ANNUAL ACCOUNTABILITY REPORT

for the fiscal year ending March 31, 2009

Nova Scotia Farm Loan Board

Accountability Statement

We have the honour of presenting the 77th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2009.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2009, and is prepared pursuant to the Section 12 of the Agriculture and Rural Credit Act, 1989, as well as the Provincial Finance Act and government policy and guidelines. These authorities require the reporting of outcomes against the Board's business plan information for the fiscal year 2008-2009. The reporting of Board outcomes necessarily includes estimates, judgements and opinions by Board management.

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

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John MacDonell
Minister, Department of Agriculture

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Leo Cox
Chairman

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Cheryl Burgess
Chief Executive Officer

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Board Members and staff as at March 31, 2009:

Board Members

Leo Cox	Chairman (2011)
Stephen Healy	Vice-Chair (2009)
Victor Moses	Member (2011)
Hank Bosveld	Member (2011)
Angela Hunter	Member (2011)

Principal Officers & staff as at March 31, 2009:

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

Truro Office

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

Kentville Office

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

* Cheryl Burgess, MHSA became Director and Chief Executive Officer subsequent to the fiscal year end (effective June 8, 2009).

Chief Executive Officer's Report

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

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

The strategic goals for the Board as identified in the 2008-2009 business plan are:

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

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

During the year, short term interest rates have fallen significantly. The Board's loan portfolio increased during the year by $6.6 million and early loan payouts were stable. The Board offers long-term funding with lending terms matched to the loan amortization. As interest rates rise, it is expected that demand for the Board's product and services will remain strong.

It is common for sectors within agriculture to experience cyclical fluctuations in price and supply. The hog industry continued to face considerable difficulty again this year resulting in a number of producers leaving, or planning to leave the industry. The Board's provision for impaired loans increased approximately $4.8 million primarily as a result of these difficulties which have reduced both opportunities for success, and the expected realization value of security. The beef industry continues to struggle to recover from lower demand and prices resulting from the US border closure four years ago.

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

The past year has been positive in several respects: Interest rates have decreased and remain relatively low. Twenty-two new entrants joined the agricultural industry during the year and were approved for grants through the New Entrants to Agriculture Program. The dairy and poultry industries continue to be strong, with consistent returns generated under supply management. Blueberries continue to have a reputation as a healthy food. The apple industry continues to work with new plantings and varieties to maintain markets. The wine industry continues its expansion and the Board has worked closely with individuals to provide stable financing as opportunities are identified. The mink sector has benefited from several years of strong market prices, although these have begun to decline somewhat. Unfortunately, the hog sector has suffered from continued low prices forcing most producers to cease production or make significant changes.

Having joined the Board as Chief Executive Officer subsequent to the year-end, it has been a pleasure for me to present this report on behalf of the previous CEO for the year ending March 31, 2009. The Board has continued to provide developmental long-term lending programs, that are cost effective and has helped to create opportunities. We, as a Board, look forward to continuing to strengthen the rural fabric of the province of Nova Scotia.

Cheryl Burgess
Chief Executive Officer

Board Operation Overview

Direct Loans

During its 77th year of operations the Board met on ten occasions encompassing twenty-one days. One hundred and thirty-nine loan requests were approved during the 2009-2010 fiscal year. A total of 1,115 active loans (Farm and Timber) were in effect at March 31, 2009.

Interest rates on loans during the year were:

	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years
Apr 1 - June 30, 2008	6.00%	6.15%	6.40%	6.65%	6.90%	7.20%
July 1 - Sept 30, 2008	6.30%	6.60%	6.85%	7.00%	7.15%	7.30%
Oct 1 - Dec 31, 2008	6.30%	6.60%	6.85%	7.00%	7.15%	7.30%
Jan 1 - Mar 31, 2009	4.85%	6.95%	7.30%	7.55%	7.60%	7.60%

Timber Loans

There were nine Timber Loan category loans on March 31, 2009 totalling $382,000.

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

Farm Consolidation and Land Use

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

ARDA lease accounts at March 31, 2009, had a net outstanding principal of $21,000. Five accounts remain under this program.

Land Purchase and Lease (Land bank program)

This program was initiated during the 1974-75 fiscal year to assist industry by purchasing land for lease back to farmers. The Nova Scotia Farm Loan Board administers the leasing of these properties.

In total, thirty one properties remain under this program, with a total outstanding principal at year-end of $671,000.

New Entrants to Agriculture Program

This is the ninth year for this program. The program is funded by the Department of Agriculture and administered by the Farm Loan Board. The objective is to encourage new Nova Scotia farmers to purchase and develop successful farm operations. Funds available under this program will be extended to improve the viability of each farm operation as key areas requiring improvement are outlined by the new entrant in a business plan. Eligible applicants receive a grant in the amount of interest paid on qualifying loans for the first two years to a maximum of $10,000 per year. During the 2008-2009 year, grants of $562,000 were disbursed and 22 applications were accepted resulting in a commitment of $386,000 to be disbursed over the following two years.

Life Insurance

The Farm Loan Board administers a creditor group life insurance for clients. The policy is held with the Sun Life Assurance Company of Canada. Total insurance in force at the end of 2008-2009 was $119.3 million.

Results (Progress and Accomplishments)

Priority: Lending

- Provide $28 to $30 million of new loan capital to the agricultural and timber industries in the 2008-2009 fiscal year.

Result: 139 loan applications were approved during the year with total funds advanced of $26.7 million. Principal repayments were $22.5 million. Short-term interest rates declined during the year, however long-term rates did not. Credit availability from other lenders was strong. Loan advances were below the maximum $30 million authorised. Long term lending needs appear to have been met. Clients have shown a preference for short-term lending arrangements.

- Financial Counselling

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

- Timber Loans

Result: The Board maintained the existing loan program and offered lending to agriculturally related forest ventures. It continues to be available to modify products and services to meet needs for growth and development within this industry.

- Reporting

Result: Board staff continued to work with Department of Finance (CCC) staff to define requirements to improve client and administrative reporting during the year.

- Account Maintenance

Result: Arrears increased significantly to 3.4% of the portfolio at March 31, 2009 due to significant difficulties being experienced in the hog sector, along with continued weakness in beef sector and an overall decline in the portfolio. Considerable attention and staff time has been directed to assisting these clients and recovering on accounts. The effects of anticipated future losses has been recognized in the Board's bad debt expense and provision for impairment. It will take some time to resolve those accounts which are unable to continue however. Only three accounts from were submitted for write-off during the year, totalling $39,000 or 0.02% of the loan portfolio. These are the result of shortfalls in security on unpaid loans in earlier years,

Priority: Program Administration

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

Result: In the ninth year of this program, 22 new entrant grant applications were assisted, including 5 inter-generational transfers. Approved grants of $386,000 over the next two years (subject to budgetary authority) are within the annual budget authority to date of $600,000. Actual disbursements under this program for 2008-09 were $562,000, somewhat less than the budget authority of $600,000 because of lower approvals in the previous two years and the timing of grant requests. Disbursements have fluctuated over the past nine years, depending on demand, averaging $572,000.

Actual/Budget Comparison - Loan Operating

Description	2008-2009 Actual ($ 000)	2008-2009 Budget ($ 000)	Change ($ 000)
Interest	10,802	11,000	(198)
Insurance revenue (expense)*	222	150	72
Fee revenue and other income*	218	582	(364)
Total revenue	11,242	11,732	(490)
Interest	9,749	9,640	109
Operating expenses*	1,263	1,377	(114)
Bad debt expense	4,763	-	4,763
Total expenses	15,775	11,017	4,758
Income (Deficit) before govt. contributions	(4,533)	715	(5,248)
Government contributions	4,533	(715)	(114)
Net Income	0	0	(5,362)

See Financial Statements for complete financial information and notes.
Items marked * are budgeted as part of the Department of Agriculture estimates. Items not marked are not identified in approved estimates at this level of detail but are included in the Board's annual business plan.

Significant variations from Budget:

- Fees: Early repayment fees (penalties) were below levels set by the budget and are expected to decline further because most clients who may have benefited by paying out the loan have done so or have reached their 5 year anniversary and the Board has adjusted the rate.
- Insurance Revenue: Fluctuates annually depending on death claims. Claims for 2008-09 were below the expected average.
- Operating Expenses: Below authority due to reduced program expenditures.
- Bad Debt Expense: Formerly covered by Department of Finance authority, no allocation was included in Department of Agriculture Estimates for 2008-09. The 2008-09 business plan anticipated a $500,000 expense. The bad debt expense was higher than anticipated due to continued worsening of difficulties being experienced in the hog sector and additional lending to support struggling accounts.

Actual/Budget Comparison - Capital Funds

Description	2008-2009 Actual ($ 000)	2008-2009 Budget ($ 000)	Change ($ 000)
Opening principal	186,953	192,914	(5,961)
Funds advanced	26,718	30,000	(3,282)
Principal repayments	(20,089)	(21,000)	911
Written off	(39)	(1,800)	1,761
Advanced principal at year-end	193,543	200,114	(6,571)
Allowance for impairment	(20,321)	(16,170)	(4,151)
Net principal at year-end	173,222	183,944	(10,722)

Significant variations from Budget:

- Opening principal: Budget Projections are final before the year in progress is complete and have been subject to adjustment.
- Funds advanced: Loan demand has been moderate during 2008-09.

Actual/Budget Comparison - Grant Programs

Description	2008-2009 Actual ($ 000)	2008-2009 Budget ($ 000)	Change ($ 000)
New Entrants Grants Disbursed	562	600	(38)

Significant variations from Budget:

- Actual disbursements are down based on prior year approvals and actual interest costs on approved loans. Approvals are for a two year grant. Year-to-year fluctuations in approvals may are dependent on grant applications accepted in the two previous years.

NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2009

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Nova Scotia

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AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Agriculture

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 2009 and the statements of operations and retained earnings for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient evidence regarding the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Jacques R. Lapointe, CA
Auditor General

Halifax, Nova Scotia
May 25, 2009

Nova Scotia Farm Loan Board
Balance Sheet
March 31, 2009
($ thousands)

ASSETS

	2009	2008
Cash (Note 2a)	$ 1,611	$1,649
Interest and other receivables (net) (Note 4)	3,451	2,686
Loans receivable (net) (Note 5)	168,477	167,679
Real estate (net) (Note 6)	4,745	4,142
	$ 178,284	$ 176,156

LIABILITIES

	2009	2008
Due to the Province of Nova Scotia	$ 1,611	$ 1,649
Advances from the Province of Nova Scotia (Note 8)	176,673	174,507
	178,284	176,156

EQUITY

	2009	2008
Retained earnings	-	-
	$ 178,284	$ 176,156

Commitments and contingencies (Note 15)

APPROVED ON BEHALF OF THE BOARD

Member

Member

(See accompanying notes to the financial statements.)

($ thousands)

	2009	2008
Revenues		
Interest revenue (Note 2f)	$ 10,802	$ 10,981
Revenue on life insurance operations (net) (Note 11)	222	222
Fee revenue and other income	218	254
	11,242	11,457
Expenses		
Interest expense	9,749	9,416
Operating expenses (Note 9)	1,263	1,179
Bad debt expense	4,763	8,695
	15,775	19,290
Deficit before government contributions	(4,533)	(7,833)
Government contributions (Note 10)	4,533	7,833
	$ -	$ -

(See accompanying notes to the financial statements.)

Nova Scotia Farm Loan Board
Statement of Retained Earnings
March 31, 2009
($ thousands)

	2009	2008
Retained earnings, beginning of year	$ -	$1,323
Deficit before government contributions	(4,533)	(7,833)
Government Contributions (Note 10)	4,533	6,510
Retained earnings, end of year	$ -	$ -

(See accompanying notes to the financial statements.)

1. Authority

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

Principal in loans outstanding is limited by regulation to $200 million. Maximum advances to be disbursed in any given year is established through the annual budgeting process. For the year ended March 31, 2009 maximum new advances were $30 million, of which $26.7 million was advanced. The Board received loan principal repayments of $20.1 million during the year.

Loans in excess of $2 million and any loan write offs require approval by Governor in Council.

2. Significant Accounting Policies

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

a) Cash

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

Cash reported consists of funds held by the Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance program.

b) Statement of cash flow

Except for funds held by the insurance carrier, the Board holds no cash. Disbursements are drawn and receipts are deposited to accounts managed by the Province. A statement of cash flow has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

c) Loans receivable

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

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

2. Significant Accounting Policies (continued)

d) Provision for loan impairment

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

The Board records a specific provision based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net realizable amount of their underlying security.

In addition, the Board records a general provision equal to .8% of the portfolio not included in the specific reserve. This is an estimate of probable but unidentifiable losses.

e) Real estate

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

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

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

f) Revenue recognition

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

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

2. Significant Accounting Policies (continued)

g) Use of estimates

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

h) Financial instruments

The Board is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii)held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fail value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded. All other financial instruments are measured at amortized cost using the effective interest method.

The Board's financial instruments consist of cash, accrued interest and other accounts receivable, loans receivable and accounts payable. With the exception of loans receivable, which have been designated as loans and receivables, the Board's financial instruments have been designated as held for trading. Transaction costs related to loans are recorded as part of the total amount outstanding. The carrying value of loans receivable approximates their net realizable value. The Board holds all loans to maturity.

i) Adoption of New Accounting Pronouncements

Effective April, 2008, the Board adopted the Canadian Institute of Chartered Accountants' Handbook Sections 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation.

Section 3862, Financial Instruments - Disclosures, describes the required disclosures related to the significance of financial instruments on the Board's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation, establishes standards for presentation of financial instruments and non financial derivatives.

As required by the transition provisions, these new standards have been applied without restatement of prior period amounts. The required disclosures of Sections 3862 and 3863 are included in Note 11 and 12.

3. Interest Expense and Retained Earnings

Since April 1, 1998, a Memorandum of Understanding (MOU) between the Nova Scotia Farm Loan Board and the Nova Scotia Department of Finance has formalized the Board's funding arrangement. Under the MOU arrangement, the Board estimates

($ thousands)

3. Interest Expense and Retained Earnings (continued)

projected lending requirements on a quarterly basis. The Department of Finance arranges the requested financing for terms requested and provides this financing to the Board at interest rates related to the terms and volumes requested. Funding is maintained to cover the Board's investment in loans receivable and in real estate. The Board tracks the draws arranged with the Department of Finance and computes the interest cost based on the terms of these draws. Actual financing costs are included as interest costs of the Province.

4. Interest and Other Receivables (net)

	2009	2008
Interest and other receivables consists of the following:		
Interest receivable	$4,024	$2,889
Accrued interest	98	931
Other charges	280	243
	4,402	4,063
Less: provisions for impairment	(951)	(1,377)
Interest and Other Receivables (net)	$3,451	$2,686

5. Loans Receivable (net)

The following are anticipated loan repayments based on loan payment schedules and maturities.

	2009				2008
	Under 1 Year	1-5 Years	Over 5 Years	Total	Total
Farm loans	$11,801	$44,093	$94,075	$149,969	$152,329
Timber loans	84	160	138	382	510
Total performing loans	$11,885	$44,253	$94,213	150,351	152,839
Average effective annual interest rate	6.16%	6.17%	6.38%		
Add: principal receivable on impaired loans (excluded from above)				32,228	25,520
Total principal				182,579	178,359
Less: provision for loan impairment				(14,102)	(10,680)
Loans receivable (net)				$ 168,477	$ 167,679

($ thousands)

6. Real Estate (net)

	2009	2008
Real estate held for resale	$ 9,407	$ 7,148
Less: provision for impairment	(6,219)	(4,452)
Net real estate held for resale	3,188	2,696
Real estate held for long-term use		
Land bank	671	673
Land consolidation		
Agriculture and Rural Development Agreement	21	32
(ARDA)	(11)	(16)
Less Federal Government share of ARDA properties	876	757
Property used by NS Agricultural College and Community Pastures	1,557	1,446
Total real estate acquired for long-term use	$ 4,745	$ 4,142
Real estate (net)		

7. Provision for Impairment

	2009			2008
	Loans	Real Estate	Total	
Balance, beginning of year	$11,469	$5,040	$16,509	$8,127
Write-offs	-	-	-	(374)
Current year recovery				61
Current year provision	3,256	1,507	4,763	8,756
Balance, end of year	$14,725	$6,547	$21,272	$16,509
Provision on principal	$14,102	$6,219	$20,321	$15,132
Provision on interest	623	328	951	1,377
	$14,725	$6,547	$21,272	$16,509

The balance at March 31, 2009 includes a specific allowance of $20,170 (2008 - $15,360). The general allowance of $1,102 (2008 - $1,149) relates only to loans receivable.

($ thousands)

8. Advances from the Province of Nova Scotia

Advances are provided by the Province of Nova Scotia to fund loans issued by the Farm Loan Board. Interest expense is calculated in accordance with a Memorandum of Understanding with the Department of Finance (Note 3).

9. Operating Expenses

	2009	2008
Salaries	$ 1,052	$ 952
Supplies and services	61	73
Travel	56	57
Training and development	9	11
Professional/special services	61	54
Equipment and other	24	32
Operating expenses	$ 1,263	$ 1,179

10. Government Contributions

Expenses for the year ended March 31, 2009 were paid by the Department of Agriculture on behalf of the Board. Interest expense on funds borrowed to make loans is an expense of the Department of Finance. Accordingly these expenses are included in Government Contributions in the Statement of Operations.

11. Risk Management

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

The total of loans at March 31, 2009, is $182,579 (2008 - $178,359). The majority of loans are secured primarily by real property using mortgage of Agreement of Sale (providing rights similar to a mortgage). Dairy and Poultry loans are generally also secured by an irrevocable assignment of production quota. Collateral security may also be provided by equipment, livestock or chattels. 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.

11. Risk Management (continued)

All clients are involved in agriculture in Nova Scotia. Involvement in processing is limited to on-farm processing. Regulations provide that loans must not exceed 90% of security value without approval by the Board. Collateral held for security is assigned a value by the loan officer considering the loan based on known transactions of similar property, with additional information provided by property assessments and external assessments where available.

The Board adjusts the Provision for Impairment to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears, refinanced loans, and accounts in sectors experiencing difficulty. A total of $2,413 was issued in refinanced loans during 2008-2009 to clients with significant arrears.

Liquidity Risk
The Province of Nova Scotia provides funding and cash management services to the Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on 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 Board attempts to match terms of loans offered with those of funds drawn through the Province. All loans provide for an optional 10% repayment at any time during each calendar year and an optional full repayment on each 5 year anniversary. All loans are contracted for the full term of their amortization which may range from 1 to 30 years. Funds drawn through the Province provide for 10% annual and 5 year full optional repayments.

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

12. Fair Value of Financial Instruments

The carrying value of cash, accrued interest and other accounts receivable, and accounts payable approximate their fair value because of their short term-to-maturity. The fair value and carrying value of loans receivable, excluding any reserves, as at March 31, 2009 are estimated to be $173,450 and $182,579 respectively. Fair value was determined using an observable market rate.

13. Related Party Transactions

The Board is related to all other departments, agencies, boards and commissions of the Province of Nova Scotia. The Nova Scotia Department of Finance is the sole source of funding for loans (See Note 3). Property used by the Nova Scotia Agricultural College is property purchased by the Board for college use and will eventually be transferred to another government department. Transactions with other Provincial entities were entered into in the normal course of business.

14. Pension and Post-Retirement Benefits

All full-time employees of the Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Province of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the Province. It is not anticipated that any such future costs would be allocated to the Board.

15. Commitments and Contingencies

The Board will hold interest rates for ninety days for any client from the date of receipt of a loan application. As at March 31, 2009, the Board had authorized loans of $3.2 million which had not been disbursed.

Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2008-2009.

Core Business Area I: Lending

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

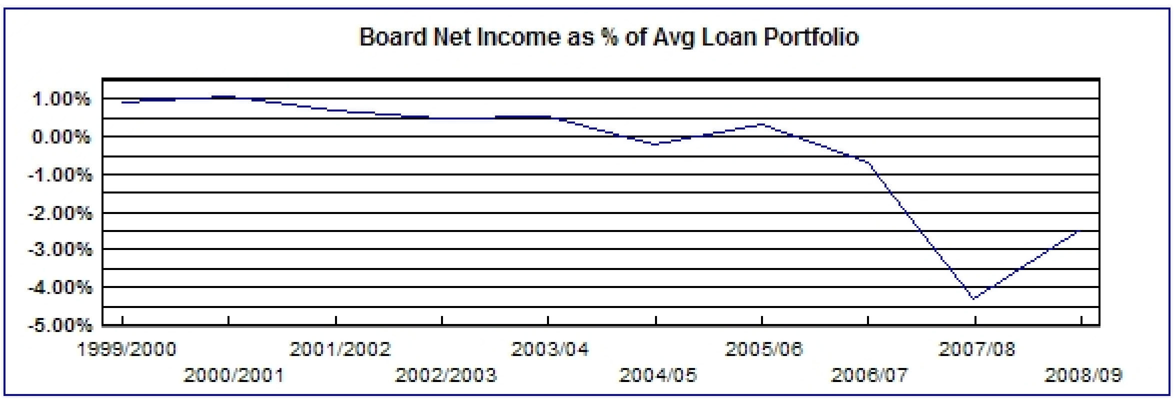
Measure I-1: Income (before government contributions) as a percentage of the average active loan balance. Fiscal year (April 1 - March 31) measure.

What this measure tells us:

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

Where we are now:

Base year:	1998-99:	0.1%
	2006-07:	-0.7%
	2007-08:	-4.3%
	2008-09:	-2.4%



Continued difficulties in the hog industry, along with additional lending to assist producers attempting to continue, required an increase in the provision for impaired loans and significant ($4,763,000) bad debt expense.

Where do we want to be?

Target 2009-2010: 0.0% - stability

The overall goal in this area is to remain efficient, recover costs, and maintain operations to meet the mandate of the Board effectively. Based on historical information adjusted for known costs, the 0.0% target above seems a reasonable basis for discussion of this goal.

Measure I-2: Farm Loan Board loans as a percentage of total Nova Scotia Farm Debt
This measure is based on calendar year data (Jan 1 - Dec 31)

What this measure tells us:

Proportion of Nova Scotia farm debt provided by the Farm Loan Board. This is an indication of the Board's ability to meet industry needs . Total reported farm debt has increased significantly in recent years, with most of the increased debt being provided by commercial and other lenders. This increase in debt and debt availability has reduced the proportion of loans held by the Board without necessarily changing the need being met by the Board. {Reporting on this measure is for the previous calendar year, based on Statistics Canada data}

Where we are now: (calendar years)

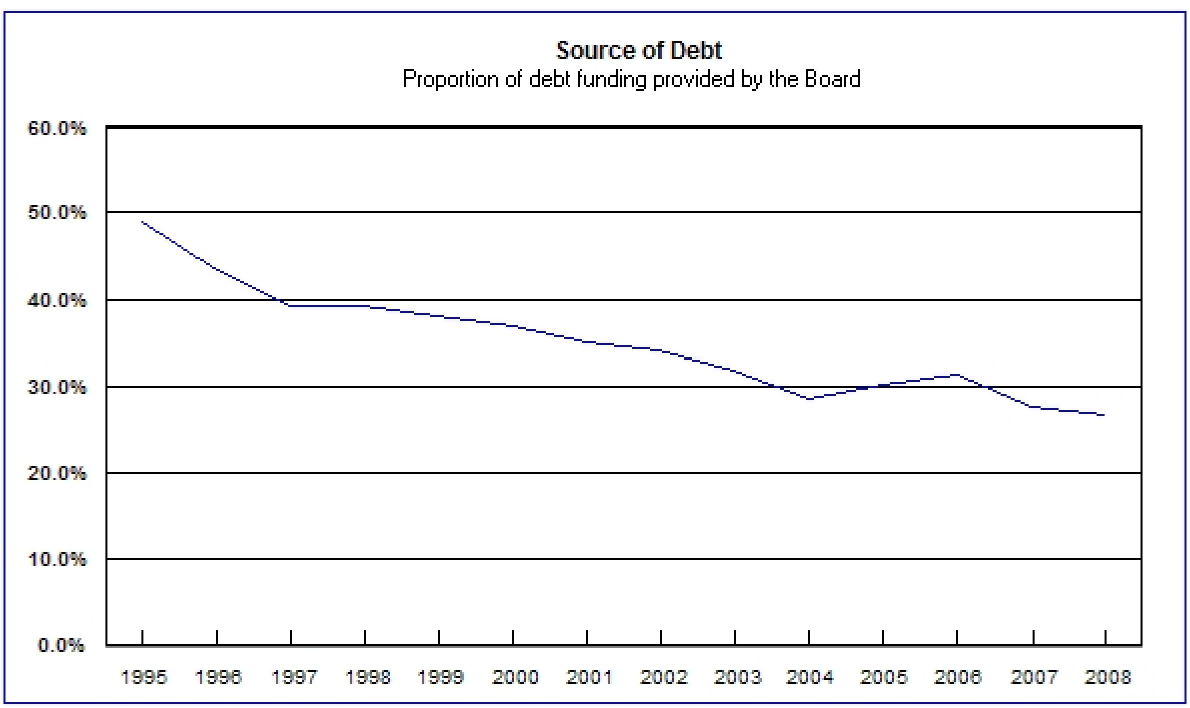
2000:	36.9% Base year		
2005:	27.8%	revised data from Statistics Canada:	30.1%
2006:	28.4%	"	31.1
2007:	25.8%	"	27.6
2008:	26.7%		

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

Where do we want to be?

Target calendar 2010: 26.5%

The Board's intention has been to maintain its availability to the agricultural and timber industries. The Board's focus remains on long term lending and feels that it is meeting its mandate regardless of the increase in commercial lending to agriculture.



Measure I-3: Arrears (>$100) as a percent of the value of all accounts
Measured at end of fiscal year (March 31)

What this measure tells us:

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

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

Where we are now:

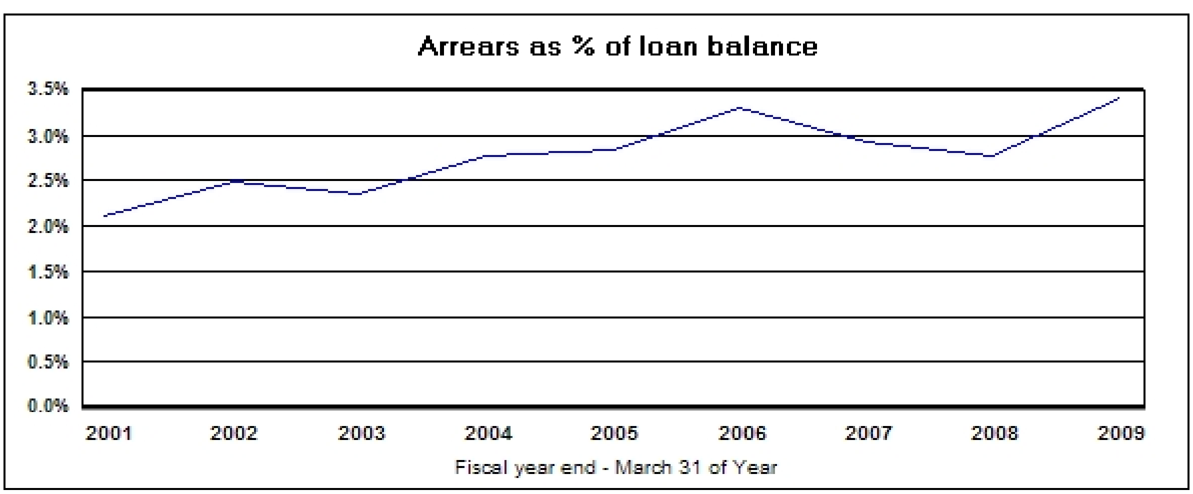
Base:	March 2001:	2.1%
	March 2007:	2.9%
	March 2008:	2.8%
	March 2009:	3.4%

A number of loan payouts by strong clients transferring to short-term loans have limited the portfolio size and reduced the average strength of clients remaining. Difficulties experienced by hog producers due to low prices as well as by beef producers have made repayment more difficult. High arrears are also being experienced in the mink and 'other crop' sectors.

Where do we want to be?

Target Mar 2009: 3.0% or less

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



Measure I-4: Defaulted accounts held as real estate as a % of total of all accounts

Measured at end of fiscal year (March 31)

What this measure tells us:

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

Where we are now:

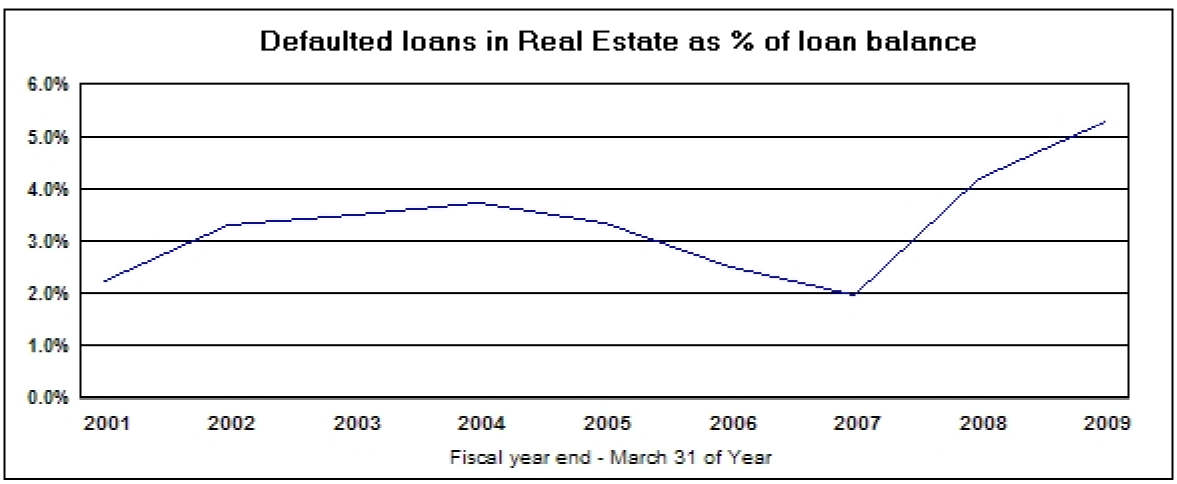
Base:	March 2001:	2.0%
	March 2007:	1.9%
	March 2008:	4.2%
	March 2009:	5.3%

2009 is above historical and targeted levels primarily as a result of client difficulties, particularly in the hog sector, as well as transfer of strong clients to other lenders to gain lower short-term interest rates.

Where do we want to be?

Target March 2009: 5.0% or less

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



Measure I-5: Client satisfaction based on survey of clients receiving loans
Combined results of responses to Courtesy, Promptness, Knowledge, Commitment
Fiscal year (April 1 - March 31) measure.

What this measure tells us:

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

Where we are now:

Percentage Good to Excellent:

Base year: 2000-01: 92%
2006-07: 96.8%
2007-08: 88.5%
2008-09: 94.1%

Where do we want to be?

Target 2008-09: 90% or above

Core Business Area II: Programs Administration

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

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

What this measure tells us:

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

Where we are now:

Base year:	2000-01:	48
	2006-07:	36
	2007-08:	31
	2008-09:	22

Where do we want to be?

Target 2008-2009: 35 - 50

Approvals are limited by the number of valid applications received.

Measure II-2: Administered Programs expenditures within budget

What this measure tells us:

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

Where we are now:

	Budget	Grant disbursed in the year
2000-01:	$600,000	$601,000
2006-07	$600,000	$449,000
2007-08	$600,000	$456,000
2008-09:	$600,000	$562,000

Where do we want to be?:

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

Table 1 **Historical Financial Summary** ($ '000)				
Fiscal year (April 1 - March 31):	2005-06	2006-07	2007-08	2008-09
Funds Advanced (all accounts)	$ 30,257	$ 25,526	$ 22,341	$ 26,718
Principal Repayments (all accounts)	(19,554)	(17,418)	(25,753)	(20,129)
Written off	(1,179)	(1,527)	(374)	0
Advanced Principal at Year-End	184,158	190,739	186,953	193,542
Provision for Doubtful Accounts (Principal)	(7,155)	(7,796)	(15,132)	(20,321)
Net Principal at Year-End	$ 177,003	$ 182,943	$ 171,821	$ 173,221
Revenue (1)	$ 11,330	$ 11,533	$ 11,457	$ 11,242
Expense (1)	(10,698)	(12,793)	(19,290)	(15,865)
Net Income (before Gov. contributions)	$ 632	$ (1,260)	$ (7,833)	$ (4,623)

See Financial Statements for notes related to the above information.

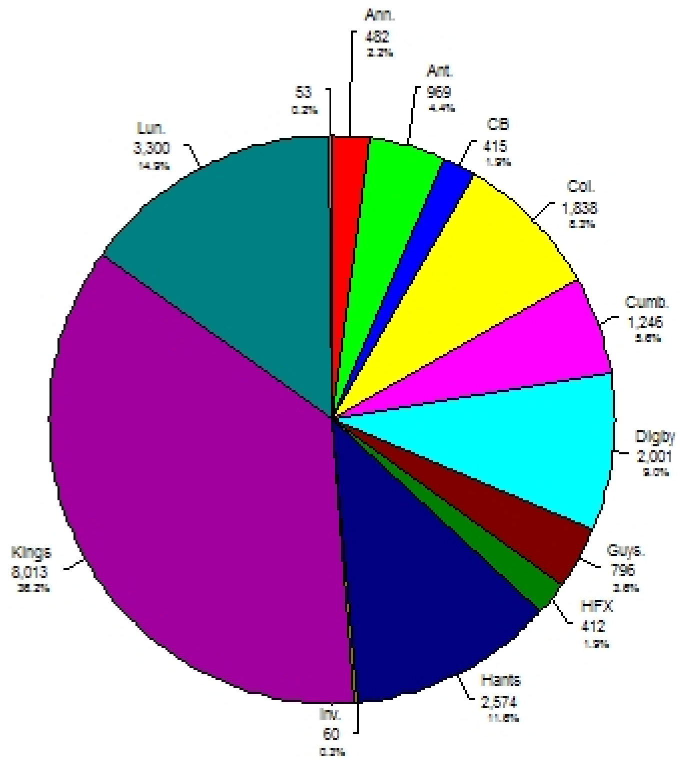
Table 2
Loan Principal approved and in place by County, 2008-2009 fiscal year

County	Approved this year			Total Loan Principal Not in Default	
	#	$ ('000)	%	$ ('000)	%
Annapolis	7	482	2.2%	9,085	5.0%
Antigonish	13	969	4.4%	8,124	4.4%
Cape Breton	3	415	1.9%	2,366	1.3%
Colchester	25	1,838	8.3%	23,475	12.9%
Cumberland	11	1,246	5.6%	14,895	8.2%
Digby	16	2,001	9.0%	7,206	3.9%
Guysborough	2	796	3.6%	1,829	1.0%
Halifax	7	412	1.9%	6,033	3.3%
Hants	10	1,742	7.9%	15,265	8.4%
Inverness	2	893	4.0%	5,697	3.1%
Kings	31	8,013	36.1%	70,332	38.4%
Lunenburg	10	3,300	14.9%	10,344	5.7%
Pictou	1	8	0.0%	5,079	2.8%
Queens	0	0	0.0%	400	0.2%
Richmond	0	0	0.0%	291	0.2%
Victoria, Yarmouth and Shelburne (Combined due to small number of loan requests)	1	45	0.2%	2,158	1.2%
Total Loans	139	22,160	100.0%	182,579	100.0%
Timber Board (incl in above)	0			2,015	

Value of loans approved during the year by County

2008/09 Fiscal Year

($ Thousands)



Principal of all loans at year-end by County

March 31, 2009

($ Thousands)

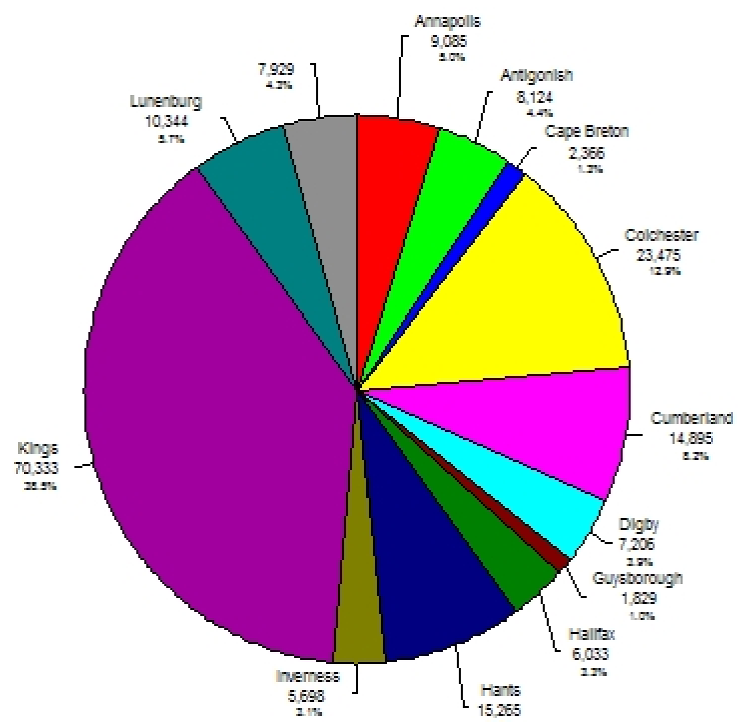


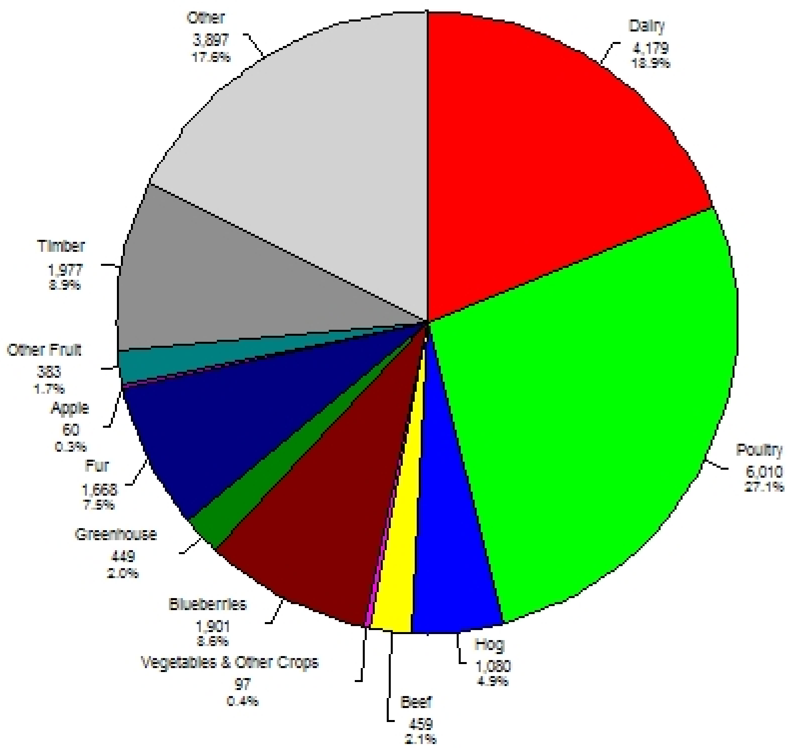
Table 2
Loan Principal approved and in place by Commodity, 2008-2009 fiscal year

Commodity	Approved this year			Loan principal outstanding at year end				
				Un-impaired	Impaired	In Default	Total Portfolio	
	#	$(‘000)	%	$ (‘000)	$ (‘000)	$ (‘000)	$ (‘000)	%
Dairy	31	4,178	18.9	50,464	0	0	50,464	26.2
Poultry	12	6,009	27.1	29,242	1,124	141	30,507	15.8
Hogs	4	1,080	4.9	1,239	15,150	7,022	23,411	12.2
Beef	11	459	2.1	9,476	3,656	252	13,384	7.0
Vegetable and other crops	3	97	0.4	7,004	134	1,600	8,738	4.6
Blueberries	23	1,902	8.6	8,482	2,933	57	11,472	6.0
Greenhouse	7	450	2.0	8,777	1,203	0	9,980	5.2
Fur	15	1,668	7.5	8,184	2,686	57	10,927	5.7
Apples	1	60	0.3	5,867	1,029	0	6,896	3.6
Other fruit	3	383	1.7	4,463	1,026	190	5,679	3.0
Timber and forestry	4	1,977	8.9	2,105	0	0	2,105	1.1
Other	25	3,897	17.6	15,048	3,287	88	18,423	9.6
Total Loans	139	22,160	100.0	150,351	32,228	9,407	191,986	100.0

Value of loans approved by Commodity

2008/09 Fiscal Year

($ Thousands)



Principal of loans not in default by Commodity

March 31, 2009

($ Thousands)