

Financial Statements of

**CABOT COMMUNITY BUSINESS
DEVELOPMENT CORPORATION**

YEAR ENDED MARCH 31, 2021

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Financial Statements
Year ended March 31, 2021

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1.

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of the
Cabot Community Business Development Corporation**

Opinion

I have audited the financial statements of the Cabot Community Business Development Corporation, which comprise the statement of financial position as at March 31, 2021, and the statement of operations and changes in fund balances and the 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 Cabot Community Business Development Corporation as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

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 organization 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.

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 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 of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the organization'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 organization or cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements are as a whole 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 it 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.

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2.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

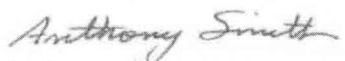
As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 an opinion. The risk of not detecting a material misstatement from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls 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 Cabot Community Business Development Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Cabot Community Business Development 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 audit 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 Cabot Business Development 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.

Bay Roberts, Newfoundland and Labrador

August 5, 2021


Chartered Professional Accountant

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Statement of Financial Position
As at March 31, 2021

					2021	2020
	Operating Fund	Investment Fund	FRAM-ED Fund	RRR Fund	Total	Total
ASSETS						
Current						
Cash	\$ 91,263	\$ 966,390	\$ 180,229	\$ -	\$ 1,237,882	\$ 603,349
HST rebate receivable	4,677	-	-	-	4,677	4,683
Receivable from ACOA	-	-	-	-	-	5,073
Receivable from AACBDC	18,024	2,000	-	208,000	228,024	-
Other receivables	2,179	-	-	-	2,179	8,701
Due from Operating fund	-	27,821	3,053	-	30,874	53,224
Due from Investment fund	-	-	577,627	-	577,627	720,000
Due from RRR Fund	-	106,850	-	-	106,850	-
Prepaid expenses	2,624	-	-	-	2,624	2,709
Current portion of loans receivable	-	553,153	29,929	-	583,082	197,887
	118,767	1,656,214	790,838	208,000	2,773,819	1,595,626
Capital assets (note 2)	31,413	-	-	-	31,413	32,776
Investments (note 3)	-	37,500	-	-	37,500	37,500
Loans receivable (notes 4, 5 and 6)	-	6,013,404	495,337	1,618,314	8,127,055	7,109,662
	\$ 150,180	\$ 7,707,118	\$ 1,286,175	\$ 1,826,314	\$10,969,787	\$ 8,775,564

LIABILITIES

Current						
Payables and accrued liabilities	\$ 23,520	\$ 2,000	\$ -	\$ -	\$ 25,520	\$ 23,637
Statutory payroll remittances	8,180	-	-	-	8,180	7,846
Due to Investment Fund	27,821	-	-	106,850	134,671	3,224
Due to Fram-Ed Fund	3,053	577,627	-	-	580,680	770,000
Current portion of long-term debt	-	282,805	-	101,150	383,955	201,807
	62,574	862,432	-	208,000	1,133,006	1,006,514
Long-term debt (notes 6, 7 and 8)	-	1,042,417	-	1,618,314	2,660,731	832,417
	62,574	1,904,849	-	1,826,314	3,793,737	1,838,931

Contingencies (note 10)

Commitment (note 11)

FUND BALANCES

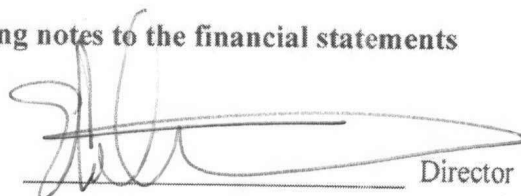
Unrestricted	56,193	-	-	-	56,193	-
Invested in Capital Assets	31,413	-	-	-	31,413	32,776
Restricted surplus (notes 4, 5 and 6)	-	4,342,269	286,175	-	4,949,693	4,443,857
Contributed surplus (notes 4 and 5)	-	1,460,000	1,000,000	-	2,138,751	2,460,000
	87,606	5,802,269	1,286,175	-	7,176,050	6,936,633
	\$ 150,180	\$ 7,707,118	\$ 1,286,175	\$ 1,826,314	\$10,969,787	\$ 8,775,564

See accompanying notes to the financial statements

On Behalf of the Board:

William N Scott

Director



Director

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Statement of Operations and Changes in Fund Balances
For the Year Ended March 31, 2021

					2021	2020
	Operating Fund	Investment Fund	FRAM-ED Fund	RRR Fund	Total	Total
REVENUE						
ACOA - operating grant	\$ 226,814	\$ -	\$ -	\$ -	\$ 226,814	\$ 253,651
AACBDC - operating grant	42,500	-	-	-	42,500	-
AACBDC – interest cessation grant	-	107,825	10,180	-	118,005	-
Investment income - loan portfolio	-	322,382	16,229	-	338,611	498,459
Investment income - other interest	-	-	-	-	-	4,440
Province of NL - SEA program	95,188	-	-	-	95,188	95,188
NLACBDC – YV program	11,250	-	-	-	11,250	17,000
Entrepreneurial training fund	-	9,915	-	-	9,915	16,251
Loan application and admin fees	99,567	-	-	-	99,567	18,160
Canada emergency wage subsidy	26,141	-	-	-	26,141	-
Loan recovery	-	-	-	-	-	73,974
Other income	6,500	123	-	-	6,623	7,444
	507,960	440,245	26,409	-	974,614	984,567
EXPENDITURE						
Advertising	5,107	-	-	-	5,107	4,953
Amortization	5,694	-	-	-	5,694	2,009
Bank charges and interest	2,109	1,484	104	-	3,697	3,367
Board travel	-	-	-	-	-	1,066
Cleaning	3,225	-	-	-	3,225	3,031
Committee meetings	-	-	-	-	-	5,091
Courses and training	3,713	-	-	-	3,713	13,399
Dues and associations	3,130	-	-	-	3,130	4,155
Entrepreneurial training	-	9,915	-	-	9,915	16,251
Insurance	3,002	-	-	-	3,002	2,603
Interest on long-term debt	-	15,427	-	-	15,427	5,435
Loan loss expense	-	250,890	4,247	-	255,137	148,123
Office supplies and expenses	10,571	-	-	-	10,571	11,695
Professional and consulting fees	9,868	-	-	-	9,868	3,877
Rent	38,383	-	-	-	38,383	31,308
Salaries and employee benefits	353,092	-	-	-	353,092	329,157
Telephone	9,744	-	-	-	9,744	8,930
Travel and meals	1,348	-	-	-	1,348	6,319
Utilities	1,324	-	-	-	1,324	2,742
Youth Ventures program contribution	2,820	-	-	-	2,820	2,360
	453,130	277,716	4,351	-	735,197	605,871
Excess of revenue over expenditure	54,830	162,529	22,058	-	239,417	378,696
Fund balance, beginning of year	32,776	5,639,740	1,264,117	-	6,936,633	6,557,937
Fund balance, end of year	\$ 87,606	\$ 5,802,269	\$ 1,286,175	\$ -	\$ 7,176,050	\$ 6,936,633

See accompanying notes to the financial statements

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Cash Flow Statement
For the Year Ended March 31, 2021

					2021	2020
	Operating Fund	Investment Fund	FRAM-ED Fund	RRR Fund	Total	Total
Cash provided by (used in)						
Operating activities:						
Excess of revenue over expenditure (expenditure over revenue)	\$ 54,830	\$ 162,529	\$ 22,058	\$ -	\$ 239,417	\$ 378,696
Items which do not involve cash:						
Amortization	5,694	-	-	-	5,694	2,009
Gain on disposal of capital assets	(541)	-	-	-	(541)	828
Loan loss provision (recovery)	-	250,890	4,247	-	255,137	148,123
	59,983	413,419	26,305	-	499,707	529,656
Changes in non-cash working capital:						
Accounts receivable	(9,724)	1,301	-	(208,000)	(216,423)	(12,760)
Receivable – SEA Program	-	-	-	-	-	9,519
Due to/from other funds	(22,350)	(273,820)	189,320	106,850	-	-
Prepaid expenses	85	-	-	-	85	(209)
Payables and accrued liabilities	4,329	(2,112)	-	-	2,217	10,045
	32,323	138,788	215,625	(101,150)	285,586	536,251
Investing activities:						
Purchase of capital assets	(3,790)	-	-	-	(3,790)	(30,365)
Loans – advances	-	(581,120)	(150,000)	(1,719,464)	(2,450,584)	(1,897,411)
Loans – repayments	-	618,215	65,065	101,150	784,430	585,140
Decrease (increase) in accrued interest	-	(506)	8,935	-	8,429	(32,194)
	(3,790)	36,589	(76,000)	(1,618,314)	(1,661,515)	(1,374,830)
Financing activities:						
Proceeds of long-term debt	-	510,000	-	1,719,464	2,229,464	785,000
Repayment of long-term debt	-	(219,002)	-	-	(219,002)	(129,295)
	-	290,998	-	1,719,464	2,010,462	655,705
Increase (decrease) in cash	28,533	466,375	139,625	-	634,533	(182,874)
Cash and equivalents, beginning of year	62,730	500,015	40,604	-	603,349	786,223
Cash and equivalents, end of year	\$ 91,263	\$ 966,390	\$ 180,229	\$ -	\$ 1,237,882	\$ 603,349

Cash equivalents are comprised of cash in bank.

See accompanying notes to the financial statements

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements
For the Year Ended March 31, 2021

The Cabot Community Business Development Corporation (the 'Corporation') is a community-based and community-controlled organization with a mandate to encourage and support economic growth, diversification, job creation and sustainable, self-reliant communities in its region. The Corporation's services to the small business sector include financial assistance, advisory and counseling services, development and growth of the region's youth, and information resources. The Corporation is a not-for-profit organization incorporated under "The Corporations Act" of Newfoundland and Labrador and is exempt from income tax by virtue of Subsection 149(1) of "The Income Tax Act" of Canada.

1. Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost and amortized on the diminishing balance method for furniture and equipment at the rates indicated in note 2. Funding agencies may, in some cases, direct the disposition of capital assets which were financed through their contributions to the Corporation.

Cash and Cash Equivalents

The Corporation's cash and cash equivalents are comprised of cash held in bank accounts and short-term guaranteed investment certificates.

Contributed Services

Contributed services, consisting primarily of time contributed by volunteers, are not recognized in these financial statements due to the difficulty of determining their fair value.

Financial Instruments

The Corporation initially measures its financial assets and financial liabilities at fair value. It subsequently measures all of its financial assets and financial liabilities at amortized cost. The financial assets and liabilities measured at amortized cost include cash, accounts receivable, loans receivable, long-term debt and accounts payable.

Fund Accounting

The Corporation uses Fund Accounting to segregate and account for its most significant activities. A description of each Fund is as follows:

Operating Fund

Accounts for all administrative activities and includes all contributions for core operations. The Operating Fund reports all program delivery and other activities not included in other Funds. Certain program expenditures may be restricted to those agreed upon by agreements with significant contributors including the Atlantic Canada Opportunities Agency (ACOA) and the Province of Newfoundland and Labrador.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

1. Significant Accounting Policies (Continued)

Investment Fund

Accounts for a group of loan products and reports the loan portfolio balance and all loan activities. The resources of this Fund, including the annual excess of revenue over expenditure, are subject to an external restriction that they be used as loan capital available for lending, unless permission is granted for other uses.

FRAM-ED Fund

Accounts for one loan product that is required to be segregated for reporting purposes by the original contributors of the loan capital. The Fund reports the loan portfolio balance and all loan activities. The resources of this Fund, including the annual excess of revenue over expenditure, are subject to an external restriction that they be used as loan capital available for lending, unless permission is granted for other uses.

Regional Relief and Recovery Fund (RRR Fund)

Accounts for one loan product that is required to be segregated for reporting purposes by the original contributors of the loan capital. The loan product's purpose is to assist small business experiencing difficulties due to the impact of the Covid 19 pandemic. The Fund reports the loan portfolio balance and all loan activities. The resources of this Fund, including the annual excess of revenue over expenditure, are subject to an external restriction that they be used as loan capital available for lending.

Investments

Investments are recorded at the lower of cost and net realizable value. Provision for loan losses are reported in the Investment Fund and FRAM-ED Fund.

Revenue Recognition

The Corporation uses the restricted fund method of accounting for contributions. Contributions from funding agencies are recognized when the contributions are due or the funded activity has been completed. Other revenues including interest are recognized when earned.

Use of Accounting 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 expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known. A significant estimate included in these financial statements is the provision for doubtful loans as stated in notes 4 and 5.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

2. Capital Assets

				2021	2020
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & equipment	20%	\$ 26,745	\$ 22,163	\$ 4,582	\$ 2,810
Computer hardware	30%	14,472	11,348	3,124	3,049
Leasehold improvements	10 years	23,369	2,500	20,869	23,369
Signage	10 years	3,548	710	2,838	3,548
		<u>\$ 68,134</u>	<u>\$ 36,721</u>	<u>\$ 31,413</u>	<u>\$ 32,776</u>

3. Investments

Investment Fund

The Corporation has invested \$37,500 in the Atlantic Canada Community Business Investment Fund (ACCBIF). The investment is secured by a promissory note, is non-interest bearing, with no set terms of repayment. A determination of fair value for this financial instrument is not considered possible.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

4. Loans Receivable - Investment Fund

	2021	2020
Loans receivable, beginning of year	\$ 7,479,666	\$ 6,241,090
Disbursements during the year	581,120	1,787,600
Repayments during the year	(612,032)	(555,867)
Loans written off during the year	(6,379)	(40,523)
Change in year end accrued interest	506	47,366
Loans receivable, end of year	7,442,881	7,479,666
Allowance for impaired loans	(876,323)	(625,630)
	6,566,558	6,854,036
Current portion of loans receivable	(553,154)	(189,920)
	<u>\$ 6,013,404</u>	<u>\$ 6,664,116</u>

Loans receivable includes accrued interest receivable in the amount of \$404,005 (2020 - \$403,499). There are 21 impaired loans as of March 31, 2021 totalling \$1,399,678 (2020 - 19 impaired loans totalling \$1,240,063). The current portion of loans receivable assumes required loan payments will be received during the year.

The activity in the allowance for impaired loans account is as follows:

	2021	2020
Allowance, beginning of year	\$ 625,630	\$ 530,200
Loans in opening balance written off during the year	(6,379)	(49,650)
Adjustment to loan loss provision	257,072	145,080
	<u>\$ 876,323</u>	<u>\$ 625,630</u>

The investment fund has externally imposed restrictions on net assets as well as the income earned from those net assets as follows:

	2021	2020
Loan capital contributed	\$ 1,460,000	\$ 1,460,000
Accumulated surplus	4,342,269	4,179,740
	<u>\$ 5,802,269</u>	<u>\$ 5,639,740</u>

All investment income earned by the organization from net assets of the Investment Fund must be reinvested in the fund for business investment purposes unless written consent is obtained from ACOA, including funds lent to or received from ACCBIF. Investment funds may be transferred to the operating fund to cover an annual operating deficit provided certain conditions have been met, as set out by ACOA.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

5. Loans Receivable - Canadian Fisheries Restructuring & Adjustment Initiative (FRAM-ED) Fund

	2021	2020
Loans receivable, beginning of year	\$ 833,174	\$ 785,750
Disbursements during the year	150,000	109,811
Repayments during the year	(65,065)	(47,215)
Change in year end accrued interest	(8,935)	(15,172)
Loans receivable, end of year	909,174	833,174
Allowance for impaired loans	(383,908)	(379,661)
	525,266	453,513
Current portion of loans receivable	(29,929)	(7,967)
	<u>\$ 495,337</u>	<u>\$ 445,546</u>

Loans receivable includes accrued interest receivable in the amount of \$187,882 (2020 - \$196,817). There are three impaired loans as of March 31, 2021 totalling \$602,210 (2020 - three impaired loan totalling \$610,837). The current portion of loans receivable assumes required loan payments will be received during the year.

The activity in the allowance for impaired loans account is as follows:

	2021	2020
Allowance, beginning of year	\$ 379,661	\$ 376,619
Loans written off during the year	-	-
Current year's loan loss provision	4,247	3,042
	<u>\$ 383,908</u>	<u>\$ 379,661</u>

The FRAM-ED fund has externally imposed restrictions on net assets as well as the income earned from those net assets as follows:

	2021	2020
Loan capital contributed	\$ 1,000,000	\$ 1,000,000
Accumulated surplus	286,175	264,117
	<u>\$ 1,286,175</u>	<u>\$ 1,264,117</u>

All investment income earned by the organization from net assets of the FRAM-ED fund must be reinvested in the fund for business investment purposes unless written consent is obtained from ACOA, including funds lent to or received from ACCBIF.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

6. Loans Receivable – Regional Relief and Recovery (RRR) Fund

The Regional Relief and Recovery Fund was established in May, 2020 pursuant to an agreement between the Corporation and the Atlantic Association of Community Business Development Corporations (AACBDC). The purpose of the Fund is to provide term loans to eligible businesses that were impacted by the Covid-19 pandemic and resulting public health restrictions. During the year, the Corporation advanced \$1,719,464 to clients and received principal repayments of \$101,150, resulting in a portfolio balance of \$1,618,314 at the end of the year.

The loans are interest free and non-repayable until December 31, 2022. Clients who repay 75% of the amount borrowed under Phase 1 of the program before December 31, 2022 will have 25% of their loans forgiven, up to a maximum of \$10,000. Clients who received an advance under Phase 2 of the program may be eligible for additional loan forgiveness. Management has estimated, based on an assessment of the current business status of clients, that 34 clients may repay before December 31, 2022 and receive loan forgiveness amounting to \$475,366. Management does not believe that any amounts owing as of March 31, 2021 are doubtful. The RRR Fund has externally imposed restrictions on the net assets of the Fund. Fund assets may be used only for loans to approved clients and to repay loan capital to the AACBDC.

7. Long-term Debt

	<u>2021</u>	<u>2020</u>
Atlantic Canada Community Business Investment Fund		
Loan for investment purposes, with interest at 1.75%, repayable in blended monthly instalments of \$25,000, maturing in January, 2025 and secured by a promissory note and a negative pledge.	\$ 1,110,941	\$ 820,514
Atlantic Association of Community Business Development Corporations – Technology Development Fund		
Loan for investment purposes, non-interest bearing, with principal collections from clients repayable annually and interest receipts to be retained by the Corporation	156,391	156,391
Newfoundland and Labrador Association of Community Business Development Corporations – Kickstart Program Loans		
Loans for investment purposes, unsecured and non-interest bearing, with principal collections from clients repayable quarterly and interest receipts to be retained by the Corporation	57,890	57,319
	1,325,222	1,034,224
Less: Estimated portion due next twelve months	<u>282,805</u>	<u>201,807</u>
	\$ <u>1,042,417</u>	\$ <u>832,417</u>

Estimated required principal payments over the next five years are as follows: 2022 - \$282,805; 2023 - \$287,795; 2024 - 292,862; 2025 - \$247,479.

CABOT COMMUNITY BUSINESS DEVELOPMENT CORPORATION
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2021

8. Long-term Debt – Regional Relief and Recovery Fund

The loan capital for the Regional Relief and Recovery Fund is provided to the Corporation by the Atlantic Association of Community Business Development Corporations (AACBDC). During the year the Corporation received \$1,511,464 and a commitment, based on loan activity, to receive an additional \$208,000. Principal will be repaid to the AACBDC when it is repaid to the Corporation by the client. Under the terms of the program, principal repayments from clients are not due until January 1, 2023 with certain amounts being forgivable if the client meets the established criteria. The forgivable amounts will reduce the amount repayable by the Corporation to the AACBDC and will be confirmed on a case-by-case basis as determined by the clients' repayments. See note 6 for more information on the Regional Relief and Recovery Fund.

9. Allowance for Impaired Loans

Impaired loans are recognized on a case-by-case basis. When a loan is deemed to be impaired, its carrying amount is reduced to its estimated realizable amount. The estimated realizable amount is determined by management based on its assessment of factors including the estimated realizable value of the underlying security, the client's payment history and the nature of the industry in which the client operates. The allowance for impaired loans includes a general 5% reserve applied to the balance of non-impaired loans. Within each investment fund, the change in the loan portfolio's estimated realizable amount is recorded as a bad debt expense.

10. Contingencies

Any surplus of the operating fund may be subject to repayment to the Receiver General of Canada after a review of program expenses and revenues by ACOA. Investment funding provided by government agencies under the FRAM-ED agreement which have not been utilized at the end of the contract period may be subject to repayment at the discretion of the funding agent. Any amounts determined to be repayable will be accounted for in the year that such a determination is made.

11. Commitment

The Corporation leases office space for a term which expires in November, 2029. The annual base rent during year one to five of the lease is \$29,873 plus HST. The lessor charges an additional rent for the tenant's proportional share of real estate taxes, insurance and building maintenance. Additional rents may be adjusted on an annual basis by the lessor.

12. Economic Dependence

The Corporation receives an annual contribution from the Atlantic Canada Opportunities Agency which partially covers the Corporation's operating expenses. At this time the continued operation of the organization is dependent on the receipt of this annual contribution.

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13. Financial Risk Management

Financial risk factors

The Board of Directors has overall responsibility for the oversight and management of financial risk factors which arise from holding financial instruments. The Board reviews the Corporation's policies on an ongoing basis to ensure that these risks are appropriately managed. The primary sources of risk exposure for the Corporation and how each is managed is outlined below.

Credit risk

The Corporation has exposure to credit risk as a result of holding financial instruments. Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Corporation's credit risk is primarily attributable to accounts receivable and loans receivable. Management believes that the credit risk with respect to accounts receivable is remote as the majority is due directly from government or government-funded entities. The Corporation's loans receivable are recorded at net realizable value and a determination of fair value for these financial instruments is not considered possible. Management's policies relating to credit risk from loans receivable is discussed in note 9.