

Innovation and Business Investment Corporation

Annual Report 2023-24

Message from the Chair

As Chair of the Board of Directors of the Innovation and Business Investment Corporation, I am pleased to present the annual report for the fiscal year ending March 31, 2024. This report fulfills our 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 be 'MD', is positioned above the printed name 'Mark Dobbin'.

Mark Dobbin

Chairperson

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Entity Overview

The Innovation and Business Investment Corporation (the Corporation/IBIC) operates as a Crown Corporation reporting to the Minister of Industry, Energy and Technology (IET). It was established on May 31, 2018 under the **Innovation and Business Investment Corporation 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. 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 Chair.

The Board has delegated authority to Regional Managers of IET for funding decisions on accounts in which total funding outstanding does not exceed \$50,000. Select Directors of IET, as approved by the Board, have approval authority up to \$150,000. Similarly, the Innovation and Business Investment Management Committee has the authority for funding decisions on accounts that exceed the Directors' limit, up to \$750,000. Full Board approval is required on accounts in excess of \$750,000.

IBIC is governed by a board of directors comprising the deputy minister of the department or their designate, two assistant deputy ministers of the department or their designates, and a minimum of two to a maximum of nine additional persons appointed by the Lieutenant-Governor in Council. A Board member is appointed for a term of up to three years and can be reappointed but shall not serve for longer than six consecutive years. As of March 31, 2024 the Board members were:

- Mark Dobbin (Chairperson), appointed May 11, 2021

- Mandy Woodland (Vice- Chairperson), appointed May 11, 2021
- Peggy Bartlett, appointed May 11, 2021
- Lynn Morrissey, appointed May 11, 2021
- Joshua Quinton, appointed May 11, 2021
- Andy Turnbull, appointed May 11, 2021

Staff and Budget

IET provides administrative support and delivers programs for the Corporation. 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.

In addition to the established revolving loan fund, funding for the Corporation's programs is provided annually through IET's budget.

Vision

The Corporation has adopted, and contributes to IET's vision, as follows: A prosperous Newfoundland and Labrador with a clean, innovative, and diversified economy capitalizing on the Province's resources and strategic advantages and supported by private sector investment and business growth across all regions of the province.

Mandate

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 its funding programs.

Lines of Business

The Corporation was responsible for the administration of the following programs in 2023-24:

Research and Development (R&D): There are two programs for R&D:

R&D Commercial provides support through non-repayable contributions to commercial R&D projects that reduce the technical and financial risk of research and development projects where R&D is required to realize the commercial potential of innovative products, processes or services.

Research and Innovation Fund (RIF) provides support through non-repayable contributions to non-commercial entities for the development and implementation of R&D and innovation projects to support economic development in Newfoundland and Labrador. <https://www.gov.nl.ca/iet/funding/research-and-development/>

Business Investment Program (BIP): provides loans with particular emphasis on support to businesses that have export potential and need assistance to enter or expand into external markets. <https://www.gov.nl.ca/iet/funding/business-investment-program/>

Business Development Support Program (BDSP): provides non-repayable contributions to businesses with opportunities to increase productivity and improve competitiveness, with a key objective to help businesses gain access to national and international markets. <https://www.gov.nl.ca/iet/funding/business-development-support-program/>

Fisheries Loan Guarantee Program (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. Loans may also be approved to refinance loans previously obtained from fish processors for fixed asset costs. Also, the program is used to support combining of enterprises and license acquisitions. The investments are reviewed by the Board of the Corporation, with guarantees issued by the Province, and the liability is shown in provincial accounts.

Rental Housing Development Loan Program: On January 31, 2024, a new program under IBIC's authority was launched. This program makes available up to \$50 million in low-interest loan financing to property developers to encourage the construction of rental housing. The Program is designed to assist developers, contractors, and commercial property owners undertaking new purpose-built residential rental development projects in Newfoundland and Labrador. In so doing, the Program seeks to increase the availability of housing in Newfoundland and Labrador by incentivizing the construction of new units in the province.

Highlights and Partnerships

Examples of initiatives and projects funded by IBIC in 2023-24 include:

R&D Examples

R&D Non-Commercial

TechNL's Bounce Health Innovation 3.0 project will involve accelerating the initiation of new companies, supporting early growth companies, identifying, and addressing gaps in the ecosystem, and incorporating elements to create a more inclusive, equitable and diverse health tech sector. Total project costs are \$1,733,448 with RIF funding of \$566,596.

C-Core's research project Alternative of Natural Gas Flaring is assessing and modeling alternatives to flaring that have few or potentially no environmental impacts. This research can potentially lead to better planning for greenhouse gas emissions reduction for future Newfoundland and Labrador deep-water oil and gas production. RIF funding was \$199,800 with total project costs of \$575,700.

MUN's Research Innovation Office's project Supporting the Local Innovation and Entrepreneurial Ecosystem is comprised of three programs: Insight Business Consulting (IBC), Creative Destruction Lab-Atlantic Match & Travel (CDL-MT), and Translational R&D (TR&D). IBC offers business consulting by MBA students to local startups. CDL-MT allows students and faculty to join CDL sessions, gaining exposure and mentorship. TR&D guides graduate students in commercializing their research. This project, costing \$535,000 with \$125,000 from RIF, enhances student outcomes and fosters innovation and economic growth.

R&D Commercial

Swiftsure Innovations Inc. received \$149,000 to leverage a \$210,000 contribution, for total project funding of \$359,000 for its SwishKit project. The project aims to advance the company's oral care system for ventilated patients, mitigating Ventilator Acquired Pneumonia risks through safe nasal and oral cavity cleaning, minimizing infection risks.

Trophai.ai is developing coaching software for eSports players. The company's software uses artificial intelligence to analyze players and provide feedback, recommendations, and enhance performance. To support growth and client development the company received \$548,484 in funding.

BDSP and BIP Examples

New World Theatre Project Inc. obtained \$100,000 via the BIP for 2023-24 season operations. This is essential due to early-season expenses before box office activity, especially with the relocation to Conception Harbour, which presents short-term working capital challenges.

Sturge Properties Inc. is constructing a five-unit four star property in Wesleyville with loan investments from IET and Atlantic Canada Opportunities Agency. BDSP support includes the following elements: 1) Discovery; 2) Branding; 3) "Making Of" Video Series; 4) Experience Video & Photo Package; 5) Website Design & Development; 6) Launch Strategy; and 7) Social Media Campaigns. IBIC contributed a \$26,825 non-repayable contribution, leveraging \$26,825 from the client.

Tuckamore Lodge, located in Main Brook near St. Anthony along the Great Northern Peninsula, utilized a BDSP project to participate in provincially supported trade shows for hunting and fishing. The project also facilitated professional photo and video

production for social media and print use. With a total cost of \$30,263, the BDSP covered \$20,881, leveraging \$9,382 from the company.

Resource Innovations Inc., headquartered in Corner Brook, offers forest and environmental management services promoting ecosystem health and sustainability. With operations nationwide, it specializes in natural resource management, Geographic Information Systems, Unmanned Aerial Systems, and environmental consulting. Approved for \$81,094 in BDSP funding, the company will enhance digital adoption, employee training, marketing, and professional services, contributing \$124,094 to the two-year project.

Report on Performance

Issue: Made new investments and managed existing investments

The Corporation reports on the objective and indicators below, through its annual reports, for each fiscal year of its 2023-26 activity plan.

2023-24 Objective

By March 31, 2024, the Corporation will have continued to support innovation, research and development and business investment activity in Newfoundland and Labrador.

Indicators:

- **Made investments through its programs and initiatives, in commercial and non-commercial innovation, business development, and research and development projects.**

During 2023-24, the Corporation approved 48 commercial and non-commercial projects totaling \$10,542,681 in funding (contracted funding of \$7,822,381). These investments in R&D and innovation clients were made in various sectors to advance partnerships and to collaborate on innovation activities throughout the province. Approved investments leveraged \$53,494,168 from partners to support R&D and innovation. Of the total:

- 33 projects were approved for \$5,545,655 (contracted funding of \$2,825,355) through the RIF for non-commercial clients, leveraging \$42,664,798 in partnership funding.

- 15 projects were approved for \$4,997,026 (contracted funding of \$4,997,026) through R&D Commercial for commercial clients, leveraging \$10,829,370 in partnership funding.

During 2023-24, through the BDSP, 176 projects were approved for \$2,745,479 (contracted funding of \$2,519,422), leveraging \$5,301,044 in partnership funding.

During 2023-24, through the BIP, seven projects were approved for \$2,563,500 (contracted funding of \$1,753,500), leveraging \$3,681,500 in partnership funding.

During 2023-24, there were no new approved applications under FLGP or RHDLP.

- **Successfully managed revenue collection on the loan portfolio under the Corporation.**

In 2023-24, the Corporation managed a total loan portfolio of \$30,028,855. Revenue is collected annually for the loan portfolio. In 2023-24, the projected revenue for the IBIC portfolio was \$2,854,397 and the actual amount collected was \$2,782,967. This resulted from agreements that were reached with some clients to defer principal payments due to challenges these business faced during this fiscal year. Therefore, the percentage of projected annual revenues collected was lower than anticipated, at 97 per cent.

Opportunities and Challenges

IBIC supports economic diversification in the province, including key sector development and entrepreneurship. IBIC can support emerging industries such as technology, clean energy, and biotech, diversifying the province's economic base beyond traditional sectors.

IBIC provides support for small and medium sized enterprises supporting growth and competition on a larger scale. As well, collaborations with private sector companies can enhance infrastructure development and technological advancements. Partnering with academic institutions can result in innovation through R&D initiatives.

IBIC is available province-wide which allows for regional economic development in rural areas. Investments in community-oriented projects can improve local quality of life and economic stability.

Attracting and retaining a skilled workforce in Newfoundland and Labrador can be challenging, particularly in specialized fields. Ensuring robust digital infrastructure across the province, especially in rural areas, is vital for supporting tech-based businesses. Encouraging traditional industries to adopt innovative technologies can be met with resistance or slow uptake.

By recognizing and addressing these opportunities and challenges, IBIC can strategically position itself to drive economic growth and innovation within the province.

In response to the housing needs in the province, the Rental Housing Development Loan Program was announced in January 2024. IBIC has committed up to \$50 million to the Program, with delivery managed by IET on behalf of the Corporation. This modern program addresses a critical need in the province and aims to provide ongoing improvements.

Financial Information

**INNOVATION AND BUSINESS
INVESTMENT CORPORATION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
MARCH 31, 2024**

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.



Mr. Julian Ludmer
Assistant Deputy Minister – Business and
Innovation
Department of Industry, Energy and Technology



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, 2024, 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, 2024, 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 scepticism 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.



DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

September 5, 2024
St. John's, Newfoundland and Labrador

INNOVATION AND BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
As at March 31


| | 2024 | 2023 |
|--|-----------------------|----------------------|
| FINANCIAL ASSETS | | |
| Cash (Note 3) | \$ 92,273,609 | \$ 84,956,545 |
| Due from Province of Newfoundland and Labrador (Note 9) | - | 1,450,000 |
| Bank interest receivable | 134,314 | 116,484 |
| Loans receivable and equity investments (Note 4) | 13,847,804 | 14,322,620 |
| | 106,255,727 | 100,845,649 |
| LIABILITIES | | |
| Due to Province of Newfoundland and Labrador (Note 9) | - | 299,879 |
| Accounts payable | 1,123,545 | 1,289,436 |
| | 1,123,545 | 1,589,315 |
| Net financial assets | 105,132,182 | 99,256,334 |
| Accumulated surplus | \$ 105,132,182 | \$ 99,256,334 |

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 Year Ended March 31

| | 2024 Budget | 2024 Actual | 2023 Actual |
|--|--------------------------------|------------------------|------------------------|
| | Unaudited (Note 10) | | |
| REVENUES | | | |
| Contributions from Province | | | |
| Research and Development Program (Note 9) | \$ 13,750,000 | \$ 13,750,000 | \$ 15,200,000 |
| Business Development Support Program (Note 9) | 3,086,000 | 3,086,000 | 3,086,000 |
| Investment income | 620,000 | 4,625,856 | 2,748,614 |
| Interest on loans | 470,000 | 524,894 | 523,584 |
| Recovery of Research and Development Program Expenses | - | 232,424 | - |
| Recovery in value of loans receivable and equity investments (Note 4) | - | - | 1,423,709 |
| | 17,926,000 | 22,219,174 | 22,981,907 |
| EXPENSES (Note 5) | | | |
| Research and Development Program | 13,750,000 | 12,199,079 | 10,194,429 |
| Business Development Support Program | 3,086,000 | 3,209,020 | 3,698,940 |
| Decline in value of loans receivable and equity investments (Note 4) | 530,000 | 930,509 | - |
| Administration | 5,500 | 4,718 | 5,331 |
| | 17,371,500 | 16,343,326 | 13,898,700 |
| Annual surplus | 554,500 | 5,875,848 | 9,083,207 |
| Accumulated surplus, beginning of year | 99,256,334 | 99,256,334 | 90,173,127 |
| Accumulated surplus, end of year | \$ 99,810,834 | \$ 105,132,182 | \$ 99,256,334 |

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

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

| | 2024 | 2023 |
|--|----------------------|---------------|
| Operating transactions | | |
| Annual surplus | \$ 5,875,848 | \$ 9,083,207 |
| Adjustment for non-cash items | | |
| Decline (recovery) in value of loans receivable and equity investments (Note 4) | 930,509 | (1,423,709) |
| | 6,806,357 | 7,659,498 |
| Change in non-cash working capital | | |
| Due from Province of Newfoundland and Labrador | 1,450,000 | (1,450,000) |
| Bank interest receivable | (17,830) | (97,360) |
| HST receivable | - | 1,746 |
| Due to Province of Newfoundland and Labrador | (299,879) | (1,067,922) |
| Accounts payable | (165,891) | 254,301 |
| Cash provided from operating transactions | 7,772,757 | 5,300,263 |
| Investing transactions | | |
| Increase in loans and equity investments | (3,238,660) | (1,558,947) |
| Collection of loans and equity investments | 2,782,967 | 3,293,030 |
| Cash (applied to) provided from investing transactions | (455,693) | 1,734,083 |
| Increase in cash | 7,317,064 | 7,034,346 |
| Cash, beginning of year | 84,956,545 | 77,922,199 |
| Cash, end of year | \$ 92,273,609 | \$ 84,956,545 |

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

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. 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, 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.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash and bank interest receivable. Loans receivable and equity investments are measured at amortized cost as disclosed in notes 2(d), 2(e) and 4. Financial liability measured at cost is accounts payable.

The carrying values of cash, bank interest 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.

2. Summary of significant accounting policies (cont.)

(f) Revenues

Revenues are recognized in the year 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.

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.

(g) 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.

(h) 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 year. 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, 2024

2. Summary of significant accounting policies (cont.)

(h) 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>2024</u> | <u>2023</u> |
|--------------------------------------|----------------------|--------------------|
| Business Development Support Program | \$ 10,981,484 | \$ 10,652,667 |
| Business Investment Program | 19,886,811 | 18,844,675 |
| Research and Development Program | 61,405,314 | 55,459,203 |
| | \$ 92,273,609 | \$ 84,956,545 |

4. Loans receivable and equity investments

| | <u>2024</u> | <u>2023</u> |
|--|----------------------|--------------------|
| Loans Receivable | | |
| Principal due and unpaid | \$ 5,470,862 | \$ 5,601,611 |
| Principal not yet due | 17,804,794 | 17,459,812 |
| Interest due and unpaid | 701,566 | 690,255 |
| | 23,977,222 | 23,751,678 |
| Less: allowance for decline in value | (10,161,833) | (9,837,387) |
| | 13,815,389 | 13,914,291 |
| Equity investments | | |
| Equity investments, at cost | 6,051,633 | 6,335,937 |
| Less: allowance for decline in value | (6,019,218) | (5,927,608) |
| | 32,415 | 408,329 |
| Loans receivable and equity investments | \$ 13,847,804 | \$ 14,322,620 |

INNOVATION AND BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2024

4. Loans receivable and equity investments (cont.)

Generally, for loans, the loan terms are five 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 seven 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 management'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>2024</u> | <u>2023</u> |
|---|----------------------|----------------------|
| Balance, beginning of year | \$ 15,764,995 | \$ 18,247,359 |
| Principal written off, net of recoveries | (475,033) | (963,704) |
| Interest written off, net of recoveries | (39,420) | (94,951) |
| Decline (recovery) in value of loans receivable and equity investments | 930,509 | (1,423,709) |
| Balance, end of year | \$ 16,181,051 | \$ 15,764,995 |

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NOTES TO FINANCIAL STATEMENTS
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5. Expenses

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

| | 2024 <u>Budget</u> Unaudited (Note 10) | 2024 <u>Actual</u> | 2023 <u>Actual</u> |
|---|---|-------------------------------|-------------------------------|
| Business Develop Support | | | |
| Program - Grants | \$ 3,086,000 | \$ 3,209,020 | \$ 3,698,940 |
| Decline in value of loans receivable and equity investments (Note 4) | 530,000 | 930,509 | - |
| Purchased services | 5,500 | 4,718 | 5,331 |
| Research and Development Program | | | |
| - Commercial grants | 7,012,500 | 5,339,339 | 4,686,375 |
| Research and Development Program | | | |
| - Non-Commercial grants | 6,737,500 | 6,859,740 | 5,508,054 |
| | \$ 17,371,500 | \$ 16,343,326 | \$ 13,898,700 |

6. Contingent liabilities

A client of the former Business Investment 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 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.

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 \$30,689,587 (2023 - \$36,360,033). Approximate payment of these obligations in future years is as follows:

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7. Contractual obligations (cont.)

Research and Development Program

| | | |
|---|----|----------------------|
| 2025 | \$ | 13,600,132 |
| 2026 | | 9,943,210 |
| 2027 | | 2,039,388 |
| 2028 | | 788,148 |
| 2029 | | - |
| | | <hr/> |
| | | 26,370,878 |
| Business Development Support Program | | 4,122,724 |
| Business Investment Program | | 195,985 |
| | | <hr/> |
| | | \$ 30,689,587 |

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, and 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 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 \$23,977,222 (2023 - \$23,751,678). Principal due and unpaid of \$5,470,862 (2023 - \$5,601,611) was overdue by portfolio as follows:

| Loan Portfolio | Days Overdue | | | | Total |
|---|------------------|------------------|------------------|---------------------|---------------------|
| | 1-30 | 31-60 | 61-90 | >90 | |
| Former Aquaculture Working Capital Fund | \$ - | \$ - | \$ - | \$ 464,483 | \$ 464,483 |
| Business Investment Program | 31,157 | 27,726 | 61,699 | 2,548,547 | 2,669,129 |
| Former Enterprise Newfoundland and Labrador | - | - | - | 2,066,404 | 2,066,404 |
| Former Farm Loan Board | - | - | - | 270,846 | 270,846 |
| Total Principal due and unpaid | \$ 31,157 | \$ 27,726 | \$ 61,699 | \$ 5,350,280 | \$ 5,470,862 |

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 \$4,940,963 (2023 - \$5,140,935) in the normal course of business as follows:

| | |
|---|---------------------|
| • Memorial University of Newfoundland | \$ 2,928,522 |
| • College of the North Atlantic | 1,015,982 |
| • Genesis Group Incorporated | 768,538 |
| • C-Core | 141,993 |
| • Newfoundland and Labrador Health Services | <u>85,928</u> |
| | <u>\$ 4,940,963</u> |

- The Corporation received contributions from the Province of \$16,836,000 (2023 - \$18,286,000) as follows:

| | |
|--|---------------------|
| • Research and Development Program | \$13,750,000 |
| • Business Development Support Program | <u>3,086,000</u> |
| | <u>\$16,836,000</u> |

The Corporation has been approved for funding by the Province under the Research and Development Program to develop and implement carbon capture and storage initiatives. As at March 31, 2024, the Corporation had an amount due from the Province in the amount of \$0 (2023 - \$1,450,000).

The Corporation is administered by the Department of Industry, Energy and Technology. Estimated administration expenses of \$2,473,302 (2023 - \$2,090,869) are paid directly by the Province. Included in this total is \$313,213 (2023 - \$264,783) 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.

The above transactions are in the normal course of business measured at the exchange amount.

The Corporation, on behalf of the Province, paid grants to corporations and individuals impacted by the COVID-19 pandemic. The administration of payments related to specific Provincial COVID-19 programs is not in the Corporation's normal course of business, but instead is a temporary flow-through arrangement related to the pandemic. As at March 31, 2024, the Corporation had an amount due to the Province in the amount of \$0 (2023 - \$299,879) for previously received grants related to the arrangement.

10. Budget

The Corporation's budget is prepared on a cash basis and approved by the Board of Directors. Budgeted figures included in the financial statements are not audited.

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

An independent audit by the Office of the Auditor General, that concluded in June 2023, found possible discrepancies in less than 1 per cent of the total funding payouts under the Tourism and Hospitality Support and Small Business Assistance Programs. The Department of Industry, Energy and Technology, in consultation with the Corporation, has prepared a plan to pursue collections of payments to ineligible applicants and applicant overpayment, and collection efforts are underway.

12. Change in significant accounting policies

The Corporation adopted PS 3400 Revenue, effective April 1, 2023, which establishes standards on how to account for and report on revenue. PS 3400 sets out general guidance for how entities recognize, measure, present and disclose revenue arising from transactions that include performance obligations (exchange transactions) and transactions that do not have performance obligations (non-exchange transactions). There are two approaches to recognizing revenue with performance obligations: at a point in time or over a period of time. This determination is made based on when a performance obligation is satisfied.

PS 3400 has been applied prospectively to these financial statements and, as permitted by the transitional provisions, prior periods were not restated.

The implementation of this new Section did not have a material impact on the financial statements.

13. Subsequent event

On May 24, 2024, the Government of Newfoundland and Labrador announced an investment by the Innovation and Business Investment Corporation of \$15 million for a new Harvester Enterprise Loan Program. This program is an enhancement of the Fisheries Loan Guarantee Program and will expand supports for independent fish harvesters positioning the sector for future success. The Harvester Enterprise Loan Program supports the development of the province's independent fish harvesting industry through loan guarantees, down payment loans and interest rebates to fish harvesters. The program represents an investment of up to \$10 million towards the down payment loans and up to \$5 million for the interest rebates.

