



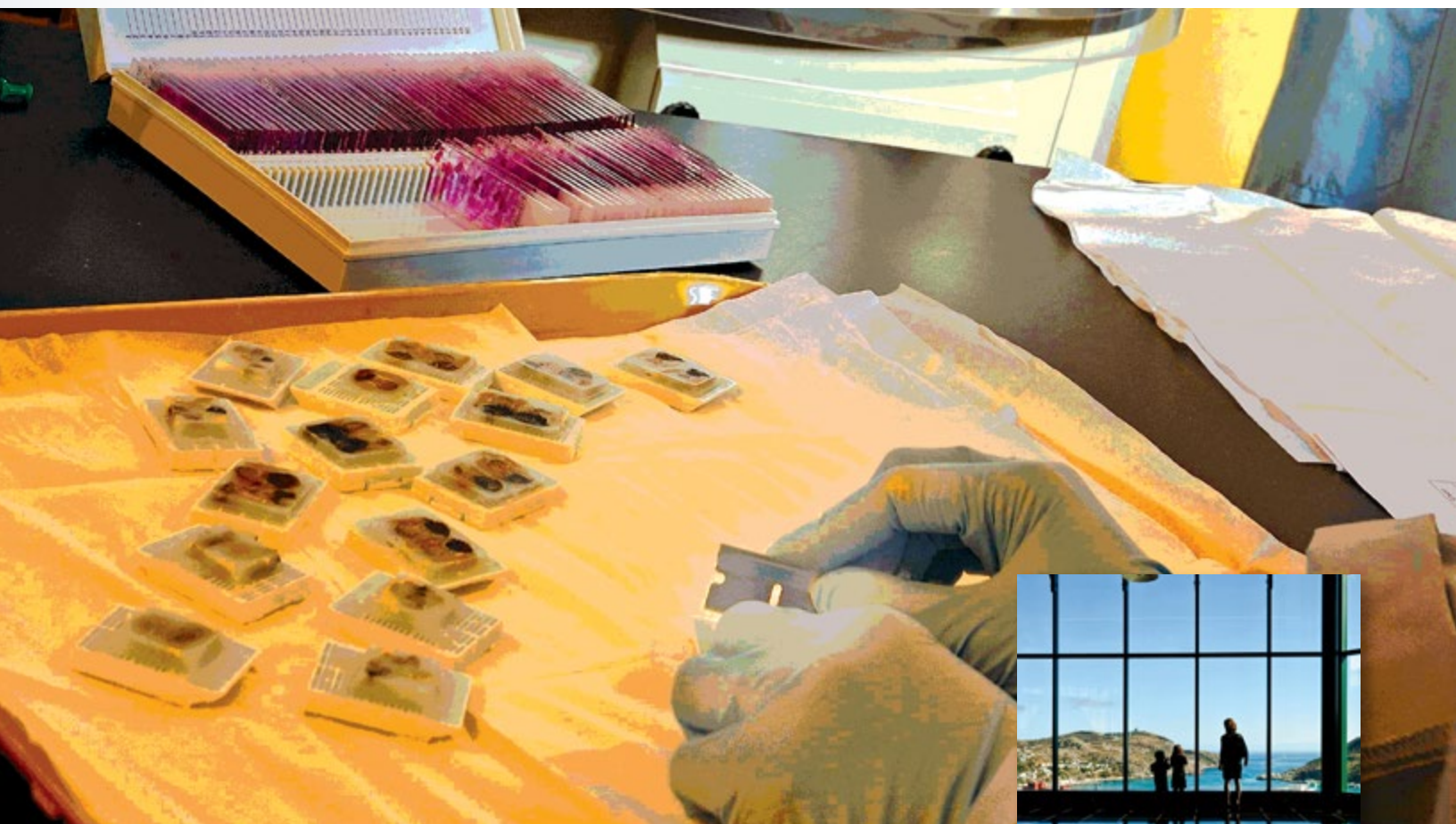
business investment corporation


Newfoundland
Labrador

Innovation, Business and Rural Development

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MESSAGE FROM THE CHAIR

As Chair of the board of directors of the Business Investment Corporation (BIC), I am pleased to present the annual report of the Business Investment Corporation for the fiscal year ending March 31, 2012. 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, Business and Rural Development (IBRD) 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, the Department of Fisheries and Aquaculture and the Shellfish Aquaculture Working Capital fund.

In 2011-12, the corporation continued to make solid contributions to small business development in the province. Investments under the SME fund and the BMD program totaled \$3.7 million, leveraging more than \$4.6 million from private and public sources. In addition, the board managed the collection of \$2.98 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. A new department was created that included elements of the former Department of Business and the Department of Innovation, Trade and Rural Development and was re-named the Department of Innovation, Business and Rural Development.

I would like to acknowledge and thank the board members for their dedication and commitment to the corporation in 2011-12. As well, the board greatly appreciates the dedicated officials from the Department of Innovation, Business and Rural Development who work diligently to support the board to discharge its mandate. Their expertise and talents are greatly appreciated.

Sincerely,



Fred Drover
Chair



OVERVIEW

Mandate

The board supports the mandate of the Business Investment Corporation. The corporation's mandate is to direct the management of the investment portfolio of the department and to administer 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 Department of Fisheries and Aquaculture) 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, Business and Rural Development. The mission spans over two planning cycles, (2011-14 and 2014-17).

The mission of IBRD is as follows:

“By March 31, 2017, the Department of Innovation, Business 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, Business and Rural Development is of a vibrant, diverse and sustainable economy with productive and prosperous regions throughout 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, Business 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, 2012 the board consisted of the following members:



Chairperson Fred Drover, St. John's
Vice-Chairperson Mene Conley, Happy Valley-Goose Bay
Members Deputy Minister,
Department of Finance
Deputy Minister,
Department of Innovation, Business
and Rural Development
Robert Marche, Corner Brook
William Abbott, Bonavista
Jerry Dean, Botwood
Director,
Business Analysis, Department
of Innovation, Business and Rural
Development (Secretary)



The board met three times in 2011-12 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.

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. The Department of Innovation, Business and Rural Development provides administrative support to the corporation. The corporation does not have its own staff. Administrative costs incurred by the department 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 Business Investment Corporation 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 per project to a maximum of \$1,000,000 per company, 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 the Provincial Government since 2005. Collections off the former entities investments

are reinvested in the newly formatted fund. This fund is now a revolving fund providing loans and equity investments to eligible businesses within Newfoundland and Labrador.

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 (FLGP)

This program supports the development of the province's independent fish harvesting sector by providing Provincial Government guarantees, to a maximum of \$2 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. The program is currently under review and enhancements are expected in 2012-13.

Shellfish Aquaculture Working Capital Fund (AWCF)

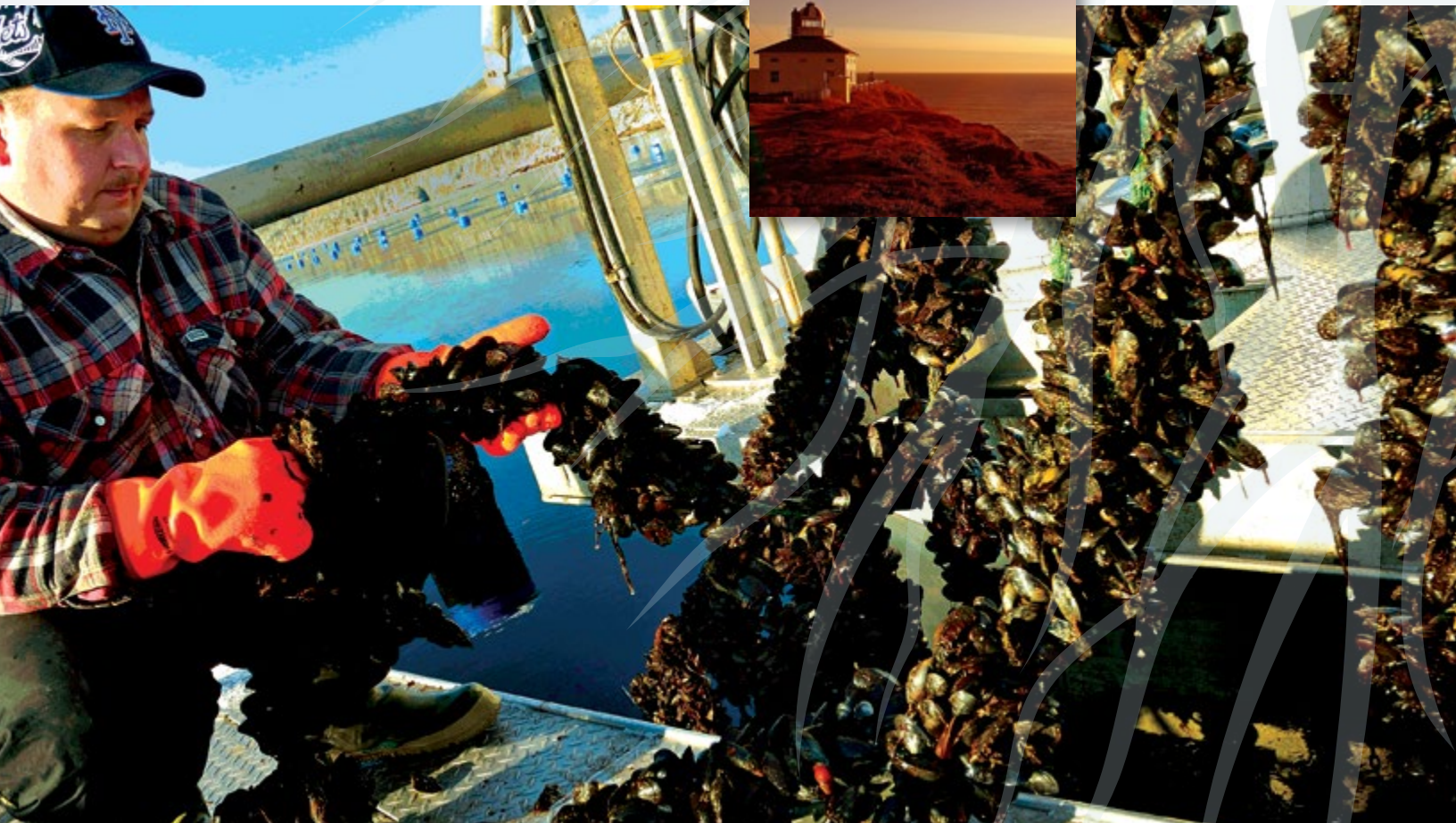
This program provides working capital loans to commercial mussel and other shellfish growers and processors, complementary to funding available through commercial credit sources and other established Federal and Provincial Government programs. The \$1.5 million fund was established in 2001 through two federal/provincial cost-shared economic development agreements and operates on a revolving fund basis. This fund is fully expended and discussions are ongoing with federal partners about its future. If the fund is wound up BIC will refund the federal portion of the investment and maintain the current AWCF investments as part of its portfolio.

Highlights and Accomplishments

Budget for Fiscal Year 2011-12

The SME fund operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2011-12 the SME fund committed \$2.9 million for 16 enterprises.

Funding for the BMD program continued at \$1 million annually; at year end \$812,000 of this funding had been committed. Two objectives have been identified in the corporation's 2011-14 Activity Plan and these are reported on herein along with the 2011-12 results of operations. These objectives will be reported for each fiscal year of the Activity Plan of the corporation (2011-12, 2012-13 and 2013-14) through its annual report.



BOARDS OBJECTIVES AND ACTIVITIES

Program Activities

In consideration of the Provincial 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 2011-12. The strategic direction that the Business Investment Corporation is working towards achieving is "Small and Medium Enterprise Business Supports".

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 for program assistance
Number and value of applications approved for each program

Activities

Small and Medium Enterprise Fund

The corporation reviewed 30 applications for funding in 2011-12 and approved \$2.9 million in term and equity funding. This funding attracted \$3.8 million in additional funding from private and public business financing, to help start or grow 16 small businesses. Thirty six percent of new SME investments reported export activity.

Business and Marketing Development Program

The corporation reviewed 120 applications for funding through this program and approved 76 with a value of \$812,000. These grants attracted an additional \$812,000 in other business financing to help entrepreneurs and small businesses pursue new business ideas and new markets for their products and services. Thirty eight percent of the firms receiving BMD assistance were involved in export activities.

Shellfish Aquaculture Working Capital Fund

The corporation continued to manage the Shellfish Aquaculture Working Capital fund which had \$881,000 invested in 13 enterprises. This fund is fully committed and there was no new money available for investment in 2011-12.



Activities

Fisheries Loan Guarantee Program

In 2011-12, the corporation reviewed and approved six applications on behalf of the Chartered Banks, under the Fisheries Loan Guarantee Program for \$1.5 million. These were for the purchase of new fishing vessels and equipment or the purchase and/or renovation of used vessels, to help loan recipients take advantage of ongoing and emerging new business opportunities in the fishery. These loan guarantees are issued by the Department of Finance.

Investment Portfolio

At March 31, 2012, the investment portfolio of the BIC consisted of 687 accounts with loans of \$31.9 million and equity of \$14.5 million, for a total of \$46.4 million (principal and interest as detailed in note three of the attached financial statements.)

Approximately 74 percent of the corporation's portfolio originated from predecessor lending agencies - Enterprise Newfoundland and Labrador, Fisheries Loan Board, and the Farm Loan Board. While the allowance for doubtful accounts under General Accepted Accounting Principles is \$37.2 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.

Since 2005, 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.

This is the first year of the new BIC Activity Plan (2011-14). Investments by the BIC totaled \$3.7 million through the SME fund and the BMD program. This investment has levered an additional \$4.6 million from other sources of investment and has created 19 new jobs and stabilized an additional 69 positions in all industrial sectors in the province.

INVESTMENT PORTFOLIO MANAGEMENT:**Objective 1**

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 142 percent of projected revenues. In 2011-12 there were no funds returned to the provincial treasury from payments relating to investments, as collections totaling \$2.984 million were retained in the SME revolving fund for future investments. For the period covered by the BIC Activity Plan (2011-14) the corporation's revenues have been \$2.984 million on a forecast of \$2.1 million.

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, 2012.

OPPORTUNITIES AND CHALLENGES**Small and Medium-size Enterprise Fund**

A review of the SME fund commenced in 2011. The restructuring of the Department of Innovation, Trade and Rural Development and the Department of Business to create a new Department of Innovation, Business and Rural Development resulted in a hold on the review in late 2011. It is intended to complete this review during 2012-13. This review is expected to build on the strengths of the program and improve its applicability to additional sectors as identified in the Department's strategic plan.

In previous reports the department 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 is exploring 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.



BUSINESS INVESTMENT CORPORATION

FINANCIAL STATEMENTS

31 MARCH 2012

Management's Report

Management's Responsibility for the Business Investment Corporation Financial Statements

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

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

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

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

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

On behalf of the Business Investment Corporation.



Mr. Guy Edwards
Director of Portfolio Management



Ms. Sharon Patten, CGA
Financial Operations Manager

29 June 2012



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 2012, 31 March 2011 and 1 April 2010, and the statements of operations and accumulated deficit, change in net debt, remeasurement gains and losses, and cash flows for the years ended 31 March 2012 and 31 March 2011, 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 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.

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 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with Canadian public sector accounting standards.

A handwritten signature in blue ink that reads "Sandra Russell". The signature is written in a cursive style with a large initial 'S'.

SANDRA RUSSELL, CA
Deputy Auditor General (A)

29 June 2012
St. John's, Newfoundland and Labrador

BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at

	31 March 2012	31 March 2011	1 April 2010
		Restated (Note 2)	Restated (Note 2)
FINANCIAL ASSETS			
Cash (Note 5)	\$ 20,937,128	\$ 20,410,488	\$ 19,086,034
Due from the Province	13,000	13,000	13,000
Bank interest receivable	17,863	17,653	6,874
HST receivable	2,128	-	-
Loans and equity investments (Note 6)	9,189,658	8,247,736	7,984,235
Long-term investments (Note 7)	15,930	9,422	9,422
	30,175,707	28,698,299	27,099,565
LIABILITIES			
Accounts payable and accrued liabilities	13,000	22,558	13,000
Borrowers' deposits	-	-	68,517
Due to the Province	41,390,455	44,401,290	48,060,893
	41,403,455	44,423,848	48,142,410
Net debt	11,227,748	15,725,549	21,042,845
NON-FINANCIAL ASSETS			
	-	-	-
Accumulated deficit (Note 11)	\$ 11,227,748	\$ 15,725,549	\$ 21,042,845

Contingent liabilities (Note 8)
 Commitments (Note 9)

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

Signed on behalf of the Board:



 Chairperson



 Board Member

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

	2012 Budget	2012 Actual	2011 Actual
	(Note 14)		Restated (Note 2)
REVENUES			
Interest on loans	\$ 2,300,000	\$ 524,913	\$ 658,054
Other investment income	160,000	215,981	161,556
Contributions from Province			
Business Marketing and Development Program (Note 12)	1,000,000	1,000,000	1,000,000
Due to the Province-forgiveness (Note 12)	-	3,010,835	3,659,603
Other Provincial contributions (Note 12)	860,000	804,793	998,516
Recovery in value of loans receivable and equity investments (Note 6)	-	496,588	452,399
	<u>4,320,000</u>	<u>6,053,110</u>	<u>6,930,128</u>
EXPENSES			
Business Marketing and Development Program	1,000,000	753,072	605,981
Provision for decline in value of loans receivable and equity investments	1,800,000	-	-
Operating expenses (Note 12)	860,000	804,793	998,516
Bank charges	-	2,614	2,761
Miscellaneous expense	-	1,338	5,574
	<u>3,660,000</u>	<u>1,561,817</u>	<u>1,612,832</u>
Annual surplus	660,000	4,491,293	5,317,296
Accumulated deficit, beginning of year	15,725,549	15,725,549	21,042,845
Accumulated deficit, end of year (Note 11)	\$ 15,065,549	\$ 11,234,256	\$ 15,725,549

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

BUSINESS INVESTMENT CORPORATION
STATEMENT OF CHANGE IN NET DEBT
For the Year Ended 31 March

	2012 Budget	2012 Actual	2011 Actual
	(Note 14)		Restated (Note 2)
Annual surplus	\$ 660,000	\$ 4,491,293	\$ 5,317,296
Net remeasurement gains	-	6,508	-
Decrease in net debt	660,000	4,497,801	5,317,296
Net debt, beginning of year	15,725,549	15,725,549	21,042,845
Net debt, end of year	\$ 15,065,549	\$ 11,227,748	\$ 15,725,549

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

BUSINESS INVESTMENT CORPORATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the Year Ended 31 March

	2012	2011
Accumulated remeasurement gains, beginning of year	\$ -	\$ -
Unrealized gains attributable to:		
<u>Long-term investments</u>	<u>6,508</u>	<u>-</u>
<u>Accumulated remeasurement gains, end of year</u>	<u>\$ 6,508</u>	<u>\$ -</u>

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

BUSINESS INVESTMENT CORPORATION**STATEMENT OF CASH FLOWS**

For the Year Ended 31 March

2012

2011

Restated
(Note 2)**Operating transactions**

Annual surplus	\$ 4,491,293	\$ 5,317,296
Adjustment for non-cash items		
Recovery in value of loans receivable and equity investments	(496,588)	(452,399)
Due to the Province-forgiveness	(3,010,835)	(3,659,603)
	983,870	1,205,294
Change in non-cash working capital		
Bank interest receivable	(210)	(10,779)
HST receivable	(2,128)	-
Accounts payable and accrued liabilities	(9,558)	9,558
Borrowers' deposits	-	(68,517)
Cash provided from operating transactions	971,974	1,135,556
Investing transactions		
Increase in loans and equity investments	(3,429,594)	(2,880,038)
Collection of loans and equity investments	2,984,260	3,068,936
Cash provided from (applied to) investing transactions	(445,334)	188,898
Increase in cash	526,640	1,324,454
Cash, beginning of year	20,410,488	19,086,034
Cash, end of year	\$ 20,937,128	\$ 20,410,488

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

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

1. Nature of operations

The Business Investment Corporation (the Corporation) was established under the authority of the *Business Investment Corporation Act*. The Corporation is funded by the Province of Newfoundland and Labrador (the Province) and is responsible for making available and managing investments in small to medium sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the Province. The affairs of the Corporation are managed by a Board of Directors appointed by the Lieutenant-Governor in Council.

The *Business Investment Corporation Act* came into force effective 1 April 2002. Under this *Act*, the Business Investment Corporation was incorporated and became the successor to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board. Also under this *Act*, the *Fisheries Loan Act*, the *Farm Development Loan Act*, the *Economic Recovery Commission Act* and the *Enterprise Newfoundland and Labrador Corporation Act* were repealed.

The Business Investment Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Conversion to Canadian Public Sector Accounting Standards

Commencing with the 2012 fiscal year, the Business Investment Corporation has adopted Canadian public sector accounting ("PSA") standards. These financial statements are the first financial statements for which the Business Investment Corporation has applied Canadian public sector accounting standards. The changeover became effective on 1 April 2011 with retroactive application to 1 April 2010.

In accordance with Section PS 2125, *First-time Adoption by Government Organizations*, the Corporation has prepared reconciliations to enable readers to understand the effects of the changeover on its comparative results and its financial position.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

2. Conversion to Canadian Public Sector Accounting Standards (cont.)

Statement of operations reconciliation

The following table presents the reconciliation of the statement of operations from the previous reporting framework to the current method of presentation for the year ended 31 March 2011.

Statement of operations	Canadian generally accepted accounting principles 31 March 2011	Adjustments	Canadian public sector accounting standards 31 March 2011
REVENUE			
Interest on loans	\$ 658,054	\$ -	\$ 658,054
Other investment income	157,791	3,765	161,556
Business Marketing and Development Program	1,000,000	-	1,000,000
Due to the Province-forgiveness	-	3,659,603	3,659,603
Other Provincial contributions	998,516	-	998,516
Recovery in value of loans receivable and equity investments	452,399	-	452,399
	<u>3,266,760</u>	<u>3,663,368</u>	<u>6,930,128</u>
EXPENSES			
Business Marketing and Development Program	605,981	-	605,981
Operating expenses (Note 12)	998,516	-	998,516
Bank charges	2,761	-	2,761
Miscellaneous expense	5,574	-	5,574
	<u>1,612,832</u>	<u>-</u>	<u>1,612,832</u>
Annual surplus	\$ 1,653,928	\$ 3,663,368	\$ 5,317,296

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

2. Conversion to Public Sector Accounting Standards (cont.)

Statement of financial position reconciliation

The following tables present the reconciliation of the statement of financial position from the previous reporting framework to the current method at 31 March 2011 and at the conversion date 1 April 2010.

Statement of financial position	Canadian generally accepted accounting principles 31 March 2011	Adjustments	Canadian public sector accounting standards 31 March 2011
FINANCIAL ASSETS			
Cash	\$ 20,410,488	\$ -	\$ 20,410,488
Due from the Province	13,000	-	13,000
Bank interest receivable	17,653	-	17,653
Loans and equity investments	8,247,736	-	8,247,736
Long-term investments	9,422	-	9,422
	<u>28,698,299</u>	<u>-</u>	<u>28,698,299</u>
LIABILITIES			
Accounts payable and accrued liabilities	22,558	-	22,558
Due to the Province	-	44,401,290	44,401,290
Contributed capital	44,139,223	(44,139,223)	-
	<u>44,161,781</u>	<u>262,067</u>	<u>44,423,848</u>
Net debt / accumulated deficit	\$ 15,463,482	\$ 262,067	\$ 15,725,549

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

2. Conversion to Public Sector Accounting Standards (cont.)

Statement of financial position	Canadian generally accepted accounting principles 1 April 2010	Adjustments	Canadian public sector accounting standards 1 April 2010
FINANCIAL ASSETS			
Cash	\$ 19,086,034	\$ -	\$ 19,086,034
Due from the Province	13,000	-	13,000
Bank interest receivable	6,874	-	6,874
Loans and equity investments	7,984,235	-	7,984,235
Long-term investments	9,422	-	9,422
	<u>27,099,565</u>	<u>-</u>	<u>27,099,565</u>
LIABILITIES			
Accounts payable and accrued liabilities	13,000	-	13,000
Borrowers' deposits	68,517	-	68,517
Due to the Province	-	48,060,893	48,060,893
Contributed capital	47,795,061	(47,795,061)	-
	<u>47,876,578</u>	<u>265,832</u>	<u>48,142,410</u>
Net debt / accumulated deficit	\$ 20,777,013	\$ 265,832	\$ 21,042,845

3. Changes in accounting standards: Early adoption of released CICA Public Sector Accounting Handbook sections

In March 2011, the Canadian Public Sector Accounting Board (PSAB) approved new Section PS 3450, *Financial Instruments*, Section PS 2601, *Foreign Currency Translation* and Section PS 1201, *Financial Statement Presentation*. The three sections are effective for fiscal years beginning on or after 1 April 2012 for government organizations but earlier adoption is permitted. The Corporation decided to earlier adopt these sections for the year ended 31 March 2012 and, as a result, long-term investments have been recorded at fair value and a statement of remeasurement gains and losses has been prepared which presents the impact.

Section PS 3410, *Government Transfers*, was amended by PSAB in December 2010. The main changes pertain to recognition criteria for government transfers, affecting how the Corporation accounts for such transfers. These amendments are effective for fiscal years beginning on or after 1 April 2012 and earlier adoption is encouraged. The Corporation decided to early adopt the section for the year ending 31 March 2012. The impact of adopting this section is described in note 4(d).

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

4. Summary of significant accounting policies

(a) Basis of accounting

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by PSAB.

(b) Loans receivable

The Corporation records loans receivable at amortized cost. 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, or alternatively, at the estimated net realizable value of the underlying security.

(c) Equity investments

The Corporation records equity investments at amortized cost. In certain circumstances, the Corporation may have acquired the right to appoint representatives to an equity investee's board of directors or it may have a significant influence on the strategic operating, investing and financing policies of the investee. However, because of the nature of the Corporation's investment process and the manner in which these positions were acquired, such control or significant influence may not in fact be exercised or the Corporation may not intend to maintain such positions. Accordingly, the Corporation's equity investments for all companies in which the Corporation holds voting rights are accounted for on the amortized cost basis with a provision being made for any decline in their value considered to be other than temporary.

(d) Due to the Province

Prior to 31 March 2005, the Province provided funding to the Corporation to finance the loans and equity investments. The funding was to be repaid to the Province as the loans and equity investments were repaid to the Corporation. The amount due from the Province was also reduced by any write-off of the related loans and equity investments in the Corporation. Since 31 March 2005, the Corporation has been permitted to retain all repayments of its loans and equity investments; however, the amount due to the Province continues to be reduced by the amount of any write-off of the related loans and equity investments. This write-off is recorded as due to the Province-forgiveness and revenue of the Corporation.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

4. Summary of significant accounting policies (cont.)

(e) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. 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. 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. 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.

Contributions from the Province are recognized as revenues when the contribution is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

Due to the Province-forgiveness is recognized as revenue as the related loans and equity investments are written off by the Corporation.

(f) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

The Corporation is administered as a division of the Department of Innovation, Business and Rural Development. Expenses related to salaries, accommodations and administration are paid directly by the Department and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province.

Grants under the Business Marketing 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.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

4. Summary of significant accounting policies (cont.)

(g) Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 for the loans and equity investments.

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

5. Cash

	<u>31 March</u> <u>2012</u>	<u>31 March</u> <u>2011</u>	<u>1 April</u> <u>2010</u>
Aquaculture Working Capital Fund	\$ 630,286	\$ 543,266	\$ 487,437
Small and Medium Enterprise Fund	16,532,950	16,372,358	15,519,293
Business Marketing and Development Fund	3,773,626	3,493,934	3,079,304
Other	266	930	-
	<u>\$ 20,937,128</u>	<u>\$ 20,410,488</u>	<u>\$ 19,086,034</u>

6. Loans and equity investments

The determination of whether a loan is impaired and the appropriate carrying value of equity investments, involves significant judgement. 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.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2012

6. Loans and equity investments (cont.)

	<u>31 March 2012</u>	<u>31 March 2011</u>	<u>1 April 2010</u>
Loans receivable			
Principal due and unpaid	\$ 15,568,826	\$ 15,932,332	\$ 16,683,045
Principal not yet due	13,072,106	12,695,196	13,434,145
Interest due and unpaid	3,227,428	3,275,892	3,174,387
	<u>31,868,360</u>	<u>31,903,420</u>	<u>33,291,577</u>
Less: allowance for decline in value	<u>(22,839,593)</u>	<u>(23,780,923)</u>	<u>(25,512,763)</u>
	<u>9,028,767</u>	<u>8,122,497</u>	<u>7,778,814</u>
Equity investments			
Equity investments, at cost	14,489,088	17,248,970	19,927,818
Less: allowance for decline in value	<u>(14,328,197)</u>	<u>(17,123,731)</u>	<u>(19,722,397)</u>
	<u>160,891</u>	<u>125,239</u>	<u>205,421</u>
Loans and equity investments	\$ 9,189,658	\$ 8,247,736	\$ 7,984,235

The allowance for decline in value of loans receivable and equity investments consists of the following:

	<u>31 March 2012</u>	<u>31 March 2011</u>	<u>1 April 2010</u>
Balance, beginning of year	\$ 40,904,654	\$ 45,235,160	\$ 44,957,215
Principal written off, net of recoveries	(3,010,835)	(3,659,603)	(888,192)
Interest written off, net of recoveries	(229,441)	(218,504)	(176,103)
Provision for (recovery) decline in value of loans receivable and equity investments	<u>(496,588)</u>	<u>(452,399)</u>	<u>1,342,240</u>
Balance, end of year	\$ 37,167,790	\$ 40,904,654	\$ 45,235,160

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
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6. Loans and equity investments (cont.)

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.

7. Long-term investments

Long-term investments consist of 673 shares of Sun Life Financial Services of Canada Incorporated which were given to the Corporation as a result of the demutualization of Sun Life Assurance Company of Canada. The carrying value of the shares is recognized at the fair market value of \$9,422 as determined by the share price at the time of the transfer of shares to the Corporation. The fair market value of these shares as at 31 March 2012 was \$15,930.

8. Contingent liabilities

- (a) A client of the Corporation has taken legal action as a result of certain alleged technical problems that the client claims to have experienced with a vessel that was financed through the Fisheries Loan Board Program. The amount of this potential claim is in the \$900,000 to \$1,100,000 range. In a matter related to this legal action, another party has been awarded a claim of \$1,800,000. The Province will not appeal this decision.
- (b) A statement of claim has been served on the Corporation by a company claiming a breach of contract. The company is claiming special damages of \$811,040, other general and unspecified damages, interest and costs associated with the action. The likelihood of loss as a result of this claim is not determinable.

9. Commitments

The Corporation has outstanding commitments in respect of approved but not yet disbursed loans, equity investments and/or grants in the amount of \$2,026,795 (2011 - \$2,312,465).

10. Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, due from the Province, bank interest receivable, HST receivable, loans and equity investments, long-term investments, accounts payable and accrued liabilities, and due to the Province. Cash, due from the Province, bank interest receivable, HST receivable and accounts payable and accrued liabilities are carried at cost and approximate current fair value due to their nature and the short-term maturity or current market rate associated with these instruments and no further risk exists. Loans and equity investments are carried at amortized cost as disclosed in notes 4(b), 4(c) and 6. Long-term investments are carried at fair value as disclosed in notes 3 and 7.

BUSINESS INVESTMENT CORPORATION
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10. Financial instruments (cont.)

Credit risk

Credit risk is the risk of loss if a client cannot meet its obligations. The Corporation is exposed to credit risk with respect to loans and equity investments. The Corporation has policies and procedures for the monitoring and collection of its loans and equity investments so as to mitigate potential credit losses. In addition, any estimated impairment of these loans and equity investments has been provided for through an allowance for decline in value, as disclosed in Note 6, and no further credit risk exists for these items. The carrying value of loans and equity investments approximates discounted value of expected receipts.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Corporation's long-term investments are subject to fluctuations in market prices; however, due to the insignificant amount it is not a significant risk to the Corporation.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial liabilities. The Corporation is exposed to liquidity risk with respect to its obligation to the Province of Newfoundland and Labrador. Prior to 31 March 2005, this obligation was to be repaid to the Province as the related loans and equity investments were repaid to the Corporation. Since 31 March 2005, the Corporation has been permitted to retain all repayments of its loan and equity investments and therefore it has no current obligation to repay the amount to the Province. The amount due to the Province continues to be reduced by the amount of any write-off of the related loans and equity investments.

11. Accumulated deficit

	31 March <u>2012</u>	31 March <u>2011</u>	1 April <u>2010</u>
Accumulated operating deficit	\$ 11,234,256	\$ 15,725,549	\$ 21,042,845
Accumulated remeasurement gains	6,508	-	-
	\$ 11,227,748	\$ 15,725,549	\$ 21,042,845

BUSINESS INVESTMENT CORPORATION
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12. Related party transactions

The Corporation had the following transactions with the Province:

	<u>2012</u>	<u>2011</u>
Business Marketing and Development Program	\$ 1,000,000	\$ 1,000,000
Due to the Province-forgiveness	3,010,835	3,659,603
Other Provincial contributions	804,793	998,516
	<u>\$ 4,815,628</u>	<u>\$ 5,658,119</u>

The Corporation is administered as a division of the Department of Innovation, Business and Rural Development. Expenses related to salaries, accommodations and administration totalling \$804,793 (2011 -\$998,516) are paid directly by the Department and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province.

13. Comparative figures

Certain comparative figures as at 31 March 2011 have been restated to conform to current year's presentation.

14. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the management of the Corporation.



Innovation, Business and Rural Development
West Block | Confederation Building
P.O. Box 8700 | St. John's, NL A1B 4J6
t: 709.729.7000 | f: 709.729.0654

e: IBRD@gov.nl.ca | website: www.gov.nl.ca/ibrd