

Island Investment Development Incorporated

Interim Update – Use of Proceeds Agreement

March 15, 2013

Following the recommendation of the Auditor General, IIDI has developed a follow-up procedure for those businesses that have signed a Use of Proceeds Agreement. All businesses that signed a Use of Proceeds Agreement were subject to random sample which was blindly selected by a qualified chartered accountant firm applying Canadian Generally Accepted Auditing Standards. The firm was not provided with the names of the businesses that signed agreements, nor were they given any information that would be relevant in determining the businesses' identity.

Of the 878 businesses that signed agreements, 158 were randomly selected for follow-up. The random sample was designed to provide a confidence level of 90% that the selected sample represents the population. Businesses that signed an agreement were required to spend the funds received in material compliance with their Use of Proceeds Agreement within two years.

All 158 businesses have been sent a letter which requests information, including financial statements, which is necessary for IIDI to assess the Use of Proceeds Agreement. As financial statements are required for IIDI to complete its review, we understood a possible delay existed in receiving the requested financial statements due to timing of corporate year-ends. For example, companies are not required to complete and file a corporate tax return for tax purposes up to six months past their year end. For this reason, most companies were not able to provide the requested two years of historical financial statements until late 2011 or 2012.

As of March 15, 2013, the interim results of IIDI review of companies randomly selected for follow-up are as follows:

Investee companies deemed to be in compliance	148	94%	
IIDI has requested additional information from Investee Companies (work in progress)	7	4%	Note 1
Companies not located or deemed not to be in compliance	<u>3</u>	<u>2%</u>	Note 2
Sample size	158	100%	

Note 1 - IIDI has currently asked several companies for additional information necessary for IIDI to complete its review. IIDI is not able to determine compliance based on the information provided to date.

Note 2 - Three companies have not been able to provide documentation to support their compliance with the Use of Proceeds Agreement. IIDI is in the process of assessing the penalty against these companies.