

ANNUAL REPORT 2018-19

Tourism, Culture,
Industry and Innovation



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Message from the Minister

As the Minister responsible for the Department of Tourism, Culture, Industry and Innovation (TCII), I am pleased to submit the Annual Report for the 2018-19 fiscal year. In accordance with the department's obligation as a Category 1 entity under the **Transparency and Accountability Act**, this report was prepared under my direction and I am accountable for the reported results.



TCII is driven by commitments to diversification, growth, and sustainability. Guided by The Way Forward: A Vision for Sustainability and Growth in Newfoundland and Labrador, the department offers an envelope of programs and services that ensures entrepreneurship and innovation are able to flourish.

The department continues to play a key role in strengthening and diversifying the economy on a provincial, regional and sector basis, supporting economic growth, cultivating the arts, preserving the province's cultural heritage, and oversight of provincial parks.

Over the last year, TCII has taken a more proactive approach in how we can work better together to improve our services to meet the needs of our clients and stakeholders. Through the Business Innovation Agenda, the department provides robust support for business in the critical areas that enable firm-level innovation and remove barriers to growth.

As TCII continues to work towards priorities outlined in The Way Forward, I commend staff for their collaborative efforts and continued commitment to fostering a culture of innovation, productivity and creativity in Newfoundland and Labrador.

A stylized, handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

Hon. Bernard Davis
Minister of Department of Tourism, Culture, Industry and Innovation

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Departmental Overview

Organizational Structure

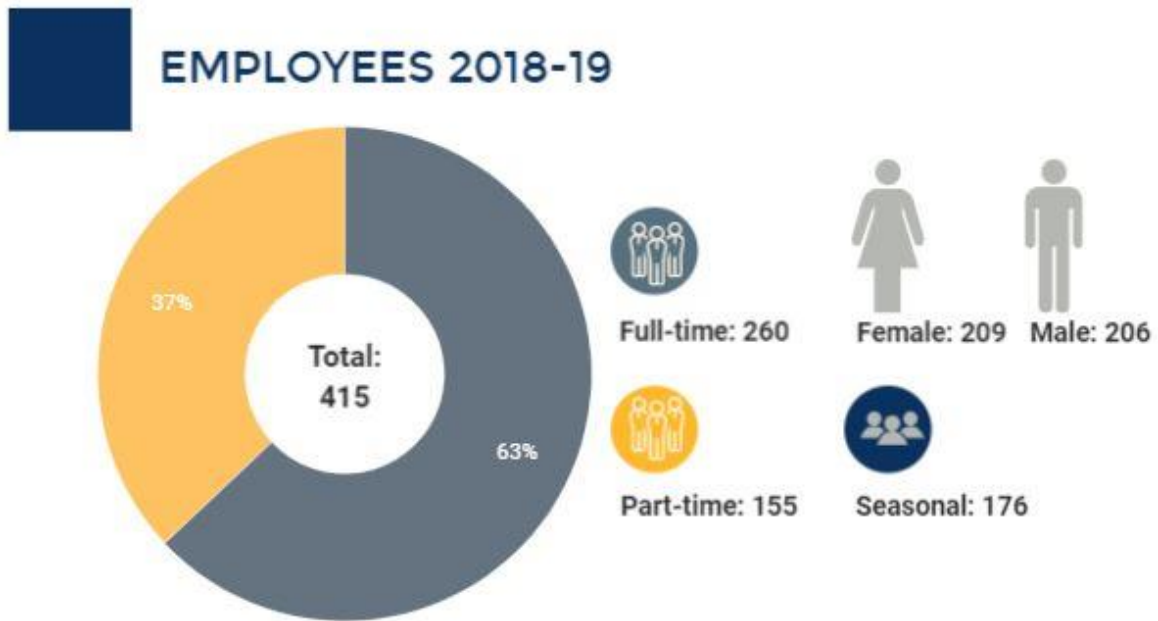
The Department of Tourism, Culture, Industry and Innovation (TCII) is the lead for innovation, economic development and diversification, tourism, culture, and provincial parks. The department is responsible for strengthening and diversifying the economy on a provincial, regional and sector basis, supporting economic growth, cultivating the arts, preserving the province's cultural heritage, and providing oversight of provincial parks.

The department provides regulatory protection of archaeological sites, artifacts and historic documents; supports the arts and heritage sectors; supports strategic product development in the tourism industry; and, markets Newfoundland and Labrador as a destination to visitor markets. The department focuses on the creation of a competitive environment to foster investment and business growth, research and development (R&D), internationalization, sector diversification and research, small business development and community economic development.

TCII has three executive branches: Business; Regional Development and Diversification; and Tourism and Culture. Leadership is provided by the Deputy Minister and three Assistant Deputy Ministers.

Additional information regarding TCII can be found on the Department's website <http://www.tcii.gov.nl.ca/>

Staff and Budget



* The 176 summer seasonal employees, including student positions, were in Provincial Parks, Visitor Information Centres, Arts and Culture Centres, and Provincial Historic Sites.



Departmental Budget 2018-19
\$84,013,600 (gross)

*Departmental budget excludes the budget for entities and Crown Corporations that report to the Minister of TCII. Additional details can be found in the Financial Statements section at the back of the report.

Highlights and Partnerships

Collaborating and working together with key stakeholders and clients is important to TCII. For TCII to collaborate effectively it is important to establish and work toward goals shared by program areas within the department, departments throughout Government and multiple levels of Government. This leads to effective utilization of resources, which optimize benefits for the clients and stakeholders. The ultimate goal of collaboration and partnership is to bring together information, knowledge, experience and expertise from various groups to provide maximum benefits to clients by leveraging partners' strengths, aligning programs and services, addressing issues in real time, and proactively developing joint solutions benefiting all stakeholders and clients.

A highlight of the work in TCII for 2018-19 is the effort made to be more deliberate in its approach to effectively partner and collaborate as a department. TCII went through significant organizational restructuring in 2017-18; therefore, 2018-19 was the first full year of the newly aligned department working together. Whether it was pulling a team of multidisciplinary employees together to develop policies and procedures for new programming, working hand-in-hand on sector and region-specific files across divisions, or conducting surveys together and getting feedback from clients on how to do things better, TCII has taken a more proactive approach in identifying how to work better together to improve services to meet the needs of clients and stakeholders. Below are some examples of enhanced collaboration in 2018-19:

Atlantic Trade and Investment Growth Agreement (ATIGA): Through the five-year, \$20 million, federal-provincial ATIGA, TCII is working with federal partners and industry to increase our province's exporter base, including the value of our exports to both traditional and non-traditional markets. Through ATIGA, TCII is partnering with industry to invest in the implementation of private sector-driven strategic trade development plans to grow exports in select knowledge-based and value-added resource industries. As of March 31, 2019, 33 Newfoundland and Labrador companies have participated in 30

international business development projects focused on opportunities in Asian, Caribbean, European and US markets.

Cellular Communications: TCII and various partners, including Indigenous Groups, French-minority organizations and several municipalities, collaborated in an effort to support cellular communications in Newfoundland and Labrador. The Provincial Government recognizes that modern telecommunications services are fundamental to economic prosperity, social development, and global competitiveness. As an economic development enabler and contributor to improving the viability of communities, the Provincial Government issued a call for proposals for a cellular service pilot project. The objective of the pilot was to partner with service providers and communities that have limited or no access to cellular service. The pilot project supported communities and private sector businesses as well as enhanced regional economic development and diversification priorities and innovative partnerships.

Provincial Parks: The Parks Division and Sector Research Division in TCII worked together and partnered with the Newfoundland and Labrador Statistics Agency to conduct a survey of individuals who stayed at a provincial park during the 2018 season. This was the first survey of its kind to be conducted for the provincial parks. The purpose of the survey was to learn more about park users' experiences and their satisfaction with park facilities and services. A total of 2,088 surveys was completed, resulting in a response rate of 30 per cent. Survey respondents were generally highly satisfied when it comes to various aspects of their camping visits, rating their overall satisfaction with provincial parks at 87 per cent. Respondents were most satisfied with the courtesy of the staff and the general cleanliness of the campground (94 per cent), the cleanliness of campsites and beach areas (93 per cent), as well as the sense of security (92 per cent) they felt on their camping trips. Survey respondents were least satisfied with Wi-Fi services available at the campgrounds. In response to the survey, Parks Division will be reviewing all of the survey results to better understand the needs of park users and improve park services.

Social Enterprises: TCII released the Social Enterprise Action Plan on May 30, 2018. Social enterprises use innovative business models to contribute to the economy by advancing social, community, economic, cultural, and/or environmental needs. In 2018-19, TCII increased awareness of existing financing available for social enterprises and how it meets the needs of social enterprise. Through the Regional Development Fund, TCII has invested and partnered with other economic development agencies such as Atlantic Canada Opportunities Agency (ACOA) on various initiatives including infrastructure, marketing, and capacity building to support social enterprise development. This includes Memorial University's Centre for Social Enterprise. The department also worked with existing partners to ensure a collaborative approach to training and development. For example, TCII partnered with Shorefast Foundation and Memorial University's Faculty of Business to support a workshop for 58 participants on Fogo Island. The session focused on social enterprise development in rural Newfoundland and Labrador and shared information, lessons, and best practices gathered through a three year Social Sciences and Humanities Research Council-funded research project entitled "Building Resilient Rural Communities through Social Entrepreneurship".

Cannabis Industry: Following the legalization of cannabis for recreational use, TCII is supporting opportunities for an emerging cannabis industry. This developing industry is being built on partnerships leveraging local and external expertise and investment, and significant employment opportunities for high-paying jobs.

Broadband: Broadband (High-Speed Internet) projects continue to be implemented, fulfilling the more than \$40 million investment committed by various partners in the last round of broadband funding. TCII continues to engage with the Federal Government in an effort to close existing gaps.

Tourism: The Tourism Industry in Newfoundland and Labrador continues to be an important economic contributor. Government supports the tourism industry and its over 2,600 businesses and 20,000 jobs by working in partnership with industry to grow non-resident visitation and spending, and to maximize the economic benefits that tourism

brings to our province. Our government invests \$13 million annually in tourism marketing and our tourism marketing campaign is one of the most talked about, most awarded, and most successful in the country.

Since the release of the tourism strategy Uncommon Potential, Newfoundland and Labrador's tourism visitation has grown at an average rate of three per cent a year. In 2018, over 533,500 non-resident visitors visited the province and residents made an estimate 3.6 million trips in the province. The combined 2018 resident and non-resident tourism spending in Newfoundland and Labrador reached \$1.14 billion.

The role of tourism marketing is to increase awareness and inspire potential travellers to choose Newfoundland and Labrador. Working in partnership with tourism industry operators to convert this interest to booking travel is a priority. A new online service to assist tourism operators promote their businesses on <https://www.newfoundlandlabrador.com> and in the annual travellers' guide was launched in 2018. This portal replaced an existing system and provides operators the ability to self-manage all of their tourism information.

Through advertising and promotional events for travel media and tour operators, we have garnered significant editorial coverage of our province. In 2018 we hosted press trips for 67 North American media from 51 media outlets and 15 international media. As the popularity of the Broadway musical Come from Away has grown, TCII has been partnering with producers to promote this province in New York, Toronto and London. Through advertising and promotional events for travel media and tour operators, we have garnered significant editorial coverage of our province. Approximately 700 articles were written by travel media about Come From Away in 2018, reaching an impressive audience of over 110 million people.

SPOTLIGHT ON...

SucSeed Social Enterprises Inc.

SucSeed Social Enterprises Inc., with its roots in Enactus Memorial, produces socially made hydroponic grow kits. These grow kits allow individuals to grow fresh produce indoors year-round, without soil or sunlight. These kits are used for food production, education, and job training. Working with expert agriculturists and engineers, the company's small-scale hydroponic system – a soilless, nutrient-filled plant incubator – helps struggling communities. As well, SucSeed was recently awarded Atlantic Canada's Social Enterprise of the Year by Start-up Canada.

Looking to grow their business by accessing international markets, SucSeed was one of the nine successful Newfoundland and Labrador applicants to be selected to participate in Grow Export, a pan-Atlantic initiative aimed at increasing the number of export-ready firms across Atlantic Canada. Grow Export was designed to provide opportunities for skills and knowledge enhancement to develop new exporters, and to facilitate business-to-business opportunities for the participating companies. TCII was an active partner with the Atlantic provinces, Atlantic Canada Opportunities Agency, and Global Affairs Canada in the development and delivery of this program, which was funded through the Atlantic Growth Trade and Investment Agreement.

Through their participation in the program, they completed an export diagnostic, and had access to export training classes and an export mentor. They were also able to work with the program consultant to develop a targeted export plan.

With this new training and knowledge under their belt, SucSeed participated in the Grow Export mission to Boston during the fall of 2018, where they partook in key activities such as an introductory session with the Trade Commissioner Service at the Canadian Consulate (with one-on-ones), workshops (e.g., how to successfully network, doing business in New England, doing business in the US, US customs compliance, sector specific workshops, how to perfect a business pitch), industry tours, and educational business-to-business meetings.

These networking activities and business-to-business meetings resulted in significant prospects for the company, and they have since returned to the market twice to pursue developing business growth opportunities with Bostonian suppliers, retailers, and potential partners. Perhaps most notably, they met with the Boston School Board to discuss what could potentially be a significant business opportunity for the social enterprise. As well, their activity in Boston earned them an invitation to speak at Food Edge in Boston.

TCII is proud to work with companies like SucSeed, providing both the counselling and financial supports they need to accomplish their internationalization and business growth objectives.

SPOTLIGHT ON...

SmartICE

SmartICE is an award-winning social enterprise that works in partnership with communities, academia, industry and government. Climate change is altering conditions in the North resulting in more dangerous and unpredictable over-ice travel. SmartICE's technology provides a near real-time sea ice monitoring and information service that blends Inuit traditional knowledge with advanced data acquisition and remote monitoring technology.

They embrace a business model that aims to expand opportunities for economic and social development in northern markets while preserving local cultures and lifestyles. With a redesign of its technology, it can be assembled by trained Inuit youth in Nunatsiavut for distribution across Inuit Nunangat. Dr. Trevor Bell and the SmartICE team have been recognized with a Governor General's Innovation Award in 2019.

TCII announced an investment of \$235,572 for the SmartICE project, which supports workforce development, youth engagement, and demonstrates a product evolution from research stage to commercialization. This initiative also highlights many of the priorities outlined in TCII's Social Enterprise Action Plan, a direction of government's "The Way Forward."

Battery Radio

Battery Radio creates a wide range of audio productions, including radio documentaries, audio dramas, audio guides, site-specific audio exhibits and audio-based smartphone apps. Battery Radio broadcast features have won over 40 international awards.

Battery Radio was awarded \$4,000 through TCII's Cultural Economic Development Program to attend the 23rd International Prix Marulic Festival in Hvar, Croatia for the purpose of promoting its recent project, Consent, in the European market. Consent is an interactive geo-locative documentary representation of a current event story published as a smartphone app.

Prix Marulic is a week-long media showcase and is the audio equivalent of an international film festival. Companies presenting at the festival seek production partnerships and commissions for new work. The festival preselected 42 works out of 70 for showcase presentation, including Battery Radio's Consent, which was the only interactive production.

The Prix Marulic is a juried competitive festival. Consent won top prize, receiving the Grand Prix Marulic for Documentary. The work has attracted attention for its interactive methodology and innovative approach to documentary representation and has boosted the company profile considerably. For example, the Head of BBC Drama Manchester attended the festival and discussed adapting the program as a broadcast production for BBC. Battery Radio is also exploring Australian broadcast possibilities.

Report on Performance

Issue 1: Strengthening our Economic Foundation

As part of its work to help shape Newfoundland and Labrador's competitiveness, TCII is providing support to accelerate the growth of high-potential firms; identifying and supporting high priority sectors; collaborating with industry and academia to support advances in sector productivity and diversification; and, working directly with companies to innovate, scale and grow their sales in national and international markets.

In 2018-19, TCII invested in commercial and non-commercial projects that help to strengthen our economic foundation. Guided by the Business Innovation Agenda, the Social Enterprise Action Plan and the work of the Cabinet Committee on Jobs, TCII is providing financial and non-financial supports for business in critical areas to help enable firm-level innovation and remove barriers to growth. Investments were provided in support of R&D; commercialization; productivity improvement; innovation enhancement; knowledge development; and export market development.

Further, TCII is working to support greater market access for more of Newfoundland and Labrador's innovative and ambitious firms, helping to provide the tools companies need to compete and succeed in global markets in an effort to maximize opportunities for our province flowing from free trade agreements. The Regional Trade Network, initiated as part of The Way Forward in 2017, is a collaboration between government and industry to align, coordinate and improve support for firms pursuing international business. TCII continues to work with the Network's 21 partners to share market intelligence, collaborate on opportunities, co-deliver initiatives that help build export capacity, and match local products and services with national and international partners and customers.

Goal: By March 31, 2020, TCII will have supported economic development initiatives that strengthen the province's economic foundation.

Objective: By March 31, 2019, TCII will have supported economic development through business and sector growth initiatives.

Indicator 1: Implemented priority initiatives identified from Regional Innovation Systems pilot process.

The Way Forward in 2018 identified TCII to implement and coordinate Regional Innovation Systems (RIS) pilots in different regions that support innovation and advance specific regional opportunities. Each pilot is guided by industry-led steering committees, which include various levels of academic institutions and governments, and seeks to identify unique characteristics and assets in a specific region and highlight its competitive advantages by targeting supports for R&D and Innovation.

In 2018-19, six committees met in different regions, with collaboration focused on strengths of the local area, and in some cases, specific sectors.

For example, the RIS pilot committee in the Eastern Region is composed of several major cross-industrial operators that represent some of the largest employers for the region such as mining, oil and gas, manufacturing. Collectively they are exploring innovative ways to mutually collaborate on issues impacting all players in the region. Some areas being explored relate to labour force, supply chains, and the environment, with project charters being developed.

One of the Western Region RIS pilot committees is focusing on identifying co-operative and innovative ideas to support and advance both the agricultural and forestry sectors, such as areas that overlap in clean technology products, distribution, sorting, and merchandising of products from a common facility. There are multiple projects being explored.

Another RIS Pilot committee with representatives from Southern Labrador – Great Northern Peninsula focused on academic research information from over ten presenters from various fields of expertise in the fisheries sector. The committee's pursuit of information has also led to exploring potential opportunities in areas of cross-provincial partnerships and examining a global perspective with a guest presenter from Iceland, who presented to the committee on the importance of cluster development, collaboration of all stakeholders, and fish waste utilization.

Many partners in the central region are collaborating in the aerospace sector. A priority of the RIS pilot committee in this region has been connectivity between industry and the College of the North Atlantic (CNA). Several ideas were discussed, which led to significant investment in upgrading of equipment at the CNA Aircraft Maintenance Engineering program, as well as a commitment to investigate Non-Destructive Testing for the aviation sector.

In September 2018, TCII presented at an international conference focused on RIS in Spain. It was an opportunity to highlight the department's implementation and coordination of RIS in Newfoundland and Labrador.

Indicator 2: Implemented actions to enhance awareness of internationalization opportunities associated with free trade agreements.

In order for the benefits of free trade agreement to be fully realized, Newfoundland and Labrador businesses need to be aware of the agreements and the benefits they offer.

TCII has been working with industry and federal partners to promote the economic importance of international trade and market diversification, providing information businesses need to take advantage of the opportunities, including: free trade agreement seminars; market information sessions; market research reports; market preparedness training; in-market trade development missions; and, export financing. Pan-Atlantic

Strategic Market Engagement Teams have been formed to specifically identify and capitalize on opportunities in Asia, Europe and the United States.

In 2018-19, a sampling of activities in support of free trade promotion include:

- Asia
 - Free Trade Agreement Seminar: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada-Korea Free Trade Agreement (CKFTA) delivered by TCII through a partnership with Global Affairs Canada, and supported by ATIGA
 - Trade Development Mission to China with pan-Atlantic federal and provincial partners
 - China Market Information Session in partnership with the Canada-China Business Council (CCBC)

- Europe
 - Training Session: Food and Beverage Opportunities, Comprehensive Economic and Trade Agreement (CETA)
 - Market Preparedness Training – multi-sector mission to Europe
 - Trade Development Mission to Norway, in partnership with ACOA, Newfoundland Environmental Industries Association (NEIA), Newfoundland Oil and Gas Industries Association and Global Affairs Canada.

- United States
 - Trade Development Mission to Boston – Grow Export 2018, focused on new exporter capacity building and growth
 - Southeastern United States-Canadian Provinces Trade Alliance – Business-to-Business Matchmaking Program
 - New England Governors and Eastern Canadian Provinces - Business-to-Business Matchmaking Program

Indicator 3: Continued to implement actions in the Provincial Tourism Product Development Plan and Destination Development Plans.

In partnership with industry, priorities of the Tourism Product Development Plan continue to be advanced. TCII is committed to maximizing the economic benefits that tourism brings to the province. Through close working relationships with tourism partners, such as Hospitality Newfoundland and Labrador, the Newfoundland and Labrador Tourism Board and regional Destination Management Organizations, the department continues to engage with tourism operators in their respective regions and provide market readiness, destination development, and marketing support to members and partners. Some action items implemented in 2018-19 are:

Tourism Opportunities/Experience Development Sessions

TCII, together with the regional Destination Management Organizations, Hospitality Newfoundland and Labrador, and ACOA, hosted 24 Tourism Opportunities/Experience Development Sessions. In total, 910 tourism operators, potential entrepreneurs, municipalities and other stakeholders were provided mentoring and training about experience development, tourism market-readiness, marketing opportunities, and visitor statistics.

Destination Development Plan

TCII led quarterly meetings of five regional Destination Development Plan committees, which are comprised of industry and government partners that are driving the implementation of regional tourism projects and initiatives.

Regional Stakeholder Networks

The Department also engaged in quarterly meetings of regional stakeholder networks, including Three UNESCO's Journey Working Group, Eastern Geological Network, Craft and Tourism Task Team, Winter Tourism Stakeholders Group, Music and Food Network, and Cultural Attractions Network. Industry and government partners are engaged in the networks/task teams and are responsible for preparing annual goals and activities.

Tourism Development Planning Sessions

TCII facilitated tourism development planning sessions with tourism stakeholders to develop their tourism development plans in the Baccaclicu Trail region, Central Labrador, Portugal Cove-St. Philip's and Bell Island.

North Coast Visitor Journey Assessment

TCII also worked with the Nunatsiavut Government and other industry and government stakeholders to complete a North Coast Visitor Journey Assessment. The report outlines the gaps and opportunities in experience development along the North Coast Visitor Journey. It has recommendations for strengthening the visitor journey to attract more visitors and to get them to stay longer and experience more.

Indicator 4: Worked with key stakeholders in the start-up ecosystem to coordinate activities that address gaps in all stages of the business life cycle.

In 2018-19, TCII worked with various stakeholders to support a strong start-up, entrepreneurial support network through which research ideas, business innovation and ecosystem support can maximize opportunities for innovators and advance economic growth and diversification goals.

Along with providing operational and project funding support to start-up organizations including the Genesis Centre, Memorial Centre for Entrepreneurship, Propel ICT and Navigate, TCII staff actively engaged with start-up organizations through committees and direct support to startup companies to complete projects in areas such as R&D, mentoring activities, investment opportunities and market development missions.

TCII participated with Propel ICT in the selection of companies for the Atlantic Canada cohort for Propel's Accelerate Program. TCII staff also participated on a panel with CNA and Futurpreneur to review business plan presentations by students and potential new entrepreneurs in the local ecosystem.

As well, TCII engaged with the Genesis Centre to provide input on the development of its new micro fund for new entrepreneurs, and also participated on a committee of Venture for Canada to select students for employment opportunities with various Atlantic Canadian businesses while developing entrepreneurial skills.

TCII continues to maintain a co-location arrangement with CNA campus in Corner Brook, where it is located in the same area as other resources including the Navigate Small Business Incubator and the Newfoundland and Labrador Workforce Innovation Centre. This co-location allows the department to have a presence in an area with other entrepreneurial supports fostering new business ideas and new business start-ups. TCII also has the ability to engage with new and existing clients through this location as well as students, graduates, faculty and staff of CNA.

Indicator 5: Implemented actions from the Technology Sector Work Plan.

Launched on February 23, 2018, The Technology Sector Work Plan outlines 27 recommendations to drive economic growth and development in the technology sector. Highlights of implemented actions include:

Clean Technology

As part of the Work Plan, TCII committed to working with its partners to find opportunities to develop and deploy clean technologies and leverage federal funding. As part of this recommendation, TCII led the establishment of an interdepartmental clean technology working group (Departments of TCII, Natural Resources, Fisheries and Land Resources, Municipal Affairs and Environment, and the Intergovernmental and Indigenous Affairs Secretariat) with NEIA, Innovation, Science and Economic Development Canada, and ACOA. This working group provides a forum for industry and government to coordinate provincial clean technology priorities and align cross-sector activities and investment. This has been particularly helpful in gathering feedback on gaps and opportunities

according to the various natural resource sectors and has helped establish recommendations for potential future initiatives.

Innovation Challenges

TCII completed a jurisdictional scan of innovation challenge programs and developed an innovation challenge concept that will help identify ways to help firms with products and services through demonstration projects/potential public sector procurement opportunities. TCII is working with the Office of the Chief Information Officer to determine a short list of potential projects for the Innovation Challenges program.

Capabilities Index

TCII is working with the Newfoundland and Labrador Association of Technology Industries (NATI) on developing a capabilities index for the technology sector. Working in partnership with industry, the initiative will assess the performance, strengths and abilities of the sector to help determine how to grow technology businesses in the province. The Association initiated this piece of work in early 2019 and it is anticipated that the final report will be available in the fall 2019.

Big Data and Analytics

Another action of the Technology Sector Work Plan was to identify and develop opportunities to leverage big data and analytics. TCII and NATI prepared an action plan for 2018-19 activities, which included three priority areas of focus: Education - industry, worker, youth; Engagement of Industry/Ecosystem - to encourage collaboration; and Sharing Resources, Opportunity Identification or problems solving. NATI has started driving this action as part of their digitalization priorities in its work with Hacking Health, Hacking Oil & Gas, Ocean Supercluster, and Innovation Days.

Technology Assessment and Adoption Diagnostic Tool

TCII also supported businesses to use the Canadian Manufacturers and Exporters' Technology Assessment and Adoption Diagnostic tool, which helps identify effective technology solutions and accelerate the adoption of technology. Eight assessments are

in progress with another in discussion; an excellent achievement given the plan was to engage five companies in the year. Four Manufacturing Insights information sessions focusing on Technology Assessment were delivered in the year.

High Growth Firms Initiative

As part of building the climate and capacity for innovation, TCII is pursuing initiatives focused on support for dynamic, high-growth potential sectors and firms. The provincial High Growth Firms Initiative is designed to support established growth-oriented firms through crucial transition periods, bringing together key supports, such as financing solutions, advisory services, and export and innovation support. In year one of the initiative, TCII collaborated with industry partners to support the growth of 23 high growth firms in Newfoundland and Labrador.

Indicator 6: Worked with industry partners to develop a Craft Industry Strategy and commence implementation of priority activities.

In 2018-19, TCII partnered with the Craft Council of Newfoundland and Labrador and other key craft industry stakeholders to develop a provincial Craft Industry Strategy, which was launched in September 2018. (<https://www.tcii.gov.nl.ca/publications/pdf/CIS.pdf>)

The Strategy identifies three main priority areas that government and industry will focus on to grow the industry. Collective efforts will drive initiatives to enhance the profitability of craft businesses, maximize and expand markets, and understand the market and the industry value. Since the launch of the strategy, TCII and the Craft Council of Newfoundland and Labrador have formed an implementation committee that has completed an action plan to drive the 40 actions in the strategy.

Some of the priority activities commenced included:

- Development of an annual training plan for the industry. This annual training plan has focused resources to include topics that advance craft businesses including such

topics as technical skills, productivity and competitiveness, accessing new export markets guidance on preparing funding applications, business counselling, craft product selection, merchandising and display, and establishing business relationships.

- Training sessions, supported by TCII and offered by the Craft Council of Newfoundland and Labrador and the Newfoundland and Labrador Organization of Women Entrepreneurs, with expertise from Craft Alliance Atlantic, to promote export market training and export opportunities.
- Craft shows - TCII supported several craft businesses to attend craft shows, including the Craft East Buyers Expo, Toronto Gift Fair, Wholesale Products and Innovative Designs Tradeshow and the Sculpture Objects Functional Art and Design Show.

Indicator 7: Invested in and supported regional and business development initiatives.

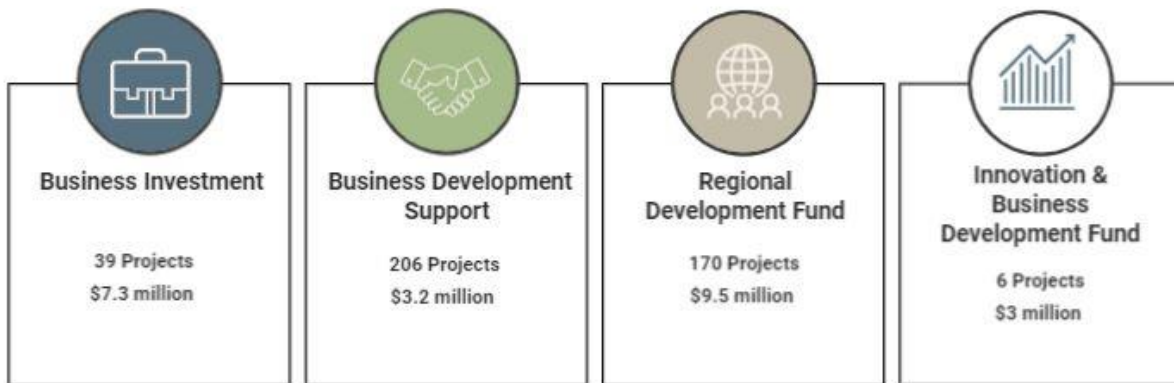
TCII supports regional and business development by providing funding support and offering mentoring, counselling, training and stakeholder coordination support.

The department has a number of funding programs that provide either non-repayable or repayable contributions:

- The Business Investment Program provides loans and equity investments, with particular emphasis on support to those businesses that have export potential and need assistance to enter or expand into external markets.
- The Business Development Support Program provides non-repayable contributions of up to \$100,000 per year in matching funds to small and medium-sized businesses with opportunities to increase productivity and improve competitiveness, with a key objective in helping businesses gain access to national and international markets.
- The Regional Development Fund (includes Regional Development Program and Community Capacity Building Program) supports organizations by way of non-

repayable contributions for projects that support economic development, innovation and capacity building.

- The Innovation and Business Development Fund, co-administered by TCII and the Department of Natural Resources, is focused on non-repayable contributions to grow and diversify Newfoundland and Labrador’s oil and gas supply and service capabilities.



*Infographic above represents the approved amounts under each program/fund.

In addition to funding supports, TCII also provides a variety of services to support regional and business development. TCII has staff located throughout the province that provide mentoring, counselling, training and stakeholder coordination support. In 2018-19, TCII worked with the Town of Fogo Island, the Shorefast Foundation, and the Fogo Island Co-operative Society to coordinate the valuable work being done by each of the key stakeholders. TCII assisted in facilitation services, capacity building, consultations, and the development of terms of reference for the establishment of the Fogo Island Economic Development Partnership. The early outcome was improved communication and a better understanding of the activities and priorities of the key stakeholders resulting in agreement in terms of priorities for economic development.

In 2018-19, in partnership with the Department of Fisheries and Land Resources, TCII was tasked with the action of accelerating agribusinesses in the province. The goal of this action was to accelerate the growth of high potential agriculture businesses through

supports to develop business-level export and import displacement opportunities, business diagnostics and planning, financial and market development activities. TCII staff conducted Business Retention and Expansion interviews with the agricultural clients to identify common issues and opportunities for growth.

Indicator 8: Invested in R&D related activities to support commercial and non-commercial clients.

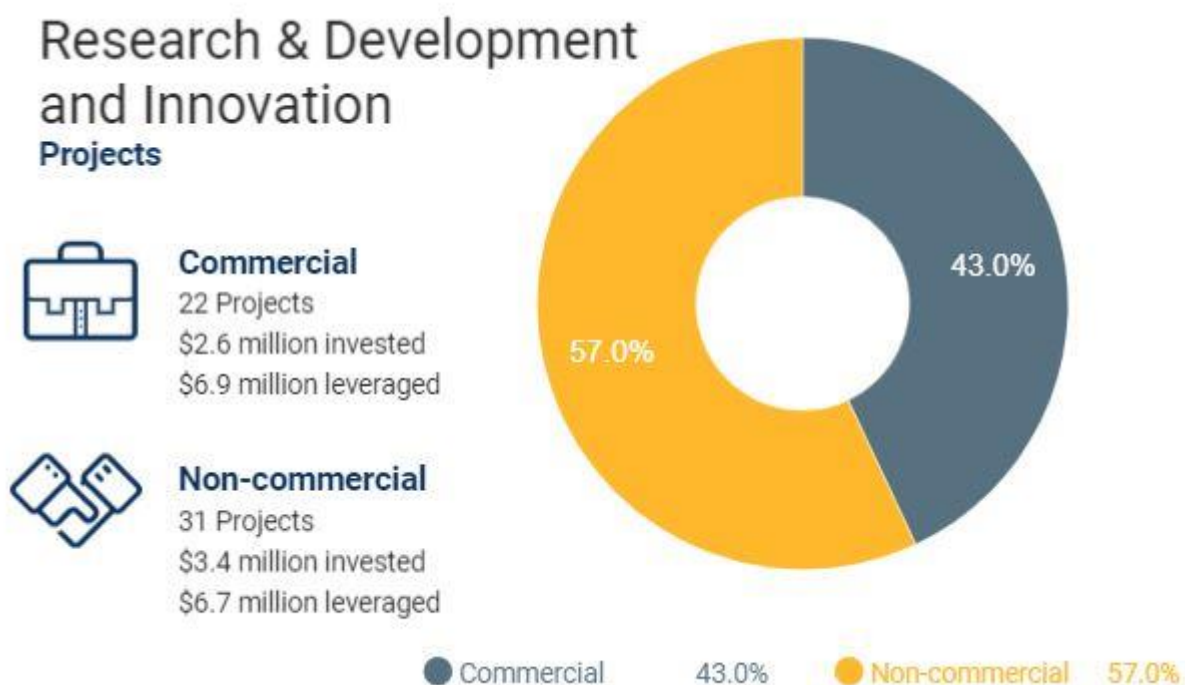
TCII focuses its investments in R&D, innovation and business development, specifically targeting opportunities to grow and diversify Newfoundland and Labrador's economy and foster economic resilience.

Through the Business Innovation Agenda, TCII is implementing actions that provide support for business in critical areas. With the aim of increasing the pool and capacity of our province's innovation and growth-focused companies, the department is targeting investments to support R&D; commercialization; productivity improvement; innovation enhancement; knowledge development; and export market development. The department is providing support across the business continuum, helping companies start, innovate, scale and grow.

In addition to businesses, TCII supports non-commercial clients such as publicly-funded or not-for-profit academic and research institutes, facilities and organizations such as public educational institutions, industry associations, municipalities, and other not-for-profit groups, including economic development organizations. The objective is to stimulate academic-led, industry-relevant R&D activity; attract R&D investments in priority areas; facilitate collaboration; and to support a strong start-up, entrepreneurial support network through which research ideas, business innovation and ecosystem support can be resourced effectively to maximize opportunities for innovators.

TCII supports R&D related activities for commercial and non-commercial clients for the:

- improvement of pre-commercial products, processes, services and technology with a clear path to commercialization.
- development and implementation of research and innovation projects for the long-term economic benefit of Newfoundland and Labrador.



*These investments are approved amounts that were made through the Innovation and Business Investment Corporation.

2019-20 Objective

Objective: By March 31, 2020, TCII will have supported economic development through regional innovation and sector diversification activities.

Indicator 1: Conducted activities to strengthen business innovation and growth

Indicator 2: Supported Government's economic growth action plans

Indicator 3: Supported tourism related activities to grow the sector.

Indicator 4: Invested and supported regional innovation and sector diversification initiatives.

Indicator 5: Implemented priority initiatives identified in the Social Enterprise Action Plan.

Issue 2: Strengthening Cultural, Historical and Natural Resources

Newfoundland and Labrador's arts and heritage industries contribute to vibrant communities and regions throughout the province by preserving, celebrating, and presenting our diverse cultures. TCII supports these industries through funding programs, stakeholder engagement, advocacy, and partnerships. The department is the Province's largest operator of culture, heritage and nature facilities including Arts and Culture Centres, Provincial Historic Sites and Provincial Parks. These sites are not only significant cultural facilities, but are community hubs located throughout the province providing educational, cultural and performance programming; and preserving our natural and historic resources.

In 2018-19 the department conducted in-depth public consultations and key informant interviews to discuss the current state and the future of the cultural sector in Newfoundland and Labrador. The overarching message throughout the province is that the cultural sector has endless potential, though its ongoing success and sustainability requires strategic government support. The discussions fed into the framework that became the Cultural Action Plan.

November 11, 2018 was the 100 year anniversary of Armistice Day, the end of the First World War. This was also the official end of TCII's Honour 100 commemoration initiative, which worked with the cultural sector to recognize the significance of the First World War to our tangible and intangible heritage. As a seminal moment in the history of Newfoundland and Labrador, the First World War directly shaped the province and its people. The Provincial Government, along with stakeholders and community organizations, planned and delivered initiatives to commemorate the sacrifices of all Newfoundlanders and Labradorians. The commemoration of the centenary reconnected Newfoundlanders and Labradorians with their past, honoured veterans past and present, encouraged communities and organizations throughout the province to work together on commemorative initiatives, and engaged youth. In 2018-19, TCII continued its partnership with the Historic Sites Association of Newfoundland and Labrador and the Royal

Canadian Legion to support 35 youth on the annual Trail of the Caribou pilgrimage to the battlefields of Northern France and Belgium. TCII is committed to continuing to support this important educational initiative as a legacy of Honour 100. By commemorating Newfoundland and Labrador's involvement in the First World War, TCII brought these sacrifices to the forefront of our thinking and helped the Province better understand this enduring legacy.

Goal: By March 31, 2020, TCII will have developed and supported initiatives that strengthen Newfoundland and Labrador's cultural, historical and natural resources.

Objective: By March 31, 2019, TCII will have advanced initiatives to create, protect, manage and promote Newfoundland and Labrador's cultural, historical and natural resources.

Indicator 1: Released a renewed Cultural Action Plan.

The Cultural Plan was not released by March 31, 2019; however, the following activities were completed towards the development of the plan.

TCII held extensive public consultations, including targeted one-on-one stakeholder and sector consultations. Part of the work included a jurisdictional review on the latest cultural plans released by other provinces and analyzing other departments' initiatives and programs as they relate to the support of culture.

TCII established a Steering Committee responsible for drafting a framework to guide the work through years one through five; consulting with diverse and multicultural groups, and all five Indigenous groups about their culture.

TCII will release the Cultural Action Plan in French and English by spring 2019.

Indicator 2: Implemented actions to develop visitor experiences, programming, and events in Arts and Culture Centres and Provincial Historic Sites.

Arts and Culture Centres continued to be important resources to the creative community providing fully equipped theatres, personnel, workshop and rehearsal space, gallery space, and gathering areas. Arts and Culture Centres provided accessible buildings and programed a wide variety of arts presentation and programs to a general audience. The six centres paid \$350,000 in artist presentation fees, approximately \$2.6 million to artistic companies and third party rentals and reached over 150,000 patrons. The Arts and Culture Centres continued to support the Artist in Residence program, providing artists with resources (e.g., financial, space, technical) to further develop new work.

Provincial Historic Sites developed new programming including a Regency House Party at the Commissariat House in St. John's. They continued to develop visitor experiences and events by installing a Discovery Centre for Youth/Family at revamped space in Heart's Content Cable Station, which focused on science and technology. They also hosted a Fall Eerie Evening at Mockbeggar Plantation in Bonavista, which attracted a large number of visitors. Provincial Historic Sites partnered with many communities, non-profits organizations, and local elementary schools, realizing their highest visitation ever in 2018 (over 102,000 visitors, a five per cent increase over 2017).

Indicator 3: Completed Arts and Culture Centres' infrastructure upgrades.

The Arts and Culture Centres completed infrastructure upgrades in 2018-19. With a two-year investment of approximately \$3.3 million from the Provincial and Federal Government, the Arts and Culture Centres received significant upgrades and specialized equipment. The improvements included enhanced technical lighting and audio equipment at all six centres, providing reliable, modern equipment for performances touring the province. All centres also completed plastering and painting of dressing rooms and other common areas throughout the buildings. The St. John's Arts and Culture Centre

completed several crucial upgrades, including: improved accessibility at Barbara Barrett Theatre (basement theatre) with a new accessible entrance; installed new theatre seating and updated the concourses and common area; and, installed a new air conditioning system that will ensure a more comfortable environment inside the theatre in the summer months.

Indicator 4: Further supported and invested in the development of cultural and historical resources.

TCII supported and invested in the development of cultural and historical resources in a variety of means.

The Cultural Economic Development Program provides financial support to professional arts organizations for events or projects that stimulate sustainable economic development of the province's cultural resources.



In addition to funding support, staff supported clients by advising on the development of their cultural and heritage resources in ways that suit their overall goals and community

needs and counseled them on various funding opportunities internally and from outside sources. TCII continued to represent Newfoundland and Labrador on national committees and federal-provincial working groups to gather knowledge on national trends and issues for discussion and consideration with sector organizations and stakeholders.

The Provincial Archaeology Office continued to support the development and protection of historical resources. The staff reviewed approximately 2,500 land use applications in 2018-19 and issued 45 archaeological permits and three paleontological permits. They also conducted field surveys on the Bonavista Peninsula and Exploits Valley in support of its mandate to protect archaeological resources. The Office supported six graduate student projects in the Department of Archaeology at Memorial and released the 17th volume of the Provincial Archaeology Office Annual Review; an annual archaeology journal that summarizes archaeology done in the Province. In addition, the Office supported and directed research projects at Fox Island (Champneys West), Sunnyside, Sop's Arm, former Abitibi lands in central Newfoundland, and the Innu community of Sheshatshiu. TCII archaeologists also worked with a qualified technical team to use a drone to survey a Beothuk house pit on Red Indian Lake near Millertown, allowing them to record accurate measurements of the house features to plan and profile.

The Provincial Parks division completed Emergency Preparedness Plans and updated a policy and procedure manual for the operation of 13 Provincial Parks.

2019-20 Objective

Objective: By March 31, 2020, TCII will have implemented initiatives to create, protect, manage and promote Newfoundland and Labrador's cultural, historical and natural resources.

Indicator 1: Increased support for artists to further their creative processes and making connections to the community.

Indicator 2: Enhanced programming and engagement at the Provincial Historic Sites.

Indicator 3: Commenced implementation of the Cultural Action Plan.

Indicator 4: Advanced work towards the development of a waterway provincial park along the Eagle River, Labrador.

Opportunities and Challenges

Population and Immigration

Newfoundland and Labrador's demographic challenges continue to be one of the most critical issues facing the province. While the population of the three Maritime Provinces is currently growing at its fastest pace in decades, Newfoundland and Labrador's population has declined over that past three consecutive years. The current population for Newfoundland and Labrador is 528,000 with approximately 900 fewer births than deaths in 2018 (4,921 deaths and 4,002 births - Source: Service NL). The aging population, youth outmigration, geographic issues including the existence of dozens of remote and isolated settlements and the difficulty attracting immigrants are having widespread impacts on the province and its economy, including labour availability for the public and private sectors. Efforts to increase immigration are showing results, but further efforts will be required to see longer-term change along with strategies on how we make the most of the existing people we have living in the province.

Cultural Sector

As vibrant as the cultural sector is in Newfoundland and Labrador, it is not without its challenges. The success of the sector, particularly on the heritage side, is heavily dependent on volunteers. This is problematic for an aging population, where fewer young people are returning to live and work in their communities. Operational funding for cultural organizations also remains an ongoing challenge to support the continued development and sustainability of the sector.

Throughout the engagement process on the cultural plan renewal initiative, several opportunities emerged. For the first time, TCII opened up a one-on-one dialogue with Indigenous groups and agreed to assist them in the planning and development of their cultural resources. Continued dialogue is necessary throughout the sector to continue to foster partnerships and overcome challenges critical to the sector.

Transportation

Transportation remains a continual challenge for Newfoundland and Labrador. Access by air, sea and land to the province is crucial to our tourism, business and trade. Capacity, seasonal issues, cost and provincial transportation infrastructure all play a role in growing and sustaining the demand for our products and services. TCII works with partners to improve the transportation efficiency to benefit visitors and businesses throughout the province. Fuel efficiency, increasing air access and improvements in the public transportation system contributes to reducing costs and enhancing the provincial economy. TCII will continue to have open discussions on transportation needs with key stakeholders including airlines and airports authorities, marine services, and municipal and federal levels of government.

Internationalization

Exporting is vital to our economy as a driver of economic growth strongly correlated with real GDP performance. Exporting provides a strategically important means of growing a firm by expanding its market beyond the confines of Newfoundland and Labrador's small market and even that of Canada. Last year, Newfoundland and Labrador exports comprised approximately 50 per cent of our GDP. We know that as the value and volume of the province's export activity grows, so too does the number of well-paying jobs created in our province, which in turn helps to strengthen economy and quality of life. According to a January 2019 Government of Canada report on Key Small Business Statistics, on a per company basis, Newfoundland and Labrador has among the lowest concentration of merchandise exporters in the country, but has amongst the highest valued exports of all provinces and territories. Efforts to diversify markets for Newfoundland and Labrador's goods and services, aided by free trade agreements and trade alliances, will remain an important source of economic growth for the province. Emphasis on the implementation of industry-driven strategic trade development plans to grow exports in select knowledge-based and value-added resource sectors, including Aerospace and Defence, Agri-food; Seafood, Biosciences, Clean Technologies, Information and Communications Technologies, Infrastructure, Ocean Technologies and Extractive Industries will continue to be key to strengthening the province's export base.

Digitalization

Digitalization, or the use of technology to automate manual processes, has changed the way we all live, work and play. For companies to stay competitive, this means choosing and investing in new technology, changing skill requirements, training workers and managing the transition to a new way of doing business. Digitalization can create new revenue streams for companies, allowing firms to increase the quality of their products, services or processes, potentially leading to improved efficiency and the creation of new markets. Companies that fail to embrace digitalization or neglect to invest and adopt new technology can risk their market share and miss opportunities to realize the benefits of innovation and productivity gains. The Conference Board of Canada has identified private sector investment in technology as a key weaknesses in the Newfoundland and Labrador's innovation performance - and indeed that of businesses across the country. To meet market demands of the digital age, financial and non-financial resources to encourage and aid firms in identifying, investing in, and utilizing the right technology for their needs will continue to be essential to advancing and accelerating firm-level innovation and growth.

Financial Statements

		2018-19	2018-19	2018-19
		Original	Amended	Actual (\$)
Line Item	Source of Expenditure	Estimate (\$)	Estimate (\$)	(Unaudited)
1.1.01	Minister's Office	264,000	264,000	246,767
1.2.01	Executive Support	9374,300	1,027,500	1,001,457
1.2.02	Corporate Services	1,292,500	1,636,800	1,573,236
	(Less: Revenue)	(0)	(0)	(4,950)
1.2.03	Administrative Support - Capital	5,000	38,100	33,087
2.1.01	Accelerated Growth	2,460,700	1,977,600	1,633,380
	(Less: Revenue)	(300,000)	(300,000)	(74,313)
2.1.02	Investment Attraction Fund - Capital	8,000,000	7,650,000	3,587,785
2.2.01	Business Analysis	5,318,900	5,188,900	4,810,604
2.3.01	Commercialization, Research and Development	13,750,000	13,750,000	13,750,000
	(Less: Revenue)			(1,500,000)
3.1.01	Sector Diversification	2,864,000	3,113,000	2,572,231
	(Less: Revenue)	(337,800)	(337,800)	(0)
3.2.01	Regional Economic Development Services	4,643,700	4,794,800	4,610,067
3.3.01	Comprehensive Economic Development	9,960,600	9,960,600	9,388,891
3.4.01	Sector Research	663,600	681,400	556,707
4.1.01	Tourism Marketing	14,951,500	15,037,300	14,723,237
	(Less: Revenue)	(80,000)	(80,000)	(92,224)
4.1.02	Marble Mountain Development Corporation	306,400	656,400	656,400
4.1.03	Marble Mountain Development Corporation – Capital	400,000	400,000	400,000
4.2.01	Arts	5,760,000	5,760,000	5,640,795
	(Less: Revenue)	(150,000)	(150,000)	(147,685)
4.2.02	Arts and Culture Centres	8,206,000	8,206,000	7,624,780
	(Less: Revenue)	(6,193,000)	(6,193,000)	(4,833,513)
4.2.03	Newfoundland and Labrador Arts Council	1,936,600	1,936,600	1,936,600
4.2.04	The Rooms Corporation of Newfoundland & Labrador	6,280,800	6,280,800	6,280,800
4.2.05	Newfoundland & Labrador Film Development Corporation	611,000	611,000	611,000
4.2.06	Historic Sites Development	99,800	99,800	94,915
4.2.07	Special Celebrations and Events	329,400	329,400	308,304
4.2.08	Heritage Foundation of Newfoundland & Labrador	397,700	407,800	407,800
4.2.09	Newfoundland & Labrador Film Development Corporation - Capital	4,000,000	4,000,000	4,000,000
4.2.10	Arts & Culture Centres – Capital	250,000	250,000	153,435
	Less: Revenue	(175,000)	(175,000)	(0)
4.3.01	C.A. Pippy Park	260,800	459,500	459,500
4.3.02	Park Operations	4,219,100	4,335,900	4,231,104
	(Less: Revenue)	(50,500)	(50,500)	(75)
	Gross Budget	98,206,900	98,853,200	91,292,882
	Related Revenue	(7,286,300)	(7,286,300)	(6,652,760)
	Net Budget	90,920,600	91,566,900	84,640,122

BUSINESS INVESTMENT CORPORATION
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MAY 30, 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



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Business Investment Corporation (the Corporation), which comprise the statement of financial position as at May 30, 2018, and the statement of operations and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at May 30, 2018, and the results of its operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Independent Auditor's Report (cont.)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Corporation financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (cont.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. I draw attention to Note 12 of the financial statements which outlines the restructuring of the Corporation's operations.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



JULIA MULLALEY, CPA, CA
Auditor General

June 3, 2019
St. John's, Newfoundland and Labrador

BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
As at

May 30,
2018

March 31,
2018

(Note 11)

(Note 11)

FINANCIAL ASSETS

Cash (Note 4)	\$ 26,585,260	\$ 26,803,677
Due from the Province	-	536,000
Bank interest receivable	32,847	33,263
HST receivable	3,962	3,245
Loans receivable and equity investments (Note 5)	14,683,976	14,082,733
	41,306,045	41,458,918

LIABILITIES

Accounts payable and accrued liabilities	-	-
	-	-
Net financial assets	41,306,045	41,458,918

NON-FINANCIAL ASSETS

Accumulated surplus	\$ 41,306,045	\$ 41,458,918
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Contingent liabilities (Note 6)
Contractual obligations (Note 7)

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 Period Ended

	May 30, 2018 Budget	May 30, 2018 Actual	March 31, 2018 Actual
	(Note 10)	(Note 11)	(Note 11)
REVENUES			
Contributions from Province Business Development Support Program (Note 9)	\$ 516,667	\$ -	\$ 3,636,000
Interest on loans	66,667	70,306	413,164
Other investment income	45,000	67,005	296,434
Recovery in value of loans receivable and equity investments (Note 5)	-	-	16,528
	628,334	137,311	4,362,126
EXPENSES			
Bank charges	250	361	1,148
Business Development Support Program	500,000	281,905	2,623,845
Decline in value of loans receivable and equity investments (Note 5)	61,667	7,918	-
	561,917	290,184	2,624,993
Annual (deficit) surplus	66,417	(152,873)	1,737,133
Accumulated surplus, beginning of year	41,458,918	41,458,918	39,721,785
Accumulated surplus, end of year	\$ 41,525,335	\$ 41,306,045	\$ 41,458,918

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

BUSINESS INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Period Ended

	May 30, 2018	March 31, 2018
	(Note 11)	(Note 11)
Operating transactions		
Annual (deficit) surplus	\$ (152,873)	\$ 1,737,133
Adjustment for non-cash items		
Decline (recovery) in value of loans receivable and equity investments	7,918	(16,528)
	(144,955)	1,720,605
Change in non-cash working capital		
Due from the Province	536,000	(536,000)
Bank interest receivable	416	(16,714)
HST receivable	(717)	(2,548)
Accounts payable and accrued liabilities	-	(15,993)
Cash provided from operating transactions	390,744	1,149,350
Investing transactions		
Increase in loans and equity investments	(912,914)	(4,595,226)
Collection of loans and equity investments	303,753	2,917,425
Cash applied to investing transactions	(609,161)	(1,677,801)
Decrease in cash	(218,417)	(528,451)
Cash, beginning of year	26,803,677	27,332,128
Cash, end of year	\$ 26,585,260	\$ 26,803,677

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

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 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. 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
May 30, 2018

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.

The carrying values of cash, due from the Province, bank interest receivable, and HST receivable 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.

(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.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 2018

2. Summary of significant accounting policies (cont.)

(f) Revenues (cont.)

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.

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.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 2018

3. Change in accounting policy

On April 1, 2018, the Corporation adopted *PS 3430 Restructuring Transactions*. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. In accordance with this standard, the Corporation has disclosed restructuring transactions in note 12.

4. Cash

	May 30, 2018	March 31, 2018
Aquaculture Working Capital Fund	\$ 864,873	\$ 862,781
Business Investment Program	16,142,796	16,640,581
Business Development Support Program	9,576,405	9,299,089
Other	1,186	1,226
	\$ 26,585,260	\$ 26,803,677

5. Loans receivable and equity investments

	May 30, 2018	March 31, 2018
Loans receivable		
Principal due and unpaid	\$ 6,109,696	\$ 6,245,734
Principal not yet due	15,971,743	15,348,902
Interest due and unpaid	636,163	634,170
	22,717,602	22,228,806
Less: allowance for decline in value	(8,222,343)	(8,346,001)
	14,495,259	13,882,805
Equity investments		
Equity investments, at cost	8,725,443	8,744,738
Less: allowance for decline in value	(8,536,726)	(8,544,810)
	188,717	199,928
Loans receivable and equity investments	\$ 14,683,976	\$ 14,082,733

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 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:

	May 30, <u>2018</u>	March 31, <u>2018</u>
Balance, beginning of year	\$ 16,890,811	\$ 17,472,675
Principal written off, net of recoveries	(114,344)	(403,266)
Interest written off, net of recoveries	(25,316)	(162,070)
Decline (recovery) in value of loans receivable and equity investments	7,918	(16,528)
Balance, end of year	\$ 16,759,069	\$ 16,890,811

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 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, and grants in the amount of \$5,263,076 as at May 30, 2018 (March 31, 2018 - \$4,284,848).

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 \$22,717,602 as at May 30, 2018 (March 31, 2018 - \$22,228,806). Principal due and unpaid of \$6,109,696 as at May 30, 2018 (March 31, 2018 - \$6,245,734) was overdue by portfolio as follows:

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
 May 30, 2018

8. Financial risk management (cont.)

Loan Portfolio	Days Overdue				
	1-30	31-60	61-90	>90	Total
Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 549,683	\$ 549,683
Business Investment Corporation	10,247	12,145	-	932,861	955,253
Former Enterprise Newfoundland and Labrador	-	100	100	3,948,747	3,948,947
Former Farm Loan Board	-	-	-	402,447	402,447
Former Fisheries Loan Board	-	-	-	253,366	253,366
Total Principal Past Due	\$ 10,247	\$ 12,245	\$ 100	\$ 6,087,104	\$ 6,109,696

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 to 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 \$nil (March 31, 2018 - \$3,636,000) 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 \$220,185 (March 31, 2018 - \$1,219,450) are paid directly by the Province. Included in this total is \$27,884 (March 31, 2018 - \$142,975) 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.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 30, 2018

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 for the period.

11. Fiscal period

The current period figures are for the period April 1, 2018 to May 30, 2018. The comparative figures are for the year ended March 31, 2018.

12. Restructuring transactions

On May 31, 2018, the Province of Newfoundland and Labrador (the Province) repealed the *Business Investment Corporation Act* and enacted legislation to establish the Innovation and Business Investment Corporation (IBIC) as a successor to the Corporation. The assets totaling \$41.3 million and contractual obligations totaling \$5.3 million of the Corporation will transfer to IBIC. IBIC 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.

**RESEARCH & DEVELOPMENT CORPORATION
OF NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

May 30, 2018

Management Certification

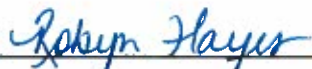
The accompanying financial statements of the Research & Development Corporation of Newfoundland and Labrador have been prepared by the Corporation's management in accordance with Canadian Public Sector Accounting Standards.

Management is responsible for the integrity and objectivity of the information contained in these financial statements, including the note disclosures. Some of the information in the financial statements is based on management's best estimate and judgment, and gives due consideration to materiality.

Management has developed and maintains a financial and management control system and practices designed 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 to maintain accountability of Research & Development Corporation of Newfoundland and Labrador funds.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and meets periodically with management to review and discuss the financial information. The Auditor General of Newfoundland and Labrador conducts an independent audit of the annual financial statements of the Research & Development Corporation of Newfoundland and Labrador in accordance with Canadian auditing standards in order to express an opinion thereon. The Auditor General has full and free access to the financial management of the Research & Development Corporation of Newfoundland and Labrador and meets when required.



Robyn Hayes, CPA, CMA
Departmental Controller
Department of Municipal Affairs and
Environment

St. John's, Newfoundland and Labrador



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Research & Development Corporation of Newfoundland and Labrador (the Corporation), which comprise the statement of financial position as at May 30, 2018, and the statement of operations, statement of change in net financial assets and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at May 30, 2018, and the results of its operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Independent Auditor's Report (cont.)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

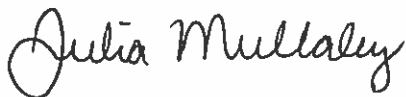
As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (cont.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. I draw attention to Note 14 of the financial statements which outlines the restructuring of the Corporation's operations.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



JULIA MULLALEY, CPA, CA
Auditor General

June 25, 2019
St. John's, Newfoundland and Labrador

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF FINANCIAL POSITION

As at

	May 30, 2018 \$ (Note 13)	March 31, 2018 \$ (Note 13)
FINANCIAL ASSETS		
Cash and cash equivalents	38,556,910	36,236,833
Receivables	77,829	30,307
	<u>38,634,739</u>	<u>36,267,140</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	2,882,770	2,483,662
	<u>35,751,969</u>	<u>33,783,478</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	6,775	8,282
Accumulated surplus	<u>35,758,744</u>	<u>33,791,760</u>

Contractual obligations (Note 7)

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

Signed on behalf of the Board:


Director


Director

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF OPERATIONS

For the period ended

	May 30, 2018 \$	May 30, 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
REVENUE			
Government grants	2,291,700	3,500,000	17,397,500
Investment income	70,700	109,411	431,973
Other income	0	630	27,541
	<u>2,362,400</u>	<u>3,610,041</u>	<u>17,857,014</u>
EXPENSES (Note 8)			
Program expenses – Academic	1,125,000	927,358	5,966,869
Program expenses – Business	1,166,700	707,424	8,636,063
R&D Solutions	1,500	1,507	432,436
Operating expenses	5,300	6,768	2,375,409
	<u>2,298,500</u>	<u>1,643,057</u>	<u>17,410,777</u>
Surplus	63,900	1,966,984	446,237
Accumulated surplus, beginning of year	<u>33,791,760</u>	<u>33,791,760</u>	<u>33,345,523</u>
Accumulated surplus, end of year	<u>33,855,660</u>	<u>35,758,744</u>	<u>33,791,760</u>

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

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the period ended

	May 30, 2018 \$	May 30, 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
Surplus	63,900	1,966,984	446,237
Acquisition of tangible capital assets	-	-	(2,956)
Amortization of tangible capital assets	-	-	93,693
Net book value of tangible capital asset disposals	-	-	569,589
	-	-	660,326
Acquisition of prepaid expenses	-	(6,775)	(8,282)
Use of prepaid expenses	-	8,282	42,902
	-	1,507	34,620
Increase in net financial assets	63,900	1,968,491	1,141,183
Net financial assets, beginning of year	33,783,478	33,783,478	32,642,295
Net financial assets, end of year	33,847,378	35,751,969	33,783,478

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF CASH FLOWS

For the period ended

	May 30, 2018 \$	March 31, 2018 \$
	(Note 13)	(Note 13)
OPERATING TRANSACTIONS		
Surplus	1,966,984	446,237
Non-cash items		
Loss on disposal of tangible capital assets	-	569,589
Amortization of tangible capital assets	-	93,693
Increase in receivables	(47,522)	(9,965)
Decrease in prepaid expenses	1,507	34,620
Increase in accounts payable and accrued liabilities	399,108	743,544
Decrease in deferred revenue	-	(22,404)
Cash provided by operating transactions	2,320,077	1,855,314
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	-	(2,956)
Cash applied to capital transactions	-	(2,956)
Net increase in cash and cash equivalents	2,320,077	1,852,358
Cash and cash equivalents, beginning of year	36,236,833	34,384,475
Cash and cash equivalents, end of year	38,556,910	36,236,833

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

1. Nature of operations

The Research & Development Corporation of Newfoundland and Labrador (the Corporation) is incorporated under the authority of the *Research and Development Council Act* and is funded by the Province of Newfoundland and Labrador (the Province). The *Research and Development Council Act* came into effect December 18, 2009. The objective of the Corporation is to strengthen the focus, quantity, quality, and relevance of research and development (R&D) undertaken within the Province and elsewhere for the long-term economic benefit of the Province.

The affairs of the Corporation are managed by a Board of Directors (the Board) appointed by the Lieutenant-Governor in Council. The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

In July 2017, the management of the Corporation was transferred to the Department of Tourism, Culture, Industry and Innovation.

2. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (CPSA Standards) which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. By their nature these estimates are subject to measurement uncertainty. The most significant item for which estimates are used is the useful life of tangible capital assets. 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.

Basis of presentation

These financial statements include the accounts relating to the operations carried on under the name of the Corporation, and have been prepared by the Corporation's management in accordance with CPSA Standards.

Cash and cash equivalents

Cash and cash equivalents consists of cash in bank.

Revenue recognition

The Corporation recognizes the receipt of government transfers as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for the Corporation. Government transfers consist of funding from the Province of Newfoundland and Labrador. Investment income is recognized as earned. Revenue generated from the R&D Solutions line of business is included in other income and is recognized in the period it is earned.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

2. Summary of significant accounting policies (cont.)

Expenses

The Corporation recognizes expenses on an accrual basis. The cost of all goods consumed and services received during the period is expensed. Program grants are accounted for as government transfers and are recorded as expenses when they are authorized, when eligibility criteria have been met by the recipient, and when a reasonable estimate of the amount can be made.

3. Change in accounting policy

On April 1, 2018, the Corporation adopted *PS 3430 Restructuring Transactions*. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. In accordance with this standard, the Corporation has disclosed restructuring transactions in Note 14.

4. Risk management

The Corporation's management recognizes the importance of managing significant risks and this includes policies, procedures and oversight designed to reduce the risks identified to an appropriate threshold. The Board is provided with timely and relevant reports on the management of significant risks. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change to 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 and cash equivalents and receivables. The Corporation's maximum exposure to credit risk is the carrying amount of these financial instruments. The Corporation is not exposed to significant credit risk with its cash and cash equivalents because these financial instruments are held with a Chartered Bank. The Corporation is not exposed to significant credit risk with its receivables, as these amounts are due primarily from a Chartered Bank or the Government of Canada. Accordingly, there is no allowance for doubtful accounts as all amounts are considered collectible.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

4. Risk management (cont.)

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities as they come due. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities and its contractual obligations as disclosed in Note 7. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its obligations and liabilities. The Corporation also has access to a credit facility as outlined in Note 11.

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, interest rate or other price risk.

5. Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, receivables, 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. The Corporation subsequently measures all of its financial assets and financial liabilities at cost.

The carrying value of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate fair value due to their nature and the short-term maturity associated with these instruments.

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

6. Accounts payable and accrued liabilities

	May 30, 2018	March 31, 2018
	\$	\$
Province of Newfoundland and Labrador	1,500,000	1,500,000
Programs grants payable	1,249,105	817,809
Trade accounts payable & accruals	133,665	165,853
	<u>2,882,770</u>	<u>2,483,662</u>

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

7. Contractual obligations

The Corporation has outstanding contractual obligations under its various programs in respect of approved but not yet disbursed funds in the amount of \$22,468,546. Approximate payment of these obligations in future years is as follows:

	Programs
	\$
2019	14,207,996
2020	5,338,046
2021	1,757,129
2022	633,058
2023	532,317
	22,468,546

8. Expenses

The statement of operations presents the expenses of the Corporation by function. The following table presents them by nature:

	May 30 2018 \$	May 30 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
Program grants	2,291,700	1,634,782	13,914,311
Salaries and benefits	-	-	2,236,238
Purchased services	6,800	8,275	434,262
Professional services	-	-	162,684
Amortization of tangible capital assets	-	-	93,693
Loss on disposal of tangible capital assets	-	-	569,589
Total expenses	2,298,500	1,643,057	17,410,777

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

9. Related party transactions

These financial statements include transactions with related parties. The Corporation is related, as a result of common ownership, to all Crown corporations and agencies of the Province.

During the period, the Corporation had the following related party transactions:

- Program grants expense to related parties of \$481,552 (year ended March 31, 2018 - \$5,460,313).
- Purchased supplies and services from related parties for \$0 (year ended March 31, 2018 - \$345,916).

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Administration expenses are paid directly by the Province. These costs are considered to be unallocated costs and are not recognized in these financial statements.

10. Contingent liability

A former employee of the Corporation has taken legal action. The amount of this potential claim is unknown. No provision has been made for this claim, as the likelihood of loss against the Corporation is not determinable at this time.

11. Credit facilities

Subject to the prior approval of the Lieutenant-Governor in Council and the Board, the Corporation may borrow money for purposes related to the attainment of its objectives as set out in the *Research and Development Council Act*. At May 30, 2018, the Corporation had available a revolving credit facility of up to \$1,000,000 bearing interest at prime. A letter of credit of up to \$50,000 bearing interest at 1% has been inactive since March 31, 2018.

12. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the original estimates provided by Management.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

13. Fiscal period

The current period figures are for the period April 1, 2018 to May 30, 2018. The comparative figures are for the year ended March 31, 2018.

14. Restructuring transactions

On May 31, 2018, the Province of Newfoundland and Labrador (the Province) repealed the *Research and Development Council Act* and enacted legislation to establish the Innovation and Business Investment Corporation (IBIC) as a successor to the Corporation. The assets totaling \$38.6 million, accounts payable and accrued liabilities \$2.9 million, contractual obligations totaling \$22.5 million and contingent liability as per Note 10 of the Corporation will transfer to IBIC. IBIC 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.

15. Comparative figures

Certain comparative figures have been restated to conform to the current period's presentation.

**INNOVATION AND BUSINESS
INVESTMENT CORPORATION**

FINANCIAL STATEMENTS

**FOR THE PERIOD ENDED
MARCH 31, 2019**

Management's Report

Management's Responsibility for the Innovation and 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 Innovation and 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 Innovation and Business Investment Corporation.

On behalf of the Innovation and Business Investment Corporation.



Ms. Judith Hearn
Assistant Deputy Minister (Business)



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Innovation and Business Investment Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2019, and the statement of operations and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2019, and the results of its operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Independent Auditor's Report (cont.)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (cont.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



JULIA MULLALEY, CPA, CA
Auditor General

September 19, 2019
St. John's, Newfoundland and Labrador

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at

**March 31,
2019**

**May 31,
2018**

(Note 12)

(Note 13)

FINANCIAL ASSETS

Cash (Note 4)	\$ 64,665,923	\$ 65,142,170
Bank interest receivable	43,463	87,701
HST receivable	28,065	25,314
Accounts receivable	-	1,623
<u>Loans receivable and equity investments (Note 5)</u>	<u>15,785,089</u>	<u>14,683,976</u>
	80,522,540	79,940,784

LIABILITIES

<u>Accounts payable</u>	<u>1,033,474</u>	<u>2,882,770</u>
	1,033,474	2,882,770
<u>Net financial assets</u>	<u>79,489,066</u>	<u>77,058,014</u>

NON-FINANCIAL ASSETS

<u>Prepaid expenses</u>	<u>8,281</u>	<u>6,775</u>
<u>Accumulated surplus</u>	<u>\$ 79,497,347</u>	<u>\$ 77,064,789</u>

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:


 Board Member


 Board Member

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF OPERATIONS
For the Period Ended March 31

	2019 Budget	2019 Actual
	(Note 11)	(Note 12)
REVENUES		
Contributions from Province		
Research and Development Program (Note 10)	\$ 11,458,300	\$ 10,250,000
Business Development Support Program (Note 10)	2,571,700	3,086,000
Investment income	578,300	1,218,075
Interest on loans	335,000	407,014
	14,943,300	14,961,089
EXPENSES (Note 6)		
Research and Development Program	11,458,300	8,730,154
Business Development Support Program	2,500,000	1,893,198
Business Investment Program	308,500	1,889,924
Administration	15,450	15,255
	14,282,250	12,528,531
Annual surplus	661,050	2,432,558
Net restructuring revenue (Note 13)	77,064,789	77,064,789
Accumulated surplus, end of period	\$ 77,725,839	\$ 79,497,347

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Period Ended March 31

2019

(Note 12)

Operating transactions

Annual surplus	\$ 2,432,558
Adjustment for non-cash items	
Decline in value of loans receivable and equity investments (Note 5)	1,889,924
	<u>4,322,482</u>
Change in non-cash working capital	
Bank interest receivable	44,238
HST receivable	(2,751)
Accounts receivable	1,623
Accounts payable	(1,849,296)
Prepaid expenses	(1,506)
	<u>2,514,790</u>
Cash provided from operating transactions	2,514,790
Investing transactions	
Increase in loans and equity investments	(6,300,440)
Collection of loans and equity investments	3,309,403
	<u>(2,991,037)</u>
Cash applied to investing transactions	(2,991,037)
Decrease in cash	(476,247)
Cash, beginning of period	65,142,170
Cash, end of period	\$ 64,665,923

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

1. Nature of operations

The Innovation and Business Investment Corporation (the Corporation) was established under the authority of the *Innovation and Business Investment Corporation Act* (the *Act*). The Corporation is funded by the Province of Newfoundland and Labrador (the Province). The Corporation administers three funding programs: Business Investment Program, Business Development Support Program and Research and Development Program.

The *Act* came into force effective May 31, 2018. Under the *Act*, the Corporation was incorporated and became the successor to the Business Investment Corporation (BIC) and the Research and Development Corporation of Newfoundland and Labrador (RDC). The Corporation is responsible to make strategic funding investments in innovation and business growth in the Province to advance economic development in accordance with the priorities of the Government.

The affairs of the Corporation are managed by a Board of Directors (the Board) appointed by the Lieutenant-Governor in Council. The 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, bank interest receivable, HST receivable, accounts receivable, loans receivable and equity investments and accounts payable. 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.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, bank interest receivable, HST receivable and accounts 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.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, bank interest receivable, HST receivable, accounts receivable and accounts payable 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.

(f) Prepaid expenses

Prepaid expenses are charged to expenses over the periods expected to benefit from it.

(g) 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.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

2. Summary of significant accounting policies (cont.)

(g) Revenues (cont.)

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.

(h) 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 and Research and Development 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.

(i) 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.

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.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

3. Accounting policy

On May 31, 2018, the Corporation adopted *PS 3430 Restructuring Transactions*. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. In accordance with this standard, the Corporation has disclosed restructuring transactions in note 13.

4. Cash

	March 31, 2019	May 31, 2018
Business Development Support Program	\$ 10,914,302	\$ 9,576,405
Business Investment Program	14,805,800	17,008,855
Research and Development Program	38,945,821	38,556,910
	\$ 64,665,923	\$ 65,142,170

5. Loans receivable and equity investments

	March 31, 2019	May 31, 2018
Loans receivable		
Principal due and unpaid	\$ 5,186,007	\$ 6,109,696
Principal not yet due	19,849,936	15,971,743
Interest due and unpaid	669,767	636,163
	25,705,710	22,717,602
<u>Less: allowance for decline in value</u>	<u>(10,092,700)</u>	<u>(8,222,343)</u>
	15,613,010	14,495,259
Equity investments		
Equity investments, at cost	8,150,782	8,725,443
<u>Less: allowance for decline in value</u>	<u>(7,978,703)</u>	<u>(8,536,726)</u>
	172,079	188,717
Loans receivable and equity investments	\$ 15,785,089	\$ 14,683,976

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

5. Loans receivable and equity investments (cont.)

Generally, for loans, the loan terms are 5 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 9%. The Corporation obtains security against its loans which generally consists of demand promissory notes, general security agreements, collateral mortgages and personal guarantees.

For equity investments made prior to January 29, 2019, redemption will be the earlier of 20% of annual after tax cash flows or 7 years. All subsequent equity investments will be in the form of Class B non-voting common shares. These shares are retractable by the Company when, and on what terms, it provides confirmation there is no set schedule of redemption/retraction. 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>2019</u>
Balance, beginning of period	\$ 16,759,069
Principal written off, net of recoveries	(545,067)
Interest written off, net of recoveries	(32,523)
Decline in value of loans receivable and equity investments	1,889,924
Balance, end of period	\$ 18,071,403

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

6. Expenses

The statement of operations presents the expenses of the Corporation by function. The following table presents them by nature.

	2019 <u>Budget</u> (Note 11)	2019 <u>Actual</u> (Note 12)
Business Development Support Program - grants	\$ 2,500,000	\$ 1,893,198
Decline in value of loans receivable and equity investments (Note 5)	308,500	1,889,924
Professional services	5,450	7,647
Purchased services	10,000	7,608
Research and Development Program - Non-commercial grants	5,625,000	3,947,481
<u>Research and Development Program - Commercial grants</u>	<u>5,833,300</u>	<u>4,782,673</u>
	\$ 14,282,250	\$ 12,528,531

7. Contingent liabilities

- (a) A client of the former BIC 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.
- (b) An employee of the former RDC has taken legal action. The amount of this potential claim is unknown. No provision has been made for this claim, as the likelihood of loss against the Corporation is not determinable at this time.

8. Contractual obligations

The Corporation has contractual obligations under its various programs in respect of approved but not yet disbursed funds in the amount of \$26,230,494. Approximate payment of these obligations in future years is as follows:

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

8. Contractual obligations (cont.)

Research and Development Program	
2019	\$ 4,000,002
2020	11,543,824
2021	3,345,911
2022	992,921
2023	597,578
	<hr/>
	20,480,236
Business Investment Program	3,260,393
Business Development Support Program	2,314,865
Other	<hr/>
	175,000
	<hr/>
	\$ 26,230,494

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.

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, bank interest receivable, HST receivable, accounts 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 bank interest receivable, HST receivable and accounts 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.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

9. Financial risk management (cont.)

As disclosed in note 5, the Corporation reported loans receivable totaling \$25,705,710 as at March 31, 2019. Principal due and unpaid of \$5,186,007 as at March 31, 2019 was overdue by portfolio as follows:

Loan Portfolio	Days Overdue				
	1-30	31-60	61-90	>90	Total
Former Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 549,683	\$ 549,683
Former Business Investment Corporation	13,525	13,245	13,250	1,031,711	1,071,731
Former Enterprise Newfoundland and Labrador	100	100	100	2,944,117	2,944,417
Former Farm Loan Board	-	-	-	380,382	380,382
Former Fisheries Loan Board	-	-	-	239,794	239,794
Total Principal Past Due	\$13,625	\$13,345	\$13,350	\$5,145,687	\$5,186,007

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 to its ability to meet its contractual obligations for approved but not yet disbursed loans and grants as outlined in note 8 and its accounts payable. 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. Related party transactions

These financial statements include transactions with related parties. The Corporation is related, as a result of common ownership, to all Crown corporations and agencies of the Province.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

10. Related party transactions (cont.)

During the period, the Corporation had the following related party transactions:

- Program grants expense to related parties of \$3,786,052 as follows:

• Memorial University of Newfoundland	\$ 2,931,042
• C-Core	825,213
• College of the North Atlantic	<u>29,797</u>
	<u>\$ 3,786,052</u>

- The Corporation received \$3,086,000 from the Province related to the Business Development Support Program and \$10,250,000 related to the Research and Development Program.

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Estimated administration expenses of \$1,112,614 are paid directly by the Province. Included in this total is \$140,899 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.

11. Budget

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

12. Fiscal period

The current period figures are for the period May 31, 2018 to March 31, 2019.

13. Restructuring transactions

On May 31, 2018, the Province repealed the *Business Investment Corporation Act* and the *Research and Development Council Act*, and enacted legislation to establish the Corporation as a successor to BIC and RDC. As a result of this restructuring transaction, the following assets, liabilities and contractual obligations were transferred from BIC and RDC to the Corporation on May 31, 2018.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2019

13. Restructuring transactions (cont.)

Category	Former BIC	Former RDC	IBIC
FINANCIAL ASSETS			
Cash	\$ 26,585,260	\$ 38,556,910	\$ 65,142,170
Bank interest receivable	32,847	54,854	87,701
HST receivable	3,962	21,352	25,314
Accounts receivable	-	1,623	1,623
Loans receivable and equity investments	14,683,976	-	14,683,976
	41,306,045	38,634,739	79,940,784
LIABILITIES			
Accounts payable	-	2,882,770	2,882,770
	-	2,882,770	2,882,770
Net financial assets	41,306,045	35,751,969	77,058,014
NON-FINANCIAL ASSETS			
Prepays	-	6,775	6,775
Accumulated surplus	\$ 41,306,045	\$ 35,758,744	\$ 77,064,789
Net restructuring revenue	\$ 41,306,045	\$ 35,758,744	\$ 77,064,789
Contractual obligations			
Grants	\$ 2,254,440	\$ 22,468,546	\$ 24,722,986
Loans	3,008,636	-	3,008,636
	\$ 5,263,076	\$ 22,468,546	\$ 27,731,622

Also, the Corporation assumed contingent liabilities from BIC and RDC as disclosed in note 7.

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Paper

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