



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, 2012 through March 31, 2013.

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

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COVER PHOTOS:

Hiker/mountain scene, golf, and skiing images: Tourism British Columbia
Apple image: Thompson Okanagan Tourism

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2013 Message from the Chair

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.*

While part of the Southern Interior region can be considered urban, the majority of the area is rural. These regions need to evolve to the point that residents and businesses are less isolated, education and training opportunities are more easily accessible and economic and community development organizations are more prevalent and sophisticated.

BC's economy is poised to be driven forward for years with jobs in construction; mining, oil and gas; energy and utilities; and marine, transportation and automotive industries, many of which will be located in rural areas.

The BC Labour Market Outlook 2010-2020 estimates more than one million job opportunities will open up in BC between now and 2020 — and an estimated 42% of these will need trades and technical training. It also estimates that the province can expect to experience a skilled labour shortage of at least 61,500. Columbia-Kootenay is forecast to have about 31,200 job openings between 2010 and 2020. Thompson-Okanagan is forecast to have about 110,320 job openings between 2010 and 2020.

With the projected growth of new and existing industries, our challenge is to ensure we have the human capital necessary to translate our potential into prosperity. We are proud to report that SIDIT's \$4.7 million investment in education focused on trades, technology and science programs has supported 5,647 students to date and will greatly reduce the impact of anticipated labour shortages that will hinder economic growth in the Southern Interior.

SIDIT is focused on supporting economic initiatives that demonstrate long term measurable economic impact within the Southern Interior. We are pleased to report that we have to date invested \$25.2 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 \$3.4 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 \$125 million, \$96.5 million has been invested by proponents and other funders. Our investments have created the opportunity for 1,829 sustainable jobs in the Southern Interior as well as numerous spin-off benefits.

Our market investments, cash reserves, loan and equity investments, net of provisions for loss, are 96.6% of our initial capitalization after disbursement of \$33.2 million into economic development initiatives including \$8 million in non-repayable grants and education awards. We continue to work 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,



Grace McGregor
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:



Claudette Everitt
Provincial Appointee
North Okanagan Region



Philip Jones
Provincial Appointee
East Kootenay Region



John Zimmer
Provincial Appointee
East Kootenay Region



Keith Matthew
Provincial Appointee
Thompson Nicola Region



Vacant Position
Provincial Appointee

Elected Officials:



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



Vacant Position

The Province of BC appointed two new Directors in August of 2012. We welcome new Board members Claudette Everitt and Philip Jones and sincerely thank our out-going Directors, Nancy Cooper, Richard Gibson, Tom Christensen and Ron Hovanes for their dedication and countless hours of hard work. We currently have two vacancies as a result of Richard Gibson's and Nancy Cooper's resignations.

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

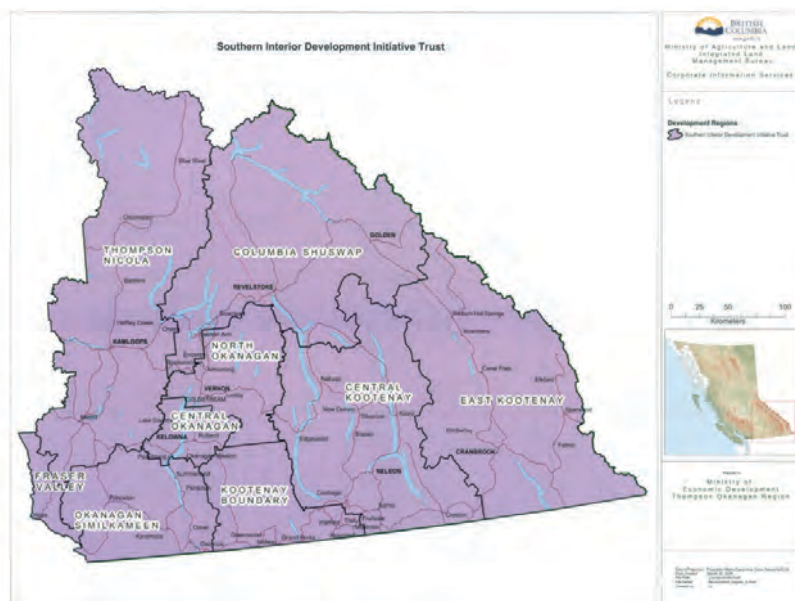
Cranbrook, Kimberley, Fernie, Sparwood, Invermere,
Elkford, Canal Flats, Radium Hot Springs

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, 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 other positive credit and community economic indicators are in evidence in the application.

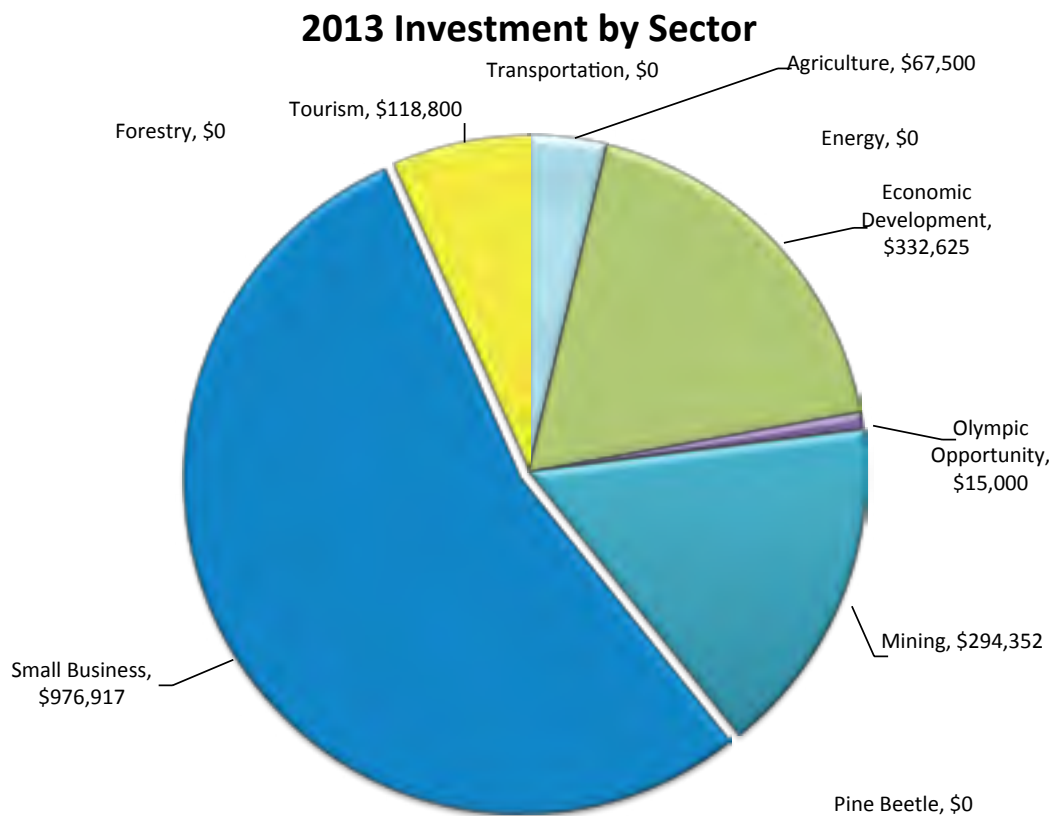


Funding by Investment Sector

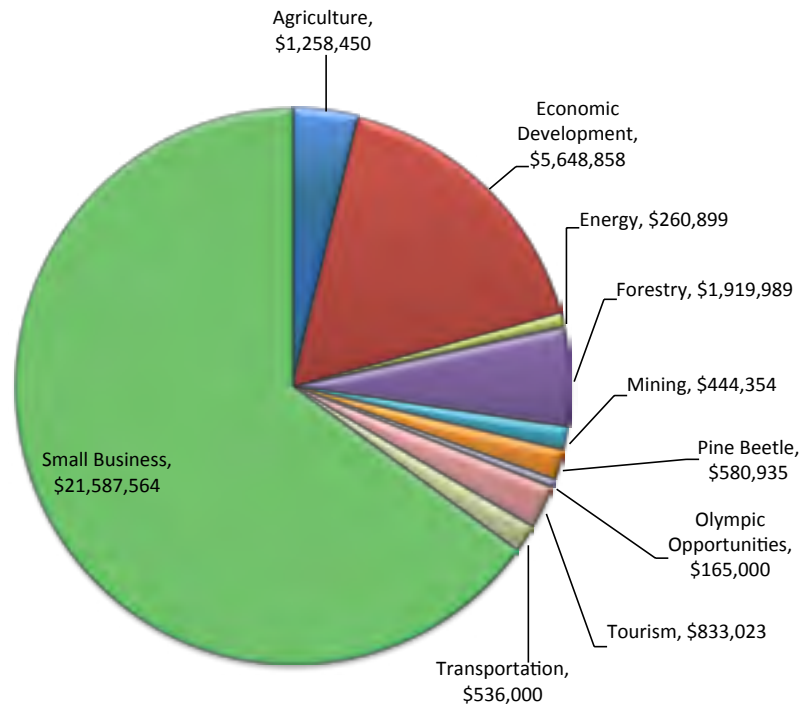
The Southern Interior Development Initiative Trust Act mandates investment in ten areas of the economy. These areas include Energy, Forestry, Mining, Olympic Opportunities, Agriculture, Transportation, Small Business, Tourism, Pine Beetle Recovery, and Economic Development. Because applications are proponent 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 \$33.2 million in development initiatives, non-repayable grants and education awards.



2007-2013 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 grants, loans, 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, Credit Unions and 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.

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, the fund manager employs risk management processes specific to each asset class. 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 maintains a very small management and staff group of 3.6 FTE. Plans are in place to address the limited depth in staffing and potential prolonged absence of any key player, including the CEO, 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. SIDIT has the infrastructure and staffing necessary to manage and grow its loan and equity portfolio.

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.

- In-house software systems are utilized for grant due diligence, Board approval, monitoring, disbursement and reporting. This enables SIDIT to manage the full lifecycle of each 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 and long term 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 are described as follows:

- **Sensitive** to the cultural uniqueness and diversity of the population of the Southern Interior;
- **Accountable** to the public for all of SIDIT's activities and **transparent** in all of our processes, decisions and reporting;
- Treat everyone with **respect** and **dignity**;
- Support only those projects that comply with all applicable **environmental** legislation;
- Support projects that **add value** to the communities and regions of the Southern Interior;
- **Responsive** to the needs and aspirations of the people and communities in the Southern Interior;
- Maintain a **sustainable** Trust that can provide **ongoing support** for economic initiatives for the Southern Interior;
- Encourage investment in the Southern Interior through **leveraging** and by acting as a catalyst;
- Support the creation, preservation and/or enhancement of **employment** in the Southern Interior;
- To the best extent possible, ensure that all regions of the Southern Interior have **fair and equitable access** to the SIDIT Funds;
- Support economic **diversification** and **sustainability** within Southern Interior communities;
- Support and create **sound, economically viable communities**.

Goal Setting

The SIDIT Board of Directors at its strategic planning session in October of 2012 created specific annual and cumulative targets in support of the following goals:

- Enhance the resiliency of the Southern Interior economy by promoting greater economic diversification.
- Preserve existing jobs and stimulate new employment in the Southern Interior region.
- Attract new capital to the Southern Interior region to drive incremental economic development activities.
- Increase the value of the investment pool, thereby increasing opportunities to support regionally strategic investments in the Southern Interior.

Our 2013 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. While the SIDIT was set up as a statutory trust and not-for-profit corporation that is not part of a government reporting entity, 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. These recommendations were incorporated into our 2012 Annual Report and will be continuously improved.



Environmental Scan

As part of its strategic plan, the Southern Interior Development Initiative Trust (SIDIT) must complete an environmental scan every three years, drawing upon independent research to identify changes in a variety of demographic and economic dimensions that have relevance to the SIDIT region, which is located in the southwest part of British Columbia. More specifically, the SIDIT region comprises the Thompson-Okanagan development region (which includes the Columbia-Shuswap, Thompson-Nicola, North Okanagan, Central Okanagan, and Okanagan-Similkameen regional districts), the Kootenay development region (which includes the Kootenay Boundary, Central Kootenay, and East Kootenay regional districts), and Hope, located in the Fraser Valley regional district.

Against this backdrop, SIDIT has asked Urban Futures to provide a summary of historical data for, and where applicable, projections of a variety of demographic and economic dimensions that are relevant to the SIDIT region.

The range of dimensions selected for inclusion in this summary report are: population growth and change; trends in incorporations and bankruptcies; tourism room revenues; building permit values; unemployment rates; employment by sector; business locations by sector and size; major projects; and commodity prices.

All data presented in this report are publicly available and have been obtained through BC Stats' website. Readers of this report should note, however, that the SIDIT-specific information presented herein pertains to the aggregate of the Thompson-Okanagan and Kootenay development regions (thereby excluding Hope), as this is the level of geography at which BC Stats has tabulated their data.

Results:

See Urban Futures Demographic and Economic Profile for the Southern Interior Development Initiatives Trust Region on our website located at www.sidit-bc.ca under Resources/Documents.

Discussion:

SIDIT will be conducting a SWOT analysis using the data provided by the Urban Futures Demographic and Economic Profile at our next strategic planning sessions in the fall of 2013.

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. Enhance the resiliency of the Southern Interior economy by promoting greater economic diversification.
2. Preserve existing jobs and stimulate new employment in the Southern Interior region.
3. Attract new capital to the Southern Interior region to drive incremental economic development activities.
4. Increase the value of the investment pool, thereby increasing opportunities to support regionally strategic investments in the Southern Interior.

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 2013 towards achieving the goals.

GOAL 1 ENHANCE THE RESILIENCY OF THE SOUTHERN INTERIOR ECONOMY BY PROMOTING GREATER ECONOMIC DIVERSIFICATION.

STRATEGY 1.1: Enhance the resiliency of the Southern Interior economy by promoting greater economic diversification.

Performance Target: Subject to proponent demand, positively impact the economy by investing in each region of the Southern Interior. Regional impact will be measured as cumulative funding by sub-region and on a per-capita basis.

Results:

Grant Funding by Region and per Capita:

Regions	\$ Funded Grants	Population	\$ per capita
Hope	0	5,969	\$0.00
Thompson Nicola	\$660,941	128,473	\$5.14
Columbia Shuswap	\$10,000	36,055	\$0.28
North Okanagan	\$265,662	81,237	\$3.27
Central Okanagan	\$693,168	179,839	\$3.85
Okanagan Similkameen	\$354,124	80,742	\$4.39
Thompson Okanagan Region	\$1,983,895	512,315	\$3.87
Columbia Shuswap	\$270,560	14,457	\$18.71
Kootenay Boundary	\$477,850	31,138	\$15.35
Central Kootenay	\$182,663	58,441	\$3.13
East Kootenay	\$439,060	56,685	\$7.75
Columbia Kootenay Region	\$1,370,133	160,721	\$8.52
Total Grants	\$3,354,028		

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	\$2,355,589	81,237	\$29.00
Central Okanagan	\$17,096,978	179,839	\$95.07
Okanagan Similkameen	\$1,630,674	80,742	\$20.20
Thompson Okanagan Region	\$22,677,977	512,315	\$44.27
Columbia Shuswap	\$0	14,457	\$0.00
Kootenay Boundary	\$1,637,315	31,138	\$52.58
Central Kootenay	\$100,000	58,441	\$1.71
East Kootenay	\$803,625	56,685	\$14.18
Columbia Kootenay Region	\$2,540,940	160,721	\$15.81
Total Loans	\$25,218,917		

Education Funding by Region

		Population	\$ per capita
Columbia Kootenay	\$ 1,482,062	160,721	\$ 9.22
Thompson Okanagan	\$ 3,180,063	512,315	\$ 6.21
Total Education	\$ 4,662,125	673,036	\$ 6.93

Total Funding by Region and per Capital

Regions:	Amount Funded	Population	\$ per capita
Hope	\$37,051	5,969	\$6.21
Thompson Nicola	\$2,217,205	128,473	\$17.26
Columbia Shuswap	\$1,069,737	36,055	\$29.67
North Okanagan	\$3,125,509	81,237	\$38.47
Central Okanagan	\$18,906,450	179,839	\$105.13
Okanagan Similkameen	\$2,485,983	80,742	\$30.79
Thompson Okanagan Region	\$27,841,935	512,315	\$54.35
Columbia Shuswap	\$403,873	14,457	\$27.94
Kootenay Boundary	\$2,402,299	31,138	\$77.15
Central Kootenay	\$821,567	58,441	\$14.06
East Kootenay	\$1,765,396	56,685	\$31.14
Columbia Kootenay Region	\$5,393,135	160,721	\$33.56
Total Funded	\$33,235,070	673,036	\$49.38

Discussion: The Directors of the Southern Interior Development Initiative Trust 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. At the October 2012 strategic planning session, the SIDIT Board of Directors determined to increase loan and equity investments and reduce market investments incrementally.

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.

STRATEGY 1.2: Invest in existing enterprises that are seeking to create diversification in their own business by introducing new products lines, targeting new end markets, or creating diversification through other means.

Performance Target: Provided appropriate investment opportunities become available, achieve cumulative investment in support of business ventures by way of loans or equity of \$68 Million by 2020. This target will be achieved by investing \$6 million per annum.

Results: \$25.2 million has been funded in support of business ventures. This represents 37% of our target.

Discussion: At the October 2012 Strategic Planning session, the SIDIT Board determined to increase the amount of funding in support of business ventures from \$40 million to \$68 million by 2020.

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.

STRATEGY 1.3: Invest in innovation and entrepreneurship projects that assist individuals in creating their own businesses and developing innovative new products, services and technologies.

Performance Target: Provide \$.5 million of cumulative investment into innovation and entrepreneurship programs that accelerate the commercialization of technology, resulting in the rapid growth of technology ventures. This target will be achieved by investing \$165,000 per annum over the next 3 years.

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 committed \$778,500 as at March 31, 2013 and have funded \$102,500 which represents 13% 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 BCICs programs, go to www.bcic.ca.

GOAL 2 PRESERVE EXISTING JOBS AND STIMULATE NEW EMPLOYMENT IN THE SOUTHERN INTERIOR REGION.

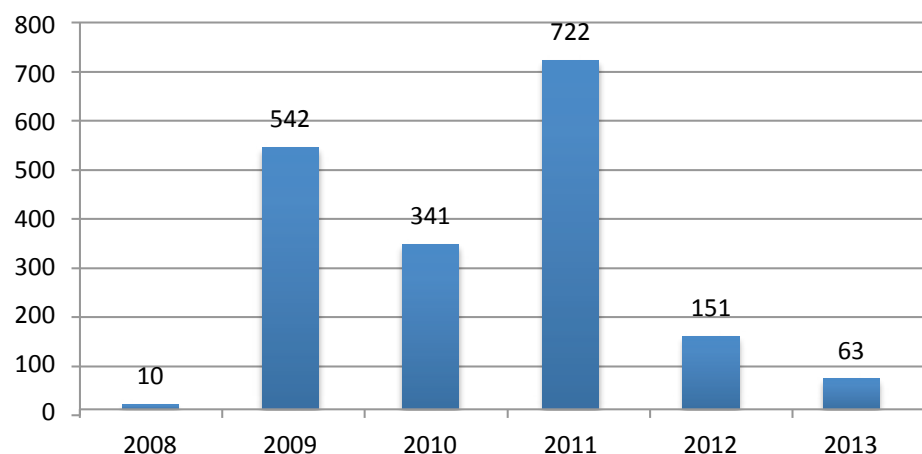
STRATEGY 2.1: Invest in new and existing commercial enterprises that will use the infusion of capital to preserve jobs and/or create new jobs through:

- a. Business, product line and market share expansion
- b. Turnaround or management buyouts of existing businesses
- c. Increased regional spending on services and resources that help to support indirect regional employment

Performance Target: Based on the projected use of our funding to sustain and grow commercial enterprises, we forecast that we will help create and/or preserve 3,000 jobs by 2020. This target will be achieved by creating or preserving 175 jobs per annum.

Result: SIDIT's funding has to date created or preserved or will create 1,829 short and long term jobs. Jobs created to date represent 61% of our target.

Annual Job Creation and Preservation



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 2.2: Invest a percentage of the income of the Fund into educational programs focused on trades, technology and academic programs that focus on projected labour shortages that will hamper economic growth in the region.

Performance Target: Invest \$6.2 million in trades, technology, academic, and innovation and entrepreneurship programs, providing support for 7,250 students by 2020. This target will be achieved by investing \$250,000 and supporting 250 students per annum.

Result: SIDIT engaged five post secondary institutions operating in the Southern Interior as delivery partners for SIDIT's 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. \$4.7 million in education support has been funded. This represents 76% of our 2020 cumulative funding target of \$6.2 million for trades, technology

and academic education support programs. 349 students received bursaries in 2013 increasing the total number of students that have received education support by way of bursaries and scholarships to 5,647.

This represents 78 % of our target of 7,250 students by 2020.

	2009	2010	2011	2012	2013	Total
College of the Rockies	142	183	187	107	106	725
Selkirk College	284	362	450	74	58	1228
Thompson River University	493	558	590	58	65	1764
Okanagan College	582	593	468	102	50	1795
UBCO	0	0	0	29	50	79
UBCO - Medical	0	0	0	10	10	20
BCIC	0	6	9	11	10	36
	1501	1702	1704	391	349	5647

Discussion:

Labour Shortage Forecast

As a result of the economic downturn in 2008, the demand for skilled trade workers slowed after several years of rapid employment growth. However, as we transition from recession to recovery, the Trades Outlook Report 2010-2020 predicts that labour market conditions are going to tighten, with labour shortages for the trades sector as a whole expected by 2016.

A labour market outlook takes a look at trends that are expected in the future labour market. After recovering from the economic downturn, B.C.'s economy and labour market are showing signs of improvement. The BC Labour Market Outlook 2010-2020 offers projections such as:

- Labour market conditions have been improving along with the economy as total employment in the province grew by 1.7 per cent to 2.3 million in 2010, almost back to pre-recession level.
- As the economy and labour market continue to recover, the gross domestic product or GDP (the total value of all goods and services produced in B.C.) is likely to grow by 2.6 per cent in 2012.
- Employment in the province is expected to increase by 1.8 per cent in 2012.
- Unemployment is forecast to drop from 7.5 per cent in 2011 to 6.5 percent in 2015 before declining to 5.2 per cent in 2020.
- Over the next several years, more than one million job openings are expected across the province.
- The number of workers needed will gradually become greater than the number of workers available.
- The gains noted in B.C.'s economy and labour market are expected to continue.

- 1,027,400 job openings are expected for B.C. over the ten year period.
- Close to two-thirds of job openings (676,400) will be due to replacement demand as a result of retiring workers and deaths.
- The other one-third of job openings (351,000) will be due to the new jobs that result from economic growth.
- Demand for workers in B.C. is expected to grow by an annual average rate of 1.4 percent over the ten-year period.

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.

Testimonials

"On behalf of UBC's Okanagan campus and the UBC Faculty of Medicine Southern Medical Program please allow me to thank the Southern Interior Development Initiative Trust for its tremendous support of students on our campus. In the 2012/13 academic year \$100,000 in bursary and scholarship support was provided to 60 students in five disciplines – Medicine, Nursing, Engineering, Management and Computer Science. What an outstanding and valuable contribution this is.

Students here receive an education of the highest national and international standards. They experience a vibrant campus life, and make friends that will last a lifetime. Our students learn much about themselves and their place in the world, and together we are discovering the potential of this extraordinary university.

Awards are critically important, helping ensure that financial concerns can be put aside so that students can focus on what is most important: immersing themselves fully in their academic experience. Many of the students supported by SIDIT are involved with local industry and companies through work co-op placements, research and community service learning. They are making valuable contributions to the region, driving innovation and knowledge that will bring new economic and social benefits to the communities of the Southern Interior.

UBC Okanagan shares the SIDIT commitment to economic development and job creation. Together we are providing the resources our students need to become the future doctors, nurses, engineers and entrepreneurs in the Southern Interior.

Please extend my thanks to the directors of SIDIT for the decision to make this valuable investment in post-secondary education at UBC's Okanagan campus."

Prof. Deborah Buszard

Deputy Vice Chancellor and Principal

Kathy Butler, Director of Advancement, Okanagan College writes *"These awards have had a positive, transformative impact on enrolment of students pursuing skills training in trades, technologies, health and other key programs. Through SIDIT's investment, the Trust's Directors have helped more individuals access and advance their education, enabling them to become productive innovative contributors to their workplaces and ultimately to the places they live."*

Southern Medical Program

Adrienne Skinner, Associate Director Development and Alumni Engagement, UBCO states *"Promoting the health of British Columbians inspires all we do in the Faculty of Medicine. Driven to provide quality health care, the Southern Medical Program trains students in the BC Interior and connects future doctors with the needs of local communities."*

The arrival of our second cohort signals another significant milestone for the Southern Medical Program. With 64 students now enrolled in the program, we have reached our targeted capacity for first and second year medical students. Our clinical faculty continues to grow in leaps and bounds, now reaching more than 700 physicians within the BC Interior. Students from across UBC's distributed MD Undergraduate Program now have more opportunities than ever to gain exposure to life and training in a diversity of communities situated throughout our region. The Faculty of Medicine continues to expand postgraduate education opportunities across the province, including the Interior, which many of our future graduates will inevitably take advantage of for their residency training.

The Southern Interior Development Initiative Trust bursary program is invaluable for our students. SIDIT is now in year two of a three year pledge for bursary support totalling \$75,000. In the 2012/13 academic year SIDIT's \$25,000 pledge was matched dollar for dollar by an anonymous donor. As a result bursaries totalling \$50,000, our largest allocation of student funding in the program, were disbursed to 10 students in the Southern Medical Program."

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. The 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.

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 UBCO, is helping lay the groundwork for increasing the number of practicing physicians in communities across the Southern Interior.

"On behalf of all Southern Medical Program students I would like to say thank you to the Southern Interior Development Initiative Trust for its bursary program. 85% of medical students in the UBC Faculty of Medicine apply for financial assistance. Your generous bursaries make it possible for students to focus on their studies. It's also great to know that the community is fully invested in our success in this part of the province."

Stefano Tolhurt, SMP Class of 2015

GOAL 3 ATTRACT NEW CAPITAL TO THE SOUTHERN INTERIOR REGION TO DRIVE INCREMENTAL ECONOMIC DEVELOPMENT ACTIVITIES.

STRATEGY 3.1: Provide grants in support of community economic initiatives that help attract capital into the region and contribute to the economic sustainability of the community.

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

Result: \$3.4 million has been funded as at fiscal year-end 2013. This represents 49% of our target.

Discussion: 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

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	\$106,000.00	\$10,000.00	Tourism	Central Kootenay
Christina Lake Chamber of Commerce	Christina Lake 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	Geo-Tourism 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

Applicant	Project Description	Project Value	Amount Funded	Sector	Region
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-Kootenay
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
Golden Nordic Ski Club	Dawn Mountain Development Project	\$1,050,000.00	\$50,000.00	Olympic Ops	Shuswap-Kootenay
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 Boundary
Okanagan Research and Innovation Centre	Business Incubator expansion	\$530,000.00	\$150,000.00	Economic Dev	Central Okanagan
Business Development Corporation	Business Productivity Pilot Project	\$238,500.00	\$37,500.00	Economic Dev	East Kootenay
City of Kimberly	Kimberly 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

Applicant	Project Description	Project Value	Amount Funded	Sector	Region
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 Abattoir	\$376,633.00	\$50,000.00	Agriculture	Kootenay Boundary
O'Keefe Ranch and Interior Heritage Society	O'Keefe 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 80 Revitalization	\$150,000.00	\$50,000.00	Economic Dev	Central Kootenay
North Thompson Fall Fair & Rodeo Association	North Thompson Agriplex	\$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-Kootenay
UBC Okanagan	Biotechnology Resources	\$517,620.00	\$100,000.00	Agriculture	Okanagan Similkameen
Thompson Okanagan Tourism	Online Resource Centre	\$150,100.00	\$50,000.00	Tourism	Thompson Okanagan
Red Mountain Academies	Athlete Development	\$123,000.00	\$15,000.00	Olympic Ops	Kootenay Boundary
Okanagan Similkameen Film Commission Society	Digital Media Expansion	\$26,530.00	\$13,250.00	Tourism	Okanagan Similkameen
NK'Mip Desert & Heritage Cen	Senulustn Gallery	\$96,500.00	\$48,250.00	Tourism	Okanagan Similkameen
Nakusp Centennial Golf Club	Fairway Upgrades	\$47,320.00	\$7,300.00	Tourism	Central Kootenay
Regional District Okanagan Similkameen	Utilization of Compost	\$35,000.00	\$17,500.00	Agriculture	Okanagan Similkameen
Thompson Nicola Regional District	Web Portal	\$115,000.00	\$35,000.00	Economic Dev	Thompson Nicola
Total Grants		\$31,570,434.00	\$3,354,027.57		

STRATEGY 3.2: Through leverage and partnerships, achieve a multiplier effect that allows participation in a greater number of projects in which ideally, proponents will have a significant stake.

Performance Target: Achieve a leverage target on loan and equity investments of at least \$2 from other sources (i.e. private equity/bank financing) for every \$1 invested by SIDIT.

Result: Our investment of \$25.2 million into loan and equity investments has attracted an additional \$68.5 million into the region representing leverage of \$2.72 for every \$1 invested by SIDIT.

Discussion:

Funding partners for community economic initiatives include the following:

- Provincial Government
 - » 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
- Federal Government
 - » 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.

GOAL 4 INCREASE THE VALUE OF THE INVESTMENT POOL, THEREBY INCREASING OPPORTUNITIES TO SUPPORT REGIONALLY STRATEGIC INVESTMENTS IN THE SOUTHERN INTERIOR.

STRATEGY 4.1: Prudently manage SIDIT's credit investment risk by:

- Establishing and following clear guidelines for assessing investment opportunities.
- Setting maximum levels of funding that can be invested in companies at various stages of development. Specifically:
 - » Maximum dollar amount that can be invested into any one company at a specific stage of development.
 - » Maximum total percentage of the fund pool that can be invested into companies at specific stages of development.
- Providing ongoing business mentoring and monitoring to investee companies to enhance their chances of success.

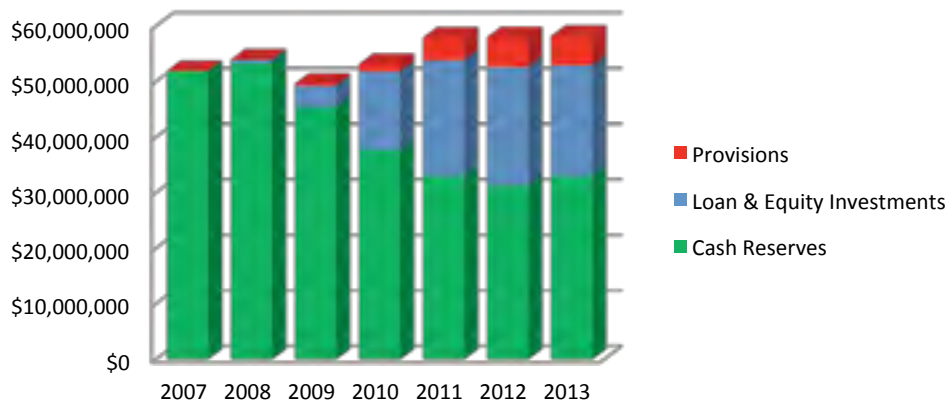
STRATEGY 4.1: Prudently manage SIDIT's market investment risk by:

- Establishing and following investment policy guidelines that set out investment risk tolerance and portfolio structure.
- Engaging high-quality investment management professionals to manage the market investment portfolio

Performance Target: Increase the value of the Trust over time.

Result: Trust assets, originally \$50 million, have reduced to \$48.3 million as at March 31, 2013. Our market investments, cash reserves, loan and equity investments, net of provisions for loss, are 96.6% of the original funds balance after disbursement of \$33.2 million into economic development initiatives including \$8 million in non-repayable grants and education awards.

Portfolio Analysis

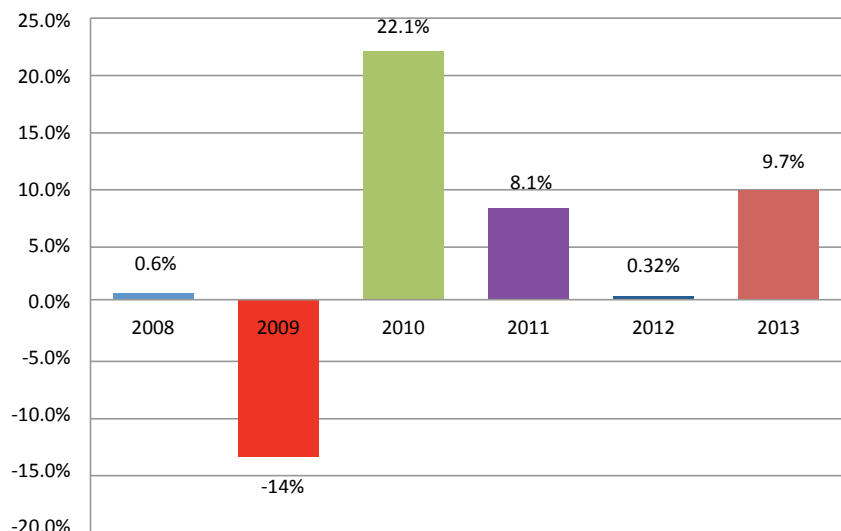


Discussion: Of its original \$50 million, SIDIT committed \$30 million including \$7.5 million in non-repayable grants and awards disbursed over a four year period commencing April 1, 2007, plus re-investment of repaid principal and interest. \$7.5 million in principal and interest has been repaid as at the end of fiscal 2013. The remaining funds were invested in liquid and market securities to provide for operating capital and create an endowment fund. These reserved funds are now being gradually released for investment into the southern interior.

Performance Target: Achieve a return on market investment portfolio at or above industry benchmarks.

Results: The return in fiscal 2013 for the PH&N portfolio was 9.7% versus a benchmark of 7.8%. The overall return over the past four years was 9.8% as compared to a composite benchmark of 8.8% and to the Canadian Consumer Price Index of 1.9%. The portfolio has grown from \$25 million at inception to \$30.3 million.

Return on Market Investments



Investment Options	Year Ended Mar/2013 %	Year Ended Mar/2012 %	Year Ended Mar/2011 %	Year Ended Mar/2010 %	4 Years Ended Mar/2013 (annualized) %
Southern Interior Development Initiative Trust	9.7	0.3	8.1	22.1	9.8
<i>Composite Benchmark *</i>	7.8	2.6	10.3	18.4	8.8
Canadian Consumer Price Index	1.0	1.9	3.3	1.4	1.9
Canadian Equities	7.6	-11.0	17.2	44.0	12.8
<i>S&P/TSX Composite Index</i>	6.1	-9.8	20.4	42.2	13.2
Global Equities	17.6	0.2	7.9	25.3	12.3
<i>MSCI World ex Canada Index</i>	14.4	4.7	8.0	22.2	12.1
Fixed Income	5.0	9.3	5.5	10.5	7.5
<i>Fixed Income Benchmark</i>	4.4	9.7	5.1	5.1	6.1
Money Market	1.2	1.2	0.9	0.6	1.0
<i>DEX 91 Day T-Bill Index</i>	1.0	0.9	0.8	0.3	0.8

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

*New Benchmark as of September 11, 2012: 30% S&P/TSX Composite Index, 30% MSCI World ex Canada Index, 22% DEX Universe Bond Index, 10% DEX Short Term Bond Index, 8% DEX 91-Day T-Bill Index. Mortgage and High Yield investments were made at that time.

Previous Benchmark: 40%DEX Universe Index, 30% S&P/TSX Composite Index, 30% MSCI World ex Canada Index

Discussion: SIDIT's investment portfolio earned a return of 9.7% in the year ending March 31st, 2013. This is a strong absolute return, and is higher than the return on the benchmark for the portfolio by almost 2%.

Ever since the financial crisis of 2008, there have been a number of lingering economic issues which have plagued capital markets, leading to equity market volatility and ever lower interest rates. These issues, such as elevated sovereign debt levels and modest economic growth in the developed world, are by no means fixed. However steps taken by policymakers and continued progress in the U.S. housing and labour markets have given markets the confidence that the risks associated with these issues have diminished. This has allowed equity markets to move significantly higher, and allowed interest rates on government bonds to stop falling.

Within SIDIT's portfolio, the biggest driver of returns was the allocation to global equities, which generated double-digit returns. Returns from bonds were also strong, despite the low level of interest rates, as a result of the strong performance of credit strategies within our bond portfolio. The outperformance relative to our benchmark was due to strong security selection within our Canadian and global equity portfolios, including a significant underweight of gold equities, and the strong performance of credit.

In September of 2012 we undertook a repositioning of our investment portfolio. The goal of the repositioning was to reduce the expected volatility of our returns and to generate a higher level of income. Within our fixed income portfolio, we reduced the negative impact that rising interest rates would have on our portfolio, and added yield through allocations to high quality mortgages and high yield bonds. Within the equity portfolio, we transitioned to low volatility equity strategies, which are expected to generate a smoother path of investment returns by outperforming in falling markets, while lagging somewhat in very strong markets. The net result of this repositioning is a portfolio with a higher yield and similar expected return but lower expected volatility.

Management Discussion and Analysis

We prepared this discussion and analysis of financial position and results of operations of SIDIT on June 5, 2013. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2013.

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 2013 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 2005 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.

99% of our operational funding comes from returns on market investments and development initiatives including loan interest and application fees. The remaining 1% 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 2012	Fiscal 2013
Investment Income	Phillips Hager & North–Mutual Funds and Bonds	38%	31%
Development Initiative Income	Private Companies	60%	68%
Contributions	BCIC	2%	1%

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 2013 OPERATING RESULTS COMPARED TO BUDGET

	2013 Actual	2013 Budget	Variance to Budget
REVENUES			
Income on Investments	\$122,098	\$1,325,000	-\$1,202,902
Unrealized gains	\$2,578,925	\$0	\$2,578,925
Income on Development Initiatives	\$1,735,793	\$1,800,000	-\$64,207
Other Revenue	\$87,824	\$150,000	-\$62,176
Contributions	\$22,625	\$60,000	-\$37,375
EXPENSES			
Board Costs	\$17,382	\$21,000	\$3,618
Education Awards and Grants	\$556,550	\$895,000	\$338,450
Office and Administration	\$84,268	\$94,700	\$10,432
Professional /Consulting/Investment	\$239,611	\$364,480	\$124,869
Salaries and benefits	\$332,656	\$331,557	-\$1,099
Provision for Loans	\$2,599,060	\$800,000	-\$1,799,060
Gain/-Deficiency	\$717,738	\$828,263	-\$110,525

Revenue

INCOME ON INVESTMENTS / UNREALIZED GAINS (LOSSES)

Even with global capital markets continuing to be shaky, concerns over debt of certain European nations and a slowdown globally, investment returns combined with unrealized gains resulted in a combined return of 9.7% well above our budgeted 6% return on investment.

INCOME ON DEVELOPMENT INITIATIVES

We achieved 96.4% on our loan interest due to deferral of funding on certain loans and provisions for loss.

OTHER REVENUE

Fees on loans were lower than anticipated due to fewer payment deferral options being exercised and not as many loans advanced.

CONTRIBUTIONS

British Columbia Innovation Council (BCIC) did not draw the budgeted amount for payout to students and programs as anticipated. The contract has been reassessed for 2014.

Expenditures

BOARD COSTS

Regional Advisory Committee expenses had been budgeted for \$4,000 but weren't spent. Board expenditures for meeting costs went over budget by \$382 as we had more face to face meetings.

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 Education budget variance of \$74,750 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 \$263,700 savings in grant disbursements will be re-allocated to the next fiscal period.

OFFICE AND ADMINISTRATION

We had a \$10,432 surplus in operations due to some expense accounts having unallocated amounts.

SALARIES AND BENEFITS

The \$1,099 overage in admin salaries was due to payment of performance incentive compensation.

PROFESSIONAL, CONSULTING AND INVESTMENT FEES

We had a \$105,776 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. The Accounting fees were lower by \$20,196 due to an accounting change eliminating accrual of fees on the financial statements as permitted for nonprofit reporting. Web and data base costs were higher by \$1,104 due to relocation into our new premises earlier than anticipated.

PROVISION FOR DEVELOPMENT INITIATIVE LOSSES

A provision of \$5,281,165 (2012 - \$5,390,167) has been made against certain outstanding development initiative investments which management consider unlikely to be recovered. The provision is approximately 26.5% (2012 - 25%) of the total development initiative balance. 2013 provisions for development initiative losses include our investment in one business that is in process of being recapitalized. We believe that a successful transition will be forthcoming; however provisions were established to reflect the uncertainty of the future events.

FINANCIAL POSITION

Assets & Liabilities

Balance Sheet

Assets

Current Assets:

	2007	2008	2009	2010	2011	2012	2013
Cash and cash equivalents	20,084	34,433	1,404,809	1,157,630	5,085,229	3,432,819	3,219,309
Accounts receivable	0	0	149,227	126,773	203,630	183,794	149,377
Prepaid expenses	7,500	6,488	5,250	5,250	5,250	4,971	10,445
CP of Development Initiatives	0	0	0	0	1,570,420	2,487,454	2,257,701
	27,584	40,921	1,559,286	1,289,653	6,864,529	6,109,038	5,636,832

Investments	51,941,373	53,277,633	43,955,600	36,422,257	27,749,742	27,720,211	30,270,043
Development Initiatives	0	700,000	3,368,981	12,888,735	15,232,382	13,443,489	12,393,716
Property & Equipment	4,711	8,154	9,544	11,337	10,687	9,649	27,772
	51,973,668	54,026,708	48,893,411	50,611,982	49,857,340	47,282,387	48,328,363

Liabilities and Fund Balance

Current Liabilities:

Accounts payable	15,534	13,581	12,000	186,786	171,271	147,814	348,413
Deferred contributions	0	0	450,000	414,576	362,875	305,500	433,139
	15,534	13,581	462,000	601,362	534,146	453,314	781,552

Fund Balance:

Regional Account:

Externally restricted	51,958,134	54,013,127	48,431,411	50,010,620	49,323,194	46,829,073	47,546,811
	51,973,668	54,026,708	48,893,411	50,611,982	49,857,340	47,282,387	48,328,363

Assets

CASH AND CASH EQUIVALENTS

Our cash equivalent assets of \$3.2 million are monies currently held in Vantage One 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 rent deposits 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 \$1,272,645. During 2013, \$2.599 million (2012 - \$3.550 million) has been provided for and \$2.708 million (2012 - \$2.227 million) 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 \$5,155,626 in Money Markets, \$6,202,215 in Bonds and \$18,912,202 in Low Volatility Equities.

PROPERTY & EQUIPMENT

Net book value increased by \$18,123 which included purchases of computer equipment, telephone systems and office furniture and reflects depreciation of \$5,285.

Liabilities

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable of \$348,413 includes monies owed or held in escrow to partner investors with whom we have invested in Development Initiatives.

CURRENT PORTION OF DEFERRED CONTRIBUTIONS

This represents \$433,139 of the unspent externally restricted grant from the British Columbia Innovation Council.

Equity

REGIONAL ACCOUNT

This account has increased by current net gain of \$717,738.

PROFIT AND LOSS

	2007	2008	2009	2010	2011	2012	2013
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	828,276
Income on Development Initiatives	-	-	116,596	938,167	1,979,692	2,020,602	1,735,793
Other revenue	-	-	31,900	222,420	276,165	289,667	87,824
Contributions	-	-	45,000	39,500	47,625	57,375	22,625
Total Revenues	52,091,372	2,331,966	1,750,930	2,291,946	3,242,696	3,826,828	2,674,518
Board Costs	23,241	8,331	10,850	17,683	10,089	12,141	17,382
Education Awards and Grants	-	-	1,975,002	2,958,698	1,827,011	910,983	556,550
Office and Administration	28,931	82,548	131,339	87,942	87,326	72,058	84,268
Professional/Consulting/Investment	31,571	46,471	149,539	168,076	169,814	161,633	239,611
Salaries and Benefits	49,495	144,095	201,937	286,508	303,976	304,445	332,656
Total Expenses	60,502	129,019	2,255,880	3,518,907	2,084,151	1,461,260	1,230,467
Excess of Revenue over Expenses	51,958,134	2,050,521	(717,737)	(1,226,961)	844,480	2,365,570	1,444,051
Unrealized gain(loss) on Investments	-	4,471	(4,463,979)	3,706,143	1,235,173	(1,309,767)	2,578,925
Realized loss on investments	-	-	-	-	-	-	(706,178)
Provision for Development Initiative Losses	-	-	(400,000)	(899,973)	(2,767,079)	(3,549,922)	(2,599,060)
NET INCOME (LOSS)	51,958,134	2,054,993	(5,581,716)	1,579,209	(687,426)	(2,494,119)	717,738

LIQUIDITY

STATEMENT OF CASH FLOWS

	2013	2012	2011
Cash provided by (used in):			
Cash flows from operating activities:			
Excess (Deficiency) of revenue over expenditures	717,738	(2,494,119)	(687,426)
Items not involving cash:			
Accrued interest on development initiatives	(1,335,077)	(1,292,064)	(1,382,627)
Recognition of deferred contributions	(22,625)	(57,375)	(51,701)
Amortization	5,285	3,073	3,538
Unrealized (gain)loss on investments	(2,578,925)	1,309,767	(1,235,173)
Provision for development initiative losses	2,599,060	3,549,922	2,767,079
Realized loss on investments	706,178	-	-
Change in non-cash operating working capital	379,987	(3,345)	(92,370)
	471,621	1,015,859	(678,680)
Cash flows from investing activities:			
Proceeds from sale of investments	24,616,073	1,873,301	11,078,474
Purchase of investments	(25,293,158)	(3,153,537)	(1,170,787)
Funding of development initiatives	(1,730,809)	(3,076,001)	(8,339,410)
Repayments of development initiatives	1,746,170	1,690,003	3,040,891
Acquisition of property and equipment	(23,407)	(2,035)	(2,889)
	(685,131)	(2,668,269)	4,606,279
Increase(decrease) in cash and cash equivalents	(213,510)	(1,652,410)	3,927,599
Cash and cash equivalents, beginning of year	3,432,519	5,085,229	1,157,630
Cash and cash equivalents, end of year	3,219,009	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 \$.2 million. We ended the year with \$3.2million 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, 2013, the Trust has committed funding of \$662,875 as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing - Fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$282,875	
Education awards delivered through University of British Columbia Okanagan	Student bursaries at college and secondary school level	\$75,000	2013 and 2014
Various grant projects	Conditionally approved grants	\$305,000	2013 and subsequent years
Various equity and loan initiatives	Conditionally approved loan and equity initiatives	–	2013



Future Outlook

Budget and 3 Year Projections

Budget and 3 year projections

	2014 Budget	2015 Projected	2016 Projected	2017 Projected
Investment Revenues	\$1,275,000	\$1,309,917	\$1,207,537	\$1,119,437
Development Initiative Revenues	\$1,988,000	\$2,409,478	\$2,745,478	\$3,129,478
Other Revenues	\$120,000	\$120,000	\$120,000	\$120,000
Contributions	\$36,000	\$65,000	\$0	\$0
Total Revenues	\$3,419,000	\$3,904,395	\$4,073,015	\$4,368,915
Education Awards	\$348,000	\$405,000	\$250,000	\$250,000
Grants	\$826,000	\$500,000	\$500,000	\$500,000
Total Education Awards/Grants	\$1,174,000	\$905,000	\$750,000	\$750,000
Wages & Benefits	\$462,000	\$490,000	\$520,000	\$550,000
Board expenses	\$32,000	\$32,000	\$33,000	\$33,000
Admin costs	\$180,000	\$150,000	\$152,000	\$154,000
Professional Services	\$371,000	\$375,000	\$380,000	\$384,000
Total Expenses	\$1,045,000	\$1,047,000	\$1,085,000	\$1,121,000
Total Expenses & Grants	\$2,219,000	\$1,952,000	\$1,835,000	\$1,871,000
TOTAL INCOME OVER EXPENSES	\$1,200,000	\$1,952,395	\$2,238,015	\$2,497,915
Provision for Development Initiative Loss	\$1,200,000	\$1,200,000	\$800,000	\$800,000
NET INCOME	\$0	\$752,395	\$1,438,015	\$1,697,915

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 2016 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.

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

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

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) for not-for-profit organizations.

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 for not-for-profit organizations;*
- *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.

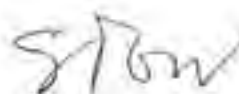
The Board is responsible for establishing prudent rules of business and conduct. It is the Trust's policy to maintain the highest standards of ethics in all its activities. The Trust has employee and director conduct policies, including conflict of interest rules, to achieve those standards.

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



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southern Interior Development Initiative Trust

We have audited the accompanying financial statements of Southern Interior Development Initiative Trust, which comprise the statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations and changes in fund balance and cash flows for the years ended March 31, 2013 and March 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southern Interior Development Initiative Trust as at March 31, 2013, March 31, 2012 and April 1, 2011, and its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

June 19, 2013

Vernon, Canada

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Financial Position

March 31, 2013, 2012 and April 1, 2011

	2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash	\$ 3,219,309	\$ 3,432,819	\$ 5,085,229
Accounts receivable	149,377	183,794	203,630
Prepaid expenses	10,445	4,971	5,250
Current portion of development initiatives (note 2)	2,257,701	2,487,454	1,570,420
	5,636,832	6,109,038	6,864,529
Development initiatives (note 2)	12,393,716	13,443,489	15,232,382
Investments (note 3)	30,270,043	27,720,211	27,749,742
Property and equipment (note 4)	27,772	9,649	10,687
	<u>\$ 48,328,363</u>	<u>\$ 47,282,387</u>	<u>\$ 49,857,340</u>

Liabilities and Fund Balance

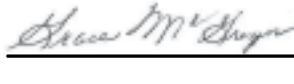
Current liabilities:			
Accounts payable and accrued liabilities	\$ 348,413	\$ 147,814	\$ 171,271
Current portion of deferred contributions	433,139	305,500	42,250
	781,552	453,314	213,521
Deferred contributions (note 5)	-	-	320,625
Regional Account	47,546,811	46,829,073	49,323,194
Commitments and contingencies (note 6)			
	<u>\$ 48,328,363</u>	<u>\$ 47,282,387</u>	<u>\$ 49,857,340</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statements of Operations and Changes in Fund Balance

Years ended March 31, 2013 and 2012

	2013	2012
Revenues:		
Income on development initiatives	\$ 1,735,793	\$ 2,020,602
Income on investments	828,276	1,459,184
Other revenue	87,824	289,667
Contributions (note 5)	22,625	57,375
	2,674,518	3,826,828
Expenditures:		
Amortization	5,285	3,073
Board costs	17,382	12,141
Consulting fees	101,574	12,582
Education awards and grants	556,550	910,983
Insurance	5,857	8,700
Investment fees	114,527	111,495
Office and administration	73,126	60,285
Professional fees	23,510	37,556
Salaries and benefits	332,656	304,445
	1,230,467	1,461,260
Excess of revenues over expenditures before the undernoted	1,444,051	2,365,568
Other income (expenses):		
Unrealized gain (loss) on investments	2,578,925	(1,309,767)
Realized loss on disposal of investments	(706,178)	-
Provision for development initiative losses (note 2)	(2,599,060)	(3,549,922)
	(726,313)	(4,859,689)
Excess (deficiency) of revenues over expenditures	717,738	(2,494,121)
Regional Account balance, beginning of year	46,829,073	49,323,194
Regional Account balance, end of year	\$ 47,546,811	\$ 46,829,073

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenues over expenditures	\$ 717,738	\$ (2,494,121)
Items not involving cash:		
Amortization	5,285	3,073
Accrued interest on development initiatives	(1,335,077)	(1,292,064)
Recognition of deferred contributions	(22,625)	(57,375)
Unrealized (gain) loss on investments	(2,578,925)	1,309,767
Provision for development initiative losses	2,599,060	3,549,922
Realized loss on investments	706,178	-
	91,634	1,019,202
Changes in non-cash operating working capital	379,987	(3,343)
	471,621	1,015,859
Investing:		
Proceeds from sale of investments	24,616,073	1,873,301
Purchase of investments	(25,293,158)	(3,153,537)
Funding of development initiatives	(1,730,809)	(3,076,001)
Repayments of development initiatives	1,746,170	1,690,003
Acquisition of property and equipment	(23,407)	(2,035)
	(685,131)	(2,668,269)
Decrease in cash	(213,510)	(1,652,410)
Cash, beginning of years	3,432,819	5,085,229
Cash, end of years	\$ 3,219,309	\$ 3,432,819

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Years ended March 31, 2013 and 2012

Nature of operations:

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.

On April 1, 2012, the Trust adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, the Trust has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Not-For-Profit Standards.

There are no adjustments to the Fund Balance as at April 1, 2011 or deficiency of revenues over expenditures for the year ended March 31, 2012 as a result of the transition to Not-For-Profit Standards.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Trust's significant accounting policies are as follows:

(a) Fund accounting:

The Trust reports its activities on a fund accounting basis. The Trust currently has a general fund (with a \$nil balance) and a Regional Account fund, which is externally restricted. The Regional Account includes balances which are invested in property and equipment and represents the amount currently available for development initiatives and administrative costs.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(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 not related to the Act are recognized as revenue in the year in which the related expenses are recognized, all within the general fund.

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.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposit which are highly liquid with original maturities of less than three months. Any cash or cash equivalents held in investment portfolios is included with investments.

(d) Property and equipment:

Property and equipment are stated at cost, less accumulated amortization. Amortization is provided using the declining balance method and following annual rates:

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

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

1. Significant accounting policies (continued):

(e) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of development initiatives. 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.

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Trust has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Trust determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Trust expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

2. Development initiatives:

At year end, there are 43 (2012 - 51) development initiatives outstanding, as follows:

	2013	2012
Loans - direct	\$ 6,723,141	\$ 9,362,737
Loans - convertible	8,492,248	7,323,321
Loans - via Community Futures Development Corp. ("CFDC")	498,039	622,764
Equity - common shares	2,000,000	2,000,000
Equity - preferred shares	2,219,154	2,012,288
	19,932,582	21,321,110
Less: Provision for development initiative losses	(5,281,165)	(5,390,167)
	14,651,417	15,930,943
Less current portion	(2,257,701)	(2,487,454)
	\$ 12,393,716	\$ 13,443,489

The provision for development initiative losses is summarized as follows:

	2012 ending balance	Amounts written-off	Increase (decrease) in estimated provision	2013 ending balance
Loans - direct	\$ 1,787,652	\$ (1,890,124)	\$ 1,291,973	\$ 1,189,500
Loans - convertible	2,953,900	(817,937)	1,407,068	3,543,031
Loans - via CFDC	113,583	-	(99,981)	13,602
Equity - common shares	-	-	-	-
Equity - preferred shares	535,032	-	-	535,032
	\$ 5,390,167	\$ (2,708,061)	\$ 2,599,060	\$ 5,281,165

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

2. Development initiatives (continued):

	2011 ending balance	Amounts written-off	Increase in estimated provision	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 - common shares	-	-	-	-
Equity - preferred shares	1,852,262	(1,878,770)	561,540	535,032
	<u>\$ 4,067,052</u>	<u>\$ (2,226,807)</u>	<u>\$ 3,549,922</u>	<u>\$ 5,390,167</u>

(a) Loans - direct:

The Trust has 18 (2012 - 23) 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, 2013 and February 1, 2016.

(b) Loans - convertible:

The Trust has 17 (2012 - 18) 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, 2013 and June 1, 2017. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the Trust.

(c) Loans via CFDC:

The Trust has 4 (2012 - 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 (2012 - 3) preferred share investments that bear dividends that range from 10% to 14% per annum.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

3. Investments:

	2013	2012
Money market	\$ 5,155,626	\$ 541,183
Bonds	6,202,215	10,470,832
Equities	18,912,202	16,708,196
	<u>\$ 30,270,043</u>	<u>\$ 27,720,211</u>

The annual weighted average rate of return for 2013 was 10.19% (2012 - 0.30%).

4. Property and equipment:

	Cost	Accumulated amortization	Net book value
Office furniture	\$ 26,098	\$ 8,392	\$ 17,706
Computer hardware	17,235	7,597	9,638
Computer software	6,001	5,572	428
	<u>\$ 49,334</u>	<u>\$ 21,561</u>	<u>\$ 27,772</u>

	Cost	Accumulated amortization	Net book value
Office furniture	\$ 11,357	\$ 5,809	\$ 5,548
Computer hardware	8,568	5,322	3,246
Computer software	6,001	5,145	855
	<u>\$ 25,926</u>	<u>\$ 16,276</u>	<u>\$ 9,649</u>

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

5. Deferred contributions:

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

	2013	2012
Balance, beginning of year	\$ 305,500	\$ 320,625
Less amount recognized as revenue in the year	(22,625)	(57,375)
Add amount received related to future periods	150,264	42,250
Balance, end of year	\$ 433,139	\$ 305,500

6. Commitments and contingencies:

As at March 31, 2013, the Trust has committed funding of approximately \$662,875 as follows:

	Amount committed
British Columbia Innovation Council	\$ 282,875
Southern medical program 2014	25,000
Education Awards delivered through University of British Columbia Okanagan	50,000
Various grant projects	305,000
	\$ 662,875

During the year Heritage Credit Union approved to provide Boundary Sawmill with \$2 million to payout loans from SIDIT. In return, SIDIT agreed to provide a \$2 million indemnity to Heritage Credit Union to cover any net losses incurred on this loan.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Years ended March 31, 2013 and 2012

7. Financial risks and concentration of risk:

The Trust manages its investment portfolio to earn investment income and invests according to a policy approved by the Board. The Trust is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

The Trust is exposed to credit risk from the possibility that development initiative counterparties may default on their obligations. Management mitigates this risk by limiting exposure to each counterparty, by maintaining a balanced portfolio and by ensuring that proper due diligence is performed before funding is committed.

The Trust believes that it is not exposed to significant interest-rate, market or cash flow risk arising from its financial instruments.

The Trust also believes that it is not exposed to significant liquidity risk as the majority of investments are held in instruments that are highly liquid and can be disposed of to settle commitments.

There has been no change to the risk exposures from 2012.

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Southern Interior

DEVELOPMENT INITIATIVE TRUST

Southern Interior Development Initiative Trust Staff

Luby Pow | Chief Executive Officer

Helen Patterson | Accounting & Economic Development Officer

Luanne Chore | Sr. Portfolio Manager

Mary Beadman | Administration and Communications Representative

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