



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, 2010 through March 31, 2011.

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

What's Inside

Message from the Chair	4
Board of Directors	5
An Overview of SIDIT	7
Funding Partners	10
Investment in Education	12
Communications and Networking	13
Economic Impact	14
Demonstrating Best Practices	15
Report on Investments	16
Job Creation	17
Funding by Investment Sector	18
Funding by Region	19
Our Future Direction	20
Meet some of our Clients	21
Financial Statements	26

Message from the Chair – June 2011

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. Over the past five years a substantive amount of activity has been generated through SIDIT's efforts. In fact, to March 2011 SIDIT had in aggregate approved \$30.8 million for development initiatives, grants and education awards; created \$115.2 million in total project values through SIDIT participation; leveraged \$88.8 million from other sources as part of overall project funding; contributed to the creation of 1,767 short and long term jobs; and, supported 4,427 students in accredited trades and technology programs.

What was not particularly clear was whether or not the identified impacts accurately encompass all economic benefits and whether they reasonably reflect the most effective and efficient application of SIDIT's efforts to date.

In January 2011 the SIDIT commissioned an evaluation of the economic impact of SIDIT's investments at the regional and community level by identifying and assessing the impacts accruing from SIDIT's efforts by focusing on key measurable results.

From the information and the analyses undertaken, it is apparent that SIDIT has had a positive and significant incremental economic impact within its service region specifically and within British Columbia generally. Loan and equity investment has led to the creation of new enterprises, the strengthening of others; the creation of new jobs; and increased regional growth and prosperity. All of this has happened over a period of time that has arguably been one of the more challenging economic experiences for many BC communities and businesses. In return, our investments have paid dividends in terms of

adding \$113.16 million to regional GDP; stimulating the creation of 1,552 sustainable jobs; facilitating \$24.3 million in annual revenues to regional businesses; and feeding back in excess of \$13.7 million/year in tax dollars to Canada and \$3.3 million/year to British Columbia. Clearly the SIDIT is making a significant contribution to the economic well-being of the region it serves.

The SIDIT Board of Directors and Regional Advisory Committee 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*

It is to the credit of the SIDIT Board and Regional Advisory Committee members that we are seeing the results of their vision. I thank each and every one of you for your contribution to our future. I particularly would like to express my appreciation to our outgoing Board members, Jim Thomson, Cindy Popescul, David Wilks, former Mayor of Sparwood and Gordon Zaitsoff, Director, Castlegar and welcome new Board members Mayor Karen Hamling, Nakusp and Grace McGregor, Director, Area C, RDKB.

Respectfully submitted,



Wayne Lippert
SIDIT Vice-Chair

2010 - 2011 Board of Directors

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

The Board is responsible for making strategic investments in support of a variety of regional economic priorities, as well as for other opportunities that they deem will contribute to the economic diversity of the Southern Interior. In setting up the Trust, it was the expectation of the Provincial government that the Board would use the funds to develop economic growth and create new jobs for communities throughout this region.

Provincial Appointees:



Tom Christensen
Lawyer
Vernon



Ron Hovanes
Businessman
Oliver



Kerri-Anne Thomas
Lawyer
Invermere



Jim Thomson
Businessman
Kamloops



Cindy Popescul
Accountant
Cranbrook

Elected Officials:



Wayne Lippert
Vice-Chair, Mayor
City of Vernon



Marty Bootsma
Mayor, City of
Salmon Arm



Sharon Shepherd
Mayor, City of
Kelowna



Peter Milobar
Mayor, City of
Kamloops



David Wilks
Mayor, District
of Sparwood



Gordon Zaitsoff
Director
Central Kootenay
Regional District



Ron Oszust
Director
Columbia Shuswap
Regional District



Gord DeRosa
Councillor
City of Trail

Regional Advisory Committees

Under the governing legislation, two Regional Advisory Committees (RACs) have also 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.

The Chairs of the Regional Advisory Committees for fiscal 2011 were Mayor Wayne Lippert, City of Vernon, for the Thompson Okanagan Regional Advisory Committee and Mayor David Wilks, District of Sparwood, for the Columbia Kootenay Regional Advisory Committee.



An Overview of SIDIT

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. 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 takes a more patient position than would a traditional lender.

While the Trust is not an agent of the Government, as a Public Trust it must comply with public sector regulations.

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.

SIDIT committed to disbursing \$30 million, at an annual rate of \$7.5 million per year over four years commencing April 1 2007. This target has been met. Profits from market and equity investments and repayment of principal and interest on loan investments are now also being re-invested.

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. There are no specific targets for any of these areas, and SIDIT approves projects and investments based on their impact, sustainability, and individual merit.

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.

Financial Structure

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. Returns are generated to align with funding out flows.



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

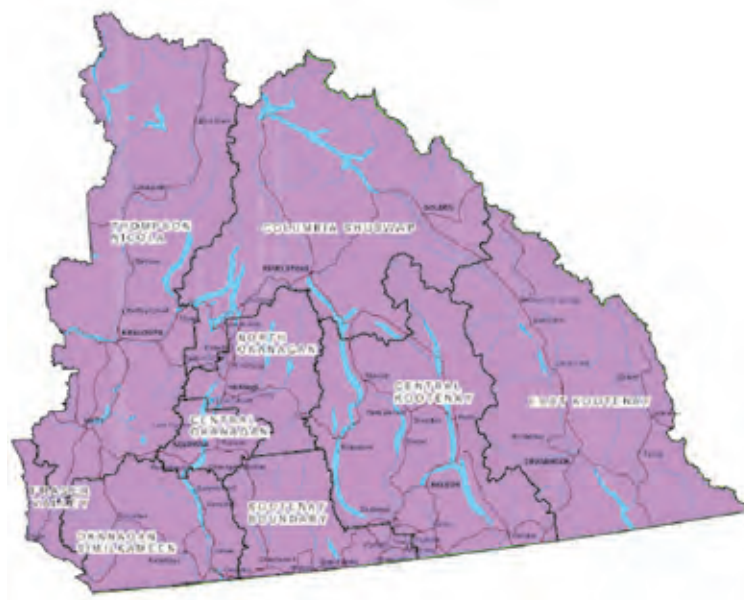
Cranbrook, Kimberley, Fernie, Sparwood, Invermere, Elkford, Canal Flats, Radium Hot Springs

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



Funding Partners

STRATEGIC GOAL: TO DEVELOP AND FACILITATE CO-FUNDING PARTNERSHIPS TO INCREASE LEVERAGE, MITIGATE RISK AND BUILD CAPACITY

Funding partnerships have been established with Community Foundations, Community Futures, Southern Interior Innovation Fund, the British Columbia Innovation Council, Enterprising Non- Profits and Business Development Bank of Canada.

Community Foundations

In seeking to advance collaborations with potential delivery partners, SIDIT undertook a pilot flow-through funding agreement with three of the 15 Community Foundations operating in the Southern Interior region. This pilot project was designed with consideration of the Community Foundations role in attracting social and economic development opportunities. This \$75,000 partnership levered \$301,000 investment from other funding sources.

Community Futures Development Corporation

Partnerships with 13 Community Futures Development Corporations (CFDCs) operating in the Southern Interior created loan syndication opportunities in which both parties co-fund loans with administration services provided by the CFDCs for a share of SIDIT's loan revenue.

By leveraging on CFDCs' skilled lending network, a commitment by SIDIT of \$1 million helped to expand SIDIT's reach by providing loan funding to small start up and expanding businesses.

Southern Interior Innovation Fund

SIDIT invested \$2 million into the Southern Interior Innovation Fund (SIIF), a private investment equity fund. This fund is focused on attracting investors and equity investment opportunities from the entire Southern Interior region.

\$6.9 million in capital has been invested in the fund by its Directors, the Southern Interior Development Initiative Trust, Kootenay Savings & Credit Union, Nelson Credit Union, Interior Savings Credit Union, Salmon Arm Savings Credit Union, Heritage Credit Union, and Columbia Valley Credit Union. SIDIT's \$2 million investment has levered \$4.9 million from funding partners.

BC Innovation Council Awards

A partnership with BC Innovation Council will provide \$990,000 over three years in contributions to four programs:

- BCIC/SIDIT Young Innovator Scholarships (undergraduate);
- BC Innovations Scholarships and BC Commercialization Scholarships (graduate);
- Business Case Study Development Funding
- New Ventures BC Business Plan Competition

These programs support talent development, innovation and commercialization of advanced technologies in the Southern Interior region of British Columbia. SIDIT's \$495,000 investment has levered \$495,000 from other funding sources.

Business Development Bank of Canada

A \$37,500 partnership with Business Development Bank of Canada (BDC) provided collaborative funding to develop a productivity and competitiveness enhancement pilot project for small businesses. The objectives were 1) to raise awareness among small businesses of the benefits of productivity enhancement, 2) deliver relevant practical assistance to small businesses to help them improve their productivity, 3) assist government in identifying persistent productivity challenges among small businesses to guide future policy/programming decisions and 4) to increase the productivity and competitiveness of small business. In addition to SIDIT funding, \$201,000 was levered from other sources.

In addition to the above, the SIDIT provided funding to several loan and equity applications working cooperatively with BDC and other funders to create a financing package that met the needs of the Borrower and the mandate of each funder.

Enterprising Non-Profits

A \$150,000 partnership with Enterprising Non-Profits (ENP) provides collaborative funding to support the development and growth of social enterprises across BC. ENP's objective is to strengthen the capacity and sustainability of local enterprising non-profit organizations to enhance their contribution to creating healthy communities through improved mission related services, more diverse economies and increased employment opportunities. The ENP funding program provides matching grants, learning opportunities, and related support to non-profit organizations that are interested in starting or expanding a business. ENP supports economic opportunities with long lasting measurable benefits through directly addressing rural and remote capacity building and economic enhancement. The collaborative model leverages each funder's support on average ten times for each dollar contributed.



Investment in Education

STRATEGIC GOAL: TO SUPPORT THE CREATION AND/OR ENHANCEMENT OF EMPLOYMENT IN THE SOUTHERN INTERIOR

The 2011 Construction Looking Forward scenario for British Columbia predicts that 31,000 workers are expected to exit the workforce due to retirements and mortality between 2011 and 2019. These replacement requirements will be partially met by an expected 22,400 new entrants. 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.

Focusing on trades, technology and academic programs, SIDIT engaged four post-secondary institutions operating in the Southern Interior as delivery partners for SIDITs \$3.9 million investment in education. The four participating institutions; College of the Rockies, Selkirk College, Okanagan College and Thompson Rivers University deliver programs and manage awards for trades and technology students at both the secondary school and post secondary school levels.

Barry Auliffe, Director of Communications and Development, Selkirk College comments *"The SIDIT Awards have provided the opportunity for over 500 secondary and post-secondary students to train in fields that will provide them with the knowledge and skills to attain employment and increase their lifetime earning capacity. Individuals in BC who complete a trades or apprenticeship program can expect to earn \$230,760 more than a high school graduate over the course of 40 years; and a College graduate \$169,760 more than a high school graduate over the same period.¹ Eighty-six percent of the students receiving SIDIT awards successfully completed their studies."*

Kathy Butler, Director of Advancement, Okanagan College reports *"An independent 2007 study of Okanagan College's economic impact in the entire college region showed the institution added approximately \$542 million annually to the region's income, taking into account the institution's activities and the cumulative effects of its past students. The same study demonstrated that for every public dollar spent on post-secondary education, taxpayers realized an 11 per cent annual return on investment, taking into account higher taxes paid by graduates and savings in social services."* She further comments *"We believe the benefits of the [SIDIT bursary] program are broader than economic. Perhaps one of the best indicators is the response and testimonials from the student recipients which document the human impact created by the awards."*

Kevin Connolly a student at Okanagan College writes *"The pressure of paying for tuition, textbooks and the tools required for trade-related training can be overwhelming. Your financial support alleviates some of this worry by helping cover the cost of my tools and allows me to concentrate on my studies"*.

To date, 4,427 students have benefitted from SIDIT education support.

¹ Statistics Canada, 2006 Census, in *The Price of Knowledge (4th Ed.)*, Canadian Millennium Scholarship Foundation.

Communications and Networking

STRATEGIC GOAL: TO CREATE COMMUNICATIONS STRATEGIES FOR SPECIFIC TARGET AUDIENCES

In addition to utilizing the Trust's website for providing information to the public, publishing news releases, responding to media and public inquiries, and publishing a periodic newsletter posted to the website, the CEO and SIDIT Directors presented to the following:

- Central Okanagan Economic Development – Business Beyond Borders – Financing Resources Seminar
- Women's Enterprise Centre, Business Development Bank of Canada and the Central Okanagan Economic Development Commission – Business Providers Summit
- Economic Development Association of British Columbia 2010 Conference
- Salmon Arm Economic Development Association Business Forum
- Thompson Okanagan Tourism Association 2010 Summit
- Select Standing Committee on Finance and Government Services - Public Hearing
- Regional District Kootenay Boundary Economic Development

Through a series of meetings and ongoing contact with local, municipal, provincial and federal agencies engaged in economic development, and funding partners, as well as association membership, sponsorship, event attendance and speaking engagements, SIDIT continues to enhance its profile with other funders and economic development agencies.



Economic Impact

STRATEGIC GOAL: TO SUPPORT INITIATIVES THAT WILL HAVE REGIONAL ECONOMIC IMPACT WITHIN THE SOUTHERN INTERIOR

STRATEGIC GOAL: TO SUPPORT AND CREATE SOUND, ECONOMICALLY VIABLE COMMUNITIES

In order to estimate the economic impacts of SIDIT loan and equity efforts, SIDIT engaged the services of Lochaven Management Consultants to identify and assess the impacts accruing from SIDIT's efforts by focusing on key measurable results (outputs, outcomes and impacts). The analysis used an array of information sources and materials including, but not restricted to the following: (1) various studies, reports, and presentations; (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.

Looking first at direct impacts the collective information indicates that SIDIT's lending and equity investment activities added (directly and leveraged in terms of additional lending efforts) a total of \$86.3 million to the local economy. This lending/investment activity in turn is calculated to have created 1,194 jobs.

The direct business activity created by SIDIT's loan and equity recipients also generated additional economic opportunities for other businesses. These indirect impacts, created through buyer-supplier relationships total approximately \$10.6 million per year. The induced (householder) impacts of this activity add an additional \$3.03 million to the local service region. In terms of employment the numbers of jobs created as a consequence of indirect and induced impacts is in the order of an additional 358 jobs.

DIRECT, INDIRECT AND INDUCED IMPACTS OF SIDIT'S LENDING AND EQUITY INVESTMENT ACTIVITY

	1st Order Direct Impacts	Indirect and Induced Impacts	Total Impact
Regional GDP	\$86.38 million	\$26.78 million	\$113.16 million
Employment and Jobs	1,194 jobs	358 jobs	1,552 jobs

Demonstrating Best Practices

STRATEGIC GOAL: CONTINUOUS IMPROVEMENT IN INTERNAL PROCESSES AND DECISION MAKING

- Loan and Grant applications and guidelines have been re-designed for ease of applicant completion and delivery. The new application forms are user-friendly and streamline processes.
- 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.
- Acronis Backup & Recovery is utilized for disaster recovery. Acronis manages all backup and disaster recovery activities and automates backup processes for workstations and servers. After a disaster strikes, Acronis restores servers, workstations or laptops providing highly flexible disaster recovery and migration options.

STRATEGIC GOAL: ESTABLISH PROGRAMS AND STAFF REQUIREMENTS AS NECESSARY TO SUPPORT SIDIT DISBURSEMENT TARGETS

- An experienced management team has allowed SIDIT to achieve disbursement targets and maintain operating expenses at a low level relative to funding volume.
- Funding commitments are on target with \$30.8 million funding approved and \$27.9 million disbursed. Based on projected returns from market investments and return of principal and investment gains on project funding, it is anticipated a continuous lending stream will be created and an endowment will be established.

Report on Investments

STRATEGIC GOAL: TO GROW THE TRUST FUND

SIDIT's Investments are managed by Phillips, Hager & North Investment Management Ltd. (PH&N) and are held in a balanced portfolio comprised of 40% investments in fixed income financial instruments and 60% in equities.

The investment funds are monitored on a monthly basis and are benchmarked against comparable portfolios. The overall return in fiscal 2011 was 8.1%. Portfolio performance both absolute and

relative has improved markedly since 2009 and the portfolio has grown from \$25 million to \$27.7 million since inception.



Development Initiative Investments

SIDIT has committed \$30 million to be disbursed over a four year period commencing April 1, 2007, at an annual rate of \$7.5 million per year plus re-investment of repaid principal and interest. \$3.4 million in principal and interest has been repaid as at the end of fiscal 2011.

We are pleased to report that funding commitments are on target with \$30.8 million funding approved and \$27.9 million disbursed.

Our market investments, cash reserves, loan and equity investments (net of provisions for loss) are 99.7% of the original funds balance after disbursement of \$27.9 million into economic development initiatives including \$6.6 million in non-repayable grants and education awards.

Leverage

STRATEGIC GOAL: TO ENCOURAGE INVESTMENT IN THE SOUTHERN INTERIOR THROUGH LEVERAGING AND BY ACTING AS A CATALYST

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

Over the past five years, SIDIT has approved over \$30.8 million in development initiatives, grants and education awards. As at the end of Fiscal 2011, leverage of 3.6:1 has been achieved for loan and equity investments and 10.2:1 for grants. Based on total cumulative approved project values of \$115 million, \$89 million has been or will be invested by proponents, private investors and other funders.

Job Creation

STRATEGIC GOAL: TO SUPPORT THE CREATION AND/OR ENHANCEMENT OF EMPLOYMENT IN THE SOUTHERN INTERIOR

Job creation is one of the key motivators behind funding approvals.

SIDIT's approval of over \$30.8 million in development initiatives, grants and education awards has to date provided educational support to 4,427 students in accredited trades and technology programs to prepare them to be future valued members of our workforce. This is in addition to the creation of 1,767 short and long term jobs and potential for significant additional employment over the next five years.



Funding by Investment Sector

STRATEGIC GOAL: TO SUPPORT ECONOMIC DIVERSIFICATION AND SUSTAINABILITY WITHIN SOUTHERN INTERIOR COMMUNITIES

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. There are no specific targets for any of these areas, and SIDIT approves projects and investments based on their impact, sustainability, and individual merit.

As mentioned, the Southern Interior Development Trust has committed over \$30.8 million in development initiatives, non-repayable grants and education awards and has funded \$27.9 million. Education awards are allocated to the Economic Development sector for reporting purposes.

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 Region

STRATEGIC GOAL: TO STRIVE, TO THE BEST EXTENT POSSIBLE, THAT ALL REGIONS OF THE SOUTHERN INTERIOR HAVE FAIR AND EQUITABLE ACCESS TO SIDIT FUNDING

For the most part SIDIT has maintained a relatively diverse sectoral portfolio, one that has served to strengthen and enhance key economic sectors. At the same time SIDIT has sought to ensure there is a balance in the regional dispersion of its lending/ investing efforts.

The following charts reflect cumulative disbursed funding by region on a per capita basis.

FUNDED LOANS AND GRANTS BY REGION AND PER CAPITA:

Regions	\$ Funded Grants	\$ Funded Loans	Population	\$ per capita
Hope	\$0	\$0	6,185	0
Thompson Nicola	\$458,986	\$758,800	130,132	\$9.36
North Okanagan	\$170,875	\$1,605,590	81,932	\$21.68
Central Okanagan	\$455,920	\$14,981,054	180,114	\$85.71
Okanagan Similkameen	\$165,159	\$930,674	82,436	\$13.29
Columbia Shuswap	\$225,875	\$754,680	53,038	\$18.49
Kootenay Boundary	\$425,875	\$1,342,964	31,921	\$55.41
Central Kootenay	\$249,430	\$100,000	58,824	\$5.94
East Kootenay	\$444,375	\$803,625	59,024	\$21.14
	<u>\$2,596,495</u>	<u>\$21,277,387</u>	<u>683,606</u>	<u>\$34.92</u>

FUNDED EDUCATION AWARDS:

Region	Amount Funded	Population	\$ per capita
Columbia Kootenay Region	\$1,212,995	149,769	\$8.10
Thompson Okanagan Region	<u>\$2,819,130</u>	<u>533,837</u>	<u>\$5.28</u>
Totals	<u>\$4,032,125</u>	<u>683,606</u>	<u>\$5.90</u>

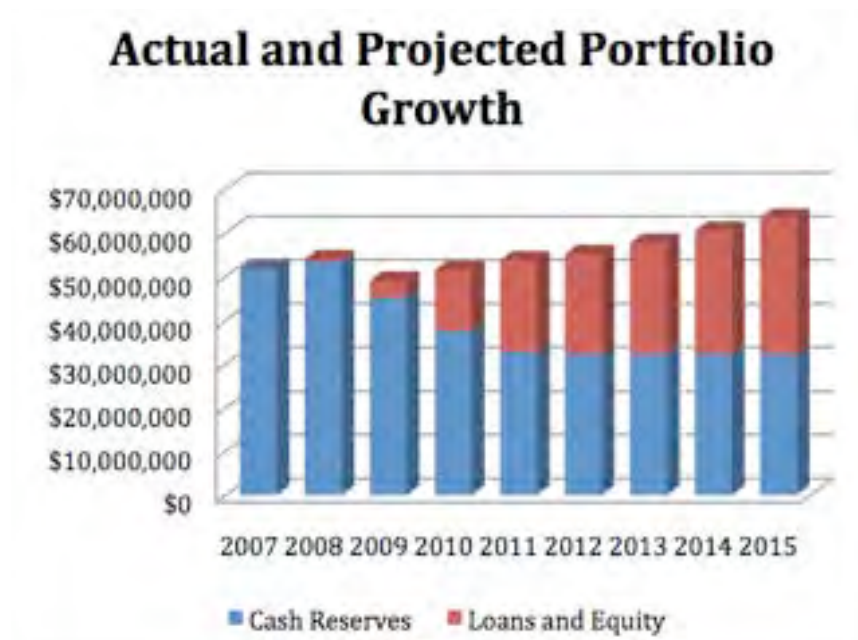
Our Future Direction

The Board of the Southern Interior Development Initiative Trust (SIDIT) is committed to funding strategic economic development initiatives that focus on regional benefits and diversify local economies. Financing business opportunities enhances job creation, innovation and market diversification. Through leverage and partnerships the resources of the Trust will benefit from a multiplier effect allowing participation in a greater number of projects and ensure resources are available to respond to future challenges and opportunities as they evolve.

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 takes a more patient position than would a traditional lender.

We will strive to maximize funds available for qualifying projects by maintaining a profitable bottom line. The primary objective is the support of economic development opportunities which deliver on job creation, revenue generation and economic diversification and provide for sustainability of the Trust. Based on projected returns from market investments and return of principal and investment gains on project funding, a continuous lending stream will be created and an endowment established.

Actual and projected portfolio growth from reinvestment of interest, dividends and capital gain (net of losses) is shown in the following chart:



Meet some of our clients:

South Kootenay Business Centre – a high tech business incubator project \$50,000 Grant

The South Kootenay Business Centre (SKBC) is economic development in the purest, grass-roots form. No governments or organizations are obligated to foster business to the extent of a business incubator model, even though small business accounts for 98% of all business in the province and 52% of all jobs.

This high tech business incubator makes a strong case for diversification through the nurturing of the embryonic technology sector. Technology firms working in a collaborative and innovative environment often share knowledge, equipment, work and employees. This is the environment that fosters a technology cluster in the region.

The tenants of the incubator have access to Community Futures knowledge base, business training seminars, regional business library and a wide variety of in-house business resources. Staff expertise is available during normal office hours, and includes business planning, administration, bookkeeping, business financing, and information technology. SKBC alleviates many barriers to business by providing flexible and affordable office space and high capacity internet bandwidth to

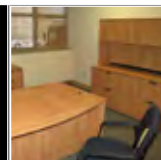
transfer deliverables such as sound, video and high definition images. The collaborative environment allows entrepreneurs to learn from one another and further share information and resources. Community Futures also offers instructor led in-house business training and participation in Small Business BC's video conference training seminars.

Economic diversification is dependent on viable business models where new and expanding business ventures survive, grow and hire additional employees. Business incubators have proven to dramatically increase the survival ratio and longevity of new firms.

"The South Kootenay Business Centre helps mitigate barriers to business to help new firms survive the vulnerable and costly business start-up phase. By reducing start-up costs such as long-term leases, business signage, leasehold improvements, business machines, and furniture purchases, entrepreneurs can focus their scarce time and resources on business development rather than business establishment" says Craig Adams, General Manager, Community Futures of Greater Trail.

"With an extremely affordable program participation fee, SKBC participants receive access to a Broadband connection that is faster than 92% of the world's internet connections. This level of connectivity will prove vital in developing a technology based cluster in the Kootenay region."

**The South Kootenay
Business Centre**



Growing Community Forestry

Developing Harrop-Procter Community Co-operatives' Lumber Production Business project

\$50,000 grant



The Harrop-Procter Community Co-operative (HPCC) manages the forest and business operations of the Harrop-Procter Community Forest (HPCF). The HPCF covers approximately 12,000 hectares surrounding the communities of Harrop and Procter in the West Kootenay of BC. Since inception, the mandate of HPCC has been to provide local employment through the practice of ecosystem based forest management on lands managed under a Community Forest Agreement. HPCC is in its 10th year of operations. HPCC is globally unique: a community forest tenure certified by the Forest Stewardship Council (FSC) and managed co-operatively by two small communities.

HPCC recently began in earnest to develop a wood products sales business, Harrop-Procter Forest Products. This project, establishing a wood products manufacturing operation, decreases the cost of doing business, and increases the financial sustainability of HPCC. The project developed and diversified HPCC's business scope, increasing small business capacity through planning, researching and installing the most viable configuration for a manufacturing plant, and integrating the new manufacturing operations with existing business functions. They have developed strategic alliances with local manufacturers to position HPCC within the industry and expanded wood products sales locally, provincially and nationally to maximize value from their MPB uplift and proposed CF expansion. They have increased employment by nearly 100% (from 2.7 to 5.25 FTE), increased light industrial taxes, diversified the local economy, shifted from polluting to clean manufacturing

technology and contributed to small community sustainability.

There is increasing awareness among consumers of the failure of traditional forestry to maintain other, non-timber forest values. Consumer demand is increasing for green building products, and third party certification of practices and products in the forestry and building sectors.

"Although HPCC has received a number of distinctions during a decade of operation, this project contributes to our greatest source of pride - our capacity to compete in the wood products industry with a unique offering - 100% co-operatively produced, FSC certified, finished wood products." says Rami Rothkop, President, HPCC



Harrop-Procter staff and directors on a harvest landing, with HPCC logs and finished flooring product manufactured from Community Forest timber. Left to right: Erik Leslie, Forest Manager HPCC, Bob Hale, Logger, HPCC, Joern Wingender, HPCC Director, and Rami Rothkop, HPCC President.

Valhalla Technologies Inc. Castlegar, BC

Convertible Debt Funding

Valhalla Technologies Inc. is a new high tech company located in Castlegar, BC that is producing and manufacturing high purity germanium metal and related products for the advanced infra-red optical market. Initially, they will produce germanium plano discs which will be the precursors for infra-red lenses used in military and astronomy applications. A 'plano disc' simply put is a hockey puck shaped disc that serves as a precursor for a lens. The customer will grind the discs into lens 'blanks' and then polish and apply an anti-reflective coating before they go into final use.

The technique used to produce the germanium ingots is Czochralski crystal growth. This process involves the controlled cooling of the metal from a seed crystal in such a way as to produce an essentially defect free 'crystal'. A crystalline solid is a material in which the internal atomic structure of the entire sample is continuous and unbroken with no grain boundaries such as a gem stone.

The current world market size for germanium products is estimated to be \$200M CAD per annum. The future outlook for germanium is positive, with demand for infrared devices in automobile safety, military equipment, and in space-based photovoltaic solar cells.

Valhalla Technologies Inc. has a great opportunity to create a diversified, profitable, high tech company in the West Kootenays that would employ a number of skilled personnel with the majority of revenues coming from outside of BC.

"Valhalla was in a position where many start-up companies find themselves. We had a great idea, expertise, a strong market but low revenues and little cash" says Matt Pommer, President, Valhalla Technologies Inc. "SIDIT funding helped us purchase equipment and fund operations so we could continue producing and gain customer accreditation. We are now producing product for several customers and are at the stage where expansion is necessary. Without the assistance of SIDIT, we may not have been able to continue operations."



Kelowna Visual and Performing Arts Centre Society

Kelowna

Loan Funding

The Kelowna Visual and Performing Arts Centre Society is a not-for-profit society that operates the Rotary Centre for the Arts as a multi-purpose arts facility and is a champion of the arts and culture in the Central Okanagan. They strive to improve the economic, cultural and social quality of life in the community by fostering participation in, and appreciation of, the arts.

The Society raises funds by donations and special events. In order to increase revenues to sustain the longer term operation of the Rotary Centre for the Arts, the Society purchased a Bistro which is housed in the facility.

The Rotary Centre for the Arts has a special role to play in the community as a meeting place or hub for services

and activities related to visual and performing arts. They are the communities' living room for art. The provision of excellent food and beverage services will ensure that the community's needs and expectations are met in regards to quality of service. As their facility usage increases they add to the vibrancy and dynamic entity of the cultural district and downtown Kelowna

The purchase of the Bistro contributes to the permanent financial sustainability of the Society by providing earned revenues to support their mandate and operations.

"Banks were not willing to extend financing to us because our balance sheet does not include items that can easily be used for security" says Tracie Ward, Executive Director, Rotary Centre for the Arts. "The financing that SIDIT provided gave us the opportunity to acquire a revenue producing asset, which generates not only the revenues needed to support the debt, but will eventually help the Society become sustainable."



Kimberley Conference & Athlete Training Centre

Grant \$100,000

As a community that has been economically devastated by losing its mine and by the decline in the forest industry and construction slowdown, Kimberley was in desperate need of creating new economic activity that was not weather dependent. A conference and athlete training centre was identified as a much needed tourism infrastructure amenity for the city.

The benefits of a conference facility extend far beyond the business sector, and can't simply be measured in dollars and cents; rather, conferences create a wide range of other community benefits that enhance everything from business and investment to local entertainment and professional development. Although Kimberley abounds with world class recreation, tourism in the community is very seasonal and the number of visitors to the community results in fairly low accommodation occupancy rates.

The development of a conference facility allows Kimberley the opportunity to extend into the shoulder seasons making the community a true 4-season destination, acting as a catalyst in the development of a strong, sustainable year-round economy that encourages a diverse mix of businesses and services that in turn, improves the local tourism product.

The City of Kimberley hired Vann Struth Consulting to develop some rough economic impact results for the proposed conference centre. Assuming that 10,000 delegates stay for an average of 2 days and have an average party of 2.2 people, each person spending \$125 per day (industry standard assumptions), the City of Kimberley would see total spending generated in the community of more than \$5 million per year, which creates 58 direct permanent jobs and 20 permanent spin off jobs.

"The Southern Interior Development Trust came to the table with funding to provide the Centre with two key operational components; the operable wall allowing for the separation of the Ballroom into two rooms, and the Audio Visual equipment which allowed the Centre to become a Centre of Excellence. Appropriate sized meeting space and professional audio visual equipment are two of the most important aspects of any successful event", stated Heather Hornoi, Economic Development Officer. "Without the contribution made by SIDIT, we wouldn't have been able to host our very first event which consisted of two year-end business parties, one on each side of the ballroom. The wall and the built-in audio visual system allows Kimberley to maximize the economic potential of the facility."





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, 2011 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.



Page 2

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2011 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.

Chartered Accountants

Vernon, Canada

June 10, 2011

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,085,229	\$ 1,157,630
Accounts receivable	203,630	126,773
Prepaid expenses	5,250	5,250
Current portion of development initiatives (note 3)	1,570,420	-
	6,864,529	1,289,653
Investments (note 2)	27,749,742	36,422,257
Development initiatives (note 3)	15,232,382	12,888,735
Property and equipment (note 4)	10,688	11,337
	<u>\$ 49,857,341</u>	<u>\$ 50,611,982</u>

Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued liabilities	\$ 171,271	\$ 190,862
Current portion of deferred contributions (note 5)	42,250	80,424
	213,521	271,286
Deferred contributions (note 5)	320,625	330,076
Fund balance:		
Regional account:		
Externally restricted	49,312,507	49,999,283
Invested in property and equipment	10,688	11,337
	49,323,195	50,010,620
	<u>\$ 49,857,341</u>	<u>\$ 50,611,982</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, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Income on investments	\$ 939,214	\$ 1,091,859
Income on development initiatives	1,979,692	938,167
Other revenue	276,165	222,420
Contribution (note 5)	47,625	39,500
	3,242,696	2,291,946
Expenditures:		
Amortization	3,538	3,559
Board costs	10,089	17,683
Consulting fees	34,612	1,806
Education awards and grants	1,827,011	2,958,698
Insurance	11,155	11,175
Investment fees	101,456	93,478
Office and administration	72,633	73,208
Professional fees	33,746	72,792
Salaries and benefits	303,976	286,508
	2,398,216	3,518,907
Excess (deficiency) before the undernoted	844,480	(1,226,961)
Other income (expenses):		
Unrealized gain on investments	1,235,173	3,706,143
Provision for development initiative losses (note 3)	(2,767,079)	(899,973)
	(1,531,906)	2,806,170
Excess (deficiency) of revenue over expenditures	\$ (687,426)	\$ 1,579,209

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Fund Balance

Year ended March 31, 2011, with comparative figures for 2010

	Externally restricted	Invested in property and equipment	2011 Total	2010 Total
Regional Account:				
Balance, beginning of year	\$ 49,999,283	\$ 11,337	\$ 50,010,620	\$ 48,431,411
Excess (deficiency) of revenue over expenditures	(683,887)	(3,538)	(687,425)	1,579,209
Property and equipment additions	(2,889)	2,889	-	-
Balance, end of year	\$ 49,312,507	\$ 10,688	\$ 49,323,195	\$ 50,010,620

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenditures	\$ (687,426)	\$ 1,579,209
Items not involving cash:		
Amortization	3,538	3,086
Accrued interest on development initiatives	(1,382,627)	(526,734)
Unrealized gain on investments	(1,235,173)	(3,706,143)
Provision for development initiative losses	2,767,079	899,973
Change in non-cash operating working capital	(92,370)	197,240
	(626,979)	(1,552,896)
Cash flows from financing activities:		
Decrease in deferred contributions	(51,701)	(35,424)
Cash flows from investing activities:		
Proceeds from sale of investments	11,078,474	12,322,706
Purchase of investments	(1,170,787)	(1,083,220)
Funding of development initiatives	(8,339,410)	(10,212,104)
Repayments of development initiatives	3,040,891	319,111
Acquisition of property and equipment	(2,889)	(5,352)
	4,606,279	1,341,141
Increase (decrease) in cash and cash equivalents	3,927,599	(247,179)
Cash and cash equivalents, beginning of year	1,157,630	1,404,809
Cash and cash equivalents, end of year	\$ 5,085,229	\$ 1,157,630

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

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, 2011

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 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; valuation allowances for accounts receivable 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, 2011

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 discounted estimated cash flows over the life of the asset.

Development initiatives are carried net of specific allowances for anticipated losses. The Trust provides for specific losses based on a regular review of individual development initiatives. If events or changes in circumstances indicate that the carrying amount of a development initiative portfolio may not be recoverable, a general provision is maintained to recognize credit losses that management estimate have occurred at the reporting date for

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

1. Significant accounting policies (continued):

which specific allowances cannot yet be determined.

(f) Financial instruments (continued):

The provision for development initiative losses is management's estimate of the shortfall between the investment, including advances and accrued income on such investments, and the estimated net realizable recovery. The provision has been established based on the historical loss experience, current portfolio evaluation and industry standards.

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, 2011. 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.

2. Investments:

	2011	2010
Money market	\$ -	\$ 10,686,485
Bonds	10,417,691	11,796,431
Equities	17,332,051	13,939,341
	<u>\$ 27,749,742</u>	<u>\$ 36,422,257</u>

The annual weighted average rate of return for 2011 was 6.72% (2010 - 11.92%).

8

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

3. Development initiatives:

At year end, there are 49 (2010 - 30) development initiatives outstanding, as follows:

	2011	2010
Loans - direct	\$ 8,787,389	\$ 8,752,927
Loans - convertible	5,925,612	2,716,000
Loans - via Community Futures Development Corp. ("CFDC")	676,700	719,781
Equity - common shares	2,000,000	2,000,000
Equity - preferred shares	3,480,153	-
	20,869,854	14,188,708
Less provision for development initiative losses	(4,067,052)	(1,299,973)
	16,802,802	12,888,735
Less current portion	(1,570,420)	-
	\$ 15,232,382	\$ 12,888,735

(a) Loans - direct:

The Trust has 22 (2010 - 15) 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, 2011 and March 27, 2019.

(b) Loans - convertible:

The Trust has 15 (2010 - 6) convertible loans that bear interest rates that range from 10% to 16% per annum. Interest and principal amounts are due at various dates between April 1, 2011 and September 28, 2015. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the trust. At March 31, 2011, the Trust has valued the conversion option on all convertible loans to be \$nil (2010 - \$nil).

(c) Loans via CFDC:

The Trust has 6 (2010 - 7) 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 Southern Interior Innovation Fund and is comprised of 2,000,000 Class "B" Voting common shares.

(e) Equity - preferred shares:

The Trust has five (2010 - nil) preferred share investments that bear dividends that range from 10% to 15% per annum.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

3. Development initiatives (continued):

The provision for development initiative losses is summarized as follows:

	2010 ending balance	Change in provision	2011 ending balance
Loans - direct	\$ 607,582	\$ 1,710,230	\$ 2,317,812
Loans - convertible	663,866	408,389	1,072,255
Loans - via CFDC	28,525	85,058	113,583
Equity - preferred shares	-	563,402	563,402
Total	\$ 1,299,973	\$ 2,767,079	\$ 4,067,052

4. Property and equipment:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture	\$ 10,636	\$ 4,511	\$ 6,125	\$ 4,406
Computer hardware	7,911	4,073	3,838	5,483
Computer software	5,344	4,619	725	1,448
	\$ 23,891	\$ 13,203	\$ 10,688	\$ 11,337

5. Deferred contributions:

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

	2011	2010
Balance, beginning of year	\$ 410,500	\$ 450,000
Less amount recognized as revenue in the year	(47,625)	(39,500)
	362,875	410,500
Less: current portion	42,250	80,424
	\$ 320,625	\$ 330,076

10

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

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.

(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.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2011

7. Commitments:

As at March 31, 2011, the Trust has committed funding of approximately \$3.5 million as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$362,875	Fiscal 2012 and subsequent years
Trades and Technology Awards delivered through Thompson Rivers University, Okanagan College, Selkirk College and College of the Rockies	Student bursaries at college and secondary school level	\$682,125	Fiscal 2012
Various grant projects	Conditionally approved grants	\$322,233	Fiscal 2012
Various equity and loan initiatives	Conditionally approved loan and equity initiatives	\$2,145,000	Fiscal 2012

8. Comparative figures:

Certain 2010 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, British Columbia 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, British Columbia V6C 3N5

AUDITORS

KPMG LLP Chartered Accountants

Credit Union Building

3205-32 Street, 3rd Floor

Vernon, British Columbia V1T 9A2