



Grant Thornton

Financial statements

Sydney Steel Corporation

March 31, 2011

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Independent auditors' report

Grant Thornton LLP
Suite 200
500 George Place
Sydney, NS
B1P 1K6
T (902) 562-5581
F (902) 562-0073
www.GrantThornton.ca

To the directors of

Sydney Steel Corporation

We have audited the accompanying financial statements of Sydney Steel Corporation, which comprise the balance sheet as at March 31, 2011, and the statement of net assets in liquidation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting disclosed in Note 2, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of Sydney Steel Corporation for the year ended March 31, 2011, are prepared, in all material respects, in accordance with the basis of accounting disclosed in Note 2.

Sydney, Nova Scotia

June 28, 2011

Grant Thornton LLP

Chartered accountants

Sydney Steel Corporation

Balance sheet

March 31

2011

2010

Assets		
Cash	\$ 1,948,197	\$ 132,014
Receivables		
Province of Nova Scotia (Note 3)	21,706,823	17,209,172
Trade	3,574,651	-
Sydney Environmental Resources Limited	14,215	14,215
Note	417,437	455,721
Prepaid expenses	<u>116,039</u>	<u>160,205</u>
	<u>27,777,362</u>	<u>17,971,327</u>
Liabilities		
Trade payables	550,492	540,931
Payable to Harbourside Commercial Park Inc. (Note 5)	371,193	371,755
Payable to Nova Scotia Lands Inc. (Note 5)	24,735,373	15,788,865
Payable to Sydney Utilities Limited (Note 5)	<u>1,165,078</u>	<u>840,050</u>
	<u>26,822,136</u>	<u>17,541,601</u>
Net assets in liquidation	<u>\$ 955,226</u>	<u>\$ 429,726</u>
Commitment (Note 4)		
Contingent liabilities (Note 6)		

On behalf of the Board

Amir Akbar Director

[Signature] Director

See accompanying notes to the financial statements.

Sydney Steel Corporation

Statement of changes in net assets in liquidation

Year ended March 31

2011

2010

Increase in net assets in liquidation

Contributions from the Province of Nova Scotia (Note 3)	\$ 6,497,655	\$ 11,216,769
Proceeds on disposal of assets (Note 5)	507,065	96,750
Other income	6,809	120,100
Interest	<u>18,435</u>	<u>12,046</u>
	<u>7,029,964</u>	<u>11,445,665</u>

Decrease in net assets in liquidation

Demolition and remediation (Note 5)	5,656,284	10,317,154
Property taxes	97,623	112,000
Professional fees	704,961	835,928
General and administration	<u>45,596</u>	<u>71,689</u>
	<u>6,504,464</u>	<u>11,336,771</u>

Increase in net assets in liquidation	525,500	108,894
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**Net assets in liquidation,
Beginning of year**

	<u>429,726</u>	<u>320,832</u>
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End of year

	<u>\$ 955,226</u>	<u>\$ 429,726</u>
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See accompanying notes to the financial statements.

Sydney Steel Corporation

Notes to the financial statements

March 31, 2011

1. Nature of operations

Sydney Steel Corporation ("the Corporation") is a Crown Corporation incorporated by special act of the Province of Nova Scotia.

2. Summary of significant accounting policies

a) Basis of accounting

Effective December 31, 2000, the Corporation changed its basis of accounting from a going concern basis to a liquidation basis in accordance with Canadian generally accepted accounting principles.

b) Valuation of non-cash assets

Effective with the December 31, 2000, adoption of the liquidation basis of accounting, the accounting basis for the Corporation's non-cash assets was established as their estimated realizable values at that date.

The non-cash assets at March 31, 2011, are valued at the lower of cost and net realizable value.

c) Revenue recognition

Revenue is recognized when the risks and rewards of ownership have been substantially transferred and when collection is reasonably assured.

d) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenditures during the reporting period. Actual results may differ from those estimates.

e) Foreign currency translation

Foreign currency translation of the current assets and liabilities denominated in US dollars is converted at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the rate of exchange in effect at the translation date. Translation gains or losses are included in determining the change in net assets in liquidation for the period.

Sydney Steel Corporation

Notes to the financial statements

March 31, 2011

3. Province of Nova Scotia

In connection with the former active operations of Sydney Steel Corporation, the Province of Nova Scotia (the "Province") has:

- Established the Sysco Decommissioning Fund to finance the closure, demolition, and remediation obligations of the Corporation; and
- Established the Sydney Steel Corporation Superannuation Fund to assume direct responsibility for the Corporation's pension obligations.

During the period 2001 – 2006, the Province provided contributions of \$58,751,000 to the Corporation to fund certain closure, demolition, and remediation expenditures. Upon further review in 2007, it was determined that the Corporation did not require these direct contributions due to better than expected recoveries on asset and scrap sales since the closure. As such, the Province directed the Corporation to return these contributions to the Sysco Decommissioning Fund (the "Fund"). The Fund will be utilized for future decommissioning, demolition and remediation of this Corporation's and adjacent sites.

In connection with the current liquidation and redevelopment plan, the Province has committed to continuing support. Expenses incurred during the year for which the Corporation will receive reimbursements from the Sysco Decommissioning Fund total \$6,497,655 (2010, \$11,216,769).

4. Commitment

On March 30, 2007, the Corporation retained the services of Nova Scotia Lands Inc. to manage the remediation, redevelopment and by-product operations to be conducted on Corporation lands and to provide other services as may be required. This agreement which was initially for a two-year period has been renewed on an annual basis.

5. Related party transactions

During the year, the Corporation sold land and buildings to Harbourside Commercial Park Inc. for proceeds of \$507,065 (2010 - \$96,750). Both companies are controlled by the Province of Nova Scotia.

Included in the demolition and remediation costs are reimbursement of expenses of \$5,436,697 (2010 - \$9,950,391) and \$215,821 (2010 - \$282,119) paid to Nova Scotia Lands Inc. and Sydney Utilities Limited, respectively. Both companies are controlled by the Province of Nova Scotia.

These transactions are in the normal course of operations and are measured at the exchange amount which approximates fair market value.

Sydney Steel Corporation

Notes to the financial statements

March 31, 2011

6. Contingent liabilities

The Corporation is a defendant in a lawsuit alleging damages as a result of environmental contamination caused by years of steel making. This litigation is in its preliminary stages and the outcome is not currently predictable.
