Reg. Fees	691.57	
Office Equipment Maintenance	117.50	
Total Office Related		9,242.78
Bank Charges		217.02
Miscellaneous		781.47
HST Paid On Purchases		3,039.57
Total Administration		188,083.73
Total Expenses		206,856.61
Net Income		\$ (3,820.03)

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the statement of the accounts established under the Members' Retiring Allowances Act for the year ended March 31, 1998. This financial statement is the responsibility of the Department of Finance. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 my opinion, this statement presents fairly, in all material respects, the transactions of the accounts established under the Members' Retiring Allowances Act for the year ended March 31, 1998 in accordance with the provisions of the Members' Retiring Allowances Act as disclosed in the notes to the financial statement.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 30, 1998

PROVINCE OF NOVA SCOTIA
STATEMENT OF THE ACCOUNTS ESTABLISHED UNDER
THE MEMBERS' RETIRING ALLOWANCES ACT
for the year ended March 31, 1998

	1998	1997
Balance, beginning of year	\$ 41,964,000	\$ 46,062,406
<i>Add:</i>		
Standard contributions		
Members	233,950	260,309
Government	233,950	260,309
Interest	3,511,019	3,916,505
Additional government contributions (Note 3)	692,492	768,351
	4,671,411	5,205,474
<i>Deduct:</i>		
Allowances (pensions)	2,395,417	2,158,254
Professional services	---	4,500
Refunds - contributions	73,440	7,701
- interest	7,312	10,047
Actuarial adjustment (Note 3)	255,242	7,123,378
	2,731,411	9,303,880
Balance, end of year	\$ 43,904,000	\$ 41,964,000
 Note: Number of contributors during the year	 44	 44
Number of persons receiving allowances during the year	95	85

PROVINCE OF NOVA SCOTIA
THE ACCOUNTS ESTABLISHED UNDER
THE MEMBERS' RETIRING ALLOWANCES ACT

Notes to Financial Statement
for the year ended March 31, 1998

1. Authority and Description of Plans

Members of the House of Assembly are entitled to receive allowances pursuant to provisions of the Members' Retiring Allowances Act. The Act, as amended November 25, 1993, establishes in the Consolidated Fund of the Province a Members' Retiring Allowance Account and the Members' Supplementary Retiring Allowance Account to which members and government contributions and interest are credited, and payments to pensioners and terminating members are charged. If, at any time, the balances of the accounts are insufficient to make required payments, an amount will be credited to the accounts from the Consolidated Fund.

Members contribute 10% of indemnities, allowances and salaries and the Province contributes an equal amount. Contributions cease after 15 years. Pensions are paid on the basis of the average indemnities, allowances and salaries for the three highest years, at the rate of 5% for each year for which contributions were made. As of November 25, 1993 there is no longer a minimum retiring allowance.

A member qualifies for benefits on ceasing to be a member after having served five years during two or more General Assemblies, and having attained age 55 (increased from age 50 as of November 25, 1993). Former members who qualify for a retiring allowance may make application for an actuarially reduced allowance as early as 45 years of age (increased from age 40 as of November 25, 1993). Retiring allowances are increased annually on January 1 by the lesser of the increase in the consumer price index or 6%.

2. Significant Accounting Policies

In accordance with the provisions of the Members' Retiring Allowances Act this financial statement has been prepared on a modified cash basis of accounting. Contributions to the accounts are recorded when received and allowances and refunds are recorded in the accounts when paid. An amount representing interest on the balances in the accounts is calculated and credited to the accounts annually.

For reporting purposes, the contributions and allowances under the Members' Retiring Allowance Account and the Members' Supplementary Retiring Allowance Account are combined.

3. Actuarial Valuation

Actuarial valuations of benefits under the Members' Retiring Allowances Act are carried out periodically and provide an estimate of liabilities as at the valuation date, calculated on the basis of various assumptions with respect to pension plan costs and interest rates. The latest actuarial valuation was conducted by Sobeco Ernst & Young based on information as of August 31, 1996.

The actuarial valuation projects liabilities for each member on the basis of service earned to that date and the projected average indemnities, allowances and salaries at the date of retirement.

The valuation indicated that at August 31, 1996 the accounts had actuarial liabilities of \$41,038,000. The liability accounts at the same date had balances totalling \$47,389,000 giving rise to an accounting surplus of \$6,351,000. The valuation was based on the following key assumptions.

Investment earnings	- pre-retirement rate of 8%
	- post-retirement rate of 4.35% (net of assumed pensioner cost-of-living increases per annum)
Salary escalation	- year 1 - 0.0%, year 2+ -3.5%
Cost of living escalation	- 3.5%

During the year, the Province made additional contributions of \$692,492 (1997 - \$768,351). This was based on the September 3, 1993 valuation which indicated that the Province would be required to contribute 39.6% of total payroll (indemnities, allowances and salaries) of contributing members, including the 10% matching portion.

A Department of Finance internally prepared estimate as at March 31, 1998, calculated the surplus in the accounts at \$255,242. The accounts were adjusted to reflect this revised estimate of actuarial values.

4. Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 (or beyond) dates, is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by management, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the management's ability to conduct normal operations. Management and Province of Nova Scotia have initiated certain steps aimed at identifying the scope and alternative resolutions for the issue and it is acknowledged that additional effort will be required to address the issue. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the accounts, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

AUDITORS' REPORT

To the Board of Directors of the
Nova Scotia Alcohol & Gaming Authority

We have audited the balance sheet of the Nova Scotia Alcohol & Gaming Authority as at March 31, 1998 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our 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 presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1998, and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

GRANT THORNTON
Chartered Accountants

Dartmouth, Nova Scotia
June 19, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA ALCOHOL & GAMING AUTHORITY

Statement of Revenue and Expenditures

March 31, 1998

	1998	1997
Revenue		
Liquor license fees \$	7,055,639 \$	6,747,628
Lottery licenses and fees	1,745,697	1,765,841
Casino fees.	263,985	213,740
Amusement licenses	137,525	100,605
Amusement tax	314,324	2,497,717
Pari-mutuel tax	426,201	177,882
Film screening and distribution fees	368,344	---
	<u>10,311,715</u>	<u>11,503,413</u>
Administrative expenditures (Page 88)	6,481,638	6,345,647
Net revenue \$	<u><u>3,830,077</u></u> \$	<u><u>5,157,766</u></u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA ALCOHOL & GAMING AUTHORITY

Balance Sheet

March 31, 1998

	1998	1997
ASSETS		
Current		
Cash	\$ 264,106	\$ 15,841
Receivables (Note 3)	812,304	373,623
Prepaid expenses	1,000	1,354
	<u>\$ 1,077,410</u>	<u>\$ 390,818</u>
LIABILITIES		
Current		
Payables and accruals	\$ 114,388	\$ 86,326
Deferred revenue	11,050	9,000
Due to Nova Scotia Liquor Commission	---	23,630
	<u>125,438</u>	<u>118,956</u>
EQUITY		
Due to Minister of Finance		
Balance, beginning of year	271,862	528,740
Net revenue	3,830,077	5,157,766
Remittances	(3,149,967)	(5,414,644)
Balance, end of year	<u>951,972</u>	<u>271,862</u>
	<u>\$ 1,077,410</u>	<u>\$ 390,818</u>

Contingency (Note 4)

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ALCOHOL & GAMING AUTHORITY

Notes to the Financial Statements

year ended March 31, 1998

1. Nature of operations

The Nova Scotia Alcohol & Gaming Authority, formerly the Gaming Control Commission and the Liquor License Board, is a regulatory body responsible for the administration and enforcement of the Gaming Control Act, the Theatres and Amusement Act and the Liquor Control Act. Revenues reported during the fiscal year ending March 31, 1998 were derived from the sale and renewal of licenses and registration fees and collection of taxes. Revenue and expenditures relevant to the Film Classification Board were included in the records of the Authority for the first time in the year ended March 31, 1998. Prior years' revenue and expenditures were included in the records of the Department of Housing and Consumer Affairs.

Effective April 1, 1997, sections of the Theatres and Amusement Act relating to the application of amusement taxes were repealed. Coincidental with this change, enactment of the Harmonized Sales Tax legislation transferred all responsibility for tax collection to the Federal Government, with the exception of pari-mutuel tax. Amounts shown on these statements for the year ended March 31, 1998 reflect taxes received relating to the prior year.

2. Significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles except that furniture, equipment and leasehold improvements are expenses in the year of acquisition but not capitalized.

3. Receivables

	1998	1997
Amusement tax \$	150,156 \$	216,410
Film screening fees	72,551	---
Gaming fees	143,077	168,515
Liquor license fees	398,840	136,517
Other	61,166	---
Lottery licenses and fees	---	7,062
Pari-mutuel tax	<u>1,101,796</u>	<u>946,796</u>
	1,927,586	1,475,300
Less: Allowance for doubtful accounts	<u>1,115,282</u>	<u>1,101,677</u>
	<u>\$ 812,304 \$</u>	<u>373,623</u>

4. Contingency

Legal actions have been filed against the Authority by two airlines to recover fees paid on liquor during flights. No provision has been made in the financial statements for this action as the outcome is not yet determinable.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA ALCOHOL & GAMING AUTHORITY

Schedule of Administrative Expenditures

year ended March 31, 1998

	1998	1997
Advertising and promotion \$	46,216 \$	6,123
Bad debts	13,605	136,361
Computer processing	28,637	3,620
Equipment	135,810	245,217
Equipment leasing	24,353	22,542
Freight and duty	11,092	7,444
Grants and assistance	---	158,630
Meetings	29,168	75,924
Office	13,663	12,327
Other	8,542	66,638
Postage	34,273	31,969
Printing and stationery	92,029	120,576
Professional fees	934,121	419,849
Relocation	165,981	9,092
Rent	106,968	126,317
Repairs and maintenance	3,720	3,249
Security services	788,700	953,000
Telephone	162,917	189,566
Travel	434,165	450,694
Training and development	21,051	29,216
Wages and benefits	3,426,627	3,277,293
	<u>\$ 6,481,638 \$</u>	<u>6,345,647</u>

AUDITORS' REPORT

To the Directors of the
Nova Scotia Arts Council

We have audited the statement of financial position of the Nova Scotia Arts Council as at March 31, 1998, and the statement of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 organization as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

HORNBY & TINKHAM
Chartered Accountants

May 25, 1998
Dartmouth, Nova Scotia

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

Statement of Financial Position

as at March 31, 1998

	1998	1997
ASSETS		
Cash	--- \$	143,692
Investments (Note 3)	991,509	---
Accounts receivable	24,350	575,168
Prepaid expense	---	676
Capital assets (Note 4)	54,530	30,262
	<u>\$ 1,070,389</u>	<u>\$ 749,798</u>
LIABILITIES		
Bank indebtedness	9,123 \$	---
Accounts payable and accrued liabilities (Note 5)	216,476	73,817
Deferred contributions (Note 6)	156,488	70,551
	<u>382,087</u>	<u>144,368</u>
EQUITY		
Unrestricted for operations	---	---
Invested in capital assets	54,530	30,262
Restricted for endowment purposes	633,772	575,168
	<u>688,302</u>	<u>605,430</u>
	<u>\$ 1,070,389</u>	<u>\$ 749,798</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

Statement of Operations

Year ended March 31, 1998

	1998	1998	1997
	Budget	Actual	Actual
Revenue			
Grants	\$ 1,300,000	\$ 1,300,000	\$ 202,270
Deferred grant revenue (Note 7)	70,550	17,974	(70,551)
Other (Schedule 1)	2,000	13,698	---
	<u>1,372,550</u>	<u>1,331,672</u>	<u>131,719</u>
Expenses			
Grants			
Grant programs for individuals (Schedule 2)	380,000	385,154	---
Portia White award	25,000	25,000	---
Interim grants	25,000	20,499	---
	<u>430,000</u>	<u>430,653</u>	<u>---</u>
Grant programs for organizations (Schedule 3)	543,000	539,900	---
Total grants	<u>973,000</u>	<u>970,553</u>	<u>---</u>
Program delivery			
Salaries - program officers	70,000	50,895	---
Employees benefits	7,700	3,869	---
Travel - officers (individuals)	6,000	3,716	---
Travel - officers (organizations)	6,000	2,597	---
Assessments - juries (Schedule 4)	34,500	32,404	---
Meetings	11,150	1,995	---
Arts smarts program	---	1,089	---
Total program delivery	<u>135,350</u>	<u>96,565</u>	<u>---</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

Statement of Operations (continued)

Year ended March 31, 1998

	1998 Budget	1998 Actual	1997 Actual
Administrative			
Salaries	72,000	72,333	17,640
Employees benefits	8,004	4,068	692
Travel - Executive Director	6,000	8,578	---
Travel - relocation	7,000	7,704	---
Board honoraria	12,000	9,530	18,690
Board travel	6,000	10,247	13,705
Board meetings	6,000	2,186	3,188
Office rent	24,000	20,558	8,410
Supplies and services (Schedule 5)	63,000	62,427	30,710
Professional fees	15,000	15,301	8,422
Amortization	35,200	13,632	---
Public relations	2,400	2,173	---
Miscellaneous	7,596	11,549	---
Total administrative	<u>264,200</u>	<u>240,286</u>	<u>101,457</u>
Total expenses	<u>1,372,550</u>	<u>1,307,404</u>	<u>101,457</u>
Excess of revenue over expenses	<u>---</u>	<u>24,268</u>	<u>30,262</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

Statement of changes in Financial Position

Year ended March 31, 1998

	1998	1997
Net inflow (outflow) of cash related to the following activities:		
Operating		
Excess of revenue over expenses \$	24,268	\$ 30,262
Item not affecting cash Amortization	13,632	---
	<u>37,900</u>	<u>30,262</u>
Changes in non-cash operating working capital items (Note 9)	780,091	(431,476)
	<u>817,991</u>	<u>(401,214)</u>
Financing		
Endowment contributions	58,604	575,168
Investing		
Acquisition of capital assets.	(37,901)	(30,262)
Increase in investments	(991,509)	---
	<u>(1,029,410)</u>	<u>(30,262)</u>
(Decrease) increase in cash.	(152,815)	143,692
Cash position, beginning of year.	143,692	---
Cash position, end of year. \$	<u>(9,123)</u>	<u>143,692</u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA ARTS COUNCIL****Notes to Financial Statements****Year ended March 31, 1998****1. Purpose of the organization**

An act to Establish the Nova Scotia Arts Council was approved on January 11, 1996 by the 56th General Assembly of the Legislature of the Province of Nova Scotia. The purpose of the Organization is to:

- Make the arts integral to the lives of Nova Scotians;
- Foster artistic excellence throughout the Province;
- Encourage creative expression by funding activity in the arts;
- Utilize peer assessment in the determination of artistic merit and the allocation of funding;
- Educate the public regarding the cultural, social and economic importance of the arts;
- Strive for regional, cultural and developmental equity in the distribution of funding; and
- Carry out research on matters related to the Arts.

The Organization is also responsible for establishing and maintaining the Nova Scotia Arts Endowment Fund.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies.

Revenue recognition

The Nova Scotia Arts Council follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in equity.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are being amortized on a straight-line basis over a period of five years.

Investments

Investments are recorded at the lower of cost and market value.

3. Investments

Unrestricted for operations	\$	359,702
Restricted for endowment purposes		<u>631,807</u>
	\$	<u><u>991,509</u></u>

4 Capital Assets

	Cost	Accumulated Amortization	Net 1998	Net 1997
Office furniture	\$ 33,580	\$ 6,716	\$ 26,864	\$ 895
Computer equipment	<u>34,582</u>	<u>6,916</u>	<u>27,666</u>	<u>29,367</u>
	\$ <u><u>68,162</u></u>	\$ <u><u>13,632</u></u>	\$ <u><u>54,530</u></u>	\$ <u><u>30,262</u></u>

5. Accounts Payable and Accrued Liabilities

	1998	1997
Trade payables and accruals	\$ 23,656	\$ 73,817
Grants payable	<u>192,820</u>	<u>---</u>
	<u><u>216,476</u></u>	<u><u>73,817</u></u>

6. Deferred Contributions

Deferred contributions represent restricted operating funding received in the current period that is related to the subsequent period. This deferred revenue will be expensed as indicated in next year's budget:

Grant programs	\$	2,447
Office renovations		8,700
Operations		<u>41,430</u>
		52,577
Arts Smarts Program (McConnell Foundation)		<u>103,911</u>
	\$	<u><u>156,488</u></u>

7. Deferred Grant Revenue

	1998	1997
Amount from prior year	\$ 70,551	\$ ---
Less contributions deferred relating to next year	<u>(52,577)</u>	<u>(70,551)</u>
Amount recognized as revenue in the year	<u><u>17,974</u></u>	<u><u>(70,551)</u></u>

8. Endowment Fund

The endowment fund was established in March 1997 with a grant from the Province of Nova Scotia. The Governor in Council has established the Regulations for this fund under the Regulations Act. The Council shall only make withdrawals of capital from the Endowment Fund for the purpose of investing the money and in accordance with the instruction of the investment managers. The fund advisors shall recommend annually to the Council the amount of income of the Endowment Fund, including, without limitation, interest, dividends, and realized capital gains, to be distributed to the Council for expenditures either as set out in the Endowment Fund budget prepared by the Council or with approval of the Minister. The value of the capital of the Endowment Fund after inflation should not diminish over time. Until such time as the endowed funds reach \$1 million, all earnings of the fund will be retained to grow the Endowment Fund.

9. Changes in Non-Cash Operating Working Capital Items

	1998	1997
Accounts receivable..... \$	550,818	\$ (575,168)
Prepaid expense	676	(676)
Accounts payable and accrued liabilities	142,660	73,817
Deferred contributions	85,937	70,551
	<u>\$ 780,091</u>	<u>\$ (431,476)</u>

10. Endowment Contributions

	1998	1997
Provincial grant..... \$	---	\$ 575,168
Donations	45,000	---
Investment income	13,604	---
	<u>\$ 58,604</u>	<u>\$ 575,168</u>

11. General

The 1997 comparative financial statements have been restated to conform with the financial statement presentation adopted for 1998.

Schedule 1

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

Other Revenue

Year ended March 31, 1998

	1998 Budget	1998 Actual
Interest	\$ 2,000	\$ 12,109
Other	---	500
Arts smarts program.	---	1,089
	<u>\$ 2,000</u>	<u>\$ 13,698</u>

Schedule 2

GRANT PROGRAMS FOR INDIVIDUALS

Year ended March 31, 1998

Professional development.	\$ 40,000	\$ 37,600
Travel	20,000	20,550
Presentation.	60,000	59,994
Creation	240,000	247,110
Research	20,000	19,900
	<u>\$ 380,000</u>	<u>\$ 385,154</u>

Schedule 3

GRANT PROGRAMS FOR ORGANIZATIONS

Year ended March 31, 1998

Production.	\$ 200,000	\$ 200,000
Touring.	50,000	50,000
Commissioning	28,000	28,000
Operating grants	250,000	241,900
Professional development.	15,000	20,000
	<u>\$ 543,000</u>	<u>\$ 539,900</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA ARTS COUNCIL

ASSESSMENTS - JURIES

Year ended March 31, 1998

	1998 Budget	1998 Actual	1997 Actual
Assessment - juries (individual)			
Per diems. \$	2,392 \$	2,520 \$	---
Travel.	3,400	1,354	---
Accommodation.	6,108	4,907	---
Honorarium.	9,822	10,920	---
Miscellaneous.	---	582	---
	<u>21,722</u>	<u>20,283</u>	<u>---</u>
Assessment - juries (organizations)			
Per diems. \$	1,408 \$	972 \$	---
Travel.	2,000	2,212	---
Accommodation.	3,593	1,954	---
Honorarium.	5,777	5,564	---
Miscellaneous.	---	1,419	---
	<u>12,778</u>	<u>12,121</u>	<u>---</u>
Total assessment juries. \$	<u>34,500 \$</u>	<u>32,404 \$</u>	<u>---</u>

Schedule 5

SUPPLIES AND SERVICES
Year ended March 31, 1998

Professional development	\$ 3,000	\$ 560	\$ 407
Conference	2,000	1,184	---
Courier	3,000	1,056	229
Postage	2,000	4,546	855
Telephone	14,000	10,895	2,266
Stationary and supplies	14,000	21,234	3,431
Membership dues	1,000	135	135
Bank charges	1,000	287	137
Insurance	3,000	796	---
Equipment rental	1,000	2,001	931
Advertising and promotion	14,000	14,445	---
Job search costs	5,000	5,288	22,319
	<u>\$ 63,000</u>	<u>\$ 62,427</u>	<u>\$ 30,710</u>

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Economic Development and Tourism

I have audited the balance sheet of the Nova Scotia Business Development Corporation as at March 31, 1998, and the statement of continuity of Fund for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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.

These financial statements reflect proposed write-offs of assistance outstanding of \$9,136,000 which were yet to be approved by Govern in Council as required under Section 23 of the Provincial Finance Act.

In my opinion, except for the effect of adjustments, if any, which I might determine to be necessary should Governor in Council not approve the amounts for write-off, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998, and the continuity of Fund for the year then ended in accordance with the basis of accounting required by Section 15 of the Business Development Corporation Act and the accounting policies detailed in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 8, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION

NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
	(in thousands)	
Loans and Shares, at cost		
Loans Receivable	\$ 140,225	\$ 132,937
Community Business Loan Program	4,038	4,113
Shares (Note 3)	17,560	16,970
	<u>161,823</u>	<u>154,020</u>
Less: Provision for Concessionary Assistance (Note 4)	24,703	31,255
Allowance for Doubtful Accounts	27,279	26,884
	<u>51,982</u>	<u>58,139</u>
	<u>109,841</u>	<u>95,881</u>
Industrial Parks (Note 5)	<u>23,891</u>	<u>24,336</u>
Other Assets (Note 6)	5,894	6,933
Less: Provision for Decline in Value	711	1,726
	<u>5,183</u>	<u>5,207</u>
Due from Consolidated Fund		
Guarantees (Note 7)	17,624	24,310
Less: Provision for Payment under Guarantees	2,062	5,719
	15,562	18,591
Assistance Authorized but Unadvanced	27,305	31,687
	<u>42,867</u>	<u>50,278</u>
	<u>\$ 181,782</u>	<u>\$ 175,702</u>

FUNDING AUTHORIZED AND COMMITTED

Authorized, Net of Write-Offs	\$ 303,802	\$ 312,938
Less: Provision for Concessionary Assistance and Possible Losses on Assistance (Note 8)	54,755	65,584
Net Fund Balance	249,047	247,354
Less: Uncommitted Balance of Fund	67,265	71,652
	<u>\$ 181,782</u>	<u>\$ 175,702</u>

Contingency (Note 9)

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION
NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION FUND

Statement of Continuity of Fund

for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Balance, beginning of year	\$ 312,938	\$ 315,141
<i>Deduct:</i> Accounts written-off	9,136	2,203
Balance, end of year	<u>\$ 303,802</u>	<u>\$ 312,938</u>
 Comprising:		
Loans receivable, shares and other assets	\$ 167,717	\$ 160,953
Industrial parks	23,891	24,336
Guarantees in effect and utilized.	9,059	13,531
Loans and other investments authorized but unadvanced, and guarantees in effect but not utilized.	35,870	42,466
Uncommitted balance	67,265	71,652
	<u>\$ 303,802</u>	<u>\$ 312,938</u>

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION****NOVA SCOTIA BUSINESS DEVELOPMENT CORPORATION FUND****Notes to Financial Statements****March 31, 1998****1. Authority**

The Nova Scotia Business Development Corporation was established pursuant to the Business Development Corporation Act. The Act provided for the creation of the Nova Scotia Business Development Corporation Fund. The object of the Corporation is to encourage business development in the Province by providing financial assistance to business through the Fund, or such other assistance as may be determined by the Governor-in-Council. The Corporation's activities are administered through a division of the Department of Economic Development and Tourism (formerly the Nova Scotia Economic Renewal Agency).

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by paragraphs (a), (b), (c), (e) and (f) below.

Administrative Expenses, Interest Revenue and Expense

- (a) Administrative expenses of the Corporation and revenues earned on guarantees are included in the accounts of the Department of Economic Development and Tourism and are not reflected in the financial statements. In addition, accrued loan interest is not recognized as a receivable in the financial statements of the Fund. Interest and other income earned on loans and shares is included in the accounts of the Department of Finance and are not reflected in the financial statements.

Statement of Changes in Financial Position

- (b) A statement of changes in financial position is not provided since disclosure in the statements of continuity of the fund and the balance sheet are considered adequate.

Current Assets

- (c) Payments receivable within one year of the balance sheet date are not segregated and classified as current assets.

Industrial Parks

- (d) Industrial parks are carried at cost of acquisition plus direct costs of improvements, net of proceeds of disposal. Selling prices are established using a number of considerations and may be set to provide financial assistance. The park lands are reflected on an aggregate basis at the lower of cost or estimated market value.
- (e) The buildings in the parks are carried at book value. No depreciation is charged on the buildings.
- (f) Operational responsibility for the industrial parks has been assigned to the Department of Transportation and Public Works. Revenues and expenses associated with the operation of the industrial parks are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

Other Assets

- (g) Properties which are rented to third parties under capital lease arrangements are carried at unamortized cost. A portion of rent received on capital leases is recorded as a reduction in the carrying value of individual assets.

Properties acquired through foreclosure are carried at the cost of foreclosure acquisition.

Properties acquired through default of capital leases are carried at the unamortized value of the lease.

When a permanent reduction in the value of property under a capital lease arrangement becomes known, the carrying cost of the property is reduced to net realizable value.

Properties in default under capital lease arrangements and properties acquired through foreclosure are subject to a provision for write down annually to estimated realizable value.

Provision for Concessionary Assistance

- (h) The Corporation provides for the effect of the decrease in valuation of certain loans and shares due to the assistance being provided with concessionary terms.

Allowance for Doubtful Accounts

- (i) The Corporation provides for possible losses on guarantees authorized, loans receivable, shares and other assets on an item-by-item basis except for loans under the Community Business Loan Program for which a blanket provision is determined based on past years' loan performance. In addition, a general reserve is provided on any unreserved assistance outstanding.

3. Shares

	1998	1997
	(in thousands)	
Preferred shares	\$ 12,960	\$ 12,370
Common shares	<u>4,600</u>	<u>4,600</u>
	<u>\$ 17,560</u>	<u>\$ 16,970</u>

4. Provision for Concessionary Assistance

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 Corporation.

The terms of concessionary assistance provided by the Corporation has included 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 (NBV) related to loans and shares are as follows:

	1998			1997
	Assistance Outstanding	Provision for Concessionary Assistance	NBV	NBV
	(in thousands)			
Loans	\$ 35,149	\$ 17,859	\$ 17,290	\$ 10,655
Shares	<u>11,764</u>	<u>6,844</u>	<u>4,920</u>	<u>4,873</u>
	<u>\$ 46,913</u>	<u>\$ 24,703</u>	<u>\$ 22,210</u>	<u>\$ 15,528</u>

5. Industrial Parks

These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include buildings, which are mainly used as incubator malls.

No provision has been made to reflect on an individual park-by-park basis the difference between the carrying cost and fair market value. As at March 31, 1998 the cost of parks in excess of management's determination of market value totalled \$5,529,523 (market value - \$2,200,000). The cost of parks where market value exceeded cost was \$11,761,908 (market value - \$21,200,000). This results in an estimated net excess of current market value over carrying costs of approximately \$6,108,000.

The balance of the cost of industrial parks of \$6,599,901 is represented by the book value of the incubator malls, other buildings and property at March 31, 1998.

6. Other Assets

	1998	1997
	(in thousands)	
Leased Properties	\$ 1,072	\$ 1,924
Assets Acquired by Foreclosure	<u>4,822</u>	<u>5,009</u>
	<u>\$ 5,894</u>	<u>\$ 6,933</u>

7. Guarantees

	1998	1997
	(in thousands)	
Guarantees - In effect and utilized	\$ 9,059	\$ 13,531
Guarantees - In effect but not utilized	<u>8,565</u>	<u>10,779</u>
	<u>\$ 17,624</u>	<u>\$ 24,310</u>

During the year one guarantee totalling \$3,000,000 was paid out.

8. Provision for Concessionary Assistance and Possible Losses on Assistance

The following is a continuity of the provision:

	1998	1997
	(in thousands)	
Balance, beginning of year	\$ 65,584	\$ 59,096
Add: Current year (recovery) provision	(1,693)	8,691
Deduct: Accounts written-off	<u>9,136</u>	<u>2,203</u>
Balance, end of year	<u>\$ 54,755</u>	<u>\$ 65,584</u>

9. Contingency

The Corporation has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. An estimate of the amount of future costs under these agreements cannot be reasonably determined and are not reflected in the financial statements.

10. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 (or beyond) dates, is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Corporation, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal operations. The Corporation and Province of Nova Scotia have initiated certain steps aimed at identifying the scope and alternative resolutions for the issue and it is acknowledged that additional effort will be required to address the issue. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

AUDITOR'S REPORT

To the Minister of Agriculture and Marketing; and

To the Chair and Members of the Nova Scotia Crop
and Livestock Insurance Commission

I have audited the balance sheet of the Nova Scotia Crop and Livestock Insurance Commission as at March 31, 1998, and the statement of income and fund balances for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1998 and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 5, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA CROP AND LIVESTOCK INSURANCE COMMISSION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current Assets		
Cash	\$ 74,296	\$ 57,927
Short-term investments	5,076,304	5,044,972
Accounts receivable	19,971	5,775
Accrued interest receivable	4,396	60,720
	<u>\$ 5,174,967</u>	<u>\$ 5,169,394</u>

LIABILITIES AND FUND BALANCES

Current Liabilities

Unearned premiums	\$ 33,722	\$ 32,102
Deposits for insurance	751	526
Provision for payment of unsettled indemnities (Note 3)	16,200	4,107
	<u>50,673</u>	<u>36,735</u>

Fund Balances

Crop insurance	4,168,871	4,193,132
Livestock insurance	955,423	939,527
	<u>5,124,294</u>	<u>5,132,659</u>
	<u>\$ 5,174,967</u>	<u>\$ 5,169,394</u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA CROP AND LIVESTOCK INSURANCE COMMISSION****Notes to Financial Statements****March 31, 1998****1. Authority**

The Nova Scotia Crop and Livestock Insurance Commission was established pursuant to Section 2(1) of the Nova Scotia Crop and Livestock Insurance Act. The function of the Commission is to administer plans of crop and livestock insurance, and conduct programs relating to these plans.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the policy of charging furniture and equipment purchases to expense in the year of acquisition.

3. Provision for Payment of Unsettled Indemnities

Any indemnities for losses incurred in the fiscal year not paid as of year end have been recorded in the financial statements, with the exception of indemnities for Winter Grain.

Winter Grain is planted in the fall, but is not harvested until the following fall. Therefore, crop yields for Winter Grain are not known until well after the annual financial statements have been prepared. Crop yields can fluctuate dramatically depending upon factors such as weather conditions during the growing and harvesting seasons. As a result, the occurrence and amount of losses relating to this year's crop, if any, cannot be reasonably estimated at this time and therefore no provision has been recorded in the financial statements. In most cases, the indemnity expense for Winter Grain will be recorded in the year it is paid.

4. Government Contributions

Under the crop insurance programs, producers pay 50% of the insurance premiums and the Federal and Provincial governments each pay 25%. Neither the Federal nor Provincial governments cost share in the insurance premiums of the livestock insurance program or in non-refundable deposits.

For the 1998 fiscal year, the Federal government contributed 49% (1997 - 49%) of the total administrative expenses. The Provincial government funded the remainder.

5. Insurance Coverage

The total insurance coverage as of March 31, 1998 was \$37,000,322 (1997 - \$33,515,774), comprising crop insurance of \$12,592,922 (1997 - \$11,406,574) and livestock insurance of \$24,407,400 (1997 - \$22,109,200).

The Province is party to an agreement with the Government of Canada, whereby, the Province makes advances to a fund administered by the Government of Canada called the Crop Re-Insurance Fund of Canada for Nova Scotia. The purpose of this Fund is to assist the Province of Nova Scotia when there is a requirement by the Province to make advances to the Commission for the payment of crop insurance indemnities. Transactions concerning this Fund are recorded by the Province and are not reflected in the accounting records of the Commission.

There is no Re-insurance Fund for livestock. The Province is responsible for any deficiency in these funds.

6. Public Service Superannuation Fund

All full time employees of the Commission are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Commission's operating expenses. The Public Service Superannuation Fund is administered by the Department of Finance. The Commission is not responsible for any unfunded liability.

7. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Nova Scotia Crop and Livestock Insurance Commission, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Commission's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Commission, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA CROP AND LIVESTOCK INSURANCE COMMISSION

Statement of Income and Fund Balances

for the year ended March 31, 1998

	Crop Insurance	Livestock Insurance	Other	Totals	
				1998	1997
Revenues					
Insurance premiums (Schedule A)	\$ 596,581	\$ 24,557	\$ ---	\$ 621,138	\$ 603,633
Interest income	160,965	36,018	---	196,983	215,971
	<u>757,546</u>	<u>60,575</u>	<u>---</u>	<u>818,121</u>	<u>819,604</u>
Expenses					
Indemnity claims (Schedule A)	781,807	44,679	---	826,486	503,879
Bad debt expense	---	---	---	---	6,717
Administrative expenses (Schedule B)	635,225	6,481	6,481	648,187	518,057
	<u>1,417,032</u>	<u>51,160</u>	<u>6,481</u>	<u>1,474,673</u>	<u>1,028,653</u>
Income (loss) before Government contributions	(659,486)	9,415	(6,481)	(656,552)	(209,049)
Government contributions (Note 4)	635,225	6,481	6,481	648,187	518,057
Net Income (Loss)	<u>(24,261)</u>	<u>15,896</u>	<u>---</u>	<u>(8,365)</u>	<u>309,008</u>
Fund Balance					
Beginning of year	4,193,132	939,527	---	5,132,659	4,823,651
End of year	<u>\$ 4,168,871</u>	<u>\$ 955,423</u>	<u>\$ ---</u>	<u>\$ 5,124,294</u>	<u>\$ 5,132,659</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA CROP AND LIVESTOCK INSURANCE COMMISSION

Premium Revenue and Indemnity Claims

for the year ended March 31, 1998

	Premium Revenue				Indemnity Claims		
	Farmer	Federal	Provincial	1998	1997	1998	1997
Crop Insurance							
Spring grain	\$ 35,534	\$ 17,767	\$ 17,767	\$ 71,068	\$ 62,760	\$ 69,444	\$ 52,385
Winter grain	11,111	5,556	5,556	22,223	15,372	99,090	5,158
Tree fruit	114,309	57,155	57,155	228,619	248,412	124,559	56,044
Corn	34,917	17,459	17,459	69,835	62,068	115,198	67,198
Peas & Beans	50,224	25,112	25,112	100,448	92,820	50,756	89,179
Blueberries	30,448	15,224	15,224	60,896	50,429	255,784	144,488
Strawberries	3,623	1,811	1,811	7,245	7,083	9,620	11,134
Forage	1,429	715	715	2,859	1,296	2,864	---
Soybeans	5,552	2,776	2,776	11,104	7,535	24,169	7,156
Potatoes	11,142	5,571	5,571	22,284	29,685	30,323	23,176
	<u>298,289</u>	<u>149,146</u>	<u>149,146</u>	<u>596,581</u>	<u>577,460</u>	<u>781,807</u>	<u>455,918</u>
Livestock Insurance							
Dairy	24,557	---	---	24,557	26,173	44,679	47,961
Total	<u>\$ 322,846</u>	<u>\$ 149,146</u>	<u>\$ 149,146</u>	<u>\$ 621,138</u>	<u>\$ 603,633</u>	<u>\$ 826,486</u>	<u>\$ 503,879</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA CROP AND LIVESTOCK INSURANCE COMMISSION

Administrative Expenses

for the year ended March 31, 1998

	Crop Insurance	Livestock Insurance	Other	Totals	
				1998	1997
Personnel	\$ 388,135	\$ 3,961	\$ 3,961	\$ 396,057	\$ 359,966
Transportation and communication	56,122	573	573	57,268	50,968
Information	9,105	93	93	9,291	5,776
Professional and special services	24,846	254	254	25,354	14,823
Office accommodation and equipment rental	29,733	303	303	30,339	34,921
Repair and maintenance of equipment	2,106	21	21	2,148	3,286
Utilities, materials and supplies	13,769	140	140	14,049	2,875
Capital purchases less than \$50,000	68,054	694	694	69,442	7,272
Other expenditures	43,355	442	442	44,239	38,170
	<u>\$ 635,225</u>	<u>\$ 6,481</u>	<u>\$ 6,481</u>	<u>\$ 648,187</u>	<u>\$ 518,057</u>

AUDITOR'S REPORT

To the Minister of Agriculture and Marketing; and
To the Chair and Members of the Nova Scotia Farm Loan Board

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 1998. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements presents fairly, in all material respects, the financial position of the Board as at March 31, 1998 in accordance with the accounting policies set out in Note 2 of the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
May 6, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FARM LOAN BOARD

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
	(in thousands)	
Accounts receivable	1,256 \$	1,013
Loans receivable (Note 3, Schedule 1)	132,659	131,725
Real estate (Note 4)	4,691	5,618
	<u>\$ 138,606</u>	<u>\$ 138,356</u>

LIABILITIES

Insurance reserve (Note 5)	2,098 \$	1,878
Advance from Department of Finance (Note 6)	136,508	136,478
	<u>\$ 138,606</u>	<u>\$ 138,356</u>

Commitments (Note 7)
Contingency (Note 8)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FARM LOAN BOARD

Notes to Balance Sheet

March 31, 1998

1. Authority

The Nova Scotia Farm Loan Board operates under the authority of the Agricultural and Rural Credit Act. The Board was established to increase agricultural activities in the Province by providing financial assistance to farmers.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the following policy.

Administrative expenses of the Board, and the interest and lease revenues earned are included in the records of the Nova Scotia Department of Agriculture and Marketing. Capital advance interest charges are recorded in the accounts of the Department of Finance. These amounts are not reflected in these financial statements. These statements also exclude accrued loan interest receivable.

3. Loans Receivable

	1998	1997
	(in thousands)	
Farm loans	\$ 136,461	\$ 135,061
Timber loans	1,608	1,858
	138,069	136,919
Less: Allowance for doubtful accounts	5,410	5,194
	\$ 132,659	\$ 131,725

4. Real Estate - at lower of cost and net realizable value

	1998	1997
	(in thousands)	
Real estate being leased or held \$	990 \$	1,279
Land bank	3,670	4,596
Land consolidation		
Agricultural Rural Development		
Agreement (ARDA)	163	176
Less: Federal Government share of cost of		
ARDA properties	(82)	(88)
Held for Department of Agriculture and		
Marketing	699	542
	5,440	6,505
Less: Allowance for doubtful recoveries	749	887
	<u>\$ 4,691</u>	<u>\$ 5,618</u>

5. Insurance Reserve

The Board requires borrowers to participate in a group life program administered by the Board. The carrier of the insurance will pay claims up to 100% and above 125% of premiums received from borrowers during the year. The insurance reserve will be used to fund the portion of claims that fall between these two limits. In addition, the Board may use the reserve to maintain or reduce future premiums charged to borrowers under the policy and pay for professional services related to the program.

Of the total reserve, \$1,079,000 (1997 - \$1,143,000) is held by the Department of Finance, which reduces the Board's advances from the Department. The remaining \$1,019,000 (1997 - \$735,000) is held by the carrier of the insurance plan, and is included in the accounts receivable of the Board. Interest is paid by the insurance plan carrier on an annual basis for certain funds and on a daily basis for other funds, and the interest rates used are set at the beginning of each policy year. The funds held by the Department of Finance bear no interest.

6. Advance from Department of Finance

	1998	1997
	(in thousands)	
Advance from Department of Finance \$	144,765 \$	144,437
Less: Insurance reserve	2,098	1,878
Allowance for doubtful accounts		
and recoveries	6,159	6,081
	8,257	7,959
	<u>\$ 136,508</u>	<u>\$ 136,478</u>

7. Commitments

As at March 31, 1998, the Board had authorized loans of \$10,607,214 (1997 - \$4,145,466) which had not been disbursed.

8. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Farm Loan Board, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Board's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Board, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

Schedule 1

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FARM LOAN BOARD
Continuity of Loans Receivable
for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Loans receivable		
Balance, beginning of year \$	136,919 \$	145,319
<i>Add:</i> Advances made		
Farm loans	23,297	22,748
	160,216	168,067
<i>Deduct:</i> Payments received		
Farm loans	21,532	30,519
Timber loans	250	285
Net transfers to real estate	365	344
	22,147	31,148
Balance, end of year	138,069	136,919
Allowance for doubtful accounts	5,410	5,194
Loans receivable, net of allowance \$	132,659 \$	131,725

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and
To the Minister of Economic Development and Tourism

I have audited the balance sheet of Nova Scotia Film Development Corporation as at March 31, 1998 and the statement of operations and surplus for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations for the year then ended in accordance with the accounting policies described in Note 2 to the financial statements.

E.R. SALMON, F.C.A.
Auditor General

Halifax, Nova Scotia
June 5, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FILM DEVELOPMENT CORPORATION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current		
Cash and short-term investments		
General \$	934,158 \$	519,403
MT & T New Media Fund (Note 5)	221,638	---
Demand notes receivable	---	128,000
Other receivables	28,637	7,870
Prepays.	20,447	---
	<u>\$ 1,204,880</u>	<u>\$ 655,273</u>

LIABILITIES

Current Liabilities		
Deferred Revenue of the MT & T New Media Fund \$	150,000 \$	---
Accounts payable and accrued liabilities	15,559	46,280
Unearned revenue	17,481	270
	<u>183,040</u>	<u>46,550</u>

SURPLUS

Surplus (Note 3)		
General	950,202	608,723
MT & T New Media Fund	71,638	---
	<u>1,021,840</u>	<u>608,723</u>
	<u>\$ 1,204,880</u>	<u>\$ 655,273</u>

Contingent Commitments - General \$730,684 (1997 - \$654,413)
 MT & T New Media Fund \$56,981 (Note 3)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FILM DEVELOPMENT CORPORATION

Statement of Surplus

as at March 31, 1998

	1998	1997
Surplus, beginning of year		
General \$	608,723 \$	762,317
MT & T New Media Fund	---	---
	608,723	762,317
 Excess (deficiency) of Revenues over Expenditures		
General	341,479	(153,594)
MT & T New Media Fund	71,638	---
	413,117	(153,594)
 Surplus, end of year		
General	950,202	608,723
MT & T New Media Fund	71,638	---
	\$ 1,021,840 \$	608,723

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FILM DEVELOPMENT CORPORATION

Statement of Operations

for the year ended March 31, 1998

	1998	1997
Revenues		
General		
Contributions from the Department of Economic Development and Tourism (Note 4) \$	3,009,400	\$ 1,717,500
Recovery of equity investments and development loans (Notes 6, 7)	200,774	132,952
Interest and other income	37,746	42,482
	<u>3,247,920</u>	<u>1,892,934</u>
MT & T New Media Fund		
From MT & T	75,000	---
From general	75,000	---
	<u>150,000</u>	<u>---</u>
	<u>3,397,920</u>	<u>1,892,934</u>
Expenditures		
General funds Assistance programs		
Equity investments (Note 6)	1,880,190	1,294,000
Project development loans (Note 7)	208,715	87,277
Special project grants	202,828	136,336
General payment to MT & T New Media Fund	75,000	---
	<u>2,366,733</u>	<u>1,517,613</u>
MT & T New Media Fund Assistance Programs		
New media development loans	78,362	---
Administrative expenses (Schedule 1)	539,708	528,915
	<u>2,984,803</u>	<u>2,046,528</u>
Excess (Deficiency) of Revenues over Expenditures		
General	341,479	(153,594)
MT & T New Media Fund	71,638	---
Total \$	<u>413,117</u>	<u>\$ (153,594)</u>

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FILM DEVELOPMENT CORPORATION

Notes to Financial Statements

for the year ended March 31, 1998

1. Authority

The Nova Scotia Film Development Corporation was incorporated through an act proclaimed by the Governor in Council on August 1, 1990. The chief purpose of the Corporation is to promote the development of, and to create and stimulate employment and investment in, the Nova Scotia film and video industry by providing financial and other assistance.

The Corporation has been designated by the Minister of Finance to administer the Nova Scotia Film Tax Credit Program, including registration of productions and review tax credit applications.

2. Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles except for the undernoted items:

- (i) Program grants, loans and equity participation are charged to current expenditures as disbursed. Recoveries derived from equity investments are recorded as revenue when received. Recoveries of project development loans are offset against expenditures when received.
- (ii) Capital asset acquisitions are recorded as current expenditures. Any proceeds from disposal thereof are recorded as revenues.
- (iii) The costs incurred by government departments providing certain services to the Corporation are not reflected in these statements.
- (iv) A statement of changes in financial position is not provided since disclosure in the statement of operations, statement of surplus and the balance sheet is considered adequate.
- (v) The act of incorporation required the establishment of a special account known as the Nova Scotia Film Development Corporation Fund. Any investments or guarantees were to be charged to the fund and corporate administrative expenses were to be paid from the Consolidated Fund of the Province. No fund has been established and all charges and expenses of the Corporation have been paid out of an appropriation from the Consolidated Fund of the Province.

3. Surplus and Contingent Commitments

Because of the lead times required to obtain all the resources necessary to complete film and video productions, the Corporation approves applications for funding which will not result in program disbursements until subsequent fiscal periods.

As at March 31, 1998, the Corporation is contractually committed to advance funds totalling \$730,684 (1997 - \$654,413) from the general fund and \$56,981 from the MT & T New Media fund as investments and loans in respect of current and future projects.

4. Economic Dependence/Services Provided

The Corporation is economically dependent on the Department of Economic Development and Tourism for annual funding. During the year, services were provided to the Corporation by government departments, including the following:

Legal services	\$	56,250
Rent		30,000
	\$	<u>86,250</u>

The cost of these services is not reflected in these financial statements.

5. MT & T New Media Fund

The corporation and Maritime Tel & Tel (MT & T) entered into an agreement on August 18, 1997 for the purpose of assisting the corporation's mandate to develop Nova Scotia film, video and multi-media productions. Maritime Tel & Tel agreed to contribute \$400,000 over three years (1997-98, \$75,000; 1998-99, \$150,000; 1999-2000, \$175,000) which contribution will be matched by the corporation. These funds are to be segregated and disbursed according to guidelines jointly development by the corporation and Maritime Tel & Tel. The activities, assets and liabilities of this fund have therefore been distinguished from those of the general funds of the corporation in these financial statements.

6. Equity Investments

Production assistance in the form of equity investment is provided to eligible producers for the financing of productions that will provide employment and economic benefit to Nova Scotians. Equity investments are made with the condition of repayment through participation in revenues generated by projects. Revenue is recorded as received.

During the year the Corporation received \$170,774 (1997 - \$58,581). The total equity investments of the Corporation to March 31, 1998 is \$9,900,176, with recoument to March 31, 1998 of \$394,719, for a net of \$9,505,448.

7. Project Development Loans

The Corporation provides loans to qualified applicants to support the essential process of development which takes an idea through the stages of research, writing, market analysis and costing, which must precede the completion of production financing arrangements. Support for the development of a project does not necessarily imply support for a production. All project development loans are charged to current expenditures when disbursed. Project 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. Total development loans outstanding on March 31, 1998 were \$657,456 (1997 - \$537,564). Development loans of \$30,000 (1997 - \$74,371) were recouped during the year.

8. Public Service Superannuation Fund

All full-time employees of the Corporation are entitled to receive pension benefits pursuant to the provisions of the pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Corporation's administrative expenses. The Public Service Superannuation Fund is administered by the Department of Finance.

9. Comparative Numbers

Certain of the prior year's figures have been restated to conform with current year presentations.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA FILM DEVELOPMENT CORPORATION

Administrative Expenses

for the year ended March 31, 1998

	1998	1997
Salaries and Benefits \$	309,838 \$	213,181
Contract Buy-Out	---	118,498
Staff Training	4,157	1,545
Audit Services	---	3,785
Advertising	38,235	25,441
Bank Charges	1,105	1,240
Consultants	9,404	10,102
Courier Services	4,299	3,803
Dues, Fees and Subscriptions	3,364	897
Insurance	1,389	1,431
Legal Fees	---	1,187
Location Scout	5,467	3,313
Miscellaneous	(3,739)	(5,632)
Repairs & Maintenance	3,385	1,605
Production Guide (Net of Receipts)	18,014	1,528
Board Honorarium and Expenses	39,806	59,577
Capital Equipment	3,505	4,355
Photocopier/Fax Rent	5,223	5,782
Office Supplies	12,704	6,298
Postage	4,430	7,242
Photos	4,477	3,895
Library	454	802
Conferences/Marketing	5,079	7,271
Telephone and Fax	10,353	12,828
Business Travel Expenses	58,759	38,941
Total \$	<u>539,708</u> \$	<u>528,915</u>

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Nova Scotia; and
To the Minister of Finance

I have audited the balance sheet of the Nova Scotia Gaming Corporation as at March 31, 1998 and the statements of income and retained income earnings for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position Corporation as at March 31, 1998 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

My auditor's report on the Corporation's March 31, 1997 financial statements was qualified. In my opinion, the net income of the Corporation reported for the year ended March 31, 1997 was understated by \$2,143,409 related to casino gaming due to the Corporation's interpretation of the Operating Contract between Corporation and Metropolitan Entertainment Group. This interpretation results in the adoption of an expense allocation approach which recognized the payment of any shortfalls that arise in a year as an expense for the year in which they are paid.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 15, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current		
Due from Atlantic Lottery Corporation Inc.	\$ 10,533,717	\$ 8,607,772
Due from Metropolitan Entertainment Group (Note 2(d))	6,556,869	5,612,436
Prepays	1,361	1,361
	17,091,947	14,221,569
Long-term		
Investment in Atlantic Lottery Corporation Inc. (Note 4)	100	100
Investment in Interprovincial Lottery Corporation (Note 5)	1	1
Due from Atlantic Lottery Corporation Inc. (Note 6)	---	808,468
Fixed Assets (Note 7)	41,082	44,460
	41,183	853,029
	\$ 17,133,130	\$ 15,074,598

LIABILITIES

Current		
Accounts Payable	\$ 813,693	\$ 269,234
Due to Nova Scotia Gaming Foundation (Note 2(f))	57,955	53,572
Due to Province of Nova Scotia (Note 8)	16,261,482	13,943,324
	17,133,130	14,266,130

EQUITY

Fixed assets of Atlantic Lottery Corporation Inc. (Note 6)	---	808,468
	\$ 17,133,130	\$ 15,074,598

Contingencies and Commitments (Notes 3, 9 and 11)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION

Income Statement

for the year ended March 31, 1998

	1998	1997
REVENUE		
Atlantic Lottery Corporation Inc.		
Regular Lottery (Schedule I) \$	180,819,528	\$ 171,163,233
Other (Schedule I)	693,380	192,330
Net Video Lottery (Schedule II)	120,995,501	106,601,378
Sheraton Halifax Interim Casino (Schedule III)		
Casino	48,226,292	46,313,119
Beverage, Food and Other	1,167,390	1,285,645
Sheraton Sydney Casino (Schedule IV)		
Casino	25,782,596	24,717,496
Beverage, Food and Other	1,690,169	1,887,350
	379,374,856	352,160,551
EXPENSES		
Atlantic Lottery Corporation Inc.		
Regular Lottery (Schedule I)	142,594,812	130,276,405
Video Lottery (Schedule II)	40,644,489	37,759,642
Special Payments (Note 4(d))	200,000	200,000
Bonus Commissions (Note 4(d))	33,472	48,009
Nova Scotia Gaming Foundation Contribution (Note 2(f))	359,970	318,014
Sheraton Halifax Interim Casino (Schedule III)		
Win tax	9,645,258	9,262,572
Operating	25,226,102	24,101,453
Payments to Operator (Note 3(a)(ii))	11,155,705	12,061,055
Sheraton Sydney Casino (Schedule IV)		
Win tax	5,156,520	4,943,499
Operating	14,685,083	13,078,011
Payments to Operator (Note 3(a)(ii))	6,401,070	8,414,896
Corporation (Schedule V)	1,173,463	867,041
	257,275,944	241,330,597
Net Operating Income	122,098,912	110,829,954
Income Guarantee (Notes 2(d))	5,501,514	8,351,805
Net Income \$	127,600,426	\$ 119,181,759

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION
Statement of Retained Earnings
for the year ended March 31, 1998

	1998	1997
Balance, beginning of year	\$ ---	\$ ---
Net income	127,600,426	119,181,759
Payments to Province of Nova Scotia	127,600,426	119,181,759
Balance, end of year	<u>\$ ---</u>	<u>\$ ---</u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA GAMING CORPORATION****Notes to the Financial Statements****for the year ended March 31, 1998****1. Description of Business**

The Nova Scotia Gaming Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the Gaming Control Act. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

2. Accounting Policies**(a) Basis of Presentation**

The financial statements have been prepared in accordance with generally accepted accounting principals. A statement of changes in financial position is not provided as disclosure in the balance sheet and the income statement is considered adequate.

(b) Casino Revenue

In accordance with industry practice, casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

(c) Video Lottery Revenue

In accordance with industry practice, video lottery revenues are reported as the net receipts from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

(d) Income Guarantee

In accordance with the Operating Contract between Metropolitan Entertainment Group (Operator), the Nova Scotia Gaming Corporation and Sheraton International Inc. (Guarantor) (Note 3), an income guarantee was provided to ensure Total Provincial Revenue in each of the first four years of operation would not be less than \$25 million. Total Provincial Revenue was defined to include the aggregate of casino win tax (20%) paid to the Province of Nova Scotia, annual registration fees of \$100,000 paid to the Nova Scotia Alcohol and Gaming Authority (formerly Nova Scotia Gaming Control Commission) and the annual net operating income of the Nova Scotia Gaming Corporation from the casino complexes. On a cumulative monthly basis the amount of the income guarantee is accrued if defined Total Provincial Revenue earned is less than \$2,083,333, which equals the pro rata monthly portion of the \$25 million.

The commencement date of the guarantee period was June 1, 1995 with an expiry date of July 31, 1999. If defined Total Provincial Revenue falls below the \$25 million in any year of the guarantee period the Operator is obligated to pay the deficiency within 90 days after the end of each guarantee year.

The third year of the income guarantee commenced August 1, 1997. Of the \$6,556,869 due from Metropolitan Entertainment Group, \$4,824,353 has been accrued to reflect the difference between defined Total Provincial Revenue earned during the guarantee period between August 1, 1997 and March 31, 1998 and the prorated amount of the income guarantee for the period. This receivable will be adjusted over the remaining four months of the income guarantee period as the financial results are reported.

Pursuant to the Operating Contract, the Nova Scotia Gaming Corporation and the Operator have agreed that if defined Total Provincial Revenue exceeds \$25 million in any year through to July 31, 2000, then any previous deficiencies paid by the Operator can be recovered from the Corporation if defined Total Provincial Revenue is in excess of \$25 million. The Corporation will record any repayment to the Operator as a reduction of net income of the Corporation.

(e) Fixed Assets

Fixed Assets are stated at cost less accumulated depreciation. Depreciation is provided on the declining balance basis at the following annual rates.

Computer equipment	30%
Office equipment	20%

(f) Nova Scotia Gaming Foundation Contribution

On March 11, 1998, the Nova Scotia Gaming Foundation was established pursuant to the Gaming Control Act and the Provincial Finance Act. The purpose of the Foundation is to receive, maintain and disburse funds in furtherance of the purposes set out in the Gaming Control Act, including for research or education in respect of gambling, or treatment and remediation of the effects of gambling. All funds accumulated in the VLT (Video Lottery Terminal) Problem Gaming Fund have been transferred to the Nova Scotia Gaming Foundation.

The VLT Problem Gaming Fund had been created in April 1995 following agreement between the Lounge and Beverage Room Association of Nova Scotia and the Nova Scotia Gaming Corporation whereby the Association agreed that its members would contribute to the VLT Problem Gaming Fund provided the number of VLTs and the commission rate would not be reduced for three years. The members of the Association and all other VLT siteholders agreed, under the terms of their siteholder agreements with Atlantic Lottery Corporation Inc., that they would contribute 1% of their VLT commission to the VLT Problem Gaming Fund. The Nova Scotia Gaming Corporation agreed to contribute an amount equal to all contributions made by the VLT siteholders.

As at March 31, 1998, the Foundation has a fund balance of \$2,031,563 (\$1,271,407 - 1997).

(g) **Investments**

Investments in the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

3. The Casino Contract

(a) Operating Contract

i) Term

On May 31, 1995 the Nova Scotia Gaming Corporation entered into an Operating Contract with Metropolitan Entertainment Group (Sheraton Casinos Nova Scotia/Operator), a partnership between ITT Sheraton Canada Ltd. and Purdy's Wharf Development Limited, to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015. The Operating Contract provides Metropolitan Entertainment Group with the exclusive right to operate casino gaming in Nova Scotia as an agent on behalf of the Corporation.

ii) Payments to Operator

The Operator is entitled to certain payments from each casino calculated with reference to the following items, which are listed in Section 4.7 of the Operating Contract.

- An amount based upon the Operator's capital investment in Halifax and Sydney with respect to each Casino Complex, which amount is amortized straight-line over a three-year term in Halifax and a ten-year term in Sydney, with interest calculated at 12% on the total outstanding capital investment.
- An amount equal to 1.5% of casino revenue before casino win tax (20%) to fund a capital replacement reserve. Disbursements from this reserve are required to be approved in advance by the Nova Scotia Gaming Corporation through the annual capital budget approval process. Sheraton Halifax Interim Casino's capital replacement reserve balance at March 31 is \$1,940,825 (\$1,145,382 - 1997) and in Sydney the balance is \$1,006,145 (\$559,008 - 1997).
- An amount equal to 3% of casino revenue in Sydney as a Base Fee and 10% of casino revenue, less casino win taxes, the Base Fee and defined Operating Expenses as an Incentive Fee.
- An amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above. The Operator will track the amount of the shortfall and will be entitled to increased payments by an amount equal to the accumulated shortfall plus interest at prime plus 1% during the period in which the shortfall is outstanding.

- An amount equivalent to 35% of cash available for distribution, as defined in the Operating Contract from the Sheraton Halifax Interim Casino.

iii) Cash Available for Distribution to the Corporation

The Nova Scotia Gaming Corporation's net operating income consists of the cash available for distribution after payments to Operator.

iv) Operating Period

Net operating income earned by the Corporation is calculated based upon the operating period which, is defined in the Operating Contract as the calendar year. The Nova Scotia Gaming Corporation's annual financial statements are prepared based upon a March 31 year-end. Any net operating income earned by the Corporation during the operating period ended December 31 is not subsequently adjusted in the event the casino operation has a shortfall in the next quarter.

v) Mandatory Deferral

During the year, the income was insufficient to pay to the Operator the maximum payment to which the Operator is entitled with reference to their capital investment. In the three-month period ended March 31, 1998, the Operator incurred a shortfall of \$102,689 in Sydney. This amount has not been recorded in the financial statements. This amount will be eligible for payment to the Operator from income in the upcoming year and will be accounted for at that time.

vi) Approvals

The Nova Scotia Gaming Corporation is required to approve, annually, the Operator's annual operating and capital budgets for both casino complexes. The approval of the 1997 operating and capital budgets for the Halifax and Sydney Casinos remain outstanding.

The Corporation has approved the Operator's 1998 operating and capital budgets for the Halifax and Sydney Casinos with the exception of the Operator's failure to make provision for payment of HST from the casino revenues. The Corporation disagrees with the Operator's treatment of HST (see Note 13).

The Corporation is also required to review annually the Operator's audited financial statements for both casino complexes. Pursuant to Section 4.16 of the Operating Contract, the Corporation may submit any objections related to the audited financial statements of each casino complex. The Corporation objected to the treatment of GST/HST in the December 31, 1997 audited financial statements, which differed from the treatment accorded GST in the audited financial statements for the periods ended December 31, 1995 and 1996. In addition, the Corporation has given notice of its objection to the calculation of the cash available for distribution included in the unaudited financial statements provided by the Operator for the Sheraton Halifax Interim and Sheraton Sydney Casinos for the months of February and March 1998. These audited and unaudited financial statements excluded GST/HST as a defined Operating Expense of each casino complex. As a consequence, the Corporation has prepared its financial statements according to the terms of the Operating Contract, to include GST/HST as a defined Operating Expense in a manner consistent with the financial statement presentation of the Operator's audited financial statements for the year ended December 31, 1995, year ended December 31, 1996 and for the unaudited financial statements for the months January 1997-January 1998 (see Note 13).

vii) Public Education and Problem Gaming Contribution

Metropolitan Entertainment Group and the Nova Scotia Gaming Corporation have agreed to an annual contribution of \$1,000,000 to be paid to the Department of Health to provide funds for problem gaming programs and related public education. Contributions have been allocated as an expense between the Sheraton Halifax and Sydney Casino complexes pro rata based upon gaming revenues.

viii) Termination of Operating Contract

The Nova Scotia Gaming Corporation and the Operator have the right to terminate the Operating Contract prior to its expiration in certain circumstances. The Corporation may terminate the Operating Contract if an event of default has occurred and the Operator has not cured the default within a prescribed time period. The provisions of the income guarantee would remain in full force and effect until such time as the full sum of \$100 million with respect to defined Total Provincial Revenue has been paid by the Operator to the Nova Scotia Gaming Corporation.

The Operator may terminate the Operating Contract if an Operator termination event as described in the Operating Contract occurs and is not remedied by the Corporation within a prescribed period of time. The Corporation would be required to pay the balance of the Operator's capital investment, the outstanding principal balance of Development Financing, if any, and the net present value of the future payments to the Operator as defined and calculated in the Casino Option Contract.

The Operator may also terminate the Operating contract if aboriginal people establish casinos in Nova Scotia even though the establishment occurs without the consent or sufferance of the Province of Nova Scotia and the Province of Nova Scotia derives no revenue. The Corporation would be required to pay the balance of the Operator's capital investment, the outstanding balance of Development Financing, if any, and the Operator's reasonable costs in winding down its operations and withdrawing as Operator.

b) Halifax Interim Casino Construction Contract and Sydney Casino Construction Contract

The Operator was required, pursuant to the Halifax Interim Casino Construction Contract and the Sydney Casino Construction Contract, to develop, finance and construct a temporary casino facility in Halifax and a permanent casino complex in Sydney, which opened June 1, 1995 and August 1, 1995 respectively. All operating and capital assets and related liabilities in respect of each casino complex are not recorded as assets or liabilities of the Corporation.

The Operator's capital investment totalled \$24.0 million in Halifax and \$23.2 million in Sydney and will be repaid through the payments to Operator as described in Note 3(a)(ii). The Operator's capital investment balances were \$1.3 million in Halifax and \$17.1 million in Sydney as at March 31, 1998.

c) Halifax Casino Construction Contract

Pursuant to the Halifax Casino Construction Contract, the Operator is required to develop, finance and construct a permanent casino complex with budgeted costs of \$97 million plus or minus 12 per cent. Construction of the permanent casino commenced on February 1, 1998, with a scheduled completion date of September 15, 1999.

The Nova Scotia Gaming Corporation was required to approve the casino design development documents, construction budget and a construction schedule, which provides the basis upon which the construction project may proceed. The Operator is required to submit, from time to time, casino working documents to the Corporation together with confirmation that these documents are in compliance with the previously approved casino design development documents. Any material change in any of the casino working documents must be provided to the Nova Scotia Gaming Corporation.

Throughout the construction of the casino, the Operator is required to provide a monthly status report, which includes the status of the construction to date, material changes to casino working documents and status of expenditures relative to the construction budget.

Within six months following the opening of the Halifax Permanent Casino, the Operator is required to submit to the Nova Scotia Gaming Corporation for approval a detailed summary of the total amount expended for completion of the casino. This submission would include the following costs:

- land
- construction
- furniture, fixtures and equipment
- interest
- architecture and design
- pre-opening costs

Within 30 days of the submission, the Nova Scotia Gaming Corporation may approve or give notice to Operator of its non-approval. Upon approval the Nova Scotia Gaming Corporation, such costs shall be deemed to be Approved Development Costs of the casino, which the Operator may finance internally or through third party lenders. The Operator will be entitled to payments from casino revenues equal to the Approved Development Costs amortized straight-line over a seven-year term.

d) Casino Option Contract

Upon expiration of the Operating Contract in 2015, the Corporation has the option to purchase each of the Halifax and Sydney casino complexes, including operating and capital assets, and working capital totalling \$2.6 million for the price of \$1.00. The Corporation also has an option to purchase each of the two casino complexes in year 10 or year 15 of the Contract. This early purchase option requires the Corporation to pay out the balance of the Operator's capital investment, the outstanding principal balance of development financing, if any, and the net present value of payments to the Operator for the balance of the term of the Operating Contract.

4. Atlantic Lottery Corporation Inc.

- (a) The Nova Scotia Gaming Corporation appointed the Atlantic Lottery Corporation Inc. its exclusive agent to conduct lottery ticket and video lottery in Nova Scotia. Each of the Nova Scotia Gaming Corporation, Newfoundland, New Brunswick and Prince Edward Island own 25 per cent of the Atlantic Lottery Corporation Inc. The Atlantic Lottery Corporation Inc. distributes its profits to the Nova Scotia Gaming Corporation, Newfoundland, New Brunswick and Prince Edward Island based on profit distribution formula, which was approved in 1991. The profit distribution formula is currently being renegotiated by the four shareholders of Atlantic Lottery Corporation Inc.

(b) Regular Lottery Profit Distribution

The profit distributed by the Atlantic Lottery Corporation to the Nova Scotia Gaming Corporation is based upon the Corporation's percentage of net sales of regular lottery products. Regular lottery retailers receive a commission of 5% of sales of regular lottery products. A special 3% bonus is also paid to regular lottery retailers on the first \$400,000 of annual sales of regular lottery products, excluding Celebration and Breakopen games.

The Nova Scotia Gaming Corporation assists certain charities by offering them a commission of 18.3% as opposed to the usual 12.5% commission on all Breakopen lottery tickets sold. The Breakopen charity profit distribution comprises total sales of Breakopen lottery tickets net of prizes less commissions and other direct costs.

(c) Video Lottery Profit Distribution

The profit distributed by the Atlantic Lottery Corporation Inc. to the Nova Scotia Gaming Corporation is based upon total net video lottery revenue less direct operating expenses. There are certain Atlantic Lottery Corporation Inc.'s corporate operating expenses attributable to the video lottery program which have not been allocated and are currently being renegotiated by the four shareholders.

Video lottery retailers receive a commission of 30% of net video lottery sales. From this commission, video lottery retailers are required to pay applicable taxes and a 1% contribution to the Nova Scotia Gaming Corporation.

(d) Special Payments

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

	1998	1997
The Department of Education and Culture (on Behalf of the Cultural Federations of Nova Scotia) \$	50,000 \$	50,000
The Department of Agriculture and Marketing (on Behalf of the Exhibition Association of Nova Scotia)	50,000	50,000
The Sport and Recreation Commission (on Behalf of Sport Nova Scotia)	100,000	100,000
	<u>\$ 200,000 \$</u>	<u>200,000</u>

Bonus Commissions totalling \$33,472 (\$48,009-1997) were paid directly during the year by the Nova Scotia Gaming Corporation to various non-profit community organizations. The Corporation pays a 10% commission on sales of A-Plus tickets by eligible vendors. Such amounts must be used for cultural, sport, recreation and exhibition purposes.

e) **Approvals**

The Board of the Atlantic Lottery Corporation Inc. is required to approve, annually, Atlantic Lottery Corporation Inc.'s business plan, including the annual operating budget, the annual capital budget and the annual audited financial statements.

Schedule I and Schedule II have been prepared based upon the Nova Scotia Gaming Corporation's profit distribution recorded in the audited financial statements of the Atlantic Lottery Corporation Inc. for the year ended March 31, 1998.

5. Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976 under the Canada Business Corporations Act. The primary purpose of the Corporation is to operate nation-wide lottery games (Lotto 6/49, Super 7, Special Event-Celebration). The Atlantic Lottery Corporation Inc. is appointed a regional marketing organization. The Nova Scotia Gaming Corporation holds 1 of 10 shares of this Corporation, and appoints 1 of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation. The shareholders' agreement provides that votes are cast by region, and the Nova Scotia Gaming Corporation votes as a part of the Atlantic Canada region. There are five regions, each of which has a weighted vote.

The Board of the Interprovincial Lottery Corporation is responsible for the management of all corporate affairs; however, the Board has delegated most of its authority to the Executive Committee. The Executive Committee consists of the Chief Executive Officers of the five regional marketing organizations. The regional marketing organizations are responsible for the Interprovincial Lottery Corporation's game ticket distribution and sales, new game designs/changes, marketing and promotions and payment of prizes.

6. Equity in Fixed Assets of Atlantic Lottery Corporation Inc.

In prior years, certain of Atlantic Lottery Corporation Inc.'s fixed assets were financed by reducing the Nova Scotia Gaming corporation's distributed profits by an amount equal to the cost of the fixed assets amortized with imputed interest over the life of such fixed assets. A long-term receivable was recorded to recognize the outstanding cash balance due to the Nova Scotia Gaming Corporation and a corresponding equity interest in the fixed assets of Atlantic Lottery Corporation Inc. was reported. The balance of \$808,468 was paid out in June 1997, of which \$306,641 had been previously recognized as income by the Province of Nova Scotia.

7. Fixed Assets

	Cost	Accumulated Depreciation	1998 Net Book Value	1997 Net Book Value
Office Furniture and Equipment	\$ 39,418	\$ 19,129	\$ 20,289	\$ 17,397
Computers	31,401	10,608	20,793	27,063
	<u>\$ 70,819</u>	<u>\$ 29,737</u>	<u>\$ 41,082</u>	<u>\$ 44,460</u>

8. Due to the Province of Nova Scotia

All funds received by the Corporation are immediately transferred to the Province of Nova Scotia's bank account. Funds include casino win tax earned by the Province of Nova Scotia, profit distributions earned by the Nova Scotia Gaming Corporation from the Atlantic Lottery Corporation Inc. and the net operating income from Sheraton Halifax Interim and Sheraton Sydney Casinos, and amounts earned by the Corporation under the income guarantee (Note 2d).

	1998	1997
Due to the Province of Nova Scotia		
Balance, beginning of year	13,943,324 \$	717,086
Net income of the Corporation	127,600,426	119,181,759
CasinoWin Tax Earned by the Province of Nova Scotia		
Sheraton Halifax Interim Casino	9,645,258	9,262,572
Sheraton Sydney Casino	5,156,520	4,943,499
Advances from the Province of Nova Scotia	5,286,274	3,493,658
Funds transferred to the Province of Nova Scotia	(145,676,961)	(123,655,250)
Fixed Asset Equity Repayment (Note 6)	306,641	---
Balance, end of year	<u>\$ 16,261,482</u>	<u>\$ 13,943,324</u>

9. Contingencies

The Corporation has accounted for Harmonized Sales Tax (HST) and/or Goods and Services Tax (GST) in accordance with interim arrangements between the Corporation and the Federal Government. These arrangements are anticipated to be confirmed in HST/GST regulations which have not yet been issued. Adjustments, if any, will be accounted for during the year in which the regulations are approved by the Federal Government. The Corporation was subject to HST beginning April 1, 1997.

A former employee has commenced legal action against the Corporation claiming damages for constructive dismissal. The eventual outcome of this action is not determinable at this time.

10. Related Party Transactions

The Province of Nova Scotia and the Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transaction between these related parties are separately disclosed in the financial statements.

11. Commitments

The Corporation is required to make lease payments over the next five years as follows:

1999	\$	49,000
2000	\$	48,000
2001	\$	48,000
2002	\$	37,000

Pursuant to the terms of the Casino Contracts, the Corporation has agreed that the Operator may be entitled to certain future payments as described in Note 3.

12. Year 2000

Both operators, Atlantic Lottery Corporation Inc. and Metropolitan Entertainment Group, are significantly dependent on information technology. Year 2000 plans are under way at both the Atlantic Lottery Corporation Inc. and Metropolitan Entertainment Group. The Corporation will continue to monitor their progress and the related risk assessments.

13. Subsequent Event

In early April 1998, the Operator change its interpretation of the Operating Contract to exclude non-recoverable HST/GST from the calculation of defined Operating Expenses of the Casino Complexes. The Corporation and its legal counsel disagreed with the Operator's interpretation and the matter was referred to an arbitrator, in accordance with the terms of the Operating Contract.

On June 15, 1998, the arbitrator released his decision and affirmed the Nova Scotia Gaming Corporation's interpretation of the Operating contract and the treatment of HST/GST as a defined Operating Expense.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION

Atlantic Lottery Corporation Inc.

Regular Lottery

for the year ended March 31, 1998

	Atlantic Lottery Corporation		Nova Scotia Gaming Corporation	
	1998	1997	1998	1997
Sales	\$ 482,593,617	\$ 451,118,385	\$ 180,819,528	\$ 171,163,233
Less: Prize Expense	(262,182,660)	(241,103,085)	(95,671,915)	(88,979,249)
Sales Discounts	(181,128)	(163,882)	(63,750)	(40,803)
	<u>(262,363,788)</u>	<u>(241,266,967)</u>	<u>(95,735,665)</u>	<u>(89,020,052)</u>
Net Sales	<u>220,229,829</u>	<u>209,851,418</u>	<u>85,083,863</u>	<u>82,143,181</u>
Direct Costs				
Sales Commission	32,655,775	30,498,202	10,738,585	10,182,089
Winning Ticket Cashing Fee	2,266,475	1,993,939	875,633	780,498
Ticket Costs	11,397,280	10,550,789	4,403,241	4,129,947
Total Direct Costs	<u>46,319,530</u>	<u>43,042,930</u>	<u>16,017,459</u>	<u>15,092,534</u>
Gross Profit	173,910,299	166,808,488	69,066,404	67,050,647
Corporate Operating Costs	55,977,611	52,299,448	23,504,147	22,227,806
Net Lottery Profit	<u>\$ 117,932,688</u>	<u>\$ 114,509,040</u>	<u>\$ 45,562,257</u>	<u>\$ 44,822,841</u>
Profit Distribution Percent			<u>38.6%</u>	<u>39.1%</u>
Sales Commission (Note 4(b))			4,173,017	3,936,013
Harmonized Sales Tax			3,145,221	---
Sundry			19,303	---
			<u>7,337,541</u>	<u>3,936,013</u>
Regular Lottery Profit Distribution			38,224,716	40,886,828
Breakopen Charities (Note 4(b))			191,553	192,330
Fixed Asset Equity Repayment (Note 6)			501,827	---
Other			693,380	192,330
Profit Distribution (Note 4(b))			<u>\$ 38,918,096</u>	<u>\$ 41,079,158</u>

Schedule II

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION
Atlantic Lottery Corporation Inc.
Video Lottery
for the year ended March 31, 1998

	1998	1997
REVENUE		
Net video lottery receipts	\$ 119,990,409	\$ 106,006,636
Administration	1,005,092	594,742
Net Video Lottery Revenue	<u>120,995,501</u>	<u>106,601,378</u>
EXPENSES		
Retailer commission	31,335,691	29,713,812
Ticket costs	171,615	161,126
Operating expenses	9,137,183	7,884,704
Total Expenses	<u>40,644,489</u>	<u>37,759,642</u>
Profit Distribution (Note 4c)	<u>\$ 80,351,012</u>	<u>\$ 68,841,736</u>

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION

Sheraton Halifax Interim Casino

Operating Results

for the year ended March 31, 1998

	1998	1997
Casino revenue	\$ 48,226,292	\$ 46,313,119
Win tax	(9,645,258)	(9,262,572)
Casino revenue after win tax	38,581,034	37,050,547
Beverage, food and other revenue	1,167,390	1,285,645
Total net revenues	<u>39,748,424</u>	<u>38,336,192</u>
Operating Expenses		
Salaries and benefits	12,149,299	11,847,251
Other expenses including cost of beverages and food	968,198	973,076
Public education and problem gaming contribution (Note 3(a)(vii))	651,463	654,515
General administration and marketing	5,018,806	5,774,235
Premise expense	1,071,905	1,915,054
Harmonized Sales/Goods and Services Tax	5,366,431	2,937,322
	<u>25,226,102</u>	<u>24,101,453</u>
Income before payments to operator.	<u>14,522,322</u>	<u>14,234,739</u>
Payments to Operator (Note 3(a)(ii))		
Amortization of capital investment and interest	8,602,008	10,176,619
Capital replacement reserve	740,905	713,991
Operator fee.	1,812,792	1,170,445
	<u>11,155,705</u>	<u>12,061,055</u>
Net Operating Income (Note 3(a)(iii)).	<u>\$ 3,366,617</u>	<u>\$ 2,173,684</u>

Schedule IV

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION
Sheraton Sydney Casino
Operating Results
for the year ended March 31, 1998

	1998	1997
Casino revenue	\$ 25,782,596	\$ 24,717,496
Win tax	(5,156,520)	(4,943,499)
Casino revenue after win tax	20,626,076	19,773,997
Beverage, food and other revenue	1,690,169	1,887,350
Total net revenues	<u>22,316,245</u>	<u>21,661,347</u>
 Operating Expenses		
Salaries and benefits	7,344,836	7,422,207
Other expenses including cost of beverage and food	1,219,154	1,272,736
Public education and problem gaming contribution (Note 3(a)(vii))	348,537	345,485
General administration and marketing	2,458,716	2,165,981
Premise expense	732,623	474,580
Harmonized Sales/Goods and Services Tax	2,581,217	1,397,022
	<u>14,685,083</u>	<u>13,078,011</u>
 Income before payments to operator	 <u>7,631,162</u>	 <u>8,583,336</u>
 Payments to Operator (Note 3(a)(ii))		
Amortization of capital investment and interest	4,410,834	6,391,545
Capital replacement reserve	412,093	399,073
Base fee	824,182	798,145
Incentive fee	753,961	826,133
	<u>6,401,070</u>	<u>8,414,896</u>
 Net Operating Income (Note 3(a)(iii))	 <u>\$ 1,230,092</u>	 <u>\$ 168,440</u>

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING CORPORATION

Expenses

for the year ended March 31, 1998

	1998	1997
Advertising	3,920	2,004
Depreciation	12,599	11,956
Harmonized sales tax (Note 9)	88,017	---
Meetings	2,898	3,000
Membership dues	3,000	1,863
Occupancy taxes	2,129	1,695
Office and Miscellaneous	7,880	6,570
Office Equipment	8,821	13,471
Periodicals	11,572	10,274
Postage and freight	3,363	4,129
Printing and stationery	15,941	6,311
Professional and other fees	517,200	293,625
Rent	38,228	24,312
Salaries and benefits	383,611	430,543
Telecommunications	14,337	10,042
Training	3,214	5,747
Travel	56,733	41,499
	<u>\$ 1,173,463</u>	<u>\$ 867,041</u>

AUDITOR'S REPORT

To The Minister of Finance; and
To The Board of the Nova Scotia Gaming Foundation

I have audited the balance sheet of the Nova Scotia Gaming Foundation (formerly to March 11, 1998 - the VLT Problem Gaming Fund) as at March 31, 1998 and the statement of revenue, expense and surplus for the year then ended. These financial statements are the responsibility of the foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the foundation as at March 31, 1998 and its operations for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 15, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA GAMING FOUNDATION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997 (Note 3)
Cash and Term Deposit	\$ 1,976,264	\$ 1,217,835
Due from Nova Scotia Gaming Corporation	57,955	53,572
	<u>\$ 2,034,219</u>	<u>\$ 1,271,407</u>

LIABILITIES

Accounts Payable	<u>2,683</u>	<u>---</u>
----------------------------	--------------	------------

EQUITY

Surplus	<u>2,031,536</u>	<u>1,271,407</u>
	<u>\$ 2,034,219</u>	<u>\$ 1,271,407</u>

Commitments (Notes 5)

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA GAMING FOUNDATION

Statement of Revenue, Expenses and Surplus

for the year ended March 31, 1998

	1998 (Note 3)	1997 (Note 3)
Revenue		
Contributions		
Nova Scotia Gaming Corporation. \$	359,970 \$	318,014
Video Lottery Terminal Siteholders.	359,970	318,014
Interest.	49,869	28,117
	<u>769,809</u>	<u>664,145</u>
Expenses		
Office.	45	---
Professional.	5,982	---
Administrative Fees (Note 4)	3,653	---
	<u>9,680</u>	<u>---</u>
Excess of Revenue over Expenses	<u>760,129</u>	<u>664,145</u>
Surplus, beginning of year	<u>1,271,407</u>	<u>607,262</u>
Surplus, end of year. \$	<u><u>2,031,536</u></u> \$	<u><u>1,271,407</u></u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA GAMING FOUNDATION****Notes to the Financial Statements****for the year ended March 31, 1998****1. Description of the Foundation**

On March 11, 1998, the Nova Scotia Gaming Foundation was established pursuant to the Gaming Control Act and the Provincial Finance Act. The purpose of the Foundation is to receive, maintain and disburse funds in furtherance of the purposes set out in the Gaming Control Act, including for research or education in respect of gambling, or treatment and remediation of the effects of gambling.

On March 11, 1998, \$1,969,334 was transferred to the Foundation from the VLT Problem Gaming Fund. This Fund had been created in April 1995 following agreement between the Lounge and Beverage Room Association of Nova Scotia and the Nova Scotia Gaming Corporation, whereby the Association agreed that its members would contribute to the VLT Problem Gaming Fund provided the number of VLT's and the commission rate would not be reduced for three years. The members of the Association and all other VLT siteholders also agreed, under the terms of their siteholder agreements with Atlantic Lottery Corporation Inc., that they would contribute 1% of their VLT commission to the VLT Problem Gaming Fund. The Nova Scotia Gaming Corporation agreed to contribute from its VLT revenues from Atlantic Lottery Corporation Inc. an amount equal to all contributions made by the VLT Siteholders.

2. Accounting Policies**Basis of Presentation**

The financial statements have been prepared in accordance with generally accepted accounting principles. A statement of changes in financial position is not provided as disclosure in the balance sheet and the statement of revenue, expenses and surplus is considered adequate.

Term Deposits

Term Deposits are valued at original cost plus accrued interest.

3. Comparatives

Comparatives for the year ended March 31, 1997, and transactions which occurred prior to March 11, 1998, are included in the financial statements for informational purposes.

4. Administrative Fees

The Foundation has entered into an agreement with the Nova Scotia Gaming Corporation to provide professional and administrative services on a cost recovery basis.

5. Commitments

On March 31, 1998, the Board of directors of the Nova Scotia Gaming Foundation conditionally approved an application of the Compulsive and Problem Gamblers Society for funding in the maximum amount of \$275,250, subject to certain requirements and the execution of a formal funding contract. Subsequent to year end, the Foundation approved Phase I funding totalling \$30,000. A payment of \$10,000 was made on May 29, 1998.

Subsequent to year end, conditional approval was also given to Dalhousie University for Phase I of a VLT Harm Reduction Study in the amount of \$89,000.

AUDITOR'S REPORT

To the Chairman and Members of the Board of Management of the Nova Scotia Hospital

I have audited the balance sheets of the Nova Scotia Hospital and the Provincial Drug Distribution Program as at March 31, 1998, and the statements of shareable revenues and expenses, ancillary operations, non-shareable surplus, and retained surplus for the year then ended. These financial statements are the responsibility of the Hospital's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Hospital and the Provincial Drug Distribution Program as at March 31, 1998 and the results of their operations for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
July 8, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Balance Sheet

Hospital Operations

as at March 31, 1998

ASSETS

	1998	1997
Current Assets		
Cash	\$ 4,655,080	\$ 1,120,650
Accounts receivable (Note 4)	2,886,603	1,592,559
Inventory	108,076	123,260
Prepaid expenses	320,000	186,267
	<u>7,969,759</u>	<u>3,022,736</u>
Due from IWK - Grace Health Centre (Note 5)	334,323	344,032
Estimated Year-end Adjustments Due from		
Department of Health (Note 6)	<u>84,059</u>	<u>181,137</u>
	8,388,141	3,547,905
Restricted Funds (Note 7)	<u>131,218</u>	<u>191,855</u>
	<u>\$ 8,519,359</u>	<u>\$ 3,739,760</u>

LIABILITIES AND EQUITY

Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,713,047	\$ 1,136,159
Deferred revenue (Note 8)	<u>1,056,895</u>	<u>1,104,950</u>
	3,769,942	2,241,109
Due to Provincial Drug Distribution Program	2,747,197	---
Due to Department of Finance (Note 9)	1,016,855	665,206
Due to (from) Central Laundry Partners (Note 10)	67,496	11,741
Equity		
Non-shareable (deficit) surplus	220,456	(12,853)
Retained surplus (Note 11)	<u>566,195</u>	<u>642,702</u>
	8,388,141	3,547,905
Restricted Funds (Note 7)	<u>131,218</u>	<u>191,855</u>
	<u>\$ 8,519,359</u>	<u>\$ 3,739,760</u>

Commitments (Note 12)

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Balance Sheet

Provincial Drug Distribution Program

as at March 31, 1998

ASSETS

	1998	1997
Current Assets		
Cash	\$ 197,589	\$ ---
Accounts receivable (Note 4)	5,404,699	4,199,460
Inventory	2,811,640	2,967,338
	<u>8,413,928</u>	<u>7,166,798</u>
Due from Nova Scotia Hospital	2,747,197	---
Estimated Year-end Adjustments Due from		
Department of Health (Note 6)	11,909	(496)
	<u>\$ 11,173,034</u>	<u>\$ 7,166,302</u>

LIABILITIES AND EQUITY

Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,563,181	\$ 2,489,226
Deferred revenue (Note 8)	269,200	11,600
	<u>3,832,381</u>	<u>2,500,826</u>
Due to Department of Finance (Note 9)	7,340,653	4,665,476
	<u>\$ 11,173,034</u>	<u>\$ 7,166,302</u>

Commitments (Note 12)

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Statement of Shareable Revenues and Expenses

Hospital Operations

for the year ended March 31, 1998

	1998	1997
Revenue		
Department of Health	\$ 26,699,200	\$ 26,528,400
Non-insured services	128,672	40,011
	<u>26,827,872</u>	<u>26,568,411</u>
Other		
Medical Services Insurance	4,291,699	3,907,572
Nutrition Services	481,395	512,105
Rentals	479,495	327,851
Services to other Institutions	535,439	392,656
Sundry	141,113	166,314
	<u>5,929,141</u>	<u>5,306,498</u>
	<u>32,757,013</u>	<u>31,874,909</u>
Operating Expenses		
Executive Director	436,595	346,318
Regional Consumer Services	6,890,168	6,463,443
Provincial Consumer Services	6,245,214	5,741,961
Forensic Services	3,366,691	2,681,107
Professional Services	5,000,368	4,606,328
Corporate and Support Services	9,903,884	10,073,297
Educational and Planning	811,654	1,122,575
Public Relations and Communications	302,848	249,098
Provincial Clozapine Program	682,512	559,592
	<u>33,639,934</u>	<u>31,843,719</u>
Surplus (Deficit) before advances	<u>(882,921)</u>	<u>31,190</u>
Special Advances from Department of Health		
Forensic Services	473,400	---
Provincial Clozapine Program	195,000	---
Wage Settlement Advance	291,000	---
	<u>959,400</u>	<u>---</u>
Surplus (Notes 6 and 11)	<u>\$ 76,479</u>	<u>\$ 31,190</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Statement of Ancillary Operations

Provincial Drug Distribution Program

for the year ended March 31, 1998

	1998	1997
Shareable Revenues		
Gross Profit on Drug Sales		
Drug sales	\$ 33,080,009	\$ 20,720,754
Cost of sales	32,946,599	20,559,801
	<u>133,410</u>	<u>160,953</u>
Other Revenue		
Department of Health grant	277,800	268,800
Other	121,991	98,525
	<u>399,791</u>	<u>367,325</u>
	<u>533,201</u>	<u>528,278</u>
Shareable Expenses		
Salaries	410,286	320,068
Employee benefits	63,772	52,844
Freight	100,233	69,174
Other expenses	14,711	42,300
	<u>589,002</u>	<u>484,386</u>
Surplus (Deficit) (Note 3 and 6)	\$ <u>(55,801)</u>	\$ <u>43,892</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Statement of Ancillary Operations

Central Laundry

for the year ended March 31, 1998

	1998	1997
Shareable Revenue		
Sales of clean laundry	\$ 2,037,497	\$ 1,740,135
Miscellaneous	9,886	16,814
	<u>2,047,383</u>	<u>1,756,949</u>
Shareable Expenses		
Salaries	796,205	719,695
Employee benefits	102,202	99,935
Linen replacement	---	32,000
Motor vehicle repairs and operations	79,793	83,074
Water	31,854	25,331
Electricity	45,503	40,309
Steam	195,668	90,486
Administrative assessment	693,128	639,103
Rent	9,996	9,996
Interest	8,004	4,062
Other expenses	20,145	1,217
	<u>1,982,498</u>	<u>1,745,208</u>
Surplus (Note 10)	<u>\$ 64,885</u>	<u>\$ 11,741</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Statement of Non-Shareable Surplus

for the year ended March 31, 1998

	1998	1997
Balance, beginning of year	\$ (12,853)	\$ 3,222
<i>Add:</i> Interest revenue	258,395	---
Transfer from Foundation	45,348	32,068
Other non-shareable revenues	34,276	13,621
	<u>338,019</u>	<u>45,689</u>
<i>Less:</i> Decision support system (Note 12)	93,946	---
Other non-shareable expenses	10,764	61,764
	<u>104,710</u>	<u>61,764</u>
Balance, end of year (Note 11)	<u>\$ 220,456</u>	<u>\$ (12,853)</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA HOSPITAL

Statement of Retained Surplus

for the year ended March 31, 1998

	1998	1997
Balance, beginning of year	642,702 \$	412,196
<i>Add:</i> Adjustment to prior years' surplus retention calculations.	343,146	230,506
	985,848	642,702
<i>Less:</i> Forensic Renovations	419,653	---
Balance, end of year (Note 11)	<u>566,195 \$</u>	<u>642,702</u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA HOSPITAL****Notes to Financial Statements****March 31, 1998****1. Authority**

An Act to incorporate the Nova Scotia Hospital was proclaimed in 1967 to provide for the continuance of the Hospital.

The Nova Scotia Hospital is dedicated to the provision of exemplary psychiatric health care through the integration of service, education and research programs in the mental health field.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the following:

Fixed Assets

These financial statements do not include the costs associated with construction and renovation projects of the Nova Scotia Hospital carried out by the Department of Transportation and Public Works.

These financial statements do not include the costs of the land and buildings of the Hospital. Title for those assets rests with the Province of Nova Scotia.

Equipment purchases are expensed in the year of acquisition.

Operating Costs

These financial statements do not include certain Hospital expenses which are absorbed by the Department of Transportation and Public Works.

Final Settlements

Adjustments to prior years' operating results arising from the final settlement process of the Department of Health are reflected in equity in the year they are determined.

Inventory

Inventory is valued at average cost.

3. Provincial Drug Distribution Program - Subsequent Event

For many years the Nova Scotia Hospital has operated the Provincial Drug Distribution Program (PDDP). Since 1994-95 the operating results of PDDP have been separated from the Hospital Operations in the Statement of Ancillary Operations - Provincial Drug Distribution Program. A separate Balance Sheet has been presented for PDDP as at March 31, 1998. The March 31, 1997 balances have been reclassified to reflect this change in presentation.

On March 31, 1998 the Hospital entered into a agreement effective April 1, 1998, with the Province and the Regional Health Boards (RHBs) and non-designated organizations (NDOs) which gives the Minister of Health and a board of managers responsibility for the PDDP. The Hospital will administer the PDDP on behalf of the Minister and provide operational, materiel management and technology services for the effective delivery of the program. The RHBs and NDOs have agreed to purchase all of their drug requirements through the PDDP.

4. Accounts Receivable

	1998	1997
Hospital		
Customer Receivables	\$ 1,153,492	\$ 542,546
Less: Allowance for Doubtful Accounts	7,067	271,273
	<u>1,146,425</u>	<u>271,273</u>
HST Credits	475,532	2,356
Nova Scotia Hospital Foundation	25,663	309
Accrued Recoveries	1,238,983	1,318,621
	<u>\$ 2,886,603</u>	<u>\$ 1,592,559</u>
Provincial Drug Distribution Program		
Customer Receivables	\$ 5,243,827	\$ 4,078,040
Out Dated Drugs Receivable	160,872	121,420
	<u>\$ 5,404,699</u>	<u>\$ 4,199,460</u>

5. Trifacilities Program

On June 30, 1994, the Nova Scotia Hospital entered into an agreement with the Izaak Walton Killiam - Grace Health Centre for Children, Women and Families (IWK - GHC) and the Atlantic Child Guidance Centre to establish the Trifacilities program. The purpose of the program is to provide mental health care, research and education for children and adolescents.

In 1998, costs of \$1,384,176 (1997 - \$2,043,561) incurred by the Nova Scotia Hospital in providing child mental health services were recovered from the IWK - GHC and are not included on the Statement of Shareable Revenues and Expenses.

6. Estimated Year-end Adjustments Due from Department of Health

This account represents the net amount due from the Department of Health at the end of the fiscal year. Recovery and payment of the annual surplus/deficit is dependent upon the approval by the Department of Health of the Hospital's final settlement claim. The amounts relating to 1996-97 have been approved in principle by the Department of Health.

	1998	1997
Hospital Operations, Deficit (Surplus)		
1993-94 to 1995-96 settled during the year \$	---	\$ 212,327
1996-97	160,538	(31,190)
1997-98	(76,479)	---
	<u>\$ 84,059</u>	<u>\$ 181,137</u>
Provincial Drug Distribution Program, Deficit (Surplus)		
1994-95 to 1995-96 settled during the year \$	---	\$ 43,396
1996-97	(43,892)	(43,892)
1997-98	55,801	---
	<u>\$ 11,909</u>	<u>\$ (496)</u>

7. Restricted Funds

These funds include monies designated for restricted purposes by the Hospital and monies held in trust for patients. These funds have been segregated from normal operating assets with a corresponding liability account established for the fulfilment of the restricted purposes and balances held for the patients.

8. Deferred Revenue

This amount represents an advance payment to the Hospital from the Department of Health for funding for the 1998-99 fiscal year.

9. Due to Department of Finance

In prior years, the Department of Finance processed and recorded the receipts and disbursements of the Nova Scotia Hospital. The cumulative difference between receipts and disbursements was recognized as a liability to the Department of Finance at year end. As of April 1, 1997 the Hospital began to process and record its own receipts and disbursements. Repayment terms for this liability are not specified.

10. Central Laundry Operations

In July 1994, the Hospital contracted with a private sector firm for management of the Hospital's central laundry operation. The intent is for the laundry operation to be self-financing with any surplus/deficit to be shared by the partner hospitals. The Board of Directors - Central Laundry and Linen Services has determined that the operating surplus of \$64,885 for 1997-98 will be redistributed to the laundry operations or used to purchase equipment.

11. Retained Surplus - Subsequent Event

In May 1987 the Department of Health issued a policy statement permitting hospitals to retain part or all of the unspent portions of their budget at the end of each fiscal year. The purpose is to encourage hospitals to operate as efficiently as possible. This policy limits the annual retained surplus to \$500,000, and requires approval by the Department of any expenditures charged against it.

In June 1998, the Department of Health notified the Hospital that, effective April 1, 1998, all activities under the control of the Hospital are to be consolidated with no distinction between shareable and non-shareable activities. There will be no limit on the amount of surplus to be maintained by the Hospital. Effective April 1, 1998 Department of Health approval is no longer required for expenditures from existing Retained Surplus.

12. Commitments

The Hospital is liable at March 31, 1998 for vacation pay earned by its employees but not yet paid. Vacation pay is funded in the year of payment by the Department of Health to the extent that it forms part of the Hospital's overall net cost of shareable operations. The amount of the liability at March 31, 1998 is estimated to be \$200,766 (1997 - \$187,625), and is not reflected in these financial statement.

During 1997-98 the hospital purchased a decision support system (Trendstar). This system was partially implemented during the fiscal year with the balance (\$105,407) to be completed in 1998-99 and funded from non-shareable surplus at that time.

13. Due to Provincial Drug Distribution Program (Due from Nova Scotia Hospital)

The Nova Scotia Hospital and the Provincial Drug Distribution Program are related parties as described in Note 3. The Hospital purchases all of its drugs from PDDP under the same terms and conditions as other PDDP customers. Transactions are recorded at the exchange amount. The total amount of drugs purchased by the Hospital from the PDDP during the year was \$1,181,465. Details of any balances owing to/from these related parties are separately disclosed in the financial statements.

14. Costs Paid by the Province of Nova Scotia

In 1998 the Province paid \$538,454 (1997 - \$372,990) for expenditures of the Hospital. This comprised \$140,020 (1997 - \$83,253) for maintenance expenditures and \$398,434 (1997 - \$289,737) related to capital expenditures.

15. Public Service Superannuation Fund

All full-time employees of the Nova Scotia Hospital are entitled to receive pension benefits pursuant to the provisions of the pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Hospital's operating expenses.

The Public Service Superannuation Fund is administered by the Department of Finance. The Hospital is not responsible for any unfunded liability.

16. Comparative Figures

Certain prior year's figures have been reclassified to conform with the presentation adopted for the current year.

17. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Hospital's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 Issue affecting the Hospital, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated balance sheet of the Nova Scotia Innovation Corporation as at March 31, 1998 and consolidated statements of income and retained earnings, and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 19, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA INNOVATION CORPORATION

Consolidated Balance Sheet

as at March 31, 1998

	ASSETS	
	1998	1997
Current		
Cash and short-term investments. \$	892,933 \$	432,855
Accounts receivable (Note 4).	2,209,178	1,802,420
Inventory.	231,971	166,285
	<u>3,334,082</u>	<u>2,401,560</u>
Investment and Funds		
Nova Scotia FIRST Fund (Note 5).	11,960,235	11,525,300
Nova Scotia Information Highway (Note 6).	676,065	2,000,000
Research Endowment Fund (Note 7).	1,000,000	1,000,000
Other Investments (Note 8).	680,204	628,649
	<u>14,316,504</u>	<u>15,153,949</u>
Capital Assets, net (Note 10)	<u>8,060,663</u>	<u>8,340,181</u>
	<u>\$ 25,711,249</u>	<u>\$ 25,895,690</u>

See accompanying notes to the financial statements

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA INNOVATION CORPORATION

Consolidated Balance Sheet

as at March 31, 1998

LIABILITIES AND EQUITY

	1998	1997
Current		
Accounts payable \$	869,927 \$	1,118,068
Due to Province of Nova Scotia.	2,003,848	644,158
Deferred revenue	---	196,133
Current portion of Early Retirement Incentive Plans (Note 9).	12,299	41,942
	<u>2,886,074</u>	<u>2,000,301</u>
Nova Scotia Information Highway (Note 6)		
Claim payable.	540,326	356,614
Fund Balance.	135,739	1,643,386
	<u>676,065</u>	<u>2,000,000</u>
Long-Term		
Early Retirement Incentive Plans (Note 9).	1,502,497	1,511,471
Deferred Government Assistance	<u>1,195,595</u>	<u>943,531</u>
Equity		
Contributed surplus - Nova Scotia FIRST Fund (Note 5).	11,110,791	11,110,791
Contributed surplus - Nova Scotia Research Foundation Corporation (Note 2).	7,832,430	7,832,430
Contributed surplus - Applied Microelectronics Incorporated (Note 8).	490,000	490,000
	<u>19,433,221</u>	<u>19,433,221</u>
Retained earnings (deficit)		
Restricted for Nova Scotia FIRST Fund (Note 5)	849,444	414,509
Unrestricted.	(831,647)	(407,343)
	<u>17,797</u>	<u>7,166</u>
	<u>19,451,018</u>	<u>19,440,387</u>
	<u>\$ 25,711,249 \$</u>	<u>\$ 25,895,690</u>

Loan Guarantees (Note 12)**Share Capital (Note 11)****Commitments (Note 5)**

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA INNOVATION CORPORATION

Consolidated Statement of Income

and Retained Earnings

for the year ended March 31, 1998

	1998	1997
Revenues, Recoveries and Grants (Note 13)		
Government Grants	\$ 3,593,207	\$ 3,766,441
Commercialization and Industry Development	1,608,127	2,046,312
Engineering Services	1,832,197	1,153,905
Scientific Services	619,610	572,222
Business Development	811,282	550,003
Technology Innovation Center	354,252	272,484
Administrative recoveries and ancillary operations	476,623	336,223
	<u>9,295,298</u>	<u>8,697,590</u>
Expenses		
Commercialization and Industry Development	1,910,266	2,321,499
Engineering Services	2,023,755	1,777,541
Administration and occupancy	1,554,723	1,524,401
Scientific Services	618,035	613,851
Business Development	985,878	635,243
Technology Innovation Center	494,134	433,232
Corporate Office	1,029,470	991,642
Corporate Affairs	303,347	270,110
	<u>8,919,608</u>	<u>8,567,519</u>
Income before amortization, investment income, early retirement incentive plan expense and Nova Scotia FIRST Fund income	<u>375,690</u>	<u>130,071</u>
Amortization	(776,824)	(837,800)
Investment income, royalties and gain on sale of shares . . .	102,574	430,867
Early retirement incentive plan expense	(125,744)	(129,771)
	<u>(799,994)</u>	<u>(536,704)</u>
Loss before Nova Scotia FIRST Fund income	<u>(424,304)</u>	<u>(406,633)</u>
Nova Scotia FIRST Fund income	434,935	414,509
Net Income	<u>10,631</u>	<u>7,876</u>
Retained Earnings (deficit), beginning of year	<u>7,166</u>	<u>(710)</u>
Retained Earnings, end of year	<u>\$ 17,797</u>	<u>\$ 7,166</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA INNOVATION CORPORATION

Consolidated Statement of Changes in Financial Position

for the year ended March 31, 1998

	1998	1997
Cash From (Used In) Operations		
Net income	\$ 10,631	\$ 7,876
Add (deduct):		
Amortization	776,824	837,800
Recognition of deferred government assistance.....	(182,696)	(115,242)
Nova Scotia FIRST Fund investment income (Note 5)....	(434,935)	(414,509)
Gain on sale of shares.....	---	(116,281)
Equity in the loss of investee (Note 8).....	8,023	14,204
Working capital adjustments	442,972	(398,047)
	<u>620,819</u>	<u>(184,199)</u>
Cash From (Used In) Investing Activities		
Nova Scotia FIRST Fund portfolio investments.....	2,245,000	(10,788,443)
Nova Scotia FIRST Fund equity investments (Note 5)....	(2,245,000)	(600,000)
Nova Scotia Information Highway Fund.....	1,323,935	(2,000,000)
Research Endowment Fund (Note 7).....	---	(1,000,000)
Acquisition of shares (Note 8).....	---	(668,000)
Proceeds on disposition of shares	---	294,281
Other investments.....	(59,578)	(263,852)
Nova Scotia Research Foundation Corporation land, buildings and equipment	---	(7,924,399)
Capital asset purchases (Note 13)	(497,321)	(957,946)
	<u>767,036</u>	<u>(23,908,359)</u>
Cash From (Used In) Financing Activities		
Contributed surplus.....	---	19,433,221
Assumption of Nova Scotia Research Foundation Corporation early retirement incentive liability	---	1,605,392
Assumption of Nova Scotia FIRST Fund liabilities	---	717,500
Advance from the Province of Nova Scotia for the Nova Scotia Information Highway	(1,323,935)	2,000,000
Deferred government Assistance	434,760	874,288
Nova Scotia FIRST Fund disbursements	---	(440,000)
Early retirement incentive plan principal repayments.....	(38,602)	(51,979)
	<u>(927,777)</u>	<u>24,138,422</u>
Net Change in Cash Position	\$ 460,078	\$ 45,864
Ending Cash Balance	\$ 892,933	\$ 432,855
Beginning Cash Balance	432,855	386,991
Net Change in Cash Position	\$ 460,078	\$ 45,864

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA INNOVATION CORPORATION****Notes to the Consolidated Financial Statements****March 31, 1998****1. Authority**

The Nova Innovation Corporation (InNOVAcorp) was established on February 6, 1995 by the Innovation Corporation Act. Its purpose is to build relationships that enable technology-based Nova Scotia firms to compete successfully for business anywhere in the world.

2. Dissolution of Nova Scotia Research Foundation Corporation

Effective April 1, 1996 Nova Scotia Research Foundation Corporation (NSRFC) was dissolved and its enabling legislation revoked. All the rights, title, interest and obligations of NSRFC were transferred to InNOVAcorp on that date. These assets and obligations were recorded by InNOVAcorp at their fair market value as of the date of transfer. The excess of assets received over liabilities assumed was recorded as contributed surplus.

3. Accounting Policies

InNOVAcorp's financial statements have been prepared in accordance with generally accepted accounting principles, the most significant of which are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of InNOVAcorp and its wholly-owned subsidiary, Nova Magnetics Limited (NML). NML was transferred to InNOVAcorp on April 1, 1996 through the dissolution of the NSRFC.

(b) Cash and Short-term Investments

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair market value because they have maturities at the date of purchase of less than ninety days. Portfolio investments of the Nova Scotia FIRST Fund are accorded the same treatment.

(c) Inventory

Inventory is valued at the lower of cost or net realizable value.

(d) Long-Term Investments

Venture capital investments made through the Nova Scotia FIRST Fund and investments in companies over which InNOVAcorp does not have significant influence are carried at cost. InNOVAcorp's 50% investment in PlantSelect Biotechnology Systems Limited is accounted for using the equity method. Where there has been other than a temporary decline in value, these investments are written down to provide for the loss. Fixed income investments of the Nova Scotia FIRST Fund with terms to maturity greater than ninety days are recorded at cost plus accrued interest.

(e) Capital Assets

Property, plant and equipment purchased or constructed by InNOVAcorp is stated at cost. Property, plant and equipment acquired by donation is stated at fair market value. Amortization of management information systems and the technology license are calculated on the straight-line basis over their economic lives of 10 years and 35.5 months respectively. Amortization of the other capital assets is based on the declining balance method over the estimated economic life of the related class of assets as follows:

Buildings	4%
Computer equipment	30%
Equipment, furniture and fixtures	20%
Improvements to non-owned buildings	100%

(f) Donated Assets

The donation of assets to InNOVAcorp is considered a capital contribution. The assets are recorded at their market value with an offsetting increase to a contributed surplus account identifying the source of the donation. These assets are charged to income over their estimated economic life.

(g) Government Grants and Deferred Government Assistance

The portion of any government grants used for the acquisition of property, plant and equipment is recorded as deferred government assistance and recognized as income on the same basis as the related assets are amortized. The remainder of these grants is recognized as income in the year they are received.

4. Accounts Receivable

During 1997-98, the Board of Directors of InNOVAcorp approved the write-off of \$0 (1997 - \$33,208) in accounts receivable.

5. Nova Scotia FIRST Fund

In 1989 the Nova Scotia FIRST Fund (NSFF) was established by Governor in Council. The objective of the fund is to encourage the development of high technology industries and to encourage the adoption of new technologies by existing industries.

During 1996-97 InNOVAcorp assumed management of the NSFF, pursuant to the Innovation Corporation Act. The administration of investments and obligations made through the NSFF to April 1, 1996 was also transferred to InNOVAcorp during the year. Fund activity during the current year is summarized below:

	Portfolio Investments	Fund Investments	Fund Obligations	Valuation Adjustment	Fund Balance
Beginning					
Balance	\$ 11,202,800	\$ 3,465,000	\$ 277,500	\$ 2,865,000	\$ 11,525,300
Add (Deduct):					
Investment Income	369,695	72,842	---	7,602	434,935
Equity investments	(2,245,000)	2,245,000	---	---	---
Royalty buy-bac ⁽¹⁾	10,000	(10,000)	---	---	---
Ending Balance	<u>\$ 9,337,495</u>	<u>\$ 5,772,842</u>	<u>\$ 277,500</u>	<u>\$ 2,872,602</u>	<u>\$ 11,960,235</u>

(1) InNOVAcorp entered into an agreement to sell its interest in one of its investments to the company's other shareholders. Payment for InNOVAcorp's shares will be made in royalties based on the company's sales and the sales of a related company. Payments received are being applied first to eliminate the investment and then to income recognition.

InNOVAcorp is entitled to recover direct expenses associated with its administration of the NSFF. To date it has elected not to charge the Fund for any of the costs incurred. These costs were charged to the Commercialization and Industry Development division of the Corporation.

In addition to the above investments and obligations, as at March 31, 1998 there were \$945,000 of approved commitments for the NSFF (1997 - \$1,400,000).

On December 5, 1997 InNOVAcorp signed a Memorandum of Understanding for Royal Bank Capital Corporation (RBCC) and the NSFF to co-invest \$3 million (on a two-thirds/one third basis) in early stage, high growth Nova Scotian companies in the life sciences and advanced materials sectors. The agreement is for a two-year term, extendible by mutual consent.

6. Nova Scotia Information Highway

The Province of Nova has entered into an agreement to accelerate the development of the information highway in Nova Scotia through the establishment of a research center in Nova Scotia. The agreement provides for up to \$10 million in support of this development of which \$2 million is non-repayable. May 1, 1996 the Province advanced \$2 million to InNOVAcorp to maintain in a segregated account to provide for the non-repayable portion of the agreement. At March 31, 1998 \$1,864,261 (1997 - \$356,614) had been claimed towards establishing this research centre.

7. Research Endowment Fund

The Research Endowment Fund was transferred to InNOVAcorp when the Nova Scotia Research Foundation Corporation was dissolved. Subject to any directions provided by the Governor in Council, the Fund is administered and controlled by InNOVAcorp. The Fund can be used for purposes consistent with the objects of InNOVAcorp.

8. Other Investments

	1998	1997
Investment in Applied Microelectronics Incorporated-see (a)	\$ 490,000	\$ 490,000
Advances to the Advanced Materials Engineering Center	141,638	82,060
Investment in common shares of British Columbia Research Incorporated	41,042	41,042
Investment in PlantSelect Biotechnology Systems Limited-see (b)	7,524	15,547
	<u>\$ 680,204</u>	<u>\$ 628,649</u>

(a) InNOVAcorp entered into an agreement with the Applied Microelectronics Incorporated (AMI) to facilitate the privatization of that entity. On August 30, 1996, all of the resources and obligations of AMI were transferred to InNOVAcorp. They were recorded at their fair market value of \$490,000 with an offsetting amount recognized as contributed surplus. On the same date, net assets of AMI were transferred by InNOVAcorp to a newly-formed private company, Applied Microelectronics Incorporated, in exchange for 490,000 of 3%, non-cumulative preferred shares.

(b) This amount represents the net book value of the investment after a write down of \$8,023 (1997 - \$14,204) to recognize 50% of the net loss of PlantSelect Biotechnology Systems Limited operations as of March 31, 1998.

9. Early Retirement Incentive plans

In February 1991 and November 1993, the Province of Nova Scotia announced its intention to implement Early Retirement Incentive Plans. As an outside agency, the Nova Scotia Research Foundation Corporation was invited to participate providing it agreed to pay the Province all costs of the Plans not covered by the Public Service Superannuation Fund. By resolutions of the Board of Directors on March 18, 1991 and January 20, 1994, NSRFC's participation in the Plans was authorized. These liabilities were transferred to InNOVAcorp upon the dissolution of NSRFC.

A liability in the amount of \$1,514,796 has been accrued as a March 31, 1998 (1997-\$1,553,313). This amount represents management's best estimate of the present value of the future payments required under the Plans. Of the total liability, \$12,299 (1997-\$41,942) has been classified on the balance sheet as current and \$1,502,497 (1997 - \$1,511,471) has been classified as long-term.

Aggregate payments required under the Plans in each of the next five years are as follows:

	Estimated Cash Flows	Imputed Interest	Principal Reduction
1998-99	\$ 134,481	\$ 122,497	\$ 11,984
1999-00	139,188	121,642	17,546
2000-01	143,278	120,209	23,069
2001-02	149,101	118,391	30,710
2002-03	154,320	115,950	38,370

10. Capital Assets

	Cost	1998 Accumulated Amortization	Carrying Value	1997 Carrying Value
Land	\$ 350,700	---	\$ 350,700	\$ 350,700
Buildings	6,483,937	489,937	5,994,000	6,047,912
Machinery and equipment	1,617,565	570,073	1,047,492	1,275,776
Computer equipment	693,296	295,476	397,820	461,698
SE Technology license	111,000	82,660	28,340	56,681
Furniture and fixtures	161,583	44,750	116,833	72,552
Non-owned buildings	150,397	150,397	---	---
Management information systems	134,603	9,125	125,478	74,862
	<u>\$ 9,703,081</u>	<u>\$ 1,642,418</u>	<u>\$ 8,060,663</u>	<u>\$ 8,340,181</u>

11. Share Capital

Order in Council 97-431 authorized InNOVAcorp to issue the following share capital: 75 Class A common voting shares and 1 principal share. All the shares are to have par value of \$1.00 and are to be issued to the Province of Nova Scotia. At March 31, 1998 the shares had not been issued.

12. Loan Guarantees

The Corporation has provided guarantees to two companies for a total of \$350,000 as security for a loan and line of credit. At March 31, 1998, \$156,850 (1997 - \$39,040) of the guarantees were utilized.

13. Revenue, Recoveries and Grants

InNOVAcorp received an annual grant from the Province of Nova Scotia as well as funding from various other Federal and Provincial government agencies. Funding related to the operating activities of a business unit has been included in the revenue and recoveries of that unit. Included in Commercialization and Industry Development revenue is government assistance of \$433,973 (1997 - \$680,641) for direct expenses incurred for the Technical People in Industry (TPI) program. TPI is an Atlantic Canada Opportunities Agency (ACOA) sponsored program administered by the Corporation, which provides partial salary support to companies employing new technical skills.

Funding not specific to a business unit's operating activities and funding related to the acquisition of capital assets is included in government grants. Details of this funding are as follows:

	1998	1997
Grant from Province of Nova Scotia	\$ 3,693,000	\$ 3,752,000
Assistance received or receivable under various funding agreements for capital acquisitions	152,490	502,439
Grant from Department of Housing and Municipal Affairs in lieu of taxes	---	267,129
	<u>3,845,490</u>	<u>4,521,568</u>
Less: Government funding used to finance capital assets	(497,321)	(957,946)
Add: Amortization of assets financed through government assistance	<u>245,038</u>	<u>202,819</u>
	<u>\$ 3,593,207</u>	<u>\$ 3,766,441</u>

14. Subsequent Event

On May 29, 1998 the Members and Board of Directors of the Advanced Materials Engineering Centre (AMEC) approved the sale of AMEC's assets to InNOVAcorp in exchange for: assumption of a \$200,000 non-interest bearing obligation of AMEC; assumption of AMEC's working capital deficiency (approximately \$60,000) and forgiveness of advances from InNOVAcorp to AMEC (approximately \$141,000). The transaction will be completed once InNOVAcorp board approval is received.

15. Year 2000

InNOVAcorp is examining the risks associated with the year 2000, with regards to computer systems and applications using a two-digit code to designate a year. At century change, date-sensitive systems will recognize code 00 as the year 1900, or not at all, thereby causing incorrect processing of financial and operational information.

InNOVAcorp has completed an assessment of PC hardware, network hardware and packaged software currently being used and has in place a plan to address the necessary modifications and replacements. Efforts over the next year will be directed at assessing facilities, suppliers and the legal aspects of year 2000 risk mitigation.

To date management does not anticipate any material impact on its operations, although there can be no assurance that modifications will be successful and it is not possible to be certain that all aspects of the year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved. Cost incurred to date and anticipated to be incurred in connection with modifications required by InNOVAcorp have not had, and will not have, a material impact on the financial position of the Corporation.

16. Public Service Superannuation Fund

Employees of InNOVAcorp, other than casual employees, are entitled to receive pension benefits pursuant to the provisions of the pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the expenses of InNOVAcorp's divisions.

The Public Service Superannuation Fund is administered by the Department of Finance. InNOVAcorp is not responsible for any unfunded liability.

17. Public Service Awards

Employees of the Corporation are entitled to Public Service Awards on retirement. The Awards are based on the number of years of service of the employee, and are earned at the rate of one week's pay for every year of service, to a maximum of 26 weeks. The cost of the Award is provided for by the Corporation at the time the employee retires.

18. Related Party Transaction

Entity	Relationship	Sales To	Purchases From	Year End Receivable	Year End Payable
PlantSelect Biotechnology Systems Limited	50% Investee	(1) \$ 16,238	\$ 1,727	\$ 65,531	\$ 1,727
Advanced Materials Engineering Centre	Strategic Partner	(1) 68,342	3,892	(2) 210,453	---
NSFF Investments	Venture Investments	143,173	1,219	58,755	---

(1) Facilities and administrative services are provided to PlantSelect Biotechnology Systems Limited and Advanced Materials Engineering Center at no cost as part of the business incubation process.

(2) The year end receivable includes \$141,638 in advances to the Advanced Materials Engineering Center to finance cash flow during AMEC's transition into InNOVAcorp. The amount bears no interest and has no specified terms of repayment.

Other than as noted above, the terms of these transactions are the same as with unrelated parties and as such have been measured at the exchange amount. InNOVAcorp also has the use of the Technology Innovation Center which is owned by the Province of Nova Scotia, at no cost. During 1997-98 the Province also provided \$62,423 (1997 - \$87,577) for the capital maintenance of this facility.

AUDITOR'S REPORT

To the Minister of Justice; and
To the Chair and Members of the
Nova Scotia Legal Aid Commission

I have audited the balance sheet of the Nova Scotia Legal Aid Commission as at March 31, 1998, and the statement of revenues, expenses and surplus for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Nova Scotia Legal Aid Commission as at March 31, 1998 and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
June 9, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA LEGAL AID COMMISSION

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current		
Cash	\$ ---	\$ 1,413,321
Investments (Note 3)	2,183,548	---
Receivables - Province of Nova Scotia	---	234,338
- Other	53,982	4,637
Prepaid expenses	34,178	37,212
	2,271,708	1,689,508
Trust fund - public service awards (Note 4)	670,445	623,302
Furniture, equipment, and leasehold improvements (Note 2)		
	1	1
	\$ 2,942,154	\$ 2,312,811

LIABILITIES AND SURPLUS

Current		
Bank indebtedness	\$ 232,328	\$ ---
Accounts payable and accruals		
Supplies and services	75,013	99,568
Accrued private solicitors' fees (Note 5)	780,632	781,039
Employee salaries and benefits	264,169	58,161
	1,352,142	938,768
Long-term		
Accrued vacation (Note 6)	43,825	118,698
Early retirement incentive program (Note 7)	168,185	167,261
Long service awards (Note 8)	670,445	623,671
	882,455	909,630
Surplus (Note 5)	707,557	464,413
	\$ 2,942,154	\$ 2,312,811

Commitments and contingencies (Note 9)

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA LEGAL AID COMMISSION

Statement of Revenues, Expenses and Surplus

for the year ended March 31, 1998

	1998	1997
Revenues		
Grant - Province of Nova Scotia \$	10,248,000	\$ 10,468,338
Interest	102,647	109,640
Other income	2,750	12,694
	<u>10,353,397</u>	<u>10,590,672</u>
Expenses (Schedule I)		
Directors' fees	57,156	28,568
Equipment and maintenance	71,598	56,794
Leasehold improvements	20,347	200
Library	124,740	113,229
Membership, meetings and conferences	192,382	233,425
Office disbursements	190,858	280,759
Private solicitors' fees (Note 5)	1,830,068	1,949,802
Professional and other fees	60,187	90,083
Salaries and benefits	6,408,165	6,709,389
Supplies and services	908,505	895,661
Travel	246,247	241,588
	<u>10,110,253</u>	<u>10,599,498</u>
Excess (Deficiency) of revenues over expenses (Note 5)	243,144	(8,826)
Surplus, beginning of year	464,413	473,239
Surplus, end of year (Note 5) \$	<u><u>707,557</u></u>	<u><u>464,413</u></u>

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA LEGAL AID COMMISSION

Notes to Financial Statements

March 31, 1998

1. Authority

The Nova Scotia Legal Aid Commission was established in 1977 pursuant to the Legal Aid Act. The Act and Regulations stipulate that the Commission can provide legal services to persons whose income is derived primarily from municipal or provincial social assistance or to persons in an equivalent position.

Commission activities are funded by a grant from the Province of Nova Scotia. The Province in turn receives a contribution from the Government of Canada for legal aid provided by the Commission.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the policy of charging furniture and equipment acquisitions and leasehold improvements to expenses in the year of purchase.

3. Investments

Investments consisted of banker acceptance notes and are valued at cost which approximates market value.

4. Trust Fund - Long Service Awards

The Commission follows the provisions of the Civil Service Act with respect to the payment of long service awards to retiring employees. The Commission is responsible for the funding and eventual payment of these awards.

The Commission maintains a trust fund to help provide for the eventual payment of awards and to administer long service award advances. The Commission provides contributions, from general operating funds, to defray future obligations for long service awards.

In prior years, employees with 15 years of employment could apply for an advance on their long service award. Advances are repayable upon retirement or termination, together with interest at the provincial borrowing rate which existed at the time of the advance. As at March 31, 1998 six employees have received advances. Advances plus accrued interest at March 31, 1998 totalled \$141,487 (1997 -\$134,814).

	1998	1997
Balance, beginning of year	\$ 623,302	\$ 336,604
<i>Add:</i> Contribution from operating funds	49,923	269,312
Interest on long service award advances	8,945	8,445
Interest on investments	16,721	8,941
	<u>75,589</u>	<u>286,698</u>
<i>Less:</i> Long service award paid to retiring employees. . .	28,446	---
Balance, end of year	<u>\$ 670,445</u>	<u>\$ 623,302</u>
Consisting of:		
Cash	\$ 13,593	\$ 488,488
Securities and accrued interest on securities.	515,365	---
Receivable - long service award advances and accrued interest on advances	141,487	134,814
	<u>\$ 670,445</u>	<u>\$ 623,302</u>

5. Accrued Private Solicitors' Fees

The Commission assigns cases to private solicitors where a conflict of interest arises, or when choice of counsel is elected by the client in certain criminal cases. At the end of each fiscal year the Commission has a liability for work conducted by private solicitors that is not yet billed and paid. The balance of \$780,632 as at March 31, 1998 (1997 - \$781,039) was estimated using a system that incorporates average costs and time frames for similar cases over the last two years.

Due to an element of uncertainty in the estimation process, the difference between the estimated and actual liability may be material. Management of the Commission is confident that the actual current liability is in the range of \$388,000 to \$881,000. Consequently, private solicitors' fees expense could range from \$1,437,000 to \$1,930,000, excess of revenues over expenses could range from \$143,000 to \$636,000 and end of year surplus could range from \$607,000 to \$1,100,000.

In addition to the \$780,632 liability for unbilled private solicitor fees, a further expenditure after March 31, 1998 of approximately \$407,885 may be required to complete these cases. Due to the reasons discussed above, this balance could range from approximately \$308,000 to \$801,000.

The surplus balance of the Commission is committed to fund the eventual completion of private solicitor cases outstanding at year end.

6. Accrued Vacation

Employees may carry forward to future years up to five days of vacation leave in any given year. Accumulated vacation leave must be taken over the next three years. Earned but unused vacation leave at March 31, 1998 totalled \$96,667 (1997 - \$158,264), of which \$43,825 (1997 - \$118,698) is classified as a long-term liability.

7. Early Retirement Incentive Program

The Commission is participating in an Early Retirement Incentive Program offered by the Province of Nova Scotia to crown agencies. A liability in the amount of \$180,465 (1997 \$173,447) has been accrued on March 31, 1998. This amount represents management's best estimate of the present value of the future payments required under the Program. Of the total liability, \$12,280 (1997 -\$6,186) has been classified on the balance sheet as current and \$168,185 (1997 - \$167,261) has been classified as long-term.

The present value of pension benefits to be paid by the Commission is expensed in the year an employee opts to take early retirement under the Program.

8. Long Service Awards

Employees of the Commission are entitled to long service awards upon retirement. The awards are based on the number of years of service of the employee, and are earned at the rate of one week's pay for every year of service, to a maximum of 26 weeks.

In 1998, the Commission engaged an outside consultant to estimate the liability relating to the awards. Based on the estimate of the present value of obligations respecting long service awards at March 31, 1998, the long service award trust funds of \$670,445 (1997-\$623,302) are sufficient to fund the liability (1997 - \$369 unfunded liability).

9. Commitments and Contingencies

(a) The Commission has entered into lease agreements for eleven of its offices. The remaining two offices do not have formal lease agreements. Lease agreements typically call for payment of a base rent plus a provision for the Commission's portion of operating costs and property taxes. Lease terms vary by office. Most of the leases expire on or before December 31, 2000.

Minimum lease payments for signed lease agreements for the next five years, not including operating costs and taxes, are as follows:

1998-1999	\$	448,716
1999-2000	\$	435,734
2000-2001	\$	350,440
2001-2002	\$	116,768
2002-2003	\$	82,248

(b) The Commission provides funding to Dalhousie Legal Aid Services. The Commission has agreed to provide up to \$230,800 to Dalhousie Legal Aid Services for the year ending March 31, 1999.

- (c) Pursuant to the expiry of the Public Sector Wage Restraint (1994-1997) Act, certain employees of the Commission are seeking to have their professional experience levels adjusted, with resulting salary increases. The likelihood of the adjustments and the salary increases involved are not determinable and therefore no provision has been recorded in the financial statements.
- (d) The Commission has allocated \$75,000 from the surplus balance to fund the acquisition of a new accounting system in the year ending March 31, 1999.

10. Pensions

Pursuant to Section 7 of the Legal Aid Act, all permanent employees of the Commission are entitled to receive pension benefits under the Province of Nova Scotia Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Commission's operating expenses. The Commission is not responsible for any unfunded liability with respect to the superannuation fund.

11. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Commission's ability to conduct normal operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Commission, including those related to the efforts of suppliers or other third parties, will be fully resolved.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA LEGAL AID COMMISSION

Schedule of Expenses

for the year ended March 31, 1998

	1998		1997
	Budget	Actual	Actual
Directors' fees	\$ 45,000	\$ 57,156	\$ 28,568
Equipment and maintenance			
Office furniture and equipment	41,000	27,085	12,255
Office machine leasing	48,000	12,818	10,311
Office machine maintenance	36,000	31,695	34,228
	<u>125,000</u>	<u>71,598</u>	<u>56,794</u>
Leasehold improvements	3,500	20,347	200
Library	125,000	124,740	113,229
Membership, meetings and conferences			
Membership and dues	177,800	144,444	180,419
Meetings and conferences	45,000	47,938	53,006
	<u>222,800</u>	<u>192,382</u>	<u>233,425</u>
Office disbursements			
Civil and Family	150,000	108,098	142,542
Criminal	80,000	75,580	130,490
Young Offender	10,000	7,180	7,727
	<u>240,000</u>	<u>190,858</u>	<u>280,759</u>
Private solicitors' fees			
Civil and Family - conflicts	838,900	1,051,717	1,173,936
Criminal - choice of counsel	200,000	185,718	124,894
Criminal - conflicts	352,000	519,932	532,788
Young Offender - conflicts	106,700	72,701	118,184
	<u>1,497,600</u>	<u>1,830,068</u>	<u>1,949,802</u>
Professional and other fees			
Professional fees	30,500	27,187	46,973
Duty counsel fees	33,000	33,000	43,110
	<u>63,500</u>	<u>60,187</u>	<u>90,083</u>
Salaries and benefits	6,653,300	6,408,165	6,709,389
Supplies and services			
Advertising	---	1,401	---
General cleaning and office expense ..	50,000	63,876	54,090
Heat, light and water	30,000	25,827	29,068
Printing and stationery	80,000	76,358	78,789
Rent, insurance and taxes	531,000	506,066	476,111
Telephone and postage	250,000	234,977	257,603
	<u>941,000</u>	<u>908,505</u>	<u>895,661</u>
Travel	231,300	246,247	241,588
	<u>\$ 10,148,000</u>	<u>\$ 10,110,253</u>	<u>\$ 10,599,498</u>

AUDITORS' REPORT

To the Honourable Minister
in Charge of Administration
Liquor Control Act
Province of Nova Scotia
Halifax, Nova Scotia

We have audited the balance sheet of The Nova Scotia Liquor Commission as at March 31, 1998 and the statements of income and changes in financial position for the year then ended. These financial statements are the responsibility of the commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Nova Scotia Liquor Commission as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG
Chartered Accountants

Halifax, Canada
June 26, 1998

PROVINCE OF NOVA SCOTIA
THE NOVA SCOTIA LIQUOR COMMISSION

Balance Sheet

March 31, 1998, with comparative figures for 1997

	1998	1997
	(in thousands)	
ASSETS		
Current assets:		
Cash	2,628 \$	4,453
Accounts receivable	1,877	1,206
Inventories of stock in warehouse and stores	12,628	12,172
Prepaid expenses	506	472
	17,639	18,303
Property and equipment:		
Furniture, fixtures and portable equipment	12,130	11,596
Other equipment	7,117	6,859
Computers	1,961	516
Land and buildings	12,046	11,217
Capital and leasehold improvements	19,961	18,531
	53,215	48,719
Less: Accumulated depreciation and amortization	40,003	35,776
	13,212	12,943
Assets under capital lease	10,831	10,831
Less accumulated amortization	6,929	6,035
	3,902	4,796
	\$ 34,753	\$ 36,042
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	16,119 \$	6,876
Current portion of obligations under capital leases (note 2)	243	211
	16,362	7,087
Long-term liability:		
Obligations under capital lease (Note 2)	9,127	9,370
Due to Minister of Finance:		
Balance, beginning of year	19,585	19,619
Remittances	19,585	19,619
	---	---
Current year:		
Net income	118,429	116,104
Remittances	109,165	96,519
	9,264	19,585
Balance, end of year	\$ 34,753	\$ 36,042

Operating Leases (Note 3)

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
THE NOVA SCOTIA LIQUOR COMMISSION

Statement of Income

year ended March 31, 1998, with comparative figures for 1997

	1998	% of Sales (in thousands)	1997	% of Sales
Net Sales \$	331,868	100.0	\$ 323,641	100.0
Cost of goods sold	167,563	50.5	162,917	50.3
	164,305	49.5	160,724	49.7
Stores' operating expenses	30,218	9.1	29,950	9.2
Income, store operations	134,087	40.4	130,774	40.5
Depreciation (Note 5)	5,121	1.6	3,495	1.1
Warehousing and distribution expenses	3,563	1.1	3,835	1.2
Administrative expenses (Note 6)	7,762	2.3	7,982	2.5
Other revenue	(2,950)	(0.9)	(2,486)	(0.8)
Other expenses	1,157	0.3	947	0.3
	14,653	4.4	13,773	4.3
Income before unusual item	119,434	36.0	117,001	36.2
Early retirement program	1,005	0.3	897	0.3
Income from operations \$	118,429	35.7	\$ 116,104	35.9

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

THE NOVA SCOTIA LIQUOR COMMISSION

Statement of Changes in Financial Position

year ended March 31, 1998, with comparative figures for 1997

	1998	1997
	(in thousands)	
Cash provided by (used in):		
Operations:		
Income from operations \$	118,429	\$ 116,104
Depreciation and amortization not involving cash	5,121	3,495
Change in non-cash operating working capital	8,082	(383)
	<u>131,632</u>	<u>119,216</u>
Financing:		
Principal payments on obligations under capital lease	(211)	(184)
Investments:		
Additions to property and equipment (net)	(4,496)	(2,399)
Other:		
Remittances to Minister of Finance	(128,750)	(116,138)
Increase (decrease) in cash	(1,825)	495
Cash, beginning of year	4,453	3,958
Cash, end of year \$	<u><u>2,628</u></u>	<u><u>4,453</u></u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
THE NOVA SCOTIA LIQUOR COMMISSION

Notes to Financial Statements

year ended March 31, 1998

The Nova Scotia Liquor Commission administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989.

1. Significant accounting policies:

(a) Inventories:

Inventories of stock in warehouse and stores are valued at the lower of cost and net realizable value. Customs and excise tax have not been included where payment is due upon shipment from bonded warehouse.

(b) Property and equipment:

Property and equipment are stated at cost. Depreciation and amortization are provided on the straight-line basis at the following annual rates:

Asset	Rate
Furniture, fixtures, portable equipment, other equipment and capital and leasehold improvements	10%
Computers - stand-alone	33%
Computers - integrated systems	20%
Land and buildings	5%

In the year of addition, depreciation is charged at the full annual rate.

Land costs which normally would not be depreciated are written off due to the retention of proceeds by the Province of Nova Scotia.

(c) Assets under capital lease:

Assets under capital lease are amortized over their estimated useful lives using the straight-line method.

2. Obligations under capital lease:

The Nova Scotia Liquor Commission has an obligation under a capital lease, which matures in 2011. The obligation represents the total present value of future minimum lease payments discounted at the rate implicit in the lease which is 13.8%. The following is a schedule by years of future minimum lease

payments together with the balance of the obligation under capital lease as of March 31, 1998:

1999	1,537,000
2000	1,536,000
2001	1,537,000
2002	1,536,000
2003	1,536,000
2004-2011	<u>13,444,000</u>
Total minimum lease payments	21,126,000
Less amount representing interest	<u>(11,756,000)</u>
Balance of obligation	9,370,000
Less current portion of obligations under capital lease	<u>243,000</u>
	<u>\$ 9,127,000</u>

3. Operating leases:

The Nova Scotia Liquor Commission leases buildings, premises and equipment under operating leases which expire at various dates between 1999 and 2011. Some of these operating leases contain renewal options at the end of the initial lease term.

The following is an approximate schedule by years of future minimum rental payments required under operating leases that have initial lease terms in excess of one year, as of March 31, 1998:

1999	\$ 2,564,000
2000	2,349,000
2001	1,840,000
2002	1,453,000
2003	985,000
2004-2011	<u>3,580,000</u>
Total minimum payments required	<u>\$ 12,771,000</u>

4. Change in estimate:

The estimated useful life of stand alone computers was revised to 3 years in 1998 (5 years in 1997). The adjustments to accumulated depreciation and depreciation expense totaled roughly \$1,400,000.

5. Administrative expenses:

Administrative expenses also include the following:

	1998	1997
	(in thousands)	
Interest on obligation under capital lease	\$ 1,325	\$ 1,353

6. Pension plan and retirement obligations:

Full time employees of the Nova Scotia Liquor Commission are members of the Nova Scotia Public Service Superannuation Plan.

7. Comparative figures:

Certain of the 1997 figures, presented for comparative purposes, have been restated to conform with the presentation adopted for 1998.

AUDITORS' REPORT TO THE DIRECTORS

We have audited the statement of financial position of Nova Scotia Municipal Finance Corporation as at March 31, 1998 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Corporation as at March 31, 1998 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The comparative figures for 1997 were reported on by another firm of chartered accountants.

KPMG
Chartered Accountants

Halifax, Canada
May 12, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Balance Sheet

March 31, 1998 with comparative figures for 1997

	1998	1997
ASSETS		
Current assets:		
Cash	\$ 81,503	\$ 21,060
Short-term investments, at amortized cost (market - \$5,500,000; 1997- \$5,725,000)	5,500,000	5,725,000
Accrued interest receivable	20,265,150	18,856,241
Principal due within one year on loans to units	73,041,907	51,378,481
	98,888,560	75,980,782
Long-term assets:		
Loans to units (Note 3)	631,772,585	536,306,767
Less: Principal included in current assets	73,041,907	51,378,481
	558,730,678	484,928,286
Investments, at amortized cost (market - \$6,968,789; 1997 - \$7,019,863).	6,657,800	6,572,574
	6,657,800	6,572,574
Deferred charges:		
Discount on debenture debt	3,127,118	2,363,065
Less: Accumulated amortization	1,965,909	1,700,845
	1,161,209	662,220
	\$ 665,438,247	\$ 568,143,862
Trust fund assets (Note 4)	\$ 155,185,127	\$ 128,802,462

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Financial Position

March 31, 1998 with comparative figures for 1997

	1998	1997
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 18,436	\$ 12,323
Accrued interest payable	20,359,044	18,974,501
Principal due within one year on debenture debt	73,756,000	51,278,000
	94,133,480	70,264,824
Long-term debt:		
Debentures payable (Note 5)	638,140,000	542,600,000
Less: Principal included in current liabilities	73,756,000	51,278,000
Deferred credits:		
Discount on loans to units	3,159,330	2,395,043
Less: Accumulated amortization	2,043,182	1,790,488
Equity:		
Reserve Fund:		
Residual Reserve Fund	5,234,619	5,952,483
Reserve for debenture/loan interest differential	570,000	---
	5,804,619	5,952,483
	\$ 665,438,247	\$ 568,143,862
Trust funds under administration (Note 4)	\$ 155,185,127	\$ 128,802,462

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Revenue, Expenditure and Reserve Fund

year ended March 31, 1998 with comparative figures for 1997

	1998	1997
Revenue:		
Interest on loans to units \$	54,875,381	\$ 57,176,743
Amortization of discount on loans to units	252,694	155,165
Interest on short-term investments	668,919	688,197
Current discount on loans to units	585,844	241,475
	<u>56,382,838</u>	<u>58,261,580</u>
Expenditure:		
Interest on debenture debt and short-term loans.	55,598,350	57,902,158
Amortization of discount on debenture debt	265,064	179,257
Debenture issue expenses	491,914	208,832
Administrative expenses (Note 6)	175,374	164,693
	<u>56,530,702</u>	<u>58,454,940</u>
Net expenditure	(147,864)	(193,360)
Reserve fund, beginning of year	5,952,483	6,145,843
Reserve fund, end of year. \$	<u>5,804,619</u>	<u>\$ 5,952,483</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Changes in Financial Position

year ended March 31, 1998 with comparative figures for 1997

	1998	1997
Cash provided by (used in):		
Operations		
Net (expenditure) revenue \$	(147,864)	\$ (193,360)
Add (deduct) items not involving cash:		
Amortization of discount on loans to units	(252,694)	(155,165)
Amortization of discount on debenture debt	265,064	179,257
Amortization of premium on investments	(85,226)	---
Change in non-cash working capital (note 8)	(18,253)	(100,284)
	<u>(238,973)</u>	<u>(269,552)</u>
Investments:		
Issue of loans of \$146,844,300 to units on security of debentures, net of discounts of \$764,287 (1997-of \$62,936,000 net of discounts of \$314,796)	(146,080,013)	(62,621,204)
Purchase of investments, net of premiums of \$Nil (1997 - \$352,426)	---	(2,956,243)
Principal received on loans to units.	51,378,482	88,918,800
	<u>(94,701,531)</u>	<u>23,341,353</u>
Financing:		
Issue of debentures of \$146,818,000, net of discounts of \$764,053 (1997 - \$62,940,000 net of discounts of \$315,024)	146,053,947	62,624,976
Principal payment on debenture debt	(51,278,000)	(88,766,000)
	<u>94,775,947</u>	<u>(26,141,024)</u>
Decrease in cash and short-term investments.	(164,557)	(3,069,223)
Cash and short-term investments, beginning of year	5,746,060	8,815,283
Cash and short-term investments, end of year \$	<u>5,581,503</u>	<u>\$ 5,746,060</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA MUNICIPAL FINANCE CORPORATION****Notes to the Financial Statements****year ended March 31, 1998**

The Corporation was created by the Municipal Corporation Act, which was proclaimed on July 31, 1979. The corporation began operations on January 1, 1980 and has a March 31 fiscal year end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

1. Summary of significant accounting policies:

- (a) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.
- (b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide for funds which may be required for administrative purposes and timing differences.
- (c) The Reserve for debenture/loan interest differential represents an allocation approved by the Board of Directors to fund the negative interest on loans maturing to the year 2000.

2. Fair values of financial instruments:

Financial assets and financial liabilities:

The fair values of cash, accrued interest receivable, accrued interest payable and principal due within one year on loans to units are assumed to approximate their carrying amounts because of their short term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements. The fair values of payables and principal due within one year on debenture debt are assumed to approximate their carrying amounts because of their short term to maturity.

The fair values of the Corporation's loans to units and debentures payable fluctuate with change in current lending rates. The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost of borrowing, thereby providing a hedge against equity erosion. As at March 31, 1998, the Corporation's debenture debt was hedged by offsetting loans to units with the exception of approximately \$6,300,000 which was hedged by unrelated marketable securities. The fair market value of the marketable securities was \$6,968,789, while the fair market value of the debentures in excess of the loans to units was \$7,109,672. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

Trust fund assets managed by the corporation are completely offset by trust fund liabilities providing a hedge against fair value changes.

3 Loans to units:

(a) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 4.75% to 14.25%. Due to existing provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are as follows:

1999	\$	73,041,907
2000	\$	127,282,725
2001	\$	143,090,841
2002	\$	46,123,363
2003	\$	67,134,705

4 Trust funds under administration:

Trust fund assets totalling \$155,185,127 (1997 - \$128,802,462) are held on behalf of certain municipal units and provincial debt issued for school and hospital construction. These funds represent sinking funds which are held by the Corporation to be applied to the repayment of outstanding debenture debt at maturity.

5. Debentures payable:

- (a) The debenture debt outstanding at March 31, 1998 totalling \$638,140,000 (1997 - \$542,600,000) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
A	Jan. 4/80	1998 to 2000	11.250	\$ 2,500,000
B	July 2/80	1998 to 2000	12.000	2,100,000
C	Dec. 19/80	1998 to 2000	13.375	3,750,000
D	Dec. 19/80	1998 to 2000	13.375	1,500,000
K	Sept. 7/83	1998 to 1998	12.750	700,000
M	Aug. 28/84	1998 to 1999	14.250	200,000
N	Apr. 2/85	1998 to 2005	12.250-12.500	4,315,000
P	Dec. 11/85	1998 to 2000	10.750-11.000	2,500,000
U	May 11/88	1998	10.375	2,022,000
V	Nov. 3/88	1998	11.000	26,950,000
W	Apr. 26/89	1999	11.250	40,100,000
X	Nov. 16/89	1999	10.500	43,000,000
Y	June 21/90	2000	11.750	44,000,000
Z	Nov. 15/90	2000	11.900	59,000,000
AA	May 29/91	1998 to 2001	10.375-10.500	15,400,000
AB	Oct. 30/91	1998 to 2001	9.500-9.750	19,390,000
AC	May 13/92	1998 to 2002	9.625-9.875	34,925,000
AD	Dec. 9/92	1998 to 2002	8.000-8.500	24,380,000
AE	May 5/93	1998 to 2003	7.750-8.500	16,520,000
AF	Nov. 18/93	1998 to 2003	6.750-7.625	13,200,000
AG	July 13/94	1998 to 2004	8.500-9.250	13,340,000
AH	Dec. 8/94	1998 to 2004	8.750-9.750	21,202,000
AI	May 2/95	1998 to 2005	8.375-9.125	14,530,000 *
AJ	Nov. 14/95	1998 to 2005	7.125-8.125	27,830,000
AK	May 14/96	1998 to 2006	6.250-8.000	38,566,000 *
AL	Oct. 28/96	1998 to 2006	5.250-7.500	19,402,000
AM	May 12/97	1998 to 2007	4.500-7.000	61,938,000 *
AN	Oct. 17/97	1998 to 2007	4.250-6.250	39,780,000 *
AP	Jan. 30/98	1999 to 2019	5.125-6.125	45,100,000 *
				<u>638,140,000</u>

* Placed directly with the Province of Nova Scotia
Interest is payable semi-annually.

(b) Principal payments due in each of the next five years are as follows:

1999	\$	73,756,000
2000	\$	128,498,000
2001	\$	147,713,000
2002	\$	46,156,000
2003	\$	67,366,000

6. Administrative expenses:

	1998		1997
	Budget	Actual	Actual
Salaries and benefits	\$ 126,962	\$ 128,549	\$ 120,056
Travel	3,500	2,589	2,616
Equipment and maintenance	5,150	4,505	4,628
Printing	2,300	2,404	1,417
Postage	4,000	4,337	3,189
Telecommunications	5,000	3,500	3,609
Stationery and supplies	5,000	3,430	3,794
Professional services	6,000	6,307	4,800
Bank charges	9,000	9,245	10,932
Directors' fees and expenses	5,600	4,580	4,788
Professional development	4,930	3,935	3,077
Dues and subscriptions	1,080	1,144	1,199
Insurance	755	550	555
Other	500	299	33
	<u>\$ 179,777</u>	<u>\$ 175,374</u>	<u>\$ 164,693</u>

7. Taxes:

The corporation is not subject to provincial or federal taxes.

8. Change in non-cash working capital:

	1998	1997
Accrued interest receivable	\$ (1,408,909)	\$ 1,332,880
Accounts payable	6,113	(3,199)
Accrued interest payable	1,384,543	(1,429,965)
	<u>\$ (18,253)</u>	<u>\$ (100,284)</u>

AUDITORS' REPORT

To the Chair and Members of the
Nova Scotia Police Commission

We have audited the balance sheet of the Nova Scotia Police Commission as at March 31, 1998 and the statements of operations and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Commission as at March 31, 1998, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

GRANT THORTON
Chartered Accountants

Halifax, Nova Scotia
May 15, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POLICE COMMISSION

Balance Sheet

March 31, 1998

	1998	1997
		(Restated)
ASSETS		
Current		
Cash	\$ 59,914	\$ 53,304
Accounts receivable	295	859
	60,209	54,163
Capital assets	3,303	6,932
	\$ 63,512	\$ 61,095
LIABILITIES		
Current		
Payables and accruals	\$ 8,802	\$ 11,087
Due to Province of Nova Scotia	51,407	43,076
	60,209	54,163
SURPLUS		
Investment in capital assets (Note 4)	3,303	6,932
	\$ 63,512	\$ 61,095

See accompanying notes to the financial statements

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POLICE COMMISSION
Statement of Operations and Surplus

year ended March 31, 1998

	1998	1997 (Restated)
Revenue		
Grant from the Province of Nova Scotia - gross \$	287,037	\$ 270,000
Refundable portion	(51,407)	(33,493)
Net grant	235,630	236,507
Interest and other revenue	1,447	2,252
	<u>237,077</u>	<u>238,759</u>
Expenses		
Commission		
Salaries, wages and benefits	136,650	140,808
Investigation services	25,623	23,079
Travel	17,465	15,048
Office supplies and services	7,583	8,466
Telephone	6,287	1,948
Depreciation	3,629	3,629
Printing and copying	1,848	461
Equipment	1,757	1,704
Dues and fees	1,175	1,819
Audit	1,000	1,000
Other expenses	744	658
Repairs and maintenance	593	616
Transcription	28	15
	<u>204,382</u>	<u>199,251</u>
Review Board		
Salaries, wages and benefits	25,425	21,225
Travel	10,443	13,408
Dues and fees	456	2,090
	<u>36,324</u>	<u>36,723</u>
	<u>240,706</u>	<u>235,974</u>
Operating (deficit) surplus \$	<u>(3,629)</u>	<u>\$ 2,785</u>
Surplus, beginning of year \$	---	\$ ---
Operating (deficit) surplus	<u>(3,629)</u>	<u>2,785</u>
Transfer from (to) investment in capital assets for		
Depreciation	3,629	3,629
Capital asset acquisitions	---	(6,414)
	<u>3,629</u>	<u>(2,785)</u>
Surplus, end of year \$	<u>---</u>	<u>\$ ---</u>

See accompanying notes to the financial statements

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POLICE COMMISSION
Statement of Capital Assets
year ended March 31, 1998

	Cost	Accumulated Depreciation		Balance End of Year	1998 Net Book Value	1997 Net Book Value
		Balance Beginning of year	Depreciation Expense			
Computer equipment.	\$ 8,270	\$ 4,829	\$ 2,756	\$ 7,585	\$ 685.0	\$ 3,441
Equipment	4,364	873	873	1,746	2,618.0	3,491
Total	<u>\$ 12,634</u>	<u>\$ 5,702</u>	<u>\$ 3,629</u>	<u>\$ 9,331</u>	<u>\$ 3,303</u>	<u>\$ 6,932</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA POLICE COMMISSION

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997 (Restated)
Cash derived from (applied to)		
Operating		
Operating (deficit) surplus \$	(3,629)	2,785
Depreciation	3,629	3,629
	---	6,414
Change in non-cash operating working capital		
Increase in accounts receivable	563	104
Decrease in accounts payable	(2,284)	(8,560)
Increase(decrease) in due to Province of Nova Scotia . . .	8,331	(9,109)
	6,610	(11,151)
Investing		
Purchase of capital assets	---	(6,414)
Increase (decrease) in cash.	6,610	(17,565)
Cash		
Beginning of year	53,304	70,869
End of year \$	<u>59,914</u>	<u>53,304</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POLICE COMMISSION

Notes to the Financial Statements

March 31, 1998

1. Incorporation

The Nova Scotia Police Commission was incorporated pursuant to the Police Act of Nova Scotia, Chapter 348 of the Revised Statutes of Nova Scotia, 1989.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles for the public sector.

Effective for the year ended March 31, 1998, the Commission is required to capitalize fixed asset acquisitions and amortize them over their useful lives in a rational and systematic manner. This change in policy is a result of changes to the Public Sector Accounting and Auditing Handbook.

Capital assets purchased by the Commission with a value greater than \$1,000 and a useful life greater than one year will be capitalized and amortized over their useful lives on a straight line basis as follows:

Computer equipment	3 years
Equipment	5 years

3. Change in Accounting Policy

The Nova Scotia Police Commission has capitalized fixed assets in accordance with the new Public Sector Accounting and Auditing recommendations. This change has been applied retroactively and results in the following restatement of 1997 figures:

	Increase	Decrease
Capital assets \$	6,932 \$	
Investment in capital assets	6,932	
Equipment expense		6,414
Depreciation expense	3,629	
Operating surplus for the year	2,785	

4. Investment in Capital Assets

	1998	1997
Balance, beginning of year \$	6,932 \$	4,147
Capital asset acquisitions	---	6,414
Depreciation	(3,629)	(3,629)
Balance, end of year \$	<u>3,303 \$</u>	<u>6,932</u>

5. Pensions

The full time employees of the Commission are entitled, as Civil Servants, to receive pension benefits under the Public Service Superannuation Act. The Plan is funded by equal employee and employer contributions. The employer's contributions are included in the Commission's operating expenses. The Commission is not responsible for any unfunded liability.

AUDITORS' REPORT

To the Board of Directors
Nova Scotia Power Finance Corporation

We have audited the statement of financial position of Nova Scotia Power Finance Corporation as at March 31, 1998 and the statement earnings and retained earnings for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Company as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

DELOITTE & TOUCHE
Chartered Accountants

August 17, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POWER FINANCE CORPORATION
(Formerly Nova Scotia Power Corporation - See Note 1)

Statement of Financial Position

as at March 31, 1998

NET ASSETS	1998	1997
	(in millions)	
Notes receivable - Nova Scotia Power Inc. (Note 2) \$	---	\$ 5.7
Accrued interest due from Nova Scotia Power Inc.	---	2.7
	---	8.4
<i>Less:</i> Long-term debt (Note 3)	---	(5.7)
Accrued interest on long-term debt	---	(2.7)
	---	(8.4)
Net (Note 4) \$	---	\$ ---

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POWER FINANCE CORPORATION
(Formerly Nova Scotia Power Corporation - See Note 1)

Statement of Earnings and Retained Earnings

year ended March 31, 1998

	1998	1997
	(in millions)	
Revenue		
Interest on matching notes (Note 6) \$	1.8 \$	5.7
Expenses		
Interest on long-term debt (Note 6) _____	1.8	5.7
Net earnings	---	---
Retained earnings, beginning of year	---	---
Retained earnings, end of year \$ _____	\$ ---	\$ ---

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POWER FINANCE CORPORATION

Notes to the Financial Statements

year ended March 31, 1998

1. Reorganization and Privatization

In 1992, the Province of Nova Scotia passed legislation to facilitate the reorganization and privatization of the business of Nova Scotia Power Corporation (N.S.P.C.). In effecting this, pursuant to the Asset Transfer Agreement effective on August 10, 1992, N.S.P.C. transferred all of its existing assets, liabilities and equity except for long-term debt and related sinking funds to Nova Scotia Power Inc. (N.S.P.I.) in exchange for:

- a) matching notes receivable equivalent to outstanding long-term debt, and matching notes payable equivalent to sinking fund assets; and
- b) 20,134,666 fully paid common shares of N.S.P.I., issued to the Province of Nova Scotia, which were subsequently sold on August 12, 1992 by the Province of Nova Scotia as a secondary offering. Concurrently, the \$13.3 million of contributed surplus of N.S.P.C. was transferred to the retained earnings of N.S.P.I.

Subsequent to the reorganization and privatization, the business activities of N.S.P.C. continued under N.S.P.I. N.S.P.C. changed its name to Nova Scotia Power Finance Corporation (N.S.P.F.C.) which continues to hold the long-term debt and sinking fund assets.

Under the terms of the matching notes receivable, N.S.P.I. is responsible for the long-term debt of N.S.P.F.C.

2. Notes Receivable - Nova Scotia Power Inc.

	1998	1997
	(in millions)	
Matching notes receivable (Note 1)	\$ ---	\$ 109.5
Less: Sinking fund matching notes payable (Note 1)	---	103.8
	<u>\$ ---</u>	<u>\$ 5.7</u>

3. Long-Term Debt

	1998	1997
	(in millions)	
Bonds and debentures, net of sinking funds and defeasance investments	<u>\$ ---</u>	<u>\$ 5.7</u>

A number of the bond and debenture issues are redeemable prior to maturity at the option of the Corporation. Bonds, debentures and notes payable are summarized by years of maturity in the following table:

Years of Maturity	1998		1997	
	Principal Outstanding Total	Weighted Average Coupon Rate % (in millions)	Principal Outstanding Total	Weighted Average Coupon Rate %
1996	\$ ---	---	\$ ---	---
1997	---	---	9.6	9.6
1998	---	---	---	---
1999	---	---	---	---
2000	---	---	---	---
1-5 years	---	---	9.6	10.25
6-10 years	---	---	100.0	9.31
11-15 years	---	---	---	---
16-20 years	---	---	---	---
21-25 years	---	---	---	---
26-30 years	---	---	---	---
31-40 years	---	---	---	---
Total long-term debt (Schedule 1)	---	---	109.6	9.39
Less: Sinking funds (Schedule 1)	---	---	103.9	
Net long-term debt (Schedule 2)	\$ ---		\$ 5.7	

Details of defeasance to March 31, 1998 are provided in Schedule 1 to the financial statements.

4. Change in Accounting Policy

Pursuant to changes in the reporting requirements for financial instruments, issued by the Canadian Institute of Chartered Accountants and effective for the year ended March 31, 1997, there is a requirement to net offsetting Notes Receivable and Long-Term Debt, and related interest, where there is a legally enforceable right to set off the recognized amounts and where the corporation's management does intend to realize on the asset and, simultaneously, settle the liability. Management concurs, based on legal counsel opinion, that these conditions apply to Nova Scotia Power Finance Corporation and hence the assets, less offsetting liabilities, have been netted in the Balance Sheet.

5. Debt Defeasance

On reorganization, N.S.P.I. and N.S.P.F. committed, subject to certain conditions, to effect defeasance of N.S.P.F.'s long-term debt through repayment of the matching notes by December 31, 1997 in order to fully remove the debt from its balance sheet by that date. Defeasance requires qualifying assets to be set aside by the debtor to be used solely for satisfying scheduled future payments of principal and interest of a specific obligation.

Under the terms of the Defeasance Agreement, subject to certain factors, minimum amounts of debt to be defeased are as follows:

December 31	Annual Amount (in millions)
1993	\$ 200.0
1994	300.0
1995	400.0
1996	250.0
1997	231.6
	<u>\$ 1,381.6</u>

As at March 31, 1998, \$1,450.0 million of debt had been defeased (1997 - \$1,440.3 million) (Schedule 1).

6. Interest

	1998 (in millions)	1997 (in millions)
Interest on long-term debt	\$ 5.3	\$ 17.7
Less: Sinking fund earnings	<u>(3.5)</u>	<u>(12.0)</u>
	1.8	5.7
Less: Interest on matching notes - N.S.P.I.	<u>(1.8)</u>	<u>(5.7)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

7. General and Administrative Expenses

Under the terms of the privatization agreements, N.S.P.I. is responsible for the payment of N.S.P.F.C. expenses. During the year, \$28,736 of such expenses were incurred by N.S.P.F.C. and recovered by it from N.S.P.I.

8. Defeasance Assets

The portfolio of defeasance assets consists of Nova Scotia Power Corporation, other Provincial Government and Utilities, Federal Government, Federal US, and Municipal Government bonds, coupons or residuals. The portfolio mix as of March 31, 1998 is as follows, based upon par values:

Security Type	% of Portfolio
Nova Scotia Power Corp.	48.17
Other Provincial Government and Utilities	43.13
Federal Government	8.58
Federal US	0.10
Municipal	0.02
	<u>100.0</u>

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA POWER FINANCE CORPORATION

Long-Term Debt and Sinking Funds

as at March 31, 1998

Series	Date of Maturity		Rate	Amount Outstanding	Defeasance To Date	Net Undeafesed Balance	(1)(2) Sinking Funds
Debentures							
"AA"	July 15, 2005	(3)	11.50%	50,000,000	50,000,000	---	---
"AE"	December 1, 2002	(3)	13.50%	100,000,000	100,000,000	---	---
"AF"	December 20, 2003	(3)	12.50%	75,000,000	75,000,000	---	---
"AG"	February 14, 2005	(3)	12.125%	100,000,000	100,000,000	---	---
"AH"	November 15, 2012		10.875%	150,000,000	150,000,000	---	---
"AJ"	April 27, 2014		11.25%	200,000,000	200,000,000	---	---
"AK"	January 10, 2020		10.25%	150,000,000	150,000,000	---	---
"AM"	February 26, 2031		11.00%	200,000,000	200,000,000	---	---
"AN"	April 1, 2021 (U.S.)	(2)	9.40%	424,980,000	424,980,000	---	---
Total long-term debt				<u>\$ 1,449,980,000</u>	<u>\$ 1,449,980,000</u>	<u>---</u>	<u>---</u>

(1) Sinking funds are maintained on a pooled basis. Presentation by individual debenture issue, above, is based upon management allocation.

(2) Amounts payable in foreign currencies and those sinking fund investments denominated in foreign currencies are expressed at the Canadian dollar equivalent at the rates prevailing at the date of the financial statements.

(3) Callable issues. Under the terms of the privatization agreements, all options must be exercised.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA POWER FINANCE CORPORATION

Continuity of Long-Term Debt

August 10, 1992 to March 31, 1998

Long-term debt, August 10, 1992 (Note 1)	\$	2,152,879,732
Less: Sinking funds, August 10, 1992		(420,560,964)
Net long-term debt, August 10, 1992		<u>1,732,318,768</u>

Less: Retired, funded or defeased:

	<u>Debt Retirement</u>	<u>Sinking Fund Growth</u>	<u>Defeasance</u>	
Year ended March 31, 1993	\$ (1,371,458)	\$ (57,498,429)	\$ (130,872,250)	(189,742,137)
Year ended March 31, 1994	(238,449,609)	69,597,333	(373,507,887)	(542,360,163)
Year ended March 31, 1995	(65,543,679)	70,132,288	(354,775,338)	(350,186,729)
Year ended March 31, 1996	(184,588,286)	146,494,758	(574,804,525)	(612,898,053)
Year ended March 31, 1997	(113,072,800)	87,986,602	(6,330,000)	(31,416,198)
Year ended March 31, 1998				
Sinking fund instalments (NSPI)	---	---	---	---
Sinking fund earnings	---	---	---	---
Retirement of debentures	(109,563,900)	---	---	(109,563,900)
Transfer to defeasance	---	---	---	---
Retirement of savings bonds	---	103,848,412	---	103,848,412
Foreign currency translation	9,690,000	---	(9,690,000)	---
	(99,873,900)	103,848,412	(9,690,000)	(5,715,488)
	<u>\$ (702,899,732)</u>	<u>\$ 420,560,964</u>	<u>\$ (1,449,980,000)</u>	<u>(1,732,318,768)</u>

Net long-term debt, March 31, 1998

(Note 3)

\$ ---

Comprised of:

Long-term debt (Schedule 1)	\$	1,449,980,000
Less: Sinking funds		---
Defeased investments		(1,449,980,000)
	\$	<u>---</u>

AUDITOR'S REPORT

To the Minister of Natural Resources; and

To the Chair and Members of the
Nova Scotia Primary Forest Products
Marketing Board

I have audited the balance sheet of the Nova Scotia Primary Forest Products Marketing Board as at March 31, 1998 and the statement of revenues, expenses and fund balance for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1998 and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
July 28, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA PRIMARY FOREST PRODUCTS MARKETING BOARD

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current		
Cash \$	200 \$	200
Current portion of loan receivable (Note 3).	15,000	10,000
Due from Board members	3,600	---
Due from processors	24,123	81,699
Due from Province of Nova Scotia	501,068	511,641
	<u>543,991</u>	<u>603,540</u>
Long-Term		
Loan receivable (Note 3).	25,000	15,000
	<u>\$ 568,991</u>	<u>\$ 618,540</u>

LIABILITIES AND FUND BALANCE

Current		
Accounts payable \$	1,597 \$	---
Due to bargaining agents	14,108	24,914
Unearned revenue.	---	16,621
	<u>15,705</u>	<u>41,535</u>
Fund Balance.	<u>553,286</u>	<u>577,005</u>
	<u>\$ 568,991</u>	<u>\$ 618,540</u>

Commitment (Note 4)

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA PRIMARY FOREST PRODUCTS MARKETING BOARD

Statement of Revenues, Expenses and Fund Balance

for the year ended March 31, 1998

	1998		1997
	Budget	Actual	Actual
Revenues			
Charges against suppliers (Note 1) . . .		\$ 418,996	\$ 482,899
Less: Bargaining agents funding . . .		269,178	321,960
Charges for funding of Board operations \$	180,000	149,818	160,939
Interest on fund balance	33,000	22,859	34,704
Miscellaneous	---	293	---
	<u>213,000</u>	<u>172,970</u>	<u>195,643</u>
Expenses			
Board member per diems	10,500	30,900	16,800
Equipment and maintenance	2,000	---	100
Grants	40,000	50,155	42,796
Lease payments - equipment	3,000	2,400	3,084
Lease payments - office space	7,800	6,855	7,646
Legal fees	7,500	3,075	2,362
Other	2,900	6,468	1,022
Salaries	86,500	71,529	71,319
Supplies and services	8,500	6,155	3,556
Travel	14,100	19,152	9,113
	<u>182,800</u>	<u>196,689</u>	<u>157,798</u>
(Deficiency) Excess of revenues over expenses \$	<u>30,200</u>	(23,719)	37,845
Fund balance, beginning of year		<u>577,005</u>	<u>539,160</u>
Fund balance, end of year \$		<u>553,286</u>	<u>577,005</u>

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA PRIMARY FOREST PRODUCTS MARKETING BOARD****Notes to Financial Statements****March 31, 1998****1. Authority**

The Nova Scotia Primary Forest Products Marketing Board was established by the Primary Forest Products Marketing Act.

The objectives of the Board are: to provide for the organization and funding of bargaining agents, to provide for the registration of bargaining agents, to provide for the resolution of bargaining disputes, to facilitate and support the continued development of the forest resources held by private woodlot owners, and to enable private woodlot owners to have a fair share of the available market and receive a reasonable return for the sale of primary forest products.

The Board imposes separate charges against producers of primary forest products for the purpose of providing funding of bargaining agents, and for funding the operations of the Board.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the policy of charging equipment purchases to expense in the year the costs are incurred.

3. Loan Receivable

In November 1996 the Board agreed to loan \$40,000 to a wood lot owners organization. In January 1998, the Board amended the loan agreement to extend the term of the loan to March 31, 2001, and defer the initial repayment to \$5,000 due on November 1, 1997 to the final payment due March 31, 2001. The \$5,000 repayment due March 31, 1998 was received in April 1998, and \$10,000 is due in November of 1998, 1999 and 2000 respectively. The loan is non-interest bearing.

4. Office Lease Commitment

On October 1, 1994 the Department of Transportation and Public Works entered into a five-year lease agreement for office space on behalf of the Board. The lease agreement requires monthly payments of \$552, which are billed to the Board by the Department of Transportation and Public Works.

5. Pensions

All permanent employees of the Board are entitled to receive pension benefits under the Province of Nova Scotia Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Board's operating expenses. The Board is not responsible for any unfunded liability with respect to the superannuation fund.

6. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Board, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Board's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 Issue affecting the Board, including those related to the efforts of producers, suppliers or other third parties, will be fully resolved.

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated balance sheet of Nova Scotia Resources Limited as at December 31, 1997, and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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.

Generally accepted accounting principles require that gains and losses on foreign currency translation of long-term monetary items be deferred and amortized over the term of the related debt. The company follows the policy of recording gains and losses in the year of occurrence. If these amounts had been deferred and amortized net loss would have increased by \$3.4 million (1996 - net earnings decreased by \$3.4 million). Unamortized foreign exchange losses carried forward would be \$Nil (1996 - \$3.4 million). In addition, the opening deficit would have been reduced by \$3.4 million (1996 - \$6.8 million).

In our opinion, except for the effect on the comparative figures of not deferring and amortizing foreign exchange gains and losses on long-term monetary items, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG
Chartered Accountants

Halifax, Nova Scotia
March 13, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA RESOURCES LIMITED

Consolidated Balance Sheet

December 31, 1997

ASSETS

	1997	1996
	(in thousands)	
Oil and gas properties (Note 3)	\$ 30,704	\$ 11,081
Receivables and other assets (Note 4)	8,896	18,426
Collateral deposits	230	210
Cash and short term investments	371	873
	<u>\$ 40,201</u>	<u>\$ 30,590</u>

LIABILITIES

Commercial paper (Note 5)	\$ 315,871	\$ 272,831
Short term borrowing (Note 6)	146,168	---
Long term borrowing	---	139,351
Provision for site restoration (Note 7)	17,500	17,500
Payables and accruals	20,788	6,631
	<u>500,327</u>	<u>436,313</u>

SHAREHOLDERS' DEFICIENCY

Capital stock		
Authorized		
40,000 common shares without par value		
Issued and outstanding		
3 common shares	1	1
Deficit	<u>(460,127)</u>	<u>(405,724)</u>
	<u>(460,126)</u>	<u>(405,723)</u>
	<u>\$ 40,201</u>	<u>\$ 30,590</u>

Future operations (Note 1)
Commitments (Note 8)
Contingency (Note 9)

The accompanying notes are an integral part of these consolidated financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA RESOURCES LIMITED

Consolidated Statement of Earnings and Deficit

year ended December 31, 1997

	1997	1996
	(in thousands)	
Revenue		
Oil and gas revenue	\$ 59,711	\$ 94,378
Royalties	1,004	1,905
	<u>58,707</u>	<u>92,473</u>
Loss on sale of oil and gas properties	---	(2,474)
Sundry revenue	---	80
	<u>58,707</u>	<u>90,079</u>
Expenses		
Production	60,495	49,299
General and administrative	815	1,529
Depreciation and depletion	7,187	6,105
	<u>68,497</u>	<u>56,933</u>
Earnings (loss) before financing cost and income taxes		
	(9,790)	33,146
Financing cost (Note 10)	44,534	27,047
Income taxes	79	307
Net earnings	<u>\$ (54,403)</u>	<u>\$ 5,792</u>
Deficit, beginning of year	\$ 405,724	\$ 411,516
Net earnings (loss)	<u>(54,403)</u>	<u>5,792</u>
Deficit, end of year	<u>\$ 460,127</u>	<u>\$ 405,724</u>

The accompanying notes are an integral part of these consolidated financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA RESOURCES LIMITED

Consolidated Statement of Changes in Financial Position

year ended December 31, 1997

	1997	1996
	(in thousands)	
Cash derived from (applied to)		
Operating		
Net earnings	\$ (54,403) \$	5,792
Items not involving cash:		
Depreciation and depletion	7,187	6,105
Loss on sale of oil and gas properties	---	2,474
	<u>(47,216)</u>	<u>14,371</u>
Change in non-cash operating working capital items	<u>23,654</u>	<u>(11,726)</u>
	<u>(23,562)</u>	<u>2,645</u>
Financing		
Increase (decrease) in commercial paper	43,040	(1,473)
Increase in short term borrowing	146,168	---
Increase (decrease) in long term borrowing	(139,351)	448
	<u>49,857</u>	<u>(1,025)</u>
Investing		
Expenditures on oil and gas properties	(26,797)	(6,836)
Proceeds on sale of oil and gas properties	---	4,500
	<u>(26,797)</u>	<u>(2,336)</u>
Decrease in cash and short term investments	(502)	(716)
Cash and short term investments, beginning of year	<u>873</u>	<u>1,589</u>
Cash and short term investments, end of year.	<u>\$ 371</u>	<u>\$ 873</u>

The accompanying notes are an integral part of these consolidated financial statements.

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA RESOURCES LIMITED****Notes to the Consolidated Financial Statements****December 31, 1997****1. Future operations**

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. Doubts arise due to the company's deficit of \$460 million and its commercial paper and short term borrowing of \$316 million and \$146 million respectively which would impair the company's ability to continue as a going concern without the support of its shareholder, the Province of Nova Scotia, who has guaranteed the debt.

2. Accounting policies**(a) Basis of presentation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. A significant part of the Company's activities is conducted jointly with others and accordingly, these financial statements reflect only the Company's proportionate interest in these activities.

(b) Oil and gas properties

The Company accounts for oil and gas properties in accordance with the Canadian guideline on full cost accounting.

Under this method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized in one cost centre. Depletion is calculated using the unit of production method based on gross proved reserves before royalties. A ceiling test is applied to ensure that the capitalized costs do not exceed the estimated future revenues, net of production, site restoration, administration and financing costs.

(c) Inventory in tanker

Inventory in tanker, included in receivables and other assets, is valued at the lower of cost and market, where market is the current sales price on delivered oil.

(d) Provision for site restoration

The provision for future removal and site restoration costs for the Nova Scotia offshore is based on current estimates and has been fully charged against income as part of depletion expense.

(e) Foreign currency translation

Assets and liabilities denominated in US dollars have been translated to Canadian dollars using the exchange rate on December 31, 1997. Transactions during the year are recorded using the monthly average exchange rate.

(f) Revenue recognition

Revenue from the oilfields offshore Nova Scotia is recorded at current sales prices once the oil is delivered.

3. Oil and gas properties

The Company has the following interests in oil and gas fields offshore Nova Scotia:

	Cost	Accumulated Depreciation	1997 Net Book Value	1996 Net Book Value
	(in thousands)			
Panuke/Cohasset Oil Fields- 50% working interest	258,822	238,234	20,588	10,561
Sable Offshore Energy Project Gas Fields - 8.4% working interest	10,116	---	10,116	520
	<u>\$ 268,938</u>	<u>\$ 238,234</u>	<u>\$ 30,704</u>	<u>\$ 11,081</u>

In applying the ceiling test to its oil and gas reserves, the Company used commodity prices as at December 31, 1997 to determine the net recoverable amount from its oil and gas activities. The Company compared this net recoverable amount to the carrying value of the oil and gas properties and has determined that no write-down is required.

4. Receivable and other assets

	December 31 1997	December 31 1996
	(in thousands)	
Accounts receivable - trade	\$ 285	\$ 8,161
Inventory in tanker	1,453	4,359
Prepaid expenses	323	382
Receivable - insurance claim	---	1,650
Receivable - J.V. partner	6,044	3,073
Receivable - Offshore Infrastructure Fund	760	760
Other assets	31	41
	<u>\$ 8,896</u>	<u>\$ 18,426</u>

5. Commercial paper

In 1986 the Company established a Euro-Commercial Paper Programme under which it issues short term notes guaranteed by the Province of Nova Scotia, to an aggregate principal amount not exceeding US \$250 million. These notes are denominated in US dollars and the principal balance outstanding at December 31, 1997 was US \$205.1 million (1996 - \$176.0 million). The average coupon rate for issuances in the year was 5.96% (1996 - 5.6%). At December 31, 1997, the rate for new issues in the three month term was approximately 5.9% (1996 - 5.5%).

To support the Euro Commercial Paper Programme, the Company has arranged a credit facility which provides committed bank funding to US \$250 million. The principal balance outstanding at December 31, 1997 was US \$15.9 million (1996-\$23.8 million). Repayment of advances is guaranteed by the Province of Nova Scotia.

6. Short term borrowing

The short term notes have a face value of US \$102 million and are secured by guarantees of the Province of Nova Scotia. The notes bear interest at an effective rate of between 5.70% and 5.84%, with a weighted average rate of 5.80% and have maturity dates ranging from January 9, 1998 through March 12, 1998. Upon maturity the notes will be refinanced at the then current rates of interest available to the Province of Nova Scotia.

7. Provision for site restoration - measurement uncertainty

The carrying value of the provision for site restoration costs is based on an abandonment study conducted by an independent third party. The actual costs will be determined when the extent of the site restoration is approved by the Canada - Nova Scotia Offshore Petroleum Board. The Company's share of the cost of site restoration, based on the option chosen, is estimated to range between \$13.9 million and \$18.9 million.

8. Commitments

The Company has an 8.4% stake in the Sable Offshore Energy Project. This project has made commitments for expenditures in the amount of \$2,016,500,000 of which the Company's share is approximately \$170,000,000.

9. Contingency

The Company and the Government of Nova Scotia have been named in a claim by TransCanada Pipelines Limited for breaching the terms of a Memorandum of Agreement dated March 1983 that was to have secured their interest in any future developments in the natural gas fields around Sable Island. TransCanada Pipelines Limited has invested \$18 million in the development of the regional pipeline project and has stated that it does not intend to abandon this investment nor the opportunities contemplated in the Memorandum of Agreement. The Company has filed its defense of the claim and the magnitude and likelihood of any loss is currently indeterminable.

10. Financing cost

The Company's debt is denominated in US dollars. Financing costs are a combination of interest and foreign exchange gains or losses recorded for transactions during the year plus the foreign exchange on conversion of debt to Canadian dollars at the statement date. During the year the actual interest expense amounted to \$26.4 million (1996 -\$25.8 million) plus an accounting recognition of the depreciation in the Canadian dollar from \$1.3696 at January 1, 1997 to \$1.4291 at December 31, 1997 which amounted to \$18.1 million in financing costs (1996 - \$1.4 million in financing revenue).

11. Financial instruments:**Risk management activities**

The Company operates internationally and has significant exposure to movement in the US dollar and fluctuations in interest rates.

At December 31, 1997 a total of \$462 million (1996 - \$412 million) of liabilities are denominated in US dollars. In addition, all of the oil and gas revenue is subject to fluctuation of US currency.

The Company uses an interest rate swap to reduce the foreign exchange risk on \$50 million US (1996 - \$50 million US) of its long-term borrowings, which matured in November, 1997.

The Company has not entered into any foreign exchange contracts or interest rate swap agreements to manage their exposure to foreign currency and interest rate fluctuations on the remainder of their US dollar denominated liabilities.

The Company has not entered into any oil swap or foreign exchange contracts to hedge anticipated sales of crude oil during the year.

Interest rate risk

At December 31, 1997 the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt and short term fixed rate debt amounts to \$4.7 million.

Foreign exchange risk

For the 1997 fiscal year, the increase or decrease in net earnings for each one cent change in the Canadian dollar, relative to the US dollar, on oil and gas revenue, US denominated liabilities and interest expense amounts to \$6.3 million.

Concentration of credit risk

All of the Company's accounts receivable-trade are with customers in the oil and gas industry and are subject to normal industry credit risks.

Fair Values

The fair value of the Company's receivables and other assets, collateral deposits, cash and short-term investments, payables and accruals and commercial paper and short term borrowings approximate their carrying amounts to the relatively short periods to maturity of the instruments.

12. Income taxes

As a Crown corporation, the Company is not taxable under the provisions of the Income Tax Act of Canada.

The Company's oil and gas operations are conducted through a subsidiary, Nova Scotia Resources (Ventures) Limited. This subsidiary is a taxable corporation and has approximately \$487 million of deductions available to reduce future taxable income. The tax benefit related to the deductions has not been recognized in these financial statements.

AUDITOR'S REPORT

To the Chairman and Members of the
Nova Scotia Talent Trust

I have examined the statement of financial position of the Nova Scotia Talent Trust as at March 31, 1998 and the statement of revenues, expenses and fund balance for the year then ended. These financial statements are the responsibility of the Trust's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained the following paragraph, I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 common with many similar organizations, the Trust derives revenue from fund raising and donation activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of the Trust and I was not able to determine whether any adjustments might be necessary to fund raising and donation revenues, excess of revenues over expenses, assets and Trust equity.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself concerning the completeness of the fund raising and donation revenues referred to in the preceding paragraph, these financial statements present fairly in all material respects, the financial position of the Trust as at March 31, 1998 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
August 13, 1998

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA TALENT TRUST

Statement of Financial Position

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Cash	\$ 8,115	\$ 6,259
Short-term investments, at cost (Note 2)	17,469	10,645
Accrued interest	863	1,086
	<u>26,447</u>	<u>17,990</u>
Long-term investments, at cost (Note 2)	17,123	20,313
	<u>\$ 43,570</u>	<u>\$ 38,303</u>
LIABILITIES		
Accounts payable	\$ 600	---
FUND BALANCES		
Fund Balance - unappropriated (Operating Fund)	\$ 7,074	\$ 10,226
Fund Balance - appropriated (Investment Fund) (Note 4)	35,896	28,077
Total Fund Balances	<u>42,970</u>	<u>38,303</u>
Total Liabilities and Fund Balances	<u>\$ 43,570</u>	<u>\$ 38,303</u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA TALENT TRUST

Statement of Revenues, Expenses and Fund Balance

for the year ended March 31, 1998

	1998	1997
Revenues		
Grant - Province of Nova Scotia \$	50,000	\$ 50,000
Fund-raising activities (donations)	600	---
Interest earned - operating fund	294	404
Interest earned - investment fund	1,775	1,704
	<u>52,669</u>	<u>52,108</u>
Expenses		
Talent Trust grants	46,500	48,643
Administration expenses (Note 3)	1,502	1,371
	<u>48,002</u>	<u>50,014</u>
Excess of revenues over expenses	4,667	2,094
Fund Balance, beginning of period	<u>38,303</u>	<u>36,209</u>
Fund Balance, end of period \$	<u><u>42,970</u></u>	<u><u>38,303</u></u>

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA TALENT TRUST

Notes to Financial Statements

March 31, 1998

1. Authority

The Nova Scotia Talent Trust was established pursuant to a special resolution of the Nova Scotia Companies Act. The purpose of the Trust is to assist in the education and advancement of Nova Scotians in the visual and performing arts.

2. Investments

	Interest Rate	Maturity Date	Cost
(a) Short-Term			
Royal Bank GIC	3.25%	Apr. 24, 1998	\$ 5,729
Royal Bank GIC	6.75%	Sept. 11, 1998	5,699
Royal Bank GIC	3.25%	Apr. 28, 1998	<u>6,041</u>
			\$ <u><u>17,469</u></u>
(b) Long-Term			
Royal Bank GIC	7.00%	Sept. 13, 1999	5,726
Royal Bank GIC	7.25%	Sept. 11, 2000	5,752
Royal Bank GIC	6.25%	Sept. 11, 2001	<u>5,645</u>
			\$ <u><u>17,123</u></u>

3. Administrative Expenses

These financial statements do not reflect administrative expenses incurred by the Provincial Department of Education and Culture on behalf of the Trust.

4. Trust Equity - Appropriated

In 1997-98, the Board appropriated the Annon Lee Silver Funds of \$6,043.95 (including accrued interest of \$3.23) to add to the \$25,000 previously appropriated from the Trust's equity for purposes of an endowment fund. Each year, the principle and interest will be reinvested until the balance is sufficient to establish an endowment fund. For the period ended March 31, 1998 interest in the amount of \$1,775 was earned on the investments.

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and
To the Minister of Finance

I have audited the statement of net assets available for benefits and accrued benefits and deficiency of the Nova Scotia Teachers' Pension Fund as at March 31, 1998 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Fund as at March 31, 1998 and the changes in net assets available for benefits for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
July 8, 1998, except as to Notes 5 and 6
which are as of December 11, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
Statement of Net Assets Available for Benefits
and Accrued Pension Benefits
as at March 31, 1998

	1998	1997
	(in thousands)	
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 4)	\$ 2,985,611	\$ 2,156,380
Receivable from the Province of Nova Scotia (Note 3)	---	284,409
Receivable from School Boards	152,952	124,961
Contributions receivable		
Employees'	3,060	2,823
Employers'	8,203	5,258
Accrued income	19,044	16,710
Cash	1,867	(47)
Total Assets	3,170,737	2,590,494
Liabilities		
Net investment transactions outstanding	3,941	3,123
Accounts payable	18,103	16,525
Total liabilities	22,044	19,648
Net Assets Available for Benefits	3,148,693	2,570,846
Actuarial asset value adjustment (Note 5)	76,222	69,197
Actuarial value of net assets available for benefits	\$ 3,224,915	\$ 2,640,043
ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits (Note 6)	\$ 3,478,449	\$ 3,221,996
Deficiency (Note 6)	(253,534)	(581,953)
Accrued pension benefits and deficiency	\$ 3,224,915	\$ 2,640,043

Subsequent event - Note 6

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
Statement of Changes in Net Assets Available for Benefits
for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Increase in Assets		
Investment activities (Note 4) \$	591,212	\$ 350,963
Interest on receivable from Province of Nova Scotia (Note 3)	10,481	22,683
Interest on receivable from School Boards.	10,821	8,548
	612,514	382,194
Contributions		
Employers' - matched	43,599	43,961
Employees' - matched	43,599	43,961
Employers' - unmatched		
- School Boards	42,545	33,798
- Province	12,811	11,917
Employees' - unmatched	702	931
Transfers from other pension plans	600	1,276
	143,856	135,844
Total increase in assets	756,370	518,038
Decrease in Assets		
Benefits paid	171,590	160,882
Operating expenses (Note 7)	5,175	4,175
Refund of contributions and interest	1,315	1,552
Transfers to other pension plans	443	779
Total decrease in assets	178,523	167,388
Increase in Net Assets	577,847	350,650
Net Assets Available for		
Benefits at Beginning of Year	2,570,846	2,220,196
Net Assets Available for		
Benefits at End of Year \$	3,148,693	\$ 2,570,846

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA**NOVA SCOTIA TEACHERS' PENSION FUND****Notes to Financial Statements****March 31, 1998****1. Authority and Description of Plan**

The Teachers' Pension Fund was established by the Teachers' Pension Act. It is the funding vehicle for the Teachers' Pension Plan, a pension plan which covers public school and some community college teachers. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are contained in the Act and in the Regulations made under the Act.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund. The Minister of Finance is trustee of the Fund which is invested in federal, provincial, municipal and corporate securities which qualify as eligible investments under the Provincial Finance Act.

The plan is funded by employee and matching employer contributions of 8.3% of salary up to the Year's Maximum Pensionable Earnings (YMPE) per the Canada Pension Plan (CPP) and 9.9% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada less 1%, to a maximum of 6%.

Plan members are eligible for a pension upon reaching any of the following criteria:

- 35 years of service;
- age 55 with an age plus pensionable service factor of 85 - "Rule of 85";
- age 55 with two years of service (reduced pension);
- age 60 with 10 years of service; and
- age 65 with two years of service.

On July 22, 1994, the Governor in Council authorized an early retirement program (ERP) for plan members. The program provides up to an additional three years of pensionable service for those who were employed by a school board on June 5, 1994 and who reached or will reach age 52 with an age and service factor of 82 or more between June 5, 1994 and July 31, 1998. The additional cost for each teacher who participates is paid by the employing school board. The cost, based on a present value of \$97,400 as at July 31, 1994, increases by 8% per year for each year of the program.

2. Summary of Significant Accounting Policies**(a) Basis of Presentation**

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. They are prepared in accordance with generally accepted accounting principles.

(b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. The market value of foreign investments and cash balances held at year end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(c) Investments

- (i) Investments are reported as of the trade date and are stated at market value. Market value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- (ii) The derivative contracts held by the Fund are recorded at market value with the resulting gains or losses being recognized in unrealized investment income.
- (iii) Investments held in the Fund include debentures of the Province of Nova Scotia and the Nova Scotia Municipal Finance Corporation with total market value of \$88.3 million (2.8% of Total Assets) as at March 31, 1998.

3. Agreement to Address Unfunded Liability

On November 25, 1993 the Teachers' Pension Act was amended to incorporate the terms of an agreement signed May 13, 1993 between the Nova Scotia Teachers' Union and the Province of Nova Scotia to address the unfunded liability in the Teachers' Pension Plan.

As part of this agreement the Province assumed responsibility for \$300 million of the unfunded liability. This receivable had an effective annual interest rate of 8% compounded semi-annually and payments were set out in Schedule A of the Teachers' Pension Act. On July 18, 1997 the Province paid the outstanding principal of this commitment (\$283,603,788) plus interest accrued to that date.

The Province also agreed to make payments over a ten year period equal to \$10 million per year in 1993, increased by 7.5% per year. This commitment is set out in Schedule B of the Teachers' Pension Act.

4. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employer. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

(a) Market value of investments and related income before allocating the effects of derivative contracts.

	1998			1997		
	Asset	%	Income*	Asset	%	Income*
			(in thousands)			
Money market.	\$ 253,189	8.5%	\$ 9,091	\$ 233,747	10.8%	\$ 6,207
Fixed income.	907,247	30.4%	88,899	570,428	26.4%	71,827
Equities - Canadian	1,182,865	39.6%	298,105	887,760	41.2%	182,460
- US	306,908	10.3%	102,538	217,365	10.1%	35,927
- Other foreign	315,968	10.6%	50,472	256,087	11.9%	31,382
Derivatives	19,434	0.6%	42,044	(9,007)	-0.4%	23,084
Other	---	0.0%	63	---	0.0%	76
	<u>\$ 2,985,611</u>	<u>100%</u>	<u>\$ 591,212</u>	<u>\$ 2,156,380</u>	<u>100%</u>	<u>\$ 350,963</u>

* Includes realized gains of \$142.2 million (\$100.2 million - 1997) and unrealized gains of \$348.2 million (\$134.8 million - 1997)

(b) Derivative contracts

Derivatives are financial contracts, the value of which is 'derived' from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategy. Money market-to-equity swaps have been used during the year to adjust the asset mix. Foreign currency forwards have been used to manage the foreign currency exposure inherent in the foreign investments. Section (f) of this note provides a summary of these contracts as at March 31, 1998.

The following provides details of the derivative money market-to-equity swap contracts outstanding as at March 31, 1998. Notional amounts of these derivative contracts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such transactions, but serve as the basis upon which the return from and the market value of the contracts are determined. These contracts are denominated in Canadian dollars and are reset quarterly.

Notional Principal (in thousands)	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value (in thousands)
\$ 44,684	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	\$ 7,823
40,138	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	8,289
43,104	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	2,222
14,184	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,515
24,391	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,832
24,667	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,532
<u>\$ 191,168</u>					<u>\$ 23,213</u>

(c) Market value of investments and related income after allocating the effect of derivative contracts.

	1998			1997		
	Asset	%	Income*	Asset	%	Income*
			(in thousands)			
Money market.	\$ 85,802	2.9%	\$ 4,368	\$ 114,892	5.3%	\$ 3,249
Fixed income.	882,247	29.6%	87,168	517,928	24.0%	69,323
Equities - Canadian	1,398,464	46.8%	351,357	1,050,108	48.7%	208,684
- US	305,019	10.2%	100,649	217,365	10.1%	37,088
- Other foreign	314,079	10.5%	47,607	256,087	11.9%	32,543
Other	---	0.0%	63	---	0.0%	76
	<u>\$ 2,985,611</u>	<u>100%</u>	<u>\$ 591,212</u>	<u>\$ 2,156,380</u>	<u>100%</u>	<u>\$ 350,963</u>

* Includes realized gains of \$ 142.2 million (\$100.2 million - 1997) and unrealized gains of \$348.2 million (\$134.8 million - 1997).

(d) Interest rate risk

Interest rate risk refers to the fact that the plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the plan's assets and cash flows related to the plan's liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation. To meet these liabilities the Plan has established a policy asset mix of approximately 60% equities and 40% fixed income securities. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates. At March 31, 1998 the \$907,247,000 fixed income securities had a modified duration of 6.07 years. This means a 1% decrease in nominal interest rates would increase their market value by approximately 6.07%.

(e) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated equities. From time to time some of this exposure will be hedged based on interest rate spreads or other economic fundamentals.

The Plan's foreign currency exposure is summarized in the following table.

Currency	Gross Exposure	Net Foreign Currency Hedge (in thousands)	Net Exposure
Canada	\$ 2,370,802	\$ 172,675	2,543,314
Germany	33,527	(9,814)	23,713
Japan	19,960	(4,746)	15,214
United Kingdom	39,587	(26,536)	13,051
United States	336,890	(100,245)	236,645
Other	205,756	(34,281)	171,475
Total	<u>\$ 3,006,522</u>	<u>\$ (2,947)</u>	<u>3,003,412</u>

5. Actuarial Asset Value Adjustment

The actuarial asset value adjustment is comprised of the following items:

1. Present value of future payments under Schedule B of the Teachers' Pension Act	\$ 74,754,000
2. Adjustment of carrying value of receivable from school boards for the Early Retirement Program caused by the difference between the valuation discount rate of 7.46% and the interest rate of 8% used to determine payments under the program	<u>1,468,000</u>
Total	<u>\$ 76,222,000</u>

6. Actuarial Valuation

Actuarial valuations of the Teachers' Pension Fund are required every three years by the Teachers' Pension Act (TPA), and provide an estimate of the accrued pension benefits (fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. A valuation was carried out as at July 1994 and updated in 1995 and 1996. Based on this, it was originally planned that the next formal valuation should be carried out as at July 31, 1998. Prior to the completion of this valuation in December 1998, it was decided that a formal valuation as at July 31, 1997 was required in order to comply with the TPA. A formal valuation as at July 31, 1997 was carried out by the plan's consulting actuaries, Morneau Sobeco, using membership data as at July 31, 1998, adjusted appropriately to take into account data changes from August 1, 1997 to July 31, 1998.

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the employee's projected five year average salary at the expected date of retirement. The major economic and demographic assumptions used in the 1997 valuation were as follows:

Inflation	3.0% per annum
Average Salary Increase	3.5% per annum
Real Rate of Return on Investments	4.33% per annum
Average Retirement Age	60% will retire at earliest age for an unreduced pension 40% will retire at age 65 or with 35 years of service

The 1997 valuation indicated that the Plan had an unfunded liability of \$368 million. A projection by the actuaries to March 31, 1998 indicated actuarial value of liabilities of \$3,478 million and an unfunded liability of \$253 million. The July 31, 1998 valuation indicated an unfunded liability of \$354 million and a projection to October 31, 1998 indicated an unfunded liability of \$598 million. The main reason for the increase in the unfunded liability was a downturn in the financial markets particularly in August, 1998.

7. Operating Expenses

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses.

	1998	1997
	(in thousands)	
Investment management fees \$	4,370	\$ 3,486
Professional services	58	94
Salaries	525	386
Supplies and services	125	90
Travel	25	29
Other	72	90
	<u>\$ 5,175</u>	<u>\$ 4,175</u>

8. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect management's ability to conduct normal business operations. Management and the Province of Nova Scotia have initiated certain steps aimed at identifying the scope and alternative resolutions for the issue and it is acknowledged that additional efforts will be required to address the issue. It is not possible to be certain that all aspects of the year 2000 Issue affecting the Plan, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

AUDITORS' REPORT

To the Chair and Members of the
Nova Scotia Utility and Review Board

We have audited the balance sheet of Nova Scotia Utility and Review Board as at March 31, 1998, and the statements of operations, accumulated surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Board as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Grant Thornton
Chartered Accountants

Halifax, Nova Scotia
May 15, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA UTILITY AND REVIEW BOARD

Balance Sheet

March 31, 1998

ASSETS

	1998	1997 (Restated)
Current		
Cash \$	---	\$ 22,138
Short-term investments (Note 3b)		
Board operations	770,348	693,096
War Service pension	168,962	181,639
Accounts receivable (Note 4)	161,669	83,618
Prepays	3,749	6,724
Inventory (Note 5)	9,827	4,566
	1,114,555	991,781
Capital assets	106,586	148,110
	\$ 1,221,141	\$ 1,139,891

LIABILITIES

Current		
Bank indebtedness \$	146,460	\$ ---
Payables and accruals	141,296	136,306
	287,756	136,306
Long-term		
War Service pension liability (Note 6)	168,961	181,639
Public service award liability (Note 7)	97,208	113,095
Advances for working capital (Note 8)	125,000	125,000
	391,169	419,734
	678,925	556,040
Surplus (Note 2)		
Surplus - Province of Nova Scotia	396,922	440,105
Surplus - Utilities	145,294	143,746
	542,216	583,851
	\$ 1,221,141	\$ 1,139,891
Commitment (Note 10)		

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA UTILITY AND REVIEW BOARD

Statement of Operations

year ended March 31, 1998

	1998	1997
		(Restated)
Revenue		
Grant from the Province of Nova Scotia (Note 2) \$	2,489,130	\$ 2,078,549
Assessments to utilities (Note 2)	647,217	580,685
Recoveries (Note 9)	99,372	22,958
Interest	34,015	32,208
	<u>3,269,734</u>	<u>2,714,400</u>
Expenses		
Salaries, wages and benefits	2,001,991	1,837,893
Consulting and legal fees	378,934	43,184
Rent and business taxes (Note 10)	371,686	344,140
Travel	175,148	188,077
Depreciation	81,295	80,947
Transcribing and printing	62,205	29,166
Office supplies and services	39,978	34,004
Equipment (Note 3)	38,756	19,473
Dues and fees	38,743	34,354
Maintenance	32,204	25,887
Telephone and facsimile	32,148	32,792
Public service awards	16,936	38,683
Books and reports	15,215	17,606
Postage and couriers	10,108	7,452
Sundry expenses	7,138	8,327
Staff training and development	5,988	7,943
Advertising	2,896	9,925
	<u>3,311,369</u>	<u>2,759,853</u>
Operating deficit for the year \$	<u><u>(41,635)</u></u>	<u><u>(45,453)</u></u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA UTILITY AND REVIEW BOARD

Statement of Accumulated Surplus

year ended March 31, 1998

	1998		
	Province of Nova Scotia	Utilities	Total
Balance, beginning of year (restated) . . . \$	440,105 \$	143,746 \$	583,851
Operating (deficit) surplus for year	(43,183)	1,548	(41,635)
Balance, end of year	\$ 396,922	\$ 145,294	\$ 542,216

	1997 (Restated)		
	Province of Nova Scotia	Utilities	Total
Balance, beginning of year \$	417,422 \$	132,119 \$	549,541
Adjustments (Note 11).	58,228	21,535	79,763
Restated balance	475,650	153,654	629,304
Operating deficit for year	(35,545)	(9,908)	(45,453)
Balance, end of year	\$ 440,105	\$ 143,746	\$ 583,851

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA UTILITY AND REVIEW BOARD
Statement of Capital Assets
year ended March 31, 1998

	Cost		Accumulated Depreciation			1998 Net Book Value	1997 Net Book Value
	Balance Beginning of Year	Additions	Balance End of Year	Balance Beginning of Year	Expense		
Furniture	\$ 132,841	\$ 10,337	\$ 143,178	\$ 86,550	\$ 14,318	\$ 100,868	\$ 46,291
Computer equipment	97,382	23,149	120,531	69,355	28,991	98,346	28,027
Computer software	---	2,151	2,151	---	717	717	---
Equipment	13,119	---	13,119	4,483	2,624	7,107	8,636
Leaseholds	97,734	4,134	101,868	32,578	34,645	67,223	65,156
Total	\$ 341,076	\$ 39,771	\$ 380,847	\$ 192,966	\$ 81,295	\$ 274,261	\$ 148,110

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA UTILITY AND REVIEW BOARD

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997 (Restated)
Cash derived from (applied to)		
Operating		
Operating deficit \$	(41,635)	\$ (45,453)
Depreciation	81,295	80,947
	39,660	35,494
 Change in non-cash operating working capital		
Increase in accounts receivable	(78,051)	(5,743)
Increase in payables and accruals	4,990	58,516
Decrease in prepaids	2,975	775
Decrease (increase) in inventory	(5,261)	1,423
	(35,687)	90,465
 Financing		
(Decrease) increase in short term investments	(64,575)	52,892
Decrease in War Service pension liability	(12,678)	(11,804)
(Decrease) increase in public service award liability	(15,887)	38,683
	(93,140)	79,771
 Investing		
Purchase of capital assets	(35,637)	(51,561)
Purchase of leaseholds.	(4,134)	(97,733)
	(39,771)	(149,294)
 (Decrease) increase in cash	(168,598)	20,942
 Cash (bank indebtedness)		
Beginning of year	22,138	1,196
End of year \$	(146,460)	\$ 22,138

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA

NOVA SCOTIA UTILITY AND REVIEW BOARD

Notes to the Financial Statements

March 31, 1998

1. Incorporation

The Nova Scotia Utility and Review Board was created on December 14, 1992, through the proclamation of the Utility and Review Board Act, Chapter 11 of the Acts of 1992. The Board consolidated the operations of the former Board of Commissioners of Public Utilities, Municipal Board, Expropriations Compensation Board, and Tax Review Board. All assets and liabilities of the former boards were transferred to and assumed by the Nova Scotia Utility and Review Board.

2. Authority

The Nova Scotia Utility and Review Board has those functions, powers and duties conferred upon it through Section 4 of the Utility and Review Board Act. Section 15(1) of the Public Utilities Act requires the Board to estimate its expenses in administering that Act and assess them against the public utilities of the Province. Expenses incurred by the Board in administering all other Acts are recovered from the Province of Nova Scotia. Any operating surpluses or deficits are allocated to the Province and the public utilities based on the prorata share of revenue contributed in each year.

3. Summary of Significant Accounting Policies

a) General

These financial statements have been prepared in accordance with generally accepted accounting principles for the public sector.

b) Short term investments

Short term investments are valued at cost plus interest accrued to year end, which approximates market value.

c) Capital Assets

Effective for the year ended March 31, 1998, the Board is required to capitalize fixed asset acquisitions and amortize them over their useful lives in a rational and systematic manner. This change in policy is a result of changes to the Public Sector Accounting and Auditing Handbook.

Capital assets purchased by the Board with a value greater than \$1,000 and a useful life greater than one year will be capitalized and amortized over their useful lives on a straight lines basis as follows:

Furniture	10 years
Computer equipment	3 years
Computer software	3 years
Equipment	5 years
Leasehold	the lesser of 5 years or the remaining life of the lease

4. Accounts Receivable

	1998	1997
Province of Nova Scotia \$	89,909 \$	77,033
Public Utilities	43,085	---
Other	28,675	6,585
	<u>\$ 161,669</u>	<u>\$ 83,618</u>

5. Inventory

Inventory consists of Daily Bus Inspection books held for resale. Cost is determined using the first-in, first-out method of valuation.

6. Pensions**Public Service Superannuation Fund**

Pursuant to Section 10 of the Utility and Review Board Act, all full time employees of the Board are entitled to receive pension benefits under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Board is not responsible for any unfunded liability.

War Service Pension Liability

Employees of the Board are entitled to purchase service credits for certain years of war service. Increases in an employee's pension as a result of the purchase of war service credits are the responsibility of the Board and are billed to the Board as pensions are paid. Employee pension contributions are used to defray future obligations for war service credits. The Board of Commissioners of Public Utilities, one of the predecessor boards, transferred its war service liability to the Nova Scotia Utility and Review Board on consolidation.

	1998	1997
The status of the liability account is as follows:		
Employee contributions \$	44,311 \$	44,311
Accumulated interest	119,881	111,836
Amortization of unfunded liability.	140,580	140,580
	<u>304,772</u>	<u>296,727</u>
Less: pension payments to date	135,811	115,088
	<u>\$ 168,961</u>	<u>\$ 181,639</u>

7. Public Service Award Liability

The Board follows the provision of the Civil Service Act with respect to the payment of public service awards to retiring employees. The Board is responsible for the funding and eventual payment of these awards.

In addition to an annual general provision of approximately 1% of salary expenditures to defray future obligations for public service awards, the Board has established a specific liability for employees who are nearing retirement.

8. Advances for Working Capital

The following advance was transferred to the Nova Scotia Utility and Review Board from the Board of Commissioners of Public Utilities on consolidation:

	1998	1997
Province of Nova Scotia	\$ <u>125,000</u>	\$ <u>125,000</u>

The authority for the advance for working capital from the Province was contained in Section 14 of Chapter 380, RSNS 1989, the Public Utilities Act. The advance is non-interest bearing, with no set terms of repayment.

9. Recoveries

Consultants are engaged by the Board pursuant to the Public Utilities Act to provide advice related to utility administration and expert evidence during hearings. Consulting fees for specific hearings may, in some cases, be recovered directly from the public utilities involved.

The Board also recovers certain transcription, copying and other expenses from various sources.

10. Commitments

The Nova Scotia Utility and Review Board has assumed the lease of the former Board of Commissioners of Public Utilities. The lease, which expires October 31, 1999, calls for the payment of a base rent plus the Board's portion of common costs such as maintenance, power, water and property taxes.

Minimum lease payments by fiscal year for the remaining lease term, not including common costs, are as follows:

1999	\$ 213,048
2000	<u>124,278</u>
	\$ <u>337,326</u>

11. Change in Accounting Policy

The Nova Scotia Utility and Review Board has capitalized fixed assets in accordance with the new Public Sector Accounting and Auditing recommendations. This change has been applied retroactively and results in the following restatement of 1997 figures:

	Increase	Decrease
Capital assets	148,110 \$	---
Accumulated surplus	79,763	---
Operating surplus for the year	68,347	---
Leasehold improvements expense	---	97,733
Equipment expense	---	51,561
Depreciation	80,947	---

PROVINCE OF NOVA SCOTIA

NOVACO LIMITED

Balance Sheet

as at March 31, 1998

	1998	1997
Assets		
Current Assets		
Bank	\$ 26,458	\$ 51,458
Accrued interest	3,564	8,004
Investments		
Term deposit	512,910	491,800
Total Assets	<u>\$ 542,932</u>	<u>\$ 551,262</u>
Liability & Equity		
Current Liabilities		
Accounts payable	\$ 144	\$ 2,358
Long Term Liabilities		
Deferred provincial grant	332,905	332,905
Total Liabilities	<u>\$ 333,049</u>	<u>\$ 335,263</u>
Equity		
Capital Stock	5,000	5,000
Earnings		
Beginning retained earnings	\$ 210,999	\$ 186,171
Current earnings	(8,402)	(24,828)
Ending Retained Earnings	202,597	210,999
Prior Period Adjustment	2,286 ⁽¹⁾	---
Total Earnings	<u>204,883</u>	<u>210,999</u>
Total Equity	<u>209,883</u>	<u>215,999</u>
Total Liabilities/Equity	<u>\$ 542,932</u>	<u>\$ 551,262</u>

¹⁾ Prior period adjustment made for salary expense (\$2,286) recorded in 1997 in error.

PROVINCE OF NOVA SCOTIA

NOVACO LIMITED

Income Statement

for the fiscal year ended March 31, 1998

	1998	1997
Revenue		
Investment income	\$ 16,670	\$ 27,186
Total revenue.	<u>\$ 16,670</u>	<u>\$ 27,186</u>
Expenses		
Salaries	\$ ---	\$ 2,286
Corporate registration.	72	72
Dept. of Finance ⁽¹⁾	25,000	---
Total Expenses	<u>\$ 25,072</u>	<u>\$ 2,358</u>
Net Income	<u><u>\$ (8,402)</u></u>	<u><u>\$ 24,828</u></u>

(1) Cheque #3406, dated April 8/98 Establishment of Novaco Long-term Disability (LTD) Fund.

Unaudited

PROVINCE OF NOVA SCOTIA

NOVACO LIMITED

Investment Income

for the year ending March 31, 1998

Purchase Date	Maturity Date	# Days	Interest Rate	Principal	Value Maturing	Interest	Total Interest
Oct. 17/96	Apr.4/97	169	3.6%	\$491,800	\$500,000	\$194.03 ⁽¹⁾	\$194.03
Apr. 4/97	May 5/97	30	2.9%	500,000	501,231.51	1,231.51	1,425.54
May 5/97	June 4/97	30	2.9%	501,231.51	502,426.23	1,194.72	2,620.26
June 4/97	July 4/97	30	2.8%	502,426.23	503,582.50	1,156.27	3,776.53
July 4/97	Aug. 5/97	32	2.9%	503,582.50	504,862.84	1,280.34	5,056.87
Aug. 5/97	Oct. 6/97	62	3.0%	504,862.84	507,435.57	2,572.73	7,629.60
Oct. 6/97	Nov.5/97	30	3.05%	507,435.57	508,707.63	1,272.06	8,901.66
Nov. 5/97	Feb. 3/98	90	3.35%	508,707.63	512,909.69	4,202.06	13,103.72
Feb. 3/98	Aug.3/98	180	4.45%	512,909.69	524,165.60	3,564.37 ⁽²⁾	16,670.00

(1) Interest for 4 days, remaining 165 days accrued in 1997 fiscal year.

(2) Accrued interest for 57 days ($\$ 512,909.69 \times 57 \text{ days} \times 4.45\% = \$ 3,564.37$).

PROVINCE OF NOVA SCOTIA

NOVACO LIMITED

Notes to Financial Statements

Year ended March 31, 1998

1. Authority

Novaco Limited was incorporated under the Nova Scotia Companies Act in 1970. The Company provides an advisory role to Government with respect to all current and proposed coal mining operations, and may undertake surface coal mining operations that the Government wishes to undertake on its own behalf in the Province.

2. Accounting Policy

Land acquisition costs

All costs relating to land acquisition are expensed as project development costs in the year in which they are incurred.

3. Deferred Provincial Grant

The company has received \$883,900 from the Province of Nova Scotia for the purpose of acquiring surface rights for new coal mining projects.

Details for these grants are as follows:

	1998	1997
Received to date.	\$ 883,900	\$ 883,900
Expenditures to date.	550,995	550,995
Balance , end of year	<u>\$ 332,905</u>	<u>\$ 332,905</u>

4. Land Reclamation Costs

The Articles of Association of the company require that a reclamation fund be established, separate from the operating accounts of the company, for the reclamation of lands disturbed by mining operations.

5. Future Operations

Novaco Limited has closed its office in Sydney Mines, Nova Scotia, has disposed of all of its fixed assets and is operating in a nominal manner. At the fiscal year end, the company was not engaged in any near-surface mining or reclamation operations and there were no approved sites for future operations. Novaco Limited's Take or Pay Agreement with Curragh Resources Inc. is no longer in effect due to the cancellation of the purchase and sale of coal contract between the Nova Scotia Power Corporation and Curragh Resources Inc.

AUDITOR'S REPORT

To the Minister of Agriculture and Marketing; and
To the Chair and Members of the Provincial Community Pasture Board

I have audited the balance sheet of the Provincial Community Pasture Board as at March 31, 1998 and the statement of income and retained earnings for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1998 and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
August 27, 1998

PROVINCE OF NOVA SCOTIA
PROVINCIAL COMMUNITY PASTURE BOARD

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Accounts receivable (note 3)	\$ 6,154	\$ 5,641
Livestock - at lower of cost and net realizable value (cost - 1998 \$27,225; 1997 \$29,150) (Note 2)		
	15,400	14,000
	<u>\$ 21,554</u>	<u>\$ 19,641</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ ---	\$ 30
Retained Earnings	21,554	19,611
	<u>\$ 21,554</u>	<u>\$ 19,641</u>

PROVINCE OF NOVA SCOTIA
PROVINCIAL COMMUNITY PASTURE BOARD

Statement of Income and Retained Earnings

for the year ended March 31, 1998

	1998	1997
Revenues (Schedule A)	\$ 67,830	\$ 67,256
Expenses (Schedule A)	<u>161,159</u>	<u>154,700</u>
Net loss on pasture operations	93,329	87,444
Loss on livestock (Note 4)	<u>5,655</u>	<u>5,966</u>
Net loss before government contribution	98,984	93,410
Contribution by the Province of Nova Scotia	<u>100,927</u>	<u>91,302</u>
Net income (loss)	<u>1,943</u>	<u>(2,108)</u>
Retained earnings, beginning of year	<u>19,611</u>	<u>21,719</u>
Retained earnings, end of year	<u>\$ 21,554</u>	<u>\$ 19,611</u>

PROVINCE OF NOVA SCOTIA
PROVINCIAL COMMUNITY PASTURE BOARD

Notes to Financial Statements

March 31, 1998

1. Authority

The Provincial Community Pasture Board was established pursuant to Section 176(1) of the Agriculture and Marketing Act. The purpose of the Board is to establish, conduct and operate community pastures at such locations as the Board deems advisable.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the policy of charging land, building and equipment acquisitions to expense in the year of purchase.

Livestock is comprised of breeding bulls on-hand at the end of the fiscal year. The bulls are valued at the lower of cost and net realizable value. The carrying-cost of bulls sold and any write-down of bulls to net realizable value is charged to expenses.

Further, under Section 183 of the Agriculture and Marketing Act, the administration costs of the Board are expenses of the Department of Agriculture and Marketing, and are not reflected in these financial statements.

3. Accounts Receivable

	1998	1997
Accounts receivable	\$ 8,231	\$ 5,641
Less: Allowance for doubtful accounts.	<u>2,077</u>	<u>---</u>
	<u>\$ 6,154</u>	<u>\$ 5,641</u>

4. Loss on Livestock

	1998	1997
Sale of bulls	\$ 2,469	\$ 2,933
Carrying-cost of bulls sold	<u>3,000</u>	<u>4,400</u>
Loss on bulls sold	531	1,467
Write-down of bulls to net realizable value	3,375	3,950
Loss of bulls due to illness	<u>1,749</u>	<u>549</u>
	<u>\$ 5,655</u>	<u>\$ 5,966</u>

PROVINCE OF NOVA SCOTIA
PROVINCIAL COMMUNITY PASTURE BOARD

Pasture Operations

for the year ended March 31, 1998

	Cape Mabou	Cape John	Other	Totals	
				1998	1997
Revenues					
Pasture fees	\$ 33,824	\$ 33,596	\$ ---	\$ 67,420	\$ 59,316
Pasture rentals	---	---	410	410	440
Sale of vehicle	---	---	---	---	7,500
	<u>33,824</u>	<u>33,596</u>	<u>410</u>	<u>67,830</u>	<u>67,256</u>
Expenses					
Bad debt expense	804	1,273	---	2,077	---
Bulls feed and care	3,493	4,137	---	7,630	8,481
Electricity	154	1,097	---	1,251	281
Equipment maintenance	267	3,206	---	3,473	3,195
Equipment purchases	---	---	14,500	14,500	22,373
Fencing	1,995	1,418	---	3,413	1,609
Fertilizer and lime	17,507	13,401	---	30,908	24,234
Insurance	861	860	---	1,721	1,628
Miscellaneous	1,180	800	---	1,980	1,200
Operating assistance	---	---	4,100	4,100	4,100
Supplies and services	17,939	16,923	29	34,891	33,019
Wages	27,288	27,927	---	55,215	54,580
	<u>71,488</u>	<u>71,042</u>	<u>18,629</u>	<u>161,159</u>	<u>154,700</u>
Net loss on pasture operations	\$ 37,664	\$ 37,446	\$ 18,219	\$ 93,329	\$ 87,444

PROVINCE OF NOVA SCOTIA

PROVINCIAL RESORT HOTELS

Statement of User Fees and Expense

for the year ended March 31, 1998

	Pines Resort	Keltic Lodge	Liscombe Lodge	Totals	
				1998	1997
User Fees					
Rooms	\$ 1,409,800	\$ 1,466,312	\$ 617,188	\$ 3,493,300	\$ 3,262,079
Food	1,079,800	1,429,520	566,330	3,075,650	2,761,678
Beverage	215,000	234,549	80,558	530,107	480,770
Other	536,400	303,082	174,915	1,014,397	851,822
	<u>3,241,000</u>	<u>3,433,463</u>	<u>1,438,991</u>	<u>8,113,454</u>	<u>7,356,349</u>
Expense					
Salaries & Wages	1,449,336	1,581,837	715,007	3,746,180	3,427,877
Travel	24,586	20,752	3,669	49,007	36,127
Supplies & Services	1,382,877	1,320,401	546,560	3,249,838	3,152,121
Other	312,237	424,383	173,626	910,246	563,592
	<u>3,169,036</u>	<u>3,347,373</u>	<u>1,438,862</u>	<u>7,955,271</u>	<u>7,179,717</u>
Operating					
Surplus	\$ <u>71,964</u>	\$ <u>86,090</u>	\$ <u>129</u>	\$ <u>158,183</u>	\$ <u>176,632</u>

Note: This financial statement reflects user fees and current expenditures of the Provincial Resorts budgeted under the Department of Economic Development and Tourism. \$574,134 (\$652,639 - 1997) in furniture and equipment purchases, is included in current expenditures.

The following is not included in this statement: \$651,163 (\$1,092,601 - 1997) in capital expenditures for construction, renovation and upgrading of facilities under Public Works and Special Projects (details of these expenditures are included in Volume 1 of the Public Accounts of the Province of Nova Scotia); \$282,096 (\$299,717 - 1997) for golf course maintenance at the Pines Resort accounted for by the Department of Transportation and Public Works; \$91,784 (\$206,693 - 1997) in maintenance costs accounted for by the Department of Transportation and Public Works.

AUDITOR'S REPORT

To the Board of Trustees of
The Public Archives of Nova Scotia

We have audited the balance sheet of The Public Archives of Nova Scotia as at March 31, 1998 and the statements of revenue and expenditures, surplus accounts and cash flows for the year then ended. These financial statements are the responsibility of the Archives' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Archives as at March 31, 1998 and the results of its operations and the changes in its cash flows for the year then ended in accordance with generally accepted accounting principles.

PRICE, WATERHOUSE, COOPERS
Chartered Accountants

August 20, 1998

PROVINCE OF NOVA SCOTIA
PUBLIC ARCHIVES OF NOVA SCOTIA

Balance Sheet

as at March 31, 1998

	Endowment/ Restricted Fund, Collections	Restricted Fund, Publishing	Operating Fund	1998 Total	1997 Total
ASSETS					
Current Assets					
Cash	\$ ---	\$ ---	\$ 21,905	\$ 21,905	\$ 61,630
Marketable securities	25,781	28,041	123,039	176,861	78,435
Amount held in trust by Province of Nova Scotia	62,508	---	---	62,508	79,090
Amounts receivable	---	225	80,830	81,055	21,700
	<u>88,289</u>	<u>28,266</u>	<u>225,774</u>	<u>342,329</u>	<u>240,855</u>
Capital assets (Note 4)	<u>---</u>	<u>---</u>	<u>143,746</u>	<u>143,746</u>	<u>102,289</u>
	<u>\$ 88,289</u>	<u>\$ 28,266</u>	<u>\$ 369,520</u>	<u>\$ 486,075</u>	<u>\$ 343,144</u>

PROVINCE OF NOVA SCOTIA
PUBLIC ARCHIVES OF NOVA SCOTIA

Balance Sheet (Continued)

as at March 31, 1998

	Endowment/ Restricted Fund, Collections	Restricted Fund, Publishing	Operating Fund	1998 Total	1997 Total
LIABILITIES					
Current liabilities					
Amounts payable.	\$ ---	\$ ---	\$ 27,819	\$ 27,819	\$ 6,904
Interfund payable (receivable)	474	958	(1,432)	---	---
Amount due to Nova Scotia Records Management, non-interest bearing with no fixed terms of repayment	---	---	63,940	63,940	11,200
	474	958	90,327	91,759	18,104
Deferred contributions (note 5).	<u>21,715</u>	<u>27,308</u>	<u>---</u>	<u>49,023</u>	<u>46,864</u>
	<u>\$ 22,189</u>	<u>\$ 28,266</u>	<u>\$ 90,327</u>	<u>\$ 140,782</u>	<u>\$ 64,968</u>
Commitment (note 6)					
SURPLUS					
Surplus accounts					
Endowments.	\$ 66,100	\$ ---	\$ ---	\$ 66,100	\$ 66,100
Invested in capital assets.	---	---	143,746	143,746	102,289
Unrestricted.	---	---	135,447	135,447	109,787
	66,100	---	279,193	345,293	278,176
	<u>\$ 88,289</u>	<u>\$ 28,266</u>	<u>\$ 369,520</u>	<u>\$ 486,075</u>	<u>\$ 343,144</u>

PROVINCE OF NOVA SCOTIA
PUBLIC ARCHIVES OF NOVA SCOTIA
Statement of Revenue and Expenditures
for the year ended March 31, 1998

	Endowment/ Restricted Fund, Collections	Restricted Fund Publishing	Operating Fund	1998 Total	1997 Total
Revenue					
Government of Nova Scotia (salaries and benefits) \$	---	---	\$ 1,020,546	\$ 1,020,546	\$ 1,113,867
Government of Nova Scotia (operating grant)	---	---	319,454	319,454	297,214
Government of Nova Scotia (collections grant)	60,000	---	---	60,000	---
Other funding	---	---	82,419	82,419	132,032
Sales, publication, etc.	---	---	42,991	42,991	25,215
Investment income (Note 7)	---	---	3,827	3,827	2,286
Restricted funds, collections and publishing	2,126	958	---	3,084	38,653
	<u>62,126</u>	<u>958</u>	<u>1,469,237</u>	<u>1,532,321</u>	<u>1,609,267</u>
Expenses					
Acquisitions, collections and publishing	62,126	958	---	63,084	39,153
Amortization	---	---	40,456	40,456	26,987
Building maintenance	---	---	49,754	49,754	38,186
Conferences and seminars	---	---	7,515	7,515	4,640
Electricity	---	---	77,039	77,039	72,286
Equipment repair and maintenance	---	---	21,737	21,737	18,350

PROVINCE OF NOVA SCOTIA

PUBLIC ARCHIVES OF NOVA SCOTIA
Statement of Revenue and Expenditures (Continued)

for the year ended March 31, 1998

	Endowment/ Restricted Fund, Collections	Restricted Fund Publishing	Operating Fund	1998 Total	1997 Total
Freight and express	---	---	2,529	2,529	2,525
General operating	---	---	35,349	35,349	29,962
Heating fuel	---	---	14,595	14,595	24,089
Membership dues	---	---	1,173	1,173	1,283
Miscellaneous	---	---	19,196	19,196	3,781
Other services	---	---	35,544	35,544	52,368
Postage	---	---	2,124	2,124	5,048
Printing and stationery	---	---	11,374	11,374	26,522
Professional services	---	---	6,616	6,616	32,735
Records management	---	---	1,818	1,818	---
Rentals	---	---	1,001	1,001	1,161
Salaries and benefits	---	---	1,020,546	1,020,546	1,113,867
Security	---	---	13,623	13,623	9,742
Staff training	---	---	390	390	1,255
Subscriptions and periodicals	---	---	6,930	6,930	9,654
Telecommunications	---	---	19,550	19,550	23,625
Travel	---	---	8,686	8,686	8,201
Water	---	---	4,575	4,575	4,083
	62,126	958	1,402,120	1,465,204	1,549,503
Excess of revenue over expenditures for the year.	\$ ---	\$ ---	\$ 67,117	\$ 67,117	\$ 59,764

PROVINCE OF NOVA SCOTIA

PUBLIC ARCHIVES OF NOVA SCOTIA

Statement of Changes in Surplus Accounts

for the year ended March 31, 1998

	Endowment/ Restricted Fund, Collections	Restricted Fund Publishing	Operating Fund	1998 Total	1997 Total
Surplus accounts - beginning of year (as restated, note 3)	\$ 66,100	\$ ---	\$ 212,076	\$ 278,176	\$ 218,412
Excess of revenue over expenditures.	---	---	67,117	67,117	59,764
Surplus accounts - end of year.	<u>\$ 66,100</u>	<u>\$ ---</u>	<u>\$ 279,193</u>	<u>\$ 345,293</u>	<u>\$ 278,176</u>
 Represented by					
Endowments.	\$ 66,100	\$ ---	\$ ---	\$ 66,100	\$ 66,100
Invested in capital assets	---	---	143,746	143,746	102,289
Unrestricted funds.	---	---	135,447	135,447	109,787
	<u>\$ 66,100</u>	<u>\$ ---</u>	<u>\$ 279,193</u>	<u>\$ 345,293</u>	<u>\$ 278,176</u>

See accompanying notes to financial statements

PROVINCE OF NOVA SCOTIA
THE PUBLIC ARCHIVES OF NOVA SCOTIA

Statement of Cash Flows

for the year ended March 31, 1998

	1998	1997
Cash flows from operating activities		
Excess of revenue over expenditures for the year \$	67,117	\$ 59,764
Amortization, not involving cash	40,456	26,987
	107,573	86,751
Net change in non-cash working capital balances related to operations	14,300	(19,928)
	121,873	66,823
Cash flows from financing activities		
Increase (decrease) in deferred contributions	2,159	(29,107)
Cash flows from investing activities		
Purchase of capital assets	(81,913)	(12,239)
Increase in cash, marketable, securities and amount held in trust during the year		
	42,119	25,477
Cash, marketable securities and amount held in trust - beginning of year		
	219,155	193,678
Cash, marketable securities and amount held in trust - end of year \$		
	261,274	\$ 219,155
Cash, marketable securities and amount held in trust consist of:		
Cash	21,905	61,630
Marketable securities	176,861	78,435
Amount held in trust by Province of Nova Scotia	62,508	79,090
	\$ 261,274	\$ 219,155

PROVINCE OF NOVA SCOTIA
THE PUBLIC ARCHIVES OF NOVA SCOTIA

Notes to the Financial Statements

for year ended March 31, 1998

1. Status and Nature of Activities

The Public Archives of Nova Scotia (the "Archives") is an agency incorporated by Act of the Legislature of the Province of Nova Scotia and is primarily responsible for preserving the corporate memory of government and documentary heritage of the Province. The archives is both a deposit library for publications of the Government of Nova Scotia and an historical research facility.

2. Summary of Significant Accounting Policies

The accounting policies of the Archives are established and maintained in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant.

(a) Use of management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and movements of funds during the year. Actual results could differ from these estimates.

(b) Fund accounting

The Archives uses fund accounting to prepare its financial statements. In prior years, the Archives, although maintaining three funds, the operating fund, the restricted fund - publishing, and the endowment/restricted fund - collections, only reported on the operating fund. Fund balances include balances investment in endowments, capital assets and unrestricted balances.

The operating fund accounts for the Archives operations, delivery of services and capital assets.

The restricted fund, publishing accounts for contributions, revenue and expenditures externally restricted for publishing.

The endowment/restricted fund, collections accounts for endowment contributions, assets, liabilities, revenues and expenditures related to the acquisition of collections.

(c) Financial instruments

Financial instruments are stated at cost, or at cost less amounts written off to reflect a permanent decline in value, and where there is a fixed rate of return, accrued interest is included in book value. The fair value of these financial instruments approximate their carrying values, due to the short-term and/or the fixed nature of these instruments.

(d) Revenue recognition

The Archives follows the deferral method of accounting for contributions, which include designated contributions from the public, bequests and Government support.

Unrestricted contributions are recognized as revenue when received or receivable to the extent that amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions other than endowment contributions are recognized as revenue in the year in which related expenditures are incurred. Endowment contributions are recognized as direct increases in the endowment/restricted fund, collections surplus account.

(e) Capital assets

Purchased capital assets are recorded at cost. When a capital asset no longer contributes to the Archives' ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized using the declining balance method at the following rates:

Computer	20%
Computer software	100%
Furniture and Equipment	20%

One-half year's amortization is taken in the year of acquisition.

Leasehold improvements are being amortized using the straight-line method over 10 years.

(f) Collections

The Archives' collections include textual paper records, documents, photographic, images, maps, architectural plans, moving image materials, sound recordings and microforms. The date range of the collections is 1702 to 1998.

The cost of determining the value of existing collections exceeds the incremental benefit and therefore the Archives expenses all acquisitions in the period they are incurred.

Significant additions during the year:

- (i) Nova Scotia Teachers College fonds (accrual), [ca, 1969-1996], 4.8 meters;
- (ii) Wallace R. MacAskill fonds (accrual), 669 photographic negatives, 1386 prints, 60 slides, 1 album;
- (iii) Gilpin family fonds, [ca.20] artworks by Gilpin family members;
- (iv) Maurice R. Crosby Photography Ltd. fonds, 1940-1990, 92 cm., photographic negatives and prints;
- (v) Edward Mortimer MacDonald fonds (18 cm.); and
- (vi) Lister-Spicer fonds (2.5m.).

During the year ended March 31, 1998, the Archives has acquired and expensed collections of \$63,084 (1997 - \$35,638).

3. Restatement as a Result of Accounting Policy Changes

On April 1, 1997, the Archives retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants Handbook for Not-for-Profit Organizations wherever possible and prospectively adopted the recommendations where retroactive adoption was not possible. Following is the detail supporting the adjustments to opening surplus balances with explanatory notes:

	Endowment/ Restricted Fund, Collections	Restricted Fund Publishing	Operating Fund	1998 Total	1997 Total
Surplus accounts					
Beginning of year					
(as originally reported) . \$	---	---	64,630	64,630	48,236
Set-up of fund balance, not previously reported (a) . .	66,100	---	---	66,100	66,100
Restatement of net book value of capital assets (b) . . .	---	---	102,289	102,289	117,037
Conversion to accrual basis accounting (c)	---	---	45,157	45,157	(12,961)
	<u>66,100</u>	<u>-</u>	<u>147,446</u>	<u>213,546</u>	<u>170,176</u>
Surplus accounts - beginning of year					
(as restated) . . \$	<u>66,100</u>	<u>---</u>	<u>212,076</u>	<u>278,176</u>	<u>218,412</u>

(a) The endowment/restricted fund, collections was not previously reported by the Archives as these balances were not required by the Board of Trustees or for the accounting recommendations of the Canadian Institute of Chartered Accounts.

(b) The Archives retroactively changed its method of accounting for capital assets to that described in note 2(e).

(c) During the year, the Archives retroactively changed from the cash basis of accounting to the accrual basis.

4. Capital Assets

	Cost	Accumulated Amortization	1998 Net	1997 Net
Computer equipment.	\$ 64,497	\$ 34,875	\$ 29,622	\$ 27,214
Computer software.	40,879	26,730	14,149	609
Furniture and Equipment. . . .	229,428	136,012	93,416	74,466
Leasehold improvements. . . .	7,288	729	6,559	---
	<u>\$ 342,092</u>	<u>\$ 198,346</u>	<u>\$ 143,746</u>	<u>\$ 102,289</u>

5. Deferred Contributions

- (a) Deferred contributions in the Endowment/ Restricted Fund, Collections related to expenses of future periods represent unspent externally restricted investment income earned on the endowment contributions. These unspent amounts are as follows:

	1998	1997
Balance - beginning of year.	\$ 19,115	\$ 41,433
<i>Add:</i> Interest received in the year.	4,726	7,930
<i>Less:</i> Disbursements in the year.	<u>(2,126)</u>	<u>(30,248)</u>
Balance -end of year.	<u>\$ 21,715</u>	<u>\$ 19,115</u>

- (b) Deferred contributions in the Restricted Fund, Publishing related to expenses of future periods represent unspent externally restricted contributions as follows:

	1998	1997
Balance - beginning of year.	\$ 27,749	\$ 34,538
<i>Add:</i> Interest received in the year.	517	1,616
<i>Less:</i> Disbursements in the year.	<u>(958)</u>	<u>(8,405)</u>
Balance -end of year.	<u>\$ 27,308</u>	<u>\$ 27,749</u>

6. Commitment

The Archives has a contract with an energy management firm. Under the terms of this contract, the Archives is committed to paying fees relating to annual energy savings which resulted from energy performance improvements made under the contract.

The estimated minimum payments required over the next five years, based on current information, are as follows:

Year ending March 31, 1999	\$ 25,399
2000	\$ 25,399
2001	\$ 25,399
2002	\$ 25,399
2003	\$ 25,399

7. Investment Income

Investment income is detailed as follows:

	1998	1997
Income earned on unrestricted resources \$	3,827 \$	2,286
Income earned on resources held for endowment	4,726	7,930
Income earned on restricted resources	517	1,616
	<u>9,070</u>	<u>11,832</u>
Less amounts deferred -		
Restricted for publishing	(517)	(1,616)
Restricted for collections	(4,726)	(7,930)
	<u>(5,243)</u>	<u>(9,546)</u>
Total investment income recognized as revenue. \$	<u><u>3,827</u></u> \$	<u><u>2,286</u></u>

8. Related Party Transactions

(a) The Archives occupies a building at no charge that is owned by the Province of Nova Scotia.

(b) The Archives collected \$52,740 (1997-\$11,200) on behalf of Nova Scotia Records Management.

9. Subsequent Event

Legislation has been drafted which would result in a merger of The Public Archives of Nova Scotia with Nova Scotia Records Management. The effect of this would be an increase in the Archives' level of provincial government funding and its corresponding staff complement. The legislation is expected to be introduced as soon as possible, with subsequent passage anticipated during 1998-99 fiscal year.

10. Comparative Figures

Certain of the previous year's numbers have been reclassified to conform with the presentation adopted in the current year.

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and
To the Minister of Finance

I have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the Nova Scotia Public Service Superannuation Fund as at March 31, 1998 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Department of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Fund as at March 31, 1998 and the changes in net assets available for benefits for the year then ended in accordance with generally accepted accounting principles.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
July 6, 1998

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Statement of Net Assets Available for Benefits

and Accrued Pension Benefits

as at March 31, 1998

	1998	1997
	(in thousands)	
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 3)	\$ 2,744,488	\$ 2,250,328
Contributions receivable		
Employees'	2,412	2,189
Employers'	2,399	2,181
Accrued income	20,591	15,903
Cash	1,881	348
Total Assets	2,771,771	2,270,949
Liabilities		
Net investment transactions outstanding	16,413	3,918
Accounts payable	13,148	12,016
Total Liabilities	29,561	15,934
Net Assets Available for Benefits	2,742,210	2,255,015
Actuarial asset value adjustment (Note 4)	1,367	1,264
Actuarial value of net assets available for benefits	\$ 2,743,577	\$ 2,256,279
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits	\$ 2,248,200	\$ 2,123,100
Surplus (Note 5)	495,377	133,179
Accrued pension benefits and surplus.	\$ 2,743,577	\$ 2,256,279

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Statement of Changes in Net Assets Available for Benefits

for the year ended March 31, 1998

	1998	1997
	(in thousands)	
Increase in Assets		
Investment activities (Note 3)	\$ 562,221	\$ 359,152
Contributions		
Employers' - matched	28,663	28,618
Employees' - matched	28,663	28,618
Employees' - unmatched	127	239
Interest on the purchase of prior years' service	1,156	1,351
Transfers from other pension plans	440	1,623
	59,049	60,449
Total increase in assets	621,270	419,601
Decrease in Assets		
Benefits paid	118,088	110,321
Operating expenses (Note 6)	4,807	3,898
Refund of contributions and interest	1,757	1,222
Transfers to other pension plans	9,423	7,142
Total decrease in assets	134,075	122,583
Increase in Net Assets	487,195	297,018
Net Assets Available for Benefits		
at Beginning of Year	2,255,015	1,957,997
Net Assets Available for Benefits		
at End of Year	\$ 2,742,210	\$ 2,255,015

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND

Notes to Financial Statements

March 31, 1998

1. Authority and Description of Plan

The Public Service Superannuation Fund was established by the Public Service Superannuation Act. It is the funding vehicle for the Public Service Superannuation Plan, a pension plan which covers employees of the Province and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are also contained in the Act and in the Regulations made under the Act.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund. The Minister of Finance is trustee of the Fund which is invested in federal, provincial, municipal and corporate securities which qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 5.4% of salary up to the Year's Maximum Pensionable Earnings (YMPE) per the Canada Pension Plan (CPP) and 7% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay and deferred pensions are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada to a maximum of 6%.

Plan members are eligible for a pension upon meeting any of the following criteria:

- age 50 with an age plus pensionable service factor of 80 - "Rule of 80" (active members only);
- age 55 with two years of service (reduced pension);
- age 55 with an age plus pensionable service factor of 85 - "Rule of 85" (deferred pensioners);
- age 60 with two years of service;
- age 65

On February 8, 1994, the Governor in Council authorized an Early Retirement Incentive Program (ERIP) for Plan members. The program provided up to an additional five years of pensionable service for those meeting the "Rule of 80" but who are less than 65 years of age and have less than 35 years of pensionable service, between April 1, 1994 and March 31, 1998, the expiry of the program. The additional cost for each person who participated in the ERIP is paid by the Province from the Consolidated Fund or by the participating employer. On April 10, 1996, the Governor in Council amended the ERIP to provide up to an additional two years of pensionable service for those who were at least 60 years of age and had a minimum of 10 years of pensionable service. This program also expires on March 31, 1998 and is funded by the Province and participating employers. From April 21, 1994 to March 31, 1998 approximately 2,200 people participated in the ERIP.

Certain pension payments are attributable to previous early retirement programs and other unfunded benefits. They are charged to the Consolidated Fund of the Province and participating employers and are not paid from the Fund. These payments amounted to \$13,857,000 for the year ended March 31, 1998 (1997 - \$12,437,000).

On March 17, 1998, the Province represented by the Minister of Finance, entered into an agreement with the Nova Scotia Government Employees' Union (NSGEU) regarding a pension contribution holiday for both the employees and the Province for 1997-98 year.

On June 18, 1998, payments totaling \$30.0 million were made by the Province pursuant to the agreement with the NSGEU. As of the date of these statements, legislation has not yet been passed to enable the Province to recover this amount from the fund. If legislation is passed, the pension fund will have a liability to the Province and other employers of approximately \$60.0 million.

An Order in Council approved on August 5, 1998 authorized a one-time increase effective July 1, 1998 in the pre-1984 pension benefits payable to compensate for a loss in purchasing power. The present value of the increase is approximately \$14.7 million.

2. Summary of Significant Account Policies

(a) Basis of Presentation

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. They are prepared in accordance with generally accepted accounting principles.

(b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. The market value of foreign investments and cash balances held at year end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(c) Investments

- (i) Investments are reported as of the trade date and are stated at market value. Market value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- (ii) The derivative contracts held by the Fund are recorded at the market value with the resulting gains or losses being recognized in unrealized investment income.
- (iii) Investments include debentures of the Province of Nova Scotia and the Nova Scotia Municipal Finance Corporation with total market value of \$84.7 million (3.1% of Total Assets) as at March 31, 1998.

3. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

(a) Market value of investments and related income before allocating the effects of derivative contracts.

	1998			1997		
	Asset	%	Income*	Asset	%	Income*
	(in thousands)					
Money market.	\$ 254,621	9.3%	\$ 8,069	\$ 220,830	9.8%	\$ 6,795
Fixed income.	851,460	31.0%	99,221	775,401	34.5%	98,744
Equities - Canadian ..	1,102,272	40.2%	277,837	826,680	36.7%	169,965
- US	246,130	9.0%	94,622	209,462	9.3%	34,272
- Other foreign	277,939	10.1%	43,648	227,237	10.1%	27,824
Derivatives	12,066	0.4%	38,764	(9,282)	-0.4%	21,481
Other	---	0.0%	60	---	0.0%	71
	<u>\$ 2,744,488</u>	<u>100%</u>	<u>\$ 562,221</u>	<u>\$ 2,250,328</u>	<u>100%</u>	<u>\$ 359,152</u>

* Includes realized gains of \$141.4 million (\$93.6 - 1997) and unrealized gains of \$310.3 million (\$137.1 million - 1997).

(b) Derivative contracts

Derivatives are financial contracts, the value of which is 'derived' from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategy. Money market-to-equity swaps have been used during the year to adjust the asset mix. Foreign currency forwards have been used to manage the foreign currency exposure inherent in the foreign investments. Section (f) of this note provides a summary of these contracts as at March 31, 1998.

The following provides details of the derivative money market-to-equity swap contracts outstanding as at March 31, 1998. Notional amounts of derivative contracts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such transactions but serve as the basis upon which the return from and market value of the contracts are determined. These contracts are denominated in Canadian dollars and are reset quarterly.

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index (in thousands)	BA Index	Market Value
\$ 43,684	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	\$ 1,962
32,840	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	6,782
43,104	2.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	2,222
14,184	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,514
24,391	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,832
24,667	3.0 yrs	AA(low)	TSE100	CAD-BA-CDOR	1,532
<u>\$ 182,870</u>					<u>\$ 15,844</u>

(c) Market value of investments and related income after allocating the effect of derivative contracts.

	1998			1997		
	Assets	%	Income*	Asset	%	Income*
	(in thousands)					
Money market	\$ 95,872	3.5%	\$ 3,672	\$ 108,754	4.8%	\$ 4,013
Fixed income	826,460	30.1%	97,679	727,901	32.4%	96,465
Equities - Canadian	1,301,865	47.4%	327,135	976,974	43.4%	194,185
- US	244,241	8.9%	92,733	209,462	9.3%	35,433
- Other foreign	276,050	10.1%	40,942	227,237	10.1%	28,985
Other	---	0.0%	60	---	0.0%	71
	<u>\$ 2,744,488</u>	<u>100%</u>	<u>\$ 562,221</u>	<u>\$ 2,250,328</u>	<u>100%</u>	<u>\$ 359,152</u>

* Includes realized gains of \$141.4 million (\$93.6 million - 1997) and unrealized gains of \$310.3 million (\$137.1 million - 1997).

(d) Interest rate risk

Interest rate risk refers to the fact that the Plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the plan's assets cash flows related to the plan's liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation. To meet these liabilities the plan has established a policy asset mix of approximately 60% equities and 40% fixed income securities. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates. At March 31, 1998 the \$851,460,000 fixed income securities had a modified duration of 6.12 years. This means a 1% decrease in nominal interest rates would increase their market value by approximately 6.12 %.

(e) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated equities. From time to time some of this exposure will be hedged based on interest rates or other economic fundamentals.

The Plan's foreign currency exposure is summarized in the following table.

Currency	Gross Exposure	Net Foreign Currency Hedge (in thousands)	Net Exposure
Canada	\$ 2,217,282	\$ 172,675	\$ 2,389,957
Germany	21,836	(8,073)	13,763
Japan	18,564	(3,893)	14,671
United Kingdom	35,830	(22,541)	13,289
United States	274,508	(113,222)	161,286
Other	186,305	(28,053)	158,252
Total	<u>\$ 2,754,325</u>	<u>\$ (3,107)</u>	<u>\$ 2,751,218</u>

4. Actuarial Asset Value Adjustment

The actuarial asset value adjustment of \$1,367,000 (\$1,264,000 - 1997) represents the present value of outstanding employee and employer contributions which are due as a result of service buy-backs.

5. Actuarial Valuation

Actuarial valuations of the Public Service Superannuation Fund are carried out at least every three years and provide an estimate of the accrued pension benefits (fund liabilities) as at the valuation date, calculated on the basis of various assumptions with respect to pension costs and rates of return on investments. The calculations are updated in intervaluation years. The last full valuation of the Public Service Superannuation Fund was carried out by the Plan's consulting actuary, Morneau, Coopers & Lybrand at December 31, 1996, and reported upon July 31, 1997.

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the member's projected 5 year average salary at the expected date of retirement. The major economic and demographic assumptions used in the last full valuation were as follows:

Inflation	3.5% per annum
Average Salary Increase	0.5% real plus 1.0% merit increases
Real Rate of Return on Investment	4.5% per annum
Average Retirement Age	60 years

The valuation as at December 31, 1996 indicated that the plan had a surplus of \$149.9 million compared to a deficit of \$134.8 million as at March 31, 1995. A projection to March 31, 1998 indicated a surplus of \$495 million, prior to consideration of a proposed contribution holiday for 1997-98 (see note 1). The main reason for the improvement in the actuarial position is favourable experience relative to actuarial assumption in rates of return on investments.

6. Operating Expenses

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses.

	1998	1997
	(in thousands)	
Investment management fees	\$ 3,997	\$ 3,220
Professional services	113	81
Salaries	523	471
Supplies and services	103	62
Travel	27	30
Other	44	34
	<u>\$ 4,807</u>	<u>\$ 3,898</u>

7. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Fund's ability to conduct normal business operations. Management and the Province of Nova Scotia have initiated certain steps aimed at identifying the scope and alternative resolutions for the issue and it is acknowledged that additional efforts will be required to address the issue. It is not possible to be certain that all aspects of the year 2000 Issue affecting the Plan, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

AUDITOR'S REPORT

To the Minister of Justice; and
To the Public Trustee

I have audited the balance sheet of the Public Trustee Trust Funds as at March 31, 1998 and the statement of continuity of assets for the year then ended. These financial statements are the responsibility of the Public Trustee. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 common with many trust funds, it is not possible to verify by audit procedure that all the assets of any given trust actually came under the administration of the Public Trustee. Accordingly, my verification of trust assets was limited to those recorded in the records.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to verify the completeness of the assets of the trust funds, these financial statements present fairly, in all material respects, the financial position of the Public Trustee Trust Funds as at March 31, 1998 and the continuity of assets for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
July 7, 1998

PROVINCE OF NOVA SCOTIA

PUBLIC TRUSTEE

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Estates and Trusts		
Cash	\$ 514,168	\$ 297,231
Securities, real estate and other assets	16,378,059	13,942,076
Common Fund securities (Note 4)	1,178,800	935,000
	<u>18,071,027</u>	<u>15,174,307</u>
Special Reserve Fund (Note 5)		
Cash and securities	1,018,033	971,184
	<u>\$ 19,089,060</u>	<u>\$ 16,145,491</u>
LIABILITIES		
Estates and Trusts		
Estates and trusts balances	\$ 18,071,027	\$ 15,174,307
Special Reserve Fund (Note 5)		
Restricted funds	971,151	915,943
Funds transferable to Province of Nova Scotia	46,882	55,241
	<u>1,018,033</u>	<u>971,184</u>
	<u>\$ 19,089,060</u>	<u>\$ 16,145,491</u>

PROVINCE OF NOVA SCOTIA

PUBLIC TRUSTEE

Statement of Continuity of Assets

for the year ended March 31, 1998

	Estates and Trusts	Special Reserve Fund	Fees Earned	1998 Total	1997 Total
Balance, beginning of year	\$ 15,174,307	\$ 971,184	\$ ---	\$ 16,145,491	\$ 14,650,697
<i>Add:</i>					
Assets acquired during the year	9,785,990	---	---	9,785,990	7,984,126
Income earned	806,851	---	---	806,851	710,625
Fees earned	---	---	369,413	369,413	326,404
Interest earned on Special Reserve Fund investments	---	46,882	---	46,882	55,241
Excess interest transferred from Common Fund	---	55,208	---	55,208	67,227
	<u>10,592,841</u>	<u>102,090</u>	<u>369,413</u>	<u>11,064,344</u>	<u>9,143,623</u>
<i>Less:</i>					
Distributions of estates and trusts	7,463,348	---	---	7,463,348	6,989,146
Transfers to the Province Fees	---	---	369,413	369,413	326,404
Undistributable estates and trusts (per Section 28)	232,773	---	---	232,773	278,649
Investment income earned on Special Reserve Fund	---	55,241	---	55,241	54,630
	<u>7,696,121</u>	<u>55,241</u>	<u>369,413</u>	<u>8,120,775</u>	<u>7,648,829</u>
Balance, end of year	\$ <u>18,071,027</u>	\$ <u>1,018,033</u>	\$ <u>---</u>	\$ <u>19,089,060</u>	\$ <u>16,145,491</u>

PROVINCE OF NOVA SCOTIA**PUBLIC TRUSTEE****Notes to Financial Statements****March 31, 1998****1. Authority**

The Office of the Public Trustee was established pursuant to the Public Trustee Act. The Public Trustee is empowered to perform the duties of a guardian, custodian, trustee, and executor or administrator of an estate. All investments by the Public Trustee are to be made in accordance with the Trustee Act.

2. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles modified by the following policies.

- a) Securities consist of bonds, debentures, stocks and deposit certificates. Securities purchased by the Public Trustee are valued at cost. Securities taken over by the Public Trustee are valued at face value or market value.
- b) The Public Trustee is responsible for administering certain other assets such as real estate, personal effects and chattels. These assets are valued and recorded in the financial records at an estimated market value at the date control is assumed. If market value is not readily ascertainable, they are each recorded at a nominal value of \$1.
- c) The Office of the Public Trustee uses a modified cash basis of accounting. These financial statements do not include accrued interest receivable on investments.
- d) Administration expenses of the Office of the Public Trustee are provided for by the general administration vote of the Department of Justice. Rent is paid by the Department of Transportation and Public Works. These expenses are not reflected in the statement of continuity of assets (see Note 3).

3. Operating Costs

Certain operating costs are absorbed by various government departments and are not reflected in the statement of continuity of assets. These costs of operating the Office of the Public Trustee are offset by fees charged for administering estates and by investment income.

	1998	1997
Department of Justice		
- Salaries and benefits	\$ 522,609	\$ 520,996
- Other operating costs	32,024	36,504
Department of Transportation and Public Works		
- Rent	49,107	53,591
	<u>603,740</u>	<u>611,091</u>
Less transfers to Province		
- Fees	369,413	326,404
- Special Reserve Fund income	55,241	54,630
	<u>424,654</u>	<u>381,034</u>
Net cost to the Province	<u>\$ 179,086</u>	<u>\$ 230,057</u>

4. Common Fund Securities

Section 30 of the Public Trustee Act permits the Public Trustee to invest monies, not subject to any express trust or direction for investment thereof, in a Common Fund. Investments of the Common Fund are valued at cost.

5. Special Reserve Fund

Section 32 of the Public Trustee Act provides for the establishment of a Special Reserve Fund. The purposes of the Fund are to provide for any deficiencies between income earned on investments of the Common Fund and interest required to be paid to estates comprising the Common Fund; and also to provide for any deficiency between the aggregate amount of sums invested and the realized value of investments of the Common Fund.

The Fund consists of investment income earned on Common Fund securities in excess of interest paid to Common Fund estates. Income earned on securities held in the Special Reserve Fund also forms part of the Fund.

Income earned on securities held in the Special Reserve Fund is eligible for transfer annually to the Province. The remainder of the Fund is restricted to the purposes described above.

6. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems with respect to dates in 1999. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If the issue is not adequately addressed by the Office of the Public Trustee, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Office's ability to conduct normal operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Office, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

AUDITORS' REPORT

To the Board of Directors of
Queen Elizabeth II Health Sciences Centre

We have audited the statement of financial position - operating and capital fund of the Queen Elizabeth II Health Sciences Centre ("QEII") as at March 31, 1998 and the statements of fund balances, revenues and expenditures, and changes in financial position for the year then ended. These financial statements are the responsibility of the QEII's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 QEII as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

ERNST & YOUNG
Chartered Accountants

Halifax, Canada
June 23, 1998

PROVINCE OF NOVA SCOTIA

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Statement of Financial Position - Operating and Capital Fund

as at March 31, 1998

	Operating Fund	Capital Fund	Total 1998	Total 1997
	(restated - Note 3)			
	(in thousands)			
ASSETS				
Current				
Cash and short-term investments \$	---	---	---	21
Investment held in trust	500	---	500	500
Accounts receivable	19,870	---	19,870	14,729
Due from (to) other funds	45,798	(45,798)	---	---
Inventories (note 5)	7,423	---	7,423	5,154
Prepaid expenses	4,839	---	4,839	1,914
	<u>78,430</u>	<u>(45,798)</u>	<u>32,632</u>	<u>22,318</u>
Restricted cash and short-term investments (Notes 2 and 9)	10,488	---	10,488	7,228
	<u>88,918</u>	<u>(45,798)</u>	<u>43,120</u>	<u>29,546</u>
Due from Workers' Compensation Board (Note 13)	---	---	---	3,967
Deferred charge (Note 7)	8,479	---	8,479	2,144
Capital assets (Notes 3 and 6)	---	208,030	208,030	200,811
	<u>\$ 97,397</u>	<u>\$ 162,232</u>	<u>\$ 259,629</u>	<u>\$ 236,468</u>
LIABILITIES				
Current				
Bank indebtedness \$	26,051	---	26,051	14,519
Accounts payable and accrued liabilities	51,695	---	51,695	52,412
Due to (from) Nova Scotia Government Department of Health (Note 4)	35,622	---	35,622	(4,357)
Due to Nova Scotia Government Department of Finance	---	---	---	3,449
Deferred revenue (Note 8)	14,843	---	14,843	10,854
Current portion of long-term debt (Note 10)	---	112	112	97
	<u>128,211</u>	<u>112</u>	<u>128,323</u>	<u>76,974</u>
Restricted liabilities (Notes 2 and 09)	10,488	---	10,488	7,228
	<u>138,699</u>	<u>112</u>	<u>138,811</u>	<u>84,202</u>
Long-term debt (Note 10)	---	---	---	113
	<u>138,699</u>	<u>112</u>	<u>138,811</u>	<u>84,315</u>

PROVINCE OF NOVA SCOTIA

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Statement of Financial Position - Operating and Capital Fund (Cont'd)

as at March 31, 1998

	Operating Fund	Capital Fund (in thousands)	Total 1998	Total 1997
FUND BALANCE				
Operating deficiency	(42,736)	---	(42,736)	(16,524)
Surplus retention	1,434	---	1,434	1,434
Investment in capital assets	---	162,120	162,120	167,243
	<u>(41,302)</u>	<u>162,120</u>	<u>120,818</u>	<u>152,153</u>
	<u>\$ 97,397</u>	<u>\$ 162,232</u>	<u>\$ 259,629</u>	<u>\$ 236,468</u>

Contingencies and commitments (Notes 11, 12, 13 and 15)

See accompanying notes

PROVINCE OF NOVA SCOTIA

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Statement of Fund Balances

year ended March 31, 1998

OPERATING FUND	1998	1997 (restated - Note 3)
		(in thousands)
Balance, beginning of year as previously reported	\$	(9,369)
Change in accounting policy (note 3)		6,640
Balance, beginning of year as restated	(16,524)	(2,729)
Net operating expenditures over revenue	(26,212)	(13,795)
Balance, end of year	<u>\$ (42,736)</u>	<u>\$ (16,524)</u>

SURPLUS RETENTION FUND

Balance, beginning and end of year	\$ 1,434	\$ 1,434
---	----------	----------

INVESTMENT IN CAPITAL ASSETS

Capital Funding, beginning of year as previously reported	\$	124,315
Change in accounting policy (note 3)		70,333
Capital funding, beginning of year as restated	215,815	194,648
Capital funding for the year (Schedule C).	7,860	21,167
	<u>223,675</u>	<u>215,815</u>
Accumulated amortization of capital funding, beginning		
of year as previously reported	---	---
Change in accounting policy (note 3)	---	(37,438)
Accumulated amortization of capital funding, beginning		
of year as restated	(48,572)	(37,438)
Amortization of capital funding for the year	(12,983)	(11,134)
Accumulated amortization of capital funding, end of year	(61,555)	(48,572)
Balance, end of year	<u>162,120</u>	<u>167,243</u>
Total	<u>\$ 120,818</u>	<u>\$ 152,153</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Statement of Revenues and Expenditures

Operating Fund

year ended March 31, 1998

	1998	1997
		(restated - Note 3)
		(in thousands)
Patient Care		
Revenues (Schedule A)	\$ 310,607	\$ 295,267
Expenditures (Schedule B)	<u>336,318</u>	<u>313,830</u>
	(25,711)	(18,563)
Affiliated programs		
Revenues (Schedule A)	18,787	14,676
Expenditures (Schedule B)	<u>15,737</u>	<u>15,167</u>
	3,050	(491)
Environmental		
Revenues (Schedule A)	2,632	2,804
Expenditures (Schedule B)	<u>6,609</u>	<u>2,804</u>
	(3,977)	---
Results from operating activities	<u>(26,638)</u>	<u>(19,054)</u>
Research		
Revenues (Schedule A)	11,204	6,928
Expenditures (Schedule B)	<u>7,944</u>	<u>6,753</u>
	3,260	175
Opening balance	<u>7,228</u>	<u>7,053</u>
Ending funds available for research	10,488	7,228
Funds committed to future periods	<u>10,488</u>	<u>7,228</u>
	---	---
Other		
Revenues (Schedule A)	10,466	17,025
Expenditures (Schedule B)	<u>10,040</u>	<u>11,766</u>
	426	5,259
Net expenditures over revenues	<u>\$ (26,212)</u>	<u>\$ (13,795)</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997
		(restated - Note 3)
		(in thousands)
OPERATING ACTIVITIES		
Net expenditures over revenues - operating fund \$	(26,212) \$	(13,795)
Items not requiring cash		
Depreciation	17,596	12,400
Amortization of capital funding	(12,983)	(11,134)
Changes in non-cash working capital items (Schedule D)	29,467	13,844
Cash used in operating activities	<u>7,868</u>	<u>1,315</u>
FINANCING ACTIVITIES		
Capital funding (Schedule C)	7,860	21,167
Repayment of long-term debt	(98)	(220)
Decrease in due from Workers' Compensation Board	3,967	19
Cash provided by financing activities	<u>11,729</u>	<u>20,966</u>
INVESTING ACTIVITIES		
Capital assets acquired (Schedule C)	(24,815)	(50,460)
Increase in deferred charge	(6,335)	(2,144)
Disposal of capital assets	---	474
Cash used in investing activities	<u>(31,150)</u>	<u>(52,130)</u>
Restricted Funding	<u>3,260</u>	<u>175</u>
Net cash outflow during the year	(8,293)	(29,674)
Cash position, beginning of year	(6,770)	22,904
Cash position, end of year \$	<u>(15,063) \$</u>	<u>(6,770)</u>
The cash position, end of year is comprised as follows:		
Cash and short-term investments \$	---	\$ 21
Bank indebtedness	(26,051)	(14,519)
Investments held in trust	500	500
Restricted cash and short-term investments	10,488	7,228
	<u>(15,063) \$</u>	<u>(6,770)</u>

See accompanying notes

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Notes to the Financial Statements

year ended March 31, 1998

1. Queen Elizabeth II Health Sciences Centre

On July 8, 1994, the Province of Nova Scotia announced the formation of the Queen Elizabeth II Health Sciences Centre ("QEII"). An act of the Legislation of the Province of Nova Scotia, proclaiming the incorporation of the QEII, was passed on February 27, 1996.

The QEII is dedicated to the provision of exemplary health care through the integration of patient care, teaching and research within a compassionate and caring Centre community, in partnership with other providers. It is the principal centre for the provision of these services in the Maritime Provinces.

The QEII is a non profit entity and, as such, is exempt from income tax.

2. Significant Accounting Policies

Fund Accounting

The QEII maintains its financial statements on a fund accounting basis. Separate funds have been established to distinguish operating activity from capital activity.

The Operating Fund contains the non-capital operating assets, liabilities, revenues and expenditures of the QEII related to the provision of hospital services.

The Capital Fund contains the capital assets, net of accumulated depreciation and related capital funding, net of accumulated amortization.

Investments

Investments are stated at cost.

Inventories

Inventories are stated at cost, being the lower of cost and net realizable value.

Capital Assets

Capital Assets are recorded at cost and depreciated at the following annual rates:

New Halifax Infirmary building	50 years straight line
Other buildings and additions	50 years straight line
Equipment	10 years straight line
Leasehold improvements	10 years straight line
Information technology	5 years straight line

Restricted cash and short-term investments and restricted liabilities

Restricted cash and short-term investments are designated for restricted purposes by independent funders, by regulation or by resolution of the QEII's Board of Directors. The corresponding restricted liability represents the unexpended fund balance.

Capital contributions

Capital contributions are recorded as capital funding and amortized to income using the same rates as depreciation expense related to the capital assets purchased. Capital contributions for non-depreciable capital assets are recorded as direct increases in the investment in capital.

3. Change in Accounting Policy

For fiscal years commencing on or after April 1, 1997, The Canadian Institute of Chartered Accountants recommended that capital assets be capitalized and amortized over their estimated useful lives and that contributions restricted for the purchase of capital assets be deferred and amortized over the same period as the related asset under the deferral method. The organization has adopted the recommendations in the current fiscal year.

As a result, the QEII has changed its method of accounting for capital assets, on a retroactive basis, from expensing them when purchased to capitalizing and amortizing them over their estimated useful lives and from recording contributions restricted for the purchase of capital assets as revenue when received to deferring and amortizing them over the same period as the related capital asset.

The effect of these changes on the comparative figures for the year ended March 31, 1997 has been to change the following income and expense amounts:

- a) Depreciation expense in the operating fund increased from \$nil previously reported to \$12,400,000.
- b) Amortization of capital funding in the operating fund increased from \$nil previously reported to \$11,134,000.
- c) Depreciation expense in the capital fund decreased from \$4,494,000 previously reported to \$nil.

4. Due (to) from Nova Scotia Government Department of Health

The balance due (to) from the Nova Scotia Government Department of Health as at March 31 is comprised as follows:

	1998	1997
	(in thousands)	
Incinerator funding \$	238	---
CTRF debt	---	3,449
1995/96 claims	153	77
1994/95 operating claims	613	3
1996/97 claims	37	37
Move to New Halifax Infirmary	---	3,278
Environmental claims (Note 13)	1,756	7,174
Severance and early retirements	2,499	5,401
Long-term care-Veterans Affairs Canada	2,649	2,749
High cost drugs	---	1,384
Bone marrow transplants	---	161
Medical education	(238)	409
Capital grants	3,000	9,497
	<u>10,707</u>	<u>33,619</u>
Funding advance 1997/98	(17,661)	---
Funding advance - March 1997	(10,000)	(9,958)
Wage Rollback Program	(1,356)	(1,328)
New Halifax Infirmary	(13,799)	(14,463)
Funding Rollback Program	(3,513)	(3,513)
	<u>\$ (35,622)</u>	<u>\$ 4,357</u>

All amounts due are subject to review and approval by the Nova Scotia Government Department of Health.

5. Inventories

	1998	1997
	(in thousands)	
Drugs \$	2,354	2,746
General supplies	816	782
Medical and surgical supplies	1,764	1,626
Sterile processing and operating rooms	2,489	---
	<u>\$ 7,423</u>	<u>\$ 5,154</u>

6. Capital Assets

	Cost	Accumulated Depreciation	Net Book Value	
			1998	1997 (restated - Note 3)
			(in thousands)	
Land.....	\$ 324	\$ ---	\$ 324	\$ 324
New Halifax Infirmary Bldg.....	109,487	3,270	106,217	107,654
Other buildings & additions.....	7,091	1,064	6,027	6,169
Equipment.....	108,289	49,921	58,368	58,865
Leasehold improvements.....	26,677	4,440	22,237	19,433
Information technology.....	21,472	6,615	14,857	8,366
	<u>\$ 273,340</u>	<u>\$ 65,310</u>	<u>\$ 208,030</u>	<u>\$ 200,811</u>

7. Deferred Charge

During the year, \$6,335,000 (1997 - \$2,144,000) in re-engineering costs were deferred. These costs, which total \$8,479,000 as at March 31, 1998, consist of external consulting fees and internal expenditures incurred on the re-engineering project. The deferred costs will be amortized in future periods as savings are realized.

8. Deferred Revenue

This amount represents an advance payment to the Centre from the Nova Scotia Government Department of Health on funding for the 1998/99 fiscal year.

9. Restricted Cash and Short-term Investments and Restricted Liabilities

These assets and liabilities represent funds, the use of which is restricted by various conditions as described in note 2.

	1998	1997
	(in thousands)	
Abbie J. Lane Trust Fund.....	\$ 57	\$ 64
Charitable funds.....	61	58
Centre for Clinical Research.....	9,988	7,202
Other.....	382	(96)
	<u>\$ 10,488</u>	<u>\$ 7,228</u>

10. Long-Term Debt

	1998	1997
	(in thousands)	
Equipment Purchase Agreement		
Versa Services Ltd., 60 monthly payments of principal only (non-interest bearing) to November 1999.....	\$ 112	\$ 210
	112	210
Current portion.....	(112)	(97)
	<u>\$ ---</u>	<u>\$ 113</u>

11. Pension Funds

Public Service Superannuation Fund

Most employees of the Victoria General Hospital ("VGH") and Cancer Treatment and Research Foundation ("CTRF") belong to the Public Service Superannuation Fund ("the Plan"). The Plan is funded by equal employee and employer contributions. The employer's contributions are included in the QEII's operating expenses. The Plan is administered by the Nova Scotia Government Department of Finance. The QEII is not responsible for any unfunded liability in this plan. Subsequent to March 31, 1998, employees received a refund of their 1997/98 contributions. This refund was paid and funded by the Province of Nova Scotia on June 18, 1998.

Nova Scotia Association of Health Organizations

The Nova Scotia Rehabilitation Centre ("NSRC") and Camp Hill Medical Centre ("CHMC") participate in the multi-employer pension plan administered by the Nova Scotia Association of Health Organizations. The most recent Actuarial Valuation was conducted as at December 1, 1995 and showed a funding excess for the entire plan of over \$80,000,000.

12. Long-Term Disability Plan

Most employees of the VGH and the CTRF are eligible to join a long-term disability plan which is funded equally by employee and employer contributions. The employer's contributions are included in the QEII's operating expenses. The plan is currently administered by the Province of Nova Scotia which has disclosed an unfunded liability of approximately \$16,000,000 for VGH and CTRF employees. The ultimate responsibility for funding the liability has not been resolved between the Province of Nova Scotia and the QEII.

13. Environmental Expenditures

During the year ended March 31, 1998, the QEII incurred approximately \$6,909,000 (including a write-off of \$3,967,000 due from with the Workers Compensation Board of Nova Scotia) of costs associated with the environmental illness claims which have been recorded in these financial statements. The cost of these claims totalled \$2,804,000 for the year ended March 31, 1997. Management believes that additional costs will be incurred during fiscal year ended March 31, 1999 related to environmental illness claims. The Nova Scotia Department of Health has agreed to fund all ongoing environmental illness claims. No provision has been made for future claims as the amount of the claims is unknown and the QEII has not yet made formal commitments for these expenditures.

14. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Centre's ability to conduct normal operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Centre, including those related to patient care, suppliers or other third parties will be fully resolved.

15. Lease commitments

The QEII is committed to the following annual lease payments in each of the next five fiscal years ended March 31:

1999	\$	6,847,000
2000		4,974,000
2001		4,561,000
2002		4,349,000
2003		4,319,000

16. Comparative Figures

Certain of the March 31, 1997 comparative figures have been reclassified to conform with the presentation adopted in the current year.

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Schedule of Revenues

Operating Fund

year ended March 31, 1998

	Patient Care	Affiliated Programs	Environ- mental	Research	Other	1998 Total	1997 Total
	(in thousands)						
Inpatient							(restated - note 3)
Department of Health	\$ 208,319	\$ 15,147	\$ 2,632	\$ ---	\$ 5,253	\$ 231,351	\$ 221,990
Federal	987	---	---	---	17	1,004	917
Veterans Affairs Canada.	13,100	---	---	---	---	13,100	13,464
Non-resident	1,230	---	---	---	---	1,230	1,213
Workers' Compensation Board	2,287	---	---	---	---	2,287	1,614
Other	20	---	---	---	---	20	91
	<u>225,943</u>	<u>15,147</u>	<u>2,632</u>	<u>---</u>	<u>5,270</u>	<u>248,992</u>	<u>239,289</u>

PROVINCE OF NOVA SCOTIA

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Schedule of Revenues

Operating Fund (Cont'd)

year ended March 31, 1998

	Patient Care	Affiliated Programs	Environ- mental (in thousands)	Research	Other	1998 Total (restated - note 3)	1997 Total
Outpatient							
Department of Health	53,283	---	---	---	---	53,283	47,860
Federal	175	---	---	---	---	175	167
Non-resident	1,851	---	---	---	---	1,851	1,349
Workers' Compensation							
Board	595	---	---	---	---	595	378
Other	698	---	---	---	---	698	1,133
Laboratory	143	---	---	---	---	143	52
Radiology	594	---	---	---	---	594	106
Ambulance	41	---	---	---	---	41	100
	<u>57,380</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>57,380</u>	<u>51,145</u>

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Schedule of Revenues

Operating Fund (Cont'd)

year ended March 31, 1998

	Patient Care	Affiliated Programs	Environ- mental (in thousands)	Research	Other	1998 Total (restated - note 3)	1997 Total
Other							
Department of Health	1,181	---	---	---	---	1,181	---
Contract revenue	---	---	---	6,989	---	6,989	6,469
Preferred accommodation	3,721	---	---	---	46	3,767	3,805
Medical							
Education	127	3,640	---	---	---	3,767	3,372
Laboratory	4,660	---	---	---	---	4,660	4,897
Dietary	15	---	---	---	4,287	4,302	3,837
Ortho/prosthetics	1,771	---	---	---	---	1,771	2,253
Donations	---	---	---	---	169	169	4,644
Psychiatry	(21)	---	---	---	59	38	2,041
Plant	1,223	---	---	---	---	1,223	1,160
Radiology	179	---	---	---	---	179	769
Interest	---	---	---	---	---	---	132
Amortization of capital funding	12,983	---	---	---	---	12,983	11,134
Other	260	---	---	4,215	636	5,111	1,108
Rentals	154	---	---	---	---	154	338
Parking	1,031	---	---	---	(1)	1,030	307
	<u>27,284</u>	<u>3,640</u>	<u>---</u>	<u>11,204</u>	<u>5,196</u>	<u>47,324</u>	<u>46,266</u>
Total revenues	<u>\$ 310,607</u>	<u>\$ 18,787</u>	<u>\$ 2,632</u>	<u>\$ 11,204</u>	<u>\$ 10,466</u>	<u>\$ 353,696</u>	<u>\$ 336,700</u>

PROVINCE OF NOVA SCOTIA
 QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Schedule of Expenditures
 Operating Fund
 year ended March 31, 1998

	Patient Care	Affiliated Programs	Environ- mental (in thousands)	Research	Other	1998 Total (restated - note 3)	1997 Total
Compensation	\$ 219,498	\$ 15,397	\$ 2,582	\$ 4,591	\$ 3,385	\$ 245,453	\$ 236,440
Medical and surgical supplies	28,245	6	---	49	4	28,304	24,409
Plant maintenance supplies	16,214	33	2	263	796	17,308	18,157
Drugs	18,830	---	---	17	---	18,847	17,270
Purchased service	11,794	72	47	796	3,346	16,055	9,674
Other	5,455	(79)	---	35	87	5,498	6,959
Lab Supplies	4,269	---	---	43	---	4,312	4,254
Fees.	5,727	174	8	172	205	6,286	6,528
Food supplies	3,236	1	---	---	1,920	5,157	4,540
Diagnostic imaging	2,946	71	---	1	---	3,018	2,590
Travel	1,391	62	3	409	29	1,894	1,534
Write-off of due Worker's Compensation Board.	---	---	3,967	---	---	3,967	---
Insurance	1,117	---	---	1	---	1,118	1,069
Depreciation.	17,596	---	---	---	---	17,596	12,400
Move to New Halifax Infirmary	---	---	---	---	268	268	3,402
Research grants	---	---	---	1,567	---	1,567	865
Total expenditures	\$ 336,318	\$ 15,737	\$ 6,609	\$ 7,944	\$ 10,040	\$ 376,648	\$ 350,091

ACCOUNTING

PROVINCE OF NOVA SCOTIA
QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Schedule of Changes in Capital

year ended March 31, 1998

	1998	1997
	Total	Total
	(restated - Note 3)	
	(in thousands)	
Capital Funding		
Nova Scotia Department of		
Health	\$ 5,063	\$ 19,629
Foundations	2,797	1,538
	<u>\$ 7,860</u>	<u>\$ 21,167</u>
Capital Expenditures		
New Halifax Infirmary		
Building	\$ 745	\$ 4,504
Equipment	9,509	22,005
Leasehold		
improvements	5,211	15,781
Information technology	9,350	8,170
	<u>\$ 24,815</u>	<u>\$ 50,460</u>

Schedule D

PROVINCE OF NOVA SCOTIA

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

Changes in Non-Cash Working Capital Items

year ended March 31, 1998

	1998	1997
	(in thousands)	
Decrease (increase) in		
Accounts receivable \$	(5,141) \$	(5,825)
Inventory	(2,269)	(1,214)
Prepaid expenses	(2,925)	(31)
Increase (decrease) in		
Accounts payable and accrued liabilities	(717)	23,350
Due from Nova Scotia Government		
Department of Health	39,979	809
Due to Nova Scotia Government		
Department of Finance	(3,449)	(2,698)
Deferred revenue	3,989	(547)
Changes in non-cash working capital items \$	<u>29,467</u> \$	<u>13,844</u>

AUDITORS' REPORT

To the Board of Directors of Resource Recovery Fund Board Inc.

We have audited the statement of financial position of Resources Recovery Fund Board Inc. as at March 31, 1998, and the statements of operations, changes in net assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 company as at March 31, 1998, and the results of its operations, changes in net assets and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

DOANE RAYMOND
Chartered Accountants

May 8, 1998
Truro, Nova Scotia

PROVINCE OF NOVA SCOTIA
RESOURCE RECOVERY FUND BOARD INC.

Statement of Operations

Year ended March 31, 1998

	1998	1997
REVENUES		
Deposits		
Gross revenues from deposits	\$ 18,532,879	\$ 15,736,126
Less: Harmonized sales tax	<u>(2,397,010)</u>	<u>(1,172,637)</u>
	16,135,869	14,563,489
Sales of recyclable materials.	2,311,004	1,615,026
Stewardship	<u>2,367,019</u>	<u>408,821</u>
TOTAL REVENUES	<u>20,813,892</u>	<u>16,587,336</u>
COST OF SALES		
Inventory, beginning of year.	46,261	---
Deposit refunds and handing fees	9,856,911	10,476,211
Freight-in.	63,672	47,300
Local cartage	1,030,015	1,132,409
Regional processing.	984,928	893,846
Used tires	1,439,400	166,246
Paid program	<u>48,202</u>	<u>---</u>
	13,469,389	12,716,012
Less: Inventory, end of year.	<u>70,183</u>	<u>46,261</u>
	<u>13,399,206</u>	<u>12,669,751</u>
Gross margin.	7,414,686	3,917,585
Administrative and operating expenses	<u>1,698,128</u>	<u>1,330,747</u>
OPERATING INCOME.	5,716,558	2,586,838
Interest and other income.	<u>211,953</u>	<u>70,117</u>
EXCESS OF REVENUES OVER EXPENSES.	<u>\$ 5,928,511</u>	<u>\$ 2,656,955</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
RESOURCE RECOVERY FUND BOARD INC.

Statement of Changes in Net Assets

Year Ended March 31, 1998

Net Assets	Invested in Capital Assets	Restricted for Future Projects	Restricted for Approved Programs	Net Revenues	Total 1998	Total 1997
Balance, beginning of year						
(Note 5)	\$ 1,314,392	\$ 1,816,507	\$ 677,341	\$ ---	\$ 3,808,240	\$ 2,772,348
Excess of revenues over expenses	(320,168)	---	---	6,248,679	5,928,511	2,656,955
Investment in capital assets	145,839	---	---	(145,839)	---	---
	<u>1,140,063</u>	<u>1,816,507</u>	<u>677,341</u>	<u>6,102,840</u>	<u>9,736,751</u>	<u>5,429,303</u>
Internally imposed restrictions	---	---	3,051,420	(3,051,420)	---	---
Payments during the year						
Education and awareness	---	---	(400,000)	---	(400,000)	(334,361)
Regional coordinators	---	---	(205,000)	---	(205,000)	(137,500)
Approved programs	---	---	(668,053)	---	(668,053)	---
Allocation of Municipal solid waste diversion						
Advances	---	---	---	---	---	(500,000)
Payable	---	---	---	(3,051,420)	(3,051,420)	(649,202)
Special payment	---	(700,000)	---	---	(700,000)	---
Balance, end of year	<u>\$ 1,140,063</u>	<u>\$ 1,116,507</u>	<u>\$ 2,455,708</u>	<u>\$ ---</u>	<u>\$ 4,712,278</u>	<u>\$ 3,808,240</u>

See accompanying notes to the financial statements

PROVINCE OF NOVA SCOTIA
RESOURCE RECOVERY FUND BOARD INC.

Statement of Financial Position

year ended March 31, 1998

	1998	1997
ASSETS		
Current		
Cash and short term investments	\$ 8,136,163	\$ 3,534,079
Receivables		
Trade	1,971,462	2,446,650
Accrued interest	16,651	7,334
Inventory	70,183	46,261
Prepays	6,677	6,536
	10,201,136	6,040,860
Property and equipment (Note 3)	706,580	754,890
Organizational costs, net of accumulated amortization.	433,483	559,502
	\$ 11,341,199	\$ 7,355,252
LIABILITIES		
Current		
Payables and accruals		
Trade	\$ 1,542,201	\$ 709,336
Municipal solid waste diversion	3,051,420	649,202
Unearned revenue.	2,035,300	2,188,474
	6,628,921	3,547,012
NET ASSETS		
Investment in capital assets.	1,140,063	1,314,392
Restricted for future projects.	1,116,507	1,816,507
Restricted for approved programs	2,455,708	677,341
	4,712,278	3,808,240
	\$ 11,341,199	\$ 7,355,252

Commitments (Note 5)

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
RESOURCE RECOVERY FUND BOARD INC.

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997
Cash derived from (applied to)		
Operating		
Excess of revenues over expenses \$	5,928,511	\$ 2,656,955
Amortization and depreciation	320,168	261,908
	6,248,679	2,918,863
 Change in non-cash operating working capital		
Receivables	465,871	(1,910,958)
Inventory	(23,922)	(46,261)
Prepays	(141)	(4,267)
Payables and accruals	3,235,083	769,190
Unearned revenue	(153,174)	2,188,474
	9,772,396	3,915,041
 Investing		
Purchase of		
Property and equipment	(141,139)	(362,180)
Organizational costs	(4,700)	(258,279)
	(145,839)	(620,459)
 Allocation of net assets		
Municipal solid waste diversion	(3,751,420)	(1,149,202)
Approved programs	(1,273,053)	(471,861)
	(5,024,473)	(1,621,063)
 Net increase in cash	4,602,084	1,673,519
Cash, beginning of year	3,534,079	1,860,560
Cash, end of year \$	8,136,163	\$ 3,534,079

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
RESOURCE RECOVERY FUND BOARD INC.

Notes to the Financial Statements

March 31, 1998

1. Nature of operations

The Resource Recovery Fund Board Inc. is a not-for-profit company established by the Nova Scotia government to manage a substantial portion of the Province's Solid Waste-Resource Management Regulations.

2. Summary of significant accounting policies

(a) Depreciation

Rates and bases of depreciation applied to write-off the cost of property and equipment over their estimated lives are as follows:

Building	5%	straight-line
Field equipment	20%	straight-line
Office and warehouse equipment	20%	straight-line
Computer hardware and software	20%	straight-line
Containers	33 1/3%	straight-line

(b) Inventory

Inventory is valued at the lower of cost and net realizable value.

(c) Unearned revenue

Unearned revenue represents deposits received from distributors for beverage containers that have not been returned for redemption. Unearned revenue consists of deposits received in the last sixty (60) days adjusted by the current year return rate.

(d) Organizational costs

Organizational costs for new programs are amortized on a straight-line basis over five years.

(e) Income taxes

The company is exempt from income taxes under Section 149(l)(d) of the Canadian Income Tax Act.

(f) Revenue recognition

Resource Recovery Fund Board Inc. follows the deferral method of accounting for revenue.

3. Property and equipment

	Cost	Accumulated Depreciation	1998 Net Book Value	1997 Net Book Value
Land	\$ 29,492	\$ ---	\$ 29,492	\$ 29,492
Building	273,150	27,315	245,835	259,493
Field Equipment	98,810	38,118	60,692	75,859
Office and warehouse equipment	69,417	24,218	45,199	44,374
Containers	276,099	169,559	106,540	169,576
Computer hardware and software	321,576	102,754	218,822	176,096
	<u>\$ 1,068,544</u>	<u>\$ 361,964</u>	<u>\$ 706,580</u>	<u>\$ 754,890</u>

4. Bank indebtedness

The company has an operating line of credit of \$2,500,000, of which all is unused at March 31, 1998.

5. Commitments

The company has entered into agreements to lease a warehouse and equipment. Minimum rent payable for the next year is \$49,799.

6. Other

(a) Included in trade receivables is an amount of \$277,000 which is currently under dispute. Recovery depends on the ultimate resolution of this matter. No provision has been made in the financial statements.

(b) Subject to specific terms and conditions being met which are satisfactory to the Resource Recovery Fund Board Inc., the board has approved an investment of \$281,400 in preference and common shares of Novapet Inc., a company located in Amherst, Nova Scotia. The board will fund this investment out of its net assets restricted for future projects.

7. Comparative Figures

Certain of the 1997 comparative figures have been reclassified to conform with the financial statement presentation adopted in 1998.

PROVINCE OF NOVA SCOTIA

RESOURCE RECOVERY FUND BOARD INC.

Schedule of Administrative and Operating Expenses

year ended March 31, 1998

	1998	1997
Bad debt expenses	\$ 38,360	---
Board fees and expenses	18,480	40,178
Consulting	186,613	134,939
Delivery, courier and postage	14,089	14,310
Depreciation and amortization	320,168	261,908
Dues and fees	3,253	---
Equipment lease or rent	12,565	9,019
Insurance	5,172	3,446
Interest and bank charges	6,104	3,855
Meetings and travel	41,956	60,146
Miscellaneous	---	2,985
Office expense	18,281	29,170
Professional fees	114,737	217,543
Property taxes	5,646	5,495
Public relations	130,389	96,079
Rent	42,300	28,612
Repairs and maintenance	43,521	15,527
Salaries and benefits	577,487	276,618
Shipping supplies	25,520	18,461
Telecommunications	45,828	62,759
Training	620	1,050
Utilities	9,196	18,059
Vehicle expense	37,843	30,588
	<u>\$ 1,698,128</u>	<u>\$ 1,330,747</u>

AUDITORS' REPORT

To the Members of the
Sherbrooke Restoration Commission

We have audited the balance sheet of Sherbrooke Restoration Commission as at March 31, 1998 and the statements of operations, fund balances, and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Commission as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles set out in the notes to the financial statements.

DELOITTE & TOUCHE
Chartered Accountants

May 8, 1998

PROVINCE OF NOVA SCOTIA
SHERBROOKE RESTORATION COMMISSION

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Cash	\$ 327,949	\$ ---
Accounts receivable	26,437	9,484
Inventory (Note 2)	114,508	84,502
Prepaid expenses	18,830	19,771
	487,724	113,757
Capital assets, at cost (Note 2)		
Property, buildings and furnishings	4,001,105	3,895,010
	\$ 4,488,829	\$ 4,008,767
LIABILITIES AND EQUITY		
Current		
Bank indebtedness	\$ 46,000	\$ 60,858
Accounts payable	29,690	40,106
Deferred operating grant	380,000	---
	455,690	100,964
Equity		
Investment in capital assets	4,001,105	3,895,010
Operating fund surplus	32,034	12,793
	4,033,139	3,907,803
	\$ 4,488,829	\$ 4,008,767

PROVINCE OF NOVA SCOTIA

SHERBROOKE RESTORATION COMMISSION

Statement of Operations

year ended March 31, 1998

	1998 Budget	1998 Actual	1997 Actual
Revenue			
Operating grants			
Board of Governors of the Nova Scotia Museum	\$ 766,300	\$ 766,300	\$ 766,300
Capital grants			
Department of Transportation and Public Works (Note 3)	100,000	103,149	135,718
Nova Scotia Museum	---	---	25,000
	<u>100,000</u>	<u>103,149</u>	<u>160,718</u>
Program revenue (Schedule 2)	<u>261,500</u>	<u>298,474</u>	<u>277,288</u>
Other			
Gate admissions	125,000	126,746	92,752
Interest	7,000	2,708	6,320
Miscellaneous	7,900	6,913	3,231
	<u>139,900</u>	<u>136,367</u>	<u>102,303</u>
Total revenue	<u>1,267,700</u>	<u>1,304,290</u>	<u>1,306,609</u>
Expenditures			
General operating (Schedule 1)	554,415	527,644	587,406
Program (Schedule 2)	613,285	653,182	645,327
Capital	100,000	104,223	147,211
Total expenditures	<u>1,267,700</u>	<u>1,285,049</u>	<u>1,379,944</u>
Net revenue (expenditure)	<u>\$ ---</u>	<u>\$ 19,241</u>	<u>\$ (73,335)</u>

PROVINCE OF NOVA SCOTIA
SHERBROOKE RESTORATION COMMISSION

Statement of Fund Balances

year ended March 31, 1998

	1998	1997
OPERATING FUND SURPLUS		
Balance, beginning of year	\$ 12,793	\$ 86,128
Net revenue (expenditure)	19,241	(73,335)
Balance, end of year	<u>\$ 32,034</u>	<u>\$ 12,793</u>

INVESTMENT IN CAPITAL ASSETS

Balance, beginning of year	\$ 3,895,010	\$ 3,747,799
Additions		
Furnishings and equipment	1,872	---
Renovations - Department of Transportation and Public works	104,223	122,211
Land	---	25,000
	<u>106,095</u>	<u>147,211</u>
Balance, end of year	<u>\$ 4,001,105</u>	<u>\$ 3,895,010</u>

PROVINCE OF NOVA SCOTIA
SHERBROOKE RESTORATION COMMISSION

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net revenue (expenditure) \$	19,241 \$	(73,335)
Add capital expenditures charged to operations	<u>106,095</u>	<u>147,211</u>
	125,336	73,876
Changes in non-cash operating capital items (Note 5)	<u>323,566</u>	<u>26,032</u>
	<u>448,902</u>	<u>99,908</u>
Investing		
Additions to property, buildings and furnishings	<u>(106,095)</u>	<u>(147,211)</u>
Net cash inflow (outflow)	342,807	(47,303)
Bank indebtedness, beginning of year	<u>(60,858)</u>	<u>(13,555)</u>
Cash position (bank indebtedness) , end of year \$	<u><u>281,949</u></u> \$	<u><u>(60,858)</u></u>
 Represented by:		
Cash \$	327,949 \$	---
Bank indebtedness	<u>(46,000)</u>	<u>(60,858)</u>
	<u>\$ 281,949</u>	<u>\$ (60,858)</u>

PROVINCE OF NOVA SCOTIA
SHERBROOKE RESTORATION COMMISSION

Notes to the Financial Statements

year ended March 31, 1998

1. Description of Operations

The Commission operates the Sherbrooke Village Restoration Project. It is accountable to the Board of Governors of the Nova Scotia Museum for all disbursements made out of monies received by the Commission.

2. Accounting Policies

The financial statements have been prepared in accordance with accounting policies considered appropriate for organizations of this type. The more significant of these accounting policies are summarized below:

a) Fund Accounting

The assets and liabilities of the Commission are segregated into two funds - Operating and Investment in Property, Buildings and Furnishings. The Operating Fund assets and liabilities are those which are used for the general operations of the Commission. The Investment in Property, Buildings and Furnishings Fund comprises assets of enduring benefit and any related debt.

b) Depreciation

Depreciation is not recorded on the property, buildings and furnishings.

c) Capital Assets

Property, buildings and furnishings reflect all expenditures of the Commission from June 15, 1971 to March 31, 1974 and all expenditures of a capital nature thereafter. These capital expenditures have been made by the Commission on behalf of the Province of Nova Scotia, with the Province being the beneficial owner of the assets.

d) Inventory

Inventories of finished goods for resale and raw materials are accounted for at the lower of cost and market.

3. Capital Grants - Department of Transportation and Public Works

The Commission receives grants for capital projects from the Nova Scotia Department of Transportation and Public Works. The portion of these grants relating to reimbursement for Workers' Compensation is applied directly to reduce the Workers' Compensation expense, rather than to revenue.

4 Pension Plan

The Commission has a defined benefit pension plan which covers all employees. The plan is contributory and provides retirement benefits based on length of service and average earnings as defined. The last actuarial valuation was carried out in 1998, and covered the financial position of the plan as at December 31, 1997. At that time, the assets of the plan amounted to \$657,922 and the liabilities amounted to \$528,205, with the result that the plan had a surplus of \$129,717 at that date.

5. Changes in Non-cash Operating Working Capital Items

	1998	1997
Accounts receivable \$	(16,953) \$	17,930
Accounts payable	(10,416)	17,667
Prepaid expenses	941	2,082
Deferred revenue	380,000	---
Inventory	(30,006)	(11,647)
	<u>\$ 323,566</u>	<u>\$ 26,032</u>

Schedule 1

PROVINCE OF NOVA SCOTIA

SHERBROOKE RESTORATION COMMISSION

Schedule of General Operating Expenditures

year ended March 31, 1998

	1998 Budget	1998 Actual	1997 Actual
Advertising and brochures \$	22,000 \$	15,639 \$	25,938
Bad debts	---	---	1,542
Freight	2,000	2,012	2,888
Heat, light and power	59,000	55,546	59,967
Insurance and taxes	4,800	2,853	4,652
Interest and bank charges	2,600	3,018	2,592
Maintenance supplies	12,000	14,166	12,950
Miscellaneous	6,565	10,295	7,850
Motor vehicles	3,000	4,016	3,076
Office supplies and postage	9,000	11,966	8,898
Sewer and water	36,000	37,520	36,452
Professional fees	5,000	7,815	5,233
Property maintenance and security salaries . . .	98,490	97,492	112,912
Pension plan and other benefits	62,000	55,233	61,736
Salaries and wages - Administration	171,960	155,759	172,183
Staff and Commission training	25,000	11,511	13,041
Special projects wages	(4,000)	659	8,867
Telephone	13,000	15,569	16,449
Travel	10,000	10,114	13,434
Workers' compensation	16,000	16,461	16,746
	<u>\$ 554,415</u>	<u>\$ 527,644</u>	<u>\$ 587,406</u>

PROVINCE OF NOVA SCOTIA

SHERBROOKE RESTORATION COMMISSION

Schedule of Program Revenue and Expenditures

year ended March 31, 1998

	1998 Budget	1998 Net Expenditures	1997 Net Expenditures
Blacksmith shop	\$ 9,870	\$ 8,855	\$ 12,529
Boat shop	7,940	---	1,827
Costume shop	17,950	18,739	15,176
Craft shop	20,830	3,480	25,019
Emporium (Schedule 3)	(38,500)	(7,317)	(11,192)
Exhibit operations	16,510	14,749	15,712
Jordan barn	28,675	35,628	33,997
Pottery shop	22,625	21,655	23,189
Restaurant	(1,000)	(779)	(1,351)
Print shop	1,000	455	462
Sawmill operations	18,665	22,583	22,075
Ambrotype Studio	6,255	9,679	5,764
Turner shop	20,535	11,965	19,181
Woodworking shop	18,765	20,746	15,391
Education program	(10,000)	(13,352)	(12,760)
Guides	197,665	200,398	201,071
Riverfront project	10,000	3,072	1,949
Theatre program	4,000	4,152	---
	<u>\$ 351,785</u>	<u>\$ 354,708</u>	<u>\$ 368,039</u>
Program expenditures	\$ 613,285	\$ 653,182	\$ 645,327
Less: Program revenue	261,500	298,474	277,288
Net expenditures	<u>\$ 351,785</u>	<u>\$ 354,708</u>	<u>\$ 368,039</u>

Schedule 3

PROVINCE OF NOVA SCOTIA

SHERBROOKE RESTORATION COMMISSION

Schedule of Retail Operations

year ended March 31, 1998

	1998	1997
Revenue		
Sales	\$ 146,690	\$ 182,729
Cost of goods sold		
Merchandise inventory, opening	39,218	14,038
Purchases	117,278	165,554
Merchandise available for sale	156,496	179,592
Less: Merchandise inventory, ending	50,903	39,218
Cost of goods sold	105,593	140,374
Gross profit on sales	41,097	42,355
Expenses		
Salaries and wages	27,563	27,666
General Expense	6,217	3,497
	33,780	31,163
Net retail income	\$ 7,317	11,192

AUDITOR'S REPORT

To the Minister Responsible for Sydney Environmental Resources Limited

I have audited the operating fund balance sheet of Sydney Environmental Resources Limited (formerly known as Sydney Tax Ponds Clean-Up Inc.) for the year ended March 31, 1998, and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles except as disclosed in Note 3.

The comparative figures for the year ended March 31, 1997 were examined by another firm of chartered accountants.

JOHN NASH
Chartered Accountant

April 20, 1998

PROVINCE OF NOVA SCOTIA
SYDNEY ENVIRONMENTAL RESOURCES LIMITED

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Current		
Cash.	\$ 118,143	\$ 168,679
Accounts receivable	50,090	23,962
Prepaid expenses.	---	12,706
	<u>\$ 168,233</u>	<u>\$ 205,347</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 99,287	\$ 136,604
Due to Province of Nova Scotia.	<u>68,945</u>	<u>68,742</u>
	168,232	205,346

EQUITY

Share capital (Note 8).	<u>1</u>	<u>1</u>
	<u>\$ 168,233</u>	<u>\$ 205,347</u>

Commitments (Note 7)

PROVINCE OF NOVA SCOTIA
SYDNEY ENVIRONMENTAL RESOURCES LIMITED

Statement of Revenue and Expenditures

for the year ended March 31, 1998

	1998	1997
Operating revenue	\$ 1,349,797	\$ 1,306,258
 Operating expenditures		
Civic taxes	3,575	5,052
Directors' fees	17,346	13,186
Health, safety and environmental	---	1,415
Incineration plant operation and maintenance	70,923	116,012
Incineration plant overhead	135,096	83,502
Joint Action Group	147,463	---
Office	33,000	23,296
Professional fees	11,791	17,813
Public information	48,307	59,388
Rent	25,735	55,480
Salaries and benefits	719,165	410,221
Site delineation and contract costs	---	497,409
Technical services	120,162	---
Telephone	11,599	11,906
Travel	5,635	11,578
	<u>1,349,797</u>	<u>1,306,258</u>
Excess revenue over expenditures	<u>\$ ---</u>	<u>\$ ---</u>

PROVINCE OF NOVA SCOTIA**SYDNEY ENVIRONMENTAL RESOURCES LIMITED****Notes to Financial Statements****year ended March 31, 1998****1. Authority and Objective**

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. It was established as a crown corporation of the Province of Nova Scotia by Order-in-Council on March 26, 1991. On January 7, 1998 the company changed its name from Sydney Tar Ponds Clean-Up Inc. to Sydney Environmental Resources Limited.

Its current objective is to utilize its resources in emerging community based environmental initiatives.

2. Continuation of The Business

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The continuation of the Company is dependent upon obtaining necessary funding from the Province of Nova Scotia and/or the Government of Canada.

3. Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles except as outlined below:

a) Financing

The Company, an agency of Her Majesty, receives legislative appropriations for operating expenditures. These appropriations are reflected as operating grants to the extent of operating expenditures. Any excess appropriations are accounted for as deferred operating grants. Consequently, the company does not have any equity.

b) Capital Assets

In accordance with funding requirements, the cost of capital assets are accounted for as current operating expenditures.

4. Due From Province of Nova Scotia

The payable to the Province of Nova Scotia as at March 31, 1998 represents operating funding received for the year ended March 31, 1998 in excess of operating expenditures.

5. Related Party Transactions

During the year, the Company received a net current operating grant of \$1,349,797 (1997 - \$1,306,258) from the Province of Nova Scotia.

In addition to the above-noted related party transactions, the company is related in terms of common ownership to all Province of Nova Scotia created departments, agencies and crown corporations. The Company enters into transactions with these entities in the normal course of business.

6. Compensation Legislation

The Company has complied with the provisions of the Public Sector Compensation Act.

7. Commitments

a) Operations

The Company has committed to the Province of Nova Scotia, that it will run its affairs in accordance with Provincial standards. Its operations will be accountable to the Province through the Minister responsible for Sydney Environmental Resources Limited.

b) Sales Agreement

Should the Company operate the incinerator, it has a sales agreement with Nova Scotia Power Inc. to sell power, which the incinerator will generate. The agreement expires August 25, 2000.

c) Land Lease

The Company has entered into an agreement with Canadian National Railway Company to lease approximately 46 acres of land for an annual rental of \$1.00. The land gives the Company access to the Sydney Tar Ponds. The Company undertakes not to further contaminate any leased lands. The lease expires October 31, 2001.

d) Sydney Steel Corporation

The Company has undertaken to hire displaced Sydney steel Corporation employees.

8. Share Capital

Authorized

50,000 common shares with no par value

Issued

1 Share at \$1

\$ 1

9. Comparative Figures

Certain of the comparative figures have been re-classified to conform to the financial statement presentation adopted for the current year.

PROVINCE OF NOVA SCOTIA**SYDNEY STEEL CORPORATION**

The following statements for the Sydney Steel Corporation are in draft format only. They had not been approved by the Board of Directors at the time these statements were published.

PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION

Balance Sheet

December 31, 1997, with comparative figures for 1996, 1995, and 1994

ASSETS

	1997	1996	1995	1994
		(in thousands)		
Current assets				
Cash	6 \$	1 \$	2 \$	2
Accounts receivable				
(Note 3)	14,947	10,570	14,836	1,427
Inventories (Note 4)	22,783	19,653	40,062	20,694
Prepaid expenses	1,295	653	23	412
	39,031	30,877	54,923	22,535
Property, plant and equipment:				
Land, buildings and				
equipment	437,419	436,864	434,793	432,644
Less: Accumulated depreciation				
write-downs	(410,109)	(407,417)	(405,233)	(403,141)
	27,310	29,447	29,560	29,503
	\$ 66,341	\$ 60,324	\$ 84,483	\$ 52,038

PROVINCE OF NOVA SCOTIA

SYDNEY STEEL CORPORATION

Balance Sheet (continued)

December 31, 1997, with comparative figures for 1996, 1995, and 1994

LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)

	1997	1996 (in thousands)	1995	1994
Current liabilities				
Cheques issued in exceeds of funds on deposit \$	4,045	2,738 \$	1,398 \$	---
Demand loans, guaranteed by the Province of Nova Scotia	73,584	44,957	24,182	---
Accounts payable and accrued liabilities	16,020	14,361	34,928	17,820
	<u>93,649</u>	<u>62,056</u>	<u>60,508</u>	<u>17,820</u>
Accrued pension obligations	35,000	---	---	---
Shareholder's equity (deficiency):				
Contributed surplus	523,018	523,018	523,018	523,018
Deficit	(585,326)	(524,750)	(499,043)	(488,800)
	<u>(62,308)</u>	<u>(1,732)</u>	<u>23,975</u>	<u>34,218</u>
	<u>\$ 66,341</u>	<u>\$ 60,324</u>	<u>\$ 84,483</u>	<u>\$ 52,038</u>

Future operations (Note 1)

Contingencies (Note 6)

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

SYDNEY STEEL CORPORATION

Statement of Changes in Financial Position

year ended December 31, 1997, with comparative figures for each of the years ended

December 31, 1996 and 1995 and the nine months ended December 31, 1994

	1997	1996	1995	1994
	(in thousands)			
Cash provided by (used in):				
Operations:				
Loss for the period \$	(60,576) \$	(25,707) \$	(10,243) \$	(20,893)
Items not involving cash:				
Depreciation.	2,692	2,184	2,092	1,500
Provision for pension benefits.	35,000	---	---	---
Provision for removal and site restoration costs	---	---	---	1,500
Pension plan contributions in excess of amounts charged to earnings	---	---	---	(1,718)
Reclassification of investment item-other income	---	---	(12)	(207)
Change in non-cash operating working capital	(6,490)	3,478	(15,280)	15,079
	(29,374)	(20,045)	(23,443)	(4,739)
Financing:				
Principal payments on long-term debt	---	---	---	(3,850)
Province of Nova Scotia grant for debt retirement	---	---	---	3,850
Assumption of bank indebtedness by Province of Nova Scotia . . .	---	---	---	194,815
	---	---	---	194,815

PROVINCE OF NOVA SCOTIA

SYDNEY STEEL CORPORATION

Statement of Changes in Financial Position (continued)

year ended December 31, 1997, with comparative figures for each of the years ended

December 31, 1996 and 1995 and the nine months ended December 31, 1994

	1997	1996	1995	1994
	(in thousands)			
Investments:				
Expenditures on property, plant and equipment	(555)	(2,071)	(2,149)	(1,003)
Proceeds on sale of property, plant and equipment	---	---	12	207
	(555)	(2,071)	(2,137)	(796)
Increase (decrease) in cash position	(29,929)	(22,116)	(25,580)	189,280
Cash position, beginning of period	(47,694)	(25,578)	2	(189,278)
Cash position, end of period	<u>\$ (77,623)</u>	<u>\$ (47,694)</u>	<u>\$ (25,578)</u>	<u>\$ 2</u>

Cash Position is defined as a cash net of cheques issued in excess of funds on deposit and demand loans.

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

SYDNEY STEEL CORPORATION

Statement of Loss and Deficit

year ended December 31, 1997, with comparative figures for each of the years ended

December 31, 1996 and 1995 and the nine months ended December 31, 1994

	1997	1996	1995	1994
	(in thousands)			
Sales \$	63,011 \$	91,085 \$	146,468 \$	86,676
Expenses and other income:				
Manufacturing	65,969	92,943	128,759	80,057
Repairs and maintenance	10,963	12,861	18,124	9,901
Administrative and selling	6,201	6,284	6,010	5,018
Interest on long-term debt	---	---	---	876
Interest on short-term borrowing	2,892	2,554	1,874	10,202
Grant from Province of Nova Scotia	---	---	---	(1,235)
Other income	(130)	(34)	(148)	(250)
	<u>85,895</u>	<u>114,608</u>	<u>154,619</u>	<u>104,569</u>
Loss before below-noted items	22,884	23,523	8,151	17,893
Depreciation	2,692	2,184	2,092	1,500
Provision for removal and site restoration costs.	---	---	---	1,500
Provision for pension obligations	35,000	---	---	---
Loss for the period.	<u>60,576</u>	<u>25,707</u>	<u>10,243</u>	<u>20,893</u>
Deficit, beginning of period	524,750	499,043	488,800	467,907
Deficit, end of period \$	<u><u>585,326</u></u> \$	<u><u>524,750</u></u> \$	<u><u>499,043</u></u> \$	<u><u>488,800</u></u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

SYDNEY STEEL CORPORATION

Statement of Contributed Surplus

year ended December 31, 1997, with comparative figures for each of the years ended

December 31, 1996 and 1995 and the nine months ended December 31, 1994

	1997	1996	1995	1994
	(in thousands)			
Contributed surplus, beginning of period \$	523,018 \$	523,018 \$	523,018 \$	299,350
Contributions from Province of Nova Scotia	---	---	---	223,668
Contributed surplus, end of period \$	<u>523,018</u> \$	<u>523,018</u> \$	<u>523,018</u> \$	<u>523,018</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA**SYDNEY STEEL CORPORATION****Notes to Financial Statements****year ended December 31, 1997, 1996 and 1995**

Sydney Steel Corporation is a Crown Corporation incorporated by special act of the Province of Nova Scotia. Its principal business activities include manufacturing steel products.

1. Future operations:

The Corporation is dependent on its owner, the Province of Nova Scotia, for the financial support including loan guarantees necessary to sustain its operations.

The corporation and the Province are actively seeking to establish an arrangement which would permit the Province to divest of its ownership and, concurrently, to identify a suitable new owner/operator who would commit to the long-term operation of the business.

These financial statements have been prepared on the going concern basis which assumes the realization of assets and liquidation of liabilities in the normal course of business. Accordingly they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those in the financial statements.

2. Significant accounting policies:**(a) Reporting interval:**

Effective January 1, 1995 the Company, together with the Province of Nova Scotia, entered into an agreement with China National Metals and Minerals Import and Export Corporation (Minmetals) which contemplated the joint operation and subsequent sale of the Company's assets to Minmetals on or before December 31, 1997. While the Agreement was in effect, management had prepared financial statements for internal purposes and for the Parties to the Agreement. However, because of unresolved differences between the Parties in connection with the Agreement, management was unable to complete general purpose financial statements in accordance with generally accepted accounting principles. On December 31, 1997 each of the Parties withdrew from the Agreement and as a result the accompanying financial statements encompass the three year period from January 1, 1995 to December 31, 1997.

(b) Inventories:

Manufactured products are stated at lower of cost and net realizable value. Raw materials and supplies are stated at lower of cost and replacement cost.

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost.

Depreciation for assets on hand April 1, 1994 (having a collective value of \$30 million at that date) is provided on a straight -line basis over a fifteen year period.

Depreciation for assets acquired since April 1, 1994 is provided on a straight-line basis over the estimated useful life of the asset commencing in the year following acquisition of the asset.

Additional write-downs are provided so as to reduce the net book value of property, plant and equipment to an amount considered recoverable in future periods.

(d) Government grants:

Grants received from the Province of Nova Scotia toward the acquisition of property, plant and equipment and debt retirement are credited to contributed surplus as the Corporation is owned 100% by the Province.

Grants received from other sources toward the acquisition of property, plant and equipment are deducted from the related assets, with depreciation calculated on the net amount.

Grants received toward current expenses are included in the determination of loss for the year.

3. Accounts receivable:

	1997	1996	1995	1994
	(in thousands)			
Trade receivables \$	13,237 \$	9,539 \$	12,854 \$	18,582
Goods and Services Tax	1,710	471	1,982	862
Insurance recovery	---	560	---	---
	<u>14,947</u>	<u>10,570</u>	<u>14,836</u>	<u>19,444</u>
Less advances by				
Province of Nova				
Scotia	---	---	---	(18,017)
	<u>\$ 14,947</u>	<u>\$ 10,570</u>	<u>\$ 14,836</u>	<u>\$ 1,427</u>

During the period ended December 31, 1994, the Province made advances to the Corporation pursuant to an assignment arrangement under which the advances were secured by and repayable from collection of accounts receivable.

4. Inventories:

	1997	1996	1995	1994
	(in thousands)			
Manufactured products	\$ 10,192	\$ 10,234	\$ 23,317	\$ 8,688
Raw materials	12,039	8,832	16,033	11,361
Supplies	552	587	712	645
	<u>\$ 22,783</u>	<u>\$ 19,653</u>	<u>\$ 40,062</u>	<u>\$ 20,694</u>

5. Transactions with the Province of Nova Scotia:

The accounts of the Corporation include the following transactions with the Province of Nova Scotia:

a) Operations:

Amounts reported in the Corporation's Statement of Loss are affected by the following:

- i) During the nine months ended December 31, 1994 the Province provided a grant of \$1,235 as a contribution toward interest on long-term debt paid by the Corporation.
- ii) Civic taxes payable to the Regional Municipality of Cape Breton by the Corporation are subject to the terms of an agreement between the Corporation, the Province, and the Regional Municipality.

b) Capital contributions:

Capital contributions are reflected as part of the Corporation's contributed surplus.

Details of capital contributions provided by the Province are as follows:

	Nine months ended December 31, 1994
	(in thousands)
For long-term debt retired during the period	\$ 3,850
For obligations and indebtedness assumed by the Province of Nova Scotia (see below)	<u>219,818</u>
	<u>\$ 223,668</u>

Under the terms of Minmetals agreement, the Province had assumed responsibility for certain obligations and indebtedness of the Corporation incurred up to December 31, 1994. The obligations and indebtedness assumed by the Province are summarized as:

(in thousands)

Assumption of bank indebtedness together with interest thereon	\$ 194,815
Assumption of long-term debt together with interest thereon	7,288
Assumption of pension obligations and other post retirement benefits having an estimated actuarial liability at December 31, 1994 of \$48,000.	16,215
Assumption of provision for removal and site restoration costs	1,500
	<u>\$ 219,818</u>

6. Contingencies at December 31, 1997:

The Corporation, supported by guarantee of the Province of Nova Scotia, is liable to the extent of \$2,835 in respect of letters of guarantee issued under bid and performance contracts.

7. Settlement of contingencies and measurement uncertainties during reporting interval:

The internal financial statements previously made available to the Parties as referred to in Note 2(a) included note-disclosure of contingencies and measurement uncertainties, the resolution of which is summarized as follows:

- A December 31, 1995 contingency with respect to a claim for product defect was settled during 1996, the related financial effects of which are included in the 1996 financial results:
- A December 31, 1996 measurement uncertainty with respect to settlement of Union contracts was resolved in 1997, the financial effects of which are included in the 1997 financial results, and
- A December 31, 1996 contingency with respect to a claim for product defect was settle in June 1998, the related financial effects of which are included in the 1997 financial result.

8. Pension cost and obligations:

The Corporation contributes to defined benefit plans on behalf of virtually all employees. Pursuant to a prior agreement, the Province had agreed to assume responsibility for pension costs and obligations of the Corporation accrued up to December 31, 1994. Accordingly, commencing January 1, 1995 the Corporation has recorded pension expense with reference to activity and developments since January 1, 1995 and which have consisted primarily of:

- a) The cost of pension benefits provided in exchange for employees' services rendered in the current period, and
- b) The cost of pension benefits arising from amendments to the Plans since January 1, 1995.

a) Current services:

Pension expense in respect of current service has been recorded as follows:

Year Ended	Pension Expense
December 31, 1995	\$ 634
December 31, 1996	501
December 31, 1997	648

b) Plan amendments:

In 1997, the Corporation negotiated labor agreements which resulted in enhancements to its Pension Plans. The net present value of benefits related to the enhancements was estimated at \$35 million and the Corporation, in contemplation of divestiture, has included the full estimated cost of the enhancements separately in the 1997 Statement of Loss and Deficit.

The most recent actuarial review of the Pension Plans was carried out by William M. Mercer Limited as at December 31, 1996 (prior to amendments to the Plans). While the review disclosed a deficiency between the value of pension fund assets and obligations at that date, the responsibility for funding same primarily vests with the Province of Nova Scotia pursuant to the earlier agreement.

Because responsibility for the Plans funding rests, in part, with the Company and, in part, with the Province, further discussions are required with the Superintendent of Pensions to clarify implement and give effect to the respective obligations of the company and the Province.

9. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

PROVINCE OF NOVA SCOTIA

TIDAL POWER CORPORATION

Balance Sheet

as at March 31, 1998

	1998	1997
Assets		
Current Assets		
Bank	\$ 38,353	\$ 37,343
Fixed Assets		
Office furniture	7,178	7,178
Less Accumulated Depreciation	2,991	2,632
	<u>4,187</u>	<u>4,546</u>
Computer Equipment	4,875	4,875
Less Accumulated Depreciation	1,461	974
	<u>3,414</u>	<u>3,901</u>
Total Assets	\$ <u>45,954</u>	\$ <u>45,790</u>
Liability & Equity		
Liabilities	\$ ---	---
Equity		
Opening retained earnings	45,790	45,480
Current earnings	164	310
Closing retained earnings	45,954	45,790
Total Liabilities/Equity	\$ <u>45,954</u>	\$ <u>45,790</u>

PROVINCE OF NOVA SCOTIA

TIDAL POWER CORPORATION

Income Statement

for the year ended March 31, 1998

	1998	1997
Revenue		
Investment income	\$ 1,022	\$ 1,164
Total revenue.	<u>\$ 1,022</u>	<u>\$ 1,164</u>
Expenses		
Administration-bank charges	\$ 12	\$ 8
Depreciation Expense		
Furniture/Equipment.	359	359
Computer.	487	487
Total Expenses	<u>\$ 858</u>	<u>\$ 854</u>
Net Income	<u>\$ 164</u>	<u>\$ 310</u>

PROVINCE OF NOVA SCOTIA
TIDAL POWER CORPORATION
Statement of Interest and Charges
Year ended March 31, 1998

Month	Interest	Charges
April	69.05 \$	4.00
May	71.49	8.00
June	69.30	---
July	71.73	---
August	71.86	---
September	69.68	---
October	72.14	---
November	85.48	---
December	96.59	---
January	112.95	---
February	102.33	---
March	129.83	---
Total	<u>\$ 1,022.43</u>	<u>\$ 12.00</u>

PROVINCE OF NOVA SCOTIA**TIDAL POWER CORPORATION****Notes to Financial Statements****Year ended March 31, 1998****1. Authority**

The Tidal Power Corporation was established by the Tidal Power Corporation Act which came into force on April 22, 1971. The object of the Corporation is to obtain, for Nova Scotia, the maximum benefit which may be derived from exploitation of tidal power and undertakings which are ancillary to, connected with, or may arise as a result of exploitation.

2. Significant Accounting Policies**Fixed Assets**

Fixed assets are stated at cost. Depreciation is provided on a straight-line basis at an annual rate of 5% for office furniture and 10% for computer equipment.

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Trade Centre Limited as at March 31, 1998 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 company as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG
Chartered Accountants

Halifax, Canada
May 21, 1998

PROVINCE OF NOVA SCOTIA

TRADE CENTRE LIMITED

Balance Sheet

March 31, 1998, with comparative figures for 1997

	1998	1997
ASSETS		
Current assets:		
Cash and short-term investments	\$ 4,196,667	\$ 3,713,869
Accounts receivable (Note 2)	962,278	936,526
Inventories	120,920	78,085
Prepaid expenses	40,030	39,859
	<u>5,319,895</u>	<u>4,768,339</u>
Portfolio investments	---	429,850
Property and equipment (Note 3):		
Land, building, furniture and equipment and tenant leaseholds	33,089,880	33,089,880
Less: accumulated depreciation and amortization	<u>16,123,021</u>	<u>15,082,695</u>
	16,966,859	18,007,185
	<u>\$ 22,286,754</u>	<u>\$ 23,205,374</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 696,421	\$ 732,959
Due to the Province of Nova Scotia	2,939,125	2,417,593
Event deposits	229,299	276,928
Deferred revenue	26,961	26,874
	<u>3,891,806</u>	<u>3,454,354</u>
Deferred capital assistance	---	429,850
Shareholder's equity:		
Capital stock:		
Authorized: 1,000,000 common shares without par value		
Issued and outstanding: 100 common shares	100	100
Contributed surplus (Note 4)	45,173,101	45,173,101
Deficit	<u>(26,778,253)</u>	<u>(25,852,031)</u>
	18,394,948	19,321,170
	<u>\$ 22,286,754</u>	<u>\$ 23,205,374</u>

Commitments (Note 7)

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

TRADE CENTRE LIMITED

Statement of Operations and Deficit

Year ended March 31, 1998, with comparative figures for 1997

	1998	1997
Revenues:		
Convention centre	\$ 4,496,698	\$ 4,117,489
Office tower	1,980,539	1,779,983
World Trade Centre	638,167	621,192
	<u>7,115,404</u>	<u>6,518,664</u>
Expenses:		
Event expenses	2,570,928	2,311,424
Salaries, wages and benefits	1,594,478	1,567,806
Administration	504,798	388,950
Advertising and marketing	358,837	347,160
Maintenance	610,989	637,099
Energy	512,086	519,351
Taxes and Insurance	839,913	937,912
	<u>6,992,029</u>	<u>6,709,702</u>
Income (loss) before amortization and depreciation	123,375	(191,038)
Gain on disposal of assets	(1,434)	(15,601)
Depreciation and amortization	<u>1,040,326</u>	<u>1,060,063</u>
Loss before subsidies and interest income on short-term investments	(915,517)	(1,235,500)
Halifax Regional Municipality operating subsidy (Note 5)	445,862	442,763
Province of Nova Scotia operating surplus (Note 6)	(569,237)	(251,725)
Interest income on short-term investments	<u>112,670</u>	<u>134,739</u>
Loss for the year	(926,222)	(909,723)
Deficit, beginning of year	(25,852,031)	(24,942,308)
Deficit, end of year	<u>\$ (26,778,253)</u>	<u>\$ (25,852,031)</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA

TRADE CENTRE LIMITED

Statement of Changes in Financial Position

Year ended March 31, 1998, with comparative figures for 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (926,222)	\$ (909,723)
Items not involving cash:		
Depreciation and amortization	1,040,326	1,060,063
Gain on disposal of assets	(1,434)	(15,601)
Change in non-cash operating working capital	368,694	172,841
	<u>481,364</u>	<u>307,580</u>
Financing:		
Increase in deferred capital assistance	147,950	1,085,000
Investments:		
Proceeds on disposal of furniture and equipment	1,434	15,601
Disposal of portfolio investments	429,850	354,451
Deferred capital assistance used for capital projects	(577,800)	(1,439,451)
Repayment of note receivable	---	8,423
	<u>(146,516)</u>	<u>(1,060,976)</u>
Increase in cash	482,798	331,604
Cash, beginning of year	3,713,869	3,382,265
Cash, end of year	<u>\$ 4,196,667</u>	<u>\$ 3,713,869</u>

Cash position is defined as cash plus short-term investments.

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA**TRADE CENTRE LIMITED****Notes to Financial Statements****Year ended March 31, 1998**

The Trade Centre Limited is incorporated under the laws of the Province of Nova Scotia and its principal business activities include the operation of a trade and convention centre and leasing of office and commercial space.

1. Significant accounting policies:**(a) Divisional operations:**

The Trade Centre Limited consists of three divisions; the Convention Centre, the World Trade Centre and the Office Tower. Revenue and expenditures are recorded on the accrual basis.

(b) Short-term investments:

Short-term investments are recorded at the lower of cost and market.

(c) Inventories:

Inventories are valued at the lower of cost and net realizable value.

(d) Property and equipment:

Property and equipment is stated at cost, net of government assistance. Depreciation and amortization is provided on the straight-line basis over the following terms:

Asset	Rate
Building	30 years
Furniture and equipment	5 years
Tenant leaseholds	Lease term

2. Accounts receivable:

	1998	1997
Convention centre events	\$ 485,523	\$ 391,688
Office tower rents	148,525	97,325
World Trade Club	74,360	59,864
Leasehold improvements receivable	---	260,660
Note receivable	---	8,935
Other	277,698	161,778
	<u>986,106</u>	<u>980,250</u>
Less: Allowance for doubtful accounts	(23,828)	(43,724)
	<u>\$ 962,278</u>	<u>\$ 936,526</u>

3. Property and equipment:

	Cost	Accumulated Depreciation and Amortization	1998 Net	1997 Net
Land	\$ 1	\$ ---	\$ 1	1
Building	30,259,664	13,351,399	16,908,265	17,916,917
Furniture and equipment	1,939,123	1,934,061	5,062	5,062
Tenant leaseholds	891,092	837,561	53,531	85,205
	<u>\$ 33,089,880</u>	<u>\$ 16,123,021</u>	<u>\$ 16,966,859</u>	<u>\$ 18,007,185</u>

4. Contributed surplus:

	1998	1997
Government of Canada	\$ 2,750,000	\$ 2,750,000
Halifax Regional Municipality	1,500,000	1,500,000
Province of Nova Scotia	40,923,101	40,923,101
	<u>\$ 45,173,101</u>	<u>\$ 45,173,101</u>

Contributed surplus consists of non-repayable grants from the three levels of government as set forth above to assist in the financing of the capital cost of the project. These grants have been treated as contributed surplus since they have been received by virtue of the Province of Nova Scotia's position as the sole shareholder of the Trade Centre Limited.

5. Operating subsidy from the Halifax Regional Municipality:

Pursuant to the Financing Agreement of May 14, 1982, the Halifax Regional Municipality makes an annual contribution to the operating deficit of the Convention Centre. In this respect, the Trade Centre Limited has recognized the contribution relating to the 1998 fiscal year in these financial statements.

6. Province of Nova Scotia operating surplus:

The Province of Nova Scotia operating surplus represents the income for the year before depreciation and amortization and interest income on short-term investments.

7. Commitments:

Operating leases:

The Centre is committed to payments under operating leases for various assets with terms expiring between 1999 and 2003. Annual payments are as follows:

1999	\$	29,886
2000		25,638
2001		17,141
2002		17,141
2003		17,141

8. Capital assistance:

The Province of Nova Scotia has allowed the Centre to use certain amounts of accrued savings from operations towards future capital projects. An amount of \$92,060 was approved during the year for scheduled projects.

The Halifax Regional Municipality provided a further contribution of \$55,890 during the year toward certain of these scheduled capital projects.

During the year the Centre expended the balance of the funds - \$577,800, being \$429,850 deferred from the prior year and \$147,950 approved during the current year, on capital projects.

9. Related party transactions:

The Trade Centre Limited rents significant office tower space to departments and agencies of the Province of Nova Scotia.

For the year ended March 31, 1998, rental revenue and tenant recoveries included \$1,601,689 (1997 - \$1,410,113) received from departments and agencies of the Province of Nova Scotia.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

PROVINCE OF NOVA SCOTIA

TRANSPORTATION TRUST FUND

Continuity of Transportation Trust Fund

for the year ended March 31, 1998

	1998	1997
Balance, beginning of year \$	---	---
<i>Add:</i> Revenue collected during year	36,000,203.62	35,580,721.59
	<u>36,000,203.62</u>	<u>35,580,721.59</u>
<i>Deduct:</i> Refund of Payments	696,819.70	332,468.12
Department of Transportation and Communications Expenditures (Schedule 1)	35,303,383.92	35,248,253.47
	<u>36,000,203.62</u>	<u>35,580,721.59</u>
Balance - end of year \$	<u>---</u>	<u>---</u>

Schedule 1

PROVINCE OF NOVA SCOTIA

TRANSPORTATION TRUST FUND

Transportation Trust Fund Expenditures

for the year ended March 31, 1998

Highway	1998	1997
101	\$ 570,000.00	\$ 133,479.43
102	1,289,900.00	1,440,888.73
103	4,355,700.00	877,363.63
104	24,816,000.00	26,166,299.93
105	463,603.62	2,576,938.09
106	---	385,310.06
107	2,620,000.00	2,102,749.44
111	---	56,425.19
118	740,000.00	950,120.60
125	1,145,000.00	558,678.37
Total Expenditure	<u>\$ 36,000,203.62</u>	<u>\$ 35,248,253.47</u>

AUDITOR'S REPORT

To the Shareholder of the
Upper Clements Family Theme Park Limited

I have audited the balance sheet of Upper Clements Family Theme Park Limited as at March 31, 1998 and the statement of income and deficit for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998, and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

E.R. SALMON, F.C.A.
Auditor General

Halifax, Nova Scotia
July 3, 1998

PROVINCE OF NOVA SCOTIA
UPPER CLEMENTS FAMILY THEME PARK LIMITED

Balance Sheet

as at March 31, 1998

	1998	1997
ASSETS		
Current		
Cash	\$ <u>6,435</u>	\$ <u>3,105</u>
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,501	\$ 974
Current portion of long-term liability	<u>1,640</u>	<u>3,817</u>
	<u>3,141</u>	<u>4,791</u>
Long-term		
Disability benefits (Note 2)	<u>28,446</u>	<u>38,739</u>
Equity		
Capital stock	1	1
Contributed surplus	5,667,174	5,667,174
Deficit	<u>(5,692,327)</u>	<u>(5,707,600)</u>
	<u>(25,152)</u>	<u>(40,425)</u>
	<u>\$ 6,435</u>	<u>\$ 3,105</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
UPPER CLEMENTS FAMILY THEME PARK LIMITED

Statement of Income and Deficit

for the year ended March 31, 1998

	1998	1997
Revenue		
Contributions from the Province (Note 3)	\$ 68,956	\$ 11,142
Expenses		
Legal settlement (Note 4)	15,000	---
Professional fees	2,889	---
WCB and LTD benefits (Note 2)	44,257	7,876
Dues and fees	85	85
Miscellaneous	65	60
	<u>62,296</u>	<u>8,021</u>
Less: Adjustment to disability benefits (Note 2)	<u>(8,613)</u>	<u>(28,641)</u>
	<u>53,683</u>	<u>(20,620)</u>
Net Income	<u>15,273</u>	<u>31,762</u>
Deficit, beginning of year	<u>(5,707,600)</u>	<u>(5,739,362)</u>
Deficit, end of year	<u>\$ (5,692,327)</u>	<u>\$ (5,707,600)</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA**UPPER CLEMENTS FAMILY THEME PARK LIMITED****Notes to Financial Statements****March 31, 1998****1. Authority**

The Upper Clements Family Theme Park Limited was created by Order-in-Council #88-17 for the purpose of assisting in the establishment and operation of a family theme park. On April 6, 1994 the Company transferred all of its fixed assets to its shareholder, the Province of Nova Scotia.

The Province has subsequently entered into leasing arrangements with third parties to continue the operations of the park, the latest effective February 1, 1997 to January 31, 2007. Revenue and costs associated with the lease arrangements are included in the accounts of the Province.

The Company's affairs are being managed by staff of the Department of Economic Development and Tourism, and it is not actively involved in the operation of the family theme park.

2 WCB and LTD Benefits

The Company accounts for the estimated long-term liability associated with workers' compensation (WCB) and long-term disability (LTD) benefits of former employees. An adjustment to disability benefits occurs when changes are made to the assumptions used to estimate the long-term liability.

During the year, two long-term disability claims were paid out.

3 Contributions from the Province of Nova Scotia

The Company is economically dependent on contributions from the Province of Nova Scotia to continue operating. The extent to which this assistance will be received in the future has not been determined.

4. Legal Settlement

During the year an amount was paid to settle a legal action that had been commenced by an individual for injuries incurred at the park in a prior period when it was operated by the Company.

5. Statement of Changes in Financial Position

A statement of changes in financial position is not provided since disclosure in the balance sheet and income statement is considered adequate.

PROVINCE OF NOVA SCOTIA

VICTIMS' ASSISTANCE FUND

Balance Sheet

as at March 31, 1998

ASSETS

	1998	1997
Cash	\$ 62,196.44	\$ 371,002.97
Investments	1,261,400.00	1,142,341.84
	<u>\$ 1,323,596.44</u>	<u>\$ 1,513,344.81</u>

LIABILITIES

Fund	<u>\$ 1,323,596.44</u>	<u>\$ 1,513,344.81</u>
------------	------------------------	------------------------

**Continuity of Fund
for the year ended March 31, 1998**

	1998	1997
Balance, beginning of year	\$ 1,513,344.81	\$ 2,273,871.00
Receipts:		
Investment income	35,805.38	73,824.93
Bank interest	12,605.15	6,462.57
Fine surcharge revenue	654,242.95	765,160.33
	<u>702,653.48</u>	<u>845,447.83</u>
Disbursements	<u>892,401.85</u>	<u>1,605,974.02</u>
Balance, end of year	<u>\$ 1,323,596.44</u>	<u>\$ 1,513,344.81</u>

PROVINCE OF NOVA SCOTIA**VICTIMS' ASSISTANCE FUND****Note to the Financial Statements****March 31, 1998**

Investments at March 31, 1998 consisted of the following:

\$443,361.72 Royal Bank Term Deposit		
4.5900% January 16, 1998 to April 16, 1998.	\$	438,400.00
\$826,233.37 Bank of Nova Scotia Term Deposit		
4.7800% March 18, 1998 to April 17, 1998.		<u>823,000.00</u>
	\$	<u><u>1,261,400.00</u></u>

AUDITORS' REPORT

To the Shareholder of
Waterfront Development Corporation Limited

We have audited the balance sheet of Waterfront Development Corporation Limited as at March 31, 1998, and the statements of earnings and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Corporation as at March 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

DOANE RAYMOND
Chartered Accountants

Halifax, Nova Scotia
May 6, 1998

PROVINCE OF NOVA SCOTIA

WATERFRONT DEVELOPMENT CORPORATION LIMITED

Balance Sheet

March 31, 1998

	1998	1997
ASSETS		
Cash	\$ ---	\$ 16,828
Receivables - trade	61,233	82,769
Notes receivable (Note 3)	181,140	204,959
Prepays	19,369	42,954
Real estate and development projects (Note 4)	22,011,271	18,546,758
Deferred pension cost	14,512	15,419
Deposits (Notes 9)	220,000	---
	<u>\$ 22,507,525</u>	<u>\$ 18,909,687</u>
LIABILITIES		
Bank indebtedness (Note 5)	\$ 408,670	\$ ---
Payables and accruals	2,484,465	234,267
Loan payable (Note 6)	6,000,000	5,900,000
	<u>8,893,135</u>	<u>6,134,267</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	3	3
General Development Fund (Note 8)	2,365,000	1,535,000
Contributed surplus	13,747,826	13,747,826
Deficit	<u>(2,498,439)</u>	<u>(2,507,409)</u>
	<u>13,614,390</u>	<u>12,775,420</u>
	<u>\$ 22,507,525</u>	<u>\$ 18,909,687</u>

Commitments (Note 9)
Subsequent event (Note 11)

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Statement of Earnings and Deficit

year ended March 31, 1998

	1998	1997
Revenue		
Rents	\$ 1,854,661	\$ 1,793,679
Recoveries	4,574	49,758
Interest income	11,592	10,934
Other income	5,392	46,177
	<u>1,876,219</u>	<u>1,900,548</u>
Property Expenses		
Property taxes	83,158	105,691
Operating	336,586	318,772
Depreciation and amortization	222,490	255,325
	<u>642,234</u>	<u>679,788</u>
Income before other items	<u>1,233,985</u>	<u>1,220,760</u>
Corporate expenses		
Directors fees and expenses	24,727	41,724
Doubtful accounts	44	3,410
Office operations	37,943	46,826
Professional fees - audit	7,700	6,875
- consultants	23,229	16,855
- legal	44,493	57,018
Salaries and benefits	272,604	266,163
Waterfront promotions and public relations	30,168	78,916
	<u>440,908</u>	<u>517,787</u>
Loan interest		
Expense	236,218	316,353
Contributions from the Province of Nova Scotia	<u>(336,000)</u>	<u>(344,000)</u>
	<u>(99,782)</u>	<u>(27,647)</u>
Depreciation on facilities for public access	73,889	72,802
	<u>415,015</u>	<u>562,942</u>
Net earnings from operations	<u>818,970</u>	<u>657,818</u>
Writedown in value of property	---	(269,162)
Gain on sale of property	20,000	9,716
	<u>20,000</u>	<u>(259,446)</u>
Net earnings	838,970	398,372
Transfer to General Development Fund (Note 8)	<u>(830,000)</u>	<u>(380,000)</u>
Transfer to Deficit	8,970	18,372
Deficit, beginning of year	<u>(2,507,409)</u>	<u>(2,525,781)</u>
Deficit, end of year	<u>\$ (2,498,439)</u>	<u>\$ (2,507,409)</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA
WATERFRONT DEVELOPMENT CORPORATION LIMITED

Statement of Changes in Financial Position

year ended March 31, 1998

	1998	1997
Cash derived from (applied to)		
Operating		
Net earnings \$	838,970 \$	398,372
Depreciation and amortization	296,379	328,127
Gain on sale of property	(20,000)	(9,716)
Write down in value of property	---	269,162
	<u>1,115,349</u>	<u>985,945</u>
Change in non-cash operating working capital (Note 10)	2,076,226	(52,665)
	<u>3,191,575</u>	<u>933,280</u>
Financing		
Decrease (increase) in notes receivable, net.	23,819	(197,886)
Increase in loan payable	100,000	500,000
	<u>123,819</u>	<u>302,114</u>
Investing		
Purchase of		
Equipment	(6,678)	(7,922)
Real estate and construction projects	(4,363,314)	(1,230,843)
Proceeds from sale of property	629,100	80,000
	<u>(3,740,892)</u>	<u>(1,158,765)</u>
Net (decrease) increase in cash	(425,498)	76,629
Cash, net of bank indebtedness		
Beginning of year	16,828	(59,801)
End of year \$	<u>(408,670) \$</u>	<u>16,828</u>

See accompanying notes to the financial statements.

PROVINCE OF NOVA SCOTIA**WATERFRONT DEVELOPMENT CORPORATION LIMITED****Notes to the Financial Statements****March 31, 1998****1. Nature of Operations**

The Corporation was declared a Provincial Crown Corporation by order of His Honour the Lieutenant Governor in Council No. 76-373 dated March 30, 1976.

The Corporation's mission is the stewardship, long term development and revitalization of the Halifax and Dartmouth waterfronts, including the encouragement of promotional activity to attract public attention and use of these areas.

2. Summary of Significant Accounting Policies**Capitalization**

All expenditures directly related to acquisition, renovation and development are included in the cost of real estate.

Government assistance

Government assistance for capital projects are accounted for as a reduction in the capital cost of the applicable project.

Income taxes

As a Provincial Crown Corporation, the Corporation is exempt from income taxes under the provisions of The Income Tax Act.

Depreciation**Building and equipment**

Assets are depreciated on a straight line basis over their useful life, but not greater than 50 years, at rates between 2% and 33.3% per annum.

Long-term lease

The cost of the lease referred to in Note 4 is amortized over its term.

Development costs

Costs for projects constructed on Corporation lands are capitalized and depreciated at 2% per annum.

3. Notes receivable	1998	1997
Note receivable bearing interest at a variable rate, repayable in blended monthly payments of \$451, matured August 1997 \$	---	\$ 2,050
Note receivable bearing interest at 7%, repayable in blended monthly payments of \$1,185, maturing March 2002, secured by an assignment of land and building	49,649	60,000
Note receivable bearing interest at a variable rate calculated annually, repayable in blended monthly payments of \$1,712, maturing June 2006. \$75,000 of the principal amount has been guaranteed by a third party	131,491	142,909
	<u>\$ 181,140</u>	<u>\$ 204,959</u>

4. Real estate and development projects

	1998	1997
Cost	Accumulated Depreciation	Net Book Value
Real estate and development projects	\$ 26,431,773	\$ 18,546,758
	\$ 4,420,502	\$ 22,011,271

Included in the cost of real estate is a prepaid long-term lease from the Federal Department of Public Works for a term of 45 years from 1977, with three ten-year renewal options.

5. Credit facility

The bank indebtedness is a general operating line of credit to a maximum of \$1,000,000 bearing interest at prime, less one percent. The loan is secured by a guarantee of the Province of Nova Scotia.

6. Loan payable

Demand loan bearing interest at approximately bank prime less one percent. The loan is secured by a guarantee of the Province of Nova Scotia.

7. Capital stock

	1998	1997
Authorized		
5,000 shares without nominal or par value		
Issued:		
3 shares	\$ 3	\$ 3

The shares are held in trust by representatives of the Province for the Queen in Right of the Province of Nova Scotia.

8. General Development Fund

The Board of Directors has established a fund for future development and promotional projects. Expenditures from this fund will be at their discretion.

9. Commitments

- (i) The Corporation has entered into a lease agreement for the Queen's Wharf. Minimum lease payments over the next five years, assuming renewal at similar terms, are as follows:

1999	\$	6,500
2000		6,500
2001		6,500
2002		6,500
2003		6,500

- (ii) The Corporation has a outstanding offer to purchase property currently owned by Public Works and Government Services Canada for a purchase price of \$2,200,000. A refundable deposit of \$220,000 has been made and is recorded in these financial statements.

10. Change in non-cash operating working capital

	1998	1997
Receivables	\$ 21,536	\$ 8,498
Prepays	23,585	78,176
Payables and accruals	2,250,198	(123,920)
Purchase deposits	(220,000)	---
Deferred asset	907	(15,419)
	<u>\$ 2,076,226</u>	<u>\$ (52,665)</u>

11. Subsequent event

The corporation entered into an agreement with Manufacturer's Life Insurance Company to purchase a property of \$3,600,000. The closing is scheduled for May 15, 1998.

12. Financial instruments

The fair values of cash and receivables approximate their carrying amounts because of their short term to maturity. The fair value of loans receivable approximate their carrying amounts because of variable interest rates and an insignificant fluctuation in the interest rates for those with fixed rates.

The fair values of payables and accruals and note payable approximate their carrying amounts because of their short term to maturity and variable interest rate.

13. Employee pension plan

The Corporation is a participant in a multi-employer pension plan, the Nova Scotia Public Sector Superannuation Plan. The plan required the payment costs for past service benefits which are being amortized to earnings over the expected average remaining service life of the employee group.

The most recent actuarial valuation of this plan was completed as at December 31, 1996 and includes pension assets of \$2,255,530,000, and pension liabilities of \$2,105,620,000, resulting in a pension surplus of \$149,910,000. This surplus has resulted in a pension holiday for its participants. The amount applicable to the Corporation is not determinable and should not be significant as its participation includes only three employees.