

Innovation and Business Investment Corporation

Annual Report 2019-20

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 report of the Corporation for the fiscal year ending March 31, 2020. 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 below the word 'Sincerely,'.

Mark Dobbin
Chairperson

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Entity Overview

Organizational Structure

The Innovation and Business Investment Corporation (the Corporation) operates as a Crown Agency reporting to the Minister of Industry, Energy and Technology (IET, former Tourism, Culture, Industry and Innovation). It was established on May 31, 2018, through the authority of the **Innovation and Business Investment Corporation Act** (the 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. A new Board is in the process of being appointed through the merit-based Independent Appointments Commission process. Until that time, the Corporation is under the guidance of a transitional board, as per section 23 of the Act. 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 Chairperson.

As of March 31, 2020, the Board members were:

Mark Dobbin	Chairperson
Peggy Bartlett	Member
Carey Bonnell	Member
Charlene Brophy	Member
Fred Drover	Member
Lynn Morrissey	Member
Josh Quinton	Member
Ron Taylor	Member
Andy Turnbull	Member
Mandy Woodland	Member

Judith Hearn, Assistant Deputy Minister (ADM), Business, former Department of Tourism, Culture, Industry and Innovation	Member
Gillian Skinner, ADM, Regional Development and Diversification, former Department of Tourism, Culture, Industry and Innovation	Member
Charles Bown, Deputy Minister, former Department of Tourism, Culture, Industry and Innovation	Member

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 to the Corporation as the Board does not employ its own staff. 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 the budget of IET.

Programs

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

Research and Development (R&D): Provides support through non-repayable contributions to commercial and non-commercial entities for the development of research and innovation projects. The R&D and innovation funding programs details are available at <https://www.gov.nl.ca/iet/funding/research-and-development/>.

Business Investment Program (BIP): The Business Investment Program 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.

Business Development Support Program (BDSP): The Business Development Support Program provides non-repayable contributions of up to \$100,000 per year in matching funds to businesses with opportunities to increase productivity and improve competitiveness, with a key objective to help businesses gain access to national and international markets.

Fisheries Loan Guarantee Program (FLGP): 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.

Highlights and Partnerships

The Corporation invested in a diversified portfolio of companies and sectors in 2019-20. There was strong collaboration between departmental staff and the Corporation's Board through the process of reviewing, assessing and funding projects that support R&D and innovation-related activities across the province. Some examples include:

Kraken Robotics Systems Inc. (Kraken) was incorporated in September 2012 and is a leading marine technology company that provides ultra-high resolution, 3D capable, seabed imaging and survey technology. The company is focused on the design and development of high performance Synthetic Aperture Sonars (SAS) and Acoustic Velocity Sensors for military and commercial applications. In June 2019, the Corporation provided a non-repayable contribution for research and development in the amount of \$539,572 to assist Kraken with improving its Seavision technology for mooring chain inspection on structures such as the FPSO. This proposed research project was in partnership with Kraken, the Corporation and an off-shore operator to address technology gaps. Research for this project is on-going and successful completion has the potential to reduce offshore operational risk and cost related to mooring chain inspections by offering a time efficient contactless measurement process that produces the required inspection measurements and a 3D digitalization of the mooring chains.

IBIC funded a project involving a student that built a Satellite for Measuring Sea Ice and Ocean Parameters. This project called Killick-1 is a project conceived by C-CORE and the Faculty of Engineering and Applied Science at Memorial University. Killick-1 is a satellite development project that has as its core objective to educate young engineers in space systems and earth observation. The Killick-1 team consists of a large group of senior undergraduate electrical and mechanical engineering students, along with two graduate students. The project team is developing a CubeSat, which is a nano satellite. The Canadian Space Agency has selected Killick-1 as a candidate mission for the Canadian CubeSat Program. As a result, Killick-1 has received a slot on a SpaceX rocket that is scheduled to launch in 2022. The rocket will rendezvous with the International Space Station and Killick-1 will be deployed into orbit from there.

Leveraged Funds

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. \$13.4 million invested by the Corporation leveraged \$72.1 million in partnerships.

Report on Performance

Jurisdictions with robust innovation and entrepreneurial activity experience increased productivity, economic growth, and job creation and are more likely to have greater resources available to invest in programs that support wider societal wellbeing, including healthcare and education. SMEs make-up the bulk of Newfoundland and Labrador's economy - our economic and social progress is tied to their competitiveness and ability to innovate.

Further, SMEs that undertake R&D, innovate and create intellectual property are more likely to grow domestically than those that don't; more likely to expand internationally, more likely to have growth rates of more than 20% per year; and, improve their potential to attract venture capital (Information and Communications Technology Council 2020).

Leveraging investment in R&D, innovation and economic development is a key priority for IBIC investment and successful program delivery has led to robust activity in the innovation ecosystem, helping to encourage more start-ups, and increased R&D investment focused on commercialization by a variety of partners including businesses and academic institutions.

2019-20 Objective #1

By March 31, 2020, the Corporation will have stimulated commercial activity through the support of innovation and the start-up, development and growth of companies and organizations.

Indicator 1: Invested in commercial projects.

In 2019-20, through the commercial R&D funding, the Corporation invested in 12 commercial projects with an investment (disbursed) of \$1.6 million. This investment leveraged \$4.3 million from other sources. The funding was a non-repayable contribution for projects or initiatives that help businesses start, innovate, scale and grow. Investments were aligned with the priorities in product development and commercialization.

Through the BIP, the Corporation approved 31 applications for \$4.3 million in term and equity funding in 2019-20. This funding helped leverage additional funding from private and public business to help start or grow these businesses.

In 2019-20, through the BDSP, 217 projects were approved with an investment of \$2.6 million. These non-repayable contributions assisted entrepreneurs and small businesses to pursue new business ideas and markets for their products and services.

In 2019-20, under the FLGP, one application was assessed by the department and reviewed by the Board. The approval was based on the terms and conditions to be met by the client. The guarantee will not be issued until the 2020-21 fiscal year.

A complete list of R&D commercial projects funded in 2019-20 is available on the Departmental Website.

Figure 1: Investment in Commercial Projects (2019-20)

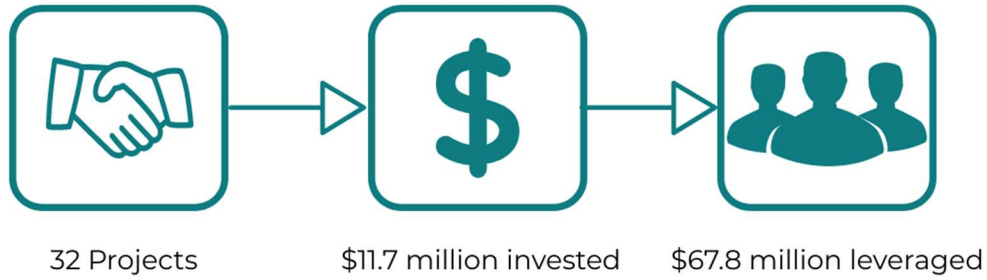


Indicator 2: Invested in non-commercial research and development projects.

In 2019-20, through R&D non-commercial funding, the Corporation invested \$11.7 million across 32 non-commercial projects, leveraging \$67.8 million. With a leverage ratio of 5.8, this means that for every dollar invested by the Corporation, \$5.80 was leveraged from other stakeholders into non-commercial projects.

The funding is a non-repayable contribution to non-commercial entities for the development and implementation of R&D and innovation projects for long-term economic benefit. Through these investments, the goal is to support highly-skilled people, research, innovative programming and infrastructure in priority areas that have the potential to strengthen Newfoundland and Labrador's R&D capacity, innovation ecosystem capacity and impact the provincial economy through growth and diversification.

Figure 2: Investment in Non-Commercial R&D Projects (2019-20)



Loan funding is key to providing companies with supports to help grow their businesses and help diversify our economy and must therefore be managed to ensure availability of funds for on-going investment.

2019-20 Objective #2

By March 31, 2020, the Corporation will have successfully managed its investment portfolio.

Indicator 1: Collected revenues on loan portfolio.

As of March 31, 2020, the investment portfolio of the Corporation consisted of 394 accounts with loans of \$30 million and equity of \$8.2 million, for a total of \$38.2 million (principal and interest).

The Corporation's successful management of the investment portfolio resulted in the collection of 153 per cent of projected revenues. In 2019-20, collections totaling \$3.1 million on a forecast of \$2.0 million were retained in the revolving fund for future investments.

Opportunities and Challenges

While the COVID-19 global pandemic continues to evolve, the economic impacts became evident at an early stage as global travel restrictions were introduced and businesses and public services were either temporarily closed or reduced due to the unknown and serious potential public health impacts. The broader impacts brought on by this pandemic are anticipated to be varied across industries.

It remains critical for the Innovation and Business Investment Corporation to continue to monitor and assess both the opportunities and challenges presented due to the pandemic. This allows the corporation to adjust policies and program delivery to help assist to overcome challenges, such as anticipated cash flow issues which may require short-term deferral of loan payments, and facilitation of emerging opportunities such as online sales requiring digital solutions and technology adoption.

This requirement for close monitoring of the quickly changing economic landscape will help ensure the priorities and investments of the Corporation are supporting new growth opportunities as well as helping to stabilize and retain existing businesses.

Financial Information

**INNOVATION AND BUSINESS
INVESTMENT CORPORATION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
MARCH 31, 2020**

Management's Report

Management's Responsibility for the Innovation and Business Investment Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.


Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information on a quarterly basis and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Innovation and Business Investment Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Innovation and Business Investment Corporation.

On behalf of the Innovation and Business Investment Corporation.



Ms Judith Hearn
Assistant Deputy Minister (Business and
Innovation)



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, 2020, 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, 2020, 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.



SANDRA RUSSELL, CPA, CA
Auditor General (A)

December 9, 2020
St. John's, Newfoundland and Labrador

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at March 31

2020

2019

(Note 12)

FINANCIAL ASSETS

Cash (Note 3)	\$ 69,246,832	\$ 64,665,923
Bank interest receivable	27,355	43,463
HST receivable	1,593	28,065
Loans receivable and equity investments (Note 4)	15,628,897	15,785,089
	<u>84,904,677</u>	<u>80,522,540</u>

LIABILITIES

Accounts payable	1,095,263	1,033,474
	<u>1,095,263</u>	<u>1,033,474</u>
Net financial assets	83,809,414	79,489,066

NON-FINANCIAL ASSETS

Prepaid expenses	-	8,281
Accumulated surplus	\$ 83,809,414	\$ 79,497,347

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 Period Ended March 31

	2020 Budget	2020 Actual	2019 Actual
	(Note 10)		(Note 12)
REVENUES			
Contributions from Province Research and Development Program (Note 9)	\$ 13,750,000	\$ 13,750,000	\$ 10,250,000
Business Development Support Program (Note 9)	3,000,000	3,086,000	3,086,000
Investment income	1,130,000	1,366,415	1,218,075
Interest on loans	410,000	534,515	407,014
	18,290,000	18,736,930	14,961,089
EXPENSES (Note 5)			
Research and Development Program	13,750,000	9,681,415	8,730,154
Business Development Support Program	3,000,000	2,568,462	1,893,198
Business Investment Program	500,000	2,143,792	1,889,924
Administration	5,500	31,194	15,255
	17,255,500	14,424,863	12,528,531
Annual surplus	1,034,500	4,312,067	2,432,558
Accumulated surplus, beginning of period	79,497,347	79,497,347	77,064,789
Accumulated surplus, end of period	\$ 80,531,847	\$ 83,809,414	\$ 79,497,347

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION**STATEMENT OF CASH FLOWS**

For the Period Ended March 31

2020

2019

(Note 12)

Operating transactions

Annual surplus	\$ 4,312,067	\$ 2,432,558
Adjustment for non-cash items		
Decline in value of loans receivable and equity investments (Note 4)	2,143,792	1,889,924
	6,455,859	4,322,482
Change in non-cash working capital		
Bank interest receivable	16,108	44,238
HST receivable	26,472	(2,751)
Accounts receivable	-	1,623
Accounts payable	61,789	(1,849,296)
Prepaid expenses	8,281	(1,506)
Cash provided from operating transactions	6,568,509	2,514,790
Investing transactions		
Increase in loans and equity investments	(5,175,906)	(6,300,440)
Collection of loans and equity investments	3,188,306	3,309,403
Cash applied to investing transactions	(1,987,600)	(2,991,037)
Increase (decrease) in cash	4,580,909	(476,247)
Cash, beginning of period	64,665,923	65,142,170
Cash, end of period	\$ 69,246,832	\$ 64,665,923

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

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2020

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, and accounts payable. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

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

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, bank interest receivable, 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.

(f) Prepaid expenses

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

(g) Revenues

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

2. Summary of significant accounting policies (cont.)

(g) Revenues (cont.)

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

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

(h) Expenses

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

The Corporation is administered by the Department of 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.

(i) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability of the loans and equity investments.

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
 March 31, 2020

2. Summary of significant accounting policies (cont.)

(i) 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>2020</u>	<u>2019</u> (Note 12)
Business Development Support Program	\$ 11,646,261	\$ 10,914,302
Business Investment Program	13,665,776	14,805,800
Research and Development Program	43,934,795	38,945,821
	<u>\$ 69,246,832</u>	<u>\$ 64,665,923</u>

4. Loans receivable and equity investments

	<u>2020</u>	<u>2019</u> (Note 12)
Loans receivable		
Principal due and unpaid	\$ 6,301,675	\$ 5,186,007
Principal not yet due	20,749,929	19,849,936
Interest due and unpaid	711,936	669,767
	<u>27,763,540</u>	<u>25,705,710</u>
Less: allowance for decline in value	<u>(12,233,422)</u>	<u>(10,092,700)</u>
	<u>15,530,118</u>	<u>15,613,010</u>
Equity investments		
Equity investments, at cost	7,993,521	8,150,782
Less: allowance for decline in value	<u>(7,894,742)</u>	<u>(7,978,703)</u>
	<u>98,779</u>	<u>172,079</u>
Loans receivable and equity investments	<u>\$ 15,628,897</u>	<u>\$ 15,785,089</u>

INNOVATION AND BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

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>2020</u>	<u>2019</u> (Note 12)
Balance, beginning of period	\$ 18,071,403	\$ 16,759,069
Principal written off, net of recoveries	(59,451)	(545,067)
Interest written off, net of recoveries	(27,580)	(32,523)
Decline in value of loans receivable and equity investments	<u>2,143,792</u>	<u>1,889,924</u>
Balance, end of period	\$ 20,128,164	\$ 18,071,403

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
 March 31, 2020

5. Expenses

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

	<u>2020</u> <u>Budget</u> (Note 10)	<u>2020</u> <u>Actual</u>	<u>2019</u> <u>Actual</u> (Note 12)
Business Development Support			
Program - Grants	\$ 3,000,000	\$ 2,568,462	\$ 1,893,198
Decline in value of loans receivable and equity investments (Note 4)	500,000	2,143,792	1,889,924
Professional services	5,500	21,128	7,647
Purchased services	-	10,066	7,608
Research and Development Program			
- Non-commercial grants	6,737,500	4,991,985	3,947,481
Research and Development Program			
- Commercial grants	7,012,500	4,689,430	4,782,673
	<u>\$ 17,255,500</u>	<u>\$ 14,424,863</u>	<u>\$ 12,528,531</u>

6. Contingent liabilities

- (a) A client of the former BIC has taken legal action as a result of certain alleged technical problems that the client claims to have experienced with a vessel that was financed through the former Fisheries Loan Board. The amount of this potential claim is in the range of \$900,000 to \$1,100,000. No provision has been made for this claim as the likelihood of loss is not determinable at this time.
- (b) An employee of the former RDC has taken legal action. The amount of this potential claim is unknown. No provision has been made for this claim, as the likelihood of loss against the Corporation is not determinable at this time.

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 \$26,874,527 (2019 - \$26,230,494 (Note 12)). Approximate payment of these obligations in future years is as follows:

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7. Contractual obligations (cont.)

Research and Development Program	
2021	\$17,142,676
2022	3,977,948
2023	815,924
2024	105,000
	<hr/>
	22,041,548
Business Investment Program	2,837,125
Business Development Support Program	1,995,854
	<hr/>
	\$26,874,527

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 \$27,763,540 (2019 - \$25,705,710 (Note 12)). Principal due and unpaid of \$6,301,675 (2019 - \$5,186,007 (Note 12)) was overdue by portfolio as follows:

Loan Portfolio	Days Overdue				Total
	1-30	31-60	61-90	>90	
Former Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 549,683	\$ 549,683
Business Investment Program	277,600	15,681	17,397	1,804,278	2,114,956
Former Enterprise Newfoundland and Labrador	59	206,126	100	2,874,928	3,081,213
Former Farm Loan Board	-	-	-	319,667	319,667
Former Fisheries Loan Board	-	-	-	236,156	236,156
Total Principal Past Due	\$277,659	\$221,807	\$17,497	\$5,784,712	\$6,301,675

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 \$4,341,546 (2019 - \$3,786,052 (Note 12)) as follows:
 - Memorial University of Newfoundland \$ 3,286,184
 - College of the North Atlantic 772,009
 - C-Core 283,353
 - \$ 4,341,546

- The Corporation received \$3,086,000 (2019 - \$3,086,000 (Note 12)) from the Province related to the Business Development Support Program and \$13,750,000 (2019 - \$10,250,000 (Note 12)) related to the Research and Development Program.

The Corporation is administered by the Department of Industry, Energy and Technology. Estimated administration expenses of \$1,638,472 (2019 - \$1,112,614 (Note 12)) are paid directly by the Province. Included in this total is \$207,492 (2019 - \$140,899 (Note 12)) 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.

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.

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. Subsequent to year-end, the Board approved that the deferral of loan payments and interest relief would be extended to nine months. The Corporation also made temporary changes to the criteria for some of its programs to provide more funding to potential clients.

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

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. Fiscal period

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