Quarterly Financial Report

ENTERPRISE CAPE BRETON CORPORATION

For the first quarter ended June 30, 2011

ENTERPRISE CAPE BRETON CORPORATION
Narrative Discussion
June 30, 2011

This document provides a narrative discussion ("narrative") of the Corporation's financial position as at, and results of operations for, the three months ended June 30, 2011. This narrative should be read together with the condensed unaudited consolidated interim financial statements and accompanying notes for the period ended June 30, 2011, (interim financial statements) and the audited consolidated financial statements and accompanying notes for the year ended March 31, 2011, and related Management Discussion and Analysis. All amounts in this document are in thousands of Canadian dollars, except where noted.

TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

The interim financial statements represent the initial presentation of the Corporation's results and financial position under Public Sector Accounting Standards ("PSAS") and have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations.

The interim financial statements are in accordance with the accounting policies expected to be applied in the consolidated financial statements for the year ending March 31, 2012. They do not include all of the information required for full annual financial statements. Previously, the consolidated annual consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The adoption of PSAS has not had a material impact on the overall performance, strategic decisions or underlying trends of the Corporation's operations.

Impact of transition to PSAS

PS 2125, *First-time Adoption by Government Organizations,* provides guidance for the initial adoption of PSAS. The Corporation's analysis of PSAS and comparison to the accounting policies under Canadian GAAP identified some key differences. Refer to the interim financial statements note 3 for explanations of these differences and adjustments.

PS 2125 provides optional exemptions. In general, the Corporation has chosen to apply certain optional exemptions to reduce the complexity involved in converting to PSAS, as the cost of not applying the exemptions would far outweigh the benefit to the users of the consolidated financial statements. Refer to note 3 of the interim financial statements for more detail on the exemptions the Corporation has taken and reconciliations between the March 31, 2011 results previously prepared under Canadian GAAP and those completed under PSAS. The reconciliations include the accumulated deficit as at April 1, 2010, and annual surplus for the year ended March 31, 2011. The Corporation's PSAS accounting policies are provided in note 2 to the interim financial statements**.**

FIRST QUARTER IN REVIEW

Results of Operations	**Three months ended June 30, 2011**	**Year ended March 31, 2011**
Total expenses	$ 7,001	$ 37,028
Total revenue	772	1,489
Deficit before parliamentary appropriation	$ (6,229)	$ (35,539)
Parliamentary appropriation	8,128	83,070
Surplus for the period	$ 1,899	$ 47,531

Loan Balances

During the three months ended June 30, 2011, the Corporation collected $1,023 on loan balances that were not expected during the development of the corporate plan. As a result of the significant collections received during the period, the Corporation has projected collections on loans to be approximately $3,300 in comparison to the original corporate plan budget of $1,800.

The Corporation did not disburse any loans during the three months ended June 30, 2011 (year ended March 31, 2011 - $7,510). Timing of loan disbursements is dependent on project timing and claim processing. Loan disbursements are normally lower in the first quarter of the year.

Expenses

Expenses	Three months ended June 30, 2011	Year ended March 31, 2011
Program development expenses	$ 2,240	$ 7,001
Program support and administrative	436	2.186
Rental and development facilities	273	1,038
Impairment expense	(886)	(387)
Loans fair value adjustment	665	2,318
Workers' compensation and other employee future benefits	1,631	8,850
Early retirement, severance and other benefits	582	4,359
Human resources and environmental support	571	2,392
Accretion expense environmental remediation	1,328	8,738
Amortization of tangible capital assets	161	533
	$ 7,001	$ 37,028

Program development expenses for the three months ended June 30, 2011 included $197 (year ended March 31, 2011 - $6,341) in community economic development, $2,043 in commercial development (year ended March 31, 2011 - $632) and $Nil in policy and advocacy (year ended March 31, 2011 - $28). Commercial and community economic development expenses are normally lower in the first quarter.

During the year ended March 31, 2011, the estimate related to environmental remediation was revised resulting in an increase in the accretion expense of $2,736. No such revision has occurred during the three months ended June 30, 2011.

Expenses are on budget for the three months ended June 30, 2011 and there is no expectation of any deviations from the corporate plan based on the results to date.

Revenue

Revenue	Three months ended June 30, 2011	Year ended March 31, 2011
Rental facilities	$ 128	$ 579
Loan interest	134	395
Bank interest and other income	106	496
Gain on disposal of tangible capital assets	404	19
	$ 772	$ 1,489

Revenues for the three months ended June 30, 2011 were consistent with budget expectations with the exception of higher than expected proceeds from the sale of tangible capital assets of $682 (year ended March 31, 2011 - $27) which resulted in a gain on disposal of $404 (year ended March 31, 2011 - $19). As a result, it is expected that proceeds from the disposal of tangible capital assets will be above the corporate plan budget by approximately $80.

Significant Management Estimates

There have been no changes in significant management estimates during the three months ended June 30, 2011. As a result of the transition to PSAS (as discussed under **Transition to Public Sector Accounting Standards**) there were changes in estimates compared to the annual audited consolidated financial statements. The effects of these changes have been disclosed in the interim financial statements note 3.

Risk Analysis and Significant Changes

During the three months ended June 30, 2011, there was no change in the financial risks of the Corporation that were discussed in the annual Management Discussion and Analysis.

During the three months ended June 30, 2011, there were no significant changes related to operations, personnel and programs of the Corporation.

ECONOMIC ENVIRONMENT

Sydney Harbour

In 2010-2011 funding was announced for the dredging of the Sydney Harbour. The Corporation has taken a leadership role in the project and is chairing the oversight committee to ensure that it is completed on time, on budget and meets quality requirements. The Corporation holds monthly reporting meetings to ensure the project is progressing as planned. At this stage it continues to progress on time and on budget.

The project has received tremendous local community engagement and support which helped it to move forward. This is important as the project enters the “catch and release” phase, where local fishermen will catch lobsters on one side of the dredge and release them on the other side.

As of June 30, 2011, the Corporation has advanced $4,200 in funding to the project as the lay down area and the access road are being constructed. The catch and release program and the dredging activity are expected to commence in September and October, respectively.

Xstrata

Xstrata Coal Donkin announced in 2010 that it would develop an underground coal-mining operation in Donkin, Cape Breton. During the quarter, the environmental assessment was submitted to provincial and federal regulatory authorities and the parties are currently working through this environmental review process. It is expected that the Corporation will be involved in the evaluation for the next 12-18 months as a Responsible Authority pursuant to the *Canadian Environmental Assessment Act* (“CEAA”). The reason the Corporation is a Responsible Authority is that the proposed project has identified one option whereby Xstrata would construct a rail corridor over lands owned by the Corporation.

APPROPRIATION

The Corporation's total drawdown against the approved parliamentary appropriation for the three months ended June 30, 2011 was $8,128 (year ended March 31, 2011 - $83,070). All appropriations recorded during the three months ended June 30, 2011 were collected (year ended March 31, 2011 - $Nil outstanding). The following table reconciles the appropriations received and disbursed:

	Three months ended June 30, 2011	Year ended March 31, 2011
Opening balance	$ -	$ -
Appropriations received	8,128	83,070
Appropriations disbursed	(8,128)	(83,070)
Ending balance	$ -	$ -

Parliament has authorized a total appropriation of $65,026 for the year ended March 31, 2012. The appropriation is subject to change if adjustments are made to funding through supplementary estimates during the remainder of the year.

Condensed Consolidated Interim Financial Statements of

ENTERPRISE CAPE BRETON CORPORATION

(Unaudited)

June 30, 2011

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(Unaudited)
June 30, 2011

ENTERPRISE CAPE BRETON CORPORATION

STATEMENT OF MANAGEMENT RESPONSIBILITY BY SENIOR OFFICIALS

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

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

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

John K. Lynn Chief Executive Officer	Frances L. Marenick, CA Director General, Corporate Services

Sydney, Canada
August 22, 2011

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Financial Position
(Unaudited)
For the three months ended June 30, 2011 (000s)

	June 30, 2011	March 31, 2011	April 1, 2010
		(Note 3)	(Note 3)
FINANCIAL ASSETS			
Cash (Note 5)	$ 28,942	$ 39,709	$ 43,884
Accounts Receivable (Note 6)	4,919	9,254	13,163
Loans (Note 7)	12,970	14,119	12,807
Equity investments (Note 8)	4,082	4,082	3,500
Deposits held with Workers' Compensation Board (Note 9)	3,130	3,130	3,130
TOTAL FINANCIAL ASSETS	54,043	70,294	76,484
LIABILITIES			
Accounts payable and accrued liabilities (Note 10)	8,390	12,014	18,640
Loans payable (Note 11)	4,356	4,356	4,356
Accrued obligation for workers' compensation (Note 12)	195,260	198,859	208,471
Accrued obligation for environmental costs (Note 13)	123,593	129,887	147,476
Accrued obligation for early retirement and severance benefits (Note 14)	80,653	85,160	102,826
Accrued obligation for other employee future benefits (Note 15)	5,676	5,721	6,652
Accrued obligation for retirement allowances (Note 16)	765	783	691
Accrued obligation for compensated absences (Note 17)	30	30	50
TOTAL LIABILITIES	418,723	436,810	489,162
NET DEBT	(364,680)	(366,516)	(412,678)
NON-FINANCIAL ASSETS			
Tangible capital assets (Note 18)	4,072	4,211	3,563
Prepaid expenses	1,006	804	83
TOTAL NON-FINANCIAL ASSETS	5,078	5,015	3,646
ACCUMULATED DEFICIT	$ (359,602)	$ (361,501)	$ (409,032)

CONTINGENT LIABILITIES (Note 21)

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Operations
(Unaudited)
for the three months ended June 30, 2011 (000s)

	Three months ended June 30, 2011 Actual	Year ended March 31, 2011 Actual (Note 3)
EXPENSES		
Program Expenses		
Program development expenses (Note 20)	$ 2,240	$ 7,001
Program support and administrative expenses	436	2,186
Rental and development facilities	273	1,038
Impairment expense	(886)	(387)
Loans fair value adjustment	665	2,318
Workers' compensation and other employee future benefits (Notes 12 and 15)	1,631	8,850
Early retirement, severance and other benefits (Note 14)	582	4,359
Human resources and environmental support expenses	571	2,392
Accretion expense environmental remediation (Note 13)	1,328	8,738
Amortization of tangible capital assets	161	533
TOTAL EXPENSES	7,001	37,028
REVENUE		
Rental facilities	128	579
Loan interest	134	395
Bank interest and other income	106	496
Gain on disposal of tangible capital assets	404	19
TOTAL REVENUE	772	1,489
ACTIVITIES ON BEHALF OF THE ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA) (Note 1)		
Program expenses	560	14,967
Salaries, professional and other	804	3,133
	1,364	18,100
Less: Costs recovered from ACOA	1,364	18,100
	-	-
Deficit before parliamentary appropriation	(6,229)	(35,539)
Parliamentary appropriation	8,128	83,070
Surplus for the period	1,899	47,531
Accumulated deficit beginning of period	(361,501)	(409,032)
Accumulated deficit end of period	$ (359,602)	$ (361,501)

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Cash Flow
(Unaudited)
for the three months ended June 30, 2011 (000s)

	June 30, 2011 Actual	March 31, 2011 Actual (Note 3)
ANNUAL SURPLUS	$ (1,899)	$ (47,531)
Acquisition of tangible capital assets	300	1,189
Amortization of tangible capital assets	(161)	(533)
Gain/(loss) on sale of tangible capital assets	404	19
Proceeds on sale of tangible capital assets	(682)	(27)
	(2,038)	(46,883)
Acquisition of prepaid expenses	202	721
DECREASE IN NET DEBT	(1,836)	(46,162)
NET DEBT AT BEGINNING OF PERIOD	366,516	412,678
NET DEBT AT END OF PERIOD	$ 364,680	$ 366,516

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

ENTERPRISE CAPE BRETON CORPORATION
Consolidated Statement of Cash Flow
(Unaudited)
for the three months ended June 30, 2011 (000s)

	June 30, 2011	Year ended March 31, 2011
OPERATING ACTIVITIES		
Parliamentary appropriation received	$ 8,128	$ 84,535
Cash received from ACOA	4,129	23,105
Loan interest received	28	47
Bank interest received	123	491
Cash received from (paid to) rental activities and other parties	2,380	(686)
Payments made for program and administrative expenditures	(4,104)	(12,325)
Payments made on behalf of ACOA	(3,319)	(24,373)
Payments made for early retirements, workers' compensation and other non-pension employee future benefits	(10,439)	(42,791)
Payments made for environmental obligations and support	(9,550)	(27,540)
CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(12,624)	463
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	682	27
Cash used to acquire tangible capital assets	(300)	(1,189)
CASH PROVIDED/(USED) BY CAPITAL ACTIVITIES	382	(1,162)
INVESTING ACTIVITIES		
Proceeds on redemption of equity investments	-	2
Loan disbursements	-	(7,510)
Loan repayments	1,475	4,032
CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	1,475	(3,476)
NET DECREASE IN CASH	(10,767)	(4,175)
CASH AT BEGINNING OF PERIOD	39,709	43,884
CASH AT END OF PERIOD	$ 28,942	$ 39,709

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

1. THE CORPORATION

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

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

On August 25, 2000, the Cape Breton Growth Fund Corporation ("Growth Fund") was incorporated under the *Canada Business Corporations Act* as a wholly-owned subsidiary of Enterprise Cape Breton Corporation. The Growth Fund had the same mandate as the Corporation. The Governor in Council directed that when the Growth Fund's funding became fully committed, the remaining assets and liabilities were to be transferred to the Corporation and the Growth Fund dissolved. On April 1, 2008, the remaining assets and liabilities of the Growth Fund were transferred to the Corporation and the Growth Fund was dissolved.

The Corporation has two wholly-owned subsidiaries; DARR (Cape Breton) Limited (DARR) is incorporated under the *Nova Scotia Companies Act.* DARR owns and manages all of the Corporation's real property holdings. The Growth Fund acquired Cape Breton Casting Inc. (CBCI) on March 3, 2006 by exercising its security on outstanding loans. The shares of CBCI were transferred to the Corporation upon dissolution of the Growth Fund.

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

The Corporation assumed the assets and obligations of the former Cape Breton Development Corporation (CBDC) on January 1, 2010 with obligations totaling $447 million, assets of $51 million and deficit of $396 million.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The unaudited consolidated interim financial statements ("interim financial statements") of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements, including comparative periods. They have also been applied in preparing a consolidated statement of financial position at April 1, 2010, for the purposes of the transition to Public Sector Accounting ("PSA") Standards. The interim financial statements are prepared in accordance with the accounting policies ECBC expects to adopt in its consolidated financial statements for the year ending March 31, 2012, but do not include all of the disclosure information required for full annual financial statements. Previously, ECBC's financial statements were prepared in accordance with Canadian generally accepted accounting principles. The interim financial statements should be read in conjunction with its March 31, 2011 annual audited consolidated financial statements and with the narrative included in the quarterly financial report. The effect of the transition from Canadian GAAP to PSA is explained in note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting (continued)

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

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

Principles of consolidation

The interim financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity. The reporting entity is comprised of all organizations which are owned or controlled by the Corporation. These organizations include:

DARR (Cape Breton) Limited
Cape Breton Casting Inc.

The effects of inter-entity transactions on assets, liabilities, accumulated deficit, revenues, and expenses are eliminated upon consolidation.

Revenue recognition

(i) Rental income includes revenues from the leasing of space, facilities and related services. Revenue from rent is recorded when the service is rendered.
(ii) Interest and investment income is recorded on an accrual basis.

Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the consolidated statement of operations in the year approved. The draw downs against these appropriations are based upon cash requirements.

Income taxes

Cape Breton Casting Inc. follows the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Cash and deposits with Workers' Compensation Board

Cash and deposits held with the Workers' Compensation Board are measured at fair value.

Accounts receivable

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

Loans receivable

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans receivable (continued)

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

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

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

Equity investments

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

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

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

Accounts and loans payable

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets

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

Buildings	up to 20 years
Equipment and furniture	5 years
Computer equipment and software	2 to 3 years
Leasehold improvements	up to 20 years
Vehicles	5 years

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

Accrued obligation for retirement allowances

Employees are entitled to specified benefits on retirement as provided for under conditions of employment. The Corporation recognizes the cost of the future severance benefits over the period in which the employees render services to the Corporation and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determines the accrued obligation for retirement allowances using a method based upon assumptions and its best estimate of discounted expected future cash flows. Changes in the net present value of this liability are based on the results of actual experience and changes in management's assumptions. They are amortized to the liability over the expected average remaining service life of the related employee group and charged or credited to program support and administrative expenses on the consolidated statement of operations.

Pension plan

All eligible employees are covered by the Public Service Pension Plan (the "Plan") administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. The Corporation's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation. Contributions are expensed in the period in which the services are rendered. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Plan.

Accrued obligation for workers' compensation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued obligation for early retirement and severance benefits

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

Changes in the net present value of this liability from the original estimate are based on the results of actual experience and changes in management’s assumptions and are recognized in the consolidated statement of operations in the year in which they occur.

Accrued obligation for other employee future benefits

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

Accrued obligation for compensated absences

Employees accrue 1.25 days of sick leave for every month in which they have earnings of 10 days. Any unused sick leave is carried forward from year to year with no cap on the amount of days to be carried forward. The Corporation recognizes the cost of the future sick leave benefits over the period in which the employees render services to the Corporation and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determines the accrued obligation for sick leave using a method based upon assumptions and its best estimate of discounted expected future cash flows. Changes in the original estimate of the net present value of this liability are based on the results of actual experience and changes in management’s assumptions. They are amortized to the liability over the expected average remaining service life of the related employee group and charged or credited to program support and administrative expenses on the consolidated statement of operations.

Accrued obligation for environmental costs

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

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

In previous fiscal years, the Corporation classified itself as a Government Business-Type Organization ("GBTO") and followed the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Accounting Handbook - Part V. In October 2009, the Public Sector Accounting Board ("PSAB") determined that the category will cease to exist for fiscal years ending on or after January 1, 2011, and GBTOs are required to reclassify themselves in accordance with Public Sector Accounting (“PSA”) Standards. In accordance with recommendations of the Public Sector Accounting Handbook, the Corporation has determined that it is an other government organization and has determined that PSA Standards are the most appropriate framework for reporting purposes.

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

The adoption of PSA Standards is accounted for by retroactive application with restatement of prior periods. The following is a summary of the main qualitative differences for the Corporation between its previous and current consolidated financial statements:

- The March 31, 2011 Consolidated Balance Sheet has been replaced by the Consolidated Statement of Financial Position, segregating financial and non-financial assets as well as the net debt (liabilities less financial assets) of the Corporation; and accumulated surplus/deficit at the Consolidated Statement of Financial Position date.

- The Consolidated Statement of Income and Comprehensive Income for the year ended March 31, 2011 has been replaced by the Consolidated Statement of Operations, reporting both revenue and expenses.
  - Expenses are disclosed by object; and
  - A comparison of the current year results with the original comparative budget is disclosed in the annual consolidated financial statements.

- The Consolidated Statement of Retained Earnings has been replaced by the Consolidated Statement of Change in Net Debt, which represents the expenditures of a public sector reporting entity less revenue, as well as acquisitions of tangible capital assets and other items explaining the difference between the surplus/deficit of the period and the change in net debt for the period. A comparison of the current year results with the original comparative budget is also required and disclosed in the annual consolidated financial statements.

The Corporation has elected to use the following exemptions under PS 2125, *First Time Adoption by Government Organizations:*

<u>Retirement and post-employment benefits</u>

Under Section PS 3250, for defined benefits plans, and under Section PS 3255, a government organization amortizes actuarial gains and losses to the liability or asset, and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group. Retroactive application of this approach requires a government organization to split the cumulative actuarial gains and losses, from the inception of the plan until the date of transition to PSA Standards, into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses as of the date of transition to PSA Standards directly in accumulated surplus/deficit. Since under the Corporation's previous accounting framework, actuarial gains and losses were recognized immediately in the statement of operations, there will be no impact on transition for the change in policy as a result of this exemption.

<u>Tangible capital asset impairment.</u>

Section PS 3150, indicates the conditions when a write-down of a tangible capital asset should be accounted for. A first-time adopter need not comply with those requirements for write-downs of tangible capital assets that were incurred prior to the date of transition to PSA Standards. If a first-time adopter uses this exemption, the conditions for a write-down of a tangible capital asset in Section PS 3150 are applied on a prospective basis from the date of transition.

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3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

The following tables present the reconciliation of account balances and transactions from the previous reporting framework to the current method of presentation:

a) Reconciliation of the April 1, 2010 Consolidated Statement of Financial Position

Balance Sheet Items	Footnotes	CICA Accounting Handbook-Part V	Adjustments	PSA Standards
Assets				
Cash	**A**	$ 40,384	$ 3,500	$ 43,884
Accounts receivable		13,163	-	13,163
Prepaid expenses		83	-	83
Restricted cash	**A**	3,500	(3,500)	-
Loans	**B**	12,505	302	12,807
Equity investments		3,500	-	3,500
Tangible Capital Assets		3,563	-	3,563
Deposits held with Workers' Compensation Board		3,130	-	3,130
Total assets		$ 79,828	$ 302	$ 80,130
Liabilities				
Accounts payable and accrued liabilities		$ 18,640	$ -	$ 18,640
Loans payable		4,356	-	4,356
Current portion of long-term accrued obligations	**C**	82,952	(82,952)	-
Accrued obligation for retirement allowances	**D**	684	7	691
Accrued obligation for environmental costs	**C**	107,680	39,796	147,476
Accrued obligation for workers' compensation	**C, F**	160,856	47,615	208,471
Accrued obligation for early retirement and severance benefits	**C, F**	77,672	25,154	102,826
Accrued obligation for other employee future benefits	**C, F**	5,400	1,252	6,652
Accrued obligation for compensated absences	**E**	-	50	50
Total liabilities		$ 458,240	$ 30,922	$ 489,162
Accumulated Deficit		$ (378,412)	$ (30,620)	$ (409,032)

June 30, 2011 (000s)

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

b) Reconciliation of the March 31, 2011 Consolidated Statement of Financial Position

Balance Sheet Items	Footnotes	CICA Accounting Handbook-Part V	Adjustments	PSA Standards
Assets				
Cash	**A**	$ 34,759	$ 4,950	$ 39,709
Accounts receivable		9,254	-	9,254
Prepaid expenses		804	-	804
Restricted cash	**A**	4,950	(4,950)	-
Loans	**B**	13,590	529	14,119
Equity investments		4,082	-	4,082
Property, plant, and equipment		4,211	-	4,211
Deposits held with Workers' Compensation Board		3,130	-	3,130
Total assets		$ 74,780	$ 529	$ 75,309
Liabilities				
Accounts payable and accrued liabilities		$ 12,014	$ -	$ 12,014
Loans payable		4,356	-	4,356
Current portion of long-term accrued obligations	**C**	74,464	(74,464)	-
Accrued obligation for retirement allowances	**D**	771	12	783
Accrued obligation for environmental costs	**C**	97,038	32,849	129,887
Accrued obligation for workers' compensation	**C, F**	155,551	43,308	198,859
Accrued obligation for early retirement and severance benefits	**C, F**	63,324	21,836	85,160
Accrued obligation for other non-pension employee future benefits	**C, F**	4,557	1,164	5,721
Accrued obligation for compensated absences	**E**	-	30	30
Total liabilities		$ 412,075	$ 24,735	$ 436,810
Accumulated Deficit		$ (337,295)	$ (24,206)	$ (361,501)

June 30, 2011 (000s)

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

c) Reconciliation of the Consolidated Statement of Operations for the year ended March 31, 2011

	Footnotes	CICA Accounting Handbook- Part V	Adjustments	PSA Standards
EXPENSES				
Program expenses				
Program development expenses		$ 7,001	$ -	$ 7,001
Program support and administrative expenses	**D, E**	2,201	(15)	2,186
Rental and development facilities		1,038	-	1,038
Impairment expense	**B**	(558)	171	(387)
Loans fair value adjustment	**B**	2,864	(546)	2,318
Workers' compensation and other employee future benefits	**F**	14,017	(5,167)	8,850
Early retirement, severance and other benefits	**E, F**	5,364	(1,005)	4,359
Human resources and environmental support expenses		2,392	-	2,392
Accretion expense environmental remediation		8,738	-	8,738
Amortization of tangible capital assets		533	-	533
TOTAL EXPENSES		43,590	(6,562)	37,028
REVENUE				
Rental facilities		579	-	579
Loan interest	**B**	543	(148)	395
Bank interest and other income		496	-	496
Gain on disposal of tangible capital assets		19	-	19
TOTAL REVENUE		1,637	(148)	1,489
ACTIVITIES ON BEHALF OF THE ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA)				
Program expenses		14,967	-	14,967
Salaries, professional and other		3,133	-	3,133
		18,100	-	18,100
Less: Costs recovered from ACOA		18,100	-	18,100
		-	-	-
Deficit before parliamentary appropriation		(41,953)	(6,414)	(35,539)
Parliamentary appropriation		83,070	-	83,070
ANNUAL SURPLUS		$ 41,117	$ (6,414)	$ 47,531

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

Notes to the reconciliation of CICA Accounting Handbook – Part V to PSA

A) Reclassification of "restricted cash" to "cash"

PSA standards require information about designated assets to be disclosed in the notes, and not on the consolidated statement of financial position. Therefore, "restricted cash" was reclassified to "cash" on the face of the consolidated statement of financial position and note disclosure was made with respect to restricted cash (See note 5).

B) Loans with significant concessionary terms

Under PSA standards, when the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expense when the loan is made, with the loan being recorded at its present value upon initial recognition. All other loans are to be recorded at cost.

Although the Corporation was recording loans with concessionary terms at their present value, which is the correct treatment under PS 3050 if the concessionary terms are *significant*, it was doing so without considering whether the concessionary terms were, in fact, significant.

Therefore an adjustment to loans receivable and accumulated deficit of $302 was required as of April 1, 2010 for those loans that were recorded at fair value upon initial recognition which should have been recorded at cost.

A further adjustment to loans receivable of $227, impairment expense of $171, fair value adjustment of ($546) and loan interest income reduction of $148 was required for the year ended March 31, 2011.

C) Reclassification of current portion of accrued obligations

Current assets and liabilities are not presented under PSA standards. Therefore, the current portion of accrued obligations was reclassified to the appropriate accrued obligation balance.

D) Attribution period for retirement allowances

Employees are entitled to a lump sum payment upon retirement which is based on their total service period. Under PSA standards, the attribution period for calculating the accrued benefit obligation should begin on the date of hire. However, under the Corporation's previous accounting framework, a liability was only recorded when the employee had accumulated at least three years of service.

As of April 1, 2010 the total estimated unrecorded liability associated with those employees who had yet to accumulate three years of service but for whom credit for service from the date of hire had been granted, was $7. Therefore, an adjustment was made to increase the accrued obligation for retirement allowances with an offsetting adjustment to accumulated deficit.

A further adjustment of $5 was required to the accrued obligation for the year ended March 31, 2011for retirement allowances, program support and administrative expense.

3. TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS (continued)

E) Accrued obligation for compensated absences

Under the Corporation's previous accounting framework, an entity was not required to accrue a liability for sick-pay benefits that accumulated but did not vest. However, under PSA, sick-pay benefits that vest or accumulate must be accrued as they are earned by employees.

The total estimated unrecorded liability for sick-pay benefits as of April 1, 2010 was $50. Therefore, an adjustment was made to increase the accrued obligation for compensated absences with an offsetting adjustment to accumulated surplus/deficit.

A further adjustment to the accrued obligation for compensated absences and program support and administrative expense of ($20) was required for the year ended March 31, 2011.

F) Accrued obligation for Workers' Compensation, early retirement and other employee future benefits

Under Section PS 3250, for defined benefits plans, and under Section PS 3255, accrued benefit obligations, post-employment benefits and compensated absences are determined by a government organization by applying a discount rate with reference to its plan asset earnings or with reference to its cost of borrowing.

Since the Corporation does not have plan assets, the appropriate discount rate would be based on the Corporation's cost of borrowing. The cost of borrowing was based on the federal government's cost of borrowing and determined using long-term Government of Canada bond yields.

Previously the Corporation's rates were based on corporate bonds with a rating of AA or better.

As of April 1, 2010 the Corporation recorded an adjustment to accrued obligation for workers' compensation of $27,615, accrued obligation for early retirement and severance benefits of $2,667 and accrued obligation for other employee future benefits of $583. A further adjustment to the workers' compensation of ($5,118) and other employee future benefits expense of ($49) and early retirement, severance and other benefits expense of ($1,005) were required for the year ended March 31, 2011.

4. FINANCIAL RISK MANAGEMENT

Overview

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

-credit risk
-liquidity risk
-interest rate risk

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

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

4. FINANCIAL RISK MANAGEMENT (continued)

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

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

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial obligation fails to meet its contractual obligations. The aggregate carrying amount of cash, accounts receivable, loans receivable and equity investments represents the Corporation's maximum exposure to credit risk. Management does not believe there is any significant credit risk with respect to cash and accounts receivable. Additional information on loans receivable and equity investments is disclosed in notes 7 and 8, respectively.

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

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

Liquidity risk

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

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

Interest rate risk

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

June 30, 2011 (000s)

5. CASH

The Corporation maintains current account balances in a Canadian chartered bank at prevailing market rates.

The Corporation maintains restricted cash of $4,957 at June 30, 2011 (March 31, 2011 - $4,950) as funds are being held in trust until the completion of economic development transactions.

6. ACCOUNTS RECEIVABLE

	June 30 2011	March 31 2011	April 1 2010
Due from the Atlantic Canada Opportunities Agency	$ 2,243	$ 4,230	$ 8,558
Harmonized sales tax rebate	318	2,617	1,790
Interest	-	13	8
Other receivables	2,358	2,394	1,342
Parliamentary appropriation receivable	-	-	1,465
	$ 4,919	$ 9,254	$ 13,163

The amount due from ACOA relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding (see note 1). Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short term to maturity.

7. LOANS RECEIVABLE

At June 30, 2011, the Corporation had a portfolio of 49 loan accounts (March 31, 2011 - 53). These loans are issued to promote economic development to support the corporate mandate. All loans are evaluated for credit risk using the Corporation's risk ratings of low, medium and high. The total portfolio consists of:

			June 30 2011			March 31 2011	April 1 2010
Credit Risk Rating	Effective Interest Rate	Stated Rate	Cost	Impairment Allowance	Net Recoverable Value	Net Recoverable Value	Net Recoverable Value
Low	5.25-12.50%	4.50-6.50%	$ 1,809	$ -	$ 1,809	$ 1,910	$ 2,556
Medium	5.25-12.50%	4.50-6.50%	6,180	-	6,180	6,532	7,262
High	5.25-12.50%	4.50-6.50%	8,307	(3,326)	4,981	5,677	2,989
			$ 16,296	$ (3,326)	$ 12,970	$ 14,119	$ 12,807

June 30, 2011 (000s)

7. LOANS RECEIVABLE (continued)

The Corporation has eight debtors (March 31, 2011 - eight) representing 59% of the amount due (March 31, 2011 - 66 %).

Repayment dates of the loans are as follows:

	Credit risk rating			
	Low	Medium	High	Total Amount Due
Past due	$ -	$ 507	$ 325	$ 832
2012	496	973	877	2,346
2013	605	1,341	2,807	4,753
2014	293	1,099	884	2,276
2015	215	1,013	873	2,101
2016	205	611	760	1,576
2017 and beyond	234	1,050	6,030	7,314
Interest receivable	2	74	-	76
	2,050	6,668	12,556	21,274
Fair value adjustment	(241)	(488)	(4,249)	(4,978)
Impairment allowance	-	-	(3,326)	(3,326)
Carrying value	$ 1,809	$ 6,180	$ 4,981	$ 12,970

Conditionally repayable contributions totaling $7.0 million (March 31, 2011 - $7.0 million) are not included in the loan portfolio.

The Corporation holds security of $614 for low risk loans, $1,400 for medium risk loans and $7,400 for high risk loans.

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

June 30, 2011 (000s)

8. EQUITY INVESTMENTS

The Corporation has made investments in non-voting, redeemable, and retractable preferred shares of private sector entities to promote economic development in Cape Breton.

Since there is no quoted market price in an active market for these investments, the fair values were estimated by discounting future cash flows using the prime interest rate adjusted for risk as of the date of the financial position.

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

9. DEPOSITS HELD WITH WORKERS' COMPENSATION BOARD

A cash deposit in the amount of $3,130 is held with the Workers' Compensation Board of Nova Scotia. The amount was deposited prior to 1996 pursuant to clause 6 of Appendix "B" of the agreement between the Minister of Labour and Workers' Compensation Board of Nova Scotia and relates to the transactions of the former CBDC.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2011	March 31 2011	April 1 2010
Trade payables and accrued liabilities	$ 3,905	$ 6,353	$ 7,381
Payable on behalf of Atlantic Canada Opportunities Agency	2,912	4,868	11,141
Due to Atlantic Canada Opportunities Agency	1,455	677	-
Harmonized Sales Tax Payable	118	116	118
	$ 8,390	$ 12,014	$ 18,640

The amounts payable on behalf of ACOA relate to activities on behalf of the Agency pursuant to a memorandum of understanding (see note 1). Other payables are subject to normal commercial conditions and relate to development and administrative expenses. Accounts payable and accrued liabilities are non-interest bearing and the carrying amounts approximate fair values because of their short term to maturity.

June 30, 2011 (000s)

11. LOANS PAYABLE

CBCI had the following loans payable to ACOA:

	June 30 2011	March 31 2011	April 1 2010
Demand loan, non-interest bearing, payable in monthly instalments of $8,333, maturing in October 2011, unsecured	$ 500	$ 500	$ 500
Demand loan, non-interest bearing, payable in monthly instalments of $62,500, maturing in December 2011, unsecured	3,856	3,856	3,856
	$ 4,356	$ 4,356	$ 4,356

12. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION

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

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

The actuary used assumptions, as agreed to by management, in the calculation of the liability including; inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The liability could be materially different if the assumptions on which the valuation is based vary significantly in future years. Changes in the liability are recognized based on extrapolation of actuarial results and adjustments arising from actuarial gains and losses in the year in which they occur. A valuation was obtained on March 31, 2011 to establish the measurement of the liability.

June 30, 2011 (000s)

12. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION (continued)

	June 30 2011	March 31 2011	April 1 2010
Accrued benefit liability for workers' compensation benefits, beginning of period	$ 198,859	$ 208,471	$ -
Benefits expense			
Actuarial (gain)/loss	-	4,783	-
Interest cost on accrued benefit obligation	1,565	6,463	-
Benefits paid during the period	(5,164)	(20,858)	-
Accrued benefit obligation, end of period	$ 195,260	$ 198,859	$ 208,471

Assumptions	
Discount rate for obligation	3.25%
Discount rate for costs	3.25%
Long-term disability, survivior pensions indexation	1.00%
Health care and rehabilitation indexation	3.75%
All other cost indexation	2.00%

13. ACCRUED OBLIGATION FOR ENVIRONMENTAL COSTS

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

The former CBDC, along with Public Works and Government Services Canada (PWGSC), assessed each individual property owned by the CBDC. A complete pre-screening and detailed site assessment program was carried out on each property to the level necessary to identify and record all environmental disturbances and impacts, whether caused by the former CBDC's operations or that of its predecessor. ECBC management's best estimate of the liability at March 31, 2011 is based on property assessment work, studies and reports from independent consultants, and a review and verification of the data by PWGSC and management of ECBC.

The estimate of the liability is based on significant assumptions made by management, including: definition of and likely action required to meet the appropriate legislation, regulations and industry practice; the nature and extent of past and present environmental concerns; the extent of actions necessary to deal with long-term management of mine-water; the extent of remediation required at mine and coal processing sites; and discount rates used. Such estimates are subject to adjustment based on changes in

June 30, 2011 (000s)

13. ACCRUED OBLIGATION FOR ENVIRONMENTAL COSTS (continued)

laws and regulations and as new information becomes available. Included in this liability estimate is an amount for indemnification in respect of environmental conditions of certain previously disposed properties.

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

The liability is:

	June 30 2011	March 31 2011	April 1 2010
Accrued obligation for environmental costs,			
beginning of period	$ 129,887	$ 147,476	$ 156,527
Payments	(7,622)	(26,327)	(8,490)
Accretion expense	1,328	6,002	1,977
Estimate revision	-	2,736	(2,538)
Accrued obligation for environmental costs, end of period	$ 123,593	$ 129,887	$ 147,476

The Corporation's environmental costs for the period are calculated as follows:

	Three months ended June 30, 2011	Year ended March 31, 2011
Accretion expense	$ 1,328	$ 6,002
Estimate revision	-	2,736
	$ 1,328	$ 8,738

The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability at March 31, 2011 is $242,010.
- Cash expenditures for remediation costs are planned for the next two years. Cash expenditures for care and monitoring of the remediated sites are estimated for the next 45 years.
- The rate at which the estimated cash flows arising from the March 31, 2011, estimate revision has been discounted is 4.07% and the price indexation is 2%.

June 30, 2011 (000s)

14. ACCRUED OBLIGATION FOR EARLY RETIREMENT AND SEVERANCE BENEFITS

This accrued obligation consists of estimates for the cost of the unfunded liability for early retirement and severance initiatives for former CBDC employees, when approval of such decisions is obtained. Components included are early retirement payments, cost of expected benefits and severances.

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

	June 30 2011	March 31 2011	April 1 2010
Accrued benefit liability for early retirement and severance benefits, beginning of period	$ 85,160	$ 102,826	$ -
Benefits expense			
Current period benefit cost	60	-	-
Actuarial (gains)/losses	(35)	71	-
Interest cost on accrued benefit obligation	557	3,736	-
Benefits paid during the period	(5,089)	(21,473)	-
Accrued benefit obligation, end of period	$ 80,653	$ 85,160	$ 102,826

Assumptions	
Discount rate for obligation	2.7%
Discount rate for costs	2.9%
Benefit price indexation	2.0%
Health care price indexation	2.0%

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

June 30, 2011 (000s)

15. ACCRUED OBLIGATION FOR OTHER EMPLOYEE FUTURE BENEFITS

The Corporation provides health care, life insurance and related benefits to recipients of the former CBDC's Compassionate Disability Pension to age 65, a life insurance benefit to retirees over the age of 65 and a retiring allowance.

The present value of these unfunded benefit plans is determined on the basis of management's assumptions. The liability could be materially different if assumptions on which the estimate is based vary significantly in future years. A valuation was obtained from an external actuary as of March 31, 2011, for the life insurance benefit to retirees. The remaining benefits were valued internally by management as of March 31, 2011.

	June 30 2011	March 31 2011	April 1 2010
Accrued benefit liability for other employee future benefits, beginning of period	$ 5,721	$ 6,652	$ -
Benefits expense			
Actuarial (gains)/losses	-	(689)	-
Interest cost on accrued benefit obligation	65	218	-
Benefits paid during the period	(110)	(460)	-
Accrued benefit obligation, end of period	$ 5,676	$ 5,721	$ 6,652

Assumptions	
Compassionate disability benefits	
Discount rate for obligation	2.7%
Discount rate for costs	2.9%
Health care price indexation	2.0%
Post-employment life insurance	
Discount rate for obligation	3.4%
Discount rate for costs	3.7%
Retiring allowance	
Discount rate for obligation	2.7%
Discount rate for costs	2.9%
Benefit price indexation	2.0%

June 30, 2011 (000s)

16. ACCRUED OBLIGATION FOR RETIREMENT ALLOWANCES

The Corporation provides retirement allowances to its employees based on years of service and final salary. The most recent valuation performed by management was dated March 31, 2011.

	June 30 2011	March 31 2011	April 1 2010
Accrued benefit liability for retirement allowances, beginning of period	$ 783	$ 691	$ -
Benefits expense			
Current period benefit cost	(18)	92	-
Benefits paid during the period	-	-	-
Accrued benefit obligation, end of period	$ 765	$ 783	$ 691

The accrued obligation is based on the assumption that all employees will be entitled to benefits and that employees will retire at 60 years of age. The Corporation used a discount rate of 2.99% (2010 – 3.21 %) and an assumed rate of inflation of 2.5% (2010 – 2.5%). The recorded amount of the accrued obligation could be different if the assumptions described above vary significantly in future years.

17. ACCRUED OBLIGATION FOR COMPENSATED ABSENCES

Employees of the Corporation earn 1.25 days of sick leave for every month in which they have earnings of 10 days. Any unused sick leave is carried forward from year to year with no cap on the amount of days to be carried forward. The associated liability, valued by management is:

	June 30 2011	March 31 2011	April 1 2010
Accrued benefit liability for sick leave benefits, beginning of period	$ 30	$ 50	$ -
Benefits expense			
Current period benefit cost	-	-	50
Benefits used during the period	-	(20)	-
Accrued benefit obligation, end of period	$ 30	$ 30	$ 50

June 30, 2011 (000s)

18. TANGIBLE CAPITAL ASSETS

	June 30, 2011				
	March 31, 2011 Opening Balance	Additions	Disposals	Write-downs	June 30, 2011 Closing Balance
Land	$ 2,015	$ 88	$ -	$ -	$ 2,103
Equipment, furniture, and leasehold improvements	1,563	3	31	-	1,535
Rental facilities	6,607	209	661	-	6,155
Other assets	1,378	-	-	-	1,378
	$ 11,563	$ 300	$ 692	$ -	$ 11,171

	Accumulated Amortization				
	March 31, 2011 Opening Balance	Amortization Expense	Disposals	Write-downs	June 30, 2011 Closing Balance
Land	$ 342	$ -	$ -	$ -	$ 342
Equipment, furniture, and leasehold improvements	1,311	25	32	-	1,304
Rental facilities	4,340	133	382	-	4,091
Other assets	1,359	3	-	-	1,362
	$ 7,352	$ 161	$ 414	$ -	$ 7,099

	Net Book Value June 30, 2011	Net Book Value March 31, 2011	Net Book Value April 1, 2010
Land	$ 1,761	$ 1,673	$ 841
Equipment, furniture, and leasehold improvements	231	252	278
Rental facilities	2,064	2,267	2,416
Other assets	16	19	28
	$ 4,072	$ 4,211	$ 3,563

June 30, 2011 (000s)

19. PENSION PLAN

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index.

The Corporation's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan.

20. PROGRAM EXPENSES

	Three months ended June 30, 2011	Year ended March 31, 2011
Program development expenses		
Community economic development	$ 197	$ 6,341
Commercial development	2,043	632
Policy and advocacy	-	28
	$ 2,240	$ 7,001

21. CONTINGENT LIABILITIES

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