

# **Business Investment Corporation**

## **Annual Report for the Fiscal Year 2004-05**

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# Table of Contents

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	Page Number
<b>1. Message from the Chairperson</b>	<b>1</b>
<b>2. Overview of the Business Investment Corporation</b>	<b>3</b>
2.1 Mandate	3
2.2 Background	3
2.3 Board of Directors	3
2.4 Administrative Support to the Corporation	4
2.5 Corporation Programs	5
<b>3. Highlights and Accomplishments: 2004-05</b>	<b>6</b>
<b>4. Activities</b>	<b>7</b>
4.1 Program Activities	7
4.2 Financial Statements	8
<b>5. Opportunities and Challenges Ahead</b>	<b>9</b>
<b>Appendix A: Financial Statements</b>	<b>10</b>



## 1. Message from the Chairperson

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**Douglas Sheppard**

On behalf of the Board of Directors, I am pleased to present the 2004-05 annual report of the Business Investment Corporation to the Minister of Innovation, Trade and Rural Development. This report fulfills our responsibility to provide you with an annual report for tabling in the House of Assembly, as required under the new *Transparency and Accountability Act*.

The Business Investment Corporation directs the management of the investment portfolio of the Department of Innovation, Trade and Rural Development, and administers new investments made through the Strategic Enterprise Development Fund. The fund comprises the Small Business Seed Capital Equity Program and the Small Business and Market Development Program, as well as the Fisheries Loan Guarantee Program and the Aquaculture Working Capital Fund.

During this fiscal year, the Board approved investments of approximately three million dollars under the Strategic Enterprise Development Fund in 125 enterprises in all parts of Newfoundland and Labrador which leveraged over twenty-two million dollars in investments from other sources. In addition, the staff of the department oversaw the collection of \$3.5 million that has been returned to the provincial treasury.

I thank my fellow members of the Board of Directors for their support and commitment in 2004-05. I also thank the dedicated officials in the Department of Innovation, Trade and Rural Development who work so diligently to support the Board in the discharge of its mandate.

**Douglas Sheppard**  
Chairperson, Board of Directors  
Business Investment Corporation



## **2. Overview of the Business Investment Corporation**

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### **2.1 Mandate and Mission**

The Business Investment Corporation supports the mission of the Department of Innovation, Trade and Rural Development, “to foster and promote economic development by encouraging investment, promoting strategic opportunities, and maximizing business and employment growth in all regions of the province.”

The Corporation’s mandate is to direct the management of the investment portfolio of the department and to administer new investments made through the two programs of the Strategic Enterprise Development Fund: the Small Business Seed Capital Equity Program and the Small Business Market Development Program; as well as the Fisheries Loan Guarantee Program 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.”*

### **2.2 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: the Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board.

The Business Investment Corporation operates as a Crown agency reporting to the Minister of Innovation, Trade and Rural Development.

## 2.3 Board of Directors

The affairs of the Corporation are managed by an independent Board of Directors appointed by the Lieutenant-Governor in Council. The Board comprises five private sector members and two senior public sector officials:

<b>Chairperson</b>	Mr. Douglas Sheppard, Gander
<b>Vice-Chairperson</b>	Mr. Geoffrey Peters, St. John's
<b>Members</b>	Mr. Warwick Pike, Happy Valley-Goose Bay Ms. Jane Morgan, St. John's Mr. Lloyd Hines, Grand Bank Deputy Minister, Department of Finance Deputy Minister, Department of Innovation, Trade and Rural Development

The Board met six times in 2004-05 in order to fulfill its mandate. In addition, a sub-committee of the Board, the Corporate Transaction Committee, chaired by one of the private sector members, meets bi-weekly or at the call of the Chair.

### Remuneration

The remuneration of the Board consists of

- the Chair: \$330 per meeting day;
- vice-chair: \$285 per meeting day;
- three private sector members; \$240 per person per meeting day; and
- two public servants: no additional remuneration from the Corporation.

## 2.4 Administrative Support to the Corporation

The Department of Innovation, Trade and Rural Development provide administrative support to the Corporation. The Corporation does not have its own staff. Administrative costs incurred by the Department of Innovation, Trade and Rural Development in support of the Corporation are not allocated as an expense to the Corporation in its financial statements.



## **2.5 Corporation Programs**

The Business Investment Corporation is responsible for the administration of the following program activities:

### **Strategic Enterprise Development Fund**

The Strategic Enterprise Development Fund provides investment capital on commercial terms to help start, revitalize and grow small and medium-sized businesses where gaps existed in the financial market. It comprises the Small Business Seed Capital Equity Program and Small Business and Market Development Program.

### **Small Business Seed Capital Equity Program**

This program makes equity contributions of up to \$50,000 on a matching basis to new entrepreneurs or existing small businesses seeking expansion opportunities in areas of the economy that offer significant growth potential. The budget available in fiscal year 2004-05 was \$2.68 million.

### **Small Business and Market Development Program**

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. In the 2004-05 fiscal year the program had a \$500,000 budget.

### **Fisheries Loan Guarantee Program**

This program supports the development of the province's independent fish harvesting industry by providing government guaranteed loans, to a maximum of \$1.3 million, 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 industry take advantage of ongoing and emerging new opportunities in the fishery.

### **Aquaculture Working Capital Fund**

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 1998 through two federal/provincial cost-shared economic development agreements and operates on a revolving fund basis.

### **Portfolio Management**

The Corporation is responsible for the ongoing management and recovery of loans and investments made by the Corporation and its predecessor organizations.

### **3. Highlights and Accomplishments**

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During the 2004-05 fiscal year, the Board approved funding of approximately three million dollars for 125 enterprises in all parts of Newfoundland and Labrador. This leveraged over twenty-two million dollars in additional investments from other sources.

In addition, the staff of the department have overseen the collection of \$3.5 million dollars that has been returned to the provincial treasury.

A new program and additional funding were announced in the March 2005 Budget and are described in the *Opportunities and Challenges* section below.

To improve its collection efforts, the Portfolio Management Division and the Department of Justice sought and entered into legal agreements with the provinces of Ontario and Alberta to allow pursuit of delinquent investments in those jurisdictions.

## **4. Activities**

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### **4.1 Program Activities**

The Corporation invested approximately \$2,539,000 in 2004-05 through the Small Business Seed Capital Equity Program in 61 small businesses, leveraging \$19.8 million in additional private and public business financing to help start or grow new small businesses. Investments in excess of that budgeted were the result of carryovers from the previous fiscal year.

The Corporation invested \$455,280 in 2004-05 through the Small Business Market and Development Program in 64 small businesses, leveraging an additional \$2.63 million in other business financing to help entrepreneurs and small businesses pursue new business ideas and new markets for their products and services.

Regional investments through the Small Business Market and Development Program and the Small Business Seed Capital Equity Program:

- Avalon: 33 investments totaling more than \$925,900;
- Eastern: 22 investments totaling more than \$422,400;
- Central: 15 investments totaling more than \$381,690;
- Western: 21 investments totaling more than \$1,070,800; and
- Labrador: 11 investments totaling more than \$193,420.

The Corporation approved \$6.2 million in new fisheries loan guarantees in 2004-05 through chartered banks to ten fish harvesting enterprises for the purchase of new fishing vessels or the purchase and/or renovation of used vessels to help them take advantage of ongoing and emerging new business opportunities in the fishery.

In 2004-05, the Corporation managed the Aquaculture Working Capital Fund that had a budget of \$1.5 million invested in 16 enterprises. There were no new investments in this revolving fund during the 2004-05 fiscal year.

The investment portfolio of the Business Investment Corporation consists of 1,581 accounts valued at \$64.9 million. In addition, the Board reviews and approves requests for fishery loan guarantees which are then issued by the Department of Finance; at March 31, 2005 there were 129 of these guarantees valued at \$38.4 million.

In 2004-05, \$3.5 million was collected and returned to the provincial treasury from payments relating to investments.

## **4.2 Financial Statements**

The audited financial statements for the Corporation are found in *Appendix A* of this report. They will be tabled in the House of Assembly in *Volume IV* of the *Public Accounts for the Year ending March 31, 2005*.

## 5. Opportunities and Challenges Ahead

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### **Small Medium Enterprise Revolving Fund**

In March 2005, the provincial government announced a \$10 million revolving fund to provide loans and equity investments to small and medium-sized businesses. The financing will allow eligible businesses the opportunity to start up and expand, thereby helping them create and retain long-term sustainable jobs. To establish the revolving fund, government has added \$7.9 million to the \$2.1 million previously allocated for the Seed Capital Equity Program, for a total budget of \$10 million.

The Business Investment Corporation will administer the fund and the revenue collected will be retained for reinvestment. The fund will target strategic growth sectors, such as manufacturing, information technology, secondary processing, aquaculture and tourism. The fund will specifically target businesses that have export potential and need assistance to enter or expand in external markets.

### **Business and Market Development Program**

In Budget 2005, government doubled the budget for the Business and Market Development Program from \$500,000 to \$1 million. The increase will provide more assistance to new entrepreneurs and expanding small businesses to pursue new business ideas and new markets, including product development, implementing market strategies and advancing new technologies.

### **Challenges**

The Corporation must continue with the effective stewardship of the resources provided in the 2005 Budget including the new revolving fund. It is also responsible to ensure that accountability processes are put in place to comply with the new *Transparency and Accountability Act*.

The Board is responsible for the continued effort to resolve old accounts. This may involve an evaluation of the efficiency of the current processes for monitoring, follow-up and collection of these accounts, as well as write-offs where client assessments warrant.

## **Appendix A: Financial Statements**

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**BUSINESS INVESTMENT CORPORATION**

**FINANCIAL STATEMENTS**

**31 MARCH 2005**

**BUSINESS INVESTMENT CORPORATION**  
**INDEX TO FINANCIAL STATEMENTS**  
**31 March 2005**

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Balance Sheet	Statement 1
Statement of Equity	" 2
Statement of Revenues and Expenses	" 3
Statement of Cash Flows	" 4

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

I have audited the balance sheet of the Business Investment Corporation as at 31 March 2005 and the statements of equity, revenues and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**JOHN L. NOSEWORTHY, C.A.**  
**Auditor General**

St. John's, Newfoundland and Labrador  
10 June 2005



**BUSINESS INVESTMENT CORPORATION**  
**BALANCE SHEET**  
**31 March**

2005

2004

**ASSETS**

Cash (Note 2)	\$ 2,010,687	\$ 1,513,481
Loans and equity investments (Note 3)	9,372,734	11,336,068
Due from the Province	-	49
Insurance premium receivable	-	20,783
Long-term investments (Note 4)	9,422	9,422
	<b>\$ 11,392,843</b>	<b>\$ 12,879,803</b>

**LIABILITIES AND EQUITY**

Borrowers' deposits	\$ 68,517	\$ 68,517
<b>Equity</b>	<b>11,324,326</b>	<b>12,811,286</b>
	<b>\$ 11,392,843</b>	<b>\$ 12,879,803</b>

Contingent liabilities (Note 5)  
 Commitments (Note 6)

*See accompanying notes*

Signed on behalf of the Board:

\_\_\_\_\_  
 Chairperson

\_\_\_\_\_  
 Director of Portfolio Management

**BUSINESS INVESTMENT CORPORATION**  
**STATEMENT OF EQUITY**  
**For the Year Ended 31 March**

2005

2004

**Contributed capital (Note 7)**

<b>Balance, beginning of year</b>	<b>\$ 68,178,530</b>	\$ 76,137,561
Aquaculture Working Capital Fund reserve (Note 2)	22,486	20,647
Capital contributions from the Province	3,178,900	1,621,500
Principal paid to the Province	(3,004,669)	(4,143,714)
Contributions disbursed as grants	(319,084)	(407,456)
Principal written off, net of recoveries (Note 3)	(8,291,324)	(5,050,008)
<b>Balance, end of year</b>	<b>59,764,839</b>	68,178,530

**Deficit**

<b>Balance, beginning of year</b>	<b>(55,367,244)</b>	(61,064,521)
Investment income paid to the Province	(489,302)	(863,699)
Excess of revenues over expenses (expenses over revenues)	(875,291)	1,510,968
Principal written off, net of recoveries (Note 3)	8,291,324	5,050,008
<b>Balance, end of year</b>	<b>(48,440,513)</b>	(55,367,244)
<b>Equity, end of year</b>	<b>\$ 11,324,326</b>	\$ 12,811,286

*See accompanying notes*

**BUSINESS INVESTMENT CORPORATION**  
**STATEMENT OF REVENUES AND EXPENSES**  
**For the Year Ended 31 March**

2005

2004

**REVENUES**

Interest on loans	\$ 675,841	\$ 994,861
Other investment income	30,299	47,027
Dividend income	5,662	97,161
Recovery in value of loans receivable and equity investments (Note 3)	-	362,641
Gain from demutualization	-	9,422
	<b>711,802</b>	<b>1,511,112</b>

**EXPENSES**

Provision for decline in value of loans receivable and equity investments (Note 3)	1,566,155	-
Miscellaneous expense	20,938	144
	<b>1,587,093</b>	<b>144</b>
<b>Excess of revenues over expenses (expenses over revenues)</b>	<b>\$ (875,291)</b>	<b>\$ 1,510,968</b>

*See accompanying notes*

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

2005

2004

**Cash flows from operating activities**

Excess of revenues over expenses (expenses over revenues)	\$ (875,291)	\$ 1,510,968
Adjustments for non-cash items		
Gain from demutualization	-	(9,422)
Provision for decline in value of loans receivable and equity investments	1,566,155	-
Recovery in value of loans receivable and equity investments	-	(362,641)
	<b>690,864</b>	1,138,905
Changes in non-cash operating items		
Due from the Province	49	1,008,246
Insurance premium receivable	20,783	-
	<b>711,696</b>	2,147,151

**Cash flows from investing activities**

Increase in loans and equity investments	(3,172,515)	(3,162,670)
Collection of loans and equity investments	3,569,694	4,886,005
	<b>397,179</b>	1,723,335

**Cash flows from financing activities**

Aquaculture Working Capital Fund reserve	22,486	20,647
Capital contributions from the Province	3,178,900	1,621,500
Principal paid to the Province	(3,004,669)	(4,143,714)
Contributions disbursed as grants	(319,084)	(407,456)
Investment income paid to the Province	(489,302)	(863,699)
	<b>(611,669)</b>	(3,772,722)

<b>Net increase in cash</b>	<b>497,206</b>	97,764
<b>Cash, beginning of year</b>	<b>1,513,481</b>	1,415,717
<b>Cash, end of year</b>	<b>\$ 2,010,687</b>	\$ 1,513,481

*See accompanying notes*

**BUSINESS INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2005**

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**Authority**

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.

**1. Significant accounting policies**

These financial statements have been prepared by the Corporation's management in accordance with Canadian generally accepted accounting principles. Outlined below are the significant accounting policies followed.

**(a) Loans receivable**

The Corporation records loans receivable at 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.

**(b) Equity investments**

The Corporation records equity investments at 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 cost basis.

Provision is made by the Corporation for any decline in the value of investee companies which is considered to be other than temporary.

**BUSINESS INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2005**

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**1. Significant accounting policies (cont.)**

**(c) Revenue recognition**

Interest income is accounted for on the accrual basis for 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.

Dividends are recorded as income when received.

**2. Aquaculture Working Capital Fund**

During the fiscal years 2000-01 to 2002-03, the Corporation received \$1.5 million from the Government of Canada to fund the Aquaculture Working Capital Fund (the Fund). The Fund assists individuals and companies in the shellfish industry throughout the Province through repayable loans. The Fund is a revolving fund in which loan repayments are not remitted to the Province but held by the Corporation to be paid out as future aquaculture loans.

As at 31 March 2005, the Fund had 19 loans outstanding totaling \$1,518,177 (2004 - 19 loans totalling \$1,479,866). During 2003-04, the Corporation established a separate loan portfolio and bank account to administer the Fund and assist in identifying payments that are received and held for future loans. As at 31 March 2005, the Fund had a balance of \$25,548 (2004 - \$55,250) which is included in these financial statements as part of cash.

**3. 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 2005**

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**3. Loans and equity investments (cont.)**

Loans and equity investments consist of the following:

	<u>2005</u>	<u>2004</u>
<b>Loans receivable</b>		
Principal due and unpaid	\$ 22,975,201	\$ 25,308,386
Principal not yet due	17,592,047	22,222,734
Interest due and unpaid	3,520,413	4,532,297
	<b>44,087,661</b>	52,063,417
Less: allowance for decline in value	<b>(35,561,456)</b>	(41,744,474)
	<b>8,526,205</b>	10,318,943
<b>Equity investments</b>		
Equity investments, at cost	20,782,964	22,613,551
Less: allowance for decline in value	<b>(19,936,435)</b>	(21,596,426)
	<b>846,529</b>	1,017,125
<b>Loans and equity investments</b>	<b>\$ 9,372,734</b>	\$ 11,336,068

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

	<u>2005</u>	<u>2004</u>
<b>Balance, beginning of year</b>	<b>\$ 63,340,900</b>	\$ 70,122,705
Principal written off, net of recoveries	<b>(8,291,324)</b>	(5,050,008)
Interest written off, net of recoveries	<b>(1,115,197)</b>	(1,007,835)
Interest receivable adjustment	<b>(2,643)</b>	(361,321)
Provision for decline in value of loans receivable and equity investments	<b>1,566,155</b>	-
Recovery in value of loans receivable and equity investments	-	(362,641)
<b>Balance, end of year</b>	<b>\$ 55,497,891</b>	\$ 63,340,900

The allowance for decline in value of loans 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.

**BUSINESS INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2005**

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**4. 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 are 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 2005 was \$21,899 (2004 - \$18,676).

**5. 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 client of the Corporation has filed a Notice of Intended Action against Her Majesty the Queen in Right of Newfoundland and Labrador and the Corporation because of an alleged breach of a bounty agreement. The client is seeking an estimated \$143,700 plus interest. The Statement of Claim issued in relation to this matter was acknowledged by both parties to be defective due to non-compliance with the *Proceedings Against the Crown Act*. There has been no further activity in relation to this claim since the summer of 1991.
- (c) There are three counter claims against the Corporation in relation to actions commenced by the Corporation to collect the deficiency balances owing on vessels that have been repossessed and sold. The total of these three counter claims is not expected to exceed \$39,000. In the opinion of the Corporation there is a good defense to these counter claims.
- (d) A client of the Corporation has taken legal action claiming that the marine inspectors of the Corporation were negligent in performing their survey of the client's vessel at the time financing was being considered. The plaintiffs are claiming general damages.
- (e) There is a third party claim against Her Majesty the Queen in Right of Newfoundland and Labrador and the Corporation by the defendants in an action by a bank to collect the deficiency balance on a loan to the defendants. The defendants are seeking indemnification and contribution for approximately \$400,000 plus interest. A defence will be filed in this action.
- (f) 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.



**BUSINESS INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2005**

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**6. Commitments**

The Corporation has outstanding commitments in respect of approved but not yet disbursed loans, equity investments and/or grants in the amount of \$1,333,318 (2004 - \$1,181,383). In addition to these loan commitments the Corporation has outstanding loan guarantees of \$100,000 (2004 - \$250,000).

**7. Contributed capital**

The Corporation receives capital contributions from the Province and the Government of Canada for the purpose of making loans, equity investments, and providing business and market development grants. The Corporation depends on these capital contributions to carry out its mandate.

Contributed capital is reduced by the principal portion of loans collected and paid to the Province, the principal portion of loans written off, and by contributions which the Corporation disburses as grants under its Business and Market Development Program.

**8. Financial instruments**

The Corporation's financial instruments recognized on the balance sheet, in addition to the long-term investments described in Note 4, consist of cash, loans and equity investments, due from the Province, insurance premium receivable, and borrowers' deposits. The carrying values of cash, due from the Province, insurance premium receivable, and borrowers' deposits approximate current fair value due to their nature and the short-term maturity or current market rate associated with these instruments.

The Corporation's loans and equity investments are recognized on the balance sheet at cost with provision being made for any decline in their value. Any estimated impairment of these loans and equity investments has been provided for through an allowance for decline in value and no further credit risk exists for these items. The carrying value of loans and equity investments approximates discounted value of expected receipts. Therefore, their carrying values approximate their current fair value and these instruments are not subject to any material interest rate risk.

**9. Related party transactions**

The Corporation is administered as a division of the Department of Innovation, Trade and Rural Development. Expenses of \$491,318 related to salaries, accommodations and administration are paid directly by the Department and no provision is made in these financial statements to reflect those expenditures.

**BUSINESS INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 March 2005**

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**10. Economic dependence**

As a result of the Corporation's reliance on Provincial funding, the Corporation's ability to continue viable operations is dependent upon the decisions of the Province.

**11. Income taxes**

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