

Innovation and Business Investment Corporation

Annual Report 2021-22

Message from the Chair

As Chair of the Board of Directors of the Innovation and Business Investment Corporation, I am pleased to present the annual report of the Corporation for the fiscal year ending March 31, 2022. This annual 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 blue ink, appearing to read 'Mark Dobbin', is positioned above the printed name.

Mark Dobbin

Chairperson, Innovation and Business Investment Corporation

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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. As of March 31st, 2022, the board members were:

- Mark Dobbin (Chair)
- Mandy Woodland (Vice-Chair)
- Peggy Bartlett
- Lynn Morrissey
- Josh Quinton
- Andy Turnbull

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 for funding decisions on accounts in which total funding outstanding does not exceed \$50,000. Select Directors of IET, as approved by the Board, have approval authority up to \$150,000. Similarly, the Innovation and Business Investment Management Committee has the authority for funding decisions on accounts that exceed the Directors' limit, up to \$750,000. 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.

In addition to the established revolving loan fund, 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 commercial entities to support projects that reduce the technical and financial risk of research and development projects where R&D is required to realize the commercial potential of innovative products, processes or services. 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 province and the liability is shown in provincial accounts.

<https://www.gov.nl.ca/iet/funding/fisheries-loan-guarantee-program/>

Highlights and Partnerships

In Budget 2021, Government announced \$20 million for the Small Business Assistance Program (SBAP), which was administered by IBIC, to assist small businesses and community organizations with increased costs and/or losses as a result of the COVID-19 pandemic. SBAP provided a one-time non-repayable contribution of up to \$10,000 to eligible small business and non-profit community organizations. The 2021-22 SBAP expanded the criteria to include start-up firms, which were registered as companies in 2019, 2020 and 2021. This demonstrated a commitment to new small businesses as they began their operations. In 2021-22, a total of 2099 applications were approved for \$10,122,547.

In Budget 2021, Government announced \$30 million for the Tourism and Hospitality Support Program (THSP), which was administered by IBIC, to assist eligible tourism and hospitality based operators impacted by the COVID-19 pandemic. THSP provided a one-time non-repayable contribution of up to \$15,000 to eligible applicants. In 2021-22, a total of 733 applications were approved for \$8,056,584.

During 2021-22, IBIC supported a diverse portfolio of companies across Newfoundland and Labrador. Departmental staff and the Corporation's Board collaborated to review,

assess, and fund projects that support research and development, innovation, commercialization as well as business development and growth activities across all regions of the province. Examples of initiatives and projects funded under IBIC include:

Grace Hotel Limited, HR Optimization for DJ Group of Companies - This project was funded through the BDSP for a non-repayable contribution of \$45,761. It focuses on operational and productivity improvements specifically for the two accommodation facilities - Atsanik Hotel in Nain and Amaguk Hotel in Hopedale.

Exploits Extreme Ziplines Ltd, Construction of a New Zipline in Central NL - This start-up company is establishing a new tourism operation in Central Newfoundland. To support investments in infrastructure, equipment and marketing support, the company was approved for a BIP loan of \$50,000 and a non-repayable BDSP contribution of \$139,250.

Western Newfoundland Brewing Company Ltd., Expansion Project - Western Newfoundland Brewing is significantly expanding its production ability in Pasadena through an investment in a new facility and equipment, with the support of a BIP loan of \$150,000 and a non-repayable BDSP contribution of \$7,500 for marketing.

Horizon Maritime Services Ltd. and Allswater Marine Research Project - This project was approved for a non-repayable R&D contribution of \$500,000 to explore the process of digital twinning in an offshore setting. By integrating digital and automated technologies, ocean operators will have the ability to remotely monitor human activity, resulting in increased safety, enhanced wellness, and improved operational performance.

Dynamic Air Shelter Ltd. Product Development - Dynamic Air Shelters is a significant employer on the Burin Peninsula. To assist international business development activity, the company received a non-repayable BDSP contribution of \$100,000.

Swiftsure Innovations Research and Development - Swiftsure Innovations, based in Pasadena, has created a device that aims to improve oral care for patients who require a ventilator. To assist its continued efforts to grow and expand, a non-repayable contribution of \$149,500 was provided to support research and development of its innovative new healthcare technology.

Memorial University Research and Development - Memorial and its teams are producing world-class research across many disciplines. An example of an R&D project supported by IBIC is BGC Argo, which was approved for \$400,000 and is leveraging \$8,855,072 from partners. The program will enhance Memorial's institutional capacity and optimize its research potential, and will provide knowledge and tools to provincial coastal communities affected by changing ocean conditions.

IET, through IBIC, also supports and partners with its non-commercial partners to advance innovation, business development and to support the tech sector in Newfoundland and Labrador. Examples include support for Genesis, Memorial University's flagship business incubation centre which helps accelerate the development of promising ideas into formal startup enterprises, and the Memorial Centre for Entrepreneurship, which feeds the earliest stage of the startup funnel.

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 objectives and indicators below, through its annual reports, for each fiscal year of its 2020-23 activity plan.

2021-22 Objective 1

By March 31, 2022, 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 2021-22, the Corporation approved 65 commercial and non-commercial R&D projects for \$15,460,760 in funding (contracted funding of \$12,992,360). These investments in R&D and innovation clients were made in various sectors to advance partnerships and to collaborate on innovation activities throughout the province.

Approved investments leveraged almost \$55 million from partners to support R&D and innovation. Specifically:

- 36 projects were approved for \$8,750,428 (contracted funding of \$7,466,990) through R&D non-commercial, leveraging \$43,086,189 in partnership funding.
- 29 projects were approved for \$6,710,332 (contracted funding of \$5,525,370) through R&D commercial, leveraging \$11,829,607 in partnership funding.

During 2021-22, through the BDSP, 156 projects were approved for \$6,407,584 (contracted funding of \$5,894,569), leveraging \$5,215,258 in partnership funding.

During 2021-22, through the BIP, five projects were approved for \$315,000 (contracted funding of \$265,000), leveraging \$1,202,500 in partnership funding.

During 2021-22, there were no new approved applications under FLGP.

- Managed revenues on loan portfolio.

In 2021-22, the Corporation managed a total loan portfolio of \$32,880,353 and collected revenues of \$3,665,253 on its loan portfolio.

2021-22 Objective 2

By March 31, 2022, 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 2021-22, the projected revenues for the IBIC portfolios was \$2,628,461 and the actual amount collected was \$3,665,253.

Financial Information

**INNOVATION AND BUSINESS
INVESTMENT CORPORATION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
MARCH 31, 2022**

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.



Mr. Jason Higgins
Assistant Deputy Minister – Industry and Economic
Development
Department of Innovation, Energy and Technology



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, 2022, 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, 2022, 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.

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.



DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

September 23, 2022
St. John's, Newfoundland and Labrador

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

2022

2021

FINANCIAL ASSETS

Cash (Note 3)	\$ 77,922,199	\$ 67,549,675
Due from Province of Newfoundland and Labrador (Note 9)	-	5,896,394
Bank interest receivable	19,124	8,057
HST receivable	1,746	458
Loans receivable and equity investments (Note 4)	14,632,994	17,629,818
	92,576,063	91,084,402

LIABILITIES

Due to Province of Newfoundland and Labrador (Note 9)	1,367,801	-
Accounts payable	1,035,135	708,368
	2,402,936	708,368
Net financial assets	90,173,127	90,376,034

Accumulated surplus	\$ 90,173,127	\$ 90,376,034
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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:


Board Member


Board Member

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

	2022 Budget	2022 Actual	2021 Actual
(Note 10)			
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	390,000	441,847	607,111
Interest on loans	650,000	582,308	96,923
	17,876,000	17,860,155	18,904,837
EXPENSES (Note 5)			
Research and Development Program	13,750,000	12,565,338	9,621,559
Business Development Support Program	3,000,000	4,736,394	2,703,638
Decline in value of loans receivable and equity investments (Note 4)	520,000	753,685	-
Administration	10,000	7,645	13,020
	17,280,000	18,063,062	12,338,217
Annual (deficit) surplus	596,000	(202,907)	6,566,620
Accumulated surplus, beginning of year	90,376,034	90,376,034	83,809,414
Accumulated surplus, end of year	\$ 90,972,034	\$ 90,173,127	\$ 90,376,034

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

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

2022

2021

Operating transactions

Annual (deficit) surplus	\$ (202,907)	\$ 6,566,620
Adjustment for non-cash items		
Decline (recovery) in value of loans receivable and equity investments (Note 4)	753,685	(1,364,803)
	550,778	5,201,817
Change in non-cash working capital		
Due from Province of Newfoundland and Labrador	5,896,394	(5,896,394)
Bank interest receivable	(11,067)	19,298
HST receivable	(1,288)	1,135
Due to Province of Newfoundland and Labrador	1,367,801	-
Accounts payable	326,767	(386,895)
Cash provided from (applied to) operating transactions	8,129,385	(1,061,039)

Investing transactions

Increase in loans and equity investments	(1,434,214)	(1,806,352)
Collection of loans and equity investments	3,677,353	1,170,234
Cash provided from (applied to) investing transactions	2,243,139	(636,118)
Increase (decrease) in cash	10,372,524	(1,697,157)
Cash, beginning of year	67,549,675	69,246,832
Cash, end of year	\$ 77,922,199	\$ 67,549,675

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

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, HST receivable, loans receivable and equity investments, due to Province of Newfoundland and Labrador, 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, 2022

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, 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 due to Province of Newfoundland and Labrador and accounts payable.

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

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, 2022

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>2022</u>	<u>2021</u>
Business Development Support Program	\$ 11,875,577	\$ 6,197,583
Business Investment Program	16,079,574	13,189,629
Research and Development Program	49,967,048	48,162,463
	<u>\$ 77,922,199</u>	<u>\$ 67,549,675</u>

4. Loans receivable and equity investments

	<u>2022</u>	<u>2021</u>
Loans receivable		
Principal due and unpaid	\$ 6,248,496	\$ 6,542,778
Principal not yet due	19,291,686	21,106,144
Interest due and unpaid	789,845	733,256
	<u>26,330,027</u>	<u>28,382,178</u>
Less: allowance for decline in value	<u>(11,848,634)</u>	<u>(11,290,471)</u>
	<u>14,481,393</u>	<u>17,091,707</u>
Equity investments		
Equity investments, at cost	6,550,326	7,728,922
Less: allowance for decline in value	<u>(6,398,725)</u>	<u>(7,190,811)</u>
	<u>151,601</u>	<u>538,111</u>
Loans receivable and equity investments	<u>\$ 14,632,994</u>	<u>\$ 17,629,818</u>

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

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>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 18,481,282	\$ 19,972,728
Principal written off, net of recoveries	(970,379)	(102,727)
Interest written off, net of recoveries	(17,229)	(23,916)
Decline (recovery) in value of loans receivable and equity investments	753,685	(1,364,803)
Balance, end of year	\$ 18,247,359	\$ 18,481,282

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2022

5. Expenses

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

	<u>2022</u> <u>Budget</u> (Note 10)	<u>2022</u> <u>Actual</u>	<u>2021</u> <u>Actual</u>
Business Development Support Program - Grants	\$ 3,000,000	\$ 4,736,394	\$ 2,703,638
Decline in value of loans receivable and equity investments (Note 4)	520,000	753,685	-
Purchased services	10,000	7,645	13,020
Research and Development Program - Non-commercial grants	6,737,500	7,357,009	6,057,419
Research and Development Program - Commercial grants	7,012,500	5,208,329	3,564,140
	<u>\$17,280,000</u>	<u>\$ 18,063,062</u>	<u>\$ 12,338,217</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 \$37,202,057 (2021 - \$32,942,729). Approximate payment of these obligations in future years is as follows:

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7. Contractual obligations (cont.)

Research and Development Program

2023	\$ 15,404,751
2024	11,684,914
2025	2,202,394
2026	352,266
2027	137,266
	<hr/>
	29,781,591
Business Investment Program	1,630,152
<u>Business Development Support Program</u>	<u>5,790,314</u>
	<hr/>
	\$ 37,202,057

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, 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 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 \$26,330,027 (2021 - \$28,382,178). Principal due and unpaid of \$6,248,496 (2021 - \$6,542,778) was overdue by portfolio as follows:

Loan Portfolio	Days Overdue				Total
	1-30	31-60	61-90	>90	
Former Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 469,684	\$ 469,684
Business Investment Program	10,609	10,583	9,742	2,757,297	2,788,231
Former Enterprise Newfoundland and Labrador	-	-	-	2,527,543	2,527,543
Former Farm Loan Board	-	-	-	295,846	295,846
Former Fisheries Loan Board	-	-	-	167,192	167,192
Total Principal Past Due	\$ 10,609	\$ 10,583	\$ 9,742	\$ 6,217,562	\$ 6,248,496

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, its accounts payable and due to the Province of Newfoundland and Labrador. 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 \$6,200,939 (2021 - \$5,885,181) in the normal course of business as follows:
 - Memorial University of Newfoundland \$ 5,372,986
 - C-Core 205,458
 - Genesis Group Incorporated 314,595
 - Eastern Health 283,600
 - College of the North Atlantic 24,300
 - \$ 6,200,939
- The Corporation received \$13,750,000 (2021 - \$13,750,000) related to the Research and Development Program and \$3,086,000 (2021 - \$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 \$2,155,054 (2021 - \$2,076,367) are paid directly by the Province. Included in this total is \$272,911 (2021 - \$262,946) 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.

The Corporation, on behalf of the Province, continued to pay grants to corporations and individuals impacted by the COVID-19 pandemic. The administration of payments related to specific Provincial COVID-19 programs is not in the Corporation's normal course of business, but instead is a temporary flow-through arrangement related to the pandemic. As at March 31, 2022, the Corporation had an accounts payable to the Province in the amount of \$1,367,801 (2021 - \$0) for previously received grants related to the arrangement. In the prior year, the Corporation had an accounts receivable from the Province in the amount of \$5,896,394 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.

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

The COVID-19 pandemic declared March 11, 2020 resulted in an economic slowdown worldwide. 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 2020-21, the Board then approved that the deferral of loan payments and interest relief would be extended to January 31, 2021 for all clients. Subsequently, the Board granted payment deferrals to clients on a case by case basis. There is currently no interest relief being offered to clients because of the COVID-19 pandemic.

The Corporation had also made temporary changes to the criteria for some of its programs to provide more funding to potential clients. Criteria returned to normal as of October 1, 2021.