

Business Investment Corporation

Annual Report 2016-17

MESSAGE FROM THE CHAIR

As Chair of the Board of Directors of the Business Investment Corporation (BIC), I am pleased to present the annual report of the corporation for the fiscal year ending March 31, 2017. The annual report is submitted in accordance with the entity's obligation as a category three entity under the *Transparency and Accountability Act*. It is prepared under the direction of the Board which is accountable for the actual results reported herein.

BIC directs the management of the investment portfolio of the Department of Tourism, Culture, Industry and Innovation (TCII) and administers new repayable investments and grants aimed at business development. The corporation also administers the Fisheries Loan Guarantee Program (FLGP), in partnership with the Department of Finance and the Department of Fisheries and Land Resources. The Board also directs the management of the remaining assets of the former Shellfish Aquaculture Working Capital Fund (AWCF), the former Fisheries Loan Board, the former Farm Development Loan Board and the former Enterprise Newfoundland and Labrador Corporation.

During 2016-17, the corporation continued to make solid contributions to small business development in the province. Repayable loan and equity investments of \$3.4 million were approved for 32 businesses, and grants totaling \$2.3 million were approved for 203 businesses. The Board managed the collection of \$3.5 million, reinvested in the revolving fund. The FLGP reviewed and approved 6 loan guarantees for approximately \$4 million.

I would like to acknowledge and thank the Board members for their dedication and commitment to the corporation in 2016-17. As well, the Board greatly appreciates the dedicated officials from TCII who work diligently to support the Board to fulfill its mandate. Their expertise and talents are greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read 'William Wells', is written over a faint, illegible printed name.

William Wells
Chair

OVERVIEW

Background

BIC was established under the authority of the *Business Investment Corporation Act* on April 1, 2002. The corporation is the successor to three former crown corporations, which include Enterprise Newfoundland and Labrador, the Fisheries Loan Board and the Farm Development Loan Board. The BIC operates as a crown agency reporting to the Minister of TCII.

Legislation

Legislative authority for BIC resides in the *Business Investment Corporation Act*. The corporation, as provided for in the Act, is responsible for:

‘... making available and managing investments in small to medium-sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the province.’

Mandate

The corporation’s mandate is to direct the management of the investment portfolio of the Department and to administer new investments made by virtue of three funding programs: the Business Investment Program (BIP), the Business Development Support Program (BDSP), and the FLGP (in partnership with the Department of Finance).

Legislative authority for the BIC resides in the *Business Investment Corporation Act*. The Corporation, as provided for in the Act, is responsible for:

“... making available and managing investments in small to medium-sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the province.”

Vision

The Board supports the vision of TCII which is of a vibrant, diverse, and sustainable economy, with productive, prosperous and culturally-rich communities and regions, making Newfoundland and Labrador a business and tourism “destination of choice”.

Board of Directors

An independent Board of Directors appointed by the Lieutenant-Governor in Council manages the affairs of the corporation. At the end of this reporting period, March 31, 2016, the Board consisted of the following members:

Chairperson	William Wells
Vice-Chairperson	Fred Drover
Members	Deputy Minister/Assistant Deputy Minister, Department of Finance Deputy Minister/Assistant Deputy Minister, Department of TCII Assistant Deputy Minister of Business and Rural Development, TCII Dennis Waterman Peggy Bartlett Lorraine Cooper Director, Business Analysis, TCII (Secretary)

Administration

The corporation is responsible for the ongoing management and recovery of loans and investments made by the corporation and its predecessor organizations. The corporation does not have dedicated staff; TCII provides administrative support to it. The estimated administrative costs incurred by the Department in support of the corporation include a portion of regional and office staff salaries recorded as an expense in the corporation's financial statements and the government support which is recognized as a revenue item in the operating statement.

Departmental staff manages the accounting, billing and accountability activities that support investment disbursement and recovery. They manage and monitor revenue collections and maintain accounting records for the province-wide portfolio of loans, equity and grants.

The investment fund for BIC operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal year 2016-17, the investment fund approved \$3.4 million for 32 enterprises. At year end the Board had unused cash of \$15.9 million available for future investment.

During 2016-17, approved grant funding was \$2.3 million to 203 enterprises. Grants up to \$50,000 per project are approved by delegated authorities in the regional and headquarters offices; grant applications over \$50,000 are subject to review and approval by a sub-committee of the Board.

Programs

The corporation provides funding to help start-up, revitalize and grow small and medium-sized businesses. It is responsible for the administration of the following programs:

Business Investment Program (BIP; former Small and Medium-sized Enterprise Fund)

The investment program provides loans and equity investments, up to \$500,000 per project to a maximum of \$1,000,000 per company to small and medium-sized businesses, targeting specific growth sectors with particular emphasis on those businesses that have export potential and need assistance to enter or expand into external markets. The investment assets of this fund includes the investment portfolios of the former Fisheries Loan Board, the former Farm Development Loan Board and the former Enterprise Newfoundland and Labrador Corporation along with new money invested by the Provincial Government since 2005. The portfolio investments were \$29.9 million prior to the allowance for bad debt; 47 percent of the investments from predecessor entities to BIC.

The investment program for the BIC operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2016-17 the investment fund approved \$3.4 million for 28 enterprises. At year end the Board had unused cash of \$15.9 million available for future investment.

Business Development Support Program (BDSP)
(former Business and Market Development Program)

This program provides contributions of up to \$100,000 on a matching basis to new entrepreneurs and expanding small businesses to help them acquire the necessary expertise to pursue new business ideas and markets in new growth areas of the economy. Funding for the BDSP was increased during 2013-14 when the Department combined former grant programs within TCII under the BDSP grant program. The allocation to this program was \$3.1 million for 2016-17. The grant program also uses funding from previous years that was cancelled subsequent to approval. These cancellations are generally beyond the control of the Department. At year end the funds available for future grant programs was \$6.9 million.

Fisheries Loan Guarantee Program (FLGP)

This program supports the development of the province's independent fish harvesting sector by providing Provincial Government guarantees, to a maximum of \$3.0 million, on loans through financial institutions for fishing vessels purchase, construction and refit, combining of enterprises and license acquisition. The program is designed to help the independent fish harvesting sector take advantage of ongoing and emerging new opportunities in the fishery. These investments are reviewed by the BIC Board with guarantees issued by the province and the liability is shown in the provincial accounts.

Shellfish Aquaculture Working Capital Fund (AWCF)

This program commenced in 2001 and provided working capital loans to commercial mussel and other shellfish growers and processors, complementary to funding available through commercial credit sources and other established Federal and Provincial Government programs. The \$1.5 million fund was established through two

federal/provincial cost-shared economic development agreements and operates as a revolving fund.

OBJECTIVES AND ACTIVITIES

The Board of Directors of the BIC has the authority to render decisions pertaining to the BIP, BDSP, and the FLGP (in partnership with the Department of Finance).

The Board has two primary functions that represent the focus of the Board's work, namely the administration of new investments and the management of its investment portfolio, in consideration of its mandate and financial resources.

The Board reports on these objectives and indicators through the Board's annual reports, for each fiscal year of BIC's three-year activity plan (2014-15, 2015-16 and 2016-17).

1. Administration of New Investments

Objective

By March 31, 2017 the corporation will have provided funding toward the start-up and growth of small and medium-sized businesses.

Indicators

- i. Number of applications reviewed for program assistance
- ii. Number and value of applications approved for each program

Activities

BIP: The corporation reviewed 40 requests and approved 32 applications for funding in 2016-17 and approved \$3.4 million in term and equity funding. This funding helped lever additional funding from private and public business financing to help start or grow these small businesses.

BDSP: The corporation reviewed 269 applications for funding through this program and approved 203 with a value of \$2.3 million. These grants assisted entrepreneurs and small businesses pursue new business ideas and new markets for their products and services.

FLGP: The corporation reviewed and approved 6 applications on behalf of the financial institutions, under the Fisheries Loan Guarantee Program for \$4 million. These guarantees are issued by the Department of Finance and appear as liabilities in the provincial accounts.

AWCF: The corporation continued to manage the AWCF which had \$682,000 invested in eight enterprises. This fund is fully committed and there was no new money available for investment in 2016-17.

Investment Portfolio: At March 31, 2017, the investment portfolio of BIC consisted of 393 accounts with loans of \$20.9 million and equity of \$9.0 million, for a total of \$29.9 million (principal and interest as detailed in note four of the attached financial statements).

Approximately 47 percent of the value of the corporation's portfolio originated from predecessor lending agencies - Enterprise Newfoundland and Labrador, Fisheries Loan Board, and the Farm Development Loan Board. While the allowance for doubtful accounts under General Accepted Accounting Principles is \$17.5 million, BIC does not consider all doubtful accounts as being uncollectible as clients are contacted on a regular basis to recover investments or, where possible, to identify means to return accounts to good standing. A policy and procedure manual ensures that the investment approach balances the client's access to investment capital while minimizing risk to the provincial treasury.

2. Investment Portfolio Management

Objective

By March 31, 2017 the corporation will have successfully managed its investment portfolio.

Indicator

Percentage of projected annual revenues collected.

Activity

The corporation's successful management of the investment portfolio resulted in the collection of 182 percent of projected revenues. In 2016-17, collections totaling \$3.5 million were retained in the revolving fund for future investments and therefore no funds were returned to the provincial treasury. For the three years of the BIC's 2014-17 Activity Plan, the corporation's collection on accounts has been \$9.6 million on a forecast of \$6.4 million.

FINANCIAL STATEMENTS

The audited financial statements for the corporation are appended to this report.



**AUDITOR
GENERAL**
of Newfoundland and Labrador

August 16, 2017

Ref: DP52-F0217

Mr. Bill Wells
Chairperson
Business Investment Corporation
Department of Tourism, Culture,
Industry and Innovation
P.O. Box 1145
Marystown, Newfoundland and Labrador
A0E 2M0

Dear Mr. Wells:

I enclose three unbound copies and one bound copy of the audited financial statements of the Business Investment Corporation for the year ended March 31, 2017. After signing, please return an unbound copy to me.

The Comptroller General, Department of Finance, has indicated that a signed copy of the audited financial statements should also be forwarded to that Office.

Yours truly,

TERRY PADDON, CPA, CA
Auditor General

Enclosure

c.c. Honourable Christopher Mitchelmore
Minister of Tourism, Culture, Industry
and Innovation

Ms. Ann Marie Miller, CPA, CMA
Comptroller General

BUSINESS INVESTMENT CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2017

Management's Report

Management's Responsibility for the Business Investment Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information on a quarterly basis and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Business Investment Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Business Investment Corporation.

On behalf of the Business Investment Corporation.



Ms. Liane Price, CPA, CMA
Director, Business Analysis Division



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Business Investment Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Business Investment Corporation which comprise the statement of financial position as at March 31, 2017, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independent Auditor's Report (cont.)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Business Investment Corporation as at March 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'T. Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CPA, CA
Auditor General

August 16, 2017
St. John's, Newfoundland and Labrador

BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at March 31

2017

2016

FINANCIAL ASSETS

Cash (Note 4)	\$ 27,332,128	\$ 27,232,270
Due from the Province	30,052	25,474
Bank interest receivable	16,549	16,861
HST receivable	697	885
<u>Loans receivable and equity investments (Note 5)</u>	<u>12,388,404</u>	<u>10,105,834</u>
	39,767,830	37,381,324

LIABILITIES

<u>Accounts payable and accrued liabilities (Note 6)</u>	<u>46,045</u>	<u>27,141</u>
	46,045	27,141
<u>Net financial assets</u>	<u>39,721,785</u>	<u>37,354,183</u>

NON-FINANCIAL ASSETS

<u>Accumulated surplus</u>	<u>\$ 39,721,785</u>	<u>\$ 37,354,183</u>
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Contingent liabilities (Note 7)
Contractual obligations (Note 8)

*The accompanying notes are an integral part
of these financial statements.*

Signed on behalf of the Board:



Chairperson



Board Member

BUSINESS INVESTMENT CORPORATION
STATEMENT OF OPERATIONS
For the Year Ended March 31

	2017 Budget	2017 Actual	2016 Actual
	(Note 12)		
REVENUES			
Contributions from Province			
Business Development Support Program (Note 11)	\$ 3,100,000	\$ 3,100,000	\$ 3,636,100
Other Provincial contributions (Note 11)	1,200,000	1,251,603	1,199,378
Interest on loans	400,000	429,695	383,761
Other investment income	200,000	193,020	216,504
Recovery in value of loans receivable and equity investments (Note 5)	-	741,502	-
Miscellaneous income	-	-	12,313
	4,900,000	5,715,820	5,448,056
EXPENSES (Note 10)			
Administration (Note 11)	1,265,000	1,251,603	1,199,378
Allowance for decline in value of loans receivable and equity investments (Note 5)	300,000	-	437,834
Bank charges	2,000	1,210	2,733
Business Development Support Program	3,100,000	2,095,405	2,793,595
	4,667,000	3,348,218	4,433,540
Annual surplus	233,000	2,367,602	1,014,516
Accumulated surplus beginning of year	37,354,183	37,354,183	36,339,667
Accumulated surplus, end of year	\$ 37,587,183	\$ 39,721,785	\$ 37,354,183

*The accompanying notes are an integral part
of these financial statements.*

BUSINESS INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31

2017

2016

Operating transactions

Annual surplus	\$ 2,367,602	\$ 1,014,516
Adjustment for non-cash items		
(Recovery) decline in value of loans receivable and equity investments	(741,502)	437,834
	1,626,100	1,452,350
Change in non-cash working capital		
Due from the Province	(4,578)	(11,926)
Bank interest receivable	312	3,295
HST receivable	188	935
Accounts payable and accrued liabilities	18,904	(26,407)
Cash provided from operating transactions	1,640,926	1,418,247
Investing transactions		
Increase in loans and equity investments	(5,036,999)	(4,170,868)
Collection of loans and equity investments	3,495,931	2,829,497
Cash applied to investing transactions	(1,541,068)	(1,341,371)
Increase in cash	99,858	76,876
Cash, beginning of year	27,232,270	27,155,394
Cash, end of year	\$ 27,332,128	\$ 27,232,270

*The accompanying notes are an integral part
of these financial statements.*

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

1. Nature of operations

The Business Investment Corporation (the Corporation) was established under the authority of the *Business Investment Corporation Act* (the *Act*). The Corporation is funded by the Province of Newfoundland and Labrador (the Province) and is responsible for making available and managing investments in small to medium sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the Province. The Corporation administers three funding programs: the Business Investment Program, the Business Development Support Program and the Aquaculture Working Capital Fund. The affairs of the Corporation are managed by a Board of Directors appointed by the Lieutenant-Governor in Council.

The *Act* came into force effective April 1, 2002. Under the *Act*, the Corporation was incorporated and became the successor to the Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board.

The Business Investment Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of change in net financial assets as this information is readily apparent from the other statements. In addition, the Corporation does not prepare a statement of re-measurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by the statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized in the statement of financial position consist of cash, due from the Province, bank interest receivable, HST receivable, loans receivable and equity investments, and accounts payable and accrued liabilities. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, due from the Province, bank interest receivable and HST receivable. Loans receivable and equity investments are measured at amortized cost as disclosed in notes 2(d), 2(e) and 5. Financial liabilities measured at cost include accounts payable and accrued liabilities.

The carrying values of cash, due from the Province, bank interest receivable, HST receivable, and accounts payable and accrued liabilities approximate current fair value due to their nature and the short-term maturity associated with these instruments. The carrying value of loans receivable and equity investments are considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Loans receivable

The Corporation records loans receivable at amortized cost. Loans receivable are tested annually for impairment. A loan is classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of a portion of principal or interest, or when payment is contractually past due 90 days. When loans are identified as impaired, the Corporation records an allowance to reduce their carrying values to their estimated realizable amounts. Estimated realizable amounts are measured at discounted cash flows when the cash flows can be estimated with reasonable reliability. Changes in the allowance are recognized in the statement of operations.

(e) Equity investments

The Corporation records equity investments at amortized cost. The Corporation's equity investments for all companies are accounted for on the amortized cost basis with an allowance being made for any decline in their value considered to be other than temporary. Equity investments are tested annually for impairment and changes in the allowance for impaired investments are recognized in the statement of operations.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

2. Summary of significant accounting policies (cont.)

(f) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for on the accrual basis for bank interest and all loans other than the impaired portion of loans. Recognition of interest in accordance with the terms of the original loan agreement ceases when a loan becomes impaired. The impaired portion of loans may revert to accrual status only when principal and interest payments have become fully current again, at which time any interest will be recognized in that fiscal year.

Government transfers (contributions from the Province) are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

(g) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Expenses related to salaries, accommodations and administration are paid directly by the Department and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province.

Transfers (grants under the Business Development Support Program) are recorded as expenses when the grant is authorized, eligibility criteria have been met by the recipient and a reasonable estimate of the amount can be made.

(h) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability of the loans and equity investments.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

2. Summary of significant accounting policies (cont.)

(h) Measurement uncertainty (cont.)

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Accounting pronouncements

There are several new standards issued by the PSAB that are not yet effective and have not been applied in these financial statements. These standards and corresponding effective dates are as follows:

Effective April 1, 2017:

PS 2200 Related Party Disclosures – a new standard defining related parties and establishing disclosure requirements for related party transactions.

PS 3210 Assets – a new standard providing guidance for applying the definition of assets and establishing general disclosure requirements for assets but does not provide guidance for the recognition and disclosure of specific types of assets.

PS 3320 Contingent Assets – a new standard defining and establishing disclosure requirements for contingent assets but does not include disclosure standards for specific types of contingent assets.

PS 3380 Contractual Rights – a new standard defining and establishing disclosure requirements for contractual rights but does not include disclosure standards for specific types of contractual rights.

PS 3420 Inter-entity Transactions – a new standard on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

Effective April 1, 2018:

PS 3430 Restructuring Transactions – a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities.

The Corporation plans to adopt these standards by the effective dates and is currently analyzing the impact these standards will have on the financial statements.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

4. Cash

	<u>2017</u>	<u>2016</u>
Aquaculture Working Capital Fund	\$ 844,187	\$ 827,856
Business Investment Program	17,727,399	18,717,284
Business Development Support Program	8,759,884	7,687,020
Other	658	110
	<u>\$ 27,332,128</u>	<u>\$ 27,232,270</u>

5. Loans receivable and equity investments

	<u>2017</u>	<u>2016</u>
Loans receivable		
Principal due and unpaid	\$ 6,473,370	\$ 7,479,109
Principal not yet due	13,593,800	11,495,666
Interest due and unpaid	775,591	931,671
	<u>20,842,761</u>	19,906,446
Less: allowance for decline in value	<u>(8,701,001)</u>	<u>(9,974,716)</u>
	<u>12,141,760</u>	9,931,730
Equity investments		
Equity investments, at cost	9,018,318	9,537,731
Less: allowance for decline in value	<u>(8,771,674)</u>	<u>(9,363,627)</u>
	<u>246,644</u>	174,104
Loans receivable and equity investments	<u>\$ 12,388,404</u>	<u>\$ 10,105,834</u>

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

5. Loans receivable and equity investments (cont.)

Generally, for loans, the loan terms are 3 years for working capital loans, 10 years for loans for equipment purchases and leasehold improvements and 15 years for loans for the purchase or renovation of land and buildings. The interest rate on loans is fixed and ranges from 0% to 12%. The Corporation obtains security against its loans which generally consists of demand promissory notes, general security agreements, collateral mortgages and personal guarantees.

Generally, for equity investments, redemption will be the earlier of 20% of annual after tax cash flows or 7 years. There is no interest or dividend rate charged on equity investments but in some cases a return on investment is expected from declared dividends or growth of shares. The Corporation obtains security against its equity investments which generally consists of share certificates and shareholder subordination agreements.

The determination of whether a loan is impaired and the appropriate carrying value of equity investments involves significant judgment. The estimation of an appropriate allowance for decline in value of loans receivable and equity investments necessarily involves the use of estimates. These financial statements represent management's best estimates based on available information.

The allowance for decline in value represents the Corporation's best estimate of future probable losses with respect to the loans receivable and equity investments. The Corporation recognizes that future economic and industry conditions are not predictable and, therefore, their impact on the future cash flows anticipated is uncertain. Consequently, adjustments to the allowance are possible depending on the impact of these future events and management's best estimate of them.

The allowance for decline in value of loans receivable and equity investments consists of the following:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 19,338,343	\$ 24,630,452
Principal written off, net of recoveries	(959,791)	(5,518,334)
Interest written off, net of recoveries	(164,375)	(211,609)
(Recovery) decline in value of loans receivable and equity investments	(741,502)	437,834
Balance, end of year	\$ 17,472,675	\$ 19,338,343

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

6. Accounts payable and accrued liabilities

	<u>2017</u>	<u>2016</u>
Accrued salaries	\$ 30,052	\$ 25,474
Accounts payable	-	1,667
Business Development Support Program	15,993	-
	<u>\$ 46,045</u>	<u>\$ 27,141</u>

7. Contingent liabilities

A client of the Corporation has taken legal action as a result of certain alleged technical problems that the client claims to have experienced with a vessel that was financed through the former Fisheries Loan Board. The amount of this potential claim is in the range of \$900,000 to \$1,100,000. No provision has been made for this claim as the likelihood of loss is not determinable at this time.

8. Contractual obligations

The Corporation has contractual obligations in respect of approved but not yet disbursed loans, equity investments and grants in the amount of \$4,914,664 (2016 - \$6,724,474).

9. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The Corporation is exposed to credit risk, liquidity risk and market risk through its financial instruments. There was no significant change in the Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, due from the Province, bank interest receivable, HST receivable, loans receivable and equity investments. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with due from the Province, bank interest receivable and HST receivable because of their nature.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2017

9. Financial risk management (cont.)

The Corporation is exposed to credit risk related to its loans receivable and equity investments. The Corporation has policies and procedures for the monitoring and collection of its loans receivable and equity investments, including security being held, so as to mitigate potential credit losses. The Corporation classifies its loan receivables and equity investments as impaired in accordance with note 2(d), 2(e) and note 5. Any estimated impairment of loans receivable and equity investments has been provided for through an allowance for decline in value as disclosed in note 5. Loans receivable and equity investments which are not impaired or past due are considered collectible by the Corporation.

As disclosed in note 5, the Corporation reported loans receivable totaling \$20,842,761 as at March 31, 2017 (2016 - \$19,906,446). Principal due and unpaid of \$6,473,370 (2016 - \$7,479,109) was overdue by portfolio as follows:

Loan Portfolio	Days Overdue				Total
	1-30	31-60	61-90	>90	
Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 562,944	\$ 562,944
Business Investment Corporation	10,320	10,038	6,903	743,256	770,517
Former Enterprise Newfoundland and Labrador	400	400	1,956	4,279,829	4,282,585
Former Farm Loan Board	-	-	-	583,935	583,935
Former Fisheries Loan Board	-	-	-	273,389	273,389
Total Principal Past Due	\$ 10,720	\$ 10,438	\$ 8,859	\$ 6,443,353	\$ 6,473,370

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities and its ability to meet its contractual obligations for approved but not yet disbursed loans, equity investments and grants as outlined in note 8. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities and contractual obligations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange or other price risk. In addition, the Corporation is not exposed to significant interest rate risk as its loans and equity investments are provided at fixed interest rates.

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10. Expenses by object

The following is a summary of expenses by object:

	<u>2017</u> <u>Budget</u> (Note 12)	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Allowance for decline in value of loans receivable and equity investments	\$ 300,000	\$ -	\$ 437,834
Bank charges	2,000	1,210	2,733
Grants and subsidies	3,100,000	2,095,405	2,793,595
Property, furnishings and equipment	3,300	1,813	914
Purchased services	113,200	82,985	83,849
Salaries and benefits	1,125,000	1,152,709	1,096,061
Supplies	7,500	5,429	5,760
Transportation and communication	16,000	8,667	12,794
	<u>\$ 4,667,000</u>	<u>\$ 3,348,218</u>	<u>\$ 4,433,540</u>

11. Related party transactions

The Corporation had the following transactions with the Province:

	<u>2017</u>	<u>2016</u>
Business Development Support Program	\$ 3,100,000	\$ 3,636,100
Other Provincial contributions	1,251,603	1,199,378
	<u>\$ 4,351,603</u>	<u>\$ 4,835,478</u>

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Administration expenses \$1,251,603 (2016 - \$1,199,378) are paid directly by the Province and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province. Included in this total is \$145,976 (2016 - \$138,725) related to the employer's share of employee benefits, paid by the Department of Finance on behalf of the Corporation.

12. Budget

The Corporation's budget has been provided for comparison purposes and has been derived from the estimates approved by the management of the Corporation.