

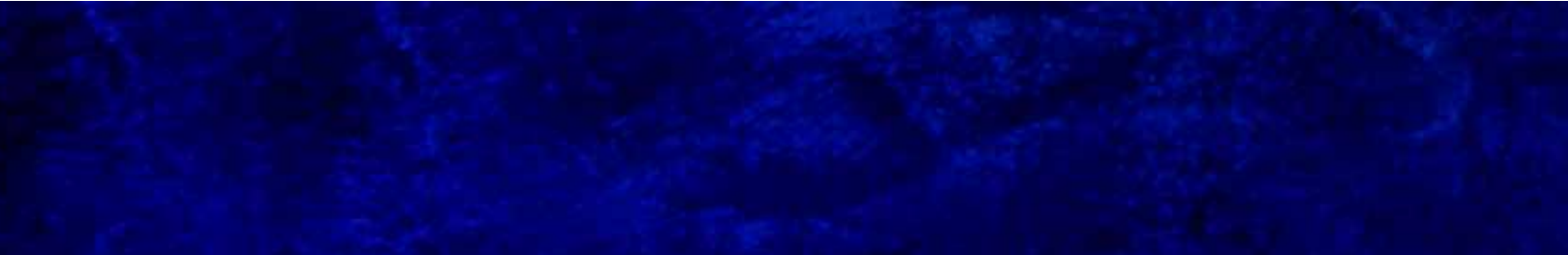


2010 ANNUAL REPORT 2011



Newfoundland
Labrador

**BUSINESS
INVESTMENT CORPORATION**



CONTENTS

Message from the Chair	2
Overview	3
Mandate	3
Mission	3
Vision	4
Background	4
Board of Directors	4
Administrative Support to the Corporation	5
Highlights and Accomplishments	6
Board's Objectives and Activities	7
Program Activities	7
Administration of New Investments	7
Investment Portfolio Management	9
Opportunities and Challenges	10
Appendix A: Financial Statements	11

MESSAGE FROM THE CHAIR

As Chair of the Board of Directors of the Business Investment Corporation (BIC), I am pleased to present the 2010-11 Annual Report of the Business Investment Corporation. The annual report is submitted in accordance with the entity's obligation as a category three entity under the Transparency and Accountability Act, prepared under the direction of the board which is accountable for the actual results reported.

The Business Investment Corporation directs the management of the investment portfolio of the Department of Innovation, Trade and Rural Development and administers new investments made through the Small and Medium-sized Enterprise (SME) fund and the Business and Market Development program (BMD). The corporation also administers the Fisheries Loan Guarantee program, in partnership with the Department of Finance, and the Shellfish Aquaculture Working Capital fund.

In 2010-11, the corporation continued to make solid contributions to small business development in the province. Investments under the SME fund and the BMD program totaled \$3.5 million, leveraging more than \$5.3 million. In addition, the board managed the collection of \$3 million, which was reinvested in the SME revolving fund.

In October 2011, the Department of Innovation, Trade and Rural Development was part of government's restructuring of departments. This resulted in INTRD being merged with the Department of Business and being re-named the Department of Innovation, Business and Rural Development (IBRD). As this report is for the period ending March 31, 2011 all references to the two departments will be as they were named on that date. Any changes that will result in the two departments merging will be reflected in the next year's report.

I would like to acknowledge and thank the board members for their dedication and commitment to the corporation in 2010-11. As well, the board greatly appreciates the dedicated officials from the Department of Innovation, Trade and Rural Development (INTRD) who work diligently to support the board to discharge its mandate. Their expertise and talents are greatly appreciated.

Sincerely,



Fred Drover
Chair

OVERVIEW OF THE BUSINESS INVESTMENT CORPORATION

Mandate

The board supports the mandate of the Business Investment Corporation. The corporation is responsible for the direction and management of the department's investment and loan portfolio including the administration of new investments made by virtue of four funding programs: the Small and Medium-sized Enterprise fund, the Business and Market Development program, the Fisheries Loan Guarantee program (in partnership with the Department of Finance) and the Shellfish Aquaculture Working Capital fund.

Legislative authority for the Business Investment Corporation resides in the Business Investment Corporation Act. The corporation, as provided for in the Act, 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."

Mission

The mission statement of the department identifies the priority focus area of the Minister of Innovation, Trade and Rural Development over the current planning cycle. It represents the key longer-term result that the Minister and the board will work towards to achieve the strategic directions of government.

The mission of INTRD was as follows:

By 2011, the Department of Innovation, Trade and Rural Development will have stimulated economic and business development to foster regional and provincial prosperity.

Through the corporation, the board contributes to the department's mission of stimulating economic and business development by providing funding toward the start-up and growth of small and medium sized businesses and by providing sound financial oversight for the four funding programs under the corporation's mandate.

Vision

The vision of the Department of Innovation, Trade and Rural Development is “a diversified, competitive economy with productive and prosperous regions across the province.”

Background

The Business Investment Corporation was established under the authority of the Business Investment Corporation Act on April 1, 2002. The Business Investment Corporation is the successor to three former crown corporations, which include Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board.

The BIC operates as a crown agency reporting to the Minister of Innovation, Trade and Rural Development.

Board of Directors

An independent board of directors, appointed by the Lieutenant-Governor in Council, manages the affairs of the corporation. At the end of this reporting period, March 31, 2011 the board consisted of the following members:

Chairperson	Fred Drover, St. John's
Vice-Chairperson	Vacant
Members	Deputy Minister, Department of Finance Deputy Minister, Department of Business Deputy Minister, Department of Innovation, Trade & Rural Development Peter Au, St. John's

The board met 5 times in 2010-11 in order to fulfill its mandate. In addition, a sub-committee of the board, the Corporate Transaction Committee met bi-weekly or at the call of the Chair.

The remuneration of the board consists of

- Chair: \$330 per meeting day;
- Vice-chair: \$285 per meeting day;
- Four private sector members; \$240 per person per meeting day; and
- Three public employees: no additional remuneration provided.

Administrative Support to the Corporation

The corporation is responsible for the ongoing management and recovery of loans and investments made by the corporation and its predecessor organizations. INTRD provides administrative support to the corporation. The corporation does not have its own staff. Administrative costs incurred by the INTRD in support of the corporation are recorded as an expense in the corporation's financial statements.

Departmental staff manages the accounting, billing and accountability activities that support investment disbursement and recovery. They manage and monitor revenue collections and maintain accounting records for the province-wide portfolio of loans, equity and grants.

Programs

The BIC provides funding to help start, revitalize and grow small and medium-sized businesses. It is responsible for the administration of the following programs:

Small and Medium-sized Enterprise Fund (SME)

The SME fund provides loans and equity investments, up to \$500,000, to small and medium-sized businesses, targeting specific growth sectors with particular emphasis on those businesses that have export potential and need assistance to enter or expand into external markets. The SME fund combined the former investment portfolio of the Fisheries Loan Board, the former Farm Loan Board and the former Enterprise Newfoundland and Labrador Corporation along with new money invested by government in 2005. This fund is now a revolving fund providing loans and equity investments to eligible businesses within Newfoundland and Labrador, which indicate a high probability of viability and sustainability.

Business and Market Development Program (BMD)

This program provides contributions of up to \$25,000 on a matching basis to new entrepreneurs and expanding small businesses to help them acquire the necessary expertise to pursue new business ideas and markets in new growth areas of the economy.

Fisheries Loan Guarantee Program (FLG)

This program supports the development of the province's independent fish harvesting sector by providing Provincial Government guarantees, to a maximum of \$2.0 million, on loans through commercial banks for the purchase of new or used fishing vessels and new equipment for the improvement, rebuilding or alteration of existing vessels. The program is designed to help the independent fish harvesting sector take advantage of ongoing and emerging new opportunities in the fishery.

Shellfish Aquaculture Working Capital Fund (AWCF)

This program provides working capital loans to commercial mussel and other shellfish growers and processors, complementary to funding available through commercial credit sources and other established federal and Provincial Government programs. The \$1.5 million fund was established in 2001 through two federal/provincial cost-shared economic development agreements and operates on a revolving fund basis.

Highlights and Accomplishments

Budget for Fiscal Year 2010-11

The fund operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2010-11 the SME fund committed \$2.7 million for 13 enterprises.

Funding for the BMD program continued at \$1.0 million annually; at year end \$921,000 of this funding had been committed.

BOARD'S OBJECTIVES AND ACTIVITIES

Two objectives have been identified in the corporation's 2008-11 Activity Plan and these are reported on herein along with the 2010-11 results of operations.

Program Activities

In consideration of government's strategic directions, as well as the mandate and financial resources of the Business Investment Corporation, the following represents the activities undertaken for the fiscal year 2010-11. The strategic direction that the Business Investment Corporation is working towards achieving is "Small and Medium Enterprise Business Support".

Administration of New Investments:

Objective 1

The corporation will have provided funding toward the start-up and growth of small and medium sized business.

Measure

Provision of funding to approved applicants

Indicators

Number of applications reviewed by program

Number and value of applications approved by program

Activities

The corporation committed \$2.7 million in 2010-11 through the SME fund (Term and Equity), attracting \$4.4 million in additional funding from private and public business financing, to help start or grow 13 small businesses. Fifty percent of new SME investments for 2010-11 had export activity.

The corporation committed \$921,000 in 2010-11 through the BMD program to 66 small businesses, attracting an additional \$921,000 in other business financing to help entrepreneurs and small businesses pursue new business ideas and new markets for their products and services. 26 per cent of the firms receiving BMD assistance were involved in export activities.

There were 98 applications reviewed through the BMD program of which 66 were approved. Under the SME fund in 2010-11, 26 applications were reviewed of which 13 were approved.

In 2010-11, the corporation managed the Shellfish Aquaculture Working Capital fund which had \$1.0 million invested in 14 enterprises. This fund is fully committed and there was no new money available for investment in 2010-11.

At March 31, 2011, the investment portfolio of the BIC consisted of 798 accounts with loans of \$31.9 million and equity of \$17.2 million, for a total of \$49.1 million (principal and interest as detailed in note three of the attached financial statements.)

Approximately 78 percent of the Corporation's portfolio originated from predecessor lending agencies-Enterprise Newfoundland and Labrador, Fisheries Loan Board, and the Farm Loan Board.

Since 2003, the Provincial Government has established a new loan program, established new policies and procedures to balance access to capital requirements while minimizing risk to the provincial treasury.

While the allowance for doubtful accounts under GAAP is \$40.9 million, the Provincial Government does not consider all doubtful accounts as being uncollectible as clients are contacted on a regular basis to recover investments or, where possible, to identify means to return accounts to good standing.

In 2010-11, the corporation reviewed and approved eight applications on behalf of the Chartered Banks, under the Fisheries Loan Guarantee program for \$4.4 million. These were for the purchase of new fishing vessels and equipment or the purchase and/or renovation of used vessels, to help them take advantage of ongoing and emerging new business opportunities in the fishery. These loan guarantees are issued by the Department of Finance. At March 31, 2011, there were \$28.8 million in guaranteed loans outstanding to 89 enterprises.

For the three year period (2008-11) covered by the BIC Activity Plan, there has been an investment by BIC of a total of \$10.8 million through the SME fund and the BMD program. This investment has levered an additional \$16.4 million from other sources of investment and has created 152 new jobs and stabilized an additional 447 positions in all industrial sectors in the province.

Investment Portfolio Management:

Objective 2

The corporation will have continued to successfully manage its investment portfolio.

Measure

Successful management of investment portfolio

Indicator

Percentage of projected revenues collected

Activities

The corporation's successful management of the investment portfolio resulted in the collection of 138 percent of projected revenues. In 2010-11 there were no funds returned to the provincial treasury from payments relating to investments, as collections totaling \$3.0 million were retained in the SME revolving fund for future investments.

For the period covered by the BIC Activity Plan (2008-11) the corporation's revenues have been \$8.6m. on a forecast of \$6.8 million (or 127 per cent of forecast). This revenue has been reinvested in the fund.

Financial Statements

The audited financial statements for the corporation are at Appendix A. They will be tabled in the House of Assembly in Financial Statements of Crown Corporations, Boards and Authorities for the Year ending March 31, 2011.

Opportunities and Challenges

Small and Medium-sized Enterprise Fund

The SME fund is due for a program review in 2011 and that process is underway at the time of writing. This review is expected to build on the strengths of the program and improve its applicability to sectors identified in that review.

In our previous reports we identified that succession planning for small businesses, particularly in rural areas of the province, is increasingly becoming a more important issue as the population ages. The department intends to explore ways the SME fund may be able to play a greater role in this area.

The proponents of the fund will continue to work with other funding partners to develop worthwhile investments using the SME funding as an integral part of business expansion.

Appendix A: Financial Statements



Office of the Auditor General of Newfoundland and Labrador

Head Office
15 Dundee Ave., Mount Pearl
Box 8700 ♦ St. John's, NL ♦ A1B 4J6
T: 709-729-2695 ♦ F: 709-729-5970
Email: oagmail@oag.nl.ca

Auditor General
John L. Noseworthy, CA
T: 709-729-2700
Email: jnoseworthy@oag.nl.ca

Regional Office
1 Union St., Corner Brook
Box 2006 ♦ Corner Brook, NL ♦ A2H 6J8
T: 709-637-2295 ♦ F: 709-637-2595

24 June 2011

Ref: DP28-F0211

Mr. Frederick D. Drover
Chairperson
Business Investment Corporation
Department of Innovation, Trade and Rural Development
P.O. Box 8700
St. John's, Newfoundland and Labrador
A1B 4J6

Dear Mr. Drover:

As you know, my Office is conducting an audit of the Business Investment Corporation of Newfoundland and Labrador for the year ended 31 March 2011. I am writing to advise you that there have been recent changes in Canadian Auditing Standards which require us to obtain representation from the Board regarding the financial statements of the Business Investment Corporation of Newfoundland and Labrador and the Board's responsibility for them. Under these standards, this representation must be obtained before we can determine the date for our Auditor's Report.

The format for this representation is contained in the enclosed Statement of Responsibility, indicating that: the draft financial statements have been prepared by the Corporation's management in accordance with Canadian generally accepted accounting principles; responsibility for the integrity, objectivity and fair presentation of these financial statements rests with the Board; and the Board is responsible for ensuring that a system of internal controls is maintained in order to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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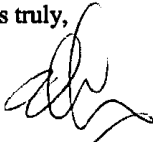
The audit has been completed to the point where the required representation should now be obtained. This will allow us to finalize the audit, which will include: obtaining representation from management related to the financial statements and the information provided for audit; obtaining information from the Corporation's solicitor with regard to any claims or possible claims; and conducting final review procedures in preparation for signing the Auditor's Report.


I would appreciate it if you would have the Statement of Responsibility placed on Corporation letterhead, signed by yourself and another Board member, and returned to me at your earliest convenience. The Statement should be signed on the date indicated on the Statement if possible, to coordinate with timing of other representations to be obtained, and with the Auditor's Report date. If needed, an electronic copy of the Statement can be obtained from Claude Janes at 637-2291 or crjanes@oag.nl.ca.

Thank you for your cooperation with this request.

Please do not hesitate to contact me if you wish to discuss this matter further.

Yours truly,



 **JOHN L. NOSEWORTHY, CA**
Auditor General

Enclosures

STATEMENT OF RESPONSIBILITY

The attached financial statements of the Business Investment Corporation of Newfoundland and Labrador for the year ended 31 March 2011 have been prepared by the Business Investment Corporation's management in accordance with Canadian generally accepted accounting principles. The financial statements include the statement of financial position, the statement of equity, the statement of revenues and expenses, the statement of cash flows, along with a summary of significant accounting policies and other explanatory information which form an integral part of these statements.

Responsibility for the integrity, objectivity and fair presentation of these financial statements rests with the Board. The Board is also responsible for ensuring that a system of internal controls is maintained in order to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Chairperson

29 June 2011
Date



Member

29 June 2011
Date



OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the Business Investment Corporation which comprise the statement of financial position as at 31 March 2011, the statement of equity, the statement of revenues and expenses and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

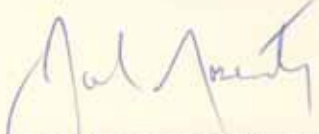
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Report (cont.)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Business Investment Corporation as at 31 March 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



JOHN L. NOSEWORTHY, CA
Auditor General

29 June 2011
St. John's, Newfoundland and Labrador

STATEMENT 1

BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

31 March	2011	2010
ASSETS		
Cash (Note 2)	\$ 20,410,488	\$ 19,086,034
Due from Province	13,000	13,000
Bank interest receivable	17,653	6,874
Loans and equity investments (Note 3)	8,247,736	7,984,235
Long-term investments (Note 4)	9,422	9,422
	<u>\$ 28,698,299</u>	<u>\$ 27,099,565</u>
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	\$ 22,558	\$ 13,000
Borrowers' deposits	-	68,517
	22,558	81,517
Equity	<u>28,675,741</u>	<u>27,018,048</u>
	<u>\$ 28,698,299</u>	<u>\$ 27,099,565</u>

Contingent liabilities (Note 5)
 Commitments (Note 6)

See accompanying notes

Signed on behalf of the Board:


 Chairperson


 Director of Portfolio Management

Office of the Auditor General



