

Business Investment Corporation

Annual Report 2017-18



Tourism, Culture, Industry and Innovation

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MESSAGE FROM THE CHAIR

As Chair of the Board of Directors of the Business Investment Corporation, I am pleased to present the annual report of the corporation for the fiscal year ending March 31, 2018. 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 and administers new repayable investments and non-repayable contributions aimed at business development. The corporation also administers the Fisheries Loan Guarantee Program, 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 2017-18, the corporation continued to make solid contributions to small business development in the province. Repayable loan and equity investments of \$6.1 million were approved for 34 businesses, and non-repayable contribution totaling \$2.7 million were approved for 195 businesses. The Board managed the collection of \$2.9 million, reinvested in the revolving fund. The FLGP reviewed and approved one loan guarantee for approximately \$1.1 million.

I would like to acknowledge and thank the Board members for their dedication and commitment to the corporation in 2017-18. 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,



William Wells
Chair

OVERVIEW

Background

The Business Investment Corporation (BIC) was established under the authority of the **Business Investment Corporation Act** on April 1, 2002. This is the last year of reporting on BIC as the **Business Investment Corporation Act** is repealed. In 2017-18, TCII worked towards the formation of the Innovation and Business Investment Corporation. This new entity was formed in May 2018, from the amalgamation of the former BIC and the former Research and Development Corporation repealing the **Business Investment Corporation Act** and the **Research and Development Council Act**.

Mandate

The corporation's mandate is to direct the management of the investment portfolio of the Department of Tourism, Culture, Industry and Innovation (TCII) 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 Fisheries Loan Guarantee Program (FLGP) (in partnership with the Department of Finance).

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, 2018, the Board consisted of the following members:

| | |
|------------------|---|
| Chairperson | William Wells |
| Vice-Chairperson | Fred Drover |
| Members | Denise Hanrahan/Craig Martin, Deputy Minister/Assistant Deputy Minister, Department of Finance Ted Lomond/Gillian Skinner, Deputy Minister/Assistant Deputy Minister, Department of TCII Judith Hearn, Assistant Deputy Minister (Business), Department of TCII Dennis Waterman Peggy Bartlett Lorraine Cooper Liane Price, Director, Business Analysis, Department of 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 TCII in support of the corporation include a portion of regional and office staff salaries disclosed in Note 9 of the corporation's financial statements.

TCII staff manage 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 non-repayable contributions.

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.

Approximately 42 per cent 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 \$16.9 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.

During 2017-18, approved non-repayable contribution funding was \$2.7 million to 195 enterprises. Non-repayable contributions up to \$50,000 per project are approved by delegated authorities in the regional and headquarters offices; non-repayable contribution 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 \$30.9 million prior to the allowance for bad debt; 42 per cent 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 2017-18 the investment fund approved \$6.1 million for 34 enterprises. At year end the Board had unused cash of \$14.1 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 TCII combined former non-repayable contribution programs within TCII under the BDSP program. The allocation to this program was \$3.6 million for 2017-18. The program also uses funding from previous years that was cancelled subsequent to approval. These cancellations are generally the result of changing client needs. At year end the funds available for future non-repayable contribution programs was \$8.0 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.

REPORT ON PERFORMANCE

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.

1. Administration of New Investments

Objective: By March 31, 2018 the corporation will have provided funding toward the start-up and growth of small and medium-sized businesses.

Indicators:

1. Number of applications reviewed for program assistance
2. Number and value of applications approved for each program

BIP: The corporation reviewed and approved 34 applications for \$6.1 million in term and equity funding in 2017-18. This funding helped lever additional funding from private and public business financing to help start or grow these small businesses.

BDSP: The corporation reviewed 197 applications for funding through this program and approved 195 with a value of \$2.7 million. These non-repayable contributions assisted entrepreneurs and small businesses pursue new business ideas and new markets for their products and services.

FLGP: The corporation reviewed and approved 1 application on behalf of the financial institutions, under the Fisheries Loan Guarantee Program for \$1.1 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 \$670,000 invested in seven enterprises. There were no new investments in 2017-18.

Investment Portfolio: At March 31, 2018, the investment portfolio of BIC consisted of 381 accounts with loans of \$22.2 million and equity of \$8.7 million, for a total of \$30.9 million (principal and interest as detailed in note five of the attached financial statements).

2. Investment Portfolio Management

Objective: By March 31, 2018 the corporation will have successfully managed its investment portfolio.

Indicator #1: Percentage of projected annual revenues collected.

The corporation's successful management of the investment portfolio resulted in the collection of 145 per cent of projected revenues. In 2017-18, collections totaling \$2.9 million were retained in the revolving fund for future investments and therefore no funds were returned to the provincial treasury.



**AUDITOR
GENERAL**
of Newfoundland and Labrador

August 8, 2018

Ref: DP52-F0218

Mr. Fred Drover
Vice-Chairperson
Business Investment Corporation
Department of Tourism, Culture, Industry
and Innovation
P.O. Box 8700
St. John's, Newfoundland and Labrador
A1B 4J6

Dear Mr. Drover:

I enclose three bound and two unbound copies of the audited financial statements of the Business Investment Corporation for the year ended March 31, 2018. 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,

JULIA MULLALEY, 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, 2018

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 (A)



**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, 2018, 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, 2018, and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.



JULIA MULLALEY, CPA, CA
Auditor General

August 8, 2018
St. John's, Newfoundland and Labrador

BUSINESS INVESTMENT CORPORATION**STATEMENT OF FINANCIAL POSITION**

As at March 31

2018

2017

(Restated)
(Note 3(c))**FINANCIAL ASSETS**

| | | |
|--|-------------------|-------------------|
| Cash (Note 4) | \$ 26,803,677 | \$ 27,332,128 |
| Due from the Province | 536,000 | - |
| Bank interest receivable | 33,263 | 16,549 |
| HST receivable | 3,245 | 697 |
| Loans receivable and equity investments (Note 5) | 14,082,733 | 12,388,404 |
| | 41,458,918 | 39,737,778 |

LIABILITIES

| | | |
|--|-------------------|-------------------|
| Accounts payable and accrued liabilities | - | 15,993 |
| | - | 15,993 |
| Net financial assets | 41,458,918 | 39,721,785 |

NON-FINANCIAL ASSETS

| | | |
|---------------------|---------------|---------------|
| Accumulated surplus | \$ 41,458,918 | \$ 39,721,785 |
|---------------------|---------------|---------------|

Contingent liabilities (Note 6)
Contractual obligations (Note 7)
Subsequent events (Note 11)

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

Signed on behalf of the Board:


Vice-Chairperson
Board Member

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

| | 2018 Budget | 2018 Actual | 2017 Actual |
|--|------------------------|------------------------|---------------------------|
| | (Note 10) | | (Restated) (Note 3(c)) |
| REVENUES | | | |
| Contributions from Province | | | |
| Business Development Support Program (Note 9) | \$ 3,636,000 | \$ 3,636,000 | \$ 3,100,000 |
| Interest on loans | 400,000 | 413,164 | 429,695 |
| Other investment income | 225,000 | 296,434 | 193,020 |
| Recovery in value of loans receivable and equity investments (Note 5) | 300,000 | 16,528 | 741,502 |
| | <u>4,561,000</u> | <u>4,362,126</u> | <u>4,464,217</u> |
| EXPENSES | | | |
| Bank charges | 1,500 | 1,148 | 1,210 |
| Business Development Support Program | 3,636,000 | 2,623,845 | 2,095,405 |
| | <u>3,637,500</u> | <u>2,624,993</u> | <u>2,096,615</u> |
| Annual surplus | 923,500 | 1,737,133 | 2,367,602 |
| Accumulated surplus, beginning of year | 39,721,785 | 39,721,785 | 37,354,183 |
| Accumulated surplus, end of year | \$ 40,645,285 | \$ 41,458,918 | \$ 39,721,785 |

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

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

2018

2017

(Restated)
(Note 3(c))

Operating transactions

| | | |
|---|----------------------|----------------------|
| Annual surplus | \$ 1,737,133 | \$ 2,367,602 |
| Adjustment for non-cash items | | |
| Recovery in value of loans receivable and equity investments | (16,528) | (741,502) |
| | 1,720,605 | 1,626,100 |
| Change in non-cash working capital | | |
| Due from the Province | (536,000) | 25,474 |
| Bank interest receivable | (16,714) | 312 |
| HST receivable | (2,548) | 188 |
| Accounts payable and accrued liabilities | (15,993) | (11,148) |
| Cash provided from operating transactions | 1,149,350 | 1,640,926 |
| Investing transactions | | |
| Increase in loans and equity investments | (4,595,226) | (5,036,999) |
| Collection of loans and equity investments | 2,917,425 | 3,495,931 |
| Cash applied to investing transactions | (1,677,801) | (1,541,068) |
| (Decrease) increase in cash | (528,451) | 99,858 |
| Cash, beginning of year | 27,332,128 | 27,232,270 |
| Cash, end of year | \$ 26,803,677 | \$ 27,332,128 |

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

BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

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.

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, 2018

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 impractical.

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 treated as unallocated costs. Therefore, these expenses are not reflected in these financial statements.

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, 2018

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. Changes in accounting policies

(a) New accounting standards

On April 1, 2017, the Corporation adopted the following five new CPSAS Handbook Sections:

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.

In accordance with *PS 3420, Inter-entity Transactions*, the Corporation will not recognize unallocated costs in its financial statements, as outlined in note 3(c). The other accounting standards had no significant impact on the financial statements.

(b) Accounting pronouncement

The PSAB has issued *PS 3430 Restructuring Transactions* which is effective April 1, 2018. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. The standard has not been applied in these financial statements.

The Corporation plans to adopt this standard by the effective date and is currently analyzing the impact the standard will have on the financial statements.

BUSINESS INVESTMENT CORPORATION**NOTES TO FINANCIAL STATEMENTS**

March 31, 2018

3. Changes in accounting policies (cont.)**(c) Change in accounting policy**

On April 1, 2017, the Corporation adopted the new CPSAS Handbook Section *PS 3420, Inter-Entity Transactions*. As a result of adopting this new standard, the Corporation has chosen to not recognize the costs associated with the administration of the Corporation that are paid directly by the Department of Tourism, Culture, Industry and Innovation in its financial statements. These costs are not recognized in the financial statements because they are considered unallocated costs. This change has been applied retroactively with restatement. This change resulted in the removal of the other provincial revenue contribution and administrative expenses on the Statement of Operations of \$1,219,450 (2017 - \$1,251,603) and the related accounts receivable and accounts payable on the Statement of Financial Position of \$27,918 (2017 - \$30,052). There was no effect on the annual or accumulated surplus of the Corporation.

4. Cash

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|----------------------|----------------------|
| Aquaculture Working Capital Fund | \$ 862,781 | \$ 844,187 |
| Business Investment Program | 16,640,581 | 17,727,399 |
| Business Development Support Program | 9,299,089 | 8,759,884 |
| Other | 1,226 | 658 |
| | <u>\$ 26,803,677</u> | <u>\$ 27,332,128</u> |

5. Loans receivable and equity investments

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Loans receivable | | |
| Principal due and unpaid | \$ 6,245,734 | \$ 6,473,370 |
| Principal not yet due | 15,348,902 | 13,593,800 |
| Interest due and unpaid | 634,170 | 775,591 |
| | <u>22,228,806</u> | <u>20,842,761</u> |
| Less: allowance for decline in value | <u>(8,346,001)</u> | <u>(8,701,001)</u> |
| | <u>13,882,805</u> | <u>12,141,760</u> |
| Equity investments | | |
| Equity investments, at cost | 8,744,738 | 9,018,318 |
| Less: allowance for decline in value | <u>(8,544,810)</u> | <u>(8,771,674)</u> |
| | <u>199,928</u> | <u>246,644</u> |
| Loans receivable and equity investments | <u>\$ 14,082,733</u> | <u>\$ 12,388,404</u> |

BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

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 10.75%. 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>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Balance, beginning of year | \$ 17,472,675 | \$ 19,338,343 |
| Principal written off, net of recoveries | (403,266) | (959,791) |
| Interest written off, net of recoveries | (162,070) | (164,375) |
| Recovery in value of loans receivable and equity investments | (16,528) | (741,502) |
| Balance, end of year | \$ 16,890,811 | \$ 17,472,675 |

BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

6. 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.

7. Contractual obligations

The Corporation has contractual obligations in respect of approved but not yet disbursed loans, equity investments and grants in the amount of \$4,284,848 (2017 - \$4,914,664).

8. 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.

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 \$22,228,806 as at March 31, 2018 (2017 - \$20,842,761). Principal due and unpaid of \$6,245,734 (2017 - \$6,473,370) was overdue by portfolio as follows:

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8. Financial risk management (cont.)

| Loan Portfolio | Days Overdue | | | | |
|---|------------------|------------------|------------------|---------------------|---------------------|
| | 1-30 | 31-60 | 61-90 | >90 | Total |
| Aquaculture Working Capital Fund | \$ - | \$ - | \$ - | \$ 549,682 | \$ 549,682 |
| Business Investment Corporation | 10,517 | 11,052 | 14,333 | 966,406 | 1,002,308 |
| Former Enterprise Newfoundland and Labrador | 100 | - | - | 3,969,409 | 3,969,509 |
| Former Farm Loan Board | - | - | - | 468,947 | 468,947 |
| Former Fisheries Loan Board | - | - | - | 255,288 | 255,288 |
| Total Principal Past Due | \$ 10,617 | \$ 11,052 | \$ 14,333 | \$ 6,209,732 | \$ 6,245,734 |

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 and grants as outlined in note 7. 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.

9. Related party transactions

The Corporation received \$3,636,000 (2017- \$3,100,000) from the Province related to the Business Development Support Program.

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Administration expenses of \$1,219,450 (2017 - \$1,251,603) are paid directly by the Province. Included in this total is \$142,975 (2017 - \$145,976) related to the employer's share of employee benefits, paid by the Department of Finance on behalf of the Corporation. These costs are considered to be unallocated costs and are not recognized in these financial statements.

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10. 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.

11. Subsequent events

- (a) On May 31, 2018, the Province of Newfoundland and Labrador repealed the *Business Investment Corporation Act* and enacted legislation to establish the Innovation and Business Investment Corporation as a successor to the Corporation. The assets, liabilities and obligations of the Corporation will transfer to the Innovation and Business Investment Corporation, which will be responsible for making strategic funding investments in innovation and business growth in the Province to advance economic development in accordance with the priorities of Government.
- (b) On May 31, 2018, the Corporation received a settlement payment on one of its loans receivable totaling \$936,670. This resulted in an increase in its cash balance and a decrease in its loan receivable balance.

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