Financial Statements of

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.

YEAR ENDED MARCH 31, 2020

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Financial Statements
Year ended March 31, 2020

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Celtic Business Development Corporation Inc.

Opinion

I have audited the financial statements of the Celtic Business Development Corporation Inc., which comprise the statement of financial position as at March 31, 2020, 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 Celtic Business Development Corporation Inc. as at March 31, 2020, 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.

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 Celtic Business Development Corporation Inc.'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 Celtic Business Development Corporation Inc.'s ability to continue as a going concern. If I conclude that a material uncertainly 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 Celtic Business Development Corporation Inc. 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

Anthony Smith

September 17, 2020

Chartered Professional Accountant

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Financial Position
As at March 31, 2020

	Operating Fund	Investment Fund	FRAM-ED Fund	2020 Total	2019 Total
ASSETS					
Current					
Cash	$ 37,751	$ 823,959	$ 469,912	$ 1,331,622	$ 288,810
HST rebate receivable	3,004	1,086	-	4,090	3,485
Receivable from ACOA	3,918	-	-	3,918	-
Receivable from Province	-	-	-	-	500
Other receivables	2,016	1,656	-	3,672	1,984
Due from Operating fund	-	31,261	-	31,261	4,049
Due from Fram-Ed Fund	-	-	-	-	314,900
Prepaid expenses	336	-	-	336	515
Current portion of loans receivable	-	262,130	51,593	313,723	623,345
	47,025	1,120,092	521,505	1,688,622	1,237,588
Capital assets (note 2)	15,849	-	-	15,849	14,040
Investments (note 3)	-	37,500	-	37,500	37,500
Loans receivable (notes 4 and 5)	-	2,724,731	1,015,629	3,740,360	4,730,229
	$ 62,874	$ 3,882,323	$ 1,537,134	$ 5,482,331	$ 6,019,357
LIABILITIES					
Current					
Payables and accrued liabilities	$ 13,318	$ 4,001	$ -	$ 17,319	$ 19,832
Statutory payroll remittances	2,446	-	-	2,446	1,670
Due to Investment Fund	31,261	-	-	31,261	318,949
Current portion of long-term debt	-	305,162	-	305,162	403,368
	47,025	309,163	-	356,188	743,819
Long-term debt (note 6)	-	1,293,169	-	1,293,169	1,590,302
	47,025	1,602,332	-	1,649,357	2,334,121
Contingencies (note 8) Commitment (note 9)					
FUND BALANCES					
Invested in Capital Assets	15,849	-	-	15,849	14,040
Restricted surplus (notes 4 and 5)	-	1,141,240	687,134	1,828,374	1,682,445
Contributed surplus (notes 4 and 5)	-	1,138,751	850,000	1,988,751	1,988,751
	15,849	2,279,991	1,537,134	3,832,974	3,685,236
	$ 62,874	$ 3,882,323	$ 1,537,134	$ 5,482,331	$ 6,019,357

See accompanying notes to the financial statements

On Behalf of the Board:

M Bruce Director   Marilyn Oates Director

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Operations and Changes in Fund Balances
For the Year Ended March 31, 2020

	Operating Fund	Investment Fund	FRAM-ED Fund	2020 Total	2019 Total
REVENUE					
ACOA - operating grant	$ 195,925	$ -	$ -	$ 195,925	$ 206,006
Investment income – loan portfolio	-	213,492	91,692	305,184	331,146
Investment income – other interest	514	7,595	2,138	10,247	6,027
SEA program	70,235	-	-	70,235	70,235
Youth Ventures program	17,000	-	-	17,000	17,000
Entrepreneurial Training fund	-	12,668	-	12,668	12,127
Application and administration fees	11,370	-	-	11,370	15,059
Other income	5,377	-	-	5,377	1,895
	300,421	233,755	93,830	628,006	659,495
EXPENDITURE					
Advertising	13,359	-	-	13,359	14,201
Amortization	4,125	-	-	4,125	3,886
Bank charges and interest	904	1,509	115	2,528	2,590
Entrepreneurial training	-	12,668	-	12,668	12,127
Insurance	3,475	-	-	3,475	3,319
Interest on long-term debt	-	30,762	-	30,762	34,690
Loan loss provision (recovery)	-	43,513	(34,123)	9,390	(13,150)
Meeting costs	6,511	-	-	6,511	6,308
Membership and fees	3,038	-	-	3,038	2,603
Office expenses	10,582	133	-	10,715	8,578
Professional fees	6,095	-	-	6,095	7,546
Rent	23,390	-	-	23,390	23,390
Salaries and employee benefits	311,928	-	-	311,928	297,798
Seminars and conferences	9,302	-	-	9,302	7,064
Special events	2,234	-	-	2,234	2,898
Telephone	9,526	-	-	9,526	9,356
Training – Clients	648	-	-	648	786
Travel	18,574	-	-	18,574	23,221
Youth Ventures program contribution	2,000	-	-	2,000	2,000
	425,691	88,585	(34,008)	480,268	449,211
Excess of revenue over (under) expenditure	(125,270)	145,170	127,838	147,738	210,284
Fund balance, beginning of year	14,040	2,261,900	1,409,296	3,685,236	3,474,952
Inter-fund transfers	127,079	(127,079)	-	-	-
Fund balance, end of year	$ 15,849	$ 2,279,991	$ 1,537,134	$ 3,832,974	$ 3,685,236

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Cash Flow Statement
For the Year Ended March 31, 2020

	Operating Fund	Investment Fund	FRAM-ED Fund	2020 Total	2019 Total
Operating activities:					
Excess of revenue over expenditure (expenditure over revenue)	$ (125,270)	$ 145,170	$ 127,838	$ 147,738	$ 210,284
Items which do not involve cash:					
Amortization	4,125	-	-	4,125	3,886
Loan loss provision (recovery)	-	43,513	(34,123)	9,390	(13,150)
	(121,145)	188,683	93,715	161,253	201,020
Changes in non-cash working capital:					
Accounts receivable	(5,661)	(50)	-	(5,711)	14,853
Due to/from other funds	27,212	287,688	(314,900)	-	-
Prepaid expenses	179	-	-	179	(327)
Payables and accrued liabilities	(3,041)	1,304	-	(1,737)	(7,695)
Cash provided by (used in) operating activities	(102,456)	477,625	(221,185)	153,984	207,851
Investing activities:					
Purchase of capital assets	(5,934)	-	-	(5,934)	(3,220)
Loans receivable – principal advances	-	(706,985)	-	(706,985)	(753,774)
Loans receivable – principal repayments	-	1,292,058	682,466	1,974,524	499,526
Decrease (increase) in accrued interest	-	6,520	8,286	14,806	19,192
Cash provided by (used in) investing activities	(5,934)	591,593	690,752	1,276,411	(238,276)
Financing activities:					
Inter-fund transfers	127,079	(127,079)	-	-	-
Proceeds from long-term debt	-	20,000	-	20,000	10,000
Repayment of long-term debt	-	(407,583)	-	(407,583)	(404,080)
Cash provided by (used in) financing activities	127,079	(514,662)	-	(387,583)	(394,080)
Increase (decrease) in cash and cash equivalents	18,689	554,556	469,567	1,042,812	(424,505)
Cash and cash equivalents, beginning of year	19,062	269,403	345	288,810	713,315
Cash and cash equivalents, end of year	$ 37,751	$ 823,959	$ 469,912	$ 1,331,622	$ 288,810

Cash equivalents are comprised of cash in bank.

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements
For the Year Ended March 31, 2020

The Celtic Business Development Corporation Inc. (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 and on the straight-line basis for leasehold improvements over 4 years. Funding agencies may, in some cases, direct the disposition of capital assets which were financed through their contributions to the Corporation.

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 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 many 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.

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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2020

1. Significant Accounting Policies (Continued)

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.

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.

2. Capital Assets

				2020	2019
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & equipment	20%	$ 55,254	$ 47,356	$ 7,898	$ 9,680
Computer hardware	30%	26,115	18,164	7,951	4,360
Leasehold improvements		12,780	12,780	-	-
		$ 94,149	$ 78,300	$ 15,849	$ 14,040

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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2020

4. Loans Receivable - Investment Fund

	2020	2019
Loans receivable, beginning of year	$ 3,976,968	$ 3,653,206
Loans advanced during the year	706,985	722,866
Loans repaid during the year	(1,292,058)	(386,385)
Loans written off during the year	(40,184)	(5,692)
Change in year end accrued interest	(6,520)	(7,027)
Loans receivable, end of year	3,345,191	3,976,968
Allowance for impaired loans	(358,330)	(347,245)
	2,986,861	3,629,723
Current portion of loans receivable	(262,130)	(403,465)
	$ 2,724,731	$ 3,226,258

Loans receivable includes accrued interest receivable in the amount of $27,951 (2019 - $34,471). There are seven impaired loans as of March 31, 2020 totalling $400,032 (2019 - five impaired loans totalling $287,580). The current portion of loans receivable assumes required loan payments will be received during the year. There were 9 loans approved during the year and 69 loans under management as of March 31, 2020.

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

	2020	2019
Allowance, beginning of year	$ 347,245	$ 344,642
Loans written off during the year	(32,428)	(5,692)
Current year's loan loss provision	43,513	8,295
	$ 358,330	$ 347,245

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

	2020	2019
Loan capital contributed	$ 1,138,751	$ 1,138,751
Accumulated surplus	1,141,240	1,123,149
	$ 2,279,991	$ 2,261,900

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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2020

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

	2020	2019
Loans receivable, beginning of year	$ 1,825,052	$ 1,919,450
Loans advanced during the year	-	30,908
Loans repaid during the year	(682,467)	(113,141)
Change in year end accrued interest	(8,286)	(12,166)
Loans receivable, end of year	1,134,299	1,825,051
Allowance for impaired loans	(67,077)	(101,200)
	1,067,222	1,723,851
Current portion of loans receivable	(51,593)	(219,880)
	$ 1,015,629	$ 1,503,971

Loans receivable includes accrued interest receivable in the amount of $14,523 (2019 - $22,810). There is one impaired loan as of March 31, 2020 totalling $29,180 (2019 - one impaired loan totalling $29,180). The current portion of loans receivable assumes required loan payments will be received during the year. There were no loans approved during the year and 12 loans under management as of March 31, 2020.

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

	2020	2019
Allowance, beginning of year	$ 101,200	$ 122,645
Loans written off during the year	-	-
Current year's loan loss provision (recovery)	(34,123)	(21,445)
	$ 67,077	$ 101,200

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

	2020	2019
Loan capital contributed	$ 850,000	$ 850,000
Accumulated surplus	687,134	559,296
	$ 1,537,134	$ 1,409,296

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.

6. Long-term Debt

	2020	2019
Atlantic Canada Community Business Investment Fund Loan for investment purposes, with interest at 1.75%, repayable in blended monthly instalments of $36,000, maturing in April, 2024 and secured by a promissory note and a negative pledge. Principal and interest payments on this loan were suspended by the lender for May, June and July, 2020 as a result of measures introduced to assist with the impact of the pandemic on the operations of all CBDC's in Atlantic Canada.	$ 1,568,955	$ 1,969,841
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	29,376	23,829
	1,598,331	1,993,670
Less: Estimated portion due next twelve months	305,162	403,368
	$ 1,293,169	$ 1,590,302

Estimated required principal payments over the next five years are as follows: 2021 - $305,162; 2022 - $413,166; 2023 - $420,454; 2024 - $427,871; 2025 - $2,302.

7. Allowance for Impaired Loans

Impaired loans are recognized on a case by case basis. When a loan is deemed to be impaired, it's 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.

8. 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.

9. Commitment

The Corporation leases office space at an annual rate of $21,758 plus HST. The lease expires on March 31, 2025.

10. 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.

11. 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 7.