Quarterly Financial Report

ENTERPRISE CAPE BRETON CORPORATION

For the first quarter ended June 30, 2013

This document provides a narrative discussion ("narrative") of the Corporation's financial position as at, and results of operations for, the three months ended June 30, 2013. This narrative should be read together with the condensed unaudited consolidated interim financial statements and accompanying notes for the period ended June 30, 2013, (interim financial statements) and the audited consolidated financial statements and accompanying notes for the year ended March 31, 2013, and related Management Discussion and Analysis. All amounts in this document are in thousands of Canadian dollars, except where noted.

FINANCIAL RESULTS

The interim financial statements have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. The interim financial statements are in accordance with the accounting policies expected to be applied in the consolidated financial statements for the year ending March 31, 2014. They do not include all of the information required for full annual financial statements.

FIRST QUARTER IN REVIEW

Results of Operations		Three months ended June 30, 2013		Three months ended June 30, 2012
Total expenses	$	4,953	$	4,553
Total revenue		702		493
Deficit before parliamentary appropriation		(4,251)		(4,060)
Parliamentary appropriation		12,941		14,317
Surplus for the period	$	8,690	$	10,257

Loan Balances and Equity Investments

During the three months ended June 30, 2013, the Corporation collected $828 (three months ended June 30, 2012 - $965) on loan balances. As a result of the significant collections received during the period, the Corporation has projected collections on loans to be approximately $1,900 in comparison to the original corporate plan budget of $1,400.

The Corporation disbursed loans totaling $24 during the three months ended June 30, 2013 (three months ended June 30, 2012 - $Nil). Timing of loan disbursements is dependent on project timing and claim processing.

The Corporation did not disburse any equity investments during the period.

Expenses

Expenses	**Three months ended June 30, 2013**	**Three months ended June 30, 2012**
Grants and contributions	$ 801	$ 246
Salaries and benefits	683	735
Operating and maintenance	630	538
Impairment	(204)	(5)
Loans concessionary adjustment	(9)	105
Legacy human resource	1,901	1,379
Environmental	1,008	1,425
Amortization of tangible capital assets	143	130
	$ 4,953	$ 4,553

Grants and contributions expenses for the three months ended June 30, 2013 included $99 (three months ended June 30, 2012 - $236) in community economic development, $697 in commercial development (three months ended June 30, 2012 - $10) and $5 in policy and advocacy (three months ended June 30, 2012 - $Nil).

During the year ended March 31, 2013, the estimate related to environmental remediation was revised resulting in an increase in the accretion expense of $39,209. No such revision has occurred during the three months ended June 30, 2013.

Expenses are on budget for the three months ended June 30, 2013 and there is no expectation of any deviations from the corporate plan based on the results to date.

Revenue

Revenue	**Three months ended June 30, 2013**	**Three months ended June 30, 2012**
Rental facilities	$ 336	$ 129
Loan interest	139	230
Bank interest and other income	69	121
Gain on sale of tangible capital assets and assets held for sale	158	13
	$ 702	$ 493

Revenues for the three months ended June 30, 2013 were consistent with budget expectations. It is expected that proceeds from the disposal of tangible capital assets will reach the corporate plan budget target of $740 by year end.

Significant Management Estimates

There have been no changes in significant management estimates during the three months ended June 30, 2013.

Risk Analysis and Significant Changes

During the three months ended June 30, 2013, there was no change in the financial risks of the Corporation that were discussed in the annual Management Discussion and Analysis.

During the three months ended June 30, 2013, there were no significant changes related to operations, personnel and programs of the Corporation.

ECONOMIC ENVIRONMENT

Demographic pressures continue to impact the Cape Breton economy. The population is aging and is in decline. Census 2011 data indicates a 4.4% population decline since 2006 and an almost 8% decline since 2001. Out-migration continues to negatively impact these demographic trends. From 2006 to 2011, Cape Breton Island experienced a net out-migration flow of 4,882 individuals. The majority of these individuals were under 45 years of age. In the near future the shift of the baby-boomer bubble into retirement is expected to have a greater impact in Cape Breton than in other areas due to the lack of younger workers to replace this generation.

Cape Breton continues to be challenged by high unemployment. The unemployment rate at 12.7% remains almost double that of Canada. Fluctuations in Cape Breton's labour market tend to be more extreme due to concentrations in highly seasonal sectors such as primary industries and tourism. In the past ten years, the number of jobs has generally been increasing. Despite the high unemployment rate, there remain shortages for skilled workers in some sectors. ECBC works with Cape Breton University (CBU) and Nova Scotia Community College to ensure there are adequate programs to address these skills shortages.

Although there remain a number of challenges for the Cape Breton economy, there have been some encouraging developments. The Port Hawkesbury paper mill reopened its doors in the fall of 2012 with over 200 jobs returning to the local economy. Since the completion of the Sydney Harbour dredge in January 2012, interest from various private-sector commercial developers has surfaced. To date, one company has committed to investing $75 million for a dockside break-bulk facility. Discussions continue regarding further private investment planned for other harbour facilities.

In terms of major projects, the Donkin coal mine experienced setbacks in 2012, with the major partner, Australian mining giant Xstrata, looking to sell its 75% stake. However in July 2013, the federal and provincial government both gave the green light to environmental assessment approvals for the project which makes the sale of the mine a much more attractive option.

There have been regulatory delays in regard to the Muskrat Falls hydro project, affecting the project schedule, including work on the subsea transmission link to Nova Scotia and transmission system upgrades in Cape Breton. However, the Nova Scotia Utility and Review Board recently gave conditional approval to the project. Once underway, the Donkin and Muskrat Falls projects potentially involve significant infrastructure development and capital construction for Cape Breton. The combined economic impact of the projects' development phase is anticipated to exceed $1.5 billion.

In addition to these projects the $33 billion National Ship Building Procurement Strategy will offer numerous opportunities for local companies.

APPROPRIATION

The Corporation's total drawdown against the approved parliamentary appropriation for the three months ended June 30, 2013 was $12,941 (three months ended June 30, 2012 - $14,317). All appropriations recorded during the three months ended June 30, 2013 were collected (three months ended June 30, 2012 - $Nil outstanding). The following table reconciles the appropriations received and disbursed:

	Three months ended June 30, 2013	Three months ended June 30, 2012
Opening balance	$ -	$ -
Appropriations received	12,941	14,317
Appropriations disbursed	12,941	14,317
Ending balance	$ -	$ -

Parliament has authorized a total appropriation of $51,763 for the year ending March 31, 2014.

Condensed Consolidated Interim Financial Statements of

ENTERPRISE CAPE BRETON CORPORATION

(Unaudited)

June 30, 2013

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(Unaudited)
June 30, 2013

ENTERPRISE CAPE BRETON CORPORATION

STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the consolidated quarterly financial statements.

These consolidated quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.

Marlene A. Usher, CA	Frances L. Marenick, CA
Acting Chief Executive Officer	Director General, Corporate Services

Sydney, Canada
August 15, 2013

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Financial Position
(Unaudited)
For the three months ended June 30, 2013 (in thousands of dollars)

	June 30 2013	March 31 2013
FINANCIAL ASSETS		
Cash (note 4)	$ 21,967	$ 20,071
Accounts receivable	8,034	10,223
Loans receivable (note 5)	9,760	10,250
Portfolio investments	4,582	4,582
Deposits held with Workers' Compensation Board of Nova Scotia	1,730	1,730
Assets held for sale	2,463	2,641
TOTAL FINANCIAL ASSETS	48,536	49,497
LIABILITIES		
Accounts payable and accrued liabilities	8,808	10,258
Loans payable	4,356	4,356
Accrued obligation for workers' compensation (note 6)	201,367	205,308
Accrued obligation for environmental costs (note 7)	175,323	176,213
Accrued obligation for early retirement and severance benefits (note 8)	50,173	53,595
Accrued obligation for other employee future benefits (note 9)	10,466	10,544
Accrued obligation for retirement allowances	986	986
TOTAL LIABILITIES	451,479	461,260
NET DEBT	(402,943)	(411,763)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 10)	4,554	4,510
Prepaid expenses	122	296
TOTAL NON-FINANCIAL ASSETS	4,676	4,806
ACCUMULATED DEFICIT	$ (398,267)	$ (406,957)

CONTINGENCIES (note 13)

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Operations
(Unaudited)
For the three months ended June 30, 2013 (in thousands of dollars)

	Three months ended June 30, 2013	Three months ended June 30, 2012
EXPENSES		
Economic development (note 11)	$ 1,007	$ 759
Rental and development facilities (note 11)	412	368
Legacy human resource and environmental (note 11)	3,534	3,426
TOTAL EXPENSES	4,953	4,553
REVENUE		
Rental and development facilities	336	129
Loan interest	139	230
Bank interest and other income	69	121
Gain on sale of tangible capital assets and assets held for sale	158	13
TOTAL REVENUE	702	493
ACTIVITIES ON BEHALF OF OTHER GOVERNMENT ORGANIZATIONS (note 1)		
Program expenses - ACOA	716	386
Remediation expenses - AECL	457	-
Salaries, professional and other - ACOA	726	679
	1,899	1,065
Less: Costs recovered from other Government organizations	(1,899)	(1,065)
	-	-
Deficit before parliamentary appropriation	(4,251)	(4,060)
Parliamentary appropriation	12,941	14,317
Surplus for the period	8,690	10,257
Accumulated deficit, beginning of period	(406,957)	(400,163)
Accumulated deficit, end of period	**$ (398,267)**	**$ (389,906)**

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Changes in Net Debt
(Unaudited)
For the three months ended June 30, 2013 (in thousands of dollars)

	June 30, 2013	June 30, 2012
SURPLUS FOR THE PERIOD	$ (8,690)	$ (10,257)
Change in tangible capital assets		
Acquisition of tangible capital assets	218	118
Transfer to assets held for sale	(34)	(23)
Amortization of tangible capital assets	(134)	(130)
Gain on sale of tangible capital assets	119	13
Proceeds on sale of tangible capital assets	(125)	(13)
	(8,646)	(10,292)
Change in other non-financial assets		
Acquisition (use) of prepaid expenses	(174)	22
DECREASE IN NET DEBT	(8,820)	(10,270)
NET DEBT, BEGINNING OF PERIOD	411,763	405,043
NET DEBT, END OF PERIOD	$ 402,943	$ 394,773

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Cash Flow
(Unaudited)
For the three months ended June 30, 2013 (in thousands of dollars)

	Three months ended June 30, 2013	Three months ended June 30, 2012
OPERATING TRANSACTIONS		
Parliamentary appropriation received	$ 12,941	$ 14,317
Cash received from other Government organizations	5,928	4,185
Loan interest received	37	39
Bank interest and other income received	70	128
Cash received from (paid to) rental activities and other parties	141	679
Payments made for program and administrative expenditures	(2,086)	(2,423)
Payments made on behalf of other Government organizations	(3,789)	(3,208)
Payments made for early retirements, workers' compensation and other non-pension employee future benefits	(9,198)	(9,541)
Payments made for environmental obligations and support	(3,100)	(5,364)
CASH (USED FOR) PROVIDED BY OPERATING TRANSACTIONS	944	(1,188)
CAPITAL TRANSACTIONS		
Proceeds on sale of tangible capital assets and assets held for sale	366	13
Cash used to acquire tangible capital assets	(218)	(118)
CASH (USED FOR) PROVIDED BY CAPITAL TRANSACTIONS	148	(105)
INVESTING TRANSACTIONS		
Proceeds on redemption of portfolio investments	-	-
Purchase of portfolio investments	-	-
Disbursements of loans receivable	(24)	-
Repayments of loans receivable	828	965
CASH (USED FOR) PROVIDED BY INVESTING TRANSACTIONS	804	965
NET INCREASE (DECREASE) IN CASH	1,896	(328)
CASH, BEGINNING OF PERIOD	20,071	19,512
CASH, END OF PERIOD	$ 21,967	$ 19,184

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

1. NATURE OF OPERATIONS AND AUTHORITY

Enterprise Cape Breton Corporation (the “Corporation”) was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act, Atlantic Canada, 1987*) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, are:

> to promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

The Corporation has two wholly-owned subsidiaries. DARR (Cape Breton) Limited (DARR) is incorporated under the *Nova Scotia Companies Act.* DARR previously owned and managed all of the Corporation’s real property holdings. On April 1, 2012, the assets and liabilities of DARR were transferred to Enterprise Cape Breton Corporation. DARR no longer has any active operations. Cape Breton Casting Inc. (CBCI) was acquired on March 31, 2006 by exercising security on outstanding loans. CBCI is incorporated under the *Canada Business Corporations Act*. CBCI’s assets were sold in November 2009 and there are no ongoing operations.

The Corporation has entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency (ACOA) establishing the arrangements for the Corporation to deliver the Agency’s programs on the Island of Cape Breton.

The Corporation has entered into a memorandum of understanding with the Atomic Energy of Canada Limited (AECL) establishing the arrangements for the Corporation to conduct the remediation of the former Heavy Water Plant site in Glace Bay, Nova Scotia.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The unaudited consolidated interim financial statements (“interim financial statements”) of the Corporation have been prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements, including the comparative period.

The Corporation reports all revenues and expenses on an accrual basis. Assets are carried at the lower of cost and net recoverable value. Liabilities and financial obligations to outside organizations are recorded at the estimated amount ultimately payable.

The interim financial statements should be read in conjunction with the March 31, 2013 annual audited consolidated financial statements and with the narrative included in the quarterly financial report. The

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of accounting (continued)

interim financial statements do not include all of the disclosure information required for full annual financial statements.

Both financial and non-financial assets are reported on the Statement of Financial Position. Non-financial assets can be used to provide services in future periods and are charged to expense through amortization or upon utilization. These assets do not normally provide resources to discharge the liabilities of the Corporation unless they are sold. As a result, non-financial assets are not taken into consideration when determining the net debt of the Corporation, but rather are deducted from the net debt to determine the accumulated deficit.

b) Basis of consolidation

The interim financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity. The reporting entity is comprised of all organizations which are controlled by the Corporation. These organizations are DARR (Cape Breton) Limited and Cape Breton Casting Inc.

All inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

c) Revenue recognition

Revenue from rental and development facilities includes revenues from the leasing of space, facilities and related services and sale of land held for residential development. Revenue is recognized when the service is rendered or when the risks and rewards related to the sale of land is transferred.

Interest and investment income is recognized when earned using the effective interest method.

d) Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the Consolidated Statement of Operations in the year approved to the extent they are drawn down. Drawdowns against these parliamentary appropriations are based upon cash requirements.

e) Financial instruments

Cash and deposits with Workers' Compensation Board of Nova Scotia

Cash and deposits held with the Workers' Compensation Board of Nova Scotia are measured at cost.

Accounts receivable

Accounts receivable are measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans receivable

Loans receivable are recorded at amortized cost, with cost being equal to the fair value of assets given up or liabilities assumed, with the exception of significantly concessionary loans which are recorded at the discounted value of the loan after the grant portion has been charged to economic development expenses.

For significant concessionary loans, subsequent to initial valuation, the loans are carried at amortized cost using the effective interest method. The discounted value and the effective interest rate are determined using the prime rate adjusted for risk at the date of issuance. The grant portion is calculated as the difference between the face value and the discounted value of the loan and is recorded as economic development expense at the date of issue.

Loan interest revenue is recognized as earned over the term of the loan, except for impaired loans as further described below. Loan interest revenue for significantly concessionary loans is the contractual interest earned plus the amortization of the discount.

Certain loans and contributions are subject to terms of forgiveness or are conditionally repayable as stipulated in the contracts. For all conditionally repayable loans, and forgivable loans in which the Corporation does not have sufficient evidence with regard to a reasonable expectation of recovery, the amount of the loans is charged to operations when the loan is issued. If terms and conditions are not fulfilled, the forgiveness or conditionally repayable amounts are reversed and the balance becomes due and receivable by the Corporation and any estimated recovery is reflected as a reduction in economic development expense in the Consolidated Statement of Operations.

Loans receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest. A specific allowance is established to reduce the recorded value of the impaired loan to its estimated net recoverable value. Impaired loans are measured according to their estimated recoverable amounts by discounting expected future cash flows at the effective interest rate of the loans. When future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the impairment expense.

Interest income ceases to accrue when a loan is classified as impaired. Any payments received on an impaired loan are credited against the recorded loan principal. A loan reverts to accrual status when the allowance for impairment is reversed, and in the opinion of management, the ultimate and timely collection of principal and interest is reasonably assured. At that time, previously non-accrued interest is recognized as interest income.

When a loan is restructured, the recorded investment in the loan is reduced as of the date of restructuring to the amount of the net cash flows receivable under the modified terms, discounted at the effective interest rate (i.e. prime rate adjusted for risk) at the date of the restructuring. The reduction in the recorded investment is recognized as expense in the Consolidated Statement of Operations for the period in which the loan is restructured.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans receivable (continued)

When a loan has been restructured and collection of the scheduled future cash flows in accordance with the modified terms is reasonably assured, interest income is recognized at the effective interest rate inherent in the loan transaction at the time the loan was restructured.

Loans are written off after all reasonable restructuring and collection activities have been taken by management and management believes that the possibility of further recovery is unlikely.

Portfolio investments

The Corporation has invested in private equity holdings. Investments in private equity holdings are accounted for by the cost method, whereby the investment is initially recorded at cost and the earnings from such investments are recognized only to the extent received or receivable. When the terms associated with a particular investment are so concessionary that the substance of the transaction is that all or a significant part of the investment is in the nature of a grant, the investment is recorded at its discounted value upon initial recognition after the grant portion of the transaction has been charged to economic development expense.

When there has been a loss in the value of a portfolio investment that is other than a temporary decline, the investment is written down to recognize the loss. A write-down of a portfolio investment to reflect a loss in value is not reversed if there is a subsequent increase in value. The estimates of the loss in value are based on management judgements using analysis such as the difference between the present value of expected future cash flows using the prime rate adjusted for risk and the carrying value.

Investment revenue (including amortization of investment discounts) ceases to be accrued when the collectability of such investment income is not reasonably assured. When an investment has initially been recorded as a grant and charged to expense at the date of investment, or has been written down to reflect a loss in value, and the Corporation subsequently receives all or part of its capital back, the return of capital would be credited against the investment balance, with any remaining return of capital being recognized as revenue when received.

Accounts payable and loans payable

Accounts payable and loans payable are measured at amortized cost using the effective interest method.

f) Assets held for sale

Assets held for sale comprise lands developed for residential subdivisions. Assets held for sale are recognized as a financial asset when all of the following criteria are met:

- The asset is in a condition to be sold, publicly seen to be for sale and an active market exists.
- Management has an approved plan to sell the assets within 12 months of the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Accrued obligation for workers' compensation

The accrued obligation for workers' compensation represents the net present value of liabilities for benefits for work-related injuries of the former employees of the Cape Breton Development Corporation (CBDC) when awards are approved by the Workers' Compensation Board of Nova Scotia, or when legislative amendments are made and the anticipated future costs can be reasonably calculated.

Changes in the net present value of this liability from the original estimate are based on the results of actual experience and changes in management's assumptions and are recognized in the Consolidated Statement of Operations in the year in which they occur.

h) Accrued obligation for environmental costs

The accrued obligation for environmental costs represents the net present value of liabilities of estimated future environmental costs based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations.

i) Accrued obligation for early retirement and severance benefits

The accrued obligation for early retirement and severance benefits representing termination benefits for former CBDC employees is based on management's best estimates and assumptions, and represents the net present value of liabilities for early retirement incentives and severance related to workforce reductions.

Changes in the net present value of this liability from the original estimate are based on the results of actual experience and changes in management's assumptions and are recognized in the Consolidated Statement of Operations in the year in which they occur.

j) Accrued obligation for other employee future benefits

The Corporation provides post employment benefits including health care, life insurance and related benefits to recipients of the former CBDC's Compassionate Disability Pension to age 65, a life insurance benefit to retirees over the age of 65 and a retiring allowance. Also provided is a benefit of subsidized coal for home heating to eligible early retirees and pensioners and their widow(ers).

The Corporation accrued its obligations under employee benefit plans and the related costs as the benefits accrued to employees of the former CBDC. The cost of other non-pension employee future benefits is based on the net present value of the future payments expected to be made, using management's best estimate of inflation rates for health and related benefits, usage rates and mortality rates. The portion of the liability related to a life insurance benefit to retirees over the age of 65 is determined by an external actuary. Changes in the net present value of the unfunded liability as a result of actual experience and changes in management's assumptions are recognized in the Consolidated Statement of Operations in the year in which they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Accrued obligation for retirement allowances

Employees are entitled to benefits on retirement based on years of service and final salary as provided for under conditions of employment. The Corporation recognizes the cost of the future retirement benefits over the period in which the employees render services to the Corporation and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determines the accrued obligation for retirement allowances using a method based upon assumptions and its best estimate of discounted expected future cash flows. Changes in the net present value of this liability are based on the results of actual experience and changes in management's assumptions. They are charged or credited to salaries on the Consolidated Statement of Operations.

l) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the assets. The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis as follows:

Rental and development facilities	up to 20 years
Furniture and equipment	3 to 5 years
Other	5 years

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

No intangible assets have been recognized in the interim financial statements.

m) Pension plan

Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

3. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk

3. FINANCIAL RISK MANAGEMENT (continued)

This note presents information about the exposure to each of the above risks, including the Corporation's objectives, policies, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors is responsible for development and monitoring the Corporation's risk management policies.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee is assisted in this role by internal audits conducted and regular reviews of management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial obligation fails to meet its contractual obligations. The aggregate carrying amount of cash, accounts receivable, loans receivable and portfolio investments represents the Corporation's maximum exposure to credit risk. Management does not believe there is any significant credit risk with respect to cash and accounts receivable. Additional information on loans receivable is disclosed in note 5.

The Corporation has policies in place to ensure that credit risk is appropriately managed. These include approval authorities, minimum equity requirements of proponents and maximum assistance limits.

In the normal course of business, the Corporation may require collateral or other security from customers or counterparties. The Corporation holds collateral or other security for loan accounts in its portfolio. The most significant collateral or other security held by the Corporation consists of charges on tangible capital assets, charges on accounts receivable and inventory, guarantees, and general security agreements.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risk of damage to the Corporation's reputation. The Corporation prepares cash flow forecasts that are regularly monitored by management and the Board of Directors. The forecasts are adjusted as necessary to reflect expected cash inflows and outflows to ensure the adequacy of cash to meet financial obligations.

June 30, 2013 (in thousands of dollars)

3. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The aggregate carrying amount of accounts payable and accrued liabilities, loans payable, and the accrued obligations due within 12 months of the reporting date represents the Corporation's maximum exposure to liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest rate for the Corporation's bank account varies based on changes in the prime rate which will affect the amount of interest that is ultimately paid. This would not have a significant impact on the Corporation. The Corporation also issues loans with fixed interest rates. Changes in interest rates can affect the fair value of the loans receivable portfolio at a point in time, but not the amount of cash ultimately collected.

4. CASH

The Corporation's cash, other than restricted cash, is held in a Canadian chartered bank and earns interest at prevailing market rates. At June 30, 2013, the Corporation had restricted cash of $3,722 (March 31, 2013 - $4,197). These funds are being held in trust until the completion of economic development transactions.

5. LOANS RECEIVABLE

At June 30, 2013, the Corporation had a portfolio of 41 loans receivable (March 31, 2013 - 45). These loans are issued to promote economic development to support the corporate mandate. All loans are evaluated for credit risk using the Corporation's risk ratings of low, medium and high.

The total portfolio consists of:

			June 30 2013			March 31 2013
Credit Risk Rating	**Effective Interest Rate**	**Stated Rate**	**Cost**	**Impairment Allowance**	**Net Recoverable Value**	**Net Recoverable Value**
Low	5.25-12.50%	4.50-6.50%	$ 3,174	$ -	$ 3,174	$ 3,257
Medium	5.25-12.50%	4.50-6.50%	3,740	-	3,740	4,173
High	5.25-12.50%	4.50-6.50%	4,797	(1,951)	2,846	2,820
			$ 11,711	$ (1,951)	$ 9,760	$ 10,250

5. LOANS RECEIVABLE (continued)

The Corporation has 6 debtors (March 31, 2013 - 7) representing 56 % of the amount due (March 31, 2013 - 59 %).

Conditionally repayable contributions totaling $2,328 (March 31, 2013 - $2,550) are not included in the loan portfolio.

For loans with significant concessionary terms, management makes certain assumptions with respect to the appropriate discount rate used in recording the loans at their discounted value upon initial recognition. In addition, for impaired loans, management makes certain assumptions with respect to the amount and timing of future cash flows as well as to the appropriate discount rate. The recorded amount of the loans could be materially different if the assumptions described above vary significantly in future years.

6. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION

The former Cape Breton Development Corporation (CBDC) was subject to the *Government Employees Compensation Act*. The Act entitles former employees of CBDC and their dependants to be paid benefits for work-related injuries at the same rate and under the same conditions as provided under provincial workers' compensation legislation. The Minister of Labour (currently the Minister responsible for Human Resource and Skills Development Canada (HRSDC)) and the Workers' Compensation Board of Nova Scotia (the "Board") signed an agreement on December 12, 1996, which gave the Board the responsibility to administer, on behalf of the Government of Canada, claims made by the former employees of CBDC. HRSDC is required to reimburse the Board for all claims for eligible benefits paid by the Board to the CBDC's former employees. HRSDC invoices the Corporation, on a quarterly basis, to cover the estimated total cost of claims to be paid to the former employees by the Board plus an administrative fee.

The Corporation's accrued obligation for workers' compensation represents the unfunded liability for the costs of benefits specified and administered by the Workers' Compensation Board of Nova Scotia for work-related injuries of former CBDC employees. The liability is determined by an external actuary and consists of long-term disability permanent awards in respect of approved awards and incidents incurred but not yet administered as claims; survivor benefits, comprised mainly of pension payments for past claims; other costs consisting mainly of temporary compensation, rehabilitation and medical aid in respect of past claims; and costs related to future claims payment administration by the Workers' Compensation Board of Nova Scotia.

The actuary used assumptions, as agreed to by management, in the calculation of the liability including; inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The liability could be materially different if the assumptions on which the actuarial valuation is based vary significantly in future years. Changes in the liability are recognized based on extrapolation of actuarial results and adjustments arising from actuarial gains and losses in the year in which they occur. A valuation was obtained on March 31, 2013 to establish the measurement of the liability.

June 30, 2013 (in thousands of dollars)

6. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION (continued)

	June 30 2013	March 31 2013
Accrued benefit obligation, beginning of period	$ 205,308	$ 214,052
Benefits expense		
Actuarial loss	782	5,152
Interest cost on accrued benefit obligation	908	4,100
Benefits paid during the period	(5,631)	(17,996)
Accrued benefit obligation, end of period	$ 201,367	$ 205,308

Assumptions	
Discount rate for obligation	1.80%
Discount rate for costs	2.00%
Long-term disability, survivior pensions indexation	1.00%
Health care and rehabilitation indexation	3.75%
All other cost indexation	2.00%

On May 10, 2013, the Province of Nova Scotia enacted legislation permitting survivor benefits that were discontinued on remarriage to be reinstated to a dependent spouse. The period for which retroactive benefits applied is April 17, 1985 to April 13, 1999. The amount of retroactive benefits paid in relation to the former Cape Breton Development Corporation is $782. This amount is recognized in the period in which the legislation was enacted.

7. ACCRUED OBLIGATION FOR ENVIRONMENTAL COSTS

The Corporation has recognized its best estimate of anticipated future costs for environmental remediation related to the operations of the former Cape Breton Development Corporation (CBDC), including: building demolition, clean-up, earthworks, mine water management, water treatment, other reclamation works and long-term care and monitoring. This unfunded liability is based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations.

The former CBDC, along with Public Works and Government Services Canada (PWGSC), assessed and remediated each individual property owned by the former CBDC. Management's best estimate of the liability is based on property assessment work, studies and reports from independent consultants, and a review and verification of the data by PWGSC and management.

The estimate of the liability is based on significant assumptions made by management, including: definition of and likely action required to meet the appropriate legislation, regulations and industry practice; the nature and extent of past and present environmental concerns; the extent of actions necessary to deal with long-term management of mine water; the extent of remediation required at mine and coal processing sites; and discount rates used. Such estimates are subject to adjustment based on changes in laws and regulations and as new information becomes available. Included in this liability estimate is an amount for indemnification in respect of environmental conditions of certain previously disposed properties.

June 30, 2013 (in thousands of dollars)

7. ACCRUED OBLIGATION FOR ENVIRONMENTAL COSTS (continued)

The estimate of the liability based on the above could be materially different if the key assumptions used by management for determination of the estimate vary from those planned.

	June 30 2013	March 31 2013
Accrued obligation, beginning of period	$ 176,213	$ 143,768
Payments	(1,898)	(12,463)
Accretion expense	1,008	5,699
Estimate revision	-	39,209
Accrued obligation, end of period	$ 175,323	$ 176,213

8. ACCRUED OBLIGATION FOR EARLY RETIREMENT AND SEVERANCE BENEFITS

The accrued obligation for early retirement and severance benefits consists of estimates for the cost of the unfunded liability for termination benefits related to early retirement and severance initiatives for former CBDC employees. Components included are early retirement payments, cost of expected benefits and severances.

Management made significant assumptions in preparing estimates of this accrued obligation, including: interest rates for discount factors and price indexation for the non-current portion of the liability; Canada Pension Plan disability award rates; and health and other benefit price indexation. The estimate of liabilities, based on the above, could be materially different if the key assumptions used by management for major determinants of the estimate vary from those planned.

	June 30 2013	March 31 2013
Accrued benefit obligation, beginning of period	$ 53,595	$ 68,913
Benefits expense		
Actuarial gain	-	(469)
Interest cost on accrued benefit obligation	171	1,080
Benefits paid during the period	(3,593)	(15,929)
Accrued benefit obligation, end of period	$ 50,173	$ 53,595

Assumptions	
Discount rate for obligation	1.3%
Discount rate for costs	1.6%
Benefit price indexation	2.0%
Health care price indexation	2.0%

The Corporation anticipates the accrued obligation for early retirement and severance benefits will be fully discharged by the end of 2027.

June 30, 2013 (in thousands of dollars)

9. ACCRUED OBLIGATION FOR OTHER EMPLOYEE FUTURE BENEFITS

The Corporation provides post employment benefits including health care, life insurance and related benefits to recipients of the former CBDC's Compassionate Disability Pension to age 65, a life insurance benefit to retirees over the age of 65 and a retiring allowance. Also provided is a benefit of subsidized coal for home heating to eligible early retirees and pensioners and their widow(ers).

The present value of these unfunded benefit plans is determined on the basis of management's assumptions. The liability could be materially different if assumptions on which the estimate is based vary significantly in future years. A valuation was obtained from an external actuary as of March 31, 2013, for the post-65 life insurance benefit to retirees. The remaining benefits were valued internally by management as of March 31, 2013.

		June 30 2013		March 31 2013
Accrued benefit obligation, beginning of period	$	10,544	$	13,632
Benefits expense				
Actuarial loss (gain)		-		(2,053)
Interest cost on accrued benefit obligation		40		240
Benefits paid during the period		(118)		(1,275)
Accrued benefit obligation, end of period	$	10,466	$	10,544

Assumptions	
Compassionate disability benefits	
Discount rate for obligation	1.3%
Discount rate for costs	1.6%
Health care price indexation	2.0%
Post-employment life insurance	
Discount rate for obligation	2.0%
Discount rate for costs	2.3%
Retiring allowance	
Discount rate for obligation	1.3%
Discount rate for costs	1.6%
Benefit price indexation	2.0%
Domestic coal benefit	
Discount rate for obligation	1.3%
Discount rate for costs	1.6%
Benefit price indexation	3.0%

June 30, 2013 (in thousands of dollars)

10. TANGIBLE CAPITAL ASSETS

	Three months ended June 30, 2013				
	Land	Furniture and Equipment	Rental and Development Facilities	Other Assets	Total
Cost, beginning of period	$ 2,264	$ 1,625	$ 6,838	$ 269	$ 10,996
Additions	34	2	182	-	218
Disposals	(6)	-	-	-	(6)
Write-downs	-	-	-	-	-
Reclassification to assets held for sale	(34)	-	-	-	(34)
Cost, end of period	$ 2,258	$ 1,627	$ 7,020	$ 269	$ 11,174
Accumulated amortization, beginning of period	$ 342	$ 1,396	$ 4,479	$ 269	$ 6,486
Amortization	-	24	110	-	134
Disposals	-	-	-	-	-
Write-downs	-	-	-	-	-
Accumulated amortization, end of period	$ 342	$ 1,420	$ 4,589	$ 269	$ 6,620
Net book value, end of period	$ 1,916	$ 207	$ 2,431	$ -	$ 4,554

	Year ended March 31, 2013				
	Land	Furniture and Equipment	Rental and Development Facilities	Other Assets	Total
Cost, beginning of period	$ 2,082	$ 1,606	$ 6,371	$ 269	$ 10,328
Additions	1,417	94	660	-	2,171
Disposals	(1)	(75)	(3)	-	(79)
Write-downs	-	-	-	-	-
Reclassification to assets held for sale	(1,234)	-	(190)	-	(1,424)
Cost, end of period	$ 2,264	$ 1,625	$ 6,838	$ 269	$ 10,996
Accumulated amortization, beginning of period	$ 342	$ 1,380	$ 4,086	$ 259	$ 6,067
Amortization	-	91	406	10	507
Disposals	-	(75)	(3)	-	(78)
Reclassification to assets held for sale	-	-	(10)	-	(10)
Accumulated amortization, end of period	$ 342	$ 1,396	$ 4,479	$ 269	$ 6,486
Net book value, end of period	$ 1,922	$ 229	$ 2,359	$ -	$ 4,510

June 30, 2013 (in thousands of dollars)

11. EXPENSES

	Three months ended June 30, 2013	Three months ended June 30, 2012
Grants and contributions		
Commercial development	$ 697	$ 10
Community economic development	99	236
Policy and advocacy	5	-
	801	246
Salaries and benefits	683	735
Operating and maintenance	630	538
Impairment	(204)	(5)
Loans concessionary adjustment	(9)	105
Legacy human resource	1,901	1,379
Environmental	1,008	1,425
Amortization of tangible capital assets	143	130
	$ 4,953	$ 4,553

12. PENSION PLAN

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the “Plan”), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees’ required contribution.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum of 35 years at an annual rate of two percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with the Canada Pension Plan benefits and are indexed to inflation.

13. CONTINGENCIES

In the ordinary course of business, lawsuits have been filed against the Corporation. In management’s opinion, the outcome of these actions cannot be determined at this time and no provision has been made in the consolidated financial statements. An estimate of claims resulting from these lawsuits, if any, will be recognized in the consolidated financial statements in the year that such a determination can be made.