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.

Liane Price

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

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.

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
Loans receivable and equity investments (Note 5)	**12,388,404**	10,105,834
	39,767,830	37,381,324
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	**46,045**	27,141
	46,045	27,141
Net financial assets	**39,721,785**	37,354,183
NON-FINANCIAL ASSETS	**-**	-
Accumulated surplus	**$ 39,721,785**	$ 37,354,183

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 (Note 12)	2017 Actual	2016 Actual
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.

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.

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.

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.

4. Cash

	2017	2016
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
	$ 27,332,128	$ 27,232,270

5. Loans receivable and equity investments

	2017	2016
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
	20,842,761	19,906,446
Less: allowance for decline in value	**(8,701,001)**	(9,974,716)
	12,141,760	9,931,730
Equity investments		
Equity investments, at cost	**9,018,318**	9,537,731
Less: allowance for decline in value	**(8,771,674)**	(9,363,627)
	246,644	174,104
Loans receivable and equity investments	**$ 12,388,404**	$ 10,105,834

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:

	2017	2016
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

6. Accounts payable and accrued liabilities

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

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.

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				
	1-30	31-60	61-90	>90	Total
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.

10. Expenses by object

The following is a summary of expenses by object:

	2017 Budget (Note 12)	2017 Actual	2016 Actual
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
	$ 4,667,000	$ 3,348,218	$ 4,433,540

11. Related party transactions

The Corporation had the following transactions with the Province:

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

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.