



**NOVA SCOTIA
FISHERIES & AQUACULTURE
LOAN BOARD**



2019-2020

ANNUAL REPORT

**NOVA SCOTIA FISHERIES AND
AQUACULTURE LOAN BOARD**

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Nova Scotia Fisheries and Aquaculture Loan Board Annual Report 2019-2020
Nova Scotia Fisheries and Aquaculture Loan Board
August 2020

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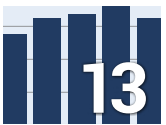
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MESSAGE FROM THE

BOARD CHAIR



It has been another record year of lending for the Nova Scotia Fisheries and Aquaculture Loan Board (FALB). For more than 85 years, we have been providing valuable support to Nova Scotia fishers and sea farmers. The continued growth in the fishing and seafood sectors has allowed the FALB to contribute in meaningful ways in supporting our industries and our provincial economy.

The FALB provides financial assistance through responsible lending to individuals and companies throughout the province. Loans are available for a wide range of projects from used vessels and licenses to the purchase of existing operations, and investments for boatbuilders, aquaculturists and processors. In 2019-20, we continued our efforts in supporting new entrants by providing them with an opportunity to enter the fishing industry with flexible loan programs with a focus on ensuring their success. Applications from new entrants totaled 28% of all loans in 2019-20, and the FALB was pleased to invest over \$61 million this year into the continued growth of our industry.

The Board of Directors of the FALB is responsible for providing leadership and oversight for the organization's lending program. The Board of Directors welcomed several new members from across the province in 2019-20. Its current nine person complement reflects a breadth of experience including harvesting, buying, processing and business, ensuring a diversity of perspectives is brought to decision-making.

The world was witness to unprecedented change in early 2020 with the spread of COVID-19, leaving no part of our globe untouched. We recognized the disruptions in operations and the resulting impact to cash flow. The COVID-19 pandemic required quick and immediate adaptations to our lending services and programs. The FALB will continue to make important adjustments that work for industry to ensure industry's viability long term and to ensure the sustainability of the sectors' contribution to our provincial economy.

The FALB is pleased to be playing an essential role as our industry continues to build an economic future for our coastal and rural communities.

Denny Morrow, Chair,
Nova Scotia Fisheries and Aquaculture Loan Board



MESSAGE FROM THE CEO



What started out as to be another record year for the FALB ended with COVID-19, causing the most significant challenge the FALB has seen in years. Though the long-term impacts of COVID-19 are not known at this time, the FALB is holding strong to our commitment to support industry through all business cycles.

The start of the year saw increases in commodity prices and exports, along with strong supply, pointing to another year of steady industry growth, however the virus entering the Asian markets started to impact on industry in the last quarter. Work at the FALB continued to increase through to the end of March and beyond, with increased lending and client supports. Staff worked directly with clients to make sure they had the loan structure they needed to get through this crisis.

Although the year ended in turmoil for industry, the FALB continued to have unprecedented growth in our portfolio with more loans, more clients, and more money out to industry than

ever before. The value of a Nova Scotia lending agency, with local representatives and local decisions for over 85 years, remains clear.

Client outreach remained a pillar this year, and we continued to hold meetings around the province - hosting meetings in Sydney and on the South Shore, inviting industry to let us know how we can best support them. Through collaboration with other government partners, such as the Atlantic Fisheries Fund and the private sector, the FALB launched several new loan programs designed to bring innovative technology to the province and simplified lending options for clients.

I would like to recognize the commitment of my staff to serve their clients and industry with outstanding speed and effort. Their ability to serve their clients in a remote capacity has been seamless and without significant disruption.

Although the year did not finish on the same high note it started on, the FALB will continue to support the fish, seafood, and aquaculture sectors as they rise to meet the current global challenges and position Nova Scotia's sector for success into the future.

Jennifer Thompson
CEO, Fisheries and Aquaculture Loan Board





BOARD OF DIRECTORS

DENNY MORROW

CHAIR

Denny has worked in administrative roles in the fishing industry since 1993 and currently runs his own consulting business. Denny has served on advisory committees related to the fishing industry and on several boards and groups in the Yarmouth area.

“Fishing is the backbone of our coastal communities – it is important to me that decisions that impact our Nova Scotian communities are made in Nova Scotia by fellow Nova Scotians.”

WAYNE GAUDET

VICE-CHAIR

Wayne has been a member of the Nova Scotia Legislative Assembly for twenty years, representing Clare. He has been the Minister for portfolios such as Agriculture and Marketing, Acadian Affairs, and Business and Consumer Affairs. Wayne has also served on the Board of Directors for the Church Point Credit Union. During his twenty-year political career, he had the opportunity to work with many fisherman and fish plant owners.

“I am proud to be part of a Board that has such a direct impact on our communities and gives young fishers the opportunity to get into the industry.”



SEAN BORDEN

DIRECTOR

Sean has a Master's in Business Administration and a Bachelor of Engineering, Industrial Discipline. He has a strong background in asset management, customer experience and capital investment management through his work at Nova Scotia Power. Sean is currently the Director of Customer Experience and was previously the Manager of Transmission and Distribution Capital Program at Nova Scotia Power.

“Working with the Fisheries & Aquaculture Loan Board has been an incredibly rewarding experience. The impact this organization is having for Nova Scotians trying to enter or stay in the fishing industry is truly impressive.”

CLAUDE P. POIRIER

DIRECTOR

Claude has strong business and relationship experience with the fishing industry. He has been the owner of Cheticamp Welding and Machine Shop since 1993 and an employee there since 1973. He has served on numerous committees such as the Harbour Authority of Cheticamp, the Cheticamp Economic Council and the Cheticamp Development Council in various roles.

“I appreciate seeing the work of the Board and staff and the impact it has, not only on the lives of our fishers, but on the economy of Nova Scotia.”



NATHAN BOUDREAU

DIRECTOR

Nathan has a strong accounting background and has been the Chief Operations Officer for Premium Seafoods Group in Arichat for over 16 years. He is an active member of his community and he has served on numerous committees.

“**This is truly a Nova Scotian organization – we have representation from Yarmouth to Sydney and work hard to support the unique needs of all aspects of our seafood industry.**”

DONNA UPHAM

DIRECTOR

After 25 years in the service industry, Donna joined IG Wealth Management because she felt there was a gap in the financial industry in providing full and complete financial planning.

By planning for young clients who are looking to start to build their roadmap or for more established clients who have reached solid financial footing but have had very little direction of what to do next, Donna wanted to be a part of showing her clients how to protect their wealth for their retirement and their estate.

Donna is an active member of the Rotary Club and helps provide volunteer support to charities such as the Freedom Foundation and Boys and Girls Club.

“**I feel connected to my community by serving on the Board and appreciate the opportunity to contribute to a sector that supports rural Nova Scotia.**”

METRICS

NET INCOME **\$1,568,000**

INTEREST REVENUE **\$9,513,000**

NUMBER OF CLIENTS **658**

NUMBER OF LOANS **859**

NEW LOANS ADVANCED

\$61.5 M

TOTAL PORTFOLIO PRINCIPAL

\$195.9 MILLION

APPROVED LOANS TO NEW ENTRANTS **28%**

NUMBER OF APPLICANTS **221**

INFORMATION SESSIONS **3**

AVERAGE INTEREST RATE **5.2%**

MICHAEL POTHIER

DIRECTOR

Michael is currently a seafood broker of live lobster, Atlantic halibut, swordfish and tuna for Long Point Lobster Ltd. He is also life-licensed with Qualified Financial Services. Michael was the senior sales/general manager and Chairman of the Board of Fishermen's Premium Atlantic lobster where he managed all aspects of this business, from management and sales to public relations. Michael worked nine years as a licensed realtor, listing and selling homes and properties, including exclusively listing and selling various seafood facilities.

“It is good to serve on a Board that provides such a direct impact. I am proud of the work we do to make a difference in the lives of fishers and their families.”

RONNIE HEIGHTON

DIRECTOR

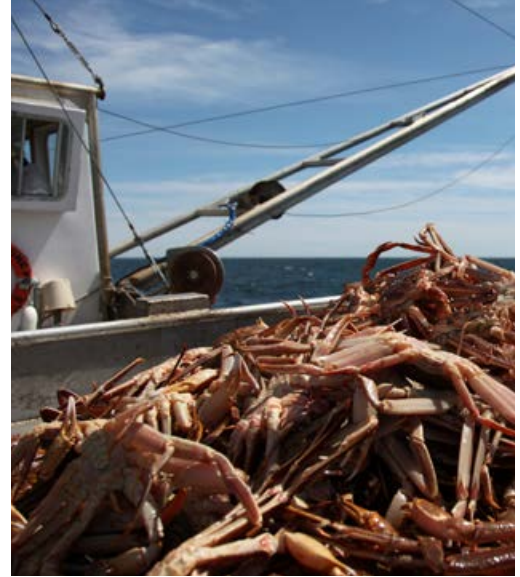
Ronnie Heighton of River John, Pictou County, is a self-employed Captain and owner of his own fishing vessel and enterprise. With over 55 years of experience as a fish harvester, he has a strong understanding of the industry. Mr. Heighton is the president of several industry boards, including Northumberland Fishermen's Association, Gulf Nova Scotia Fleet Planning Board, Canadian Council of Professional Fish Harvesters and Nova Scotia Fisheries Sector Council.

“I am honoured to be appointed to the Fisheries and Aquaculture Loan Board. After fishing for over 55 years, representing the Northumberland Fishermen Association as President for 33 years as well as over 20 years as the President of the Gulf Nova Scotia Fleet Planning Board, I am confident that I can bring relevant information to the Board from the fishermen of the Gulf of Nova Scotia.”



ABOUT

**THE NOVA SCOTIA
FISHERIES AND AQUACULTURE
LOAN BOARD**



MISSION

The FALB builds on the success of the fisheries and aquaculture industry in Nova Scotia by providing lending opportunities to expand, grow and innovate.

VISION

To be a lender of choice in the development of fisheries and aquaculture industry in coastal and rural Nova Scotia.

MANDATE

The mandate of the FALB is to support the fisheries and aquaculture industry through the provision of capital financing. The FALB operates as a Crown Corporation established under the *Fisheries and Coastal Resources Act* (Act). This Act provides authority to the FALB to make loans to, or guarantee loans of, a borrower for any purpose which will encourage, sustain, improve or develop the fishing and aquaculture industries in the Province. Regulations made under the Act govern the terms and conditions of loans provided by the FALB.

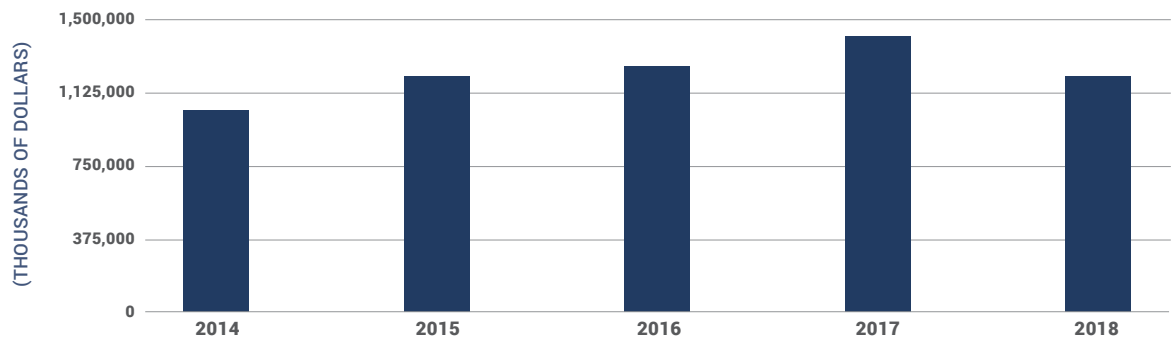


ECONOMIC

LANDSCAPE



NOVA SCOTIA COMMERCIAL FISHERIES LANDINGS



VALUE OF COMMERCIAL FISHERY LANDINGS

Fisheries landings are an important measure to assess productivity and health of the marine environment and fish stocks. Nova Scotia's total live weight fisheries landings were 244,808 metric tonnes. Shellfish represented 89% of the provincial fisheries landed value and 64% of total landed fish volumes in 2018. In the same year, there were a total of 6,144 license holders in the province. The most recent available data indicates the total value of landings in Nova Scotia for 2018 was \$1.35 billion.

At 47,115 metric tonnes, valued at \$71 million, Nova Scotia lobster contributed over half (54%) of Canada's total landed value. In the same year, snow crab represented 11% of total Canadian landings. As Canada's primary scallop harvester, Nova Scotia landed 90% of Canada's total landings, valued at \$169 million in 2018. Seafood manufacturing values recorded between 2017 and 2018 increased by 9% (data for 2019 are not yet available).

EXPANDING INTERNATIONAL TRADE

Fish and seafood exports is the single largest export from the province. Nova Scotia exported a record \$2.32 billion in 2019, up 14% from 2018. Our main seafood export destinations in 2019 were the USA (45%), China (32%) and the EU (10%). Our largest seafood export species by value was lobster at 52%, followed by crab, scallop, shrimp and halibut.

In December 2019, Canada, the United States and Mexico ratified the new Canada-United States Mexico Agreement (CUSMA), providing more stability with our largest trading partners.

AQUACULTURE CONTINUES TO BE AN IMPORTANT ECONOMIC DRIVER

The most recent statistics indicate Nova Scotia aquaculture production was valued at \$88.6 million in 2018 with a production volume of 10.1 million kilograms in the same year. In 2019-20, there were 240 active aquaculture sites in Nova Scotia. Nova Scotia aquaculture compared to wild capture harvest volumes represents an estimated 4% share. Globally aquaculture represents an estimated 50% of all fish and seafood production. This is a significant indicator of the growth potential for aquaculture in the province.



NOVA SCOTIA FISHERIES AND AQUACULTURE

LOAN PROGRAM

Fishing is a proud and vibrant industry at the core of our heritage and both the fishery and sea farmers bring great value to our rural communities and economy. The FALB is committed to meeting the needs of industry and to growing businesses by matching clients with viable loans, programs and customized solutions based upon credit, risk assessment and client need. Our client base is province-wide.

The FALB offers a suite of lending programs which include loans for aquaculture, modifications to a vessel, new vessel construction, used vessel purchases as well as license and gear loans. Lending for harvesting, aquaculture, boatbuilders and processing means our loans cover everything from seed, bait and inventory to vessels, buildings, vessel molds and gear. Loans can range from \$3,000 up to multi-million-dollar projects. Although

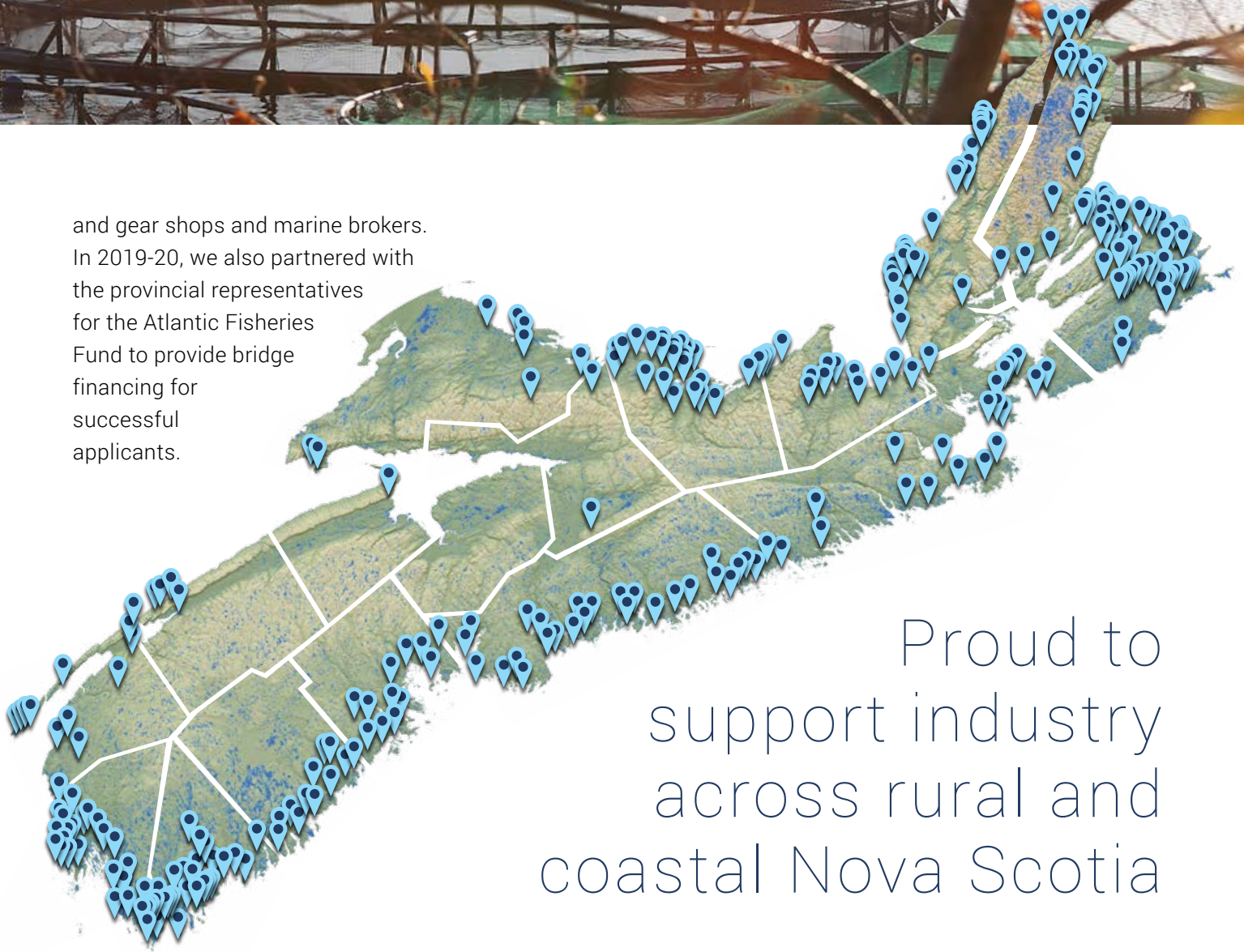
the FALB does not set a maximum value for loans, those over \$5 million are subject to Executive Council approval.

We also conduct vessel inspections to ensure boats fit the needs of the client and are suited to the long-term success of both the client and the FALB. Clients can be confident that if they finance with us, their loan has been fully analyzed and structured in order to meet their individual needs while ensuring the FALB's security.

The FALB supported the capitalization of rural Nova Scotia businesses, increasing new investments year over year, with a total investment of \$195.9 million in fisheries and aquaculture businesses. This represents a 18% increase in lending over the previous year. The investment has the added advantage of spin-offs supporting building and materials suppliers, boat builders, bait



and gear shops and marine brokers. In 2019-20, we also partnered with the provincial representatives for the Atlantic Fisheries Fund to provide bridge financing for successful applicants.





PROGRESS ON GOALS

Our operational plan includes five goals that have both internal operational benefits as well as external lending and customer satisfaction outcomes.

■ Growing the Rural Economy

This goal considers both how we communicate with clients, provide services across Nova Scotia, and develop and utilize programs designed to support growth. Surpassing the *Ivany Report* goal of reaching \$2 billion in seafood exports by 2020, we are committed to the continued growth of our fishing and seafood industries, with a focus on growing our lending portfolio and enhancing our product line. We continue to provide long-term fixed rate loans to support established fishers and new entrants in the development stage of their business.

Provincial lending through the FALB make Nova Scotia a better and more productive place to harvest, grow and process fish. The FALB extended 110 loans supporting vessel acquisition and construction with a value of \$38 million. Loans to new entrants represented 28% of loan applicants in 2019-20.

■ Quality Lending

The FALB has a legacy of excellent client relationships. To maintain our success, we are committed to continuous monitoring of our portfolio's risk, client profiles and client satisfaction. It is also important to the FALB to maintain balanced portfolios with a range of risk scores from limited risk to more risky loans. Not only does this help the FALB remain cost-neutral, it ensures that our resource commodities are sustainable during market downturns.

In 2019-20, the FALB continued to support innovative projects and projects to improve and preserve seafood quality from the time of harvest. We also supported projects that improve access to new technology and that minimize the environmental impact of fisheries and aquaculture operations. Total funds invested through new loans were \$61.5 million, representing 18% growth from last year.



■ Continuous Improvement

Streamlining processes between the FALB and the Nova Scotia Farm Loan Board is critical to meeting our goal of improving team effectiveness and continuous improvements.

In 2019-20, the FALB continued to build on these efficiencies and the implementation of a continuous improvement culture with staff. We pride ourselves on client relationships through the delivery of excellent advisory and customer services. The FALB continued to build and implement new and improved tools to be more flexible and responsive to projects of all sizes.

■ Positioned for Success

This goal aims to ensure continued success through effective systems and responsiveness to industry changes. The procurement of a new loan management system to meet and exceed client expectations around service and flexibility was a priority in 2019-20. We also increased our lending budget by an additional \$175 million in order to continue to meet the needs of this growing sector. In 2019-20, two additional members joined our Board of Directors, increasing both our geographic representation and professional expertise.

The FALB also continued to support businesses seeking new markets, both domestically and overseas, particularly in live lobster and valued-added products.

■ Accountability

The FALB's reputation of quality and timely work has contributed to its reputation in industry as a trusted partner. To meet this goal, we continued to review our current systems to determine gaps in client service and satisfaction. This review included the new loan management system which provides improved reporting to enable the FALB to keep track of commodity and other important trends.

We pride ourselves on excellent client relationships through the delivery of valuable advisory and customer services. By regularly visiting clients throughout the province, providing advice and connecting with industry, our clients can be confident that their loans have been fully analyzed and structured with the goal of ensuring client success.

In 2019-20, we hosted three information sessions in Yarmouth, Sydney and the South Shore, and also attended three industry conferences as well as numerous association events in order to provide client outreach.

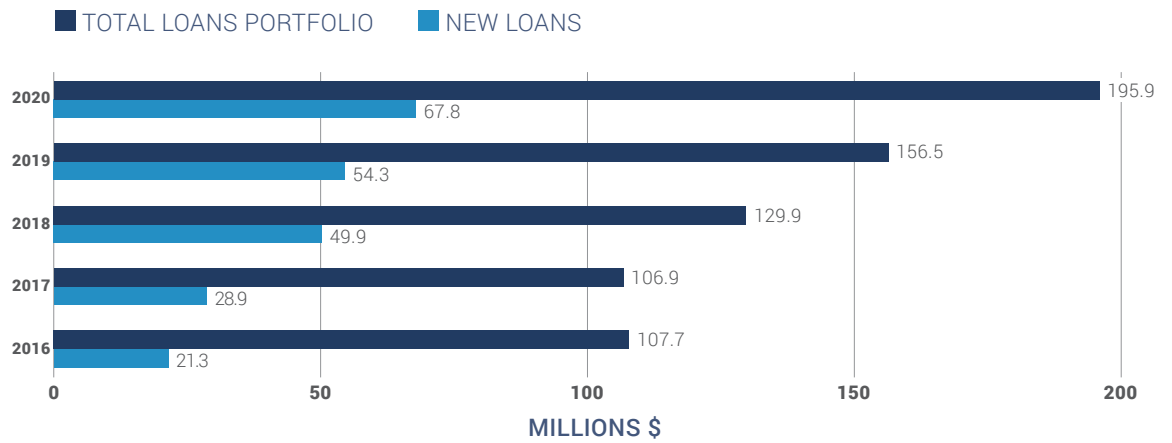


LENDING

HIGHLIGHTS



LENDING HIGHLIGHTS: LOANS BY YEAR

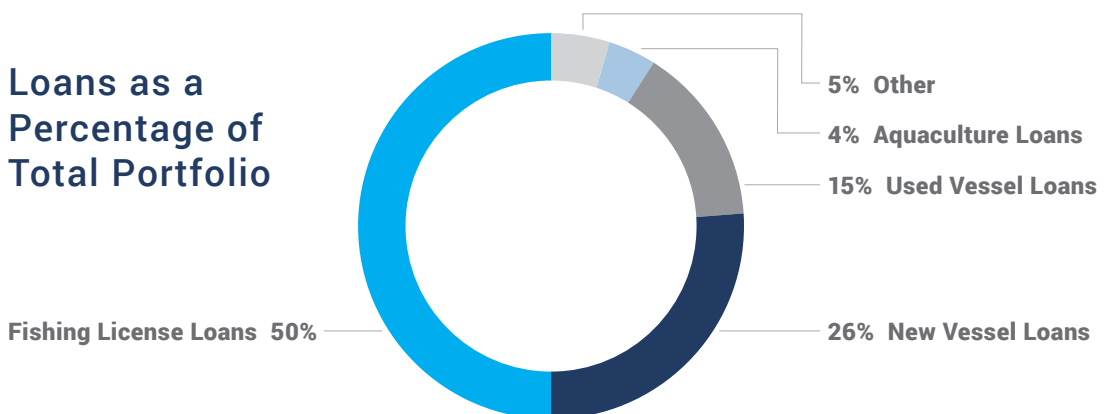


In 2019-20, the FALB hit another all-time lending high, approving 221 new applications, compared to 166 last year, totaling almost \$68 million and a total investment of \$195.9 million.

Other 2019-20 highlights:

- The FALB continued its life insurance program for fisheries and aquaculture clients, first implemented in 2017-18.
- The number of clients and the number of loans continued to climb year-over-year since 2015.
- Fishing licenses made up 52% of total loans approved during the year and 54% of the total portfolio, while new vessels comprised 28% of loans approved during the year and 26% of the total lending portfolio. The value of used boats made up 15% of loans approved in 2018-19 and 13% of the total lending portfolio.
- Interest in finance for aquaculture is on the rise, representing 4% of the portfolio.
- 5.5% of clients in arrears compared to 6% in the previous year.
- All clients received financial guidance through loans processing as part of the FALB's regular services with eight clients receiving additional special credit counseling.

Loans as a Percentage of Total Portfolio



COVID-19 RESPONSE

The Bank of Canada (BoC) lowered its benchmark rate by 50 basis points in early March 2020, bringing borrowing costs to its lowest rate since August 2017. The decline in the BoC interest rate was in response to potential economic damages stemming from the spread of COVID-19. It again slashed its base rate by an additional 50 basis points in late March 2020 in response to further growing economic concerns related to the COVID-19 pandemic.

The FALB has worked with fishers and boat builders for over 85 years and recognizes the first-class products our sea farmers grow. Our clients contribute to the growth of our provincial economy. In direct response to growing concerns for the sustainability of our fisheries, aquaculture businesses and the preservation of food security, the FALB supported industry through the onset of COVID-19 by providing flexibility to individual clients who were financially impacted by the pandemic. The FALB lowered interest rates, following BoC rates. In March 2020, clients were also provided payment deferral options such as interest-only payments and full principal and interest deferrals. These options were aimed to help fishers and businesses experiencing delays in harvesting or in opening of their operations, recognizing the decrease in exports and additional labour shortages with challenges in bringing temporary foreign workers to Nova Scotia.



INDEPENDENT
AUDITOR'S
REPORT
AND AUDITED FINANCIAL STATEMENTS

Nova Scotia Fisheries and Aquaculture Loan Board

Financial Statements
March 31, 2020
(in thousands of dollars)

Management's Responsibility for the Financial Statements

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

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

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

The external auditor, PricewaterhouseCoopers LLP, conducts an independent examination, in accordance with Canadian auditing standards, and expresses their opinion on the financial statements. The external auditor has full and free access to financial management of the Nova Scotia Fisheries and Aquaculture Loan Board and meets when required.

On behalf of the Nova Scotia Fisheries and Aquaculture Loan Board


Jennifer Thompson, Director of Crown Lending Agencies

August 21, 2020



Independent auditor's report

To the Board of Directors of Nova Scotia Fisheries and Aquaculture Loan Board

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Fisheries and Aquaculture Loan Board (the Board) as at March 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Board's financial statements comprise:

- the statement of financial position as at March 31, 2020;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
August 21, 2020

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Financial Position

As at March 31, 2020

(in thousands of dollars)

	2020 \$	2019 \$
Assets		
Financial assets		
Loans receivable, net (note 4)	193,608	154,372
Interest receivable, net	3,734	3,220
Due from the General Revenue Fund of the Province (note 5)	186,008	50,475
	<u>383,350</u>	<u>208,067</u>
Liabilities		
Current liabilities		
Applicants' funds on deposit (note 5)	300	116
Due to the General Revenue Fund of the Province	3,734	3,220
Fisheries and Aquaculture Development Fund (note 1)	379,316	204,731
	<u>383,350</u>	<u>208,067</u>
Accumulated surplus	<u>-</u>	<u>-</u>

Commitments and contingencies (note 6)

Approved by the Board of Directors

_____ Director _____ Director

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

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2020

(in thousands of dollars)

	2020 Budget \$ (unaudited)	2020 Actual \$	2019 Actual \$
Revenue			
Interest on loans	6,500	9,513	8,195
Loan processing and other fees	184	349	500
	<hr/> 6,684	<hr/> 9,862	<hr/> 8,695
Expenses			
Lending expenses (note 8)	<hr/> 5,104	<hr/> 8,294	<hr/> 7,944
Annual surplus before distribution to the General Revenue Fund of the Province	1,580	1,568	751
Distributions to the General Revenue Fund of the Province	<hr/> (1,580)	<hr/> (1,568)	<hr/> (751)
Annual and accumulated surplus – Beginning and End of year	<hr/> -	<hr/> -	<hr/> -

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

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Cash Flows

For the year ended March 31, 2020

(in thousands of dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Annual and accumulated surplus	-	-
Net charge (credits) to operations not involving cash		
Increase in allowance for loan impairment	435	767
	<u>435</u>	<u>767</u>
Net charge in non-cash working capital balances related to operations		
Decrease (increase) in interest receivable	(514)	(248)
Increase (decrease) in due to the General Revenue Fund of the Province – net	514	248
Increase (decrease) in applicants' funds on deposit	185	(305)
	<u>620</u>	<u>462</u>
Financing activities		
Increase in due from the General Revenue Fund of the Province – net	39,051	30,270
Investing activities		
Increase in loans receivable – net	(39,671)	(30,732)
Net change in cash during the year and Cash – Beginning and End of year	<u>-</u>	<u>-</u>

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

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

1 Nature of operations

Authority

The Nova Scotia Fisheries and Aquaculture Loan Board (the "Loan Board") was established pursuant to Section 34 of the Fisheries and Coastal Resources Act. The purpose of the Fisheries and Aquaculture Development Fund (the "Fund") is to finance the loans and guarantees of the Loan Board.

The objective and purpose of the Loan 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 of Nova Scotia (the "Province").

As at March 31, 2020, the total principal in loans outstanding was limited by Order-in-Council to \$400,000 less \$20,685 in bad debt since the inception of the Fund. Maximum advances disbursed in any given year are established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2020, new advances were \$61,450. These were able to exceed the capital allocation authorized of \$35,000 by using the unfilled allocation of the Nova Scotia Farm Loan Board. During the year, the Loan Board received repayments of loan principal of \$22,625.

	2020 \$	2019 \$
Fisheries and Aquaculture Development Fund – Beginning of year	204,731	205,875
Add: Loans written off (4 (c))	(415)	(1,144)
Add: Additional capital added to Development Fund	175,000	-
	<hr/>	<hr/>
Fisheries and Aquaculture Development Fund – End of year	379,316	204,731
Comprised of:		
Loans receivable, net (note 4)	193,608	154,372
Loans authorized but not advanced (note 5)	17,870	14,888
Funds available for additional loans (note 5)	167,838	35,471
	<hr/>	<hr/>
	379,316	204,731

Loans in excess of \$5,000 or any loan write-offs, require approval by Governor in Council.

2 Capital management

As an agency of the Province, the Loan Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

(1)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

3 Significant accounting policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards (“PSAS”).

The following significant accounting policies were used in preparation of these financial statements:

Revenue recognition

Revenue is recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest on loans is recognized in income only if there is no longer doubt as to the collectability of principal.

Expenses

Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenue.

Loans receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are considered for impairment when loan payments are in arrears for more than 90 days or when, in management’s opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

Valuation allowance for loan impairment

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

Valuation allowances are made for probable losses on certain loans and loan guarantees, which are recorded in the statement of operations and accumulated surplus as bad debt expense. Bad debt expense also reduces the balance of amount due to the Fisheries and Aquaculture Development Fund. Recoveries of bad debt does not increase the Fund’s balance.

(2)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

3 Significant accounting policies (continued)

Valuation allowance for loan impairment (continued)

The Loan Board records a specific valuation allowance based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net recoverable value of their underlying security.

In addition, the Loan Board calculates a collective valuation allowance in the specific reserve. This is an estimate of incurred but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

Management estimates

PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. By their nature, as described further in note 4, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of the future period financial statements.

Financial instruments

The Loan Board has adopted Handbook Section PS3450 “Financial Instruments” and is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Loan Board’s financial instruments are measured at amortized cost using the effective interest method.

The Loan Board’s financial instruments consist of loans receivable, interest receivable, applicants’ funds on deposit and amounts due to/from the General Revenue Fund of the Province. Transaction costs relating to loans are recorded as part of the total amount outstanding. The carry value of loans approximates its net recoverable value. The Loan Board holds all loans to maturity.

Remeasurement gains and losses

Under PSAS, the Loan Board is required to present a statement of remeasurement of gains and losses. As the Loan Board has no remeasurement gains and losses, this statement has not been presented.

(3)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

4 Loans receivable

a) Loans receivable, net

The following table sets out the scheduled maturities of the financial assets as at March 31, 2020, together with the weighted-average interest rates being earned on the financial assets:

	<u>2020</u>			<u>2019</u>
	<u>Under 1 year</u>	<u>1 - 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total performing loans	6,728	31,029	153,816	191,573
Average effective annual interest rate	5.2%	5.3%	5.2%	5.4%
Add: Principal receivable on impaired loans				4,630
Total principal				196,203
Less: Provision for loan impairment				2,595
Net loans receivable				193,608

b) Allowance for impaired loans

Loans are considered impaired when there has been deterioration in credit quality to the extent the Loan Board no longer has reasonable assurance of timely collection of the full amount of principal and interest. The allowance calculated is comprised of two components, the specific allowance for individually identified impaired loans and a collective allowance for impaired loans.

The specific allowance for individually identified loans was established based upon a review of a large sample of impaired loans. Primary factors considered in estimating the specific allowance on individual loans were the estimated net realizable value of security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

(4)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

4 Loans receivable (continued)

b) Allowance for impaired loans (continued)

The collective allowance for impaired loans has been determined by management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year end. The collective allowance was calculated based on management's judgment.

	2020		2019	
	Impaired loans \$	Allowance for impairment \$	Impaired loans \$	Allowance for impairment \$
Specific allowance	4,630	1,516	3,848	1,527
Collective allowance	-	1,153	-	633
	<u>4,630</u>	<u>2,669</u>	<u>3,848</u>	<u>2,160</u>

Significant judgment was exercised by management in estimating the allowance for impaired loans. As such, actual losses that occurred on loans outstanding as at March 31, 2020 will differ from these estimates and the difference could be material. The actual realization of impaired loans could be significantly different from the estimated amounts.

c) Continuity of allowance for impaired loans

	2020 \$	2019 \$
Allowance – Beginning of year	2,160	2,537
Add: Current year provision	925	767
Less: Loans written off	(416)	(1,144)
Allowance – End of year	<u>2,669</u>	<u>2,160</u>
Valuation allowance on principal	2,595	2,089
Valuation allowance on interest	74	71
	<u>2,669</u>	<u>2,160</u>

(5)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

4 Loans receivable (continued)

d) Loans receivable past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because: (i) they have no payments over 90 days in arrears; or (ii) in management's opinion, there is reasonable assurance of the timely collection of the full amount of principal and interest. Loans that are past due but not impaired are as follows:

	16 to 30 days \$	31 to 60 days \$	61 to 90 days \$	91 days or more \$	Total \$
2020	6	357	1,656	1,224	3,243
2019	272	530	-	1,700	2,502

5 Due from the General Revenue Fund of the Province

The portion of the Fund that has not been advanced as loans is maintained in the General Revenue Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (note 1). Deposits provided to the Loan Board by loan applicants are also maintained in the General Revenue Fund. Financial commitments made by the Loan Board reduce the amount of this account which is available for additional loans.

	2020 \$	2019 \$
Loan Board commitments (note 6)		
Loans authorized but not advanced	17,870	14,888
Applicants' funds on deposit	300	116
Funds available for additional loans	167,838	35,471
Due from General Revenue Fund of the Province	186,008	50,475

6 Commitments and contingencies

a) Commitments

The Loan Board has committed to provide loans of \$17,869 (2019 - \$14,888) which were approved by the Loan Board but not advanced by year end.

b) Contingencies

The Loan Board has been named as a counterparty in a lawsuit relating to issues with the construction of a vessel for which the Loan Board provided financing. It is the view of management that the amount and the likelihood of the claim being successful is not reasonably determinable and therefore no amount has been accrued in these financial statements.

(6)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

7 Bad debt expense (net of recoveries)

	Budget 2020 \$ (unaudited)	2020 \$	2019 \$
Bad debt expense net of recoveries	78	1,011	899
Unpaid interest added to principal on refinance	-	(86)	(132)
	<u>78</u>	<u>925</u>	<u>767</u>

8 Lending expenses

	Budget 2020 \$ (unaudited)	2020 \$	2019 \$
Bad debt expense (net of recoveries) (notes 4 (c) and 7)	78	925	767
Interest expense (notes 9 and 10)	4,300	6,795	6,481
Other	4	4	6
Professional services	41	41	38
Travel	45	36	57
Salaries and benefits (net of recoveries)	611	478	549
Supplies and services	25	15	46
	<u>5,104</u>	<u>8,294</u>	<u>7,944</u>

9 Interest expense

Loans provided by the Loan Board are funded through advances from the General Revenue Fund of the Province. Interest is charged, at a fixed rate, to the Loan Board for these advances. Interest expense is calculated by the Loan Board based on loan estimates provided quarterly by the Department of Finance at the rate at which the Province could borrow funds over the next quarter. The weighted-average interest rate for the year was 3.95% (2019 - 4.16%).

10 Distributions to the General Revenue Fund of the Province

Administration expenses of the Loan Board for the year ended March 31, 2020, totalling \$574 (2019 - \$696), net of bad debt expense, were paid by the Department of Fisheries and Aquaculture on behalf of the Loan Board. Interest expense on funds borrowed to make loans of \$6,795 (2019 - \$6,481) is an expense of the Department of Finance. Accordingly, the total of these expenses are included in Distributions to the General Revenue Fund of the Province in the statement of operations and accumulated surplus.

(7)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

11 Related party transactions

The Loan Board is related to all other departments, agencies, board and commissions of the Province. The General Revenue Fund of the Province is the sole source of funding for loans (note 5). Transactions with other provincial entities were entered into in the normal course of business. The Province pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses on behalf of, and with no charge to, the Loan Board.

12 Pension and post-retirement benefits

All full-time employees of the Loan Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The pension plan is funded by equal employee and employer contributions. The employer's contributions of \$34 (2019 - \$33) are included in the Loan Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the pension plan.

13 Financial instruments and risk management

Risk management

Credit risk

The Loan Board is exposed to financial risk that arises from the credit quality of the individuals and entities to which it provides loan services. Credit risk arises from the possibility that the individuals and entities to which the Loan Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The risk that clients may not pay amounts owing on loans, resulting in a loss to the Loan 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 Loan Board's policy to work with clients on an individual basis to provide time for recovery. See note 4 for additional loan information.

The total performing loans as at March 31, 2020, is \$191,573 (2019 - \$152,684). The majority of loans are secured primarily by a first mortgage on a vessel. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

All clients are involved in fishing and aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 5% of the total loan. Collateral held for security is assigned a value by a vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The Loan Board adjusts the allowance for impaired loans to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears.

(8)

Nova Scotia Fisheries and Aquaculture Loan Board

Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

13 Financial instruments and risk management (continued)

Risk management (continued)

Liquidity risk

The Province provides funding and cash management services to the Loan Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on spending 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 Loan Board attempts to match terms of loans offered with those of funds drawn through the Province. The interest on loans offered and the interest on funds drawn through the Province are both at fixed rates. A 1% change in interest rates would have \$1,936 (2019: \$1,582) impact on interest revenue and expense.

14 Impact of COVID-19

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to the economy, it has now spread to many countries, including Canada, and infections have been reported around the world which resulted in the World Health Organization declaring a pandemic on March 11, 2020. This has caused the Canadian and Nova Scotia governmental authorities and many non-governmental entities to introduce measures to try to limit this pandemic.

The continued spread of COVID-19 and the actions being taken to limit its spread could adversely impact the Loan Board’s operations, including among others, increasing the credit risk and default rates in its loan portfolio, limiting the Loan Board’s ability to quickly respond to changes in credit risk and potentially limiting the Loan Board’s ability to serve our customers. These could have an adverse impact on the Loan Board’s business and financial results.

(9)



**NOVA SCOTIA
FISHERIES & AQUACULTURE
LOAN BOARD**

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