

Innovation and Business Investment Corporation

Activity Report 2020-21

Message from the Chair

As Chair of the Board of Directors of the Innovation and Business Investment Corporation (the Corporation), I am pleased to present the annual activity report of the Corporation for the fiscal year ending March 31, 2021. This activity report is submitted in accordance with the entity's obligation as a category three entity under the **Transparency and Accountability Act**. It has been prepared under the direction of the Board, which is accountable for the actual results reported herein.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Dobbin', with a period at the end.

Mark Dobbin
Chairperson

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Entity Overview

Organizational Structure

The Innovation and Business Investment Corporation (the Corporation/IBIC) operates as a Crown Agency reporting to the Minister of Industry, Energy and Technology (IET). It was established on May 31, 2018 under the **Innovation and Business Investment Corporation Act**.

Board of Directors

The work of the Corporation is managed by an independent Board of Directors (the Board) appointed by the Lieutenant-Governor in Council. The Board exercises all of the powers and duties of the Corporation as well administers and manages its business. It meets, as necessary, in order to fulfil its mandate. A sub-committee of the Board meets bi-weekly or at the call of the Chair.

The Board has delegated authority to Regional Managers of IET to render decisions on accounts in which total funding outstanding does not exceed \$49,999. Select Directors of IET, as approved by the Board, have authority to render decisions on accounts in which total funding ranges from \$50,000 - \$149,999. Similarly, the Innovation and Business Investment Management Committee has the authority to render decisions on accounts that exceed the Directors' limit, up to \$749,999. Full Board approval is required on accounts in excess of \$750,000.

IET provides administrative support and delivers programs for the Corporation. Departmental staff receive, evaluate, and, depending on the level of delegated authority outlined above, make funding decisions under all programs administered by the Corporation. Departmental staff also manage and monitor revenue forecasts and collections as well as maintain accounting records for the province-wide portfolio of loans, equity and grants.

Funding for the Corporation's programs is provided through IET's budget.

Programs

The Corporation is responsible for the administration of the following programs:

Research and Development (R&D): provides non-repayable contributions to help businesses gain access to scientific and technical equipment, expertise, and research facilities to improve their capacity to undertake R&D. It also provides non-repayable contributions to non-commercial entities for the development and implementation of research and innovation projects to strengthen R&D capacity, innovation ecosystem and impact the provincial economy through growth and diversification.

<https://www.gov.nl.ca/iet/funding/research-and-development/>

Business Investment Program (BIP): provides loans and equity investments, with particular emphasis on support to businesses that have export potential and need assistance to enter or expand into external markets.

<https://www.gov.nl.ca/iet/funding/business-investment-program/>

Business Development Support Program (BDSP): provides non-repayable contributions to businesses with opportunities to increase productivity and improve competitiveness, with a key objective to help businesses gain access to national and international markets.

<https://www.gov.nl.ca/iet/funding/business-development-support-program/>

Fisheries Loan Guarantee Program (FLGP): supports the development of the province's independent fish harvesting industry by providing a government guarantee on loans through local chartered banks and credit unions, for the construction or purchase of marine vessels and/or to purchase new engines and fishing equipment for the improvement, rebuilding or alteration of existing vessels. Loans may also be approved to refinance loans previously obtained from fish processors for fixed asset costs. Also, the program is used to support combining of enterprises and license acquisitions. The investments are reviewed by the Board of the Corporation, with guarantees issued by the

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province and the liability is shown in provincial accounts.
<https://www.gov.nl.ca/iet/funding/fisheries-loan-guarantee-program/>

Highlights and Partnerships

The Government of Newfoundland and Labrador (GNL) actioned several supports in 2020-21 to assist individuals, businesses and communities with pandemic-related challenges. For example, GNL introduced the Small Business Assistance Program (SBAP) and Tourism and Hospitality Support Program (THSP) to assist small businesses, community organizations and tourism operators in the province. The funding for these programs was allocated to IBIC, with both programs supporting eligible applicants impacted by revenue losses and increased costs associated with adapting businesses and enhancing health and safety protocols.

In June 2020, the former Department of Tourism, Culture, Industry and Innovation launched the THSP with eligible tourism and hospitality based operators receiving a one-time, non-repayable contribution of either \$5,000 or \$10,000, dependent on gross sales. In total, 1217 applications were approved.

The SBAP was launched in October 2020 with eligible small businesses and organizations receiving a one-time non-repayable contribution of \$5,000, \$7,500 or \$10,000. A total of 4065 applications were approved.

During the year, temporary policy changes to existing programs were approved by the IBIC board. For example, the hiring eligibility for commercial R&D projects was temporarily increased. Specifically, salary support for up to six positions can be considered for eligible commercial R&D projects, positions can include existing employees, new employees, or a combination of both. This temporary policy pertains to applications received by September 30, 2021. In addition, contribution levels have been temporarily increased for eligible project applications under R&D commercial and Business Development Support. Eligible costs can be considered for up to 75 per cent, up from 50 per cent, for applications received by September 30, 2021.

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Additionally, from April 2020 to January 2021, the IBIC board approved a blanket temporary deferral of loan payments for all clients with business loans under IBIC's Business Investment Fund.

The Corporation invested in a diversified portfolio of companies and sectors. There was strong collaboration between departmental staff and the Corporation's Board through the process of reviewing, assessing, and funding projects that support business development, research and development, and innovation-related activities across the province. The Department's annual report highlights examples including:

- Rutter Inc. - \$743,822 invested under the Research and Development Fund toward the Ocean Supercluster IoT Project to increase operational efficiencies, foster collaboration between ocean sectors, and enable marine-related research delivered with greater accuracy, efficiency, and access to customers. For the research community, this project will provide the ability to receive real-time data from offshore operations that can be used to support their research and validation work in ice drift modelling, oceanographic forecasting, oil spill drift modelling, and other areas.
- Colab Software - \$578,750 invested under the Research and Development Fund for Colab Software Inc., makers of advanced design and manufacturing collaboration software. Colab's technology serves multi-national Fortune 500 companies in the energy, automotive and aerospace and defence sectors. This project will develop and incorporate into its technology an extensive engineering communication system that is integrated with three-dimensional design and work instruction.
- Big Land Fishing Lodge & Tours - \$29,355 invested under the Business Development Support Program. The owners of this new start up in Southern Labrador will offer Atlantic salmon angling and other tourism related experiences in the area to breathe new life into the facility they recently acquired. The support will help implement the company's marketing plan for the fishing and tour packages through social media platforms and related training, website development, signage and other print advertising concentrating on "stay-cations" during the pandemic.

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- Memorial University Project led by Dr. Charles Mather titled Leveraging OFI fisheries and aquaculture research to enhance the future economic sustainability of NL's aquaculture industry and small-scale fisheries – \$305,040 invested under the Research and Development Fund. The objective of the project is to assist with issues essential to the economic sustainability of NL aquaculture and small-scale fisheries, particularly in response to environmental stressors, such as climate change and market disruptions.
- SubC Control Limited – \$75,000 invested under the Business Development Support Program. Located in Clarenville, SubC Control Limited develops and commercializes some of the most advanced underwater imaging systems in the world. Over 70% of their revenue is export based with clients in over 20 different countries. The objective is to support the company's digital marketing campaign to drive customer traffic to their website to generate sales leads, remain competitive in their market segment, and help grow potential sales and staffing.

Leveraged Funds

IBIC's investment across multiple sectors and regions of the province helped to promote industrial collaboration and advance funding partnerships. In fiscal 2020-21, IBIC investment totaled \$20,518,867 and leveraged \$37,614,590 in funds from various partners, including BDSP, BIP Loans, and R&D investments. It does not include FLGP.

Report on Performance

Strategic Issue: Made new investments

In consideration of the mandate and financial resources of the Board of Directors of IBIC, the Board reports on the objective and indicators below, through its activity reports, for each fiscal year of its 2020-23 activity plan.

2020-21 Objective 1

By March 31, 2021, the Corporation will have stimulated innovation, research and development, and business investment activity in Newfoundland and Labrador.

Indicators:

- Made investments in commercial and non-commercial innovation, business development, and research and development projects.

During 2020-21 IBIC R&D invested a total of \$13,190,282 in 56 R&D projects. The investment in R&D and innovation clients (commercial and non-commercial) was made in various sectors, to advance partnership and to collaborate on innovation activities throughout the province. The Corporation's investments led to partners leveraging funds to support R&D and innovation. The investment in R&D by the Corporation leveraged \$28,981,732 in partnerships. Through the commercial R&D funding, the Corporation invested in 34 business-led projects with an investment of \$7,687,410. The funding is a non-repayable contribution to businesses that supports projects that reduce the technical and financial risk of projects where R&D is required to realize the commercial potential of innovative products, processes or services. Through R&D non-commercial funding, the Corporation invested \$5,502,872 across 22 non-commercial projects. The funding provides support through non-repayable contributions to academic and research institutions for the development and implementation of research and innovation projects for the long-term economic benefit of Newfoundland and Labrador.

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During 2020-21, through BDSP, 110 projects were approved for a total of \$5,361,359 in funding which leveraged \$6,155,131 in partnership funding.

During 2020-21, through BIP, 17 projects were approved for a total of \$1,967,226 in funding which leveraged \$2,477,727 in partnership funding.

- Managed revenues on loan portfolio.

In 2020-21, the Corporation managed a total loan portfolio of \$36,111,100.

2020-21 Objective 2

By March 31, 2021, the Corporation will have successfully managed its investment portfolio.

Indicator:

- Percentage of projected annual revenues collected.

Revenue is collected annually for the loan portfolio. In 2020-21, the projected revenues for the IBIC portfolios was \$763,944. As a result of collection efforts, the actual amount collected was \$1,170,234.

Financial Information

**INNOVATION AND BUSINESS
INVESTMENT CORPORATION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
MARCH 31, 2021**

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. Fiona Langor
Assistant Deputy Minister - Business and
Innovation
Innovation, Energy and Technology



OFFICE OF THE AUDITOR GENERAL
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, 2021, and the statement of operations and statement of cash flows for the year 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, 2021, and the results of its operations and its cash flows for the year 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:

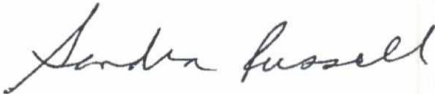
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.

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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.



SANDRA RUSSELL, CPA, CA
Deputy Auditor General

September 27, 2021
St. John's, Newfoundland and Labrador

ACTIVITY REPORT 2020-21

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
 As at March 31

	2021	2020
FINANCIAL ASSETS		
Cash (Note 3)	\$ 67,549,675	\$ 69,246,832
Bank interest receivable	8,057	27,355
Due from Province of Newfoundland and Labrador (Note 9)	5,896,394	-
HST receivable	458	1,593
Loans receivable and equity investments (Note 4)	17,629,818	15,628,897
	<u>91,084,402</u>	<u>84,904,677</u>
LIABILITIES		
Accounts payable	708,368	1,095,263
	<u>708,368</u>	<u>1,095,263</u>
Net financial assets	<u>90,376,034</u>	<u>83,809,414</u>
Accumulated surplus	<u>\$ 90,376,034</u>	<u>\$ 83,809,414</u>

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: Jiana D'Amico Board Member Gail Spina Board Member

ACTIVITY REPORT 2020-21

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

	2021 Budget	2021 Actual	2020 Actual
	(Note 10)		Restated (Note 12)
REVENUES			
Contributions from Province Research and Development Program (Note 9)	\$ 13,750,000	\$ 13,750,000	\$ 13,750,000
Business Development Support Program (Note 9)	3,086,000	3,086,000	3,086,000
Recovery in value of loans receivable and equity investments (Note 4)	-	1,364,803	-
Investment income	620,000	607,111	1,340,153
Interest on loans	200,000	96,923	534,515
	<u>17,656,000</u>	<u>18,904,837</u>	<u>18,710,668</u>
EXPENSES (Note 5)			
Research and Development Program	13,750,000	9,621,559	9,681,415
Business Development Support Program	3,000,000	2,703,638	2,568,462
Business Investment Program	500,000	-	2,117,530
Administration	5,500	13,020	31,194
	<u>17,255,500</u>	<u>12,338,217</u>	<u>14,398,601</u>
Annual surplus	400,500	6,566,620	4,312,067
Accumulated surplus, beginning of year	83,809,414	83,809,414	79,497,347
Accumulated surplus, end of year	\$ 84,209,914	\$ 90,376,034	\$ 83,809,414

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

ACTIVITY REPORT 2020-21

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

	2021	2020
		Restated (Note 12)
Operating transactions		
Annual surplus	\$ 6,566,620	\$ 4,312,067
Adjustment for non-cash items		
(Recovery) decline in value of loans receivable and equity investments (Note 4)	(1,364,803)	2,117,530
	5,201,817	6,429,597
Change in non-cash working capital		
Bank interest receivable	19,298	16,108
HST receivable	1,135	26,472
Due from Province of Newfoundland and Labrador	(5,896,394)	-
Accounts payable	(386,895)	61,789
Prepaid expenses	-	8,281
Cash (applied to) provided from operating transactions	(1,061,039)	6,542,247
Investing transactions		
Increase in loans and equity investments	(1,806,352)	(5,175,906)
Collection of loans and equity investments	1,170,234	3,214,568
Cash applied to investing transactions	(636,118)	(1,961,338)
(Decrease) increase in cash	(1,697,157)	4,580,909
Cash, beginning of year	69,246,832	64,665,923
Cash, end of year	\$ 67,549,675	\$ 69,246,832

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2021

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 and the Research and Development Corporation of Newfoundland and Labrador. 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 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, due from Province of Newfoundland and Labrador, HST 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.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2021

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, bank interest receivable, due from Province of Newfoundland and Labrador, and HST receivable. Loans receivable and equity investments are measured at amortized cost as disclosed in notes 2(d), 2(e) and 4. Financial liabilities measured at cost include accounts payable.

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2021

2. Summary of significant accounting policies (cont.)

(f) Revenues

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

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

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

(g) Expenses

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

The Corporation is administered by the Department of Industry, Energy and Technology. 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.

(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 year. Items requiring the use of significant estimates include collectability of the loans and equity investments.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2021

2. Summary of significant accounting policies (cont.)

(h) Measurement uncertainty (cont.)

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

3. Cash

	<u>2021</u>	<u>2020</u>
Business Development Support Program	\$ 6,197,583	\$ 11,646,261
Business Investment Program	13,189,629	13,665,776
Research and Development Program	48,162,463	43,934,795
	<u>\$ 67,549,675</u>	<u>\$ 69,246,832</u>

4. Loans receivable and equity investments

	<u>2021</u>	<u>2020</u>
		Restated (Note 12)
Loans receivable		
Principal due and unpaid	\$ 6,542,778	\$ 6,301,675
Principal not yet due	21,106,144	20,749,929
Interest due and unpaid	733,256	711,936
	<u>28,382,178</u>	<u>27,763,540</u>
Less: allowance for decline in value	<u>(11,290,471)</u>	<u>(12,233,422)</u>
	<u>17,091,707</u>	<u>15,530,118</u>
Equity investments		
Equity investments, at cost	7,728,922	7,838,085
Less: allowance for decline in value	<u>(7,190,811)</u>	<u>(7,739,306)</u>
	<u>538,111</u>	<u>98,779</u>
Loans receivable and equity investments	<u>\$ 17,629,818</u>	<u>\$ 15,628,897</u>

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2021

4. 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 10%. 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>2021</u>	<u>2020</u>
		Restated (Note 12)
Balance, beginning of year	\$ 19,972,728	\$ 17,942,229
Principal written off, net of recoveries	(102,727)	(59,451)
Interest written off, net of recoveries	(23,916)	(27,580)
(Recovery) decline in value of loans receivable and equity investments	<u>(1,364,803)</u>	<u>2,117,530</u>
Balance, end of year	\$ 18,481,282	\$ 19,972,728

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
 March 31, 2021

5. Expenses

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

	<u>2021</u> <u>Budget</u>	<u>2021</u> <u>Actual</u>	<u>2020</u> <u>Actual</u>
	(Note 10)		Restated (Note 12)
Business Development Support Program - Grants	\$ 3,000,000	\$ 2,703,638	\$ 2,568,462
Decline in value of loans receivable and equity investments (Note 4)	500,000	-	2,117,530
Professional services	-	-	21,128
Purchased services	5,500	13,020	10,066
Research and Development Program - Non-commercial grants	6,737,500	6,057,419	4,991,985
Research and Development Program - Commercial grants	<u>7,012,500</u>	<u>3,564,140</u>	<u>4,689,430</u>
	<u>\$17,255,500</u>	<u>\$ 12,338,217</u>	<u>\$ 14,398,601</u>

6. Contingent liabilities

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.

7. Contractual obligations

The Corporation has contractual obligations under its various programs in respect of approved but not yet disbursed funds in the amount of \$32,942,729 (2020 - \$26,874,527). Approximate payment of these obligations in future years is as follows:

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
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7. Contractual obligations (cont.)

Research and Development Program	
2022	\$ 12,626,391
2023	9,149,478
2024	2,923,024
2025	780,000
	<hr/>
	25,478,893
Business Investment Program	2,929,961
Business Development Support Program	4,533,875
	<hr/>
	\$ 32,942,729

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.

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, due from Province of Newfoundland and Labrador, 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 bank interest receivable, due from Province of Newfoundland and Labrador, 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 notes 2(d), 2(e) and 4. Any estimated impairment of loans receivable and equity investments has been provided for through an allowance for decline in value as disclosed in note 4. Loans receivable and equity investments which are not impaired or past due are considered collectible by the Corporation.

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8. Financial risk management (cont.)

As disclosed in note 4, the Corporation reported loans receivable totaling \$28,382,178 (2020 - \$27,763,540). Principal due and unpaid of \$6,542,778 (2020 - \$6,301,675) was overdue by portfolio as follows:

Loan Portfolio	Days Overdue				Total
	1-30	31-60	61-90	>90	
Former Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 529,682	\$ 529,682
Business Investment Program	48,250	30,416	-	2,435,726	2,514,392
Former Enterprise Newfoundland and Labrador	-	-	-	3,017,234	3,017,234
Former Farm Loan Board	-	-	-	295,846	295,846
Former Fisheries Loan Board	-	-	-	185,624	185,624
Total Principal Past Due	\$48,250	\$30,416	\$ -	\$6,464,112	\$6,542,778

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 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.

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.

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9. Related party transactions (cont.)

During the fiscal year, the Corporation had the following related party transactions:

- Program grants expense to related parties of \$5,885,181 (2020 - \$4,341,546) as follows:

▪ Memorial University of Newfoundland	\$ 3,667,874
▪ C-Core	977,112
▪ Genesis Group Incorporated	638,416
▪ Eastern Health	387,294
▪ College of the North Atlantic	<u>214,485</u>
	<u>\$ 5,885,181</u>

- The Corporation received \$13,750,000 (2020 - \$13,750,000) related to the Research and Development Program and \$3,086,000 (2020 - \$3,086,000) from the Province related to the Business Development Support Program.

The Corporation is administered by the Department of Industry, Energy and Technology. Estimated administration expenses of \$2,076,367 (2020 - \$1,638,472) are paid directly by the Province. Included in this total is \$262,946 (2020 - \$207,492) 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.

During the year, the Corporation, on behalf of the Province, paid grants to corporations and individuals impacted by the COVID-19 pandemic. As at March 31, 2021, the Corporation had an accounts receivable from the Province in the amount of \$5,896,394 for previously disbursed grants related to this arrangement.

10. Budget

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

11. Impact of the COVID-19 pandemic on results and operations

The COVID-19 pandemic declared March 11, 2020 has resulted in an economic slowdown worldwide. The impact on the Corporation in the 2020 fiscal year was minimal.

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11. Impact of the COVID-19 pandemic on results and operations (cont.)

On March 18, 2020, the Board approved a three-month deferral of loan payments and interest relief for all clients with business loans to support businesses impacted by COVID-19, starting with payments due on April 1, 2020. During the year, the Board approved that the deferral of loan payments and interest relief would be extended to ten months (January 31, 2021). The Corporation also made temporary changes to the criteria for some of its programs to provide more funding to potential clients.

Due to the unpredictable duration of restrictions placed on the operations of the Corporation and the clients it serves, it is difficult to ascertain the future impact on the Corporation's financial statements and operations; particularly the valuation of its loans receivable and equity investments.

12. Prior year restatements

During the year, it was determined that funds received from a client during 2019 and 2020 were incorrectly allocated to investment income rather than to the repayment of an equity investment. As a result, certain amounts presented for 2020 have been revised to correct these misstatements.

The following misstatements existed on the statement of operations for the year ended March 31, 2020 because of the incorrect allocation of funds received from a client:

- Investment income was overstated by \$26,262.
- Business Investment Program expenses were overstated by \$26,262.

There was no impact on annual surplus for the year ended March 31, 2020. Also, there was no impact on the accumulated surplus, beginning of year or end of year, for March 31, 2020.

The following misstatements existed on the statement of cash flows for the year ended March 31, 2020 because of the incorrect allocation of funds received from a client:

- (Recovery) decline in value of loans receivable and equity investments was overstated by \$26,262.
- Collections of loans and equity investments was understated by \$26,262.

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12. Prior year restatements (cont.)

The following misstatement existed in Note 4 to the financial statements for the year ended March 31, 2020 because of the incorrect allocation of funds received from a client:

- Equity investments, at cost, were overstated by \$155,436.
- Allowance for decline in value of equity investments was overstated by \$155,436.
- Balance, beginning of year, for the allowance for decline in value of loans receivable and equity investments was overstated by \$129,174.
- (Recovery) decline in value of loans receivable and equity investments was overstated by \$26,262.
- Balance, end of year, for the allowance for decline in value of loans receivable and equity investments was overstated by \$155,436.

The following misstatement existed in Note 5 to the financial statements for the year ended March 31, 2020 because of the incorrect allocation of funds received from a client:

- Decline in value of loans receivable and equity investments was overstated by \$26,262.