

## Loan Guarantees

### 1. Purpose:

The diamond manufacturing industry is new to Canada and the NWT. Canadian financial institutions have little or no experience in the diamond trade and are unwilling to take the risk, in providing operating lines of credit, without a government guarantee.

### 2. Assistance Provided:

The government may provide a loan guarantee to an acceptable lender for an operating line of credit for an approved NWT diamond manufacturer. The operating line is normally restricted for the purchase of rough diamonds and the processing costs of converting the rough to gem quality stones. The term of the guarantee will vary but normally restricted to a period of time within which the proponent projects self-sufficiency (normally within 5 years).

### 3. Approval Process:

- (1) The Diamond Review Committee will conduct a thorough due-diligence review of proposals. When the proponent is requesting a loan guarantee, a representative from the Financial Management Board Secretariat (FMBS) will participate on the sub-committee reviewing the proposal.
- (2) The FMBS representative's involvement includes assessment of the risk and to protect the Government of the Northwest Territories' (GNWT) exposure by ensuring that the terms, security and other coverage are within acceptable standards.
- (3) The Diamond Review Sub-Committee prepares an evaluation report to the Diamond Review Committee recommending or rejecting the proposal.
- (4) If the Diamond Review Committee concurs with the evaluation of the sub-committee, a decision paper is prepared and submitted to the Financial Management Board (FMB) for approval.
- (5) The submission to FMB, if the proponent's request is recommended, will provide the FMBS authority to negotiate a satisfactory loan guarantee agreement and return to the FMB for final approval of the agreement.

- (6) FMBS will work with the proponent to complete a Memorandum of Agreement which will stipulate the terms, conditions, security requirements and covenants to be included in a loan guarantee agreement.
- (7) The Memorandum of Agreement is submitted to FMB for final approval.
- (8) When approved, the Memorandum of Agreement forms the basis for finalizing a Guarantee and Indemnity Agreement with the proponent and a Loan Guarantee Agreement with the lending institution.

#### **4. Criteria:**

The proponent must meet all criteria as stipulated within the Policy Framework to be eligible for a loan guarantee. Those criteria most specific to the loan guarantee include:

- (1) Reasonable financial projections that clearly show the operating line requirements.
- (2) Adequate coverage (accounts receivable and inventory) for the operating line.
- (3) Reasonable equity investment by the proponent. The requirements will vary in each situation.
- (4) Previous successful and satisfactory business history.

#### **5. Security and Terms:**

Although each situation may have specific requirements and terms, the final guarantee agreement between the GNWT and the proponent will include the following security requirements and covenants (the listing is not necessarily all inclusive):

- (1) A first charge floating charge debenture on all assets of the company. Exception, to the first charge requirement, may be made where the proponent incurs a mortgage or term loan for the acquisition of a building or equipment.
- (2) Assignment of accounts receivable.
- (3) General security agreement.
- (4) Guarantee of parent company or companies where applicable.

- (5) Pledge of shares in the company by parent company or individual shareholders.
- (6) Personal guarantees where warranted.
- (7) Inter-lender agreement with mortgagor, lender or lessor of building or equipment providing the GNWT with the right to address any default to prevent disruption of the business.
- (8) Right of first refusal granted to the GNWT on any disposition of shares in the company.
- (9) Restrictions on changes in shareholders or management of the company.
- (10) Maintenance of minimum equity (net worth) in the company.
- (11) Restrictions on dividends or other withdrawals of capital from the company.
- (12) Restrictions on the repayment of shareholder loans where applicable.
- (13) Requirement to construct facility in the NWT and restrict all production of Northern diamonds to that facility.
- (14) Maintenance of adequate insurance coverage.
- (15) Restrictions on the disposition of assets of any kind, other than in the normal course of business.

## **6. Reporting Requirements:**

In addition to other monitoring requirements imposed on diamond manufacturers, the following monitoring and reporting requirements are specific to the loan guarantee:

- (1) Annual audited financial statements.
- (2) Quarterly unaudited financial statements.
- (3) Monthly management reports on sales and cost of sales.
- (4) Monthly statement from the lender on draws and repayment of operating line.

- (5) Projected monthly balance sheet, statement of operations and cash flows prior to the commencement of each fiscal year.
- (6) Random valuations of inventory.
- (7) Access to books and records of the company by GNWT representatives.