

Lender of Northern Opportunity



Nunavut Business Credit Corporation

will be the

financial solutions provider of choice

to Nunavut's business community.

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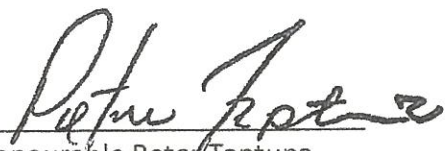
LETTER OF TRANSMITTAL

The Honourable Edna Elias
Commissioner
Government of Nunavut

Dear Commissioner Elias:

I have the honour of presenting the Annual Report for the Nunavut Business Credit Corporation covering the period April 1, 2011 to March 31, 2012.

Respectfully submitted,



Honourable Peter Taptuna
Minister Responsible for the
Nunavut Business Credit Corporation

MESSAGE FROM THE CHAIR

On behalf of the Board of Directors of the Nunavut Business Credit Corporation (NBCC), it is my pleasure to present the Annual Report for 2011-12.

It has been another year of progress for the Corporation.

I am pleased to report that the NBCC received a positive opinion from the Auditor General of Canada for the March 31, 2012 fiscal year. On April 1, 2011, NBCC adopted the Public Sector Accounting Standards (PSAS) and the March 31, 2012 financial statements have been prepared using this basis of accounting. Comparative figures for 2011 have also been restated to reflect this change.

In February 2012 Minister Taptuna announced the appointment of Elijah Evaluarjuk (Igloolik) to the Board of Directors to serve a three year term. In addition Tommy Owlijoot (Cambridge Bay), Al Lahure (Baker Lake) and myself (Iqaluit) have been re-appointed for three year terms.

I would like to thank our outgoing Board Member Wayne Solomon (Cambridge Bay) for his significant contributions to the Board.

During the year the Board approved an Administration and Conduct Manual and Accounting Manual. The Board also approved revisions to the Board Orientation Manual and Credit Management Manual. All manuals have received Ministerial Approval.

NBCC, with assistance from the Government of Nunavut Human Resources Department, has staffed the positions of Compliance Officer, Business Services Officer and Account Manager with permanent employees. The Corporation now has five of six positions filled. Training plans have been completed for all staff positions. I am pleased to advise you that we now have 40% Inuit employment at the Corporation.

On September 25, 2011, a Strategic Planning Session was held and Board members set high targets for Program Delivery, Business Development, Performance Measurement, NBCC Business Client Support and Annual Reviews of all our policy manuals. A follow up Strategic Planning Session will be held in 2012 to set the annual performance targets for the 2012-2013 fiscal year. NBCC will be issuing a periodic newsletter to clients commencing in 2012.

MESSAGE FROM THE CHAIR

The Board of Directors has recommended to the Minister that the maximum lending limit be increased from \$1.0 million to \$2.0 million. The lending limit has not been updated since the NBCC Act came into force in 1991.

Finally, a number of NBCC's clients have been doing extremely well and have been able to pay off their loan balances during the year. NBCC continues to seek new opportunities to expand its loan portfolio by finding new clients and expanding our relationship with existing clients.

The Board of Directors is looking forward to working with the Chief Executive Officer and staff in the new year to increase our presence in the communities and assist Nunavut businesses in expanding their operations and increasing their financial capacity.

Sincerely,


Gregory D. Cayen, FCA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

2011-12 has been an exciting year for NBCC.

It opened with the news of a positive audit opinion from the Auditor General with respect to its prior year reporting. This was a huge milestone for NBCC and a clear indication of the progress that the corporation has made to move beyond its troubled past. The efforts have been significant but necessary to restore NBCC's credibility and reputation within the business community and in the minds of Nunavummiut.

During the year, NBCC has also been able to enhance its internal capacity through the appointment of indeterminate employees in all key roles. It now has the solid foundation and capability to truly move forward to foster and develop new opportunities consistent with its mandate.

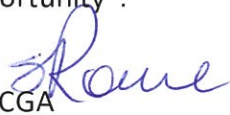
2011-12 also saw some new challenges such as the transition to Public Sector Accounting Standards (PSAS) and, despite this new requirement, NBCC has still managed to prepare its annual reporting on a more timely basis than in prior years. It strives to meet its statutory reporting deadline for the 2013-14 fiscal year and continues to make incremental improvements annually to support that objective.

The Board of Directors also met in September 2011 to set a new strategic direction for the corporation and intends to follow up annually to determine new ways to broaden NBCC's reach into the business community. Consistent with this objective, NBCC attended Trade Shows in all three regions of the Territory this year and also participated in the Northern Lights Trade Show in Ottawa which brought together governments, Federal, Territorial and Provincial, as well as the private sector who share an interest in the north and its development.

Although NBCC has been in place for several years with roots that pre-date the creation of Nunavut, 2011-12 marked a new beginning for this re-vitalized organization. Its resources no longer need to be focused on rectifying the past while striving to build a future. With a number of NBCC's clients repaying outstanding loans ahead of schedule throughout the year, the ability now to focus strategically to build new business and expand NBCC's loan portfolio is opportune. Together, NBCC's Board, management and staff remain committed to developing new opportunities for Nunavummiut and solidifying NBCC's position as "lender of northern opportunity".

Yours truly,

Sherri Rowe, CGA



MANDATE

The mandate of Nunavut Business Credit Corporation (NBCC) is to function as an agent of the Government of Nunavut (GN) to stimulate economic development and employment in Nunavut by supporting, financing, and investing in resident business enterprises. NBCC does not offer grants or forgivable credit facilities and cannot make equity investments.

As a lender of northern opportunity, NBCC provides financing alternatives to small and medium enterprises in Nunavut for whom access to credit represents a real challenge to growing their business. The majority of NBCC's clients are established businesses looking to expand or better establish themselves in their market. NBCC also accepts applications for new businesses.

Working one on one with its clients, NBCC through its rigorous due diligence process gives careful consideration to each application, ensuring the merits of each proposed enterprise. The Corporation then provides financing for those projects that offer the best opportunities for success.

MISSION

NBCC's mission is to stimulate employment and economic development throughout Nunavut. NBCC provides businesses with financing if they are unable to obtain loans from other financial institutions on reasonable terms and conditions. As a business development agency, NBCC recognizes that access to adequate capital is one of the many challenges faced by northern businesses in their attempts to take advantage of economic opportunities.

As an agent of the Government of Nunavut, NBCC strives to contribute to the government's vision of *Tamapta: Building Our Future Together*.

CORPORATE OVERVIEW

NBCC is a Territorial Corporation of the Government of Nunavut (GN). NBCC came into existence on April 1, 1999 by virtue of section 29 of the *Nunavut Act* (Canada). The *Nunavut Business Credit Corporation Act* defines its legal and operational structure and its *Regulations** guide key aspects of its operations.

NBCC reports formally to the Minister Responsible and has a close association with the GN's Department of Economic Development & Transportation (ED&T). Historically, the ED&T's Minister is also the Minister Responsible for NBCC.

The Territorial Corporation is subject to Part IX of the *Financial Administration Act*.

ORGANIZATIONAL STRUCTURE

Board of Directors

Corporate policy and overview is set by NBCC's Board of Directors (Board). The Commissioner-in-Executive Council appoints members of NBCC's Board on the recommendation of the Minister Responsible for the NBCC. The Minister bases his recommendation on solicitations of his cabinet colleagues, other Members of the Legislative Assembly and the general public.

Historically, members of the Board have been chosen to reflect a cross-section of relevant backgrounds and representation across the territory with two members each from the Kitikmeot, Kivalliq and Qikiqtaaluk regions. Board members may not hold an NBCC credit facility and no member may work for ED&T.

*Nunavut Business Credit Corporation Regulations (R-008-2010) address Board honoraria and expenses, amortization and term of loans and interest rates.

NBCC’s Board of Directors in place through 2011-2012 is shown below.

BOARD OF DIRECTORS			
Position	Member	Location	Term End
Greg Cayen, FCA	Chair	Iqaluit	May 31, 2015
Marg Epp	Director	Cambridge Bay	June 24, 2013
Donald Havioyak	Director	Kugluktuk	June 24, 2013
Elijah Evaluarjuk	Director	Igloolik	February 20, 2015
Nancy Karetak-Lindell	Vice Chair	Arviat	June 24, 2013
Allan Lahure	Director	Baker Lake	August 29, 2014
Tommy Owlijoot	Director	Cambridge Bay	May 31, 2015

Note: Director Wayne Soloman’s appointment was revoked February 21, 2012.

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Together, the Board members represent a breadth of complementary skills and knowledge in business development, lending practices and Canada's north. All Board members now reside in Nunavut and have a depth of experience in at least one of the three territorial regions.

Although situated in Nunavut's capital, NBCC has a mandate that extends across the vast territory. It is therefore important to have strong northern representation on the Board as NBCC sets out to achieve its mandate to benefit Nunavummiut.

Board committees may be established to provide oversight and guidance to address key aspects of NBCC's operations and activities. In 2011-2012, three such committees existed, namely the Finance Committee, the Credit Facility Committee and the Policy and Planning Committee. Each Committee has Terms of Reference which have been approved by the full Board to guide its activities and focus. Committee members are selected from the existing Board members depending on their experience and interests. Each Board member is encouraged to participate on at least one Committee.

Staff Positions

NBCC has six permanent staff positions, all based at its location in Iqaluit. They are:

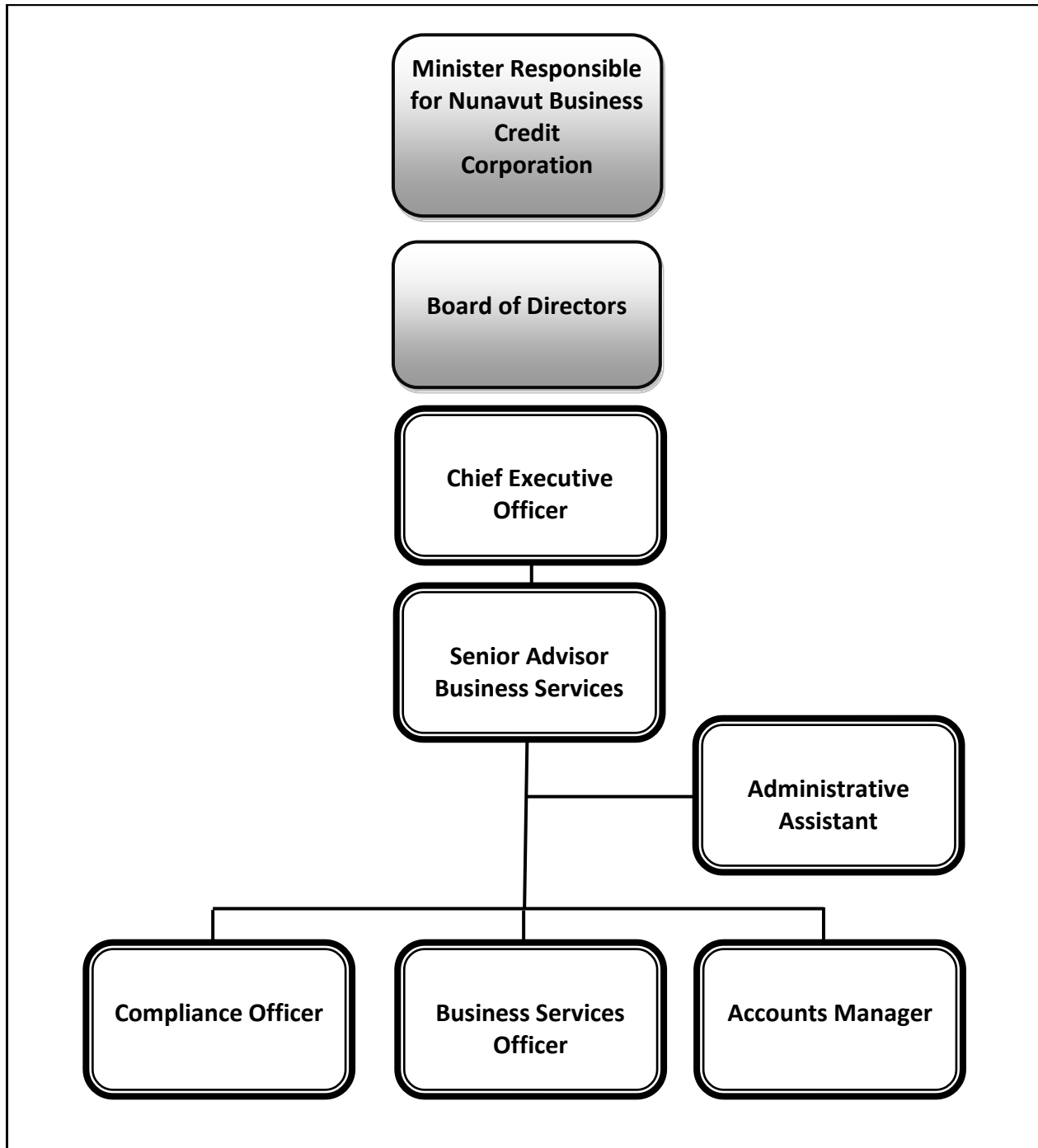
- Chief Executive Officer;
- Senior Advisor, Business Services
- Compliance Officer
- Business Services Officer
- Accounts Manager
- Administrative Assistant

As of March 31, 2012, all staff positions (with the exception of the Administrative Assistant which remains vacant) were filled on an indeterminate basis with 40% Inuit representation. Building internal capacity and a stable staff complement are key priorities to ensure NBCC's future success.

Corporate Accountability Chart

NBCC's reporting relationships are represented in the following accountability chart. Both the Minister Responsible for NBCC and the Board of Directors are shown as critical elements of NBCC's governance structure.

CORPORATE ACCOUNTABILITY CHART



All NBCC staff positions are based in Iqaluit.

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Supporting Nunavut businesses



Priscilla Kuksuk and Angela Barkhouse-McPherson greet new and existing clients at the Cambridge Bay Trade Show in 2012. Angela is NBCC's Senior Advisor, Business Services and its longest-serving employee. Angela is often the first person clients meet when seeking financial assistance. Priscilla joined NBCC in 2011 and serves as its Business Services Officer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW

NBCC began the year on a very positive note having achieved a major milestone. After several years of denied opinion by the Auditor General (AG) and unfavourable media reports, NBCC received a positive opinion from the AG with respect to its 2010-11 financial reporting. This represents a clear break from its troubled past and is a clear indication that the coordinated and focused efforts by the Board and senior management to effect NBCC's turnaround have been successful. Just a few months later, NBCC received additional recognition when a 2008 Ministerial Directive was revoked by the Minister of Finance, with the full support of Cabinet, in view of NBCC's remarkable progress in addressing concerns first raised by the AG in 2007. While NBCC remains focused on enhancing its operations, strengthening its internal capacity and expanding its loan portfolio, it can do so now without issues of the past weighing on its future.

For 2011-2012, NBCC faced the additional challenge of adopting Public Sector Accounting Standards (PSAS) and restating its prior year results for comparative purposes. This approach was determined to be the best option for NBCC's financial reporting and achieves consistency with that of the other territorial corporations under the GN. Despite this change, NBCC has improved the timeliness of its year-end reporting and is on target to meet its statutory reporting deadline for 2013-14.

In September, the NBCC Board held a strategic planning session in Iqaluit to set priorities and determine the corporation's focus for the next three years. Having established a solid foundation, NBCC can now move forward more effectively to address opportunities for Nunavummiut.

LOOKING AHEAD

While NBCC has accomplished much, it must now focus on broadening its reach to establish additional business with new and existing clients and thereby expand its loan portfolio. It plans to do this through ensuring greater community presence and assessing additional financing requirements of established clients. Working closely with the Board, it will also endeavour to implement its Strategic Plan and meet its established priorities for the year

KEY HIGHLIGHTS

The key highlights of this Annual Report for NBCC's 2011-2012 fiscal year are:

- All key positions fully staffed on an indeterminate basis;
- Training and development plans in place for each employee;
- Board of Directors in place with representation across the Territory;
- Successful transition to Public Sector Accounting Standards;
- Financial reporting prepared 4 months ahead of the prior year.

MINISTERIAL DIRECTIVE

Section 78 (7) of the *Financial Administration Act* requires the NBCC is obligated to report any Ministerial Directive issued and/or in place during the fiscal year.

During 2011-12, there was one Ministerial Directive that remained in place from the prior year and is detailed below. It is worth noting, however, that the requirements specified under the Directive have since been fulfilled through the execution of an MOU with the Department of Economic Development and Transportation and the appointment of a qualified CEO on an indeterminate basis.

2010-2011

Due to insufficient progress in addressing concerns first raised by the Auditor General of Canada in 2007 and successive denials of opinion, a Ministerial Directive was issued on April 15, 2010 by the Honourable Peter Taptuna, Minister Responsible for NBCC, instructing the GN Department of Economic Development & Transportation to play a role in facilitating NBCC's turnaround. Working with NBCC's Board of Directors, the department was directed to establish a Memorandum of Understanding setting out each party's duties to oversee NBCC's activities until such time as a CEO could be appointed.

On January 24, 2011, Sherri Rowe, a long time GN employee with significant experience in financial management and a professional accountant was appointed as Chief Executive Officer.

SUMMARY OF FINANCIAL RESULTS

The following summary examines NBCC's financial results for the period from April 1, 2011 to March 31, 2012. The year ended with a surplus of \$332,705 versus a deficit of \$494,877 in 2010-11. This increase of \$827,582 was due to a number of factors as noted below:

The most significant contributing factor was the change in provision for credit losses. In 2011-12, there was a recovery of credit losses of \$183,727 versus a provision for credit losses of \$364,141. This represents a shift \$547,868 due primarily to changed circumstances of one client.

Transfers from the Government of Nunavut also increased in 2011-12 by \$150,587 (\$736,174 in 2011-12 versus \$585,587 in 2010-11).

Total expenses including amortization decreased by \$737,421 (\$1,233,957 in 2011-12 versus \$1,971,378 in 2010-11) and further contributed to the increase in NBCC's surplus. Other expenses decreased by \$142,700 (\$19,970 in 2011-12 versus \$162,670 in 2010-11), and professional fees by \$30,128. These reductions were partially offset by increases in advertising and promotion of almost \$25,000.

Although NBCC earned \$80,843 less interest income during the year (\$782,361 in 2011-12 versus \$863,204 in 2010-11) due primarily to a reduction in its loan portfolio of \$2,094,423 (\$9,649,972 in 2011-12 versus \$11,744,395), this was offset by a reduction in interest expense on the advance from the Government of Nunavut (\$220,834 in 2011-12 versus \$278,940 in 2010-11).

NBCC's had projected a deficit for the year of \$10,000 actual results for 2011-12 year has a surplus of \$332,705. While the corporation had projected interest income of \$1,045,000 the actual results were lower by \$214,512 than expected. This is a result of lower than anticipated interest rates, and a lower loan portfolio balance. The actual expenses were \$619,043 less than expected and comprised of lower than budgeted, advertising (\$102,672), board meetings (\$80,897), travel (\$80,540), other expenses (\$80,030). Facilities expense, board honoraria and training and development were each almost \$60,000 lower than budgeted.

Provision for Losses on Impaired Credit facilities

The provision for losses on impaired credit facilities is based upon a review of all credit facilities to borrowers and represents managements' best estimate of probable credit losses. The total allowance for 2011-2012, which includes both general and specific provisions, was \$1,176,493 (PY: \$1,360,219) which represents a net decrease of \$183,726 over the previous year.

Specific Allowance

Management examines the portfolio on a continuous basis for credit facilities which should be classified as impaired. At the end of 2011-2012 7 credit facilities were declared impaired with a provision for losses of \$982,172(PY: \$1,154,222); which represents a decrease of \$172,050 in the specific allowance for impaired credit facilities.

General Allowance

A general allowance is calculated each year to provide for possible impairments within the performing credit facilities. NBCC's general allowance is set at 2% of the performing credit facilities portfolio. For 2011-2012, it was \$194,321 (PY: \$205,997). The change between these years represents a decrease of \$11,676 (PY: (\$8,741)).

Loans Written Off

During the year, no client loans were written off. (PY: \$19,937). No recoveries were made on loans written off in previous years (PY: \$Nil).

Disposal of Capital Assets

In 2011-2012, no capital assets were disposed. (PY: Nil).

PORTFOLIO PERFORMANCE

Portfolio Activity

The primary focus in 2011-2012 was continuing efforts with respect to NBCC's overall loan portfolio necessary for an positive audit opinion, improving timeliness of NBCC's financial reporting and transitioning to Public Sector Accounting Standards. As such, efforts to address reported concerns and deficiencies contained within the existing facilities took a central role throughout the 2011-2012 fiscal year (as in the previous year). Accordingly, new credit facilities were considered only to the extent they could be addressed within NBCC's internal capacity and resources while these remedial efforts continued and renewals of existing credit facilities were addressed. That said, 8 new loans were still issued during the 2011-2012 fiscal year. This is a tremendous achievement given the ongoing efforts underway to ensure continuous improvement.

7 loans were also repaid during the year; 6 loans through customized or balloon payments and one loan through regular payments.

At the end of the fiscal year, the portfolio stood at \$9.65 million, a decrease of \$2.09 million or over the previous (PY: \$11.74 million).

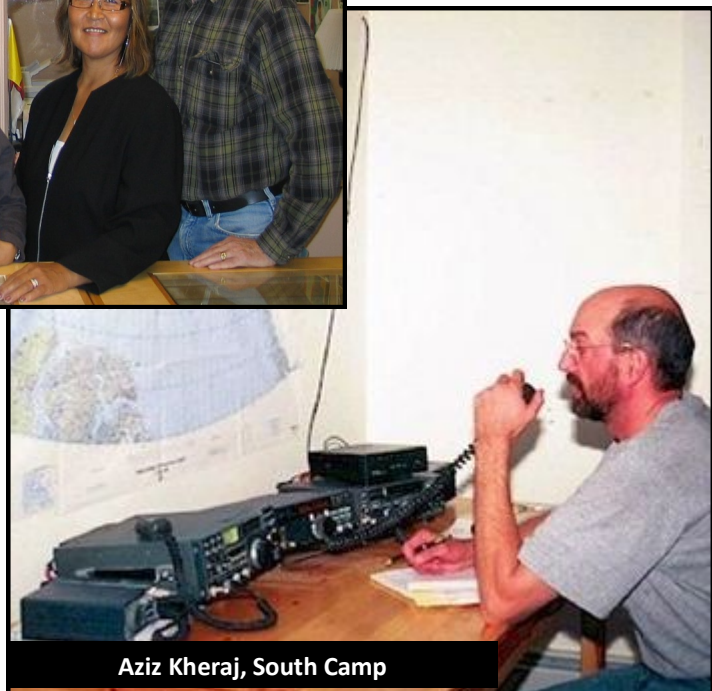
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NBCC Clients



Stephen, Michael, Marina, Helen, Paul
"Team Akhaliak"



Aziz Kheraj, South Camp

Credit facilities are classified as non-performing when no regular payments have been made over the course of the year and, based on available information and current events, it is considered improbable NBCC will be able to collect all of the amounts related to the credit facilities (interest and principal) as per the contractual terms of the credit facility agreement.

New Credit Facilities

The Board approved 8 new credit facilities for a total of \$1,992,022 (PY: \$3,916,000) during the year.

Repaid Credit Facilities

Regular loan repayments in 2011-2012 amounted to \$4,238,023; included in that amount is a total of \$3,087,092 in customized and balloon payments to pay out 7 loans.

New loan disbursements for 2011-2012 amounted to \$2,081,991 (included in this number is draw downs on lines of credit)

Annual Lending Statistics

NBCC lends to businesses in every community throughout Nunavut of which there are 25. During 2011-2012, there were credit facilities in Cambridge Bay, Gjoa Haven and Kugluktuk in the Kitikmeot region, Arviat, Coral Harbour and Rankin Inlet in the Kivalliq and Cape Dorset, Clyde River, Iqaluit, Qikiqtarjuaq and Resolute Bay in the Qikiqtaaluk region.

Industrial Perspective

In terms of performing credit facilities by industry sectors supported, NBCC's loan portfolio is most concentrated in the services industry (29%) followed closely by the retail sector (22%). The construction sector was third representing 17% of active loans. Finding opportunities to diversify its portfolio with other industries continues to be a priority for NBCC.

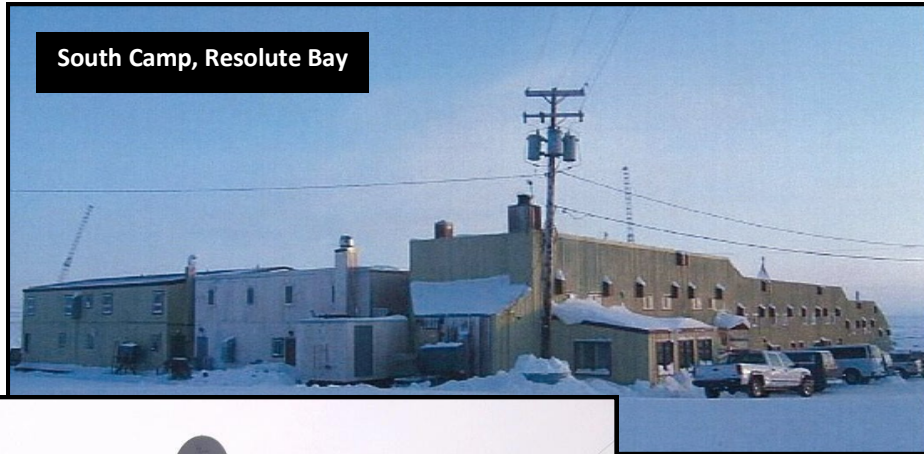
NBCC understands the need to diversify Nunavut's economy and will continue to engage its strategic partners within the Nunavut Economic Forum and work with other funding agents in Nunavut to assist businesses in accessing the financing they need. Central to NBCC's efforts on this score is the promotion of the Nunavut Economic Development Strategy as a means towards enabling the innovative partnerships required to overcome Nunavut's economic development challenges.

Lender of Northern Opportunity

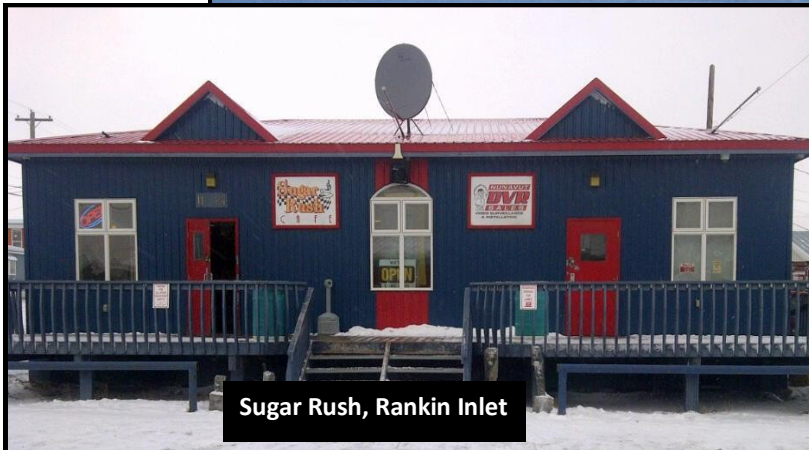


**Businesses NBCC has supported
through its lending activities**

South Camp, Resolute Bay



Sugar Rush, Rankin Inlet



**Credit Facilities by Industry Sector
March 31, 2012**

Industry Sector	2011-2012			2010-2011		
	LOC	Loans	Amount (\$)	LOC	Loans	Amount (\$)
Performing Loans						
Communication	—	2	\$ 395,712	—	4	\$ 697,325
Construction	3	5	1,641,060	5	8	2,949,134
Finance	1	—	(33)	—	1	(33)
Fishery	—	2	495,469	—	2	947,985
Hospitality	—	6	1,308,566	—	6	1,468,908
Real Estate	—	2	321,160	—	4	1,691,354
Retail	2	7	2,183,491	2	6	1,790,352
Service	2	8	2,960,272	—	5	2,024,793
Tourism	—	—	—	—	1	227,823
Transportation	1	3	686,111	—	1	46,639
Total Performing	9	35	\$ 9,991,808	7	38	\$ 11,844,280
Non Performing	—	5	645,597	1	6	1,082,718
Total Loan Portfolio	9	40	\$ 10,637,405	8	44	\$ 12,926,998

Regional Perspective

The Qikiqtaaluk Region received most of NBCC's support with five of thirteen communities serviced, a total of \$7,370,176 million in credit facilities, or 69% of the portfolio in 2011-2012.

In comparison, the Kivalliq Region with three out of seven communities serviced, holds \$2,214,616 million, or 21% of the portfolio.

The Kitikmeot's share of the portfolio, which represents three out of five communities for the region serviced, has a value of \$1,052,602 million, or 10% of the portfolio.

Community Perspective:

From a community perspective, Iqaluit, Nunavut's capital city, received the majority share of all NBCC credit facilities with a total of \$5,162,632 million for 2011-2012 divided among 24 credit facilities. This accounts for 70% of the region's credit volume and 49% of NBCC's total portfolio.

Three other communities have significant credit disbursement volumes: Rankin Inlet, with \$1,059,335 million divided among six credit facilities; Cape Dorset with \$1,178,001 million divided among four credit facilities and Kugluktuk with \$736,803 million divided among two credit facilities.

Rankin Inlet's total represents 49% of the total amount borrowed in the Kivalliq and 10% of the total portfolio. Cape Dorset, a Qikiqtaaluk community, holds 16% of that region's total and 11% of the total portfolio. Kugluktuk represents 70% of the Kitikmeot region's total and 7% of the total portfolio.

Credit Facilities by Community March 31, 2012						
Community	2011-2012			2010-2011		
	LOC	Loans	Amount (\$)	LOC	Loans	Amount (\$)
Qikiqtaaluk						
Cape Dorset	—	4	\$ 1,178,001	1	3	\$ 1,287,323
Clyde River	1	—	343,807	1	—	387,871
Iqaluit	5	19	5,162,632	3	22	6,020,733
Qikiqtarjuaq	—	1	495,969	—	1	497,985
Resolute Bay	—	1	189,767	—	1	244,347
<u>Qikiqtaaluk—Total</u>	6	25	7,370,176	5	27	8,438,259
Kivalliq						
Arviat	1	1	430,309	1	1	392,674
Coral Harbour	1	2	724,982	1	2	769,683
Chesterfield Inlet	—	—	—	—	1	(604)
Rankin Inlet	—	6	1,059,335	—	6	2,287,931
<u>Kivalliq — Total</u>	2	9	2,214,626	2	10	3,449,684
Kitikmeot						
Cambridge Bay	—	3	243,998	—	3	74,009
Gjoa Haven	1	1	71,802	1	2	183,710
Kugluktuk	—	2	736,803	—	2	781,336
<u>Kitikmeot—Total</u>	1	6	1,052,603	1	7	1,039,055
Total Loan Portfolio	9	40	\$ 10,637,405	8	44	\$ 12,926,998

Note on Performance Measurement

NBCC's focus has been on strengthening its corporate governance and credit operations since 2010-11 when a set of manuals were developed which together represent NBCC's policy and accountability framework. The four manuals— Credit Management, Board Orientation, Accounting, and Administration and Conduct — have received Board and Ministerial approval. As part of NBCC's ongoing improvement, NBCC's policies and procedures are reviewed annually and updates are made as necessary. Any revisions to NBCC's policy and accountability framework are subject to Board and Ministerial approval. In 2011-12, the Credit Management manual and Board Orientation Manual were revised and received appropriate approvals during the year. All manuals are subject to review to ensure they remain relevant to NBCC's current operating environment.

NBCC is also committed to developing quantifiable performance measures and annual reporting practices to enable an objective assessment of the corporation's success in fulfilling its statutory mandate to stimulate economic development and employment in Nunavut.

In 2011-12, NBCC held a strategic planning session of its Board to provide direction and identify priorities for the next three years. NBCC reports annually against its performance against these priorities.

Basic Lending Parameters

Canadian banks across the country, and particularly in Nunavut, generally do not provide lending services for start-ups or companies without a history of successful operation. This underscores the ongoing need for alternative financing institutions in Nunavut such as NBCC and its strategic partners. NBCC lends money within the following parameters:

The maximum level of support to any one enterprise or to a group of related enterprises is \$1 million;

The maximum term for a credit facility is five years and its amortization is generally 25 years; and

A business enterprise is eligible to apply for a credit facility if it is unable to obtain a credit facility with reasonable terms and conditions from a financial institution and is Nunavut-based.

The rate of interest is set at the cost of borrowing plus a premium of 0% - 5% based on the risk of the loan. The cost of borrowing is the rate in which the Government of Nunavut charges NBCC for its working capital loan. NBCC charges clients the interest rate in effect the first day of the quarter in which the NBCC Board has approved the credit facility plus the applicable risk rating.

Lender of Northern Opportunity



Nunavut Business Credit Corporation

will be the

financial solutions provider of choice

to Nunavut's business community.

From NBCC Strategic Plan 2010-2015, September 2009, p. 1.

NUNAVUT BUSINESS CREDIT CORPORATION

FINANCIAL STATEMENTS

For the year ended March 31, 2012

**Nunavut Business Credit Corporation
Financial Statements
March 31, 2012**

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Management Responsibility for Financial Reporting

The accompanying financial statements for Nunavut Business Credit Corporation (the Corporation) are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors.

The accompanying financial statements were prepared by management in accordance with Canadian public sector accounting standards. The financial statements also include some amounts, such as the allowance for losses on impaired loans and the provision for employee future benefits, which are based on management's best estimates and judgment.

In discharging its responsibility for the integrity, fairness and quality of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, proper records are maintained, and the Corporation complies with applicable laws and conflict of interest rules. These controls and practices help to ensure the orderly conduct of business, the accuracy of the accounting records, the timely preparation of financial information, and adherence to the Corporation's policies and statutory requirements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The external auditors have full and free access to the Board of Directors.

The Corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



Sherri Rowe, CGA
Chief Executive Officer
01 August 2012



INDEPENDENT AUDITOR'S REPORT

To the Minister of Economic Development and Transportation

Report on the Financial Statements

I have audited the accompanying financial statements of Nunavut Business Credit Corporation, which comprise the statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, and the statements of operations, statements of change in net debt and statements of cash flow for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted 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.

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 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 in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Nunavut Business Credit Corporation as at 31 March 2012, 31 March 2011 and 1 April 2010, and the results of its operations, changes in its net debt, and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut, I report that, in my opinion, the accounting principles in Canadian public sector accounting standards have been applied, after giving retroactive effect to the adoption of the new standards as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by Nunavut Business Credit Corporation and the financial statements are in agreement therewith. In addition, the transactions of Nunavut Business Credit Corporation that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Nunavut Business Credit Corporation Act* and regulations and the by-laws of Nunavut Business Credit Corporation and any other directives given to Nunavut Business Credit Corporation.



Tammy Squires, CA
Principal
for the Auditor General of Canada

1 August 2012
Ottawa, Canada

Nunavut Business Credit Corporation
Statement of Financial Position

	March 31, 2012	March 31, 2011	April 1, 2010
Financial assets			
Cash (Note 4)	8,160,922	2,423,918	2,834,814
Accounts receivable	17,669	27,969	54,045
Due from the Government of Nunavut	7,327	50,000	496,145
Loans receivable (Note 5)	9,649,972	11,744,395	11,743,644
Loan charges receivable	22,089	29,438	45,916
Total financial assets	17,857,979	14,275,720	15,174,564
Liabilities			
Accounts payable and accrued liabilities (Note 8)	239,548	209,150	326,405
Due to the Government of Nunavut (Note 9)	18,220,565	14,999,731	15,314,463
Total liabilities	18,460,113	15,208,881	15,640,868
Net debt	(602,134)	(933,161)	(466,304)
Non-Financial assets			
Tangible capital assets (Schedule A)	26,781	30,547	41,578
Prepaid Expenses	6,928	1,484	18,473
Total non-financial assets	33,709	32,031	60,051
Accumulated deficit	(568,425)	(901,130)	(406,253)

Contractual obligations (Note 12)

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

Signatures



Greg Cayen, FCA
Chair of the Board



Sherri Rowe, CGA
Chief Executive Officer

Nunavut Business Credit Corporation Statement of Operations

for the years ended March 31

	Budget 2012 (Note 16)	Actual 2012	Budget 2011 (Note 16)	Actual 2011
Revenues				
Interest income on loans receivable	1,045,000	782,361	923,000	863,204
Other interest income	-	48,127		27,710
Total revenues	1,045,000	830,488	923,000	890,914
Expenses				
Salaries and benefits	834,000	681,162	828,000	669,723
Professional fees	200,000	232,219	276,000	262,347
Interest expense on advance from Government of Nunavut (Note 9)	-	220,834		278,940
Provision for (recovery of) credit losses	-	(183,727)	-	364,141
Facilities expense	140,000	80,727	140,000	80,727
Other expenses	100,000	19,970	80,000	162,670
Advertising and promotion	154,000	51,328	94,000	26,532
Office expense	55,000	39,028	50,000	43,800
Board meetings	120,000	39,103	193,000	32,876
Travel	100,000	19,460	98,000	18,279
Board honoraria	80,000	21,525	103,000	14,625
Amortization	10,000	9,606	-	12,316
Training and development	60,000	2,722	125,000	4,402
Total expenses	1,853,000	1,233,957	1,987,000	1,971,378
Deficit before Government contribution	(808,000)	(403,469)	(1,064,000)	(1,080,464)
Contribution from the Government of Nunavut	798,000	736,174	648,000	585,587
Surplus (deficit) for the year	(10,000)	332,705	(416,000)	(494,877)
Accumulated deficit—beginning of the year	(901,130)	(901,130)		(406,253)
Accumulated deficit—end of the year	(911,130)	(568,425)		(901,130)

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

Nunavut Business Credit Corporation
Statement of Change in Net Debt

for the years ended March 31

	Budget 2012	Actual 2012	Budget 2011	Actual 2011
	(Note 16)		(Note 16)	
Surplus (deficit) for the year	(10,000)	332,705	(416,000)	(494,877)
Tangible capital assets (Schedule A)				
Additions	-	(5,839)	-	(1,285)
Amortization	10,000	9,605	-	12,316
	10,000	3,766	-	11,031
Net use (additions) of prepaid expenses	-	(5,444)	-	16,989
Change in net financial debt	-	331,027	(416,000)	(466,857)
Net debt—beginning of year		(933,161)		(466,304)
Net debt—end of year		(602,134)		(933,161)

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

Nunavut Business Credit Corporation Statement of Cash Flow

for the years ended March 31

	2012	2011
Cash provided by (applied to) operating activities		
Interest on loans receivable	889,216	852,051
Government of Nunavut contributions	650,000	895,000
Other operations	2,578	12,458
GST rebate	25,185	47,209
Suppliers	(438,929)	(762,278)
Interest payments on Government of Nunavut advance	-	(593,540)
Interest on current bank account	40,799	23,208
Cash paid to the Government of Nunavut	(621,253)	(609,884)
Cash provided by (applied to) operating activities	547,596	(135,776)
Cash provided by financing activities		
Working capital advance	3,000,000	0
Cash provided by financing activities	3,000,000	0
Cash provided by (applied to) investing activities		
Repayment of loans receivable	4,238,023	3,446,835
Fee repayments received	39,216	64,507
Disbursements of loans receivable	(2,081,992)	(3,786,462)
Cash provided by (applied to) investing activities	2,195,247	(275,120)
Cash used for capital activities		
Tangible capital asset acquisitions	(5,839)	-
Tangible capital asset disposals	-	-
Cash used for capital activities	(5,839)	-
Increase (decrease) in cash	5,737,004	(410,896)
Cash - beginning of year	2,423,918	2,834,814
Cash - end of the year (note 4)	8,160,922	2,423,918

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

1. The Corporation

(a) Authority

The Nunavut Business Credit Corporation (the Corporation) is a territorial corporation wholly owned by the Government of Nunavut (the Government). The Corporation came into existence on April 1, 1999 by virtue of section 29 of the Nunavut Act. The *Nunavut Business Credit Corporation Act* (Act) defines legal and operational structure. The Corporation functions under the auspices of the Government's Department of Economic Development and Transportation (the Department) and is subject to Part IX of the *Financial Administration Act* of Nunavut.

(b) Mandate

The mandate of the Corporation is to function as an "arm's length" territorial corporation to stimulate economic development and employment in Nunavut through the loan program by supporting, financing, and investing in resident business enterprises. The Corporation's role is a blend of being a lender of last resort and a developmental agency for Nunavut businesses. The Corporation does not offer any grants or forgivable loans and cannot make equity investments.

(c) Government contributions and advances

The Corporation is economically dependent on the Government's continuing contributions for its direct administrative expenses. The Contribution Agreement with the Department specifies a fixed contribution for the year.

Section 47 of the Act also authorized the Government to advance to the Corporation an amount out of the Consolidated Revenue Fund not exceeding \$50 million for the purposes of providing financial assistance business enterprises. In 2008, the Financial Management Board set the working capital advance limit to \$25 million. These advances are repayable to the Government of Nunavut on such terms and conditions as the Minister of Finance may determine.

(d) Taxes

The Corporation is non-taxable under the *Income Tax Act* (Canada).

2. Conversion to Public Sector Accounting Standards

In December 2009, Public Sector Accounting Board (PSAB) issued an amendment to the Introduction to Public Sector Accounting Standards Handbook. Under the revised Introduction, the Corporation is classified as an Other Government organization (OGO). As an OGO, management determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be those issued by PSAB.

The Corporation has adopted the PSAB standards for its fiscal year beginning April 1, 2011. In accordance with Canadian public sector accounting standards (PSAS), including PSAB's First-Time Adoption by Government Organizations standard (PS 2125), the change has been implemented retroactively to the date of transition, April 1, 2010.

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

There were no transition adjustments made to the balances reported by the Corporation under its previous basis of accounting as a result of adopting PSAS.

The following is a summary of the main presentation differences for the Corporation between its previous and current financial statements:

- The March 31, 2011 Balance Sheet has been replaced by the Statement of Financial Position, segregating financial and non-financial assets as well as the net debt (liabilities less financial assets) of the Corporation; and accumulated surplus/deficit at the Statement of Financial Position date.
- The Statement of Operations, Comprehensive Income and Deficit for the year ended March 31, 2011 has been replaced by the Statement of Operations and Accumulated Deficit.
- A Statement of Change in Net Debt has been presented, which represents the expenditures of a public sector reporting entity less revenue, as well as acquisitions of tangible capital assets and other items explaining the difference between the surplus/deficit for the period and the change in net debt for the period. A comparison of the current year results with the original comparative budget is also disclosed.
- The Statement of Cash Flow along with some reclassifications, has been expanded to include a new category required by PSAB for capital activities.

3. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The following is a summary of the significant accounting policies.

(a) Cash

Cash is comprised of bank account balances, net of outstanding cheques. Surplus cash earns interest income based on the Government of Nunavut bank interest rate.

(b) Accounts receivable

Accounts receivable are valued at the lower of cost or net recoverable value. Valuation allowances, if necessary are recorded based on all circumstances known at the date these financial statements are prepared, including past events and current conditions.

(c) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided on a declining balance basis using the following rates:

Computer and office equipment	30%
Office furniture and fixtures	20%

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

3. Significant Accounting Policies (Continued)

Tangible capital assets are amortized starting the month after they are purchased to the month after they are sold.

(d) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

(e) Measurement uncertainty

The preparation of financial statements in accordance with PSAS requires the Corporation to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. By their nature, these estimates and assumptions are subject to measurement uncertainty. The effect on the financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these financial statements, the Corporation believes the estimates and assumptions to be reasonable. The more significant management estimates relate to allowances for losses on loans and employee future benefits.

(f) Financial Instruments

Financial instruments are identified by financial asset and financial liability classifications. The Corporation's financial instruments are initially recorded at fair value. For significant financial instruments, subsequent measurement is at amortized cost using the effective interest method. The Corporation will not early adopt PS 3450. The standard will become effective for OGO's for fiscal years beginning on or after April 1, 2012. Therefore, financial instrument disclosure for fiscal year March 31, 2012 is only for additional information purposes.

(g) Interest income on loans receivable

Revenues are recognized in the period in which the transactions or events occurred that give rise to the revenues. Interest income on loans receivable is recognized on an accrual basis. All payments received on regular loans are applied against the outstanding balance for other charges, interest and principal, in that order.

(h) Loans receivable

A loan is classified as impaired when, upon an analysis of all considerations, it is determined that there has been a deterioration in the credit quality of the loan such that, in the opinion of management, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Such considerations may include the following and are assessed in conjunction with other contributing and mitigating factors that may exist with respect to a specific loan:

1. Principal or interest is six months past due unless the loan is fully secured or collection efforts are reasonable expected to result in repayment of the loan;
2. Principal or interest is twelve months past due regardless of whether the loan is well secured or not;

3. Significant Accounting Policies (Continued)

3. Principal or interest is three months past due, if the loan has been previously restructured;
4. The security of the credit facility is compromised

When a loan is classified as impaired, the carrying amount of the loan is reduced to its estimated net realizable amount. The estimated net realizable amount is the discounted expected future cash flows at the effective interest rate of the loan. Where the amount and timing of future cash flows cannot be estimated with reasonable reliability, the estimated net realizable amount is the fair market value of the security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower.

The amount of initial impairment and any subsequent changes in the amount of impairment are recorded as a charge or a credit to the specific allowance for losses on loans.

The Corporation ceases to accrue interest once a loan is classified as impaired. All payments received on impaired loans are credited to the suspended interest, protective loan disbursements, arrears payments for accrued loan interest and loan principal balance in that order. Once the suspended interest, protective disbursements and accrual interest are current then the loan is no longer classified as impaired. All payments received on previously written off loans are recognized as revenue.

Loans are restored to performing status when it is determined that there is a reasonable assurance of timely collection of principal and interest. Rescheduled loans are considered performing unless they meet the criteria of impaired loans. When an impaired loan is restored or restructured to an accrual basis, any non-accrued capitalized interest as a result of cash payments received is recognized in income immediately and any remaining non-accrued capitalized interest is recognized over the remaining term of the loan.

(i) Allowance for losses on loans

The allowance for losses on loans is based upon a review of all loans to borrowers and represents management's best estimate of probable credit losses. The allowance includes two components: general and specific.

The general allowance component represents management's estimate of probable losses on those loans which cannot yet be specially identified as impaired. The general allowance is calculated as the total loans receivable less the specific allowance at the end of the fiscal year multiplied by 2% less payout of loan balances after year end.

The specific allowance component is established on an individual loan basis to recognize credit losses. The amount of the initial impairment and any underlying subsequent changes due to re-

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

3. Significant Accounting Policies (Continued)

evaluation of estimated realizable values are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

The general allowance for performing loans and the specific allowance for impaired loans are shown as a reduction to loans receivable.

(j) Write-offs

Under the provisions of the *Financial Administration Act* of Nunavut, the outstanding principal and interest on a loan can be approved for write-off by the Corporation's Board of Directors if the total outstanding on a loan is \$20,000 or less; or by the Legislative Assembly of Nunavut if the total outstanding on a loan is over \$20,000. A loan written-off is still subject to collection action.

Management generally recommends the write-off of a loan only after all means of collecting the loan have been exhausted.

(k) Employee future benefits

Pension benefits

Eligible employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through federal legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

Non-pension benefits

Under the terms and conditions of employment, Corporation employees may earn severance and removal benefits based on years of service. These benefits are paid upon resignation, retirement or death of the employee. The accrued liability and related expenses for these benefits are recorded as employees earn them and has been determined based on management's assumptions and best estimates.

(l) Contributions from the Government and services provided without charge

Government contributions are recognized in the year when the contribution is approved by the Government and the related expenses are incurred.

Audit Services are provided without charge from the Office of the Auditor General of Canada to the Corporation. No amount has been recognized in these financial statements in respect to the services provided.

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

(m) Future accounting changes

PSAB has approved the following standards applicable to the Corporation and Other Government Organizations—Financial Statement Presentation (PS 1201), revised Government Transfers (PS 3410) and Financial Instruments (PS 3450). The new standards are effective for fiscal years beginning on or after April 1, 2012.

Management chose not to early adopt these standards. Management's view is that the application of the above PSAB standards for fiscal year April 1, 2012 will not have a significant impact.

4. Cash

The Corporation's cash is pooled with the Government's surplus cash which earns bank interest on the combined balance, rather than on an individual account basis. In 2012, the Corporation earned interest income of \$48,127 (2011 - \$27,710) with an average yield 1.37% (2011 - 1.88%).

5. Loans receivable

As of March 31, 2012 loans receivable are expected to mature as follows:

Maturity Date	Annual Interest Rate	2012	Annual Interest Rate	2011	Annual Interest Rate	2010
Impaired Loans	5.75%- 10.25%	\$ 645,596	5.75%- 10.25%	\$ 1,082,718	5.75% - 10.25%	\$ 1,536,657
1 year	4.25% - 8.25%	1,821,858	4.25% - 8.00%	4,520,044	3.75% - 6.75%	6,452,018
1—2 years	5.75% - 7.19%	2,879,173	4.25% - 8.25%	1,753,903	5.75% - 8.00%	866,833
2—3 years	4.50% - 7.19%	1,703,437	5.75% - 6.75%	1,641,225	2.57% - 8.25%	2,247,973
Over 3 years	4.25% - 7.19%	3,587,341	4.25% - 6.56%	3,929,108	4.50% - 6.75%	1,271,883
		\$10,637,405		\$12,926,998		\$12,375,364
Accrued loan interest (Note 7)		189,060		177,616		385,782
		10,826,465		13,104,614		12,761,146
Less allowance for credit losses (Note 6)		1,176,493		1,360,219		1,017,502
		\$9,649,972		\$11,744,395		\$11,743,644

**Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements**

March 31, 2012

Regions	Annual Interest Rate	2012	Annual Interest Rate	2011	Annual Interest Rate	2010
Performing						
Qiqiqtalluk	4.25% - 8.00%	\$6,981,780	4.25% - 8.00%	\$ 7,612,742	2.57% - 8.00%	\$ 6,218,936
Kivalliq	4.50% - 7.19%	1,957,425	4.50% - 8.25%	3,192,483	4.50%-7.25%	3,260,840
Kitikmoet	6.02%-8.00%	1,052,603	5.56%-8.00%	1,039,055	5.75%-8.00%	1,358,931
		\$9,991,808		\$11,844,280		\$10,838,707
Impaired						
Qikiqtalluk	5.75%-6.00%	\$388,396	5.75%-8.00%	825,517	5.75%-8.00%	\$1,279,652
Kivalliq	6.25%-8.50%	257,201	6.25%-10.25%	257,201	8.50%-10.25%	227,566
Kitikmeot	N/A	-	N/A	-	6.25%-6.25%	29,439
		645,597		1,082,718		1,536,657
Total						
Qikiqtalluk	4.25%-8.00%	\$7,370,176	4.25%-8.00%	\$8,438,259	2.57%-8.00%	\$7,498,588
Kivalliq	4.50%-8.50%	2,214,626	4.25%-10.25%	3,449,684	4.50%-10.25%	3,488,406
Kitikmeot	6.02%-8.00%	1,052,603	5.56%-8.00%	1,039,055	5.75%-8.00%	1,388,370
		\$10,637,405		\$12,926,998		12,375,364

6. Allowance for losses on loans

	2012	2011	2010
<u>Specific Allowance</u>			
Balance, beginning of year	\$1,154,222	\$ 802,764	\$1,515,105
Change in provision for the year	(172,050)	371,395	(712,341)
Less: loans written off	-	(19,937)	-
Balance, end of year	\$ 982,172	\$1,154,222	\$ 802,764
<u>General Allowance</u>			
Balance, beginning of year	\$ 205,997	\$ 214,738	\$274,461
Change in provision for the year	(11,676)	(8,741)	(59,723)
Balance, end of year	\$ 194,321	\$ 205,997	214,738
Total Balance, end of year	\$1,176,493	\$1,360,219	\$1,017,502

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

During the year, the Board of Directors authorized the write-off of loans totalling \$NIL (2011-\$19,937). No recoveries were made on loans written off in previous years.

7. Accrued interest receivable

	2012	2011	2010
Performing	\$ 68,197	\$ 14,989	\$ 35,695
Impaired	120,863	162,627	350,087
	<u>\$ 189,060</u>	<u>\$ 177,616</u>	<u>\$ 385,782</u>

8. Accounts payable and accrued liabilities

	<i>2012</i>	<i>2011</i>	<i>2010</i>
Trade payables	\$ 23,014	\$ 130,324	\$ 220,711
Payroll and benefits payable	176,609	40,866	30,512
Accrued liabilities	39,925	37,025	70,389
Visa payable	-	935	4,793
	<u>\$ 239,548</u>	<u>\$ 209,150</u>	<u>\$ 326,405</u>

9. Due to the Government of Nunavut

	2012	2011	2010
Balance, beginning of year	\$14,999,731	\$15,314,463	18,673,775
Interest expense on advance for the year	220,834	278,940	314,462
Working capital advance	3,000,000	-	-
Amount repaid	-	(593,672)	(3,673,774)
Balance, end of year	<u>\$18,220,565</u>	<u>\$14,999,731</u>	<u>\$15,314,463</u>

Interest on the advance is calculated monthly based on the average Selected Government of Canada three year benchmark bond yields at month end, compounded annually. In 2012, the rate varied from 0.99% to 2.04% (2011 - 1.49% to 2.42%).

There are no fixed repayment terms on the advance.

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

10. Employee future benefits

All eligible employees of the Corporation are covered by the public service pension plan (the “Plan”), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. The Government holds a statutory obligation for the payment of the benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are indexed to inflation.

Contributions to the Public Service Pension Plan were as follows:

	2012	2011
Employees' Contributions	\$25,428	\$ 8,688
Corporation's Contributions	\$46,641	\$16,556

Severance and removal benefits

The Corporation provides severance benefits to its employees based on years of service and final salary. The Corporation also provides removal assistance to eligible employees, as provided under labour contracts. The estimate of these amounts for removal and severance is \$24,400 (2011 - \$21,500).

11. Financial instruments

While additional information on the Corporation's use and management of financial instruments is disclosed, PS 3450—Financial instruments and related changes will be formally implemented in 2012—2013 fiscal year.

The Corporation is exposed to the following risks as a result of holding financial instruments.

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 meet its obligations.

Credit granting and loan management are based on established credit policies. The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments. The Corporation's management of credit exposures from borrowers and investees include:

1. Credit policies and directives, communicated to lending officers whose activities and responsibilities include credit granting and monitoring client performance.
2. Diversifying its portfolio across different geographic regions and securing clients assets.
3. Limiting the concentration of loans and investments with any one business enterprise or group related enterprises to \$1 million.

The principal collaterals held as security and other credit enhancements for loans include: (i) various securities on assets; and (ii) corporate and personal guarantees.

Nunavut Business Credit Corporation
Notes to Consolidated Financial Statements

March 31, 2012

11. Financial instruments (Continued)

There were no significant changes to the Corporation's credit risk management policies and practices from the prior year.

The table below illustrates the maximum credit exposure to the Corporation if all counterparties defaulted on March 31, 2012.

	2012	2011	2010
Cash	\$ 8,160,922	\$ 2,423,918	\$2,834,814
Accounts receivable	17,669	27,969	54,045
Loan receivable, net of allowance	9,460,912	11,566,779	11,357,862
Accrued interest receivable	189,060	177,616	385,782
Loan charges receivable	20,029	29,438	45,916

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to the interest rate risk in that changes in market interest rates will cause fluctuations in the fair value and future cash flows of the advances from the Government. Changes in interest rates will also cause fluctuations in the fair value of variable rate loans receivable total of \$1,522,000 (2011 - \$1,372,000) as well as interest revenue from cash

The Corporation's borrowing from the Government is based on a variable market rate and it lends to its clients at fixed term rates. The Corporation's interest rate margin or spread widens when interest rates fall and it narrows when interest rates rise.

The Corporation management monitors exposure to interest rate fluctuations; it does not employ any interest rate management policies to counteract interest rate fluctuations.

Based on the Corporation's advances from the Government as at March 31, 2012 and the monthly cash balance on hand, a 100 basis point increase in interest rates would decrease net income by \$163,000 (2011 - \$147,000). A 100 basis point decrease in interest rates would increase net income by the same amount.

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. The Corporation is not exposed to significant currency or other price risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due. The Corporation has no significant liabilities maturing in future years. There are no fixed repayment terms on advances from the Government. The Corporation does not currently believe that it will encounter difficulty in meeting its future obligations associated with its financial liabilities.

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Notes to Consolidated Financial Statements

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12. Contractual obligations

Under loan agreements made before year end, the Corporation had commitments to make future loan disbursements on term loans of \$1,105,000 (2011 - \$1,250,000) due within the next fiscal year and on credit lines of \$1,250,218 (2011 - \$446,811) that are on demand with no established time-lines.

The Corporation has a commitment for an operating lease which expires February 29, 2016 for an amount of \$80,727 per year.

13. Related party transactions

The Corporation is related in terms of common ownership to all Government of Nunavut created departments, agencies and territorial corporations. The Corporation enters into transactions with these entities in the normal course of business under terms and conditions similar to those with unrelated parties.

(a) Administration contribution

Under the terms of the Contribution Agreement between the Corporation and the Department, the Corporation receives a fixed contribution towards its direct administrative expenses.

	2012	2011	2010
Operation contribution	\$ 600,000	\$ 450,000	\$ 450,000
Contributions in-kind: services provided without charge	136,174	135,587	136,458
	736,174	\$ 585,587	\$ 586,458

(b) Services provided without charge

The Corporation records in the financial statements an estimate of services provided by the Government without charge. Non-cash contributions from the Government include accounting and administrative support, regional and personnel services, office lease, utilities, insurances, and telephone and computer systems.

	2012	2011	2010
Facilities expense	\$ 80,727	\$ 80,727	\$ 80,727
Office supplies and expenses	8,000	8,000	8,000
Insurance, risk management	3,619	3,345	2,872
Employee salary and benefits	43,828	43,515	44,859
	136,174	\$ 135,587	\$ 136,458

14. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

15. Ministerial directives

During the year, there was one Ministerial Directives that NBCC complied with:

1. The Minister of Finance on January 18, 2008 issued a directive that NBCC provide management, and financial reports to the Department of Finance until such time as NBCC receives an unqualified audit opinion. This was rescinded on October 14, 2011.

16. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the main estimates approved by the Government of Nunavut and the Board of Directors.

Nunavut Business Credit Corporation

Schedule A

			March 31, 2012	March 31, 2011	March 31, 2010
	Computer & office equipment	Office furniture & fixtures	Totals	Totals	Totals
Cost of tangible capital assets					
Opening Balance	104,024	27,791	131,815	130,530	\$130,530
Additions	5,839	-	5,839	1,285	
Disposals	-	-	-	-	
Closing Balance	109,863	27,791	137,654	131,815	130,530
Accumulated amortization					
Opening balance	(77,823)	(23,445)	(101,268)	(88,952)	(79,832)
Amortization	(8,736)	(869)	(9,605)	(12,316)	(9,120)
Disposals	-	-	-	-	
Closing balance	(86,559)	(24,314)	(110,873)	(101,268)	(88,952)
Net book value	23,304	3,477	26,781	30,547	41,578
Amortization rate	30%	20%			