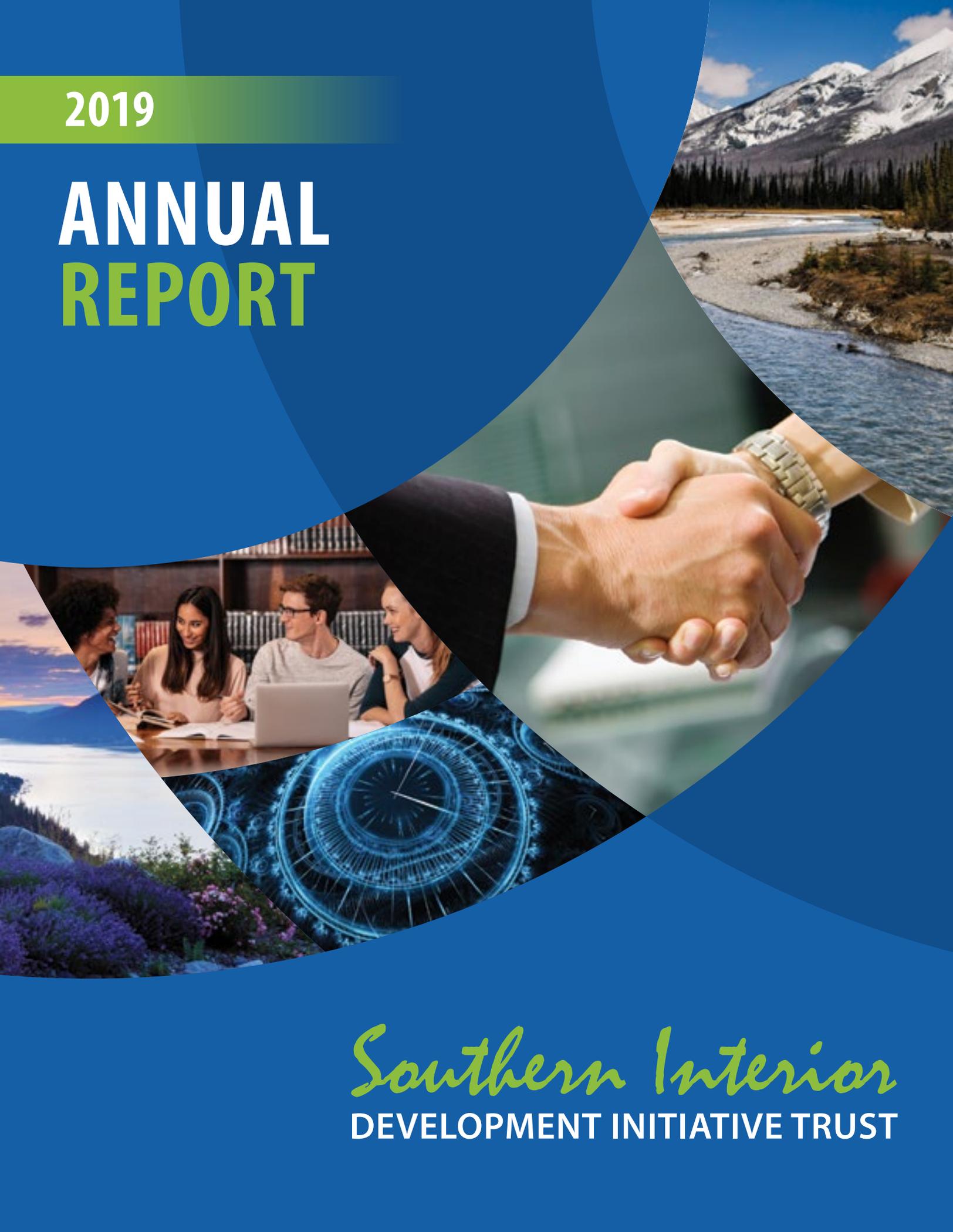


2019

ANNUAL REPORT



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, 2018 through March 31, 2019.

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

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

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Kelowna, British Columbia V1T 6N5

www.sidit-bc.ca
PHONE 236-420-3680
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2019 Message from the Board of Directors

Fiscal 2019 was a year of change and transitioning for the Southern Interior Development Initiative Trust (“SIDIT”).

As with other years, we had changes to our Board of Directors, leaving in 2018 were Mayor Doug Findlater (West Kelowna); Loni Parker, Director Area B, Columbia Shuswap Regional District, John Zimmer, Q.C. (Government appointee), Claudette Everitt (Government appointee) and in 2019, Peter Moore and Gloria Morgan (Government Appointees). SIDIT’s Board and Staff thanks these Board members for their dedication and support they have given to SIDIT. SIDIT’s Board and Staff also wish to thank Grace McGregor who stepped in as Acting Chair through the changes to the Board over the past year.

The new Directors that SIDIT welcomed were: Rhona Martin, Director Electoral Area E, Columbia Shuswap Regional District; Sharon Shepherd (Government Appointee), Wayne Staudt, (Government Appointee), Philip Barker (Government Appointee), Diana Lockwood, Mayor (Village of Salmo).

Helen Patterson has been appointed Interim CEO. Helen is a CPA and is also SIDIT’s CFO. This gives the SIDIT Board the opportunity to complete the process for recruitment of a permanent CEO. The Board would like to thank the continued hard work of Mrs. Patterson and all staff over the past year.

It has been 13 years since the Government of British Columbia allocated a one-time payment of \$50 million to SIDIT.

The objective of SIDIT is to assist in the growth and diversity of the economy of the Southern Interior of British Columbia. SIDIT’s loan and equity investment portfolio is a critical component to the success and sustainability of SIDIT, and it is how it derives its income.

Since 2006, SIDIT has preserved most of the initial \$50 million and invested over \$62.8 million in projects worth almost \$245 million that have created over 3,400 jobs.

It is the income from its loans and equity investments that has allowed SIDIT to fund almost \$13 million in educational and community grants during the past 13 years to local communities, post-secondary institutions, and non-profit organizations.

Please visit SIDIT’s website at <https://www.sidit-bc.ca> to find out more about SIDIT’s lending and grant programs.

There is also useful information on the two Regional Advisory Committees, including the Columbia Kootenay Regional Advisory Committee by-laws and procedures.

SIDIT continues to hold true to its mandate of investing in and growing the economy of the Southern Interior and we are proud to continue our support to all the communities throughout the Southern Interior.

Thank you,

SIDIT Board of Directors

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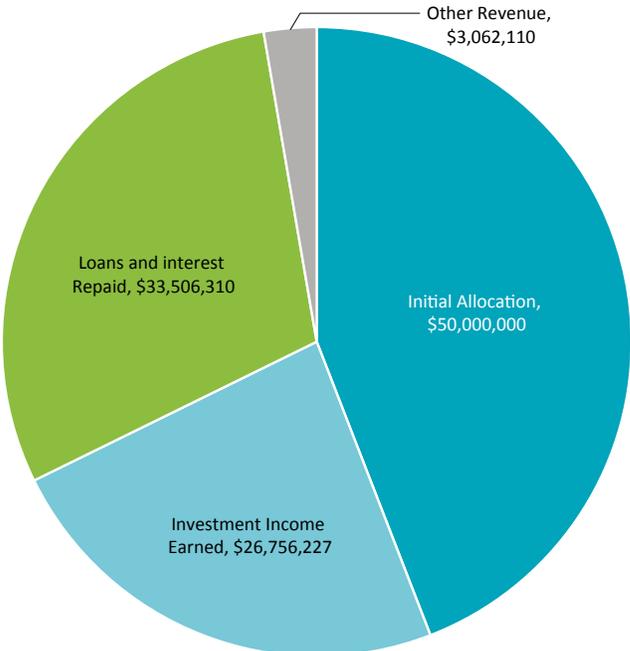
Cumulative Investment and Revenues

It has been 13 years since the Government of British Columbia allocated a one-time payment of \$50 million to SIDIT.

From that one-time allocation, SIDIT developed a sustainability model by creating a lending portfolio and investing in equity markets. It is the revenues from these investments that has provided SIDIT with the ability to contribute almost \$13 million in grants over the past 13 years.

SIDIT has invested approximately \$50 million in loans, with payouts of approximately \$33.5 million to date. In addition, SIDIT has earned approximately \$27 million in investment income.

The graph to the right shows SIDIT's cumulative revenues since inception.

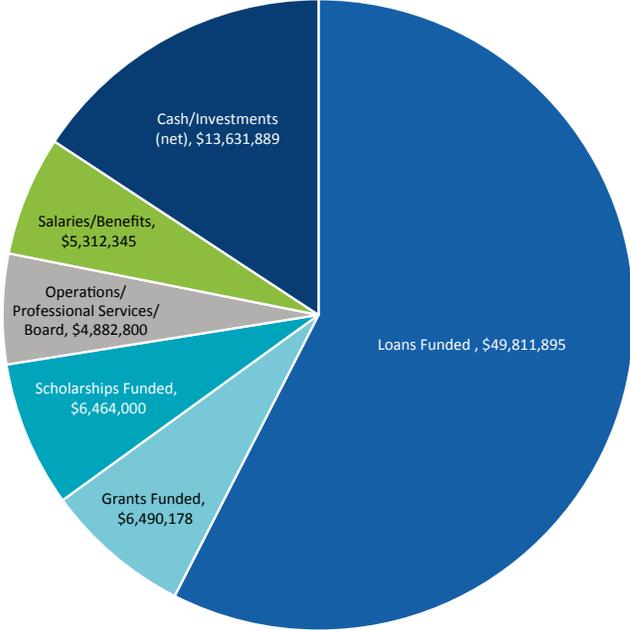


Thirteen Year Overview

Over the past 13 years, SIDIT has contributed to the creation of over 3,400 direct jobs, over 7,400 student scholarships and gross domestic production leverage of \$333 million.

To the right is a snapshot of SIDIT's 13-year cumulative investments and expenses.

SIDIT continues to hold true to its mandate of investing in and growing the economy of the Southern Interior and we are proud to continue our support to all the communities throughout the Southern Interior Region.



Board of Directors

SIDIT is governed by a board of thirteen directors: eight are elected officials appointed by two Regional Advisory Committees; and the other five are appointed by the Province of British Columbia. The Board is responsible for identifying the strategic direction of SIDIT, policy decisions, and investment decisions in support of a variety of regional economic priorities, as well as other opportunities which contribute to the economic diversity of the Southern Interior. The Board meets quarterly in person or by telephone conference, and electronically as required.

Elected Officials



Grace McGregor
Director, Area C
Kootenay Boundary Region



Diana Lockwood
Mayor, Village of Salmo
Central Kootenay Region



Lee Pratt
Mayor, Cranbrook
East Kootenay Region



Tanya Wall
Director, Area B
Central Kootenay Region



Al Raine
Mayor, Sun Peaks
Thompson Nicola Region



Chris Pieper
Mayor, Armstrong
North Okanagan Region



Sue McKortoff
Mayor, Osoyoos
Okanagan Similkameen Region



Rhona Martin
Director, Area E
Columbia Shuswap

Provincial Appointees



Wayne Staudt
Provincial Appointee
East Kootenay Region



Sharon Shepherd
Provincial Appointee
Central Okanagan Region



Dr. Philip Barker
Provincial Appointee
Central Okanagan Region



Vacancy



Vacancy

Governance

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.



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.

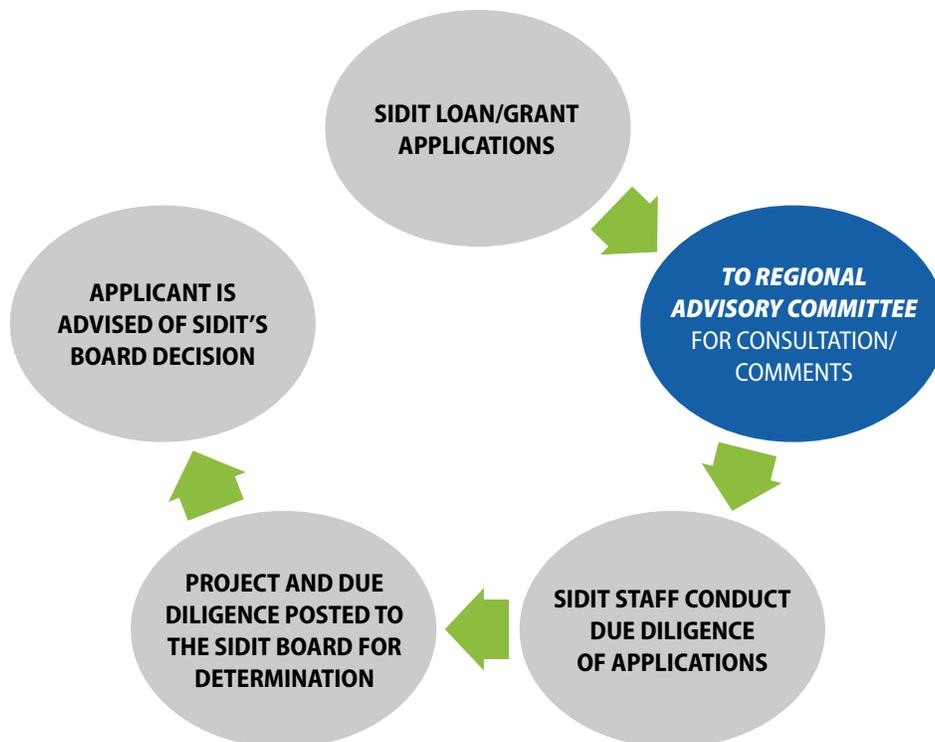
Thompson-Okanagan Regional Advisory Committee representing the region from Blue River to the North, Hope to the West and South to Osoyoos.

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

The role of the Regional Advisory Committees is to elect members to the Board of Directors of SIDIT, to provide comments or advice on funding project eligibility and to provide representation opportunities for communities and regional district areas under 500 in population.

When a request comes in for either a loan or a grant, the project is first sent to the appropriate RAC for comment. The project information, including all due diligence, is then given to the SIDIT Board to make a determination.

Under section 21 of the SIDIT Act, the Regional Advisory Committees may identify and refer to the SIDIT Board of Directors projects they consider appropriate for SIDIT to consider. However, the SIDIT Board will make the final determination on funding for any projects.



The current Regional Advisory Committee members are as follows:

Thompson Okanagan Regional Advisory Committee Members:

NAME	LOCATION
Kevin Acton, Chair	North Okanagan Regional District
Kevin Acton, Mayor	Village of Lumby
Dan Ashton, MLA	Penticton
James Baker, Mayor	District of Lake Country
Colin Basran, Mayor	City of Kelowna
Manfred Bauer, Mayor	Village of Keremeos
Merlin Blackwell, Mayor	District of Clearwater
Toni Boot, Mayor	District of Summerland
Linda Brown, Mayor	City of Merritt
Ken Christian, Mayor	City of Kamloops
Spencer Coyne, Mayor	Town of Princeton
Rod Crowe, Mayor	Village of Chase
Victor Cumming, Mayor	City of Vernon
Cindy Fortin, Mayor	District of Peachland
Eric Foster, MLA	Vernon-Monashee
Christine Fraser, Mayor	Township of Spallumcheen
Jim Garlick, Mayor	District of Coldstream
Ken Gillis, Chair	Thompson-Nicola Regional District
Gail Given, Chair	Regional District of Central Okanagan
Alan Harrison, Mayor	City of Salmon Arm
Martin Johansen, Mayor	Town of Oliver
Karla Kozakevich, Chair	Regional District Okanagan-Similkameen
Greg Kylo, MLA	Shuswap
Linda Larson, MLA	Boundary-Similkameen
Norm Letnick, MLA	Kelowna-Lake Country
Jason Lum, Chair	Fraser Valley Regional District, Area A and Hope
Rhona Martin, Chair (SIDIT Director)	Columbia Shuswap Regional District
Greg McCune, Mayor	City of Enderby
Sue McKortoff, Mayor (SIDIT Director)	Town of Osoyoos
Peter Milobar, MLA	Kamloops-North Thompson
Gord Milsom, Mayor	City of West Kelowna
Chris Pieper, Mayor (SIDIT Director)	City of Armstrong
Al Raine, Mayor (SIDIT Director)	Sun Peaks Mountain Resort Municipality
Peter Robb, Mayor	District of Hope
Terry Rysz, Mayor	District of Sicamous
Ward Stamer, Mayor	District of Barriere
Ben Stewart, MLA	Kelowna West
Todd Stone, MLA	Kamloops-South Thompson
Jackie Tegart, MLA	Fraser-Nicola
Steve Thomson, MLA	Kelowna-Mission
John Vassilaki, Mayor	City of Penticton

Columbia-Kootenay Regional Advisory Committee Members:

NAME	LOCATION
David Brooks-Hill, Director	Columbia Shuswap Regional District Area 'B' Revelstoke
Karen Cathcart, Director	Columbia Shuswap Regional District, Area 'A' Rural Golden
Susan Clovechok, Director	Regional District East Kootenay, Electoral Area F
Katrine Conroy, MLA	West Kootenay
Diana Lockwood, Director (SIDIT Director)	Regional District Central Kootenay, Village of Salmo
Grace McGregor, Director (SIDIT Director)	Regional District Kootenay Boundary, Area C
Walter Popoff, Director	Regional District Central Kootenay, Electoral Area H
Lee Pratt, Mayor (SIDIT Director)	Regional District East Kootenay, City of Cranbrook
Angela Qualizza, Mayor	Regional District East Kootenay, City of Fernie
Clara Reinhardt, Mayor	Regional District Kootenay Boundary
Tom Shypitka, MLA	East Kootenay
Tanya Wall, Director (SIDIT Director)	Regional District Central Kootenay, Electoral Area B
Linda Worley, Director	Regional District Kootenay Boundary, Area B

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

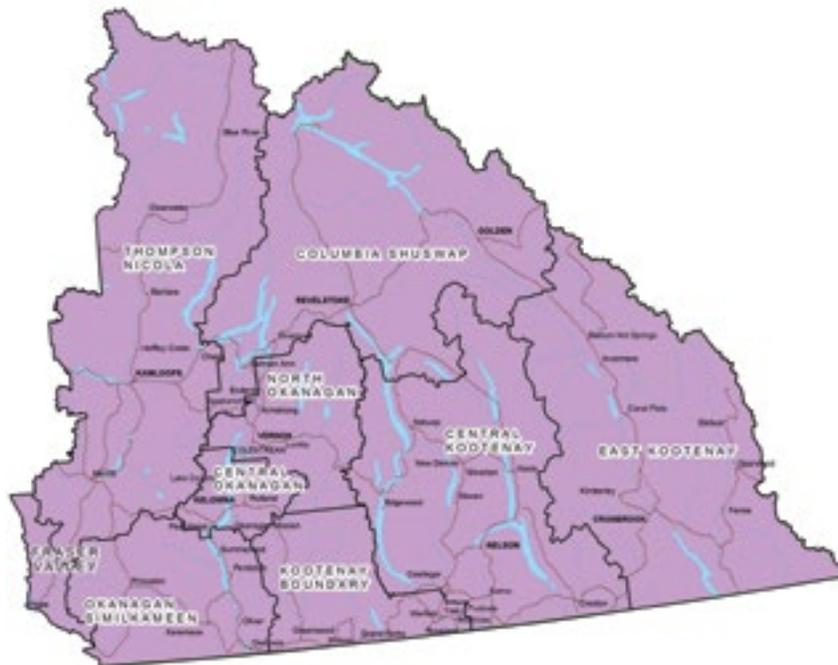
Cranbrook, Kimberley, Fernie, Sparwood, Invermere, Elkford, Canal Flats, Radium Hot Springs

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



Vision and Mission

SIDIT's Board of Directors and Regional Advisory Committee members share a vision of the future for the Southern Interior, as follows:

- *a future where economic opportunities are enabled,*
- *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*

The Board's mission expresses how they see SIDIT contributing to this vision for Southern Interior, as follows:

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



Mandate

SIDIT was created as a private corporation and is not an agent of the Government, however it is required to comply with *Trustee's Act* for the investment of its fund.

SIDIT is managed as an independent and sustainable regional economic development corporation. SIDIT's capital is invested in a balanced mix of financial markets and loan or investments in regionally based commercial enterprise to ensure sustainability and growth.

Within its mandate, SIDIT lends to and invests in promising commercial enterprises. SIDIT assesses the long-term potential of lending and investment opportunities and at times may consider a more patient position than would a traditional lender.

The Board is responsible for representing SIDIT positively to the communities of Southern Interior Region and to fairly represent community perspectives to SIDIT. Further, the Board is responsible for managing all communications around project funding decisions, using a cooperative and collaborative model, which may include involvement

of the Regional Advisory Committees, Members of the Legislative Assembly, sponsoring local governments, project proponents and other stakeholders.

The Southern Interior Development Initiative Trust Act mandates investment in economic development initiatives within ten key sectors that will demonstrate long term measurable economic impact within the Southern Interior.

The ten key sectors are:

- Agriculture
- Economic development
- Energy
- Forestry
- Mining
- Tourism
- Olympic opportunities
- Pine Beetle recovery
- Small Business
- Transportation



Funding by Investment Sector

Applications received are proponent driven, therefore there are no specific investment targets for any of the ten key areas. SIDIT approves projects and investments based on their impact, sustainability, and individual merit.

Fiscal 2019 Investment by Sector

Agriculture, \$150,000 (Cumulative \$2.7M)

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; nurseries; community-based abattoir services; organic gardening training and certification services and community based Agriplex/multipurpose buildings.

Economic Development, \$325,000 (Cumulative \$9.5M)

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; broadband initiatives and community investment in conference and training centers.

Energy, \$13,000 (Cumulative \$1.1M)

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

Forestry, \$0 (Cumulative \$2.7M)

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

Mining, \$0 (Cumulative \$0.4M)

Mining includes value-added manufacturing.

Tourism, \$50,000 (Cumulative \$3.2M)

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

Olympic Opportunity, \$15,000 (Cumulative \$1.8M)

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

Pine Beetle Recovery, \$0 (Cumulative \$0.5M)

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

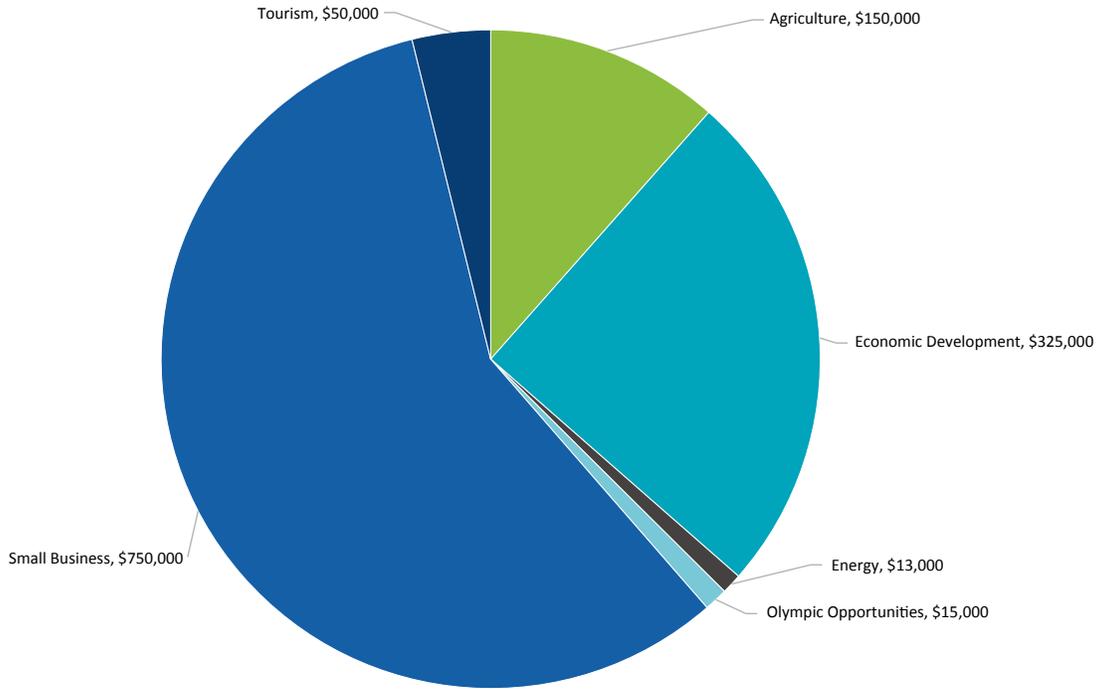
Small Business, \$750,000 (Cumulative \$39.0M)

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

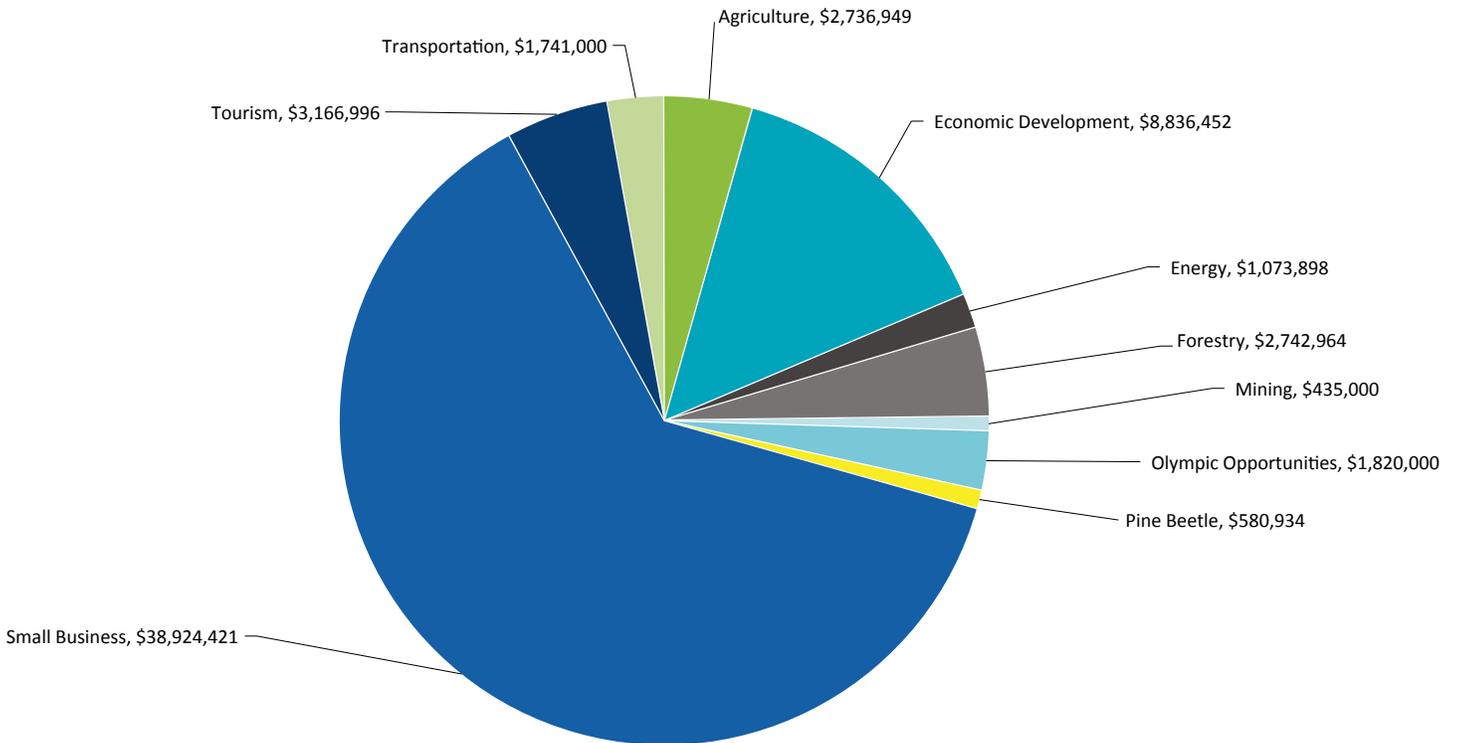
Transportation, \$0 (Cumulative \$1.7M)

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

2019 Investment by Sector



Cumulative Investment by Sector



Guiding Principals

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

- Responsive to the diverse economic development needs and aspirations of the people and communities in the Southern Interior Region
- Accountable to stakeholders for integrity and intent of decisions and activities
- Sustainable to ensure the ongoing viability of SIDIT's operations and investments
- Development-focused supporting economic initiatives that create employment, enhance business performance, leverage partnerships, and add value to people and communities across the region.

Socio-Economic Impact Assessment

Complete an external Socio-Economic Impact Assessment every five years:

- A regional impact assessment was completed by Urban Matters and Lochaven Management Consultants in August 2016.
- The impact assessment will be updated in 2021.
- The assessment, and additional economic data, is reviewed by SIDIT Board of Directors at their annual strategic planning session.

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 SIDIT. Credit risk primarily arises from loan and equity investment receivables. 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 may be able to consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

Due diligence audits will be performed to verify the accuracy of information and assumptions. In addition, Policy 3.02 Authorization sets out the Chief Executive Officer's authority for amending loan and equity investment files, stating that the Chief Executive Officer has authority to make amendments that are within operational oversight and are not material to the risk or value of the loan.

Material changes that would require further Board approval may include, but are not limited to, the following examples:

- Extending a loan beyond the Board approved term of a loan;
- Increasing the approved amount of a loan by allowing for the capitalization of fees, which is no longer a consideration, as all fees will need to be deducted from the initial draw of a loan;
- Allowing for the deferral of loan payments outside the approved terms of the loan agreement; or
- Changing the security required from what the Board had approved.

These examples noted above constitute a material change to the intent and integrity of a loan and would require prior Board approval before being implemented.

All applications are risk-rated according to SIDIT's Risk Rating Guidelines as part of the original underwriting of loans and investments, annual review and renewal. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

SIDIT will manage its loan and equity risk by limiting its investment in any one business enterprise, investing in a diverse portfolio, and by syndicating or co-lending with other financing partners.

SIDIT will also manage risk by allocating investment funds to companies at various stages of development. These stages are defined as:

- Growth/Expansion Stage: Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, and facilitate a change in control or to execute a turnaround strategy.
- Later Stages: Financing to mature companies may be provided to help grow existing operations, improve performance, or protect employment through an injection of capital and appropriate management support.
- Transitional Stage: Transitional Stage companies are established companies that are being transitioned to new ownership as part of their succession planning. SIDIT may consider financing for the company or individual that is taking over such entity.

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

SIDIT Management and Board of Directors review the credit risk policy annually. SIDIT's Board of Directors have also approved the Lending Procedures and Guidelines that all loan applicants need to review and sign off on prior to submitting their application.



Market Risk

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

SIDIT's 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;

At the firm level, Fund Manager 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&N's fixed income team, using 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&N's Canadian equity fund managers evaluate companies on similar criteria, and 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 SIDIT's ability to be sustainable as well as its ability to fund on-going operations and meet funding targets. SIDIT historically, and to date, has the necessary funding and cash flows to meet its objectives.

Internal Capacity Risk

An experienced management and staff team allows SIDIT to achieve disbursement targets and maintain operating expenses at a low level relative to funding volume. SIDIT maintains a small management and staff group of 4 FTE and one long-term contractor. Training 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 to be able to conduct the operations of the entity business model.

Information Systems/Technology Risk

A robust software system is required 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 SIDIT's 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 can produce 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

In 2016, SIDIT underwent a review of its computer systems and switched providers to Nerds on Site, including a replacement of its server and updated its email and back up storage. In addition, SIDIT implemented stricter guidelines for what employees can install and download on their computers, as an extra security step in preventing malware and viruses.

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

- SIDIT installed QNAP back-up system, which has interchangeable drives that are rotated out on a monthly basis, the drives are then kept in a secure location. This back-up system covers the server (operating system included) in its entirety and all company, shared, and employee files, so in the event of a disaster, the images could be downloaded and have the system back up and running again.
- SIDIT's replacement server has hardware redundancies built into its storage drives.
- In addition to QNAP, SIDIT backs up its financial and client related files to the cloud via Shadow Craft. These files are stored in the cloud in Canada and do not cross international borders, so they are not subject to the Patriots Act.
- SIDIT's email system is run through Microsoft's Office 365, emails are accessible and backed up through secure log-in either through Outlook on computers, or via the internet. These emails have 'Litigation Hold', which means all emails are stored in a special Microsoft server that is compliant with IT standards so as to be admissible in court.
- All client files are scanned and stored electronically and paper copies are stored in fire resistant cabinets.
- All operational computers are monitored by Nerds on Site to detect any malware on a 24/7 basis. In addition, Nerds on Site also monitors the Server on a 24/7 basis.

Directors and Officers Liability and Omissions Risk

SIDIT maintains a \$5 Million Policy for Directors and Officers Liabilities and Omissions Insurance, as well as adequate Property and \$2 Million General Liability Insurance.

Liquidity Risk

Liquidity risk is the risk that SIDIT will be unable to fund its obligations as they come due. SIDIT's management oversees SIDIT liquidity risk to ensure that SIDIT has access to enough readily available funds to cover its financial obligations as they come due. SIDIT's business requires such capital for operating and funding of development initiatives, grants, and education awards.

The assessment of SIDIT's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective trust specific 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

SIDIT's Board of Directors establishes the long-term goals for SIDIT. The 2019 Strategic Plan outlines the next three fiscal years of strategic initiatives. The strategic plan may be viewed on SIDIT's website www.sidit-bc.ca.

Reporting Standards

SIDIT's reporting standards include:

- Discussion in our stakeholder accountability reports about how we are complying with legislated requirements.
- Incorporation of the BC Reporting Principles into our annual reports.
- Developing and reporting annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.

These standards are incorporated into the Annual Report and will be continuously improved.

Strategic Goals

SIDIT's objective is to maintain SIDIT's funding at a sustainable level and to increase the fund value over time in order to continue to achieve SIDIT's established goals. The Board has established a core strategy, supported by five strategic goals and defined performance targets with metrics that track progress and measure each goal's achievement.

Core Strategy

- Identify and support community development projects and regionally based commercial ventures that match the objectives of SIDIT and demonstrate sustainability.
- Maintain SIDIT so that it is financially sustainable, providing continual support for economic initiatives for the Southern Interior and increase the social and economic impact of SIDIT over time.
- Supporting each of SIDIT's five strategic goals are strategies, performance targets and metrics that track progress and measure goal achievement

Strategic Goals

Goal 1: Enhance the Southern Interior economy by promoting greater economic growth, resiliency, and diversification.

Goal 2: Preserve existing jobs, stimulate new employment, and address skill shortages in the Southern Interior region.

Goal 3: Attract new capital to the Southern Interior region to drive incremental economic development activities.

Goal 4: Increase the value of the investment pool, thereby increasing opportunities to support regionally strategic investments in the Southern Interior.

Goal 5: Create and sustain stakeholder awareness of and support for SIDIT's purpose, goals, achievements, and successes with a focus on partnership development, collaboration and extending rural reach.

Performance Targets and Metrics

Performance targets and metrics for each strategic goal assist SIDIT and its stakeholders to measure and assess SIDIT's progress, impact, and results. Metrics are selected on the following criteria:

Connection to our goals – our progress in achieving desired outcomes and through them, our mission, vision, and mandate.

Longevity – track impact over time; identify trends and provide information for performance improvement.

Validity – ensure relevant, accurate data to guide decisions and assess impact.

Performance Metrics focus on activities, behaviors, and processes necessary to deliver an effective funding system.

Metrics and Goal achievement are reviewed in-depth during the annual Strategic Planning Session, and throughout the year as required to ensure ongoing refinement.

GOAL 1 ENHANCE THE SOUTHERN INTERIOR ECONOMY BY PROMOTING GREATER ECONOMIC GROWTH, RESILIENCY AND DIVERSIFICATION.

Strategies

1. Positively impact each region in the Southern Interior through strategic investments in communities, effective partnerships and by focusing on primary target industries.
2. Invest in existing enterprises that are seeking to create diversification in their own business by introducing new products; targeting new markets; creating diversification through other means; ensuring successful business transition; or succession to the next generation.
3. Invest in innovation and entrepreneurship and projects that assist individuals to create or expand businesses, develop innovative products, enhance services, and utilize technologies.

Results

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

GRANT FUNDING MANDATES BY REGION AND PER CAPITA

Regions	2019	Cumulative	Population	\$ Per Capita
Central Okanagan	\$25,000	\$1,102,223	194,882	\$6
Columbia Shuswap-TO	\$25,000	\$275,000	35,739	\$8
Fraser Valley	-	\$25,000	7,096	\$4
North Okanagan	\$13,000	\$361,022	84,354	\$4
Okanagan Similkameen	-	\$484,784	83,022	\$6
Thompson Nicola	-	\$1,279,750	132,663	\$10
Columbia Shuswap-CK	\$25,000	\$203,000	15,001	\$14
Kootenay Boundary	\$40,000	\$1,224,511	31,447	\$39
Central Kootenay	-	\$761,088	59,517	\$13
East Kootenay	\$25,000	\$773,800	60,439	\$13
Total	\$153,000	\$6,490,178		

LOAN FUNDING MANDATES BY REGION AND PER CAPITA

Regions	2019	Cumulative	Population	\$ Per Capita
Central Okanagan	\$750,000	\$29,581,850	194,882	\$152
Columbia Shuswap-TO	-	\$735,934	35,739	\$21
Fraser Valley	-	\$500,000	7,096	\$70
North Okanagan	\$150,000	\$5,650,000	84,354	\$67
Okanagan Similkameen	-	\$4,385,674	83,022	\$53
Thompson Nicola	-	\$1,558,801	132,663	\$12
		\$42,412,259		
Columbia Shuswap-K	-	-	15,001	\$0
Kootenay Boundary	-	\$3,672,964	31,447	\$117
Central Kootenay	-	\$300,000	59,517	\$5
East Kootenay	-	\$3,496,600	60,439	\$58
		\$7,469,564		
Total	\$900,000	\$49,881,823		

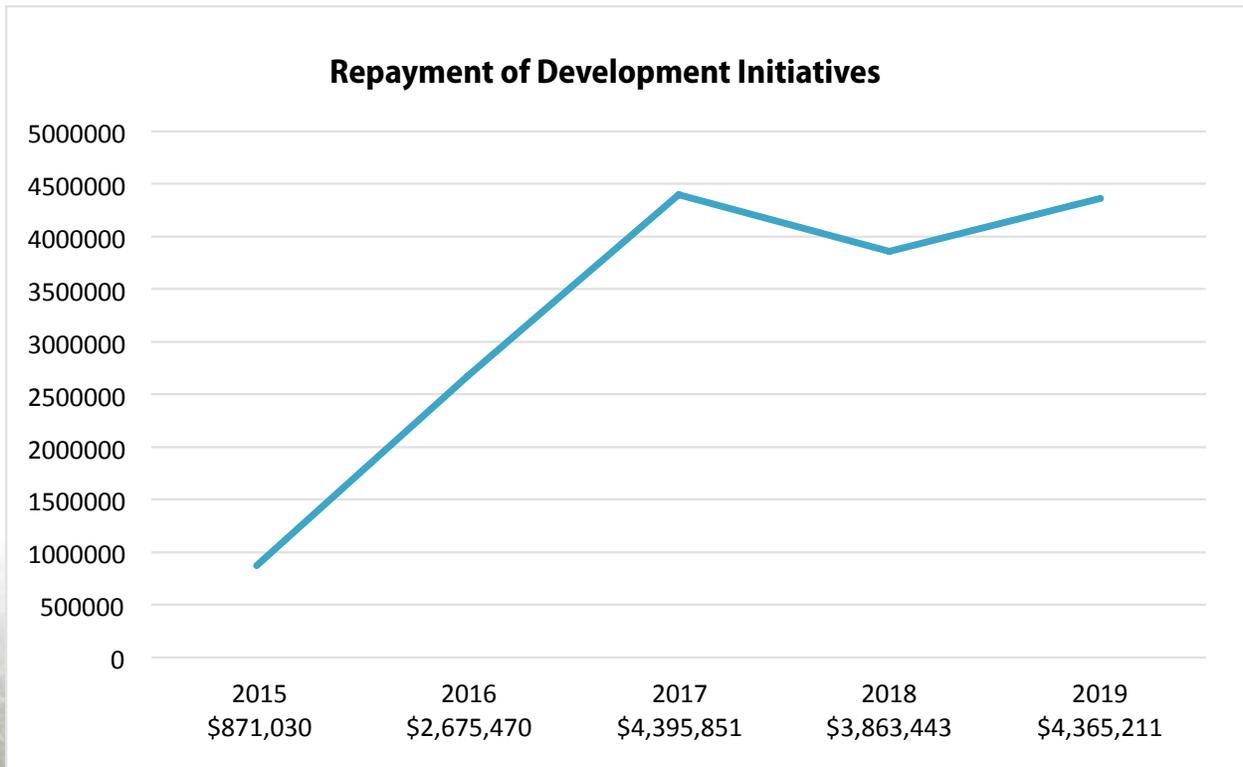
EDUCATION BY REGIONS

Regions	Total	Population	\$ Per Capita
Thompson Okanagan	\$4,684,000	537,756	\$8
Columbia Kootenay	\$1,780,000	166,404	\$11
	\$6,464,000	704,160	

TOTAL FUNDING PER REGION AND PER CAPITA

Regions	Total	Population	\$ Per Capita
Central Okanagan	\$32,544,071	194,882	\$167
Columbia Shuswap-TO	\$1,306,737	35,739	\$37
Fraser Valley	\$569,708	7,096	\$80
North Okanagan	\$6,644,489	84,354	\$79
Okanagan Similkameen	\$5,495,217	83,022	\$66
Thompson Nicola	\$4,063,816	132,663	\$31
Thompson Okanagan Region	\$50,624,038	537,756	
Columbia Shuswap-K	\$357,011	15,001	\$24
Kootenay Boundary	\$5,217,652	31,447	\$166
Central Kootenay	\$1,737,240	59,517	\$29
East Kootenay	\$4,900,060	60,439	\$81
Columbia Kootenay Region	\$12,211,963	166,404	
Total	\$62,836,001		

Principal, Interest and Fees



Discussion

From its original \$50 million government allocation, SIDIT has invested \$49.9 million into business ventures in the Southern Interior, as well as funded \$13 million in grants and education awards.

\$33.5 million in principal and interest has been repaid as at the end of Fiscal 2019.

SIDIT funds of \$33 million are invested in liquid and market securities to provide for operating capital and create a reserve for future funding and investment opportunities. This level of funding assists communities in responding to challenges and opportunities in the near term, while preserving a significant portion of the funds to ensure that SIDIT has resources available to respond to future challenges and opportunities as they evolve.

The primary objective for SIDIT is to support economic development initiative opportunities based on project merit within the Southern Interior irrespective of geographic considerations. In line with SIDIT's Act and its mandate, SIDIT encourages submissions from throughout the Southern Interior.

Grant funding is proponent driven and while SIDIT strives, to the best extent possible, that all regions of the Southern Interior have fair and equitable access to SIDIT's funds, it does not have control over the results of distribution of funding. 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 level of comfort that future cash flow and equity targets will be achieved.

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 presented is sound and prudent in order to protect the future of the fund.

In Fiscal 2018, the Board of Directors determined that it would change the stages of funding to have more of a balanced portfolio, and has added a category for companies looking for succession and transition funding, in order to help the next generation of business people to buy in and be successors to a well-managed company.

In the past, SIDIT had the option, for some of its loans, to convert into equity of the business recipient. SIDIT has moved away from this practice in order to ensure that its funds are returned and disbursed in a shorter timeframe of not more than 5 years. Equity investments are a more long-term venture. SIDIT will revisit its lending strategy every year at its Strategic Planning session.

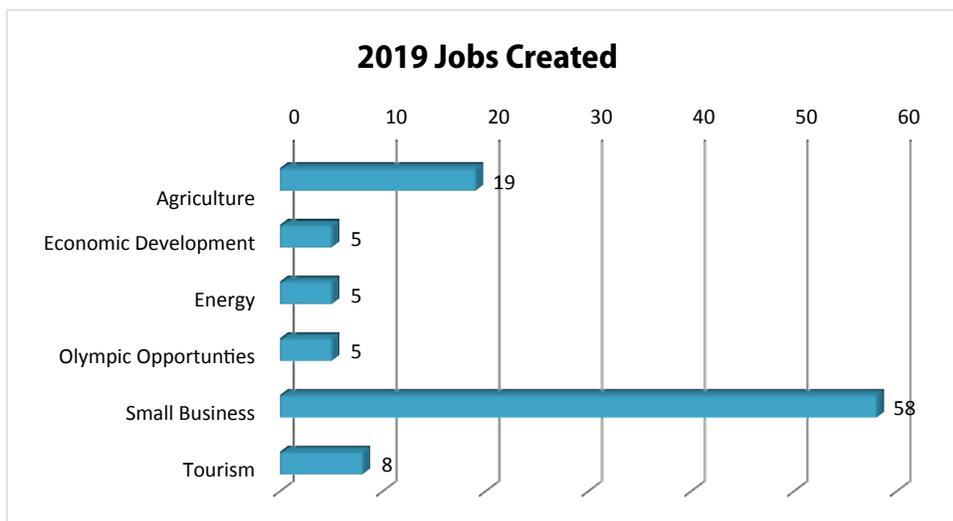
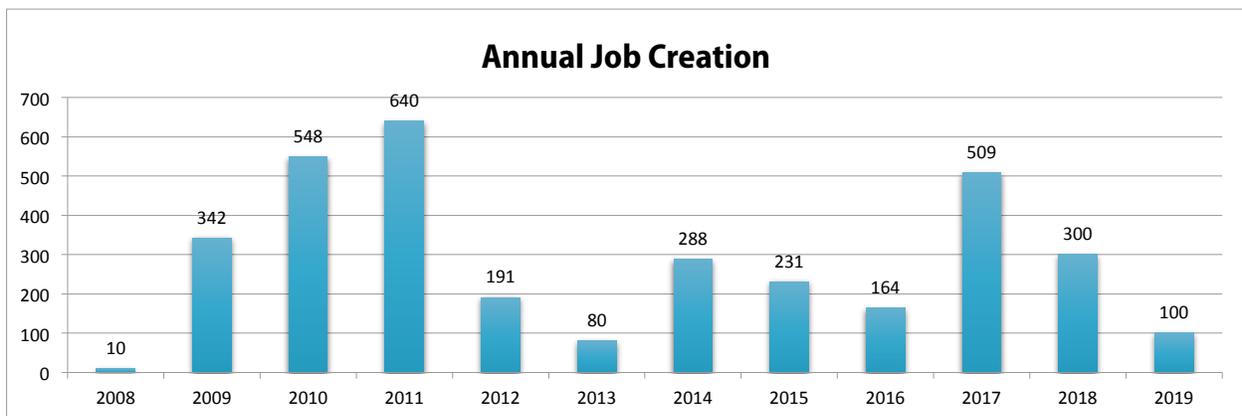
While SIDIT completes due diligence procedures prior to any investment being funded, economic conditions have impacted the credit quality of many entities due to increased uncertainty in cash flows. SIDIT made its first development initiative investment on March 31, 2008 fiscal year. As the recipient companies are now further into the lifecycle of an early stage enterprise, it has become evident that certain investments are unlikely to be recovered.

A provision for losses is recorded when SIDIT no longer has reasonable assurance of timely collection of the full amount of principal and interest.

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

Strategies

1. Invest in new and existing commercial enterprises that will use the infusion of capital to preserve jobs and/or create new jobs.
2. Invest a percentage of the income of the Fund into educational programs focused on trades, technology and academic programs that address skill shortages and enhance economic growth in the region.



Discussion

JOB CREATION

As previously noted in this report, SIDIT conducted a Socio-Economic Report in 2016, which focused specifically on SIDIT and how SIDIT's programs support the communities of the Southern Interior. The Researchers concluded that even though the ten years leading up to the report had been tumultuous, SIDIT continued to have a positive and significant social, economic and employment impact within the Southern Interior. The researchers went on to state although there was not an initial baseline, the impacts were positive and substantive. These positive impacts serve to emphasize the relevance, credibility, and value of SIDIT's programming.

The Report can be reviewed in its entirety on our website at: <https://sidit-bc.ca/about-us/resources>

LABOUR FORECAST

A labour market outlook looks at trends that are anticipated in the future labour market. According to BC's 2018 Labour Market Outlook, BC is forecasting to have 903,000 job openings between 2018 and 2028, with 77 percent of future jobs will require some form of post-secondary education or training.

The Thompson Okanagan region is the third most populated region in the province and has 12 percent of the BC population. Approximately 24 percent of B.C.'s Agriculture jobs are in the Thompson Okanagan. The Labour Market Outlook estimates 21.4 percent of new jobs in the region over the next 10 years, with 78.6 per cent of jobs will be for replacing retiring workers, with a 10-year total employment growth of 91,200 jobs.

The Kootenay region has 3 percent of BC population. Approximately 32 percent of jobs in the Kootenays were in goods-producing sector industries, the second highest proportion of any of the regions.

The Labour Market Outlook is 18.3 percent growth in new job openings, with 81.7 percent of jobs will come from replacing retiring workers. The Kootenays have a forecasted average annual employment growth rate of 0.6%, or 24,100 jobs over the next 10 years.

BC's 2018 Labour Market Outlook can be viewed at:

<https://www.workbc.ca/Labour-Market-Industry/Labour-Market-Outlook.aspx>

EDUCATIONAL SUPPORT

SIDIT engages with six 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; Thompson Rivers University; and Nicola Valley Institute of Technology, deliver programs and manage awards for trades, technology, and applied sciences. Awards are based on financial need and range in size from \$500 to \$5000 per student recipient.

Education Grants Awarded

Institution	Total Awards	Total Funding
BCIC	52	\$489,000.00
College of the Rockies	1143	\$833,000.00
Nicola Valley Institute of Technology	15	\$8,000.00
Okanagan College	2129	\$1,869,000.00
Selkirk College	1514	\$882,000.00
University of British Columbia Okanagan	400	\$638,000.00
Thompson Rivers University	2178	\$1,745,000.00
	7431	\$6,464,000.00

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

Strategies

1. Attract capital into the region and contribute to the economic sustainability of the community by providing grants supporting community economic initiatives.
2. Through leverage and partnerships, achieve a multiplier effect through SIDIT's loans, equity investments and grants.

Results

\$153,000 has been funded in support of community economic initiatives in Fiscal 2019 and cumulatively \$6.5 million has been funded as at fiscal year-end 2019. Our leverage to date is 9.8 to 1. Our investments of \$49.9 million into loans and equity investments has attracted an additional \$122 million into the region representing leverage of 2.25 for every \$1 invested by SIDIT.

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.

Grant Program

The Grant Program provides non-repayable funding for municipalities, regional districts, First Nations, registered non-profit societies, institutions, and industry associations to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

Projects that may be ineligible under SIDIT's guidelines, will be considered if they are from communities with a population of under 25,000. However, projects still need to demonstrate measurable economic impact. In addition, multi-year funding may be considered for initiatives or activities that take longer than one year to fully develop, or to achieve or document results that are meaningful or build sustainability.

All projects must be consistent with the Act, vision, and mission of SIDIT and preference is given to initiatives with regional benefits. Benefits are measured by increased tax base, new job creation, incremental revenue generation and economic diversification.

Thompson Okanagan Grants

- Accelerate Okanagan (AO) / BCIC
- Arts Council of the North Okanagan
- Canadian Home Builders Association
- Central Okanagan Community Futures
- Central Okanagan Foundation
- Community Dental Access Centre Society
- Community Futures of North Okanagan
- Community Futures Okanagan Similkameen
- Chase & District Lions Community Club
- Farwell Splash Park Society
- Gold Country Communities Society
- Grindrod Recreation Association
- Hope Business and Development Society
- Kamloops Farm Fresh Processing Initiative
- Kamloops Innovation Centre (KIC) / BCIC
- Kelowna Habitat for Humanity Society
- Kelowna Innovation Society
- Kettle Valley Railway Society
- Larch Hills Nordic Society
- Lake Country Food Assistance Society
- Loose Bay Campground Society
- Lower North Thompson Community Forest Society
- Myra Canyon Trestle Restoration Society
- Nicola Valley Community Theatre Society
- NK'Mip Desert Heritage Society
- North Shuswap Health Centre Society
- North Thompson Fall Fair & Rodeo Association
- O'Keefe Ranch & Interior Heritage Society
- Okanagan Car Share Co-Op
- Okanagan Research & Innovation Centre
- Okanagan Similkameen Film Commission Society
- Penticton Centre for Exceptional Learning Society
- Princeton, Town of
- Regional District of North Okanagan
- Regional District of Okanagan Similkameen
- Revelstoke Nordic Ski Club
- S.S. Sicamous Marine Heritage Society
- Salmon Arm Economic Development Society
- Salmon Arm Folk Music Society
- Salmon Arm Museum and Heritage Association
- Shuswap Hut & Trail Alliance Society
- Sounds of Light Multicultural Society
- Sun Peaks Education Society
- Sun Peaks Health Association
- Sun Peaks Mountain Resort Municipality
- Thompson Nicola Regional District
- Thompson Okanagan Tourism Association
- Thompson Rivers University
- University of British Columbia Okanagan
- Venture Kamloops Business Development Society
- Vernon Restholm Association
- Yellowhead Community Services Society

Columbia Kootenay Grants

- BDC -Small Business Productivity Project
- Black Jack Cross Country Ski Club Society
- British Columbia Community Forest Association
- British Columbia Snowboard Association
- Castlegar, City of
- CFDC of Greater Trail
- Christina Lake Chamber of Commerce
- Columbia Valley Greenways Trail Alliance
- Community Connections Society of Southeast BC
- Cranbrook & District Community Foundation
- Creston & District Community Resource Centre Society
- Fernie Chamber of Commerce
- Fly YXC Alliance Society
- Friends of Fort Steele Society
- Fruitvale, Village of
- Golden Cycling Club
- Golden Nordic Ski Club Society
- Grand Forks and Boundary Regional Agricultural Society
- Grand Forks, City of
- Harrop-Procter Community Co-op
- Kaslo, Village of
- Kimberley, City of
- Kootenay Aboriginal Business Advocates Society
- Kootenay Association for Science (KAST) / BCIC
- Kootenay Employment Services Society
- Kootenay Region Association for Community Living
- Kootenay Rockies Innovation Council (KRIC) / BCIC
- Little Lakers Learning Centre Society
- Lower Columbia Initiatives Corp
- Nakusp Centennial Golf Club
- Nakusp, Village of
- Nelson Civic Theatre Society
- Nelson, City of
- Phoenix Foundation of the Boundary Communities
- Red Mountain Academies Association
- Rossland, City of
- Rossland Historical Museum Society
- Salmo Valley Trail Society
- Selkirk College
- Silverton, Village of
- Trail, City of
- Village of Canal Flats
- West Kootenay Herb Growers Cooperative
- Windermere District Farmers' Institute and Livestock Association

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

Strategies

1. Prudently manage SIDIT's credit investment risk by establishing and following clear guidelines for assessing lending and investment opportunities and by setting maximum limits of funding at various stages of development and categories of risk.
2. Achieve a return on market investment portfolio (ROI) at or above industry benchmarks. Prudently manage SIDIT's market investment risk by establishing and following investment policy guidelines that set out investment risk tolerance and portfolio structure. Increase the value of SIDIT over time.

Loans

Performance Targets

Increase the value of SIDIT over time.

The Loan/Investment Business stages were redefined at the end of Fiscal 2017, as follows:

Growth/Expansion Stages: Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, and facilitate a change in control or to execute a turnaround strategy.

Later Stage: Financing to mature companies may be provided to help grow existing operations, improve performance, or protect employment through an injection of capital and appropriate management support.

Transitional Stage: Transitional Stage companies are established companies that are being transitioned to new ownership as part of their succession planning. SIDIT may consider financing for the company or individual that is taking over such entity.

TARGET INVESTMENT FUND ALLOCATION AND LEVERAGE

Stage of Business	Maximum \$ Invested	Target Leverage Other/Trust	Target Fund Allocation*
Growth Capital	\$1,000,000	3:1	50%
Later Stages	\$1,000,000	3:1	30%
Transitional Stage	\$1,000,000	2:1	20%

**value is based on current balances and monitored on at least an annual basis*

CURRENT FUND ALLOCATION

Stage of Business	Target Fund Allocation	Actual	Actual Allocation
Start Up Phase	0%	\$1,948,270.87	6%
Early Stage	0%	\$7,115,300.70	22%
Growth / Expansion Stages	50%	\$16,383,858.52	52%
Later / Mature Stages	30%	\$6,007,460.31	19%
Transitional Stage	20%	\$480,398.90	2%
		\$31,935,289.30	100%
2019 Repayment of \$4,365,211			



Results

SIDIT has advanced \$49.9 million into business ventures. \$33.5 million in principal and interest has been repaid to date. Our committed investment of \$49.9 million in loan and equity investments has attracted an additional \$121.8 million (Project cost minus SIDIT Advanced) into the region representing a leverage of \$2.45 for every \$1 invested by SIDIT.

In Fiscal 2019 SIDIT received repayment on loan files for a total repayment of \$4.4 million.

Trust assets, originally \$50 million, are currently \$48.4 million as at March 31, 2019 after disbursement of \$62.8 million into economic development initiatives in the Southern Interior. In 2006, the Government of British Columbia enacted legislation launching SIDIT with a \$50 million, one-time allocation. Thirteen years later with \$62.8 million of projects funded and disbursed, SIDIT is proud to have accomplished an overall economic impact exceeding \$333 Million.

Since inception, SIDIT has lent money to \$42,412,259 in the Thompson Okanagan Region and \$7,469,564 in the Columbia Kootenay Region.

In Fiscal 2019, SIDIT lent \$900,000 and received \$4,365,210 as repayment for its loans. SIDIT currently has 49 active clients. The return in Fiscal 2019 for the PH&N portfolio was 9.3%. The overall return since inception was 6.8%. The portfolio is currently valued at \$32.6 million.

Discussion

SIDIT's loan and equity portfolio is dynamic and can fluctuate significantly with new debt and debt repayment. Changes in economic growth creates opportunities, as well as challenges, for SIDIT, however the potential to expand core lending activities and opportunities arise by serving new types of customers.

Projects supported by SIDIT have a minimum of matching funds invested by either the project proponent or other parties. When security is provided in asset-based lending scenarios, leverage ratios used by SIDIT will reflect standard bank loan to value criteria. Exceptions to this policy may be approved when the lending decision provides protection of SIDIT's investment.

The structure of SIDIT's equity investments is consistent with best business practices in equity investment procedures. The structure of SIDIT's loans are consistent with traditional lending criteria. In general terms, amortization periods do not exceed the life expectancy of the assets being secured and the loan term will typically be five years or less.

The purpose of all loans or investments funded by SIDIT complies with the SIDIT Act. Fees are market-based and rates appropriately represent the inherent risk of each business circumstance. It is envisioned that the loans made by SIDIT will eventually become bankable, at which time the enterprise may retire SIDIT's position in favour of a traditional lender allowing SIDIT's funds to be re-invested in other promising enterprises.

In exchange for the high risk that SIDIT assumes, SIDIT incorporates terms and conditions, positive and negative covenants, milestone targets, performance measures, and monitoring criteria in agreements that are intended to closely oversee a company's decisions and actions and keep SIDIT apprised as to the health of the company.

Investment Portfolio

SIDIT's investment portfolio is managed by Philips, Hagar, and North Investment Management (PH&N IM). Founded in 1964, PH&N IM has grown to become one of Canada's leading investment management firms with \$100 billion in assets under management. In 2008, PH&N IM was acquired by Royal Bank of Canada, providing access to significant additional resources to evolve their services and strategies in tandem with their clients' increasingly sophisticated investment needs. PH&N IM have extensive experience managing balanced portfolios and currently manage \$10 billion in balanced mandates for more than 200 institutional clients.

The return in Fiscal 2019 for the PH&N portfolio was 9.3%. The overall return since inception was 6.8% as compared to a composite benchmark of 5.8% and to the Canadian Consumer Price Index of 1.5%. The portfolio, originally \$25 million at inception, is currently valued at \$32.5 million.

The key objective is to add value while controlling risk. PH&N's approach is characterized by teamwork and long-term thinking. Analysts are responsible for individual security selection, portfolio construction and overall strategy. Portfolio managers ensure the implementation of each client's asset mix and investment guidelines. PH&N IM provides a full range of investment funds, including the traditional asset classes of stocks, government bonds and money market investments, as well as less-traditional asset classes and strategies such as corporate bonds and mortgages.

TARGET ASSET ALLOCATION AND RANGES

Asset Class	Minimum*	Target*	Maximum*
Canadian Equities	12.5%	20%	27.5%
Foreign Equities	22.5%	30%	37.5%
Total Equities	35%	50%	65%
Universe Bonds	7%	17%	27%
Mortgages	13%	23%	30%
High Yield Bonds	0%	5%	10%
Total Bonds	30%	45%	60%
Cash & Short-Term	2%	5%	8%

*Percentage of portfolio at market value.

As of March 31, 2019		% of Total Portfolio	Current Benchmark %
Market Value	\$32,581,740		
Asset Mix (% of total market value)	Cash	4.9	5.0
	Mortgages	22.2	23.0
	Universe Bonds	19.3	17.0
	High Yield Bonds	0.9	5.0
	Canadian Equities	21.1	20.0
	Global Equities	31.5	30.0

INVESTMENT RETURNS

	Year Ended Mar/2019 %	Year Ended Mar/2018 %	Year Ended Mar/2017 %	Year Ended Mar/2016 %	Since Inception* (annualized) %
Southern Interior Development Initiative Trust	9.3	3.6	8.1	4.7	6.8
<i>Composite Benchmark**</i>	<u>6.2</u>	<u>3.6</u>	<u>10.6</u>	<u>-1.8</u>	<u>5.8</u>
<i>Difference</i>	+3.1	0.0	-2.5	+6.5	+1.0
Canadian Consumer Price Index	1.5	2.3	1.6	1.3	1.6
Canadian Equities	11.0	1.0	12.3	3.8	6.1
<i>S&P/TSX Capped Composite Index</i>	8.1	1.7	18.6	-6.6	4.8
Global Equities	15.0	6.6	11.4	8.8	8.8
<i>MSCI World Net Index</i>	7.8	9.8	18.3	-0.7	8.0
Fixed Income	5.4	2.9	4.3	1.7	5.3
<i>Fixed Income Benchmark</i>	4.4	0.5	1.7	0.9	4.3
Money Market	1.9	1.2	1.0	0.8	1.2
<i>FTSE TMX Canada 30 Day TBill Index</i>	1.4	0.8	0.5	0.5	n/a

Discussion

Financial markets suffered a bout of extreme volatility in late 2018, punctuated by a sharp decline in stock markets that deflated many international equity indexes into “bear” territory, defined as a peak-to-trough decline of 20 percent or more. Fortunately, equity markets have substantially reversed course since then, recovering much lost ground in the first quarter of 2019. Last December’s precipitous decline coincided with extreme levels of investor pessimism fueled anxiety about slowing economic growth, U.S. Federal Reserve (Fed) interest-rate hikes, and the threat of another round of tariffs between the U.S. and China.

Global growth slowed steadily throughout 2018 and we forecast a continued modest deceleration through 2019 and into 2020. Economic headwinds include protectionism, fading fiscal stimulus, and less favourable financial conditions. The other factor heavily influencing markets has been central bank actions and statements. Central banks are no longer actively tightening monetary policy amid a backdrop of slowing growth, less inflation, and increased financial market volatility. Rate hikes are not expected in any major region over the next year as economic growth decelerates, and also because the neutral policy rate is toward the lower end of central banks' estimates.

Against this backdrop, SIDIT's investment portfolio earned a return of 9.3% in the year ended March 31st, 2019, which was ahead of its benchmark. Despite the volatile year across both equity and fixed income markets, SIDIT's portfolio has delivered a strong return. Further, since inception the return on SIDIT's portfolio remains strong, and is ahead of the Consumer Price Index +3% target. SIDIT's low volatility strategies in particular (Canadian and Global) performed well during the pullback experienced late last year and have formed the bulk of returns over the last year. The diversified nature of SIDIT's fixed income holdings (conventional and higher yielding mortgages, high yield bonds) have also done a good job of balancing the sources of returns for this area of the portfolio.

SIDIT's asset mix reflects a view that the global economy is moderating after a period of rapid advance, but the degree of expected deceleration in growth is quite mild and economies should continue to expand in all major regions. Despite central banks having paused on any further tightening of monetary policy, thus removing a potential headwind for fixed income assets, SIDIT remains underweight in bonds as SIDIT expect yields to remain low for a meaningful period (though they remain high enough to offer buoyancy in a balanced portfolio in the event of an economic downturn). SIDIT remains modestly overweight in equities, as it is believed that equities remain below fair value given the context of strong earnings and employment growth, current inflation expectations, and supportive monetary policies; furthermore, it is expected that the pivot by central banks could help to extend the current market cycle and provide further support to equities.



GOAL 5 CREATE AND SUSTAIN STAKEHOLDER AWARENESS OF AND SUPPORT FOR SIDIT'S PURPOSE, GOALS, ACHIEVEMENTS AND SUCCESSES WITH A FOCUS ON PARTNERSHIP DEVELOPMENT, COLLABORATION AND EXTENDING RURAL REACH.

Strategies

1. Focus on collaborative partnership development and extending rural reach.
2. Deliver customized messages to specific stakeholder group using a variety of communication tools. Target audiences and stakeholders are set out under Policy 4.01 Community Representation and Media Communications and include the following groups:

Results

GRANT RECIPIENTS

Larch Hills Nordic Society, Salmon Arm, BC: Chalet Expansion Project \$25,000 SIDIT Grant

The Larch Hills Nordic Society held its grand opening of the Chalet Expansion Project on January 3, 2019. The Chalet Expansion project has been featured in articles in our local newspaper and "Ski Cross Country" which is the annual magazine of our provincial sport governing body (Cross Country B.C.). The new Larch Hills Chalet has received great reviews from all user groups. The building has been very busy and well used so far this ski season. The annual Reino Keski Salmi Loppet was held January 20, 2019, and for the first time ever there was plentiful warm shelter for event participants.



"We are so grateful for the support that we received from SIDIT and are thrilled that we have been able to see this project through to completion. We believe this building will benefit our community in so many ways – and so far we have received incredibly positive feedback from locals and visitors to the area. We are so glad to be able to provide this beautiful warm, bright shelter to users of the Larch Hills Recreation Area", Larch Hills Nordic Society.

Vernon Restholm Association, Vernon BC: Solar Panel/Electricity Cost Reduction \$13,000 Grant

The Vernon Restholm Association was the first senior “supportive living” residence in Vernon established in 1964. Their mission is to provide secure and affordable housing for seniors that is an integral part of the community and that supports their independence and well-being. In 2018 the Association identified a progressive way for it to control operating costs by installing solar panels. Solar panels offer a low-risk, high return on investment over the life of the system. The installation of solar panels is considered a 30-year investment. “None of this would have been possible without donations from the community including the Southern Interior Development Initiative Trust”, Vernon Restholm Association.



Salmon Arm Economic Development Society, Salmon Arm, BC: Salmon Arm Innovation Centre \$25,000 Grant

From Client: “SIDIT funding was instrumental to the Salmon Arm Economic Development Society in helping launch the Salmon Arm Innovation Centre. The centre includes three components: the Shuswap Makerspace, coworking offices, and a business accelerator program. The facility is now in full operation and scaling up to meet the demands of the local community. The Salmon Arm Innovation Centre is near full tenancy and has hosted several events and workshops for local youth and entrepreneurs. The building serves as a colourful hub in downtown Salmon Arm, and has connected its programming with a number of other community service providers.”



SIDIT COMMUNICATIONS

SIDIT attended and presented to 21 different organizations in Fiscal 2019, including both the Southern Interior Local Government Association and the Association of Kootenay and Boundary Local Government conferences in April 2018.

SIDIT continues to attend and provide useful information on its programs to businesses and municipalities in the Southern Interior, as requested.

Discussion

SIDIT’s Board of Directors, are working to develop a communications plan that will measure awareness and support for SIDIT’s economic initiatives in the Southern Interior.

Post Secondary Grants

In 2018/19 SIDIT provided \$250,000 to fund student scholarships and bursaries. This commitment greatly enhances SIDIT's mission to provide student learning opportunities, create and advance knowledge and understanding, and enhance the economic and social well-being of the communities in the Southern Interior.

University of British Columbia Okanagan

UBC Okanagan successfully administered the SIDIT Education Award Program in 2018/2019. The university bestowed a total of 38 undergraduate awards (19 bursaries and 19 scholarships) valued at \$1,000 each in five program areas – computer science, engineering, management, media studies, and nursing. One bursary valued at \$5,000 was awarded to a student in the UBC Faculty of Medicine Southern Medical Program (SMP). UBC Okanagan is very grateful to SIDIT for its generosity in the form of student support which is directed to students enrolled in a wide range of programs of study. The campus is also pleased to be able to assist SIDIT, by means of this student support, in its effort to help develop and diversify the economies of the Southern Interior. Our students and alumni continue to make a profound impact on the region socially and economically through co-op placements, community engagement, entrepreneurship, and full-time employment. Our engineering and nursing students were the largest beneficiaries of SIDIT's support, receiving 13 and 11 awards, respectively. Since 2011, through its education award program, SIDIT has provided a remarkable \$488,000 in financial support to UBC Okanagan students, making it among the largest private annual award contributors on our campus.

Selkirk College

Selkirk College students studying in Transitions, Trades, and Technology programs have benefited from funding provided by the Southern Interior Development Trust under the Education Award Agreement. The College is very appreciative of this continued support for students and economic development in our region.

Over the last decade, the SIDIT Awards have given opportunity to over 1,750 secondary and post-secondary students to acquire knowledge and train in skills that enable them to attain employment and increase their lifetime earning capacity. Individuals in BC who complete a trades or apprenticeship program can expect to earn \$230,760 more than a high school graduate over the course of 40 years; and a College graduate earns \$169,760 more than a high school graduate over the same period.

Okanagan College

We are so appreciative of Southern Interior Development Initiative Trust's loyal commitment and friendship to Okanagan College and the Foundation. In the last five years alone, SIDIT has invested into 284 students, awarding \$284,000, and have directly impacted their lives and families. You have given a wide range of individuals a fresh start to embark on new, exciting chapters in their lives. Thank you for making an investment into their futures and into the future of our communities in the Southern Interior. We are truly grateful for your continuous support.



College of the Rockies

Thank you and the Southern Interior Development Initiative Trust for your support to the success of our students in their trades and technology training.

The College of the Rockies/Southern Interior Development Initiative Trust (COTR/SIDIT) Trades and Technology awards for 2018 -19 have contributed to the success of 23 students who have graduated their programs or currently enrolled at College of the Rockies in 9 different trades, apprenticeships, technology and dual credit academic programs. These programs included Automotive Service Technician, Carpentry, Electrical Training, Engineering, Fire Services Training, Hairstylist, Heavy Mechanical, Industrial Mechanic, and Welding.

Nicola Valley Institute of Technology

Thank you for your very kind award of \$4000. Our graduation ceremony was a huge success, in part due to your help. We, at NVIT, are aware of the things you do for our community, particularly in support of education. We appreciate your confidence in our students and your willingness to contribute to their future education. Our students rely on financial aid, grants and student loans to help finance their education. Receiving this award will help reduce the financial burden and provide assistance while they pursue their education. Your generosity continues to help NVIT by allowing us to uphold a strong awards program.

Thompson Rivers University

The success of many TRU students is built on the bedrock of philanthropy and the TRU Foundation wishes to express its sincere gratitude for your continued support. Gifts like yours that fund awards ensure all deserving students have access to the best possible education. Your annual commitment to the SIDIT Post-Secondary Bursary is an invaluable resource for students who are bearing the expense of post-secondary education. On behalf of all TRU students that have benefitted from your generosity, thank you for seeing value in quality education and for valuing them.

Over the last decade, the SIDIT Awards have given opportunity to over 1,750 secondary and post-secondary students to acquire knowledge and train in skills that enable them to attain employment and increase their lifetime earning capacity. Individuals in BC who complete a trades or apprenticeship program can expect to earn \$230,760 more than a high school graduate over the course of 40 years; and a College graduate earns \$169,760 more than a high school graduate over the same period.

Management Discussion and Analysis

This discussion and analysis of financial position and results of operations of SIDIT was prepared on June 26, 2019, and it should be read in conjunction with our audited financial statements and related notes for the year ended March 31, 2019.

The financial information in this report is prepared in accordance with Canadian accounting standards for not-for-profit organizations and is reported in Canadian dollars. Totals and percentages may not always add up due to rounding.

Nature of Operations

SIDIT was established as a corporation in 2005 by the Southern Interior Development Initiative Trust Act and operates as a not-for-profit economic development corporation. As a non-profit corporation, SIDIT is exempt from income taxes and is not a GST registrant and therefore pays GST and provincial sales tax and receives no rebates on taxable purchases.

SIDIT is not an agent of the government.

Internal Control Over Financial Reporting

The Fiscal 2019 evaluation of the effectiveness of internal control over financial reporting did not identify any control gaps that are likely to materially affect SIDIT.

Revenue Sources

In 2006, SIDIT received a one-time development allocation payment from the BC Provincial Government in the amount of \$50 million.

100% of our operational funding comes from returns on market investments and development initiatives, including loan interest and application fees.

The model is premised on generating enough revenue to allow SIDIT to break even over the business cycle. Surpluses are generated during high points in the market's cycle and may generate deficits during bear market periods.

Category	Source	Fiscal 2018	Fiscal 2019
Investment Income	Phillips Hager & North–Mutual Funds and Bonds	32%	66%
Development Initiative Income	Private Companies	68%	34%

Investment Income

SIDIT's 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.

SIDIT invests in Canadian Money Market funds, High Yield Mortgage funds, High Yield Bond funds, Low Volatility Canadian Equity funds, Low Volatility Global Equity Funds, and other structured vehicles in any or all of the above permitted investment categories.

Development Investment Income

SIDIT lends to, and invests 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.

Expenses

SIDIT is committed to managing its operational expenses so they do not exceed expected revenue over the business cycle. This is accomplished by preparing an annual budget that is approved by the Board of Directors, monthly budget variance reporting to the Board's Management Committee, and requiring Board approval of significant unbudgeted expenses, and continually improving its processes. Operational expenses as a percentage of the average assets during the operating year are 2% which is conservative and in keeping with SIDIT's policies to keep operations costs in line.

Analysis of Fiscal 2019 Operating Results Compared to Budget

	2019 Actual	2019 Budget	Variance to Budget
REVENUES			
Income on Investments	\$1,026,180	\$800,000	\$226,180
Unrealized Gains / Losses	\$1,446,473	\$645,000	\$801,473
Realized Gains	\$204,213	\$0	\$204,213
Income on Development Initiatives	\$1,307,498	\$1,769,000	-\$461,502
Other Revenue	\$73,441	\$150,000	-\$76,559
EXPENSES			
Board Costs	\$33,565	\$50,000	\$16,435
Education Awards and Grants	\$403,000	\$750,000	\$347,000
Office and Administration	\$162,021	\$236,000	\$73,979
Professional /Consulting/Investment	\$292,131	\$343,000	\$50,869
Salaries and benefits	\$550,074	\$785,000	\$234,926
Provision for Loans	\$2,561,027	\$1,200,000	-\$1,361,027
Gain / Deficiency	\$55,987	\$0	\$55,987

Revenue

INCOME ON INVESTMENTS / UNREALIZED GAINS (LOSSES)

With global capital markets volatile in early 2019, investment returns combined with unrealized gains and losses resulted in a combined gain of 9.3% overall and exceeded budget projections.

INCOME ON DEVELOPMENT INITIATIVES

SIDIT did not meet our budgeted loan interest as it had several early loan payouts in Fiscal 2019.

OTHER REVENUE

SIDIT collected less fees on loans due to fewer loan applications being completed in Fiscal 2019.

CONTRIBUTIONS

British Columbia Innovation Council (BCIC); the remaining student grants will be paid when students have qualified for the awards.

Expenditures

BOARD COSTS

The Board costs for meetings has a surplus of \$16,435 as several members took the opportunity to call into meetings rather than travelling long distances.

EDUCATION AWARDS AND GRANTS

SIDIT funds education awards in partnership with others. The Education institutions decide which students receive funds and how funding is disbursed

A Grant budget variance of \$347,000 is due to an undersubscription and that staff concentrated efforts on other directives from the Board.

OFFICE AND ADMINISTRATION

There was a \$73,978 surplus in operations due to a savings of moving costs of \$39,000 and mileage, conference, communication and travel costs being lower with a combined total of savings of \$34,978.

SALARIES AND BENEFITS

The \$234,926 surplus in admin salaries was due to not all staff positions being filled during the year.

PROFESSIONAL, CONSULTING AND INVESTMENT FEES

Accounting fees were slightly above budget as additional services were contracted, which resulted in a deficit of \$1,350. A surplus of \$59,564 was realised for consulting services due to not proceeding with the Communications Contract and the Strategic Plan was done in house rather than contracted out. A deficit of \$1,748 was realised with investment management fees. Legal costs were over budget by \$11,389 due to legal work related to various loans, and personnel issues and contracts. A surplus of \$2,261 was realised in Web and Data base fees due to efficiencies with 'Nerds on Site' for computer support.

PROVISION FOR DEVELOPMENT INITIATIVE LOSSES

An additional provision over the budgeted amount of \$1,361,027 has been made against certain outstanding development initiative investments which management considers unlikely to be recovered. In this current fiscal we have completed a thorough analysis of all our existing loans and have implemented consistent regular loan reviews. Extensive negotiations have taken place and new contracts signed to help to enable the success of future loan payouts.

Financial Position

ASSETS AND LIABILITIES

	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$415,860	\$848,438	\$862,054	\$356,951	\$1,107,445
Accounts Receivable	\$0	\$0	\$0	\$0	\$162,016
Prepaid Expenses	\$7,134	\$7,134	\$10,720	\$5,381	\$6,701
CP of Development Initiatives	\$1,082,339	\$1,852,267	\$871,504	\$2,096,614	\$3,488,859
	\$1,505,333	\$2,707,839	\$1,744,278	\$2,458,946	\$4,765,021
Investments	\$32,581,740	\$27,497,663	\$29,283,422	\$29,601,310	\$30,753,080
Development Initiatives	\$14,258,074	\$18,050,405	\$19,721,853	\$18,606,431	\$14,949,834
Property and Equipment	\$23,446	\$31,494	\$34,841	\$19,428	\$33,270
	\$48,368,593	\$48,287,401	\$50,784,394	\$50,686,115	\$50,501,205
LIABILITIES AND FUND BALANCE					
Current Liabilities:					
Accounts Payable	\$162,542	\$137,337	\$129,680	\$78,778	\$58,688
Deferred Contributions	\$12,500	\$12,500	\$12,500	\$12,500	\$14,500
	\$175,042	\$149,837	\$142,180	\$91,278	\$73,188
Regional Account	\$48,193,551	\$48,137,564	\$50,642,214	\$50,594,837	\$50,428,017
	\$48,368,593	\$48,287,401	\$50,784,394	\$50,686,115	\$50,501,205

Assets

CASH AND CASH EQUIVALENTS

Cash equivalent assets are monies currently held in Vantage One Credit Union.

ACCOUNTS RECEIVABLE

Accounts receivable include accrued interest on CFDC Development Initiatives for the first quarter of Fiscal 2019.

PREPAID EXPENSES

Prepaid expenses are monies paid for insurance and rent deposits 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 SIDIT's mandate, funding is provided for business ventures. This funding is provided through development initiatives.

INVESTMENTS

SIDIT's funds are invested with Phillips, Hager & North Investment Management.

PROPERTY & EQUIPMENT

Capital assets include office furniture, computer hardware and software with the net book value of \$23,446 after depreciation.

Liabilities

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes monies owed to a loan client and Phillips, Hager & North for fees of \$30,079. Accrued liabilities of \$19,635 are for accounting fees.

CURRENT PORTION OF DEFERRED CONTRIBUTIONS

This represents \$12,500 of the unspent externally restricted grant from the British Columbia Innovation Council.

Equity

REGIONAL ACCOUNT

This account has increased by current net gain of \$55,987.

Profit and Loss Actuals

	2019	2018	2017	2016	2015
Income on Investments	\$1,026,180	\$818,383	\$789,792	\$754,566	\$893,694
Income Development Initiatives	\$1,307,498	\$1,843,790	\$2,235,436	\$1,564,666	\$1,858,465
Other Revenue	\$73,441	\$216,925	\$220,095	\$449,294	\$255,447
Contributions	\$0	\$0	\$0	\$2,000	\$241,000
Total Revenues	\$2,407,119	\$2,879,098	\$3,245,323	\$2,770,526	\$3,248,606
Board Costs	\$33,565	\$38,274	\$32,047	\$24,924	\$22,833
Education Awards and Grants	\$403,000	\$723,500	\$726,511	\$707,173	\$930,000
Office and Administration	\$162,021	\$225,149	\$207,881	\$148,465	\$147,143
Consulting/Investment/Professional Fees	\$292,131	\$412,768	\$321,096	\$399,161	\$201,480
Salaries and Benefits	\$550,074	\$756,997	\$683,930	\$652,813	\$578,627
Total Expenses	\$1,440,791	\$2,156,688	\$1,971,465	\$1,932,536	\$1,880,083
Excess of Revenue over Expenses	\$966,328	\$722,410	\$1,273,858	\$837,990	\$1,368,523
Unrealized Gain(Loss) Investments	\$1,446,473	-\$712,900	\$111,871	-\$889,793	\$2,691,174
Realized Gain(Loss) on Investments	\$204,213	\$875,979	\$1,402,216	\$1,424,780	\$1,175,949
Provision for Development Initiative Losses	-\$2,561,027	-\$3,373,895	-\$2,612,885	-\$1,206,157	-\$4,338,522
NET INCOME (LOSS)	\$55,987	-\$2,488,406	\$175,060	\$166,820	\$897,124

Liquidity

Cash flow, excluding provision for development initiative losses and unrealized loss on investments, was negative for the year at \$432,578. The year ended with \$415,860 in cash and cash equivalents.

As previously discussed, SIDIT's revenue model may result in surpluses and deficits over the business cycle due to revenues fluctuating while costs remain mainly fixed. SIDIT has sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Statement of Cash Flows

	2019	2018
CASH PROVIDED BY (USED IN):		
Operations:		
Excess of Revenues Over Expenses	\$55,987	-\$2,504,650
Items Not Involving Cash:		
Amortization	\$8,048	\$6,246
Fair Value Re-measurement of Investments	-\$1,446,473	\$712,900
Gain on Disposal of Investments	-\$204,213	-\$875,979
Provision for Development Initiative Losses	\$2,561,027	\$3,373,895
	\$974,376	\$712,412
Change in Non-cash Operating Working Capital	\$25,205	\$11,243
Funding of Development Initiatives	-\$955,526	-\$5,343,778
Repayment of Development Initiatives	\$2,956,758	\$2,660,569
	\$3,000,813	-\$1,959,554
Investments:		
Proceeds on Sale of Investments	\$1,313,230	\$5,033,511
Purchase of Investments	-\$4,746,621	-\$3,084,673
Acquisition of Property and Equipment	\$0	-\$2,900
	-\$3,433,391	\$1,945,938
Increase (Decrease) in Cash and Cash Equivalents	-\$432,578	-\$13,616
Cash and Cash Equivalents, Beginning of Year	\$848,438	\$862,054
Cash and Cash Equivalents, End of Year	\$415,860	\$848,438

Commitments:

As at March 31, 2019, SIDIT has committed funding of \$12,621 and deferred contributions of \$12,500 as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing - Fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$12,500	2019
Various development initiatives and grants	Conditionally approved grants	\$12,621	2019

Future Outlook

BUDGET AND 3 YEAR PROJECTIONS

	2020 Budget	2021 Projected	2022 Projected	2023 Projected
Investment Revenues	\$1,964,000	\$2,000,000	\$2,000,000	\$2,000,000
Development Initiative Revenues	\$1,000,000	\$1,020,000	\$1,035,000	\$1,050,000
Other Revenues	\$50,000	\$40,000	\$30,000	\$20,000
Contributions	\$0	\$0	\$0	\$0
Total Revenues	\$3,014,000	\$3,060,000	\$3,065,000	\$3,070,000
Education Awards	\$200,000	\$200,000	\$200,000	\$200,000
Grants	\$500,000	\$500,000	\$500,000	\$500,000
Total Education and Grants	\$700,000	\$700,000	\$700,000	\$700,000
Wages and Benefits	\$603,000	\$780,000	\$815,000	\$870,000
Board Expenses	\$50,000	\$50,000	\$50,000	\$50,000
Admin Costs	\$198,000	\$240,000	\$245,000	\$250,000
Professional Services	\$463,000	\$340,000	\$355,000	\$350,000
Total Expenses	\$1,314,000	\$1,410,000	\$1,465,000	\$1,520,000
Total Expenses and Grants	\$2,014,000	\$2,110,000	\$2,165,000	\$2,220,000
TOTAL INCOME OVER EXPENSES	\$1,000,000	\$950,000	\$900,000	\$850,000
Provision for Development Initiative Loss	\$1,000,000	\$950,000	\$900,000	\$850,000
NET INCOME	\$0	\$0	\$0	\$0

Revenues

Investment income is expected to be 5% as SIDIT is forecasting a slow growing global economy due to political uncertainties and market tariffs. SIDIT has not made forecasts for unrealized gains/losses.

Development Initiative interest income is calculated on 8% returns on development initiative balances net of provisions.

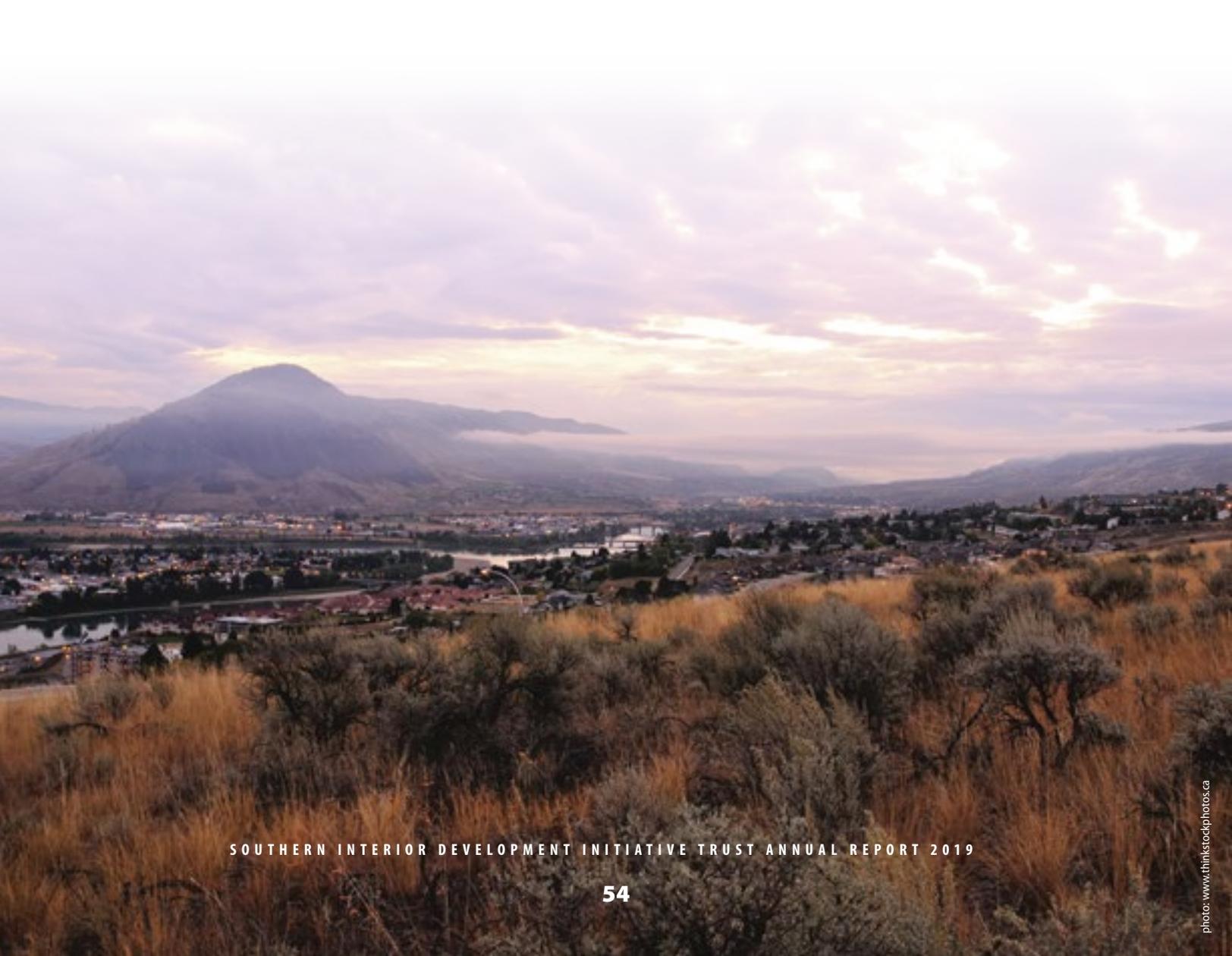
Non-interest revenues are budgeted to decline over the next few years.

Expenses

Education awards and grants will remain steady.

Salaries and benefits are projected to increase for additional new staff and inflationary and experience components.

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



Management's Responsibility and Certification

SIDIT's Management is responsible for ensuring that the financial statements and other financial information in this annual report is complete and accurate. Management has prepared the financial statements according to Canadian accounting standards for not-for-profit organizations.

Management certifies that:

- *It 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 accounting standards for not-for-profit organizations;*
- *It has reviewed the financial statements and other information in this annual report;*
- *It believes the report reflects all material facts for the period covered;*
- *It does not believe the report misstates any material fact.*

Management believes 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 SIDIT 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. Management does 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 SIDIT's policy to maintain the highest standards of ethics in all its activities. SIDIT 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 SIDIT. 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.



Helen Patterson, CPA, CMA
Interim Chief Executive Officer,
Chief Financial Officer



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Vernon BC V1T 9A2
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southern Interior Development Initiative Trust

Opinion

We have audited the financial statements of Southern Interior Development Initiative Trust (the Entity), which comprise:

- the balance sheet as at March 31, 2019
- the statement of operations for the year then ended
- the statement of retained earnings for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian accounting standards for not-for-profit organizations will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian accounting standards for not-for-profit organizations, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants

Vernon, Canada

June 26, 2019

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 415,860	\$ 848,438
Prepaid expenses	7,134	7,134
Current portion of development initiatives (note 3)	1,082,339	1,852,267
	1,505,333	2,707,839
Development initiatives (note 3)	14,258,074	18,050,405
Investments (note 4)	32,581,740	27,497,663
Property and equipment (note 5)	23,446	31,494
	\$ 48,368,593	\$ 48,287,401

Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued liabilities	\$ 162,542	\$ 137,337
Deferred contributions	12,500	12,500
	175,042	149,837
Regional Account	48,193,551	48,137,564
Commitments and contingencies (note 6)		
Contingent liabilities (note 7)		
	\$ 48,368,593	\$ 48,287,401

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Earnings and Retained Earnings

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Income on development initiatives	\$ 1,307,498	\$ 1,843,790
Fees and other	73,441	216,925
<u>Business advisory services</u>	<u>-</u>	<u>44,359</u>
	1,380,939	2,105,074
Education awards and grants	(403,000)	(723,500)
<u>Provision for development initiative losses</u>	<u>(2,561,027)</u>	<u>(3,373,895)</u>
	(1,583,088)	(1,992,321)
General and administrative expenses:		
Amortization	8,048	6,246
Board costs	33,565	38,274
Business advisory services	-	60,603
Consulting fees	85,436	200,491
Insurance	5,641	5,859
Office and administration	148,332	213,044
Professional fees	88,443	96,943
<u>Salaries and benefits</u>	<u>550,074</u>	<u>756,997</u>
	919,539	1,378,457
Deficiency of revenues over expenses from operations	(2,502,627)	(3,370,778)
Investments:		
Fair value re-measurement of investments	1,446,473	(712,900)
Gain on disposal of investments, net	204,213	875,979
Income earned	1,026,180	818,383
<u>Investment management fees paid</u>	<u>(118,252)</u>	<u>(115,334)</u>
	2,558,614	866,128
Excess (deficiency) of revenues over expenses	55,987	(2,504,650)
Regional account, beginning of year	48,137,564	50,642,214
<u>Regional account, end of year</u>	<u>\$ 48,193,551</u>	<u>\$ 48,137,564</u>

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenues over expenses	\$ 55,987	\$ (2,504,650)
Items not involving cash:		
Amortization	8,048	6,246
Fair value re-measurement of investments	(1,446,473)	712,900
Gain on disposal of investments	(204,213)	(875,979)
Provision for development initiative losses	2,561,027	3,373,895
	974,376	712,412
Change in non-cash operating working capital	25,205	11,243
Funding of development initiatives	(955,526)	(5,343,778)
Repayments of development initiatives	2,956,758	2,660,569
	3,000,813	(1,959,554)
Investing:		
Proceeds on sale of investments	1,313,230	5,033,511
Purchase of investments	(4,746,621)	(3,084,673)
Acquisition of property and equipment	-	(2,900)
	(3,433,391)	1,945,938
Decrease in cash and cash equivalents	(432,578)	(13,616)
Cash and cash equivalents, beginning of year	848,438	862,054
Cash and cash equivalents, end of year	\$ 415,860	\$ 848,438

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2019

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.

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)

Year ended March 31, 2019

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 when the service has been provided or 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%
Leasehold improvements	20%
Computer hardware	30%
Computer software	50%

(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 the statement of operations in the year in which they become known or are revised.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. The Trust accounts for all convertible debt instruments by initially measuring the equity component of the non-publicly tradeable entity at \$nil. 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.

2. Cash and cash equivalents:

Cash and cash equivalents includes cash held in trust of \$111,410 (2018 - \$110,647) that is restricted in its use to offset a corresponding liability.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Development initiatives:

At year end, there are 75 (2018 - 79) development initiatives outstanding as follows:

	Gross	2019 Net	2018 Net
Loans - direct	\$ 13,820,071	\$ 9,789,136	\$ 11,065,880
Loans - convertible	7,562,795	4,195,370	4,844,838
Loans via Community Futures Development Corp. ("CFDC")	192,312	192,312	212,258
Equity - common shares	4,376,838	1,163,595	2,332,841
Equity - preferred shares	4,493,925	-	1,446,855
	30,445,941	15,340,413	19,902,672
Less current portion		(1,082,339)	(1,852,267)
Total	\$ 30,445,941	\$ 14,258,074	\$ 18,050,405

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Development initiatives (continued):

(a) Loans - direct:

The Trust has 32 (2018 - 31) direct loans outstanding which bear interest at rates that range from 4.70% to 14.00% per annum. Interest and principal amounts are due at various dates between April 1, 2019 and March 1, 2029. Included in Loans - direct is real property received from exercising rights to collateral which will be used to repay the loan receivable upon court approval. The net proceeds expected to be collected by (the "Trust") is the current fair market value of the property of \$775,000 less a priority claim payable to the Canada Revenue Agency of approximately \$320,000 less any applicable legal and property transfer fees.

b) Loans - convertible:

The Trust has 26 (2018 - 30) convertible loans that bear interest at rates that range from 8% to 13% per annum. Interest and principal amounts are due at various dates between April 1, 2019 and March 15, 2022. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the Trust. No value has been ascribed to the convertible options.

(c) Loans via CFDC:

The Trust has 3 (2018 - 4) loans made via CFDC's Southern Interior Business Investment Fund which bear interest at rates that range from 5.95% to 8.5% per annum. The principal amounts are due at various dates between April 1, 2019 and May 15, 2024.

(d) Equity - common shares:

The Trust has 9 (2018 - 9) common share investments.

(e) Equity - preferred shares:

The Trust has 4 (2018 - 5) preferred share investments that bear dividends of 8% per annum.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

3. Development initiatives (continued):

The change in provision for development initiative losses for the year was as follows:

	2018	Change in provision, net of write-offs and recoveries	2019
Loans - direct	\$ 3,033,046	\$ 997,888	\$ 4,030,934
Loans - convertible	5,751,621	(2,384,195)	3,367,426
Equity - common shares	2,136,243	1,077,000	3,213,243
Equity - preferred shares	3,581,727	912,198	4,493,925
	<u>\$ 14,502,637</u>	<u>\$ 602,891</u>	<u>\$ 15,105,528</u>

4. Investments:

	2019	2018
Bonds, measured at amortized cost	\$ 6,597,119	\$ 5,386,463
Equities, measured at fair value	20,336,326	16,890,206
Money market, measured at amortized cost	5,648,295	5,220,994
	<u>\$ 32,581,740</u>	<u>\$ 27,497,663</u>

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

4. Investments (continued):

Details of investment activity during the year is as follows:

	2019	2018
Opening balance	\$ 27,497,663	\$ 29,283,422
Income earned and reinvested	1,021,563	815,004
Withdrawals	(2,043,476)	(2,648,508)
Purchases	4,573,556	-
Gains on disposal of investments, net	204,213	875,979
Investment management fees paid	(118,252)	(115,334)
	31,135,267	28,210,563
Fair value re-measurement	1,446,473	(712,900)
	\$ 32,581,740	\$ 27,497,663

The annual weighted average rate of return for 2019 was 9.29% (2018 - 3.58%).

Investments are used as security for certain finance facilities as described in note 6.

5. Property and equipment:

	2019		2018	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 39,044	\$ 25,713	\$ 13,331	\$ 16,663
Computer hardware	40,786	31,338	9,448	13,498
Computer software	11,253	10,586	667	1,333
Leasehold improvements	15,488	15,488	-	-
	\$ 106,571	\$ 83,125	\$ 23,446	\$ 31,494

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

6. Commitments and contingencies:

The Trust has available letters of credit through its financial institution to provide guarantees of up to \$6,000,000, secured by investments. The Trust has issued letters of credit of \$1,559,500 (2018 - \$1,559,500) at March 31, 2019.

As of March 31, 2019, the Trust has committed funding of approximately \$12,621 (2018 - \$25,000) in grants.

As of March 31, 2019, Heritage Credit Union ("Heritage") has released the indemnity against the Trust.

The Trust's total commitments, under operating leases for premises, exclusive of occupancy costs, are as follows:

2020	\$	49,584
2021		37,188
	\$	86,772

7. Contingent liabilities:

Certain claims exist against the Company. These claims are not expected to have a material impact on financial position or operating results of the Company.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2019

8. 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.

Concentration of risk:

(a) Credit risk

Credit risk refers to the risk that development initiative counterparties may default on their contractual obligations resulting in a financial loss. Management mitigates this risk by limiting exposure to each counterparty by dollar amount and industry sector, by maintaining a balanced portfolio and by ensuring that proper due diligence is performed before funding is committed. The Trust assesses on a continuous basis, development initiatives and provides for any amounts that are not collectible in the provision for losses.

(b) Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risks.

(i) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust is exposed to this risk on its investments in U.S. and other international equities quoted in an active market. At year end, the Trust has \$10,260,031 (2018 - \$8,391,188) in U.S. and other international equities.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Trust is exposed to interest rate risk with respect to its investment in bonds.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Trust is mainly exposed to other price risk through its investments in equities.

Notes

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