



NOVA SCOTIA
FARM LOAN BOARD

2021-2022

Annual Report

Nova Scotia FARM
Loan Board

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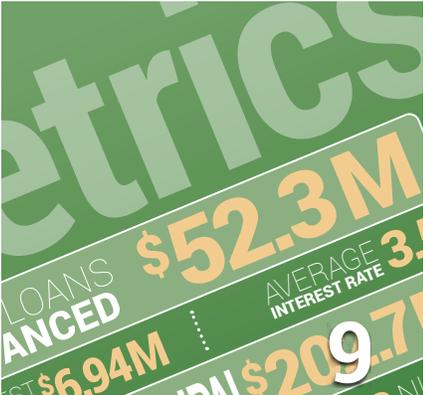
Nova Scotia Farm Loan Board Annual Report
2021-2022

Nova Scotia Farm Loan Board
November 2021

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Message from the Board Chair



Our annual report looks back on the prior year, highlighting both successes realized and challenges faced, and is meant to update the public on the results of our annual business plan. While this report looks backward, I can assure you that the Nova Scotia Farm Loan Board (FLB or Board) is focused on the future of food production in the province.

The 2021-22 year was a banner year for FLB. As the province managed the ongoing impacts of the COVID-19 pandemic we started to see a rebound in economic activity. The FLB worked hard to meet the growing demand for our lending products this past year, setting a record both in terms of loans approved and dollars advanced to the sector. The Board was a steadfast partner through the early days of the global pandemic and continued to work with our clients throughout the recovery. Our quick response to support the sector through uncertain times has enhanced our relationships with clients, built trust in the sector, and elevated the value proposition of working with a local lender. Local expertise and decision-making allow the Board to react quickly not only

in times of crisis but also to support producers and processors to seize opportunities to grow our agri-food economy in the province.

While we worked through the busiest year on record, we've continued to look to the future by ensuring we are adopting our lending products to meet the needs of industry. Important examples of this can be found in the partnerships we have fostered with the Nova Scotia Department of Agriculture to support the Clean Technology for Agriculture Program, our strengthened relationship with Farmworks Nova Scotia, and our new product offerings like the Wild Blueberry Business Enhancement Loan.

FLB supports many small businesses that contribute so much to our rural communities. We are energized and encouraged by the resilience of the agriculture and agri-food sector in our province. Industry has heard the call to improve availability of local products, increase local consumption, and tackle climate change. They are answering that call through installation of solar panels, automated equipment, innovative methods to expand production into shoulder seasons, and finding new ways to reach local consumers to name just a few examples.

The Nova Scotia Timber Loan Board (TLB) has continued to see growth this past year and in fact achieved its best year of approvals since its regulations were refreshed in 2019-20. We will continue to build on this momentum to support the sector with an affordable and local source of capital. We are committed to listening and adapting to support the needs of a sustainable forestry sector in the province well into the future.

You will find fulsome updates on the activities of the Board throughout the 2021-22 year contained in this report. I would like to take this opportunity to thank my fellow board directors and staff support for their professionalism, expertise, and passion for the industry.

Danny Phinney, *Chair*

Message from the

CEO/Executive Director



2021-22 was a year of significant growth for the FLB, with our year-end portfolio value exceeding \$200 million and annual loans advanced of \$52.3 million. This growth was realized despite the ongoing challenges arising from COVID-19, a true testament to staff adapting our work and program offerings to continue meeting the needs of our clients. Staff remained committed to developing new relationships and maintaining relationships with our existing client base to offer made in Nova Scotia lending solutions that meet our client needs.

As Nova Scotian farmers, agri-food businesses, and foresters continued to navigate the pandemic, the staff of the FLB remained at their side. Our staff's knowledge of the unique situation of each business allowed the FLB to support continued business viability. Ongoing partnerships with industry associations, key sectoral partners, and provincial and national partners enable each operation to achieve the financing and support that works for them. Extension of growing seasons, supporting efforts to address the impacts of climate change, and filling labour gaps through automation and innovation are but a few of the ways that the FLB positioned Nova Scotia's rural businesses for future success.

Efforts continued to develop and implement a modern loan management system that will offer

enhanced flexibility to our lending program and enable staff to respond to the changing needs of industry in a timelier manner. Ensuring that our staff continue to effectively serve clients, both long-standing and new entrants, drives our continuous improvement efforts. During 2021-2022, staff collectively identified areas for process improvement and offered solutions for implementation.

The FLB continued to work collaboratively with the Department of Agriculture in support of the Department's 2021-2022 strategic themes. Offering term lending products that are tailored to the needs of Nova Scotia's varied agriculture and forestry sectors is fundamental to enabling responsible economic growth. Our Senior Further Processing Specialists continued to identify opportunities to support businesses to maximize the value from their products. The FLB's provision of local and affordable capital allowed for the continued export of high-quality Nova Scotian products to markets around the world. Consumers, both locally and internationally, are increasingly demanding to know the full story about their food. Public trust and market acceptance are essential for the continued success and growth of our client portfolio. The COVID-19 pandemic has accelerated change in many areas that was already underway, and our lending solutions are designed to support innovation as Nova Scotia positions itself as a leader in the domestic and global marketplace.

In the fall of 2021-22, Government committed to undertake a review of agencies, offices, and crown corporations, which included the FLB as one of the initial crown corporations for review. This review examined the mandate and legislation of the Board to ensure we continued to offer effective, efficient, and accountable services to our sectors. Changes to Crown Corporations announced by Government in July 2022 did not include any changes for the FLB.

The work of our staff, and their focus on clients, is the foundation of the success of the Board. Their desire to see individual business operators, specific sectors, and Nova Scotia as a whole succeed is what drives their daily work. I would like to thank them for their commitment to serving their clients and working together in the midst of changing public health requirements.

Jennifer Thompson, Executive Director, Agriculture Lending and Risk Management



Board of Directors

Danny Phinney

Chair (May 2020-May 2023)

Danny has over 20 years of experience as a partner of Phinneyval Farms, a dairy farm in Annapolis County, and managed the operation until its sale in 2017. A graduate of the Nova Scotia Agricultural College, Danny has been involved in the agriculture industry throughout his career and now serves on several boards to support the industry. Danny is the current president of the Annapolis County 4-H Leader Council and has served as a director and as president of the West Nova Holstein Club. Danny is also serving as president on the board of directors of the Annapolis County Trails Society as well as the current treasurer of the Annapolis Valley Trails Coalition.

Andy Vermeulen

Vice-Chair (October 2020-October 2025)

Andy has been raised in the farming industry, successfully operating multiple farming companies for over 40 years. As owner of Vermeulen Farms Ltd., Andy has gained considerable experience in financial accounting, strategic business and succession planning, sales, production, and food safety. In addition to his employment background, Andy's education includes a Bachelor of Science in Agricultural Engineering and completion of the Canadian Total Excellence in Agricultural Management program from the George Morris Centre in 2012. Andy currently holds multiple positions on numerous boards and committees in his profession and community, offering expertise in board structure and operations.



Willie Versteeg

(October 2020-October 2025)

Willy has extensive experience in the Nova Scotia agriculture industry, having owned and operated Barneybrook Farms Ltd (dairy) for 27 years in the community of Hardwoodlands in East Hants. Willy is a corporate and community leader and has held many leadership roles in the community including, Municipal Councillor, president of the Nova Scotia Federation of Agriculture, director of the Canadian Federation of Agriculture, and chair and vice chair of the Farmers Dairy Audit Committee. Willy's interest as a director has been in the areas of audit and governance while growing the portfolio. Willy will tell you that the Nova Scotia FLB is a critically important tool in the development of agriculture, fostering greater food sustainability and growing the economy of Nova Scotia.

Jack Hamilton

(February 2021-February 2026)

Jack grew up in western Canada on a commercial beekeeping operation. Jack graduated from the University of Saskatchewan with a Diploma in Agriculture and worked for one year in Alberta as a land appraisal adjuster for Alberta Municipal Affairs. The rest of Jack's life has been dedicated to working honeybees commercially. Jack moved to Nova Scotia approximately 30 years ago to manage a Honeybee operation for a large wild blueberry grower. Jack believes we must have strong financial supports to assist family buyouts, orderly transfers of family farms, and growth within our agriculture community.



Stephen Brown

(May 2020-May 2023)

Steve has been involved in the forestry industry for decades in many capacities, including as a former forestry supervisor with the Nova Scotia Department of Natural Resources, a grower and seller of Christmas trees, firewood, and a woodlot owner. Steve has had experience in various leadership roles including serving on the Board of Directors for the North Nova Forest Owners, and on the Primary Forest Products Board. Steve is also knowledgeable on the agriculture industry, with a specific interest in industries near his home in Bass River, such as blueberries, cranberries, strawberries, and maple syrup. Steve has been an active member of the Bass River Fire Department for over 40 years and is proud to be completing his second term on the FLB supporting both the agriculture and forestry industries.

Dianne Kelderman

(July 2018-July 2021)

Dianne has extensive experience in the agriculture industry. She has worked in the co-operative sector for more than twenty years, working alongside several agriculture businesses. With a Master's in Economics, she has significant knowledge and experience in business analysis and financing. Dianne has served on many provincial, regional, and national boards, including several crown corporations. Dianne feels the agriculture industry is a backbone industry for the Nova Scotia economy and a significant contributor to the provincial gross domestic product. It is critically important to our food, food access and security, and to our environment and touches many other industries such as transportation, processing and production, export, technology, research, and science. Dianne takes pleasure in serving on the FLB.

Metrics

NEW LOANS
ADVANCED

\$52.3 M

INTEREST
REVENUE **\$6.94M**

AVERAGE
INTEREST RATE **3.5%**

TOTAL
PORTFOLIO

PRINCIPAL **\$202.7 M**

NUMBER
OF CLIENTS **395**

618 NUMBER
OF LOANS

APPROVED
LOANS **105**

NET
INCOME **\$152,000**

VALUE OF MICRO LOANS **\$390,000**

Caleb Wood

(July 2018-July 2022)

Caleb has a strong background in agriculture as he grew up on a mixed family farm in southwestern Nova Scotia. Caleb has a Bachelor of Commerce and is a Chartered Professional Accountant. Caleb has extensive leadership, financial reporting, treasury management and operational experience in a wide range of industries and offers strong financial management and accountability experience to the Board. Caleb is pleased to serve on the Board and help grow the agriculture and forestry industries in Nova Scotia through responsible lending.



About
the Nova Scotia
FARM Loan Board



Mission

The FLB builds on the success of agriculture in Nova Scotia by providing lending opportunities to expand, grow and innovate.

Vision

To be a lender of choice in the development of agriculture in rural Nova Scotia.

Mandate

The mandate of the FLB is to support the agricultural industry through the provision of capital financing. It operates as a corporation of the Crown under the *Agriculture and Rural Credit Act*. This Act provides authority to the FLB to make loans to, or guarantee loans of, a borrower for acquiring or improving any farm asset, including livestock. Regulations made under the *Act* govern the terms and conditions of loans provided by the FLB.

Established under the *Forests Act* as the Timber Loan Board (TLB), the TLB also serves the forest industry by providing loans, or guarantee loans of, a borrower for any purpose which will encourage, sustain, improve, or develop the forestry industry in the province. Regulations of the TLB, which govern terms and conditions of credit provided, are made under the *Forests Act*.



Economic

Landscape



Farm Cash Receipts

Farm cash receipts increased by 14 percent in 2021 to \$672 million. Dairy continues to be the top revenue-generating sector at \$159 million. The supply managed industries of dairy, poultry (\$121.5 million) and eggs (\$46.7 million) accounted for approximately half of all farm cash receipts. Other major contributors to farm cash receipts included cannabis (\$51.3 million), wild and cultivated blueberries (\$45.9 million), field vegetables (\$35.9 million), cattle (\$30.5 million), floriculture/nursery products (\$27.9 million), apples (\$22.9 million), Christmas trees (\$17.9 million), corn for grain (\$13.5 million) and strawberries (\$11.5 million).

International Trade

International agri-food exports increased by 7 percent for a total of \$400.3 million in 2021. Wild blueberries are the top agri-food export, accounting for \$122.7 million of all agri-food exports, followed by vegetables (\$45.1 million), preparations of grains and pasta (\$31.5 million), and live trees, plants, and floriculture (\$31.3 million). Nova Scotia exports agricultural products to 73 countries, with the main destinations being the United States (50 percent), Netherlands (9 percent), Germany (7 percent), and South Korea (5 percent).

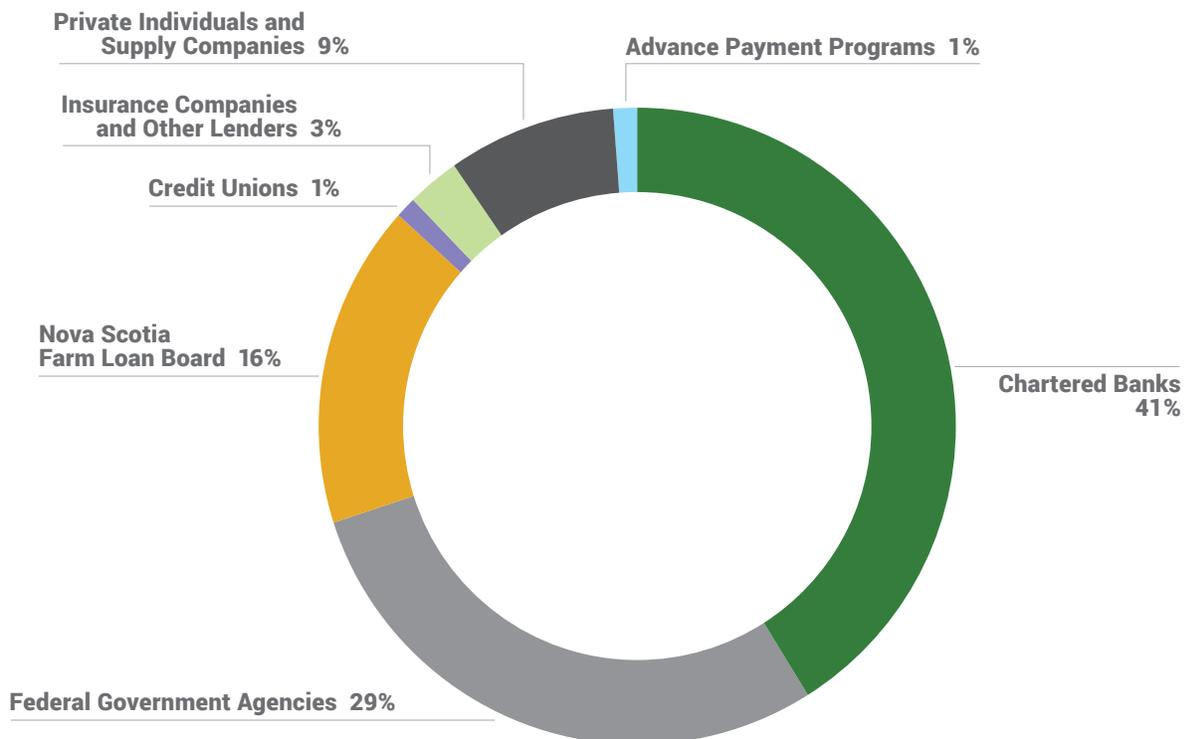




Lending Trends

National outstanding farm debt continues to trend upward. Nova Scotia's total outstanding farm debt for 2021 was \$1.24 billion, a 3.6 percent increase from 2020 and less than 1 percent of Canada's total outstanding farm debt. Canada's total farm assets rose 9.4 percent to \$748.6 billion in 2021.

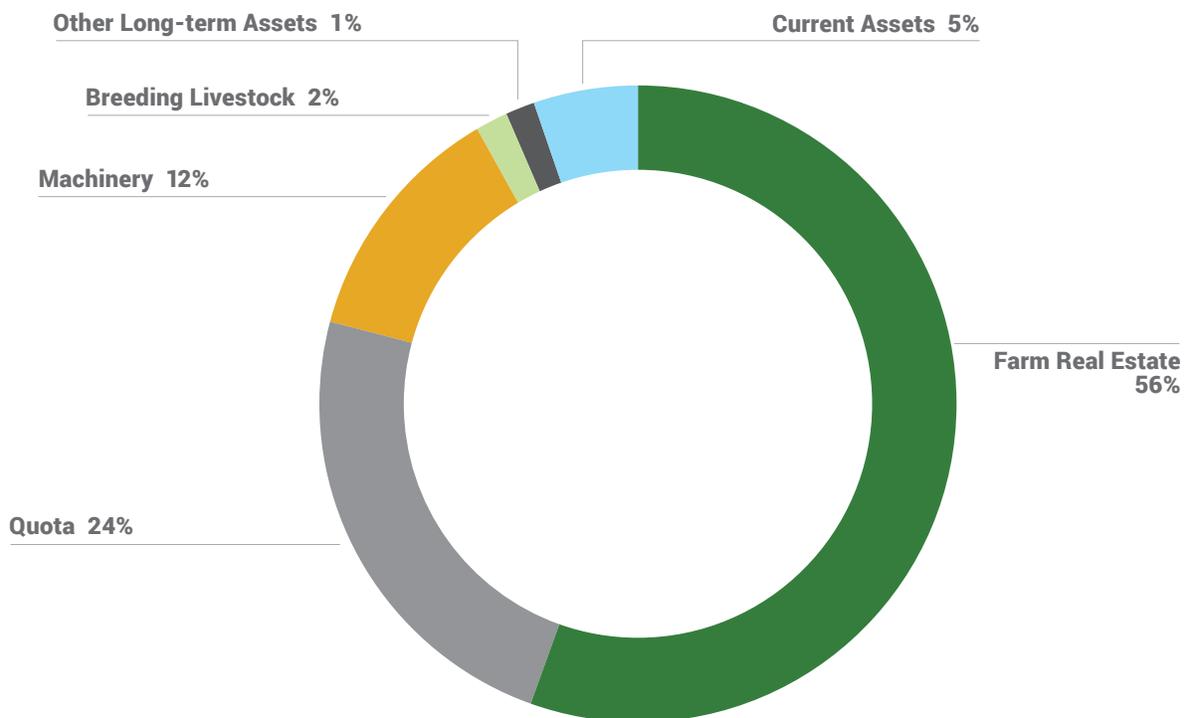
2021 Nova Scotia Farm Debt (by type of lender)





Nova Scotia’s total farm assets rose 7.7 percent to \$3.79 billion in 2021, which is 0.5 percent of the national total. Canada’s farm real estate assets rose 11 percent (\$58 billion) to \$577.5 billion in 2021. This accounts for 90 percent of the increase in Canada’s total farm assets. Nova Scotia’s farm real estate assets rose to \$2.1 billion in 2021, an increase of 12 percent (\$221 million).

Nova Scotia Farm Assets (2021)



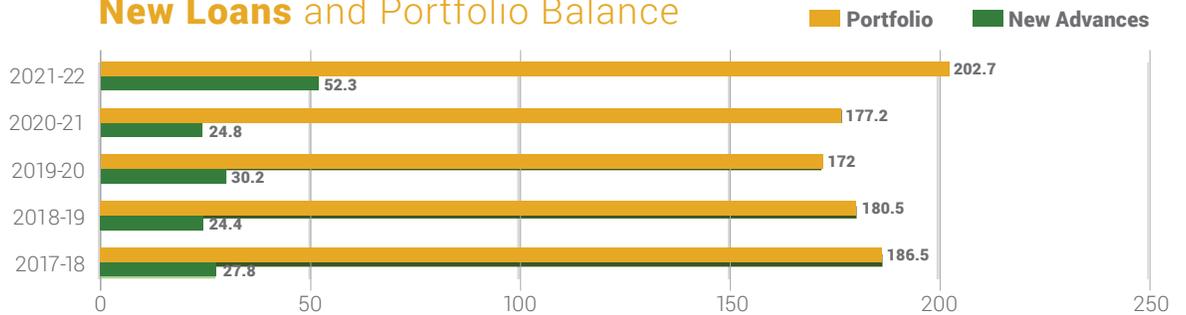


Lending

Highlights



New Loans and Portfolio Balance

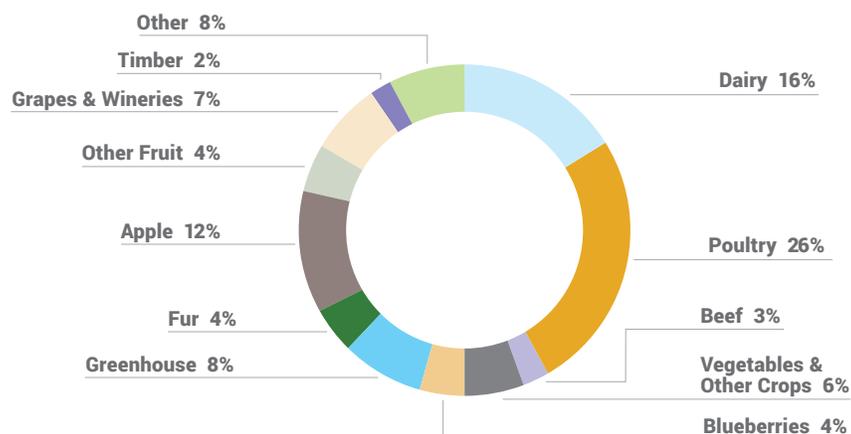


In 2021-2022, the FLB provided industry with financing of \$52.3 million, more than double that provided in the previous year. The total portfolio investment exceeded \$202 million on the strength of the second consecutive year of over 100 loan approvals, with \$57 million approved on 105 loans in 2021-2022.

Other 2021-2022 highlights:

- The number of clients in arrears continued its recent downward trend, declining from 57 in 2020-2021 to 40 in 2021-2022.
- FLB staff continued to provide financial guidance to all clients as part of our regular loan application process. An additional 41 clients received additional special credit counselling.
- The FLB continued to provide strong support to the apple industry (\$11.1 million in new loans), blueberry industry (\$1.1 million in new loans), and wine/grape industry (\$1.2 million in new loans).
- Loans to the poultry sector increased by 19.5 percent from 2020-2021, with new loans in 2021-22 totalling \$14.7 million

Loan Portfolio by Commodity





Farm Loan

Program

The FLB maintains its commitment to addressing the needs of Nova Scotia's diverse agriculture, agri-food, and timber industries by offering clients diverse loan programs with individualized solutions based on each applicant's unique credit, risk profile, and business needs. Financing with the FLB ranges from as low as \$3,000 to millions of dollars, with no upward limit on the value of loans; however, Executive Council approval is required for applicants entering FLB indebtedness of more than \$5 million.

The FLB's full suite of lending programs includes financing to purchase land and equipment, assistance with working capital, and refinancing of existing debt. The provision of supportive capital is a key component of the FLB's lending program, with financing available for specialized developments that are not expected to produce cashflow immediately, such as vineyards, blueberry fields and orchards. Developing Nova Scotia's next generation of farmers by supporting new entrants to establish or acquire a farm is a priority of the FLB. The FLB complements its lending services by offering creditor life insurance via a partnership with SunLife. Microloans to support small-scale entrepreneurs in the early stages of business development are also available from the FLB

Specialized Lending Products

The FLB specialized in providing competitive and supportive financing to businesses located throughout Nova Scotia via the following specialized lending products:

- **Fixed Farm Mortgage:** The fixed rate farm mortgage is offered with amortizations from 1 to 30 years. FLB clients can select fixed rate financing for the entire amortization period, which eliminates interest rate volatility risk for the entire repayment period. This predictability in payment stability is unmatched in the financial industry today. If interest rates decline over time the client can benefit from the lower rate at 5-year intervals; interest rates are capped on the upside, so the rate can only go down, not up.



- **Term Farm Mortgage:** The Term Farm Mortgage can be accessed with three term rate options. Clients may wish to assume some interest rate risk by selecting shorter fixed rate terms of 3, 5 and 10 years, providing a lower interest rate benefit during the term. At the end of the term, the rate is reviewed and reset either for another short term or for the remaining amortization period. Some conditions must be met to qualify for the term rate options. The risk assumed when using the term option is that the interest rate environment may increase over the term of the loan.
- **Quota Loan:** Quota Loans come with all the flexibility of the Farm Mortgage. Repayment can be amortized over any period from 1 to 20 years, designed to make the loan affordable. As challenging as it may be to buy quota, it is a fact of life in the supply-managed sector. The FLB makes it possible to repay this investment as the cash flow allows, and not in a 7 to 10 year period, as is more common in the financial industry.
- **Farm Debt Consolidator:** The Farm Debt Consolidator can be a very useful financial tool for businesses facing financial difficulty. While restructuring debt presents additional risk to a financial institution and is often associated with unfavourable operational indicators, it is sometimes necessary to see a business through difficult times. Terming out short-term debt (1 year or less) over a longer period (5 years or more) can be a difficult option for a business, but sometimes it may be necessary to carry a business through to a more viable future.
- **Deferred Product Options:** This product is designed for development of farm production where a long-range approach to cash flow generation is required. For example, most new apple production projects will not see cash flow generation for 4 to 6 years from start-up. In these situations, it is difficult to borrow start-up capital and operating funds, and at the same time service the debt with no additional production for several months or years.

- **The “Jump Start” Program:** Jump Start is designed for beginning commercial farmers. In combination with the provincial FarmNext plan this program can give a new farmer a real boost to get his or her farm career off to a great start. The Jump Start program combines some of the best components of the FLB’s other credit products. The “Jump Start” provides both the classic farm mortgage for the purchase of real estate and the deferral options packages that may be needed to support any operating requirements.
- **“Fast Tractor” – Equipment Financing:** The Fast Tractor authorization is an equipment purchasing loan. This loan product is designed to make the buying decision easier and to allow clients to take advantage of opportunity buys on equipment, such as manufacturer sales or auction events. The preapproved product is set up and individual draws are then termed out for a period that matches the life expectancy of the individual piece(s) of equipment purchased. The equipment loan eventually ends up as several term loans with scheduled principal and interest payments.
- **Cattle and Sheep Deferred Financing:** This program was developed to support cattle and sheep farmers where there is a proven plan for the expansion of livestock to implement long-term viability of their operation. The FLB offers flexible lending terms including payment deferrals that will complement the Nova Scotia Cattle and Sheep Industry Development Program.
- **Wild Blueberry Business Enhancement Loans:** The Wild Blueberry Business Enhancement program aims to increase wild blueberry production in Nova Scotia through efficiencies and land expansion by providing lending options for equipment, purchase and improvement of existing land, and new site development. This program encourages blueberry producers to invest in expanding their current operation to implement long-term viability.

Timber Loan Board

The TLB has existed for more than 55 years to provide access to capital for the forest industry and rural business development through flexible lending programs. Our goal is to provide flexible lending solutions to Nova Scotia’s forestry businesses and assist with the development, innovation and change in our industry, with a focus on continued growth of a sustainable forest sector.

Applicants to the TLB are eligible for the Fixed Mortgage, Term Mortgage, Equipment Financing, Debt Consolidation, Micro Loans, and Deferred Product Options that are available to FLB clients. In addition, the TLB worked collaboratively with Nova Scotia’s forestry contractors to develop the Contractor Equipment Financing Program. This industry-tailored lending program is intended for the acquisition of new or used equipment for both current and future needs. Eligible equipment includes harvesters, heads, forwarders, and skidders with competitive lending terms.

Efforts to modernize the TLB regulations came to fruition in 2021-2022, with new timber loans totalling \$4.5 million, a substantial increase from the \$568,000 approved in 2020-2021.

Progress

on Goals

■ Quality Lending

Total funds invested through new loans were \$52.3 million, representing a record year of activity for the Board. While setting record high advances and investment levels in the past year, quality lending remained at the forefront for the FLB. The Board is committed to thoroughly assessing applications and the unique situation of each borrower to ensure our financing makes sense and will contribute to the success of their business. Our assessment process identifies risk areas and ways to mitigate for both the applicant and the Board. As a way to measure business viability through economic downturns, the typical assessment process stress tests loans against lower commodity values and prices should there be a downturn in economic conditions. It is through this process we can ensure we are maintaining a balanced overall portfolio of loans – supporting a wide range of established operators while playing an important role in supporting the next generation of farmers. In 2021-22, the FLB saw a continued reduction in loans in arrears, a good indication that our careful approach is working to ensure clients and the Board are both positioned for success.

■ Accountability

The FLB team expanded in 2021-22 to add additional supports on our risk and lending teams. We welcomed a new risk analyst to ensure we can maintain our reputation for quality advice in a timely manner. We also welcomed a Term Loan Officer to backfill an internal vacancy, to help ensure that clients continued to receive timely service from the lending team. A Development Project Coordinator also joined our team to support initiatives such as the Community Pastures Program.

We continued to offer Special Credit Counselling to clients who are struggling to meet their obligations to the Board, with 41 clients supported to get their loans back into good standing with payment arrangements structured to position them for success. These clients have regular check-in discussions with a special credit officer to ensure mutual understanding of the situation and plan to restore the file to good standing.

■ Continuous Improvements

To maintain our position as a trusted partner with industry, we continue to review our systems and processes to identify areas where we can improve client service and satisfaction levels. FLB encourages and empowers staff to bring forward ideas to optimize our services, improve the quality of our agreements, improve our response times, and enhance customer satisfaction. Staff teams are currently working on projects to streamline

approval processes for lower value and lower risk loans and to update our policy manuals and standard operating procedures. FLB is also investing in staff through professional development and working to source industry data, research, and guest speakers. These projects highlight our commitment to ongoing improvement and will ensure the Board is positioned for success into the future.

■ **Growing the Rural Economy**

The FLB now has investments in excess of \$200 million. Ninety-five percent of those funds are invested in enterprises located outside of the province's largest municipality, Halifax Regional Municipality. These funds help support and maintain jobs and economic activity in rural communities from one end of the province to the other. Supporting our agriculture sector in turn supports the businesses and people that rely on this important sector for their livelihoods.

We are committed to supporting the rural economy through our lending programs. We will continue to listen to our clients and broader industry to adapt and adjust our offerings to meet their needs. The Board plays an important and growing role in ensuring lending products are available to new entrants. This allows people to live and work where they are from and supports continued vitality of our communities. Refurbishment of the grandstands and construction of a new multi-purpose pavilion at the Bible Hill exhibition grounds property demonstrate further support of the FLB for rural Nova Scotia. These investments are intended to unlock the full potential of the Bible Hill exhibition grounds as a community-based event space and a driver of economic and community development. In early 2022, the FLB administered a Request for Proposals for a new operator to assume management of the grounds to maintain the history and spirit of the property as an agricultural and harness racing destination.

■ **Positioned for Success**

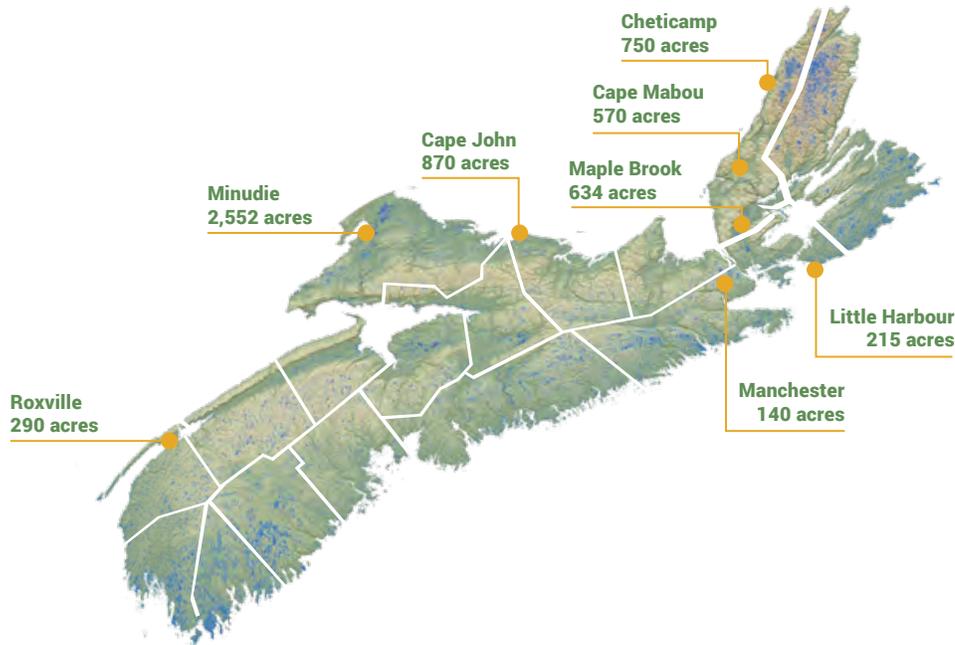
Positioning the FLB for success has looked different over the last couple of years. COVID-19 required us to adapt to phone and virtual check-ins with clients. In person visits and information sessions to promote the Board's services were put on hold. We look forward to getting our staff back out to meet with industry groups, presenting at trade shows, and visiting clients in person.

Industry outreach remains a key method to promote the value of working with the Board as a lending partner. The Board achieves this by sponsoring trade shows and placing ads in industry publications. We were proud sponsors of the Minister's Conference which occurred in a modified virtual speakers' series this year.

Community Pastures

The FLB has eight community pastures located throughout rural Nova Scotia. The Community Pasture program was established in the 1950's to assist farmers with reducing costs while developing their farms at home by providing grazing for their livestock during the summer months. There are pastures in Digby, Cumberland, Pictou, Guysborough, Richmond, and Inverness Counties.

The pastures have nearly 6,000 acres with 3,775 of those acres cleared and operating pastureland. The community pastures play a valuable role in supporting the growth and development of the province's beef industry. Approximately 10 percent of the Nova Scotia beef herd are placed on community pastures each summer. Seven of the pastures are operated under agreement with third party operators, mainly producer co-operatives, to provide grazing and related services to local farmers. The property in Manchester,



Guysborough Co. has not operated since the 1990's and the FLB is currently taking steps now to determine the path forward for this pasture.

In 2021-22, the FLB undertook several projects to revitalize the Community Pasture Program, including:

1. Community Pasture Action Committee (CPAC) established

This was one of the main recommendations of the consultant's report on community pastures commissioned in 2020. The committee consists of five members representing various segments of the Nova Scotia beef industry. The CPAC held their inaugural meeting in September of 2021.

2. Community Pasture Support Program announced.

This program is designed to fund investments in infrastructure and fertility to ensure the viability of the pastures for many years to come. The deadline for applications was set for March 31. Applications were received from six of the community pasture co-operatives.

3. Request for Proposals (RFP) issued for the lease of the Manchester Community Pasture in Guysborough County.

The RFP invited proposals for the use of the 140-acre parcel as a community pasture or any other agricultural use. The FLB is proud to keep large pieces of land in our province for agricultural use and to have this land available for farmers now and into the future.

Independent Auditor's Report

and Audited Financial Statements







Financial Statements

Nova Scotia Farm Loan Board

March 31, 2022

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Independent auditor's report

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To the Board of Directors of Nova Scotia Farm Loan Board

Opinion

We have audited the financial statements of Nova Scotia Farm Loan Board (the "Loan Board"), which comprise the statement of financial position as at March 31, 2022, and the statement of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Farm Loan Board as at March 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Grant Thornton LLP

Chartered Professional Accountants

Halifax, Canada
June 29, 2022

Nova Scotia Farm Loan Board Statement of financial position

March 31 2022 2021
(in thousands of dollars)

Financial assets

Accounts receivable	\$ 16	\$ 15
Interest and other receivables, net (Note 4)	1,576	1,589
Loans receivable, net (Note 5)	190,925	163,675
Real estate held for resale (Note 6)	<u>137</u>	<u>284</u>
	<u>192,654</u>	<u>165,563</u>

Liabilities

Due to the Province of Nova Scotia	16	15
Advances from the Province of Nova Scotia (Note 7)	<u>193,320</u>	<u>166,240</u>
	<u>193,336</u>	<u>166,255</u>

Net debt

(682) (692)

Non-financial assets

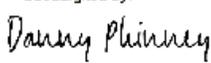
Real estate (Note 8)	<u>682</u>	<u>692</u>
	<u>682</u>	<u>692</u>

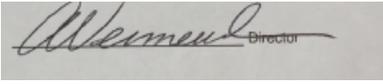
Accumulated surplus

\$ - \$ -

Commitments (Note 15)

On behalf of the Board

DocuSigned by:

BACI BI 93 002040C _____ Director

 Director

Nova Scotia Farm Loan Board

Statement of operations and accumulated surplus

Year ended March 31 (in thousands of dollars)	Budget 2022	2022	2021
Revenues			
Interest on loans	\$ 6,300	\$ 6,940	\$ 6,590
Loan processing and other fees	259	245	209
Life insurance program revenue, net	-	18	11
	<u>6,559</u>	<u>7,203</u>	<u>6,810</u>
Expenses			
Lending expenses (Note 9)	5,963	7,051	7,068
	<u>5,963</u>	<u>7,051</u>	<u>7,068</u>
Annual surplus (deficit) before distributions from the Province of Nova Scotia	596	152	(258)
(Distributions to) contributions from the Province of Nova Scotia	<u>(596)</u>	<u>(152)</u>	<u>258</u>
Annual surplus for the year and Accumulated surplus – Beginning and End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

5

Nova Scotia Farm Loan Board Statement of changes in net debt

Year ended March 31 (in thousands of dollars)	2022	2021
Net surplus	\$ -	\$ -
Net change in real estate held	<u>10</u>	<u>1,035</u>
Net debt		
Beginning of year	<u>(692)</u>	<u>(1,727)</u>
End of year	\$ <u>(682)</u>	\$ <u>(692)</u>

See accompanying notes to the financial statements.

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Nova Scotia Farm Loan Board Statement of cash flows

March 31 (in thousands of dollars)	2022	2021
Net increase (decrease) in cash and cash equivalents		
Operating		
Annual and accumulated surplus	\$ -	\$ -
Net charges (credits) to operations not involving cash		
Valuation allowance for impaired loans (including real estate held for resale)	1,663	2,308
Valuation allowance for real estate	-	(2)
Valuation allowance for accrued interest	56	(416)
	<u>1,719</u>	<u>1,890</u>
Net change in non-cash operating working capital balances related to operations		
(Increase) decrease in accounts receivable	(1)	6
(Increase) decrease in interest and other receivables	(43)	552
Increase (decrease) in due to the Province of Nova Scotia, net	1	(6)
	<u>1,676</u>	<u>2,442</u>
Financing activities		
Increase in advances from the Province of Nova Scotia, net	<u>27,080</u>	<u>3,401</u>
Investing activities		
Increase in loans receivable (including real estate held for resale), net	<u>(28,756)</u>	<u>(5,843)</u>
Net change in cash and cash equivalents	<u>-</u>	<u>-</u>
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
End of year	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to the financial statements.

7

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

1. Nature of operations

Authority

Nova Scotia Farm Loan Board (the "Loan Board") provides loans to the agriculture and forestry sector for farms operating in rural Nova Scotia.

The Board is a provincial agency and operates under the authority of the Agriculture and Rural Credit Act and the Forests Act (for timber loans).

Principal in loans outstanding is limited by regulation to \$250 million. Maximum advances to be disbursed in any given year, are established through the annual budgeting process. For the year ended March 31, 2022, new advances were \$52,339 (2021 - \$24,791). During the year, the Loan Board received repayments of loan principal of \$28,150 (2021 - \$21,108).

Loans in excess of \$5 million and any loan write-offs require approval by Governor in Council.

2. Capital management

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

3. Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared by management by applying the principles of the Chartered Professional Accountants of Canada Public Sector Accounting Standards for other government organizations as defined by the Canadian Public Sector Accounting Board, which sets out generally accepted accounting principles for government organizations.

Restricted cash and accounts receivable

The 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.

Accounts receivable reported consists of funds held by Sun Life Assurance Company of Canada in relation to the Loan Board's Creditor Group Life Insurance Program.

Loans receivable

Loans receivable are the principal portion of loans outstanding, net of the valuation allowance for loan impairment.

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

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

3. Summary of significant accounting policies (continued)

Valuation for loan impairment

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

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

In addition, the Loan Board records a collective valuation allowance for loans in the portfolio not assessed in the specific reserve. This is an estimate of incurred but unidentified losses based on a review of historic loan write-offs on an industry sector basis.

Real estate

Real estate acquired through foreclosure 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 the security held, less disposal costs.

Net operating costs incurred on real estate are added to the carrying value of the property. The related provision is used to adjust the carrying value to net recoverable value, resulting in inclusion of these costs in bad debt expenses if the carrying value exceeds net recoverable value.

The Loan Board also holds land purchased under a Provincial "Landbank" program. This program has ceased; however, existing properties and leases continue with renewable five-year terms. Property acquired under this program is valued at the lower of cost and recoverable amount. Lease clients are entitled to purchase the related property at its original purchase cost.

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 likely.

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

Government transfers are recognized as revenue when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

3. Summary of significant accounting policies (continued)

Measurement uncertainty

Uncertainty in the determination of the amount at which an item is recorded in the financial statements is known as measurement uncertainty. Many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action and are reviewed annually to reflect new information as it becomes available with adjustments made to the annual surplus or deficit as appropriate. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in the accruals for such items as health and retirement obligations. The nature of the uncertainty in the accruals for pension and retirement obligations arises because actual results may differ significantly from Tourism's various assumptions about plan members and economic conditions in the marketplace.

Financial instruments

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

The Loan Board's financial instruments consist of accounts receivable, interest and other receivables, loans receivable, due to the Province of Nova Scotia and advances from the Province of Nova Scotia and are measured at amortized cost using the effective interest method.

Management estimates

PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. By their nature, as described further in note 5b, these estimates are subject to measurement uncertainty and any changes in those estimates could have material impact on the results of future period financial statements.

Remeasurement gains and losses

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

Nova Scotia Farm Loan Board Notes to the financial statements

March 31, 2022

(in thousands of dollars)

4. Interest and other receivables, net	<u>2022</u>	<u>2021</u>
Interest receivable	\$ 1,712	\$ 1,954
Accrued interest	1,180	1,224
Other charges	<u>21</u>	<u>32</u>
	<u>2,913</u>	<u>3,210</u>
Less: valuation allowance for interest on impaired loans	50	106
valuation allowance on real estate	<u>1,287</u>	<u>1,515</u>
	<u>\$ 1,576</u>	<u>\$ 1,589</u>

5. Loans receivable

a) Loans receivable, net

The following schedule sets out the scheduled maturities of the principal balances of the financial assets as at March 31, 2022, together with the weighted average interest rates being earned on the financial assets.

	Under <u>1 year</u>	<u>1-5 years</u>	Over <u>5 years</u>	<u>2022</u> <u>Total</u>	2021 <u>Total</u>
Performing loans					
Farm loans	\$ 12,753	\$ 41,820	\$ 129,636	\$ 184,209	\$ 150,698
Timber loans	649	1,060	2,223	<u>3,932</u>	-
	<u>\$ 13,402</u>	<u>\$ 42,880</u>	<u>\$ 131,859</u>	<u>\$ 188,141</u>	<u>\$ 150,698</u>
Average effective annual interest rate	3.40%	3.46%	3.53%	3.50%	3.78%
Add: impaired loans				<u>14,550</u>	<u>26,480</u>
Total loans				202,691	177,178
Less: valuation allowance for loan impairment				<u>(11,766)</u>	<u>(13,503)</u>
				<u>\$ 190,925</u>	<u>\$ 163,675</u>

b) Allowance for impaired loans

Loans are considered impaired when they are risk rated as substandard or worse or when the loan is more than 90 days in arrears at year end and there is insufficient collateral security valued at forced sale to cover the balance outstanding. The allowance is comprised of two components, the specific allowance for individually identified impaired loans and a collective allowance for unidentified impaired loans.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

5. Loans receivable (continued)

b) Allowance for impaired loans (continued)

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

The collective allowance for unidentified impaired loans is management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year end. The collective allowance was determined based on management's judgment and recent experience by calculating the average estimated historical loss ratio by loan type and then applying these ratios to the current portfolio of unimpaired loans.

	<u>2022</u>		<u>2021</u>	
	Impaired loans	Allowance for impairment	Impaired loans	Allowance for impairment
Specific allowance	\$ 14,550	\$ 7,812	\$ 26,480	11,394
Collective allowance	<u>-</u>	<u>3,954</u>	<u>-</u>	<u>2,109</u>
	<u>\$ 14,550</u>	<u>\$ 11,766</u>	<u>\$ 26,480</u>	<u>\$ 13,503</u>

Significant judgement was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2022 will differ from these estimates and the differences could be material.

c) Continuity for allowance for impaired loans

	<u>2022</u>	<u>2021</u>
Allowance for impaired loans – beginning of year	\$ 13,610	\$ 13,414
Add: Valuation allowance for impaired loans	1,641	1,934
Less: Amounts written off	(3,432)	(1,738)
Other adjustments	<u>(3)</u>	<u>-</u>
Allowance for impaired loans – end of year	<u>11,816</u>	<u>13,610</u>
Valuation allowance on principal	11,766	13,503
Valuation allowance on interest	<u>50</u>	<u>107</u>
	<u>\$ 11,816</u>	<u>\$ 13,610</u>

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

5. Loans receivable (continued)

d) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they either (i) have a strong risk rating; (ii) have an arrears amount less than \$1; or (iii) are fully secured and collection efforts are reasonably expected to result in repayment. Loans that are past due but not impaired are as follows:

1-30 days	31-60 days	61-90 days	91 or more days	<u>2022</u>	<u>2021</u>
\$ 75	\$ -	\$ 810	\$ 1,286	<u>\$ 2,171</u>	<u>\$ 3,475</u>

6. Real estate held for resale

The assets held for sale, comprising land, buildings and equipment, have been written-down to estimated recoverable value. Recoverable value was estimated by management, utilizing external appraisals for the land and buildings, based on the expected selling prices, net of estimated closing costs.

Real estate held for resale has been written down from the original loan amounts as follows:

	<u>2022</u>	<u>2021</u>
Original funds advanced	\$ 533	\$ 1,722
Less: valuation allowance for real estate	<u>(396)</u>	<u>(1,438)</u>
Real estate held for sale	<u>\$ 137</u>	<u>\$ 284</u>

7. Advances from the Province of Nova Scotia, net

Advances are provided by the Province of Nova Scotia to fund loans issued by the Loan Board. The amortization periods of the advances range from 2 to 30 years. Advances are repayable in quarterly instalments of interest and principal. Interest rates vary from 2.0% to 6.7% with terms ranging from April 1, 2022 to January 1, 2049. Interest expense is calculated in accordance with a Memorandum of Understanding with the Nova Scotia Department of Finance (Note 10).

Nova Scotia Farm Loan Board Notes to the financial statements

March 31, 2022

(in thousands of dollars)

8. Real estate	<u>2022</u>	<u>2021</u>
Real estate held for long-term use		
Former loan property under lease	\$ 576	\$ 602
Land bank	-	4
Property used by community pastures	<u>106</u>	<u>86</u>
	<u>\$ 682</u>	<u>\$ 692</u>

The Board has recorded these properties as former loan properties under lease at the lower of the principal loan balance and the assessed value of the property. Subsequently, the Board entered into lease agreements over the properties to allow the loan clients to continue to operate on the properties. The Board has not recorded amortization on these properties. The Loan Board has recognized a recovery of \$nil (2021 - \$2) against this real estate.

9. Lending expenses	Budget	<u>2022</u>	<u>2021</u>
Bad debt expense (Note 11)	\$ 253	\$ 1,719	\$ 1,890
Interest expense (Note 10)	4,700	4,559	4,334
Other	115	14	28
Professional services	53	47	80
Salaries and benefits	733	656	666
Supplies and services	69	48	60
Training and development	7	4	2
Travel	<u>33</u>	<u>4</u>	<u>8</u>
	<u>\$ 5,963</u>	<u>\$ 7,051</u>	<u>\$ 7,068</u>

10. Interest expense

Since April 1, 1998, a Memorandum of Understanding ("MOU") between the Loan Board and the Nova Scotia Department of Finance has formalized the Loan Board's funding arrangement. Under the MOU arrangement, the Loan Board estimates projected lending requirements on a quarterly basis. The Nova Scotia Department of Finance arranges the requested financing for terms requested and provides this financing to the Loan Board at interest rates related to the terms and volumes requested. Funding is maintained to cover the Loan Board's investment in loans receivable and in real estate. The Loan Board tracks the draws arranged with the Nova Scotia 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.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

11. Bad debt expense

Bad debt expense includes:

	<u>2022</u>	<u>2021</u>
Allowance for impaired loans	\$ 1,450	\$ 487
Impairment of real estate held for resale	213	989
Recovery of real estate	-	(2)
Allowance for interest	<u>56</u>	<u>416</u>
	<u>\$ 1,719</u>	<u>\$ 1,890</u>

12. Financial instruments

Fair value of financial instruments

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

Risk management

Credit risk

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

The total of loans receivable at March 31, 2022 is \$202,691 (2021 - \$177,178). The majority of loans are secured primarily by real property using mortgage or 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. The maximum exposure to credit risk is the total loans outstanding.

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 Loan 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 Loan Board adjusts the valuation allowance 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 \$287 (2021 - \$309) was issued in refinanced loans during 2021 - 2022 to clients with significant arrears.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

12. Financial instruments (continued)

Liquidity risk

The Province of Nova Scotia provides funding and cash management services to the Loan Board. There is minimal risk that funds will be unavailable to meet lending commitments or payments of other expenses 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. Loans may be contracted for the full term of their amortization (from 1 to 30 years) or may be of fixed terms of 3, 5 or 10 years with an amortization period of up to 30 years. Funds drawn through the Province provide for 10% annual and 5-year full optional repayments. A 1% change in interest rates would have a \$1,909 (2021 - \$1,637) impact on interest income and on interest expense.

13. Related party transactions

The Loan 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 1). Transactions with provincial entities were entered into in the normal course of business.

The Province of Nova Scotia pays certain expenses, including rent, building maintenance, computer networks and support, computerized accounting systems and miscellaneous office expenses in relation to building and computer systems, on behalf of the Loan Board with no charge to the Board.

Loans and interest receivable includes \$3,278 (2021 - \$2,306) and interest revenue includes \$96 (2021 - \$97) resulting from outstanding loans to Loan Board members and immediate family of Board members. These loans were issued under normal terms and conditions using market interest rates.

14. Pension and post retirement benefits

All full-time employees of the Loan Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions of \$48 (2021 - \$49) are included in the Loan Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Plan Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the pension plan. It is not anticipated that any such future costs would be allocated to the Loan Board.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

15. Commitments

The Board will hold interest rates for ninety days for any client from the date of loan approval. As of March 31, 2022, the Board has authorized loans of \$19,655 (2021 - \$19,433) which had not been disbursed.



**NOVA SCOTIA
FARM LOAN BOARD**

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