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**BLUE WATER BUSINESS DEVELOPMENT  
CORPORATION LIMITED**

**FINANCIAL STATEMENTS**

**March 31, 2012**

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
March 31, 2012

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**INDEPENDENT AUDITOR'S REPORT**

David L. Etter  
& Associates Inc.

To the Chairperson and Board of Directors of the  
**Blue Water Business Development Corporation Limited:**

117 Brentwood Drive  
Bedford, NS B4A 3S3  
Tel: (902) 456-1031  
Fax: (902) 835-0172  
detter@porterhetu.com  
www.porterhetu.com

I have audited the accompanying financial statements of the Blue Water Business Development Corporation Limited, which comprise of the statement of financial position as at March 31, 2012, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Independent  
Member Firm of  
Porter Héту International

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for not-for-profit organizations, 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 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.

**Member Offices**

*Nova Scotia*  
Bedford, NS  
Cheticamp, NS  
Dartmouth, NS

*Canada*  
Newfoundland  
New Brunswick  
Nova Scotia  
Prince Edward Island  
Quebec  
Ontario  
Manitoba  
Alberta  
British Columbia

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

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**International**

Antigua · Australia · Austria · Bahamas · Bangladesh · Belize · Belgium · Bolivia · Brazil · Brunei · Cameroon · Cayman Islands · Chile · China · Columbia · Cyprus-Greece · Costa Rica · Dominican Republic · Ecuador · Egypt · El Salvador · Finland · France · Germany · Guatemala · Haiti · Honduras · Hong Kong · India · Italy · Indonesia · Jamaica · Japan · Luxembourg · Malaysia · Mexico · Morocco · Netherlands · Nicaragua · Pakistan · Panama · Paraguay · Peru · Philippines · Poland · Puerto Rico · Senegal · Singapore · Sri Lanka · Switzerland · Taiwan · Thailand · Trinidad and Tobago · Tunisia · Turkey · United Kingdom · United States of America · Uruguay · Venezuela · Vietnam

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.

#### **Basis for qualified opinion**

The Blue Water Business Development Corporation Limited has not identified and classified all its financial instruments, and recorded its financial instruments at fair value. Rather, all financial instruments are recorded at historical cost. The Corporation has not specifically disclosed information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance including exposure to risks, methods of determining fair value and other relevant information. This basis of accounting in these financial statements differs from Canadian generally accepted accounting principles.

#### **Opinion**

In my opinion, except for the effect of matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Blue Water Business Development Corporation Limited as at March 31, 2012 and the results of operations and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

June 23, 2012  
Bedford, NS


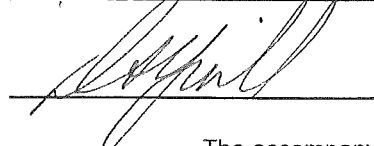
A handwritten signature in black ink, appearing to read "D. J. [unclear] CMA", written over a horizontal line.

Certified General Accountant

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**March 31, 2012**

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> 2012	<u>Total</u> 2011
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and term deposits	208,629	1,593,794	1,802,423	2,018,014
Receivables	2,750	53,493	56,243	31,700
HST refundable	13,548	-	13,548	8,022
Prepaid expense	2,000	-	2,000	-
Due from investment fund	15,745	-	15,745	-
Due from SEED fund	-	-	-	254,364
	<u>242,672</u>	<u>1,647,287</u>	<u>1,889,959</u>	<u>2,312,100</u>
<b>Investments</b> (Note 4)	-	5,783,498	5,783,498	6,226,165
<b>Capital assets</b> (Note 5)	4,368	-	4,368	4,534
	<u>247,040</u>	<u>7,430,785</u>	<u>7,677,825</u>	<u>8,542,799</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Due to operating fund	-	15,745	15,745	181,380
Due to operating fund	-	-	-	72,984
Due to ACOA - SEED	-	-	-	355,621
Payables and accrued liabilities	12,494	10,286	22,780	1,245
Funds collected and held in trust	-	13,515	13,515	-
Current portion of long term debt	-	-	-	360,000
	<u>12,494</u>	<u>39,546</u>	<u>52,040</u>	<u>971,230</u>
<b>Long term debt</b>				
Due to related parties (Note 6)	-	136,881	136,881	459,983
<b>Total liabilities</b>	<u>12,494</u>	<u>176,427</u>	<u>188,921</u>	<u>1,431,213</u>
<b>NET ASSETS</b>				
<b>Fund balances</b>				
Net assets invested in capital assets	4,368	-	4,368	4,534
Externally restricted net assets	-	7,049,358	7,049,358	6,802,040
Internally restricted net assets	100,000	205,000	305,000	175,000
Unrestricted net assets	130,178	-	130,178	130,012
	<u>234,546</u>	<u>7,254,358</u>	<u>7,488,904</u>	<u>7,111,586</u>
	<u>247,040</u>	<u>7,430,785</u>	<u>7,677,825</u>	<u>8,542,799</u>

Approved by the Board

  
 \_\_\_\_\_ Director  
  
 \_\_\_\_\_ Director

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF OPERATIONS**  
Year ended March 31, 2012

(Schedule 2)

	<u>Operating</u>	<u>Investment</u>	<u>Total</u>	<u>Total</u>
	Fund	Fund	2012	2011
	\$	\$	\$	\$
<b>Revenue</b>				
ACOA contribution - Community Futures	375,000	-	375,000	395,000
Investment income - loan portfolio	-	545,976	545,976	539,409
Sundry revenue (Schedule 3)	182,159	26,544	208,703	111,831
	<u>557,159</u>	<u>572,520</u>	<u>1,129,679</u>	<u>1,046,240</u>
<b>Expenditures</b>				
Advertising	12,310	-	12,310	4,090
Amortization	3,000	-	3,000	4,202
Bank charges	554	2,963	3,517	3,264
Credit checking	1,379	-	1,379	1,907
Equipment rental	5,226	-	5,226	3,629
Insurance	3,273	-	3,273	5,389
Interest expense - ACCBIFF	-	8,111	8,111	16,008
Loan write-off provision	-	144,049	144,049	213,063
Meeting expenses	8,523	-	8,523	14,549
Memberships, dues and fees	2,884	-	2,884	4,300
Miscellaneous	299	-	299	2,834
Office supplies	7,888	-	7,888	8,156
Postage and courier	2,321	-	2,321	2,243
Professional fees - audit and accounting	16,690	-	16,690	13,617
Professional fees - legal and consulting	11,455	-	11,455	7,442
Rent and utilities	33,335	-	33,335	31,187
Repairs and maintenance	8,183	-	8,183	4,048
Salaries, wages and benefits	346,545	-	346,545	349,893
Students in Business	46,920	-	46,920	-
Telecommunications	18,071	-	18,071	17,912
Training and development	6,831	15,230	22,061	75,424
Travel	46,321	-	46,321	44,573
	<u>582,008</u>	<u>170,353</u>	<u>752,361</u>	<u>827,730</u>
<b>Excess of revenue over expenditures</b>				
<b>(expenditures over revenue)</b>	<u>(24,849)</u>	<u>402,167</u>	<u>377,318</u>	<u>218,510</u>

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year ended March 31, 2012

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> 2012	<u>Total</u> 2011
	\$	\$	\$	\$
Balance, beginning of year	234,546	6,877,040	7,111,586	7,248,697
Transfers between funds	24,849	(24,849)	-	-
Return of ACOA funds				
Operating	-	-	-	(28,202)
Investment	-	-	-	(327,419)
Excess of revenue over expenditures (expenditures over revenue)	<u>(24,849)</u>	<u>402,167</u>	<u>377,318</u>	<u>218,510</u>
Balance, end of year	<u>234,546</u>	<u>7,254,358</u>	<u>7,488,904</u>	<u>7,111,586</u>

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF CASH FLOWS**  
Year ended March 31, 2012

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>SEED</u> Fund	<u>Total</u> 2012	<u>Total</u> 2011
	\$	\$	\$	\$	\$
Net (outflow) inflow of cash related to the following activities:					
<b>Operations</b>					
Excess of revenue over expenditures (expenditures over revenue)	(24,849)	402,167	-	377,318	218,510
Items which do not involve cash					
Amortization	3,000	-	-	3,000	4,202
Loans written off	-	205,766	-	205,766	259,626
Loan loss provision	-	(30,951)	-	(30,951)	48,757
Changes in non-cash working capital					
Receivables	11,250	(35,793)	-	(24,543)	(12,193)
HST receivable	(5,526)	-	-	(5,526)	(699)
Prepaid expense	(2,000)	-	-	(2,000)	-
Inter fund receivables	57,239	181,380	-	238,619	(231,107)
Payable to ACOA	-	-	(355,621)	(355,621)	355,621
Funds collected and held in trust	-	13,515	-	13,515	-
Interfund payables	-	15,745	(254,364)	(238,619)	231,107
Payables and accruals	11,552	9,384	-	20,936	(5,008)
	<u>50,666</u>	<u>761,213</u>	<u>(609,985)</u>	<u>201,894</u>	<u>868,816</u>
<b>Investing</b>					
Purchase of capital assets	(2,834)	-	-	(2,834)	(762)
Return of ACCOA funds	-	-	-	-	(355,621)
Loan repayment during the year	-	2,466,196	-	2,466,196	2,134,409
Recovery of loans written off	-	52,599	-	52,599	122,815
Loans to clients	-	(2,250,344)	-	(2,250,344)	(2,153,612)
	<u>(2,834)</u>	<u>268,451</u>	<u>-</u>	<u>265,617</u>	<u>(252,771)</u>
<b>Financing</b>					
Due to related parties (net)	-	(683,102)	-	(683,102)	(555,928)
Interfund transfers	24,849	(24,849)	-	-	-
	<u>24,849</u>	<u>(707,951)</u>	<u>-</u>	<u>(683,102)</u>	<u>(555,928)</u>
<b>Net cash inflow (outflow)</b>	<b>72,681</b>	<b>321,713</b>	<b>(609,985)</b>	<b>(215,591)</b>	<b>60,117</b>
Cash and equivalents, beginning of year	<u>135,948</u>	<u>1,272,081</u>	<u>609,985</u>	<u>2,018,014</u>	<u>1,957,897</u>
<b>Cash and equivalents, end of year</b>	<u><b>208,629</b></u>	<u><b>1,593,794</b></u>	<u><b>-</b></u>	<u><b>1,802,423</b></u>	<u><b>2,018,014</b></u>
Represented by:					
Cash and term deposits	<u>208,629</u>	<u>1,593,794</u>	<u>-</u>	<u>1,802,423</u>	<u>2,018,014</u>
<b>Supplemental information:</b>					
Interest paid to ACCBIFF	<u>\$ -</u>	<u>\$ 8,111</u>	<u>\$ -</u>	<u>\$ 8,111</u>	<u>\$ 16,008</u>

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



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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2012**

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## **1. NATURE OF ORGANIZATION**

The Corporation was incorporated January 20, 1989 under the Companies Act of the Province of Nova Scotia as Blue Water Business Developments Corporation Limited and operates under the name Blue Water Business Development Corporation Limited. The Corporation is a community Business Development Corporation, a not-for-profit community-based and community controlled corporation, working in cooperation with all levels of government and the private sector. It covers those in the rural areas of Halifax Regional Municipality which excludes the former cities of Halifax, Dartmouth and Bedford.

The **Mission Statement** is:

The organization is dedicated to assisting in community economic development by providing advisory and investment services to those involved in business in the rural Halifax Regional Municipality.

The **Vision Statement** is:

The organization will play the central role in the development of entrepreneurship. It will continue to develop and enhance its investment and advisory services by working collaboratively with partnered community economic development groups. It will provide innovative strategies and direction to entrepreneurs in the rural communities.

The Corporation is a non-profit organization under paragraph 149(1)(l) of the Income Tax Act and, as such, is not subject to federal or provincial income taxes.

Any accumulated net assets are to be used in promoting the Corporation's objectives and at no time will any dividends be paid. Should the corporation be dissolved the remaining assets would be transferred to another Community Business Development Corporation or to some other organization serving the community with similar objectives.

## **2. DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The Corporation's financial statements have not adopted the new CICA Handbook Section 3855 - *Financial Instruments - Recognition and Measurement* and Section 3861 - *Financial Instruments Disclosure and Presentation*, and as a result depart from Canadian generally accepted accounting principles. The effects of these sections have not been recorded or disclosed in these financial statements.

The Atlantic Canada Opportunities Agency has confirmed, within the 2011 CF agreement to all Atlantic CBDCs, it will accept qualified financial statements from CBDCs when not prepared in full compliance with the new CICA Handbook Section 3855 - *Financial Instruments - Recognition and Measurement* and Section 3861 - *Financial Instruments - Disclosure and Presentation* inclusively.

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2012**

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations with the exception of financial instruments as explained in note 2 and include the following significant accounting policies:

**(a) Fund accounting**

The Corporation follows the restricted fund method of accounting for contributions.

**(b) Operating Fund**

The Corporation has established an operating fund for the organization's program delivery and administrative activities. This fund reports unrestricted resources and operating contributions. Expenses of the operating fund are limited to those agreed upon in the contribution agreement with the Atlantic Canada Opportunities Agency (ACOA) under the Community Futures dated August 15, 2006 and extensions thereto. The most recent contract dated May 5, 2010 Contract # 193271 provides for an extension for the period April 1, 2010 to March 31, 2011.

**(c) Investment Fund**

The Corporation has established an investment fund to hold and administer the loan portfolio of the organization. These funds are restricted to investments meeting the mandate of the organization and all investments are approved and monitored by the Board of Directors. All investment income earned must be reinvested in the fund. These funds cannot be used to cover administrative expenses unless authorized in writing by the Atlantic Canada Opportunities Agency (ACOA), except where the conditions as outlined in the Statement of Work of the Community Futures/CBDC agreement are met.

**(d) Investments - Loans Receivable**

Loans receivable are recorded at the lower of cost and estimated realizable value. Provision for loan impairment and collection costs related thereto are reported in the Investment and SEED fund.

Investments are recorded at the lower of cost and estimated realizable value.

**(e) Allowance for Loan Impairment**

Loans are classified for loan impairment into four categories. Category 'A' loans are loans which are deemed satisfactory as to credit risk and performance. An amount equal to of 2% of the balance of these loans is used as an allowance. Category 'B' loans are loans that are experiencing undesirable developments that are expected to be temporary in nature. The allowance for these loans is determined on a loan by loan basis. Category 'C' loans are loans where serious adverse developments have

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2012**

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**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) Allowance for Loan Impairment** (continued)

occurred and are unlikely to be overcome, or there is little or no chance of the loan being repaid from earnings. The allowance for these loans is determined on a loan by loan basis. Category 'D' loans are loans where the owners of the business have lost control due to bankruptcy, appointment of a receiver or bailiff, judgment pursuant to a mortgage bond held by another secured mortgagee, seizure of any assets, or where assets have been abandoned or deemed missing. The allowance for these loans is determined on a loan by loan basis.

**(f) Capital Assets**

Capital assets are stated at cost. Amortization is provided on the straight line basis using the following annual rates:

Furniture and equipment	20%
Computers	33%
Software	100%

One-half year's amortization is taken in the year of acquisition.

**(g) Externally restricted net assets**

ACOA and other organizations have agreements in place that restrict the use of funds such that they can only be used for the purpose for which they were provided.

**(h) Internally restricted net assets**

The Board of Directors has restricted an amount to serve as a contingency for the organization. The intention is to restrict funds annually until it accumulates to an amount equivalent to three months operations. These amounts can not be used without prior approval of the Board of Directors.

Net assets have been restricted by the amount of loan guarantees in effect at the year end date.

**(i) Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended March 31, 2012

**4. INVESTMENTS - Loans receivable and equity investments**

	Loans to Business	Loan Guarantees	Loan Loss Reserve Fund	Loans to Students in Business	2012	2011
	\$	\$	\$	\$	\$	\$
<b>Loans and guarantees</b>	<b>5,644,461</b>	<b>205,000</b>	<b>500,260</b>	<b>157,833</b>	<b>6,507,554</b>	6,858,172
<b>Promissory note - ACCBIF Fund</b>	<b>37,500</b>	-	-	-	<b>37,500</b>	37,500
Less: Loan guarantees	-	(205,000)	-	-	(205,000)	(82,000)
<b>Total loan portfolio</b>	<b>5,681,961</b>	-	<b>500,260</b>	<b>157,833</b>	<b>6,340,054</b>	6,813,672
<b>Allowance for loan impairment (Schedule 1)</b>	<b>(543,767)</b>	-	<b>(12,789)</b>	-	<b>(556,556)</b>	(587,507)
<b>Total investments</b>	<b>5,138,194</b>	-	<b>487,471</b>	<b>157,833</b>	<b>5,783,498</b>	6,226,165

**Continuity of loans and investments**

	Loans to Business	Loan Guarantees	Loan Loss Reserve Fund	Loans to Students in Business	2012	2011
	\$	\$	\$	\$	\$	\$
<b>Loans and guarantees</b>						
<b>Balance, beginning of year</b>	<b>5,948,064</b>	<b>82,000</b>	<b>680,108</b>	<b>103,500</b>	<b>6,813,672</b>	7,176,904
Additions during the year	1,908,285	175,000	463	166,596	2,250,344	2,160,619
Loans repaid during the year	(2,200,350)	-	(153,583)	(112,263)	(2,466,196)	(2,257,225)
Loans written off during the year	(179,038)	-	(26,728)	-	(205,766)	(259,626)
Reduction in loan guarantees	-	(52,000)	-	-	(52,000)	(7,000)
<b>Balance, end of year</b>	<b>5,476,961</b>	<b>205,000</b>	<b>500,260</b>	<b>157,833</b>	<b>6,340,054</b>	6,813,672
<b>Allowance for loan impairment</b>						
<b>Balance, beginning of year</b>	<b>574,718</b>	-	<b>12,789</b>	-	<b>587,507</b>	538,744
Current year loss provision	(30,951)	-	-	-	(30,951)	48,763
<b>Balance, end of year</b>	<b>543,767</b>	-	<b>12,789</b>	-	<b>556,556</b>	587,507
<b>Total investments</b>	<b>4,933,194</b>	<b>205,000</b>	<b>487,471</b>	<b>157,833</b>	<b>5,783,498</b>	6,226,165

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended March 31, 2012

<b>5. CAPITAL ASSETS</b>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2012 \$ Net Book Value</u>	<u>2011 \$ Net Book Value</u>
Furniture and equipment	55,727	54,785	942	2,405
Computers	23,338	19,982	3,356	2,129
Software	5,154	5,084	70	-
	<u>84,219</u>	<u>79,851</u>	<u>4,368</u>	<u>4,534</u>

**6. FUNDS COLLECT AND HELD IN TRUST**

The Corporation has been engaged to collect and administer 11 CEED loans on behalf of NSACBDCs. The amounts collected on these loans are being held in trust.

	<u># of loans</u>	<u>2012 \$</u>	<u>2011 \$</u>
Loans under administration	11	40,285	-
Balance remaining, end of the year		<u>(26,770)</u>	<u>-</u>
Funds collected and held in trust		<u>13,515</u>	<u>-</u>

**7. DUE TO RELATED PARTIES**

The Corporation borrowed funds from the Atlantic Association of Community Business Development Corporations - Technology Fund. These loans bear no interest and are unsecured. The amount of principal collected is repayable monthly.

<u>2012 \$</u>	<u>2011 \$</u>
136,881	139,983

The Corporation borrowed funds from ACCBIF (Atlantic Canada Community Business Investment Fund). The loans bear interest at 3% payable monthly. The loans are secured by promissory notes and an assignment of book debts. The loans are repayable annually.

<u>-</u>	<u>680,000</u>
<u>136,881</u>	<u>819,983</u>
<u>-</u>	<u>360,000</u>
<u>136,881</u>	<u>459,983</u>

Current portion of long term debt

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended March 31, 2012

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**8. CREDIT FACILITY**

The organization has a Royal Bank Visa credit card with a \$5,000 credit limit.

**9. LEASE COMMITMENTS**

The organization has lease commitments for office rent and equipment as follows:

March 31, 2013	\$40,200
2014	\$40,200
2015	\$35,900
2016	\$30,800
2017	\$23,100

**10. FINANCIAL INSTRUMENTS**

The Corporation's financial instruments consist of cash and term deposits, receivables, investments, payables and accrued liabilities, payroll deductions payable, HST refundable and amounts due to related parties. Except as noted below, it is our opinion that the Corporation is not exposed to significant credit, interest rate, liquidity, or market risks arising from these financial instruments. Market risks result from changes in interest rates, exchange rates of foreign currencies and market prices of financial instruments.

The Corporation is exposed to financial risk that arises from the fluctuation in interest rates, and in the credit quality of its clients.

**Credit risk**

The organization by its very nature is subject to a much higher credit risk on its loan portfolio than are other lending organizations.

Our credit risk consists principally of cash and term deposits, receivables and investments.

We maintain cash and cash equivalents with reputable and major financial institutions. We consider the risk of non-performance of these instruments to be remote.

No client comprises more than 10% of the receivables and investments. There is no particular concentration of credit risk. We perform an ongoing credit review of all our customers and establish allowance for loan impairment when the amounts are not collectible.

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended March 31, 2012

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**10. FINANCIAL INSTRUMENTS** (continued)

**Currency risk**

We are not exposed to currency risk as no sales or purchases are incurred in a foreign currency.

**Interest rate risk**

We are exposed to interest rate risk with respect to the following financial instruments:

- Cash and cash equivalents
- Investments
- Amounts due to related parties

**Liquidity risk**

We are exposed to liquidity risk in meeting our obligations associated with financial liabilities, which is dependent on receipt of funds from operations.

**11. ECONOMIC DEPENDENCE**

The Corporation receives an annual contribution from the Atlantic Canada Opportunities Agency (ACOA) to cover operating expenses of the organization. The operations of the organization would be significantly affected by the loss of these contributions.

**12. CONTINGENCIES**

(a) Contingent recoveries

ACOA and AACBDC under the auspices of The Women's Business Initiative (WBI) established a Loan Loss Reserve Fund for the purpose of facilitating the lending of funds to eligible female borrowers who would not otherwise qualify for financial assistance. Contingent upon certain criteria being met, this Fund provides for a potential recovery of 80% of loans that become unrecoverable. The organization has 1 loan covered under this program as of March 31, 2012. There are currently applications under this program to recover amounts.

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2012**

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**12. CONTINGENCIES** (continued)

(b) Contingent liabilities

- (i) The organization as part of its mandate has provided loan guarantees to qualified businesses. In the event these businesses default on their loans, the organization may be required to pay on these loans up to the amount of the guarantee.

The amount of these loan guarantees as at March 31, 2012 was \$130,000.

- (ii) On or about June 21, 2011, Blue Water received \$48,813 from the sale of the assets of Monster Pizza Inc. These funds were applied against the respective CORE loan (secured) and the balance against the SEED loan (unsecured) and legal fees relating to both.

Two letters, dated December 14, 2011, were received from the Canada Revenue Agency. One seeking to recover GST/HST in the amount of \$94,719 pursuant to subsections 222 (1) and/or 222 (3) of the Excise Tax Act on the proceeds from the sale of a business. The other seeking to recover \$38,051 under the Income Tax Act, Unemployment Insurance Act and the Canada Pension Plan. CRA contends that the Crown has a beneficial right in all the property of the employer and any proceeds arising from the property, to the extent of the total amount with a priority over any security interest, other than a prescribed security interest in such property.

According to our legal counsel, the main issue is priority among Blue Water as a secured creditor of Monster Pizza Inc. and whether CRA's claim against the property in priority to our secured interest is valid.

Our position is that, after legal costs of \$2,000, we received \$40,204 in satisfaction of the CORE loan and \$6,608 in satisfaction of the SEED loan and as such would only be subject to return \$6,608 as being subject to the deemed trust.



**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF ALLOWANCE FOR LOAN IMPAIRMENT**  
Year ended March 31, 2012

	<u>2012</u> Category A	<u>2012</u> Category B	<u>2012</u> Category C	<u>2012</u> Category D	<u>2012</u> Total
<b>Investment Fund</b>	4,997,495	526,386	736,982	88,858	6,349,721
Less: loan guarantees	(205,000)	-	-	-	(205,000)
	4,792,495	526,386	736,982	88,858	6,144,721
Student in Business	157,833	-	-	-	157,833
	4,950,328	526,386	736,982	88,858	6,302,554
ACCBIF Fund Investment	37,500	-	-	-	37,500
	4,987,828	526,386	736,982	88,858	6,340,054
<b>Allowance for loan impairment</b>	97,546	88,825	310,209	59,976	556,556

Allowance as a percentage of the total loan portfolio

8.8%

	<u>2011</u> Category A	<u>2011</u> Category B	<u>2011</u> Category C	<u>2011</u> Category D	<u>2011</u> Total
<b>Investment Fund</b>	\$4,380,609	\$412,058	\$532,282	\$39,928	\$5,364,877
Less: loan guarantees	(82,000)	-	-	-	(82,000)
	4,298,609	412,058	532,282	39,928	5,282,877
Student in Business	103,500	-	-	-	103,500
ACCBIF Fund Investment	37,500	-	-	-	37,500
	4,439,609	412,058	532,282	39,928	5,423,877
<b>SEED Fund</b>	1,184,289	95,408	93,576	16,516	1,389,789
	\$5,623,898	\$507,466	\$625,858	\$56,445	\$6,813,666
<b>Allowance for loan impairment</b>					
Investment Fund	\$88,145	\$68,221	\$289,345	\$24,361	\$470,072
SEED Fund	23,686	19,082	58,146	16,516	117,430
	\$111,831	\$ 87,302	\$347,491	\$40,878	\$587,501

Allowance as a percentage of the total loan portfolio

8.6%

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF OPERATIONS**  
**Year ended March 31, 2012**

	Operating Fund		
	<u>Budget</u> 2012	<u>Actual</u> 2012	<u>Actual</u> 2011
	\$	\$	\$
<b>Revenue</b>			
ACOA contribution - Community Futures	375,000	<b>375,000</b>	395,000
Sundry revenue (Schedule 3)	118,418	<b>182,159</b>	102,173
	<u>493,418</u>	<u><b>557,159</b></u>	<u>497,173</u>
<b>Expenditures</b>			
Advertising	4,550	<b>12,310</b>	4,090
Amortization	14,307	<b>3,000</b>	4,202
Bank charges	600	<b>554</b>	429
Credit checking	2,050	<b>1,379</b>	1,907
Equipment rental	5,080	<b>5,226</b>	3,629
Insurance	5,650	<b>3,273</b>	5,389
Meeting expenses	-	<b>8,523</b>	14,549
Memberships, dues and fees	3,580	<b>2,884</b>	4,300
Miscellaneous	8,790	<b>299</b>	-
Office supplies	7,500	<b>7,888</b>	7,856
Postage and courier	3,510	<b>2,321</b>	2,243
Professional fees - audit and accounting	16,629	<b>16,690</b>	13,617
Professional fees - legal and consulting	6,250	<b>11,455</b>	7,442
Rent and utilities	31,911	<b>33,335</b>	31,187
Repairs and maintenance	5,346	<b>8,183</b>	4,048
Salaries and wages	286,643	<b>272,981</b>	307,660
Salaries and wages - Youth Improvement Program	20,000	<b>20,308</b>	-
Salaries and wages - Co-op Student	-	<b>10,154</b>	-
Salaries and wages - statutory and group benefits	32,044	<b>26,441</b>	26,967
Salaries and wages - employee benefits - RRSP	16,264	<b>16,661</b>	15,266
Students in Business	-	<b>46,920</b>	-
Telecommunications	16,770	<b>18,071</b>	17,912
Training and development	12,450	<b>6,831</b>	12,947
Travel	46,659	<b>46,321</b>	44,573
	<u>546,583</u>	<u><b>582,008</b></u>	<u>530,213</u>
<b>Excess of revenue over expenditures</b>			
<b>(expenditures over revenue)</b>	<u>(53,165)</u>	<u><b>(24,849)</b></u>	<u>(33,040)</u>

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF SUNDRY REVENUE**  
**Year ended March 31, 2012**

	Operating Fund		Investment	<u>Total</u>	<u>Total</u>
	<u>Budget</u>	<u>Actual</u>	<u>Fund</u>		
	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>
	\$	\$	\$	\$	\$
<b>Sundry revenue</b>					
Student in Business Program	-	73,000	1,500	74,500	60,750
NSACBCD support services	-	28,290	-	28,290	-
Self Employment Benefit	-	25,794	-	25,794	-
Youth Intern Program	20,000	20,000	-	20,000	-
Loan setup fees	30,000	16,379	-	16,379	13,485
Interest income	4,500	6,856	13,429	20,285	2,268
Co-op student	29,368	4,950	-	4,950	-
Loan application fees	6,200	3,900	1,810	5,710	-
Sundry	28,350	2,990	9,805	12,795	17,288
Interchange	-	-	-	-	8,382
	<u>118,418</u>	<u>182,159</u>	<u>26,544</u>	<u>208,703</u>	<u>102,173</u>