
ANNUAL ACCOUNTABILITY
REPORT

*for the fiscal year
ending March 31, 2007*

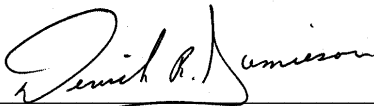
**Nova Scotia
Farm Loan Board**

Accountability Statement

We have the honour of presenting the 75th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2007.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2007, and is prepared pursuant to the Section 12 of the Agriculture and Rural Credit Act, 1989, as well as the Provincial Finance Act and government policy and guidelines. These authorities require the reporting of outcomes against the Board's business plan information for the fiscal year 2006-2007. The reporting of Board outcomes necessarily includes estimates, judgements and opinions by Board management.

We acknowledge that this accountability report is the responsibility of management and the Nova Scotia Farm Loan Board. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Board's business plans for the year.



Derrick R. Jamieson
Chief Executive Officer



Leo Cox
Chairman

Brooke Taylor
Minister, Department of Agriculture

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Board Members and staff as at March 31, 2007:

Board Members

Leo Cox	Chairman
Carol Versteeg	Vice-Chairman
Victor Moses	Member
Hank Bosveld	Member
Stephen Healy	Member

Principal Officers

Chief Executive Officer	Derrick Jamieson, P.Ag.
Solicitor to Board	Attorney General
Auditor	Auditor General

Truro Office

Manager, Finance	Philip Green, CMA, MPA
Credit Supervisor	Jim Houghton, P.Ag.
Senior Loan Officer	Maria McCurdy, P.Ag.
Loan Officer	John Murray, P.Ag.
Loan Officer	Jim Neary, P.Ag.
Loan Officer	Sandy Patterson, P.Ag.
Loan Officer	Paul Arnfast, A.Ag.
Client Service Support	Colleen Flemming
Client Service Support	Carol Elliott
Financial Services Officer	Susan Archibald
Accounting Clerk	Robbie Rushton
Reception	Norma MacKay

Kentville Office

Senior Loan Officer	Robb MacMillan, P.Ag.
Loan Officer	Pam Fraser, P.Ag.
Client Service Support	Wanda Lenihan

Chief Executive Officer's Report

The Nova Scotia Farm Loan Board promotes, encourages and supports agricultural and rural business development through the provision of long-term, fixed interest rate loans and financial counselling services. The Board is a Corporation of the Crown and is an integral part of the Nova Scotia Department of Agriculture. The Board also provides assistance to the Department of Natural Resources and other departments of government involved in rural Nova Scotia. Activities of the Board are consistent with the provincial government's objectives to stimulate economic growth and development.

The Board works in close harmony with the Department of Agriculture and other departments involved in the growth of rural Nova Scotia and will continue to assist in the delivery of programs of benefit to the rural areas. The Board administers a New Entrants Program to attract and support new farmers. Involvement in these initiatives allows the Board to capitalize on opportunities for economic growth in the agricultural sector including, but not limited to, new crop and livestock investments and new technologies including those in biotechnology, value added activities, emerging and export markets, environmental improvements and agri-tourism.

The strategic goals for the Board as identified in the 2006-2007 business plan are:

- Ensure industry access to stable, cost effective long-term developmental credit
- Assist in identification and analysis of growth opportunities for rural industries by promoting the use of financially sound business principles
- Demonstrate sound financial administration, efficiency, responsibility in administration of public funds and accountability in the Board's operations

The Board will continue to use the investment capital available to provide partnership opportunities within the financial community. Financing the growth of rural Nova Scotia can best be accomplished through partnerships with other lenders. The Board has traditionally provided long-term financing at fixed, reasonable interest rates which has included financing of commodities not traditionally covered by other lending agencies. Today, through its strategic goals, the Board will continue to create alliances within the agricultural industry, forestry industry, and other lending stakeholders to provide the best available source of credit.

During the year short term interest rates have continued to increase. The Board's loan portfolio increased and demand for loan payouts, transfers, and refinancing was reduced compared to previous years. The Board offers long-term funding with lending terms matched to the loan amortization. As interest rates rise, it is expected that demand for the Board's product and services will remain strong.

It is common for sectors within agriculture to experience cyclical fluctuations in price and supply. The hog industry faced considerable difficulty during the year resulting in a number of producers leaving, or planning to leave the industry in spite of \$6.2 million in assistance announced during the year. The Board's provision for impaired loans increased approximately \$1.8 million in

recognition of these difficulties. The beef industry continues to struggle to recover from lower demand and prices resulting from the US border closure three years ago.

Weather conditions can have a significant impact on most agricultural sectors. Weather during the past three fiscal years has been generally favourable for producing crops although each region and crop must be analysed individually. The Board continues to work with clients who were negatively affected by market prices or weather conditions to manage arrears and work toward the long-term viability of those operations.

The past year has been positive in several respects: Interest rates remain relatively low. Thirty-six new entrants joined the agricultural industry during the year and were approved for grants through the New Entrants to Agriculture Program. The dairy and poultry industries continue to be strong, with consistent returns generated under supply management. Blueberries have developed a reputation as a healthy food. The apple industry is working with new plantings and varieties to maintain markets. The mink sector is benefiting from market prices that have begun to decline somewhat but which remain relatively strong. The Department of Agriculture's TAP program will assist a number of beef and hog producers deal with problems in their sectors.

With the implementation of the TAP program, loans granted under the Ruminant Loan Program will be eligible for principal payout. Interest assistance remains in place for most of these loans into the first part of the 2007-08 fiscal year.

It has been a pleasure for me as Chief Executive Officer to work with knowledgeable and dedicated Board and staff during the fiscal year ending March 31, 2007. It is through this dedication and commitment that the Board has continued to provide developmental long-term lending programs that are cost effective and has helped to create opportunities. We, as a Board, look forward to continue to strengthen the rural fabric of the province of Nova Scotia.

Derrick R. Jamieson
Chief Executive Officer

Board Operation Overview

Direct Loans

During its 75th year of operations the Board met on ten occasions encompassing nineteen days. One hundred and seventy-nine loan requests were approved during the 2006-2007 fiscal year.

In addition to its loan function to agriculture and owners of forest product mills, staff administered the New Entrants to Agriculture Program and the Land Purchase and Lease Program. Properties purchased under ARDA Project 22015 during the period of 1965–1971 were a continuing responsibility of the Board and staff.

A total of 1,227 active loans (Farm and Timber) were in effect at March 31, 2007.

Interest rates on loans during the year were:

	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years
Apr 1 - June 30, 2006	5.95%	6.25%	6.40%	6.50%	6.60%
July 1 - Sept 30, 2006	6.45%	6.70%	6.95%	7.00%	7.10%
Oct 1 - Dec 31, 2006	6.10%	6.15%	6.15%	6.20%	6.60%
Jan 1 - Mar 31, 2007	6.15%	6.20%	6.20%	6.25%	6.60%

Timber Loans

There were ten Timber Loan category loans on March 31, 2007 totalling \$619,000.

Staff of the Farm Loan Board are responsible for administrative detail with respect to receiving applications, preparing documents, disbursing loans and maintaining loan records. Personnel of the Department of Natural Resources carry out loan appraisals, prepare reports and provide recommendations on timber loan requests. In addition, the Department of Natural Resources supervises requests to cut forest products from land held as security for loans and establishes stumpage rates for material removed.

Farm Consolidation and Land Use

In the period 1965 to 1970, under the terms and conditions of a joint Government of Canada, Province of Nova Scotia Agricultural and Rural Development Act (ARDA) project, properties were purchased for leasing to enlarge commercial farm operations. The administration of properties under a lease is a continuing responsibility of the Board.

ARDA lease accounts at March 31, 2007, had a net outstanding principal of \$37,000. Five accounts remain under this program.

Land Purchase and Lease

The Nova Scotia Farm Loan Board, at the request of the Land Purchase and Lease Committee, carries out the administrative details in the leasing of these properties.

In total, thirty seven properties remain under this program, with a total outstanding principal at year-end of \$806,000.

New Entrants to Agriculture Program

This is the seventh year for this program. The program is funded by the Department of Agriculture and administered by the Farm Loan Board. The objective is to encourage new Nova Scotia farmers to purchase and develop successful farm operations. Funds available under this program will be extended to improve the viability of each farm operation as key areas requiring improvement are outlined by the new entrant in a business plan. Eligible applicants receive a grant in the amount of interest paid on qualifying loans for the first two years to a maximum of \$10,000 per year. During the 2006-2007 year, grants of \$449,000 were disbursed and 36 applications were accepted resulting in a commitment of \$581,000 to be disbursed over the following two years.

Ruminant Loan Support Program Interest Grant

Beginning in the 2004-2005 fiscal year this program is intended to help producers affected by low prices resulting from the bovine spongiform encephalopathy (BSE) cases in western Canada and the US border closure. It provides interest relief on eligible loans beef and sheep producers. The program is funded by the Department of Agriculture and administered by the Farm Loan Board. During the 2006-2007 year, grants of \$79,000 were disbursed to 99 clients.

Life Insurance

The Farm Loan Board administers a creditor group life insurance for farmers. The policy is held with the Sun Life Assurance Company of Canada. Total insurance in force at the end of 2006-2007 was \$141.9 million.

Results (Progress and Accomplishments)

Priority: Lending

- Provide \$30 million of new loan capital to the agricultural and timber industries in the 2006-2007 fiscal year.

Result: 179 loan applications were approved during the year with total funds advanced of \$25.5 million. Principal repayments were \$18.1 million. Interest rates were relatively stable and credit availability from other lenders was strong. While below the maximum \$30 million authorised, and initial expectations for this fiscal year, it is felt that the funds advanced met the needs of the industry within the mandate of the Board. In order to better meet client needs, the Board's interest rate structure was modified slightly to provide for five year term rate intervals from 1-5 years to 21-25 years.

- Financial Counselling

Result: Loan officers met with clients to discuss lending needs and provide other financial counselling, attended information sessions and presented information to meetings of interest to the agricultural community.

- Governance

Result: The Board prepared a governance plan which has been submitted to the Department of Agriculture for review.

- Timber Loans

Result: The Board continues to be available to work with the Department of Natural Resources to enhance services to modify products and services to meet needs for growth and development within this industry.

- Reporting

Result: Board staff worked with Department of Finance staff to improve internal and external reporting during the year. Client statements were improved and arrears reporting resumed as suitable notices were developed.

- Account Maintenance

Result: Arrears declined slightly to 2.9% of the portfolio at March 31, 2007 in spite of significant difficulties being experienced in the hog sector and continued weakness in the beef sector. Three accounts were submitted for write-off during the year,

totalling \$755,000 or 0.40% of the loan portfolio. In addition, \$654,000 of loan principal, submitted for write-off in 2005-06, was approved during 2006-07 and is reflected in reported loan principal adjustments for 2006-07.

Priority: Program Administration

- Administer a New Entrants Program in concert with the Nova Scotia Department of Agriculture.

Result: In the seventh year of this program, 36 new entrant grant applications were assisted, including 12 inter-generational transfers. Approved grants of \$581,000 over the next two years (subject to budgetary authority) are within the annual budget authority to date of \$600,000. Actual disbursements under this program for 2006-07 were \$449,000, somewhat less than the budget authority of \$600,000 because of lower approvals in the previous two years and the timing of grant requests. Disbursements have fluctuated over the past seven years, depending on demand, averaging \$590,000.

- Flexible Loan Programs

Result: The Board maintains considerable flexibility in customizing each loan to client needs. The New Market Opportunity Loans and Ruminant Support Loans have been maintained, but clients would not appear to benefit from expansion of these products to other sectors. Other potential variations are still under consideration.

Actual/Budget Comparison - Loan Operating

Description	2006-2007 Actual (\$ 000)	2006-2007 Budget (\$ 000)	Change (\$ 000)
Interest	10,833	10,800	33
Insurance revenue (expense)*	254	150	104
Fee revenue and other income*	369	490	(121)
Total revenue	11,456	11,440	16
Interest	9,434	9,400	34
Operating expenses*	1,288	1,146	142
Bad debt expense	1,995	310	1,685
Total expenses	12,717	10,856	1,861
Income before govt. contributions	(1,261)	584	(1,845)
Government contributions	1,288	1,146	142
Net Income	27	1,730	(1,703)

See Financial Statements for complete financial information and notes.

Items marked * are budgeted as part of the Department of Agriculture estimates. Items not marked are not identified in approved estimates at this level of detail but are included in the Board's annual business plan.

Significant variations from Budget:

- Fees: Early repayment fees (penalties) were below levels set by the budget and are expected to decline further because most clients who may have benefited by paying out the loan have done so or have reached their 5 year anniversary and the Board has adjusted the rate.
- Insurance Revenue: Fluctuates annually depending on death claims. Claims for 2006-07 were unusually low.
- Operating Expenses: Post budget salary adjustments including retroactive adjustments of \$135,000 increased operating expenses for 2006-07.
- Bad Debt Expense: Bad debt expense was increased significantly, primarily in recognition of serious difficulties being experienced in the Hog sector. Bad debt expense varies from year to year based on an evaluation of Board accounts.

Actual/Budget Comparison - Capital Funds

Description	2006-2007 Actual (\$ 000)	2006-2007 Budget (\$ 000)	Change (\$ 000)
Opening principal	184,158	183,955	203
Funds advanced	25,526	30,000	(4,474)
Principal repayments	(18,945)	(18,000)	(945)
Written off	(755)	(500)	(255)
Advanced principal at year-end	189,984	195,455	(5,471)
Allowance for impairment	(8,108)	(6,937)	(1,171)
Net principal at year-end	181,876	188,518	(6,642)

Significant variations from Budget:

- Opening principal: Budget Projections are final before the year in progress is complete.
- Funds advanced: Loan demand has been reduced. This is believed to be related to strong credit availability with commercial lenders and relatively low short-term interest rates available through commercial lenders.
- Principal repayments: Repayments have been slightly above projections due to continuing good credit availability and interest rates, especially on short term loan commitments available generally in Nova Scotia.

Actual/Budget Comparison - Grant Programs

Description	2006-2007 Actual (\$ 000)	2006-2007 Budget (\$ 000)	Change (\$ 000)
New Entrants Grants Disbursed	449	600	(151)
Ruminant Support Loan Interest Grant	187	76	111

Significant variations from Budget:

- New Entrants program approvals closely approximated budget. Approvals are for a two year grant. Year-to-year fluctuations in approvals may offset in annual costs and are dependent on grant applications accepted in the two previous years.
- The Ruminant Interest Grant program was extended during the year and additional funding assigned from the Department of Agriculture budget authority. See the Department of Agriculture report for further information.

**NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2007**

**NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2007**

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Office of the Auditor General

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AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Agriculture

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 2007 and the statements of operations 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.

Except as explained in the following paragraph, I conducted my audit in accordance with Canadian 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.

I have been unable to obtain satisfactory evidence to support a conclusion on management's estimate of the provisions for loan and real estate impairment. Accordingly, I was not able to determine whether any adjustments might be necessary to the provision for loan impairment, the provision for real estate impairment, or to the amount due to the Province of Nova Scotia, net income and retained earnings.

In the prior period, I was unable to obtain satisfactory evidence to support a conclusion on management's estimate of the provision for loan and real estate impairment as at March 31, 2006. Accordingly, I was not able to determine whether any adjustments to the provision for loan impairment, the provision for real estate impairment, or net income and retained earnings were necessary.

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient evidence regarding the matters described in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Jacques R. Lapointe, CA-CIA
Auditor General

Halifax, Nova Scotia
May 18, 2007

NOVA SCOTIA FARM LOAN BOARD
BALANCE SHEET
MARCH 31, 2007
(\$ thousands)

ASSETS	2007	2006
Cash (Note 2a)	\$ 1,683	\$ 1,680
Interest and other receivables (net) (Note 3)	3,559	4,019
Loans receivable (net) (Notes 2c, 5)	180,107	174,353
Real estate (net) (Notes 2e, 6)	<u>2,836</u>	<u>2,650</u>
	<u>\$ 188,185</u>	<u>\$ 182,702</u>
LIABILITIES		
Due to the Province of Nova Scotia (Note 4)	\$ 360	\$ 105
Advances from the Province of Nova Scotia (Note 9)	<u>186,502</u>	<u>181,022</u>
	<u>186,862</u>	<u>181,127</u>
EQUITY		
Retained earnings (Note 2h)	<u>1,323</u>	<u>1,575</u>
	<u>\$ 188,185</u>	<u>\$ 182,702</u>

Commitments and contingencies (Note 10)

Approved on behalf of the Board

Member

Member

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

NOVA SCOTIA FARM LOAN BOARD
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2007
(\$ thousands)

	2007	2006
Revenues		
Interest revenue (Note 2i)	\$ 10,910	\$ 10,593
Revenue on life insurance operations	254	225
Fee revenue and other income	<u>369</u>	<u>601</u>
	<u>11,533</u>	<u>11,419</u>
 Expenses		
Interest expense (Note 2h)	9,434	9,213
Operating expenses (Note 11)	1,288	1,435
Bad debt expense (Note 7)	<u>2,071</u>	<u>328</u>
	<u>12,793</u>	<u>10,976</u>
 Income (loss) before government contributions	 (1,260)	 443
Government contributions (Note 11)	<u>1,288</u>	<u>1,435</u>
 Net Income	 <u><u>\$ 28</u></u>	 <u><u>\$ 1,878</u></u>

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

NOVA SCOTIA FARM LOAN BOARD
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2007
(\$ thousands)

	2007	2006
Retained earnings , beginning of year (Notes 2h)	\$ 1,575	\$ 1,486
Income (loss) before government contributions	(1,260)	443
Recovery from (distribution to) the Province of Nova Scotia (Note 2h)	<u>1,008</u>	<u>(354)</u>
Retained earnings , end of year	<u>\$ 1,323</u>	<u>\$ 1,575</u>

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

**NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

1. Authority

The Nova Scotia Farm Loan Board, a Provincial agency, operates under the authority of the Agricultural and Rural Credit Act and the Forests Act (for timber loans). The Board was established to provide assistance to the agricultural sector in the Province.

Principal in loans outstanding is limited by regulation to \$200 million. Maximum advances to be disbursed in any given year is established through the annual budgeting process. For the year ended March 31, 2007 maximum new advances were \$30 million, of which \$25.5 million was advanced. The Board received repayments of loan principal of \$18.9 million during the year.

Loans in excess of \$2 million require approval by Governor-in-Council.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies used in the preparation of these financial statements.

a) **Cash**

The Farm Loan Board operates as an agency of the Province of Nova Scotia. All cash is received and disbursed through accounts managed centrally by the Province.

Cash reported consists of funds held by the Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance program. A portion of the funds are restricted under the terms of the life insurance contract.

	2007	2006
	(\$ thousands)	
Contractually restricted deposits	\$ 30	\$ 30
Unrestricted deposits	<u>1,653</u>	<u>1,650</u>
	<u>\$ 1,683</u>	<u>\$ 1,680</u>

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

2. continued

b) **Statement of cash flow**

Except for funds held by the insurance carrier, the Board holds no cash (see Note 2a). All disbursements are drawn from the Province and all receipts are deposited to accounts of the Province. A statement of cash flow has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

c) **Loans receivable**

Loans receivable is the principal portion of loans outstanding net of the provision for loan impairment.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the collection of the full amount of principal and interest.

d) **Provision for loan impairment**

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

The provision is established in two components:

- 1) A specific provision based on a loan-by-loan review is established to value impaired loans at the lower of their recorded investment or the estimated net realizable amount of their underlying security.
- 2) A general provision is an estimate of probable but unidentified losses in the portfolio that have not been included in the specific reserve. This estimate is based on general and commodity specific economic conditions, and on past experience of the Board.

The provision for loan impairment is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Performing loans are those loans, which in the estimation of management, will be fully repaid either on schedule or beyond schedule but including any appropriate additional interest charges. Repayment can be through either realization on existing security held by the Board or regular scheduled payments.

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

2. continued

Loans are identified as being impaired when account analysis indicates that there is a probability the loan may not be fully repaid with interest and there is insufficient security to prevent a shortfall. A provision for impairment is provided based on the amount and probability of the potential shortfall.

e) **Real estate acquired in settlement of loans**

Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and the estimated fair value based on the resale value of security held less disposal costs.

Net operating costs incurred on real estate held for sale are added to the carrying value of the property. The related provision is used to adjust the carrying value to net realizable value, resulting in inclusion of these costs in bad debt expense.

f) **Real estate acquired for leasing or other purposes**

The Board holds land purchased under a Provincial "Landbank" program and under a Federal-Provincial "Agriculture and Rural Development Agreement" (ARDA). Both of these programs have ceased to exist, however existing properties and leases continue with renewable five year terms. Property acquired under these programs is valued at cost less the unamortized value of the Federal contribution to the ARDA program. The Federal contribution is amortized to other income when related properties are sold. Lease clients are entitled to purchase the related property at its original purchase cost.

g) **Capital assets**

The Board applies the capitalization policies of the Province. No assets acquired by the Board meet the minimum thresholds for capitalization.

h) **Interest expense and retained earnings**

A Memorandum of Understanding (MOU) dated March 16, 1999 between the Nova Scotia Farm Loan Board and the Nova Scotia Department of Finance formalizes the Board's funding arrangements. The agreement took effect on April 1, 1998.

Under the MOU, the Board estimates projected lending requirements on a quarterly basis. Funding is provided by the Department of Finance. Interest rates and terms are determined at the time funds are requested by the Board.

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

2. continued

Funding is maintained to cover the Board's investment in loans receivable and real estate. The Board tracks the draws arranged with the Department of Finance and computes the interest cost based on the terms of these draws. Interest is charged to the Board for the draws on the assumption that the funds are borrowed by the Province to lend to the Board.

Also, under the terms of the MOU, the Board is entitled to set aside 20% of its income or loss before government contributions as retained earnings. Funds related to retained earnings are included in "Due from the Province of Nova Scotia" or "Due to the Province of Nova Scotia" and may be used by the Board for specific stated purposes; subject to the approval of the Department of Finance.

i) **Interest recognition**

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. The loan reverts to an accrual status when all provisions for impairment are reversed and the ultimate collection of the principal and interest is reasonably assured.

j) **Fee revenue**

All loan related fees are reported as revenue in the period in which they were earned.

k) **Measurement uncertainty**

Preparation of the Board's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported. Significant assumptions are required in the determination of the provisions for impaired loans and real estate. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

l) **Risk management**

Credit Risk

The risk that clients may not pay amounts owing on loans and lease accounts, resulting in a loss to the Board, is managed through an initial assessment of the client's ability to pay, and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to cyclical industry, or other temporary difficulties, it is the Board's policy to work with clients on an individual basis to provide time for recovery. See Note 5 for additional loan information.

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

2. continued

Liquidity Risk

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

Interest Rate Risk

In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Board attempts to match terms of loans offered with those of funds drawn through the Province. All loans provide for an optional 10% repayment at any time during each calendar year and an optional full repayment on each 5 year anniversary. All loans are contracted for the full term of their amortization which may range from 1 to 30 years. Funds drawn through the Province provide for 10% annual and 5 year full optional repayments.

Life Insurance Risk

The Board requires borrowers to participate in a group life insurance program administered by the Board unless the borrower has arranged alternative life insurance coverage. The net annual gain or loss under the contract with the insurance provider (premium revenue less the cost of life insurance claims) to a maximum of \$250,000 on any claim, plus administrative costs, are costs or revenues of the Board and may vary from year to year.

3. Interest and Other Receivables (net)

Includes receivables for loan interest, lease fees, life insurance premiums and taxes. The provision for impairment adjusts the value to the anticipated amount recoverable.

	2007	2006
	(\$ thousands)	
Interest, lease fees, life insurance premiums, taxes receivable	\$ 3,890	\$ 4,447
Less: provision for impairment	<u>331</u>	<u>428</u>
Interest and other receivables (net)	<u>\$ 3,559</u>	<u>\$ 4,019</u>

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

4. Due to the Province of Nova Scotia

The balance represents amounts accumulated in accordance with the memorandum of understanding with the Department of Finance (Note 2h) net of deposits held by Sun Life Assurance Company of Canada on behalf of the Board (Note 2a).

	2007	2006
	(\$ thousands)	
Amounts held by the Province of Nova Scotia.	\$ 1,323	\$ 1,575
Less:		
Deposits held by Sun Life Assurance Company of Canada and also due to the Province of Nova Scotia.	<u>1,683</u>	<u>1,680</u>
Due to the Province of Nova Scotia	<u><u>\$ (360)</u></u>	<u><u>\$ (105)</u></u>

5. Loans Receivable

Summarized below are anticipated loan repayments based on loan payment schedules and maturities. Values represent the book value of loan funds disbursed less principal repayments to date. The provision for loan impairment adjusts the value of loans to their anticipated recoverable amounts. Government approval for write-off is requested after all security has been realized and a deficiency remains.

	2007			
	(\$ thousands)			
	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	\$ 16,630	\$ 48,384	\$ 97,677	\$ 162,691
Timber loans	<u>99</u>	<u>307</u>	<u>206</u>	<u>612</u>
Total performing loans	<u><u>\$ 16,729</u></u>	<u><u>\$ 48,691</u></u>	<u><u>\$ 97,883</u></u>	163,303
Average effective annual interest rate	6.09%	6.15%	6.19%	
Add: principal receivable on impaired loans (excluded from above)				<u>21,832</u>
Total principal				185,135
Less: provision for loan impairment				<u>5,028</u>
Loans receivable (net)				<u><u>\$ 180,107</u></u>

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

5. continued

2006

(\$ thousands)

	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	\$ 14,414	\$ 53,372	\$ 98,354	\$ 166,140
Timber loans	<u>117</u>	<u>397</u>	<u>276</u>	<u>790</u>
Total performing loans	<u>\$ 14,531</u>	<u>\$ 53,769</u>	<u>\$ 98,630</u>	166,930
 Average effective annual interest rate	 6.17%	 6.21%	 6.24%	
 Add: principal receivable on impaired loans (excluded from above)				 <u>10,816</u>
Total principal				177,746
 Less: provision for loan impairment				 <u>3,393</u>
Loans receivable (net)				<u>\$ 174,353</u>

2007

2006

**Sector Distribution
(performing loans)**

(\$ thousands)

Dairy	\$ 52,742	32.3%	\$ 51,090	30.7%
Poultry	28,486	17.3%	26,604	15.9%
Hog	10,051	6.2%	18,778	11.2%
Beef	12,755	7.8%	11,249	6.7%
Vegetables and other crops	7,769	4.8%	6,807	4.1%
Blueberries	10,297	6.3%	8,875	5.3%
Greenhouse	8,401	5.1%	9,645	5.8%
Fur	8,251	5.1%	7,777	4.7%
Apple	6,658	4.1%	5,484	3.3%
Other fruit	4,272	2.6%	3,571	2.1%
	612	0.4%	791	0.5%
Timber	<u>13,009</u>	<u>8.0%</u>	<u>16,259</u>	<u>9.7%</u>
Other				
	<u>\$ 163,303</u>	<u>100.0%</u>	<u>\$ 166,930</u>	<u>100.0%</u>

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

6. Real Estate

	2007	2006
	(\$ thousands)	
Real estate held for resale	\$ 4,067	\$ 4,435
Less: provision for impairment	<u>2,768</u>	<u>3,762</u>
Net real estate held for resale	<u>1,299</u>	<u>673</u>
Real estate held for long-term use		
Land bank	805	1,203
Land consolidation		
Agriculture and Rural Development Agreement (ARDA)	37	37
Less Federal Government share of ARDA properties	(18)	(19)
Property used by NS Agricultural College and Community Pastures	<u>713</u>	<u>756</u>
Total property acquired for long-term use	<u>1,537</u>	<u>1,977</u>
Real estate (net)	<u>\$ 2,836</u>	<u>\$ 2,650</u>

7. Provision for Impairment

	2007			2006		
	(\$ thousands)			(\$ thousands)		
	Loans	Real Estate	Total	Loans	Real Estate	Total
Provision, beginning of year						
Principal	\$ 3,393	\$ 3,762	\$ 7,155	\$ 3,173	\$ 4,603	\$ 7,776
Interest	<u>295</u>	<u>133</u>	<u>428</u>	<u>459</u>	<u>198</u>	<u>657</u>
	3,688	3,895	7,583	3,632	4,801	8,433
Write-offs		(1,527)	(1,527)	-	(1,178)	(1,178)
Current year adjustments	-	<u>505</u>	<u>2,071</u>	<u>56</u>	<u>272</u>	<u>328</u>
	<u>1,566</u>					
Provision, end of year		<u>\$ 2,873</u>	<u>\$ 8,127</u>	<u>\$ 3,688</u>	<u>\$ 3,895</u>	<u>\$ 7,583</u>
	<u>\$ 5,254</u>					

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

7. continued

	2007			2006		
	(\$ thousands)			(\$ thousands)		
	Loans	Real Estate	Total	Loans	Real Estate	Total
Principal/interest distribution of provision						
Principal	\$ 5,028	\$ 2,768	\$ 7,796	\$ 3,393	\$ 3,762	\$ 7,155
Interest	<u>226</u>	<u>105</u>	<u>331</u>	<u>295</u>	<u>133</u>	<u>428</u>
Total	<u>\$ 5,254</u>	<u>\$ 2,873</u>	<u>\$ 8,127</u>	<u>\$ 3,688</u>	<u>\$ 3,895</u>	<u>\$ 7,583</u>
Distribution of specific provision						
Principal	\$ 3,839	\$ 2,768	\$ 6,607	\$ 2,174	\$ 3,762	\$ 5,936
Interest	<u>217</u>	<u>105</u>	<u>322</u>	<u>287</u>	<u>133</u>	<u>420</u>
Total	<u>\$ 4,056</u>	<u>\$ 2,873</u>	<u>\$ 6,929</u>	<u>\$ 2,461</u>	<u>\$ 3,895</u>	<u>\$ 6,356</u>
Distribution of general provision						
Principal	1,189	-	1,189	1,219	-	1,219
Interest	<u>9</u>	<u>-</u>	<u>9</u>	<u>8</u>	<u>-</u>	<u>8</u>
Total	<u>1,198</u>	<u>-</u>	<u>1,198</u>	<u>1,227</u>	<u>-</u>	<u>1,227</u>
Total	<u>\$ 5,254</u>	<u>\$ 2,873</u>	<u>\$ 8,127</u>	<u>\$ 3,688</u>	<u>\$ 3,895</u>	<u>\$ 7,583</u>
Loan distribution						
Loans and real estate for which a specific provision has been identified:						
			\$ 25,900			\$ 15,251
Remaining loans against which a general provision has been established:						
			<u>164,839</u>			<u>168,907</u>
Total			<u>\$ 190,739</u>			<u>\$ 184,158</u>

NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

8. Sector distribution of specific provision for loan principal impairment

	2007		2006	
	(\$ thousands)			
	Principal of Impaired Loans	Provision	Principal of Impaired Loans	Provision
Dairy	\$ -	\$ -	\$ -	\$ -
Poultry	-	-	-	-
Hog	10,537	2,162	1,335	361
Beef	2,520	297	2,847	588
Vegetables & other crops	850	177	555	323
Blueberries	435	1	510	11
Greenhouse	1,715	333	363	43
Fur	1,576	281	1,468	355
Apple	330	7	282	11
Other fruit	1,227	324	368	153
Timber	-	18	-	47
Other	<u>2,642</u>	<u>239</u>	<u>3,088</u>	<u>282</u>
 Total specific provision on loan principal	 <u>\$ 21,832</u>	 3,839	 <u>\$ 10,816</u>	 2,174
 General provision on loan principal		 <u>1,189</u>		 <u>1,219</u>
 Total provision on loan principal		 <u>\$ 5,028</u>		 <u>\$ 3,393</u>

9. Advances from the Province of Nova Scotia

Advances are provided by the Province of Nova Scotia to fund loans issued by the Farm Loan Board. Interest is calculated in accordance with a memorandum of understanding with the Department of Finance (Note 2h).

**NOVA SCOTIA FARM LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

10. Commitments and Contingencies

The Board will hold interest rates for ninety days for any client from the date of receipt of a loan application.

As at March 31, 2007, the Board had authorized loans of \$1,532,515 which had not been disbursed.

The average loan interest rate on outstanding approved commitments at March 31, 2007 was 6.09%.

The Board is aware of an environmental issue on one property in the Board's possession at March 31, 2007. Remaining clean-up costs are estimated to be \$23,500 but may rise to \$110,000 if current measures are not effective and soil is required.

There were no legal claims being pursued against the Board as at March 31, 2007.

11. Operating Expenses

	2007	2006
	(\$ thousands)	
Salaries	\$ 1,081	\$ 1,020
Supplies and services	50	49
Travel	55	55
Training and development	5	9
Professional/special services	71	277
Equipment and other	<u>26</u>	<u>25</u>
	<u>\$ 1,288</u>	<u>\$ 1,435</u>

Government provides an annual contribution equal to operating expenses.

Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2006-2007.

Core Business Area I: Lending

This is the primary focus of the Board. Although lending activities address all three of the strategic goals, lending most directly bears upon ensuring access to stable, cost effective long-term developmental credit. The following measures provide an indication of the Board's success in pursuit of this goal:

Measure I-1: Farm Loan Board loans as a percentage of total Nova Scotia Farm Debt
This measure is based on calendar year data (Jan 1 - Dec 31)

What this measure tells us:

Proportion of Nova Scotia farm debt provided by the Farm Loan Board. This is an indication of the Board's ability to meet industry needs. Total reported farm debt has increased significantly in recent years, with most of the increased debt being provided by commercial and other lenders. This increase in debt and debt availability has reduced the proportion of loans held by the Board without necessarily changing the need being met by the Board.

{Reporting on this measure is for the previous calendar year, based on Statistics Canada data}

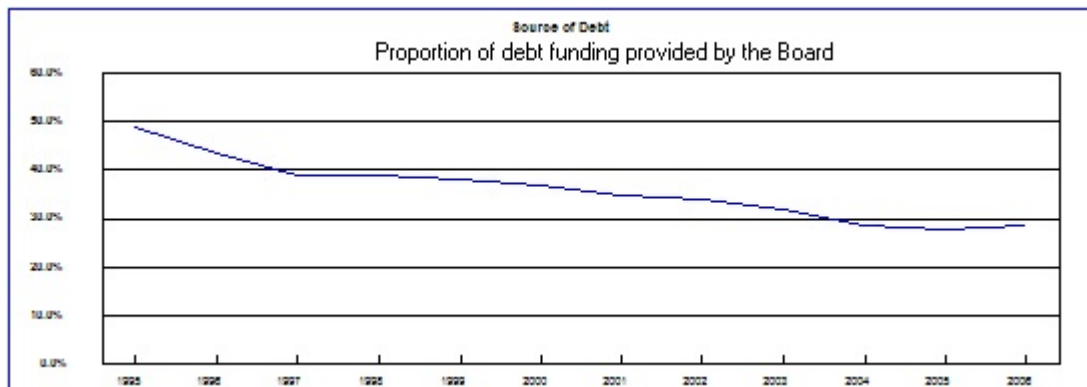
Where we are now: (calendar years)

2000:	36.9%	Base year
2004:	28.3%	
2005:	27.8%	
2006:	28.4%	

As discussed in the 'Results' section farm credit requirements remain strong however, many clients have taken loans with commercial lenders to take advantage of unusually low short-term interest. Commercial lenders appear to be lending more freely than in the past, with increased quota and equipment costs driving up total farm debt.

Where do we want to be?

Target calendar 2007: 28.4% (est. in 06/07 business plan, original target was 30.0%)
The Board's intention has been to maintain its availability to the agricultural and timber industries. The Board's focus remains on long term lending and feels that it is meeting its mandate regardless of the increase in commercial lending to agriculture.



Measure I-2: Income (before government contributions) as a percentage of the average active loan balance. Fiscal year (April 1 - March 31) measure.

What this measure tells us:

By comparing net income to the size of the loan portfolio, this measure provides an indication of the Board's efficiency assuming stable interest margins.

Where we are now:

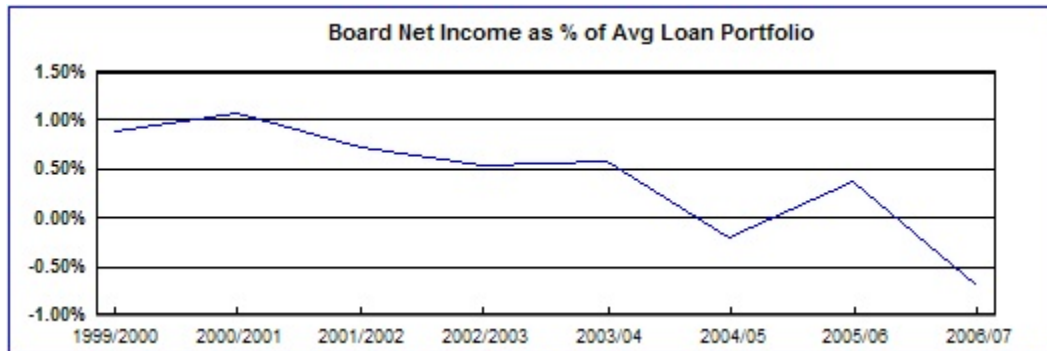
Base year:	1998-99:	0.1%
	2004-05:	-0.2%
	2005-06:	0.4%
	2006-07:	-0.7%

Adjustments to the provision for impaired loans resulted in an increase in this provision and the related expense from budget of \$1.7 million or 1.0% of the loan portfolio. Repayment fee revenue has also declined significantly. Given current operating revenues and costs, the established target will be difficult to maintain. Internal targets are to maintain, on average, a positive revenue of up to \$1 million.

Where do we want to be?

Target 2006-2007: 0.4% - stability

The overall goal in this area is to remain efficient, recover costs, and maintain operations to meet the mandate of the Board effectively. Based on historical information adjusted for known costs, the 0.4% target above seems a reasonable basis for discussion of this goal.



Measure I-3: Client satisfaction based on survey of clients receiving loans
Combined results of responses to Courtesy, Promptness, Knowledge, Commitment
Fiscal year (April 1 - March 31) measure.

What this measure tells us:

This measures provides the client's view of services provided and may identify areas for improvement.

Where we are now:

Percentage Good to Excellent:

Base year:	2000-01:	92%
	2004-05:	Not available
	2005-06:	96.1%

2006-07: 96.8%

Where do we want to be?

Target 2006-07: 90% or above

Measure I-4: Arrears (>\$100) as a percent of the value of all accounts

Measured at end of fiscal year (March 31)

What this measure tells us:

This measure provides an indication of Client Success overall. It also measures the performance of the Board's policies and procedures for monitoring arrears and assisting clients in difficulty. Arrears as measured at March 31 of each year.

Use of this measure is a balancing act. Strict limitation of arrears conflicts with the intent of the Board to act as a patient lender for clients and sectors facing cyclical or other temporary downturns.

Where we are now:

Base:	March 2001:	2.1%
	March 2005:	2.8%
	March 2006:	3.3%
	March 2007:	2.9%

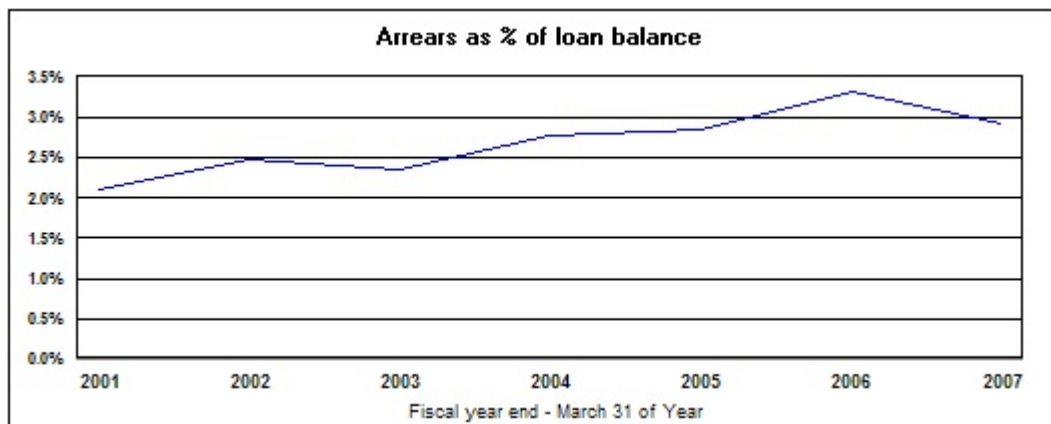
A large number of loan payouts by strong clients transferring to short-term loans have limited the portfolio size and reduced the average strength of clients remaining.

Difficulties experienced by beef producers as a result of the BSE (Bovine spongiform encephalopathy) situation and US border closure has weakened that sector. High arrears are also being experienced in the mink and 'other crop' sectors. With additional attention from loan officers, the situation is beginning to improve.

Where do we want to be?

Target Mar 2007: 2.5% or less

Increased arrears are a concern to the Board and client counselling and arrears follow-up are being pursued to mitigate the effects of high arrears. At the same time the Board recognizes the difficulty faced by some sectors and will work with borrowers for the best long term resolution even if that does not result in an immediate reduction in arrears. Targets have been set to reflect long term goals.



Measure I-5: Defaulted accounts held as real estate as a % of total of all accounts
Measured at end of fiscal year (March 31)

What this measure tells us:

This measure provides an additional indication of Client Success overall. It measures the performance of the Board's policies and procedures for monitoring and assisting clients in difficulty and the overall level of client distress.

Where we are now:

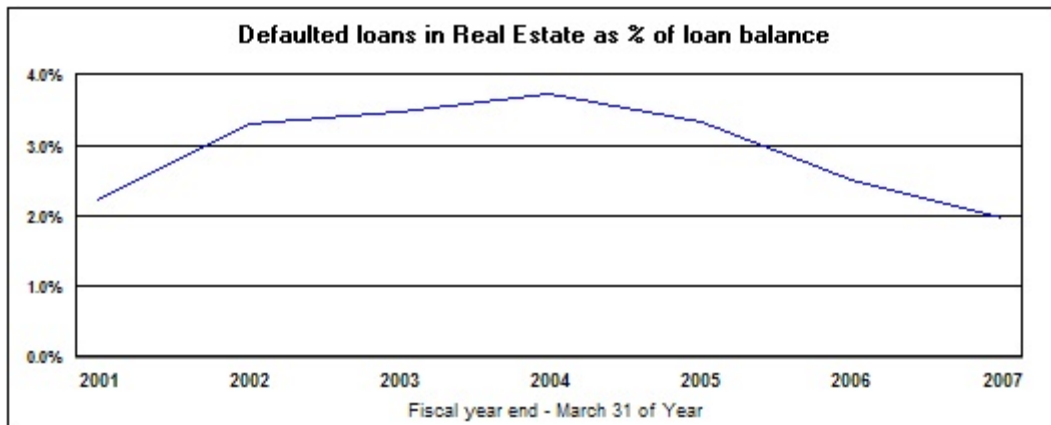
Base:	March 2001:	2.0%
	March 2005:	3.3%
	March 2006:	2.5%
	March 2007:	1.9%

Above historical and targeted levels as a combined result of client difficulties, and transfer of strong clients to other lenders to gain lower short-term interest rates.

Where do we want to be?

Target March 2007: 3.0% or less

In the longer term, the above targets are still believed to be attainable, however year-to-year fluctuations must be expected.



Core Business Area II: Programs Administration

The Board administers loan-based assistance programs on behalf of the Department of Agriculture allowing it to take advantage of systems and information already in place to deliver programs efficiently and to support credit based goals of the Board.

Measure II-1: Number of approved applications to the New Entrant Program

What this measure tells us:

This measure indicates the relevance of the program by measuring take-up by qualified applicants.

Where we are now:

Base year:	2000-01:	48
	2004-05:	39
	2005-06:	36
	2006-07:	36

Where do we want to be?

Target 2006-2007: 30 or more

Approvals are limited by the number of valid applications received.

Measure II-2: Administered Programs expenditures within budget

What this measure tells us:

Measures prudent management of programs under the Board's authority, as well as access to be program by clients.

Where we are now:

	Budget	Grant disbursed in the year
2000-01:	\$600,000	\$601,000
2004-05:	\$600,000	\$565,000
2005-06:	\$600,000	\$454,000
2006-07	\$600,000	\$449,000

Where do we want to be?:

Assistance to new entrants as close as possible to the annual budget amount (\$600,000), on applications within program guidelines.

Table 1						
Historical Financial Summary (\$ '000)						
Fiscal year (April 1 - March 31):	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Funds Advanced (all accounts)	\$ 24,157	\$ 22,409	\$ 25,927	\$ 20,781	\$ 30,257	\$ 25,526
Principal Repayments (all accounts)	(22,906)	(23,690)	(22,238)	(20,821)	(19,554)	(17,418)
Written off	(356)	(194)	(322)	0	(1,179)	(1,527)
Advanced Principal at Year-End	172,782	171,307	174,674	174,634	184,158	190,739
Provision for Doubtful Accounts (Principal)	(7,506)	(7,893)	(6,543)	(7,776)	(7,155)	(7,796)
Net Principal at Year-End	\$165,276	\$163,414	\$168,131	\$166,858	\$177,003	\$182,943
Revenue (1)	\$ 13,849	\$ 12,992	\$ 12,214	\$ 11,109	\$ 11,330	\$ 11,533
Expense (1)	(12,641)	(12,120)	(10,020)	(11,446)	(10,698)	(12,793)
Net Income (before Gov. contributions)	\$ 1,208	\$ 872	\$ 2,194	\$ (337)	\$ 632	\$ (1,260)

- (1) Beginning with 2004-05 fiscal year end data, interest revenue on impaired loans has been excluded from revenue. This has resulted in lower interest revenue and a corresponding reduction in bad debt expense of \$459,000 and \$439,000 for 2005 and 2006 respectively. Data for adjustment of years previous to 2005 is not available.

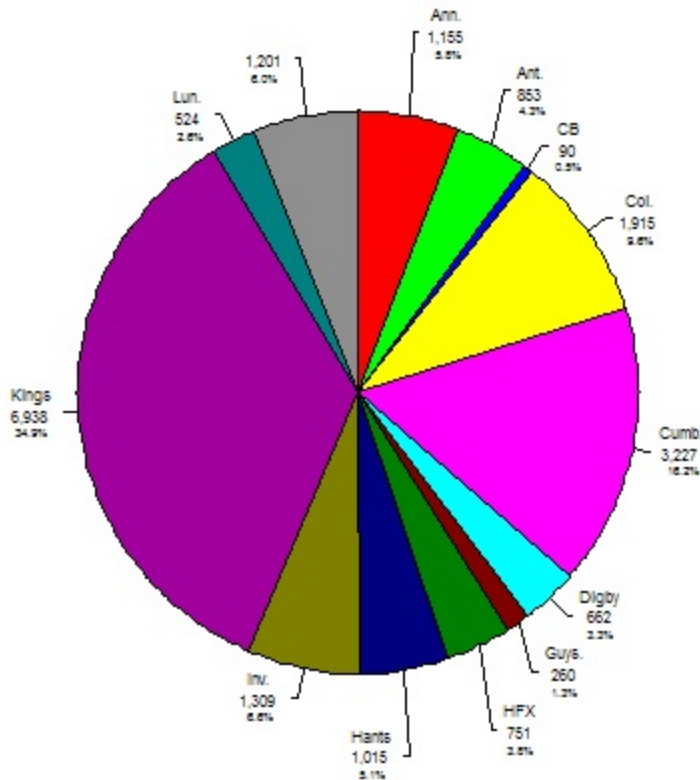
See Financial Statements for notes related to the above information.

Table 2
Loan Principal approved and in place by County, 2006-2007 fiscal year

County	Approved this year			Loan principal outstanding at year end	
	#	\$ ('000)	%	\$ ('000)	%
Annapolis	11	1,155	5.8%	12,590	6.8%
Antigonish	12	853	4.3%	8,130	4.4%
Cape Breton	4	90	0.5%	1,962	1.1%
Colchester	22	1,915	9.6%	27,380	14.8%
Cumberland	28	3,227	16.2%	19,008	10.3%
Digby	6	662	3.3%	7,947	4.3%
Guysborough	3	260	1.3%	1,244	0.7%
Halifax	6	751	3.8%	5,067	2.7%
Hants	8	1,015	5.1%	13,488	7.3%
Inverness	11	1,309	6.6%	6,562	3.5%
Kings	49	6,938	34.9%	68,774	37.0%
Lunenburg	4	524	2.6%	6,057	3.3%
Pictou	10	600	3.0%	4,621	2.5%
Queens	0	0	0.0%	493	0.3%
Richmond	0	0	0.0%	383	0.2%
Victoria, Yarmouth and Shelburne (Combined due to small number of loan requests)	5	601	3.0%	1,429	0.8%
Total Loans	179	19,900	100.0%	185,135	100.0%
Timber Board (incl in above)	0	0		612	

Value of loans approved during the year by County

2006/07 Fiscal Year
(\$ Thousands)



Principal of all loans at year-end by County

March 31, 2007
(\$ Thousands)

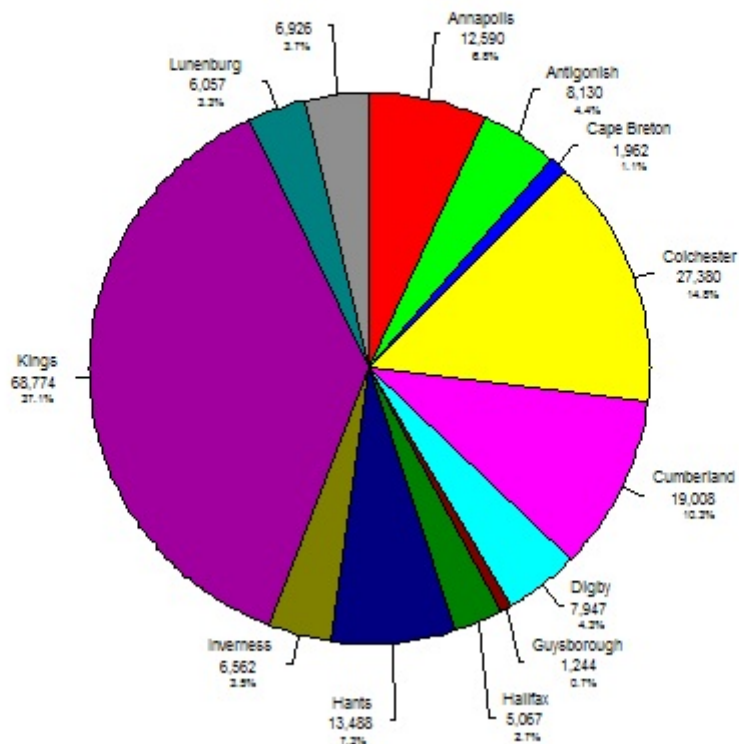
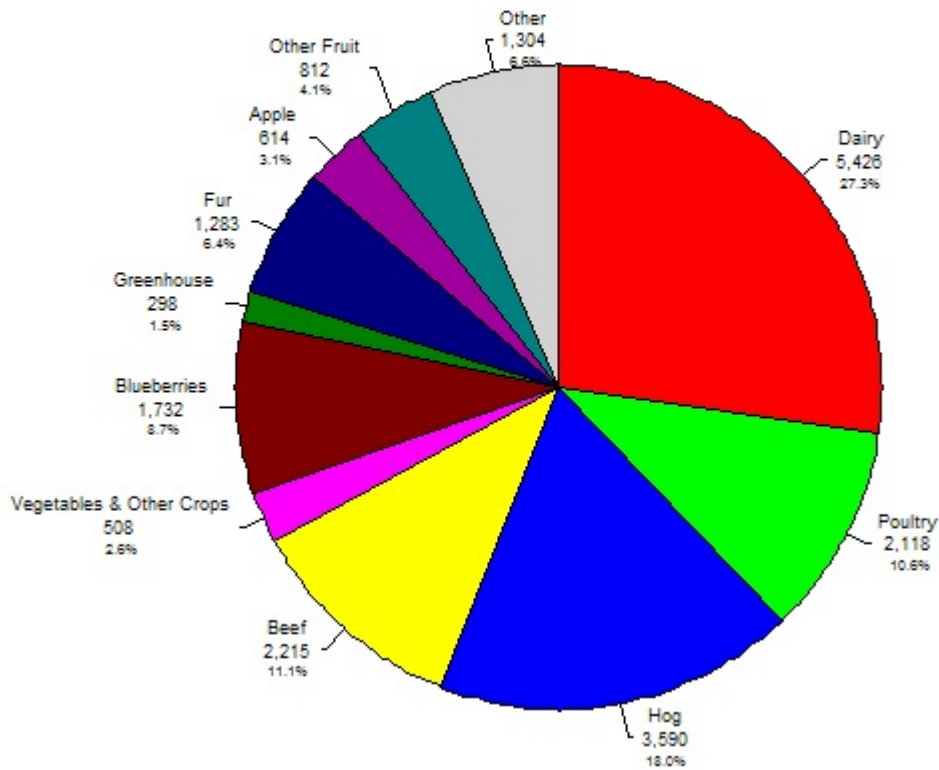


Table 2
Loan Principal approved and in place by Commodity, 2006-2007 fiscal year

Commodity	Approved this year			Loan principal outstanding at year end	
	#	\$ ('000)	%	\$ ('000)	%
Dairy	34	5,426	27.3%	52,741	28.5%
Poultry	8	2,118	10.6%	28,486	15.4%
Hogs	11	3,590	18.0%	20,587	11.1%
Beef	56	2,215	11.1%	15,275	8.3%
Vegetable and other crops	6	508	2.6%	8,619	4.7%
Blueberries	23	1,732	8.7%	10,733	5.8%
Greenhouse	4	298	1.5%	10,116	5.5%
Fur	11	1,283	6.4%	9,827	5.3%
Apples	7	614	3.1%	6,988	3.8%
Other fruit	4	812	4.1%	5,499	3.0%
Timber and forestry	0	0	0.0%	612	0.3%
Other	15	1,304	6.6%	15,652	8.3%
Total Loans	179	19,900	100.0%	185,135	100.0%

Value of loans approved by Commodity

2006/07 Fiscal Year
(\$ Thousands)



Principal of loans in place at year end by Commodity

March 31, 2007
(\$ Thousands)

