

Nunavut Business
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Credit Corporation
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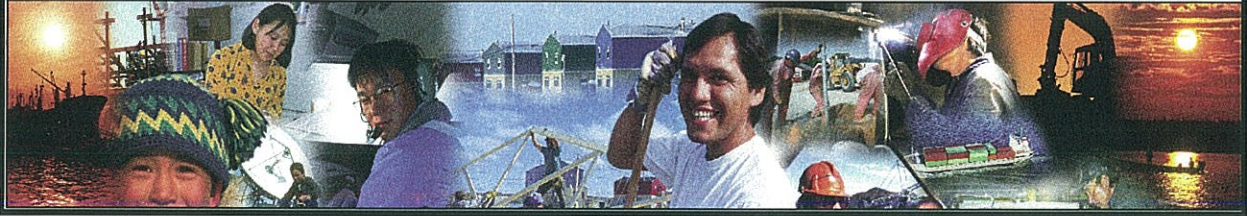
Lender of Northern Opportunity

2013-14

ANNUAL REPORT

June 13, 2014
Version #7

Lender of Northern Opportunity



Nunavut Business Credit Corporation

will be the

financial solutions provider of choice

to Nunavut's business community.

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
MESSAGE FROM THE CHAIR	2
MESSAGE FROM THE CHIEF EXECUTIVE OFFICER	4
MANDATE	6
MISSION	7
CORPORATE OVERVIEW	8
CORPORATE ACCOUNTABILITY CHART	13
MANAGEMENT'S DISCUSSION AND ANALYSIS	15
FINANCIAL STATEMENTS	30
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING	34
AUDITOR'S REPORT	36
STATEMENT OF FINANCIAL POSITION	38
STATEMENT OF OPERATIONS	39
STATEMENT OF CHANGE IN NET DEBT	40
STATEMENT OF CASH FLOW	41
NOTES TO FINANCIAL STATEMENTS	42
SCHEDULE	55

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, 2013 to March 31, 2014.

Respectfully submitted,



Honourable George Kuksuk
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 2013-14.

NBCC experienced a very active year. Arising from the 2012-13 initiative to broaden the Corporation's reach to new and existing clients, NBCC faced increased demands for loans across Nunavut and significantly increased its loan portfolio during the year. In recognition of its mandate and renewed confidence in its operations, the Financial Management Board also approved NBCC's request to increase its lending activity from a maximum of \$25 million to \$40 million. This sets an important course for the Corporation's future by enhancing its ability to support the Nunavut business community.

I am very pleased to report that the NBCC received an unmodified opinion from the Auditor General of Canada for the March 31, 2014 fiscal year. This is the fourth year that NBCC has achieved this impressive result. These statements have been prepared based on the Canadian Public Sector Accounting Standards (PSAS).

There have been no changes in board membership this year. NBCC's Board of Directors are drawn from each region of the Territory and together represent significant breadth of knowledge and experience to oversee NBCC's operations and ensure the Corporation is cognizant of the issues and concerns of the business community.

The Administration and Conduct Manual, Accounting Manual, Board Orientation Manual and Credit Management Manual guide NBCC staff members in performing their various duties. All manuals have previously received Ministerial Approval.

NBCC has not experienced any staff turnover during the year. 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.

Board members set high targets for Program Delivery, Business Development, Performance Measurement, NBCC Business Client Support and reviews of all NBCC policy manuals.

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. An amendment to NBCC's legislation is required to increase its lending threshold. The Board members and senior management are committed to continue its efforts and work with the Government of Nunavut to effect this change to better meet the demands of the business community.

The Board of Directors is looking forward to working with the Chief Executive Officer and staff in the new year to increase the Corporation's 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

I am pleased to report that NBCC has had another successful year, demonstrating its significance in meeting the lending needs of Nunavummiut and its vital role in the development of the Territory's vital private sector economy.

2013-14 has been a very active year for NBCC. Its lending activities have increased significantly due primarily to NBCC's focused efforts in 2012-13 to broaden its reach and establish additional business with new and existing clients. Contributions received in the prior year from the Canadian Northern Economic Development Agency under the Federal government and from the Department of Economic Development and Transportation under the Government of Nunavut enabled the Corporation to pursue community outreach activities and develop its market. In 2013-14, NBCC had almost fully extended its loan portfolio to its lending limit of \$25 million. Prior to the fiscal year end, the Corporation received approval to increase its lending activities to \$40 million. The \$15 million increase further enhances NBCC's ability to contribute to the Territory's economic development and is a considerable achievement given its earlier history.

NBCC has once again obtained an unmodified opinion and met its statutory reporting deadline. This has served to further enhance NBCC's credibility, restore its reputation and highlight its renewed capacity to be Nunavut's "Lender of Northern Opportunity". NBCC hopes to secure a change to its legislation in 2014-15 to increase the maximum loan it may extend to a client, currently set at \$1 million, in order to better serve Nunavut's growing business community. Recent applications indicate that changed circumstances including a higher cost environment and more significant opportunities for the Territory's private sector warrant a change to the \$1 million threshold that pre-dates Nunavut's inception. The Corporation continues to seek this amendment to its legislation to better serve Nunavummiut.


I am pleased to report that the Corporation has also experienced another year of internal stability with all key positions filled on an indeterminate basis. Training plans have been developed and each employee has undertaken training during the year. The Corporation strives to complete more cross-training to ensure sufficient coverage and depth of knowledge during staff absences.

Lastly, I would like to acknowledge NBCC's active and engaged Board of Directors throughout the fiscal year. The Board is comprised of experienced members from across the Territory and the members' combined northern knowledge and commitment has contributed to NBCC's successful emergence from a troubled past.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I would like to thank the Board for its direction and guidance throughout 2013-2014 as well as the oversight provided by the Departments of Economic Development and Transportation and Finance in working with NBCC's senior management toward ensuring the Corporation's renewed success and achievement of its mandate as the "Lender of Northern Opportunity".

Yours truly,



Sherri Rowe, CGA
Chief Executive Officer

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 newly established mandate, *Sivumut Abluqta: Stepping Forward Together*, with particular regard to its key priority of "economic growth through responsible development across all sectors".

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 2013-2014 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 25, 2016
Donald Havioyak	Director	Kugluktuk	June 25, 2016
Elijah Evaluarjuk	Director	Igloolik	February 20, 2015
Nancy Karetak-Lindell	Vice Chair	Arviat	June 25, 2016
Allan Lahure	Director	Baker Lake	August 29, 2014
Tommy Owljoot	Director	Arviat	May 31, 2015

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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 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 2013-2014, 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:

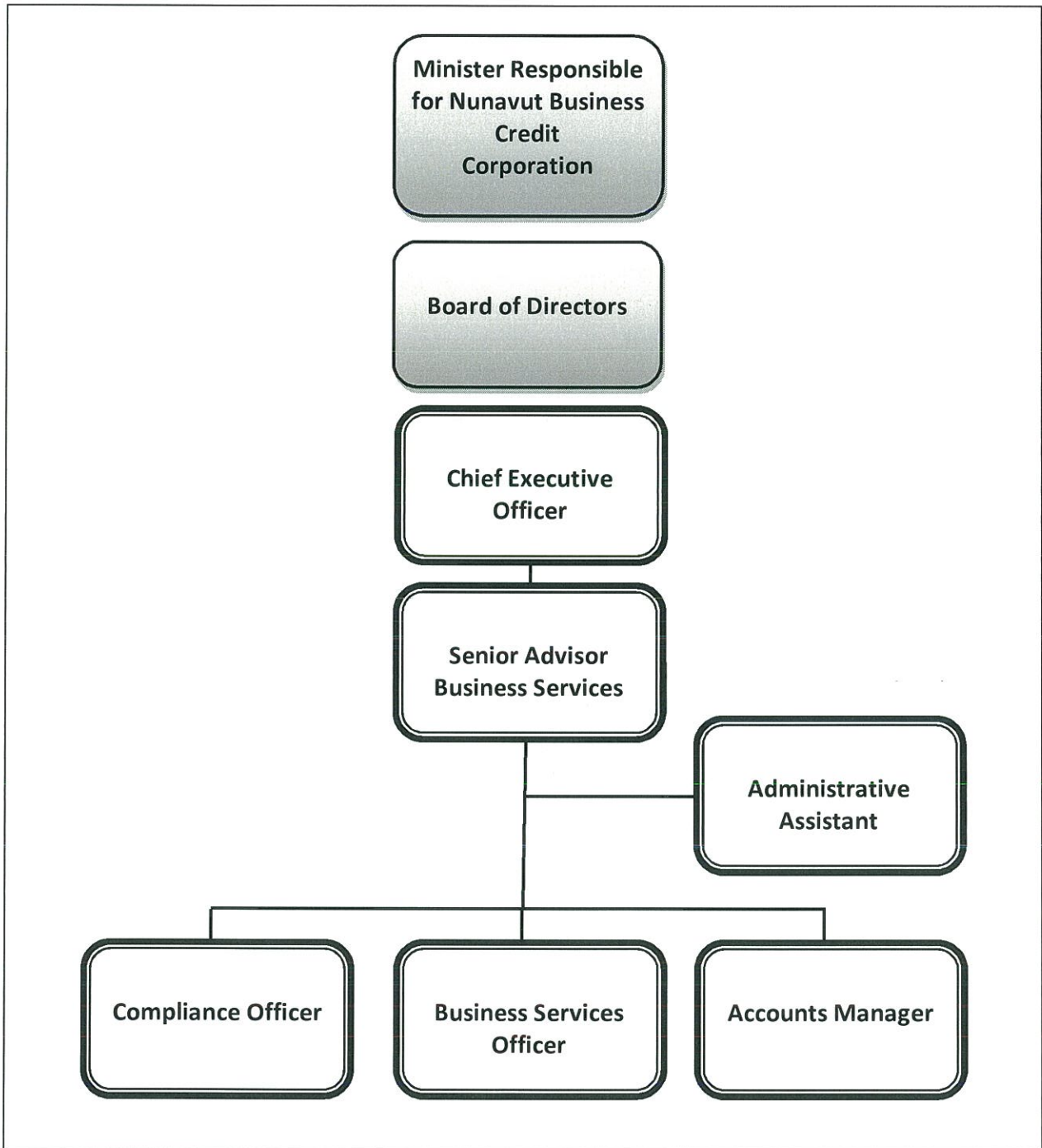
- Chief Executive Officer;
- Senior Advisor, Business Services
- Compliance Officer
- Business Services Officer
- Accounts Manager
- Administrative Assistant

As of March 31, 2014, 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

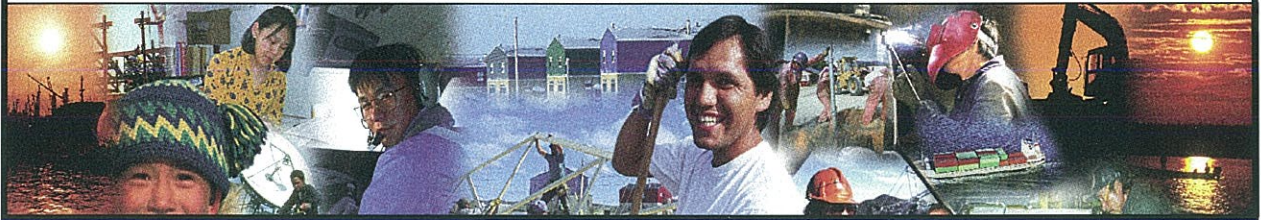
NBCC's reporting relationships are represented in the following accountability chart. Both the Minister Responsible for NBCC and the Board of Directors are shown as critical elements of NBCC's governance structure.

CORPORATE ACCOUNTABILITY CHART



All NBCC staff positions are based in Iqaluit.

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Supporting Nunavut businesses



Angela Barkhouse-McPherson and Damian Lachance greet new and existing clients at the Northern Lights Conference in January 2014. 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. Damian joined NBCC in 2011 and serves as the Corporation's Compliance Officer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW

Operationally, 2013-14 has been a very productive year for NBCC. NBCC faced a heightened number of requests for financial assistance and expanded its loan portfolio considerably. It is thought that outreach and marketing activities NBCC initiated in 2012-13 to expand its client base gave rise to the new loan requests over the past year. This is in stark contrast to the Corporation's experience in the prior year when, due to a number of loan repayments and a reduction in loan applications, its loan receivables dipped considerably. In the course of 12 months, the Corporation has essentially doubled its loan portfolio since its 2012-13 level.

As a developmental lender, NBCC provides financial assistance to northern-based businesses that are unable to qualify for loans through the major commercial lending institutions. There is inherently a higher risk associated with NBCC's loan portfolio in providing financing to such clients as part of its mandate to foster economic development and thereby create opportunities for Nunavummiut. NBCC's senior management regularly monitors its clients' repayment performance. It also records an allowance based on management's best estimates that is comprised of a general and specific provision for credit losses. In 2013-14, NBCC recorded a large adjustment to its provision for credit losses due primarily to a loan client who is experiencing financial difficulties. NBCC also increased its general provision given the greater loan portfolio overall. If not for the former, NBCC would have shown a modest surplus for the 2013-14 fiscal year. Instead it shows a deficit of \$518,203. The addition to the specific allowance was \$638,968.

Despite these financial results for the year, NBCC's activities throughout the year clearly reflect the renewed strength of its internal operations and financial management capability after successfully addressing significant concerns and deficiencies raised by the Office of the Auditor General. NBCC had faced six consecutive years of denied audit opinions until 2010-11 when, after a focused turnaround plan of the Corporation under the direction of the Board of Directors in cooperation with the Departments of Finance and Economic Development and Transportation and oversight by the Public Agencies Council, the Corporation obtained an unmodified opinion. NBCC has obtained an unmodified audit opinion with respect to its 2013-14 fiscal year and is now setting a new trend with four consecutive years of positive audit results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE YEAR IN REVIEW

In view of the heightened demand for financing throughout 2013-14, NBCC sought an increase in its lending activity from a maximum of \$25 million to \$40 million. The Financial Management Board approved the Corporation's request, highlighting the renewed confidence in its operations overall. This sets an important course for NBCC's future through enhancing its ability to support the Nunavut business community and fulfil its stated objective to be the *Lender of Northern Opportunity*.

LOOKING AHEAD

While NBCC has accomplished much, the Corporation continues to seek ways to broaden its reach to establish additional business with new and existing clients and further 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 Business Plan and meet its established priorities for the year ahead.

KEY HIGHLIGHTS

The key highlights of this Annual Report for NBCC's 2013-14 fiscal year are:

- New maximum established for its lending activities from \$25 million to \$40 million;
- Board of Directors in place with representation across the Territory;
- Financial statements in full compliance with Canadian public sector accounting standards and NBCC's statutory reporting deadline;
- Financial reporting completed on a timely basis and within its statutory reporting deadline;
- All key positions fully staffed on an indeterminate basis;
- Training and development plans in place for each employee.

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.

There were no Ministerial Directives in place for NBCC during 2013-2014.

SUMMARY OF FINANCIAL RESULTS

The following summary examines NBCC's financial results for the period from April 1, 2013 to March 31, 2014. The year ended with a deficit of \$518,203 versus a surplus of \$293,200 in 2012-13. This decrease of \$811,403 was due to a number of factors as noted below:

The most significant factor for this overall decline in NBCC's results was the \$806,302 adjustment to the provision for credit losses. The largest component of this adjustment was an increase of \$638,968 to the specific allowance due primarily to changed circumstances concerning one loan client and a smaller amount of \$167,334 to the general allowance due to the larger loan portfolio.

This was partially offset by an increase of \$342,641 (or 51.4%) in interest income on loans receivable for an overall increase in revenue of \$320,366 (or 42.1%) given a reduction in other interest income of \$22,275 (or 23.5%). This increase in total revenue is consistent with changes that occurred to NBCC's loan portfolio during the year with new loan applications approved and monies disbursed.

Total expenses for the year (excluding the adjustment to the provision for credit losses) increased by \$36,911 (or 2.5%) to \$1,538,117 in 2013-14 versus \$1,501,206 in 2012-13. This modest increase was driven by a number of offsetting factors. Interest expense on the advance from the government increased by \$80,882 (or 38.6%) due to a working capital advance of \$7 million received during the year. Salaries and benefits rose by \$84,080 (or 10.5%) in 2013-14. Board honoraria and board meeting expenses increased by 122.3% or \$35,910, this was a result of more meetings, due to the increase in volume of applications.. These amounts were offset by a reduction of \$102,198 (or 79.7%) in advertising and promotion. It should be noted, however, that \$107,560 of project-related expenses funded by the Federal and Territorial governments were included in the 2012-13 figure which accounts for this significant change. Professional fees also decreased by \$49,567 (or 33.0%) in 2013-14. This is consistent with NBCC's enhanced internal capacity and lesser reliance on outside expertise.

Compared to the 2013-2014 budget, revenue was higher by \$363,817 (or 56.4%) and overall expenses (excluding the provision for credit losses) were higher by \$156,117 (or 11.3%). Funding received from the Government of Nunavut was \$7,755 (or 1.1%) higher than expected. With the \$806,302 adjustment to the provision, NBCC reported a deficit of \$518,203 in 2013-14 versus a budgeted surplus of \$NIL.. Currently NBCC does not budget for the allowance for doubtful accounts.

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 2013-2014 which includes both general and specific provisions, was \$1,800,227 (2012-2013: \$993,925) which represents a net increase of \$806,302 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 2013-2014, credit facilities were declared impaired with a provision for losses of \$1,418,435 (2012-2013: \$779,467); which represents an increase of \$638,968 in the specific allowance for impaired credit facilities.

General Allowance

A general allowance is calculated each year to provide for possible impairments within the credit facilities. NBCC's general allowance is set at 2% of the performing credit facilities portfolio. For 2013-2014, it was \$381,792 (2012-2013: \$214,458). The change between these years represents an increase of \$167,334 (or 78.0%).

PORTFOLIO PERFORMANCE

Portfolio Activity

Over the past few years, NBCC's management with the oversight of the Board of Directors has remained committed to undertaking the steps necessary with respect to the Corporation's loan portfolio to obtain an positive audit opinion, improve the timeliness of the Corporation's financial reporting and ensure compliance with Canadian Public Sector Accounting Standards and statutory reporting requirements. Remedial actions were taken to successfully address concerns and deficiencies reported by the Auditor General of Canada, enhance NBCC's internal capacity, strengthen its policies and procedures and practice continuous improvement.

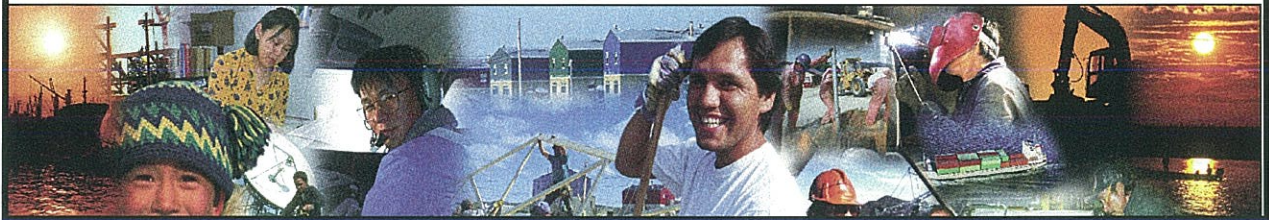
The Corporation emerged a much stronger responsive organization following this turnaround endeavour. In 2012-13, NBCC set an aggressive initiative to broaden its reach to new and existing clients and received funding from both the Federal and Territorial governments to support this focus. The success of this initiative was most greatly felt through 2013-14 and resulted in a significant increase in loan applications. Not only did this re-affirm NBCC's role as *Lender of Northern Opportunity* despite its troubled history but it highlighted the financing needs within the Territory. During the year, NBCC requested an increase to its maximum lending activities from \$25 million to \$40 million. Over the past 12 months, the Corporation almost doubled its loan receivables from the 2012-13 level and continues to seek new lending opportunities in order to fulfil its mandate.

NBCC's Board of Directors and its senior management are committed to seek an increase to its current lending threshold of \$1 million to \$2 million to a loan client including related entities to better address the needs of Nunavut's business communities. This will require an amendment to its legislation and will require working in conjunction with the GN and its legislative process to effect this change.

During 2013-14, 27 new loans were approved and a total of \$11,481,436 was disbursed during the year. Also, one loan was fully repaid via regular payments. One loan was repaid via customized or balloon payments in 2013-14

At the end of the fiscal year, the portfolio stood at \$19,275,318, an increase of \$8,783,317 or 83.9% over 2012-13. (2012-2013: \$10,492,001 million).

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NBCC Clients



Stuart Kennedy, Tumiit Development Corporation



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

Credit Facilities

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 27 new credit facilities for a total of \$12,737,656 (2012-2013: \$4,271,851) during the year.

Repaid Credit Facilities

Regular loan repayments in 2013-2014 amounted to \$1,939,304. One loan was paid through customized and balloon payments.

Loan disbursements related to loans approved in 2013-2014 amounted to \$9,111,436. A further \$2,370,000 was disbursed related to loans approved in the prior year for a total of \$11,481,436 disbursed during the year.

Annual Lending Statistics

NBCC lends to businesses in every community throughout Nunavut of which there are 25. During 2013-2014, 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, Pangnirtung and Qikiqtarjuaq in the Qikiqtaaluk region.

Industrial Perspective

In terms of performing credit facilities by industry sectors supported, NBCC's loan portfolio is mainly concentrated in the construction industry (26.5%) followed very closely by the retail sector (23.0%). The real estate and service sector are next, representing 17.6% and 15.6% of active loans respectively. 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.

Credit Facilities by Industry Sector March 31, 2014						
Industry Sector	2013-2014			2012-2013		
	LOC	Loans	Amount (\$)	LOC	Loans	Amount (\$)
Performing Loans						
Communication	—	2	183,322	—	2	292,766
Construction	4	8	4,746,174	1	8	2,140,113
Film	—	1	500,000	—	—	—
Finance	1	—	(33)	—	1	(33)
Fishery	—	1	422,485	—	1	465,061
Hospitality	—	5	1,618,360	1	3	925,999
Real Estate	2	3	3,166,037	—	2	295,555
Retail	4	6	4,135,487	2	6	2,215,203
Service	2	10	2,807,671	3	9	3,102,695
Transportation	1	1	367,262	1	2	1,271,299
Total Performing	14	37	17,946,765	8	34	10,708,658
Non Performing	—	9	2,920,948	—	5	645,595
Total Loan Portfolio	14	46	20,867,713	8	39	\$ 11,354,253

Regional Perspective

The Qikiqtaaluk Region received most of NBCC's support with five of its thirteen communities serviced for a total of \$14,107,885 in credit facilities which constitutes 67.6% of NBCC's 2013-14 loan portfolio.

The Kitikmeot's share of the portfolio representing three out of its five communities has a value of \$3,477,116, representing 16.7% of the loan portfolio.

The Kivalliq Region with three out of seven communities serviced, holds \$3,282,712 or 15.7% of the loan portfolio.

Community Perspective:

From a community perspective, Iqaluit, Nunavut's capital city, received the majority share of NBCC credit facilities with a total of \$11,872,214 for 2013-2014 divided among 33 credit facilities. This accounts for 84.2% of the region's credit volume and 56.9% of NBCC's total portfolio.

Three other communities have significant credit disbursement volumes: Cambridge Bay with \$1,862,868 divided among six credit facilities, Rankin Inlet with \$1,755,257 with seven credit facilities and Kugluktuk with \$1,614,248 over three credit facilities.

Cambridge Bay's total represents 53.6% of the total amount borrowed in the Kitikmeot and 8.9% of the total portfolio. Rankin Inlet, a Kivalliq community, holds 53.5% of that region's total and 8.4% of the total portfolio. Kugluktuk represents the other 46.4% of the Kitikmeot region's total and 7.7% of the total portfolio.

Credit Facilities by Community March 31, 2014						
Community	2013-2014			2012-2013		
	LOC	Loans	Amount (\$)	LOC	Loans	Amount (\$)
Qikiqtaaluk						
Cape Dorset	1	3	\$ 1,186,019	1	3	\$ 1,283,084
Clyde River	1	1	571,958	1	1	601,775
Iqaluit	8	24	11,872,214	4	17	4,615,333
Pangnirtung	—	1	55,209	—	1	465,061
Qikiqtarjuaq	—	1	422,485	—	—	—
Qikiqtaaluk—Total	10	30	14,107,885	6	22	6,965,253
Kivalliq						
Arviat	—	2	750,571	—	2	760,717
Coral Harbour	1	3	776,884	1	3	808,188
Rankin Inlet	—	5	1,755,257	1	5	1,667,530
Kivalliq — Total	1	10	3,282,712	2	10	3,236,435
Kitikmeot						
Cambridge Bay	2	4	1,862,868	—	4	461,294
Gjoa Haven	—	—	—	—	2	(1,000)
Kugluktuk	1	2	1,614,248	—	1	692,271
Kitikmeot—Total	3	6	3,477,116	—	7	1,152,565
Total Loan Portfolio	14	46	\$ 20,867,713	8	39	\$ 11,354,253

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. 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.

NBCC holds a strategic planning session of its Board annually 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:

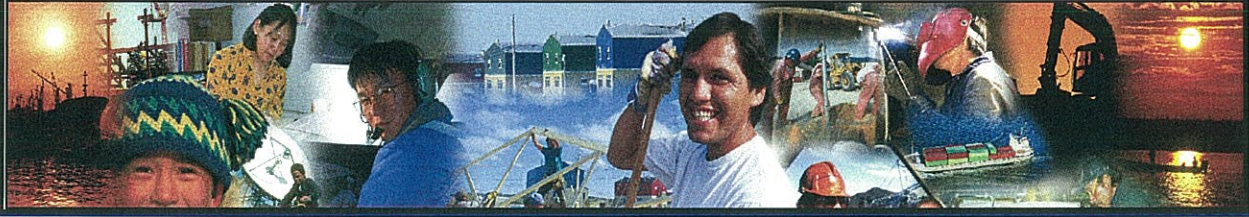
The maximum level of support to any one enterprise or to a group of related enterprises is \$1 million;

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.

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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, 2014

Version 9

**Nunavut Business Credit Corporation
Financial Statements
March 31, 2014**

INDEX

	Page
Management Responsibility for Financial Reporting	34
Independent Auditor's Report	36
Financial Statements	
Statement of Financial Position	38
Statement of Operations	39
Statement of Change in Net Debt	40
Statement of Cash Flow	41
Notes to Financial Statements	42
Schedule A	55

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

24 June 2014



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 statement of financial position as at 31 March 2014, and the statement of operations, statement of change in net debt and statement of cash flow for the year then ended, 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 audit. I conducted my audit 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 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 2014, and the results of its operations, changes in its net debt, and its cash flows for the year then ended 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 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 audit 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.



Tammy Squires, CPA, CA
Principal
for the Auditor General of Canada

24 June 2014
Ottawa, Canada


Nunavut Business Credit Corporation
Statement of Financial Position

As at March 31

	2014	2013
Financial assets		
Cash and cash equivalents (Note 3)	\$ 5,552,271	\$ 7,581,452
Accounts receivable	11,179	16,942
Due from the Government of Nunavut	62,530	7,655
Loans receivable (Note 4 and Note 5)	19,275,318	10,492,001
Loan charges receivable	34,492	16,461
Total financial assets	\$ 24,935,790	\$ 18,114,511
Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 484,668	\$ 223,870
Due to the Government of Nunavut (Note 8)	25,290,558	18,209,676
Total liabilities	\$ 25,775,226	\$ 18,433,546
Net debt	\$ (839,436)	\$ (319,035)
Non-Financial assets		
Tangible capital assets (Schedule A)	\$ 45,284	\$ 35,511
Prepaid expenses	724	8,299
Total non-financial assets	\$ 46,008	\$ 43,810
Accumulated deficit	\$ (793,428)	\$ (275,225)

Contractual obligations and commitments (Note 11)

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



 Greg Cayen, FCA
 Chair of the Board



 Sherri Rowe, CGA
 Chief Executive Officer

Nunavut Business Credit Corporation Statement of Operations

For the year ended March 31

	Budget 2014 (Note 13)	2014	2013
Revenues			
Interest income on loans receivable	\$ 645,000	\$ 1,008,817	\$ 666,176
Other interest income	-	72,644	94,919
Total revenues	\$ 645,000	\$ 1,081,461	\$ 761,095
Expenses			
Salaries and benefits	\$ 712,000	\$ 884,917	\$ 800,837
Provision (recovery) of credit losses	-	806,302	(182,568)
Interest expense on advance from Government of Nunavut (Note 8)	-	290,558	209,676
Professional fees	180,000	100,601	150,168
Facilities expense	80,000	80,727	80,727
Office expense	55,000	44,293	35,815
Board meetings	50,000	42,034	14,524
Travel	50,000	33,367	36,121
Advertising and promotion	70,000	26,097	128,295
Board honoraria	50,000	23,250	14,850
Amortization	10,000	6,769	7,687
Training and development	25,000	3,699	-
Other expenses	100,000	1,805	22,506
Total expenses	\$ 1,382,000	\$ 2,344,419	\$ 1,318,638
Deficit before Government contribution	\$ (737,000)	\$1,262,958)	\$ (557,543)
Contribution from Government of Nunavut			
Core Funding	\$ 737,000	\$ 744,755	\$ 743,183
Outreach Awareness Project	-	-	81,279
Contribution from Government of Canada			
Community Outreach	-	-	26,281
(Deficit) surplus for the year	\$ -	\$(518,203)	\$ 293,200
Accumulated deficit—beginning of the year	(275,225)	(275,225)	(568,425)
Accumulated deficit—end of the year	\$ (275,225)	\$ (793,428)	\$ (275,225)

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 year ended March 31

	Budget 2014	2014	2013
	(Note 13)		
(Deficit) surplus for the year	\$ -	\$ (518,203)	\$ 293,200
Tangible capital assets (Schedule A)			
Additions	\$ -	\$ (16,542)	\$ (16,417)
Amortization	10,000	6,769	7,687
	\$ 10,000	\$ (9,773)	\$ (8,730)
Net use (additions) of prepaid expenses	-	7,575	(1,371)
Change in net debt	\$ 10,000	\$ (520,401)	\$ 283,099
Net debt—beginning of year	(319,035)	(319,035)	(602,134)
Net debt—end of year	\$ (309,035)	\$ (839,436)	\$ (319,035)

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

Nunavut Business Credit Corporation
Statement of Cash Flow

For the year ended March 31

	2014	2013
Cash provided by operating activities		
Interest on loans receivable	\$ 931,907	\$ 657,095
Government of Nunavut contributions	540,000	600,000
Other operations	142	108,250
GST rebate	17,184	17,669
Suppliers	(269,882)	(388,589)
Interest payments on Government of Nunavut advance	(209,676)	(220,565)
Interest on current bank account	77,770	94,591
Cash paid to the Government of Nunavut	(597,125)	(791,764)
Cash provided by operating activities	\$ 490,320	\$ 76,687
Cash provided by financing activities		
Working capital advance	\$ 7,000,000	\$ -
Cash provided by financing activities	\$ 7,000,000	\$ -
Cash used for investing activities		
Repayment of loans receivable	\$ 1,939,304	\$ 1,632,646
Fee repayments received	39,173	10,554
Disbursements of loans receivable	(11,481,436)	(2,282,940)
Cash used for investing activities	\$(9,502,959)	\$ (639,740)
Cash used for capital activities		
Tangible capital asset acquisitions	\$ (16,542)	\$ (16,417)
Cash used for capital activities	\$ (16,542)	\$ (16,417)
Decrease in cash	\$(2,029,181)	\$ (579,470)
Cash and cash equivalents - beginning of year	7,581,452	8,160,922
Cash and cash equivalents - end of the year (Note 3)	\$ 5,552,271	\$ 7,581,452

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

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, concessionary loans, or forgivable loans and cannot make equity investments. As such, the Corporation only has one program.

(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 to business enterprises. In 2014, the Financial Management Board set the working capital advance limit to \$40 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. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as issued by the Chartered Professional Accountants of Canada (CPA Canada). The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash and cash equivalents is comprised of bank account balances, net of outstanding cheques and short-term term deposits. Surplus cash earns interest income based on the Government of Nunavut bank interest rate.

Nunavut Business Credit Corporation
Notes to Financial Statements

March 31, 2014

2. Significant Accounting Policies (Continued)

(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%

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, severance and removal 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. A variation in the quality of the loan portfolio or economic conditions under which these estimates are made could result in significant changes in these management estimates.

(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 and subsequently measured at cost or amortized cost using the effective interest rate method.

The following is a list of the Corporation's financial instruments and their related measurement bases as at March 31, 2014.

Financial Assets	Measurement Basis
Cash and cash equivalents	Cost
Accounts receivable	Cost
Loans receivable	Amortized cost
Due from Government of Nunavut	Cost

Nunavut Business Credit Corporation
Notes to Financial Statements

March 31, 2014

2. Significant Accounting Policies (Continued)

Financial Liabilities	Measurement Basis
Accounts payable and accrued liabilities	Cost
Due to Government of Nunavut	Cost

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the Statement of Operations.

(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. 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. 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.

2. Significant Accounting Policies (Continued)

Loans are restored to performing status when it is determined that there is a reasonable assurance of timely collection of principal and interest. Refinanced loans are considered performing unless they meet the criteria of impaired loans. When an impaired loan is restored or refinanced 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, less any payout of loan balances after year end and is multiplied by 2%.

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-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.

2. Significant Accounting Policies (Continued)

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) Revenue recognition

Unless otherwise stated, all revenues are recognized and reported on an accrual basis in the period in which transactions or events give rise to the revenues. Specific revenue accounting policies are as follows:

Transfers from the Government of Nunavut and others

Transfers are recognized as revenue when the funding is authorized and any eligibility criteria are met, except to the extent that funding stipulations give rise to an obligation that meets the definition of a liability. Funding is recognized as deferred revenue when funding stipulations give rise to a liability. Funding revenue is recognized in the Statement of Operations as the stipulation liabilities are settled. The Corporation does not have deferred revenue balances.

(m) Services provided without charge

Government of Nunavut provides certain administrative contributions and services provided without charge to the Corporation. Administrative contributions received are not repayable. The estimated value of these contributions and services are included in their related account balances.

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 Financial Statements

March 31, 2014

3. Cash and cash equivalents

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 2014, the Corporation earned interest income of \$72,644 (2013 - \$94,919) with an average yield 1.24% (2013 - 1.17%).

As at March 31, 2014, cash and cash equivalents includes a trust advance of \$2,995,103 (2013 - \$754,462), which relates to an undisbursed loans receivable.

4. Loans receivable

As of March 31, 2014 loans receivable are expected to mature as follows:

Terms to Maturity	Annual Interest Rate %	2014	Annual Interest Rate %	2013
1 year	3.09% - 7.19%	6,740,916	3.09% - 7.19%	3,390,913
1 - 2 years	4.25% - 6.88%	715,447	4.50% - 7.19%	1,855,974
2 - 3 years	5.09% - 6.56%	1,244,211	4.25% - 7.19%	1,944,546
Over 3 years	5.98% - 6.32%	9,246,191	5.09% - 6.56%	3,517,225
Impaired loans	5.75% - 10.25%	2,920,948	5.75% - 10.25%	645,595
		20,867,713		11,354,253
Accrued loan interest receivable (Note 6)		207,832		131,673
		\$ 21,075,545		\$ 11,485,926
Less allowance for losses on loans (Note 5)		1,800,227		993,925
Loans receivable—net		\$ 19,275,318		\$ 10,492,001

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

March 31, 2014

4. Loans receivable (Continued)

The concentration of performing loans and impaired loans by region are as follows:

Regions	Annual Interest Rate	2014 \$	Annual Interest Rate	2013 \$
Performing Loans				
Qikiqtaaluk	3.09% - 7.19%	\$ 12,992,840	3.09%-7.19%	\$ 6,576,858
Kivalliq	4.5% - 7.19%	1,476,809	4.50%-8.25%	2,979,235
Kitikmeot	5.98% - 6.25%	3,477,116	5.98%-8.00%	1,152,565
		\$ 17,946,765		\$ 10,708,658
Impaired Loans				
Qikiqtaaluk	5.75% - 6.56%	\$ 1,115,045	5.75%-6.00%	\$ 388,395
Kivalliq	6.09% - 10.25%	1,805,903	6.25%-10.25%	257,200
Kitikmeot	N/A	-	N/A	-
		\$ 2,920,948		\$ 645,595
Total		\$ 20,867,713		\$ 11,354,253
Qikiqtaaluk	3.09% - 7.19%	\$ 14,107,885	3.09%-7.19%	\$ 6,965,253
Kivalliq	4.5% - 10.25%	3,282,712	4.50%-10.25%	3,236,435
Kitikmeot	5.98% -6.25%	3,477,116	5.98%-8.00%	1,152,565
Total		\$ 20,867,713		\$ 11,354,253

5. Allowance for Losses on loans

2014

2013

Specific Allowance

Balance, beginning of year	\$ 779,467	\$ 982,172
Change in provision for the year	638,968	(202,705)
Balance, end of year	\$ 1,418,435	\$ 779,467

General Allowance

Balance, beginning of year	\$ 214,458	\$ 194,321
Change in provision for the year	167,334	20,137
Balance, end of year	\$ 381,792	\$ 214,458
Total balance, end of year	\$ 1,800,227	\$ 993,925

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

March 31, 2014

6. Accrued loan interest receivable

	2014	2013
Performing loans	\$ 33,395	\$ 12,175
Impaired loans	174,437	119,498
	<u>\$ 207,832</u>	<u>\$ 131,673</u>

7. Accounts payable and accrued liabilities

	2014	2013
Trade payables	\$ 35,953	\$ 31,984
Payroll and benefits payable	398,664	150,461
Accrued liabilities	50,051	41,425
	<u>\$ 484,668</u>	<u>\$ 223,870</u>

8. Due to the Government of Nunavut

	2014	2013
Balance, beginning of year	\$ 18,209,676	\$18,220,565
Interest expense on advance for the year	290,558	209,676
Working capital advance	7,000,000	-
Amount repaid	(209,676)	(220,565)
Balance, end of year	<u>\$ 25,290,558</u>	<u>\$18,209,676</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 2014, the rate varied from 1.02% to 1.43% (2013 - 1.03% to 1.44%).

There are no fixed repayment terms on the advances.

Nunavut Business Credit Corporation
Notes to Financial Statements

March 31, 2014

9. 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 President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 1.45 (2013 - 1.64). The Corporation's contributions of \$68,279 (2013 - \$67,194) were recognized as expense in the current year. The employee's contributions to the Plan were \$42,873 (2013 - \$39,157).

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.

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 \$34,526 (2013 - \$25,900). This amount is included in accrued liabilities (Note 7).

10. Financial risk management

Credit risk

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

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 is limited to the carrying amount of the loans. The Corporation's management of credit exposures from borrowers 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 Financial Statements**

March 31, 2014

10. Financial risk management (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, 2014

	2014	2013
Cash and cash equivalents	\$ 5,552,271	\$ 7,581,452
Accounts receivable	11,179	16,942
Loan receivable, net of allowance	19,067,486	10,360,328
Accrued interest receivable	207,832	131,673
Loan charges receivable	34,492	16,461
Loan commitments (Note 11)	2,563,950	1,423,694

The Corporation considers a loan past due when a client has not made a payment in accordance with the payment terms. The following table presents the carrying value of loans that are past due but not classified as impaired because they did not meet the criteria of impairment.

Loans past due but not impaired	2014	2013
31 – 60 days	\$ 466,948	\$ 20,203
61 – 90 days	192,293	7,852
Over 90 days	541,516	0

At the end of 2014, there were no known relevant concentration of credit risk by type of customer or geography.

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 or future cash flows of the advances from the Government.

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, 2014 and the monthly cash balance on hand, a 100 basis point increase in interest rates would decrease the surplus by \$233,000 (2013 - \$179,000). A 100 basis point decrease in interest rates would increase the surplus by the same amount.

The Corporation is not exposed to any other market risks.

Nunavut Business Credit Corporation
Notes to Financial Statements

March 31, 2014

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations associated with financial liabilities. The Corporation's objective for managing liquidity risk is to manage operations and cash expenditures within the fixed contribution for the year as specified in the Contribution Agreement with the Government. The Corporation has determined that the risk is not significant.

11. Contractual obligations and commitments

Under loan agreements made before year end, the Corporation had commitments to make future loan disbursements on term loans of \$2,315,848 (2013 - \$2,133,891) due within the next fiscal year and on credit lines of \$2,563,950 (2013 - \$1,423,694) that are on demand with no established timelines.

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

12. 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 Government of Nunavut, the Corporation receives a fixed contribution towards its direct administrative expenses.

	2014	2013
Operation contribution	\$600,000	\$600,000
Contributions in-kind: services provided without charge	144,755	143,183
	\$744,755	\$743,183

(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.

	2014	2013
Facilities expense	\$ 80,727	\$80,727
Office supplies and expenses	5,000	8,000
Insurance, risk management	3,309	3,970
Employee salary and benefits	55,719	50,486
	\$144,755	\$143,183

Nunavut Business Credit Corporation
Notes to Financial Statements

March 31, 2014

13. 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

Nunavut Business Credit Corporation
Schedule of Tangible Capital Assets

SCHEDULE A

			March 31, 2014	March 31, 2013
	Computer & office equipment	Office furniture & fixtures	Totals	Totals
Cost of tangible capital assets				
Opening Balance	\$ 126,280	\$ 27,791	\$ 154,071	\$ 137,654
Additions	1,178	15,364	16,542	16,417
Closing Balance	\$ 127,458	\$ 43,155	\$ 170,613	\$ 154,071
Accumulated amortization				
Opening balance	\$ (93,551)	\$ (25,009)	\$ (118,560)	\$ (110,873)
Amortization	(5,188)	(1,581)	(6,769)	(7,687)
Closing balance	\$ (98,739)	\$ (26,590)	\$ (125,329)	\$ (118,560)
Net book value	\$ 28,719	\$ 16,565	\$ 45,284	\$ 35,511
Amortization rate	30%	20%		