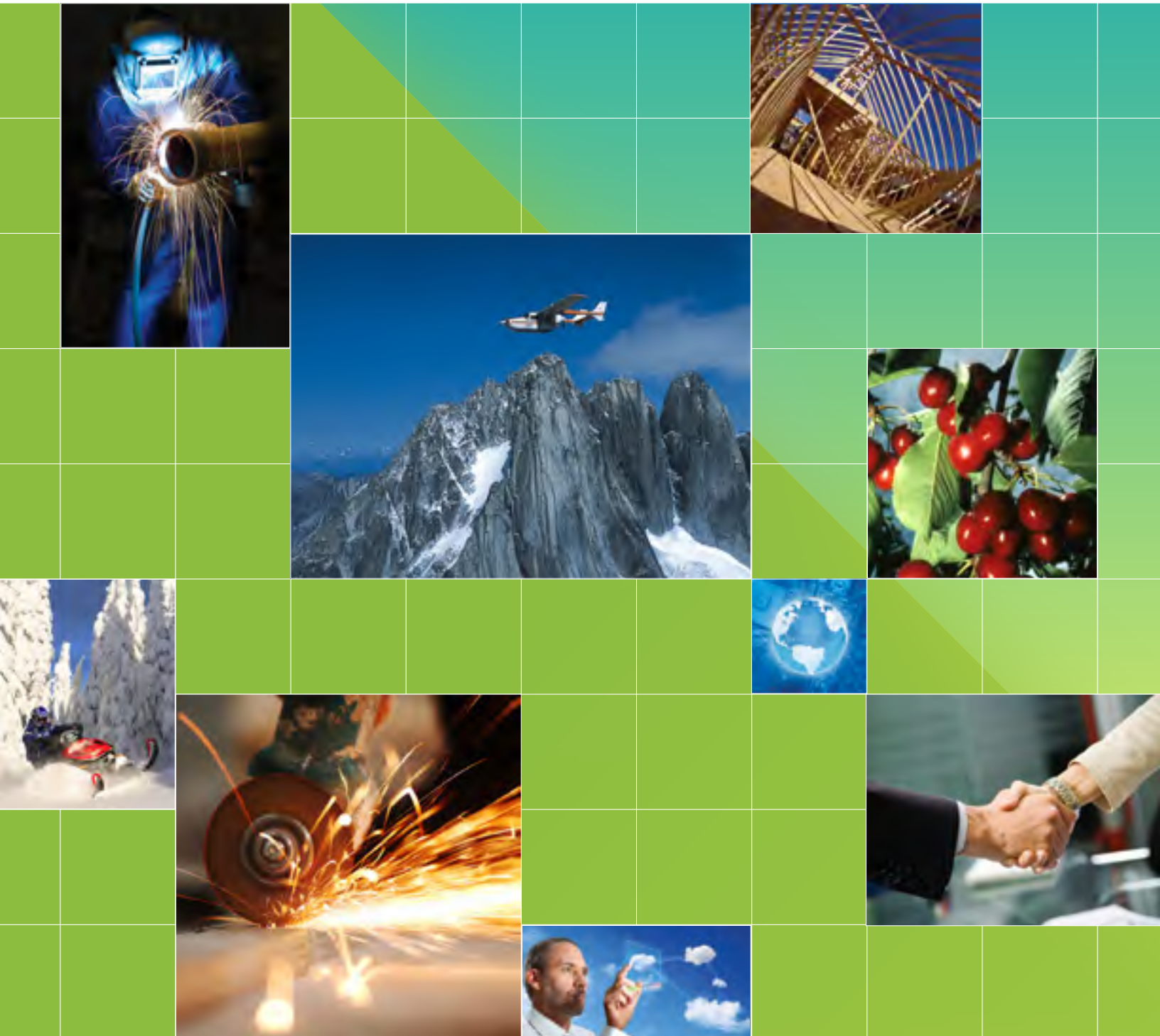




Southern Interior

DEVELOPMENT INITIATIVE TRUST



About the Southern Interior Development Initiative Trust Annual Report

This report covers the Southern Interior Development Initiative Trust (SIDIT) for the period April 1, 2011 through March 31, 2012.

The report was prepared for our stakeholders, the British Columbia Provincial Government, and reflects SIDIT's commitment to support economic development in the Southern Interior.

Southern Interior Development Initiative Trust

#204, 3131 29th Street

Vernon, British Columbia V1T 5A8

PHONE 250-545-6829

FAX 250-545-6896

COVER PHOTOS:

Cherries image and Snowmobile image: TOTA/photographer
Plane over mountains image: Tourism BC/Tom Ryan

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2012 Message from the Chair

Canada Starts Here – BC Jobs Plan states: “Our plan to create long-term jobs and investment in our province is about taking the strengths of British Columbia and converting them into competitive advantages to turn opportunity into lasting economic benefit for all British Columbians. Recognizing that job creation comes from the private sector, Canada Starts Here plans to build upon our current fiscal and economic strengths to create an environment where growth and investment can flourish, delivering the best fiscal, economic and social platform for job creation and skills development for all British Columbians.”

Resembling the BC Jobs Plan, the Southern Interior Development Initiative Trust (SIDIT) has a vision of the future for the Southern Interior. That vision is:

- *A future where economic opportunities are enabled, providing long-lasting measurable benefits to communities;*
- *A future where regional investment creates significant positive impacts across the region while smaller communities are given opportunities to remain or become economically sustainable;*
- *A future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout.*

SIDIT is focused on supporting economic initiatives that demonstrate long term measurable economic impact within the Southern Interior. Our investments include businesses and organizations creating opportunities in regional community diversification, interactive digital media production, manufacturing, destination tourism, research and development of proprietary technology, agriculture, entrepreneurial development, transportation, value added forestry and mining. We are pleased to report that we have to date invested \$24 million for business start-ups and expansion and encouraged, through

leverage, additional direct investment in new businesses to commercialize ideas, attract and retain employees, expand operations and compete in the global marketplace. We have further invested \$3 million into community initiatives to create economic diversity and opportunity as well as a high quality of life. Based on total cumulative initiative values of \$122 million, \$95 million has been invested by proponents and other funders. Our investments have created the opportunity for 1,766 sustainable jobs in the Southern Interior as well as numerous spin-off benefits. The SIDIT Board of directors is proud of the 2012 achievements and we thank our CEO, Luby Pow, and her staff for their dedicated efforts to achieve our goals.

It's estimated that in the next decade British Columbia will have over one million job openings - including an estimated 104,600 openings in the trades. The Industry Training Authority (ITA) has announced that nearly 8,760 Certificates of Qualification have been awarded for the 2011-12 year - more than ever before. We are proud to state that SIDIT's investment in education focused on trades, technology and academic programs has supported 5,298 students to date and will greatly reduce the impact of anticipated labour shortages that are likely to hinder economic growth in BC.

We are working towards our goal to maintain the Trust so that it is sustainable, providing continual support for economic initiatives for the Southern Interior and are pleased to submit our report detailing the results of our efforts.

Respectfully submitted,



Ron Hovanes
SIDIT Chair

Governance

Southern Interior Development Initiative Trust (SIDIT) is governed by a board of thirteen directors of which eight are elected officials appointed by Regional Advisory Committees and five are individuals appointed by the Province of British Columbia.

The Board is responsible for identifying the strategic direction of SIDIT, policy decisions, investment decisions in support of a variety of regional economic priorities, and other opportunities which contribute to the economic diversity of the Southern Interior. The Board meets quarterly in person, by telephone conference or electronically as required. Current directors on the SIDIT Board include:

Provincial Appointees:



Tom Christensen
Provincial Appointee
North Okanagan Region



Ron Hovanes
Provincial Appointee
Okanagan Similkameen Region



Richard Gibson
Provincial Appointee
Thompson Nicola Region



Keith Matthew
Provincial Appointee
Thompson Nicola Region



John Zimmer
Provincial Appointee
East Kootenay Region

Elected Officials:



Nancy Cooper
Mayor, Salmon Arm
North Okanagan Region



Gord DeRosa
Councillor, Trail
Kootenay Boundary Region



Doug Findlater
Mayor, West Kelowna
Central Okanagan Region



Karen Hamling
Mayor, Nakusp
Central Kootenay Region



Al Raine
Mayor, Sun Peaks
Thompson Nicola Region



Grace McGregor
Director, Area C
Kootenay Boundary Region



Stu Wells
Mayor, Osoyoos
Okanagan Similkameen Region



Ron McRae
Mayor, Kimberley
East Kootenay Region

SIDIT experienced a significant turnover of Directors as a result of appointments of new Directors by the Province of BC and appointments of new Directors by Regional Advisory Committees. We welcome new Board members: Mayor Nancy Cooper, Mayor Doug Findlater, Mayor Al Raine, Mayor Stu Wells, Mayor Ron McRae, Richard Gibson, Keith Matthew and John Zimmer and sincerely thank our outgoing Directors, Wayne Lippert, Sharon Shepherd, Marty Bootsma, Peter Milobar, Ron Oszust, and Kerri-Anne Thomas for their dedication and countless hours of hard work.

Regional Advisory Committees

Under the governing legislation, two Regional Advisory Committees (RACs) have been created representing mayors, chairs of Regional Districts, and members of the legislative assembly.

Thompson-Okanagan Regional Advisory Committee representing the region from Blue River to the North, Hope to the West and south to the US border.

Columbia-Kootenay Regional Advisory Committee representing the Columbia-Revelstoke, East Kootenay, to the West Kootenay-Boundary area.

The role of the Regional Advisory Committees is to elect members as Directors to the Trust Board, to provide advice and recommendations to the board on project eligibility for Trust funding, to establish the terms of office for members, and to provide representation for communities and regional district areas under 500 in population.

A current listing of our Regional Advisory Committee Members can be found on our website www.sidit-bc.ca under "About us/Regional Advisors"



Service Area

The service area for SIDIT includes Blue River to the North, Hope to the West and the United States and Alberta borders as Southern and Eastern boundaries respectively.

Thompson-Okanagan Region

REGIONAL DISTRICT OF COLUMBIA SHUSWAP

Salmon Arm, Sicamous

REGIONAL DISTRICT OF CENTRAL OKANAGAN

Kelowna, Lake Country, Peachland, West Kelowna

FRASER VALLEY REGIONAL DISTRICT

Hope

REGIONAL DISTRICT OF NORTH OKANAGAN

Vernon, Coldstream, Spallumcheen, Armstrong, Enderby, Lumby

REGIONAL DISTRICT OF OKANAGAN SIMILKAMEEN

Penticton, Summerland, Osoyoos, Oliver, Princeton, Keremeos

REGIONAL DISTRICT OF THOMPSON NICOLA

Kamloops, Merritt, Chase, Barriere, Clearwater, Sun Peaks Mountain Resort

Columbia Kootenay Region

REGIONAL DISTRICT OF COLUMBIA SHUSWAP

Revelstoke, Golden

REGIONAL DISTRICT OF EAST KOOTENAY

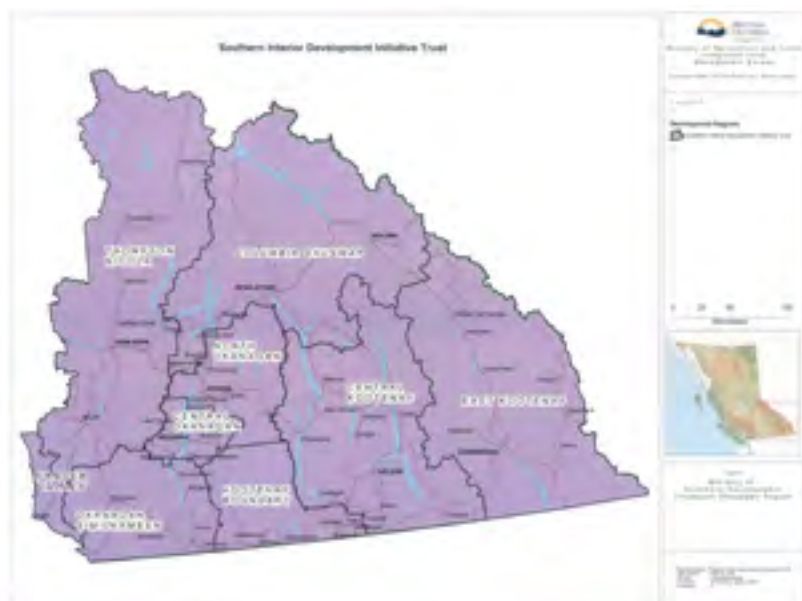
Cranbrook, Kimberley, Fernie, Sparwood, Invermere, Elkford, Canal Flats, Radium Hot Springs

REGIONAL DISTRICT OF CENTRAL KOOTENAY

Nelson, Castlegar, Creston, Nakusp, Salmo, Kaslo, New Denver, Slocan, Silverton

REGIONAL DISTRICT OF KOOTENAY BOUNDARY

Trail, Grand Forks, Rossland, Fruitvale, Warfield, Montrose, Greenwood, Midway



Legislature

The Southern Interior Development Initiative Trust (SIDIT) was created by an Act of the BC Legislature Bill 8-2005, which came into force by regulation on February 27, 2006. SIDIT received a one-time allocation of \$50 million designated for strategic investments in sustainable economic development initiatives throughout the Southern Interior. The Southern Interior Development

Initiative Trust Act mandates investment in ten areas of the economy. These areas include Energy, Forestry, Mining, Olympic Opportunities, Agriculture, Transportation, Small Business, Tourism, Pine Beetle Recovery, and Economic Development. SIDIT has no specific targets for any of these areas, and approves projects and investments based on their impact, sustainability, and individual merit.



Our Mandate

The Southern Interior Development Initiative Trust (SIDIT) Act mandates investment in economic development initiatives within ten key sectors that will demonstrate long term measurable economic impact within the Southern Interior. While the Trust is not an agent of the Government, as a Public Trust it must comply with public sector regulations.

SIDIT is managed as an independent and sustainable regional economic development corporation. The Trust capital is invested in a balanced mix of financial markets and investments in regionally based commercial enterprise to ensure sustainability and growth. Funding out flows align with returns generated.

SIDIT is focused on supporting economic development initiatives that will demonstrate long term measurable economic impact within the Southern Interior. Funding may include grants, loans and equity participation with a focus on leveraged participation.

Within its mandate, SIDIT lends to, and invests in, new promising commercial enterprises that do not qualify for credit through traditional sources due to lack of tangible security. SIDIT assesses the long-term potential of lending and investment opportunities and takes a more patient position than would a traditional lender.



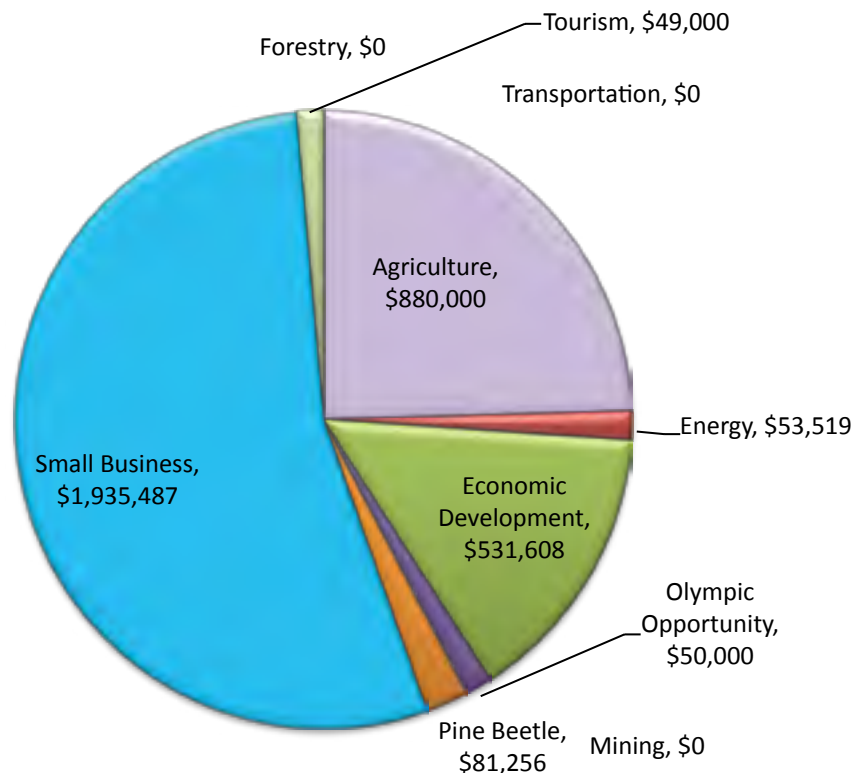
Funding by Investment Sector

The Southern Interior Development Initiative Trust Act mandates investment in ten areas of the economy. These areas include Energy, Forestry, Mining, Olympic Opportunities, Agriculture, Transportation, Small Business, Tourism, Pine Beetle Recovery, and Economic Development. Because applications are proponent driven, there are no specific targets for any of these areas. SIDIT

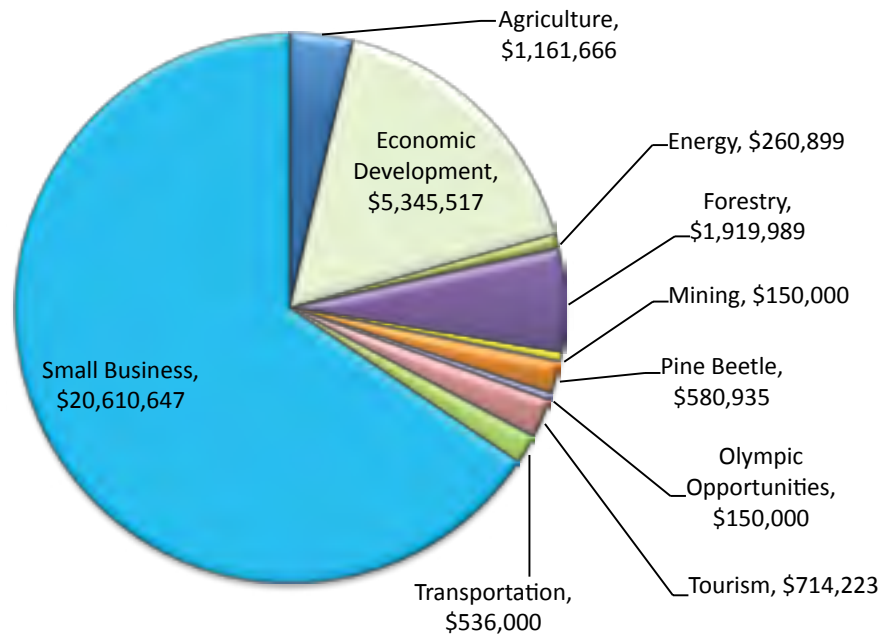
approves projects and investments based on their impact, sustainability, and individual merit.

The Southern Interior Development Trust has funded over \$31.4 million in development initiatives, non-repayable grants and education awards.

2012 Investment by Sector



Cumulative Investment by Sector



Agriculture includes manufacture of products used in the agriculture industry, research and development in agri-business and biotechnology resources, community based food and herb production, community based abattoir services, organic gardening training and certification services and community based agri-plex/multi-purpose buildings.

Economic Development includes investment in education in trades, technology and science related academic programs, innovation and entrepreneurship programs, business advocacy, international market development, business incubators, research and development, business productivity training and community investment in conference and training centers.

Energy includes research and development of energy related technology, energy efficiency products and services and bio-energy solutions.

Forestry includes those investments related to community forests and value added industry.

Mining includes value-added manufacturing.

Olympic Opportunities reflect community investments into training facilities and equipment that have been or will be used to train future Olympians.

Pine Beetle Recovery includes research and development, market development and manufacture of value-added products.

Small Business includes investment in business enterprises such as: software development, communications, fire prevention, health care, pharmaceuticals, composite manufacturing, electronics manufacturing, RFID, retail and wholesale and other business activities.

Tourism includes heritage-based tourism, geo-tourism, trail development, arts and culture and sports tourism.

Transportation includes commercial transportation services, airport hazard equipment and heliport construction.

Vision and Mission

Our Vision

The SIDIT Board of Directors and RAC members share a vision of the future for the Southern Interior.

That vision is:

- *a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities*
- *a future where regional investment creates significant positive impacts across the region while smaller communities are given opportunities to remain or become economically sustainable*
- *a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout*

Our Mission

The mission of the Southern Interior Development Initiative Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.



Core Strategy

SIDIT's core strategy is to identify and support community based development projects and regionally based commercial ventures that match the objectives of the Trust and demonstrate sustainability.

Funding, including grants, loans and equity participation with a focus on leveraged participation, must be guided by the need to ensure the long term stability, growth and health of the Trust as an important agent of economic development of the Southern Interior.

SIDIT's primary goal is to maintain the Trust so that it is sustainable, providing continual support for economic initiatives for the Southern Interior and increasing the value of the Trust over time through return on investments.



Guiding Principals

The following principles guide the Board in making its evaluation and in determining the eligibility of projects for SIDIT funding. These principles may also be supplemented by other considerations by the Board in making its funding decisions.

- Consistent with the Act, vision and mission of the Trust.
- Open and transparent processes, decisions and reporting.
- High standards of financial management and accountability.
- Judicious management of public resources.
- Sound strategic and operational planning.
- Leveraged investment with maximum Trust participation rate of 50%.
- Investments made in the context of a long-term strategy.
- Funding to take the form of loans, grants, equity participation or combination thereof.
- Grants are not available to projects considered to be commercial interests
- Preference for initiatives with regional benefits.
- Bias for investments offering long-term, sustainable benefits.
- Diligent professional evaluation of proposals' feasibility and risk.
- Real benefits as measured by increased tax base, new job creation, incremental revenue generation and economic diversification in addition to non-financial benefits.
- Evaluation and reporting of success against clear performance measures.



Risk and Risk Management Strategies

SIDIT FACES THE FOLLOWING KEY RISKS IN ITS INVESTMENTS AND OPERATIONS:

Credit Risk:

Credit risk is the risk of loss resulting from the failure of a borrower to honour its financial or contractual obligation to the SIDIT. Credit risk primarily arises from development initiatives receivable. Within its mandate, SIDIT lends to, and invests in, promising commercial enterprises that may not qualify for credit through traditional sources. SIDIT assesses the long-term potential of lending and investment opportunities and will consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

It is envisioned that the loans and investments made by SIDIT will eventually become bankable at which time the enterprise may retire the SIDIT position in favor of a traditional lender allowing SIDIT's funds to be re-invested in other promising enterprises.

If there are any business proposals presented to SIDIT in which SIDIT does not have the specific commercial knowledge, it searches out or contracts the expertise. Alternatively, SIDIT will also syndicate or co-fund these types of commercial ventures with other Lending Partners that have the expertise required.

SIDIT Management and Board of Directors reviews and updates the credit risk policy annually. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

SIDIT determines enterprise risk based on a careful study of the business plan, past performance of the enterprise if applicable and management capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be met.

Within the context of the SIDIT Act, SIDIT balances the level of risk that is present with the community economic benefits that are being created and satisfies itself that the potential of the deal is sound and prudent in order to protect the future of the fund.

All applications are risk-rated according to SIDITs Risk Rating Guidelines (see SIDITs By-law and Policy Manual on our website) as part of the original underwriting of loans and investments, annual review and renewal.

SIDIT manages its loan and equity risk by limiting its investment in any one business enterprise, investing in a diverse portfolio, and syndicating or co-lending with other financing partners such as Business Development Bank of Canada, Community Futures, Banks and Credit Unions or venture capital.

Bad debt impacts SIDITs ability to be sustainable. To diminish the risk of a firm failing, good management and financial systems are critical. Operational problems derail a company more often than a product or technology that does not work. To this end, SIDIT has also funded incubation centres which provide on-going support to early stage technology companies.

Environmental Risk:

Environmental issues are considered and the potential risk assessed in the underwriting of loans and investments. A Stage 1 Preliminary Site Investigation Report is required in all cases for applicants whose industries/activities are listed in Schedule 2, Contaminated Site Regulations/Waste Management Act (Bill 26). The Report must be satisfactory to SIDIT and its Lending Partners and if not, a Stage 2 Report is required. All loans and investments over \$50,000 secured by commercial property require execution of an Environmental Indemnity Agreement.

Market Risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The SIDIT incurs fair value risk on its investments held. The SIDIT does not hedge its fair value.

Similar to other endowment model strategies, SIDITs investment objectives are as follows:

- **Capital preservation:** the need to preserve the purchasing power of the capital base, in perpetuity;
- **Capital growth:** the desire to increase the value of the organization's funds;
- **Income generation:** the need to cover annual cash flows, ongoing expenses and the disbursement targets;
- **Project funding:** the desire to fund specific cash flow commitments or projects in the future.

SIDIT manages its market risk through various means including the following:

- Limiting investment in any one company;
- Maintaining diversity in the portfolio;
- Investing into companies with a market capitalization greater than \$100 million; (Canadian) and \$1 Billion (US) at the time of purchase;
- Limiting holdings of fixed income by credit risk ratings and by issuer;

Go to SIDITs By-Law and Policy Manual at www.sidit-bc.ca/resources/documents to see our investment policy in detail.

At the firm level, Phillips, Hager & North (PH&N) Chief Investment Officer is responsible for setting investment policies for every RBC Global Asset Management (GAM) and PH&N Fund. An investment mandate is established for every fund which places allowable limits on such factors as maximum individual position sizes, maximum sector exposures (both absolute and relative to the benchmark), exposure to small capitalization stocks and other illiquid investments, minimum credit quality for fixed income instruments, and other factors. The fund managers are responsible for ensuring their portfolios remain compliant with their investment mandates, and compliance is also monitored by individuals and systems outside the fund management team.

In addition to complying with the requirements of their investment mandates, each fund manager employs risk management processes specific to their asset class and management processes. PH&Ns fixed income team, through the use of their proprietary bond management system called Bondlab, monitors each fixed income

portfolio in real time for its exposure to movements in rates, shifts in the yield curve, movements in credit spreads, other factors. Bondlab also considers the correlations between movements in these factors, in addition to the direct exposures themselves. Within global equities, the portfolio managers use an Investment Grade rating system, under which they rate the quality of every stock under consideration for the portfolio based on such characteristics as balance sheet strength, profitability, and quality of management, and apply limits on the proportion of the portfolio that can be invested in lesser-quality companies. PH&Ns Canadian equity fund managers evaluate companies on similar criteria, and also consider where a company's earnings, valuation and stock price fall in its likely range over the course of a market cycle to help estimate the downside risk for individual stocks.

Investment losses impact SIDITs ability to be sustainable as well as its ability to fund on-going operations and meet funding targets. SIDIT has the necessary funding and cash flows to meet its objectives.

Internal Capacity Risk:

An experienced management and staff team has allowed SIDIT to achieve disbursement targets and maintain operating expenses at a low level relative to funding volume. SIDIT currently maintains a very small management and staff group of 2.6 FTE. A limited depth in staffing requires a plan to address the prolonged absence of any key player, in order that entity funding processes are not unduly interrupted. The small size of management and staff requires a broad and deep skill set at all levels, able to conduct the operations of the entity business model. There is currently no CEO successor apparent, but support staff could perform due diligence or outsource application processing in the interim required to hire a replacement

CEO. Additional staffing, infrastructure and consulting services will be required as the loan and equity portfolio grows or becomes more complex.

Information Systems/Technology Risk:

A robust software system is needed to report individual project and aggregate portfolio performance over time. This is invaluable in increasing the efficiency of SIDIT and enabling strong reporting, given its limited resources.

- Catalyst software systems are utilized for grant due diligence, Board approval, monitoring, disbursement and reporting. This software enables SIDIT to manage the full lifecycle of every grant application, improves the approval processes through use of comparative scoring and compliance standards and provides the means to track milestone progress.
- Margill Loan Manager software is used to manage SIDITs loan and equity portfolio. Designed specifically for small lenders, Margill Loan Manager is a PC-based, simple-to-use, robust and inexpensive loan management solution. The program is capable of producing very complete, customized, financial and non-financial reporting.
- Simply Accounting Pro financial software helps SIDIT manage its cash flows by tracking revenues and expenses and simplifying the budgeting and forecasting process. Its ability to track cash flows and its audit trail capabilities further increase efficiencies and reporting capabilities.
- A full suite of loan and equity legal templates have been developed and refined. The forms increase consistency between applications and reduce implementation and customization costs for our borrowers and investee companies.

Disaster Recovery Risk:

SIDIT's contingency plan to protect against computerized or paper records loss, computer hacking, and the event of fire or earthquake includes the following:

- ProBack Offsite Backup & Recovery is utilized for disaster recovery. Protocol Technologies Inc. manages all backup and disaster recovery activities and automates backup processes for workstations. After a disaster strikes, Protocol restores workstations or laptops providing highly flexible disaster recovery and migration options. ProBack meets all data protection acts including the BC Government data protection Act.
- All documents are scanned and stored electronically. Paper records are stored in fire resistant file cabinets.
- Norton AntiVirus is utilized to protect against the most common online threats such as viruses, Trojan horses, worms and spyware, as well as malicious software. Norton AntiVirus prevents threats from reaching our computers and removes any existing threats already present. The protection offered is fully automatic, from threat detection and removal to product updates.

Directors and Officers Liability and Omissions Risk:

The Trust maintains a \$5 Million Policy for Directors and Officers Liabilities and Omissions Insurance as well as adequate Property and \$2 Million General Liability Insurance. Vehicles used by Directors or staff for the business of the Trust, maintain a minimum of \$2 million in general liability insurance.

Liquidity Risk:

Liquidity risk is the risk that SIDIT cannot fund its obligations as they come due. The SIDIT's management oversees SIDIT's liquidity risk to ensure that SIDIT has access to enough readily available funds to cover its financial obligations as they come due. The SIDIT's business requires such capital for operating and funding of development initiatives, grants and education awards.

The assessment of the SIDIT's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective trust specific and market conditions and the related behavior of its borrowers and investees. SIDIT has the necessary cash and cash-flows to meet its current objectives.



Strategic Plan Changes

The Southern Interior Development Initiative Trust (SIDIT) established its long term goals in consultation with the SIDIT Board and the chairs of the Regional Advisory Committees (RAC) who represent the two Southern Interior regions that are impacted by SIDIT's performance. SIDIT has established processes and extensive knowledge of its stakeholders required to set goals that are significant to and inclusive of its stakeholders. SIDIT's strategic plan outlines the next three years of strategic initiatives including annual work plans for each of these years. The strategic plan can be viewed on SIDIT's website www.sidit-bc.ca under the "Apply for Funding" tab.

Priority Focus Areas:

SIDIT's Directors identified priority focus areas and these provide overarching guidelines for establishing goals, values and principles. Priority Focus areas include:

- Contribution towards economic sustainability of small communities;
- Regional impact;
- Realistic measurement criteria established to assess project outputs;
- Job creation, job preservation, or enhancement;
- Economic diversification;
- Leveraging other funds;
- Filling funding gaps;
- Avoiding overlap and duplication;
- Economic merit;
- Research and Development leading to commercialization;
- Strategic initiatives;
- Ensuring geographic sensitivity in the disbursement of SIDIT funds.

Values and Principles:

The Trust's values and principles were created when the Trust was founded. Over time, additional values and principles have been identified and with the recent Strategic Planning Session on October 12, 2011, the Board recognized that previously stated Strategic Goals could be more accurately described as values.

The following were originally captured as strategic goals and are now recognized as values:

- To support initiatives that will have regional economic impact within the Southern Interior;
- To support economic diversification and sustainability within Southern Interior communities;
- To support and create sound, economically viable communities;
- To encourage investment in the Southern Interior through leveraging and by acting as a catalyst;
- To be open, transparent and accountable;
- To support the creation and/or enhancement of employment in the Southern Interior;
- To strive, to the best extent possible, that all regions of the Southern Interior have fair and equitable access to the SIDIT Funds.

Additional values and principles were identified during the session and were recorded as:

- SIDIT is sensitive to the needs of different sized communities and areas within the Southern Interior;
- To maintain the Trust so that it is sustainable, providing continual support for economic initiatives for the Southern Interior.

SIDIT Directors and RAC members' original set of values established on the founding of the Trust contain:

- Cultural Sensitivity: SIDIT will be sensitive to the cultural uniqueness and diversity of the population of the Southern Interior;
- Accountability and Transparency: SIDIT will be accountable to the public for all of its activities and, as such, its processes, decisions and reporting will be open and transparent;
- Respect: SIDIT will treat everyone with respect and dignity;
- Environmental Sensitivity: SIDIT will support only those projects that comply with all applicable environmental legislation;
- Commitment: SIDIT is committed to supporting those projects that will add value to the communities and regions of the Southern Interior;
- Integrity: In all that it undertakes, SIDIT will be honest and sincere;
- Responsiveness: SIDIT will be responsive to the needs and aspirations of the people and communities in the Southern Interior.

Goal Setting

The SIDIT Board of Directors at its strategic planning session in October of 2011 created specific annual and cumulative targets in support of the following goals:

- Contribute to economic growth throughout the Southern Interior by supporting regional diversification.
- Remain sustainable and increase the value of the Trust over time through return on investment.
- Investment in the Southern Interior will: create or preserve jobs; be enhanced through leverage; support education in trades, technology and academic programs, support innovation and entrepreneurship; support community economic initiatives; support commercial enterprise.

Our 2012 annual report and future reporting will mirror these goals.



Changes in Reporting

The Southern Interior Development Initiative Trust (SIDIT) was established in February 2006 with an initial capitalization of \$50 million and a mandate to stimulate and facilitate the realization of positive, long lasting and measurable benefits within the Southern Interior of British Columbia. The SIDIT was set up as a statutory trust and not-for-profit corporation that is not part of a government reporting entity, however, it was funded through grants from the government of British Columbia. In early 2012, the Office of the Auditor General of BC carried out an audit under section 11(6) of the Auditor General Act, which empowers the Auditor General to audit an individual or organization concerning a grant received from the government, to ensure that any of the grant's terms and conditions have been fulfilled. The purpose of this audit was to determine whether the SIDIT was complying with the requirements of its Act, and meeting public accountability reporting standards.

The Auditor General developed their audit criteria based on SIDIT's governing legislation that SIDIT is required to follow and on recognized good practices that exist, but are not legislated requirements.

As a result of the audit, the Auditor General recommended that SIDIT:

- Include discussion in our public accountability reports about how we are complying with legislated requirements.
- Incorporate the BC Reporting Principles into our annual reports.
- Develop and report annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.

We believe that the recommendations presented by the Auditor General provide useful guidance on how to improve our public accountability reporting practices and create clarity for stakeholders. While the implementation of these recommendations is expected to be a continuous improvement process, we have begun to incorporate them into our 2012 Annual Report.

Report on Performance

The mission of the Southern Interior Development Initiative Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

Goals:

SIDIT's primary goal is to maintain the Trust so that it is sustainable, providing continual support for economic initiatives for the Southern Interior and increasing the value of the Trust over time through return on investment. The following goals support our mission:

1. Contribute to economic growth throughout the Southern Interior by supporting regional diversification.
2. Remain sustainable and increase the value of the Trust over time through return on investment.
3. Investment in the Southern Interior will: create or preserve jobs; be enhanced through leverage; support education in trades, technology and academic programs, support innovation and entrepreneurship; support community economic initiatives; support commercial enterprise.

Measurements:

We designed performance measures for each goal to help us, and our stakeholders, assess our progress in achieving the goals. We selected measurements on the following criteria:

Connection to our goals – We chose measurements that will assess our progress in achieving our goals and, through them, our mission.

Longevity – We chose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.

Measurability – We chose measurements for which we can collect accurate data and form baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure operational processes critical to the delivery of an efficient and effective funding system.

We will evaluate our measurements annually, to ensure they have integrity, and are meaningful. This may result in reconsidering the measure or the data collection method.

This section describes each goal, the strategies supporting it, and the measurable progress we made during fiscal 2012 towards achieving the goals.

GOAL 1 CONTRIBUTE TO ECONOMIC GROWTH THROUGHOUT THE SOUTHERN INTERIOR BY SUPPORTING REGIONAL DIVERSIFICATION.

STRATEGY: The historical distribution of projects by region, community size and sector is not a target or policy of the Board. SIDIT focuses on a project-by-project approval process that considers economic benefits to the community and region and other factors. Economic benefits of funded projects are not confined to the community or sub-region where projects are located. Many projects create benefits for other communities both within and outside the Southern Interior region due to the supply linkages between businesses, the commuting of workers throughout the region, and the creation of shared benefits such as attracting tourists to the region, generating scientific knowledge for region-wide use, and many others.

Measurement: Regional impact will be evaluated as dollars per capita/per sub region and is provided for informational purposes only.

Results: The following reflects cumulative disbursed funding by region on a per capita basis.

Grant Funding by Region and per Capita:

Regions	\$ Funded Grants	Population	\$ per capita
Hope	0	5,969	\$0.00
Thompson Nicola	\$615,941	128,473	\$4.79
Columbia Shuswap	\$0	36,055	\$0.00
North Okanagan	\$255,662	81,237	\$3.15
Central Okanagan	\$683,168	179,839	\$3.80
Okanagan Similkameen	\$215,124	80,742	\$2.66
Thompson Okanagan	\$1,769,895	512,315	\$3.45
Columbia Shuswap	\$270,560	14,457	\$18.71
Kootenay Boundary	\$462,850	31,138	\$14.86
Central Kootenay	\$175,363	58,441	\$3.00
East Kootenay	\$439,060	56,685	\$7.75
Columbia Kootenay	\$1,347,833	160,721	\$8.39
Total Grants	\$3,117,728		

Loan Funding by Region and per Capita

Regions	\$ Funded Loans	Population	\$ per capita
Hope	\$0	5,969	\$0.00
Thompson Nicola	\$758,801	128,473	\$5.91
Columbia Shuswap	\$835,935	36,055	\$23.18
North Okanagan	\$1,805,589	81,237	\$22.23
Central Okanagan	\$16,670,060	179,839	\$92.69
Okanagan Similkameen	\$1,630,674	80,742	\$20.20
Thompson Okanagan Region	\$21,701,059	512,315	\$42.36
Columbia Shuswap	\$0	14,457	\$0.00
Kootenay Boundary	\$1,342,964	31,138	\$43.13
Central Kootenay	\$100,000	58,441	\$1.71
East Kootenay	\$803,625	56,685	\$14.18
Columbia Kootenay Region	\$2,246,589	160,721	\$13.98
Total Loans	\$23,947,648		

Education Funding by Region

		Population	\$ per capita
Columbia Kootenay	\$ 1,283,375	160,721	\$ 7.99
Thompson Okanagan	\$ 3,081,125	512,315	\$ 6.01
Total Education	\$ 4,364,500	673,036	\$ 6.48

Total Funding by Region and per Capita

Regions:	Amount Funded	Population	\$ per capita
Hope	\$35,898	5,969	\$6.01
Thompson Nicola	\$2,147,395	128,473	\$16.71
Columbia Shuswap	\$1,052,774	36,055	\$29.20
North Okanagan	\$2,549,820	81,237	\$31.39
Central Okanagan	\$18,434,802	179,839	\$102.51
Okanagan Similkameen	\$2,331,390	80,742	\$28.87
Thompson Okanagan Region	\$26,552,079	512,315	\$51.83
Columbia Shuswap	\$386,001	14,457	\$26.70
Kootenay Boundary	\$2,054,454	31,138	\$65.98
Central Kootenay	\$742,021	58,441	\$12.70
East Kootenay	\$1,695,321	56,685	\$29.91
Columbia Kootenay Region	\$4,877,797	160,721	\$30.35
Total Funded	\$31,429,876	673,036	\$46.70

Discussion: The Directors of the Southern Interior Development Initiative Trust have committed \$30 million over four years commencing in 2007, for investment in strategic economic development initiatives that focus on regional benefits and those that help diversify local economies. It was anticipated that this level of funding would help communities respond to challenges and opportunities in the near term while preserving a significant portion of the funds to ensure that the Trust has resources available to respond to future challenges and opportunities as they evolve.

Applications for grant funding are proponent driven and while SIDIT strives, to the best extent possible, that all regions of the Southern Interior have fair and equitable access to the SIDIT Funds, it does not have control over the results of distribution of funding. SIDIT's primary objective is to support economic development opportunities based on project merit within the Southern Interior irrespective of geographic considerations. In line with the SIDIT Act and its mandate, SIDIT encourages submissions throughout the region.

SIDIT determines business enterprise risk based on a careful study of the business plan, past performance of the business enterprise if applicable and management capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be met.

Within the context of the SIDIT Act, SIDIT balances the level of risk that is present, with the community economic benefits that are being created. However, SIDIT will always satisfy itself that the potential of the deal is sound and prudent in order to protect the future of the fund.

SIDIT engaged five post secondary institutions operating in the Southern Interior as delivery partners for SIDITs investment in education. The participating institutions; College of the Rockies, Selkirk College, Okanagan College, University of British Columbia Okanagan and Thompson Rivers University deliver programs and manage awards for trades, technology and applied sciences students at both the secondary school and post-secondary school levels. Awards are based on financial need and range in size from \$500 to \$2,500.

GOAL 2 REMAIN SUSTAINABLE AND INCREASE THE VALUE OF THE TRUST OVER TIME THROUGH RETURN ON INVESTMENT.

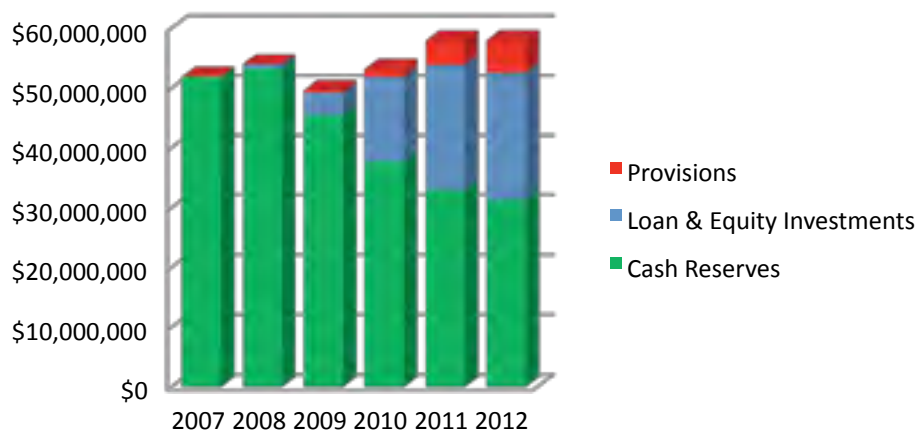
STRATEGY 2.1: To grow the value of the Trust through loan investment and re-investment of repaid principal and interest and capital gains.

Measurement: To grow the net value of the Trust from its original \$50 million.

Result: Of its original \$50 million, SIDIT committed \$30 million including \$7.5 million in non-repayable grants and awards disbursed over a four year period commencing April 1, 2007, plus re-investment of repaid principal and interest. \$5.5 million in principal and interest has been repaid as at the end of fiscal 2012. The remaining funds have been invested in liquid and market securities to provide for operating capital and create an endowment fund.

Trust equity, originally \$50 million, has reduced to \$46.8 million net of \$5.3 million loan provisions and \$1 million unrealized market loss provisions as at March 31, 2012. Our market investments, cash reserves, loan and equity investments, net of provisions for loss, are 93.6% of the original funds balance after disbursement of \$31.4 million into economic development initiatives including \$7.5 million in non-repayable grants and education awards.

Portfolio Analysis



STRATEGY 2.2: To achieve return in market Investments (ROI) at or above industry benchmarks.

Measurement: The long-term expected rate of return for the Fund is 3% above inflation (as recorded by the Consumer Price Index). The Fund is expected to earn a rate of return in excess of the composite benchmark return over four year rolling periods.

The benchmark is composed of:

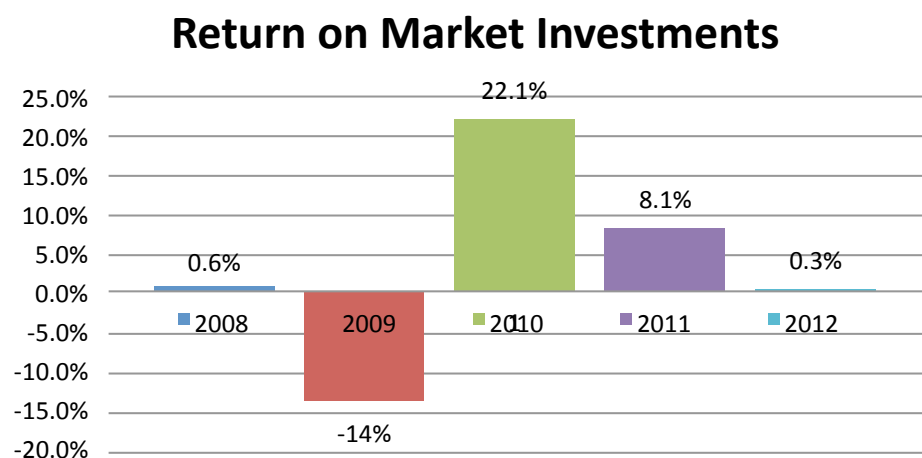
- 30% S&P/TSX Composite Total Return Index
- 30% MSCI World (Ex-Canada) Index (in Canadian dollars)
- 40% DEX Universe Index

Result:

	Year Ended March 2012 %	Year Ended March 2011 %	Year Ended March 2010 %	Year Ended March 2009 %	4 Yrs Ended March 2012 (annualized) %
Performance for the periods ended:					
Southern Interior Development Initiative Trust	0.3	8.1	22.1	-14.5	3.1
Composite Benchmark *	2.6	10.3	18.4	-13.1	3.9
Canadian Consumer Price Index	1.9	3.3	1.4	1.2	2.0
 Canadian Equity Fund	 -11.0	 17.2	 44.0	 -32.8	 0.2
S&P/TSX Composite Index	-9.8	20.4	42.2	-32.4	1.1
 Global Equity Fund	 0.2	 7.9	 25.3	 -28.9	 -0.9
MSCI World ex Canada Index	4.3	8.0	22.2	-29.5	-0.8
 Bond Fund	 9.3	 5.5	 10.5	 3.0	 7.0
DEX Universe Bond Index	9.7	5.1	5.1	4.9	6.2
 Money Market Fund	 1.2	 0.9	 0.6	 3.1	 1.4
DEX 30 Day T-Bill Index	0.9	0.6	0.2	1.9	0.9

Note: All performance data is shown on a gross or "pre-fee" basis.

The return in fiscal 2012 for the PH&N portfolio was .3% versus a Benchmark of 2.6%. The overall return over the past 4 years was 3.1% as compared to a composite benchmark of 3.9% and to the Canadian Consumer Price Index of 2.0%. The portfolio has grown from \$25 million at inception to \$27.7 million.



Discussion: In terms of absolute performance, the modest positive return reflects the weakness in equities and strong performance in bonds that has resulted from the ongoing uncertainty over the pace of a global economic recovery, and the potential for events in Europe to precipitate another recession or financial crisis.

In terms of relative performance, it was a poor year, with most of the underperformance concentrated in the third quarter of 2011. There were two primary reasons, one thematic and one specific, which each explain approximately half of the relative underperformance.

The thematic explanation is that SIDITs portfolios were, broadly speaking, positioned for a modest continued economic recovery, and the news and market events of the third quarter significantly adversely impacted performance. In the bond market, the yield on a ten-year Canada bond dropped a full percentage point in the third quarter, and credit spreads widened, at a time when SIDIT had a short duration positioning and a modest overweight in credit. In Canadian equities, “defensive” sectors such as utilities and REITs outperformed substantially in the third quarter, while “cyclical” sectors underperformed dramatically. Other factors such as quality and valuation (which SIDITs portfolio was emphasizing and which normally would bring an element of defensiveness) did not help in the quarter. While very disappointing, we stuck to our disciplines in both asset classes, further shortening duration and increasing credit exposure in bonds, and adding to beaten-down growing cyclical stocks, and the relative performance of both of those asset classes was very strong in the fourth quarter and first quarter of 2012.

The other primary area of weakness was the performance within the overseas equities component of the global equity fund. Sky Investment Counsel, who manages that portion of the portfolio, manages a concentrated portfolio, with the top ten holdings typically accounting for 40% of the portfolio, compared to the benchmark which contains in the range of 900 securities. Two of the larger positions in the portfolio, Cable & Wireless Worldwide and Renault, fell dramatically during the year. In the case of C&W, it was clearly a poor investment decision, as the operations of the company performed below our expectations, and the company made changes to its executives and eliminated the dividend. In the case of Renault, it was primarily valuation decline, as an already-inexpensive stock became cheaper. These two stocks accounted for the majority of the underperformance in the overseas segment. While clearly disappointing, we do believe the prices at which both stocks were marked-to-market at year-end were reasonable reflections of the values of their values, and would note that Renault's share price increased 49% in the first quarter of 2012, and C&W has just received a take-over offer from Vodafone at a 130% premium to where it finished the year.

While clearly disappointing, it was an unusual year in a few respects, such as the dramatic nature of some of the market moves, the "risk on, risk off" environment, and elevated intra-market correlations which made security selection less effective. Also, some factors which normally help an equity portfolio during turbulent times, such as value, growth and quality, did not matter this past year. It is also very unusual for all four asset classes to underperform at once. That said, we are quite pleased that the teams stuck to their disciplines, and that their discipline has thus far been rewarded in the first quarter of 2012.

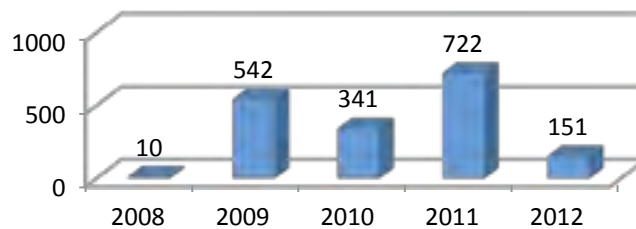
GOAL 3: INVESTMENT IN THE SOUTHERN INTERIOR WILL: CREATE OR PRESERVE JOBS; BE ENHANCED THROUGH LEVERAGE; SUPPORT EDUCATION IN TRADES, TECHNOLOGY AND ACADEMIC PROGRAMS, SUPPORT INNOVATION AND ENTREPRENEURSHIP; SUPPORT COMMUNITY ECONOMIC INITIATIVES; SUPPORT COMMERCIAL ENTERPRISE.

STRATEGY 3.1: We plan to create or preserve jobs through investment in community economic initiatives and commercial enterprises in the Southern Interior.

Measurement: Creation or preservation of 2,750 jobs by 2020. This target will be achieved by creating or preserving 123 jobs per annum. It is important to emphasize that all of these employment figures are projections. They are based on the expected situation when projects have been completed and when businesses have matured, and in most cases after an additional period of 3-5 years to allow for growth to be realized.

Result: SIDIT's funding has to date created or preserved or will create 1,766 short and long term jobs. Jobs created to date represent 64% of our target.

Jobs Created or Preserved



Discussion: Jobs reported are based on proponent estimates on direct employment to be created or preserved. Wages expenses are verified by comparison to financial statements or proponent reporting. Financial statements provided by business proponents are prepared, at a minimum, on a Review Engagement Basis.

In early 2011 SIDIT engaged the services of Lochaven Management Consultants Ltd. to set-up a framework to be used to evaluate SIDIT's functioning pursuant to the Southern Interior Development Initiative Trust Act and to conduct such evaluation. The purpose of the evaluation framework was to provide the Evaluation Committee with a consistent, comparable and objective means of conducting the evaluation, including assessing the effectiveness and efficiency of SIDIT's operations, and the impact of SIDIT's Investments at the regional and community level along with the compliance of such investments in accordance with the Act.

In May 2011 Lochaven Management Consultants Ltd. completed the economic impact analysis. The report identifies and assesses the impacts accruing from SIDIT's efforts by focusing on key measurable results (outputs, outcomes and impacts) accruing within the Southern Interior Development Initiative Trust Service Region as a consequence of SIDIT's loan and equity funding activities. Specifically, impacts that can be directly attributed to particular activities (i.e. spending, investing, producing, providing, employing, and/or utilizing) that would not have occurred in the absence of SIDIT's loan and equity funding activities. The key to the analysis was the isolation and measurement of incremental activity – including direct, indirect and induced effects.

In order to estimate the economic impacts of SIDIT loan and equity efforts, the analysis used an array of information sources and materials including, but not restricted to the following: (1) various studies, reports, and Annual Reports of the Southern Interior Development Initiative Trust; (2) primary survey data collected by the Consultant in one-on-one interviews; and, (3) information made available to the Consultant from Client files. Collectively this data provided a sufficient platform from which to confidently estimate the relationship between SIDIT's lending/equity investment efforts and the income and employment impacts to the Service Region.

SIDIT does not conduct independent audits of non-financial information, but from the analyses undertaken, it is apparent that the Southern Interior Development Initiative Trust has had a positive and significant incremental economic impact within its Service Region specifically and within British Columbia generally. We intend to conduct this analysis on a regular basis every five years. Go to www.sidit-bc.ca in the resources/documents section to see our 2011 Economic Impact Report.

STRATEGY 3.2: Through leverage and partnerships, the resources of the Trust benefit from a multiplier effect allowing participation in a greater number of initiatives in which, ideally, proponents have a significant stake.

Measurement: Leverage is established in grant and loan/equity applications as funding from other sources as compared to budget. Our leverage target is at least \$2.00 from other sources for every \$1 invested in development initiatives, grants and education awards.

Result: Over the past six years, SIDIT has funded over \$31.4 million in development initiatives, grants and education awards. As at the end of Fiscal 2012, leverage of \$3.06 from other sources for every \$1 invested by SIDIT has been achieved. Based on total cumulative initiative values of \$127.4 million, \$96 million has been invested by proponents and other funders.

Discussion:

Funding partners for community development initiatives include the following:

- 2010 Legacies Now Measuring up Fund
- BC 150 Celebrations Fund
- BC Innovation Council
- BC Lottery Foundation
- Jobs Opportunities Program
- Ministry of Aboriginal Relations and Reconciliation
- Ministry of Forests, Lands and Natural Resource Operations
- Ministry of Jobs, Tourism & Innovation
- Mountain Pine Beetle Epidemic Response Division
- Ministry of Community, Sports and Cultural Development
- Ministry of Transportation & Infrastructure
- Rural Economic Diversification
- Business Development Bank of Canada
- Community Futures Development Corporations
- Canada – BC Municipal Rural Infrastructure Fund
- Heritage Legacy Fund
- P3 Canada
- Service Canada – Youth Employment Strategy
- Western Economic Diversification
- Business
- Chambers of Commerce
- Credit Unions and Credit Union Foundations
- First Nations Groups
- Colleges, Universities, and other Education Facilities
- Municipal Government
- Not-for-Profit Organizations, Foundations, and Cooperatives
- Trusts

Funding partners for business loans and equity investment initiatives include the following:

- Business Development Bank of Canada;
- Community Futures Development Corporations;
- Banks;
- Credit Unions;
- Venture Capital Corporations;
- Proponent equity;
- Angel investors;
- National Research Council Canada – Industrial Research Assistance Program;
- Scientific Research and Experimental Development - Federal Tax Incentive Program.

STRATEGY 3.3: Reduce the impact of anticipated substantial labour shortages that are likely to hinder economic growth in B.C. by supporting education programs focused on trades, technology and academic programs.

Measurement: Investment targets will be \$6.2 million supporting 7,250 students by 2020. This target will be achieved by investing at least \$250,000 per annum and supporting 250 students per year.

Result: SIDIT engaged five post secondary institutions operating in the Southern Interior as delivery partners for SIDITs investment in education. The participating institutions; College of the Rockies, Selkirk College, Okanagan College, University of British Columbia Okanagan and Thompson Rivers University deliver programs and manage awards for trades, technology and applied sciences students at both the secondary school and post-secondary school levels. \$4.2 million in education support has been funded. This represents 68% of our 2020 cumulative funding target of \$6.2 million for trades, technology and academic education support programs. 391 students received bursaries in 2012 increasing the total number of students that have received education support by way of bursaries and scholarships to 5,298. This represents 73 % of our target of 7,250 students by 2020.

	2009	2010	2011	2012	Total
College of the Rockies	142	183	187	107	619
Selkirk College	284	362	450	74	1170
Thompson River University	493	558	590	58	1699
Okanagan College	582	593	468	102	1745
UBCO	0	0	0	29	29
UBCO - Medical	0	0	0	10	10
BCIC	0	6	9	11	26
	<u>1501</u>	<u>1702</u>	<u>1704</u>	<u>391</u>	<u>5298</u>

Discussion:

Labour Shortage Forecast

Provincial data shows that a substantial labour shortage is likely to hinder economic growth in B.C. unless the province can attract a lot more workers in the next 10 years.

By 2020, there will be 61,500 more jobs in the province than workers to fill them, according to B.C.'s most recent Labour Market Outlook, and that has the province relying on new-comers to B.C. to fill a third of all job openings within a decade.

The shortage will hit well before that in the skilled trades, a major driver of economic growth in the province. Demand for skilled trades workers is expected to outstrip supply by 2016, largely due to the wave of retiring baby boomers who can't be replaced overnight.

An estimated gap of 10,000 workers will need to be recruited from outside the local construction market to meet labour requirements and maintain balanced markets. These key long-term demographic measures point out the need to attract new recruits into the construction industry, even during periods of limited employment growth, to meet labour requirements in the final years of the scenario period. Many of these new workers will be new entrants from the younger population or will come from outside the industry. This highlights a specific need to target training, certification and career promotions and to focus on immigration over the longer term. Training programs, including apprenticeship, will need to expand and adapt to attract and prepare these new construction workers. For more information go to the BC Labour Market Outlook Report.

Testimonials

"I was fortunate enough to receive a SIDIT bursary this past school year. My parents are not in a position to help me financially with university. The money I received helped me to not only pay for tuition but for books, rent and food as well. Without the generosity from organizations like SIDIT contributing to the bursary program, attending university would be nearly impossible for me. For this reason, I am forever grateful. When I graduate I hope to get hired in the Okanagan to help provide people here with the best care possible."

Chelsey MacDonald, 3rd year Nursing, SIDIT bursary recipient

"On behalf of the School of Engineering, I thank SIDIT for its generous contributions to student awards for mechanical, civil and electrical engineering programs. The School's goal is to create well-rounded engineers who are prepared for the demands of modern workplaces. Your support enables our students to acquire the tools necessary to work with industry partners and our local communities. There is high demand for engineers in the Southern Interior and your contribution will create the professionals necessary to fill industry gaps and support our regional economy" writes Spiro Yannacopoulos, Associate Dean and Director, UBCO School of Engineering. "Innovative research conducted on the Okanagan campus is having significant impact on local manufacturing, business and agricultural industries and is creating limitless opportunities to propel these industries forward. We incorporate industry partners into our programs, facilitating collaboration with prospective employers and giving students opportunities to engage in relevant industry-based learning. Our students and researchers engage with Southern Interior businesses and municipalities on projects ranging from developing green concrete to improving composite materials and testing renewable energy sources. The success we've experienced in the School of Engineering is the result of talented students who have benefited from the vision of generous community partners. Partners like SIDIT and our School share a common interest in supporting the career paths of future engineers and training them in local industry needs. Your contribution to student awards allows the School of Engineering to continue moving towards significant economic growth in our region."

Southern Medical Program

SIDIT has committed \$25,000 per annum in a three year Education Award Agreement for the UBC Southern Medical Program. SIDIT's contribution was matched dollar for dollar thanks to the support of an anonymous donor. Combined, medical students received \$50,000 in bursaries from SIDIT.

The Southern Medical Program is part of the UBC Faculty of Medicine's distributed medical program. The vision is to increase the numbers of doctors practicing in rural British Columbia, and improve the quality of health care across the province. In January 2012, thirty-two medical students became the inaugural class in the Southern Medical Program, the fourth site in UBC Faculty of Medicine's distributed medical program. Our goal is to bring more doctors to the Southern Interior to address the uneven distribution of doctors in the province. Students will complete clinical training throughout the Southern Interior in Kelowna, Kamloops, Vernon, Penticton, Trail, Nelson and Cranbrook. Regionally trained doctors become familiar with complex health care issues in the Southern Interior and will hopefully stay to practice, making valuable contributions to the economy and the health of our communities.

Bursaries help to reduce the significant financial burden students face in the MD program. Tuition and books for the undergraduate medical program exceeds \$19,000 a year. Students graduate with approximately \$120,000 of student debt. SIDIT bursaries were distributed in \$5,000 increments to 10 students, nearly 1/3 of the Southern Medical Program class. In the early years of the program it is impossible to predict how many young doctors will practice in the Southern Interior. However, we know it is critical that the students feel supported by the community. The deeper their connection, the more likely they are to stay, or return to the region. SIDIT, in partnership with UBC, is helping lay the groundwork for increasing the number of practicing physicians in communities across the Southern Interior.

STRATEGY 3.4: To competitively position the Southern Interior in the global knowledge economy by supporting the development of entrepreneurial talent and commercialization of new technology.

Measurement: SIDIT will commit \$495,000 to be matched by BCIC to create a total fund of \$990,000. Funds will be invested in education, new ventures and entrepreneurial development programs.

Result: SIDIT partnered with and engaged the British Columbia Innovation Council (BCIC), a Crown Agency of the Province of British Columbia, to develop entrepreneurial talent and commercialize technology. BCIC focuses on competitively positioning British Columbia in today's global knowledge economy in order to provide significant employment opportunities and a high standard of living for British Columbians. SIDIT and BCIC have jointly funded \$379,000 as at March 31, 2012 which represents 38% of the SIDIT/BCIC cumulative funding target.

Discussion: In today's economic climate, it is increasingly important for British Columbia to be competitively positioned in the global knowledge economy. BCIC is focused on developing an ecosystem that increases the number and success rate of technology start-ups in the province to promote economic development and strengthen BC's contribution to the Canadian high tech sector. BCIC does this by developing programs and providing support for initiatives that develop entrepreneurs and promote the commercialization of technology. To learn more about BCIC's programs, go to www.bcic.ca.

STRATEGY 3.5: To support community investment creating significant positive impacts across the region while smaller communities are given opportunities to remain or become economically sustainable.

We define an economically sustainable community as a place where:

- There is a high quality of living that attracts people to the community and keeps them there;
- There is ample economic diversity and opportunity.

To help strengthen and build sustainable communities, we invest in initiatives that:

- Have regional economic impact;
- Support the creation, preservation or enhancement of employment;
- Support economic diversification and sustainability within Southern Interior communities;
- Tap into and take advantage of the expertise of people who live in the Southern Interior;
- Build on the region's tourism sector;
- Capitalize on the innovation and entrepreneurship of Southern Interior communities and businesses;
- Build on the industrial strength of the Southern Interior.

Measurement: We will invest \$7 million in support of community economic initiatives by 2020. This target will be achieved by investing \$500,000 per annum.

Results: \$3.1 million has been funded as at fiscal year-end 2012. This represents 44% of our target.

Discussion: Our investment of \$3.1 million has attracted an additional \$27 million into the region representing leverage of \$8.71 for every \$1 invested by SIDIT.

The following projects have been funded since inception:

Applicant	Project Description	Project Value	Amount Funded	Sector	Region
Community Foundations- Cranbrook CF	Community Living for Blade Runner Expansion	\$220,000.00	\$25,000.00	Economic Dev	East Kootenay
Community Foundations - Phoenix CF	Christina Lake Stewardship Works	\$50,000.00	\$25,000.00	Tourism	Kootenay Boundary
Community Foundations - Central OK CF	Okanagan Valley Public Market	\$106,000.00	\$25,000.00	Tourism	Central Okanagan
BCCFA Society	BCCFA - Branding BC's Community Forests Christina Lake	\$106,000.00	\$10,000.00	Tourism	Central Kootenay
Christina Lake Chamber of Commerce	Ecological Centre for the Arts	\$1,268,000.00	\$150,000.00	Economic Dev	Kootenay Boundary
Fly YXC Alliance Society	Transportation Alliance Project	\$600,000.00	\$186,000.00	transportation	East Kootenay
Gold Country Communities Society	GeoTourism Program	\$312,300.00	\$35,000.00	Tourism	Thompson Nicola
City of Grand Forks	Grand Forks Art Gallery & Cultural Museum	\$950,000.00	\$75,000.00	Tourism	Kootenay Boundary
Venture Kamloops Business Development	Kamloops International Market Development	\$43,750.00	\$15,000.00	Economic Dev	Thompson Nicola
Kootenay Aboriginal Business Advocacy	Aboriginal Business Advocacy Services	\$825,000.00	\$75,000.00	Economic Dev	East Kootenay
Okanagan Research and Innovation Centre	Business Incubator	\$778,000.00	\$150,000.00	Economic Dev	Central Okanagan
Shuswap Hut & Trail Society	Shuswap Trail Development	\$799,100.00	\$150,000.00	Tourism	Columbia Shuswap
Town of Princeton	Bridge of Dreams Construction	\$987,054.00	\$75,000.00	Tourism	Okanagan Similkameen
Thompson Rivers University	Centre for Innovation in Ranching	\$525,500.00	\$150,000.00	Agriculture	Thompson Nicola
Sounds of Light Multicultural Society	Vertical Log Home Prototype Enderby	\$229,800.00	\$95,000.00	Pine Beetle	North Okanagan
Friends of Fort Steele Society	Entrepreneurial Development Project	\$160,000.00	\$20,000.00	Tourism	East Kootenay
Kettle Valley Railway Society	Kettle Valley Steam Railway Expansion	\$61,500.00	\$30,000.00	Tourism	Central Okanagan
Myra Canyon Trestle Restoration Society	Myra Canyon Trestles Promotion	\$40,446.00	\$20,223.00	Tourism	Central Okanagan
Canadian Home Builders' Association, Kamloops	The Green Dream Home	\$800,000.00	\$100,000.00	Energy	Thompson Nicola
Aboriginal Agricultural Education Society	Kamloops Farm Fresh Processing Initiative	\$393,800.00	\$118,110.57	Agriculture	Thompson Nicola
City of Castlegar	Castlegar Airport Hazard Beacon	\$1,026,160.00	\$150,000.00	Transportation	Central Kootenay
West Kootenay Herb Growers Cooperative	Herb Growers Project - Edgewood	\$27,109.00	\$13,555.00	Agriculture	Central Kootenay
Thompson Rivers University	Liquid Chromatography Mass Spectrometry	\$953,655.00	\$50,000.00	Economic Dev	Thompson Nicola
Enterprising Non-Profits	Non-profit Incubator	\$1,350,000.00	\$150,000.00	Small Business	Sidit area

Applicant	Project Description	Project Value	Amount Funded	Sector	Region
Golden Nordic Ski Club	Dawn Mountain Development Project	\$1,050,000.00	\$50,000.00	Olympic Ops	Columbia Shuswap
Community Futures North Okanagan	"Our Okanagan" Web Site Development	\$343,525.00	\$29,822.00	Small Business	Okanagan Area
Fly YXC Alliance Society	Transportation Alliance Project	\$2,385,456.00	\$50,000.00	Transportation	East Kootenay
City of Trail	KBRH Heliport	\$783,740.00	\$50,000.00	Transportation	Kootenay
Okanagan Research and Innovation Centre	Business Incubator expansion	\$530,000.00	\$150,000.00	Economic Dev	Boundary Central
Business Development Corporation	Business Productivity Pilot Project	\$238,500.00	\$37,500.00	Economic Dev	Okanagan
City of Kimberley	Kimberley Conference & Paralympic Centre	\$7,301,022.00	\$100,000.00	Economic Dev	East Kootenay
Black Jack Cross Country Ski Club Society	Equipment and Trail Development	\$130,000.00	\$50,000.00	Olympic Ops	Kootenay Boundary
BC Ventures Society	New Ventures BC Regional Competition	\$689,501.00	\$50,000.00	Economic Dev	SIDIT Area
Village of Nakusp	Nakusp Emergency Services Building	\$863,293.00	\$42,233.00	Economic Dev	Central Kootenay
Gold Country Communities Society	Gold Country Geo-Tourism Expansion	\$350,000.00	\$49,000.00	Tourism	Thompson Nicola
Community Futures Okanagan Similkameen	Economic Gardening Project	\$183,091.00	\$29,284.00	Economic Dev	Okanagan Similkameen
Organic Farming Institute of BC	Organic Farming Project	\$100,020.00	\$30,000.00	Agriculture	SIDIT Area
Southern Interior Beetle Action Coalition	BC Log Home & Timber Frame Market Dev.	\$175,000.00	\$50,000.00	Pine Beetle	SIDIT Area
Grand Forks and Boundary Region Agricultural	Kettle Valley Mobile Abbatoir	\$376,633.00	\$50,000.00	Agriculture	Kootenay Boundary
Okeefe Ranch and Interior Heritage Society	Okeefe Ranch RV Park	\$101,769.00	\$50,000.00	Tourism	North Okanagan
Community Dental Access Centre Society	Dental Access Centre	\$610,518.00	\$50,000.00	Economic Dev	North Okanagan
Harrop-Procter Community Co-op	Growing Community Forests Project	\$290,765.00	\$50,000.00	Forestry	Central Kootenay
Community Futures -Trail	South Kootenay Business Centre	\$370,800.00	\$50,000.00	Small Business	Kootenay Boundary
Women's Enterprise Centre	Taking the Stage	\$252,557.00	\$7,000.00	Economic Dev	Sidit area
Selkirk College	Selkirk College Studio	\$150,000.00	\$50,000.00	Economic Dev	Central Kootenay
North Thompson Fall Fair & Rodeo Association	80 Revitalization	\$470,000.00	\$50,000.00	Agriculture	Thompson Nicola
Revelstoke Nordic Ski Club	Nordic Trail Improvements	\$100,000.00	\$50,000.00	Olympic Ops	Columbia Shuswap
UBCO	Biotechnology Resources	\$517,620.00	\$50,000.00	Agriculture	Okanagan Similkameen
Total Grants		\$30,976,984.00	\$3,117,727.57		

STRATEGY 3.6: To lend to, and invest in, promising commercial enterprises that may not qualify for credit through traditional sources, balancing the level of risk that is present, with the community economic benefits that are being created, and the long-term potential that future cash flow and equity targets will be met.

Measurement: Cumulative investment in support of business ventures by way of loans or equity of \$40 Million by 2020. This target will be achieved by investing \$2,063,000 per annum.

Results: \$24 million has been funded in support of business ventures. This represents 60% of our target.

Discussion: As part of our mandate, we provide funding for start-up ventures which are generally seen to be in a “pre-bankable” phase due to a lack of tangible security, history or sufficient cash flow. The development initiative investments are considered to be risky and accordingly demand higher rates of return than more established companies would be able to negotiate.

We have the option to convert a number of development initiative loans into equity of the loan recipient. Should the recipient companies be successful, these conversion options may have a material fair value over and above the value of the associated loan. We consider there is no material value in any of the conversion options at present, given that the recipient companies are early in the start-up stage.

While the Trust completes due diligence procedures prior to any investment being made, economic conditions have impacted the credit quality of many entities due to increased uncertainty in cash flows. We made the first development initiative investment in the March 31, 2008 fiscal year. As the recipient companies are now further into the lifecycle of a start-up enterprise, it is becoming clear that certain investments are unlikely to be recovered.

A provision for losses is made when we no longer have reasonable assurance of timely collection of the full amount of principal and interest.

Management Discussion and Analysis

We prepared this discussion and analysis of financial position and results of operations of SIDIT on June 27, 2012. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2012.

We prepared the financial information in this report in accordance with Canadian generally accepted accounting principles. We report in Canadian dollars. Totals and percentages may not always add up due to rounding.

Internal Control Over Financial Reporting

Our fiscal 2012 evaluation of the effectiveness of internal control over financial reporting did not identify any control gaps that is reasonably likely to materially affect SIDIT.

Nature of Operations

We were established as a corporation in 2006 by the Southern Interior Development Initiative Trust Act and operate as a not-for-profit economic development trust. As

a non-profit corporation, we are exempt from income taxes.

We pay HST and receive no rebates on taxable purchases.

We are not an agent of the government.

Revenue Sources

We received a one-time development allocation payment from the Provincial Government in the amount of \$50 million.

98% of our operational funding comes from returns on market investments and development initiatives including loan interest and application fees. The remaining 2% comes from funding partner contribution into programs.

Our model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

Category	Source	Fiscal 2011	Fiscal 2012
Investment Income	Phillips Hager & North–Mutual Funds and Bonds	49%	6%
Development Initiative Income	Private Companies	50%	92%
Contributions	BCIC	1%	2%

Investment Income

Our prime investment objectives for surplus funds are to meet SIDIT's financial obligations related to disbursements in support of economic development initiatives and its day to day operations while preserving and expanding reserves necessary to meet future opportunities and obligations.

We invest in highly liquid, high quality money market instruments, government securities, investment-grade corporate debt securities, Canadian equities, foreign equities, pool funds, closed-end investments, companies and other structured vehicles in any or all of the above permitted investment categories.

Development Investment Income

We lend to, and invest in, promising commercial enterprises that may not qualify for credit through traditional sources, balancing the level of risk that is present, with the community economic benefits that are being created, and

the long-term potential that future cash flow and equity targets will be met. Interest rates are risk based.

Contributions

We have an agreement with the British Columbia Innovation Council to jointly support economic development initiatives within our area.

Expenses

We are committed to managing our operational expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management committee, requiring Board approval of significant unbudgeted expenses, and continually improving our processes.

ANALYSIS OF FISCAL 2012 OPERATING RESULTS COMPARED TO BUDGET

	2012 Actual	2012 Budget	Variance to Budget
REVENUES			
Income on Investments	\$1,459,184	\$1,650,000	-\$190,816
Income on Development Initiatives	\$2,020,602	\$2,145,000	-\$124,398
Other Revenue	\$289,667	\$60,000	\$229,667
Contributions	\$57,375	\$362,875	-\$305,500
EXPENSES			
Board Costs	\$12,141	\$21,000	\$8,859
Education Awards and Grants	\$910,983	\$2,068,750	\$1,157,767
Office and Administration	\$72,056	\$107,000	\$34,944
Professional /Consulting/Investment	\$161,633	\$205,000	\$43,367
Salaries and benefits	\$304,445	\$320,500	\$16,055
Unrealized losses on Investments	\$1,309,767	\$0	-\$1,309,767
Provision for Development Initiative loss	\$3,549,922	\$700,000	-\$2,849,922
Gain/-Deficiency	-\$2,494,119	\$795,625	-\$3,289,744

Revenue

INCOME ON INVESTMENTS / UNREALIZED GAINS (LOSSES)

Global capital markets continued to decline with the risk of a double dip recession, concerns over debt of certain European nations and a slowdown globally. Below budget investment returns combined with unrealized losses resulted in a combined return of 0.3% well below budgeted 6% return on investment.

INCOME ON DEVELOPMENT INITIATIVES

We achieved 94% of budgeted loan interest due to deferral of funding on certain loans and provisions for loss.

OTHER REVENUE

Fees on loans were higher than anticipated due to payment deferral options being exercised.

CONTRIBUTIONS

British Columbia Innovation Council (BCIC) did not draw the budgeted amount of \$305,500 for payout to students and programs as anticipated. The contract is being reassessed later in 2012.

Expenditures

BOARD COSTS

Many board meetings are held electronically therefore savings in travel of \$4,959 were achieved. Regional Advisory Committee expenses had been budgeted for \$4,000 but only \$100 was spent.

EDUCATION AWARDS AND GRANTS

We fund education awards in partnership with others. The Education institutions decide which students receive funds and how funding is disbursed. Our budget variance of \$611,000 is due to BCIC not drawing the budgeted amount for payout to BCIC/SIDIT funded programs. BCIC's share of funding is reflected in "Contributions".

The \$546,767 savings in grant disbursements include committed grants of \$376,500 as well as undersubscribed funds. These amounts will be re-allocated to the next fiscal period.

OFFICE AND ADMINISTRATION

We had \$34,944 savings in operations due to lower advertising, insurance costs, staff travel expenses and office supplies.

SALARIES AND BENEFITS

The \$16,055 savings in administration salaries was due to changes in timing of payment of performance incentive compensation.

PROFESSIONAL, CONSULTING AND INVESTMENT FEES

We had a \$43,366 savings in legal and consultant fees as most of the legal and consulting expenses incurred for the year were expensed to individual loan accounts as security realization costs.

UNREALIZED LOSS ON INVESTMENTS

Unrealized losses of \$1,309,767 were recorded for market investments.

PROVISION FOR DEVELOPMENT INITIATIVE LOSSES

A provision of \$3,549,922 (2011 -\$2,767,079) has been made against certain outstanding development initiative investments which management consider unlikely to be recovered. The provision is approximately 17% (2011 -11%) of the total development initiative balance. 2012 provisions for development initiative losses include our investment in two businesses that were sold or are in process of being sold. The sale agreements include royalty payments over 5 to 7 years based on a percentage of gross revenues relating to the product line, divestiture or licensing to independent third parties of patents, software or PLC technology owned by the corporation on closing. The purchasers in both transactions are privately owned Canadian corporations with significant sales force and engineering capacity. We believe that a royalty will be paid, however provisions were established to reflect the uncertainty of the income stream. The employees of both businesses have transitioned or will transition to the purchasers and will remain in the Southern Interior.

FINANCIAL POSITION

Assets & Liabilities

Balance Sheet

Assets

Current Assets:

	2007	2008	2009	2010	2011	2012
Cash and cash equivalents	20,084	34,433	1,404,809	1,157,630	5,085,229	3,432,819
Accounts receivable	0	0	149,227	126,773	203,630	183,794
Prepaid expenses	7,500	6,488	5,250	5,250	5,250	4,971
CP of Development Initiatives	0	0	0	0	1,570,420	2,487,454
	27,584	40,921	1,559,286	1,289,653	6,864,529	6,109,038

Investments	51,941,373	53,277,633	43,955,600	36,422,257	27,749,742	27,720,211
Development Initiatives	0	700,000	3,368,981	12,888,735	15,232,382	13,443,489
Property & Equipment	4,711	8,154	9,544	11,337	10,688	9,650
	51,973,668	54,026,708	48,893,411	50,611,982	49,857,341	47,282,388

Liabilities and Fund Balance

Current Liabilities:

Accounts payable and accrued liabilities	15,534	13,581	12,000	186,786	171,271	147,812
Deferred contributions	0	0	450,000	414,576	362,875	305,500
	15,534	13,581	462,000	601,362	534,146	453,312

Fund Balance:

Regional Account:

Externally restricted	51,953,423	54,004,973	48,421,867	49,999,283	49,312,507	46,819,426
Investment in property and equipment	4,711	8,154	9,544	11,337	10,688	9,650
	51,973,668	54,026,708	48,893,411	50,611,982	49,857,341	47,282,388

Assets

CASH AND CASH EQUIVALENTS

Our cash equivalent assets of \$3.4 million are monies currently held in VantageOne Credit Union.

ACCOUNTS RECEIVABLE

Our accounts receivable include accrued interest on Development Initiatives for the month of March.

PREPAID EXPENSES

Prepaid expenses are monies paid for conferences held in May to take advantage of discounts and for insurance premiums paid in advance.

CURRENT PORTION OF DEVELOPMENT INITIATIVES

This includes that portion of Development Initiatives that are due and payable in the next year.

DEVELOPMENT INITIATIVES

As part of our mandate, we provide funding for early stage business. This funding is provided through our development initiatives. During the year, the current Development Initiative investments increased by \$1,323,115. During 2012, \$3.5 million (2011 - \$2.8 million) provision for loss has been established and \$2.2 million (2011 – nil) written-off to bad debt.

INVESTMENTS

The principal financial instruments affecting our financial condition and results of operations are bonds and equity investments. Our investments expose SIDIT to global market risk as well as interest rate risk. Although the short-

term nature of our cash and money market investments limits the impact of fair value fluctuations, our longer-term bonds and debentures will have greater interest rate sensitivity. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator. Liquidity risk is low because our market investments are in pooled fund units redeemable within a short time period. Our funds are invested with Phillips, Hager & North Investment Management. We have \$541,183 in Money Markets, \$10,470,832 in Bonds and \$16,708,196 in Equities.

PROPERTY & EQUIPMENT

Net book decreased by \$1,038 which included purchases for a computer and filing cabinets and depreciation of \$3,073.

Liabilities

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable of \$147,812 includes monies owed to partner investors with whom we have invested in Development Initiatives.

CURRENT PORTION OF DEFERRED CONTRIBUTIONS

This represents \$305,500 of the unspent externally restricted grant from the British Columbia Innovation Council.

Equity

REGIONAL ACCOUNT

This account has declined by the net loss of \$2,491,046 and depreciation of \$3,073 for a total amount of \$2,494,119.

PROFIT AND LOSS

	2007	2008	2009	2010	2011	2012
Province of BC Contribution	50,000,000	-	-	-	-	-
Income on Investments	2,091,372	2,331,966	1,557,434	1,091,859	939,214	1,459,184
Income on Development Initiatives	-	-	116,596	938,167	1,979,692	2,020,602
Other revenue	-	-	31,900	222,420	276,165	289,667
Contributions	-	-	45,000	39,500	47,625	57,375
Total Revenues	52,091,372	2,331,966	1,750,930	2,291,946	3,242,696	3,826,828
Board Costs	23,241	8,331	10,850	17,683	10,089	12,141
Education Awards and Grants	-	-	1,975,002	2,958,698	1,827,011	910,983
Office and Administration	28,931	82,548	131,339	87,942	87,326	72,055
Professional/Consulting/ Investment Fees	31,571	46,471	149,539	168,076	169,814	161,634
Salaries and Benefits	49,495	144,095	201,937	286,508	303,976	304,445
Total Expenses	60,502	129,019	2,255,880	3,518,907	2,084,151	1,144,672
Excess of Revenue over Expenses	51,958,134	2,050,521	(717,737)	(1,226,961)	844,480	2,365,570
Unrealized gain(loss) on Investments	-	4,471	(4,463,979)	3,706,143	1,235,173	(1,309,767)
Provision for Development Initiative Losses	-	-	(400,000)	(899,973)	(2,767,079)	(3,549,922)
NET INCOME (LOSS)	51,958,134	2,054,993	(5,581,716)	1,579,209	(687,426)	(2,494,119)

LIQUIDITY

STATEMENT OF CASH FLOWS

	2012	2011
Cash provided by (used in):		
Cash flows from operating activities:		
Deficiency of revenue over expenditures	(2,494,119)	(687,426)
Items not involving cash:		
Accrued interest on development initiatives	(1,292,064)	(1,382,627)
Recognition of deferred contributions	(57,375)	(51,701)
Amortization	3,073	3,538
Unrealized (gain)loss on investments	1,309,767	(1,235,173)
Provision for development initiative losses	3,549,922	2,767,079
Change in non-cash operating working capital	(3,345)	(92,370)
	1,015,859	(678,680)
Cash flows from investing activities:		
Proceeds from sale of investments	1,873,301	11,078,474
Purchase of investments	(3,153,537)	(1,170,787)
Funding of development initiatives	(3,076,001)	(8,339,410)
Repayments of development initiatives	1,690,003	3,040,891
Acquisition of property and equipment	(2,035)	(2,889)
	(2,668,269)	4,606,279
Increase(decrease) in cash and cash equivalents	(1,652,410)	3,927,599
Cash and cash equivalents, beginning of year	5,085,229	1,157,630
Cash and cash equivalents, end of year	3,432,819	5,085,229

Cash flow, excluding provision for development initiative losses and unrealized loss on investments, was negative for the year at \$1.7 million. We ended the year with \$3.4 million of cash and cash equivalents.

As discussed, our revenue model may result in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Commitments:

As at March 31, 2012, the Trust has committed funding of approximately \$2.3 million as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing - Fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$305,500	2013
Education awards delivered through University of British Columbia Okanagan	Student bursaries at college and secondary school level	\$50,000	2013 and 2014
Various grant projects	Conditionally approved grants	\$376,500	2013 and subsequent years
Various equity and loan initiatives	Conditionally approved loan and equity initiatives	\$1,590,500	2013

Future Outlook

Budget and 3 Year Projections

	2013 Budget	2014 Projected	2015 Projected	2016 Projected
Income on Investments	\$1,325,000	\$1,325,000	\$1,325,000	\$1,325,000
Income on Development Initiatives	\$1,918,000	\$2,058,000	\$2,192,000	\$2,343,000
Other Revenues	\$150,000	\$150,000	\$150,000	\$150,000
Contributions	\$60,000	\$60,000	\$60,000	\$60,000
Total Revenues	\$3,453,000	\$3,593,000	\$3,727,000	\$3,878,000
Board Costs	\$21,000	\$21,000	\$22,000	\$22,000
Education Awards and Grants	\$895,000	\$895,000	\$870,000	\$870,000
Office and Administration	\$94,700	\$95,000	\$96,000	\$97,000
Professional/Consulting/Investment	\$203,480	\$330,000	\$333,000	\$335,000
Salaries and Benefits	\$331,557	\$355,000	\$380,000	\$406,000
Total Expenses & Grants	\$1,545,737	\$1,696,000	\$1,701,000	\$1,730,000
TOTAL INCOME OVER EXPENSES	\$1,907,263	\$1,897,000	\$2,026,000	\$2,148,000
Provision for Development Initiative Loss	\$800,000	\$800,000	\$800,000	\$800,000
NET INCOME	\$1,107,263	\$1,097,000	\$1,226,000	\$1,348,000

Revenues

Investment income is expected to be 5% as we are forecasting a slow growing global economy. We have not made forecasts for unrealized gains/losses.

Development Initiative interest income is calculated on 12% returns on development initiative balances net of provisions.

Non-interest revenues and partner contributions are budgeted to remain steady for the next few years.

Expenses

Education awards will decline in 2015 as our commitment for certain awards will be fulfilled.

Our financial statements are recorded on a cash basis, meaning that disbursements are made to projects regardless of the year for which the funds were budgeted. In our annual budget, previous years uncommitted funds are accounted for and are also available for disbursement, but not included in each year's new budget.

Salaries and benefits are projected to increase for inflationary and bonus components.

All other expenses are carefully controlled and have inflationary increases to the categories only.

Professional services are projected to go up in 2014 to increase capacity for development initiative management.

Management's Responsibility and Certification

Management is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian generally accepted accounting principles (GAAP).

We certify that:

- *We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP;*
- *We have reviewed the financial statements and other information in this annual report;*
- *We believe the report reflects all material facts for the period covered;*
- *We do not believe the report misstates any material fact.*

We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Southern Interior Development Initiative Trust (the Trust) as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and conduct. It is the Trust's policy to maintain the highest standards of ethics in all its activities. The Trust has employee and director conduct policies, including conflict of interest rules, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent directors who do not participate in the day-to-day operations of the Trust. The audit committee meets annually with management and the external auditors to review the:

- *Financial statements,*
- *Adequacy of financial reporting, accounting systems and controls, and*
- *External audit functions.*

The external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.



Luby Pow
Chief Executive Officer



KPMG LLP
Chartered Accountants
Credit Union Building
3205-32 Street, 3rd Floor
Vernon BC V1T 9A2
Canada

Telephone (250) 503-5300
Fax (250) 545-6440
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southern Interior Development Initiative Trust

We have audited the accompanying statement of financial position of Southern Interior Development Initiative Trust as at March 31, 2012 and the statements of operations, fund balance and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation 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.



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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2012 and its results of its operations, and its changes in fund balance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

Chartered Accountants

Vernon, Canada

June 27, 2012

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,432,819	\$ 5,085,229
Accounts receivable	183,794	203,630
Prepaid expenses	4,971	5,250
Current portion of development initiatives (note 2)	2,487,454	1,570,420
	<u>6,109,038</u>	<u>6,864,529</u>
Development initiatives (note 2)	13,443,489	15,232,382
Investments (note 3)	27,720,211	27,749,742
Property and equipment (note 4)	9,650	10,688
	<u>\$ 47,282,388</u>	<u>\$ 49,857,341</u>


Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued liabilities	\$ 147,812	\$ 171,271
Current portion of deferred contributions (note 5)	305,500	42,250
	<u>453,312</u>	<u>213,521</u>
Deferred contributions (note 5)	-	320,625
Fund balance:		
Regional account:		
Externally restricted	46,819,426	49,312,507
Invested in property and equipment	9,650	10,688
	<u>46,829,076</u>	<u>49,323,195</u>
	<u>\$ 47,282,388</u>	<u>\$ 49,857,341</u>

Commitments (note 7)

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Operations

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Income on investments	\$ 1,459,184	\$ 939,214
Income on development initiatives	2,020,602	1,979,692
Other revenue	289,667	276,165
Contributions (note 5)	57,375	47,625
	3,826,828	3,242,696
Expenditures:		
Amortization	3,073	3,538
Board costs	12,141	10,089
Consulting fees	12,582	34,612
Education awards and grants	910,983	1,827,011
Insurance	8,700	11,155
Investment fees	111,495	101,456
Office and administration	60,283	72,633
Professional fees	37,556	33,746
Salaries and benefits	304,445	303,976
	1,461,258	2,398,216
Excess of revenue over expenses before the undernoted	2,365,570	844,480
Other income (expenses):		
Unrealized gain (loss) on investments	(1,309,767)	1,235,173
Provision for development initiative losses (note 2)	(3,549,922)	(2,767,079)
	(4,859,689)	(1,531,906)
Deficiency of revenue over expenditures	\$ (2,494,119)	\$ (687,426)

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Fund Balance

Year ended March 31, 2012, with comparative figures for 2011

	Externally restricted	Invested in property and equipment	2012 Total	2011 Total
Regional account:				
Balance, beginning of year	\$ 49,312,507	\$ 10,688	\$ 49,323,195	\$ 50,010,620
Deficiency of revenue over expenditures	(2,491,046)	(3,073)	(2,494,119)	(687,425)
Property and equipment additions	(2,035)	2,035	-	-
Balance, end of year	\$ 46,819,426	\$ 9,650	\$ 46,829,076	\$ 49,323,195

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Cash Flows

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Cash flows from operating activities:		
Deficiency of revenue over expenditures	\$ (2,494,119)	\$ (687,426)
Items not involving cash:		
Accrued interest on development initiatives	(1,292,064)	(1,382,627)
Recognition of deferred contributions	(57,375)	(51,701)
Amortization	3,073	3,538
Unrealized (gain) loss on investments	1,309,767	(1,235,173)
Provision for development initiative losses	3,549,922	2,767,079
Change in non-cash operating working capital	(3,345)	(92,370)
	1,015,859	(678,680)
Cash flows from investing activities:		
Proceeds from sale of investments	1,873,301	11,078,474
Purchase of investments	(3,153,537)	(1,170,787)
Funding of development initiatives	(3,076,001)	(8,339,410)
Repayments of development initiatives	1,690,003	3,040,891
Acquisition of property and equipment	(2,035)	(2,889)
	(2,668,269)	4,606,279
Increase (decrease) in cash and cash equivalents	(1,652,410)	3,927,599
Cash and cash equivalents, beginning of year	5,085,229	1,157,630
Cash and cash equivalents, end of year	\$ 3,432,819	\$ 5,085,229

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

Southern Interior Development Initiative Trust (the "Trust") was formed in February 2006 under the Southern Interior Development Initiative Trust Act (the "Act") and shortly thereafter received a one-time contribution from the Province of British Columbia. The Trust is a not-for-profit entity and is exempt from income tax under section 149 of the Income Tax Act.

The vision of the Trust is a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities, a future where regional investment creates significant positive impacts across the region where smaller communities are given opportunities to remain or become economically sustainable, and a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout. The mission of the Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

1. Significant accounting policies:

(a) Fund accounting:

The Trust follows Canadian generally accepted accounting principles for not-for-profit organizations and applies such principles consistently. Accordingly, the resources and operations of the Trust are segregated into various funds for accounting and financial reporting purposes. The Trust currently has one fund, the Regional account. This fund includes balances which are invested in property and equipment or externally restricted. The externally restricted balance represents the amount currently available for development initiatives and administrative costs.

(b) Revenue recognition:

The Trust follows the restricted fund method of accounting for contributions. Under the Act, the Trust has one Regional Account fund that reports contributions restricted to activities outlined in its respective strategic plan. The externally restricted one-time contribution has been recognized in the year received. Externally restricted contributions related to general operations are recognized as revenue in the year in which the related expenses are recognized.

Income is recognized on the accrual basis when the service has been provided or as otherwise earned, provided that collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. All income is included in the Regional Account in accordance with the Act.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

The Trust considers investments in any liquid debt instrument with an original maturity of three months or less to be cash equivalents. Any cash or cash equivalents held in investment portfolios is included with investments.

(d) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on the declining balance basis using the following annual rates which approximate the useful lives of the assets:

Asset	Rate
Office furniture	20%
Computer hardware	30%
Computer software	50%

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of development initiatives and the valuation of loan conversion options. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known or are revised.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

1. Significant accounting policies (continued):

(f) Financial instruments:

All financial instruments and derivatives are measured at fair value on initial recognition. Their subsequent measurement and the manner in which unrealized gains or losses are reported depends on the characteristics of the financial instruments and their designation by the Trust.

The Trust's financial instrument designations and the applicable accounting treatments are as follows:

Financial instruments	Classification	Measurement	Recording of unrealized gains or losses
Cash and cash equivalents	Held-for-trading	Fair value	Operations
Accounts receivables	Loans and receivables	Amortized cost	n/a
Investments	Held-for-trading	Fair value	Operations
Development initiatives:			
Loans	Loans and receivables	Amortized cost	n/a
Equity investments	Available-for-sale	Fair value	Net assets
Conversion options	Held-for-trading	Fair value	Operations
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	n/a

The financial instruments were all designated as indicated above on initial recognition. Unless otherwise stated, the fair values of financial instruments do not materially differ from their carrying values. Items measured at amortized cost are done so using the effective interest method. Transaction costs are expensed as incurred.

Fair values of investments are based on year end quoted market prices. Fair value of development initiatives - equity investments and conversion options are determined based on quoted market prices where available, otherwise on the estimated discounted cash flows over the life of the asset.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

1. Significant accounting policies (continued):

(f) Financial instruments (continued):

The Trust considers a development initiative loan to be impaired if, in management's opinion, the counterparty is not likely to be able to generate sufficient cash either through operations or further financing to meet its obligations for the foreseeable future as they come due.

The charge to income recognized in the period is the amount necessary to write the impaired loan down to the greater of:

- the sum of the estimated discounted cash flows expected to be realized from the loan; and
- the estimated net realizable value of any security held by the Trust.

The Trust has elected to use the exemption provided by the Canadian Institute of Chartered Accountants ("CICA") permitted not-for-profit organizations not to apply the following sections of the CICA Handbook: Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. These sections would otherwise have applied to the financial statements of the Trust for the year ended March 31, 2012. The Trust applies the requirements of Section 3861, *Financial Instruments – Disclosure and Presentation*.

(g) Accounting pronouncements issued but not yet effective:

In December 2010, the CICA issued Part III of the CICA Handbook – Accounting Standards for Not-For-Profit Organizations. The standards provide non-profit organizations the choice of applying accounting standards for private enterprises supplemented by the Part III standards unique to non-profit organizations, or International Financial Reporting Standards. The new standards are applicable to annual financial statements relating to fiscal years beginning on or after January 1, 2012 (the fiscal year commencing April 1, 2012 for the Trust). The Trust is in the process of reviewing the impact of these options on its reporting framework and financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

2. Development initiatives:

At year end, there are 51 (2011 - 49) development initiatives outstanding, as follows:

	2012	2011
Loans - direct	\$ 9,362,737	\$ 8,787,389
Loans - convertible	7,323,321	5,925,612
Loans - via Community Futures Development Corp. ("CFDC")	622,764	676,700
Equity - common shares	2,000,000	2,000,000
Equity - preferred shares	2,012,288	3,480,153
	21,321,110	20,869,854
Less provision for development initiative losses	(5,390,167)	(4,067,052)
	15,930,943	16,802,802
Less current portion	(2,487,454)	(1,570,420)
	\$ 13,443,489	\$ 15,232,382

(a) Loans - direct:

The Trust has 23 (2011 - 22) direct loans outstanding which bear interest rates that range from 10% to 18% per annum. Interest and principal amounts are due at various dates between April 1, 2012 and December 1, 2020.

(b) Loans - convertible:

The Trust has 18 (2011 - 15) convertible loans that bear interest rates that range from 12% to 16% per annum. Interest and principal amounts are due at various dates between April 1, 2012 and February 1, 2017. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the Trust. At March 31, 2012, the Trust has valued the conversion option on all convertible loans to be \$nil (2011 - \$nil).

(c) Loans via CFDC:

The Trust has 6 (2011 - 6) loans made via CFDC's Southern Interior Business Investment Fund which bear interest rates that range from 5% to 10% per annum. The principal amounts are due at various dates between August 1, 2014 and September 1, 2024.

(d) Equity - common shares:

The Trust's only investment in common shares is in the Southern Interior Innovation Fund and is comprised of 2,000,000 Class "B" Voting common shares.

(e) Equity - preferred shares:

The Trust has 3 (2011 - 5) preferred share investments that bear dividends that range from 10% to 14% per annum.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

2. Development initiatives (continued):

The provision for development initiative losses is summarized as follows:

	2011 ending balance	Amounts written-off during the year	Amounts provided for during the year	2012 ending balance
Loans - direct	\$ 1,028,951	\$ -	\$ 758,701	\$ 1,787,652
Loans - convertible	1,072,256	(348,037)	2,229,681	2,953,900
Loans - via CFDC	113,583	-	-	113,583
Equity - preferred shares	1,852,262	(1,878,770)	561,540	535,032
Total	\$ 4,067,052	\$ (2,226,807)	\$ 3,549,922	\$ 5,390,167

3. Investments:

	2012	2011
Money market	\$ 541,183	\$ -
Bonds	10,470,832	10,417,691
Equities	16,708,196	17,332,051
	\$ 27,720,211	\$ 27,749,742

The annual weighted average rate of return for 2012 was 0.30% (2011 - 6.72%).

4. Property and equipment:

	2012		2011	
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture	\$ 11,357	\$ 5,808	\$ 5,549	\$ 6,125
Computer hardware	8,568	5,322	3,246	3,838
Computer software	6,001	5,146	855	725
	\$ 25,926	\$ 16,276	\$ 9,650	\$ 10,688

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

5. Deferred contributions:

Deferred contributions related to expenses of future periods represent the unspent externally restricted grant from the British Columbia Innovation Council.

	2012	2011
Balance, beginning of year	\$ 362,875	\$ 410,500
Less amount recognized as revenue in the year	(57,375)	(47,625)
	305,500	362,875
Less: current portion	305,500	42,250
	\$ -	\$ 320,625

6. Financial instruments:

The Trust is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk. Financial risk management is carried out by the Trust's management.

(a) Credit risk:

The trust is exposed to credit risk from the possibility that borrowers may default on their obligations. Management attempts to mitigate this risk by ensuring that proper due diligence is performed before funding is committed.

(b) Liquidity risk:

Liquidity risk is the risk that the Trust will be unable to meet its financial obligations on a current basis. The Trust manages liquidity risk through regular cash-flow forecasting.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

6. Financial instruments (continued):

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or foreign currency prices.

(i) Interest rate risk:

The Trust is exposed to interest rate risk through certain of its financial assets bearing variable interest rates. Changes in the market interest rates do not have a significant impact on the Trust's results of operations due to the short-term nature of the respective financial assets. The Trust currently does not use derivative instruments to reduce its exposure to interest rate risk.

(ii) Currency risk:

The Trust does not currently have any exposure to currency risk.

7. Commitments:

As at March 31, 2012, the Trust has committed funding of approximately \$2.3 million as follows:

Project/Recipient	Description	Amount	Anticipated disbursement timing - fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$ 305,500	2013
Education Awards delivered through University of British Columbia Okanagan	Student bursaries at college and secondary school level	50,000	2013 and 2014
Various grant projects	Conditionally approved grants	376,500	2013 and subsequent years
Various equity and loan initiatives	Conditionally approved loan and equity initiatives	1,590,500	2013

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2012

8. Comparative figures:

Certain 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

Southern Interior

DEVELOPMENT INITIATIVE TRUST

Southern Interior Development Initiative Trust Staff

Luby Pow | Chief Executive Officer

Helen Patterson | Accounting & Economic Development Officer

Anita Rhodes | Administrative Assistant

CONTACT INFORMATION

204 – 3131, 29th Street

Vernon, B.C. V1T 5A8

www.sidit-bc.ca

TELEPHONE 250-545-6829

FAX 250-545-6896

INVESTMENT MANAGERS

Phillips, Hager and North Investment Management Ltd.

Waterfront Centre, 20th Floor,

200 Burrard Street,

Vancouver, B.C. V6C 3N5

AUDITORS

KPMG LLP Chartered Accountants

Credit Union Building

3205--32 Street, 3rd Floor

Vernon, B.C. V1T 9A2